Budget
2022–23

Budget Strategy and Outlook
Budget Paper No. 1
2022–23

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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 2022-23, while the forward years refer to 2023-24, 2024-25 and 2025-26; 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.
- 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nfp	not for publication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 2022-23*, 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 delivers Australia's plan for a stronger future.

It is a plan that:

- Delivers more jobs as we push the unemployment rate below 4 per cent, supports small business, expands and modernises Australia's sovereign manufacturing capability, secures our supply chains and invests more in infrastructure, skills and the digital economy.
- Provides temporary and targeted cost of living relief to millions of Australians.
- Invests to strengthen our regions, unlock new frontiers of production and growth, and support communities to build new industries.
- Makes a record investment in our health system and other essential services, including aged care, education and women's safety.
- Invests in stronger borders, defence, national security and a resilient economy.

The Government's economic plan, focused on job creation, is working. Amid the ongoing COVID 19 pandemic and natural disasters at home, the Australian economy has outperformed all major advanced economies, experiencing a stronger recovery in output and employment from pre pandemic levels. The recovery is expected to continue with the unemployment rate forecast to reach 3¾ per cent in the September quarter of 2022, nearly 3 percentage points below the Budget forecast from 2 years ago and the lowest rate in close to 50 years.

Having achieved the objective of low unemployment, the Government has transitioned to the next phase of the Economic and Fiscal Strategy, which focuses on growing the economy in order to stabilise and reduce debt as a share of the economy. The Budget demonstrates the fiscal dividend of a strong economy, with more Australians in work and fewer Australians on welfare, flowing through to a significantly improved fiscal outlook.

Since MYEFO, the underlying cash balance has improved by a substantial $103.6 billion over the 5 years to 2025-26. The Budget shows the deficit more than halving to 1.6 per cent of GDP by 2025-26 before falling to 0.7 per cent of GDP by the end of the medium term. Gross debt as a share of the economy is expected to peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than projected at MYEFO. Gross debt is projected to fall to

40.3 per cent of GDP by the end of the medium term, 9.6 percentage points or $236 billion lower than at the end of the medium term in MYEFO.

The recent floods in Queensland and New South Wales have had a devastating impact on many communities. The Government has already allocated $3.6 billion to households, businesses and communities and expects to spend over $6 billion in total on disaster relief and recovery as a result of these floods.

The Government is delivering a stronger future for all Australians through:

- Supporting small businesses to adopt digital technology and train and upskill employees with new tax incentives.
- Building the skilled workforce and industries that Australia needs, including $2.8 billion for apprentices and $2.2 billion to support Australian industries and universities to develop innovative companies and products.
- Securing our supply chains and transforming manufacturing with more than $1 billion of new investment that builds on the Government's $1.5 billion Modern Manufacturing Strategy.
- Addressing pressures on cost of living through a temporary and targeted cost of living package. This includes a $420 cost of living tax offset for low- and middle-income earners, and a $250 cost of living payment for eligible Australian pensioners, welfare recipients, veterans and concession card holders. Halving petrol and diesel excise and excise equivalent customs duty for 6 months will also provide relief from higher fuel prices.
- Investing to strengthen our regions, with over $21 billion committed to ensure regions have the critical transport, water and communications infrastructure they need to grow.
- Continuing to invest in the essential services with an additional $4.7 billion for health services and a further $1.3 billion to support delivery of the National Plan to End Violence against Women and Children 2022-32.
- Protecting Australia's interests by bolstering our national security and defence capabilities. Defence funding has risen from less than 1.6 per cent of GDP in 2012-13 to above 2 per cent in 2021-22.

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Statement 1: Budget Overview

Economic and Fiscal Outlook

The Australian economy has proved remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and exceeding pre-pandemic levels of activity by more than the major advanced economies.

