Budget
2021–22

Budget Strategy and Outlook
Budget Paper No. 1
2021–22

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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 2021-22, while the forward years refer to 2022-23, 2023-24 and 2024-25; 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nfp	not for publication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 2021-22*, is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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Statement 1: Budget Overview

This Budget sets out the next stage in the Government's economic plan to get Australia through COVID-19. It secures Australia's recovery by creating jobs, guaranteeing the essential services and building a more secure and resilient Australia.

It builds on Australia's successful management of the pandemic which was supported by an unprecedented $311 billion in health and economic support.

As a result the economy is recovering strongly from its first recession in almost 30 years, growing at its fastest pace on record over the latter half of last year and outperforming all major advanced economies in 2020. Labour market outcomes have surpassed even the most optimistic of expectations with employment levels having more than fully recovered the job losses seen through the pandemic to reach record highs.

The virus continues to present an ongoing threat to the global and domestic economy, therefore it is critical that fiscal support continues to be provided to secure the recovery. As emergency COVID-19 support concludes, the next stage of the Government's plan to secure Australia's economic recovery is focused on the transition to sustainable private sector-led growth to create jobs and drive unemployment down to pre-pandemic levels or lower. The unemployment rate is forecast to fall to 4¾ per cent by mid-2023. This would mark the first sustained period of unemployment below 5 per cent since before the Global Financial Crisis and only the second time since the early 1970s.

The stronger-than-expected economic recovery has improved the budget position. The underlying cash balance is now expected to be a deficit of $161.0 billion in 2020-21, compared with $213.7 billion at the 2020-21 Budget and $106.6 billion in 2021-22. The budget position is expected to improve over the forward estimates to an expected deficit of $57.0 billion in 2024-25. Net debt is now expected to peak as a share of GDP at 40.9 per cent, compared with the 43.8 per cent peak projected at the 2020-21 Budget.

To protect Australians from COVID-19 and facilitate the re-opening of the economy, the Government is:

- investing $1.9 billion through the COVID-19 Vaccination Strategy
- providing $1.5 billion to extend a range of COVID-19 health response measures.

To secure the economic recovery, the Government is continuing to provide support to Australian households and businesses to drive the unemployment rate down. Key measures include:

- $7.8 billion to extend tax relief to around 10.2 million low- and middle-income earners
- $20.7 billion in tax relief through extending temporary full expensing and temporary loss carry-back
- $15.2 billion in new commitments to infrastructure projects across Australia.

The Government is building skills for the future and encouraging more Australians to participate in the labour market. Investments are being made to support a dynamic and flexible economy, including by laying the foundations for Australia to be a leading digital economy and introducing a patent box for medical and biotechnology innovations. Major initiatives include:

- $2.7 billion to extend the Boosting Apprenticeship Commencements wage subsidy
- $1.7 billion to support an increased Child Care Subsidy for families with second and subsequent children aged five years and under
- $1.2 billion to implement a comprehensive Digital Economy Strategy.

The Government is taking comprehensive action to guarantee the provision of high-quality and sustainable services and support our community's most vulnerable, including:

- $17.7 billion to transform the aged care system to ensure older Australians are treated with respect, care and dignity
- $2.3 billion for mental health and suicide prevention services to deliver accessible, compassionate and coordinated care
- an additional $13.2 billion for the National Disability Insurance Scheme.

The Budget delivers programs to improve women's safety, economic security, health and wellbeing, committing more than $3.4 billion to support women.

The Government is investing to support Australia's economic resilience, including by shoring up Australia's fuel security. This Budget improves Australia's disaster resilience and provides $537.6 million to strengthen our regions and $486.3 million to protect our environment in addition to $1.6 billion to fund clean energy technology.

The Government's plan will secure Australia's economic recovery by prioritising economic growth and job creation, and ensure that Australian households and businesses emerge stronger on the other side of the pandemic.

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Statement 1: Budget Overview

Introduction

This Budget sets out the next stage in the Government's plan to get Australia through the COVID-19 pandemic, secure the economic recovery and set the nation up for the future. It is a plan to protect the health of Australians, create more jobs and guarantee the essential services.

The Government's priority remains to save lives by continuing to suppress COVID-19 and rollout the vaccine to support the further re-opening of the economy. The Government will secure the economic recovery by taking further action to support private sector-led growth and drive down the unemployment rate. Economic support announced as part of the emergency response in 2020 is still flowing to households and businesses. This, together with further targeted support in this Budget and the ongoing rollout of the vaccine, underpins a positive outlook for the Australian economy.

The Australian economy has displayed remarkable resilience in the face of the COVID-19 pandemic. The economy is recovering strongly from its first recession in almost 30 years, growing at its fastest pace on record over the latter half of last year and outperforming all major advanced economies in 2020. Labour market outcomes have surpassed even the most optimistic of expectations. With close to one million jobs added to the economy since May 2020, employment levels have more than recovered the losses seen through the pandemic to reach record highs. The peak in the unemployment rate is now expected to have passed and labour force participation has increased to a record high.

The outlook for the Australian economy has strengthened and output is now expected to have already exceeded its pre-pandemic level in the March quarter of 2021, nine months earlier than forecast last Budget. Ongoing momentum, the rollout of the vaccine and continued fiscal policy support, including new initiatives announced as part of this Budget, are expected to drive robust growth over the forecast period. The conclusion of the JobKeeper Payment is not expected to interrupt the recovery in the labour market, nor hinder growth in the broader economy. Continued steady growth is forecast for employment, along with further declines in the unemployment rate, which is forecast to fall below 5 per cent by late 2022 and to reach 4¾ per cent in the June quarter of 2023. This would mark the first time that Australia has seen a sustained period of unemployment below 5 per cent since the years leading up to the Global Financial Crisis and only the second time since the early 1970's.

Overall, the outlook remains positive, though considerable risks remain. Australia's success in containing the health crisis to date has underpinned the economic recovery, but continued growth will rely on the effective containment of any COVID-19 outbreaks in Australia, including those that may arise from any new strains of the virus.

Experiences in other countries, particularly India, demonstrate the significant health-related risks that are ongoing.

The faster-than-expected economic recovery and improved economic outlook is driving a large upgrade to forecast tax receipts. This has enabled the Government to make significant investments in the next stage of its economic plan. This includes reforms to enable individuals and businesses to better capitalise on the opportunities following the pandemic and improve delivery of high-quality and sustainable government services.

The underlying cash balance is now expected to be a deficit of $161.0 billion in 2020-21, a $52.7 billion improvement compared with $213.7 billion at the 2020-21 Budget, predominantly as a result of better-than-expected tax receipts. The underlying cash balance is expected to be a deficit of $106.6 billion in 2021-22 and continue to improve over the forward estimates to a deficit of $57.0 billion in 2024-25, nearly one third the deficit in 2020-21.

The broad-based economic support measures introduced by the Government were critical during the emergency phase of the COVID-19 pandemic to limit the economic cost and longer-term labour scarring from the crisis. As this emergency support concludes, most notably with the end of the JobKeeper Payment, the Government is providing support and incentives to help facilitate the transition to private sector-led growth to create jobs and drive the unemployment rate lower.

The Government is extending tax relief to low- and middle-income earners to benefit hard-working Australians and tax incentives to encourage businesses to invest, grow and create more jobs. Targeted support is being provided for those sectors and regions disproportionately affected by COVID-19's impacts, including the aviation, tourism, arts and international education sectors.

The Government is setting Australia up for the future and enabling individuals and businesses to get ahead by building skills and supporting job creation to get Australians into work and drive the unemployment rate lower. Investments are also being made to support a dynamic and flexible economy, including by laying the foundations for Australia to be a leading digital economy by 2030.

Comprehensive action is being taken to guarantee high-quality and sustainable services for our community's most vulnerable. This includes significant further investments in response to Royal Commissions and inquiries that the Government has commissioned in areas of great national importance, including aged care and mental health. The Budget is also investing in the National Disability Insurance Scheme (NDIS).

In this Budget, the Government is delivering programs to improve women's safety, economic security, and health and wellbeing, including through more affordable childcare for growing families and financial support for women who escape family and domestic violence.

The Government is taking action to build Australia's economic resilience and keep Australian's safe in an evolving and complex environment, including through strengthening Australia's national security, defence and law enforcement capabilities. The Government remains committed to building Defence capability and supporting Australia's sovereign defence industry.

This Budget improves Australia's disaster resilience by strengthening the nation's ability to prepare, respond and recover from natural disasters, and invests in regional Australia so it can grow, prosper and be more resilient to future shocks. Further investments are being made to care for the environment, including through a technology-focused approach to reducing emissions, while supporting jobs and strengthening our economy.

Consistent with the first phase of the Economic and Fiscal Strategy, the Government remains focused on driving the unemployment rate down to pre-pandemic levels or lower by supporting private sector-led growth. This recognises that economic growth is essential to maintaining a strong and sustainable fiscal position.

Although remarkable progress has been made in the domestic economic recovery, the virus still presents an ongoing threat to the economic and fiscal outlook. For this reason, the Government will continue to provide significant fiscal support until the economic recovery is secured.

Table 1.1: Budget aggregates

	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
Underlying cash balance ($b)(b)	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**	**-342.4**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Net operating balance ($b)	**-92.3**	**-154.5**	**-92.7**	**-90.2**	**-70.2**	**-55.7**	**-308.9**
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
(b) Excludes net Future Fund earnings before 2020-21.

Economic Outlook

The recovery in the Australian economy from the COVID-19 recession has continued to surpass expectations, having outperformed every major advanced economy in 2020. Real GDP grew strongly over the latter half of 2020, marking the first time on record when Australia has experienced two consecutive quarters of economic growth above 3 per cent.

Together with the success in managing the spread of the COVID-19 virus, the Government's significant fiscal policy response has been central to Australia's economic performance throughout the pandemic. As emergency support concludes, additional assistance focused on supporting private sector activity remains in place to secure the recovery.

The outlook for the Australian economy has strengthened and output is expected to have exceeded its pre-pandemic level in the March quarter of 2021. Following the strong rebound in economic activity, recent record rates of growth are expected to moderate as the economy transitions from the initial reopening phase of the recovery. Nevertheless, ongoing momentum, the rollout of the vaccine and continued fiscal policy support, including new initiatives announced as part of this Budget, are expected to drive strong growth over the forecast period. Real GDP is forecast to grow by 1¼ per cent in 2020-21, by 4¼ per cent in 2021-22 and 2½ per cent in 2022-23. After falling by 2.5 per cent in 2020, real GDP is expected to grow by 5¼ per cent in 2021, and by 2¾ per cent in 2022.

Robust growth over the forecast period is expected to drive continued steady growth in employment and further declines in the unemployment rate, which is forecast to fall below 5 per cent by late 2022, to reach 4¾ per cent in the June quarter of 2023. This would mark the first time that Australia has seen a sustained period of unemployment below 5 per cent since the years leading up to the Global Financial Crisis, and only the second time since the early 1970's.

The recent strength in key commodity prices, particularly iron ore, has seen a significant resurgence in Australia's terms of trade and has supported profitability in the mining sector, the benefits of which will flow through to the broader economy. As a result, nominal GDP is expected to grow by 3¾ per cent in 2020-21, by a further 3½ per cent in 2021-22 and by 2 per cent in 2022-23. The global economic recovery is also gathering pace, with stronger-than-expected activity in the December quarter of 2020 for most major trading partners. Further progress on vaccine rollouts in advanced economies, major fiscal policy support and accumulated household savings have all contributed to increased confidence in the global economic outlook. However, the pace of recovery is uneven and significant risks to the global outlook remain, heightened by ongoing outbreaks of COVID-19 in major economies, most notably in India.

While the outlook is positive, considerable risks remain. The continued economic recovery will rely on the effective containment of COVID-19 outbreaks both here and abroad and will be a key factor in the timing of the reopening of international borders, which could weigh on the outlook for the tourism and education sectors. Internationally, ongoing global trade tensions and the potential for further trade actions continue to pose risks to the outlook for Australian exports. More broadly, downside risks to the outlook for the global economy from ongoing outbreaks of the virus in major economies, including India, could have implications for Australia's domestic economy.

Table 1.2: Major economic parameters[(a)]

	Outcome	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Real GDP	-0.2	1 1/4	4 1/4	2 1/2	2 1/4	2 1/2
Employment	-4.2	6 1/2	1	1	1 1/4	1 1/4
Unemployment rate	6.9	5 1/2	5	4 3/4	4 1/2	4 1/2
Consumer price index	-0.3	3 1/2	1 3/4	2 1/4	2 1/2	2 1/2
Wage price index	1.8	1 1/4	1 1/2	2 1/4	2 1/2	2 3/4
Nominal GDP	1.7	3 3/4	3 1/2	2	4 3/4	5

(a) Real GDP and Nominal GDP are percentage change on preceding year. The consumer price index, 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.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Labour Force, Australia; Wage Price Index, Australia; Consumer Price Index, Australia and Treasury.

Fiscal Strategy and Outlook

Australia entered the COVID-19 pandemic from a position of economic and fiscal strength made possible by years of responsible budget management. This enabled the Government to act decisively and provide an unprecedented level of economic support, which protected vulnerable households and businesses, kept as many Australians as possible in work, and avoided labour market scarring.

The economic support and public health response were critical to successfully mitigating the effects of the pandemic and laying the foundations for economic recovery.

The stronger-than-expected economic recovery has improved the fiscal position. The strength in the domestic economic recovery is reflected in higher tax receipts. Across the four years to 2023-24, taxation receipts are expected to have improved by $84.5 billion since the 2020-21 Budget.

The stronger fiscal position has enabled the Government to continue to invest in the next stage of its economic plan.

The underlying cash balance is now expected to be a deficit of $106.6 billion in 2021-22, compared with a deficit of $112.0 billion at the 2020-21 Budget. The budget position is expected to improve over the forward estimates to an expected deficit of $57.0 billion in 2024-25. Over the medium term, the underlying cash balance is projected to improve to a deficit of 1.3 per cent of GDP by 2031-32.

Net debt is expected to be 34.2 per cent of GDP at 30 June 2022 and peak at 40.9 per cent of GDP in 2024-25, below the 43.8 per cent peak projected at the 2020-21 Budget. Net debt is then projected to fall over the medium term to 37.0 per cent of GDP at 30 June 2032. Gross debt is expected to be 45.1 per cent of GDP at 30 June 2022, 5.4 per cent lower compared with the 2020-21 Budget, before increasing to 50.0 per cent of GDP at 30 June 2025. Gross debt is projected to stabilise over the medium term at around 51 per cent of GDP.

Australia continues to have a low debt-to-GDP ratio compared to most other advanced economies and our level of debt remains fiscally sustainable. While gross debt has increased significantly since the onset of the pandemic, the cost of servicing that debt is lower in 2021-22 than it was in 2018-19, as a result of historically low interest rates. The Government's extension and maintenance of the Australian Government Securities yield curve to 30 years has reduced the refinancing risk on the debt portfolio making debt repayments less sensitive to short term movements in yields. Low yields, together with strong economic growth, means the Government can reduce the debt-to-GDP ratio without running a surplus.

The Government remains committed to maintaining momentum in the economic recovery, consistent with its Economic and Fiscal Strategy. Once the economic recovery is secured and the unemployment rate is at pre-pandemic levels or lower, the Government will steadily transition to the medium-term strategy. The medium-term strategy is to grow the economy in order to stabilise and then reduce debt as a share of GDP.

Budget Priorities

In this Budget, the Government is delivering on its key priorities of:

- **Getting Australians through COVID-19** by:
  - protecting Australians from COVID-19, including through the COVID-19 Vaccination Strategy
  - extending tax relief to low- and middle-income earners to support hard-working Australians
  - extending tax incentives to encourage businesses to invest and create more jobs
  - providing targeted support for those sectors and regions continuing to be affected by COVID-19.
- **Setting Australia up for the future** by:
  - supporting employment growth and helping Australians secure more and better paying jobs, including through investing in infrastructure, skills and promoting women's economic security
  - implementing reforms to achieve a more dynamic, productive and flexible economy, including through a comprehensive Digital Economy Strategy, introducing a patent box for medical and biotechnology innovations and policies to support global business and talent attraction.
- **Guaranteeing high-quality and sustainable services for Australians**, including through major investments in fundamental aged care reform, mental health and the NDIS, strengthening the social safety net, and improving women's safety.
- **Building Australia's resilience, security and defence capability**, including through investing in Australia's regions to grow, prosper and build resilience to drought and disasters, reducing Australia's emissions while supporting jobs, and supporting Australia's sovereign defence industry.

Box 1.1 Women's Safety, Economic Security, and Health and Wellbeing

The Government is committed to ensuring that Australia is a place where women are able and encouraged to make the choices that are right for them. This means an Australia that does not tolerate violence against women and their children, promotes women's economic security, and supports women's health and wellbeing.

The Government has established a new Cabinet Taskforce to lead the work to address these critical issues. The Taskforce is co-chaired by the Prime Minister and the Minister for Women, and supported by the Minister for Women's Safety, Minister for Women's Economic Security and Assistant Minister for Women. In this Budget, a Women's Budget Statement reflects the priority focus on these important issues.

In the 2021-22 Budget, the Government is committing $3.4 billion to improve women's safety, economic security, and health and wellbeing. Key measures include:

- $1.7 billion for more affordable childcare for growing families
- $164.8 million in financial support for women who escape family and domestic violence
- $129.0 million for increased legal assistance funding enabling women to access justice
- $31.5 million to expand the superannuation guarantee to include employees earning less than $450 per month, particularly benefitting women
- $25.7 million to boost the next generation of women in STEM
- $21.6 million to provide improved maternal, sexual and reproductive health outcomes, including for endometriosis, for women and girls in Australia.

These commitments build on the:

- Government's response to the Sex Discrimination Commissioner's Respect@Work Report
- National Plan to Reduce Violence against Women and their Children 2010-2022
- 2018 and 2020 Women's Economic Security Statements.

Getting Australians through COVID-19

Since the start of the pandemic, the Government has committed $311 billion in health and direct economic support. This decisive action from the onset of the pandemic has been central to Australia's world leading health and economic outcomes.

This Budget builds on the significant economic support already flowing through to households and businesses. The Government is extending tax relief to low- and middle-income earners along with tax incentives to encourage businesses to further invest and create more jobs, while providing targeted support for sectors that continue to be affected by the international border closures.

Protecting Australians' health

The Government is committed to protecting Australians from COVID-19 and facilitating the re-opening of the Australian economy, investing a further $1.9 billion in Australia's COVID-19 Vaccination Strategy.

There has been extensive investment in a diverse portfolio of COVID-19 vaccines, with the Government committing to access around 170 million doses. The Government continues to work with states and territories to support the delivery of vaccines to all Australians who wish to be vaccinated.

Alongside the roll-out of COVID-19 vaccines, $1.5 billion is being provided in this Budget to extend a range of COVID-19 health response measures. These include COVID-19 testing, expanding general practitioner respiratory clinics and continuing funding for hospital activity under the National Partnership on the COVID-19 Response.

Securing Australia's economic recovery

Tax relief for low- and middle-income Australians

To increase household disposable income and support the economic recovery, the Government will retain the low and middle income tax offset (LMITO) in 2021-22 to provide $7.8 billion in targeted support to around 10.2 million low- and middle-income earners. The LMITO provides a further tax cut of up to $1,080 for individuals or $2,160 for dual income couples, with the maximum benefit going to individuals with taxable incomes between $48,000 and $90,000. Treasury estimates that extending the LMITO will boost GDP by around $4.5 billion in 2022-23 and will create an additional 20,000 jobs by the end of 2022-23.

The retention of the LMITO is on top of the $25.1 billion in tax cuts flowing to households in 2021-22 that have been announced in previous budgets. The Government's legislated Personal Income Tax Plan will continue to create a more competitive and efficient tax system. Stage 3 — the final stage of the plan — will abolish the 37 per cent marginal tax rate and reduce the 32.5 per cent marginal tax rate to 30 per cent. In 2024-25, around 95 per cent of taxpayers will face a marginal tax rate of no more than 30 per cent.

Extending temporary full expensing and temporary loss carry-back

In the 2020-21 Budget, the Government introduced temporary full expensing of depreciable assets for businesses with turnover or statutory and ordinary income below $5 billion.

In this Budget, temporary full expensing will be extended for 12 months until 30 June 2023 to encourage additional investment by allowing projects with longer lead times or that are experiencing COVID-19 related supply chain disruptions to be eligible for full expensing. Eligible businesses will be able to deduct the full cost of eligible assets, including the cost of improvements to existing assets, incurred between 7:30pm (AEDT) on 6 October 2020 and 30 June 2023.

The Government is also extending temporary loss carry-back to the 2022-23 income year. This will allow companies with turnover below $5 billion to recoup tax previously paid on prior year profits, as far back as the 2018-19 income year, using 2022-23 tax losses. This will provide further cash flow support to businesses and encourage investment utilising the extended temporary full expensing measure while it is available.

These measures are estimated to deliver a further $20.7 billion in tax relief to businesses over the forward estimates period. The cost over the medium term is only $5.3 billion, given these measures work by bringing forward tax deductions or the utilisation of losses from future years.

Full expensing and loss carry-back, including the extension, is estimated to boost GDP by around $2.5 billion in 2020-21, $7.5 billion in 2021-22, and $8 billion in 2022-23, and create around 60,000 jobs by the end of 2022-23.

Supporting our worst hit sectors and regions

While Australia's economic recovery is well underway, COVID-19 continues to have a significant effect on a number of sectors and regions across the country. The Government is committed to supporting workers and industries that continue to need support, including in the aviation, tourism, arts and international education sectors, to ensure these sectors get to the other side of the COVID-19 pandemic. Consistent with the principles that have guided the Government's response to the pandemic, economic support will be temporary, targeted, proportionate and have a clear exit strategy.

Key initiatives include:

- an additional $1.2 billion targeted support package to the aviation and tourism sectors to maintain essential air services, boost domestic tourism in our regions and protect tourism and aviation jobs. This builds on over $2.7 billion in direct aviation support provided throughout the COVID-19 pandemic

- the Small and Medium Enterprise (SME) Recovery Loan Scheme, which builds on the SME Guarantee scheme, to support SMEs with a turnover of up to $250 million that were recipients of JobKeeper Payments in the March quarter of 2021, or were affected by the floods in March 2021 and were located or operating in eligible Local Government Areas. By increasing lenders' ability to provide cheaper credit, the new Scheme allows many otherwise-viable SMEs to access additional funding, thereby helping businesses manage their cash flows and invest for the future

- almost $300 million to support the successful re-opening of Australia's creative and cultural sector, building on almost $800 million in targeted support provided in response to the COVID-19 pandemic

- $53.6 million to support Australian education providers most reliant on international students. Grants of up to $150,000 will be available for eligible private higher education and English Language Intensive Course for Overseas Students (ELICOS) providers to invest in staff expertise and new teaching solutions. Courses available for domestic students will also be expanded, with the Government supporting an additional 5,000 Commonwealth supported short course places at non-university higher education providers (NUHEPS) in 2021 and extending regulatory fee relief for all international education providers until 31 December 2021.

Setting Australia up for the future

The 2021-22 Budget introduces further measures to build skills for the future, assist vulnerable unemployed Australians to get back into jobs and boost labour market participation.

Building skills for the future

The Government is investing to build the skills that Australia's economy needs to thrive in a post-COVID-19 world. These measures build on the Government's successive reforms and investments in the skills sector since 2013-14, which includes $6.4 billion that the Government will invest into the sector in 2021-22. These initiatives will assist those areas and industries that are facing challenges in getting the workers they need.

The Government is investing an additional $500 million to expand the JobTrainer Fund, subject to matched funding by state and territory governments. Extending JobTrainer until 31 December 2022 will deliver a further 163,000 places. It will support 10,000 digital skills training places and 33,800 places for existing and new aged care workers to upskill. The extended JobTrainer Fund will continue to support job seekers, school leavers and young people in areas of genuine need to reskill and upskill.

The Government is investing an additional $2.7 billion to extend and expand the Boosting Apprenticeship Commencements (BAC) wage subsidy. In March 2021, the Government uncapped the BAC and extended the wage subsidy to 12 months. This is expected to benefit an additional 70,000 apprentices and trainees above the original

100,000 when the measure was announced in last year's Budget. In this Budget, the Government is extending the BAC to apprentices and trainees who sign up by 31 March 2022. This will support a further 100,000 apprentices and trainees and build a pipeline of skilled workers for Australia's economic recovery. The funding in this Budget includes 5,000 additional gateway services to women and in-training support services for women commencing in a non-traditional trade occupation.

The Government is introducing a care workforce package, which will reduce red tape for providers and workers while increasing worker mobility and improve quality of care across the aged, disability and veterans care sectors. As part of the package, the Government is providing $12.3 million to improve the alignment of regulation across the sectors, and $105.6 million to align worker screening processes. The package also includes the development of a care sector code of conduct and improvements to the Boosting the Local Care Workforce Program.

Getting Australians into work

The 2021-22 Budget is focused on creating jobs and supporting the unemployed to develop clear pathways into work. The Government is investing in employment programs and training places, with a focus on young people, women returning to work and Indigenous Australians.

Wage subsidies available through jobactive, Transition to Work and ParentsNext will be increased to $10,000 and the Local Jobs Program will be expanded and extended to 51 employment regions. This will bring together employment service providers, local employers and training organisations to meet local labour market needs and provide targeted training.

To support foundational skills, the Government is providing $23.6 million over the forward estimates for the expansion of the Skills for Employment and Education (SEE) program, including uncapping the number of places and removing the requirement that job seekers are receiving income support. The funding will accelerate the introduction of digital skills training and ensure that all job seekers with low levels of language, literacy, numeracy and digital literacy have access to relevant foundational skills training to boost their employment prospects.

The Budget also includes further measures that focus on disadvantaged job seekers and those most impacted by the pandemic. The Government will introduce a new employment services program to replace jobactive from 1 July 2022. The new program will enable job-ready job seekers to self-manage their job search on a digital platform and redirect resources to intensive face-to-face services for the most disadvantaged job seekers. Job seekers in Disability Employment Services will also be able to participate in digital services to find employment from 1 January 2022.

The Government's youth specialist employment service, Transition to Work, will receive an additional $481.2 million over the forward estimates while the National Careers Institute (NCI) will receive an additional $19.8 million to expand services to help young people and women make informed decisions about their education and career pathways. The Government is expanding the Career Revive program to 60 additional businesses to attract and retain women returning to work after a career break.

Investing in women's economic security

The Government is investing in women's economic outcomes with a $1.9 billion Women's Economic Security Package. This package includes $1.7 billion over five years for an increased Child Care Subsidy for families with second and subsequent children aged five years and under. Investments for women's employment and professional development is being provided with a commitment of $42.4 million over seven years to boost the next generation of women in STEM and $38.3 million over five years to expand the Women's Leadership and Development Program.

The coverage of the superannuation system is being improved by removing the current $450 per month income threshold from 1 July 2022, under which employees do not have to be paid the superannuation guarantee by their employer. This will benefit lower income workers, particularly women.

Increasing participation through lifting incentives to work

Creating the right incentives to work and seek employment will lift workforce participation and help those Australians who are unemployed return to work.

The Government has provided $9.5 billion to enhance the social security safety net by increasing support for unemployed Australians while strengthening their obligations to search for work. From 1 April 2021, the rate of working age payments increased by $50 a fortnight, benefitting 1.9 million Australians. The Government has also increased the income free area to $150 per fortnight for JobSeeker Payment and Youth Allowance (other), allowing recipients of these payments to earn more income before their payment begins to taper.

Alongside the changes to income support payments, the Government is strengthening mutual obligations to provide better support for job seekers in their search for work. As a complementary measure, the Earn and/or Learn initiative will be extended until 30 June 2022, providing job seekers additional flexibility in how they meet their mutual obligations and better equipping them for employment.

Boosting job creation

The Government is building on the substantial packages of support already provided to boost job creation, through major new investments in infrastructure, housing and the engineering construction sector.

Infrastructure investment

As part of the Government's record $110 billion 10-year infrastructure pipeline, an additional $15.2 billion over ten years is being committed to road, rail and community infrastructure projects across Australia. These new commitments will support over 30,000 direct and indirect jobs across the lives of the projects.

As part of this package, the Government is committing $2.0 billion to support delivery of the Melbourne Intermodal Terminal. This project will boost productivity by increasing the efficiency and capacity of the national rail freight network and take thousands of trucks off the road.

Additional road and rail commitments across Australia include:

- $2.6 billion for the North-South Corridor — Darlington to Anzac Highway in South Australia
- $2.0 billion for the Great Western Highway Upgrade — Katoomba to Lithgow in New South Wales
- $400.0 million in additional funding for the Bruce Highway in Queensland
- $380.0 million for the Pakenham Roads Upgrade in Victoria
- $237.5 million for the METRONET to support grade separations and the elevation of stations in Western Australia
- $150.0 million for the Northern Territory National Highway Network
- $132.5 million for the Canberra Light Rail — Stage 2A in the Australian Capital Territory
- $113.4 million for the Midland Highway Upgrades in Tasmania.

This package also includes an additional $1 billion to extend the Local Roads and Community Infrastructure Program, further supporting councils in maintaining and upgrading community assets and local roads. The Road Safety Program is also being extended to 2022-23, with additional funding of $1 billion for projects that will improve roads and save lives. This brings the total investment by the Government in these two stimulus programs to $5.5 billion since the start of the COVID-19 pandemic. Funding for projects under these programs is being provided on a 'use it or lose it' basis to ensure the projects are delivered efficiently.

Supporting home ownership

The Government understands the importance of owning your own home and the significant economic and social benefits home ownership provides.

That is why the Government is providing more pathways to home ownership by establishing the Family Home Guarantee to support single parents with dependants (predominantly women) to enter or re-enter the housing market sooner, with a deposit of as little as 2 per cent. In addition, the First Home Loan Deposit Scheme will be temporarily extended by releasing a further 10,000 places under the New Home Guarantee to support first home buyers to build a new dwelling or to purchase a newly constructed dwelling with a deposit of as little as 5 per cent.

To support first home buyers to raise a deposit more quickly, the Government is also amending the First Home Super Saver Scheme to increase the maximum amount of voluntary contributions eligible to be released under the scheme to $50,000 from $30,000.

Finally, the HomeBuilder six-month construction commencement period has been extended to 18 months for all applications. This will smooth out the HomeBuilder construction pipeline and support jobs in the construction sector in 2021 and into 2022.

A flexible and dynamic economy

The Government is ensuring the Australian economy remains flexible, dynamic and competitive, and workers and businesses can capitalise on the opportunities of the future.

By delivering a comprehensive Digital Economy Strategy and investing $1.2 billion in Australia's digital future, the Government is laying the foundations for Australia to be a leading digital economy and society by 2030. This package takes advantage of the acceleration of digital transformation that has resulted from COVID-19 and builds on previous commitments to support digitalisation through the Digital Business Plan in 2020-21, the Cyber Security Strategy, the NBN upgrade plan and the JobTrainer Fund.

In this Budget, the Government is continuing to implement the Consumer Data Right (CDR) in the banking sector, and accelerating its rollout across the economy, including in the energy and telecommunications sectors. Expansion of the CDR will underpin a data-driven economy, promote innovation and empower consumers to make more informed choices about their services, reducing costs for Australian households and small businesses.

$124.1 million is being provided to further develop Australia's AI capabilities, including by helping small and medium sized businesses with medium-high digital capability adopt AI. The Government will enhance service delivery by developing and transitioning government services to a new myGov platform, while changes to My Health Record will help support Australia's world-class healthcare system.

Unlocking the digital economy means investing in emerging industries that will support highly-skilled job opportunities for a digital workforce. The Government will invest $18.8 million over the forward estimates in the digital games development industry to attract international investment and encourage creative businesses to grow. From 1 July 2022, eligible entities will receive a 30 per cent refundable tax offset, capped at $20 million per year, for qualifying Australian games expenditure.

In addition, the Government is taking action to enhance the competitiveness of Australian businesses and put Australia at the cutting edge of science and innovation through:

- Introducing a patent box to encourage companies to develop and apply their medical and biotechnology innovations in Australia. This incentive will tax corporate profits from Australian developed and patented medical and biotechnology innovations at a concessional 17 per cent effective corporate tax rate. An internationally competitive tax regime for patents will help encourage firms to develop their research and development innovations into profitable businesses in Australia.

- $387.2 million to build one of the world's largest radio telescopes in Western Australia as part of the Square Kilometre Array (SKA) project, enabling scientific discoveries in astronomy and generating spin-off technologies that can be applied in other fields, such as advanced manufacturing.

In this Budget, the Government is supporting global business and talent attraction. By bringing additional businesses, new technologies and highly skilled professionals to Australia, the Government is ensuring Australia can capitalise on our strong economic position coming out of the COVID-19 pandemic and remain globally competitive.

The Government will make it easier for businesses to offer employee share schemes, to enable more Australians to share in the economic value they create through their hard work and attract the best and brightest from around the world. To encourage global businesses to invest in, and relocate to Australia, the Government will establish a fast track process to provide investors with certainty around the tax implications of large investments, finalise the implementation of the Corporate Collective Investment Vehicle regime, and establish a more efficient licensing regime for foreign financial service providers. Measures will also be implemented to modernise the individual tax residency rules to provide greater certainty and reduce compliance costs for globally mobile individuals and their employers.

The Budget furthers the Government's Deregulation Agenda with an investment of an additional $134.6 million. The measures in the deregulation package reduce the regulatory burden for businesses interacting with government, make it easier for businesses to get people into jobs, and lay the foundation for future reforms to improve the business environment. They are estimated to generate benefits averaging

$430 million annually in reduced compliance costs to businesses, individuals and not-for-profits. The Government will improve mutual recognition of occupational licenses, making it easier for around 124,000 Australians to work in multiple states and territories. This has the potential to generate more than $2.4 billion in additional economic activity over the next ten years.

Guaranteeing the essential services

The Government is implementing reforms to guarantee high-quality and sustainable essential services for Australians and support our community's most vulnerable. These reforms include taking comprehensive action to respond to the Royal Commission into Aged Care Quality and Safety and reports into mental health by the Productivity Commission and the National Suicide Prevention Adviser.

Ensuring high-quality and sustainable aged care services

In response to the Final Report of the Royal Commission into Aged Care Quality and Safety, the Government has committed to record funding with an additional $17.7 billion over five years to transform the aged care system to ensure it delivers high-quality services for older Australians and their families, now and into the future. This will deliver a generational change to aged care.

To enable older Australians to remain at home for longer, this Budget invests $6.5 billion for the release of 80,000 additional Home Care Packages over the next two years. The Aged Care Quality and Safety Commission will receive additional resources to manage compliance and ensure quality care services, and the introduction of new star ratings. Funding of $798.3 million will also support informal carers of older Australians, including through increased access to respite services, and more targeted assistance for carers of people with dementia.

To improve the quality, sustainability and safety of residential aged care, from 2020-21 the Government is investing $7.8 billion to implement a new funding model and increase the Government's Basic Daily Fee supplement by $10 per resident per day. In introducing the new model, the Government is supporting provider transition and encouraging better care by increasing funding to support an average of 200 minutes of care time per resident per day. From 1 July 2022, residential care providers will be required to report and publish care staffing minutes on the MyAgedCare website.

The Government is providing $630.2 million to improve access to high-quality aged care services for those in regional, rural and remote areas, Aboriginal and Torres Strait Islander people, and special needs groups.

The reforms announced in the Budget include $942.0 million to support older Australians to access safe and quality care, and $652.1 million to skill the aged care workforce for the future. An additional 33,800 training places through JobTrainer will enable existing and new care workers to improve their qualifications.

Our reforms to aged care will be supported by new governance structures, including a new Aged Care Act that focuses on the needs of older Australians and places high-quality, safe and compassionate care at the centre of the system.

Delivering comprehensive mental health and suicide prevention services

The mental health of Australians is a national priority. The Government is committed to undertaking significant structural reform of the mental health and suicide prevention system to improve the wellbeing of Australians living with mental illness and prevent suicide. The $2.3 billion package in this Budget is a first step to responding to recommendations from the Productivity Commission and the National Suicide Prevention Adviser. With this commitment to Australians' mental health, the Government is laying the foundations for systemic, whole-of-government reform to deliver preventative, compassionate and effective care.

The Government will invest to improve access to in-person community based, multidisciplinary adult mental health services. This includes $487.2 million to fund a network of specialist Head to Health Adult Mental Health Centres and to establish a central intake and assessment phone service. Additional centres will be opened in partnership with states and territories. For young Australians aged 12 to 25, $278.6 million is being made available to enhance and expand headspace centres across the country. And for children under 12 years the Government will invest $100.8 million to support parents and early intervention, and establish child mental health and wellbeing hubs with the states and territories.

We are also strengthening the broader primary health care system by supporting our general practitioners in their role as a key entry point into the mental health system by expanding and implementing the Initial Assessment and Referral (IAR) tool and providing additional mental health development opportunities and guidance. A further $111.4 million is being provided for Medicare subsidised psychological therapy sessions for patients' family members and carers, and additional provisions for group therapy sessions under the Better Access Initiative. To ensure more Australians can quickly access appropriate care, $111.2 million is being provided to expand and improve high-quality, low-cost digital mental health services.

To achieve its commitment of working towards zero suicides, the Government is expanding the services available to Australians experiencing suicidal distress and their loved ones. Through a National Agreement with states and territories, the Government will provide $156.8 million to ensure that every Australian discharged from hospital following a suicide attempt is offered at least three months of follow up care. $22.0 million will be provided for postvention support for the family and friends of people who die by suicide. A National Suicide Prevention Office will also be established as a central point of coordination for a national approach.

These significant reforms will deliver a system that is evidence-based, person-centred, informed by lived experience, acts early to help people before mental health conditions and suicidal distress worsen, and provides the effective, compassionate care Australians deserve.

Supporting people with disability through the NDIS

In the 2021-22 Budget, the Government will provide an additional $13.2 billion over four years, as more people with disability benefit from the scheme. The NDIS currently provides support to around 450,000 Australians with permanent and significant disability and their families and carers, with over 50 per cent of participants receiving services for the first time. The Government is committed to ensuring people with significant and permanent disability receive the funding they need to enable them to participate in the community.

Delivering a strong health care system

Guaranteeing Medicare remains a key pillar of the Government's Long Term National Health Plan. In 2021-22 the Government will invest $98.3 billion in health spending as part of our ongoing commitment to guaranteeing Medicare for all Australians. The Government is investing a further $3.4 billion to extend important COVID-19 measures to continue our strong response to the pandemic, including $510.8 million to partner with states and territories to support the rollout of the vaccine, $773.2 million for telehealth, pathology testing and access to home medicines.

To modernise the way Medicare supports quality health care, an additional $50.7 million is being invested to progress work on introducing MyGP, one of the first steps in the Government's 10 Year Primary Health Care Plan, to strengthen the relationship between Australians and their regular GP and facilitating higher quality health care. As part of its commitment to primary health care, the Government is also contributing $80.9 million to provide incentives and opportunities to work and train in rural and regional Australia, support for public dental services, $421.6 million for the Australian Digital Health Agency's work on My Health Record and $71.9 million for access to after-hours health care.

This Budget provides greater access to diagnostic imaging by creating an $20.7 million funding pool for the purchase of modern diagnostic imaging machines in rural and remote areas.

The Government continues to guarantee affordable access to essential medicines on the Pharmaceutical Benefits Scheme (PBS), investing $878.7 million over five years to reduce out-of-pocket costs for new and amended listings on the PBS, including for Australians living with chronic migraines, eczema and breast cancer.

Funding for the National Women's Health Strategy 2020-2030 and the National Action Plan for Endometriosis is continuing through $21.6 million to target improved maternal, sexual and reproductive health outcomes for women.

Enhancing women's safety

The 2021-22 Budget commits $1.1 billion for improving women's safety. The Government is committed to ending all forms of violence against women and their children. It is delivering a new long-term, intergenerational National Plan to Reduce Violence against Women and their Children.

As part of the Women's Safety package, the Government is providing $164.8 million over three years for financial support to help women who escape family and domestic violence. The Government is further contributing $261.4 million to establish a new agreement with the states and territories for frontline family, domestic and sexual violence supports and $129.0 million for increased legal assistance to help women access justice.

The Government is also investing $20.5 million to prevent and address sexual harassment with its response to the Respect@Work Report.

Investing in education

The Government is committing $2.0 billion in ongoing funding for preschools through a four-year Strategic Reform Agreement. This funding will provide certainty for early childhood education providers and support access for all children to at least 15 hours a week of learning in the year before school. The funding as part of this agreement is contingent on the states and territories agreeing to key reforms on participation and school readiness. This new agreement will improve outcomes for vulnerable and disadvantaged cohorts and ensure that all children, regardless of their economic circumstances, are supported to access high-quality early childhood education.

The Government is also continuing to invest record funding in Australian schools as part of its ongoing commitment to education. Recurrent annual funding provided by the Government for schools has increased from $13.8 billion in 2014 to $23.4 billion in 2021. Over the next ten years, the Government has committed $289 billion in total recurrent funding for schools.

To continue to raise the quality of education, the Government will invest $4.0 million to expand the Literacy and Numeracy Test for Initial Teacher Education Students. Improved data is also a vital element of improving educational outcomes. The Government is investing an additional $5.8 million to continue the Australian Teacher Workforce Data collection and $20.0 million to continue and improve the Nationally Consistent Collection of Data on school students with disability.

Supporting our community

The Government is investing in outcomes for Indigenous Australians through health, aged care, education, infrastructure and women's safety programs. The Government is setting the foundation for achieving Closing the Gap targets and Priority Reforms, with further targeted measures to be included in the Commonwealth's Implementation Plan, which will be released mid-year. To support Aboriginal and Torres Strait Islanders' economic participation, over $227.7 million will be invested to strengthen remote service delivery and develop a targeted employment and skills program.

The Government is making improvements to the veterans' support system to deliver a simpler, faster and better experience for veterans and their families and to ensure veterans' health and wellbeing over the long term. The 2021-22 Budget will provide $460.4 million to ensure the Department of Veterans' Affairs has adequate capacity to meet veteran support needs and enhance its capacity to address veteran suicide, including through faster processing of compensation claims.

The Government will provide $32.1 million to enable the continued delivery of annual international Anzac Day commemorations and domestic commemorative activities to mark important occasions in Australia's military history, and better care for official war graves.

Enhancing the flexibility of the superannuation system

The Government is giving older Australians more choices to contribute to their retirement savings and cutting red tape to improve the efficiency of the system. The Government will repeal the work test for voluntary non-concessional and salary sacrificed contributions to superannuation and reduce the eligibility age for downsizer contributions to 60 years. A two-year amnesty is also being introduced to enable holders of certain legacy retirement income products to convert to newer, more flexible products.

The flexibility of the Pension Loans Scheme is being improved by providing access to advance payments through allowing participants to access up to 26 fortnights' worth of top-up payments as a lump sum and introducing a No Negative Equity Guarantee.

Building a more resilient and secure Australia

The Government is making significant investments to support Australia's economic resilience and to keep Australians safe in an evolving and complex environment. This Budget improves Australia's disaster resilience by strengthening the nation's ability to prepare, respond and recover from natural disasters, and invests in regional Australia so it can grow and prosper and build resilience to future economic shocks. Investments are also being made to care for the environment, including to reduce emissions while supporting jobs and strengthening the economy.

Bolstering our economic resilience

Building on our previous actions that have helped reduce electricity prices by 11.2 per cent in the last year, the Government is continuing to take necessary steps to secure affordable and reliable energy. To help maintain reliable and secure electricity as we transition to a lower emissions future, the Government is providing $49.3 million for battery and microgrid projects and $24.9 million to assist new gas generators become hydrogen ready. In addition, the Government is providing $30 million for early works on Australian Industrial Power's Port Kembla gas generator project.

To deliver the next steps of the gas-fired recovery and continue unlocking Australia's gas reserves, the Government is providing a further $74.3 million to help accelerate priority gas supply projects identified in the Interim National Gas Infrastructure Plan and help realise the opportunities in the North Bowen and Galilee Strategic Basins.

The Government is taking decisive action to support local oil refineries as part of its commitment to Australia's long-term fuel security. This includes the introduction of a production payment to support local refineries and upgrade infrastructure to continue operating in Australia. This follows on from the six-month interim production payment provided in the 2020-21 MYEFO.

The Government is examining supply chain vulnerabilities for critical products, starting with personal protective equipment (PPE), medical products and agricultural production chemicals, which will inform initial investments under the $107.2 million Supply Chain Resilience Initiative. The Government is also establishing an Office of Supply Chain Resilience to monitor vulnerabilities and coordinate whole-of-government responses to improve ongoing access to essential goods.

Enhancing our disaster resilience

The 2021-22 Budget provides funding to implement key elements of the Government's response to the Royal Commission into National Natural Disaster Arrangements and strengthen the nation's ability to prepare for, respond to and recover from natural disasters. The Government will provide $615.5 million over six years for the Preparing Australia grants program to support disaster risk reduction activities. As part of the $2 billion National Bushfire Recovery Fund, $280.0 million will be committed to establish a grants program to support the ongoing recovery needs of communities affected by the 2019-20 bushfires.

The Government will provide $61.1 million to establish the new National Recovery and Resilience Agency to drive the reduction of natural disaster risk, enhance natural disaster resilience, and ensure effective relief and recovery from all hazards, and $90.0 million to enhance the operation of Emergency Management Australia to ensure better informed and timely government decision making during emergencies.

To transform the Commonwealth's capacity to prepare for extreme events and a changing climate, the Government will invest $209.7 million to establish the Australian Climate Service (ACS). The ACS will provide the intelligence, insights and analysis for Emergency Management Australia and the National Recovery and Resilience Agency to understand and support decisions on climate and disaster risk.

The Government is committed to improving the affordability and availability of insurance for households and small businesses in Northern Australia. The Government therefore intends to establish a reinsurance pool for cyclones and related flooding, backed by a $10 billion Government guarantee, for properties in areas subject to high cyclone risk.

Resilient regions

The Government is providing $537.6 million to support continued growth in regional Australia. Successful and resilient rural and regional economies will be better able to withstand economic shocks and contribute to national economic activity.

Through the Our North, Our Future Next Five Year Plan for Northern Australia, the Government is providing $189.6 million over five years to create jobs and support sustainable economic growth in Northern Australia. The Plan supports initiatives targeted to the needs of the North, including helping businesses grow, investing in areas of regional strength and enhancing digital connectivity.

The Government is providing communities with $250 million under a sixth round of the Building Better Regions Fund. This will create jobs and build stronger regional communities by funding new or upgraded infrastructure and community development activities. The Government is also investing $84.8 million to improve internet and mobile access in regional Australia.

Boosting farm productivity and protecting our agricultural industry

A vibrant and successful rural and regional Australia needs a strong agricultural sector. The Government is therefore helping the industry grow and become more profitable to help reach its goal of $100 billion farm gate output by 2030.

To protect Australian farmers from pest and weed outbreaks, the Government is committing $414.5 million to enhance Australia's biosecurity, including by:

- enhancing digital capability to better assess risk through advanced diagnostics, modelling and on the ground data collection
- targeting specific biosecurity threats, for example, investment on the front lines to stop African Swine Fever.

The Government is helping farmers expand and grow their exports, providing $87.7 million to increase market intelligence, agriculture counsellors and technical experts. $29.8 million is being provided to help farmers attract and retain a high-skilled workforce. The Government's $237.9 million investment in soils will also help increase on-farm profitability and help reduce our carbon emissions.

Drought Proofing Our Future

Under the National Water Grid Fund (NWGF), the Government is providing $3.5 billion to help ensure reliable water supply in regional Australia. From the NWGF, $258 million will establish a new funding pathway for small-scale water infrastructure and fund the development of new dams and irrigation projects, including secure water supply for the Eurobodalla region.

The Government is securing water for river health by investing $1.3 billion in off-farm irrigation infrastructure. Farmers will be better prepared for variable rainfall through the Government's investment in Murray-Darling Basin water modelling tools. In addition, $23.0 million as part of the $5 billion Future Drought Fund will help farmers manage their soil moisture.

These policies will improve the reliability of Australia's water supply, support irrigators and allow communities to better manage their water resources.

Caring for the environment

Reducing emissions

Under the Paris Agreement, the Australian Government has committed to reducing emissions by 26 to 28 per cent below 2005 levels by 2030. To support this commitment, the Government is investing $1.6 billion to fund priority clean energy technologies. This represents a practical, technology-focused approach to reducing emissions, while supporting jobs and strengthening our economy.

Australia will play a leading global role by partnering with other nations to accelerate the commercialisation of low emissions technologies. A $1.2 billion Technology Co-Investment Facility will be established to invest in priority technologies and practical project-based international partnerships. This includes $539.2 million for hydrogen and carbon capture use and storage projects that will support Australian industry and create jobs, and $565.8 million to establish international partnerships on practical low emissions projects. The partnerships will leverage Australia's comparative advantage and help Australian industries take their share of emerging global low emissions markets. The Government is also committing $316.7 million to help industry and businesses reduce their emissions through voluntary action and adopting low emissions technology.

Oceans leadership

To safeguard the health of our oceans and create jobs in the emerging blue economy, the Government is investing $100.1 million in an Oceans Leadership Package. This includes investments targeting 'blue carbon' ecosystems that involve seagrass and mangroves that play a key role in drawing carbon out of the atmosphere.

Waste package

To ensure Australia takes responsibility for its own waste the Government is investing $11.0 million to support Australia's recycling industry, including further funding for the National Product Stewardship Investment Fund and support for the Australasian Recycling label to help consumers recycle properly. The Government is investing $67.0 million to enhance organic waste facilities and support community education to reduce the amount of food waste going to landfill. These investments support the Government's National Waste Policy Action Plan, which aims to reduce waste generation, increase waste recovery rates and regulate waste exports.

EPBC Act Reform

In response to the *Independent Review of the Environment Protection and Biodiversity Conservation Act 1999*, the Government is investing $29.3 million to ensure our environmental laws are both protecting the environment and supporting economic growth.

Through an investment of $4.7 million, the Government will work with stakeholders to improve the measurement and valuation of Australia's natural capital.

Keeping Australians safe

The Government is committed to strengthening our national security, defence and law enforcement capabilities. It is providing $1.3 billion over ten years to the Australian Security Intelligence Organisation to further boost its ability to protect Australia and Australians from threats to our security. A further $51.8 million is being provided to support the Australian Criminal Intelligence Commission's critical role in combatting transnational, serious and organised crime.

Building on Australia's Cyber Security Strategy 2020, the Government is providing $42.4 million to improve security arrangements for critical infrastructure and to assist critical infrastructure owners and operators respond to significant cyber-attacks.

To support Australia's strong border protection policies, the Government is providing $464.7 million to bolster domestic detention capabilities and a further $38.1 million to continue the Regional Cooperation Arrangement in Indonesia.

The Government remains committed to building Defence capability and supporting Australia's sovereign defence industry, including through its defence capability investments valued at $270 billion over the next decade. Maintenance and development of Australia's 400 owned and approximately 958 leased properties continues to deliver considerable economic, social and environmental support for regional communities, including the recent $747 million defence infrastructure package in the Northern Territory.

Statement 2: Economic Outlook

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

Contents

Statement 2: Economic Outlook

Overview

The Australian economy has displayed remarkable resilience in the face of the COVID-19 pandemic. Following the first recession in almost 30 years over early 2020, the economy grew at its fastest pace on record over the latter half of the year and outperformed all major advanced economies in 2020. Labour market outcomes have surpassed even the most optimistic of expectations. With close to one million jobs added to the economy since May 2020, employment levels have more than recovered the losses seen through the pandemic to reach record highs. The peak in the unemployment rate is now expected to have passed and labour force participation has increased to a record high.

Together with the success in managing the spread of the COVID-19 virus, the Government's significant fiscal policy response has been central to Australia's economic performance throughout the pandemic. Immediate temporary, targeted assistance to individuals, households and businesses provided a crucial lifeline to the economy during the worst of the downturn and the Government's total economic support response to the crisis now stands at $291 billion or around 14.7 per cent of GDP. As the recovery continues and emergency support concludes, additional assistance focused on supporting private sector activity remains in place to underpin the recovery over the forecast period. Further measures announced as part of this Budget, such as extensions to temporary full expensing, temporary loss carry-back and the low and middle income tax offset will further support strong growth in economic activity over the forecast period, helping to drive the unemployment rate lower.

The global economic recovery is also gathering pace, with stronger-than-expected activity in the December quarter of 2020 for most major trading partners. Further progress on vaccine rollouts in advanced economies, major fiscal policy support and accumulated household savings have all contributed to increased confidence in the global economic outlook. However, the pace of recovery is uneven and significant risks to the global outlook remain, heightened by ongoing outbreaks of the virus in major economies, most notably in India.

The outlook for the Australian economy has strengthened and output is expected to have exceeded its pre-pandemic level in the March quarter of 2021, nine months earlier than forecast last Budget. Real GDP grew strongly over the September and December quarters of 2020 and recovered around 85 per cent of the fall since the onset of the pandemic. Growth in economic activity has also been supported by strong employment outcomes. Employment increased to a record high in March 2021, with almost 75,000 more people employed than prior to the pandemic.

Following the strong rebound in economic activity to date, recent record rates of growth are expected to moderate as the economy transitions from the initial reopening phase of the recovery. Nevertheless, ongoing momentum, the rollout of the vaccine and continued fiscal policy support, including new initiatives announced as part of this Budget, are expected to drive strong growth over the forecast period. Real GDP is forecast to grow by 1¼ per cent in 2020-21, by 4¼ per cent in 2021-22 and 2½ per cent in 2022-23.

Robust growth over the forecast period is expected to drive continued steady growth in employment and further declines in the unemployment rate, which is forecast to fall below 5 per cent by late 2022, to reach 4¾ per cent in the June quarter 2023. This would mark the first time that Australia has seen a sustained period of unemployment below 5 per cent since the years leading up to the Global Financial Crisis, and only the second time since the early 1970s.

A lower-than-expected peak and faster-than-anticipated fall in the unemployment rate is expected to reduce the potential for scarring in the labour market and support growth in the medium term. This has also helped to sustain household incomes and has supported ongoing strength in consumer activity.

The outlook for household spending and housing construction has strengthened. Consumer sentiment has recovered substantially and is currently at its highest level in 11 years, with household consumption rebounding at record rates over the second half of 2020. Robust activity in the housing market has also been sustained, reflecting Commonwealth, state and territory government programs to support first home buyers and residential construction, as well as highly accommodative monetary policy settings, which are expected to remain in place for some time.

In the business sector, the Government's business tax incentives have provided a key boost to business investment and are expected to continue to support the outlook in the near term. Overall, while new business investment will take some time to fully recover from the uncertainty following the recession, business conditions reached a record high in March 2021, confidence indicators have recovered to be well above average and there has been an improvement in firms' capital expenditure intentions, with some measures at their highest level since 1994.

As international borders reopen and international tourism gradually returns over 2022, spending from incoming tourists is expected to be more than offset by Australians spending more on overseas travel and less on domestic consumption. However, the gradual arrival of international students and migrants over 2022 will support growth, particularly for education services exports and consumption, and assist in filling skill gaps.

The recent strength in key commodity prices, particularly iron ore, has seen a significant resurgence in Australia's terms of trade and has supported profitability in the mining sector, the benefits of which will flow through to the broader economy. As a result, nominal GDP is expected to grow strongly in the near term, before moderating to grow at a slower pace than real GDP, as strength in the terms of trade unwinds over the forecast period.

Overall, the outlook remains positive, though considerable risks remain. The continued economic recovery will rely on the effective containment of COVID-19 outbreaks both here and abroad. This will be a key factor in the timing of the reopening of international borders, which could weigh on the outlook for the tourism and education sectors. More broadly, downside risks to the outlook for the global economy from ongoing outbreaks of the virus in major economies, including India, could also have implications for Australia's economy.

Box 2.1: Key assumptions underpinning the economic forecasts

The control of the virus in Australia and globally remains a significant risk to the economic outlook. The key assumptions that underpin the economic forecasts are set out below. Outcomes could be substantially different to the forecasts, depending upon the extent to which these assumptions hold.

- The first phase of Australia's vaccination program, our COVID-19 Vaccine and Treatment Strategy, commenced in late February 2021 with most priority populations having been vaccinated. It is assumed that a population-wide vaccination program is likely to be in place by the end of 2021.
- During 2021, localised outbreaks of COVID-19 are assumed to occur but are effectively contained.
- While most domestic activity restrictions have been lifted, it is assumed that general social distancing restrictions and hygiene practices will continue until medical advice recommends removing them. The lifting of domestic activity restrictions will help support consumer and business activity.
- It is assumed that there are no extended or sustained state border restrictions in place over the forecast period.
- A gradual return of temporary and permanent migrants is assumed to occur from mid-2022. Small phased programs for international students will commence in late 2021 and gradually increase from 2022. The rate of international arrivals will continue to be constrained by state and territory quarantine caps over 2021 and the first half of 2022, with the exception of passengers from Safe Travel Zones.
- Inbound and outbound international travel is expected to remain low through to mid-2022, after which a gradual recovery in international tourism is assumed to occur.

Table 2.1: Domestic economy — detailed forecasts[a]

	Outcomes[b]	Forecasts		
	2019-20	2020-21	2021-22	2022-23
Real gross domestic product	**-0.2**	**1 1/4**	**4 1/4**	**2 1/2**
Household consumption	**-3.0**	1 1/4	5 1/2	4
Dwelling investment	**-8.1**	2 1/2	0	-1 1/2
Total business investment[c]	**-2.0**	-5	1 1/2	10
By industry				
Mining investment	**6.8**	1/2	3	3 1/2
Non-mining investment	**-4.5**	-6 1/2	1 1/2	12 1/2
Private final demand[c]	**-3.2**	3/4	4 1/2	4 1/2
Public final demand[c]	**5.5**	5 3/4	5	1 3/4
Change in inventories[d]	**-0.3**	1/4	0	0
Gross national expenditure	**-1.4**	2 1/2	4 3/4	3 3/4
Exports of goods and services	**-1.8**	-8	4	3
Imports of goods and services	**-7.4**	-4	6 1/2	9 1/2
Net exports[d]	**1.2**	-1	- 1/4	-1 1/4
Nominal gross domestic product	**1.7**	3 3/4	3 1/2	2
Prices and wages				
Consumer price index[e]	**-0.3**	3 1/2	1 3/4	2 1/4
Wage price index[f]	**1.8**	1 1/4	1 1/2	2 1/4
GDP deflator	**1.9**	2 1/2	- 1/2	- 1/2
Labour market				
Participation rate (per cent)[g]	**63.4**	66 1/4	66 1/4	66
Employment[f]	**-4.2**	6 1/2	1	1
Unemployment rate (per cent)[g]	**6.9**	5 1/2	5	4 3/4
Balance of payments				
Terms of trade[h]	**0.9**	10	-8	-10 1/2
Current account balance (per cent of GDP)	**1.8**	3 3/4	1 1/4	-2 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 between the public and 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 detailed forecasts are underpinned by price assumptions for key commodities: Iron ore spot price assumed to decline to US$55/tonne free on board (FOB) by the end of the March quarter 2022; metallurgical coal spot price assumed to remain at US$112/tonne FOB; and thermal coal spot price assumed to remain at US$93/tonne FOB.

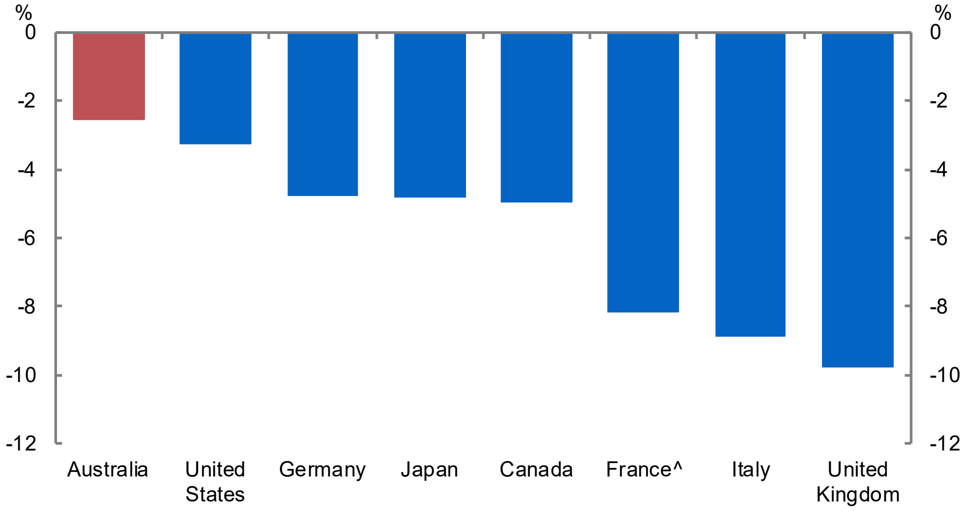
Note: The detailed forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 64 and a $US exchange rate of around 77 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$65/barrel.
Population growth is around 0.1 per cent in 2020-21, 0.2 per cent in 2021-22 and 0.8 per cent in 2022-23.

Source: ABS Australian National Accounts: National Income, Expenditure and Product; Balance of Payments and International Investment Position, Australia; Labour Force Survey, Australia; Wage Price Index, Australia; Consumer Price Index, Australia; unpublished ABS data and Treasury.

Outlook for the international economy

The COVID-19 pandemic has resulted in the largest contraction in global economic activity since the Great Depression. Global GDP fell by 3.3 per cent in 2020, as mobility and economic activity were restricted to limit the spread of the virus and in response to rising uncertainty. Notwithstanding the health and economic challenges presented by the pandemic, Australia's economic growth outperformed all major advanced economies in 2020.

Chart 2.1: Real GDP growth in 2020, Australia and the G7 economies

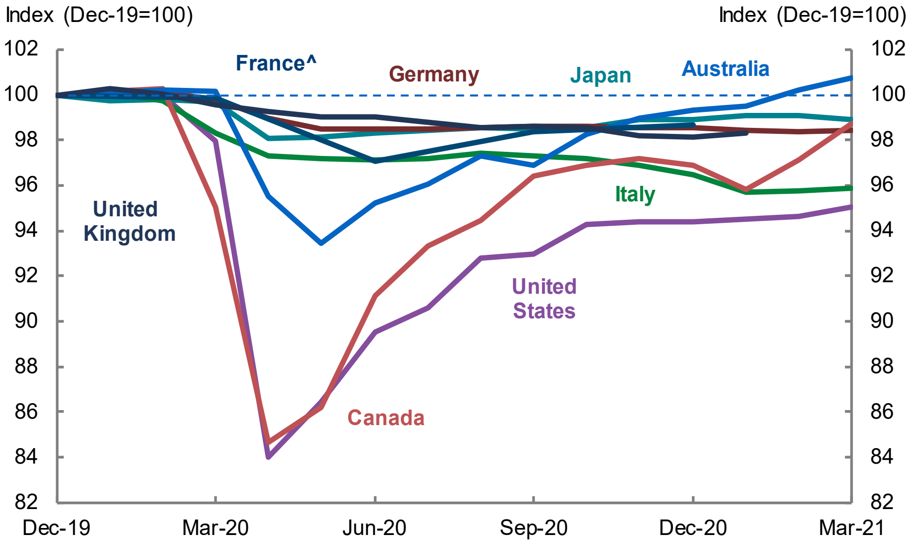


^Data are seasonally adjusted.
Source: National statistical agencies.

The outlook for the global economy has strengthened and global GDP is now expected to grow by 6 per cent in 2021. Positive outcomes across the latter part of 2020, progress on vaccine rollouts across a range of countries, major additional government spending — most notably in the United States — and accumulated household savings have all contributed to increased confidence in the global economic recovery. However, the pace of recovery is uneven, with some economies, such as China, having already returned to pre-pandemic levels of economic activity, while others, like the euro area, are not expected to do so until 2022.

The recovery has also been uneven in international labour markets, with some countries recovering to pre-pandemic levels of employment faster than others. Compared with major advanced economies who have published data for March 2021, Australia is the first economy to have recovered hours worked and employment levels to pre-pandemic levels. For further details on international comparisons of the labour market see *Budget Statement 4: The labour market through COVID-19.*

Chart 2.2: Employment levels, Australia and the G7 economies



^Data are quarterly and latest data are for the December quarter.

Note: Data are monthly unless otherwise specified. UK employment data are a 3-month average from December 2020 to February 2021. Due to definitional differences, care must be taken when comparing employment data across countries. Data are up to date as at 6 May 2021.

Source: Refinitiv, National statistical agencies and ABS Labour Force Survey, Australia.

Fiscal support from policy makers has been central to the global economic response to the pandemic. The IMF estimates that overall global support in response to the pandemic totals nearly $US 16 trillion (15.3 per cent of 2020 global GDP) since January 2020. Of this total, direct health and economic fiscal support accounts for almost $US 10 trillion (9.2 per cent of 2020 global GDP), with the remainder comprised of loans, guarantees and other support. The majority of this support has been undertaken by the G20, with G20 advanced economies accounting for over 80 per cent of overall global support and G20 emerging economies accounting for a further 10 per cent. It is important to note that countries have taken different approaches in response to the pandemic in line with their domestic circumstances, with the amount and design of fiscal support measures varying across jurisdictions.

The economic recovery has also been supported by highly accommodative monetary policy settings from global central banks. With low inflation across many countries prior to the pandemic resulting in central banks reducing policy rates to the zero lower bound, unconventional monetary policy measures such as asset purchase programs and lending facilities were also implemented to stimulate economic activity. Central banks have signalled that policy settings will remain stimulatory for some time, with some requiring actual employment and inflation outcomes to consistently meet targets before changes to policy setting will be considered.

High COVID-19 transmission rates and ongoing containment measures continue to weigh on activity abroad. However, the severity of their impact on economic activity has moderated since the initial wave of the virus, as consumer and business behaviours have evolved and adapted over the course of the pandemic. Following its deep contraction in 2020, global GDP is expected to recover to pre-pandemic levels in 2021 and is forecast to grow by 4¼ per cent in 2022 and 3½ per cent in 2023.

An improving outlook for global economic growth is supported by ongoing developments in vaccine rollouts, particularly in economies experiencing high rates of virus transmission and stricter containment measures. The forecasts assume that countries relax their internal containment measures and confidence improves throughout 2021, and that vaccine coverage expands throughout 2021 and 2022.

Global economic activity is expected to recover as the increasing vaccine coverage reduces both the need for containment measures and serious health impacts arising from the pandemic. However, uncertainty around the timing, progress, ongoing efficacy and uptake of vaccine rollouts, which is heightened by the emergence of new virus variants, presents downside risks to the global economic outlook.

Global and Australian financial market conditions are accommodative and are supporting the recovery. Yields on government bonds have risen in recent months, reflecting optimism about the outlook for growth and corporate profits, but remain low on an historical basis. Nevertheless, financial market conditions remain sensitive to the outlook for growth and the continued provision of policy stimulus. In addition, some emerging market economies with high levels of external debt or debt denominated in a foreign currency could, in the event of a rise in global interest rates, experience a rapid outflow of capital and a sharp currency depreciation.

Despite significant improvements to the overall outlook, the global economic recovery is likely to be uneven. In general, advanced economies are expected to return closer to their pre-pandemic trajectories for GDP than emerging market economies in coming years. This reflects a broad trend of earlier vaccine access, more accommodative policy conditions, and greater fiscal capacity in advanced economies. By comparison, the outlook for emerging market economies is more varied. Slower vaccine rollouts will weigh on recoveries, particularly in regions that are experiencing high virus caseloads, or are more reliant on contact-intensive industries and international travel.

Despite the uneven global recovery, Australia's major trading partners (MTP) weathered the global economic downturn comparatively well, contracting by 1.8 per cent in 2020, outperforming global GDP more broadly which contracted by 3.3 per cent in the same period. MTP is also forecast to grow faster than the global economy, by 6½ per cent in 2021, partly reflecting China's larger weighting within Australia's MTP basket. MTP is expected to grow by 4¼ per cent in 2022.

Significant uncertainty around the global economic outlook remains. Sustained momentum in the global recovery will depend on how well governments continue to manage the pandemic, along with people's ongoing willingness to adapt to life with the virus. Some economies, such as the United States, have remained relatively open and achieved favourable economic outcomes despite high virus caseloads. Other economies currently experiencing major outbreaks, most notably India, have so far avoided strict national containment measures, however the health and economic implications are still unknown. It remains to be seen whether relative openness in the face of virus outbreaks is sustainable over the longer-term, particularly in regions where public health services are at or beyond their capacity.

In **China**, GDP is forecast to grow by 8½ per cent in 2021 and 5¼ per cent in 2022. The economy recovered at a stronger-than-expected pace in the second half of 2020, underpinned by a continued expansion in industrial production, property investment, and exports. However, renewed travel restrictions over the Spring Festival period in response to a COVID-19 outbreak have slowed activity in the March quarter of 2021, and a slow recovery in consumption is expected to exert ongoing downwards pressure on growth. Over the remainder of the forecast period, China's economic growth is expected to normalise towards pre-pandemic trends.

In the **United States**, GDP is forecast to grow by 6¼ per cent in 2021 and 3½ per cent in 2022. Across the past two quarters, the economy continued to expand through the peak of a severe third wave of COVID-19 infections, and substantial progress in the nation's vaccine rollout is expected to enable a meaningful reduction in social distancing in the first half of 2021. Already unprecedented levels of stimulus have been bolstered by the $US 1.9 trillion American Rescue Plan Act, equivalent to around 9 per cent of US GDP and over 2 per cent of global GDP, which will further support activity. This expenditure, which is frontloaded over the next two years, is expected to drive a strong recovery in US demand, which is expected to spill over to the global economy. There are upside risks to the forecast, particularly if recoveries in confidence and the labour market are stronger than expected, or if further spending is legislated.

Euro area GDP is forecast to grow by 4½ per cent in 2021 and 4 per cent in 2022. The European recovery has been disrupted as major economies reimposed containment measures in response to rising infections in the final quarter of 2020 and the first quarter of 2021, seeing the region fall into a double-dip recession. While the economic impact of these measures has so far been less severe than during the first wave of COVID-19, high caseloads and ongoing restrictions will continue to weigh on activity in the first half of 2021. Improving vaccine coverage is expected to enable a fuller recovery across the second half of the year, underpinned by rebounding consumption. Ongoing government support remains strong, with payments from the NextGenerationEU recovery fund due to commence in 2021. More broadly within the region, the recovery in the United Kingdom is likely to outpace that of the euro area in the near term, as its economy reopens following its strict lockdown in early 2021 and its rapid vaccination rollout.

In **Japan,** GDP is expected to grow by 3½ per cent in 2021 and 1¾ per cent in 2022. Containment measures have slowed the recovery in domestic consumption from January this year. However, continued growth in exports is softening the economic impacts of the pandemic, including by spurring business investment. Overall, growth in 2021 is expected to be buoyed by increasing confidence as vaccinations are rolled out in earnest from mid-2021, supported by fiscal stimulus measures and accumulated household and corporate savings. Japan is expected to return to long-term potential growth rates from 2023, which are lower than most other advanced economies, owing to a pre-pandemic trend of a declining working-age population.

GDP in **Other East Asia** is forecast to grow by 4¾ per cent in 2021, and 4 per cent in 2022. Most economies in the region continued to recover in the December quarter of 2020, although momentum slowed for those that implemented further restrictions such as Malaysia. The outlook, and pace of recovery varies across the region. Korea, Taiwan and Vietnam have continued to experience limited virus transmission and have boosted production and exports, while Indonesia's economy has picked up on the back of strong policy support and exports. Differences in recovery trajectories across the region reflect country-specific factors such as the persistence of virus transmission, fiscal capacity and each economy's structure. For example, some countries have higher reliance on contact-intensive industries which may lengthen their recovery, relative to countries which rely more strongly on exports of manufactured goods or commodities. Uneven vaccine rollouts across the region will prolong international travel restrictions, and risk further outbreaks. Risks related to financial market volatility and renewed capital outflows also remain.

India's GDP is forecast to grow by 11 per cent in 2021 and 5¾ per cent in 2022. India is currently facing one of the worst outbreaks of COVID-19 seen during this pandemic. The rapidly evolving situation has added significant downside risks to the outlook, though the full impact on health and economic outcomes remain to be seen. Despite this, the recovery is expected to remain positive, driven by strong resumption in supply-side activity through the second half of 2020. Banking reforms announced in the Indian 2021-22 Budget are expected to support financial-sector resilience and recovery. Nevertheless, economic activity is forecast to remain well below the pre-pandemic trajectory in the near term.