A strong economic recovery is well underway, notwithstanding the pandemic and new shocks, such as the recent floods in Queensland and New South Wales and the Russian invasion of Ukraine. Economic growth forecasts have been revised upwards, driven by stronger-than-expected momentum in the labour market and consumer spending. Real GDP is expected to grow by 4¼ per cent in 2021-22, 3½ per cent in 2022-23 and 2½ per cent in 2023-24.

The unemployment rate reached 4.0 per cent and the participation rate reached a record high of 66.4 per cent in February 2022. The continued recovery in economic activity is expected to see the unemployment rate reach 3¾ per cent in the September quarter of 2022, nearly 3 percentage points below the Budget forecast from 2 years ago and the lowest level in close to 50 years. The strong labour market is expected to see wages growth accelerate to its fastest pace in almost a decade with growth in the Wage Price Index forecast to increase from 2¾ per cent in 2021-22 to 3¼ per cent in 2022-23. Broader and more representative wage measures are picking up more quickly as workers take advantage of the tight labour market, with average earnings per hour expected to increase by 5 per cent through the year to the June quarter of 2022.

Australia has been affected by global inflationary pressures such as elevated oil prices and supply chain disruptions, but domestic inflationary pressures are more moderate than in many other advanced economies. Headline inflation in Australia picked up in 2021 to be 3.5 per cent to the December quarter. Australia’s inflation is expected to moderate from 4¼ per cent in 2021-22 to 3 per cent in 2022-23 and 2¾ per cent in 2023-24.

Recent strength in the price of Australia’s key export commodities, will see Australia’s terms of trade reach a record high in 2021-22. This will support strong profitability in the mining and agricultural sectors, with some positive flow through to the broader economy. The Government continues to take a prudent approach to commodity price assumptions assuming recent price levels are temporary. This ensures that economic and fiscal parameters are grounded in long-term economic fundamentals and are not unduly influenced by short-term volatility.

Table 1.1: Major economic parameters(a)

	Outcome	Forecasts				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Real GDP	1.5	4 1/4	3 1/2	2 1/2	2 1/2	2 1/2
Employment	6.5	2 3/4	1 1/2	1 1/2	1	1
Unemployment rate	5.1	4	3 3/4	3 3/4	3 3/4	4
Consumer price index	3.8	4 1/4	3	2 3/4	2 3/4	2 1/2
Wage price index	1.7	2 3/4	3 1/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.4	10 3/4	1/2	3	5 1/4	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.

The strength of the economy, and in particular the labour market, combined with higher near-term commodity prices, has driven large upward revisions to tax receipts and reductions in unemployment benefit payments. The underlying cash balance is expected to improve significantly, with the deficit over the 5 years to 2025-26 estimated to improve by $103.6 billion compared to estimates at MYEFO. The underlying cash balance is projected to improve from a deficit of 3.4 per cent of GDP in 2022-23 to a deficit of 0.7 per cent of GDP by the end of the medium term.

Net and gross debt as a share of GDP are both expected to be lower than at MYEFO and decline over time. Net debt is expected to be 31.1 per cent of GDP at 30 June 2023, stabilise at 33.1 per cent of GDP at the end of the forward estimates and fall to 26.9 per cent of GDP by the end of the medium term. Gross debt is expected to peak at 44.9 per cent of GDP at 30 June 2025 before falling to 40.3 per cent of GDP by the end of the medium term.

Table 1.2: Budget aggregates

	Actual	Estimates						Projections
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)	2032-33
	$b	$b	$b	$b	$b	$b	$b	$b
Underlying cash balance	**-134.2**	**-79.8**	**-78.0**	**-56.5**	**-47.1**	**-43.1**	**-224.7**	
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6		-0.7
Gross debt(b)	**817**	**906**	**977**	**1,056**	**1,117**	**1,169**		
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7		40.3
Net debt(c)	**592.2**	**631.5**	**714.9**	**772.1**	**823.3**	**864.7**		
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1		26.9

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
(c) Net debt is 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).