Table 2.2: International economy forecasts(a)

	Outcomes	Forecasts		
	2020	2021	2022	2023
China	2.3	8 1/2	5 1/4	5 1/2
India	-6.9	11	5 3/4	7
Japan	-4.8	3 1/2	1 3/4	3/4
United States	-3.3	6 1/4	3 1/2	1 3/4
Euro area	-6.6	4 1/2	4	2
Other East Asia (b)	-2.3	4 3/4	4	4
Major trading partners (c)	-1.8	6 1/2	4 1/4	4
World (c)	-3.3	6	4 1/4	3 1/2

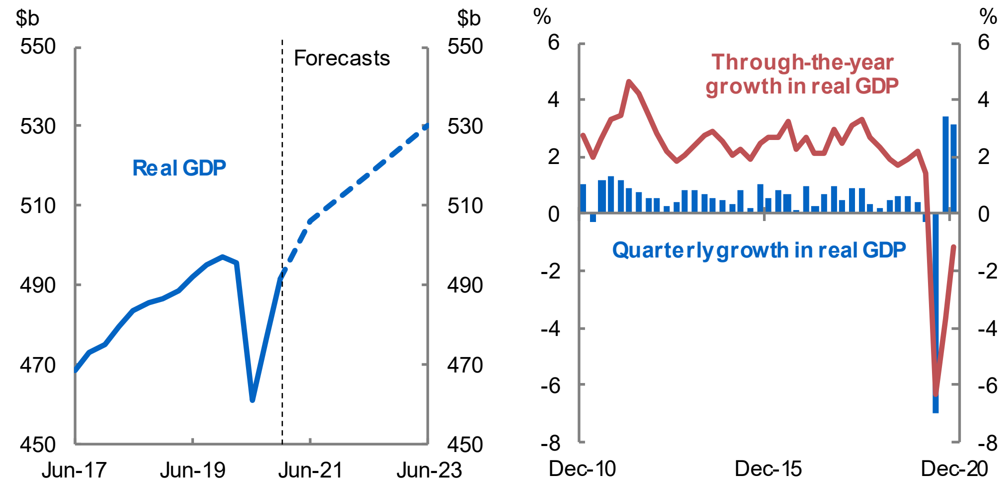
(a) World and Other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using goods and services export trade weights.
(b) Other East Asia comprises the Association of Southeast Asian Nations group of five (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Singapore, along with Hong Kong, South Korea, Vietnam and Taiwan.
(c) Growth rates are estimates in 2020 rather than outcomes.
Source: National statistical agencies, International Monetary Fund, Refinitiv and Treasury.

Outlook for the domestic economy

Outlook for real GDP growth

The recovery in real economic activity from the COVID-19 recession has continued to outperform expectations. On the back of strong growth in the September quarter of 2020, real GDP grew by 3.1 per cent in the December quarter of 2020, and marked the first time on record when Australia has experienced two consecutive quarters of economic growth above 3 per cent (Chart 2.3). Growth over the December quarter was broad-based across most components with strength in household consumption, business investment, residential construction and favourable conditions in the agricultural sector, which saw near-record levels of farm production in late 2020.

Chart 2.3: The recovery in real GDP



Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

The Government's significant fiscal policy response has been central to Australia's economic performance throughout the pandemic, with the total economic support response now amounting to $291 billion. Initial temporary, targeted support measures, including JobKeeper, JobSeeker and Boosting Cash Flow for Employers helped to limit uncertainty, shielded households and businesses from the worst effects of the pandemic, and enabled Australia to respond to the health crisis.

As emergency economic support concludes, fiscal policy measures aimed at stimulating private sector-led growth are supporting a strong recovery in economic activity and employment. Targeted support has also provided ongoing relief to sectors particularly affected by the pandemic. The Government's personal income tax changes and business tax incentives will continue to support economic activity and employment over the next few years. These measures have been enhanced in this Budget, with temporary full expensing and temporary loss carry-back extended until 2022-23 and the low and middle income tax offset retained for an additional year.

The Reserve Bank of Australia (RBA) has also played an important supportive role in the response to the pandemic by helping to keep borrowing costs low and by supporting the flow of credit across the economy. With the cash rate close to the zero lower bound at the onset of the pandemic, the RBA reduced the cash rate target by 65 basis points to 0.1 per cent and took a range of unprecedented unconventional monetary policy actions to support economic activity. This included setting a target for the three-year Australian Government bond yield, currently 0.1 per cent, and implementing a bond purchasing program, which the RBA estimates has led to longer-term yields being 30 basis points lower than otherwise. Accommodative monetary policy settings are expected to remain in place for some time, with the RBA not expecting conditions to warrant an increase in the cash rate until 2024 at the earliest.

The outlook for real GDP has strengthened in the near term and is forecast to grow by 1¼ per cent in 2020-21, rising to 4¼ per cent in 2021-22 before moderating to 2½ per cent in 2022-23 as the recovery in economic activity stabilises. After falling by 2.5 per cent in 2020, real GDP is expected to grow by 5¼ per cent in 2021, and by 2¾ per cent in 2022.

The near-term strengthening in real GDP is broad-based and reflects a stronger outlook for household consumption, dwelling investment and new private business investment. The conclusion of the JobKeeper Payment is not expected to interrupt the recovery in the labour market, nor hinder growth in the broader economy. The labour market is forecast to continue strengthening over 2021-22 and 2022-23 with ongoing growth in employment, strong labour force participation and the unemployment rate falling to below 5 per cent by late 2022.

Looking further ahead, continued growth in household consumption is expected to moderate as the recovery stabilises. As the international border reopens, net exports are also expected to weigh on growth, with outbound tourism activity more than offsetting that of inbound tourists. In addition, demand for imported goods is expected to increase. However, the gradual arrival of international students and migrants over 2022 will support economic growth, particularly for education services exports and consumption.

Net overseas migration is significantly affected by international travel restrictions and weaker labour markets globally. It is forecast to fall from around 194,000 persons in 2019-20 to be around -97,000 persons by the end of 2020-21, and then to -77,000 in 2021-22 before increasing to 235,000 persons in 2024-25. More broadly, the weak outlook for population growth in the near term as a result of border closures will also weigh on the outlook for real GDP growth.

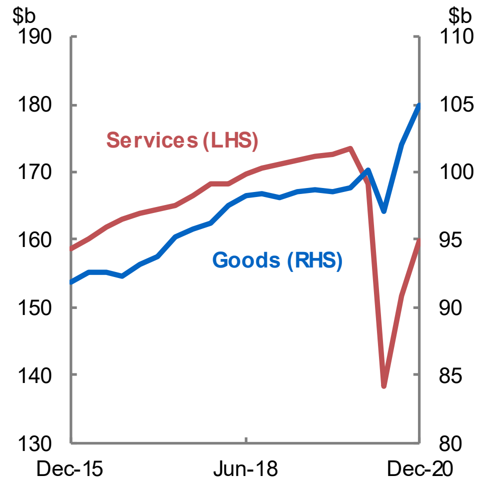
Overall, the strong and broad-based momentum in the economy is expected to see real GDP continue to grow by 2¼ per cent in 2023-24 and 2½ per cent in 2024-25.

Households

Household activity has continued to recover from the pandemic-driven downturn, with stronger-than-expected outcomes for household consumption and dwelling investment through late 2020 and continued strength in leading indicators for 2021.

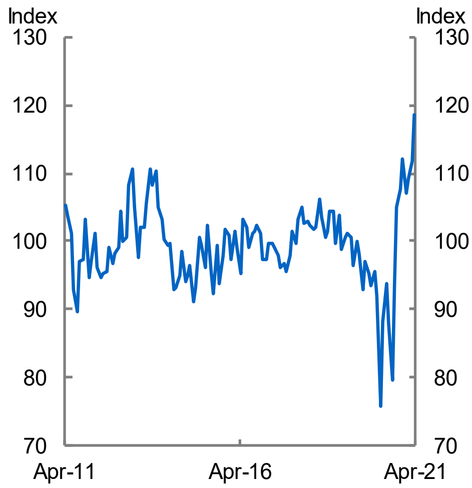
By late 2020, **household consumption** had recovered around 80 per cent of the fall since the onset of the pandemic, following record growth of 7.9 per cent in the September quarter of 2020 and further strong growth of 4.3 per cent in the December quarter of 2020. Growth over the December quarter was driven by the reopening of Victoria from the extensive lockdown and the strongest quarterly rise on record for vehicle purchases. Overall, strength in goods spending has supported the recovery to date (Chart 2.4). The pace of growth is expected to have slowed in the March quarter of 2021 as the boost from the reopening dissipates. Overall, strong growth outcomes and elevated retail spending indicators have contributed to an upgrade to the outlook for household spending in 2020-21.

Chart 2.4: Household consumption



Source: Unpublished ABS data

Chart 2.5: Consumer sentiment



Source: Westpac-Melbourne Institute

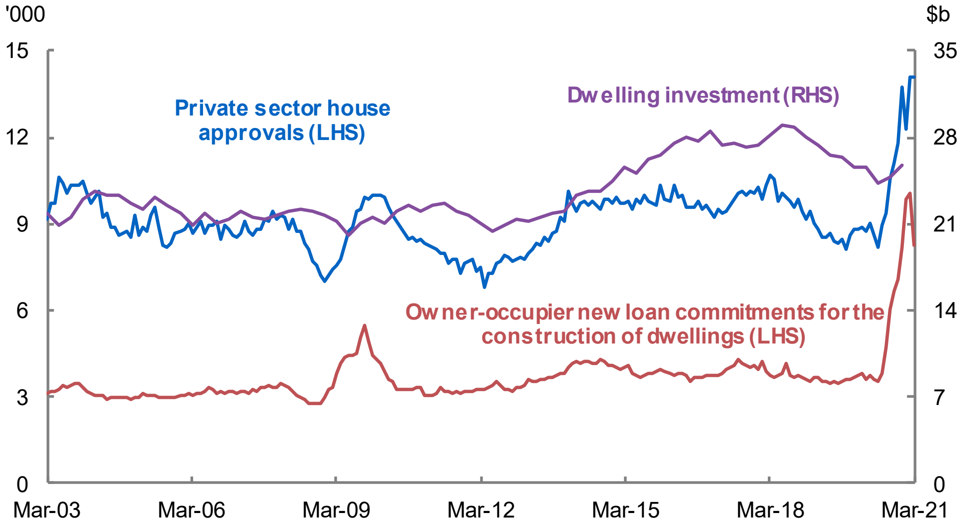
Household consumption is forecast to grow by 1¼ per cent in 2020-21, by 5½ per cent in 2021-22 and by 4 per cent in 2022-23. The solid outlook for growth reflects strong household balance sheets and improving labour market conditions. Household balance sheets have been strengthened by the Government's fiscal policy support, high saving rates during most of 2020 and increased asset prices, including the recent growth in housing prices. Growth in household spending will be further supported by the continued easing of restrictions and robust consumer confidence. Consumer sentiment is currently at its highest level in 11 years (Chart 2.5). Aggregate household consumption is expected to return to pre-pandemic levels in mid-2021, as spending patterns in the two largest states, New South Wales and Victoria return toward pre-pandemic levels. While strength in goods spending has supported the recovery to date, looking forward, growth is expected to be driven by a recovery in the consumption of services.

The faster-than-anticipated recovery in the labour market will provide support to households, as emergency fiscal support concludes. The JobKeeper Payment provided critical support to household incomes over the course of the crisis and household gross disposable income remained almost 5 per cent higher through the year to the December quarter of 2020. This occurred despite the reduction in JobKeeper assistance, which roughly halved in the quarter, and the reduction in the Coronavirus Supplement. The household saving ratio declined in the quarter and, though it remains elevated at around 12 per cent, it is expected to decline further with improving confidence and greater consumption options.

Continued episodes of short, sharp lockdowns pose downside risks to the outlook for consumer spending through a dampening effect on confidence. Analysis of recent localised lockdowns suggests that while consumption typically rebounds quickly, the level of aggregate consumption over the period is lower than in areas that didn’t experience a lockdown.

Dwelling investment has continued to strengthen amid robust housing market fundamentals, including record low interest rates and stimulatory housing policy incentives from Commonwealth, state and territory governments — including the HomeBuilder program (Box 2.2). The housing market rebounded in the second half of 2020 and this has continued into early 2021 with sustained strength in building approvals and owner-occupier lending, including to first home buyers (Chart 2.6). Housing prices have risen significantly in early 2021 and these have been broad-based across the country, with regional growth outpacing rises in capital cities.

Chart 2.6: Dwelling investment and leading indicators



Source: ABS Australian National Accounts: National Income, Expenditure and Product, ABS Building Approvals and ABS Lending Indicators.

Dwelling investment grew at its fastest pace in more than five years in the December quarter 2020, driven by strength in detached housing construction and renovation activity. Demand for established and new housing has predominantly been driven by owner-occupiers, particularly first home buyers.

Dwelling investment is forecast to grow by 2½ per cent in 2020-21 as the large pipeline of work supports construction activity over the next year. Dwelling investment is expected to remain strong, with flat growth in 2021-22, before falling by 1½ per cent in 2022-23 as the elevated pipeline of work, which reflects some bring-forward in demand for residential construction, winds down. The near-term strength in dwelling investment is expected to be led by detached housing construction following record-high house approvals over late 2020 and early 2021.

It is not yet clear what structural changes will result from the pandemic, particularly given the greater propensity to work from home during the pandemic. Changing preferences for more outer-city, spacious and detached housing may also limit growth in apartment construction in coming years.

Box 2.2: Recent strength in the housing market

Australia is experiencing a renewed upturn in residential construction, spurred on by a range of government policies designed to support the sector, alongside record low interest rates. This has seen key leading indicators of residential construction activity surge to levels not seen in previous policy-led growth cycles and is providing significant benefits to the broader economy as it recovers from the pandemic.

Growth in residential construction activity supports growth in the broader economy in multiple ways, including through greater employment in the construction sector and associated industries. Additionally, as housing prices rise, household wealth grows and households who benefit from this are expected to increase their level of consumption as their confidence and financial position improves.

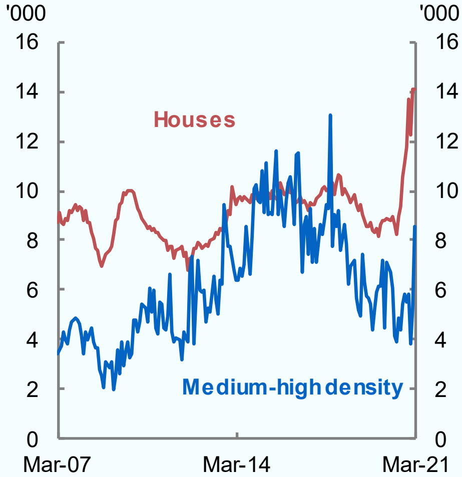
The Commonwealth Government's HomeBuilder program was designed to mitigate the impacts of a significant fall in residential construction activity that was forecast in the early stages of the pandemic. This initiative has been highly successful and has driven a strong recovery in dwelling investment, which is now forecast to increase 2½ per cent in 2020-21 compared to a fall of 11 per cent forecast in the 2020-21 Budget. Announced in June 2020, the program provides eligible owner occupiers with a grant of up to $25,000 to build a new home or undertake substantial rebuilds of an existing home. Over 120,000 applications have been received, supporting over $30 billion of residential construction activity.

The HomeBuilder program is now supporting significant activity in detached housing construction, with private sector house approvals reaching a record-high level in March 2021 (Chart 2.7). This contrasts with the residential construction boom of the mid-2010s, which was driven by medium- and high-density housing.

There has been a significant increase in the number of new loans to owner-occupier first home buyers over the past year (Chart 2.8). The proportion of new loan commitments to owner-occupier first home buyers is around its highest level since 2009. Overall, in February 2021, the monthly number of new loan commitments for owner-occupier dwelling construction rose to its highest level since the series began in 2002 (Chart 2.6). This contrasts with the level of investor activity in the housing market, which, despite recent increases remains lower than in previous upturns.

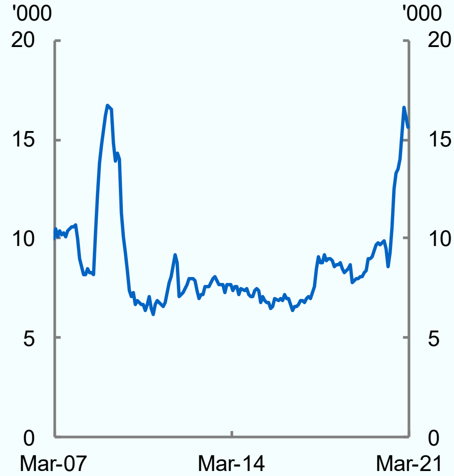
Box 2.2: Recent strength in the housing market (continued)

Chart 2.7: Private sector residential building approvals



Source: ABS Building Approvals.

Chart 2.8: Owner-occupier first home buyer new loan commitments



Source: ABS Lending Indicators.

Highly accommodative monetary policy settings, with record low interest rates and the RBA signalling they will remain in place for some time, have further supported demand for housing, by making it cheaper for prospective homeowners to take out a loan. Lending standards remain sound, although it will be important to continue to monitor standards as market conditions evolve.

This pickup in demand is also reflected in the recent increase in housing prices, which in March 2021 saw the fastest monthly growth in more than 30 years. In contrast to previous cycles, combined regional housing prices have outperformed combined capital city housing prices over the past year. Despite the strengthening in housing prices, record low interest rates have seen mortgage repayments as a proportion of disposable income lower than they were in the mid-2000s.

The near-term outlook for housing activity has strengthened considerably, supported by an elevated pipeline of construction work and rising house prices. However, the policy-driven strength in demand for detached house construction partly reflects a bring-forward in demand from future years and activity is expected to moderate as the current pipeline of work is completed. As the outlook for elevated levels of detached house construction unwinds, slower population growth is also expected to limit demand for higher-density dwellings in coming years, such that the recent strength in housing market activity is not expected to be sustained.

Business investment

Following a large fall over the June and September quarters of 2020 amidst the height of the pandemic, **new business investment** has picked up alongside Australia's broader economic recovery, supported by government policy incentives implemented in response to the pandemic. Total new private business investment rebounded by 2.6 per cent in the December quarter of 2020, driven by robust demand for machinery and equipment which grew at its fastest pace in almost seven years. In particular, demand for vehicles and agricultural equipment picked up as firms benefitted from the Government's business tax incentives, and as favourable conditions in the agricultural sector boosted farm production.

The outlook for new private business investment has strengthened considerably, reflecting a stronger-than-expected pick up in late 2020, improvements in firms' capital expenditure expectations and additional strength from ongoing policy support. Total new business investment is forecast to fall by 5 per cent in 2020-21 as a result of the pandemic, though more moderately than previously expected. Growth is then expected to rise by 1½ per cent in 2021-22 and by a further 10 per cent in 2022-23. Record business conditions, improvements in business confidence, the strong rebound in economic activity and the extension of business tax incentives are expected to bring forward activity and underpin a significant recovery in investment in coming years.

Non-mining business investment is forecast to fall by 6½ per cent in 2020-21 before rising by 1½ per cent in 2021-22 and by a significant 12½ per cent in 2022-23. Investment activity in the non-mining sector rebounded by 3.0 per cent in the December quarter of 2020. Robust fundamentals in the business sector are now evident, providing a strong foundation for further growth in business investment. The Government's extension of the temporary full expensing and temporary loss carry-back measures announced as part of this Budget will also provide significant continued support to non-mining business investment, particularly machinery and equipment spending, within the forecast period (Box 2.3).

Box 2.3: Impacts of policy support on non-mining business investment

With the onset of the once-in-a-century COVID-19 pandemic in early 2020, substantial uncertainty over the economic outlook reverberated across the business sector, with business conditions, confidence and various activity indices all falling to never-before-seen lows.

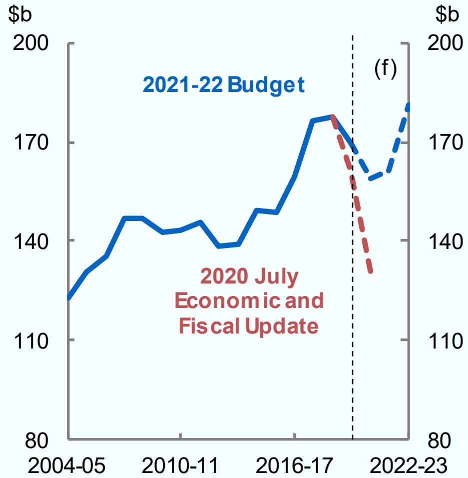
In the early stages of the crisis, new private business investment was forecast to fall by more than 12 per cent in 2020-21, driven by a significant deterioration in the outlook for non-mining investment, which was forecast to fall by an unprecedented 25½ per cent in the June quarter of 2020 alone. Underpinning this rapid deterioration in the outlook were expectations of a record contraction in machinery and equipment investment, as mandated restrictions and associated reductions in economic activity looked set to stifle investment plans. Significant downgrades to forward-looking capital expenditure intentions became evident as firms sought to preserve cash flow, amid declining revenues and heightened risks of insolvencies.

With the rollout of the Government's immediate, targeted fiscal policy response to the pandemic, a range of measures, including accelerated depreciation deductions and expansion of the instant asset write-off, were implemented to stimulate business investment, providing temporary tax incentives that reduce the after-tax cost of new capital investment and deliver cash flow benefits. Such measures, further enhanced through the introduction of the temporary full expensing and loss carry-back policies, have provided a strong incentive for businesses to bring forward investment activity to access the benefits before they expire.

In the months following the immediate response to the pandemic, outcomes for new business investment surprised on the upside. While non-mining business investment fell by 8.0 per cent over the six months to September 2020, this was considerably less weak than the double-digit falls anticipated in the early stages of the crisis (Chart 2.9). On the back of these lower-than-expected declines, non-mining business investment rebounded by 3.0 per cent in the December quarter of 2020, driven by an 8.1 per cent increase in total new machinery and equipment investment (Chart 2.10). This marked the largest quarterly rise in machinery and equipment spending in almost seven years, as firms took advantage of the Government's business tax incentives.

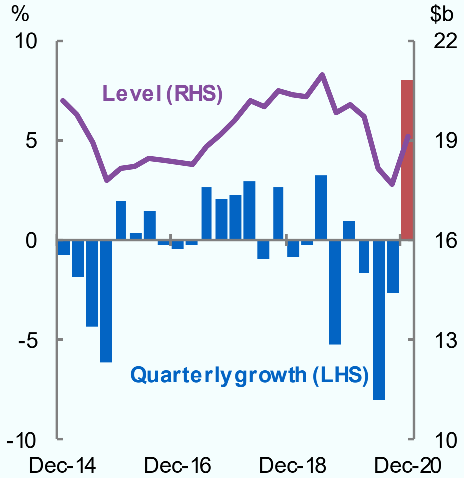
Box 2.3: Impacts of policy support on non-mining business investment (continued)

Chart 2.9: Non-mining business investment



Note: (f) are forecasts.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Chart 2.10: New machinery and equipment investment



Source: ABS Australian National Accounts: National Income, Expenditure and Product.

The outlook for the business sector has strengthened considerably and the latest December 2020 quarter ABS capital expenditure survey data suggest that firms' capital investment intentions for 2020-21 have strengthened, while early indications for capital spending in 2021-22 are also positive (Chart 2.11). NAB capital expenditure intentions have also picked up, reaching its highest level since 1994. The improvement in investment intentions has been supported by a solid improvement in business conditions and confidence (Chart 2.12), which have recovered from record lows in 2020, with conditions reaching a record high in March 2021. Industry performance indicators have also reached some of their highest levels in over a decade.

Box 2.3: Impacts of policy support on non-mining business investment (continued)

Chart 2.11: Non-mining CAPEX expectations

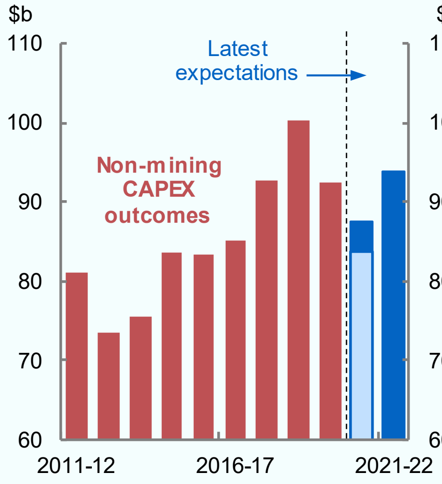
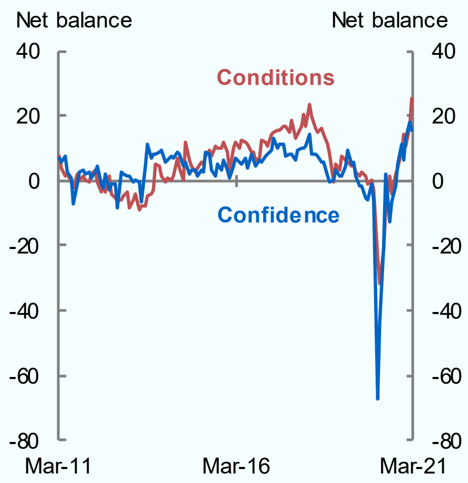


Chart 2.12: Business conditions and confidence



Note: Lighter blue bar represents the previous expectation for 2020-21. Expectations data have been adjusted using long run realisation ratios (LHS chart).
Source: ABS Private New Capital Expenditure and Expected Expenditure and Treasury (LHS chart), NAB Monthly Business Survey (RHS chart).

On the back of strong indicators for a pick-up in business sector activity, new non-mining business investment is forecast to grow solidly over the forecast period, as Government policy such as temporary full expensing and temporary loss carry-back, remains in place to support the recovery in private sector-led growth. These key measures, including the extensions announced as part of this Budget, are estimated to apply to around $320 billion worth of investment. They are estimated to create around 60,000 jobs by the end of 2022-23 and boost GDP by around $2.5 billion in 2020-21, $7.5 billion in 2021-22 and $8 billion in 2022-23.

Mining investment is forecast to grow by ½ per cent in 2020-21, although the latest ABS capital expenditure survey data suggests that some mining companies have reduced investment intentions in 2020-21, amid heightened uncertainty from the pandemic. Mining investment is then forecast to grow by 3 per cent in 2021-22 and by a further 3½ per cent in 2022-23. Early ABS survey data for investment intentions in 2021-22 are positive and while strong iron ore prices have not led to expanded investment intentions by major producers, investment to maintain large existing capital stocks and to bring minor iron ore projects online will support mining investment. Recent announcements also indicate that some companies are beginning to proceed with previously delayed projects as the global outlook improves. Santos has recently made a final investment decision to proceed with the US $3.6 billion Barossa gas project off the coast of northern Australia, with first gas production targeted for early 2025. This development flags the first green light on delayed LNG investment in Australia since the onset of the pandemic.

Public final demand

New public final demand will continue to make a notable contribution to growth in the near term, as government assistance to steer the course of economic recovery continues. New public final demand is expected to grow strongly by 5¾ per cent in 2020-21, 5 per cent in 2021-22 and by a further 1¾ per cent in 2022-23, driven by continued spending on essential services and the robust infrastructure programs across Commonwealth, state and territory governments. Public consumption remains 7.4 per cent higher through the year to the December quarter of 2020 and spending on key essential services is expected to remain strong throughout the forecast period as the health impacts of the pandemic are managed. Record funding of $17.7 billion to reform aged care will also support growth in public final demand over the forecast period. A significant investment of $13.2 billion in the National Disability Insurance Scheme, and $2.3 billion to support mental health system reform will also contribute to growth.

Net exports

Net exports are forecast to detract from economic growth in coming years, driven by increasing import activity, particularly tourism services imports, as international borders reopen, travel restrictions ease and Australian's resume overseas travel. Net exports are forecast to detract 1 percentage point from real GDP growth in 2020-21, reflecting increasing demand for imported goods from businesses and households. Net exports are then expected to detract ¼ of a percentage point from growth in 2021-22 and 1¼ percentage points in 2022-23, driven by a recovery in outbound tourism which is expected to be larger than inbound tourism once international border restrictions ease. Falling education exports will also weigh on growth over this period as the number of international students finishing their studies is expected to outpace the number of new international students arriving in Australia.

Exports are forecast to fall by 8 per cent in 2020-21 before growing by 4 per cent in 2021-22 and a further 3 per cent in 2022-23. Expected falls in the near-term are driven by substantial falls in services exports as international border restrictions continue to weigh on inbound tourism and international student numbers. Looking forward, tourism exports are expected to increase following the easing of international border restrictions but are not expected to return to pre-pandemic levels for some time.

While the ongoing trade restrictions from China have had significant impacts on specific firms and regions, many goods targeted by the restrictions have so far been successfully re-directed to other export markets, with limited impacts on Australia's overall economic recovery.

Mining exports are expected to fall by 1½ per cent in 2020-21 as subdued global demand from the COVID-19 downturn has weighed on coal and LNG production in 2020. While recent flooding in NSW impacted some coal exporters in the latter part of March, impacts on overall export volumes are not expected to be large as mines and infrastructure are well placed to address seasonal disruptions and volumes had recovered by early April. The pickup in global economic activity and the associated recovery in global industrial production will support a recovery in export growth and sustained demand for iron ore and coal exports. Mining exports are forecast to grow by 5 per cent in 2021-22 and by 2½ per cent in 2022-23.

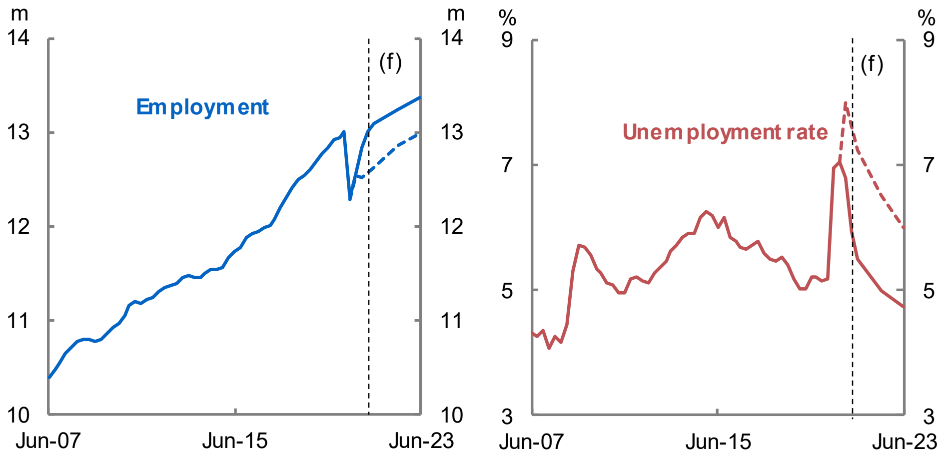
Rural export volumes are forecast to grow by 2 per cent in 2020-21 and by 9 per cent in 2021-22, supported by favourable conditions in the agricultural sector that have yielded near-record levels of crop output in the latter half of 2020. Rural exports are then expected to fall by 3 per cent in 2022-23 as an assumed return to more average seasonal conditions sees rural production and exports returning to longer-term average levels.

Imports are forecast to fall by 4 per cent in 2020-21 as international border restrictions continue to weigh heavily on tourism services imports. This is expected to be partially offset by a strong recovery in consumption and capital goods imports. Imports are expected to grow strongly, by 6½ per cent in 2021-22 and by 9½ per cent in 2022-23 as the easing of international travel restrictions see tourism services recover and as goods imports are supported further by the continuing domestic economic recovery.

The labour market

Australia's labour market has shown remarkable resilience in the wake of the pandemic, recovering faster than any major advanced economy and surpassing even the most optimistic of expectations. More people are in work than ever before, with close to one million jobs being created or restored since May 2020. By March 2021 almost 75,000 more people were in work than before the pandemic. This, along with a faster-than-anticipated fall in the unemployment rate and participation reaching a record high, has laid a strong foundation for Australia's economic recovery to continue. Initial indicators suggest that the conclusion of the JobKeeper Payment will not hinder growth in the broader economy and strong momentum in the labour market has been sustained during the early stages of transition. In March 2021, employment reached a record high, as the unemployment rate fell further to 5.6 per cent (Chart 2.13) and labour force participation continued to rebound to reach a record high of 66.3 per cent.

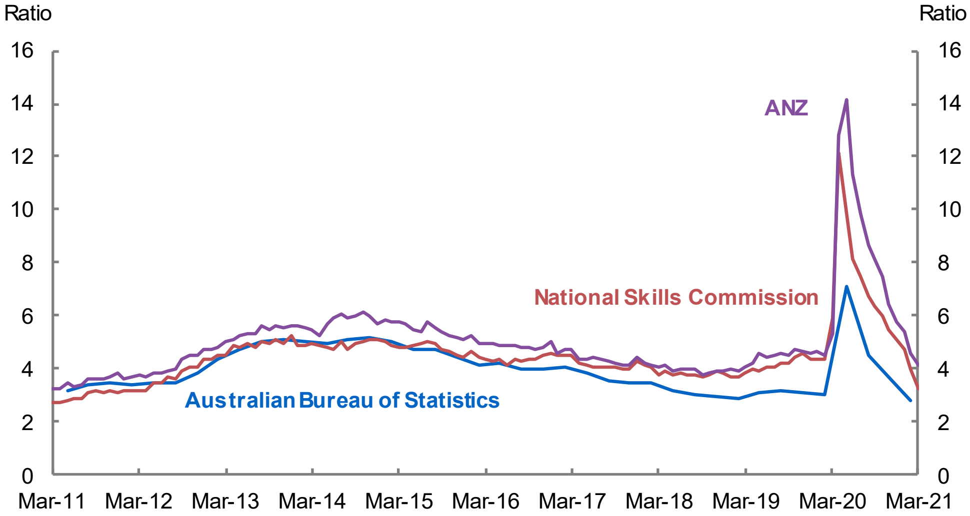
Chart 2.13: Employment and the unemployment rate



Note: (f) are forecasts. Dashed lines represent 2020-21 Budget forecasts.
Source: ABS Labour Force and Treasury.

Overall, the outlook for the labour market is positive with increasing economic momentum expected to support robust labour demand. Over the four weeks to 30 April, immediately following the conclusion of JobKeeper, the number of people on the JobSeeker Payment and Youth Allowance (other) has fallen by approximately 105,000. Recent data for job advertisements, a key leading indicator for employment growth, have significantly surpassed pre-pandemic levels. ABS Job Vacancies reached a record high in February 2021. In March 2021, ANZ Job Ads were at their highest level since November 2008, before increasing further in April 2021 to be 28 per cent higher than their pre-pandemic level. The ratio of unemployed people to vacancies is now at its lowest level in over a decade (Chart 2.14).

Chart 2.14: Ratio of unemployed to vacancies and advertisements



Source: ABS Labour Force, ABS Job Vacancies, National Skills Commission Internet Vacancy Index and ANZ Job Ads.

Employment is expected to increase strongly by 6½ per cent in 2020-21, before continuing to increase steadily by 1 per cent in both 2021-22 and 2022-23, reflecting the broader pattern of economic growth over the rest of the forecast period and slower population growth.

Employment increased by 321,000 across October 2020 to March 2021, through two transitions in the JobKeeper Payment, and is now 947,000 persons higher than its trough in May 2020 (Box 2.4). Hours worked has also increased by 13.0 per cent since May 2020, to have grown 1.2 per cent through the year to March 2021. Though short, localised lockdowns continue to have an effect, the number of people working zero hours for economic reasons is now lower than it was before the pandemic. The extent of recovery remains different across industries, with employment in several industries having declined over the year to February 2021. Sectors impacted by restrictions, international border closures and reduced tourism remain the most affected.

In contrast, other disparities that were evident across cohorts over the course of the recovery have eased considerably. By region, employment in all states has now recovered to near pre-pandemic levels, while female employment is 1.2 per cent higher than it was in March 2020. Over the same period, full-time employment has returned to pre-pandemic levels, while part-time employment is 1.9 per cent higher than in March 2020. Younger workers were initially the most affected in terms of employment, as industries adversely impacted by the pandemic, such as hospitality and tourism, are heavily comprised of workers in this age cohort. While youth employment has somewhat recovered, employment levels are still 2 per cent below pre-pandemic levels. In addition to exposure to ongoing impacts in some of these industries, this cohort has been impacted by the youth population steadily declining over the course of 2020, reflecting international border closures. Looking through this effect, the employment-to-population ratio for those aged 15-24 is 0.6 percentage points above the March 2020 level.

Despite the strength of the recovery to date, there remain key uncertainties surrounding the outlook for the labour market, posing both upside and downside risks. Ongoing outbreaks of the virus and, to a lesser extent, the end of the JobKeeper Payment, present near-term downside risks to the outlook, while longer-term risks associated with a stronger- or weaker-than-expected recovery in migration and tourism may have significant employment implications. The opening of borders is crucial for the recovery of parts of the tourism and higher education industries, and the return of skilled migrants will be key in filling skill shortages in some industries.

Box 2.4: JobKeeper and labour market recovery

The $89 billion JobKeeper Payment implemented in the early stages of the pandemic was the largest single fiscal measure in Australia's history. By keeping workers connected to their employers during periods of lockdown and by supporting incomes over the course of the crisis, the JobKeeper Payment has played a pivotal role in the resilience of the economy during both the downturn and the economic recovery. The RBA has estimated that JobKeeper reduced total employment losses by at least 700,000 at the peak of the crisis (April–July 2020).[1]

1 Bishop J and Day I (2020), 'How Many Jobs Did JobKeeper Keep?', RBA Research Discussion Paper 2020-07, November 2020.

Box 2.4: JobKeeper and labour market recovery (continued)

JobKeeper supported over 3.8 million individuals, including employees and eligible business participants, and over one million organisations from March to September 2020. In doing so, the JobKeeper Payment was integral to mitigating the impacts on unemployment, underemployment and labour force participation that can persist after a downturn.

Around two million individuals transitioned off the JobKeeper Payment at the end of September 2020. Employment levels at firms that transitioned off JobKeeper at this time remained stable, while more broadly the labour market continued to recover with the creation of 498,000 jobs since September 2020 to March 2021.

In the March quarter of 2021, the JobKeeper Payment supported around 1.1 million individuals and around 385,000 organisations. This is around 650,000 fewer individuals than was estimated in the 2020-21 Budget, consistent with a faster than expected labour market recovery. The creative and performing arts, aviation and tourism related services, and road passenger transport (capturing taxis and ride sharing) sectors were amongst those most reliant on the JobKeeper Payment.

JobKeeper coverage was fairly evenly distributed across regions, although Sydney and Melbourne metropolitan areas, and tourism-dependent South East Tasmania and the Gold Coast, were particularly reliant.

Labour market improvements have also been evident in the number of hours worked by JobKeeper recipients, with the share of those working zero or very low hours (less than one day) declining over the program. For example, for those organisations that took part in the final stage of the program, the share of workers on zero or low hours declined from a peak of 22 per cent in May 2020 to around 11 per cent in March 2021.

As the labour market recovers, transitioning away from job retention schemes (like JobKeeper) towards policies that promote labour reallocation is important. The unwinding of the JobKeeper Payment is not expected to impede the broader economic recovery, which is expected to continue across 2021 and beyond. Early indicators are consistent with these expectations and will continue to be monitored closely.

For further information on the labour market recovery and the JobKeeper transitions, see *Statement 4: The labour market through COVID-19*.

The **unemployment rate** is forecast to fall to 5½ per cent by the June quarter of 2021 and to continue to decline over the forecast period, with rapid falls in the near term expected to moderate as the economic recovery stabilises. Continued policy support and increasing momentum in the economy will see the unemployment rate return to its pre-pandemic level in the December quarter of 2021. Beyond this, in line with continued growth in employment, the unemployment rate is expected to decline steadily, to reach 5 per cent in the June quarter of 2022, before falling further to 4¾ per cent in the June quarter of 2023. This would see the unemployment rate fall within the estimated band for the Non-Accelerating Inflation Rate of Unemployment (NAIRU) by the June quarter of 2022 and reach the bottom of the estimated band by the June quarter 2024.

The unemployment rate has fallen much faster in this recession compared with the recessions of the 1980s and 1990s. In the 1980s, the unemployment rate rose from around 5 per cent to over 10 per cent and took more than eight years to recover. In the 1990s recession the unemployment rate rose from around 6 per cent to over 11 per cent and did not return to pre-recession lows for around ten years. In stark contrast, following this recession, the unemployment rate is forecast to return to pre-pandemic levels in around two years.

The **participation rate** is expected to remain at around 66¼ per cent through to the June quarters of 2021 and 2022, before declining marginally to 66 per cent by the June quarter of 2023. The high participation rate over 2021-22 reflects expectations that continued positive economic conditions will encourage workers to remain in the labour force. A slight decline in the participation rate beyond this reflects the softening cyclical strength in participation as the economy returns towards trend levels of output and employment.

Overall, the outlook for **wage growth** is expected to remain moderate over the forecast period. This reflects both the severe impacts of the pandemic and the continued spare capacity in the labour market in the near term. The wage growth outlook also reflects a modest downwards revision to Treasury's estimate of the NAIRU.[2]

Growth in wages, as measured by the Wage Price Index (WPI), slowed to just 0.1 per cent in the September quarter of 2020, the lowest quarterly growth on record. Growth in the WPI then recovered to 0.6 per cent in the December quarter of 2020 to be 1.4 per cent higher through the year, partly reflecting a rollback of pay reductions implemented earlier in the year as employers responded to the impact of the pandemic. Modest inflation outcomes however have meant that consumers have maintained purchasing power with real wages growth in line with the 10-year average.

2 Ruberl H, Ball M, Lucas L and Williamson T (2021), 'Estimating the NAIRU in Australia', Treasury Working Paper 2021-01, 29 April 2021.

The WPI is forecast to grow by 1¼ per cent through the year to the June quarter of 2021 and by 1½ per cent through the year to the June quarter of 2022, before rising to 2¼ per cent through the year to the June quarter of 2023. The near-term outlook is consistent with low wage increases in new federal enterprise bargaining agreements and state public sector wage caps that are expected to moderate the outlook for wage growth over the forecast period. Towards the end of the forecast period, the lower unemployment rate and broader economic strength should see wages begin to pick up.

Growth in **consumer prices**, as measured by the Consumer Price Index (CPI), experienced large fluctuations throughout 2020, largely resulting from the impacts of the pandemic and the Government's associated policy response. In June, the CPI fell by 1.9 per cent, the largest quarterly fall in the history of the series. This was driven by the introduction of free childcare, waiving of preschool fees in some cities and a sharp fall in the price of automotive fuel following the significant contraction in global oil prices. The subsequent reinstatement of childcare fees, recovery in fuel prices and increases in tobacco excise saw a strong rebound in the CPI over the second half of 2020, increasing by 2.4 per cent in the six months to December. This strong growth did not continue into 2021, with CPI growing by 0.6 per cent in the March quarter.

Looking forward, CPI growth is expected to peak at around 3½ per cent through the year to the June quarter of 2021 before moderating to 1¾ per cent through the year to the June quarter of 2022. CPI growth is then expected to rise to 2¼ per cent through the year to the June quarter of 2023. Growth in the near term reflects the rebound from the record fall in CPI inflation in the June quarter of 2020, alongside the continued recovery in global oil prices, with some strength being offset by the continued rollout of HomeBuilder grants. However, this near-term strength is expected to be transitory, and underlying inflation is expected to remain subdued, below the RBA's target band of 2-3 per cent in the near term. From the second half of 2021 onwards, CPI growth is expected to strengthen, reflecting a reduction in labour market slack and expected wage growth. Headline inflation is expected to approach the RBA's target band of 2-3 per cent in 2022-23, as the unemployment rate reaches the estimated NAIRU.

Underlying measures of price growth have remained subdued in recent quarters with trimmed mean inflation increasing by 0.3 per cent in the March quarter of 2021 to be 1.1 per cent higher through the year, the weakest annual growth in the history of the series. As the unemployment gap is reduced and the unemployment rate approaches the NAIRU, growth in underlying price measures are expected to strengthen. Further falls in the unemployment rate below the NAIRU will likely see wage and price growth become increasingly sensitive to employment growth. However, the extent to which tightening labour market conditions will flow through into wage and price pressures remains highly uncertain.

There are potential upside risks to the outlook for wages and prices, as stronger labour market conditions could increase upward pressure on wages over the forecast period.

In addition, ongoing international border closures may cause labour shortages and place upward pressure on wages in selected industries.

Outlook for nominal GDP growth

Nominal GDP is forecast to grow by 3¾ per cent in 2020-21, by a further 3½ per cent in 2021-22 and by 2 per cent in 2022-23. The increases in nominal GDP over 2021-22 and 2022-23 are expected to be lower than for real GDP, reflecting a notable decline in the terms of trade. The terms of trade are expected to rise strongly in the near term, by 10 per cent in 2020-21, supported by significant strength in iron ore prices. In line with the prudent approach to forecasting volatile commodity prices, elevated iron ore prices are assumed to decline and the terms of trade are expected to fall by 8 per cent in 2021-22 and by a further 10½ per cent in 2022-23.

Commodity prices remain a key driver of the terms of trade and the inherent volatility in commodity prices remains a key uncertainty in the outlook for nominal GDP. Iron ore prices have remained elevated at around US$160 per tonne since mid-December 2020, due to strong Chinese demand and unresolved supply disruptions in Brazil. Treasury's industry liaison suggests that in the near term, global iron ore supply is not expected to recover rapidly and the sustained demand for steel production is expected to drive iron ore demand. The iron ore price is assumed to decline to US$55 per tonne FOB by the end of the March quarter 2022, three quarters later than was assumed in the 2020-21 Budget.

Metallurgical coal prices have also been volatile recently and are modestly higher than recent COVID-period lows. Thermal coal prices have been supported by the continued recovery in global economic activity, the cold winter in East Asia over early 2021 and recent weather-related supply disruptions in Australia. While Chinese restrictions have affected the price of some types of Australian coal, so far, most coal exports have been able to be re-directed to alternative markets. Consultation with market and industry participants, however, has highlighted that there is elevated uncertainty in the coal market, in particular around the duration of the Chinese restrictions on Australian coal, as well as around global environmental policies.

There are upside risks to the outlook for commodity prices as industry consultation suggests that iron ore prices could remain elevated for an extended period of time. Meanwhile, a stronger recovery in steel production outside of China could also provide further support for iron ore and metallurgical coal prices.

Box 2.5: Sensitivity analysis of the iron ore spot price

Movements in commodity prices can have significant effects on nominal GDP and Commonwealth Government tax revenue. The analysis below provides an indication of the direct impacts on nominal GDP and company tax receipts of altering the timing around the iron ore spot price assumption, holding everything else constant.

If the iron ore price was to fall immediately to US$55 per tonne FOB, rather than by the end of the March quarter of 2022 as assumed, nominal GDP could be around $11.6 billion lower than forecast in 2020-21 and $38.1 billion lower in 2021-22. This would result in a decrease in tax receipts of around $600 million in 2020-21, $8.3 billion in 2021-22 and, reflecting the timing of company tax collections, around $3.5 billion in 2022-23 (Table 2.3).

By contrast, if the iron ore price was to remain elevated until the end of the March quarter of 2022, before falling immediately to US$55 per tonne FOB, nominal GDP could be around $1.1 billion higher than forecast in 2020-21 and $48.7 billion higher in 2021-22. This would result in an increase in tax receipts of around $100 million in 2020-21, $5.5 billion in 2021-22 and, again reflecting the timing of company tax collections, around $6.9 billion in 2022-23.

Table 2.3: Sensitivity analysis of movements in the iron ore spot price

$billion	Earlier fall to US$55/tonne FOB[(a)]			Later fall to US$55/tonne FOB		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
Nominal GDP	-11.6	-38.1	0.0	1.1	48.7	0.0
Tax receipts	-0.6	-8.3	-3.5	0.1	5.5	6.9

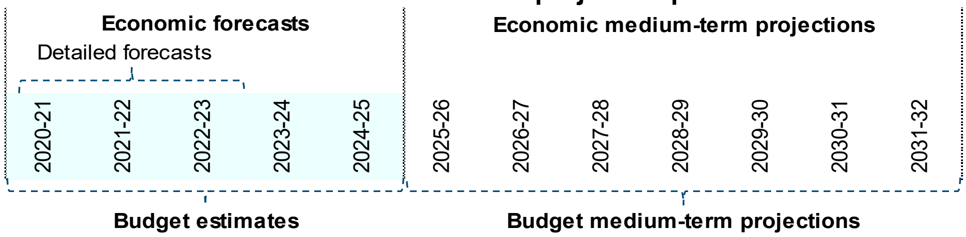
(a) FOB is the free-on-board price which excludes freight costs.
Source: Treasury.

Further details on how movements in commodity prices can affect the economy are detailed in *Statement 8: Forecasting Performance and Sensitivity Analysis*.

Medium-term projections

The fiscal aggregates in this year's Budget are underpinned by forecasts of economic activity over the Budget forward estimates and projections over the medium term (Chart 2.15).

Chart 2.15: Medium-term projection period



Source: Treasury.

In the current financial year, the Budget year and the subsequent financial year, more emphasis is placed on detailed forecasts of the expenditure components of economic activity. Beyond this period, estimates are constructed based on expectations for the level of potential output and modelling of the path by which output converges back to this potential level. An output gap exists if actual output is below potential.

A macroeconometric model of the Australian economy is used to help inform the path that the economy takes to close the output gap, accounting for factors such as the nature and level of spare capacity in the economy, the drivers of potential output growth, and the expected path of international trade prices. The model allows for a considered assessment of the path of output beyond the detailed forecast period, including incorporating major policy into the economic forecasts over the budget forward estimates period.

Potential GDP is estimated based on an analysis of trends for population, productivity, and participation. As additional capacity in the economy is absorbed over time (that is, the output gap closes), real GDP converges towards its potential level and the unemployment rate converges towards the estimate of the NAIRU. On the nominal side, key non-rural commodity export prices are projected based on cost curve analysis. Domestic prices return over time to the mid-point of the RBA's inflation target band.

Overall, the outlook for the level of nominal GDP over the forecast and medium-term projection period has strengthened, reflecting a faster-than-expected recovery to date, a higher level of potential GDP over the medium term and stronger actual and updated commodity export prices assumptions. Potential GDP over the medium term is projected to remain below its expected pre-pandemic level. The terms of trade are projected to return to and remain around their 2006-07 level from 2025-26.

The faster-than-anticipated recovery in output and the labour market means that spare capacity continues to be reduced. Spare capacity in the labour market is expected to be absorbed by the end of 2022-23. From this point onwards, real GDP is projected to be primarily driven by potential GDP growth.

Potential GDP growth is estimated to fall below 2 per cent per annum in the near term before rising to average around 2¾ per cent per annum over the medium term to 2031-32.

Treasury has recently updated its approach to estimating the NAIRU, resulting in a lower NAIRU estimate that lies within the band of 4½ to 5 per cent. A lower NAIRU is consistent with the international experience prior to the pandemic of low unemployment with little to no inflation.

The trend participation rate has been revised up over the forward estimates and through the medium term. This primarily reflects improved expectations for labour-force participation for females, particularly full-time prime working age and older females.[3]

Labour productivity growth depends on both trends in underlying productivity[4] and the productive capital stock. Underlying productivity growth is assumed to converge over a 10-year period to the average growth rate in labour productivity over the 30 years to 2018-19 of 1.5 per cent per annum. Increases in underlying productivity lead to complementary increases in the productive capital stock, but this takes time due to costs of adjustment.

3 Gustafsson L (2021), 'Australian labour force participation: historical trends and future prospects', Treasury Working Paper 2021-02, 29 April 2021.
4 Underlying productivity is also known as labour augmenting technical change.

Statement 3: Fiscal Strategy and Outlook

The Government's decisive action in providing unprecedented economic support in response to the COVID-19 pandemic has been central to Australia's economic recovery.

The Government's support was temporary, targeted, proportionate and delivered using existing mechanisms. It cushioned Australian households and businesses from the worst of the crisis, and limited the economic cost and longer-term labour scarring.

The Government's support was vital in driving the speed with which the economy has recovered, exceeding even the most optimistic of expectations. The strength in the domestic economic recovery has flowed through to higher tax receipts and lower unemployment payments and a stronger fiscal position.

While remarkable progress has been made in our domestic economic recovery, the virus presents an ongoing threat to the global and domestic economy. As a result, Australia remains in the first phase of the Government's Economic and Fiscal Strategy. The first phase of the Strategy focuses on driving down the unemployment rate back to where it was prior to the pandemic or lower and ensuring the economic recovery is sustained and secured.

Consistent with the first phase of the Strategy, the Government is using a large share of the gains from automatic stabilisers to invest in a stronger economy. The Government's economic plan is focussed on achieving strong and sustainable private sector-led growth, prioritising job creation as a pathway to a stronger economy and stronger fiscal position.

Decisions taken in this Budget will help get Australians through the COVID-19 pandemic, secure the economic recovery and set the nation up for the future. Securing our economic recovery also ensures we can guarantee the essential services that Australians rely on, support our community's most vulnerable, and enhance Australia's resilience and national security.

The underlying cash balance is now expected to be a deficit of $161.0 billion in 2020-21, a $52.7 billion improvement compared with $213.7 billion at the 2020-21 Budget, predominantly as a result of better than expected tax receipts. The underlying cash balance is expected to be a deficit of $106.6 billion in 2021-22 and continue to improve over the forward estimates to a deficit of $57.0 billion in 2024-25, nearly half of the deficit in 2021-22. The underlying cash balance is projected to further improve over the medium term to a deficit of 1.3 per cent of GDP in 2031-32.

A strong economy will enable the Government to stabilise debt as a share of the economy over time. Net debt is expected to peak at 40.9 per cent of GDP at 30 June 2025, a lower peak than forecast in the 2020-21 Budget, and fall to 37.0 per cent of GDP by the end of the medium term.

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Statement 3: Fiscal Strategy and Outlook

Overview

The Government acted decisively in response to the COVID-19 pandemic in providing an unprecedented level of fiscal support to protect vulnerable households and save Australian businesses and jobs. The Government was well placed to provide this response, as it entered the pandemic with a strong economy and from a position of fiscal strength, made possible by years of responsible budget management.

The public health and economic responses were successful in mitigating the significant impacts at the height of the pandemic and avoiding labour scarring, by protecting as many jobs as possible. The Government's economic support was underpinned by a clear set of principles: that it be temporary, targeted, proportionate and delivered using existing mechanisms where possible. These principles ensured that support was delivered when needed and set the economy on a path to recovery from the pandemic.

Significant economic support announced as part of the emergency response in 2020 is still flowing to households and businesses. This, together with further targeted support in this Budget and the ongoing rollout of the vaccine, underpins a positive outlook for the Australian economy.

The strength in the domestic economic recovery is reflected in a stronger fiscal position, predominantly due to higher-than-expected tax receipts as well as lower-than-expected unemployment benefits.

The stronger fiscal position has enabled the Government to continue to invest in the next stage of its economic plan to grow the economy, reduce unemployment and secure the recovery, while guaranteeing the essential services that Australians rely on. This is consistent with the Government's Economic and Fiscal Strategy which recognises that sustainable private sector-led growth with low unemployment is key to stabilising and ultimately reducing debt as a share of the economy in the medium term.

The underlying cash balance in 2020-21 is expected to be a deficit of $161.0 billion (7.8 per cent of GDP), an improvement of $52.7 billion since the 2020-21 Budget. The underlying cash balance is expected to improve to a deficit of $106.6 billion in 2021-22 (5.0 per cent of GDP) and continue to improve over the forward estimates to $57.0 billion (2.4 per cent of GDP) in 2024-25. Over the medium term, the underlying cash balance is projected to improve to a deficit of 1.3 per cent of GDP in 2031-32.

Net debt is expected to be 34.2 per cent of GDP at 30 June 2022 and peak at 40.9 per cent of GDP at 30 June 2025. This compares to a previous peak in net debt of 43.8 per cent of GDP estimated in the 2020-21 Budget. Net debt is projected to fall over the medium term to 37.0 per cent of GDP at 30 June 2032.

Gross debt is projected to be lower as a share of GDP in each year of the forward estimates and medium term compared with the 2020-21 Budget. Gross debt is expected to be 45.1 per cent of GDP at 30 June 2022, increasing to 50 per cent of GDP at 30 June 2025. Gross debt is projected to stabilise over the medium term at around 51 per cent of GDP. This compares to the 2020-21 Budget where gross debt was projected to stabilise at around 55 per cent of GDP in the medium term.

Table 3.1: Australian Government general government sector budget aggregates

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b	$b
Underlying cash balance(a)	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4
Net operating balance	**-92.3**	**-154.5**	**-92.7**	**-90.2**	**-70.2**	**-55.7**
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3
Net debt(b)	**491.2**	**617.5**	**729.0**	**835.0**	**920.4**	**980.6**
Per cent of GDP	24.7	30.0	34.2	38.4	40.4	40.9
Gross debt(c)	**684.3**	**829.0**	**963.0**	**1,058.0**	**1,134.0**	**1,199.0**
Per cent of GDP	34.5	40.2	45.1	48.6	49.7	50.0

(a) Excludes net Future Fund earnings before 2020-21.
(b) Net debt is the sum of interest-bearing liabilities (which include Australian Government Securities (AGS) on issue measured at market value) minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).
(c) Gross debt measures the face value of AGS on issue.

Economic and Fiscal Strategy

The Government revised its Economic and Fiscal Strategy in the 2020-21 Budget. Core to the Strategy is a focus on supporting strong and sustainable private sector-led growth and job creation, recognising this is the pathway to a strong and sustainable fiscal position.

The Strategy operates in two phases. The first phase of the Strategy seeks to promote employment, growth, business and consumer confidence through discretionary fiscal policy and the operation of automatic stabilisers. The priority of this phase is to ensure a strong and sustained recovery to drive down the unemployment rate.

Consistent with the Strategy, since the onset of the COVID-19 pandemic, the Government has provided unprecedented support to households and businesses. This was underpinned by a clear set of principles: that it be temporary, targeted and proportionate to the shock and delivered using existing mechanisms where possible. The support was intended to limit the economic cost and longer-term labour scarring from the crisis by protecting as many jobs as possible.

As a result of the substantial economic support provided to the economy, the success in managing the health crisis, and the resilience and flexibility shown by Australian businesses and households, the Australian economy has recovered strongly from its first recession in almost 30 years.

The transition to sustainable private sector-led growth, away from emergency government support programs such as the JobKeeper Payment, will lay the foundations for a stronger economy and a sustainable fiscal position over the medium term. In this Budget, the Government is maintaining a focus on growth-friendly economic policies to prioritise job creation as a pathway for a stronger economy and stronger fiscal position.

The Government is also providing targeted and temporary support for regions and sectors that continue to be disproportionately affected by COVID-19, recognising that the economic recovery is not necessarily progressing evenly.

While the economic forecasts suggest that an unemployment rate of 4¾ per cent will be achieved by the June quarter 2023, a high degree of uncertainty remains. The virus continues to present an ongoing threat to the health and economic recovery, both domestically and globally, and the longer-term effects of the pandemic on people and the economy are unclear. For this reason, Australia will continue to remain in the first phase of the Economic and Fiscal Strategy until the recovery is secured.

Before a transition to the second phase of the Strategy, the Government's ambition is for sustainable private sector-led growth to drive unemployment down to pre pandemic levels or lower. With further support from monetary policy limited, fiscal policy will need to continue to play an active role in driving the unemployment rate lower.

Only once the economic recovery is secured will the Government transition towards the medium-term objective of stabilising and then reducing debt as a share of GDP. Stronger economic growth, coupled with low costs of servicing debt, will enable the Government to maintain a steady and declining ratio of debt to GDP over time while running a modest deficit.

When the Government's focus transitions to rebuilding fiscal buffers, it will act consistently with its core values by:

- controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
- supporting revenue growth through policies that drive economic growth, while maintaining a tax-to-GDP ratio at or below 23.9 per cent
- using the Government's balance sheet to support productivity-enhancing investments
- pursuing ongoing structural reforms to boost economic growth.

The Government's Economic and Fiscal Strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 3.1.

Box 3.1: The Government's Economic and Fiscal Strategy

The Government's Economic and Fiscal Strategy will drive sustainable, private sector-led growth and job creation and ensure Australia is well-placed to respond to future shocks.

By supporting economic growth now and over the medium term, the Strategy will underpin stronger public finances over time, guaranteed provision of essential services and lower taxes as a share of the economy.

COVID-19 Economic Recovery Plan

The Government's Economic Recovery Plan aims to promote employment, growth and business and consumer confidence through:

- allowing the budget's automatic stabilisers to operate, to support aggregate demand
- temporary, proportionate and targeted fiscal support, including through tax measures that incentivise private sector investment to drive productivity and create jobs
- structural reforms to improve the ease of doing business and increase the economy's long-term growth potential to create the jobs of the future
- continuing to improve the efficiency and quality of government spending.

Progress on the economic recovery will be reviewed at each Budget update. This phase of the Strategy will remain in place until the economic recovery is secure and the unemployment rate is back to pre-crisis levels or lower, at which time the Strategy will be governed by the Government's medium-term fiscal objectives.

Medium term fiscal strategy

Over the medium term, the fiscal strategy will be focused on growing the economy in order to stabilise and reduce debt. This underlines the commitment to budget and balance sheet discipline and provides flexibility to respond to changing economic conditions.

The strategy is underpinned by the following elements:

- stabilising and then reducing gross and net debt as a share of the economy
- targeting a budget balance, on average, over the course of the economic cycle that is consistent with the debt objective. This will be achieved by:
  - controlling expenditure growth, while maintaining the efficiency and quality of government spending and guaranteeing the delivery of essential services
  - supporting revenue growth through policies that drive earnings and economic growth, while maintaining a sustainable tax burden consistent with a tax-to-GDP ratio at or below 23.9 per cent of GDP
  - using the Government's balance sheet to support productivity-enhancing investments that build a stronger economy, support private investment and create jobs
  - ongoing structural reforms to boost economic growth.

Fiscal outlook — forward estimates

An underlying cash deficit of $106.6 billion (5.0 per cent of GDP) is forecast in 2021-22, improving to an estimated deficit of $57.0 billion (2.4 per cent of GDP) in 2024-25 (Table 3.2).

Table 3.2: Australian Government general government sector budget aggregates

	Actual	Estimates					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**469.4**	**499.8**	**482.1**	**494.0**	**532.9**	**572.0**	**2,080.9**
Per cent of GDP	23.6	24.3	22.6	22.7	23.4	23.9	
Payments(b)	**549.6**	**660.8**	**588.7**	**593.3**	**612.4**	**628.9**	**2,423.2**
Per cent of GDP	27.7	32.1	27.6	27.3	26.9	26.2	
Net Future Fund earnings(c)	5.0	na	na	na	na	na	na
Underlying cash balance(d)	**-85.3**	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**	**-342.4**
Per cent of GDP	-4.3	-7.8	-5.0	-4.6	-3.5	-2.4	
Revenue	**486.3**	**504.9**	**496.6**	**505.1**	**544.5**	**578.0**	**2,124.2**
Per cent of GDP	24.5	24.5	23.3	23.2	23.9	24.1	
Expenses	**578.5**	**659.4**	**589.3**	**595.4**	**614.7**	**633.7**	**2,433.1**
Per cent of GDP	29.2	32.0	27.6	27.4	27.0	26.4	
Net operating balance	**-92.3**	**-154.5**	**-92.7**	**-90.2**	**-70.2**	**-55.7**	**-308.9**
Per cent of GDP	-4.7	-7.5	-4.3	-4.1	-3.1	-2.3	
Net capital investment	4.0	8.6	10.3	10.9	10.1	9.2	40.6
Fiscal balance	**-96.3**	**-163.2**	**-103.0**	**-101.2**	**-80.3**	**-64.9**	**-349.4**
Per cent of GDP	-4.9	-7.9	-4.8	-4.6	-3.5	-2.7	
Memorandum:							
Net Future Fund earnings(c)	5.0	5.5	3.0	3.2	3.4	3.6	13.2
Headline cash balance	-93.9	-168.2	-117.0	-109.4	-75.4	-65.1	-367.0

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability from 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes net Future Fund earnings before 2020-21.

Receipts are expected to fall to $482.1 billion (22.6 per cent of GDP) in 2021-22, then increase across each year of the forward estimates to $572.0 billion (23.9 per cent of GDP) in 2024-25.

Payments are expected to fall to $588.7 billion (27.6 per cent of GDP) in 2021-22, and then increase across the forward estimates to $628.9 billion (26.2 per cent of GDP) in 2024-25.

A headline cash deficit of $117.0 billion is expected in 2021-22, improving to an estimated deficit of $65.1 billion in 2024-25.

In accrual terms, a net operating deficit of $92.7 billion (4.3 per cent of GDP) is expected in 2021-22, improving to an estimated deficit of $55.7 billion (2.3 per cent of GDP) in 2024-25.

Underlying cash balance estimates

Table 3.3 provides a summary of the cash flows of the Australian Government general government sector.

Table 3.3: Summary of Australian Government general government sector cash flow

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	499.6	481.8	493.8	532.6	571.8
Capital cash receipts(a)	0.2	0.3	0.2	0.2	0.2
Total cash receipts	499.8	482.1	494.0	532.9	572.0
Cash payments					
Operating cash payments	642.3	567.5	570.9	588.9	605.4
Capital cash payments(b)	16.1	18.8	19.9	21.0	21.1
Total cash payments	658.4	586.3	590.8	609.9	626.5
GFS cash surplus(+)/deficit(-)	**-158.5**	**-104.2**	**-96.8**	**-77.0**	**-54.5**
Per cent of GDP	-7.7	-4.9	-4.4	-3.4	-2.3
plus Net cash flows from financing activities for leases(c)	-2.4	-2.4	-2.4	-2.5	-2.5
Underlying cash balance	**-161.0**	**-106.6**	**-99.3**	**-79.5**	**-57.0**
Per cent of GDP	-7.8	-5.0	-4.6	-3.5	-2.4
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-7.3	-10.4	-10.1	4.1	-8.2
Headline cash balance	**-168.2**	**-117.0**	**-109.4**	**-75.4**	**-65.1**

(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) Principal payments on lease liabilities, which are financing cash payments, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.

Table 3.4 provides a reconciliation of changes in the underlying cash balance between the 2020-21 Budget and 2021-22 Budget.

Table 3.5 provides a reconciliation of the changes in the underlying cash balance between the 2020-21 Budget, the 2020-21 MYEFO and 2021-22 Budget, disaggregated by policy decisions and parameter and other variations on receipts and payments estimates.

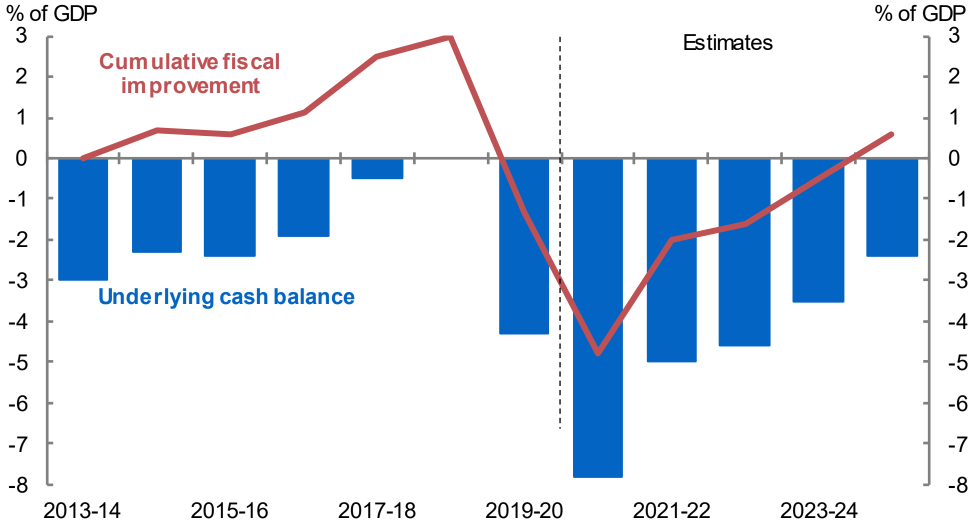
Table 3.4: Changes to the underlying cash balance between the 2020-21 Budget and 2021-22 Budget

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
Effect of policy decisions(a)					
Receipts	-67	-416	-8,006	-14,999	-23,487
Payments	8,150	21,030	18,914	16,145	64,239
Total policy decisions impact on underlying cash balance	-8,217	-21,445	-26,920	-31,144	-87,727
Effect of parameter and other variations(a)					
Receipts	36,134	30,551	19,359	21,490	107,535
Payments	-24,785	3,722	3,822	2,934	-14,307
Total parameter and other variations impact on underlying cash balance	60,919	26,829	15,537	18,556	121,841
Total change in underlying cash balance	**52,702**	**5,383**	**-11,383**	**-12,587**	**34,115**

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

In aggregate, parameter variations over the four years to 2023-24 are expected to improve the underlying cash balance by $121.8 billion since the 2020-21 Budget (Table 3.4). Since the 2020-21 MYEFO, parameter variations over the five years to 2024-25 are expected to improve the underlying cash balance by $104.3 billion (Table 3.5). The operation of automatic stabilisers has resulted in higher-than-expected tax receipts and lower-than-expected unemployment benefits due to the strength in the economy. This is expected to drive a positive cumulative fiscal improvement since the COVID-19 pandemic by the end of the forward estimates (Chart 3.1).

Chart 3.1: Cumulative fiscal improvement from 2013-14 to 2024-25



Note: Excludes net Future Fund earnings before 2020-21.
Source: Treasury projections

The improvements from securing the economic recovery have enabled the Government to invest in the next stage of its economic plan to grow the economy and guarantee the essential services that Australians rely on.

Since the 2020-21 Budget, policy decisions over the four years to 2023-24 are expected to reduce the underlying cash balance by $87.7 billion (Table 3.4). Since the 2020-21 MYEFO, policy decisions over the five years to 2024-25 are expected to reduce the underlying cash balance by $95.9 billion (Table 3.5). This reflects spending to secure the economic recovery and lower the unemployment rate consistent with the Economic and Fiscal Strategy while also guaranteeing high quality sustainable services, in areas such as aged care and mental health.

Table 3.5: Reconciliation of underlying cash balance estimates

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total
	$m	$m	$m	$m	$m	$m
2020-21 Budget underlying cash balance(a)	**-213,654**	**-112,003**	**-87,883**	**-66,926**	**-57,456**	**-537,922**
Per cent of GDP	-11.0	-5.6	-4.2	-3.0	-2.5	
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions(b)	-4,884	-3,236	-2,162	-1,813	*	*
Effect of parameter and other variations	20,791	6,778	5,659	2,765	*	*
Total variations(c)	**15,907**	**3,542**	**3,497**	**952**	**2,298**	**26,197**
2020-21 MYEFO underlying cash balance(d)	**-197,747**	**-108,461**	**-84,386**	**-65,974**	**-55,158**	**-511,725**
Per cent of GDP	-9.9	-5.3	-4.0	-3.0	-2.4	
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions(b)(e)						
Receipts	*38*	*14*	*-7,357*	*-14,392*	*-5,890*	*-27,587*
Payments	*3,372*	*18,224*	*17,401*	*14,939*	*14,351*	*68,287*
Total policy decisions impact on underlying cash balance	-3,334	-18,210	-24,758	-29,331	-20,241	-95,874
Effect of parameter and other variations(e)						
Receipts	*26,660*	*23,541*	*14,300*	*20,972*	*24,615*	*110,089*
Payments	*-13,468*	*3,490*	*4,422*	*5,181*	*6,182*	*5,808*
Total parameter and other variations impact on underlying cash balance	40,129	20,051	9,878	15,791	18,433	104,281
2021-22 Budget underlying cash balance	**-160,952**	**-106,619**	**-99,266**	**-79,514**	**-56,966**	**-503,318**
Per cent of GDP	-7.8	-5.0	-4.6	-3.5	-2.4	

*Data is not available.

(a) 2024-25 underlying cash balance as published in the medium-term projections, pages 3-28 of Budget Paper No. 1: Budget Strategy and Outlook 2020-21.

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

(c) 2024-25 shows the total variation between medium term projections of the underlying cash balance published in the 2020-21 Budget and 2020-21 MYEFO.

(d) 2024-25 underlying cash balance as published in the medium-term projections, page 55 of the 2020-21 MYEFO.

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

Receipts estimates

Total receipts are expected to be $30.1 billion higher in 2021-22 than estimated at the 2020-21 Budget, with tax receipts $31.8 billion higher and non-tax receipts $1.7 billion lower.

Policy decisions

Policy decisions since the 2020-21 Budget are expected to reduce total receipts by $67 million in 2020-21, $416 million in 2021-22 and $23.5 billion over the four years to 2023-24. Since the 2020-21 MYEFO, policy decisions are expected to reduce total receipts by $27.6 billion over the five years to 2024-25.

Policy decisions since the 2020-21 Budget are expected to reduce tax receipts by $4 million in 2020-21 and $22.6 billion over the four years to 2023-24.

Significant measures since the 2020-21 MYEFO include:

- Extending temporary full expensing for 12 months until 30 June 2023. This will allow eligible businesses with aggregated annual turnover or total income of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, acquired from 7:30pm AEDT on 6 October 2020 and first used or installed ready for use by 30 June 2023. This measure is estimated to decrease receipts by $17.9 billion over the four years to 2024-25

- Extending temporary loss carry-back to allow eligible companies to carry back tax losses from the 2022-23 income year. Companies with aggregated annual turnover of less than $5 billion will be able to carry back tax losses incurred during the 2019-20, 2020-21, 2021-22 and now the 2022-23 income years to offset tax paid in 2018-19 or later years. This measure is estimated to decrease receipts by $2.8 billion over the four years to 2024-25

- Retaining the low and middle income tax offset (LMITO) for the 2021-22 income year. This measure is estimated to decrease receipts by $7.8 billion over the four years to 2024-25.

Further details of Government policy decisions are provided in *Budget Paper No. 2, Budget Measures 2021-22*.

Parameter and other variations

Parameter and other variations since the 2020-21 Budget are expected to increase total receipts by $36.1 billion in 2020-21, $30.6 billion in 2021-22 and $107.5 billion over the four years to 2023-24.

Since the 2020-21 Budget, parameter and other variations are expected to increase tax receipts by $34.8 billion in 2020-21 and $107.1 billion over the four years to 2023-24.

The upward tax receipts revisions are driven by a number of factors. Elevated iron ore prices have supported company tax receipts. The rapid rebound in the labour market is supporting higher personal income tax receipts. Upward revisions to GST receipts reflect underlying strength in activity statements in the current year and upgrades to the outlook for consumption. Over the latter half of the forward estimates period, improvement in the outlook for the labour market is expected to drive higher prices and wages growth supporting tax receipts.

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*.

Payments estimates

Since the 2020-21 Budget, total nominal payments estimates have decreased by $16.6 billion in 2020-21 due to improving economic conditions following the COVID-19 pandemic, but increased by $49.9 billion over the four years to 2023-24. Since the 2020-21 MYEFO, total nominal payments are estimated to increase by $74.1 billion over the five years to 2024-25. This reflects the Government's continued support in response to the COVID-19 pandemic and further funding for important government services and payments to improve the lives of Australians.

Policy decisions

Between the 2020-21 Budget and the 2021-22 Budget, policy decisions increased cash payments by $8.2 billion in 2020-21 and increased total cash payments by $64.2 billion over the four years to 2023-24. Since the 2020-21 MYEFO, policy decisions have increased total cash payments by $3.4 billion in 2020-21 and by $53.9 billion over the four years to 2023-24.

Major increases in payments as a result of policy decisions since the 2020-21 MYEFO include:

- increased funding in response to the recommendations of the Royal Commission into Aged Care Quality and Safety (the Royal Commission) to improve safety and quality and the availability of aged care services, which is expected to increase payments by $17.7 billion over five years from 2020-21

- an increase to working age payments, including the JobSeeker Payment, while strengthening mutual obligation requirements and maximising job seekers' ability to find and retain employment, which is expected to increase payments by $9.5 billion over the five years from 2020-21

- expanding the Boosting Apprenticeships Commencements wage subsidy to further support business and Group Training Organisations to take on new apprentices and trainees, which is expected to increase payments by $2.7 billion over four years from 2020-21
- continuing support for the aviation, tourism, arts and international education sectors, as part of the Government's response to the COVID-19 pandemic, supporting the transition to recovery and stimulating tourism, which is expected to increase payments by $2.1 billion over four years from 2020-21
- improving access to mental health prevention and support services, as well as suicide prevention initiatives, including initiatives to be progressed with states and territories for a new national agreement on mental health and suicide prevention, which is expected to increase payments by $2.0 billion over four years from 2021-22
- further funding to purchase COVID-19 vaccines and for the distribution and administration of these to residents of Australia, which is expected to increase payments by $1.9 billion over five years from 2020-21
- improving women's choices and economic security, including assistance to families with children in child care by reducing out-of-pocket costs, which is expected to increase payments by $1.8 billion over five years from 2020-21. The measure will remove the Child Care Subsidy (CCS) annual cap and increase the CCS rate for the second child and subsequent children aged five years and under
- an ongoing Commonwealth funding contribution to preschool, which is expected to increase payments by $1.6 billion over four years from 2021-22. The first four years of funding, covering the 2022 to 2025 preschool years, will be delivered through a new four year funding agreement to be negotiated with the states and territories
- initiatives to reduce and support the victims of Family, Domestic and Sexual Violence against women and children, which is expected to increase payments by $998.1 million over four years from 2021-22. This measure forms the Government's transitional strategy ahead of the development of the new National Plan to replace the National Plan to Reduce Violence against Women and their Children (2010-2022).

Parameter and other variations

Between the 2020-21 Budget and the 2021-22 Budget, parameter and other variations decreased total cash payments by $24.8 billion in 2020-21 and decreased total cash payments by $14.3 billion over the four years to 2023-24. Since the 2020-21 MYEFO, parameter and other variations have decreased cash payments by $13.5 billion in 2020-21 and decreased total cash payments by $374.5 million over the four years to 2023-24.

Major increases in cash payments as a result of parameter and other variations since the 2020-21 MYEFO include:

- payments relating to the provision of GST to the States and Territories, which are expected to increase by $6.6 billion in 2020-21 ($21.1 billion over the four years to 2023-24), consistent with an increase in GST receipts
- payments relating to the National Disability Insurance Scheme, which are expected to increase by $1.2 billion in 2020-21 ($13.2 billion over the four years to 2023-24), largely reflecting increased participant numbers and higher than expected average participant costs
- payments related to the Military Rehabilitation Compensation Acts — Income Support and Compensation program, which are expected to increase by $3.3 million in 2020-21 ($2.5 billion over the four years to 2023-24), largely reflecting an increase in the number of claims made by members of the Australian Defence Force and veterans
- payments under the General Revenue Assistance program, which are expected to increase by $76.6 million in 2020-21 ($2.3 billion over the four years to 2023-24), largely reflecting changes to transitional GST top-up payments, Horizontal Fiscal Equalisation transition payments and increased royalty payments resulting from higher sale price and volume for liquefied natural gas and condensate
- payments relating to the Financial Support for People with Disability program, which are expected to decrease by $54.0 million in 2020-21 (increasing by $1.6 billion over the four years to 2023-24), largely reflecting changes to estimated recipient numbers
- payments related to the National Partnership for Housing, which are expected to increase by $227.4 million in 2020-21 ($959.4 million over the three years to 2022-23), largely reflecting a higher than expected number of applications for the HomeBuilder program
- payments relating to the Pharmaceutical Benefits Scheme, which are expected to increase by $95.4 million in 2020-21 ($852.5 million over the four years to 2023-24), largely reflecting higher than expected price and volume forecasts for subsidised medicines.

Major decreases in cash payments as a result of parameter and other variations since the 2020-21 MYEFO include:

- payments relating to the Job Seeker Income Support program, which are expected to decrease by $4.9 billion in 2020-21 ($5.4 billion over the four years to 2023-24), largely reflecting lower than expected recipients and average payment rates

- payments relating to the Economic Response to the Coronavirus program, which are expected to decrease by $1.5 billion in 2020-21 ($4.9 billion over the three years to 2022-23), largely reflecting lower than expected uptake of the JobMaker Hiring Credit and improving labour market conditions

- payments relating to the Infrastructure Investment Program, which are expected to decrease by $188.7 million in 2020-21 ($3.3 billion over the four years to 2023-24), largely reflecting a re-profile of program funding to align with the delivery of project milestones. As part of the 2021-22 Budget measures titled *Infrastructure Investment* and *Road Safety Program – extension*, the Government will provide additional payments for priority road and rail projects to support short term economic stimulus

- payments relating to the Aged Care Services program, which are broadly in line in 2020-21 (decreasing by $2.3 billion over the four years to 2023-24), largely reflecting lower than expected occupancy for residential aged care in line with consumer demand. Between 2020-21 and 2023-24, the Government is providing $12.2 billion as part of the response to the recommendations of the Royal Commission into Aged Care Quality and Safety, including $9.6 billion in payments for the Aged Care Services program

- payments relating to the Support for Seniors program, which are expected to decrease by $531.3 million in 2020-21 ($1.3 billion over the four years to 2023-24), largely reflecting lower than expected average payment rates caused by increases to recipients' average income and assets levels as the economy improves

- payments relating to the Workplace Support Program, which are expected to decrease by $314.0 million in 2020-21 ($744.6 million over the four years to 2023-24), largely reflecting the effect of improving economic conditions on payments made under the Fair Entitlement Guarantee scheme.

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 *Statement 6: Expenses and Net Capital Investment*.

A significant proportion of Government spending is adjusted at each update to align with changes in economic parameters (including prices and wages, unemployment and foreign exchange rates). As a result, improving economic conditions have caused an increase in spending in some programs and has also led to a reduction in the number of beneficiaries for income support payments, which decreases payments.

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

Net operating balance estimates

The net operating balance is an accrual measure, reflecting revenue minus expenses. It excludes the impact of the Commonwealth's net new capital expenditure and helps to distinguish between the Government's capital and recurrent spending.

The net operating balance is expected to be a deficit of $92.7 billion (4.3 per cent of GDP) in 2021-22, compared to an expected deficit of $103.4 billion (5.1 per cent of GDP) in the 2020-21 Budget. Table 3.6 provides a reconciliation of the variations in the net operating balance since the 2020-21 Budget.

Table 3.6: Reconciliation of net operating balance estimates

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$m	$m	$m	$m	$m	$m
2020-21 Budget net operating balance	**-197,888**	**-103,420**	**-83,507**	**-58,519**	*	*
Per cent of GDP	-10.2	-5.1	-4.0	-2.7		
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions(b)	-5,474	-3,150	-2,029	-1,662	*	*
Effect of parameter and other variations	18,178	8,406	4,585	3,042	*	*
Total variations	**12,704**	**5,255**	**2,556**	**1,380**	*	*
2020-21 MYEFO net operating balance	**-185,185**	**-98,164**	**-80,950**	**-57,139**	*	*
Per cent of GDP	-9.2	-4.8	-3.8	-2.6		
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions(b)(c)						
Revenue	*38*	*353*	*-7,352*	*-14,406*	*-6,240*	*-27,645*
Expenses	*3,748*	*18,354*	*17,470*	*14,858*	*13,940*	*64,622*
Total policy decisions impact on net operating balance	-3,710	-18,001	-24,822	-29,264	-20,180	-92,266
Effect of parameter and other variations(c)						
Revenue	*22,714*	*23,717*	*17,631*	*20,366*	*	*
Expenses	*-11,632*	*265*	*2,092*	*4,142*	*	*
Total parameter and other variations impact on net operating balance	34,345	23,452	15,539	16,224	*	*
2021-22 Budget net operating balance	**-154,549**	**-92,713**	**-90,233**	**-70,178**	**-55,736**	**-308,860**
Per cent of GDP	-7.5	-4.3	-4.1	-3.1	-2.3	
Net capital investment						
Effect of net capital investment(d)	8,620	10,330	10,939	10,135	9,161	40,565
2021-22 Budget fiscal balance	**-163,169**	**-103,043**	**-101,171**	**-80,313**	**-64,897**	**-349,424**
Per cent of GDP	-7.9	-4.8	-4.6	-3.5	-2.7	

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

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.

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
- 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 and net cash flows from investments in financial assets for policy purposes (for example, student loans and equity investment in the NBN). Table 3.7 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 2021-22 is estimated to be a deficit of $117.0 billion, compared with a deficit of $123.8 billion estimated at the 2020-21 Budget. This is primarily driven by the improvement in the underlying cash balance.

Table 3.7: Reconciliation of general government underlying and headline cash balance estimates

		Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget underlying cash balance	**-160,952**	**-106,619**	**-99,266**	**-79,514**	**-56,966**	**-342,366**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-3,524	-3,260	-3,271	-3,100	-2,758	-12,389
NBN loan(b)	5,550	0	0	13,908	0	13,908
Trade support loans	-75	-70	-55	-50	-46	-221
CEFC loans and investments	-517	-378	-493	-351	-329	-1,551
Northern Australia Infrastructure Facility	-229	-881	-1,324	-1,077	-674	-3,956
Australian Business Securitisation Fund	-235	-500	-250	-500	-501	-1,751
Structured Finance Support Fund	-1,186	-1,002	-6	-7	-7	-1,022
Drought and rural assistance loans	-2,714	-396	-207	35	42	-525
Official Development Assistance - Multilateral Replenishment	-78	-127	-128	-132	-139	-526
National Housing Finance and Investment Corporation	-91	-10	-15	-7	-42	-74
COVID-19 Support for Indonesia — loan	-1,450	100	100	100	100	400
Financial Assistance to Papua New Guinea — loan	-539	37	37	37	37	148
Net other(c)	-2,199	-3,941	-4,528	-4,759	-3,864	-17,092
Total net cash flows from investments in financial assets for policy purposes	**-7,286**	**-10,428**	**-10,140**	**4,096**	**-8,182**	**-24,654**
2021-22 Budget headline cash balance	**-168,238**	**-117,047**	**-109,407**	**-75,417**	**-65,148**	**-367,019**

(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.
(b) This financial profile represents the actual repayments for 2020-21. As the loan agreement between the Government and NBN Co allows some flexibility in relation to the timing of the repayment, the remaining amount is included in 2023-24.
(c) Net other includes amounts that have been itemised for commercial-in-confidence reasons.

Recurrent and capital spending

Table 3.8 outlines estimates of the Government's recurrent and capital spending from 2020-21 to 2024-25.

Table 3.8: The Government's recurrent and capital spending[(a)]

		Estimates			
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Recurrent spending					
Operating payments	466.5	378.1	375.1	390.6	405.8
Recurrent grants	96.4	99.8	100.3	101.9	103.0
Total recurrent spending	**563.0**	**477.9**	**475.4**	**492.5**	**508.8**
Per cent of total spending	91.3	89.4	88.5	88.9	89.9
Capital spending					
Direct capital investment(b)	18.5	21.2	22.3	23.5	23.5
Capital grants	14.8	17.1	19.7	17.1	13.3
Financial asset investments	20.6	18.3	19.8	20.8	20.4
Total capital spending	**53.8**	**56.5**	**61.8**	**61.4**	**57.3**
Per cent of total spending	8.7	10.6	11.5	11.1	10.1
Total spending	**616.8**	**534.4**	**537.2**	**553.9**	**566.0**

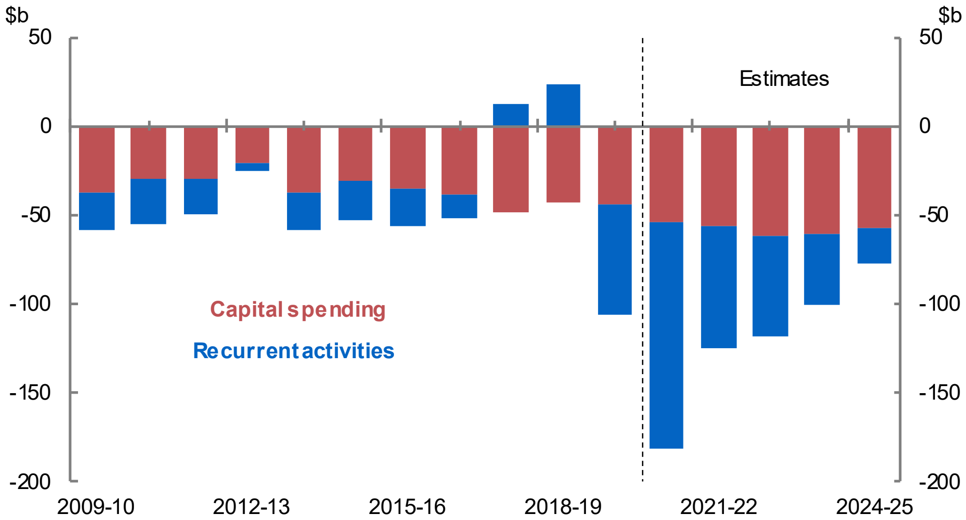
(a) General Revenue Assistance is excluded from this analysis.
(b) Non-financial asset purchases and net cash flows from financing activities for leases.
Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes.

Impact of capital and recurrent spending on the borrowing requirement

Chart 3.2 sets out estimates of the Government's annual borrowing for capital spending and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities (i.e. current revenue less recurrent spending) and the cash flows for capital investment.

Prior to the COVID-19 pandemic, net cash flows from recurrent activities at the 2019-20 MYEFO were expected to be in surplus across the forward estimates and fully fund recurrent activities with borrowing required for capital spending only. With the underlying cash balance in deficit across the forward estimates as a result of the COVID-19 pandemic, the Government now expects to borrow for both recurrent and capital spending.

Chart 3.2: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending for non-financial and financial assets, and capital grants to the states and other entities. From 2019-20 onwards, capital spending includes impacts from the implementation of AASB 16 *Leases*.

The Government's balance sheet

The balance sheet represents the assets and liabilities of the Australian Government. Whereas 'flow' measures such as the underlying cash balance or net operating balance focus on the government's financial position from year to year, balance sheet measures provide a greater focus on the medium and longer-term sustainability of government operations.

A strong, healthy balance sheet enables governments to respond flexibly to unexpected events and changing economic conditions. The strength of Australia's fiscal position, including historically low levels of debt, enabled the Government to take decisive action in response to the COVID-19 pandemic.

There are several key aggregates that measure the health of the Government's balance sheet — gross debt, net debt, net financial worth and net worth.

Gross debt estimates

Gross debt measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices. Gross debt is a key indicator of fiscal sustainability and, together with net debt, a key focus of the Government's medium-term fiscal strategy.

The face value of AGS on issue is expected to be 45.1 per cent of GDP ($963 billion) at 30 June 2022 and increase to 50.0 per cent of GDP ($1,199 billion) at 30 June 2025.

Box 3.2 Government borrowing costs remain at historical lows

The COVID-19 pandemic has resulted in noticeable movements in the yields on Australian Government debt. In line with global trends, the poor economic outlook and elevated uncertainty sparked investor demand for the relative safety of government bonds and drove interest rates to historic lows (Chart 3.3). However, as confidence in the global economic outlook has grown more recently, bond yields in Australia and globally have increased. The spread between Australia's long-term and short-term yields has increased relative to comparable economies, a sign of investor confidence in the strength of our recovery and the outlook for growth and inflation. Notwithstanding the recent increase, bond yields across all tenors are still lower than their average over the 2 years prior to 2019 when yields started to decline.

Chart 3.3: Yields on 5- and 10-year Australian Government Securities

Source: RBA.

While Government borrowing has increased sharply since the onset of the COVID-19 pandemic, the cost of servicing this debt remains modest owing to very low interest rates. In the period between 20 March 2020 and 3 May 2021, the Australian Office of Financial Management (AOFM) has issued $281.6 billion in Treasury Bonds, with a weighted average tenor of 9.4 years and a weighted average issuance yield of only 0.88 per cent. Based on current yields, an additional $1.6 trillion in debt would need to be issued in order for public debt interest as a share of GDP to reach the 1990's peak of 2 per cent and $251 billion to reach 1 per cent.

Box 3.2: Government borrowing costs remain at historical lows (continued)

The impact of the recent increase in yields on debt servicing costs has been tempered by the AOFM's decisions to extend the yield curve over the last decade. In 2010, the weighted average term to maturity was around 5 years and the longest maturity available was only 12 years. The weighted average term to maturity is now 7.6 years and the yield curve extends to June 2051. Extending the yield curve has had the benefit of reducing the refinancing risk of existing debt and increasing the range of issuance options available. This has served the AOFM well in managing the large issuance program arising from the COVID-19 pandemic.

Over the forward estimates, the yield curve is assumed to remain fixed at the level observed prior to each Budget update. This results in a weighted average yield for future bond issuance of around 1.6 per cent compared with 0.8 per cent at the 2020-21 Budget.

Further information on assumed market yields on AGS used at this update and the AOFM's issuance strategy during the pandemic is in *Statement 7: Debt Statement*.

Net debt estimates

Net debt is the sum of interest-bearing liabilities less the sum of selected financial assets. Net debt is a broader measure of fiscal sustainability than gross debt as it includes cash-like assets on the Government's balance sheet as well as the market value of AGS on issue. It provides an indicator of the Government's ability to meet its future debt obligations.

Net debt is estimated to be 34.2 per cent of GDP ($729.0 billion) at 30 June 2022 (as shown in Table 3.8), lower than the estimate of 40.4 per cent of GDP ($812.1 billion) at the 2020-21 Budget. The improvement in net debt since the 2020-21 Budget is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields than were assumed at the time of the 2020-21 Budget. Net debt is estimated to increase to 40.9 per cent of GDP ($980.6 billion) at the end of the forward estimates.

Further information on gross debt and net debt is provided in *Statement 7: Debt Statement*.

Table 3.9: Australian Government general government sector net financial worth, net debt and net interest payments

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Financial assets	509.9	551.2	556.1	565.5	582.7
Non-financial assets	183.3	192.6	202.4	211.6	220.0
Total assets	**693.2**	**743.8**	**758.5**	**777.1**	**802.7**
Total liabilities	**1,279.7**	**1,421.8**	**1,525.9**	**1,613.9**	**1,694.1**
Net worth	**-586.5**	**-678.0**	**-767.4**	**-836.8**	**-891.4**
Net financial worth(a)	**-769.8**	**-870.6**	**-969.8**	**-1,048.4**	**-1,111.4**
Per cent of GDP	-37.4	-40.8	-44.6	-46.0	-46.4
Net debt(b)	**617.5**	**729.0**	**835.0**	**920.4**	**980.6**
Per cent of GDP	30.0	34.2	38.4	40.4	40.9
Net interest payments	**14.1**	**14.7**	**14.9**	**16.7**	**17.1**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt is the sum of interest bearing liabilities minus the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Net financial worth and net worth

Net financial worth is the sum of financial assets less liabilities. It includes all classes of financial assets and all liabilities, only some of which are included in net debt. Both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance are included in net financial worth.

Net financial worth is estimated to be -$870.6 billion (-40.8 per cent of GDP) at 30 June 2022, an improvement of $76.1 billion compared with the estimate of -$946.8 billion in the 2020-21 Budget.

A further measure of the Government's financial position is net worth. Net worth is the sum of all assets less all liabilities. It includes non-financial assets such as buildings and plant, equipment and infrastructure. Net worth is expected to be -$678.0 billion (-31.8 per cent of GDP) at 30 June 2022, an improvement of $76.6 billion compared with the estimate of -$754.6 billion in the 2020-21 Budget.

The improvement in net financial worth and net worth are primarily driven by the same drivers as the improvement in net debt.

Medium-term fiscal projections

The medium-term fiscal projections bring together projections of receipts, payments and the Government's assets and liabilities for the seven years beyond the forward estimates period.

They outline the trajectory for the fiscal position under current policy settings and prevailing economic assumptions, and provide the starting point to which future policy changes would be applied.

The medium-term fiscal projections generally follow a base-plus-growth methodology, whereby the forward estimates for receipts and payments form the 'base' to which future growth is applied. Economic parameters are used to estimate growth rates relevant to different components of receipts and payments. Key economic parameters include nominal GDP, consumption, prices and wages, unemployment, population growth and the structure of the population.

The economic parameters that underpin the medium-term fiscal projections are a product of assumptions and are therefore subject to considerable uncertainty. Small changes to underlying assumptions around the economy, or changes to future policy settings, can have large impacts on projections of fiscal aggregates over the medium term.

While the economic outlook has strengthened considerably, the COVID-19 pandemic is still evolving. A recovery or response which differs from those expected would impact the fiscal aggregates over the medium term. Further discussion of forecasting uncertainty and the sensitivity of current forecasts to changes in key underlying assumptions is contained in *Statement 8: Forecasting Performance and Sensitivity Analysis.*

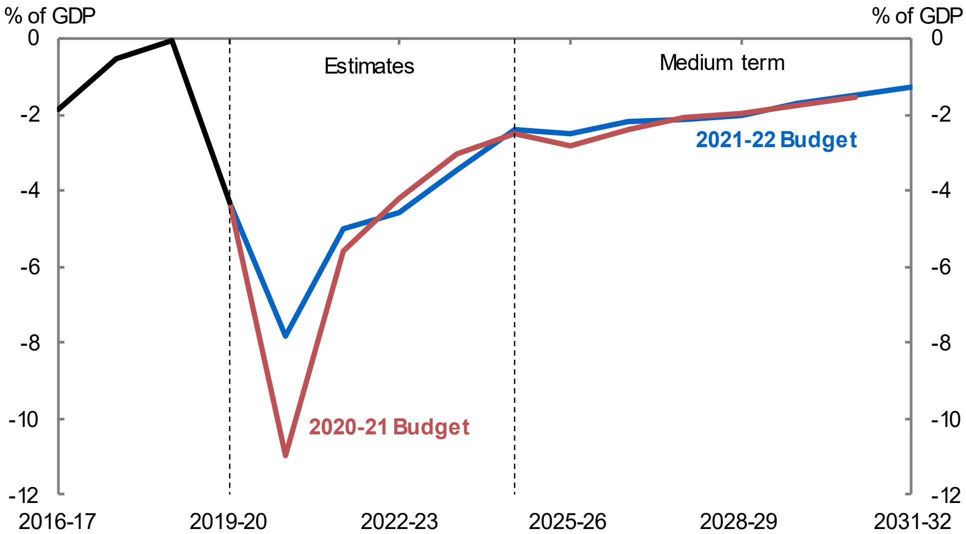
The methodology underpinning the medium-term economic projections is explained in *Statement 2: Economic Outlook*.

Underlying cash balance projections

The underlying cash balance is expected to improve from a deficit of 7.8 per cent of GDP in 2020-21 to a deficit of 1.3 per cent of GDP by 2031-32.

While there is improvement in the underlying cash balance due to stronger tax receipts on the back of the stronger economic outlook, the Government has also made investments to guarantee high quality essential services, in areas such as aged care and mental health. This means that, at the end of the forwards, the underlying cash balance is expected to be largely unchanged compared to the estimates at the 2020-21 Budget. The trajectory for the underlying cash balance across the medium term continues to be largely in line with projections at the 2020-21 Budget (Chart 3.4).

Chart 3.4: Underlying cash balance as a share of GDP



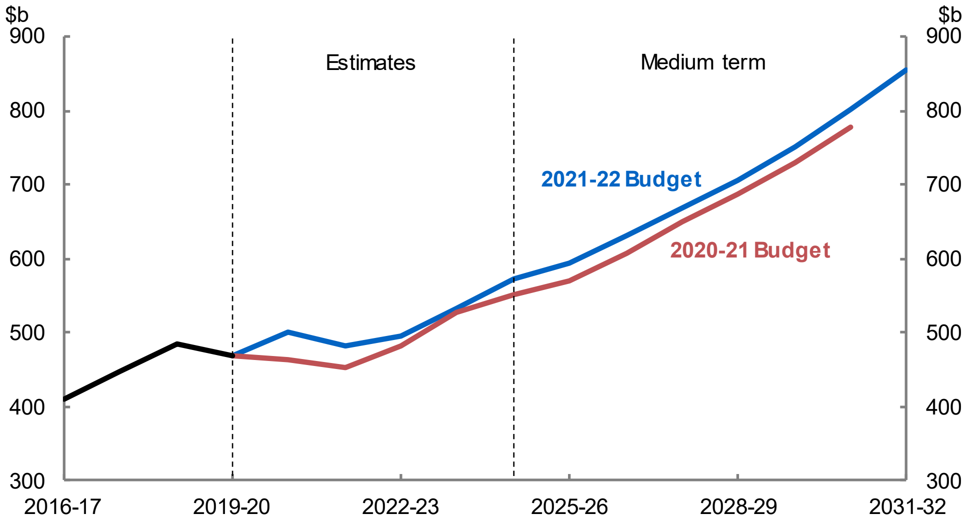
Source: Treasury projections.

Receipts and payments projections

Total receipts are projected to have increased since the 2020-21 Budget, mainly driven by higher projected tax collections. Tax receipts are highly responsive to economic developments. Projections for a quicker and stronger economic recovery than originally anticipated have therefore increased the level of tax receipts expected across the forward estimates and medium term. Further information on tax receipts can be found in *Statement 5: Revenue*.

Chart 3.5 shows the level of total receipts projected to 2031-32.

Chart 3.5: Total receipts



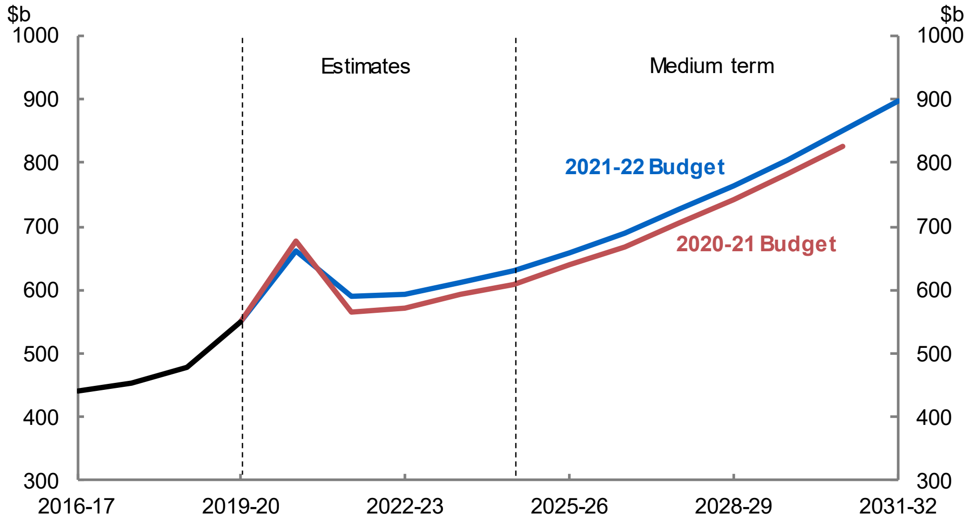
Note: Total receipts include taxation and non-taxation receipts.
Source: Treasury projections.

Payments are expected to fall from a peak of $660.8 billion in 2020-21, reflecting the temporary and targeted nature of COVID-19 emergency support payments such as the JobKeeper Payment.

Although payments fall from the peak, they are expected to be higher than estimated at the 2020-21 Budget from 2021-22 to the end of the medium term (see Chart 3.6). This reflects the Government's commitment to guaranteeing high quality and sustainable essential services. Key payment programs that are projected to increase across the medium term are aged care, the National Disability Insurance Scheme, and payments to individuals. Projections are also higher across a range of payment programs, reflecting higher indexation as a result of higher prices associated with the stronger than expected economy.

Further information on payments can be found in *Statement 6: Expenses and Net Capital Investment*.

Chart 3.6: Total payments



Source: Treasury projections.

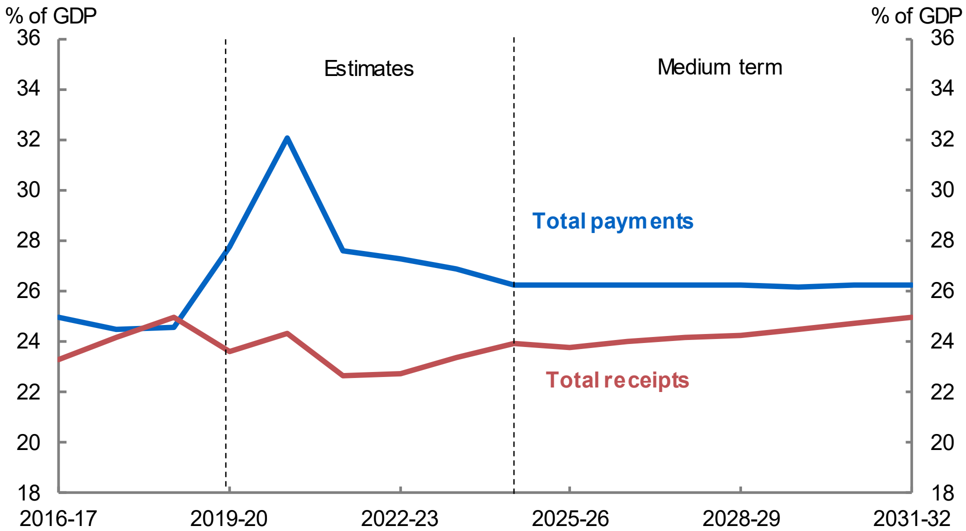
Payments as a share of GDP are projected to fall from a COVID-19 peak of 32.1 per cent of GDP in 2020-21 and remain flat across the medium term. This reflects the temporary and targeted nature of COVID-19 support. At the end of the medium term, payments are projected to be 26.2 per cent of GDP.

Receipts as a share of GDP are projected to increase from 2021-22 to the end of the medium term. Under Australia's progressive taxation system, higher wage levels result in a projected increase in tax receipts as a share of the economy across the medium term.

By the end of the medium term, the tax-to-GDP ratio is projected to reach 23.1 per cent of GDP. This is consistent with the Government's Economic and Fiscal Strategy which outlines the Government's commitment to maintaining a sustainable tax burden, with a tax-to-GDP ratio at or below 23.9 per cent of GDP.

Chart 3.7 shows total payments and total receipts as a share of GDP projected to 2031-32.

Chart 3.7: Total payments and receipts as a share of GDP



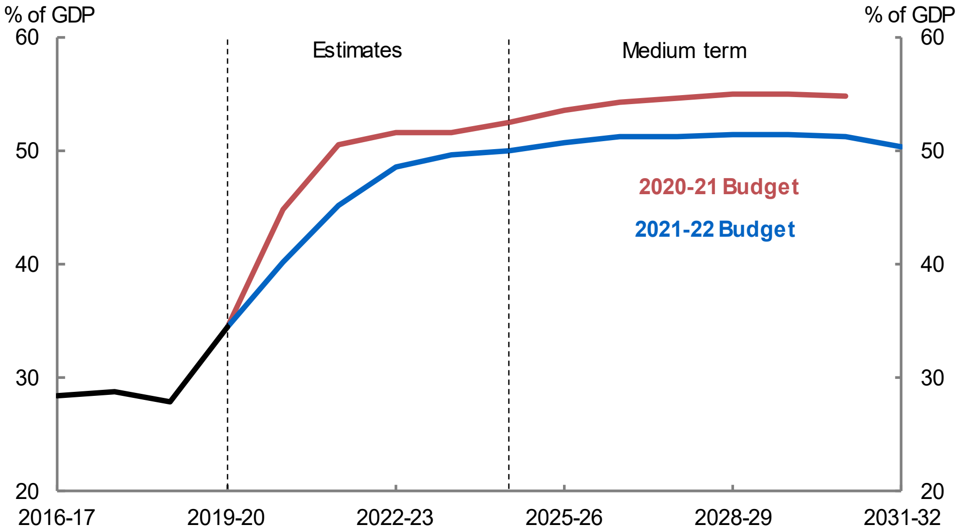
Note: Total receipts includes taxation and non-taxation receipts.
Source: Treasury projections.

Gross debt projections

Gross debt as a share of GDP is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget (Chart 3.8). Gross debt is projected to stabilise at around 51 per cent of GDP over the medium term, compared to around 55 per cent of GDP at the 2020-21 Budget.

Australia's debt position is fiscally sustainable given projections for strong economic growth to continue over the medium term. The economic growth rate is projected to exceed the interest rate on debt, with the result that debt as a share of GDP stabilises over time notwithstanding the projected underlying cash deficit. Further details on Government debt levels can be found in *Statement 7: Debt Statement*.

Chart 3.8: Gross debt as a share of GDP

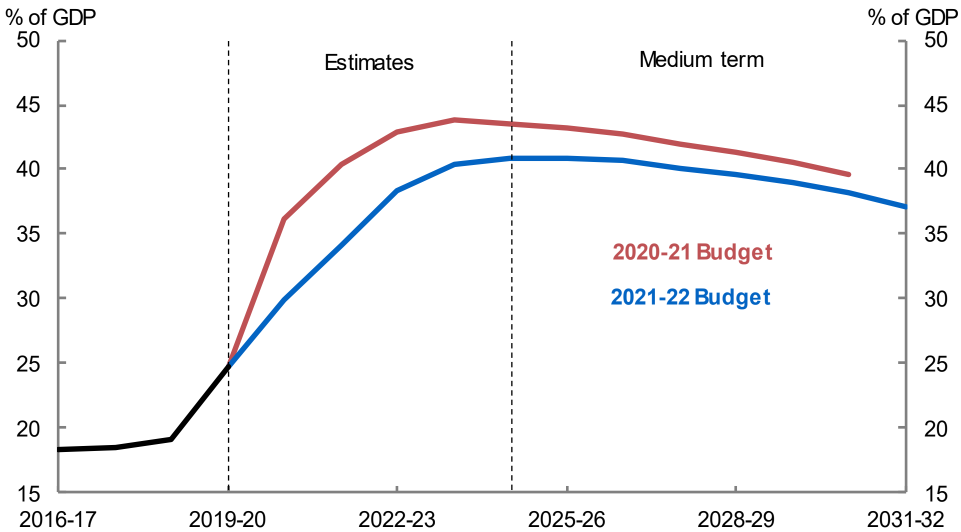


Source: Australian Office of Financial Management and Treasury projections.

Net debt projections

Net debt is estimated to peak at 40.9 per cent of GDP at 30 June 2025, before improving over the medium term to reach 37.0 per cent of GDP at 30 June 2032, as shown in Chart 3.9. Net debt, as a share of GDP, is projected to fall over the medium term more quickly than gross debt because net debt is based on the market value of AGS which falls as yields rise. Net debt as a share of GDP is projected to be lower in each year of the medium term compared to at the 2020-21 Budget.

Chart 3.9: Net debt as a share of GDP

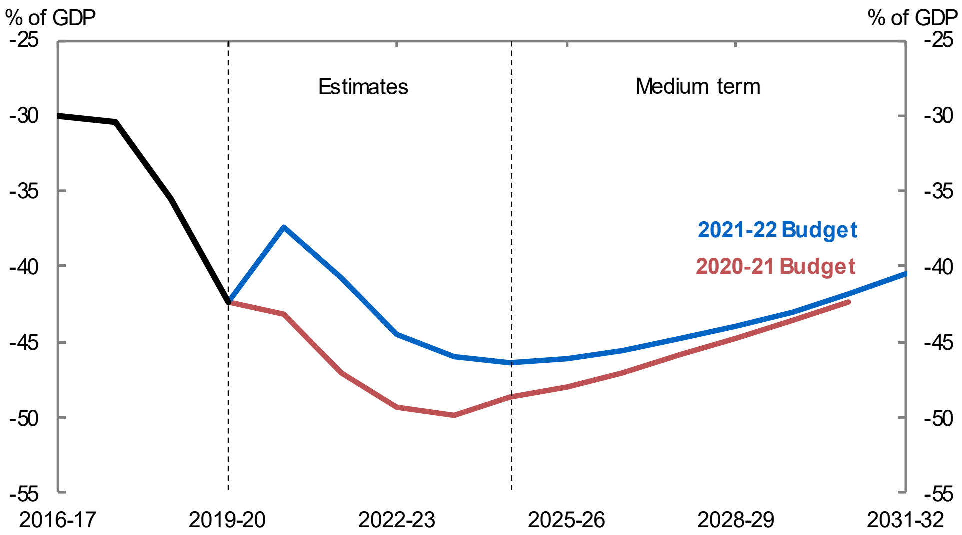


Source: Treasury projections.

Net financial worth projections

Net financial worth improves as a share of GDP over the medium term, reaching -46.4 per cent of GDP at 30 June 2025, before improving to -40.5 per cent of GDP at 30 June 2032 as shown in Chart 3.10.

Chart 3.10: Net financial worth as a share of GDP



Source: Treasury projections.

Structural budget balance estimates

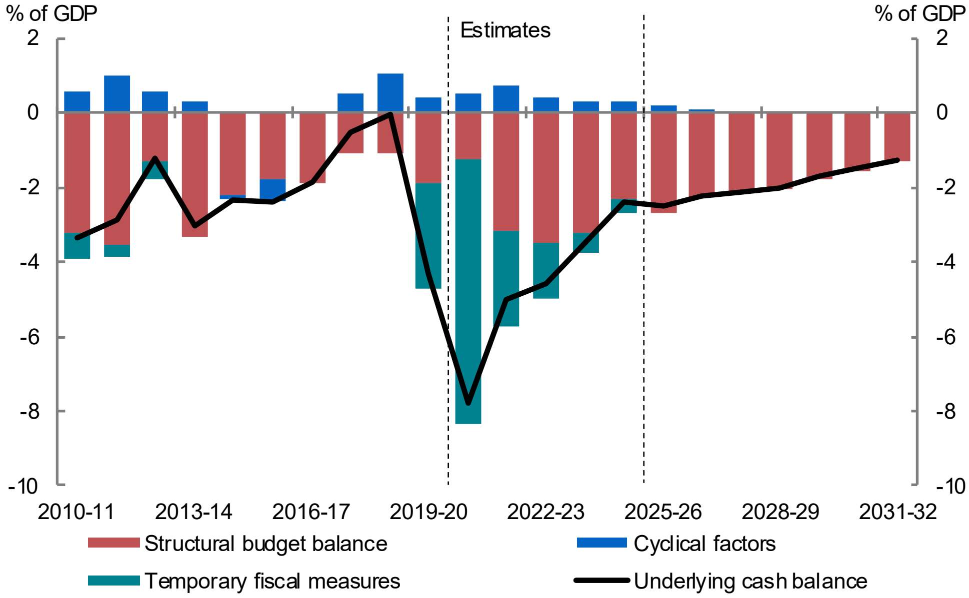
Estimates of the structural budget balance can provide broad insights into the sustainability of fiscal settings. Changes in the structural budget balance provide an indication of the impact that government decisions have on the budget position, independent of the current phase of the economic cycle.

The structural budget balance is estimated by removing temporary movements in receipts and payments from the underlying cash balance. These shifts are caused by cyclical factors such as temporary deviations in real GDP from potential (the output gap) or temporary deviations of commodity prices from their long-run trends, as well as temporary fiscal measures designed to support the economy through an economic crisis.

Cyclical factors are expected to provide a small contribution to the budget position over the forward estimates. In the near term, this largely reflects the impact of an elevated terms of trade, particularly due to higher iron ore prices, which more than offsets the effect of a negative output gap on receipts and payments in 2020-21 and 2021-22. By the end of the forward estimates, the contribution from cyclical factors is modest, consistent with the iron ore price having declined to its long-run assumption and an output gap that is closed.

In the near term, the unprecedented temporary economic support measures, in response to COVID-19, make significant contributions to the deterioration in the underlying cash balance. The underlying cash balance improves steadily from 2020-21 as the temporary measures are unwound and the structural budget balance improves from 2022-23.

Chart 3.11: Structural budget balance



Note: The presentation of the structural budget balance chart has been adjusted to separate the budgetary impact of temporary measures from structural factors. This approach follows the methodology detailed in Treasury Working Paper 2013-01. 'Temporary measures' comprise total direct economic and health support since the start of the COVID-19 pandemic. The 'cyclical factors' component comprises the estimated impact on the underlying cash balance from automatic stabilisers and cyclical movements in asset and commodity prices.

Source: Treasury.

Statement 4: The labour market through COVID-19

The labour market recovery in Australia has exceeded all expectations. Compared with major advanced economies, Australia is the first economy to have recovered hours worked and employment to pre-pandemic levels.

The Government's policy response has played a significant role in supporting the labour market through the COVID-19 recession and setting it up for a strong recovery. This includes policies aimed at boosting household incomes, ensuring business continuity and preserving economic and financial linkages.

As a result, Australia is set to avoid the worst of the economic scarring effects seen following past recessions. The size of the COVID-19 shock, coupled with the speed of labour market deterioration, made economic scarring a real possibility as the crisis unfolded. In the 1990s recession, the unemployment rate took a decade to recover to its pre-crisis level. In contrast, the unemployment rate is now on track to recover in just two years.

The next priority must be to lock in the substantial benefits that have been achieved. While Australia is emerging from the COVID-19 shock with a strong recovery in activity and employment, the outlook for the global economy remains highly uncertain. With 800,000 COVID-19 cases diagnosed daily across the world, new strains of the virus emerging and international travel restrictions yet to be lifted, the effects of COVID-19 may not dissipate for some time yet.

In this context, it is crucial that the Government continues to support a strong labour market that is both flexible and resilient. The fiscal support contained in this Budget will provide broad-based support to the economy, stimulating economic activity and driving down the unemployment rate. This is consistent with the Government's Economic and Fiscal Strategy to drive the unemployment rate down to pre-pandemic levels or below. This Budget will also support cohorts who face greater risks and challenges in the labour market.

With sound policy and an improving global outlook, the Australian economy is on course to do better than merely recover to its pre-pandemic levels, with the unemployment rate forecast to reach 4¾ per cent in the June quarter 2023. The unemployment rate in Australia has only been sustained below 5 per cent once since the early 1970s and this Budget sets us on a course to achieve this again. The Australian economy may be able to sustain lower unemployment rates — and this will mean more Australians finding work, and setting the foundations for a strong, resilient and productive economy in the longer term.

Contents

Statement 4: The labour market through COVID-19

The impact of COVID-19

The COVID-19 pandemic led to Australia's first recession in almost 30 years. Not only had Australia not faced an economic shock of such magnitude for decades, the nature of the shock was quite different to previous downturns. As such, there was the need for a different framework to guide the development of a policy response that tackled the health crisis and the potential for long-term economic damage.

Past experiences with infectious diseases, such as the Avian Flu and the Severe Acute Respiratory Syndrome (SARS) had provided the basis for analysing the economic effects of a pandemic. The economic effects of pandemics tend to spread quickly as the disease itself spreads quickly across international borders. The effect is magnified as the shock to one country is transmitted to other countries through trade and financial linkages.[5] These spillovers have been evident during the COVID-19 pandemic, with substantial disruptions to global value chains and a sharp contraction in global growth over 2020.

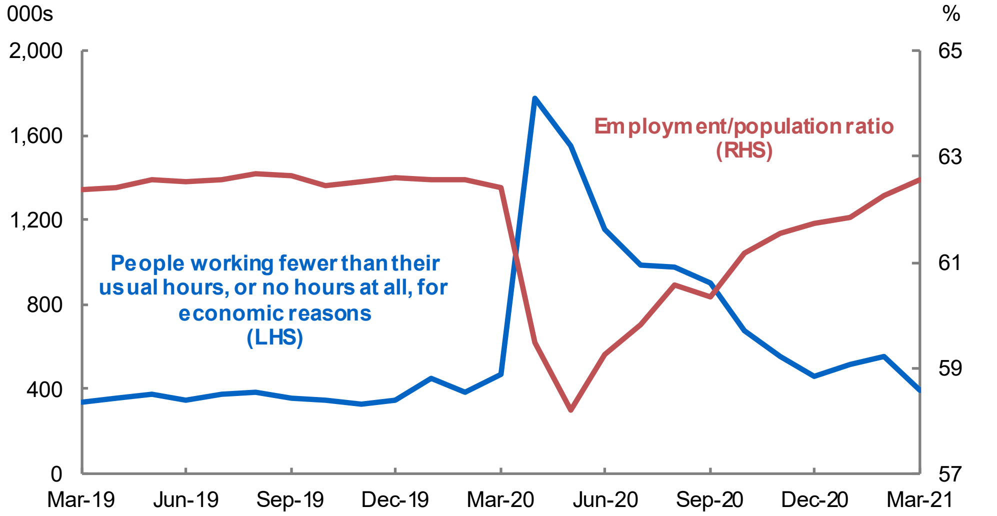
On the domestic front, earlier analysis — including work published by Treasury in 2006 — identified three key channels through which pandemics impact the economy.[6] First, pandemics lower consumer confidence and therefore consumption, even with a small number of deaths. Second, business investment contracts due to weaker demand, lower confidence, and increased domestic and global uncertainty. Both of these channels were evident in Australia during COVID-19.

Third, a pandemic has significant effects on the labour market, decreasing both the supply of, and demand for, labour through absenteeism and activity restrictions. This third channel makes pandemic-related shocks such as COVID-19 different to previous downturns in the early 1980s, the early 1990s and the Global Financial Crisis (GFC). During COVID-19 this last channel was significant. The need to protect the community and its most vulnerable members saw the rapid imposition of activity and travel restrictions. These restrictions led to a deep and sharp downturn in employment — the largest on record — as well as a sharp increase in the number of workers on reduced hours (Chart 4.1).

5 See for example: Lee J and McKibbin W (2004), 'Estimating the Global Cost of SARS', in Learning from SARS: Preparing for the Next Disease Outbreak: Workshop Summary, 2004 and McKibbin W and Fernando R (2020), 'The global macroeconomic impacts of COVID-19: Seven scenarios' CAMA Working Papers Vol 19/2020.

6 Kennedy S, Thomson J and Vujanovic P (2006), 'A Primer on the Macroeconomic Effects of an Influenza Pandemic', Treasury Working Paper 2006-01, February 2006.

Chart 4.1 Labour market indicators



Note: People working fewer than their usual hours, or no hours at all, for economic reasons, includes those receiving JobKeeper payments.
Source: ABS Labour Force, Australia, Detailed.

The risks of economic 'scarring'

The imposition of restrictions met the overriding policy priority of protecting the health of the Australian people. However, past experiences have shown that economic downturns can have long-term adverse effects on the economy, known as 'scarring', and unemployment can remain elevated for a sustained period following a downturn.[7]

Downturns increase job separations and churn, and can destroy what had been viable businesses. In turn, this can sever productive employee-employer relationships, end business-to-business linkages, and destroy firm-specific human and intangible capital. The risk of this was acute in the context of COVID-19, given the widespread nature of the restrictions meant that many highly productive and otherwise viable firms may have closed.

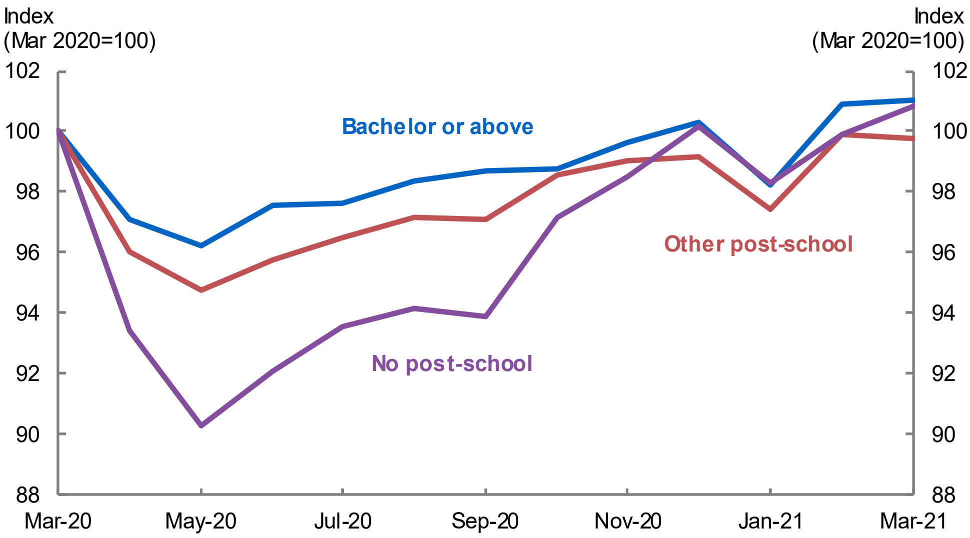
For individuals, downturns often lead to sharp increases in the number of long-term unemployed. If people are unemployed for an extended period it can cause a deterioration in their skills that may require them to retrain or relocate for new employment opportunities. A slump in the demand for labour can also mean that new entrants to the labour market, such as recent graduates, are unable to secure a solid foothold, limiting their future job opportunities for many years.

7 See for example Day I and Jenner K (2020), 'Labour Market Persistence from Recessions', RBA Bulletin, 17 September 2020.

Typically the most affected workers in a downturn are those in the hardest hit industries. This proved to be the case during the COVID-19 downturn. In addition, employment status also had a large bearing on labour market outcomes, with part-time and casual workers experiencing the largest declines.

In past recessions, the most affected cohorts tended to be men in full-time jobs in sectors such as manufacturing. In contrast, the industries most affected by the pandemic were accommodation and food services and arts and recreation services, and casual workers were far more likely to lose employment than permanent employees.[8] As a consequence, women and young people were more likely to lose work. Job losses were also more notable for individuals with lower levels of educational attainment (see Chart 4.2), English proficiency, and in lower income quintiles.

Chart 4.2 Employment to population ratio by educational attainment



Source: Treasury analysis using ABS Longitudinal Labour Force Survey.

The differing cohorts affected by this crisis may have meant that there were additional or different dimensions and risks around labour market scarring. For some of these groups, the scarring may have exacerbated existing economic insecurities, such as for lower-skilled workers and women. For younger workers, it may have disrupted the formative years in their careers.

8 For example, based on analysis of newly available Labour Force Survey microdata, an individual working in accommodation and food services was over 20 percentage points more likely to lose work (either through job loss or a reduction in hours) between February and April 2020, after accounting for other differences. Working in arts and recreation services increased the probability of losing work by almost 30 percentage points. Casual workers were around 20 percentage points more likely to lose work than permanent employees.

Analysis of historical firm-level data shows that firm closures lead to persistent wage scarring for workers of all age cohorts. For older workers this entirely reflects a lower likelihood of finding a new job, while younger workers still face persistent wage scarring even when they are able to find new employment.

Similarly, Australians graduating into a local labour market where the youth unemployment rate was 5 percentage points higher can expect to earn roughly 8 per cent less in their first year of work, and 3½ per cent less after five years. It takes around a decade for this effect to fully disappear. Female graduates experience even more labour market scarring than men.[9]

It was with this potential for scarring in mind that the large and rapid fiscal response was developed. The response was designed to maintain productive employee-employer relationships, support productive and viable businesses, and provide income support to those most affected by the downturn. The further support in the 2021-22 Budget, outlined below in 'Supporting the Recovery', is targeted at getting vulnerable cohorts into work and driving the unemployment rate down to further mitigate scarring from extended periods of unemployment.

The policy response

As the COVID-19 health crisis unfolded during March 2020, three Economic Response Packages were rapidly introduced. The support was underpinned by clear principles: that it be temporary, targeted, scalable, proportionate and use existing mechanisms. The support packages assisted the economy through three key channels: helping households, directly supporting businesses, and preserving the link between employees and employers.

Individuals and households were supported through the payment of a Coronavirus Supplement to certain income support payment recipients, four Economic Support Payments, and temporary early release of superannuation. These policies helped to support those who had lost employment and who were not supported directly by the other policies aimed at businesses and employees.

Businesses were supported through a number of investment incentives, cash flow boost payments, a wage subsidy to retain apprentices and trainees, and targeted support for the most severely affected sectors and regions. Businesses were also supported with loan guarantees, increased availability of credit, and insolvency reforms.

9 See Andrews D, Deutscher N, Hambur J and Hansell D (2020), 'The Career Effects of Labour Market Conditions at Entry', Treasury Working Paper 2020-01, June 2020.

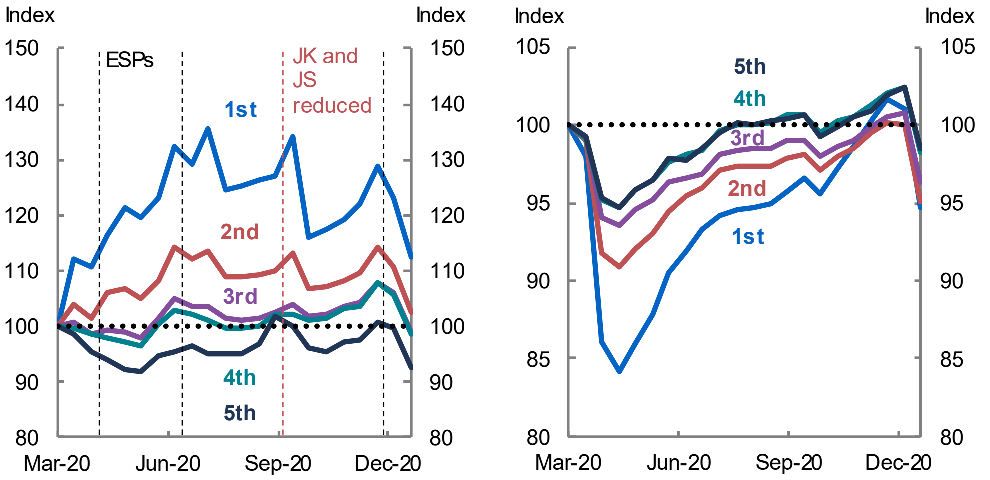
Businesses and their employees were further supported in the third economic support package with the announcement of the JobKeeper Payment. It was the largest one-off fiscal measure in Australia's history, supporting more than 3.8 million individuals and over one million organisations from March to September 2020. The JobKeeper Payment had a number of objectives including: preserving employee and employer relationships, providing additional income for households, and decreasing uncertainty. It was expressly designed to work in conjunction with the JobSeeker Payment (enhanced by the Coronavirus Supplement). For example, some employees who had more tenuous relationships with their employers were supported by JobSeeker instead of JobKeeper.[10]

The JobKeeper Payment was complemented with temporary changes to the *Fair Work Act 2009* which gave businesses the ability to adapt workplace arrangements to the challenging economic conditions. These policies were designed and implemented in an environment where a large number of businesses faced strict public health restrictions, resulting in significant job losses and reduced incomes. From September 2020, the JobKeeper Payment was tapered and extended by six months, conditional on businesses re-establishing their eligibility for support.

The Government response was targeted towards vulnerable cohorts who had been hit hardest by the shocks, allowing them to continue spending and, in some cases, save. Average incomes in the lowest two income quintiles increased in the June 2020 quarter, despite larger declines in employment for these groups, reflecting the Coronavirus Supplement and JobKeeper (see Chart 4.3). Average incomes in these quintiles remained above pre-pandemic levels through 2020, even as the JobKeeper Payment and the Coronavirus Supplement were tapered as labour income recovered in line with the improvement in employment. In comparison, the third and fourth income quintiles saw broadly no change in income from March to December 2020, while the top quintile experienced a sustained lower level of income throughout the year.

10 JobSeeker arrangements were modified in a number of ways to support employees retaining an attachment to their employers. Separation certifications were no longer required to access the JobSeeker Payment, and partner income tests were eased, as were waiting periods.

Chart 4.3 Individual fortnightly wages and welfare payments by income quintile (left), and employment index by income quintile (right)



Note: Quintiles based on 2019 financial year salary income, ranked from lowest income (first quintile) to highest income (fifth quintile). ESPs refers to Economic Support Payments. JK refers to the JobKeeper Payment and JS refers to the JobSeeker Payment. For the first chart, the spike in September reflects processing changes when the Coronavirus Supplement was reduced, which resulted in some October payments being brought forward. For both charts, the decrease in December reflects seasonality over the Christmas period.

Source: Treasury analysis of tax and welfare payment microdata; ABS Australian National Accounts: National Income, Expenditure and Product.

The policies kept viable businesses afloat. Over the course of 2020 the number of business insolvencies was subdued, with around 40 per cent fewer companies entering external administration than in 2019.

By keeping businesses afloat, the suite of support policies also kept jobs intact. The JobKeeper Payment was an important component of this. It maintained employee-employer relationships through the worst of the crisis, reducing and then stabilising the rate of decline in employment.[11] The RBA estimated that the JobKeeper Payment increased the likelihood of a JobKeeper-nominated employee remaining employed over the April to July 2020 period by around 20 per cent. This implied the JobKeeper Payment saved at least 700,000 jobs at the height of the crisis.[12]

These policies provided a great deal of support to the economy, and helped to drive the economic recovery. Moreover, they will continue to contribute to the economic recovery even as they are tapered because much of the financial support provided remains on households' and businesses' balance sheets, and will contribute to spending in the coming quarters.

11 Treasury (2020), 'The JobKeeper Payment: Three-month review', 21 July 2020.

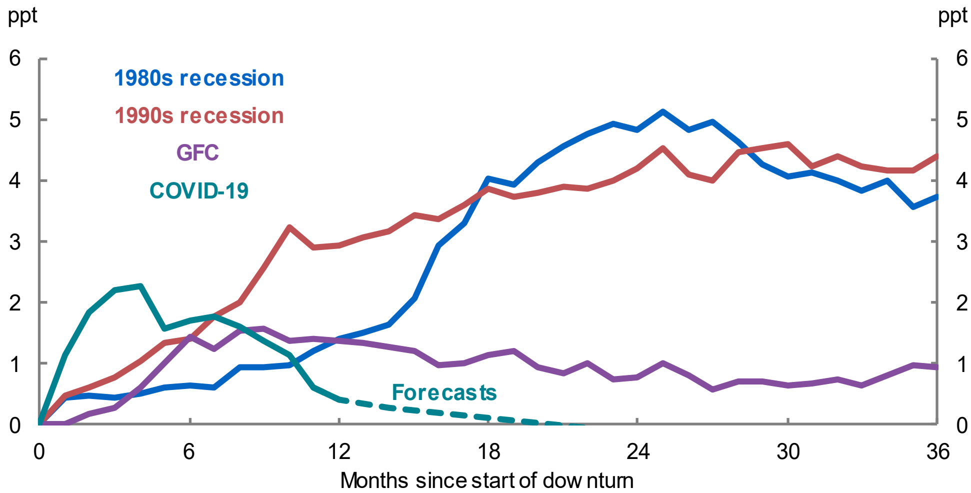
12 Bishop J and Day I (2020), 'How Many Jobs Did JobKeeper Keep?', RBA Research Discussion Paper 2020-07, November 2020.

The labour market recovery and JobKeeper transitions

The recovery in the labour market since mid-2020 has been unprecedented. Employment reached a record high of 13.1 million in March 2021 (0.6 per cent higher than a year earlier), and the unemployment rate is down to 5.6 per cent. Total monthly hours worked is now 1.2 per cent higher, and the number of people working zero hours for economic reasons has fallen below pre-pandemic levels.

The recovery has significantly outpaced the protracted recoveries experienced in past downturns (see Chart 4.4), and those of other advanced economies during COVID-19 (see Box 4.1). Workers who lost their jobs were far more likely to be re-employed quickly compared to past downturns, improving outcomes for individuals and ameliorating some concerns around scarring. For example, based on Labour Force Survey microdata, workers who lost their job in 2020 were 17 per cent more likely to be re-employed after six months compared with workers who lost their jobs during the early 1990s recession.

Chart 4.4 Change in unemployment rate during downturns

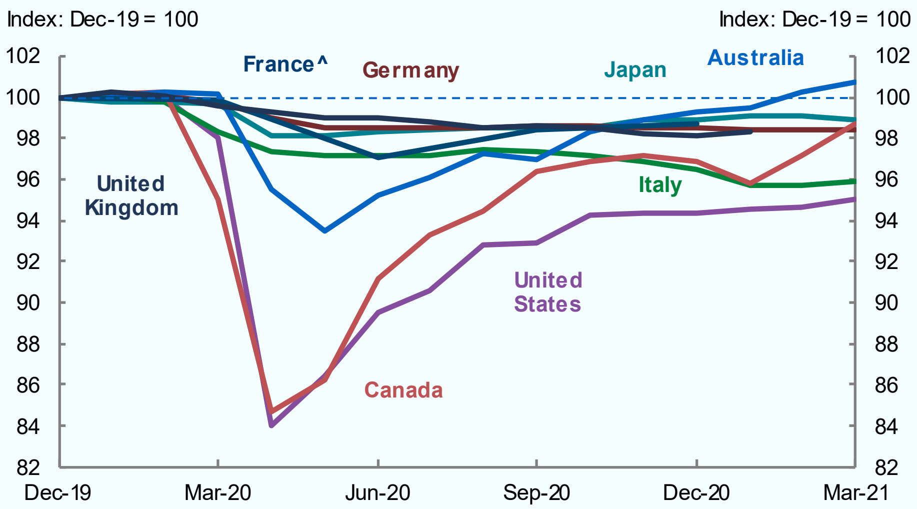


Source: ABS Labour Force, Australia; Treasury.

Box 4.1: International comparison

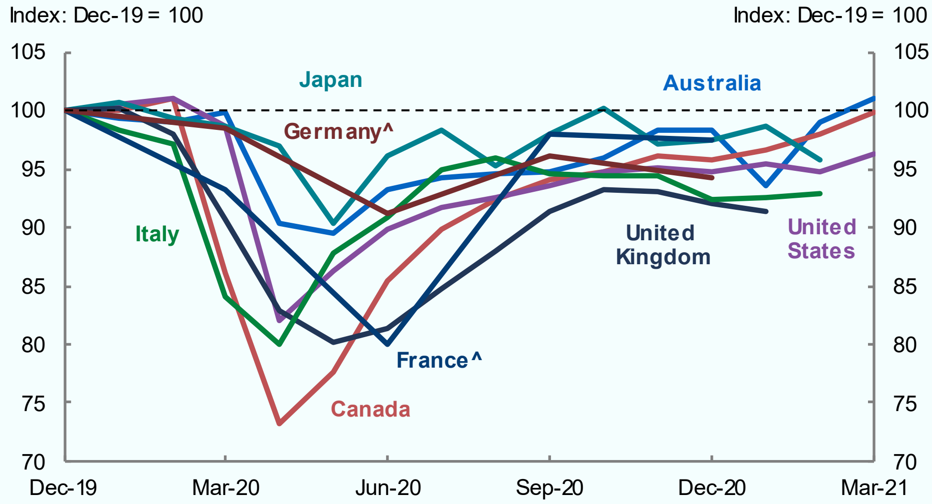
Australia's labour market continues to perform favourably compared with all major advanced economies. Compared with major advanced economies who have published data for March 2021, Australia is the first economy to have recovered hours worked and employment to pre-pandemic levels.

Chart 4.5 Employment levels, Australia and the G7 economies



Box 4.1: International comparison (continued)

Chart 4.6 Hours worked, Australia and the G7 economies



^Data are quarterly and latest data are for the December quarter.

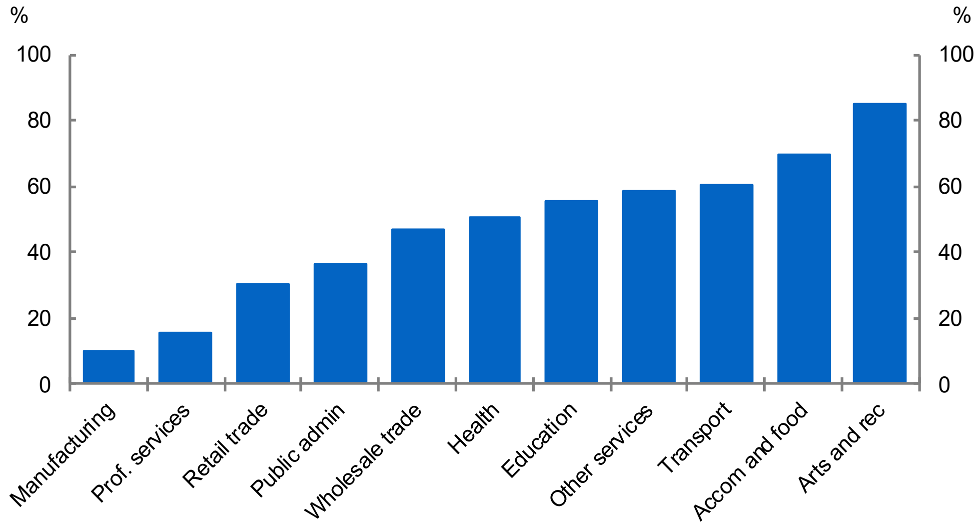
Note: Data are monthly and cover the cohort aged 15+ unless otherwise specified. UK employment and total hours worked data are a 3-month moving average from December 2020 to February 2021. France's total hours worked data are for the cohort aged 20-65 years. Due to definitional differences, care must be taken when comparing employment data across countries. Data is up to date as at 6 May 2021.

Source: Refinitiv; National statistical agencies; ABS Labour Force, Australia.

The combination of well-targeted economic support, $291 billion as at this Budget, and the lifting of restrictions on activities, means that the labour market has rebounded quickly. Many workers were able to return to their previous jobs supported by policies to keep businesses afloat, with a record number of entries into pre-existing jobs.[13] Further, the proportion of the recovery that reflected people returning to past jobs was higher in sectors that were more heavily affected by temporary COVID-19 restrictions, such as accommodation and food services, and arts and recreation services (see Chart 4.7).[14]

13 Based on Labour Force Survey microdata.
14 Based on Single Touch Payroll microdata.

Chart 4.7 Share of recovery in employment from April to June 2020 explained by workers returning to previous jobs



Note: Shows the percentage of the mid-April to mid-June recovery accounted for by the recovery in jobs that existed before 1 March 2020 — namely the change in pre-existing jobs divided by the change in total jobs over this period, expressed as a percentage.
Source: Treasury analysis of Single Touch Payroll data.

As the labour market recovers, transitioning away from job retention schemes (such as the JobKeeper Payment) towards policies that promote labour reallocation is important. Barrero, Bloom and Davis (2020) highlight the risk that policies designed for the height of the recession outstay their welcome and distort incentives to seek new employment, while policies that facilitate reallocation of labour can improve the speed of the recovery.[15] The IMF has highlighted that employment reallocation policies can help ease the adjustment process to some of the more persistent effects of the pandemic.[16]

By early 2021, there was substantial evidence that the labour market was recovering strongly, allowing a smooth transition from JobKeeper and the Coronavirus Supplement and for private sector-led growth to play a greater role in the recovery.

15 Barrero J M, Bloom N and Davis S J (2020), 'COVID-19 is Also a Reallocation Shock', May 2020.
16 International Monetary Fund (2021) 'World Economic Outlook: Managing Divergent Recoveries', Washington, DC, April 2021.

The JobKeeper transition at the end of the September 2020 quarter was relatively smooth. Around two million individuals (employees and business participants) transitioned off JobKeeper at the end of September 2020. The vast majority of the employees that transitioned off JobKeeper during this period remained in employment.

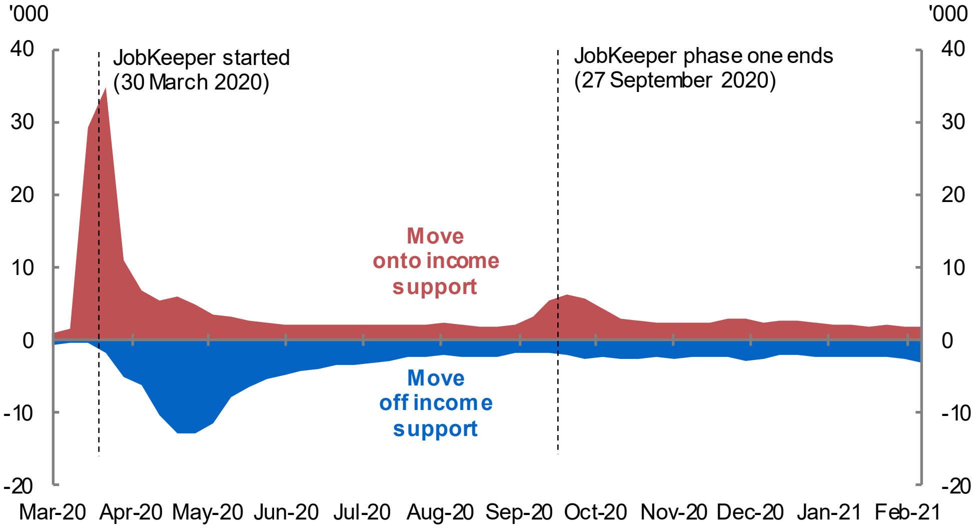
Although total employment at organisations transitioning off the JobKeeper Payment remained broadly unchanged, experiences differed across firms. Some organisations grew as operating conditions and confidence in the economic outlook improved. Others shrank, shedding workers as they rolled off the Payment. Overall, these two effects broadly offset each other.[17] This highlights the dynamism and resilience of the Australian labour market. This also alleviates some concerns that transitioning organisations might shed JobKeeper workers and hire casuals.