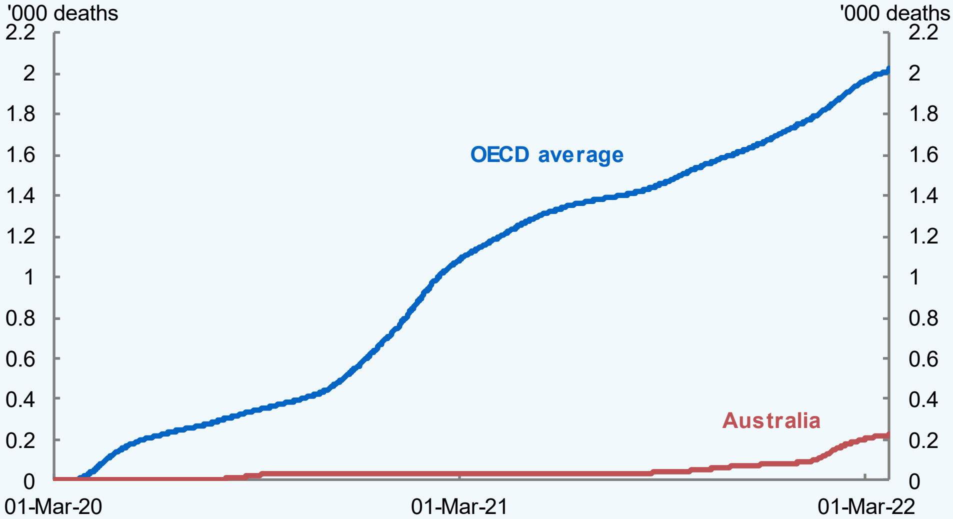
The Government has transitioned to the medium-term phase of its Economic and Fiscal Strategy. Priority is now being placed on growing the economy to reduce debt and rebuild fiscal buffers. This Budget puts Australia's finances on a strong trajectory and demonstrates the fiscal dividend of Australia's strong economic recovery.

Box 1.1 Australia's COVID-19 response – An international comparison

The COVID-19 pandemic was the largest economic and health shock in generations. The Government's successful management of the pandemic has enabled Australia to achieve some of the world's best health and economic outcomes.

Australia's recent healthcare performance has been supported by high vaccination rates. Over 95 per cent of Australians aged 16 and over are double vaccinated, and around 66.8 per cent of eligible Australians have received their booster. While we have experienced tragic losses, Australia has one of the lowest death rates in the world.

Chart 1.1: Cumulative COVID-19 mortality rate (deaths per million people)

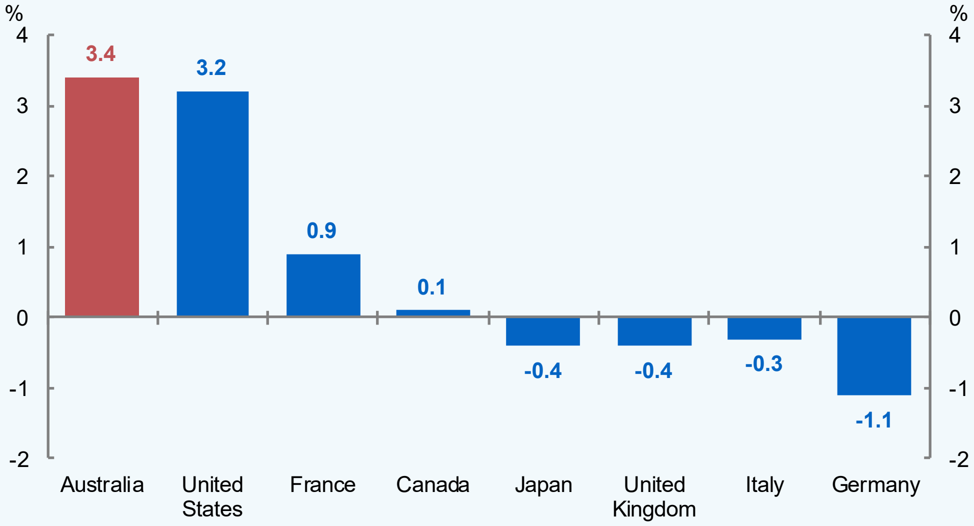


Source: John Hopkins University

Supported by a strong health response, along with an unprecedented $314 billion in direct economic support, Australia's economy has outperformed every major advanced economy. While the pandemic led to Australia's first recession in almost 30 years, the economy is now 3.4 per cent larger than it was prior to the pandemic. Australia is one of only 9 countries to have maintained AAA credit ratings from the 3 major rating agencies.