There was only a modest increase in the number of people moving off the JobKeeper Payment and onto other forms of income support, such as JobSeeker and Youth Allowance (Chart 4.8). Unemployment levels have fallen in each successive month since October with nearly half a million jobs created since the initial transition from JobKeeper in September.

The second transition at the end of the December 2020 quarter appears to have been similarly smooth.

17 Based on Single Touch Payroll microdata.

Chart 4.8 Weekly income support flows for individuals on the first phase of the JobKeeper Payment



Note: Income support includes Newstart Allowance, JobSeeker Payment and Youth Allowance (Other). Flows onto and off income support payments include flows from nil rate recipient status to being in receipt of a payment. Two week moving average.
Source: Treasury analysis of tax and welfare payment microdata.

In the final quarter of the JobKeeper Payment (January to March 2021), reliance on the Payment reduced further to around 1.1 million individuals and around 385,000 organisations.

Following the conclusion of the JobKeeper Payment, early data indicates the labour market has remained resilient. Job vacancies rose to reach a record high and the number of job seekers for every vacancy fell to its lowest level in over a decade, while the number of people on unemployment benefits has continued to fall.

Supporting household incomes, keeping firms afloat, and maintaining employee-employer relationships has played a crucial role in reducing potential business and labour market scarring, allowing Australia to recover swiftly. The conclusion of emergency support measures to avoid scarring and transitioning to policies that encourage private sector-led activity will allow the labour market to reallocate resources more efficiently and further drive recovery.

Supporting the recovery

The measures contained in this Budget will provide broad-based support to the economy and are expected to drive the unemployment rate down, consistent with the Government's Economic and Fiscal Strategy of pre-pandemic levels or below. This includes the Government's extension of the low and middle income tax offset, business tax relief, infrastructure investment and the significant Government investment in a range of essential services. This broad macroeconomic support will stimulate aggregate demand and economic activity, helping to drive down the unemployment rate.

The Budget is also aimed at assisting cohorts who face greater risks and challenges in the labour market. By building the skills that workers need, and removing barriers to employment faced by women and the long-term unemployed, these measures will help move people into employment and support building a flexible, resilient and productive economy.

Supporting women in the workforce

As noted above, labour market outcomes for women have largely recovered to their pre-pandemic levels. However, even before COVID-19, female participation was well below male participation. COVID-19 has also highlighted existing economic insecurity for women. Raising the female participation rate will assist with the recovery, address longer-term structural issues in the labour force and improve women's economic security (for more information see *Women's Budget Statement*).

The 2021-22 Budget provides further assistance to raise women's participation in the labour market. The Government is investing an additional $1.7 billion into the Child Care Subsidy, which assists parents with the cost of child care while they are working, training, studying or volunteering. The measure focuses on families with multiple young children in child care, where the secondary earner (often female) can face particularly high financial disincentives to take on additional work.

Changes to the Child Care Subsidy and the removal of the annual cap are estimated to add up to 300,000 hours of work per week, which would be the equivalent of around 40,000 individuals working an extra day per week.

As many women take time out of the workforce during their careers, the 2021-22 Budget includes measures to support women to return to work after a career break. This includes improving access to the Mid-Career Checkpoint program, which provides free career counselling to help people re-enter the workforce or advance their careers after returning to work. It also includes an expansion of the Career Revive program, which supports medium to large businesses to attract and retain women who are returning to work.

The 2021-22 Budget also delivers a range of programs to encourage women into leadership positions and into diverse industries and occupations. An expansion of the Women's Leadership and Development Program will include further funding for successful Women@Work projects such as the Academy for Enterprising Girls, and an expansion of the National Careers Institute's Partnership Grant Program will have a specific focus on career opportunities and pathways for women. The Government will also establish the Boosting the Next Generation of Women in STEM Program with an investment of $42.4 million over seven years.

Helping younger workers

Employment among young people has almost recovered to pre-pandemic levels, mitigating some of the concerns about long-term scarring, but some risk still remains. The number of young workers (15-24) looking for full-time employment who have been unemployed for more than 12 months has increased by 54 per cent between March 2020 and 2021. Many of these young workers looking for 'careers' are likely to find jobs as the labour market continues to improve. But given the importance of early labour market outcomes for career trajectories, this Budget also contains policies aimed at getting young people upskilled and into work.

The 2021-22 Budget will help provide young people with relevant skills and experience to ensure they can access good job opportunities in the recovery period ahead. The Government's commitment to extend the JobTrainer Fund, subject to matched funding by state and territory governments, will provide a further 163,000 free or low-fee training places in areas of skills need, helping people access valuable upskilling and reskilling opportunities. The extension and expansion of the Boosting Apprenticeship Commencements wage subsidy will also provide more opportunities for young people to upskill and reskill.

In addition, new avenues for young people to move into digital careers will be created through the Digital Skills Cadetship Trial. Recognising the need for specialist skills in emerging fields such as artificial intelligence, robotics and quantum computing, the Government will provide assistance through funding for more than 460 new scholarships.

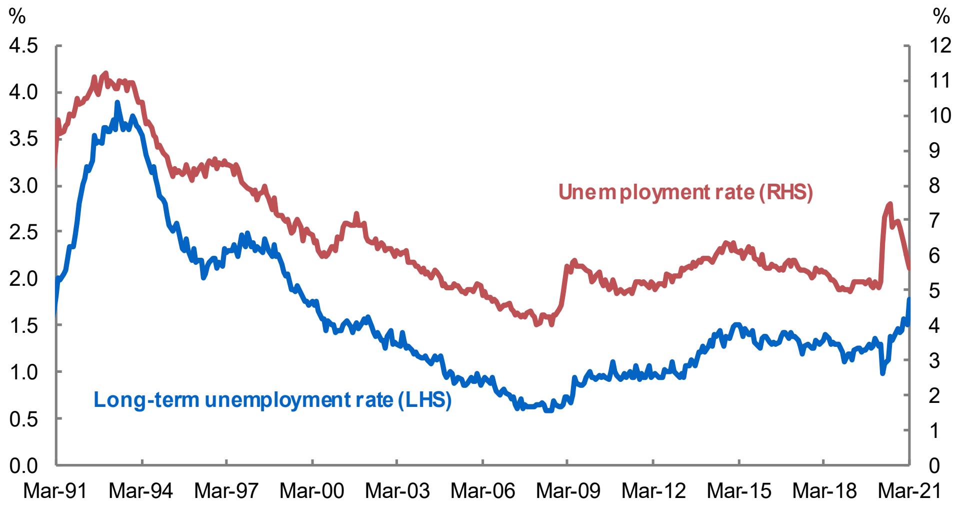
The 2021-22 Budget also provides tailored assistance to young people to help them move into employment. Transition to Work, an intensive employment program for young people, is expected to support an average caseload of around 41,000 disadvantaged people each year to transition into work or education (including apprenticeships or traineeships). The National Careers Institute service, which provides independent and impartial careers information and advice, is being extended to support young people to make well-informed decisions about their education and career paths through career coaching sessions.

Getting the long-term unemployed back into work

Success in re-entering employment becomes significantly harder the longer an individual is unemployed. This reflects a range of factors, including the atrophy of critical employability skills which are highly valued by employers. Despite the strong recovery, the long-term unemployment rate (those unemployed for one year and over) has increased (Chart 4.9). While many of these workers are likely to find work as the economy recovers, policies to assist in the process are still valuable.

Because of this, the 2021-22 Budget is focusing on transitioning the long-term unemployed back into work, which will also help to achieve and sustain a lower unemployment rate.

Chart 4.9 Long-term unemployment rate and unemployment rate



Source: ABS Labour Force, Australia and ABS Labour Force, Australia, Detailed.

The Government is assisting those who are already long-term unemployed by expanding the support available to them in employment services. All wage subsidies under the existing jobactive program are being increased to $10,000 until 30 June 2022, after which wage subsidies of up to $10,000 will be available under the enhanced services stream of the new employment services program. The introduction of the new employment services program in July 2022 will also deliver more tailored support to job seekers, including the long-term unemployed, which will help them overcome barriers to employment.

In addition, the 2021-22 Budget is ensuring the long-term unemployed have the opportunities to gain the skills employers seek. The Skills for Education and Employment program will be uncapped and expanded, ensuring that more job seekers in employment services can receive the training they need in foundation skills such as literacy and numeracy, as well as digital skills.

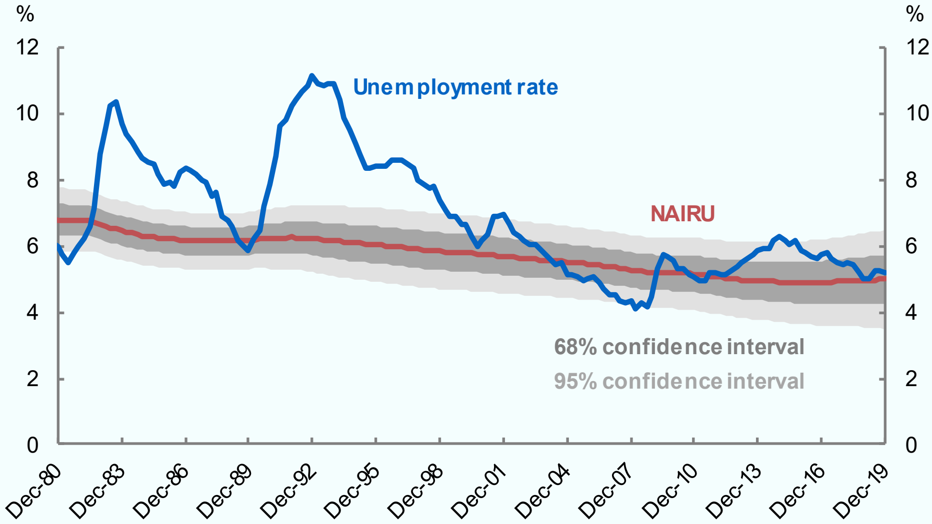
Supporting the broader labour market

The labour market recovery to date has been remarkable and ameliorates many concerns about labour market scarring. However, there is still more work to do. Both Treasury and the RBA have estimated that the Non-Accelerating Inflation Rate of Unemployment (NAIRU) in the economy is lower than previously thought (see Box 4.2). This implies that the Australian economy can do more than recover to its pre-pandemic unemployment rate — that it can realise and sustain unemployment rates below 5 per cent. Economic policy can play an important role achieving this.

Box 4.2: The Non-Accelerating Inflation Rate of Unemployment (NAIRU)

The NAIRU is the rate of unemployment associated with stable wage and price growth. The difference between the observed unemployment rate and the NAIRU is often considered to be a key measure of labour market slack. An unemployment rate below the NAIRU indicates a tight labour market, which will cause wages and prices to be bid up.

Chart 4.10 Decline in NAIRU over time



Source: ABS Labour Force, Australia; Treasury.

In Australia, NAIRU estimates have trended downwards over recent decades (see Chart 4.10). This is due to structural trends such as increased competition in goods markets, increases in services being provided internationally, advances in technology, and changes in the supply of labour.

Estimating the NAIRU presents difficulties as it is not directly observable, and its estimates are thus inherently uncertain. Nonetheless declining inflationary and wage pressures over recent years despite low and declining rates of unemployment have provided evidence that the NAIRU has been lower than previously thought. This is consistent with the experience of other advanced economies, where wage growth began picking up prior to the pandemic, but at lower levels of unemployment than previously expected.

Box 4.2: The Non-Accelerating Inflation Rate of Unemployment (NAIRU) (continued)

Both the Treasury and RBA have estimated that the NAIRU was lower than previously thought prior to the COVID-19 crisis. Australia's NAIRU was previously thought to be around 5 per cent, but based on updated modelling, Treasury believes it was within a range of 4.5 to 5 per cent preceding COVID-19.[18]

Large adverse shocks to the economy can lead to labour market scarring, with workers' skills depreciating, and thereby push up the NAIRU. Although there is still a risk that certain cohorts will find it difficult to gain employment, the strong labour market recovery to date is cause for optimism that such scarring is likely to be far less pronounced following the COVID-19 shock.

Moving the economy towards full capacity and maintaining price stability is normally a role for monetary policy. However, with monetary policy currently constrained, there is a role for fiscal policy to assist in a sustainable manner. That is, there is a greater role for fiscal policy to drive unemployment down further to generate increases in wage growth and inflation, without generating excessive inflation. This is consistent with the Government's Economic and Fiscal Strategy to drive the unemployment rate down to pre-pandemic levels or below.

Doing so, and locking in the recovery seen to date, is particularly important in light of the ongoing uncertainties on the health and economic fronts. Around the world, more than 800,000 new cases of COVID-19 are being diagnosed every day, with new strains of the virus emerging. Our international borders are still largely closed, and while the vaccine rollout is progressing both here and abroad, it remains at a very early stage.

In this context, while the outlook is strong, it is important to continue to support the economy and ensure that the recovery is locked in. The fiscal support contained in this Budget will provide broad-based support to the economy, stimulating economic activity, creating jobs and driving down unemployment. The measures in this Budget will also assist cohorts that may otherwise face great risks and challenges in the recovery. In doing so, the Government is prioritising job creation as Australia's pathway to a stronger economy, and a stronger budget position. And with their focus on skills and participation, and emphasis on the digital economy and innovation, the policies in this Budget are designed to boost the economy's productive capacity, raise living standards, and set Australia up for the future.

18 Ruberl H, Ball M, Lucas L and Williamson T (2021), 'Estimating the NAIRU in Australia', Treasury Working Paper 2021-01, 29 April 2021.

Statement 5: Revenue

As the Australian economy continues to recover from the impacts of the COVID-19 pandemic, the outlook for revenue has improved significantly.

The upward revision to revenue is the largest in the past decade. Parameter and other variations since the 2020-21 Budget have increased tax receipts by $107.1 billion over the four years to 2023-24. The upward revision is driven by a number of factors. A stronger economic recovery and elevated iron ore prices have supported company tax receipts and domestic consumer spending has supported a strong rebound in GST receipts. The rapid recovery in the labour market has supported higher personal income tax receipts. Over the latter half of the forward estimates period, an improvement in the outlook for employment is expected to drive higher prices and wages growth, further supporting personal income tax receipts.

Significant additional Government support for the economic recovery through tax relief for households and businesses has partially offset these revisions. Policy decisions are expected to reduce tax receipts by $22.6 billion over the four years to 2023-24. The largest of these decisions, *Temporary full expensing extension, Temporary loss carry back extension* and *Retaining the low and middle income tax offset for the 2021-22 income year* do not reduce tax receipts beyond the forward estimates.

After accounting for policy decisions, compared to the 2020-21 Budget, total tax receipts have been revised up in each year of the forward estimates and by a total of $84.5 billion (or 4.8 per cent) over the four years to 2023-24.

In 2020-21, tax receipts as a share of GDP are expected to be 22.3 per cent, higher than the 2020-21 Budget estimate of 21.8 per cent. Tax receipts as a share of GDP are expected to be 21.9 per cent in 2024-25, the final year of the forward estimates.

Notwithstanding the improved outlook, expected tax receipts remain well below the levels predicted prior to the onset of the COVID-19 pandemic. In addition, the outlook for tax receipts remains more uncertain than usual given a number of factors, such as the potential build-up of tax losses, that may weigh on future tax collections.

Contents

Statement 5: Revenue

Overview

The outlook for the Australian economy has strengthened. The faster-than-expected recovery coupled with higher commodity prices has translated into significantly higher receipts in 2020-21 than expected at the 2020-21 Budget. More generally, the improved economic outlook has resulted in upward revisions to receipts across the entire forward estimates period.

Policy decisions since the 2020-21 MYEFO provide substantial additional tax relief for businesses and households to support the recovery. This extends and builds on tax support announced in the 2020-21 Budget.

After accounting for new policy decisions, total tax receipts are forecast to grow by 6.4 per cent in 2020-21, and by 3.4 per cent on average over the four years to 2023-24 (Table 5.1).

Table 5.1: Australian Government general government receipts

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b	$b
Total taxation receipts ($b)	**431.8**	**459.5**	**445.6**	**455.3**	**493.1**	**525.4**
Growth on previous year (%)	-3.7	6.4	-3.0	2.2	8.3	6.5
Per cent of GDP	21.7	22.3	20.9	20.9	21.6	21.9
Tax receipts excluding GST ($b)	**371.5**	**389.7**	**373.7**	**380.1**	**414.5**	**443.0**
Growth on previous year (%)	-3.1	4.9	-4.1	1.7	9.1	6.9
Per cent of GDP	18.7	18.9	17.5	17.5	18.2	18.5
Non-taxation receipts ($b)	**37.6**	**40.4**	**36.5**	**38.7**	**39.7**	**46.6**
Growth on previous year (%)	2.5	7.3	-9.7	6.1	2.8	17.3
Per cent of GDP	1.9	2.0	1.7	1.8	1.7	1.9
Total receipts ($b)	**469.4**	**499.8**	**482.1**	**494.0**	**532.9**	**572.0**
Growth on previous year (%)	-3.3	6.5	-3.6	2.5	7.9	7.3
Per cent of GDP	23.6	24.3	22.6	22.7	23.4	23.9

Tax receipts during the recovery

The COVID-19 pandemic has had a significant impact on the Australian economy. The spread of the virus, and public health containment measures introduced, forced many businesses to hibernate. Unemployment increased, and discretionary household consumption declined due to the containment measures. This led to a steep deterioration in the outlook for tax receipts, across all heads of revenue. In the 2020-21 Budget, the forecast for tax receipts in 2020-21 was revised down $55.2 billion or 11.5 per cent relative to the forecast in the 2019-20 MYEFO.

However, an effective public health response coupled with unprecedented levels of Government support allowed the economy to reopen and recover more quickly than expected. Support through the tax system outlined in the 2020-21 Budget has started to take effect. This includes the impact of tax relief provided by the bring-forward of the Personal Income Tax Plan which has been flowing to households since November 2020 (see Box 5.1).

The Government's support for business investment has also begun to have an impact — in the December quarter, investment in new machinery and equipment increased at the fastest quarterly rate in almost seven years. This has supported economic growth. Nominal GDP is now expected to grow by 3¾ per cent in 2020-21, compared with a decline of 1¾ per cent forecast at the 2020-21 Budget.

Box 5.1: Tax relief from the 2020-21 Budget flowing to individuals

In the 2020-21 Budget the Government brought forward the tax cuts from Stage 2 of the Personal Income Tax Plan by two years, backdating them to 1 July 2020. The bring-forward aimed to leverage the tax system to immediately boost household disposable income and support the economic recovery.

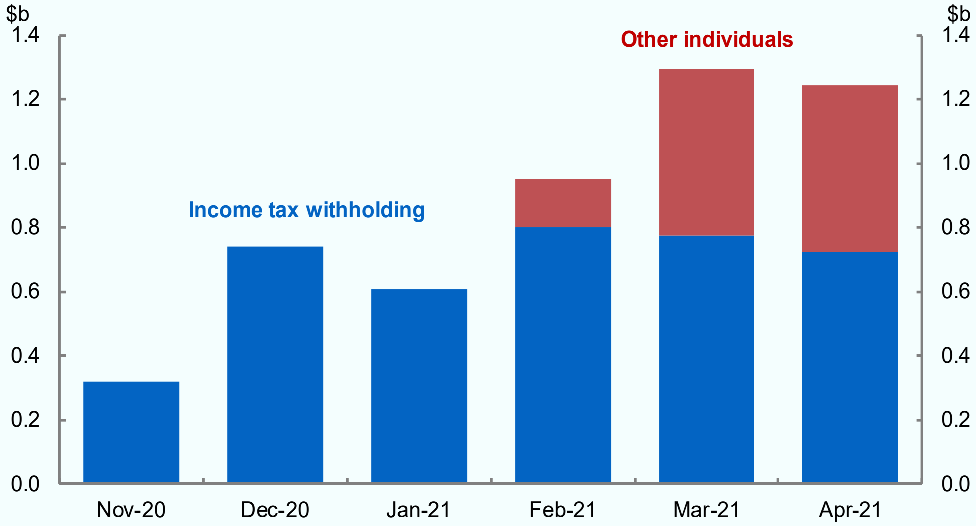
The chart below shows the tax relief this measure is estimated to have provided to individuals each month to the end of April 2021. In total, the tax cuts are estimated to have provided around $5.2 billion in tax relief so far, through reduced income tax withholding and instalment amounts. This is on top of the 2019-20 low and middle income tax offset (LMITO) which has seen around $6.8 billion flow to households since 1 July 2020.

Most of the tax cuts are delivered through reduced income tax withholding — that is, employers reducing the amount they hold back from individuals' pay packets. Employers adjust these amounts in line with the Australian Taxation Office's (ATO) withholding schedules, which were updated on 12 October 2020 to reflect the new tax thresholds. It is estimated that these changes started to materially increase individuals' take-home pay from November 2020, providing economic stimulus within six weeks of the Budget announcement.

The increase in tax relief flowing to individuals from February reflects tax relief for individuals who pay income tax in instalments ('other individuals'), with payments for the December and March quarters due to the ATO in the months of March and April respectively.

Box 5.1: Tax relief from the 2020-21 Budget flowing to individuals (continued)

Chart 5.1: Estimated monthly tax relief to date from the Personal Income Tax Plan Stage 2 bring-forward



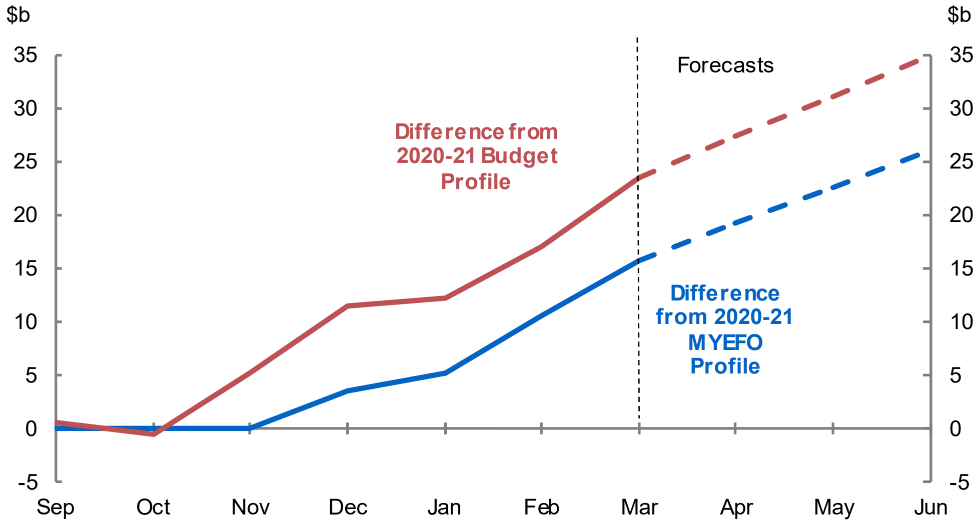
Note: This chart combines Treasury costing figures with historical monthly collections data and 2020-21 instalment due dates to estimate monthly tax relief.
Source: ATO and Treasury.

In the 2020-21 Budget and 2021-22 Budget the Government also announced an additional benefit to taxpayers through retaining the LMITO for the 2020-21 and 2021-22 income years. The LMITO for the 2020-21 income year is expected to benefit around 10 million taxpayers from 1 July 2021, following lodgement of tax returns for the year. In addition, any excess tax paid by individuals prior to the withholding schedule updates in October 2020 will be refunded, providing an additional boost to household disposable income. This is likely to provide continued incentives for early lodgement of tax returns, which was observed in 2019-20 and 2020-21 following the introduction of the LMITO.

As a result of the faster-than-expected recovery, tax receipts have been well above the levels expected both in the 2020-21 Budget and the upgraded estimates in the 2020-21 MYEFO (Chart 5.2). GST rebounded quickly as public health containment measures were lifted, increases in iron ore prices resulted in strong company tax instalments and increases in employment in recent months have resulted in stronger personal income tax receipts.

In total, 2020-21 taxation receipts at the end of March were $15.7 billion above the 2020-21 MYEFO forecast (Chart 5.2). Although some of this strength relates to one-off factors, such as stronger-than-expected on-assessment payments from 2019-20 tax returns and faster than expected recovery of outstanding tax liabilities, much of it reflects the improved outlook, particularly for the labour market, that is expected to continue through the remainder of the current year and over the forward estimates.

Chart 5.2: 2020-21 tax collections variations against forecasts

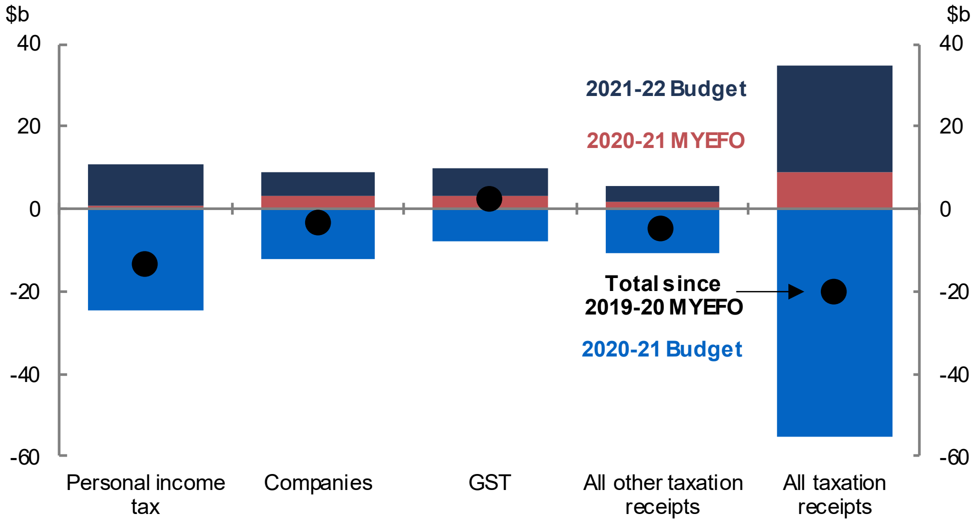


Source: Department of Finance.

Including policy decisions, forecast tax receipts in 2020-21 have been revised up by $26.0 billion since the 2020-21 MYEFO and $34.8 billion since the 2020-21 Budget. The forecast is now 8.2 per cent higher than in the 2020-21 Budget. This upgrade is broad-based and observed across almost all heads of revenue, with the largest upgrades in individuals and other withholding taxes, company tax, and goods and services tax (GST).

Notably, GST receipts for 2020-21 are now forecast to be $2.0 billion higher than expected prior to the COVID-19 pandemic, driven by the faster-than-expected recovery in payments of GST liabilities as well as strength in dwelling investment. For more information on the recovery in GST receipts, see Box 5.3.

Chart 5.3: Revisions to 2020-21 tax receipts forecasts since the 2019-20 MYEFO



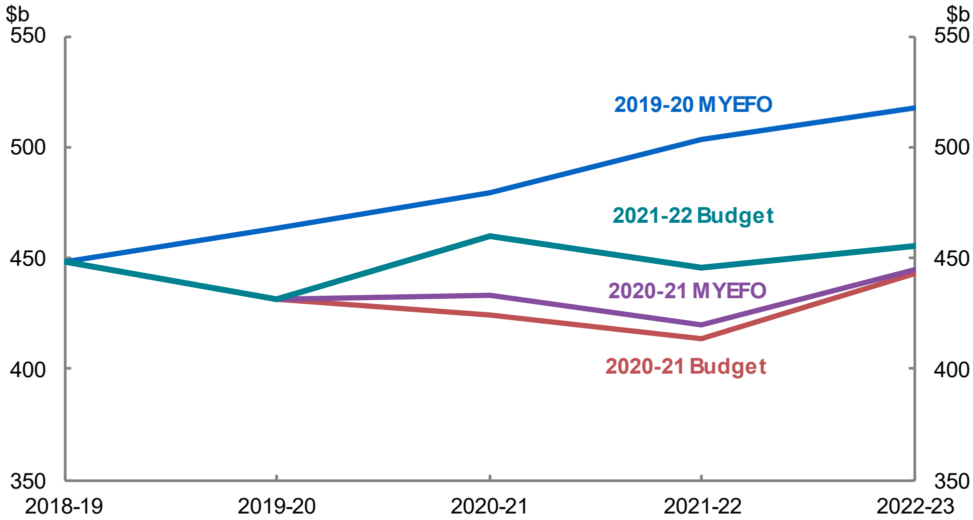
Source: Treasury.

Notwithstanding the faster-than-expected recovery and material upgrades, the forecast for total tax receipts in 2020-21 still remains 4.2 per cent below the level forecast in the 2019-20 MYEFO, prior to the onset of the COVID-19 pandemic. While this reflects the economic disruption caused by the pandemic, it is also partially a result of the significant tax relief provided by the Government.

Tax outlook

On the back of the faster-than-expected recovery, the outlook for the Australian economy has strengthened. This translates into an improved outlook for tax receipts, which, relative to the 2020-21 Budget, are forecast to be $84.5 billion (4.8 per cent) higher over the four years to 2023-24.

Chart 5.4: The outlook for tax receipts at Budget updates



Source: Treasury.

The outlook for personal income tax receipts reflects the improved outlook for the labour market more broadly. Compensation of employees is expected to be stronger, supported by the recovery in employment to date, and higher expected wages growth later in the forward estimates. Dividends and unincorporated business income are also forecast to be stronger across the forward estimates. Relative to the 2020-21 Budget, individuals and other withholding taxes have been revised up $34.4 billion over the four years to 2023-24.

Upgrades to the forecast for resources sector profits, largely due to ongoing elevated iron ore prices, are supporting an improved outlook for company profits. Since the 2020-21 Budget, company tax forecasts have been revised up by $11.8 billion over the four years to 2023-24.

Upgrades to the outlook for household consumption and dwelling investment, and a faster-than-expected recovery in payments of outstanding GST liabilities have resulted in GST receipts being revised up by $25.8 billion over the four years to 2023-24. The outlook for household consumption combined with increases in forecast inflation is driving upwards revisions to forecasts for excise and customs duties, which have been revised up $2.9 billion over the four years to 2023-24.

The improved labour market outlook, along with a faster-than-expected recovery in asset prices, one-off foreign exchange gains and strong reported incomes in the 2020-21 year, is also contributing to an improved outlook for superannuation taxes, which are forecast to be $8.8 billion higher over the four years to 2023-24.

However, forecast tax receipts still remain well below the levels predicted prior to the onset of the COVID-19 pandemic. A slower-growing population as a result of reduced net overseas migration reduced the expected tax base. While employment, prices and wages are all recovering more quickly than expected at the 2020-21 Budget, the levels are still expected to remain lower than projections at the 2019-20 MYEFO for each year to 2024-25.

Policy decisions in this Budget build on the economic support announced in the 2020-21 Budget and provide significant additional tax relief to households and businesses. Policy decisions taken since the 2020-21 Budget provide $22.6 billion in additional tax relief over the four years to 2023-24. However, this support is designed to be temporary and targeted, with little impact beyond 2024-25 (Box 5.2). For more details on policy decisions, see Budget Statement 1 and Budget Paper No. 2.

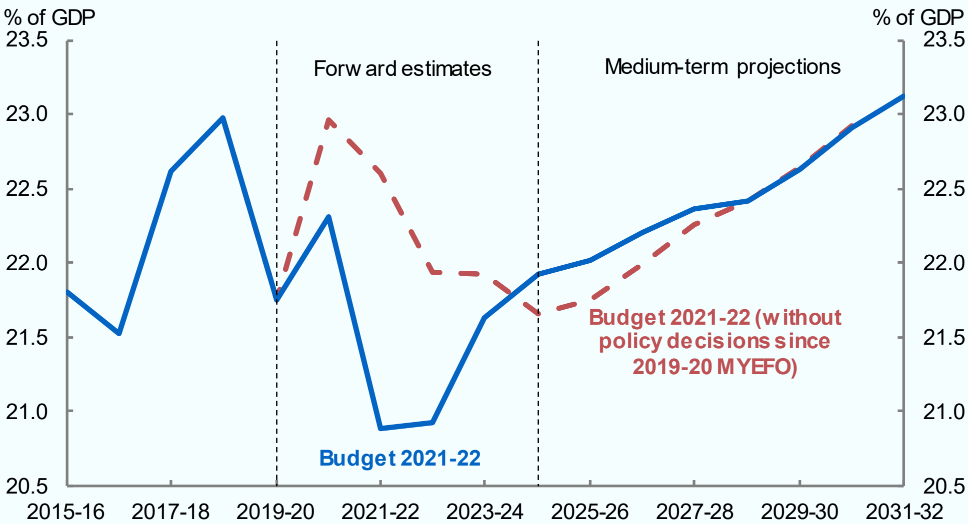
Considerable uncertainty remains around the outlook for tax receipts as they are inextricably tied to the outlook for economic activity. Additionally, there are uncertainties about the extent to which taxpayers may have accrued losses during the pandemic, and the extent to which the carry forward of losses may weigh on future tax collections.

Box 5.2: Temporary and targeted support through the tax system

In the 2020-21 Budget, the Government provided significant tax relief to businesses and households to support the economic recovery. The largest of these were bringing forward the Government's legislated Personal Income Tax Plan and retaining the low and middle income tax offset to increase household disposable incomes, as well as temporary loss carry back and temporary full expensing to support business cash flow, investment and job creation. This Budget extends the business investment measures and provides further tax relief for households by retaining the low and middle income tax offset for 2021-22. In total, policy decisions taken since the 2019-20 MYEFO are expected to reduce tax receipts by $79.1 billion across the four years to 2023-24.

These tax initiatives have been carefully calibrated to boost confidence and investment, supporting the economic recovery in the near-term while not structurally impacting the longer term fiscal position (Chart 5.5). In aggregate, policy decisions since the 2019-20 MYEFO are expected to increase tax receipts at the start of the medium term, as the tax incentive measures are temporary and largely bring forward tax deductions or the utilisation of losses from future years.

Chart 5.5: Tax receipts as a share of GDP, with and without policy announced since 2019-20 MYEFO



Source: Treasury.

Variations in receipts estimates

Since the 2020-21 Budget, total receipts have been revised up by $36.1 billion in 2020-21 and $84.0 billion over the four years to 2023-24. Table 5.2 reconciles the 2021-22 Budget estimates of total receipts with the 2020-21 Budget and 2020-21 MYEFO.

Table 5.2: Reconciliation of Australian Government general government receipts estimates from the 2020-21 Budget[(a)]

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(b)
	$m	$m	$m	$m	$m	$m
Receipts at 2020-21 Budget	**463,764**	**451,918**	**482,647**	**526,363**	*	*
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions	-105	-430	-649	-607	*	*
Effect of parameter and other variations	9,474	7,010	5,059	518	*	*
Total variations	**9,369**	**6,580**	**4,410**	**-89**	*	*
Receipts at 2020-21 MYEFO	**473,133**	**458,497**	**487,057**	**526,274**	*	*
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions	38	14	-7,357	-14,392	-5,890	-27,625
Effect of parameter and other variations	26,660	23,541	14,300	20,972	24,615	83,428
Total variations	**26,698**	**23,555**	**6,943**	**6,581**	**18,724**	**55,803**
Receipts at 2021-22 Budget	**499,831**	**482,053**	**494,000**	**532,855**	**571,969**	**2,080,877**

* Data is not available.
(a) Includes expected Future Funds earnings.
(b) Total is equal to the sum of amounts from 2021-22 to 2024-25.

Since the 2020-21 Budget, parameter and other variations have increased total receipts by $36.1 billion in 2020-21 and $107.5 billion across the four years to 2023-24. Policy decisions reduce receipts by $23.5 billion over the four years to 2023-24 compared with the 2020-21 Budget.

The upgrade to the forecasts of total receipts is predominantly driven by the upgrades to the forecasts of taxation receipts.

Taxation receipts estimates

Relative to the 2020-21 Budget, forecasts of total tax receipts have been revised up by $34.8 billion in 2020-21 and by $84.5 billion across the four years to 2023-24. These upgrades are broad-based, with the largest upward revisions to total individuals and other withholding taxes and GST.

Table 5.3 reconciles the 2021-22 Budget estimates of tax receipts with the 2020-21 Budget and 2020-21 MYEFO.

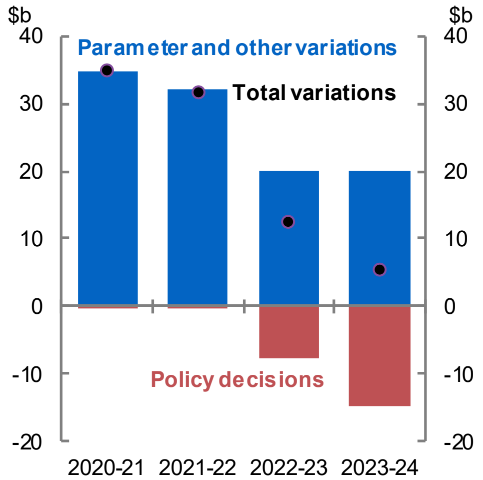
Table 5.3: Reconciliation of Australian Government general government taxation receipts estimates from the 2020-21 Budget

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(a)
	$m	$m	$m	$m	$m	$m
Tax receipts at 2020-21 Budget	**424,643**	**413,799**	**442,912**	**487,645**	*	*
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions	-4	-5	-32	8	*	*
Effect of parameter and other variations	8,861	6,123	2,303	-1,261	*	*
Total variations	8,857	6,118	2,271	-1,253	*	*
Tax receipts at 2020-21 MYEFO	**433,500**	**419,917**	**445,182**	**486,392**	*	*
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions	0	-243	-7,638	-14,688	-6,204	-28,773
Effect of parameter and other variations	25,970	25,925	17,784	21,403	21,259	86,370
Total variations	25,970	25,682	10,145	6,715	15,055	57,597
Tax receipts at 2021-22 Budget	**459,470**	**445,599**	**455,328**	**493,106**	**525,353**	**1,919,386**

* Data is not available.
(a) Total is equal to the sum of amounts from 2021-22 to 2024-25.

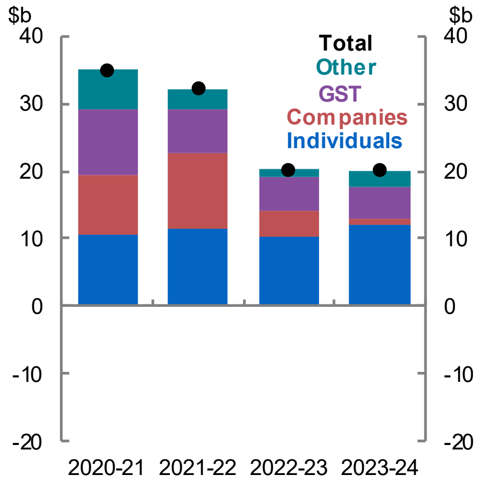
Since the 2020-21 Budget, parameter and other variations are expected to increase tax receipts by $34.8 billion in 2020-21 and $107.1 billion over the four years to 2023-24. Policy decisions reduce tax receipts by $22.6 billion over the four years to 2023-24 compared with the 2020-21 Budget.

Chart 5.6: Revisions to total tax receipts since the 2020-21 Budget



Source: Treasury.

Chart 5.7: Parameter and other variations to total tax receipts since the 2020-21 Budget



Source: Treasury.

These upgrades reflect broad-based strength across almost all heads of revenue, driven by the faster-than-expected recovery from the COVID-19 pandemic and an improved economic outlook. Growth in the key economic parameters that influence tax receipts is shown in Table 5.4.

Table 5.4: Key economic parameters for tax receipts[(a)]

	Outcomes	Forecasts				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Nominal gross domestic product	1.7	3 3/4	3 1/2	2	4 3/4	5
Change since 2020-21 MYEFO		*2 3/4*	*2 1/4*	*-1 3/4*	*0*	*na*
Change since 2020-21 Budget		*5 1/2*	*1/4*	*-2 1/2*	*- 1/4*	*na*
Compensation of employees(b)	3.5	2 1/4	3	3 3/4	4	4 3/4
Change since 2020-21 MYEFO		*2 1/4*	*1 1/2*	*1/4*	*- 1/2*	*na*
Change since 2020-21 Budget		*1 1/4*	*2 1/4*	*- 1/4*	*- 1/4*	*na*
Corporate gross operating surplus(c)	7.9	9 3/4	-6 3/4	-3 1/2	5	5 1/4
Change since 2020-21 MYEFO		*5*	*4 1/4*	*-5 1/2*	*- 1/4*	*na*
Change since 2020-21 Budget		*10*	*1 3/4*	*-8 1/2*	*- 1/4*	*na*
Non-farm gross mixed income	7.4	14 3/4	-7 1/4	3 1/4	7	7 1/4
Change since 2020-21 MYEFO		*-2 1/4*	*3 1/4*	*1 1/2*	*1 1/2*	*na*
Change since 2020-21 Budget		*3 3/4*	*1 1/2*	*1 1/4*	*1 1/4*	*na*
Property income(d)	-3.3	-5 1/4	13 1/4	4 1/4	4 3/4	5
Change since 2020-21 MYEFO		*-1 1/2*	*6 1/2*	*1 1/2*	*0*	*na*
Change since 2020-21 Budget		*9*	*- 1/4*	*3/4*	*0*	*na*
Consumption subject to GST	-4.2	3/4	9 1/4	7	6	5 1/4
Change since 2020-21 MYEFO		*2*	*1*	*0*	*3/4*	*na*
Change since 2020-21 Budget		*5 1/2*	*-1*	*-1*	*-1*	*na*

(a) Current prices, per cent change on previous year. Changes since the 2020-21 MYEFO and 2020-21 Budget are percentage points.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate gross operating surplus 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
Source: ABS Australian National Accounts: National Income, Expenditure and Product, and Treasury.

The changes in the outlook for individual heads of revenue are explained in more detail below.

Individuals and other withholding taxation receipts

Since the 2020-21 Budget, total individuals and other withholding taxation receipts have been revised up $10.6 billion in 2020-21 and $34.4 billion over the four years to 2023-24. Individuals and other withholding taxation receipts are expected to increase by 2.7 per cent in 2020-21 and decline by 3.8 per cent in 2021-22. Growth over the forward estimates is reduced by the further extension of LMITO in this Budget as well as Stage 3 of the Personal Income Tax Plan commencing 1 July 2024.

Excluding new policy decisions, individuals and other withholding taxation receipts have been revised up $10.6 billion in 2020-21 and $44.3 billion over the four years to 2023-24. This revision reflects the faster-than-expected recovery in the labour market in 2020-21 supporting higher employment, and the persistent strength in that labour market recovery resulting in both higher wages and employment in subsequent years. The outlook for income from unincorporated businesses, dividends and capital gains has also improved.

New tax policy measures announced since the 2020-21 Budget are expected to reduce individuals and other withholding tax receipts by $9.9 billion over the four years to 2023-24. This includes $7.8 billion from retaining the LMITO for the 2021-22 income year, which will benefit around 10.2 million taxpayers. The retention of the LMITO is on top of the $25.1 billion in tax cuts flowing to households in 2021-22 that has been announced in previous Budgets.

Fringe benefits tax

Since the 2020-21 Budget, fringe benefits tax receipts have been revised up $100 million in 2020-21 and $630 million over the four years to 2023-24, reflecting higher compensation of employees. Fringe benefits tax receipts are forecast to grow by 1.3 per cent in 2020-21 and 1.5 per cent in 2021-22.

Company tax

Since the 2020-21 Budget, company tax receipts are expected to be $8.8 billion higher in 2020-21 and $11.8 billion higher over the four years to 2023-24. Company tax receipts are forecast to rise by 10.0 per cent in 2020-21 and decline by 11.8 per cent in 2021-22.

Compared with the 2020-21 Budget, parameter and other variations account for $8.8 billion of the upgrade in the forecast for company tax receipts in 2020-21 and $25.1 billion of the upgrade over the four years to 2023-24. Company tax receipts have been revised up significantly in 2020-21 and 2021-22 largely as a result of elevated iron ore prices increasing profits in the resources sector, but this strength is expected to taper off in later years in line with the assumed decline in iron ore prices. For more information on the sensitivity of company tax receipts to iron ore prices, see Budget Statement 2, Box 2.5: Sensitivity analysis of the iron ore spot price. Upgrades to profits in the non-mining, non-finance sector support the company tax forecast in the latter years of the forward estimates.

New tax policy measures announced since the 2020-21 Budget are expected to reduce company tax receipts by $13.3 billion over the four years to 2023-24. This includes the measures to extend temporary full expensing and temporary loss carry back by one year. There is evidence that businesses are capitalising on the Government's tax incentives with investment in new machinery and equipment increasing at the fastest quarterly rate in almost seven years in the December quarter 2020. Further, the outlook for the business sector has strengthened considerably and the latest December 2020 quarter ABS capital expenditure survey data suggest that firms' capital investment intentions for 2020-21 have strengthened, while early indications for capital spending in 2021-22 are also positive.

There continues to be considerable uncertainty around the forecasts for company tax receipts. This is partly due to substantial uncertainty around the outlook for the economy, as well as uncertainty around the extent to which companies will use losses incurred during the COVID-19 pandemic to offset future profits. Details on the impact of changes in economic assumptions on tax receipts are discussed in Budget Statement 8.

Superannuation fund taxes

Since the 2020-21 Budget, superannuation fund tax receipts have been revised up $3.5 billion in 2020-21 and $8.8 billion across the four years to 2023-24. Tax from superannuation funds is expected to grow strongly, by 86.2 per cent in 2020-21 and by 30.8 per cent in 2021-22.

This reflects strong foreign exchange gains increasing tax liabilities for 2020-21, with improved labour market conditions and a further recovery in asset prices supporting receipts across the forward estimates.

Petroleum resource rent tax (PRRT)

Since the 2020-21 Budget, PRRT receipts have been revised down $100 million in 2020-21, but up by $200 million over the four years to 2023-24, consistent with recent higher oil prices. PRRT receipts are forecast to decline by 24.6 per cent in 2020-21 but grow by 25.0 per cent in 2021-22.

Goods and services tax (GST)

Since the 2020-21 Budget, GST receipts have been revised up $9.8 billion in 2020-21 (refer to Box 5.3) and $25.8 billion across the four years to 2023-24. Receipts from GST are forecast to increase by 15.8 per cent in 2020-21 and 3.1 per cent in 2021-22.

Increases in GST receipts largely reflect underlying strength in collections consistent with stronger-than-expected consumption subject to GST and dwelling investment, and a faster-than-expected recovery in payments of outstanding GST liabilities. Upgrades in the outer years reflect upwards revisions to consumption subject to GST.

Box 5.3: GST - downturn and recovery

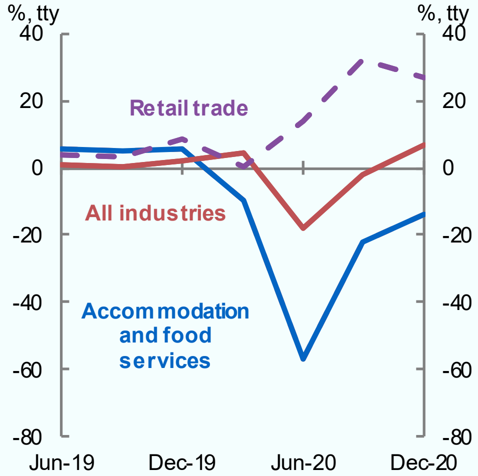
The COVID-19 pandemic has had profound impacts on household consumption patterns, resulting in unprecedented volatility in GST receipts. In the June quarter of 2020, the spread of the virus and the related health restrictions led to a 7.5 per cent contraction in nominal GDP and a 12.7 per cent contraction in nominal consumption. As COVID-related restrictions eased through the latter half of 2020, consumption and GST receipts recovered sharply.

Chart 5.8 shows through-the-year growth in net GST revenue reported on Business Activity Statements (BAS) by selected industries and overall. In the June quarter of 2020, falls in net GST were particularly pronounced in the accommodation and food services industries, consistent with them being heavily affected by the COVID-related health restrictions. In contrast, growth in retail trade remained strong and has contributed significantly to the growth in net GST revenue in the September and December quarters of 2020-21.

During the downturn in the March and June quarters of 2020, GST receipts fell more as a share of consumption than the GST liabilities being reported to the ATO (Chart 5.9). This reflected increases in unpaid GST liabilities in the latter half of 2019-20 as well as administrative support provided by the ATO. The payment of ATO granted deferrals and repayment of outstanding liabilities has supported the recovery of GST receipts in 2020-21. For further detail on administrative support, see 2020-21 Budget, Budget Paper 1, Statement 5, Box 1.

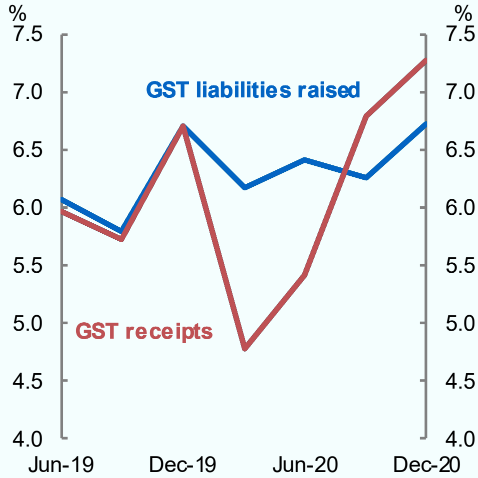
Box 5.3: GST - downturn and recovery (continued)

Chart 5.8: Growth in GST revenue, selected industries



Note: GST revenue refers to net GST reported on the BAS. This is the total GST collected on business sales, less the GST paid on inputs. It does not include GST paid by businesses that lodge GST statements annually, or GST paid on imported goods at the border.
Source: ATO; Treasury.

Chart 5.9: GST receipts and liabilities raised as a share of consumption



Note: GST receipts includes all GST collected (net of refunds) during the quarter. GST liabilities are net liabilities raised during the quarter.
Source: ATO; ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Excise and customs duty

Since the 2020-21 Budget, total excise and customs duty receipts have been revised up $1.1 billion in 2020-21 and $2.9 billion over the four years to 2023-24. Excise and customs duties are forecast to decline by 0.8 per cent in 2020-21 but grow by 1.1 per cent in 2021-22.

Compared with the 2020-21 Budget, parameter and other variations account for $1.1 billion of the upgrade in the forecast for excise and customs duty receipts in 2020-21 and $3.1 billion of the upgrade over the four years to 2023-24. This reflects higher-than-expected fuel and alcohol excise collections, as well as upgrades to the outlook for fuel and alcohol consumption and an increase to forecasts of the Consumer Price Index across the forward estimates. This is partially offset by a downgrade to the outlook for tobacco consumption.

Policy decisions are expected to reduce excise and customs duty receipts by $180 million over the four years to 2023-24. This largely reflects the measure *Aligning the excise refund scheme for brewers and distillers with the producer rebate for wine producers*, which provides $165 million in additional support ($225 million to 2024-25) to eligible Australian brewers and distillers.

The 2021-22 Budget estimates continue to include provisions for a number of free trade agreements (FTAs) which have not been finalised and which impact the customs duty heads of revenue:

- Australia-European Union Free Trade Agreement
- Australia-India Comprehensive Economic Cooperation Agreement
- Australia-United Kingdom Free Trade Agreement.

A number of other FTAs are currently under negotiation, but are not expected to have a material impact on revenue over the forward estimates. A full list of FTAs currently under negotiation is available on the Department of Foreign Affairs and Trade website.

Other sales taxes

Since the 2020-21 Budget, luxury car tax (LCT) receipts have been revised up $260 million in 2020-21 and $480 million over the four years to 2023-24. LCT receipts are forecast to increase by 40.3 per cent in 2020-21 but decrease by 15.0 per cent in 2021-22. This is consistent with stronger-than-expected purchases of motor vehicles in the current year, but the expectation is that this will moderate in the latter years of the forward estimates.

Since the 2020-21 Budget, wine equalisation tax (WET) receipts have been revised up by around $10 million in 2020-21, and $100 million over the four years to 2023-24. WET receipts are forecast to grow by 9.5 per cent in 2020-21 but decline by 1.9 per cent in 2021-22.

Other taxes

Other taxes encompass a range of sources of revenue, including the major bank levy and agricultural levies. Those particularly impacted by the travel restrictions implemented in response to the COVID-19 pandemic include visa application charges and passenger movement charge.

Since the 2020-21 Budget, other taxes have been revised up by $786 million in 2020-21, but revised down by $585 million over the four years to 2023-24. Other taxes are forecast to decline by 17.7 per cent in 2020-21 and decline by 8.3 per cent in 2021-22.

Excluding new policy decisions, other taxes have been revised up by $0.8 billion in 2020-21, but revised down by $1.3 billion over the four years to 2023-24.

Non-taxation receipts

Since the 2020-21 Budget non-taxation receipts are expected to increase by $1.2 billion in 2020-21 and decrease by $0.5 billion over the four years to 2023-24.

Since the 2020-21 MYEFO, dividends from the Reserve Bank of Australia and receipts from Australian Government Investment Funds have been revised down by $4.7 billion over the four years to 2023-24 due to volatility of the financial markets and the impacts of the COVID-19 pandemic on the global economy. Interest and loan fee repayments on Higher Education Loan Program loans are lower by $0.5 billion over the four years to 2023-24.

The reduction in non-taxation receipts since the 2020-21 MYEFO has been partially offset by higher than expected petroleum royalties of $0.8 billion over the four years to 2023-24.

Table 5.5: Reconciliation of 2020-21 general government (cash) receipts

	Estimates		Change on 2020-21 Budget	
	2020-21 Budget	2021-22 Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	210,800	216,500	5,700	2.7
Gross other individuals	44,000	47,500	3,500	8.0
less: Refunds	37,400	36,000	-1,400	-3.7
Total individuals and other withholding tax	217,400	228,000	10,600	4.9
Fringe benefits tax	3,800	3,900	100	2.6
Company tax	84,500	93,300	8,800	10.4
Superannuation fund taxes	8,210	11,670	3,460	42.1
Petroleum resource rent tax	900	800	-100	-11.1
Income taxation receipts	**314,810**	**337,670**	**22,860**	**7.3**
Goods and services tax	59,981	69,782	9,801	16.3
Wine equalisation tax	1,040	1,050	10	1.0
Luxury car tax	540	800	260	48.1
Excise and customs duty				
Petrol	5,550	5,850	300	5.4
Diesel	11,930	12,530	600	5.0
Other fuel products	1,690	1,550	-140	-8.3
Tobacco	15,290	15,060	-230	-1.5
Beer	2,470	2,560	90	3.6
Spirits	2,670	3,070	400	15.0
Other alcoholic beverages(a)	1,050	1,270	220	21.0
Other customs duty				
Textiles, clothing and footwear	170	170	0	0.0
Passenger motor vehicles	310	340	30	9.7
Other imports	1,050	1,180	130	12.4
less: Refunds and drawbacks	500	790	290	58.0
Total excise and customs duty	41,680	42,790	1,110	2.7
Major bank levy	1,650	1,650	0	0.0
Agricultural levies	481	509	28	5.8
Other taxes	4,461	5,219	758	17.0
Indirect taxation receipts	**109,833**	**121,800**	**11,967**	**10.9**
Taxation receipts	**424,643**	**459,470**	**34,827**	**8.2**
Sales of goods and services	16,538	16,381	-157	-1.0
Interest received	4,133	2,995	-1,139	-27.5
Dividends	6,837	8,493	1,655	24.2
Other non-taxation receipts	11,613	12,494	881	7.6
Non-taxation receipts	**39,121**	**40,361**	**1,240**	**3.2**
Total receipts	**463,764**	**499,831**	**36,067**	**7.8**
Memorandum:				
Total excise	*22,820*	*23,980*	*1,160*	*5.1*
Total customs duty	*18,860*	*18,810*	*-50*	*-0.3*
Capital gains tax(b)	*13,100*	*16,600*	*3,500*	*26.7*

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

Table 5.6: Reconciliation of 2021-22 general government (cash) receipts

	Estimates		Change on 2020-21 Budget	
	2020-21 Budget	2021-22 Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	209,000	216,500	7,500	3.6
Gross other individuals	41,700	45,200	3,500	8.4
less: Refunds	42,700	42,300	-400	-0.9
Total individuals and other withholding tax	208,000	219,400	11,400	5.5
Fringe benefits tax	3,780	3,960	180	4.8
Company tax	71,000	82,300	11,300	15.9
Superannuation fund taxes	12,810	15,260	2,450	19.1
Petroleum resource rent tax	900	1,000	100	11.1
Income taxation receipts	**296,490**	**321,920**	**25,430**	**8.6**
Goods and services tax	65,602	71,941	6,339	9.7
Wine equalisation tax	1,000	1,030	30	3.0
Luxury car tax	540	680	140	25.9
Excise and customs duty				
Petrol	5,850	6,100	250	4.3
Diesel	12,440	13,140	700	5.6
Other fuel products	1,860	1,830	-30	-1.6
Tobacco	15,150	14,750	-400	-2.6
Beer	2,380	2,600	220	9.2
Spirits	2,620	2,720	100	3.8
Other alcoholic beverages(a)	1,000	1,070	70	7.0
Other customs duty				
Textiles, clothing and footwear	190	160	-30	-15.8
Passenger motor vehicles	340	310	-30	-8.8
Other imports	1,120	1,230	110	9.8
less: Refunds and drawbacks	500	650	150	30.0
Total excise and customs duty	42,450	43,260	810	1.9
Major bank levy	1,700	1,650	-50	-2.9
Agricultural levies	496	505	10	1.9
Other taxes	5,521	4,613	-909	-16.5
Indirect taxation receipts	**117,309**	**123,679**	**6,370**	**5.4**
Taxation receipts	**413,799**	**445,599**	**31,800**	**7.7**
Sales of goods and services	17,418	17,364	-54	-0.3
Interest received	4,202	3,063	-1,140	-27.1
Dividends	6,687	5,829	-858	-12.8
Other non-taxation receipts	9,812	10,198	386	3.9
Non-taxation receipts	**38,119**	**36,454**	**-1,665**	**-4.4**
Total receipts	**451,918**	**482,053**	**30,135**	**6.7**
Memorandum:				
Total excise	*23,610*	*24,840*	*1,230*	*5.2*
Total customs duty	*18,840*	*18,420*	*-420*	*-2.2*
Capital gains tax(b)	*12,500*	*17,400*	*4,900*	*39.2*

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

Table 5.7: Australian Government general government (cash) receipts

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	214,426	216,500	216,500	224,500	236,000	236,900
Gross other individuals	43,713	47,500	45,200	50,200	53,900	58,800
less: Refunds	36,219	36,000	42,300	38,100	33,100	33,900
Total individuals and other withholding tax	221,920	228,000	219,400	236,600	256,800	261,800
Fringe benefits tax	3,850	3,900	3,960	4,160	4,330	4,500
Company tax	84,781	93,300	82,300	70,400	81,000	100,500
Superannuation fund taxes	6,267	11,670	15,260	14,510	15,260	16,210
Petroleum resource rent tax(a)	1,052	800	1,000	1,000	1,000	1,000
Income taxation receipts	**317,870**	**337,670**	**321,920**	**326,670**	**358,390**	**384,010**
Goods and services tax	60,263	69,782	71,941	75,231	78,570	82,400
Wine equalisation tax	959	1,050	1,030	1,060	1,090	1,140
Luxury car tax	570	800	680	610	610	640
Excise and customs duty						
Petrol	5,734	5,850	6,100	6,300	6,650	7,150
Diesel	12,046	12,530	13,140	13,740	14,340	15,390
Other fuel products	1,923	1,550	1,830	1,850	1,920	2,020
Tobacco	16,270	15,060	14,750	14,610	14,970	15,340
Beer	2,455	2,560	2,600	2,660	2,750	2,890
Spirits	2,648	3,070	2,720	2,800	2,900	3,030
Other alcoholic beverages(b)	1,059	1,270	1,070	1,100	1,140	1,200
Other customs duty						
Textiles, clothing and footwear	169	170	160	110	90	100
Passenger motor vehicles	369	340	310	70	70	80
Other imports	1,142	1,180	1,230	780	780	850
less: Refunds and drawbacks	669	790	650	650	650	650
Total excise and customs duty	43,147	42,790	43,260	43,370	44,960	47,400
Major bank levy	1,612	1,650	1,650	1,700	1,750	1,850
Agricultural levies	469	509	505	522	536	540
Other taxes	6,885	5,219	4,613	6,165	7,199	7,373
Indirect taxation receipts	**113,905**	**121,800**	**123,679**	**128,658**	**134,716**	**141,343**
Taxation receipts	**431,775**	**459,470**	**445,599**	**455,328**	**493,106**	**525,353**
Sales of goods and services	15,490	16,381	17,364	17,848	18,908	19,996
Interest received	3,244	2,995	3,063	3,080	3,363	3,721
Dividends	7,007	8,493	5,829	7,451	7,077	7,460
Other non-taxation receipts	11,883	12,494	10,198	10,293	10,401	15,439
Non-taxation receipts	**37,623**	**40,361**	**36,454**	**38,672**	**39,748**	**46,616**
Total receipts	**469,398**	**499,831**	**482,053**	**494,000**	**532,855**	**571,969**
Memorandum:						
Total excise	*23,352*	*23,980*	*24,840*	*25,780*	*26,950*	*28,820*
Total customs duty	*19,795*	*18,810*	*18,420*	*17,590*	*18,010*	*18,580*
Capital gains tax(c)	*16,100*	*16,600*	*17,400*	*18,600*	*19,300*	*20,500*

(a) This item includes an amount of MRRT receipts in 2019-20 which has not been separately disclosed owing to taxpayer confidentiality.
(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2019-20 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.

Revenues 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 payment timing differences. Table 5.8 provides a reconciliation of the 2021-22 Budget's revenue estimates with those at the 2020-21 Budget and 2020-21 MYEFO.

Table 5.8: Reconciliation of Australian Government general government revenue estimates from the 2020-21 Budget

	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	Total(b)
	$m	$m	$m	$m	$m	$m
Revenue at 2020-21 Budget	**472,442**	**464,072**	**491,400**	**538,100**	*	*
Changes from 2020-21 Budget to 2020-21 MYEFO						
Effect of policy decisions(a)	-72	-364	-590	-552	*	*
Effect of parameter and other variations	9,766	8,843	4,056	980	*	*
Total variations	**9,694**	**8,479**	**3,466**	**427**	*	*
Revenue at 2020-21 MYEFO	**482,136**	**472,551**	**494,866**	**538,527**	*	*
Changes from 2020-21 MYEFO to 2021-22 Budget						
Effect of policy decisions(a)	38	353	-7,352	-14,406	-6,240	-27,645
Effect of parameter and other variations	22,714	23,717	17,631	20,366	*	*
Total variations	**22,752**	**24,070**	**10,279**	**5,960**	*	*
Revenue at 2021-22 Budget	**504,888**	**496,621**	**505,145**	**544,487**	**577,959**	**2,124,211**

* 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 2021-22 to 2024-25.

Since the 2020-21 Budget, total revenue has been revised up by around $32.4 billion in 2020-21 and by $85.1 billion over the four years to 2023-24. Total revenue has been revised up by $3.6 billion less than total receipts in 2020-21 due to downward revisions in expected net tax receivable and downward revisions to expected write-offs including gross income tax withholding, gross other individuals and GST. This reflects administrative relief offered by the ATO during the COVID-19 pandemic. Thereafter, revisions to revenue broadly reflect those made to receipts.

The changes in the individual heads of revenue accrual estimates relative to the 2020-21 Budget are shown in Tables 5.9 and 5.10, for 2020-21 and 2021-22 respectively. For the five year accrual table, the accrual equivalent of Table 5.7, 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 5.9: Reconciliation of 2020-21 general government (accrual) revenue

	Estimates		Change on 2020-21 Budget	
	2020-21 Budget	2021-22 Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	212,300	217,500	5,200	2.4
Gross other individuals	47,300	49,500	2,200	4.7
less: Refunds	37,400	36,000	-1,400	-3.7
Total individuals and other withholding tax	222,200	231,000	8,800	4.0
Fringe benefits tax	3,880	4,040	160	4.1
Company tax	86,200	94,300	8,100	9.4
Superannuation fund taxes	8,180	11,680	3,500	42.8
Petroleum resource rent tax	870	840	-30	-3.4
Income taxation revenue	**321,330**	**341,860**	**20,530**	**6.4**
Goods and services tax	62,970	71,080	8,110	12.9
Wine equalisation tax	1,060	1,070	10	0.9
Luxury car tax	540	800	260	48.1
Excise and customs duty				
Petrol	5,550	5,850	300	5.4
Diesel	11,880	12,480	600	5.1
Other fuel products	1,690	1,560	-130	-7.7
Tobacco	15,270	15,080	-190	-1.2
Beer	2,460	2,550	90	3.7
Spirits	2,670	3,070	400	15.0
Other alcoholic beverages(a)	1,050	1,270	220	21.0
Other customs duty				
Textiles, clothing and footwear	170	170	0	0.0
Passenger motor vehicles	310	340	30	9.7
Other imports	1,050	1,180	130	12.4
less: Refunds and drawbacks	500	790	290	58.0
Total excise and customs duty	41,600	42,760	1,160	2.8
Major bank levy	1,670	1,640	-30	-1.8
Agricultural levies	481	509	28	5.8
Other taxes	5,262	6,052	791	15.0
Indirect taxation revenue	**113,583**	**123,911**	**10,329**	**9.1**
Taxation revenue	**434,913**	**465,771**	**30,859**	**7.1**
Sales of goods and services	15,874	15,947	73	0.5
Interest	4,181	2,901	-1,281	-30.6
Dividends	6,419	8,038	1,619	25.2
Other non-taxation revenue	11,054	12,231	1,177	10.6
Non-taxation revenue	**37,529**	**39,116**	**1,588**	**4.2**
Total revenue	**472,442**	**504,888**	**32,446**	**6.9**
Memorandum:				
Total excise	*22,760*	*23,930*	*1,170*	*5.1*
Total customs duty	*18,840*	*18,830*	*-10*	*-0.1*
Capital gains tax(b)	*13,100*	*16,600*	*3,500*	*26.7*

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

Table 5.10: Reconciliation of 2021-22 general government (accrual) revenue

	Estimates		Change on 2020-21 Budget	
	2020-21 Budget $m	2021-22 Budget $m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	211,400	218,700	7,300	3.5
Gross other individuals	44,900	48,500	3,600	8.0
less: Refunds	42,700	42,300	-400	-0.9
Total individuals and other withholding tax	213,600	224,900	11,300	5.3
Fringe benefits tax	3,860	4,090	230	6.0
Company tax	73,000	84,200	11,200	15.3
Superannuation fund taxes	12,770	15,280	2,510	19.7
Petroleum resource rent tax	900	1,050	150	16.7
Income taxation revenue	**304,130**	**329,520**	**25,390**	**8.3**
Goods and services tax	67,720	74,130	6,410	9.5
Wine equalisation tax	1,020	1,050	30	2.9
Luxury car tax	540	680	140	25.9
Excise and customs duty				
Petrol	5,850	6,100	250	4.3
Diesel	12,440	13,140	700	5.6
Other fuel products	1,870	1,830	-40	-2.1
Tobacco	15,150	14,750	-400	-2.6
Beer	2,390	2,600	210	8.8
Spirits	2,620	2,720	100	3.8
Other alcoholic beverages(a)	1,000	1,070	70	7.0
Other customs duty				
Textiles, clothing and footwear	190	160	-30	-15.8
Passenger motor vehicles	340	310	-30	-8.8
Other imports	1,120	1,230	110	9.8
less: Refunds and drawbacks	500	650	150	30.0
Total excise and customs duty	42,470	43,260	790	1.9
Major bank levy	1,720	1,670	-50	-2.9
Agricultural levies	496	505	10	1.9
Other taxes	6,702	6,157	-544	-8.1
Indirect taxation revenue	**120,667**	**127,452**	**6,785**	**5.6**
Taxation revenue	**424,797**	**456,972**	**32,175**	**7.6**
Sales of goods and services	17,161	17,175	14	0.1
Interest	4,008	3,621	-387	-9.7
Dividends	7,454	7,265	-189	-2.5
Other non-taxation revenue	10,651	11,588	937	8.8
Non-taxation revenue	**39,274**	**39,648**	**374**	**1.0**
Total revenue	**464,072**	**496,621**	**32,549**	**7.0**
Memorandum:				
Total excise	*23,630*	*24,840*	*1,210*	*5.1*
Total customs duty	*18,840*	*18,420*	*-420*	*-2.2*
Capital gains tax(b)	*12,500*	*17,400*	*4,900*	*39.2*

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

Appendix A: Tax Benchmarks and Variations Statement

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

The information in Table 5.11 is derived from the 2020 Tax Benchmarks Variations Statement, based on economic parameters as at the publication of the 2020-21 MYEFO. It does not include the impact of policy decisions, or changes in the economic outlook since then on benchmark variations. Further information on benchmarks and variations from them will be available in future Tax Benchmark and Variations reports.

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 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 Benchmarks and Variations Statements 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 2020 Tax Benchmarks and Variations Statement was published in January 2021 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.

Table 5.11: Estimates of large measured benchmark variations

Benchmark variations		Estimate $m			
		2021-22	2022-23	2023-24	2024-25
Large positive benchmark variations					
E8	Main residence exemption - discount component	25,500	26,500	29,000	28,500
E7	Main residence exemption	21,500	22,000	24,000	23,500
C2	Concessional taxation of employer superannuation contributions	19,350	20,550	22,550	20,750
C4	Concessional taxation of superannuation entity earnings	16,450	16,400	16,600	16,800
B66	Accelerated depreciation for business entities	11,000	11,100	-5,500	-8,700
E15	Discount for individuals and trusts	8,530	9,060	9,680	10,420
H26	Food	8,200	8,500	8,800	9,100
B82	Simplified depreciation rules	6,900	5,000	-4,400	-5,600
H14	Education	5,350	5,600	5,900	6,200
H17	Health - medical and health services	5,050	5,300	5,600	5,900
H2	Financial supplies - input taxed treatment	3,850	4,050	4,300	4,550
A25	Exemption for National Disability Insurance Scheme amounts	3,420	3,120	3,130	3,400
B24	Temporary loss carry-back for certain incorporated entities	3,120	2,270	-540	-460
B23	Tax exemption for assistance provided through the ‘boosting cash flow for employers’ measure	3,030	660	30	..
B12	Exemption from interest withholding tax on certain securities	2,600	2,600	2,600	2,600
A26	Exemption of Child Care Assistance payments	2,350	2,500	2,600	2,550
A23	Concessional taxation of non-superannuation termination benefits	2,350	2,250	2,150	1,850
B2	Local government bodies income tax exemption	2,200	2,300	2,400	2,500
D15	Exemption for public benevolent institutions (excluding hospitals)	2,050	2,150	2,200	2,150
A18	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,950	1,950	1,950	1,950
B56	Lower company tax rate	1,900	1,800	2,800	3,000
A38	Exemption of Family Tax Benefit payments	1,780	1,770	1,780	1,780
D11	Exemption for public and not-for-profit hospitals and public ambulance services	1,750	1,800	1,850	1,750
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	1,750	1,890	2,030	2,020
H5	Child care services	1,670	1,760	1,840	1,930
A16	Exemption of the Private Health Insurance Rebate	1,560	1,610	1,640	1,670
H18	Health - residential care, community care and other care services	1,400	1,480	1,560	1,640
Large negative benchmark variations					
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-1,635	-1,630	-1,645	-1,675
F21	Customs duty	-1,680	-1,110	-1,110	-820

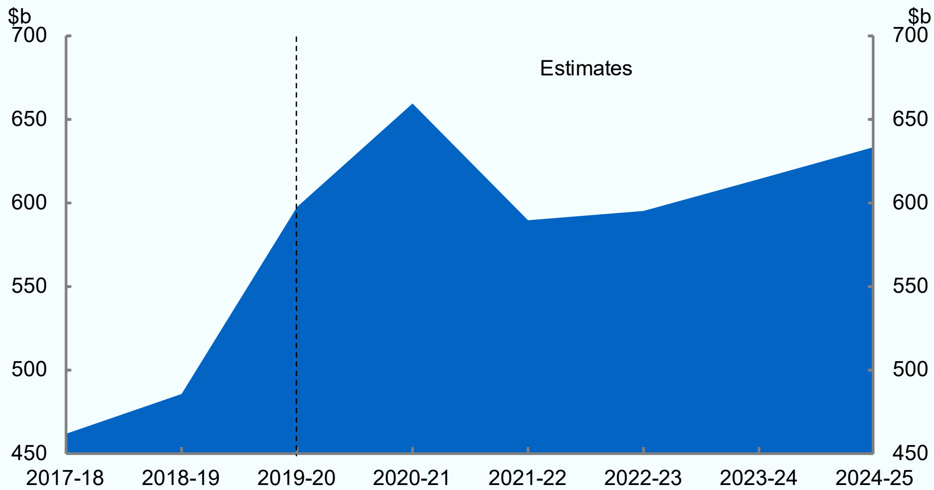
Statement 6: Expenses and Net Capital Investment

Statement 6 presents estimates of the Australian Government general government sector expenses and net capital investment, allocated according to the functions of government, on a fiscal balance basis. The functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework. Unless otherwise specified, tables in Statement 6 are presented in nominal terms.

Explanatory text in Statement 6 is presented in real terms (that is, excluding the impact of inflation) to focus on 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.

With the conclusion of most temporary measures responding to the COVID-19 pandemic, expenses are reducing from the peak of $659 billion in 2020-21 to $589 billion in 2021-22 (see Chart 6.1 below). The 2021-22 Budget includes measures that continue targeted support to respond to the COVID-19 economic environment for individuals, business, sectors and regions in need. In this Budget the Australian Government is also investing to guarantee the essential services that Australians rely on, and to ensure quality care for vulnerable people, including in aged care, people with disability and mental health support.

Chart 6.1: Australian Government expenditure



The main trends in functional expenditure are:

- an estimated decline in government expenditure from 2020-21 to 2021-22 reflecting the conclusion of many of the temporary measures that were part of the Government's immediate response to the COVID-19 pandemic
- in real terms, the strongest growth across the budget year and forward estimates is expected to occur in the other purposes and defence functions
- in 2021-22 and across the forward estimates the social security and welfare, health, defence and education functions account for around two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses
- net capital investment from 2020-21 to 2024-25 largely reflects a significant investment in defence capital projects.

Contents

Statement 6: Expenses and Net Capital Investment

Overview

Australian Government general government sector (GGS) accrual expenses are expected to increase by 12.3 per cent in real terms in 2020-21, which is primarily driven by the Government's temporary and targeted response to the impact of the COVID-19 pandemic on Australia's health system, the economy, and employment levels. The decrease by 12.3 per cent in real terms in 2021-22 reflects the cessation of many elements of the temporary and targeted Government response to the COVID-19 pandemic, and improved economic and labour market conditions. Following this decrease, total expenses are estimated to gradually increase from 2023-24. As a percentage of GDP, total expenses are expected to reach 32.0 per cent in 2020-21, reflecting both the Government's economic response and an expected slowdown in GDP growth due to the economic impact of the COVID-19 pandemic. Expenses are estimated to decline as a share of GDP over the forward estimates period, reaching 26.4 cent of GDP in 2024-25.

Table 6.1.1 Estimates of general government sector expenses

	2020-21 Budget	2020-21 MYEFO	Revised	Estimates			
	2020-21	2020-21	2020-21	2021-22	2022-23	2023-24	2024-25
Total expenses ($b)	**670.3**	**667.3**	**659.4**	**589.3**	**595.4**	**614.7**	**633.7**
Real growth on previous year (%)(a)	15.3	14.3	12.3	-12.3	-1.2	0.8	0.6
Per cent of GDP	34.4	33.3	32.0	27.6	27.4	27.0	26.4

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

As set out in *Statement 3: Fiscal Strategy and Outlook* of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. In cash terms, Government spending is estimated to increase by 18.4 per cent in real terms in 2020-21, reflecting the Government's significant response to the COVID-19 pandemic, and then to decline by 12.6 per cent in real terms in 2021-22, due to the cessation of many elements of the Government's temporary and targeted response to the impact of the COVID-19 pandemic and improved economic and labour market conditions. Growth in payments is then estimated to gradually increase from 2023-24. As a percentage of GDP, total payments are expected to reach 32.1 per cent in 2020-21 and then to gradually decrease to 26.2 per cent in 2024-25.

Table 6.1.2 Estimates of general government sector payment

	2020-21 Budget	2020-21 MYEFO	Revised	Estimates			
	2020-21	2020-21	2020-21	2021-22	2022-23	2023-24	2024-25
Total payments ($b)	**677.4**	**670.9**	**660.8**	**588.7**	**593.3**	**612.4**	**628.9**
Real growth on previous year (%)(a)	22.6	20.9	18.4	-12.6	-1.4	0.8	0.2
Per cent of GDP	34.8	33.4	32.1	27.6	27.3	26.9	26.2

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

Table 6.2 provides a reconciliation of expense estimates between the 2020-21 Budget and the 2021-22 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 6.2: Reconciliation of expense estimates

	Estimates				
	2020-21 $m	2021-22 $m	2022-23 $m	2023-24 $m	Total $m
2020-21 Budget expenses	**670,330**	**567,491**	**574,907**	**596,619**	**2,409,347**
Changes from 2020-21 Budget to 2020-21 MYEFO					
Effect of policy decisions(a)	5,402	2,787	1,439	1,110	10,737
Effect of parameter and other variations	-8,411	437	-529	-2,063	-10,566
Total variations	**-3,009**	**3,224**	**909**	**-953**	**171**
2020-21 MYEFO expenses	**667,321**	**570,715**	**575,816**	**595,666**	**2,409,518**
Changes from 2020-21 MYEFO to 2021-22 Budget					
Effect of policy decisions(a)	3,748	18,354	17,470	14,858	54,430
Effect of economic parameter variations					
Total economic parameter variations	2,292	4,287	5,141	7,132	18,852
Unemployment benefits	*-4,096*	*-1,659*	*-1,403*	*-757*	*-7,914*
Prices and wages	*-112*	*873*	*2,334*	*3,672*	*6,767*
Interest and exchange rates	*-111*	*-277*	*-326*	*-386*	*-1,100*
GST payments to the States	*6,610*	*5,350*	*4,535*	*4,604*	*21,099*
Public debt interest	72	881	1,595	2,838	5,386
Program specific parameter variations	-3,547	-2,531	-121	-1,851	-8,049
Other variations	-10,449	-2,372	-4,524	-3,978	-21,322
Total variations	**-7,884**	**18,619**	**19,562**	**18,999**	**49,296**
2021-22 Budget expenses	**659,437**	**589,334**	**595,378**	**614,665**	**2,458,814**

(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 $49.5 billion over the four years from 2020-21 to 2023-24 compared to the 2020-21 Budget. Since the 2020-21 MYEFO, public debt interest, economic parameter variations and GST payments to states and territories have increased expenses by $33.3 billion, while unemployment benefits variations, interest and exchange rate variations, program specific parameter and other variations have decreased expenses by $38.4 billion.

Estimated expenses by function

Table 6.3 sets out the estimates of Australian Government general government sector expenses by function for the period 2020-21 to 2024-25.

Table 6.3: Estimates of expenses by function

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
General public services	33,037	26,070	24,811	25,148	25,830
Defence	33,375	34,473	36,496	38,344	40,721
Public order and safety	6,712	6,652	6,074	5,889	5,919
Education	42,604	42,799	43,496	44,626	46,010
Health	94,533	98,283	95,779	99,300	103,177
Social security and welfare	225,394	209,975	214,655	219,028	224,512
Housing and community amenities	6,953	7,869	6,283	5,517	5,028
Recreation and culture	4,405	4,532	4,151	3,959	3,938
Fuel and energy	9,090	9,638	9,546	10,069	10,567
Agriculture, forestry and fishing	4,014	4,483	3,779	3,280	2,450
Mining, manufacturing and construction	4,394	4,354	4,230	4,138	3,739
Transport and communication	13,828	14,460	17,618	16,411	13,322
Other economic affairs	83,819	14,640	11,091	10,103	10,068
Other purposes	97,279	111,106	117,368	128,853	138,414
Total expenses	**659,437**	**589,334**	**595,378**	**614,665**	**633,694**

Major expense trends between 2020-21 and 2021-22, and from 2021-22 over the forward years include movements in the following functions:

- **Defence** — the increase in expenses from 2020-21 to 2024-25 reflects the increased investment required to deliver the plans set out in the *2016 Defence White Paper* and the *2020 Force Structure Plan*

- **Education** —the decrease in expenses between 2020-21 and 2021-22 primarily reflects the cessation of temporary COVID-19 support measures implemented in the 2020-21 financial year. An increase in expenses from 2021-22 to 2024-25 largely reflects the school funding arrangements implemented under the *Quality Schools* package

- **Health** — the increase in expenses from 2020-21 to 2021-22 is primarily driven by expected growth in the **assistance to the States for public hospitals** sub-function, largely reflecting higher anticipated growth in the volume of services. Decreases in expenses from 2021-22 to 2024-25 are largely driven by expected decreases in the **health services** and **general administration** sub-functions, primarily reflecting the cessation of COVID-19 pandemic response measures

- **Social security and welfare** — the decrease in expenses from 2020-21 to 2021-22 largely reflects the cessation of temporary measures to respond to the COVID-19 pandemic, as well as an anticipated reduction in the number of unemployed individuals, including through the forward estimates as the economy recovers. From 2021-22 to 2024-25 there are increases across key sub-functions reflecting the Government's increased investment in the 2021-22 Budget in aged care, child care and the NDIS

- **Housing and community amenities** — the increase in expenses from 2020-21 to 2021-22 largely reflects expected payments under the HomeBuilder program and several urban and regional development measures. The decrease from 2022-23 to 2024-25 largely reflects the conclusion of the HomeBuilder program and the scheduled completion of urban and regional development projects

- **Transport and communication** — the decrease in expenses from 2020-21 to 2024-25 largely reflects the conclusion of stimulus initiatives and cessation of temporary support for the aviation sector as part of the Government's response to the COVID-19 pandemic

- **Other economic affairs** — the decrease in expenses from 2020-21 to 2021-22, and the decline in expenses from 2021-22 to 2024-25, largely reflects the temporary nature of the Government's COVID-19 economic support package

- **Other purposes** — the increase in expenses from 2020-21 to 2024-25 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 6.1). Together, these functions account for 59.6 per cent of all government expenses in 2021-22. Further details of spending trends against all functions, including movements in expenses from 2020-21 to 2021-22, are set out under individual function headings.

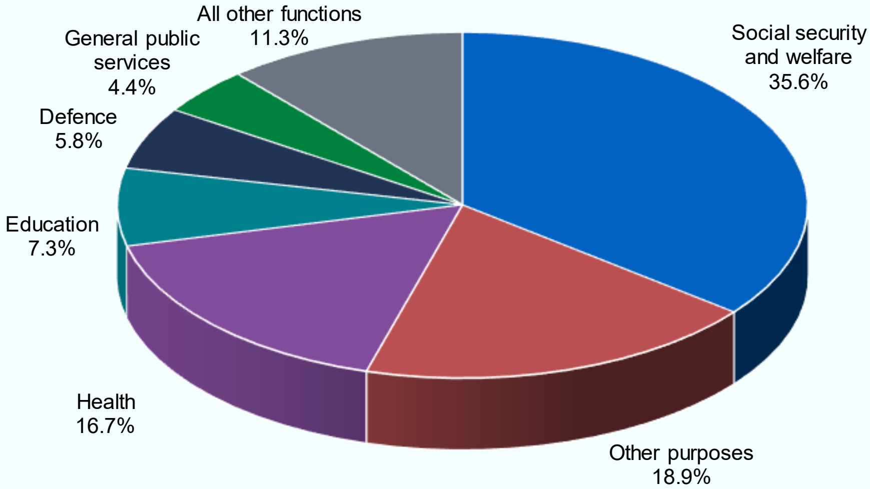
Box 6.1: Where does government spending go in 2021-22?

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. Approximately one eighth of government expenses are 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 6.2: Expenses by function in 2021-22



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

Program expenses

Program expenses Table 6.3.1 reports the top 20 expense programs in the 2021-22 financial year. These programs represent around two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

Table 6.3.1: Top 20 programs by expenses in 2021-22

		Estimates				
		2020-21	2021-22	2022-23	2023-24	2024-25
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other Purposes	71,729	75,188	78,564	82,032	86,408
Support for Seniors	SSW	52,853	51,223	53,163	55,067	56,851
Medical Benefits	Health	28,497	29,124	29,867	31,461	32,975
National Disability Insurance Scheme	SSW	24,607	28,115	29,835	30,796	33,320
Assistance to the States for public hospitals	Health	22,646	25,463	26,649	28,238	29,916
Aged Care Services	SSW	22,533	24,159	27,621	29,817	31,136
Family Assistance	SSW	18,746	21,009	20,707	20,826	20,549
Job Seeker Income Support	SSW	31,266	18,099	15,135	14,694	14,493
Financial Support for People with Disability	SSW	18,411	17,763	18,073	18,596	18,923
Non Government Schools National Support	Education	13,010	14,710	15,509	16,200	16,752
Pharmaceutical Benefits	Health	13,942	14,406	14,578	15,013	15,319
Government Schools National Support	Education	9,052	9,727	10,423	11,002	11,447
Financial Support for Carers	SSW	9,906	9,709	10,154	10,642	11,046
Child Care Subsidy	SSW	8,968	9,492	10,644	11,180	11,970
Public Sector Superannuation - Benefits(b)	Other purposes; General public services	8,142	8,521	8,612	8,678	9,079
Fuel Tax Credits Scheme	Fuel and Energy	7,623	8,072	8,450	9,117	9,860
National Partnership Payments - Road Transport	Transport and Communication	7,119	7,645	10,935	10,091	7,414
Commonwealth Grants Scheme	Education	7,549	7,560	7,225	7,167	7,277
Army Capabilities	Defence	7,221	7,469	7,934	8,524	9,247
Air Force Capabilities	Defence	7,106	7,235	7,801	8,317	9,004
Sub-total		**390,928**	**394,687**	**411,878**	**427,459**	**442,988**
Other programs		268,510	194,647	183,500	187,206	190,707
Total expenses		**659,437**	**589,334**	**595,378**	**614,665**	**633,694**

(a) The entry for each program includes eliminations for inter-agency transactions within that program.
(b) This program is a combination of superannuation nominal interest and accrual expenses.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to: the Parliament, the Governor-General; the 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 foreign affairs. It also includes expenses related to research in areas not otherwise connected with a specific function, 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 6.4: Summary of expenses — general public services

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,446	1,744	1,385	1,356	1,653
Financial and fiscal affairs	9,013	8,067	7,216	6,791	7,030
Foreign affairs and economic aid	6,949	6,340	6,204	6,615	6,532
General research	3,238	3,448	3,448	3,546	3,549
General services	1,237	771	748	759	764
Government superannuation benefits	11,153	5,700	5,810	6,082	6,301
Total general public services	**33,037**	**26,070**	**24,811**	**25,148**	**25,830**

Total general public services expenses are estimated to decrease by 22.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 7.6 per cent in real terms over the period 2021-22 to 2024-25.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs expected to be incurred by the Australian Electoral Commission to support federal elections in 2021-22 and 2024-25.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease by 12.2 per cent in real terms from 2020-21 to 2021-22, and are forecast to decrease by 18.8 per cent in real terms from 2021-22 to 2024-25. The decrease from 2020-21 to 2021-22 are largely due to the cessation of temporary departmental funding increases provided to the Australian Taxation Office, including for the administration of JobKeeper, the JobMaker Hiring Credit and the modernisation of business registries. The subsequent decrease from 2021-22 to 2024-25 reflects the termination of a number of compliance measures.

Table 6.4.1 provides further details of the major components of foreign affairs and economic aid sub-function expenses.

Table 6.4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Foreign aid(b)	4,278	3,731	3,675	4,226	4,181
Diplomacy(c)	1,275	1,322	1,327	1,159	1,133
Payments to international organisations	471	419	428	429	435
Passport services	268	265	268	272	266
International police assistance	201	164	158	181	181
International agriculture research and development	109	106	103	104	106
Consular services	199	181	130	127	128
Finance and insurance services for Australian exporters and investors	13	9	8	6	3
Other	135	143	107	110	97
Total	**6,949**	**6,340**	**6,204**	**6,615**	**6,532**

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

Total expenses under the **foreign affairs and economic aid** sub-function are expected to decrease by 10.5 per cent in real terms in 2021-22, and are forecast to decrease by 4.0 per cent in real terms from 2021-22 to 2024-25.

The decrease in expenditure in 2021-22 and variation in the profile from 2022-23 to 2024-25 largely reflects the payment cycles of Australia's contributions under multi-year funding arrangements for multilateral funds and support provided in response to the COVID-19 pandemic, including for vaccine access in the Pacific and Southeast Asia.

Table 6.4.2 sets out the major components of general research sub-function expenses.

Table 6.4.2: Trends in the major components of general research sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Research — science services and innovation fund	1,374	1,407	1,413	1,421	1,360
Discovery — research and research training	484	490	496	502	511
Science and technology solutions	366	374	379	384	393
Linkage — cross sector research partnerships	325	327	332	336	341
Supporting science and commercialisation	294	430	389	351	307
Research capacity	285	305	320	430	517
Other	110	115	120	121	121
Total	**3,238**	**3,448**	**3,448**	**3,546**	**3,549**

(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 Department of Industry, Science, Energy and Resources, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation, the Australian Institute of Marine Science, the Department of Education, Skills and Employment, and the Australian Research Council.

Total expenses under this sub-function are expected to increase by 4.5 per cent in real terms from 2020-21 to 2021-22, and decrease by 4.0 per cent in real terms from 2021-22 to 2024-25. The increase in 2021-22 is primarily due to the 2021-22 Budget measure *Square Kilometre Array Radio Telescope Project.*

The **general services** sub-function incorporates expenses largely incurred by the Department of Finance, Australian Public Service Commission and Comcare. Total expenses are expected to decrease by 38.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 7.7 per cent from 2021-22 to 2024-25, largely reflecting increased insurance claims expenditure in 2020-21.

The fall in expenses from 2020-21 to 2024-25 in the **government superannuation benefits** sub-function primarily reflects the use of different discount rates. In accordance with accounting standards, superannuation expenses for 2020-21 were calculated using the long term government bond rate which best matched each individual scheme's duration of liabilities at the start of the financial year. These rates were between 1.0 and 1.7 per cent per annum. In preparing the latest Long Term Cost Reports, the scheme actuaries have determined that a discount rate of CPI plus 2.5 per cent should be applied to the forward estimates.

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas, the delivery capabilities across the Land, Maritime, Air, Space and Information and Cyber domains, 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 6.5: Summary of expenses — defence

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Defence	33,375	34,473	36,496	38,344	40,721
Total defence	**33,375**	**34,473**	**36,496**	**38,344**	**40,721**

Total expenses for the **defence** sub-function are estimated to increase by 1.4 per cent in real terms from 2020-21 to 2021-22, and by 10.1 per cent in real terms over the period 2021-22 to 2024-25. The real growth reflects funding required by Defence to continue delivery of the *2016 Defence White Paper* and new or adjusted capability investments outlined in the *2020 Force Structure Plan.*

While the Government has committed to concluding Operations Highroad and Okra, and finalising the drawdown of Australian Defence Force (ADF) personnel in Afghanistan by September 2021, the Government has provided in the 2021-22 Budget a further $181.8 million in 2021-22 to support major ADF Operations in the Middle East and the protection of Australia's borders and offshore maritime interests.

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 6.6: Summary of expenses — public order and safety

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Courts and legal services	1,529	1,633	1,518	1,457	1,438
Other public order and safety	5,184	5,019	4,556	4,432	4,482
Total public order and safety	**6,712**	**6,652**	**6,074**	**5,889**	**5,919**

Total expenses for the public order and safety function are estimated to decrease by 2.7 per cent in real terms from 2020-21 to 2021-22, and decrease by 17.1 per cent in real terms over the period 2021-22 to 2024-25.

Expenses within the **courts and legal services** sub-function are estimated to increase by 4.8 per cent in real terms from 2020-21 to 2021-22, mainly reflecting the 2021-22 Budget measure *Royal Commission into Defence and Veteran Suicide*, legal assistance spending associated with the 2021-22 Budget measure *Women's Safety*, and an increase in spending on family law case management in the Federal Circuit Court of Australia and Family Court of Australia. Expenses are expected to decrease by 18.0 per cent in real terms from 2021-22 to 2024-25, reflecting the conclusion of several Royal Commissions which were largely provided funding from 2019-20 to 2022-23.

The major components of the other public order and safety sub-function expenses are set out in Table 6.6.1.

Table 6.6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Policing and law enforcement	3,802	3,594	3,287	3,157	3,199
Border protection	1,382	1,425	1,269	1,275	1,283
Total	**5,184**	**5,019**	**4,556**	**4,432**	**4,482**

(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 decrease by 5.0 per cent in real terms from 2020-21 to 2021-22. An expected decrease of 16.8 per cent in real terms from 2021-22 to 2024-25 mainly reflects terminating measures and reduced expenses for Border Enforcement and Management activities. The decrease is partially offset by new investment through the following 2021-22 Budget measures: *Australian Security Intelligence Organisation – additional funding*, *Australian Criminal Intelligence Commission – additional funding*, and *Protecting Critical Infrastructure and Systems of National Significance*.

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 6.7: Summary of expenses — education

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Higher education	11,369	10,628	10,241	10,200	10,339
Vocational and other education	2,224	2,022	1,805	1,622	1,644
Schools	22,061	24,437	25,933	27,202	28,199
Non-government schools	*13,010*	*14,710*	*15,509*	*16,200*	*16,752*
Government schools	*9,052*	*9,727*	*10,423*	*11,002*	*11,447*
School education — specific funding	705	744	679	702	690
Student assistance	5,953	4,686	4,570	4,646	4,882
General administration	292	282	268	255	256
Total education	**42,604**	**42,799**	**43,496**	**44,626**	**46,010**

Total education function expenses are expected to decrease by 1.4 per cent in real terms from 2020-21 to 2021-22, and increase by 0.2 per cent in real terms from 2021-22 to 2024-25.

Expenses under the **higher education** sub-function are expected to decrease by 8.3 per cent in real terms from 2020-21 to 2021-22, and decrease by 9.3 per cent in real terms from 2021-22 to 2024-25. The decrease in expenses in 2021-22 primarily reflects the cessation of additional funding to maintain universities' research efforts in response to the challenges caused by the COVID-19 pandemic. The subsequent decrease in expenses over the forward estimates primarily reflects lower costs under the Commonwealth Grant Scheme as a result of the *Job-ready Graduates* higher education reform package.

Expenses under the **vocational and other education** sub-function are expected to decrease by 10.8 per cent in real terms from 2020-21 to 2021-22, and decrease by 24.2 per cent in real terms between 2021-22 and 2024-25. The decrease in expenses in 2021-22 primarily reflects the impact of the conclusion of one-off increases in 2020-21, which were part of the Government's response to the COVID-19 pandemic. This includes the Commonwealth's share of the $1.0 billion JobTrainer Fund to assist job seekers in accessing training to develop new skills in growth sectors of the economy. This decrease is partially offset by the 2021-22 Budget measure *Addressing Workforce Shortages in Key Areas – JobTrainer Fund – extension*. Further investments in skills and apprenticeships are identified in the other economic affairs function. The subsequent expected decrease in expenses over the forward estimates primarily reflects the conclusion of the National Partnership on the Skilling Australians Fund on 30 June 2022, and the JobTrainer Fund on 31 December 2022.

Aggregate schools funding expenses are expected to increase by 8.7 per cent in real terms between 2020-21 and 2021-22, and increase by 7.6 per cent in real terms from 2021-22 to 2024-25. Expenses in the **schools — non-government schools** sub-function are expected to increase by 11.0 per cent in real terms between 2020-21 and 2021-22, and increase by 6.1 per cent in real terms from 2021-22 to 2024-25. Expenses under the **schools — government schools** sub-function are expected to increase by 5.5 per cent in real terms between 2020-21 and 2021-22, and increase by 9.7 per cent in real terms from 2021-22 to 2024-25. The increase in expenses for schools funding over the forward years is primarily due to the funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools in the Government's response to the National School Resourcing Board's *Review of the socio-economic status score methodology.*

Expenses under the **school education — specific funding** sub-function are expected to increase by 3.5 per cent in real terms between 2020-21 and 2021-22, and decrease by 13.5 per cent in real terms from 2021-22 to 2024-25. The increase and subsequent decrease in expenses primarily reflects the funding profile for the Early Learning and Schools Support program.

Expenses under the **student assistance** sub-function are expected to decrease by 22.7 per cent in real terms from 2020-21 to 2021-22, and decrease by 2.9 per cent in real terms from 2021-22 to 2024-25. The decrease in expenses in 2021-22 primarily reflects the cessation of temporary COVID-19 support measures implemented in the

2020-21 financial year. The decrease from 2021-22 to 2024-25 largely reflects an expected decline in eligibility for student payments as the economy recovers following the COVID-19 pandemic, partly offset by an increase in expenses under the Higher Education Loan Program (HELP) as a result of an increase in loans issued under the *Job-ready Graduates* higher education reform package. Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans, which will vary with enrolment numbers and the number and value of HELP loans.

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 6.8: Summary of expenses — health

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Medical services and benefits	36,841	37,551	38,352	39,960	41,656
Pharmaceutical benefits and services	14,762	15,208	15,375	15,817	16,127
Assistance to the states for public hospitals	22,646	25,463	26,649	28,238	29,916
Hospital services(a)	1,143	1,195	1,147	1,161	1,172
Health services	14,130	13,653	9,755	9,658	9,811
General administration	4,036	4,233	3,491	3,419	3,405
Aboriginal and Torres Strait Islander health	975	980	1,011	1,048	1,089
Total health	**94,533**	**98,283**	**95,779**	**99,300**	**103,177**

(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 2.0 per cent in real terms between 2020-21 and 2021-22. This is largely driven by growth in the **assistance to the States for public hospitals** sub-function, due primarily to higher anticipated growth in the volume of services. Expenses for the health function are expected to decrease by 2.1 per cent in real terms over the period 2021-22 to 2024-25, largely driven by expected decreases in the **health services** and **general administration** sub-functions due to the cessation of COVID-19 emergency response measures.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 38.2 per cent of total estimated health expenses for 2021-22. Growth in Medicare expenses is the major driver of growth in this sub-function, with sub-function expenses estimated to increase by 3.4 per cent in real terms over the period 2021-22 to 2024-25.

The major components of the **medical services and benefits** sub-function are set out in Table 6.8.1.

Table 6.8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Medical benefits	28,497	29,124	29,867	31,461	32,975
Private health insurance	6,657	6,747	6,864	6,981	7,138
General medical consultations and services	776	743	700	657	666
Dental services(b)	337	338	343	343	341
Other	573	600	578	518	537
Total	**36,841**	**37,551**	**38,352**	**39,960**	**41,656**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the funding agreements on Public Dental Services for Adults from 2017-18 are provided for under the health services sub-function in Table 6.8.

Expenses for medical benefits are expected to increase by 0.3 per cent in real terms between 2020-21 and 2021-22, and increase by 5.5 per cent in real terms over the period 2021-22 to 2024-25, largely 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 decrease by 0.5 per cent in real terms between 2020-21 and 2021-22, and decrease by 1.4 per cent in real terms over the period 2021-22 to 2024-25. The proportion of Australians with private health insurance is currently around 53.4 per cent.

Expenses for the **pharmaceutical benefits and services** sub-function are expected to increase by 1.1 per cent in real terms between 2020-21 and 2021-22 largely as a result of growth in the Pharmaceutical Benefits Scheme (PBS). Expenditure for this sub-function is expected to decrease by 1.2 per cent in real terms over the period 2021-22 to 2024-25 primarily due to the impacts of existing pricing policies under the PBS, an expected reduction in the number of veterans accessing services, and maintenance of current levels of investment in the National Immunisation Program.

The major components of the **pharmaceutical benefits and services** sub-function are set out in Table 6.8.2.

Table 6.8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	13,942	14,406	14,578	15,013	15,319
Immunisation	475	479	473	479	479
Veterans' pharmaceutical benefits	345	323	323	325	328
Total	**14,762**	**15,208**	**15,375**	**15,817**	**16,127**

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

The Australian Government's contribution to public hospital funding is reported through the **assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programs that deliver hospital services in the home, and emergency department services. Expenditure for this sub-function is expected to increase by 10.3 per cent in real terms from 2020-21 to 2021-22, largely reflecting higher anticipated growth in the volume of services. Expenditure also reflects the impact of the *National Efficient Price 2020-21* determination. Expenditure is expected to increase by 9.5 per cent in real terms over the period 2021-22 to 2024-25, reflecting 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 2020-21 to 2024-25.

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 increase by 2.6 per cent in real terms between 2020-21 and 2021-22, and decrease by 8.5 per cent in real terms over the period 2021-22 to 2024-25. The decrease in expenses reflects an expected reduction in the number of veterans requiring treatment 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 disbursements from the Medical Research Future Fund.

Health services expenditure is expected to decrease by 5.2 per cent in real terms between 2020-21 and 2021-22, largely reflecting expected payments under the National Partnership Agreement on the COVID-19 response. This is partially offset by an increase in expenses reflected in the 2021-22 Budget measure *COVID-19 Response Package — vaccine purchases and rollout*. Expenses are expected to decrease by 33.0 per cent in real terms over the period from 2021-22 to 2024-25, largely reflecting the cessation of COVID-19 emergency response measures.

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 2.9 per cent in real terms between 2020-21 and 2021-22, largely reflecting the continuation of short-term measures to respond to the COVID-19 pandemic, and decrease by 25.0 per cent in real terms over the period 2021-22 to 2024-25, largely reflecting a cessation of COVID-19 pandemic response measures.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to decrease by 1.4 per cent in real terms from 2020-21 to 2021-22, as a result of reduced payments to states and territories for an expiring partnership agreement, and increase by 3.5 per cent in real terms over the period 2021-22 to 2024-25 reflecting utilisation of 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 and the sick; 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 6.9: Summary of expenses — social security and welfare

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Assistance to the aged	78,100	77,166	82,644	86,590	89,611
Assistance to veterans and dependants	8,050	7,962	8,071	6,602	6,487
Assistance to people with disabilities	56,881	58,779	60,854	62,854	64,972
Assistance to families with children	42,252	39,573	40,467	41,257	41,895
Assistance to the unemployed and the sick	31,266	18,099	15,135	14,694	14,493
Other welfare programs	1,847	1,646	1,561	1,345	1,367
Assistance for Indigenous Australians nec	2,431	2,522	2,347	2,422	2,477
General administration	4,567	4,229	3,576	3,262	3,210
Total social security and welfare	**225,394**	**209,975**	**214,655**	**219,028**	**224,512**

Expenses in the social security and welfare function are estimated to decrease by 8.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 0.3 per cent in real terms from 2021-22 to 2024-25.

The most significant driver of the reduction in real expenditure between 2020-21 and 2024-25 is the **assistance to the unemployed and the sick** sub-function. However, this reduction in expenditure has been partially offset by an ongoing increase in expenditure from 2021-22 to 2024-25 in the **assistance to the aged** and **assistance to people with disabilities** sub-functions. The **assistance to the unemployed and the sick** sub-function is expected to decrease by 43.2 percent in real terms between 2020-21 and 2021-22, and decrease by 25.4 per cent in real terms from 2021-22 to 2024-25, reflecting the cessation of the temporary COVID-19 support measures and the recovery from the COVID-19-pandemic. The **assistance to the aged** sub-function is expected to decrease by 3.0 per cent in real terms between 2020-21 and 2021-22 reflecting the cessation of temporary COVID-19 supports, and grow by 8.2 per cent in real terms from 2021-22 to 2024-25. The **assistance to people with disabilities** sub-function is expected to increase by 1.4 per cent in real terms from 2020-21 to 2021-22, and increase by 3.0 per cent in real terms from 2021-22 to 2024-25.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is growth in the Aged Care Services program, which is estimated to increase by 5.2 per cent in real terms from 2020-21 to 2021-22, and increase by 20.1 per cent in real terms from 2021-22 to 2024-25. This largely reflects the impact of the 2021-22 Budget measures *Aged Care — Government response to the Royal Commission into Aged Care Quality and Safety — residential aged care services and sustainability*, and *Aged Care — Government Response to the Royal Commission into Aged Care Quality and Safety — home care*, which includes significant new investment in home care and residential aged care services.

The Government's response to the Royal Commission into Aged Care Quality and Safety also includes significant new investments to improve the quality and safety of the sector, reflected in increased expenditure for the Aged Care Quality program, the Aged Care Quality and Safety Commission (in the **other** sub-function) and Access and Information program. Aged Care Quality program expenditure is estimated to decrease by 55.4 per cent in real terms from 2020-21 to 2021-22 reflecting terminating funding that was provided in 2020-21 in response to the COVID-19 pandemic. The program is estimated to increase by 24.4 per cent in real terms from 2021-22 to 2022-23 reflecting increased investment in the aged care workforce.

Also contributing to the overall growth in expenditure for the **assistance to the aged** sub-function is the Support for Seniors program, which is estimated to decline by 6.1 per cent in real terms from 2020-21 to 2021-22, and increase by 3.5 per cent in real terms from 2021-22 to 2024-25. The fall in expenditure in 2021-22 is largely due to the cessation of one-off COVID-19 related expenditure in 2020-21, with growth over the forward estimates reflecting increased numbers of aged pensioners.

Expenses for veterans' community care and support are estimated to decrease by 6.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 19.5 per cent in real terms from 2021-22 to 2024-25, reflecting an expected decline in the number of veterans and dependants. The majority of veterans expenditure is in the sub-function **assistance to veterans and dependants**.

The major components of the **assistance to the aged** sub-function are outlined below in Table 6.9.1.

Table 6.9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Support for Seniors	53,544	51,223	53,163	55,067	56,851
Aged Care Services	22,533	24,159	27,621	29,817	31,136
Veterans' Community Care and Support	965	915	848	761	791
Aged Care Quality	644	292	372	303	205
Access and information	274	363	446	448	456
National Partnership Payments —					
Assistance to the Aged	20	13	19	20	0
Other	122	200	176	174	172
Total	**78,100**	**77,166**	**82,644**	**86,590**	**89,611**

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

Expenses for **assistance to veterans and dependants** is expected to decrease by 2.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 24.1 per cent in real terms from 2021-22 to 2024-25. This reduction in expenditure is mainly attributable to the declining veteran population.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 1.4 per cent in real terms from 2020-21 to 2021-22, and increase by 3.0 per cent in real terms from 2021-22 to 2024-25. These increases largely reflect a higher number of people with a disability entering the National Disability Insurance Scheme (NDIS) and associated increases in individual support costs, which contributes 12.1 per cent growth in real terms from 2020-21 to 2021-22, and 10.5 per cent growth in real terms from 2021-22 to 2024-25 for the NDIS.

Expenses for the Financial Support for People with Disability program, which primarily consists of Disability Support Pension (DSP), are estimated to decrease by 5.3 per cent in real terms from 2020-21 to 2021-22 mainly due to one-off COVID-19 related expenditure in 2020-21, and to decrease by 0.7 per cent in real terms from 2021-22 to 2024-25 reflecting gradual growth in estimated recipient numbers.

Expenses for the Financial Support for Carers component are estimated to decrease by 1.6 per cent in real terms from 2020-21 to 2021-22 due to one-off COVID-19 related expenditure in 2020-21, and increase by 2.7 per cent in real terms from 2021-22 to 2024-25 reflecting higher recipient numbers and payment rates.

The major components of the assistance to **people with disabilities** sub-function are outlined below in Table 6.9.2.

Table 6.9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
National Disability Insurance Scheme(b)	24,607	28,115	29,835	30,796	33,320
Financial Support for People with Disability	18,411	17,763	18,073	18,596	18,923
Financial Support for Carers	11,516	11,552	11,860	12,319	12,728
National Partnership Payments — Assistance to People with Disabilities	2,347	1,350	1,087	1,143	0
Total	**56,881**	**58,779**	**60,854**	**62,854**	**64,972**

(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 and the cost of the NDIS Transition program delivered by the Department of Social Services.

Expenses for the **assistance to families with children** sub-function are expected to decrease by 8.1 per cent in real terms from 2020-21 to 2021-22, and decrease by 1.3 per cent in real terms from 2021-22 to 2024-25, driven primarily by decreased expenditure because of improving economic conditions. The major programs impacted by this trend include Family Assistance, Parents Income Support, and the Child Care Subsidy. Family Assistance expenses are expected to decrease by 2.3 per cent in real terms from 2020-21 to 2021-22, and decrease by 8.8 per cent in real terms from 2021-22 to 2024-25. The decrease in Family Assistance expenses to 2024-25 is driven by Family Tax Benefit (FTB) estimated recipient numbers and average payment rates falling from 2021-22 as the economy recovers from the effects of the COVID-19 pandemic.

The **assistance to families with children** sub-function profile includes an increase in Child Care Subsidy (CCS) expenses of 3.9 per cent in real terms from 2020-21 to 2021-22, and an increase of 17.5 per cent in real terms from 2021-22 to 2024-25. The increase primarily reflects expected continued growth in the use of child care by families, expected increases in fees charged by child care providers, and (from 2022-23) the Government's decision to remove the CCS annual cap and increase CCS payments to services on behalf of families with multiple children aged five and under in care under the 2021-22 Budget measure *Women's Economic Security Package*.

Support for the child care system expenses are expected to decrease by 79.5 per cent in real terms from 2020-21 to 2021-22, and decrease by 7.2 per cent in real terms from 2021-22 to 2024-25. The decrease in expenses from 2020-21 to 2021-22 is driven by the cessation of additional support payments which were provided to Early Childhood Education and Care services in 2020-21 to help services remain viable during the COVID-19 pandemic.

Expenses for Parents Income Support are expected to decrease by 28.8 per cent in real terms from 2020-21 to 2021-22 due to the ending of the temporary Coronavirus Supplement, and decrease by 3.5 per cent in real terms from 2021-22 to 2024-25.

The major components of the assistance to **families with children** sub-function are set out in Table 6.9.3.

Table 6.9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Family Assistance	21,109	21,009	20,707	20,826	20,549
Child Care Subsidy	8,968	9,492	10,644	11,180	11,970
Parents income support	7,932	5,755	5,757	5,847	5,961
Child Support	2,082	2,103	2,127	2,151	2,175
Support for the child care system	1,336	279	282	277	278
Families and Children	626	689	692	712	695
Family relationship services	182	229	241	247	250
Other	16	16	17	17	17
Total	**42,252**	**39,573**	**40,467**	**41,257**	**41,895**

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

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to decrease by 43.2 per cent in real terms from 2020-21 to 2021-22, and to decrease by 25.4 per cent in real terms from 2021-22 to 2024-25. The fall in expenditure in 2021-22 is largely due to the cessation of the temporary Coronavirus Supplement and improved labour market conditions. The decline in expenses from 2021-22 to 2024-25 reflects the continuing economic recovery from COVID-19.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 1.8 per cent in real terms from 2020-21 to 2021-22, and decrease by 8.5 per cent in real terms from 2021-22 to 2024-25. This decrease is largely due to cessation of temporary 2020-21 Budget measures to address the impacts of the COVID-19 pandemic, such as the increased support for the Community Development Program and employees of Commonwealth-owned Indigenous subsidiaries, from 2021-22 onwards.

Expenses for the **general administration** sub-function are estimated to decrease by 9.1 per cent in real terms from 2020-21 to 2021-22, and decrease by 29.2 per cent in real terms from 2021-22 to 2024-25. This is mainly attributable to an estimated reduction in recipients of income support payments as the economic recovery builds, as well as the implementation of measures by Services Australia and the Department of Social Services, involving upfront service delivery costs that are estimated 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 6.10: Summary of expenses — housing and community amenities

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Housing	3,735	4,418	3,185	2,508	2,443
Urban and regional development	1,476	1,606	1,254	1,069	750
Environment protection	1,743	1,844	1,845	1,940	1,835
Total housing and community amenities	**6,953**	**7,869**	**6,283**	**5,517**	**5,028**

Total expenses under the **housing and community amenities** function are estimated to increase by 11.1 per cent in real terms from 2020-21 to 2021-22, and decrease by 40.4 per cent in real terms from 2021-22 to 2024-25. The decrease is primarily driven by reduced expenses for the **housing** sub-function due to the ending of the HomeBuilder program in 2022-23 and the **urban and regional development** sub-function, reflecting completion of projects under key programs.

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. Expenses for this sub-function are estimated to increase by 16.1 per cent in real terms from 2020-21 to 2021-22, and decrease by 48.5 per cent in real terms from 2021-22 to 2024-25. This is largely driven by the cessation of the temporary HomeBuilder program, and decreasing payments under the National Rental Affordability Scheme which is now closed to new applicants.

The Government also provides housing support through the National Housing Finance and Investment Corporation in the form of guarantees, loans, investments and grants to encourage investment in housing, with a particular focus on affordable housing.

The **urban and regional development** sub-function comprises of City and Regional Deals, services to territories and regional development programs, including Community Development Grants and the Building Better Regions Fund. Expenses are estimated to increase by 6.8 per cent in real terms from 2020-21 to 2021-22 reflecting a number of 2021-22 Budget measures, including *Supporting Regional Australia* and *Services to Territories – additional funding*. Expenses decline by 56.5 per cent in real terms from 2021-22 to 2024-25, largely reflecting the expected completion of a number of projects under key programs, such as the Building Better Regions Fund, the National Stronger Regions Fund, the Regional Jobs and Investment packages, the Regional Growth Fund, and various City Deals.

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 increase by 3.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 7.3 per cent in real terms from 2021-22 to 2024-25. The increase from 2020-21 to 2021-22 primarily reflects the continued investment in water infrastructure under the $3.4 billion National Water Grid Fund (formerly the National Water Infrastructure Development Fund). The decrease in expenditure from 2021-22 to 2024-25 primarily relates to the cessation of funding to maintain timely Commonwealth environmental assessments and approvals during the transition to single touch approvals announced in the 2020-21 and 2021-22 Budgets, and the re-profiling of expenditure from 2020-21 to 2021-22 for the Bushfire Recovery Species and Landscapes under the National Bushfire Recovery 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 6.11: Summary of expenses — recreation and culture

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Broadcasting	1,507	1,524	1,515	1,526	1,537
Arts and cultural heritage	1,699	1,914	1,672	1,568	1,585
Sport and recreation	615	543	478	391	338
National estate and parks	584	550	486	474	478
Total recreation and culture	**4,405**	**4,532**	**4,151**	**3,959**	**3,938**

Total expenses under the recreation and culture function are estimated to increase by 0.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 19.0 per cent in real terms over the period 2021-22 to 2024-25.

Expenses under the **broadcasting** sub-function are expected to decrease by 0.8 per cent in real terms from 2020-21 to 2021-22, and decrease by 6.0 per cent in real terms from 2021-22 to 2024-25. This partly reflects the Government's decision in the 2018-19 Budget to pause indexation of the Australian Broadcasting Corporation's (ABC) operational funding from 2019-20 to 2021-22, which has no impact on funding for transmission and distribution. This decision is partially offset by additional funding announced in the 2021-22 Budget measure *Media Sector Support*.

Table 6.11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 6.11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
ABC general operational activities	901	900	891	903	914
SBS general operational activities	343	357	353	348	344
ABC transmission and distribution services	190	192	193	195	198
SBS transmission and distribution services	73	75	78	80	82
Total	**1,507**	**1,524**	**1,515**	**1,526**	**1,537**

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

Expenses under the **arts and cultural heritage** sub-function are estimated to increase by 10.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 22.8 per cent in real terms from 2021-22 to 2024-25. This sub-function includes funding for the arts and cultural institutions. The estimated increase from 2020-21 to 2021-22, and the decrease from 2021-22 to 2024-25 are predominantly driven by the 2021-22 Budget measures *COVID-19 Response Package – additional arts sector support* and *National Collecting Institutions – enhancements,* that include a range of temporary support measures, many of which terminate in 2021-22 or 2022-23.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 13.3 per cent in real terms from 2020-21 to 2021-22, and decrease by 42.0 per cent in real terms from 2021-22 to 2024-25. The decrease in 2021-22 primarily reflects the cessation of short-term funding provided for sport in the 2020-21 Budget and MYEFO, as well as COVID-19 related delays to sports grants programs which had moved expenditure from 2019-20 into 2020-21. The reduction in expenditure from 2021-22 to 2024-25 largely reflects the expected completion of grant funding for short-term community-led projects to increase participation in sport and physical activity, and the further completion of elements of the national sport plan, Sport 2030.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 7.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 19.1 per cent in real terms from 2021-22 to 2024-25. The decrease from 2020-21 to 2021-22 reflects additional investment in 2020-21 for heritage sites in Sydney Harbour relative to outer year expenditure through the 2020-21 Budget measure titled *Sydney Harbour Federation Trust – infrastructure improvements*. The decrease from 2021-22 to 2024-25 reflects a number of terminating measures for the Australian Antarctic Program, Director of National Parks and Great Barrier Reef Marine Park Authority.

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 6.12: Summary of expenses — fuel and energy

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Fuel and energy	9,090	9,638	9,546	10,069	10,567
Total fuel and energy	**9,090**	**9,638**	**9,546**	**10,069**	**10,567**

Fuel and energy expenses are estimated to increase by 4.1 per cent in real terms from 2020-21 to 2021-22, and increase by 2.2 per cent in real terms over the period 2021-22 to 2024-25 reflecting 2021-22 Budget measures that invest in fuel security.

Table 6.12.1 provides further details of the fuel and energy sub-function.

Table 6.12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	7,623	8,072	8,450	9,117	9,860
Resources and Energy	756	424	170	57	24
Renewable Energy	298	373	281	294	308
Other	413	769	645	601	375
Total	**9,090**	**9,638**	**9,546**	**10,069**	**10,567**

(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 increase by 3.9 per cent in real terms from 2020-21 to 2021-22, and increase by 13.9 per cent in real terms from 2021-22 to 2024-25, largely reflecting increased use of fuels that are eligible for the Fuel Tax Credits Scheme.

Expenses under the Resources and Energy component are estimated to decrease by 44.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 94.8 per cent in real terms from 2021-22 to 2024-25. The decrease in expenses from 2021-22 to 2024-25 reflects the upfront recognition of expenses in 2020-21 associated with the rehabilitation of the Ranger Uranium Mine.

Expenses under the Renewable Energy component are expected to increase by 22.7 per cent in real terms from 2020-21 to 2021-22, and decrease by 23.0 per cent from 2021-22 to 2024-25. The increase in expenses from 2020-21 to 2021-22 reflects additional funding for the Australian Renewable Energy Agency (ARENA) in the 2020-21 Budget measure *JobMaker Plan – investment in new energy technologies*, including for further grant funding and for the Future Fuels Fund. The overall decrease in expenses under the Renewable Energy component from 2021-22 to 2024-25 reflects the ARENA's legislated funding profile, which is partially offset by the additional grant funding provided to ARENA in the 2020-21 Budget.

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 6.13: Summary of expenses — agriculture, forestry and fishing

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Wool industry	50	53	56	61	65
Grains industry	204	211	206	206	204
Dairy industry	53	53	53	54	55
Cattle, sheep and pig industry	244	250	254	259	259
Fishing, horticulture and other agriculture	483	402	352	345	350
General assistance not allocated to specific industries	44	39	39	39	39
Rural assistance	1,170	553	448	336	360
Natural resources development	859	1,940	1,447	1,141	279
General administration	906	982	925	840	841
Total agriculture, forestry and fishing	**4,014**	**4,483**	**3,779**	**3,280**	**2,450**

Total expenses under this function are estimated to increase by 9.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 49.1 per cent in real terms over the period 2021-22 to 2024-25.

The **rural assistance** sub-function is expected to decrease by 53.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 39.4 per cent in real terms over the period 2021-22 to 2024-25. The initial decrease from 2020-21 to 2021-22 mainly reflects the cessation of the additional package of measures provided to support farmers and communities in drought as well as COVID-19 response measures. In particular, this includes the discount on expenses associated with the additional concessional loan funding through the Regional Investment Corporation (RIC) in the *July 2020 Economic and Fiscal Update* measure *Drought Response, Resilience and Preparedness Plan – further support for farmers and communities in drought*. The subsequent decrease from 2021-22 to 2024-25 mainly relates to the profile of expenses for the concessional loans through the RIC and the Farm Household Allowance.

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. This also includes activities to enhance the environmental outcomes in the Murray-Darling Basin.

Table 6.13.1 provides further details of the **natural resources development** sub-function.

Table 6.13.1: Trends in the major components of natural resources development sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Water reform(b)	573	1,539	1,130	909	64
Sustainable management — natural resources	15	71	84	17	14
Other	271	330	233	215	201
Total	**859**	**1,940**	**1,447**	**1,141**	**279**

(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 Reforms; and Commonwealth Environmental Water.

Expenses under the **natural resources development** sub-function are estimated to increase by 121.6 per cent in real terms from 2020-21 to 2021-22, which reflects the Government's commitment to enhancing the implementation of the Murray-Darling Basin Plan (Basin Plan). The subsequent decrease of 86.6 per cent in real terms from 2021-22 to 2024-25 reflects the expected completion of water reform activities under the Basin Plan in 2023-24. Basin Plan initiatives are funded through the Sustainable Rural Water Use and Infrastructure Program and the Water for the Environment Special Account.

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 6.14: Summary of expenses — mining, manufacturing and construction

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	4,394	4,354	4,230	4,138	3,739
Total mining, manufacturing and construction	**4,394**	**4,354**	**4,230**	**4,138**	**3,739**

Total expenses under the mining, manufacturing and construction function are expected to decrease by 2.8 per cent in real terms from 2020-21 to 2021-22, and decrease by 20.0 per cent in real terms over the period 2021-22 to 2024-25.

Table 6.14.1 provides further details of the major components of the **mining, manufacturing and construction** sub-function.

Table 6.14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	3,085	2,729	2,759	2,891	3,030
Growing Business Investment	384	726	850	662	238
Northern Australia Infrastructure Facility	671	549	314	311	218
Other	254	351	308	274	253
Total	**4,394**	**4,354**	**4,230**	**4,138**	**3,739**

(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 13.2 per cent in real terms from 2020-21 to 2021-22, reflecting a one-off adjustment for higher than estimated claims for prior years (both the number and size of claims). Expenses are expected to increase by 3.5 per cent in real terms from 2021-22 to 2024-25, 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 are expected to increase by 85.6 per cent in real terms from 2020-21 to 2021-22, and decrease by 69.5 per cent in real terms from 2021-22 to 2024-25. The increase and subsequent decrease in expenditure reflects the funding profile of the 2020-21 Budget measure *JobMaker Plan – Modern Manufacturing Strategy*, which provides additional financial support to the manufacturing sector.

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 decrease in expenses over the forward estimates reflects changes in concessional loan discount expenses associated with the expected commitment of concessional loans across the forward estimates.

Expenses under the Other component are expected to increase by 35.4 per cent in real terms from 2020-21 to 2021-22, and decrease by 32.8 per cent in real terms from 2021-22 to 2024-25. The increase and subsequent decreases in the expenditure profile reflect the completion of the 2020-21 MYEFO measure *Satellite Based Augmentation System*.

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 6.15: Summary of expenses — transport and communication

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Communication	1,244	1,708	1,603	1,379	1,349
Rail transport	1,376	2,805	3,436	3,437	3,107
Air transport	2,732	1,020	348	273	267
Road transport	7,765	8,187	11,473	10,595	7,934
Sea transport	458	462	463	469	475
Other transport and communication	253	277	296	258	191
Total transport and communication	**13,828**	**14,460**	**17,618**	**16,411**	**13,322**

Total expenses under this function are estimated to increase by 2.6 per cent in real terms between 2020-21 and 2021-22, and decrease by 14.1 per cent in real terms over the period 2021-22 to 2024-25.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Infrastructure, Transport, Regional Development and Communications, and the Australian Communications and Media Authority. Total expenses under this sub-function are estimated to increase by 34.8 per cent in real terms between 2020-21 and 2021-22, and decrease by 26.4 per cent in real terms from 2021-22 to 2024-25. The increase from 2020-21 to 2021-22 primarily reflects the commencement of the Regional Broadband Scheme and the 2021-22 Budget measures *Supporting Regional Australia* and *Our North, Our Future – Next Five Year Plan for Northern Australia*. The decrease in expenditure from 2021-22 to 2024-25 primarily reflects the conclusion of the Regional Connectivity Program and the Mobile Black Spot Program.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 100.0 per cent in real terms between 2020-21 and 2021-22, and increase by 3.2 per cent in real terms from 2021-22 to 2024-25. The significant initial increase in expenditure primarily reflects the Government's commitments to major rail projects, including the Sydney Metro — Western Sydney Airport, METRONET and Melbourne Airport Rail Link. The subsequent increase in expenditure from 2021-22 to 2024-25 reflects the Government's continued investment in priority rail projects, including through the 2021-22 Budget measures titled *Infrastructure Investment.*

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 and the Australian Maritime Safety Authority (AMSA), and support for the aviation sector as part of the Government's response to the COVID-19 pandemic. Total expenses under the **air transport** sub-function are estimated to decrease by 63.3 per cent in real terms between 2020-21 and 2021-22, and decrease by 75.6 per cent in real terms from 2021-22 to 2024-25. The significant decrease in expenditure is associated with the cessation of temporary support for the aviation sector as part of the Government's response to the COVID-19 pandemic. Total expenses under the **sea transport** sub-function are estimated to decrease by 1.0 per cent in real terms between 2020-21 and 2021-22, and decrease by 4.3 per cent in real terms from 2021-22 to 2024-25, reflecting a reduction in levy revenue and costs for AMSA.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 3.5 per cent in real terms between 2020-21 and 2021-22, and decrease by 9.7 per cent in real terms from 2021-22 to 2024-25. The initial increase in expenditure reflects the Government's continued investment in priority road projects, including through the 2021-22 Budget measures titled *Infrastructure Investment*. The subsequent decrease in expenditure from 2021-22 to 2024-25 reflects the completion of stimulus initiatives, including the $3.0 billion Road Safety Program.

Total expenses under the **other transport and communication** sub-function are estimated to increase by 7.6 per cent in real terms between 2020-21 and 2021-22, and decrease by 35.9 per cent in real terms from 2021-22 to 2024-25. The initial increase in expenditure primarily reflects the increase in program support provided to the Infrastructure, Transport, Regional Development and Communications Portfolio for the delivery of priority infrastructure and transport initiatives, including through the 2021-22 Budget measure *Supporting Infrastructure Investment.* The subsequent decrease in expenditure from 2021-22 to 2024-25 reflects the cessation of temporary program support provided through the 2020-21 Budget measure *Supporting Infrastructure Investment*.

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 6.16: Summary of expenses — other economic affairs

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Tourism and area promotion	227	199	160	161	164
Total labour and employment affairs	6,546	7,530	5,541	4,702	4,577
Vocational and industry training	*3,061*	*3,737*	*2,430*	*1,370*	*1,354*
Labour market assistance to job seekers and industry	*2,687*	*2,945*	*2,376*	*2,648*	*2,549*
Industrial relations	*798*	*848*	*735*	*683*	*674*
Immigration	3,622	3,694	2,683	2,638	2,746
Other economic affairs nec	73,424	3,216	2,708	2,604	2,581
Total other economic affairs	**83,819**	**14,640**	**11,091**	**10,103**	**10,068**

Total expenses under the other economic affairs function are expected to decrease by 82.9 per cent in real terms from 2020-21 to 2021-22, and decrease by 35.9 per cent in real terms over the period 2021-22 to 2024-25.

Expenses under the **tourism and area promotion** sub-function are expected to decrease by 13.6 per cent in real terms in 2021-22 and decrease by 23.2 per cent in real terms from 2021-22 to 2024-25. The decreases in expenses in 2021-22 and subsequent decrease from 2021-22 to 2024-25 largely reflect the temporary nature of the Government's tourism recovery campaigns in response to COVID-19 and bushfires.

Expenses under the **vocational and industry training** sub-function are expected to increase by 19.8 per cent in real terms from 2020-21 to 2021-22, and decrease by 66.2 per cent in real terms from 2021-22 to 2024-25. The increase in expenses in 2021-22 reflects further investment in the vocational education and training sector, on top of the major upskilling and re-skilling programs announced by the Government in the 2020-21 Budget, such as the *JobMaker Plan – Skills Reform*. Further investments in the 2021-22 Budget include programs designed to help businesses to hire more apprentices, including the *Building skills for the Future – Boosting Apprenticeship Commencements wage subsidy – expansion* and other measures that would improve job seekers' employability, to assist Australia's economic recovery from the COVID-19 pandemic. The expenses are expected to decline from 2021-22 after temporary support measures such as the *July 2020 Economic and Fiscal Update* measure *COVID-19 Response Package – supporting apprentices and trainees* and the 2020-21 Budget measure *JobMaker Plan – boosting apprenticeships wage subsidy* cease.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to increase by 7.6 per cent in real terms from 2020-21 to 2021-22, and decline by 19.3 per cent in real terms from 2021-22 to 2024-25, primarily due to the 2021-22 Budget measure *New Employment Services Model*, and other measures announced by the Government supporting job seekers to retain jobs and find sustainable employment. The expenses are expected to decline from 2021-22 primarily as a result of anticipated service delivery efficiencies from servicing job-ready job seekers using digital platforms instead of face-to-face engagement.

Expenses under the **industrial relations** sub-function are expected to increase by 4.3 per cent in real terms from 2020-21 to 2021-22, which reflects higher expected payments for employee entitlements for employee entitlements under the *Fair Entitlements Guarantee Act 2012* resulting from employer bankruptcies during the COVID-19 pandemic. Expenses under this sub-function are expected to decrease by 26.0 per cent in real terms from 2021-22 to 2024-25 as a result of lower expected payments for employee entitlements under the *Fair Entitlements Guarantee Act 2012* as a result of predicted improved economic conditions.

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

Table 6.16.1 provides further details of the major components of the **immigration** sub-function expenses.

Table 6.16.1: Trends in major components of the immigration sub-function expenses

Component(a)			Estimates		
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	2,091	2,059	1,284	1,294	1,300
Citizenship, visas and migration	821	799	693	676	760
Regional co-operation and refugee and humanitarian assistance	710	835	706	668	686
Total other economic affairs	**3,622**	**3,694**	**2,683**	**2,638**	**2,746**

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

Expenses under this sub-function are expected to increase by 0.1 per cent in real terms between 2020-21 and 2021-22, and decrease by 30.7 per cent in real terms from 2021-22 to 2024-25.

The increase in expenditure between 2020-21 and 2021-22 reflects higher expenses for regional cooperation and refugee and humanitarian assistance, including the 2021-22 Budget measure *Migration Program — 2021-22 planning levels*. This sub-function also includes additional funding for onshore detention in the 2021-22 Budget measure *Immigration Detention Network*, which is more than offset by lower occupancy rates in offshore detention. The decrease in expenditure from 2021-22 to 2024-25 primarily reflects lower forecast occupancy rates in offshore detention.

Expenses under the **other economic affairs nec** sub-function are expected to decrease by 95.7 per cent in real terms from 2020-21 to 2021-22, and decrease by 25.2 per cent in real terms from 2021-22 to 2024-25.

Table 6.16.2 provides further details of the major components of the **other economic affairs nec** sub-function expenses.

Table 6.16.2: Trends in major components of the other economic affairs nec sub-function expenses

Component(a)	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Economic Response to the Coronavirus	69,434	47	12	0	0
Promotion of Australia's export and other international economic interests(b)	1,439	632	360	350	350
Operating costs for:					
Department of Industry, Science, Energy and Resources	538	535	509	473	450
Australian Securities and Investments Commission	677	563	536	529	529
Bureau of Meteorology	481	527	531	516	516
IP Australia	202	216	224	232	241
Australian Competition and Consumer Commission	200	206	189	171	163
Australian Prudential Regulation Authority	196	226	206	206	207
National Partnership Payments — Competition and Productivity Enhancing Reform	134	127	0	0	0
Other	123	138	140	126	126
Total	**73,424**	**3,216**	**2,708**	**2,604**	**2,581**

(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.

The decrease in expenditure for the **other economic affairs nec** sub-function between 2020-21 and 2021-22 is primarily the result of the temporary nature of the Government's economic response to the COVID-19 pandemic and reflects the conclusion of JobKeeper in 2020-21.

The decrease in the level of expenditure for the promotion of Australia's export and other international economic interests between 2020-21 and 2021-22 is primarily driven by support provided as part of the Government's response to the COVID-19 pandemic in 2020-21, including through the International Freight Assistance Mechanism, Export Market Development Grants scheme and the Consumer Travel Support Program.

Expenses for the Department of Industry, Science, Energy and Resources are expected to decrease by 21.6 per cent in real terms from 2021-22 to 2024-25, largely driven by measures that start and terminate during the forward estimates. These include the 2021-22 Budget measure *Australia's Global Resources Strategy,* as well as 2020-21 Budget measures such as the *JobMaker Plan – Modern Manufacturing Strategy* and *Australia's Cyber Security Strategy 2020.*

Expenses for the Bureau of Meteorology (the Bureau) are expected to increase by 7.6 per cent in real terms from 2020-21 to 2021-22. The increase in expenses reflects additional funding provided to the Bureau in the 2021-22 Budget measure *Building Australia's Resilience*. Expenses for the Bureau are expected to decrease by 8.8 per cent in real terms from 2021-22 to 2024-25, which reflects the profile of spending associated with information and communications technology (ICT) projects, including the second and third tranche of investment to strengthen the Bureau's ICT security and resilience and observations network announced in the 2018-19 Budget and the 2020-21 Budget.

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 as natural disaster relief, the Contingency Reserve and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 6.17: Summary of expenses — other purposes

Sub-function	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Public debt interest	17,123	18,196	19,118	20,580	21,873
Interest on Commonwealth Government's behalf	*17,123*	*18,196*	*19,118*	*20,580*	*21,873*
Nominal superannuation interest	7,004	10,018	10,775	11,372	12,191
General purpose inter-government transactions	75,250	77,509	81,884	84,795	89,219
General revenue assistance — states and territories	*71,729*	*75,188*	*78,564*	*82,032*	*86,408*
Local government assistance	*3,520*	*2,321*	*3,321*	*2,763*	*2,811*
Natural disaster relief(a)	748	327	253	92	39
Contingency reserve	-2,845	5,055	5,338	12,014	15,091
Total other purposes	**97,279**	**111,106**	**117,368**	**128,853**	**138,414**

(a) Includes funding for the establishment of the National Recovery and Resilience Agency.

Total expenses under the other purposes function are estimated to increase by 12.1 per cent in real terms from 2020-21 to 2021-22, and increase by 16.1 per cent in real terms over the period 2021-22 to 2024-25.

Expenses under the **public debt interest** sub-function are expected to increase by 4.3 per cent in real terms from 2020-21 to 2021-22, and increase by 12.0 per cent in real terms from 2021-22 to 2024-25. The increase in expenses reflects an increase in expected issuance of Australian Government Securities. *Statement 7: Debt Statement* of Budget Paper No. 1 provides further information on Government debt, including estimates of the relative contribution of capital and recurrent spending to the Government's annual borrowing task.

The increase in **nominal superannuation interest** expenses between 2020-21 and 2021-22 and over the forward estimates primarily reflects the use of different discount rates. In accordance with the accounting standards, superannuation expenses for 2020-21 were calculated using the long-term government bond rate, which best matched each individual scheme's duration of liabilities at the start of the financial year. These rates were between 1.0 and 1.7 per cent per annum. In preparing the latest Long-Term Cost Reports, the scheme actuaries have determined that a discount rate of CPI plus 2.5 per cent should be applied to the forward estimates.

Expenses under the **general purpose inter-government transactions** sub-function are expected to increase by 7.3 per cent in real terms from 2021-22 to 2024-25. Nearly all of the expenses under this sub-function relate to **general revenue assistance** paid to state and territory governments, which is expected to increase by 7.1 per cent in real terms from 2021-22 to 2024-25, and largely comprises 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 2021-22.*

Expenses under **local government assistance** are expected to decrease by 35.3 per cent in real terms from 2020-21 to 2021-22, and increase by 12.9 per cent in real terms from 2021-22 to 2024-25, largely reflecting half of the expected 2021-22 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2020-21. This is partially offset by the termination of the Local Roads and Community Infrastructure Program in 2022-23.

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 and, since November 2018, the Disaster Recovery Funding Arrangements. The majority of the funding profile over the forward estimates reflects expected payments to the states in relation to disaster events that have already occurred. As no provision is made for future disasters, the amount reduces over time. The sub-function also reflects departmental funding for the new National Recovery and Resilience Agency.

The **contingency reserve** sub-function comprises the Contingency Reserve, which is an allowance that principally reflects anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. It is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve and is not appropriated.

Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific entities for appropriation closer to the time when the associated events occur.

The **contingency reserve** sub-function in the 2021-22 Budget increases expenses by $5.1 billion in 2021-22, $5.3 billion in 2022-23, $12.0 billion in 2023-24 and $15.1 billion in 2024-25. A significant component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimates of expenses for existing Government policy to be revised upwards in the forward years. The 2021-22 Budget includes a provision of:

- nil in the Budget year 2021-22
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year 2022-23 ($2.5 billion)
- 1 per cent of expenses in the second forward year 2023-24 ($5.2 billion)
- 2 per cent provision of expenses in the third forward year 2024-25 ($10.6 billion).

The drawdown of the CBA decreased expenses by $1.3 billion in 2021-22, $1.2 billion in 2022-23, $2.5 billion in 2023-24 and $1.6 billion in 2024-25. 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

- 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 governments), which they use to acquire assets.

Australian Government general government sector net capital investment is expected to be $10.3 billion in 2021-22, $1.7 billion higher than net capital investment in 2020-21. This change is largely due to increased investment by the Department of Defence outlined in the *2016 Defence White Paper* and *2020 Force Structure Plan*. The Government's investment in capital assets is expected to continue to increase in 2022-23 before declining over the remainder of the forward estimates.

Details of movements are further explained in the following section.

Table 6.18: Estimates of total net capital investment

	2020-21 Budget	2020-21 MYEFO	Revised	Estimates			
	2020-21	2020-21	2020-21	2021-22	2022-23	2023-24	2024-25
Total net capital investment ($m)	**7,818**	**8,758**	**8,620**	**10,330**	**10,939**	**10,135**	**9,161**
Per cent of GDP	0.4	0.4	0.4	0.5	0.5	0.4	0.4

Reconciliation of net capital investment since the 2020-21 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2020-21 Budget, is provided in Table 6.19.

Table 6.19: Reconciliation of net capital investment estimates

	Estimates				
	2020-21	2021-22	2022-23	2023-24	Total
	$m	$m	$m	$m	$m
2020-21 Budget net capital investment	**7,818**	**9,906**	**11,013**	**10,819**	**39,556**
Changes from 2020-21 Budget to 2020-21 MYEFO					
Effect of policy decisions(a)	52	-1	27	39	117
Effect of parameter and other variations	888	-51	16	-62	791
Total variations	**940**	**-52**	**43**	**-23**	**908**
2020-21 MYEFO net capital investment	**8,758**	**9,854**	**11,056**	**10,796**	**40,464**
Changes from 2020-21 MYEFO to 2021-22 Budget					
Effect of policy decisions(a)	-114	342	239	-70	397
Effect of parameter and other variations	-24	134	-357	-591	-838
Total variations	**-138**	**476**	**-118**	**-661**	**-441**
2021-22 Budget net capital investment	**8,620**	**10,330**	**10,939**	**10,135**	**40,023**

(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 2021-22 has increased by $423.8 million since the 2020-21 Budget. This increase is driven by the effect of policy decisions of $341.0 million, with a further increase of $82.8 million resulting from parameter and other variations.

Further information on the capital measures since the 2020-21 MYEFO can be found in Budget Paper No. 2, *Budget Measures 2021-22*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2020-21 to 2024-25 are provided in Table 6.20.

Table 6.20: Estimates of net capital investment by function

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
General public services	421	597	250	-322	-540
Defence	5,868	8,965	10,686	11,160	10,787
Public order and safety	312	315	-288	-282	-326
Education	34	42	13	10	-25
Health	1,991	14	-36	-78	-92
Social security and welfare	-390	-127	220	-78	-144
Housing and community amenities	-242	-128	55	42	101
Recreation and culture	111	257	226	6	-93
Fuel and energy	21	21	14	-3	-1
Agriculture, forestry and fishing	41	68	63	18	-27
Mining, manufacturing and construction	-22	-24	-12	0	-14
Transport and communication	-4	-25	-36	37	-47
Other economic affairs	478	297	-231	-436	-473
Other purposes	2	58	15	59	54
Total net capital investment	**8,620**	**10,330**	**10,939**	**10,135**	**9,161**

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

- **General public services** — the increase in net capital investment from 2020-21 to 2021-22 reflects the timing of lease renewals by the Department of Home Affairs, the expected timing of various overseas capital works to be undertaken by the Department of Foreign Affairs and Trade, and the expected completion of a major ICT project by the Australian Tax Office

- **Defence** — reflects funding associated with the implementation of the *2016 Defence White Paper* and new or adjusted investments outlined in the *2020 Force Structure Plan* to build the future Defence Force and capability. These investments are guided by the Defence Integrated Investment Program. Major investments include military capabilities such as ships, aircraft and armoured vehicles, as well as ICT capabilities and infrastructure

- **Public order and safety** — reflects the completion of investments from previous Budgets in national security capabilities for law enforcement and intelligence agencies and the administration of the federal legal system, partially offset by further investment in the 2021-22 Budget

- **Health** — largely reflects the change in the National Medical Stockpile procurement strategies in response to the COVID-19 pandemic
- **Social security and welfare** — is largely driven by depreciation and amortisation of prior Commonwealth investments into Services Australia's non-financial assets such as ICT capabilities and infrastructure. This is partially offset by further Commonwealth investment in ICT capabilities and infrastructure across 2020-21 to 2022-23, including the 2021-22 Budget measures *GovERP – Common Corporate Australian Public Service System* and *myGov enhancements*, and the 2020-21 Budget measure *Welfare Payment Infrastructure Transformation – tranche four*
- **Other economic affairs** — the increase in net capital investment from 2020-21 to 2021-22 reflects the timing of lease renewals by the Department of Home Affairs.