Box 1.1 Australia's COVID-19 response – An international comparison (continued)

Chart 1.2: December 2021 GDP relative to pre-pandemic levels



Source: Refinitiv, national statistical agencies

Australia's labour market has surpassed even the most optimistic expectations. Australia saw employment recover earlier than any major advanced economy. Participation in the labour market is the highest on record. This is being driven by a record-high participation rate for women and a participation rate for young people higher than pre-pandemic levels.

Employment in Australia is now well above pre-pandemic levels, and has grown by more than any major advanced economy. Employment in the UK, Japan, Italy and Germany remains below pre-pandemic levels.

These outcomes have been underpinned by the Government's $314 billion in direct economic support, including JobKeeper, which assisted around 4 million individuals and 1 million businesses. This temporary, targeted and proportionate support effectively managed the economic impact of the pandemic, established the foundation for the strong recovery and a better future for all Australians.

Budget priorities

This Budget delivers Australia's plan for a stronger future through:

- Building a stronger and more productive economy to create more jobs by:
  - Backing small businesses with tax incentives to digitalise their operations and upskill and train their employees.
  - Training the next generation of apprentices and reopening borders to encourage skilled migration and address workforce shortages.
  - Securing our supply chains by transforming Australia's manufacturing capability through the Modern Manufacturing Strategy.
- Addressing cost of living pressures and managing current challenges through:
  - A temporary and targeted cost of living package, including a $420 cost of living tax offset for low- and middle-income earners and a $250 cost of living payment for eligible Australian pensioners, welfare recipients, veterans and concession card holders.
  - A 50 per cent reduction in petrol and diesel excise and excise equivalent customs duty for 6 months that will deliver an average benefit of around $300 to households with at least one vehicle.
  - Providing significant support to respond to the floods in Queensland and New South Wales and assist with the recovery of these regions.
- Strengthening our regions and critical infrastructure by:
  - Investing to diversify growing regional areas, including through $7.1 billion for transformative infrastructure projects, including in 4 regions primed for growth.
  - Committing to build $17.9 billion of priority road and rail infrastructure as part of the record $120 billion 10-year infrastructure investment pipeline.
  - Establishing the $2.0 billion Regional Accelerator Program to drive growth and productivity in regional areas.
- Guaranteeing essential services by investing in the COVID-19 Winter Response Plan as well as further funding for health and medical research, aged care, schools, women's safety, Closing the Gap initiatives and veterans.
- Protecting our interests by investing in our national security and defence capabilities.

Building a stronger and more productive economy

The Government has committed $314 billion in direct economic support to assist Australian businesses and workers throughout the pandemic. This Budget builds on that investment and sets Australia up for success by upskilling our workforce and developing the industries for the future.

Supporting small business growth

The Government is supporting small businesses to digitalise their operations and upskill their employees by introducing a Technology Investment Boost and a Skills and Training Boost.

Small businesses, with aggregated annual turnover less than $50 million, will be able to deduct a bonus 20 per cent of the cost of business expenses and depreciating assets that support digital uptake, up to $100,000 of expenditure per year. The Technology Investment Boost will apply to eligible expenditure incurred between 7:30pm (AEDT) on 29 March 2022 (Budget night) and 30 June 2023. It will support investment in digital items such as cloud computing, cyber security, accounting and e-invoicing software and web page design.