Table 6.21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 6.21: Australian Government general government sector purchases of non-financial assets by function

		Estimates			
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
General public services	1,951	2,244	1,788	1,227	1,029
Defence	11,951	15,207	17,507	18,980	19,166
Public order and safety	1,105	1,155	558	559	501
Education	74	83	59	57	19
Health	268	250	193	131	112
Social security and welfare	444	751	1,008	684	573
Housing and community amenities	336	343	421	420	450
Recreation and culture	544	716	682	481	379
Fuel and energy	15	33	25	9	8
Agriculture, forestry and fishing	134	162	157	114	70
Mining, manufacturing and construction	16	14	27	39	26
Transport and communication	123	107	100	174	56
Other economic affairs	1,353	1,188	661	465	445
Other purposes	3	75	17	61	57
General government purchases of non-financial assets	**18,318**	**22,325**	**23,202**	**23,402**	**22,890**

Appendix A: Expense by Function and Sub-Function

Table 6A.1: Estimates of expenses by function and sub-function

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,366	1,446	1,744	1,385	1,356	1,653
Financial and fiscal affairs	7,302	9,013	8,067	7,216	6,791	7,030
Foreign affairs and economic aid	6,270	6,949	6,340	6,204	6,615	6,532
General research	2,940	3,238	3,448	3,448	3,546	3,549
General services	855	1,237	771	748	759	764
Government superannuation benefits	10,739	11,153	5,700	5,810	6,082	6,301
Total general public services	**29,472**	**33,037**	**26,070**	**24,811**	**25,148**	**25,830**
Defence	**33,187**	**33,375**	**34,473**	**36,496**	**38,344**	**40,721**
Public order and safety						
Courts and legal services	1,416	1,529	1,633	1,518	1,457	1,438
Other public order and safety	4,973	5,184	5,019	4,556	4,432	4,482
Total public order and safety	**6,388**	**6,712**	**6,652**	**6,074**	**5,889**	**5,919**
Education						
Higher education	9,652	11,369	10,628	10,241	10,200	10,339
Vocational and other education	1,713	2,224	2,022	1,805	1,622	1,644
Schools	22,305	22,061	24,437	25,933	27,202	28,199
Non-government schools	*13,918*	*13,010*	*14,710*	*15,509*	*16,200*	*16,752*
Government schools	*8,387*	*9,052*	*9,727*	*10,423*	*11,002*	*11,447*
School education — specific funding	722	705	744	679	702	690
Student assistance	5,271	5,953	4,686	4,570	4,646	4,882
General administration	222	292	282	268	255	256
Total education	**39,885**	**42,604**	**42,799**	**43,496**	**44,626**	**46,010**
Health						
Medical services and benefits	32,668	36,841	37,551	38,352	39,960	41,656
Pharmaceutical benefits and services	14,175	14,762	15,208	15,375	15,817	16,127
Assistance to the states for public hospitals	22,560	22,646	25,463	26,649	28,238	29,916
Hospital services(a)	1,248	1,143	1,195	1,147	1,161	1,172
Health services	11,888	14,130	13,653	9,755	9,658	9,811
General administration	3,510	4,036	4,233	3,491	3,419	3,405
Aboriginal and Torres Strait Islander health	973	975	980	1,011	1,048	1,089
Total health	**87,023**	**94,533**	**98,283**	**95,779**	**99,300**	**103,177**
Social security and welfare						
Assistance to the aged	71,855	78,100	77,166	82,644	86,590	89,611
Assistance to veterans and dependants	7,711	8,050	7,962	8,071	6,602	6,487
Assistance to people with disabilities	49,038	56,881	58,779	60,854	62,854	64,972

Table 6A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to families with children	38,604	42,252	39,573	40,467	41,257	41,895
Assistance to the unemployed and the sick	20,128	31,266	18,099	15,135	14,694	14,493
Other welfare programs	1,869	1,847	1,646	1,561	1,345	1,367
Assistance for Indigenous Australians nec	2,388	2,431	2,522	2,347	2,422	2,477
General administration	4,526	4,567	4,229	3,576	3,262	3,210
Total social security and welfare	**196,119**	**225,394**	**209,975**	**214,655**	**219,028**	**224,512**
Housing and community amenities						
Housing	2,752	3,735	4,418	3,185	2,508	2,443
Urban and regional development	1,292	1,476	1,606	1,254	1,069	750
Environment protection	1,288	1,743	1,844	1,845	1,940	1,835
Total housing and community amenities	**5,332**	**6,953**	**7,869**	**6,283**	**5,517**	**5,028**
Recreation and culture						
Broadcasting	1,500	1,507	1,524	1,515	1,526	1,537
Arts and cultural heritage	1,439	1,699	1,914	1,672	1,568	1,585
Sport and recreation	544	615	543	478	391	338
National estate and parks	487	584	550	486	474	478
Total recreation and culture	**3,971**	**4,405**	**4,532**	**4,151**	**3,959**	**3,938**
Fuel and energy	**7,892**	**9,090**	**9,638**	**9,546**	**10,069**	**10,567**
Agriculture, forestry and fishing						
Wool industry	58	50	53	56	61	65
Grains industry	199	204	211	206	206	204
Dairy industry	55	53	53	53	54	55
Cattle, sheep and pig industry	230	244	250	254	259	259
Fishing, horticulture and other agriculture	393	483	402	352	345	350
General assistance not allocated to specific industries	39	44	39	39	39	39
Rural assistance	426	1,170	553	448	336	360
Natural resources development	431	859	1,940	1,447	1,141	279
General administration	754	906	982	925	840	841
Total agriculture, forestry and fishing	**2,584**	**4,014**	**4,483**	**3,779**	**3,280**	**2,450**
Mining, manufacturing and construction	**2,819**	**4,394**	**4,354**	**4,230**	**4,138**	**3,739**

Table 6A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m	$m
Transport and communication						
Communication	679	1,244	1,708	1,603	1,379	1,349
Rail transport	555	1,376	2,805	3,436	3,437	3,107
Air transport	935	2,732	1,020	348	273	267
Road transport	4,499	7,765	8,187	11,473	10,595	7,934
Sea transport	438	458	462	463	469	475
Other transport and communication	216	253	277	296	258	191
Total transport and communication	**7,321**	**13,828**	**14,460**	**17,618**	**16,411**	**13,322**
Other economic affairs						
Tourism and area promotion	165	227	199	160	161	164
Total labour and employment affairs	3,810	6,546	7,530	5,541	4,702	4,577
Vocational and industry training	*1,083*	*3,061*	*3,737*	*2,430*	*1,370*	*1,354*
Labour market assistance to job seekers and industry	*2,024*	*2,687*	*2,945*	*2,376*	*2,648*	*2,549*
Industrial relations	*702*	*798*	*848*	*735*	*683*	*674*
Immigration	3,488	3,622	3,694	2,683	2,638	2,746
Other economic affairs nec	58,030	73,424	3,216	2,708	2,604	2,581
Total other economic affairs	**65,494**	**83,819**	**14,640**	**11,091**	**10,103**	**10,068**
Other purposes						
Public debt interest	16,923	17,123	18,196	19,118	20,580	21,873
Interest on Commonwealth Government's behalf	*16,923*	*17,123*	*18,196*	*19,118*	*20,580*	*21,873*
Nominal superannuation interest	7,673	7,004	10,018	10,775	11,372	12,191
General purpose inter-government transactions	64,603	75,250	77,509	81,884	84,795	89,219
General revenue assistance — states and territories	*62,027*	*71,729*	*75,188*	*78,564*	*82,032*	*86,408*
Local government assistance	*2,576*	*3,520*	*2,321*	*3,321*	*2,763*	*2,811*
Natural disaster relief(b)	1,863	748	327	253	92	39
Contingency reserve	0	-2,845	5,055	5,338	12,014	15,091
Total other purposes	**91,062**	**97,279**	**111,106**	**117,368**	**128,853**	**138,414**
Total expenses	**578,549**	**659,437**	**589,334**	**595,378**	**614,665**	**633,694**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the states and territories for veterans' hospital services.
(b) Includes funding for the establishment of the National Recovery and Resilience Agency.

Statement 7: Debt Statement

Using the Government's balance sheet to provide emergency support to limit the economic impact and long-term scarring stemming from the COVID-19 crisis was necessary and prudent. While the unprecedented support has resulted in a significant increase in debt, historically low interest rates mean the cost of servicing debt is relatively low. Furthermore, debt as a share of the economy remains low in comparison with other advanced economies.

Net debt is expected to be 34.2 per cent of GDP at 30 June 2022 and peak at 40.9 per cent of GDP ($980.6 billion) at 30 June 2025, before decreasing to 37.0 per cent of GDP at 30 June 2032.

Details on debt projections over the forward estimates and medium-term can be found in *Statement 3: Fiscal Strategy and Outlook*.

Contents

Statement 7: Debt Statement

Overview

The Debt Statement provides information on current and projected Government gross and net debt, interest costs related to Australian Government Securities (AGS) and details of climate spending, including the extent to which this spending has contributed to debt.

The Government's strong track record of budget management enabled Australia to make effective use of the balance sheet during the COVID-19 pandemic. Prior to the pandemic, the 2019-20 MYEFO forecast that net debt would be 19.5 per cent of GDP ($392.3 billion) at 30 June 2020, declining to 16.9 per cent of GDP ($364.5 billion) at 30 June 2022 and 1.8 per cent of GDP by the end of the medium term at 30 June 2030. As a result of the Government's decisive action in providing unprecedented economic support in response to the COVID-19 pandemic, net debt is now expected to be 34.2 per cent of GDP ($729.0 billion) at 30 June 2022, increasing to a peak of 40.9 per cent of GDP ($980.6 billion) at 30 June 2025, before falling to 37.0 per cent of GDP by the end of the medium term.

The face value of AGS on issue (gross debt) subject to the Treasurer's Direction is expected to be around $963 billion (45.1 per cent of GDP) at 30 June 2022, increasing to around $1,199 billion (50.0 per cent of GDP) at 30 June 2025. Total AGS on issue is projected to stabilise as a share of the economy over the medium term.

Australian 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 AGS.

The Australian Office of Financial Management (AOFM) is responsible for issuing AGS and managing the Government's financing activities. The AOFM currently issues three types of securities:

- **Treasury Bonds:** medium to long-term securities with a fixed annual rate of interest payable every six months.
- **Treasury Indexed Bonds (TIBs)**: medium to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value.
- **Treasury Notes:** short-term discount securities, which mature within one year 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 requirements.

Within these three broad categories of AGS, issuance is undertaken into a limited number of maturities (known as lines). The number of lines on issue is determined by the AOFM as part of its debt portfolio management role. Each line 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 AGS issuance into a limited number of lines (rather than issuing securities with a specific tenor, such as 10 years) ensures each line is sufficiently large that it can be more readily traded in the secondary market. Strong liquidity in the secondary market is attractive to investors and intermediaries, promotes demand for AGS and assists in lowering borrowing costs. All AGS issuance is undertaken in Australian dollars.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is determined on the basis of maturing AGS, net new issuance required to fund the Budget and 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 AGS supply from one financial year to the next.

The AOFM aims to maintain an AGS yield curve out to a 30-year benchmark bond. This facilitates a lower risk profile of maturing debt, broadens the investor base and helps to reduce the impact of interest rate volatility on budget outcomes. Further details on the AOFM's debt issuance program are available on the AOFM website at www.aofm.gov.au.

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 AGS on issue at a point in time. While gross debt is measured in face-value terms, estimates of AGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of AGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[19] The total face value of AGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.
- The **market value** of AGS on issue represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices (often quoted as a yield to maturity). Consistent with external reporting standards, the market value of AGS on issue is reported in the Australian Government general government sector balance sheet.

Net debt is equal to the sum of interest-bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (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 Australian Government than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example, the Government's unfunded superannuation liability is not accounted for in net debt, nor are holdings of equities, for example those held by the Future Fund or the Government's equity investment in the NBN.

Estimates of AGS on issue

Table 7.1 contains estimates of the face value (end-of-year and within-year peak)[20] and the market value (end-of-year) of AGS on issue.

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19 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.

20 End-of-year values are estimates of AGS on issue at 30 June for the particular year. The precise timing and level of within-year peaks of AGS on issue cannot be determined with accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction stipulating the maximum face value of relevant AGS that may be on issue.

As required by the *Charter of Budget Honesty Act 1998*, Table 7.1 reports estimates of AGS on issue subject to the Treasurer's Direction. On 7 October 2020, the Treasurer directed that the maximum face value of AGS that can be on issue is $1,200 billion.

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

Table 7.1: Estimates of AGS on issue subject to the Treasurer's Direction(a)(b)

			Estimates		
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Face value — end-of-year	829	963	1,058	1,134	1,199
Per cent of GDP	40.2	45.1	48.6	49.7	50.0
Face value — within-year peak(c)	841	963	1,058	1,139	1,220
Per cent of GDP(c)	40.8	45.1	48.6	49.9	50.9
Month of peak(c)	*May-21*	*Jun-22*	*Apr-23*	*Apr-24*	*Apr-25*
Market value — end-of-year	892	1,028	1,126	1,207	1,274
Per cent of GDP	43.3	48.2	51.7	52.9	53.2

(a) The Treasurer's Direction applies to the face value of AGS on issue. This table also shows the equivalent market value of AGS that are subject to the Treasurer's Direction.
(b) The stock and securities that are excluded from the current limit set by the Treasurer's Direction are outlined in subsection 51JA(2A) of the CIS Act.
(c) The precise within-year timing of cash receipts and payments is not known. Estimated peaks of AGS on issue are therefore subject to considerable uncertainty.
Source: AOFM.

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

In 2021-22, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around $963 billion, compared with $1,016 billion at the 2020-21 Budget. The end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around $1,199 billion in 2024-25.

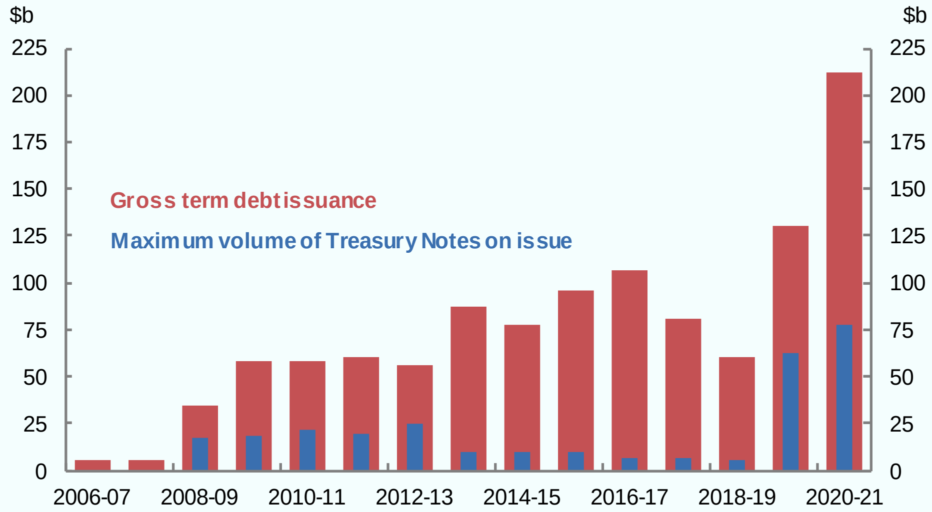
In 2021-22, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around $963 billion. In 2024-25, this is estimated to rise to a within-year peak of $1,220 billion.

Box 7.1: AOFM's issuance strategy during the COVID-19 pandemic

Prior to the pandemic, the largest Treasury bond issuance program was $106 billion in 2016-17 (see Chart 7.1). For March to June 2020 alone, around $90 billion of issuance was required and a total of more than $250 billion was issued from March 2020 to March 2021. This meant there was no precedent to guide whether extremely large weekly bond issuance could be sustained. Early uncertainty was compounded by stress in global financial markets in mid-March 2020 which saw investors rapidly selling bonds in large volumes to meet liquidity needs.

The overriding objective of government cash management is to ensure the Commonwealth can meet its financial obligations at all times. A precautionary cash balance held at the Reserve Bank of Australia (RBA) and access to short-term funding markets (in the form of issuing Treasury Notes) act as a 'buffer' in times of unforeseen stress. During periods of extreme market turbulence, investors seek safety in short-term, low risk places to invest cash, such as Treasury Notes. Together, cash reserves and Treasury Note issuance allowed access to sufficient liquidity while the required bond issuance program was established.

Chart 7.1: Annual bond issuance and Treasury Notes outstanding



Source: AOFM and Treasury projections.

Box 7.1: AOFM's issuance strategy during the COVID-19 pandemic (continued)

The AOFM provided regular updates to funding markets as new information became available to facilitate a smooth build up in bond issuance over the year. The scale of the issuance task was such that bond issuance via competitive tenders alone was judged not to be sufficient. A significant increase in tender volumes was combined with a number of large syndicated issues, in which a panel of banks was engaged to place bonds directly with investors. At the same time Treasury Note issuance was increased to unprecedented levels. The RBA's unconventional monetary policy tools helped to ease market conditions and facilitate smooth absorption of bond issuance.

The Australian response to the extreme financing tasks, in terms of a balanced reliance on bond and Treasury Note issuance and the heavy use of syndications, was consistent with the approaches taken by many OECD countries.

There are a number of factors that meant Australia was well positioned to finance the Government's COVID-19 response: the starting point for issuance programs was low because of declining budget deficits leading into the pandemic; a previous focus on long-dated borrowing had reduced annual refinancing requirements; the Australian Government has the highest possible credit rating (AAA by all major agencies); the AGS market has a strong reputation amongst the international investor community; a relatively large number of banks service the market through the intermediary role; the Australian dollar is a well-understood and liquid currency; and the actions of the RBA ensured functionality of the AGS market.

The events of last year, while unforeseen and unprecedented, are reflective of the depth and strength of the Australian Government's access to global funding markets. Australia remains well positioned to deal with many possible future scenarios given the profile of the debt portfolio, a diverse investor base, strong funding market-facing institutions, and the Government's commitment to its Economic and Fiscal Strategy.

Changes in AGS on issue since the 2020-21 Budget

Table 7.2 shows the change in the estimated end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2020-21 Budget and the 2021-22 Budget.

Gross debt is expected to be lower across all years than estimated at the 2020-21 Budget. The improvement in gross debt is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance since the 2020-21 Budget.

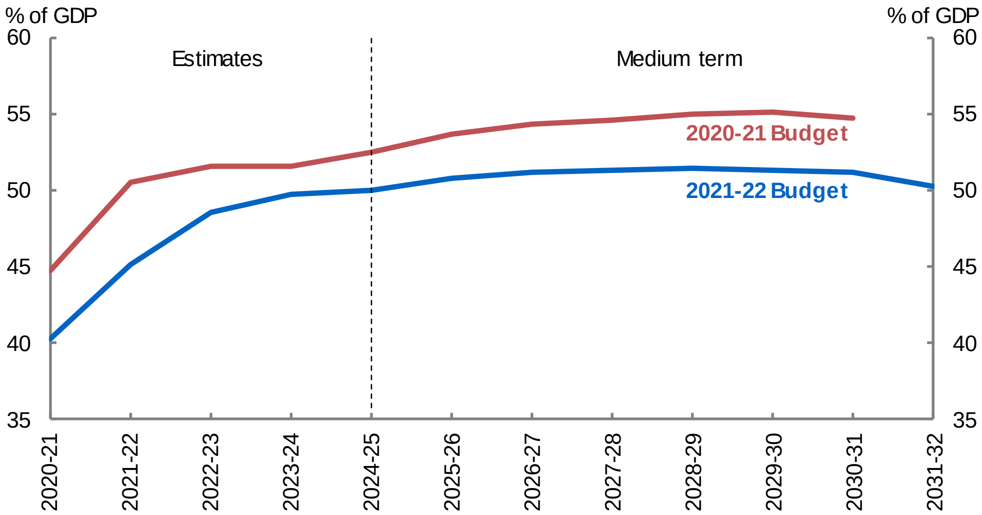
Table 7.2: Estimated AGS on issue subject to the Treasurer's Direction — reconciliation from the 2020-21 Budget to the 2021-22 Budget

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2020-21 Budget	**872**	**1016**	**1083**	**1138**
Factors affecting the change in face value of AGS on issue from 2020-21 Budget to 2021-22 Budget(a)				
Cumulative receipts decisions	0.1	0.5	8.5	23.5
Cumulative receipts variations	-36.1	-66.7	-86.0	-107.5
Cumulative payment decisions	8.2	29.2	48.1	64.2
Cumulative payment variations	-24.8	-21.1	-17.2	-14.3
Cumulative change in net investments in financial assets(b)(c)	-42.2	-67.8	-36.0	-25.6
Other contributors(c)	51.9	72.9	57.7	55.7
Total face value of AGS on issue subject to the Treasurer's Direction as at 2021-22 Budget	**829**	**963**	**1,058**	**1,134**

(a) Cumulative impact of decisions and variations from 2020-21 to 2023-24. 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.
(c) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.
Note: End-of-year data.

The total face value of AGS on issue (gross debt) is expected to rise over the forward estimates and stabilise over the medium term at around 51 per cent of GDP. At the 2020-21 Budget, gross debt was projected to stabilise at around 55 per cent of GDP (Chart 7.2). Gross debt at the 2021-22 Budget is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget.

Chart 7.2: Face value of AGS as a share of GDP



Source: AOFM and Treasury projections.

Breakdown of AGS currently on issue

Table 7.3 provides a breakdown of the AGS on issue by type of security as at 3 May 2021.

Table 7.3: Breakdown of current Australian Government Securities on issue

	On issue as at 3 May 2021	
	Face value	Market value
	$m	$m
Treasury Bonds	764,434	815,848
Treasury Indexed Bonds	38,276	51,998
Treasury Notes	30,750	30,748
Total AGS subject to Treasurer's Direction(a)	**833,459**	**898,595**
Other stock and securities	6	6
Total AGS on issue	**833,465**	**898,601**

(a) The stock and securities that are excluded from the current limit set by the Treasurer's Direction are outlined in subsection 51JA(2A) of the CIS Act.
Source: AOFM.

Treasury Bonds

Table 7.4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 3 May 2021, there were 30 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.6 years and the longest maturity extending to June 2051.

Table 7.4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 3 May 2021 $m	Timing of interest payments(a)		
5.75	15-May-21	25,824	Twice yearly	15-May	15-Nov
2.00	21-Dec-21	16,398	Twice yearly	21-Dec	21-Jun
5.75	15-Jul-22	24,763	Twice yearly	15-Jul	15-Jan
2.25	21-Nov-22	26,500	Twice yearly	21-Nov	21-May
5.50	21-Apr-23	34,200	Twice yearly	21-Apr	21-Oct
2.75	21-Apr-24	32,900	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-24	32,300	Twice yearly	21-Nov	21-May
3.25	21-Apr-25	33,900	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	27,900	Twice yearly	21-Nov	21-May
4.25	21-Apr-26	33,400	Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	30,000	Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	30,700	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	28,000	Twice yearly	21-Nov	21-May
2.25	21-May-28	29,700	Twice yearly	21-May	21-Nov
2.75	21-Nov-28	31,100	Twice yearly	21-Nov	21-May
3.25	21-Apr-29	33,000	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	32,900	Twice yearly	21-Nov	21-May
2.50	21-May-30	36,600	Twice yearly	21-May	21-Nov
1.00	21-Dec-30	36,900	Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	31,300	Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	32,000	Twice yearly	21-Nov	21-May
1.25	21-May-32	23,900	Twice yearly	21-May	21-Nov
1.75	21-Nov-32	14,000	Twice yearly	21-Nov	21-May
4.50	21-Apr-33	14,800	Twice yearly	21-Apr	21-Oct
2.75	21-Jun-35	8,550	Twice yearly	21-Jun	21-Dec
3.75	21-Apr-37	12,000	Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	9,600	Twice yearly	21-Jun	21-Dec
2.75	21-May-41	13,000	Twice yearly	21-May	21-Nov
3.00	21-Mar-47	13,300	Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	15,000	Twice yearly	21-Jun	21-Dec

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

Treasury Indexed Bonds

Table 7.5 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 3 May 2021, there were 7 TIB lines on issue, with a weighted average term to maturity of around 9.5 years and the longest maturity extending to February 2050.

Table 7.5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 3 May 2021 $m	Timing of interest payments(a)				
1.25	21-Feb-22	6,840	Quarterly	21-Feb	21-May	21-Aug	21-Nov
3.00	20-Sep-25	7,743	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
0.75	21-Nov-27	6,100	Quarterly	21-Nov	21-Feb	21-May	21-Aug
2.50	20-Sep-30	5,743	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
2.00	21-Aug-35	4,350	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.25	21-Aug-40	3,650	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.00	21-Feb-50	3,850	Quarterly	21-Feb	21-May	21-Aug	21-Nov

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: AOFM.

Treasury Notes

Table 7.6 lists the Treasury Notes currently on issue. As at 3 May 2021 there were five Treasury Note lines on issue. Treasury Notes do not pay a coupon.

Table 7.6: Treasury Notes on issue

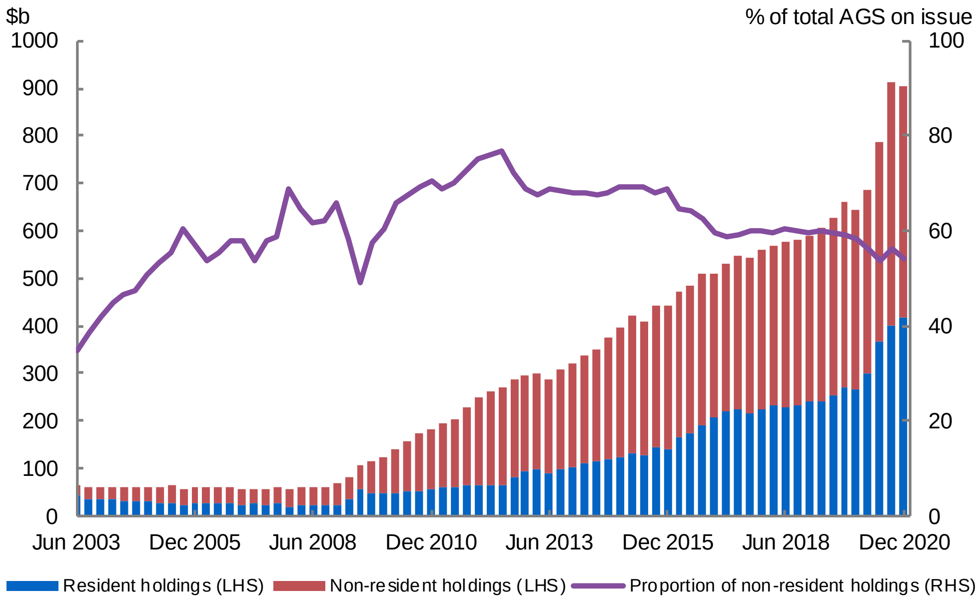
Maturity	On issue as at 3 May 2021 $m	Timing of interest payment	
21-May-21	8,000	At maturity	21-May
25-Jun-21	8,500	At maturity	25-Jun
23-Jul-21	6,500	At maturity	23-Jul
27-Aug-21	4,250	At maturity	27-Aug
24-Sep-21	3,500	At maturity	24-Sep

Source: AOFM.

Non-resident holdings of AGS on issue

As at the December quarter 2020, the proportion of non-resident holdings of AGS was around 54 per cent (Chart 7.3). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 7.3: Non-resident holdings of AGS



Note: Data refer to the repo-adjusted market value of holdings.
Source: ABS Balance of Payments and International Investment Position, Australia December 2020, AOFM, RBA.

Estimates and projections of net debt

Table 7.7 contains the liabilities and assets included in net debt over the forward estimates.

Net debt is expected to be $729.0 billion (34.2 per cent of GDP) at 30 June 2022 and increase to $980.6 billion (40.9 per cent of GDP) at 30 June 2025.

Table 7.7: Liabilities and assets included in net debt

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	484	484	484	484	484
Government securities(a)	891,811	1,028,091	1,126,277	1,207,245	1,274,052
Loans	16,345	16,125	16,091	16,073	16,101
Other borrowing	19,527	19,991	20,071	19,480	18,494
Total liabilities included in net debt	**928,166**	**1,064,691**	**1,162,923**	**1,243,281**	**1,309,131**
Assets included in net debt					
Cash and deposits(b)	46,693	61,795	43,691	42,473	40,883
Advances paid	82,235	85,655	88,321	76,384	77,706
Investments, loans and placements(b)	181,717	188,218	195,897	203,976	209,981
Total assets included in net debt	**310,645**	**335,668**	**327,909**	**322,833**	**328,570**
Net debt	**617,521**	**729,023**	**835,015**	**920,448**	**980,561**

(a) Government securities are presented at market value.
(b) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Changes in net debt since the 2020-21 Budget

Table 7.8 shows the drivers of the change in net debt between the 2020-21 Budget and the 2021-22 Budget.

Net debt is expected to be lower than estimated at the 2020-21 Budget across all years of the forward estimates. The improvement in net debt since the 2020-21 Budget is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields than were assumed at the 2020-21 Budget.

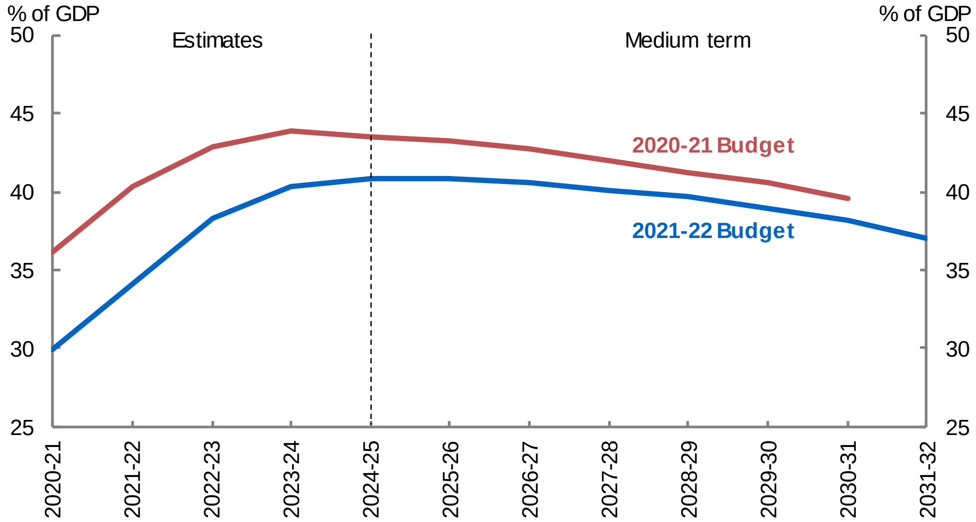
Table 7.8: Net debt — reconciliation from the 2020-21 Budget to the 2021-22 Budget

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	$b	$b	$b	$b
Net debt as at 2020-21 Budget	**703.2**	**812.1**	**899.8**	**966.2**
Changes in financing requirement	-52.4	-62.9	-35.4	-10.8
Impact of yields on AGS	-34.1	-33.1	-29.7	-25.5
Asset and other liability movements	0.7	12.9	0.3	-9.4
Cash and deposits(a)	*-40.9*	*-55.8*	*-37.0*	*-36.4*
Advances paid	*4.8*	*3.5*	*2.3*	*-4.7*
Investments, loans and placements(a)	*36.8*	*65.6*	*35.3*	*31.9*
Other movements	*0.1*	*-0.4*	*-0.4*	*-0.3*
Total movements in net debt from 2020-21 Budget to 2021-22 Budget	**-85.7**	**-83.1**	**-64.8**	**-45.7**
Net debt as at 2021-22 Budget	**617.5**	**729.0**	**835.0**	**920.4**

(a) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Net debt is estimated to rise over the forward estimates, peaking at 40.9 per cent of GDP at 30 June 2025, before improving over the medium term to reach 37.0 per cent of GDP at 30 June 2032 (Chart 7.4). At the 2020-21 Budget, net debt was projected to be 39.6 per cent of GDP at 30 June 2031. Net debt at the 2021-22 Budget is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget.

Chart 7.4: Net debt as a share of GDP



Source: Treasury projections.

Further details on changes to the fiscal outlook, including the medium term, since the 2020-21 Budget can be found in *Statement 3: Fiscal Strategy and Outlook*.

Interest on AGS

The interest costs related to AGS 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 AGS on issue include the cost of AGS already on issue and future AGS issuance.

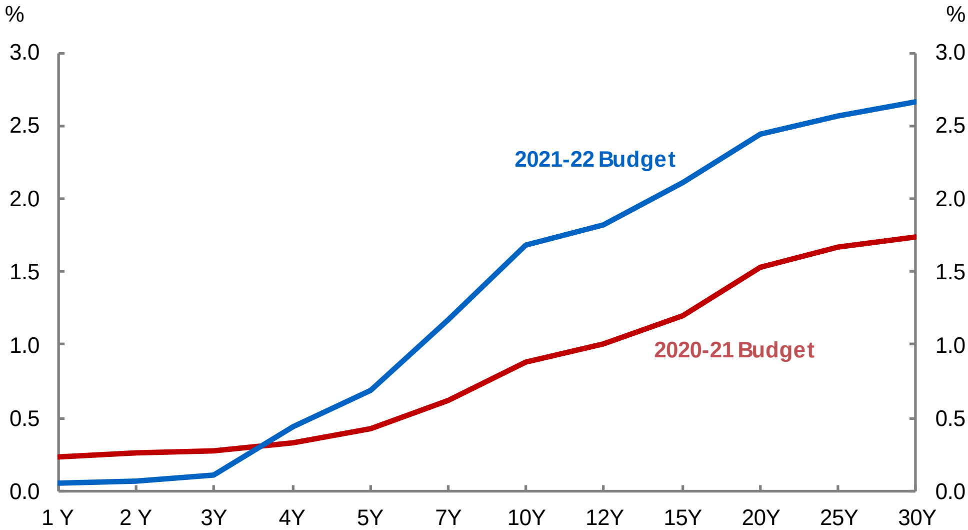
- The cost of AGS already on issue uses the actual interest rates incurred at the time of issuance.

- The expected future issuance of AGS 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 2021-22 Budget result in a weighted average cost of borrowing of around 1.6 per cent for future issuance of Treasury Bonds over the forward estimates, compared with around 0.8 per cent at the 2020-21 Budget. The increased weighted average cost of borrowing primarily reflects investor confidence in the strength of Australia's recovery and the outlook for growth and inflation.

Chart 7.5 shows the yield curve assumptions underpinning the 2020-21 Budget and the 2021-22 Budget. For the 2021-22 Budget, an average of daily spot rates was used to derive a fixed yield for the forward estimates to minimise the likelihood of locking in high or low yields during volatile periods.

Chart 7.5: Yield curve assumptions from 2021-22 to 2024-25



Source: AOFM.

The Government's total interest payments in 2021-22 are estimated to be $17.8 billion, of which $17.3 billion relates to AGS on issue (Table 7.9).

Interest payments on AGS are expected to remain broadly consistent as a share of GDP over the forward estimates and broadly in line with estimates at the 2020-21 Budget, reflecting historically low interest rates.

Table 7.9: Interest payments, interest receipts and net interest payments[(a)]

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Interest payments on AGS	16,658	17,319	17,519	19,573	20,354
Per cent of GDP	0.8	0.8	0.8	0.9	0.8
Interest payments	17,121	17,789	18,002	20,060	20,834
Per cent of GDP	0.8	0.8	0.8	0.9	0.9
Interest receipts	2,995	3,063	3,080	3,363	3,721
Per cent of GDP	0.1	0.1	0.1	0.1	0.2
Net interest payments(b)	14,126	14,727	14,922	16,698	17,113
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.
(b) Net interest payments are equal to the difference between interest payments and interest receipts.

The Government's interest expense in 2021-22 is estimated to be $19.5 billion, of which $18.2 billion relates to AGS on issue. Table 7.10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

Table 7.10: Interest expense, interest income and net interest expense[(a)]

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Interest expense on AGS	17,041	18,164	19,085	20,548	21,841
Per cent of GDP	0.8	0.9	0.9	0.9	0.9
Interest expense	19,812	19,519	20,137	21,889	22,969
Per cent of GDP	1.0	0.9	0.9	1.0	1.0
Interest income	2,901	3,621	3,403	3,727	4,094
Per cent of GDP	0.1	0.2	0.2	0.2	0.2
Net interest expense(b)	16,911	15,898	16,734	18,161	18,875
Per cent of GDP	0.8	0.7	0.8	0.8	0.8

(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.

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 7.11.

Table 7.11: Climate spending from 2020-21 to 2024-25

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Climate spending(a)(b)	1.4	1.9	1.5	1.9	1.4

(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.
(b) These figures do not include expected repayments from the Clean Energy Finance Corporation over the forward estimates.

The key components of climate spending are:

- the Clean Energy Finance Corporation (CEFC), which invests in renewable energy, energy efficiency and low emissions technologies
- the Australian Renewable Energy Agency (ARENA), which supports research and development of renewable energy and related technologies
- the Clean Energy Regulator, which administers legislation to reduce carbon emissions and increase the use of clean energy.

The above figures incorporate the:

- $1.6 billion package in the 2021-22 Budget to fund priority low emissions technologies
- $1.9 billion package over 12 years from 2020-21 to support the acceleration of technologies that will deliver lower emissions, increase investment, lower costs and create jobs to support the economic recovery
- $3.5 billion over 15 years from 2018-19 for the Climate Solutions package, which provides incentives to support abatement activities across the economy.

Climate spending is higher from 2021-22 onwards in the 2021-22 Budget compared to the 2020-21 Budget, primarily due to the new measures in the climate package and a reprofiling of CEFC funding reflecting the impact of COVID-19. Spending is lower in 2020-21 primarily due to the COVID-19 impact of markets conditions for the CEFC and ARENA.

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 7.12.

Table 7.12: Impact on debt — climate spending as a proportion of total spending

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b	$b
Climate spending(a)	1.4	1.9	1.5	1.9	1.4
Total Spending(b)	685	610	616	598	637
Climate spending (per cent of total spending)	0.2	0.3	0.2	0.3	0.2
Change in face value of AGS from previous year(c)	145	134	95	76	65
Contribution to change in face value of AGS from climate spending	0.3	0.4	0.2	0.2	0.1

(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 AGS are calculated using total AGS on issue.

Statement 8: Forecasting Performance and Sensitivity Analysis

The economic and fiscal forecasts and projections presented in the 2021-22 Budget incorporate a range of assumptions taken, and judgments made, at the time of preparation. While these figures reflect the best available information at the time, the economic and fiscal circumstances that eventuate may be different from those forecast.

These divergences may occur at any time, however, heightened uncertainty, as a result of the continuing COVID-19 pandemic, could increase the extent to which the forecasts vary from the ultimate outcomes.

This Statement assesses the performance of previous forecasts as well as the inherent risk around the current forecasts using confidence interval analysis. The Statement also presents sensitivity analyses that illustrate the impacts of alternative underlying assumptions.

Contents

Statement 8: Forecasting Performance and Sensitivity Analysis

Overview

Economic and fiscal forecasts and projections (hereafter referred to as 'forecasts' in this Statement) are important for government decision making. Understanding how economic and fiscal outcomes might vary from these forecasts contributes to better decision making and better government policy. While this analysis is always important, the current environment of heightened uncertainty increases the scope for variance.

This Statement assesses the performance of previous budget forecasts by looking at the forecast errors over the past two decades. This is achieved by analysing the variance between historical forecasts and outcomes in each year.

Forecast errors are also used to assess the likely degree of uncertainty around the current forecasts. This analysis, referred to as confidence interval analysis, assesses the degree of uncertainty surrounding current forecasts. There are a number of ways to measure uncertainty. Confidence intervals in this Statement are based on historical forecast errors. However, the continuing uncertainty surrounding the implications of the COVID-19 response and recovery means that forecast errors could potentially be larger than in the past.

Finally, this Statement assesses the sensitivity of the 2021-22 Budget forecasts to changes in key underlying assumptions.

These assessments are consistent with requirements under the *Charter of Budget Honesty Act 1998*. Further, they are consistent with the practice of many other international fiscal agencies to improve forecasting performance and to raise awareness of the uncertainties inherent in forecasting.

Assessing historical forecasting performance

This section assesses the variance between historical forecasts and outcomes in each year for real and nominal GDP growth as well as for tax receipts. Economic forecasts are prepared using a range of modelling techniques, including macroeconomic models, spreadsheet analysis and accounting frameworks. Tax receipts forecasts are generally prepared using a 'base plus growth' methodology. The last outcome for each head of revenue is the base to which growth rates are applied, using appropriate economic parameters. Estimates for the current year also incorporate recent trends in tax collections.

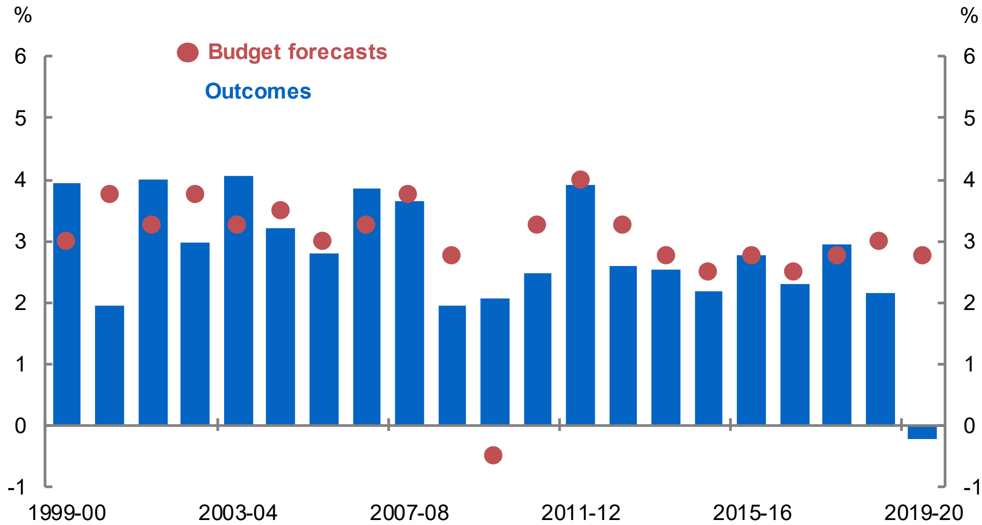
Forecasts incorporate a number of assumptions and judgments. The accuracy of the forecasts is influenced by the extent to which the assumptions and judgments underpinning them prove to be correct, and the reliability of the economic and fiscal relationships embodied in the models used to produce them. For example, tax receipts forecasts for a number of income taxes involves assessing 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 tax on capital gains for companies and individuals.

Economic forecasting performance

Real GDP forecasts incorporate a number of assumptions, including those regarding exchange rates, interest rates, commodity prices and population growth. The forecasts also incorporate judgments about how developments in one part of the economy affect other parts and how the domestic economy is affected by events in the international economy.

Prior to the Global Financial Crisis (GFC), the Budget forecasts of real GDP displayed little evidence of bias. Forecasts of real GDP growth were less accurate in the years during and immediately after the GFC, given that it was an unforeseen event and there was heightened uncertainty regarding the economic ramifications. Forecast errors have been smaller in recent years with the notable exception of 2019-20, reflecting the impacts of the COVID-19 pandemic on the economy (Chart 8.1).

Chart 8.1: Comparison of forecasts and outcomes for real GDP growth

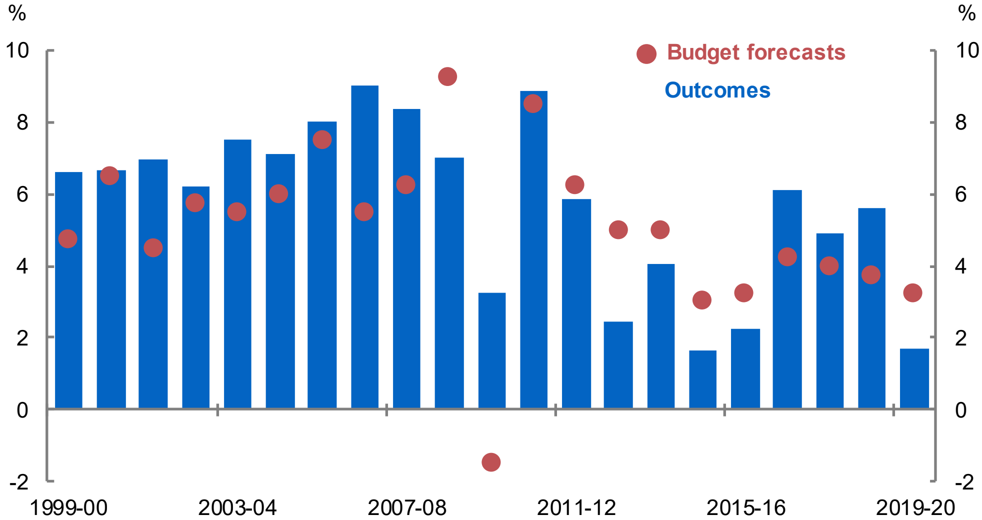


Note: Outcome is as published in the December quarter 2020 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

Compared with real GDP forecasts, nominal GDP forecasts include a prices component which is an additional source of uncertainty. This uncertainty stems from the evolution of domestic prices and wages, prices of imported goods and world prices for Australia's exports, including commodities.

Since the early 2000s, nominal GDP forecast errors have reflected the difficulties in predicting movements in global commodity prices (Chart 8.2). 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 growth was overestimated. The outcomes for nominal GDP growth from 2016-17 to 2018-19 were higher than forecast in the Budgets for those years, primarily reflecting stronger-than-expected commodity prices. The large forecast error in 2019-20 was due to the onset of the COVID-19 pandemic, which was unknown at the time the forecast was made.

Chart 8.2: Comparison of forecasts and outcomes for nominal GDP growth

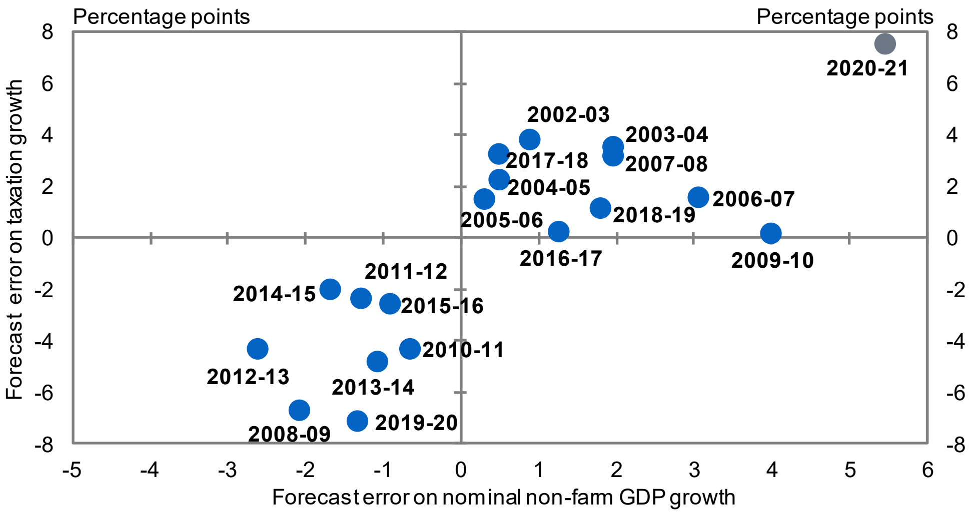


Note: Outcome is as published in the December quarter 2020 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

Tax receipts forecasting performance

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 the personal income tax system. Chart 8.3 plots the forecast errors for nominal non-farm GDP growth against the errors for tax receipts growth 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.

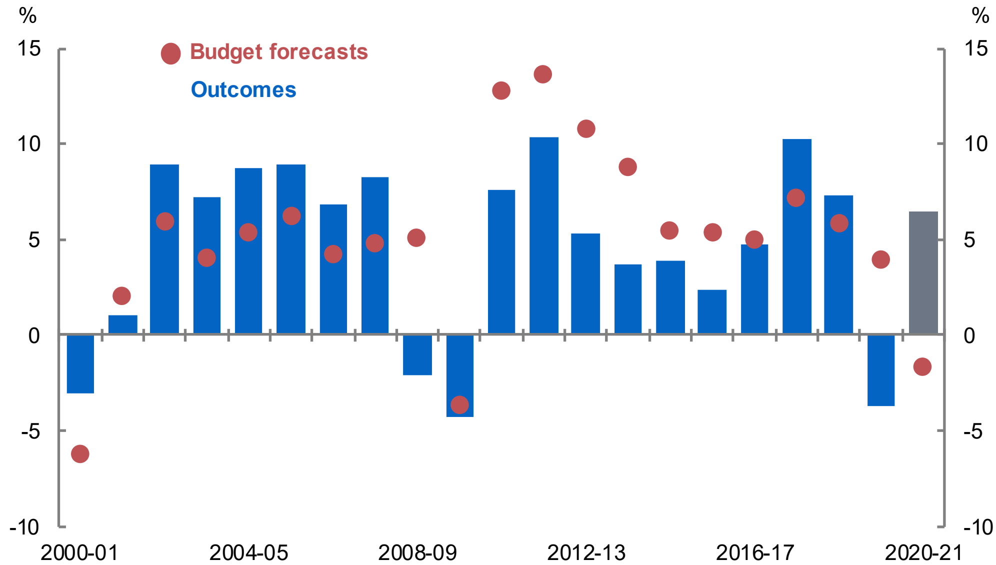
Chart 8.3: Forecast errors for nominal non-farm GDP growth and taxation receipts growth[(a)]



(a) Excludes CGT.
Note: Forecast error for 2020-21 is an estimate.
Source: ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Over the past two decades, tax receipts forecasts have both under-predicted and over-predicted outcomes (see Chart 8.4).

Chart 8.4: Comparison of forecasts and outcomes for tax receipts growth



Note: Forecast error for 2020-21 is an estimate.
Source: Budget papers and Treasury.

The forecast error for 2020-21 is an estimate based on the revised 2021-22 Budget forecast. The largest contributor to the forecast error for 2020-21 is individuals and other withholding taxation, which is estimated to be $10.6 billion (4.9 per cent) higher than expected in the 2020-21 Budget. This largely reflects stronger-than-expected employment and faster-than-expected repayment of individuals' tax debts. Receipts from GST are estimated to be $9.8 billion (16.3 per cent) above the 2020-21 Budget estimate, reflecting stronger-than-expected household consumption and private dwelling investment, and earlier repayment of GST debt than anticipated. Company tax receipts are expected to be $8.8 billion (10.4 per cent) higher than forecast at the 2020-21 Budget. This is largely driven by higher-than-expected collections from mining companies due to elevated iron ore prices. These and other variations are discussed further in *Statement 5: Revenue*.

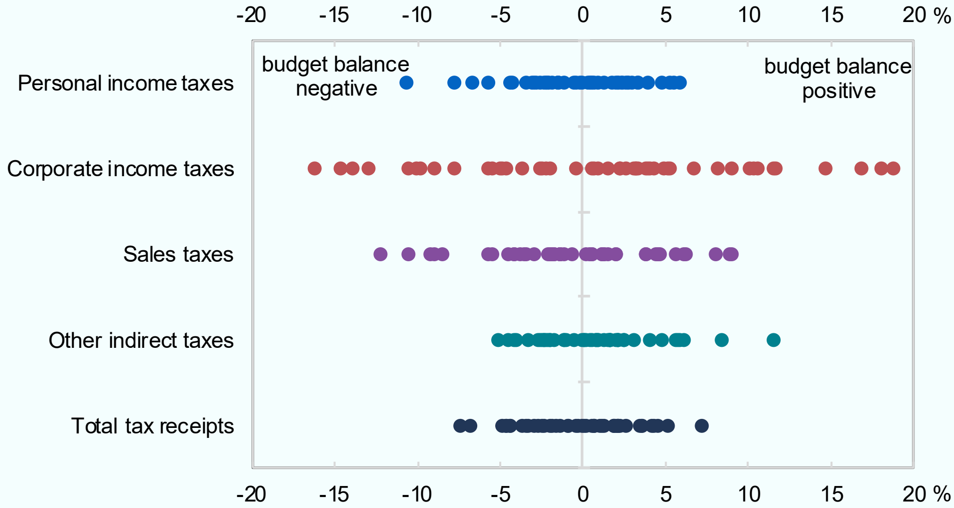
Box 8.1 shows the varying volatility of forecast errors across the different heads of revenue. Of note is that corporate income taxes have larger forecast errors than other revenue bases which reflects the high concentration of tax paid by a small group of companies.

Box 8.1: Tax receipts forecast performance in historical context

A stable and predictable tax system can support sound fiscal management. Accurate tax receipts forecasts allow government to make decisions about spending and debt management with confidence. Chart 8.5 shows that over the past 50 years, tax receipts forecasts for all heads of revenue have both under-predicted and over-predicted outcomes, in broadly equal measure (suggesting forecasts over this horizon do not show a material bias). There is, however, significant year-to-year variance in estimate accuracy. Variance of errors for total tax receipts estimates are smaller than those for individual heads of revenue, which highlights the benefits of diversified tax bases in providing revenue stability.

Forecasting errors have been lower on personal income taxes, reflecting the relative predictability of salary and wage income. By contrast, forecasting errors have been far higher for corporate income taxes, as company profits are highly sensitive to changes in the economy, and concentrated — with a significant proportion of corporate taxes paid by large companies in a few specific sectors of the economy.

Chart 8.5: Tax receipts forecast errors by head of revenue



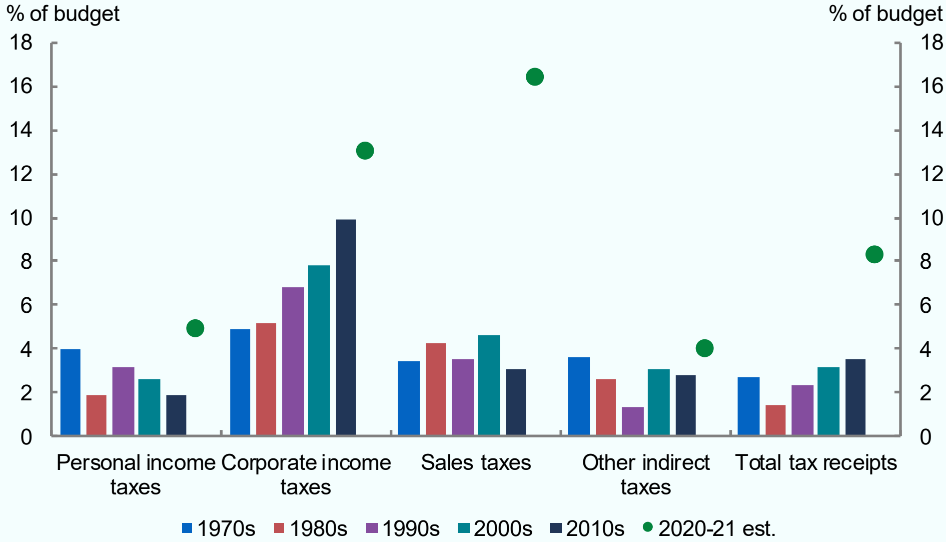
Note: Reporting of tax receipts has varied across budgets (1970-71 to 2019-20). Personal income taxes include individuals and other withholding taxes and fringe benefits tax. Corporate income taxes include company tax, superannuation fund taxes and resource rent taxes. Sales taxes include wholesales sale tax, goods and services tax, luxury car tax and wine equalisation tax. Other indirect taxes include all other taxes, including excise and customs duty.

Source: Budget papers and Treasury.

Box 8.1: Tax receipts forecast performance in historical context (continued)

As Chart 8.6 shows, the decade average absolute error on total tax receipts has increased over the past 30 years from around 2.3 per cent of budget forecasts in the 1990s to 3.5 per cent of budget forecasts in the 2010s.

Chart 8.6: Tax receipts absolute forecast errors by head of revenue (error as a per cent of the budget forecast), decade average



Note: Forecast error for 2020-21 is an estimate.
Source: Budget papers and Treasury.

The increase in the variance of total tax receipts has been driven by increases to the variance of corporate income taxes. The higher variance in forecast accuracy in corporate income taxes is driven by the resources sector, as profits are highly exposed to volatile global commodity prices, and have grown as a share of the economy over the past 20 years. In contrast, personal income taxes have seen declining average absolute errors, and sales and other indirect taxes have largely recorded stable average absolute errors.

If corporate tax revenue continues to be heavily exposed to mining related volatility, total tax receipts can be expected to remain volatile, posing challenges to managing fiscal policy.

Assessing current forecasts through confidence interval analysis

Confidence interval analysis in a COVID-19 context

This Statement presents confidence intervals consistent with practice in previous budget updates. The confidence intervals provide a guide to the degree of uncertainty around current forecasts if it is assumed that forecast errors are consistent with forecast errors since 1997-98.[21]

However, forecast errors in the future will not necessarily be consistent with historical forecast errors. Forecast errors can be larger than usual during periods of extreme economic volatility and heightened uncertainty, such as the current once-in-a-hundred-year pandemic. During such periods, the range of possible outcomes for economic and fiscal estimates can be considerably wider than normal. The large forecast errors in 2019-20, due to the unforeseen nature of the COVID-19 pandemic, are captured in the historical dataset.

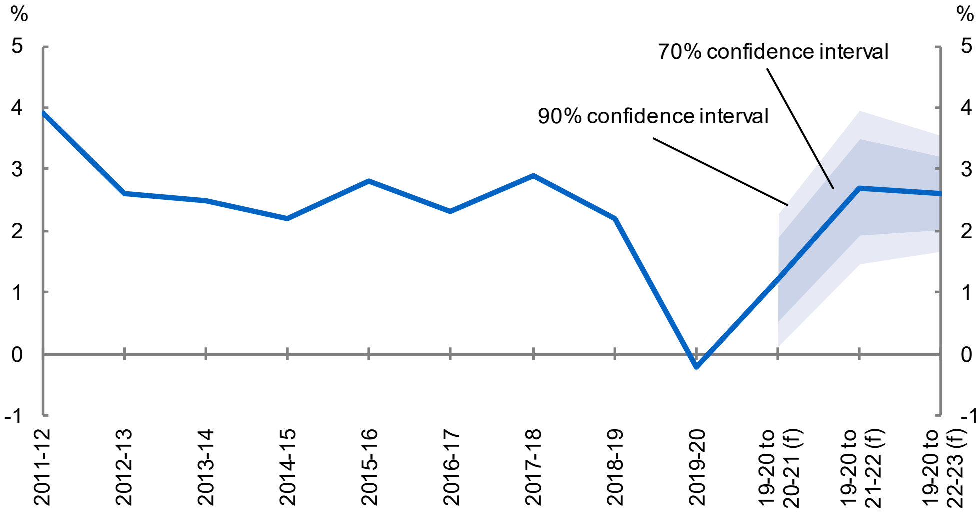
However, as the pandemic is still progressing and the outlook remains uncertain, there is a possibility that the future outcomes fall outside of the typical confidence intervals presented in this Statement. Delays in the vaccine rollout, the emergence of additional strains of the virus, or alternatively, a more rapid recovery, are possible significant events that could cause forecasting errors to be larger than normal. Similarly, the confidence intervals do not capture potential future policy decisions, including those that could be implemented to further contain the spread of the virus and to further support households and businesses.

Economic uncertainty based on historical forecast errors

Based on forecast errors for real GDP in the past, Chart 8.7 shows the degree of variance around the current forecasts if similar magnitude errors were made again. The chart suggests that the average annualised growth rate of real GDP in the two years to 2021-22 is expected to be around 2¾ per cent, with the 70 per cent confidence interval ranging from 2 per cent to 3½ per cent. The 90 per cent confidence interval ranges from 1½ per cent to 4 per cent. In other words, if forecast errors are similar to those made over recent years, there is a 90 per cent probability that the average annualised growth rate of the economy over the two years to 2021-22 will lie in this range.

21 The assumptions behind the confidence intervals presented are based on the methodology presented in the Treasury Working Paper *Estimates of Uncertainty around Budget Forecasts*. As in the paper, it is assumed that forecast errors are normally distributed with zero mean and the past errors are representative of the future errors.

Chart 8.7: Confidence intervals around real GDP growth rate forecasts

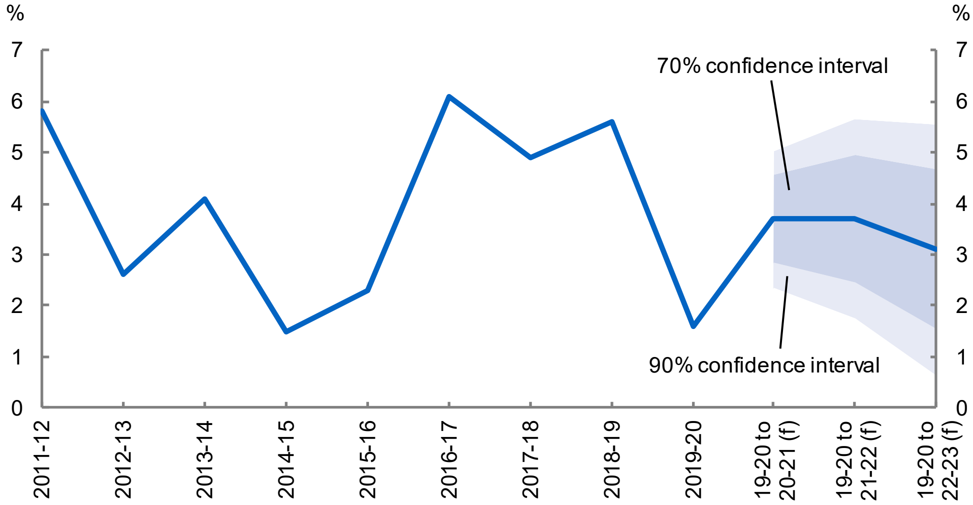


Note: The central line shows the outcomes and the 2021-22 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2019-20 are reported for 2020-21 onwards. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1997-98 onwards. (f) are forecasts.

Source: December quarter 2020 ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

The confidence intervals around the nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting the uncertainty around domestic prices and commodity prices. Average annualised growth in nominal GDP in the two years to 2021-22 is expected to be around 3¾ per cent, with the 70 per cent confidence interval ranging from 2½ per cent to 5 per cent. The 90 per cent confidence interval ranges from 1¾ per cent to 5¾ per cent (Chart 8.8).

Chart 8.8: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 8.7.
Source: December quarter 2020 ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Fiscal uncertainty based on historical forecast errors

The fiscal estimates contained in the Budget are based on, and are highly sensitive to, economic and demographic forecasts as well as estimates of the impact of spending and revenue measures. Changes to any of these factors will affect forecasts for receipts and payments. As such, this will have a direct impact on the profile of the underlying cash balance.

Historical variations caused by subsequent policy decisions are excluded as these do not relate to the forecasting errors presented in this section. However, payments estimates include the public debt interest impact of policy decisions and a provision for contingencies.[22]

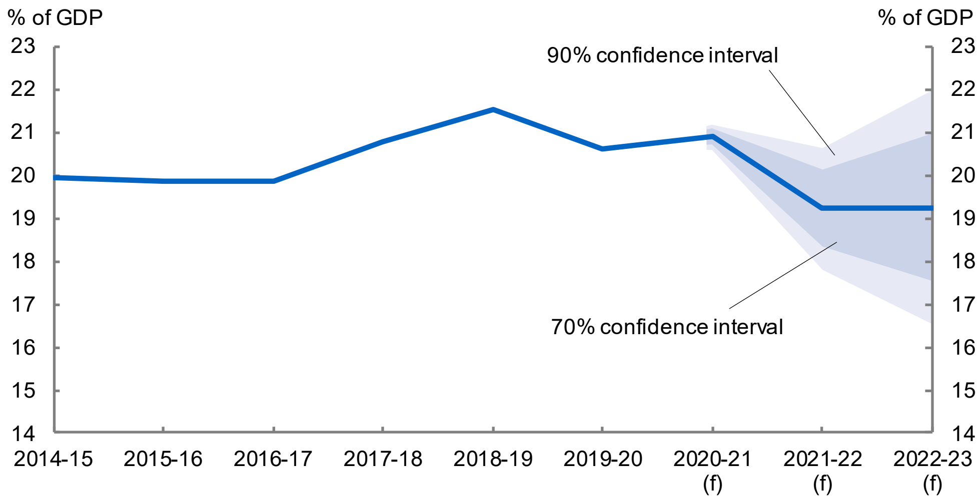
22 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the confidence interval analysis.

Total receipts

Chart 8.9 shows confidence intervals around the forecasts for total receipts (excluding GST[23]). The chart shows that there is considerable uncertainty around receipts forecasts and that this uncertainty is likely to increase as the forecast horizon lengthens.

Total receipts (excluding GST) are expected to be around 19.2 per cent of GDP in 2021-22, with the 70 per cent confidence interval ranging from 18.3 per cent to 20.1 per cent of GDP. The 90 per cent confidence interval ranges from 17.8 per cent to 20.6 per cent (Chart 8.9).

Chart 8.9: Confidence intervals around total receipts forecasts[(a)]



(a) Excludes GST and includes Future Fund earnings.
Note: The central line shows the outcomes and the 2021-22 Budget forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1997-98 Budget onwards. (f) are forecasts.
Source: Budget papers and Treasury.

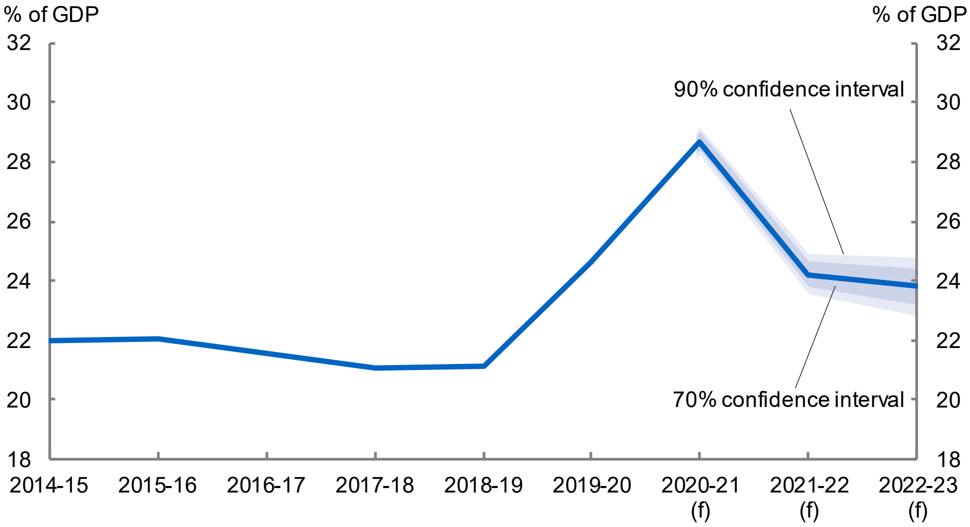
Payments

Chart 8.10 shows confidence intervals around payments forecasts (excluding GST). Payments (excluding GST) are expected to be around 24.2 per cent of GDP in 2021-22, with the 70 per cent confidence interval ranging from 23.8 per cent to 24.6 per cent of GDP. The 90 per cent confidence interval ranges from 23.6 per cent to 24.9 per cent (Chart 8.10).

23 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.

Automatic stabilisers have operated to provide support during the pandemic. 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. Due to the uncertainty in the economic forecasts as a result of the COVID-19 pandemic, Chart 8.10 is likely to understate the range of possible outcomes for payments.

Chart 8.10: Confidence intervals around payments forecasts[(a)]

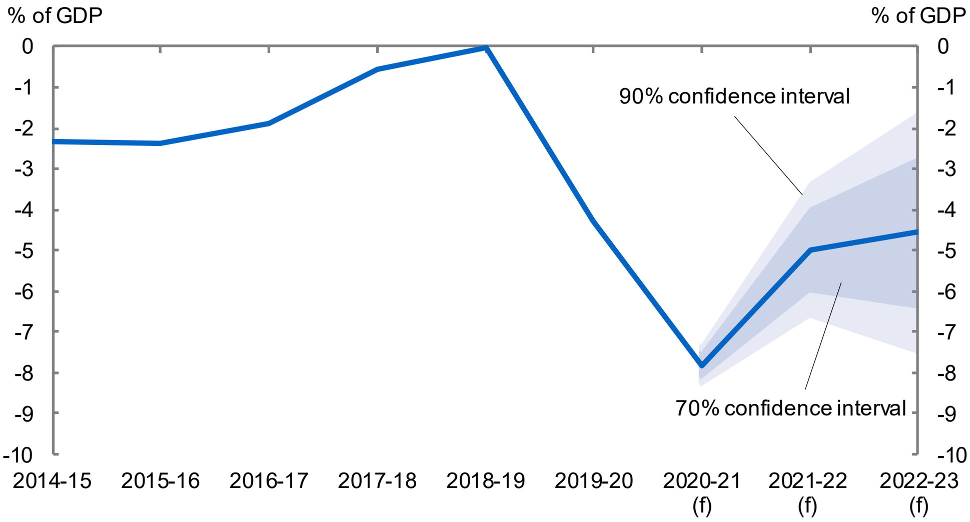


(a) Excludes GST payments.
Note: See note to Chart 8.9.
Source: Budget papers and Treasury.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Chart 8.11 shows that there is considerable uncertainty around underlying cash balance forecasts and that this uncertainty is likely to increase as the forecast horizon lengthens. The underlying cash deficit in 2021-22 is expected to be 5.0 per cent of GDP, with the 70 per cent confidence interval ranging from a deficit of 6.0 per cent to 3.9 per cent of GDP. The 90 per cent confidence interval ranges from a deficit of 6.7 per cent to 3.3 per cent (Chart 8.11).

Chart 8.11: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 8.9.
Source: Budget papers and Treasury.

Assessing current forecasts through sensitivity analysis

Sensitivity analysis provides an alternative way to examine the uncertainty surrounding current forecasts. Sensitivity analysis assesses the degree of uncertainty by considering alternative assumptions for key variables. In doing so, sensitivity analysis can illustrate the impact of small changes in assumptions on economic and fiscal aggregates.

As discussed earlier in this Statement, there is a greater level of uncertainty around the forecasts due to the COVID-19 pandemic. The scale of the shock is unprecedented in most Australians' lifetimes. As such, it is difficult to estimate the impact that the COVID-19 pandemic will have on Australia's economy in the short and medium term. The sensitivity analysis in this section aims to shed light on the range of outcomes that could arise under different assumptions.

There are a range of variables that could have different outcomes from those assumed in the forecasting process. However, the terms of trade, productivity, and yields have been chosen for the following sensitivity analysis as they are all fundamental to Australia's economic and fiscal outcomes and have varied considerably over time.

Alternative pathways for commodity exports and the terms of trade

Non-rural commodity exports play a key role in Australia's economy. World prices of non-rural commodities are affected by many factors, are volatile and are uncertain.

This analysis considers the consequences of a permanent 10 per cent increase in world prices of non-rural commodity exports from 2021-22, relative to baseline levels in the 2021-22 Budget forecasts. It is assumed that the exchange rate appreciates in response to an increase in non-rural commodity prices.

The 10 per cent increase in the assumed price for non-rural commodity exports is expected to result in an increase in the terms of trade of 4¾ per cent and a rise in nominal GDP of ½ of a per cent by 2022-23. The change in the terms of trade varies over time in line with how non-rural commodity exports shift as a proportion of total exports. The impact on nominal GDP is stronger than presented in the 2020-21 Budget as the share of non-rural commodity exports in economic activity has increased.

Table 8.1 shows the illustrative effects of the higher price for commodity exports on economic parameters, expressed as percentage deviations from the Budget baseline levels.

Table 8.1: Sensitivity of the economic parameters to a 10 per cent increase in non-rural commodity prices

	Impact after 1 year (2021-22)	Impact after 2 years (2022-23)
	per cent	per cent
Real GDP	0	0
GDP deflator	3/4	1/2
Nominal GDP	3/4	1/2
Employment	0	- 1/4
Nominal wages	0	0
CPI	- 1/4	- 1/4
Company profits	2 3/4	2 3/4
Nominal household consumption	- 1/4	- 1/2

Under this analysis, the increase in non-rural commodity export prices leads directly to higher output prices as measured by the GDP deflator. However, the appreciation in the exchange rate reduces import prices which flows through to lower consumer price inflation. Lower consumer price inflation partially offsets the increase in output prices. Output, investment and export volumes in the mining sector increase in response to higher non-rural commodity prices. However, the higher exchange rate leads to a substitution towards imports which offsets the higher output in the mining sector, so that the impact on real output is neutral.

On the receipts side, an increase in non-rural commodity export prices increases company profits and, as a result, company tax receipts. The impact on company tax is larger in 2022-23, partly owing to lags in tax collections and a larger impact on company profits in the second year of the analysis. This is partially offset by lower employment resulting in lower individuals and other withholding taxes and lower domestic prices resulting in lower nominal consumption and, consequently, reductions in indirect taxes.

In practice, the extent of these offsetting price effects on tax receipts would depend on the monetary policy response of the central bank to the lower growth in domestic prices. However, under current circumstances, there is limited scope for monetary policy to offset price effects.

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). Many forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions, unemployment benefits and other allowances) decreases over the two years. This reflects a small increase in the number of unemployment benefit recipients as a result of output growth shifting to the less labour-intensive mining industry. The increase in spending on unemployment benefits is more than offset in the second year by decreased expenditure on pensions and allowances reflecting slower growth in benefit payment rates, resulting from slightly lower inflation. At the same time, other payments linked to inflation are also lower in line with the weaker growth in prices.

Table 8.2 shows the illustrative effects of the higher price for commodity exports on the underlying cash balance, expressed as nominal deviations from the Budget baseline levels. The overall impact of the increase in the terms of trade is an improvement in the underlying cash balance estimates of $3.2 billion in 2021-22 and $3.3 billion in 2022-23.

Table 8.2: Sensitivity of the fiscal forecasts to a 10 per cent increase in non-rural commodity prices

	2021-22	2022-23
	$b	$b
Receipts		
Individuals and other withholding taxes	0.0	-1.4
Superannuation fund taxes	0.0	-0.1
Company tax	3.2	4.4
Goods and services tax	-0.2	-0.2
Excise and customs duty	-0.1	-0.1
Other receipts	0.1	0.1
Total receipts	**3.0**	**2.7**
Payments		
Income support	-0.1	0.1
Other payments	0.1	0.2
Goods and services tax	0.2	0.2
Total payments	**0.2**	**0.6**
Public debt interest	0.0	0.1
Underlying cash balance impact	**3.2**	**3.3**

Note: Numbers may not sum due to rounding. A positive number denotes an improvement to the underlying cash balance.

The specific impact of a US$10 per tonne free-on-board (FOB) higher or lower iron ore price is outlined in Box 8.2.

Box 8.2: Sensitivity analysis of iron ore price movements

The impacts of a US$10 per tonne FOB movement in the iron ore price is set out in Table 8.3. This is based on the terms of trade sensitivity analysis above 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 $6.5 billion in 2021-22 and around $5.7 billion in 2022-23. 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 8.3: Sensitivity analysis of a US$10 per tonne movement in the iron ore price

	US$10/tonne FOB[(a)] fall		US$10/tonne FOB increase	
	2021-22	2022-23	2021-22	2022-23
Nominal GDP ($billion)	-6.5	-5.7	6.5	5.7
Tax receipts ($billion)	-1.3	-1.3	1.3	1.3

(a) Prices are presented in FOB terms which exclude the cost of freight.

Sensitivity analysis of the direct impacts of earlier and later falls in the iron ore spot price assumption is in Box 2.5, *Statement 2: Economic Outlook.*

Alternative pathways for productivity growth

Labour productivity growth is an important determinant of Australia's potential GDP growth. It depends on both trends in underlying productivity[24] and the capital stock. In the medium-term projection methodology, underlying productivity growth is assumed to converge to 1.5 per cent per annum, which is the average growth in labour productivity over the past 30 years. This convergence begins in the first year of the forecasts and occurs over a 10-year period.

The COVID-19 pandemic is likely to have lasting economic effects through multiple channels, and the impacts on productivity are highly uncertain. This analysis examines the impacts of both a slower and faster pace of convergence to the long-run productivity growth assumption of 1.5 per cent (Chart 8.12).

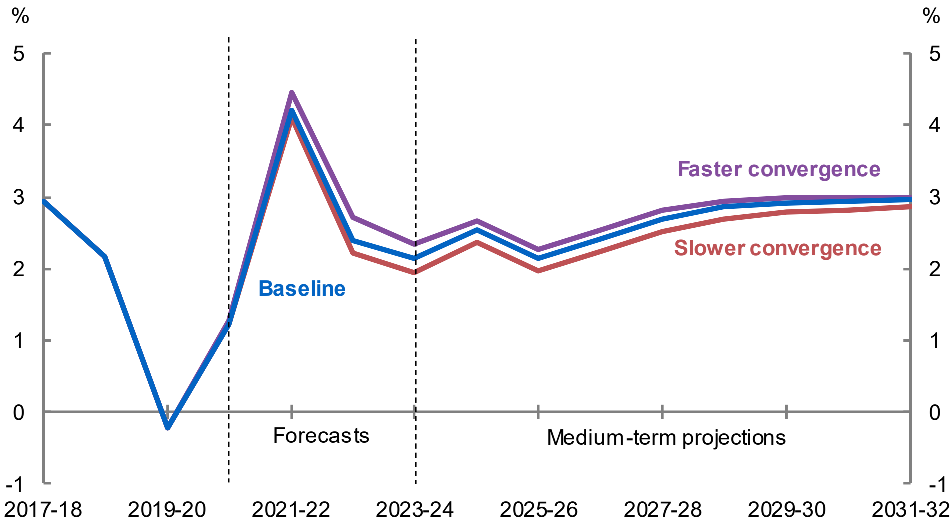
24 Underlying productivity is otherwise known as labour-augmenting technical change.

Under the slower convergence analysis, underlying productivity growth is assumed to converge to the 30-year average over 15 years rather than 10 years. This reduces the economy's potential growth rate over the projection period and real GDP grows more slowly.

By the end of the projection period in 2031-32, the levels of real GDP and nominal GDP are around 1½ per cent and 1¾ per cent lower, respectively. Slower convergence of underlying trend productivity growth also flows through to lower wages.

Under the faster convergence analysis, underlying productivity growth is assumed to converge to the long-run average of 1.5 per cent per annum over five years. This has broadly symmetrical but opposite effects on the economy compared with the slower convergence analysis, resulting in higher real GDP, nominal GDP and wages.

Chart 8.12: Real GDP growth, impact of the pace of productivity growth convergence



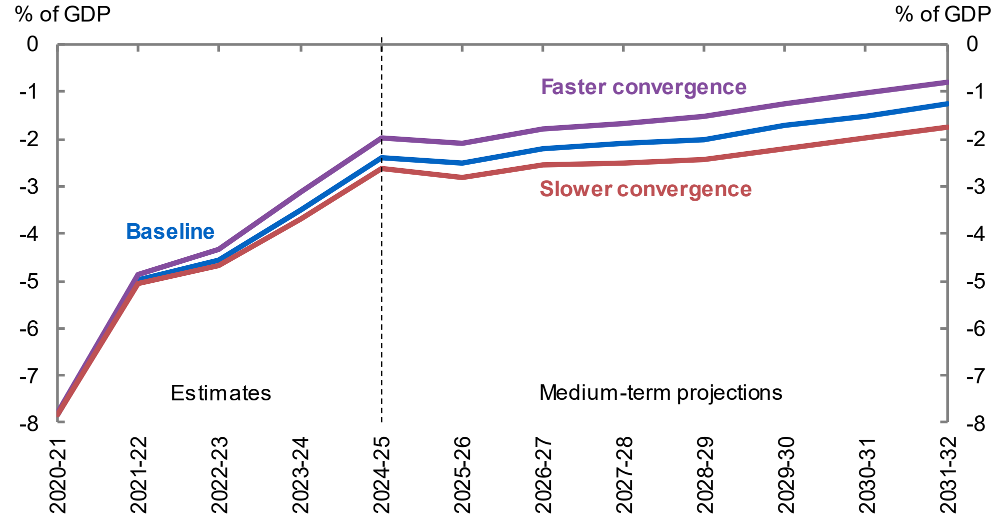
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Treasury.

Under the slower productivity convergence analysis, lower nominal GDP results in lower projected tax receipts over the 10-year period to 2031-32. Payments are projected to be slightly lower due to lower prices and wages growth resulting in a decrease in indexation rates for some payment programs. Public debt interest payments are projected to be higher. A larger fall in receipts than payments results in a negative impact on the underlying cash balance projections (Chart 8.13). The underlying cash balance is 0.5 percentage points of GDP lower at the end of the medium term, compared with the baseline projection.

The variation in the underlying cash balance has implications for government debt. Gross debt, measured by the face value of Australian Government Securities on issue, is projected to be around 3.8 percentage points of GDP higher at the end of the medium term, compared with the baseline projection. This reflects higher government borrowing associated with the weaker budget position.

By contrast, the faster pace of productivity growth convergence has a positive impact on the underlying cash balance projections and gross debt projections, of a similar, but opposite, magnitude to the impacts of the slower productivity convergence analysis (Chart 8.13).

Chart 8.13: Underlying cash balance, impact of the pace of productivity growth convergence



Source: Treasury.

Alternative pathways for yields

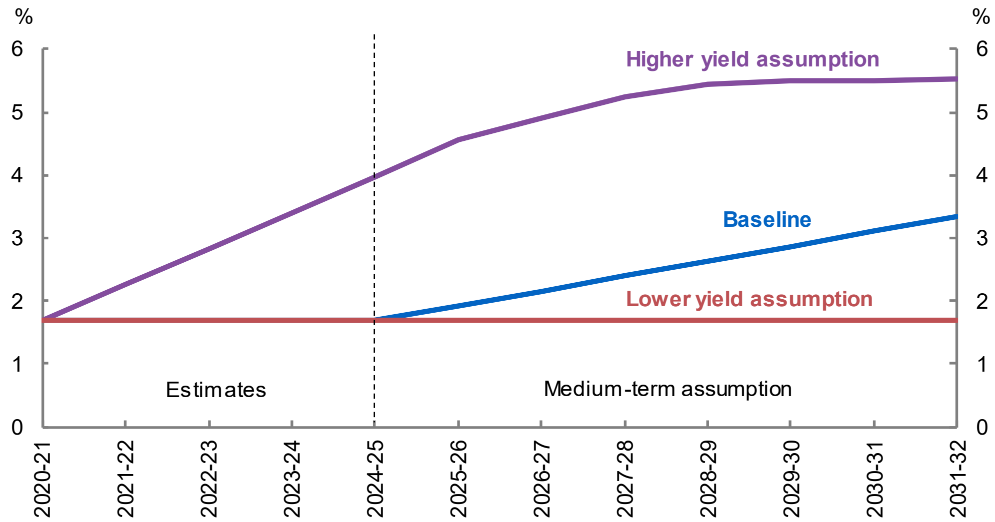
Yields on Australian Government bonds reflect the cost of government borrowing. Despite the recent increase in yields, Australia is still experiencing historically low yields on government debt. The following analysis illustrates the sensitivity of the underlying cash balance and gross debt over the next 10 years to different assumptions surrounding yields.

This analysis illustrates the impact of changes in the yield assumption in isolation. Other economic projections, including nominal GDP, are the same as those used in the baseline projections. While it is likely that yields would not move in isolation, by isolating the yield effect it is possible to see how changes in yields above and beyond other changes may impact fiscal aggregates. It should be noted however that, from a fiscal sustainability perspective, it is the difference between nominal yields and nominal economic growth that matters. If higher yields are accompanied by an economy that is growing at a faster rate than the rate on the government borrowing, this may be sufficient to improve debt as a share of the economy over time, all else being equal.

There are a multitude of factors, often impacting in opposite directions, that could affect current and future yields. Given this uncertainty, a technical assumption for baseline yields is employed. Nominal yields are assumed to remain fixed over the budget year and following three years at the levels observed immediately prior to the Budget update. The 10-year bond yield then converges to a long-run 10-year bond yield of around 5 per cent, consistent with long-run nominal GDP growth. The timeframe for this transition is 15 years (Chart 8.14). This section examines the consequences of different yield assumptions.

The lower yield assumption assumes that the 10-year bond yield remains at current levels over the entire 11-year period rather than beginning to rise after four years, as is assumed in the baseline assumption. A lower yield assumption is supported by the observation that yields on Australian Government debt have generally been trending downwards for several decades. The higher yield assumption assumes that yields converge immediately from current levels over five years to the long-run yield rate of around 5 per cent. While the medium- and long-term effects on yields of the COVID-19 pandemic are unclear, changes in expectations for the global recovery or inflation expectations, among other factors, could drive yields to increase.

Chart 8.14: Alternative transition paths of the 10-year bond yield compared to the Budget baseline assumption



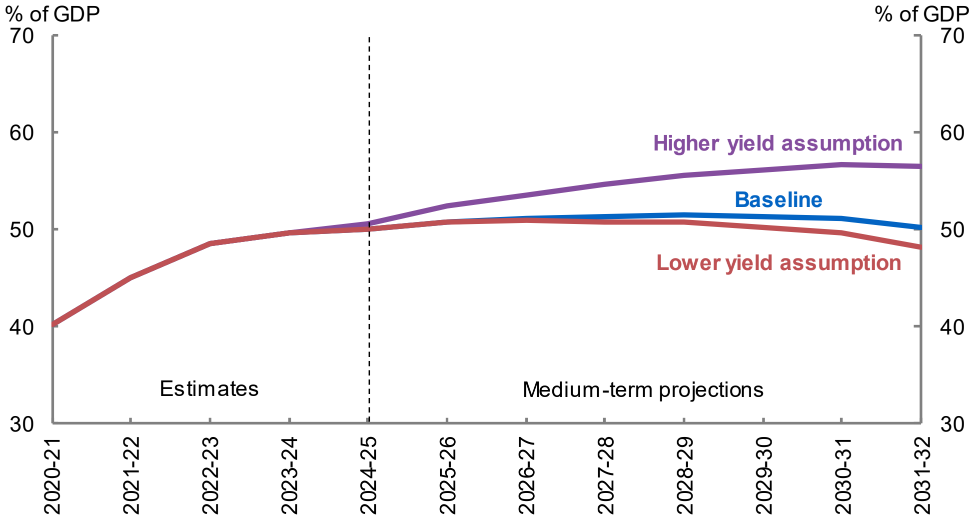
Source: Treasury.

Yields affect both government receipts and payments. Yields affect the amount of public debt interest the Government has to pay on its borrowings, but also have an impact on projections of the receipts the Government earns on its investments.

Compared with the Budget projections, the lower yield assumption results in a slight improvement to the underlying cash balance over the medium term. Cumulative improvements to the underlying cash balance are projected to reduce gross debt by 2.0 percentage points of GDP at 30 June 2032 (Chart 8.15).

Conversely, the higher yield assumption results in a deterioration in the underlying cash balance of around 1.0 percentage point of GDP by 2031-32. If yields transitioned to the long-run yield curve more quickly, gross debt would increase by a projected 6.3 percentage points of GDP compared to the Budget baseline at 30 June 2032 (Chart 8.15).

Chart 8.15: Gross debt, impact of alternative yield assumptions



Source: Australian Office of Financial Management and Treasury.

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

Risks to the Budget — Overview

The forward estimates of revenue and expenses in the 2021-22 Budget incorporate assumptions and judgments based on the best information available at the time of publication, together with a range of economic assumptions and other forecasts and projections.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, including the path of recovery from the COVID-19 pandemic in both Australia and overseas, as well as other global economic developments more broadly
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood
- the realisation of contingent liabilities or assets.

The revenue and expense estimates and projections published in the 2021-22 Budget Papers are based on a range of economic and other parameters. These parameters are consistent with the domestic and international outlook detailed in *Statement 2: Economic Outlook*. While the economic recovery in Australia is well underway, there are still significant international and domestic risks, including those associated with the COVID-19 pandemic, and the outlook remains highly uncertain. Economic outcomes that differ from the parameters used in the Budget represent a material risk to 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.

A significant portion of government expenditure is for demand-driven programs. Outcomes for these programs could differ from the estimates and projections due to changes in economic circumstances and other factors. For example, differing levels of unemployment will mean expenditure for related social services payments, including allowances, will continue to vary. Similarly, a number of other support programs, including the National Disability Insurance Scheme, are demand-driven and outcomes for these programs may differ from the estimates in the Budget.

In addition, revenue forecasting relies heavily on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift over time as the economy changes, particularly following a once-in-a-century shock, presenting further risk to the estimates. For example, the ability of entities to utilise tax losses to offset future profits may continue to pose heightened challenges in estimating the profile for tax receipts over the next few years. Revenue forecasts also incorporate costings for new policies that typically involve a degree of uncertainty.

The estimates and projections of revenue are also subject to a number of general risks that can affect taxation collections. These general pressures include the ability of the tax system to keep pace with changes in the business environment, tax avoidance, court decisions and Australian Taxation Office rulings, and the outcome of compliance programs. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

Many agencies rely on external revenue to underpin their delivery of a range of outputs. Estimates included in the Budget for these agencies reflect the best and most up-to-date information regarding the likely scale of external revenue. However, outcomes in relation to external revenue are not certain and are subject to risks. In some cases, these risks are common to a number of agencies and the aggregate impact on the Budget can extend beyond a single entity. In the current environment, the COVID-19 pandemic continues to impact on the operations of, and revenue received by, a number of agencies and remains a source of risk to the Budget.

The forward estimates in the Budget include the impact of all policy decisions, including those that remain unlegislated. Where legislation is not passed in time to enable commencement of the measure at the anticipated commencement date, the legislation is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the Budget.

There is also a risk that further Government expenditure may be required to respond to the direct impacts of the pandemic. The need for, and scale of, this potential expenditure would depend on the nature of further possible outbreaks and how effectively they are contained, or future uncertainties related to vaccines.

Specific risks to the Budget

The Budget is subject to a number of contingent liabilities. A large number of these 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 Export Finance Australia, 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.

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.

Table 9.1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

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 and summarised in Table 9.2. 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.

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. Details of Government loans estimated to exceed $200 million at 30 June 2021 are included at the conclusion of this Statement.

This year the Statement of Risks is set out by Portfolio (rather than by risk type). This makes it easier to find information about specific risks. The change in format has not altered the threshold for disclosure or the detail of the descriptions provided.

Table 9.1: 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 is included in the Statement of Risks.

Table 9.2: Summary of contingent liabilities and contingent assets in the Statement of Risks(a)

Agriculture, Water and the Environment	Status
Fiscal Risks	
Murray Darling Basin Reform — risk assignment	Unchanged
Remediation of Jabiru Township	Unchanged
Contingent liabilities — unquantifiable	
Commonwealth liabilities in respect of matching payments to industries for research and development contributions	Unchanged
Emergency pest and disease response arrangements	Modified
Attorney-General's	**Status**
Fiscal Risk	
Departure of the ACT Government from the Comcare workers' compensation scheme	Unchanged
Contingent liabilities — unquantifiable	
Native Title costs	Unchanged
Prospective investor-State claim against Australia	Unchanged
Defence	**Status**
Fiscal Risk	
Major operations of the Australian Defence Force in 2021-22	Modified
Significant but remote contingencies	
ADI Limited — Officers' and Directors' Indemnities	Unchanged
Litigation cases	Unchanged
Remote contingencies	Modified
Contingent liabilities — unquantifiable	
Cockatoo Island Dockyard	Unchanged
Land decontamination, site restoration and decommissioning of Defence assets	Unchanged
Non-remote contingent liabilities	Removed
Contingent liability — quantifiable	
Claims against the Department of Defence	Unchanged
Education, Skills and Employment	**Status**
Fiscal Risk	
Recovery of inappropriately claimed VET FEE-HELP payments from VET providers	Unchanged
Contingent liability — quantifiable	
ParentsNext program	Unchanged
Finance	**Status**
Significant but remote contingency	
Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement	Unchanged

Table 9.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Finance (continued)	Status
Contingent liabilities — unquantifiable	
ASC Pty Ltd — Directors' and Executives' Indemnities	Unchanged
ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited	Unchanged
Australian Government domestic property	Unchanged
Australian Government general insurance fund — Comcover	Unchanged
Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia	Unchanged
Commonwealth Superannuation Corporation — Immunity and Indemnity	Unchanged
Future Fund Management Agency and Future Fund Board of Guardians — Indemnity	Unchanged
Googong Dam	Unchanged
Indemnities for the Reserve Bank of Australia and private sector banks	Unchanged
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Unchanged
Foreign Affairs and Trade	**Status**
Fiscal Risk	
Export Finance Australia — National Interest Account (NIA)	Modified
Significant but remote contingency	
World Food Program — Charter Flights Indemnity	Modified
Contingent liability — quantifiable	
Export Finance Australia	Modified
Health	**Status**
Contingent liabilities — unquantifiable	
Accommodation Payment Guarantee Scheme	Unchanged
Advance Purchasing Agreements for COVID-19 vaccine candidates	Modified
Australian Red Cross Society — Indemnities	Unchanged
Blood and blood products liability cover	Unchanged
CSL Ltd	Unchanged
Indemnities relating to vaccines	Unchanged
Medical Indemnity Exceptional Claims Scheme	Unchanged
New South Wales Health Administration Council — Indemnity	Unchanged
2032 Brisbane Olympic and Paralympics Games	New
Contingent asset — unquantifiable	
Legal action seeking compensation	Unchanged
Home Affairs	**Status**
Fiscal Risk	
Regional Processing Arrangements	Unchanged
Significant but remote contingency	
Indemnities relating to the Air Security Officer Program	Unchanged
Contingent liabilities — unquantifiable	
Australian Victims of Terrorism Overseas Payment	Unchanged
Disaster Recovery	Unchanged
Garrison, welfare and health services at regional processing countries — liability limit	Unchanged
Immigration detention services by state and territory governments — liability limit	Unchanged
Immigration detention services contract — liability limit	Unchanged

Table 9.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Industry, Science, Energy and Resources	Status
Fiscal Risk	
Snowy Hydro Limited — Snowy 2.0	Unchanged
Significant but remote contingencies	
Snowy Hydro Limited — Board Members' Indemnity	Unchanged
Snowy Hydro Limited — Termination of the Equity Subscription Agreement	Unchanged
Liability for damages caused by space and certain high-power rocket activities	Unchanged
Operations and Maintenance of the Northern Endeavour and Associated Infrastructure	Modified
Contingent liabilities — unquantifiable	
Australian Nuclear Science and Technology Organisation — asbestos contamination	Unchanged
Australian Nuclear Science and Technology Organisation — Indemnity	Unchanged
Former British atomic test site at Maralinga	Unchanged
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Unchanged
Liability for costs incurred in a national liquid fuel emergency	Unchanged
Land decontamination and site restoration for CSIRO property	Unchanged
Snowy Hydro Limited — water releases	Unchanged
United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions	Unchanged
Contingent liability — quantifiable	
Underwriting of Transmission Projects	Unchanged
Infrastructure, Transport, Regional Development and Communications	**Status**
Fiscal Risk	
Inland Rail — Delivery	Unchanged
Significant but remote contingencies	
Inland Rail — Termination of the Equity Financing Agreement	Unchanged
Significant but remote contingencies	
Maritime Industry Finance Company Limited — Board Members' Indemnity	Unchanged
Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement	Unchanged
Moorebank Intermodal Project — Glenfield Waste Site Easement	Unchanged
NBN Co Limited — Equity Agreement	Removed
Optus Financial Guarantee	Modified
Telstra Financial Guarantee	Modified
Tripartite deeds relating to the sale of federal leased airports	Unchanged
WSA Co Limited — Board Members' Indemnities	Unchanged
WSA Co Limited — Termination of the Equity Subscription Agreement	Unchanged

Table 9.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Infrastructure, Transport, Regional Development and Communications — continued	Status
Contingent liabilities — unquantifiable	
Australian Maritime Safety Authority incident costs	Unchanged
Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination	Modified
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Unchanged
Moorebank Intermodal Company Limited — Board Members' Indemnity	Unchanged
Moorebank Intermodal Project — Georges River rail crossing	Unchanged
NBN Co Limited — Board Members' Insolvency Indemnity	Removed
Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory	Unchanged
Contingent liabilities — quantifiable	
Australian Government contribution to the East West Link project	Unchanged
Australian Government contribution to the Perth Freight Link project	Unchanged
Prime Minister and Cabinet	**Status**
Contingent liability — unquantifiable	
Basil Dawson and Ors vs Commonwealth of Australia (Community Development Program Class Action)	Unchanged
Northern Territory Stolen Generations Class Action	New
Contingent liability — quantifiable	
Indigenous Land and Sea Corporation — Debt Guarantee	Unchanged
Social Services	**Status**
Fiscal Risk	
COVID-19 Social Welfare Debt Pause	Removed
Treasury	**Status**
Fiscal Risk	
Establishment of a Cyclone and related flooding reinsurance pool	New
Significant but remote contingencies	
Asbestos Injuries Compensation Fund	Modified
Financial Claims Scheme	Modified
Guarantee for the National Housing Finance and Investment Corporation	Unchanged
Guarantee of state and territory borrowing	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Modified
Reserve Bank of Australia — Guarantee	Modified
Contingent liabilities — unquantifiable	
Government Guarantees for Housing	Modified
Indemnities for specialised external advisers during the COVID-19 pandemic	Unchanged
International Monetary Fund — Poverty Reduction and Growth Trust	Modified
Small and Medium Enterprise Guarantee Scheme	Modified

Table 9.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Treasury (continued)	Status
Contingent liabilities — quantifiable	
Terrorism insurance — commercial cover	Unchanged
Australian Taxation Office — tax disputes	Modified
International financial institutions — uncalled capital subscriptions	Modified
International Monetary Fund	Modified
Veterans' Affairs	**Status**
Fiscal Risk	
Defence Service Homes Insurance Scheme	Modified

(a) Detailed descriptions of these items are in the following text.

Agriculture, Water and the Environment

Fiscal Risks

Murray Darling Basin Reform — risk assignment

The Australian Government has committed to bridge the gap between the Baseline Diversion Limit (BDL) and the Sustainable Diversion Limits (SDLs) in the Basin Plan through water recovery. On 1 July 2019, the SDLs took effect. The *Water Act 2007* provides a risk assignment framework whereby entitlement holders with reductions in water allocations, or changes in the reliability of water allocations (where the gap has not been bridged and an accredited water resource plan is in place), may be eligible for a payment from the Commonwealth.

The total cost (if any) of the operation of the risk assignment framework is not able to be quantified at this time and remains a fiscal risk until the gap between the BDL and SDLs is fully bridged.

Remediation of Jabiru Township

The Director of National Parks (DNP) holds a revisionary interest under a lease for the town of Jabiru expiring in 2021. The make good and rehabilitation arrangements of Jabiru is being negotiated between the DNP, the Northern Territory Government, Energy Resources of Australia and other stakeholders. Remediation work includes renewal of essential services, removal of hazardous materials and chemicals, ensuring structures are compliant to Building Codes and ecological remediation. Expenditure for the remediation work will be shared across all parties to the arrangements.

The Government agreed to provide $35.0 million toward the remediation of contaminants in Jabiru as part of the 2019-20 Budget measure Securing Tourism and Jobs in Kakadu.

Contingent liabilities — unquantifiable

Commonwealth liabilities in respect of matching payments to industries for research and development contributions

Under several Acts, the Commonwealth provides matching contributions to encourage expenditure on research and development (R&D) and to increase the competitiveness and sustainability of industries within Australia. Matching contributions on eligible R&D are subject to an annual limit that is calculated based on the determined gross value of production (GVP cap) for the industries. There will be an R&D excess, which can be claimable in future years, where the cumulative R&D expenditure is more than the GVP cap. The Commonwealth's future liability in respect of the matching contributions is contingent on the GVP cap and is therefore unquantifiable.

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 affected 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 pest or disease incursion. Funding is provided in the forward estimates for the Australian Government's contributions under the emergency response agreements, which are paid to the state or territory governments undertaking relevant activities.

Recent concurrent incursions have placed considerable pressure on this funding which may be insufficient to meet the costs of any additional large-scale pest or disease responses. There are currently 17 national cost-shared emergency responses. Until 2026-27, more than half of this funding has been allocated to an eradication program for red imported fire ants in Queensland.

Governments have agreed to develop an Aquatic Emergency Animal Disease Deed covering aquatic emergency animal diseases. Final consultation will begin shortly with prospective industry signatories.

The Australian Government may provide financial assistance to an agricultural industry body 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 in situations where an incursion is not covered by a cost-sharing agreement or where the affected industry body/bodies is/are not party to an emergency response agreement, depending on the circumstances of the incursion.

Attorney-General's

Fiscal Risk

Departure of the ACT Government from the Comcare workers' compensation scheme

On 1 March 2019, the ACT Government departed the Comcare premium scheme following the decision by the Safety, Rehabilitation and Compensation Commission to grant the ACT Government a licence to self-insure its workers' compensation liabilities under the *Safety, Rehabilitation and Compensation Act 1988.*

The licence conditions transfer all workers' compensation liabilities for ACT Government employees, with a date of injury on or after 1 July 1989, from the Commonwealth to the ACT Government. Funding will be transferred to the ACT Government for outstanding costs relating to claims with a date of injury before

1 March 2019 pending an exit valuation of claims liabilities. The payment will have an impact on the underlying cash balance.

The Commonwealth has made an initial payment of $76.2 million in 2018-19, which has been included in the estimates, but the total costs of these arrangements are yet to be determined.

Contingent liabilities — unquantifiable

Native Title costs

The Australian Government will likely be liable for any compensation found to be payable under the *Native Title Act 1993* in respect of compensable acts for which the Australian Government is responsible. While the High Court's decision in the *Timber Creek* litigation (*Northern Territory v Griffiths et al [2019] HCA 7*) provides guidance on the principles for calculating compensation under the *Native Title Act*, 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.

Prospective investor-State claim against Australia

The Commonwealth has received requests for consultation in relation to a dispute pertaining to the *Iron Ore Processing (Mineralogy Pty Ltd) Agreement Amendment Act 2020 (WA) (2020 Amendment Act).* These consultations are a pre-condition to the formal commencement of investor-State dispute settlement proceedings.

If proceedings are commenced and Australia is unsuccessful, Australia would be liable for any compensation found to be payable to the claimant. Any such potential liability cannot be quantified at this stage.

Defence

Fiscal Risk

Major operations of the Australian Defence Force in 2021-22

The 2021-22 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force (ADF) in 2021-22 in Afghanistan, Iraq, Syria, and the broader Middle East region, as well as the protection of Australia's borders and offshore maritime interests. Funding for major Defence operations is considered and provisioned on a year-by-year basis. The forward estimates at the 2021-22 Budget include additional funding for these major operations in the 2021-22 year, but do not provide for further extensions. While the Government has committed to concluding Operations Highroad and Okra, and finalising the drawdown of ADF personnel in Afghanistan by September 2021, the Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2022.

Significant but remote contingencies

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 (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, investigations of Defence by Comcare and active prosecutions in relation to alleged breaches of the *Work Health and Safety Act 2011*. A number of claims have been received seeking compensation for alleged loss or damage arising from 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 the Australian Defence Force and Defence culture. There is also 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 2021, the Department of Defence carried 152 instances of quantifiable remote contingent liabilities valued at $4.5 billion and 1,327 instances of unquantifiable remote contingent liabilities.

These significant remote contingent liabilities are restricted in nature and details are not given due to commercial sensitivities and/or national security.

Contingent liabilities — unquantifiable

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Department of 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.

Contingent liability — quantifiable

Claims against the Department of Defence

The Department of Defence (Defence) has six instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.8 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by firms engaged by Defence through the Attorney-General's Whole of Australian Government Legal Services Panel and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Education Skills and Employment

Fiscal Risk

Recovery of inappropriately claimed VET FEE-HELP payments from VET providers

The Australian Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were issued inappropriately to students by providers. The Government has legislated a remedy, which commenced 1 January 2019, for VET FEE–HELP students who incurred debts under the VET FEE-HELP loan scheme following inappropriate conduct by VET providers. The Government will undertake recovery activities against VET providers in cases where the student was ineligible for a VET FEE-HELP loan.

There are potential financial risks to the Commonwealth in the event that it is unable to recover payments from VET providers where they have closed or entered into administration or liquidation.

The financial risk to the Commonwealth is currently unquantifiable as it depends on the receipt and assessment of applications from students, as well as outcomes from the Government's investigations into VET providers' conduct.

Contingent liability — quantifiable

ParentsNext program

ParentsNext supports parents to identify their education and employment related goals, to build their work readiness and plan and prepare for employment by the time their youngest child starts school.

Under the program, providers accumulate one-off credits which accrue to their provider's Participation Fund on commencement of an intensive stream participant.

Currently providers are forecast to spend less than the value of the available credits, creating an accumulating surplus of credits that present a contingent liability.

The current outstanding credits accumulated from years prior to 2020-21 represent a contingent liability for the Budget.

Finance

Significant but remote contingency

Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement

The Australian Government will provide sufficient funding to enable Australian Naval Infrastructure Pty Ltd (ANI) to meet the direct costs of termination that may be incurred by ANI in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and ANI.

Contingent liabilities — unquantifiable

ASC Pty Ltd — Directors' and Executives' 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.

The Australian Government has provided Directors and senior executives of ASC with indemnities to mitigate personal risk and provide coverage for legal costs related to any legal proceedings that may arise in relation to the transaction to separate ASC Shipbuilding Pty Limited from ASC.

ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited

The Australian Government has agreed to provide a guarantee of an indemnity from ASC Pty Ltd (ASC) in favour of ASC Shipbuilding Pty Limited (ASC Shipbuilding).

ASC provided an indemnity in favour of ASC Shipbuilding prior to ASC Shipbuilding being separated from ASC Pty Ltd. This indemnity is intended to cover any liabilities unknown at the time of separation which may arise after separation. The indemnity is time limited to seven years.

The guarantee will only be called on in the event that ASC is no longer owned by the Commonwealth and ASC can no longer meet its obligations under the terms of the indemnity. It is Government policy to retain ASC as a Government Business Enterprise.

Australian Government domestic property

The Department of Finance owns and is responsible for managing a number of properties within the Australian Government's domestic non-Defence portfolio. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for properties at Lucas Heights in New South Wales and Cox Peninsula in Northern Territory, none of the remaining properties with potential remediation issues have 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 potential revisions as the total number and size of claims covered is subject to unforeseen future events.

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and parameters regularly updated based on historical analysis of experience, actuarial calculations and other relevant factors.

Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia

Under the commercial arrangements in respect of the Future Submarine Program and the Submarine Construction Yard, Australian Naval Infrastructure Pty Ltd (ANI) is responsible for the construction of a purpose built Submarine Construction Yard and providing access to the yard to Naval Group Australia and Naval Group S.A. (Société Anonyme). As part of these commercial arrangements, the Australian Government has entered into a Deed of Guarantee and Indemnity with Naval Group Australia Pty Limited and Naval Group S.A., whereby the Australian

Government has agreed to provide a guarantee in respect of ANI's financial obligations under the Submarine Construction Yard Access arrangements with Naval Group Australia and Naval Group S.A.

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.

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 an entity, or transactions made by a bank with the authority of an 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
Albury–Wodonga Development Corporation	2014
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
Bankstown Airport Limited	2002
Camden Airport Ltd	2002
ComLand Ltd	2004
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
Health Insurance Commission	2000
Housing Loans Insurance Corporation Ltd	1996
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

Foreign Affairs and Trade

Fiscal Risk

Export Finance Australia — National Interest Account (NIA)

There are three financing facilities under the NIA as detailed below.

The Australian Infrastructure Financing Facility for the Pacific (AIFFP) became operational on 1 July 2019. The AIFFP will provide up to $2.0 billion in facilities including up to $500 million in grants and the balance in loans to support high priority infrastructure development in Pacific countries and Timor-Leste. To date, the Government has agreed to provide loans and grants to support the development of three infrastructure projects in Palau and the Solomon Islands. As at 31 March 2021, funding was yet to be drawn down and the facility will have no financial implications until drawn on.

The Defence Export Facility (DEF) was established to grow Australia's defence exports by helping overcome difficulties in accessing private sector finance. The DEF has a maximum aggregate exposure of US$3.0 billion. As at 31 March 2021, three loans under the DEF had been agreed for a total maximum value of $228 million, of which $124.5 million had been drawn down. These three loans are reflected in the Budget estimates.

The COVID-19 Export Capital Facility (COVID-19 Facility) was announced on 15 April 2020, with a maximum aggregate exposure of $500 million. As at 31 March 2021, the COVID-19 Facility has agreed to provide finance for a total maximum value of $57.8 million, these loans are reflected in the Budget estimates.

Significant but remote contingency

World Food Program — Charter Flights Indemnity

The Australian Government provided the World Food Program (WFP) an indemnity with regard to charter flights for the repatriation of Department of Foreign Affairs and Trade personnel at isolated international missions impacted by COVID-19.

The indemnity applies to aircraft delay costs, loss of baggage, injury to those on-board the aircraft and exposure to aircraft damage to the extent that any loss is not covered by existing insurance policies held by the WFP. The risk of the indemnity being called upon is remote but could result in a liability to the Australian Government of up to $30 million in 2020-21. The indemnity does not extend into Budget year 2021-22 but continues to reflect a risk to the 2020-21 estimates.

Contingent liability — quantifiable

Export Finance Australia

The Australian Government guarantees the due payment of money that is, or may at any time, become payable by Export Finance Australia to anybody other than the Government. As at 31 March 2021, the Government's total contingent liability was $2.7 billion. The $2.7 billion contingent liability comprises Export Finance Australia's liabilities to third parties ($2.3 billion) and Export Finance Australia's overseas investment insurance, contracts of insurance and guarantees ($0.4 billion). Of the total contingent liability, $2.3 billion relates to Export Finance Australia's Commercial Account and $0.4 billion relates to the National Interest Account.

Health

Contingent liabilities — unquantifiable

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.

Advance Purchasing Agreements for COVID-19 vaccine candidates

The Australian Government has provided indemnities to the suppliers of potential COVID -19 vaccine candidates, for which the Australian Government has entered into Advance Purchasing Agreements, covering certain liabilities that could result from the use of the vaccine. This comprises the University of Oxford vaccine candidate, which is sponsored by AstraZeneca, the Pfizer vaccine candidate, and the Novavax vaccine candidate.

The Australian Government has also entered into the Gavi-led COVAX Facility and has made an upfront payment towards Australia's purchase of future COVID-19 vaccine doses through the Facility, part of which will be returned through a risk sharing arrangement should vaccine candidates not be successful.

The Australian Government has also entered into risk-sharing arrangements with the Pfizer and Novavax candidates to limit financial exposure to the Commonwealth.

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 Australian Red Cross Lifeblood 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, Australian Red Cross Lifeblood (Lifeblood) and state and territory governments to cover potential future claims in relation to the supply of blood and blood products by Lifeblood. The NMF provides for liabilities incurred by Lifeblood 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 Lifeblood 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 a 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 also been provided to a particular manufacturer 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

Under the Medical Indemnity Exceptional Claims Scheme, the Australian Government assumes liability for 100 per cent of any damages payable against practitioners practising in a medical profession that exceeds a specified level of cover provided by the practitioner's medical indemnity insurer (currently $20 million). In 2019, the Government agreed to expand eligibility of the Scheme through an amendment to the Midwife Professional Indemnity (Commonwealth Contribution) Scheme Rules 2010 (MPIS) to provide cover for employed private practising midwives who are not eligible for cover under the MPIS. These arrangements apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the practitioner's medical indemnity insurer, and would apply to claims notified under contract-based cover since 2003. From 1 July 2020, the *Medical and Midwife Indemnity Legislation Amendment Act 2019* provides transferred eligibility for this cohort of midwives and allied health professionals (including registered only midwives) into the Allied Health High Cost Claims Scheme and Allied Health Exceptional Claims Scheme within the *Medical Indemnity Act 2002.*

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

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

2032 Brisbane Olympic and Paralympics Games

On 24 February 2021, the International Olympic Committee (IOC) entered into exclusive negotiations with the Queensland Government to host the 2032 Olympic and Paralympic Games. The Australian Government has committed to fund half the costs of critical infrastructure for the Games. The support will be subject to successful candidature and shared governance arrangements with the Queensland Government. The Commonwealth has also provided a range of guarantees to the IOC for provision of government services in support of Brisbane's candidature to host the Games at no cost to the Organising Committee for the Olympic Games.

Contingent asset — unquantifiable

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

Fiscal Risk

Regional Processing Arrangements

The Australian Government supports the Governments of Nauru and Papua New Guinea (PNG) to provide support and services to transferees residing in Nauru and PNG under regional processing arrangements. Any significant changes in the number of transferees, the arrangements that underpin the provision of those services, relevant litigation or legislative changes, may incur a cost or generate cost reductions which are unquantifiable at this time.

Significant but remote contingency

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(s) 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.

Contingent liabilities — unquantifiable

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 Australian Government cost-sharing arrangements (Natural Disaster Relief and Recovery Arrangements (NDRRA) and the Disaster Recovery Funding Arrangements

(DRFA) to assist with natural disaster relief and recovery costs. A state or territory may claim NDRRA/DRFA funding if a natural disaster occurs and state or territory relief and recovery expenditure for that event meets the requirements set out in the arrangements.

The current forward estimates for the NDRRA/DRFA 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.

For major disasters, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Australian Government 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 Government also maintains an Emergency Response Fund (ERF) to provide additional resourcing to assist with the preparation for, and response to, natural disasters. Reflecting the unpredictability of natural disasters the cost of any payments from the ERF are unquantifiable and not included in the Budget estimates.

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 Home Affairs to a maximum of $20 million for any single occurrence and $50 million in aggregate for the term of the contract. 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 for the term of the contract. Serco's liability is unlimited for specific events defined under the contract.

Industry, Science, Energy and Resources

Fiscal Risk

Snowy Hydro Limited — Snowy 2.0

The Australian Government has committed up to $1.38 billion in additional equity to Snowy Hydro Limited to support the delivery of the Snowy 2.0 pumped hydro project. Snowy 2.0 will improve the security and reliability of the National Electricity Market by providing reliable, dispatchable power and large-scale energy storage. Project risks for both projects include construction delays, cost pressures, and cash flow forecasts.

These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders.

Significant but remote contingencies

Snowy Hydro Limited — Board Members' Indemnity

The Australian Government has provided an indemnity for each of the Directors of Snowy Hydro Limited (SHL) to protect them against certain claims relating to their employment as Directors. Until the indemnity agreements are varied or ceased, they will remain as contingent and unquantifiable liabilities.

Snowy Hydro Limited — Termination of the Equity Subscription Agreement

The Australian Government will provide sufficient funding to cover costs and liabilities incurred by Snowy Hydro Limited (SHL) for delivery of Snowy 2.0, capped to the total remaining undrawn equity, in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and SHL.

Liability for damages caused by space and certain high power rocket activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government may be liable to pay compensation for damage caused to nationals of other countries by space objects launched from Australia, or by Australian nationals overseas. For activities approved under the *Space (Launches and Returns) Act 2018* (the Act), the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above an insured level.

To address this risk, in order to have a space or high power rocket activity approved under the Act, the responsible party is required to insure against, or take financial responsibility for, damage to third parties. The amount of insurance or financial responsibility is capped at $100 million.

The Act provides for amounts lower than $100 million depending on the risk profile of the activity. A maximum probable loss methodology is also available to calculate the amount of insurance or financial responsibility.

Operations and Maintenance of the Northern Endeavour and Associated Infrastructure

The Government has engaged Upstream Production Solutions (Upstream PS) to maintain, operate and prepare the Northern Endeavour Floating Production Storage and Offtake facility (FPSO) for disconnection. Under the contract, the parties release one another for damage to their own property or injury to their own personnel, to the extent that the harm is not caused by the other party's gross negligence or wilful misconduct. Generally, each party's liability to the other is limited to 7.5 per cent of the contract budget (although this limit does not apply in some circumstances, as specified in the contract), but this limit may be adjusted by 10 per cent if the contract budget is increased by 10 per cent or more. The Government has also agreed to indemnify Upstream PS against claims made by third parties for damage to property or personal injury, where the loss of or damage was caused by the Commonwealth's performance of the contract (or its negligence or failure in performing the contract), or the condition of the FPSO and associated subsea and subsurface infrastructure. The Government has also provided an indemnity against any pollution or loss of well control related to the FPSO, except to the extent caused by Upstream PS's gross negligence or wilful misconduct. The liability cap does not apply to these indemnities.

The Government has obtained Protection and Indemnity, Facility Damage and Control of Well Insurance and also taken out membership with oil spill response agencies. These will limit the Government's risk and financial exposure.

The risk of an incident is remote. The FPSO is being maintained with safety critical maintenance carried out, limited oil in storage and no further oil production taking place. The additional works to prepare the FPSO for disconnection are not considered to materially increase the risk.

The secured creditor of Timor Sea Oil & Gas Australia Pty Limited (TSOGA) and Northern Oil & Gas Australia Pty Limited (NOGA), Castleton Commodities Merchant Asia Co. Pte. Ltd., has commenced legal proceedings in the Supreme Court of New South Wales (NSW) against the Commonwealth, TSOGA and NOGA seeking orders for the delivery of the FPSO, the appointment of a receiver to realise the value of the property and a declaration that it is entitled to a first charge over the proceeds.

Contingent liabilities — unquantifiable

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 in the soil at the Lucas Heights campus. 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 then 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 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.

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 of the Commonwealth of Australia 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.

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.

Snowy Hydro Limited — water releases

On 29 June 2018, Snowy Hydro Limited became a wholly Commonwealth owned company following the Commonwealth's acquisition of the New South Wales (NSW) and Victorian Governments' shares. At the time of corporatisation of Snowy Hydro Limited on 28 June 2002, the Australian, NSW and Victorian Governments, as the then owners, indemnified the company 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. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

As the sole owner, the Commonwealth is now wholly 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.

United States Strategic Petroleum Reserve (US SPR) Lease Agreement — Indemnity under certain conditions

On 3 June 2020, the Australian Government entered into a commercial leasing agreement with the United States (US) Department of Energy (DoE). This agreement facilitates the storage of Australia’s first-ever government-owned strategic fuel reserve in the US Strategic Petroleum Reserve (SPR).

Under the lease agreement, the Australian Government indemnifies the US SPR for any liabilities incurred (subject to certain exceptions) arising from or related to: the transportation of crude oil to the SPR; third-party claims made in connection with the drawdown or delivery of the oil; and customs duties, fees or other charges which may arise from the Australian Government’s non-compliance with US Customs Law.

Contingent liability — quantifiable

Underwriting of Transmission Projects

The Australian Government is working with the New South Wales (NSW), South Australian and Victorian Governments to provide early works underwriting support to the HumeLink, Project EnergyConnect and Victoria to NSW Interconnector West (VNI West) projects.

The Australian Government and NSW Government will each underwrite 50 per cent of the early works of the proposed HumeLink transmission line (up to a total of $65.7 million). The underwriting of the early works project costs for Project EnergyConnect and VNI West will be capped at a maximum amount, but the specific terms of the underwriting arrangements will not be finalised until negotiations are complete with relevant parties.

Conditions for the underwritings to be called upon are likely to relate to the projects not achieving regulatory and approval requirements, but are also dependent on the final underwriting arrangements negotiated.

Infrastructure, Transport, Regional Development and Communications

Fiscal Risk

Inland Rail — Delivery

The Australian Government has committed up to $14.5 billion in equity for the Australian Rail Track Corporation (ARTC), enabling ARTC to deliver the Inland Rail project which provides 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 finance Inland Rail with a combination of Commonwealth equity investment, private debt and internal cash flows. 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 risks include securing jurisdictional support, construction delays, cost pressures and realising revenues. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders and jurisdictions. Project costs will be settled through the completion of procurements for all sections of Inland Rail following all final design, planning and environmental approvals.

Significant but remote contingencies

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.

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 in 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 — Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by Moorebank Intermodal Company Limited (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.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of NBN Co's 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). An amended version of the Agreement came into effect on 22 January 2019. The Guarantee continues to apply to that Agreement. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial (HFC) areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Agreement. As at 28 February 2021, NBN Co had generated liabilities covered by the Agreement which are estimated at an amount less than $200.0 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 Telstra Corporation Limited (Telstra) a guarantee in respect of NBN Co's 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 2021, NBN Co had generated liabilities covered by the Guarantee estimated at $10.7 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount or

- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational.

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 — 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.

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.

Contingent liabilities — unquantifiable

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 financial capability of $50 million, backed by liquid investment funds, 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

The Department of Infrastructure, Transport, Regional Development and Communications (the Department) has identified a number of sites in Australia potentially contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams.

The identified contaminants do not naturally break down in the environment and several have been listed on the Stockholm Convention as persistent contaminants. Australian health and environmental agencies have set a range of standards for environmental protection and precautionary health measures.

Up to 37 airport sites are potentially contaminated with PFAS (20 federally leased airports and 17 regional airports) relating to the Commonwealth provision of fire-fighting services. The Department is undertaking PFAS investigations at these airports to understand the risks and develop corresponding management plans for any identified PFAS contamination. Airservices Australia (Airservices) is also implementing a national PFAS management program, which includes PFAS investigations at 21 airport sites. The costs of potential long-term management options cannot be quantified at this time.

For federally leased airports, Airport Lessee Companies (ALCs) are responsible for environmental management of their airport sites. Airport leases indemnify the Commonwealth in relation to damages or injury to the environment, including in respect of costs and claims arising due to such damages or injury.

Moorabbin and Canberra ALCs have formally requested that the Airport Environment Officer issue remediation orders to Airservices for PFAS contamination under the *Airports (Environment Protection) Regulations 1997.* Brisbane Airport Corporation has also commenced legal proceedings in the Queensland Supreme Court against Airservices in relation to legacy PFAS contamination from Airservices' firefighting activities at the airport.

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure, Transport, Regional Development and Communications (the Department) 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 the Jervis Bay Territory Rural Fires Ordinance 2014, the establishment of a JBT Emergency Management Committee (EMC), a fire management plan prepared and implemented by the EMC, NSW RFS staff training and professional qualifications and the Department actively managing the Service Level Agreement with the NSW RFS.

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 to protect them against civil claims relating to their employment and conduct. These indemnities were provided to Directors when the Board was first established, however not to subsequent Directors. 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 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 is considered remote and potential costs are unquantifiable.

Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory

Since 1992, the Australian Government has been entering into Service Delivery Arrangements with the Western Australian (WA) Government for the provision of services to the Indian Ocean Territories of Christmas Island and the Cocos (Keeling) Islands. 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 Capital Territory (ACT) provides a number of services to the Jervis Bay Territory under Memoranda of Understanding. The Australian Government has provided certain indemnities for the ACT Government authorities and officials in respect of the delivery of services to the Jervis Bay Territory.

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.

Contingent liabilities — quantifiable

Australian Government contribution to the East West Link project

The Australian Government remains committed to the construction of the East West Link despite the decision of the Victorian Government not to proceed with the project.

To this end, the Australian Government will provide $4 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 extension of the Roe Highway, 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 construct the Roe 8 and 9 extensions and is therefore recording this commitment as a contingent liability in the Budget.

Prime Minister and Cabinet

Contingent liability — unquantifiable

Basil Dawson and Ors vs Commonwealth of Australia (Community Development Program Class Action)

Aspects of the Community Development Program are part of a class action that is before the Federal Court. Costs associated with this litigation (if any) and any potential related future litigation are not quantifiable until the matter is determined by the Court or otherwise resolved.

Northern Territory Stolen Generations Class Action

A class action against the Commonwealth has been lodged in the NSW Supreme Court seeking compensation for Stolen Generations survivors who were removed from their families in the Northern Territory prior to self-government, and family members living with them at the time who were affected by the removals. Costs associated with this litigation (if any) and any potential related future litigation are not quantifiable until the matter is determined by the Court or otherwise resolved.

Contingent liability — quantifiable

Indigenous Land and Sea Corporation — Debt Guarantee

The Indigenous Land and Sea Corporation (ILSC) provides a guarantee to a major bank that has provided a $120 million facility to its wholly-owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd. As at 30 June 2020, the estimated outstanding balance of the facility will total $102.5 million.

Treasury

Fiscal Risk

Establishment of a Cyclone and related flooding reinsurance pool

The Government has announced its intention to provide a $10 billion annually reinstated Government guarantee to the Australian Reinsurance Pool Corporation (ARPC) in support of administering a reinsurance pool for cyclones and related flooding. The details of the intended guarantee will be subject to consultation and further Government consideration, but is expected to be in effect from 1 July 2022 and may be called upon in the event of a large cyclone and/or related flood, or a year with a high number of cyclones and related flooding, to ensure the ARPC can pay any liabilities.

The reinsurance pool will be designed to be cost-neutral to Government over time, based on the predicted cost and frequency of cyclone events. The estimated value and range of calls on the guarantee is unquantifiable at this stage of policy development. Further modelling on the potential costs of the guarantee will be undertaken before 1 July 2022.

Significant but remote contingencies

Asbestos Injuries Compensation Fund

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a $320 million New South Wales (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.

The Commonwealth ceased issuing loans from this facility from 9 December 2020.

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 Australian Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. It is estimated that deposits eligible for coverage under the Financial Claims Scheme were $1.1 trillion at 1 December 2020, compared to an estimated $1.0 trillion at 30 June 2021. This largely reflects overall deposit growth in the financial system due to fiscal policies that were implemented to support the economy during COVID-19 and consumer caution resulting in an increase in the savings rate.

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 for the National Housing Finance and Investment Corporation

The Australian Government guarantees the due payment of money payable by the National Housing Finance and Investment Corporation (NHFIC) to anybody other than the Government.

The NHFIC Board must not allow NHFIC to enter into a transaction that would result in the total guaranteed liabilities of the NHFIC, and any outstanding amount which NHFIC has borrowed from the Government, to exceed $3 billion unless approved by the Government.

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 that 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 31 March 2021, the face value of state and territory borrowings covered by the Guarantee was $1.2 billion, down from $1.3 billion at 31 October 2020.

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: $131.7 million is attributable to liabilities of the Commonwealth Bank of Australia as at 31 March 2021; and $4.7 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation as at 31 March 2021.

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. As at 31 March 2021, banknotes on issue amount to $96.8 billion, and the total Guarantee is $319.0 billion.

Contingent liabilities — unquantifiable

Government Guarantees for Housing

The Australian Government has a number of programs to support individuals to enter the housing market sooner.

The **First Home Loan Deposit Scheme** (the Scheme) is designed to support eligible first home buyers to build or purchase a first home sooner by providing a guarantee to participating lenders for up to 15 percent of the property purchase price. The Scheme began on 1 January 2020.

The **New Home Guarantee** is designed to support eligible first homes buyers seeking to build a new home or purchase a newly built home by providing a guarantee to participating lenders for up to 15 percent of the property purchase price. A second tranche of 10,000 New Home Guarantees will be made available between 1 July 2021 and 30 June 2022.

The **Family Home Guarantee** is designed to support single parents with dependants seeking to enter, or re-enter, the housing market. The Family Home Guarantee will commence on 1 July 2021, subject to the passage of legislation.

For the three programs listed above, the Australian Government guarantees the liabilities as they arise. Guaranteed liabilities arise where a lender's loss is covered by the guarantee. The lender then makes a claim against the guarantee and the National Housing Finance and Investment Corporation (NHFIC) accepts the claim. Given liabilities under the Scheme are met by a standing appropriation, the NHFIC is not required to maintain capital and reserves to meet the liabilities associated with these programs.

Indemnities for specialised external advisers during the COVID-19 pandemic

The Government has provided indemnities for certain specialised external advisers engaged to provide advice on emerging markets issues related to COVID-19. Indemnities were provided to mitigate personal risk and provide coverage for costs related to any legal proceedings that may arise in relation to the provision of that advice.

The indemnities apply for the period of engagement as advisers and for claims that are notified within 12 years after cessation of the adviser's engagement. Until the indemnity agreements are varied or expire, they will remain as contingent and unquantifiable liabilities.

International Monetary Fund — Poverty Reduction and Growth Trust

On 26 October 2020, the Australian Government entered into an agreement to make a line of credit available to the International Monetary Fund (IMF) under the Poverty Reduction and Growth Trust (PRGT) through to 31 December 2029. The PRGT provides concessional financial support to low-income countries to help them achieve, maintain, or restore a stable and sustainable macroeconomic position. PRGT funds are drawn upon by the IMF as needed and will be repaid in full with interest.

Through this agreement, the Government made available Special Drawing Rights (SDR, the IMF's unit of account) 500 million (approximately A$932.0 million at 1 April 2021) to loan to the IMF under the PRGT. As at 31 March 2021, SDR 1,902,857 (approximately A$3.5 million) has been drawn down, leaving SDR 498,097,143 (approximately A$928.4 million) remaining available to the IMF under the PRGT.

Small and Medium Enterprise Guarantee Scheme

The Australian Government will guarantee 50 per cent of loans issued under the Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme provided by eligible lenders to SMEs.

The Australian Government will also guarantee 100 per cent of loans issued under the Show Starter Loan Scheme and provided by eligible lenders (up to $90 million of loans).

The Show Starter Loan Scheme is being administered alongside the Coronavirus SME Guarantee Scheme.

On 11 March 2021, the Australian Government announced a range of initiatives as part of a new $1.2 billion support package targeting the businesses, workers and regions still impacted by COVID-19. This includes an expansion and extension of the Coronavirus SME Guarantee Scheme. The SME Recovery Loan Scheme is designed to support the economic recovery, and to provide continued assistance, to firms previously on JobKeeper. On 27 March 2021, the Government extended this to SMEs that were negatively economically affected by the floods in eligible Local Government Areas in March 2021. The Government will work with lenders to ensure that eligible firms continue to have access to finance to maintain and grow their businesses.

Loans under the SME Recovery Loan Scheme will be available from 1 April 2021 until 31 December 2021. The SME Recovery Loan Scheme is being administered alongside the Coronavirus SME Guarantee Scheme and Show Starter Loan Scheme.

The Australian Government will guarantee 80 per cent of loans issued under the SME Recovery Loan Scheme provided by eligible lenders to SMEs.

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 liabilities — quantifiable

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 March 2021, for which a provision has not been made, is $6.1 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.

In November 2020, Australia's uncalled capital subscription increased by US$0.8 billion bringing the total to approximately US$4.4 billion (estimated value A$5.9 billion as at 31 March 2021).

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 around EUR237.5 million (estimated value A$393.9 million as at 31 March 2021).

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 around US$7.0 billion (estimated value A$9.3 billion as at 31 March 2021).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$35.4 million as at 31 March 2021).

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 around US$3.0 billion (estimated value A$4.0 billion as at 31 March 2021).

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 around SDR4.4 billion (estimated value A$8.3 billion at 31 March 2021). On 8 October 2020, the Treasurer advised the IMF that Australia consented to the new NAB Decision and on 26

January 2020, the IMF Executive Board approved amendments to the NAB decision, including increasing the credit arrangements of all participants and extending it from 1 January 2021 to 31 December 2025.

In addition, Australia has made available approximately SDR 2.0 billion (approximately A$3.7 billion at 31 March 2021) via a contingent bilateral loan to the IMF, known as a Bilateral Borrowing Agreement (BBA). This contingent bilateral loan is on terms consistent with other bilateral loans and note purchase agreements between the IMF and other contributing countries. The contingent bilateral loan will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any drawings on loans would be repaid in full with interest. The BBA is made available to the IMF through 31 December 2023 with the possibility of a one-year extension.

Veterans' Affairs

Fiscal Risk

Defence Service Homes Insurance Scheme

The Defence Service Homes Insurance Scheme (the Scheme) was established in 1919 under the *Defence Service Homes Act 1918*. The Scheme offers personal insurance products to eligible serving Australian Defence Force members, veterans and widow(er)s. It underwrites home building insurance and offers a range of personal insurance products (such as contents and motor vehicle insurance) underwritten by QBE Insurance (Australia) Limited.

The Scheme is funded by premiums collected from policy holders, commissions from QBE and returns on investments. Due to the nature of insurance, the Scheme's financial performance can be volatile from year to year. Last year saw a significant increase in claims due to extreme weather events (including bushfires, hailstorms and floods).

The Scheme manages the volatility of the insurance cycle by holding an appropriate level of capital (i.e. reserves) consistent with the obligations placed on insurers through the relevant regulatory regime. The Scheme also has a comprehensive reinsurance program in place, reducing the exposure to loss by passing part of the risk of loss to a group of reinsurers. Nevertheless, there remains a risk that additional Government contributions could be required should these reserves be insufficient to cover the liabilities of the scheme.

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, result in an impact on the fiscal balance.

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 9.3 summarises Government loans estimated to exceed $200 million at 30 June 2021.

Table 9.3: Summary of Australian Government loans exceeding $200 million

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status[(b)]
Agriculture, Water and the Environment					
Drought related and farm finance concessional loans — Agriculture	400	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Unchanged
Farm Investment Loans, Drought Loans, AgriStarter Loans, AgBiz Drought Loans and AgRebuild Loans	2,461	Eligible Australian farm businesses and related small businesses, via Regional Investment Corporation	Up to 1.92 per cent	Up to 10 years	Modified
Education, Skills and Employment					
Higher Education Loan and VET Student Loans Program	52,966	Eligible tertiary education students	Consumer Price Index (CPI) growth	9.3 years*	Unchanged
Trade Support Loans Program	812	Eligible Australian Apprentices	CPI growth		Unchanged
Foreign Affairs and Trade					
Papua New Guinea Liquefied Natural Gas	199	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-in-confidence	Until 2026	Unchanged
Health					
Zero Real Interest Loans	218	Residential aged care	CPI growth	Up to 22 years	Modified
Industry, Science, Energy and Resources					
Clean Energy Finance Corporation	2,457	Approved entities undertaking clean energy technology projects	4.4 per cent weighted average	5-15 years	Unchanged
Northern Australia Infrastructure Facility Loans	272	Northern Australia jurisdictions (Western Australia, Queensland or the Northern Territory) for on lending to project proponents	5 per cent	Various	Modified

Table 9.3: Summary of Australian Government loans exceeding $200 million (continued)

Entity	Loan amount [a] ($m)	Borrower	Interest rate	Term	Status[b]
Infrastructure, Transport, Regional Development and Communications					
NBN Co Loan	13,908	NBN.Co Limited	3.96 per cent	30 June 2024	Modified
WestConnex stage 2 Concessional loan	1,975	WCX M5 Finco Pty Ltd	3.36 per cent	November 2015 to July 2034	Unchanged
Prime Minister and Cabinet					
Indigenous Home Ownership, Business Development and Assistance	1,025	Eligible Indigenous persons	2.5-6.9 per cent*	Up to 30 years	Modified
Voyages Indigenous Tourism Australia Pty Ltd	289	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Social Services					
Student Start up Loan	682	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	CPI growth	Various	Unchanged
Student Financial Supplement Scheme	373	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY recipients	CPI growth	Various	Unchanged

Table 9.3: Summary of Australian Government loans exceeding $200 million (continued)

Entity	Loan amount [(a)] ($m)	Borrower	Interest rate	Term	Status[(b)]
Treasury					
Loan Agreement between the Government of Australia and the Government of Indonesia	1,364	Government of Indonesia	Commonwealth cost of Borrowing plus 0.5 per cent	15 years	Modified
Commonwealth State financing arrangements — Housing and Specific Purpose Capital	1,414	State and Northern Territory Governments	4.0 per cent — 6.0 per cent	Up to 30 June 2042	Unchanged
International Monetary Fund — New Arrangements to Borrow	123	International Monetary Fund	0.1 per cent	10 years	Modified
Affordable Housing Bond Aggregator	115	National Housing Finance and Investment Corporation	Commonwealth cost of borrowing	Various	Unchanged
Loan to the Government of Papua New Guinea	558	Government of Papua New Guinea	Commonwealth cost of Borrowing plus 0.5 per cent	15 years	Modified

* Average.

(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2021 in $ million.

(b) Status of loan items are considered 'unchanged' unless there are modifications to respective interest rates and/or loan term.

Loan Items

Agriculture, Water and the Environment

Drought related and farm finance concessional loans — Agriculture

As at 30 June 2020, the fair value of farm business, drought and dairy farm related loans is estimated to total $586.6 million. This includes:

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 2021, the interest rate was 1.22 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 was available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 February 2021, the interest rate was 0.89 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government 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 provided three types of concessional loans — drought assistance, dairy recovery and business improvement. This scheme was designed to cover a farmer's short-term needs when income was tight and to supplement, rather than replace, commercial finance. Loans under the scheme were first available in November 2016. Applications for loans under the scheme closed on 30 June 2018.

Drought assistance concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for debt restructuring, operating expenses, drought preparedness activities or drought-recovery activities or a combination of these purposes.

Business improvement concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for eligible Farm Household Allowance (FHA) recipients who were recovering from financial hardship and had exhausted, or would exhaust their FHA 1,095-day income support entitlement by 30 June 2018. These loans were for debt restructuring only.

Dairy recovery concessional loans were available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 February 2021, the interest rate was 1.29 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government 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 2021, the interest rate was 1.72 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.

Farm Investment Loans, Drought Loans, AgriStarter Loans, AgBiz Drought Loans and AgRebuild Loans

The Regional Investment Corporation commenced operations on 1 July 2018.

There are three loan products currently available to farm businesses — Farm Investment Loans, Drought Loans, and AgriStarter Loans (launched on 1 January 2021). In addition, AgBiz Drought Loans are also available for small businesses. AgRebuild Loans (North Queensland flood) were available to 30 June 2020.

All loan products provide concessional loans to eligible businesses that are experiencing financial difficulties and are considered financially viable in the long term (additional criteria apply for each product and terms and conditions may vary). All products are for farm businesses, with the exception of AgBiz Drought Loans which are for small businesses that provide primary production related goods and services for drought affected farm businesses.

As at 1 February 2021, the variable interest rate was 1.77 per cent. Interest rates are revised on a six monthly basis in line with any material changes to the Australian Government 10 year bond rate, where a material change is taken to be a movement of more than 10 basis points (0.1 per cent).

Interest is not payable during the first two years of the AgRebuild Loan, or on the Drought Loans and AgBiz Drought Loans for loan applications received before 30 September 2020.

Loans have a maximum term of 10 years.

Education, Skills and Employment

Higher Education Loan and VET Student Loans Program

The Higher Education Loan Program (HELP) and the VET Student Loans (VSL) program are income-contingent loan programs that assist eligible tertiary education students with the cost of their fees. As at 30 June 2021 the fair value of debt outstanding is estimated to be $53 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts outstanding for more than 11 months are indexed annually using the Consumer Price Index. The Australian Taxation Office collects repayment of these debts through the tax system. Repayment of debts commence when an individual debtor’s income reaches the repayment threshold.

There were 2,851,725 HELP debtors as at 30 June 2020. 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 2020, the average time taken to repay HELP debts was 9.3 years.

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 $21,542 to assist with the costs of living, learning and undertaking an apprenticeship, and helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $718.07 per month in the first year of their apprenticeship, $538.56 per month in the second year, $359.04 per month in the third year and $179.52 per month in the fourth year.

The loan amounts provided are higher in the early years of training to compensate for lower wages. The lifetime limit of $21,542 was indexed on 1 July 2020 using the Consumer Price Index and will continue to be indexed annually on 1 July to maintain its real value.

As an incentive to encourage completion of 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 $46,620 for the 2020-21 income year. This is a demand-driven program.

Foreign Affairs and Trade

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 2021, the fair value of the loan amount outstanding is estimated to total $198.8 million.

Health

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 change in 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. The total amount owing to the Commonwealth as at 30 June 2021 is estimated to be $217.7 million.

Industry, Science, Energy and Resources

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 2020.

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 4.4 per cent. Loans have various maturity dates, typically in the range of 5 to 15 years. As at 30 June 2021, loans contracted and outstanding are expected to total $2.5 billion.

Northern Australia Infrastructure Facility Loans

The Northern Australian Infrastructure Facility (NAIF) is a lending facility established by the Commonwealth Government under the *Northern Australia Infrastructure Facility Act 2016*, and will operate until 30 June 2026 (pending passage of legislation by Parliament extending operations beyond 30 June 2021). The primary purpose of the NAIF is to provide loans to infrastructure projects and businesses across northern Australia to achieve economic and population growth, and enhance private sector investment in the region.

To be eligible for a loan from the NAIF, including up to 100 per cent of the project's debt, project proponents must meet the mandatory criteria outlined in the NAIF Investment Mandate of 2 May 2018. The Commonwealth Government announced changes to the NAIF on 30 September 2020 to:

- expand the eligibility for NAIF financing to include non-construction activities associated with the development of economic infrastructure
- enhance the potential to deliver significant public benefit to northern Australia by removing the prohibition against the Commonwealth assuming the majority risk in any project. The new requirement is that the financial risk be acceptable but not excessive.

Further changes were announced in the 2020-21 MYEFO context to simplify the NAIF's use of debt tools other than loans, such as guarantees and the purchase of bonds, and to permit the NAIF to make equity investments.

The Commonwealth Government has introduced legislation to give effect to these changes.

Infrastructure, Transport, Regional Development and Communications

NBN Co Loan

The Australian Government has provided a loan of $19.5 billion to NBN Co, on commercial terms, which was fully drawn in July 2020. The loan was established in December 2016 and must be repaid in full by 30 June 2024. $3.0 billion was repaid in December 2020 and a further $2.6 billion was repaid in May 2021, with an outstanding balance of $13.9 billion expected as at 30 June 2021. The loan has a fixed interest rate of 3.96 per cent per annum, with interest payable monthly over the life of the facility.

WestConnex Stage 2 Concessional Loan

The WestConnex concessional loan is a $2 billion loan facility provided to deliver WestConnex Stage 2. The concessional loan enabled Stage 2 to be brought forward, allowing Stages 1 and 2 to proceed in parallel. This resulted in significant time savings, compared to the original approach where these stages progressed in sequence.

WestConnex Stage 2 includes the King Georges Road Interchange Upgrade (completed in 2016) and construction of new twin tunnels from Kingsgrove to a new St Peters interchange, providing motorway connections to Alexandria and Mascot, the future Sydney Gateway and the M4-M5 Link.

The concessional loan agreement requires that the loan be repaid between September 2029 and July 2034.

Prime Minister and Cabinet

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. IBA 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 2021, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance will total $1.0 billion.

Voyages Indigenous Tourism Australia Pty Ltd

The Indigenous Land and Sea Corporation (ILSC) purchased Ayers Rock Resort (ARR) for $291.2 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 2021, the estimated outstanding loan balance will total $289 million.

Social Services

Student Start-up Loan

The Student Start-up Loan (SSL) is a voluntary income-contingent loan for student payment (Youth Allowance (student), Austudy and ABSTUDY Living Allowance) recipients undertaking higher education. Introduced on 1 January 2016, the SSL is paid a maximum of twice a year and each SSL payment is valued at $1,094 (in 2021). The SSL is repayable under similar arrangements to Higher Education Loan Program (HELP) debts. Students are required to start repaying their SSL once they earn over $46,620 for 2020-21 and only after they have repaid their HELP debt. When it commenced, the SSL was initially for new student payment recipients undertaking higher education. From 1 July 2017, with the closure of the Student Start-up Scholarship, the SSL has become available to all eligible student payment recipients undertaking higher education. As at 30 June 2021, the fair value of the Student Start-up Loan is estimated to be $672.8 million.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) commenced in January 1993 and closed on 31 December 2003. It was a voluntary income-contingent loan scheme for tertiary students (primarily Austudy and ABSTUDY) to help cover their living expenses while studying. Under the scheme, eligible students were able to trade one dollar of income support entitlement for two dollars in loans. Debtors are required to start repaying their SFSS loan once they earn $46,620 for 2020-21. As at 30 June 2021, the fair value of SFSS loans outstanding is estimated to total $372.8 million.

Treasury

Loan Agreement between the Government of Australia and the Government of Indonesia

On 12 November 2020, Australia entered into a A$1.5 billion loan agreement with Indonesia. This agreement is part of a multilateral action to support Indonesia led by the Asian Development Bank (ADB) and includes the Asian Infrastructure Investment Bank, the Japan International Cooperation Agency (JICA) and the German state-owned development bank (KfW).

The funds will be used to support Indonesia's COVID-19 response, including social protection initiatives and health system development.

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 were 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 to the Commonwealth Government. As at 30 June 2021, the amortised value of the advances was $1.414 billion (and principal value of $1.554 billion).

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the state and Northern Territory Governments to the Commonwealth Government.

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 26 January 2020, the IMF Executive Board agreed to a new NAB period from 1 January 2021 to 31 December 2025. The NAB helps ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. NAB 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 was SDR 63.476 million (approximately A$122.5 million as at 30 June 2021).

Affordable Housing Bond Aggregator

The Australian Government, through the Treasury, has made available a line of credit for the National Housing Finance and Investment Corporation’s (NHFIC) Affordable Housing Bond Aggregator (AHBA). The provision of funds will be in accordance with appropriations under the *National Housing Finance and Investment Corporation Act 2018*. The line of credit is ongoing and funds borrowed will be repaid with interest. The Treasury manages the receipt of interest and principal repayments from the NHFIC.

Loan to the Government of Papua New Guinea

On 23 November 2020, the Government entered into a loan agreement for US$400 million (approximately A$558 million) in 2020-21 to the Government of Papua New Guinea. The loan refinances the US$300 million short-term loan made in 2019-20 and a further A$140 million loan for budget support, including PNG’s response to COVID-19. The previous short-term loan was made to support budget sustainability, assist in the delivery of core government services, support longer term economic reforms and increase the availability of foreign exchange in the country. The Australian Government has agreed to enter negotiations with PNG to suspend principal and interest repayments for the loan consistent with the Debt Service Suspension Initiative of G20 nations to support low-income nations during the COVID-19 pandemic.

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 the 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
- 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 Government's policy that the ABS GFS remains the basis of budget accounting policy, except where AAS is applied 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 Standard AASB 1049. The financial statements are consistent with the requirements of the UPF.