The Boost is estimated to provide $1 billion in tax relief, encouraging small businesses to invest more in digital products and it will help strengthen business confidence, accelerate digital transformation and create jobs.

Small businesses, which employ around 7.8 million employees, will also have access to a bonus 20 per cent deduction for the cost of external training courses delivered to their employees by providers registered in Australia. The Skills and Training Boost is estimated to provide $550 million in tax relief for small businesses, incentivising them to upskill their employees. More skilled employees will drive productivity gains for small businesses, attract and retain staff in a tight labour market and support their future growth. This boost will apply to eligible expenditure incurred between Budget night and 30 June 2024.

Creating a pipeline of skilled workers

Australian apprenticeships are central to the Government delivering on its National Workforce Strategy. Following record investment of $13.3 billion since 2013, there are now around 220,000 trade apprentices in training in Australia.

The Government will invest a further $2.8 billion over 5 years from 2021-22 to upskill apprentices, including by introducing a new streamlined Australian Apprenticeships Incentive System. This investment establishes a pathway that backs and develops apprentices in priority trades and moves away from a complex system with over 30 different payments for employers and apprentices.

The Commonwealth and state and territory governments continue to work towards a new National Skills Agreement, which would provide each jurisdiction with a major boost to funding for skills training in priority areas. The Commonwealth is offering a $3.7 billion increase in funding under the new agreement, which has the capacity to deliver an additional 800,000 training places. A new agreement would increase transparency in the system and lower student fees, ensuring students can access high-quality, relevant training to ensure they have the appropriate skills for the jobs of the future.

Maintaining low unemployment and increasing support to return to work

This Budget assists unemployed people to get into work, building on the $896.0 million provided in the 2021-22 MYEFO to support jobs and address workforce shortages. The Government is investing $52.8 million to establish ReBoot and support Workforce Australia to create a pathway to employment and training for young Australians. ReBoot will build life and employability skills for an estimated 5,000 disadvantaged young people at high risk of becoming long-term unemployed. To further support employment, the Government will also provide $6.6 million to expand the AgMove pilot program and extend it for an additional 6 months.

Workforce Australia is a transformed employment services platform that will replace jobactive from 1 July 2022. Workforce Australia will provide tailored assistance to disadvantaged job seekers and improve incentives through a new provider payment structure. Around 1.8 million job seekers are expected to commence with Workforce Australia over the 3 years from 1 July 2022.

Jobs and skills for Indigenous Australians

The Government is working with Aboriginal and Torres Strait Islander peoples to enable them to pursue the careers and businesses they want. Funding of $636.4 million over 6 years will expand the Indigenous Rangers Program. This measure will fund up to 1,089 new rangers who will undertake land and sea management. The Government is also providing $37.5 million to support native title holders to gain greater economic benefit from their land and $21.9 million for leadership initiatives.

Creating a stronger economy

Commercialising our ideas

The Government is investing in future Australian companies and products through a $2.2 billion University Research Commercialisation Action Plan. The action plan includes $1.6 billion to drive Australia's Economic Accelerator devoted to research in clean energy, medical products, defence and other high-priority manufacturing areas. It also includes $242.7 million for the Trailblazer Universities Program which will support select universities to boost prioritised research and development, foster stronger connections with the CSIRO and drive commercialisation outcomes with industry partners.

Investing in the Digital Economy

The Government continues its investment under the Digital Economy Strategy to position Australia as a top 10 digital economy and society by 2030.

The Government has invested more than $3.5 billion in digital initiatives since the 2020-21 Budget. This includes $1 billion in this Budget to support small businesses to digitalise their operations with a technology investment boost that will encourage investment in digital assets and services.

The Government is committing $38.4 million over 3 years from 2022-23, and $12.6 million per year ongoing from 2025-26 to implement the Government's response to the Inquiry into the Future Directions for the Consumer Data Right (CDR). These initiatives will enable consumers to save time and effort in switching to more competitive and personalised products and services, and instruct trusted third parties to take actions on their behalf. This additional funding builds on the existing over $254 million investment to develop and accelerate the rollout of the CDR scheme.