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Statement 10: Australian Government Budget Financial Statements

Table 10.1: Australian Government general government sector operating statement

			Estimates			
		2020-21	2021-22	2022-23	2023-24	2024-25
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	465,771	456,972	466,100	504,313	536,676
Sales of goods and services	4	15,947	17,175	17,704	18,772	19,864
Interest income	5	2,901	3,621	3,403	3,727	4,094
Dividend income	5	8,038	7,265	6,789	7,138	7,263
Other	6	12,231	11,588	11,148	10,537	10,061
Total revenue		**504,888**	**496,621**	**505,145**	**544,487**	**577,959**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	21,779	22,440	22,082	21,920	22,494
Superannuation	7	12,387	6,973	7,074	7,187	7,419
Depreciation and amortisation	8	11,851	12,154	12,741	13,624	14,264
Supply of goods and services	9	144,601	161,315	156,814	164,735	168,722
Other operating expenses(a)	7	8,405	8,891	9,294	8,184	8,413
Total gross operating expenses		*199,021*	*211,772*	*208,005*	*215,649*	*221,312*
Superannuation interest expense	7	7,004	10,018	10,775	11,372	12,191
Interest expenses(b)	10	19,812	19,519	20,137	21,889	22,969
Current transfers						
Current grants	11	167,111	170,580	175,249	180,694	186,080
Subsidy expenses		86,892	17,364	15,598	15,293	16,107
Personal benefits	12	161,889	140,253	143,027	149,462	158,398
Total current transfers		*415,892*	*328,198*	*333,875*	*345,449*	*360,585*
Capital transfers	11					
Mutually agreed write-downs(b)		2,954	2,746	2,913	3,159	3,331
Other capital grants		14,755	17,080	19,673	17,147	13,307
Total capital transfers		*17,709*	*19,826*	*22,586*	*20,306*	*16,637*
Total expenses		**659,437**	**589,334**	**595,378**	**614,665**	**633,694**
Net operating balance		**-154,549**	**-92,713**	**-90,233**	**-70,178**	**-55,736**
Other economic flows — included in operating result						
Net write-downs of assets		-4,003	-6,351	-6,711	-6,860	-7,156
Assets recognised for the first time		195	200	204	209	214
Actuarial revaluations		126	124	86	76	64
Net foreign exchange gains		-479	-352	0	22	134
Net swap interest received		1,148	0	0	0	0
Market valuation of debt		37,494	260	-1,051	-1,284	-1,361
Other gains/(losses)		15,502	8,030	8,514	8,778	9,420
Total other economic flows — included in operating result		**49,984**	**1,910**	**1,043**	**943**	**1,315**
Operating result(c)		**-104,565**	**-90,804**	**-89,189**	**-69,236**	**-54,421**

Table 10.1: Australian Government general government sector operating statement (continued)

		Estimates				
		2020-21	2021-22	2022-23	2023-24	2024-25
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		-10,149	-230	8	0	0
Actuarial revaluations		-1,242	-375	-138	-151	-212
Other economic revaluations		-2,614	-88	-47	-40	-28
Total other economic flows - included in equity		**-14,005**	**-694**	**-177**	**-191**	**-239**
Comprehensive result — Total change in net worth		**-118,570**	**-91,497**	**-89,367**	**-69,426**	**-54,660**
Net operating balance		**-154,549**	**-92,713**	**-90,233**	**-70,178**	**-55,736**
Net acquisition of non-financial assets						
Purchases of non-financial assets		18,318	22,325	23,202	23,402	22,890
less Sales of non-financial assets		228	281	172	207	212
less Depreciation		11,851	12,154	12,741	13,624	14,264
plus Change in inventories		2,381	440	649	564	747
plus Other movements in non-financial assets		0	0	0	0	0
Total net acquisition of non-financial assets		**8,620**	**10,330**	**10,939**	**10,135**	**9,161**
Fiscal balance (Net lending/borrowing)(d)		**-163,169**	**-103,043**	**-101,171**	**-80,313**	**-64,897**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) From the 2020-21 Budget, the value of Debt Not Expected to be Repaid (DNER) on initial recognition of income contingent concessional loans was reported as an expense. The expense is now reported as a mutually agreed write-down, which is a form of capital transfer. It was previously recorded in other financing costs.
(c) Operating result under AAS.
(d) The term fiscal balance is not used by the ABS.

Table 10.2: Australian Government general government sector balance sheet

			Estimates			
		2020-21	2021-22	2022-23	2023-24	2024-25
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits(a)		46,693	61,795	43,691	42,473	40,883
Advances paid	13	82,235	85,655	88,321	76,384	77,706
Investments, loans and placements(a)	14	181,717	188,218	195,897	203,976	209,981
Other receivables	13	67,065	73,678	75,835	79,163	81,858
Equity investments						
Investments in other public sector entities		55,821	58,649	62,992	67,462	70,991
Equity accounted investments		3,528	3,892	4,243	4,553	4,952
Investments — shares		72,829	79,311	85,130	91,497	96,328
Total financial assets		*509,888*	*551,198*	*556,108*	*565,509*	*582,700*
Non-financial assets	15					
Land		11,817	11,871	11,941	11,921	11,971
Buildings		43,970	45,056	47,315	49,264	50,374
Plant, equipment and infrastructure		93,468	100,662	107,314	114,252	121,067
Inventories		11,710	11,744	11,980	12,105	12,403
Intangibles		9,821	10,796	11,343	11,581	11,640
Investment properties		210	217	217	217	217
Biological assets		28	16	16	16	16
Heritage and cultural assets		11,979	11,986	11,995	11,986	11,977
Assets held for sale		250	248	248	248	248
Other non-financial assets		37	37	37	37	37
Total non-financial assets		*183,290*	*192,634*	*202,407*	*211,630*	*219,952*
Total assets		**693,178**	**743,832**	**758,515**	**777,139**	**802,652**
Liabilities						
Interest bearing liabilities						
Deposits held		484	484	484	484	484
Government securities		891,811	1,028,091	1,126,277	1,207,245	1,274,052
Loans	16	16,345	16,125	16,091	16,073	16,101
Lease liabilities		19,527	19,991	20,071	19,480	18,494
Total interest bearing liabilities		*928,166*	*1,064,691*	*1,162,923*	*1,243,281*	*1,309,131*

Table 10.2: Australian Government general government sector balance sheet (continued)

		Estimates				
		2020-21	2021-22	2022-23	2023-24	2024-25
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	243,455	247,892	252,795	257,899	269,936
Other employee liabilities	17	33,124	33,839	34,588	35,417	36,255
Suppliers payables	18	8,507	9,226	9,779	9,882	10,238
Personal benefits payables	18	3,137	2,998	2,964	3,683	3,842
Subsidies payables	18	1,090	1,482	1,524	1,573	1,595
Grants payables	18	4,332	4,026	3,767	3,991	4,040
Other payables	18	3,302	3,136	3,055	2,925	2,804
Provisions	18	54,560	54,534	54,478	55,274	56,256
Total provisions and payables		*351,507*	*357,133*	*362,951*	*370,644*	*384,966*
Total liabilities		**1,279,673**	**1,421,824**	**1,525,874**	**1,613,925**	**1,694,097**
Net worth(b)		**-586,495**	**-677,992**	**-767,359**	**-836,786**	**-891,445**
Net financial worth(c)		*-769,785*	*-870,626*	*-969,767*	*-1,048,416*	*-1,111,397*
Net financial liabilities(d)		*825,606*	*929,275*	*1,032,758*	*1,115,878*	*1,182,388*
Net debt(e)		*617,521*	*729,023*	*835,015*	*920,448*	*980,561*

(a) Australian Office of Financial Management has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.
(b) Net worth equals total assets minus total liabilities.
(c) Net financial worth equals total financial assets minus total liabilities.
(d) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(e) Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Table 10.3: Australian Government general government sector cash flow statement(a)

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	459,470	445,599	455,328	493,106	525,353
Receipts from sales of goods and services	16,381	17,364	17,848	18,908	19,996
Interest receipts	2,995	3,063	3,080	3,363	3,721
Dividends and income tax equivalents	8,493	5,829	7,451	7,077	7,460
Other receipts	12,259	9,916	10,120	10,195	15,226
Total operating receipts	**499,596**	**481,771**	**493,827**	**532,648**	**571,757**
Cash payments for operating activities					
Payments to employees(b)	-32,100	-35,292	-35,065	-35,449	-35,112
Payments for goods and services	-140,017	-159,044	-154,782	-163,850	-168,195
Grants and subsidies paid	-281,234	-206,165	-210,712	-212,611	-215,419
Interest paid	-17,121	-17,789	-18,002	-20,060	-20,834
Personal benefit payments	-163,952	-140,966	-143,776	-149,494	-158,228
Other payments(b)	-7,873	-8,219	-8,590	-7,396	-7,626
Total operating payments	**-642,297**	**-567,475**	**-570,928**	**-588,860**	**-605,414**
Net cash flows from operating activities	**-142,701**	**-85,704**	**-77,101**	**-56,212**	**-33,657**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	235	282	173	207	213
Purchases of non-financial assets	-16,056	-18,786	-19,901	-21,042	-21,067
Net cash flows from investments in non-financial assets	**-15,821**	**-18,504**	**-19,728**	**-20,836**	**-20,854**
Net cash flows from investments in financial assets for policy purposes	**-7,286**	**-10,428**	**-10,140**	**4,096**	**-8,182**
Net cash flows from investments in financial assets for liquidity purposes	**60,898**	**-3,513**	**-4,185**	**-4,448**	**-320**
Cash receipts from financing activities					
Borrowing	345,507	710,589	942,139	790,717	605,094
Other financing	1,142	6	6	6	11
Total cash receipts from financing activities	**346,649**	**710,595**	**942,145**	**790,723**	**605,104**
Cash payments for financing activities					
Borrowing	-197,595	-570,386	-841,299	-708,341	-536,277
Other financing	-6,904	-6,958	-7,796	-6,200	-7,405
Total cash payments for financing activities	**-204,499**	**-577,344**	**-849,095**	**-714,541**	**-543,682**
Net cash flows from financing activities	**142,150**	**133,252**	**93,050**	**76,182**	**61,422**
Net increase/(decrease) in cash held	**37,240**	**15,102**	**-18,104**	**-1,217**	**-1,590**

Table 10.3: Australian Government general government sector cash flow statement (continued)[(a)]

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(c)	**-158,522**	**-104,209**	**-96,829**	**-77,048**	**-54,511**
plus Net cash flows from financing activities for leases(d)	-2,430	-2,411	-2,438	-2,466	-2,455
Equals underlying cash balance(e)	**-160,952**	**-106,619**	**-99,266**	**-79,514**	**-56,966**
plus Net cash flows from investments in financial assets for policy purposes	-7,286	-10,428	-10,140	4,096	-8,182
Equals headline cash balance	**-168,238**	**-117,047**	**-109,407**	**-75,417**	**-65,148**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) Principal payments on lease liabilities, which are financing cash payments, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.
(e) The term underlying cash balance is not used by the ABS.

Table 10.4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2020-21	2021-22
	$m	$m
Revenue		
Grants and subsidies	874	269
Sales of goods and services	17,075	18,175
Interest income	21	8
Other	53	79
Total revenue	**18,024**	**18,532**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,603	4,650
Superannuation	506	510
Depreciation and amortisation	4,761	4,873
Supply of goods and services	9,304	8,372
Other operating expenses(a)	825	545
Total gross operating expenses	*19,999*	*18,949*
Interest expenses	1,788	1,740
Other property expenses	241	281
Current transfers		
Tax expenses	134	0
Total current transfers	*134*	*0*
Total expenses	**22,162**	**20,969**
Net operating balance	**-4,139**	**-2,438**
Other economic flows	**-398**	**-1,305**
Comprehensive result — Total change in net worth excluding contribution from owners	**-4,536**	**-3,743**
Net acquisition of non-financial assets		
Purchases of non-financial assets	7,101	8,423
less Sales of non-financial assets	1	0
less Depreciation	4,761	4,873
plus Change in inventories	27	-2
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**2,366**	**3,548**
Fiscal balance (Net lending/borrowing)(b)	**-6,505**	**-5,986**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries 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 10.5: Australian Government public non-financial corporations sector balance sheet

	Estimates	
	2020-21	2021-22
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,690	1,743
Investments, loans and placements	596	220
Other receivables	3,166	3,198
Equity investments	195	202
Total financial assets	*5,646*	*5,364*
Non-financial assets		
Land and other fixed assets	57,614	60,053
Other non-financial assets(a)	4,091	3,900
Total non-financial assets	*61,705*	*63,952*
Total assets	**67,351**	**69,316**
Liabilities		
Interest bearing liabilities		
Deposits held	13	13
Advances received and loans	28,684	31,907
Lease liabilities	12,625	12,409
Total interest bearing liabilities	*41,322*	*44,328*
Provisions and payables		
Superannuation liability	19	19
Other employee liabilities	2,203	2,056
Other payables	5,460	5,634
Other provisions(a)	679	598
Total provisions and payables	*8,360*	*8,307*
Total liabilities	**49,682**	**52,635**
Shares and other contributed capital	**17,669**	**16,681**
Net worth(b)	**17,669**	**16,681**
Net financial worth(c)	*-44,035*	*-47,272*
Net debt(d)	*39,036*	*42,365*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals 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 the 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 is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits and investments, loans and placements).

Table 10.6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Estimates	
	2020-21	2021-22
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	18,785	19,527
Grants and subsidies received	1,043	348
GST input credit receipts	1,237	1,147
Other receipts	31	134
Total operating receipts	**21,096**	**21,156**
Cash payments for operating activities		
Payments to employees(b)	-5,011	-4,999
Payment for goods and services	-12,091	-10,162
Interest paid	-1,783	-1,839
GST payments to taxation authority	-751	-849
Distributions paid	-246	-281
Other payments(b)	-882	-686
Total operating payments	**-20,763**	**-18,816**
Net cash flows from operating activities	**333**	**2,340**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	3	2
Purchases of non-financial assets	-6,306	-7,898
Net cash flows from investments in non-financial assets	**-6,303**	**-7,896**
Net cash flows from investments in financial assets for policy purposes	**-4**	**12**
Net cash flows from investments in financial assets for liquidity purposes	**-442**	**71**
Net cash flows from financing activities		
Borrowing (net)	3,622	3,211
Other financing (net)	2,223	2,315
Net cash flows from financing activities	**5,845**	**5,526**
Net increase/(decrease) in cash held	**-571**	**53**
Cash at the beginning of the year	**2,261**	**1,690**
Cash at the end of the year	**1,690**	**1,743**
GFS cash surplus(+)/deficit(-)(c)	**-5,970**	**-5,556**
plus Net cash flows from financing activities for leases(d)	-389	-472
Adjusted GFS cash surplus(+)/deficit(-)(d)	**-6,360**	**-6,028**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

Table 10.7: Australian Government total non-financial public sector operating statement

	Estimates	
	2020-21	2021-22
	$m	$m
Revenue		
Taxation revenue	465,236	456,261
Sales of goods and services	32,121	34,503
Interest income	2,222	3,068
Dividend income	7,797	6,984
Other	12,170	11,615
Total revenue	**519,545**	**512,431**
Expenses		
Gross operating expenses		
Wages and salaries(a)	26,382	27,089
Superannuation	12,893	7,483
Depreciation and amortisation	16,612	17,027
Supply of goods and services	152,874	168,823
Other operating expenses(a)	9,230	9,436
Total gross operating expenses	*217,990*	*229,857*
Superannuation interest expense	7,004	10,018
Interest expenses(b)	20,899	20,698
Current transfers		
Current grants	167,111	170,580
Subsidy expenses	85,338	16,540
Personal benefits	161,889	140,253
Total current transfers	*414,337*	*327,373*
Capital transfers(b)	17,497	19,652
Total expenses	**677,727**	**607,598**
Net operating balance	**-158,182**	**-95,168**
Other economic flows	**38,293**	**204**
Comprehensive result — Total change in net worth	**-119,889**	**-94,964**
Net acquisition of non-financial assets		
Purchases of non-financial assets	25,418	30,748
less Sales of non-financial assets	230	281
less Depreciation	16,612	17,027
plus Change in inventories	2,409	438
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**10,986**	**13,878**
Fiscal balance (Net lending/borrowing)(c)	**-169,168**	**-109,045**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) From the 2020-21 Budget, the value of Debt Not Expected to be Repaid (DNER) on initial recognition of income contingent concessional loans was reported as an expense. The expense is now reported as a mutually agreed write-down, which is a form of capital transfer. It was previously recorded in other financing costs.

(c) The term fiscal balance is not used by the ABS.

Table 10.8: Australian Government total non-financial public sector balance sheet

	Estimates	
	2020-21	2021-22
	$m	$m
Assets		
Financial assets		
Cash and deposits(a)	48,383	63,808
Advances paid	68,047	71,435
Investments, loans and placements(a)	182,293	188,431
Other receivables	69,606	75,873
Equity investments	97,852	104,804
Total financial assets	*466,181*	*504,351*
Non-financial assets		
Land and other fixed assets	230,549	241,362
Other non-financial assets	14,487	15,266
Total non-financial assets	*245,037*	*256,628*
Total assets	**711,218**	**760,979**
Liabilities		
Interest bearing liabilities		
Deposits held	496	496
Government securities	891,811	1,028,091
Advances received and loans	30,820	33,805
Lease liabilities	32,145	32,392
Total interest bearing liabilities	*955,273*	*1,094,784*
Provisions and payables		
Superannuation liability	243,474	247,911
Other employee liabilities	35,327	35,895
Other payables	24,751	25,079
Other provisions	55,233	55,112
Total provisions and payables	*358,784*	*363,997*
Total liabilities	**1,314,057**	**1,458,781**
Net worth(b)	**-602,839**	**-697,803**
Net financial worth(c)	*-847,876*	*-954,430*
Net debt(d)	*656,550*	*771,111*

(a) Australian Office of Financial Management has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

(b) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals 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 the 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 is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements).

Table 10.9: Australian Government total non-financial public sector cash flow statement[(a)]

	Estimates	
	2020-21	2021-22
	$m	$m
Cash receipts from operating activities		
Taxes received	459,369	445,657
Receipts from sales of goods and services	32,245	34,336
Interest receipts	2,327	2,520
Dividends and income tax equivalents	8,252	5,548
Other receipts	12,082	9,969
Total operating receipts	**514,275**	**498,031**
Cash payments for operating activities		
Payments to employees(b)	-37,111	-40,291
Payments for goods and services	-149,162	-166,338
Grants and subsidies paid	-279,608	-205,817
Interest paid	-18,212	-19,077
Personal benefit payments	-163,952	-140,966
Other payments(b)	-8,576	-8,902
Total operating payments	**-656,621**	**-581,391**
Net cash flows from operating activities	**-142,347**	**-83,360**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	238	284
Purchases of non-financial assets	-22,362	-26,684
Net cash flows from investments in non-financial assets	**-22,124**	**-26,400**
Net cash flows from investments in financial assets for policy purposes	**-10,224**	**-7,374**
Net cash flows from investments in financial assets for liquidity purposes	**60,460**	**-3,442**
Net cash flows from financing activities		
Borrowing (net)	157,076	143,403
Other financing (net)	-6,167	-7,402
Net cash flows from financing activities	**150,908**	**136,001**
Net increase/(decrease) in cash held	**36,672**	**15,425**
Cash at the beginning of the year	**11,711**	**48,383**
Cash at the end of the year	**48,383**	**63,808**
GFS cash surplus(+)/deficit(-)(c)	**-164,471**	**-109,760**
plus Net cash flows from financing activities for leases(d)	-2,817	-2,883
Adjusted GFS cash surplus(+)/deficit(-)(d)	**-167,289**	**-112,643**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(d) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

Table 10.10: Australian Government public financial corporations sector operating statement

	Estimates	
	2020-21	2021-22
	$m	$m
Revenue		
Grants and subsidies	156	138
Sales of goods and services	768	636
Interest income	4,735	8,743
Other	94	94
Total revenue	**5,753**	**9,610**
Expenses		
Gross operating expenses		
Wages and salaries(a)	209	222
Superannuation	77	39
Depreciation and amortisation	69	67
Supply of goods and services	513	575
Other operating expenses(a)	56	60
Total gross operating expenses	*923*	*964*
Interest expenses	378	157
Other property expenses	2,116	3,535
Current transfers		
Tax expenses	6	7
Total current transfers	*6*	*7*
Total expenses	**3,424**	**4,663**
Net operating balance	**2,329**	**4,948**
Other economic flows	**-11,968**	**-4,874**
Comprehensive result — Total change in net worth excluding contribution from owners	**-9,638**	**74**
Net acquisition of non-financial assets		
Purchases of non-financial assets	2	3
less Sales of non-financial assets	0	0
less Depreciation	69	67
plus Change in inventories	-42	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-109**	**-65**
Fiscal balance (Net lending/borrowing)(b)	**2,438**	**5,013**

(a) Consistent with the ABS GFS classification, other employee related expenses are classified separately from wages and salaries 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 10.11: Australian Government public financial corporations sector balance sheet[(a)]

	Estimates	
	2020-21	2021-22
	$m	$m
Assets		
Financial assets		
Cash and deposits	664	649
Investments, loans and placements	405,291	409,269
Other receivables	164	207
Equity investments	726	739
Total financial assets	*406,845*	*410,864*
Non-financial assets		
Land and other fixed assets	913	908
Other non-financial assets(b)	92	93
Total non-financial assets	*1,005*	*1,001*
Total assets	**407,850**	**411,866**
Liabilities		
Interest bearing liabilities		
Deposits held	371,800	371,817
Borrowing	8,666	9,055
Total interest bearing liabilities	*380,466*	*380,871*
Provisions and payables		
Superannuation liability	944	944
Other employee liabilities	216	217
Other payables	3,179	6,656
Other provisions(b)	1,786	1,840
Total provisions and payables	*6,125*	*9,657*
Total liabilities	**386,591**	**390,528**
Shares and other contributed capital	**21,260**	**21,337**
Net worth(c)	**21,260**	**21,337**
Net financial worth(d)	*20,254*	*20,336*
Net debt(e)	*-25,489*	*-29,047*

(a) Assumes no valuation or currency movement.
(b) Excludes the impact of commercial taxation adjustments.
(c) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals 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 the 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 is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits and investments, loans and placements).

Table 10.12: Australian Government public financial corporations sector cash flow statement[(a)]

	Estimates	
	2020-21	2021-22
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	783	672
Grants and subsidies received	156	138
GST input credit receipts	13	1
Interest receipts	4,724	8,719
Other receipts	14	9
Total operating receipts	**5,690**	**9,539**
Cash payments for operating activities		
Payments to employees(b)	-293	-264
Payment for goods and services	-714	-755
Interest paid	-266	-131
GST payments to taxation authority	-16	-18
Distributions paid	-2,583	-16
Other payments(b)	-64	-59
Total operating payments	**-3,935**	**-1,243**
Net cash flows from operating activities	**1,755**	**8,296**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	0	0
Purchases of non-financial assets	-105	-3
Net cash flows from investments in non-financial assets	**-105**	**-3**
Net cash flows from investments in financial assets for policy purposes	**-615**	**-445**
Net cash flows from investments in financial assets for liquidity purposes(c)	**-130,231**	**-8,303**
Net cash flows from financing activities		
Borrowing and deposits received (net)(c)	122,381	494
Other financing (net)	6,776	-54
Net cash flows from financing activities	**129,158**	**441**
Net increase/(decrease) in cash held	**-39**	**-14**
Cash at the beginning of the year	**702**	**664**
Cash at the end of the year	**664**	**649**
GFS cash surplus(+)/deficit(-)(d)	**1,650**	**8,293**
plus Net cash flows from financing activities for leases(e)	-1	-1
Adjusted GFS cash surplus(+)/deficit(-)(e)	**1,649**	**8,292**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(c) Assumes no cash flows associated with valuation or currency movements.
(d) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(e) To retain a consistent measure of the GFS cash surplus/deficit following the implementation of AASB 16, its calculation is adjusted to include the principal payments on lease liabilities.

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 is based on the International Monetary Fund (IMF) accrual GFS framework

- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards as adopted in Australia for use by the not-for-profit sector and specific standards such as AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

The financial statements have been prepared on an accrual basis that complies with both the ABS GFS and AAS, except for departures disclosed at Note 2. A more detailed description of the AAS and the 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 Australian Government 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. 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 the ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including the 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 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. The ABS GFS does not require total assets to be attributed to functions. In accordance with the 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 *Budgetary Reporting* requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of variances in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the 2020-21 Budget are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the *Mid-Year Economic and Fiscal Outlook 2020-21* (MYEFO) disclosed in Budget Paper No. 2 *Budget Measures 2021-22*. All policy decisions taken between the 2020-21 Budget and the 2020-21 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 10.13.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to the ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Only one measure of each aggregate has been included on the face statements to avoid confusion.

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 10.13: 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	Changes in the valuation of loans are treated as a revenue or an expense. In some circumstances recognition as a revenue or an expense is delayed until the loan ends or is transferred.	Changes in the valuation of loans (excluding mutually agreed write-downs) are treated as an other economic flow.	ABS GFS
Timing recognition of Boosting Cash Flow for Employers	Expense recognition based on underlying economic activity that gives rise to the Cash Flow Boost payment.	Recognised when the businesses receive payments after submitting their activity statements and having met all requirements.	AAS
Leases	AASB 16 introduced a single lease accounting framework for lessees, which replaced the distinction between operating and finance leases. Right of use assets and lease liabilities are recognised on the balance sheets for leases that were previously accounted for as operating expense.	The distinction between operating leases and finance leases will be continued for lessees.	AAS
Concessional loans	Concessional elements are treated as an expense on initial recognition and unwound over the loan term.	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 revenue or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS

Table 10.13: Major differences between AAS and ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
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
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 state 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 state and territory governments are treated as sales of goods and services revenue.	AAS
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 sale for fiscal balance when 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 sale 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				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	217,500	218,700	226,700	238,600	239,400
Gross other individuals	49,500	48,500	53,500	57,300	62,500
less: Refunds	36,000	42,300	38,100	33,100	33,900
Total individuals and other withholding taxation	231,000	224,900	242,100	262,800	268,000
Fringe benefits tax	4,040	4,090	4,290	4,460	4,630
Company tax	94,300	84,200	72,300	82,300	102,400
Superannuation fund taxes	11,680	15,280	14,530	15,280	16,230
Petroleum resource rent tax	840	1,050	990	1,030	1,030
Income taxation revenue	**341,860**	**329,520**	**334,210**	**365,870**	**392,290**
Goods and services tax	71,080	74,130	77,180	80,950	84,980
Wine equalisation tax	1,070	1,050	1,080	1,110	1,160
Luxury car tax	800	680	610	610	640
Excise and Custom duty					
Petrol	5,850	6,100	6,300	6,650	7,050
Diesel	12,480	13,140	13,740	14,390	15,090
Other fuel products	1,560	1,830	1,860	1,910	2,000
Tobacco	15,080	14,750	14,610	14,970	15,340
Beer	2,550	2,600	2,660	2,760	2,810
Spirits	3,070	2,720	2,800	2,900	3,030
Other alcoholic beverages(a)	1,270	1,070	1,100	1,140	1,200
Other customs duty					
Textiles, clothing and footwear	170	160	110	90	100
Passenger motor vehicles	340	310	70	70	80
Other imports	1,180	1,230	780	780	850
less: Refunds and drawbacks	790	650	650	650	650
Total excise and customs duty	42,760	43,260	43,380	45,010	46,900
Major bank levy	1,640	1,670	1,720	1,770	1,870
Agricultural levies	509	505	522	536	540
Other taxes	6,052	6,157	7,398	8,457	8,296
Mirror taxes	583	604	670	702	721
less: Transfers to States in relation to mirror tax revenue	583	604	670	702	721
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**123,911**	**127,452**	**131,890**	**138,443**	**144,386**
Taxation revenue	**465,771**	**456,972**	**466,100**	**504,313**	**536,676**

Note 3: Taxation revenue by type (continued)

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*23,930*	*24,840*	*25,790*	*27,000*	*28,320*
Total customs duty	*18,830*	*18,420*	*17,590*	*18,010*	*18,580*
Capital gains tax(b)	*16,600*	*17,400*	*18,600*	*19,300*	*20,500*

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

Note 3(a): Taxation revenue by source

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	235,040	228,990	246,390	267,260	272,630
Income and capital gains levied on enterprises	106,820	100,530	87,820	98,610	119,660
Total taxes on income, profits and capital gains	**341,860**	**329,520**	**334,210**	**365,870**	**392,290**
Taxes on employers' payroll and labour force	1,350	812	845	902	974
Taxes on the provision of goods and services					
Sales/goods and services tax	72,950	75,860	78,870	82,670	86,780
Excises and levies	24,439	25,345	26,312	27,536	28,860
Taxes on international trade	18,830	18,420	17,590	18,010	18,580
Total taxes on the provision of goods and services	**116,219**	**119,625**	**122,772**	**128,216**	**134,220**
Taxes on the use of goods and performance of activities	6,342	7,015	8,273	9,325	9,193
Total taxation revenue	**465,771**	**456,972**	**466,100**	**504,313**	**536,676**

Note 4: Sales of goods and services revenue

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Sales of goods	1,352	1,435	1,423	1,462	1,522
Rendering of services	12,668	13,557	14,052	15,283	16,310
Lease rental	92	89	91	90	78
Fees from regulatory services	1,836	2,095	2,137	1,936	1,953
Total sales of goods and services revenue	**15,947**	**17,175**	**17,704**	**18,772**	**19,864**

Note 5: Interest and dividend revenue

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Interest from other governments					
State and territory debt	15	13	12	11	9
Housing agreements	81	77	72	67	62
Total interest from other governments	**96**	**89**	**84**	**77**	**72**
Interest from other sources					
Advances	1,019	662	457	450	458
Deposits	196	101	97	101	127
Indexation of HELP receivable and other student loans	280	1,137	909	1,053	1,190
Other	1,310	1,632	1,856	2,047	2,248
Total interest from other sources	**2,805**	**3,531**	**3,320**	**3,650**	**4,023**
Total interest	**2,901**	**3,621**	**3,403**	**3,727**	**4,094**
Dividends					
Dividends from other public sector entities	2,368	3,812	3,106	3,216	3,084
Other dividends	5,670	3,453	3,683	3,921	4,179
Total dividends	**8,038**	**7,265**	**6,789**	**7,138**	**7,263**
Total interest and dividend revenue	**10,939**	**10,885**	**10,192**	**10,865**	**11,357**

Note 6: Other sources of non-taxation revenue

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Industry contributions	170	170	177	179	191
Royalties	573	538	523	504	416
Seigniorage	69	79	70	67	64
Other	11,419	10,800	10,378	9,787	9,391
Total other sources of non-taxation revenue	**12,231**	**11,588**	**11,148**	**10,537**	**10,061**

Note 7: Employee and superannuation expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Wages and salaries expenses	**21,779**	**22,440**	**22,082**	**21,920**	**22,494**
Other operating expenses					
Leave and other entitlements	2,988	2,996	2,978	2,994	3,073
Separations and redundancies	69	80	58	57	75
Workers compensation premiums and claims	2,906	3,262	3,640	2,463	2,494
Other	2,442	2,553	2,617	2,670	2,771
Total other operating expenses	**8,405**	**8,891**	**9,294**	**8,184**	**8,413**
Superannuation expenses					
Superannuation	12,387	6,973	7,074	7,187	7,419
Superannuation interest cost	7,004	10,018	10,775	11,372	12,191
Total superannuation expenses	**19,390**	**16,991**	**17,848**	**18,558**	**19,609**
Total employee and superannuation expense	**49,574**	**48,322**	**49,225**	**48,662**	**50,516**

Note 8: Depreciation and amortisation expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	4,749	4,844	5,395	6,146	6,809
Buildings	3,808	3,780	3,799	3,917	3,947
Other infrastructure, plant and equipment	2,066	2,202	2,224	2,211	2,149
Heritage and cultural assets	76	76	76	76	76
Other	7	7	6	6	6
Total depreciation(a)	**10,707**	**10,909**	**11,501**	**12,356**	**12,987**
Total amortisation	**1,144**	**1,245**	**1,240**	**1,268**	**1,277**
Total depreciation and amortisation expense	**11,851**	**12,154**	**12,741**	**13,624**	**14,264**
Memorandum:					
Depreciation relating to right of use assets					
Specialist military equipment	*31*	*31*	*31*	*31*	*31*
Buildings	*2,247*	*2,240*	*2,214*	*2,230*	*2,264*
Other infrastructure, plant and equipment	*342*	*331*	*332*	*331*	*367*
Other	*7*	*7*	*6*	*6*	*6*
Total depreciation of right of use assets	***2,627***	***2,609***	***2,583***	***2,598***	***2,669***

(a) Includes depreciation of right of use (leased) assets, resulting from implementation of AASB 16.

Note 9: Supply of goods and services expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Supply of goods and services	38,088	50,267	39,478	41,215	38,615
Lease expenses	158	117	76	64	45
Personal benefits — indirect	96,339	102,923	110,033	116,107	122,470
Health care payments	6,013	5,391	5,329	5,424	5,558
Other	4,002	2,617	1,898	1,925	2,034
Total supply of goods and services expense	**144,601**	**161,315**	**156,814**	**164,735**	**168,722**

Note 10: Interest expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	17,041	18,164	19,085	20,548	21,841
Loans	2	4	4	5	1
Other	104	122	127	131	135
Total interest on debt	**17,148**	**18,289**	**19,216**	**20,684**	**21,976**
Interest on lease liabilities	**356**	**346**	**353**	**353**	**346**
Other financing costs(b)	**2,307**	**884**	**568**	**853**	**647**
Total interest expense	**19,812**	**19,519**	**20,137**	**21,889**	**22,969**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Australian Government Securities (AGS), previously referred to as Commonwealth Government Securities, when issued and on technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future AGS issuance.

(b) From the 2020-21 Budget, the value of Debt Not Expected to be Repaid (DNER) on initial recognition of income contingent concessional loans was reported as an expense. The expense is now reported as a mutually agreed write-down, which is a form of capital transfer. It was previously recorded in other financing costs.

Note 11: Current and capital grants expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Current grants expense					
State and territory governments	128,663	133,066	138,415	144,363	150,241
Private sector	13,416	13,126	12,353	11,954	11,542
Overseas	4,538	3,935	3,886	4,105	4,377
Non-profit organisations	5,341	5,198	4,623	4,598	4,510
Multi-jurisdictional sector	12,411	11,690	11,356	11,424	11,651
Other	2,742	3,567	4,615	4,249	3,759
Total current grants expense	**167,111**	**170,580**	**175,249**	**180,694**	**186,080**
Capital grants expense					
Mutually agreed write-downs(a)	2,954	2,746	2,913	3,159	3,331
Other capital grants					
State and territory governments	12,199	14,447	17,713	16,159	12,508
Local governments	1,590	1,470	1,072	452	473
Non-profit organisations	580	657	624	482	276
Private sector	96	56	27	5	5
Other	290	451	238	49	44
Total capital grants expense	**17,709**	**19,826**	**22,586**	**20,306**	**16,637**
Total grants expense	**184,820**	**190,406**	**197,835**	**201,000**	**202,717**

(a) From the 2020-21 Budget, the value of Debt Not Expected to be Repaid (DNER) on initial recognition of income contingent concessional loans was reported as an expense. The expense is now reported as a mutually agreed write-down, which is a form of capital transfer. It was previously recorded in other financing costs.

Note 12: Personal benefits expense

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Social welfare — assistance to the aged	53,538	51,218	53,156	55,059	56,843
Assistance to veterans and dependants	4,945	4,485	4,223	4,037	3,890
Assistance to people with disabilities	28,318	27,472	28,227	29,238	29,970
Assistance to families with children	31,032	28,816	28,543	28,793	28,659
Assistance to the unemployed	31,240	18,094	15,134	14,694	14,493
Student assistance	4,643	3,291	3,082	2,997	2,983
Other welfare programs	964	969	1,007	1,029	1,082
Financial and fiscal affairs	952	417	447	480	518
Vocational and industry training	57	72	65	72	71
Other	6,200	5,419	9,145	13,063	19,889
Total personal benefits expense	**161,889**	**140,253**	**143,027**	**149,462**	**158,398**

Note 13: Advances paid and other receivables

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Advances paid					
Loans to state and territory governments	2,199	2,023	1,863	1,711	1,553
Student loans	54,830	56,730	58,304	59,273	59,653
Other	25,551	27,253	28,508	15,744	16,841
less Impairment allowance	344	351	354	345	341
Total advances paid	**82,235**	**85,655**	**88,321**	**76,384**	**77,706**
Other receivables					
Goods and services receivable	1,470	1,464	1,505	1,497	1,492
Recoveries of benefit payments	5,779	5,677	5,683	5,698	5,733
Taxes receivable	36,510	39,906	42,460	44,894	47,434
Prepayments	4,157	4,371	4,559	4,701	4,759
Other	21,876	24,955	24,362	25,143	25,244
less Impairment allowance	2,727	2,695	2,734	2,770	2,804
Total other receivables	**67,065**	**73,678**	**75,835**	**79,163**	**81,858**

Note 14: Investments, loans and placements

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Investments — deposits(a)	5,870	6,008	6,220	6,243	6,168
IMF quota	12,686	12,195	12,195	12,225	12,406
Other	163,160	170,015	177,483	185,508	191,407
Total investments, loans and placements	**181,717**	**188,218**	**195,897**	**203,976**	**209,981**

(a) Australian Office of Financial Management has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Note 15: Non-financial assets

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Land and buildings					
Land	11,817	11,871	11,941	11,921	11,971
Buildings	43,970	45,056	47,315	49,264	50,374
Total land and buildings	**55,787**	**56,926**	**59,256**	**61,186**	**62,345**
Plant, equipment and infrastructure					
Specialist military equipment	75,854	81,387	87,828	95,233	102,588
Other plant, equipment and infrastructure	17,615	19,275	19,486	19,019	18,479
Total plant, equipment and infrastructure	**93,468**	**100,662**	**107,314**	**114,252**	**121,067**
Inventories					
Inventories held for sale	886	789	779	783	777
Inventories not held for sale	10,824	10,955	11,201	11,322	11,626
Total inventories	**11,710**	**11,744**	**11,980**	**12,105**	**12,403**
Intangibles					
Computer software	5,380	6,338	6,868	7,083	7,159
Other	4,441	4,458	4,476	4,498	4,482
Total intangibles	**9,821**	**10,796**	**11,343**	**11,581**	**11,640**
Total investment properties	**210**	**217**	**217**	**217**	**217**
Total biological assets	**28**	**16**	**16**	**16**	**16**
Total heritage and cultural assets	**11,979**	**11,986**	**11,995**	**11,986**	**11,977**
Total assets held for sale	**250**	**248**	**248**	**248**	**248**
Total other non-financial assets	**37**	**37**	**37**	**37**	**37**
Total non-financial assets(a)	**183,290**	**192,634**	**202,407**	**211,630**	**219,952**
Memorandum:					
Total relating to right of use assets					
Land	*154*	*172*	*167*	*159*	*153*
Buildings	*17,193*	*16,461*	*16,522*	*16,030*	*15,143*
Specialist military equipment	*260*	*228*	*197*	*165*	*134*
Other plant, equipment and infrastructure	*1,516*	*2,544*	*2,460*	*2,309*	*2,045*
Total right of use assets	***19,123***	***19,405***	***19,344***	***18,663***	***17,475***

(a) Include right of use (leased) assets, resulting from implementation of AASB 16.

Note 16: Loans

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Promissory notes	9,935	9,933	9,933	9,933	9,933
Special drawing rights	5,951	5,721	5,721	5,735	5,820
Other	459	472	438	405	348
Total loans	**16,345**	**16,125**	**16,091**	**16,073**	**16,101**

Note 17: Employee and superannuation liabilities

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**243,455**	**247,892**	**252,795**	**257,899**	**269,936**
Other employee liabilities					
Leave and other entitlements	9,583	9,712	9,815	9,973	10,124
Accrued salaries and wages	498	541	586	627	678
Workers compensation claims	1,903	1,780	1,694	1,617	1,554
Military compensation	20,428	21,078	21,753	22,438	23,123
Other	711	727	741	761	776
Total other employee liabilities	**33,124**	**33,839**	**34,588**	**35,417**	**36,255**
Total employee and superannuation liabilities	**276,579**	**281,731**	**287,383**	**293,315**	**306,191**

(a) For budget reporting purposes, a discount rate of CPI plus 2.5 per cent determined by actuaries in preparing the latest 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 spot rates on long-term government bonds were used. Consistent with AAS, the superannuation liability for the 2019-20 FBO was calculated using the spot rates on long-term government bonds as at 30 June 2020 that best matched each individual scheme's liability duration. These rates were between 1.0 and 1.7 per cent per annum.

Note 18: Provisions and payables

		Estimates			
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Suppliers payables					
Trade creditors	5,863	6,162	6,428	6,624	6,774
Lease rental payable	0	0	2	2	2
Personal benefits payables — indirect	2,019	2,455	2,741	2,653	2,857
Other creditors	625	609	608	604	605
Total suppliers payables	**8,507**	**9,226**	**9,779**	**9,882**	**10,238**
Total personal benefits payables — direct	**3,137**	**2,998**	**2,964**	**3,683**	**3,842**
Total subsidies payable	**1,090**	**1,482**	**1,524**	**1,573**	**1,595**
Grants payables					
State and territory governments	42	37	39	34	27
Non-profit organisations	162	161	159	158	159
Private sector	450	451	451	451	451
Overseas	1,995	1,682	1,420	1,652	1,708
Local governments	8	8	8	8	8
Other	1,675	1,687	1,692	1,688	1,688
Total grants payables	**4,332**	**4,026**	**3,767**	**3,991**	**4,040**
Total other payables	**3,302**	**3,136**	**3,055**	**2,925**	**2,804**
Provisions					
Provisions for tax refunds	3,105	3,105	3,105	3,105	3,105
Grants provisions	8,415	6,943	6,163	5,767	5,388
Personal benefits provisions — direct	7,758	7,826	7,938	8,024	8,112
Personal benefits provisions — indirect	3,596	3,871	4,061	4,134	4,221
Provisions for subsidies	5,058	4,886	4,876	5,058	5,348
Other	26,629	27,903	28,336	29,185	30,082
Total provisions	**54,560**	**54,534**	**54,478**	**55,274**	**56,256**

Note 19: Reconciliation of cash

		Estimates			
	2020-21	2021-22	2022-23	2023-24	2024-25
	$m	$m	$m	$m	$m
Net operating balance (revenues *less* expenses)	**-154,549**	**-92,713**	**-90,233**	**-70,178**	**-55,736**
less **Revenues not providing cash**					
Other	1,660	1,873	1,752	1,779	1,901
Total revenues not providing cash	**1,660**	**1,873**	**1,752**	**1,779**	**1,901**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	10,062	4,901	5,599	5,858	12,760
Depreciation/amortisation expense	11,851	12,154	12,741	13,624	14,264
Mutually agreed write-downs	2,954	2,746	2,913	3,159	3,331
Other	2,976	1,478	1,922	1,622	1,940
Total expenses not requiring cash	**27,843**	**21,279**	**23,175**	**24,263**	**32,295**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-2,258	-440	-649	-564	-747
Decrease/(increase) in receivables	2,966	-11,276	-8,114	-8,704	-8,778
Decrease/(increase) in other financial assets	-1,606	-1,115	-78	-768	-338
Decrease/(increase) in other non-financial assets	510	-182	-149	-163	-153
Increase/(decrease) in benefits, subsidies and grants payable	-17,648	-790	-325	613	658
Increase/(decrease) in suppliers' liabilities	97	412	369	176	224
Increase/(decrease) in other provisions and payables	3,605	993	656	891	817
Net cash provided/(used) by working capital	**-14,334**	**-12,398**	**-8,290**	**-8,519**	**-8,317**
equals (Net cash from/(to) operating activities)	-142,701	-85,704	-77,101	-56,212	-33,657
plus (Net cash from/(to) investing activities)	37,791	-32,445	-34,053	-21,187	-29,356
Net cash from operating activities and investment	**-104,910**	**-118,150**	**-111,154**	**-77,399**	**-63,013**
plus (Net cash from/(to) financing activities)	142,150	133,252	93,050	76,182	61,422
equals **Net increase/(decrease) in cash**	**37,240**	**15,102**	**-18,104**	**-1,217**	**-1,590**
Cash at the beginning of the year	**9,453**	**46,693**	**61,795**	**43,691**	**42,473**
Net increase/(decrease) in cash	37,240	15,102	-18,104	-1,217	-1,590
Cash at the end of the year	**46,693**	**61,795**	**43,691**	**42,473**	**40,883**

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. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 Conceptual framework

AASB 1049 seeks to 'harmonise' the 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. AASB 1049 also provides a basis for whole-of-government reporting, including for the PNFC and PFC sectors.

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 the 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*.[25]

25 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.[26]

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.

26 Not all transactions impact net worth. For example, transactions in financial assets and liabilities do not impact net worth as they represent the swapping of assets and liabilities on the balance sheet.

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.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. 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.[27]

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.

27 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation is deducted in the calculation of net capital investments 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 equity holdings. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors of government results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of interest bearing liabilities less the sum of selected financial assets (cash and deposits, advances paid, and investments, loans and placements). Financial assets include the Future Fund's investments in interest bearing securities and collective investment vehicles (CIVs). CIVs enable investors to pool their money and invest the pooled funds, rather than buying securities directly. 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 Australian Government continues to report net debt in accordance with the UPF as described above.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance 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
>
> *plus*
>
> Net cash flows from financing activities for leases
>
> *equals*
>
> Underlying cash balance

Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Government excluded 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 this year.

In contrast, net Future Fund earnings have been 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 a related table in *Statement 3*: *Fiscal Strategy and Outlook*, and *Statement 11: Historical Australian Government Data*.

Headline cash balance

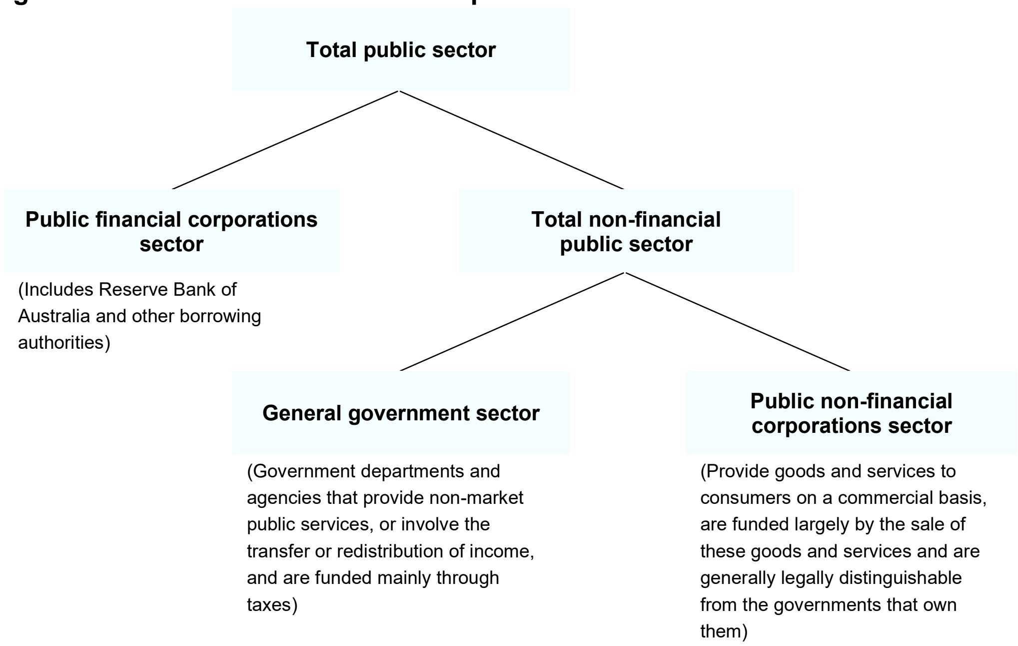
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes to the underlying cash balance.

Net cash flows from investments in financial assets for policy purposes include equity transactions and advances paid. 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.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. ABS GFS defines the GGS, PNFC and 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 under the current portfolio structure is available on the Department of Finance website at www.finance.gov.au/government/managing-commonwealth-resources/structure-australian-government-public-sector/pgpa-act-flipchart-and-list.

Table A10.1: Entities outside of the general government sector — 2020-21

Public financial corporations

Attorney-General's Portfolio
- Coal Mining Industry (Long Service Leave Funding) Corporation

Foreign Affairs and Trade Portfolio
- Export Finance and Insurance Corporation (also referred to as Export Finance Australia)

Industry, Science, Energy and Resources Portfolio
- CSIRO FollowOn Services Pty Ltd
- CSIRO FollowOn Services 2 Pty Ltd
- CSIRO General Partner Pty Ltd
- CSIRO General Partner 2 Pty Ltd
- CSIROGP Fund 2 Pty Ltd

Treasury Portfolio
- Australian Reinsurance Pool Corporation
- National Housing Finance and Investment Corporation*
- Reserve Bank of Australia

Public non-financial corporations

Finance Portfolio
- ASC Pty Ltd
- Australian Naval Infrastructure Pty Ltd

Industry, Science, Energy and Resources Portfolio
- ANSTO Nuclear Medicine Pty Ltd
- Snowy Hydro Limited

Infrastructure, Transport, Regional Development and Communications Portfolio
- Airservices Australia
- Australian Postal Corporation (Australia Post)
- Australian Rail Track Corporation Limited
- Moorebank Intermodal Company Limited
- nbn Co Ltd
- WSA Co Ltd

Table A10.1: Entities outside of the general government sector — 2020-21 (continued)

Public non-financial corporations (continued)

Prime Minister and Cabinet Portfolio
- Voyages Indigenous Tourism Australia Pty Ltd

Social Services Portfolio
- Australian Hearing Services (Hearing Australia)

* The National Housing Finance and Investment Corporation (NHFIC), a corporate Commonwealth entity, operates 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 PFC. NHFIC also administers the National Housing Infrastructure Facility (the Facility). The Facility is included in the GGS.

Appendix B: Assets and Liabilities

The Australian Government's major assets and liabilities

Assets

The Government's total assets are estimated to be $693.2 billion in 2020-21, increasing to $802.7 billion by the end of the forward estimates.

The Government's financial assets[28] are estimated to be $509.9 billion in 2020-21, increasing to $582.7 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $183.3 billion in 2020-21, increasing to $220.0 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 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.

Between establishment and 31 March 2021, the average return has been 7.8 per cent per annum against a target of 6.6 per cent. For the 12-month period ending 31 March 2021, the Future Fund's return was 10.1 per cent against the benchmark of 5.1 per cent. The Future Fund was valued at $178.6 billion at 31 March 2021.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 10B.1 shows changes in the asset allocation of the Future Fund since 30 June 2020.

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28 Financial assets include loans. Information on Government loans, including the *Higher Education Loan Program*, can be found in *Statement 9: Statement of Risks*.

Table 10B.1: Asset allocation of the Future Fund

Asset class	30 June 2020 $m	30 June 2020 % of Fund	31 March 2021 $m	31 March 2021 % of Fund
Australian equities	11,012	6.8	12,585	7.0
Global equities				
Developed markets	*30,810*	*19.1*	*29,939*	*16.8*
Emerging markets	*13,074*	*8.1*	*14,876*	*8.3*
Private equity	24,424	15.2	26,056	14.6
Property	9,285	5.8	10,729	6.0
Infrastructure and Timberland	11,420	7.1	12,980	7.3
Debt securities	12,852	8.0	12,531	7.0
Alternative assets	20,832	12.9	25,711	14.4
Cash	27,404	17.0	33,197	18.6
Total Future Fund assets	161,112	100.0	178,604	100.0

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.

Since inception, the Government has contributed $20 billion to the MRFF fulfilling the commitment in the 2014-15 Budget to grow the MRFF to $20 billion through annual credits. There are no further credits scheduled for the MRFF.

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 to 2.0 per cent per annum, net of costs, over a rolling 10-year term.

Since inception to 31 March 2021, MRFF investments have returned 4.2 per cent per annum against a target return of 2.7 per cent per annum. The MRFF was valued at $21.4 billion at 31 March 2021.

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).

The DCAF is funded by revenue raised from the 0.5 per cent increase in the Medicare levy to 2 per cent. As at 31 March 2021, the DCAF had received credits totalling $23.2 billion. Since inception, $9.0 billion has been paid from the DCAF.

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 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 2021, the DCAF's return was 0.8 per cent against the benchmark of 0.4 per cent. The DCAF was valued at $15.3 billion at 31 March 2021.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government established the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 February 2019 to support payments to the Indigenous Land and Sea Corporation (ILSC).

The ATSILSFF was seeded with the capital of the former Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2 billion. The Land Account was abolished on the establishment of the ATSILSFF.

The investments of the ATSILSFF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the ATSILSFF, which provides broad direction to the Board in relation to its investment strategy. The ATSILSFF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

For the 12-month period ending 31 March 2021, the ATSILSFF has returned 11.7 per cent against a benchmark of 3.1 per cent. The ATSILSFF was valued at $2.0 billion at 31 March 2021.

Future Drought Fund

The Government established the Future Drought Fund (FDF) on 1 September 2019 to fund initiatives that enhance future drought resilience, preparedness and response across Australia.

The FDF was seeded with the uncommitted balance of the Building Australia Fund (BAF) — approximately $4 billion. The BAF was abolished on the establishment of the FDF. The Fund provides disbursements of $100 million per annum, with the first disbursement made in July 2020.

The investments of the FDF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the FDF, which provides broad direction to the Board in relation to its investment strategy. The FDF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

For the 12-month period ending 31 March 2021, the FDF has returned 11.5 per cent against the benchmark of 3.1 per cent. The FDF was valued at $4.4 billion at 31 March 2021.

Emergency Response Fund

The Government established the Emergency Response Fund (ERF) on 12 December 2019 to fund initiatives which enhance future national disaster response and recovery efforts across Australia.

The ERF was seeded with the uncommitted balance of the Education Investment Fund (EIF) — approximately $4 billion. The EIF was abolished on establishment of the ERF. Disbursements from the ERF are limited to $200 million in each year that the Government decides to access the fund. This is comprised of up to $150 million for emergency response and recovery after a significant or catastrophic natural disaster, and up to $50 million to build resilience to prepare for or reduce the risk of future natural disasters.

The investments of the ERF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the ERF, which provides broad direction to the Board in relation to its investment strategy. The ERF Investment Mandate sets a long-term benchmark return of CPI plus 2.0 to 3.0 per cent per annum, net of costs.

For the 12-month period ending 31 March 2021, the ERF has returned 11.5 per cent against the benchmark of 3.1 per cent. The ERF was valued at $4.5 billion at 31 March 2021.

National Broadband Network

NBN Co Limited's (NBN Co) key objective is to ensure that all Australians have access to fast and reliable broadband, at affordable prices, and at least cost to taxpayers.

The Government has provided $29.5 billion in equity to NBN Co, with the final contributions made in 2017-18.

The Government also provided a loan of $19.5 billion to NBN Co on commercial terms, which was fully drawn down in July 2020. In the 2020-21 MYEFO the Government amended the loan agreement and allowed NBN Co to access private debt markets to finance the repayments. NBN Co has started repaying the loan with around $5.6 billion expected to be repaid in 2020-21.

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 will also administer the $1 billion Grid Reliability Fund when established, to support investment in new energy generation, storage and transmission infrastructure.

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 $1.3 trillion in 2020-21, increasing to $1.7 trillion by the end of the forward estimates.

The Government's major liabilities are Australian Government Securities on issue (see *Statement 7: Debt Statement* for further information) 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. By the end of the forward estimates period, the Government's superannuation liabilities are projected to be $269.9 billion and approximately $427.8 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, the scheme actuaries have determined that a discount rate of CPI plus 2.5 per cent should be applied.

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 Superannuation Scheme and the Public Sector Superannuation Scheme. These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan 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, the Defence Forces Retirement Benefits Scheme 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 (valued using the long-term discount rate) is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP. 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.

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:

- 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.

- From 2019-20 onwards, as a result of the implementation of the accounting standard AASB 16 *Leases*, the distinction between operating and finance leases for lessees has been removed. This change impacted a number of budget aggregates, in particular net debt and net financial worth. Due to data limitations, these changes have not been back cast to earlier years.

- 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.

- 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.[29] 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.

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29 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.

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).

One item was reclassified in the 2020-21 Budget and data have been further revised in the 2021-22 Budget to improve accuracy and comparability through time. From 2020-21, the value of Debt Not Expected to be Repaid on initial recognition of income contingent concessional loans is reported as an expense rather than as a valuation adjustment. The expenses, net operating balance and fiscal balance series for the general government sector and non-financial public sector, as applicable, have been back cast from 1996-97 to reflect this reclassification.

Table 11.1: 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	26.2	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	25.5	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	25.0	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.9	336,900	4.2	25.9	2,256	-54,494	-4.2

Table 11.1: 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	21.3	346,102	-0.4	24.4	3,385	-47,463	-3.4
2011-12	329,874	22.0	371,032	4.8	24.7	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	22.5	406,430	7.8	25.4	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	24.9	3,644	-33,151	-1.9
2017-18	446,905	24.2	452,742	1.1	24.5	4,305	-10,141	-0.5
2018-19	485,286	24.9	478,098	3.9	24.5	7,878	-690	0.0
2019-20	469,398	23.6	549,634	13.4	27.7	5,036	-85,272	-4.3
2020-21 (e)	499,831	24.3	660,783	18.4	32.1	5,504	-160,952	-7.8
2021-22 (e)	**482,053**	**22.6**	**588,672**	**-12.6**	**27.6**	**2,999**	**-106,619**	**-5.0**
2022-23 (e)	494,000	22.7	593,267	-1.4	27.3	3,200	-99,266	-4.6
2023-24 (e)	532,855	23.4	612,368	0.8	26.9	3,402	-79,514	-3.5
2024-25 (e)	571,969	23.9	628,936	0.2	26.2	3,618	-56,966	-2.4

(a) Data have been revised in the 2021-22 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 cash flows from financing activities for leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. In all other years, 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.

Table 11.2: 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	-4.3

Table 11.2: 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	446,905	452,742	-20,041	-1.1	-25,878	-1.4
2018-19	485,286	478,098	-14,387	-0.7	-7,199	-0.4
2019-20	469,398	549,634	-13,632	-0.7	-93,868	-4.7
2020-21 (e)	499,831	660,783	-7,286	-0.4	-168,238	-8.2
2021-22 (e)	**482,053**	**588,672**	**-10,428**	**-0.5**	**-117,047**	**-5.5**
2022-23 (e)	494,000	593,267	-10,140	-0.5	-109,407	-5.0
2023-24 (e)	532,855	612,368	4,096	0.2	-75,417	-3.3
2024-25 (e)	571,969	628,936	-8,182	-0.3	-65,148	-2.7

(a) Data have been revised in the 2021-22 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 11.1.
(e) Estimates.

Table 11.3: 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	26.2
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	25.5
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	23.7	15,600	1.3	294,917	25.0
2008-09	273,674	21.7	18,926	1.5	292,600	23.2
2009-10	262,167	20.1	22,495	1.7	284,662	21.9

Table 11.3: 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	21.3
2011-12	311,269	20.8	18,606	1.2	329,874	22.0
2012-13	327,835	21.3	23,218	1.5	351,052	22.9
2013-14	340,283	21.3	20,038	1.3	360,322	22.5
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	21.5	30,597	1.7	409,868	23.3
2017-18	418,053	22.6	28,853	1.6	446,905	24.2
2018-19	448,579	23.0	36,707	1.9	485,286	24.9
2019-20	431,775	21.7	37,623	1.9	469,398	23.6
2020-21 (e)	459,470	22.3	40,361	2.0	499,831	24.3
2021-22 (e)	**445,599**	**20.9**	**36,454**	**1.7**	**482,053**	**22.6**
2022-23 (e)	455,328	20.9	38,672	1.8	494,000	22.7
2023-24 (e)	493,106	21.6	39,748	1.7	532,855	23.4
2024-25 (e)	525,353	21.9	46,616	1.9	571,969	23.9

(a) Data have been revised in the 2021-22 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 11.1.
(e) Estimates.

Table 11.4: 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 11.4: 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	10.2	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	15.1	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	341,961	18.5	13,135	0.7
2018-19	373,566	19.1	15,149	0.8
2019-20	491,217	24.7	13,280	0.7
2020-21 (e)	617,521	30.0	14,126	0.7
2021-22 (e)	**729,023**	**34.2**	**14,727**	**0.7**
2022-23 (e)	835,015	38.4	14,922	0.7
2023-24 (e)	920,448	40.4	16,698	0.7
2024-25 (e)	980,561	40.9	17,113	0.7

(a) Data have been revised in the 2021-22 Budget to improve accuracy and comparability through time.
(b) Net debt is the sum of interest-bearing liabilities less the sum of selected financial assets (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.

Table 11.5: Australian Government general government sector face value of Australian Government Securities (AGS) on issue and interest paid[(a)]

	Face value of AGS on issue(b)					
	Total AGS 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	21.3	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.6	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	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	7.5	3,970	0.3
2009-10	147,133	11.3	141,806	10.9	6,411	0.5

Table 11.5: Australian Government general government sector face value of Australian Government Securities (AGS) on issue and interest paid[(a)] (continued)

	Face value of AGS on issue(b)					
	Total AGS 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	319,487	20.0	316,952	19.8	13,972	0.9
2014-15	368,738	22.7	366,202	22.5	13,924	0.9
2015-16	420,420	25.3	417,936	25.2	14,977	0.9
2016-17	500,979	28.4	498,510	28.3	15,290	0.9
2017-18	531,937	28.8	529,467	28.6	16,568	0.9
2018-19	541,992	27.8	541,986	27.8	18,951	1.0
2019-20	684,298	34.5	684,292	34.5	16,524	0.8
2020-21 (e)	829,000	40.2	829,000	40.2	17,121	0.8
2021-22 (e)	**963,000**	**45.1**	**963,000**	**45.1**	**17,789**	**0.8**
2022-23 (e)	1,058,000	48.6	1,058,000	48.6	18,002	0.8
2023-24 (e)	1,134,000	49.7	1,134,000	49.7	20,060	0.9
2024-25 (e)	1,199,000	50.0	1,199,000	50.0	20,834	0.9

(a) Data have been revised in the 2021-22 Budget to improve accuracy and comparability through time.
(b) From 2020-21 onwards, data for AGS on issue are estimates and are rounded to the nearest $1 billion.
(c) Total AGS on issue includes AGS held on behalf of the states and the Northern Territory.
(d) The face value of AGS 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. AGS 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 AGS on issue.

Table 11.6: 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	145,940	26.3	-4,252	-0.8	90	0.0	-4,342	-0.8
1997-98	146,820	25.0	148,788	25.3	-1,968	-0.3	147	0.0	-2,115	-0.4
1998-99	152,106	24.5	146,925	23.7	5,181	0.8	1,433	0.2	3,748	0.6
1999-00	167,304	25.3	155,728	23.6	11,576	1.8	-69	0.0	11,645	1.8
2000-01	186,106	26.4	180,277	25.6	5,829	0.8	8	0.0	5,820	0.8
2001-02	190,432	25.2	193,214	25.6	-2,782	-0.4	382	0.1	-3,164	-0.4
2002-03	206,778	25.8	201,402	25.1	5,376	0.7	287	0.0	5,088	0.6
2003-04	222,042	25.8	215,634	25.0	6,409	0.7	660	0.1	5,749	0.7
2004-05	242,354	26.3	229,427	24.9	12,926	1.4	1,034	0.1	11,892	1.3
2005-06	260,569	26.2	241,977	24.3	18,592	1.9	2,498	0.3	16,094	1.6
2006-07	277,895	25.6	259,197	23.9	18,698	1.7	2,333	0.2	16,365	1.5
2007-08	303,402	25.8	280,335	23.8	23,068	2.0	2,593	0.2	20,475	1.7
2008-09	298,508	23.7	324,889	25.8	-26,382	-2.1	4,064	0.3	-30,445	-2.4
2009-10	292,387	22.5	340,354	26.2	-47,967	-3.7	6,433	0.5	-54,400	-4.2
2010-11	309,204	21.8	356,710	25.2	-47,506	-3.4	5,297	0.4	-52,802	-3.7
2011-12	337,324	22.5	377,948	25.2	-40,624	-2.7	4,850	0.3	-45,474	-3.0
2012-13	359,496	23.4	383,351	25.0	-23,855	-1.6	987	0.1	-24,842	-1.6
2013-14	374,151	23.4	415,691	26.0	-41,540	-2.6	3,850	0.2	-45,390	-2.8
2014-15	379,455	23.4	418,956	25.8	-39,501	-2.4	2,706	0.2	-42,206	-2.6
2015-16	395,055	23.8	430,739	25.9	-35,684	-2.1	3,829	0.2	-39,513	-2.4

Table 11.6: 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
2016-17	415,723	23.6	449,712	25.5	-33,989	-1.9	2,876	0.2	-36,865	-2.1
2017-18	456,280	24.7	461,490	25.0	-5,209	-0.3	1,284	0.1	-6,493	-0.4
2018-19	493,346	25.3	485,869	24.9	7,476	0.4	6,126	0.3	1,350	0.1
2019-20	486,278	24.5	578,117	29.1	-91,839	-4.6	4,005	0.2	-95,844	-4.8
2020-21 (e)	504,888	24.5	659,437	32.0	-154,549	-7.5	8,620	0.4	-163,169	-7.9
2021-22 (e)	**496,621**	**23.3**	**589,334**	**27.6**	**-92,713**	**-4.3**	**10,330**	**0.5**	**-103,043**	**-4.8**
2022-23 (e)	505,145	23.2	595,378	27.4	-90,233	-4.1	10,939	0.5	-101,171	-4.6
2023-24 (e)	544,487	23.9	614,665	27.0	-70,178	-3.1	10,135	0.4	-80,313	-3.5
2024-25 (e)	577,959	24.1	633,694	26.4	-55,736	-2.3	9,161	0.4	-64,897	-2.7

(a) Data have been revised in the 2021-22 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.

Table 11.7: 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	-11.4
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	-23.5
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	-30.0
2017-18	-418,135	-22.6	-562,183	-30.4
2018-19	-543,459	-27.8	-694,448	-35.6
2019-20	-664,892	-33.5	-840,557	-42.3
2020-21 (e)	-586,495	-28.5	-769,785	-37.4
2021-22 (e)	**-677,992**	**-31.8**	**-870,626**	**-40.8**
2022-23 (e)	-767,359	-35.3	-969,767	-44.6
2023-24 (e)	-836,786	-36.7	-1,048,416	-46.0
2024-25 (e)	-891,445	-37.2	-1,111,397	-46.4

(a) Data have been revised in the 2021-22 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less total liabilities.
(c) Net financial worth is equal to financial assets less total liabilities.
(e) Estimates.

Table 11.8: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue(a)

	Taxation revenue		Non-taxation revenue		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,409	23.2	13,895	2.1	167,304	25.3
2000-01	175,876	24.9	10,229	1.5	186,106	26.4
2001-02	178,410	23.7	12,022	1.6	190,432	25.2
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	20.4	19,639	1.4	309,204	21.8
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	21.9	23,134	1.4	379,455	23.4
2015-16	369,410	22.2	25,645	1.5	395,055	23.8
2016-17	388,641	22.1	27,082	1.5	415,723	23.6
2017-18	427,183	23.1	29,097	1.6	456,280	24.7
2018-19	456,072	23.4	37,274	1.9	493,346	25.3
2019-20	447,526	22.5	38,752	2.0	486,278	24.5
2020-21 (e)	465,771	22.6	39,116	1.9	504,888	24.5
2021-22 (e)	**456,972**	**21.4**	**39,648**	**1.9**	**496,621**	**23.3**
2022-23 (e)	466,100	21.4	39,045	1.8	505,145	23.2
2023-24 (e)	504,313	22.1	40,174	1.8	544,487	23.9
2024-25 (e)	536,676	22.4	41,283	1.7	577,959	24.1

(a) Data have been revised in the 2021-22 Budget to improve accuracy and comparability through time.
(e) Estimates.

Table 11.9: 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 11.9: 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	446,905	452,742	-10,141	14,195	22,348	-8,153	457,604	471,451	-13,846
2018-19	485,286	478,098	-690	17,909	26,608	-8,699	498,767	500,276	-1,510
2019-20	469,398	549,634	-85,272	18,824	28,244	-9,419	483,362	573,018	-89,656
2020-21 (e)	499,831	660,783	-160,952	21,099	27,459	-6,360	514,513	681,801	-167,289
2021-22 (e)	**482,053**	**588,672**	**-106,619**	**21,157**	**27,186**	**-6,028**	**498,315**	**610,958**	**-112,643**
2022-23 (e)	494,000	593,267	-99,266	na	na	na	na	na	na
2023-24 (e)	532,855	612,368	-79,514	na	na	na	na	na	na
2024-25 (e)	571,969	628,936	-56,966	na	na	na	na	na	na

(a) Data have been revised in the 2021-22 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 cash flows from financing activities for leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. In all other years, 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, distributions paid and net cash flows from financing activities for leases.
na Data not available.

Table 11.10: 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	145,940	-4,342	27,431	26,015	-331	na	na	-4,673
1997-98	146,820	148,788	-2,115	29,618	26,999	2,360	na	na	251
1998-99	152,106	146,925	3,748	27,687	26,088	-816	175,891	169,111	2,932
1999-00	167,304	155,728	11,645	25,485	23,542	1,062	188,841	175,322	11,550
2000-01	186,106	180,277	5,820	25,869	24,762	-826	207,367	200,433	4,994
2001-02	190,432	193,214	-3,164	26,638	25,341	793	212,462	213,947	-2,371
2002-03	206,778	201,402	5,088	24,339	22,916	1,975	225,989	219,232	7,023
2003-04	222,042	215,634	5,749	25,449	23,444	2,143	241,746	233,333	7,892
2004-05	242,354	229,427	11,892	26,965	25,191	1,473	263,434	248,733	13,365
2005-06	260,569	241,977	16,094	28,143	29,531	-2,442	281,927	264,722	13,652
2006-07	277,895	259,197	16,365	15,443	16,360	-1,763	289,551	271,771	14,601
2007-08	303,402	280,335	20,475	6,854	6,686	-584	308,888	285,652	19,891
2008-09	298,508	324,889	-30,445	6,998	7,576	-1,495	303,309	330,268	-31,941
2009-10	292,387	340,354	-54,400	7,288	7,297	-1,079	298,033	346,008	-55,480
2010-11	309,204	356,710	-52,802	7,563	7,787	-1,446	315,001	362,732	-54,248
2011-12	337,324	377,948	-45,474	8,046	8,238	-2,158	343,722	384,538	-47,632
2012-13	359,496	383,351	-24,842	8,863	9,415	-4,189	366,642	391,048	-29,031
2013-14	374,151	415,691	-45,390	9,537	11,127	-6,070	381,971	425,102	-51,460
2014-15	379,455	418,956	-42,206	9,987	11,850	-4,856	387,719	429,083	-47,062
2015-16	395,055	430,739	-39,513	10,044	12,809	-7,486	403,868	442,318	-46,999

Table 11.10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[a] (continued)

	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)
2016-17	415,723	449,712	-36,865	10,894	15,035	-9,918	425,114	463,243	-46,784
2017-18	456,280	461,490	-6,493	12,318	16,934	-10,055	466,661	476,403	-16,463
2018-19	493,346	485,869	1,350	15,836	20,899	-11,121	507,017	504,486	-9,655
2019-20	486,278	578,117	-95,844	17,029	23,174	-10,096	500,961	598,651	-105,637
2020-21 (e)	504,888	659,437	-163,169	18,024	22,162	-6,505	519,545	677,727	-169,168
2021-22 (e)	**496,621**	**589,334**	**-103,043**	**18,532**	**20,969**	**-5,986**	**512,431**	**607,598**	**-109,045**
2022-23 (e)	505,145	595,378	-101,171	na	na	na	na	na	na
2023-24 (e)	544,487	614,665	-80,313	na	na	na	na	na	na
2024-25 (e)	577,959	633,694	-64,897	na	na	na	na	na	na

(a) Data have been revised in the 2021-22 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.
na Data not available.

Table 11.11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis(a)(b)

	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 11.11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)(b)] (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	13,692	818	14,511	16,321	-1,907	6,750	291
2012-13	13,859	982	14,841	15,524	-796	6,747	350
2013-14	13,798	813	14,611	16,480	-1,965	8,497	440
2014-15	13,906	960	14,866	16,193	-1,488	9,660	427
2015-16	13,829	936	14,765	16,154	-1,511	11,580	459
2016-17	13,992	1,129	15,121	16,210	-1,223	11,891	456
2017-18	14,900	1,028	15,929	16,137	-361	12,188	468
2018-19	15,492	1,268	16,759	16,511	-24	12,901	523
2019-20	14,525	1,266	15,791	18,490	-2,869	16,525	447
2020-21 (e)	15,208	1,336	16,544	21,871	-5,327	20,439	468
2021-22 (e)	**14,419**	**1,180**	**15,598**	**19,048**	**-3,450**	**23,590**	**477**
2022-23 (e)	14,290	1,214	15,504	18,620	-3,115	26,207	468
2023-24 (e)	14,922	1,203	16,125	18,531	-2,406	27,854	505
2024-25 (e)	15,305	1,358	16,663	18,322	-1,660	28,566	499

(a) Data have been revised in the 2021-22 Budget to improve accuracy and comparability through time.
(b) 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.
(e) Estimates.