Next steps in the Government's deregulation agenda

Building on the $480.5 million investment in the Modernising Business Registers program to make interactions with government simpler and quicker, the Government is reforming the fees attached to registry services. This will simplify registry compliance obligations, improve the currency and accuracy of registry information and promote transparency and counterparty trust in commercial activities. These changes will save Australians and their businesses $64.9 million in fees over 3 years from 2023-24.

The Government is also providing significant benefits to fuel and alcohol industries through streamlining the administration of fuel and alcohol excise and excise-equivalent customs duty. The Government will take action to reduce administrative overheads and streamline businesses' engagement with the Australian Taxation Office and the Australian Border Force. This will support business growth in Australia's fuel and alcoholic beverage manufacturing sector.

Supporting women's economic security and leadership

There are more women in work and earning more than ever before. To support families, the Government is investing $346.1 million over 5 years to introduce an enhanced Paid Parental Leave scheme for eligible working families by integrating Dad and Partner Pay and Parental Leave Pay to provide eligible families access to up to 20 weeks leave to use in ways that suit their specific circumstances. These changes will give working families increased choice and flexibility in how they manage work and care. The Government is also broadening the income test to include an additional household income threshold of $350,000 to further support workforce participation, particularly for women who are the primary earner. Changes also mean eligible single parents will be able to access an additional 2 weeks of Paid Parental Leave and also benefit from the household income threshold test. Changes to the scheme also mean dads and partners will be able to access the Government's scheme at the same time as any employer-funded leave, in the same way mothers currently can. No household will be worse off under these changes.

The Government is also committing $56.2 million to support more women into a greater array of occupations and jobs of the future. To boost the number of women in trades, the Government is investing $38.6 million over 4 years from 2022-23 to provide wrap-around support for women commencing in trade occupations on the Australian Apprenticeships Priority List. Building on the Government's $147 million of investments to support gender equity in STEM, additional funding is being provided to encourage women to consider taking up careers in manufacturing and the technology workforce. Support is also being provided to further enable more women to develop entrepreneurial skills.

The Government is committed to encouraging more women into leadership positions in the public and private sector. Women now hold a record 50.2 per cent of Australian Government board positions. To further drive change, the Government is investing $40.4 million to create pipelines for women to progress into board and leadership positions, including as sporting coaches and managers.

Reopening borders

The Government commenced a staged reopening of international borders on 1 November 2021, which is supporting the international education and tourism sectors and helping address workforce shortages. Since that date, over one million people have entered Australia, including more than 130,000 international students, 190,000 tourists, 70,000 skilled migrants and 10,000 working holiday makers.

The Government has been encouraging workers to return through visa fee refunds for international students and working holiday makers who entered Australia before 19 March 2022 and 19 April 2022 respectively, as well as a non-reciprocal 30 per cent increase in country caps for working holiday makers. There have also been targeted measures for rural and regional employers, including committing to bring an additional 12,500 workers under the Pacific Australia Labour Mobility scheme and creating the Australian Agriculture Visa.

Supporting trade and tourism

The Government's THRIVE 2030 strategy and action plan will support the recovery and sustainable growth of the tourism sector, with a $60.0 million Tourism Marketing Recovery Plan to attract international tourists. The Government is also committing $75.5 million for a third round of the Consumer Travel Support Program for travel agents and tour arrangement service providers. This will ensure these businesses can respond to the rising demand for international travel.

The Government is investing an additional $187.1 million to deliver the Simplified Trade System agenda, which will streamline trade processes and make it easier for Australian businesses to compete in global markets.

Transforming our manufacturing capability

The Government is transforming Australia's manufacturing sector by building scale, supporting international competitiveness, and driving innovation. The $1.5 billion Modern Manufacturing Strategy, announced in the 2020-21 Budget, is focused on high-value and high-priority areas of manufacturing, and facilitating greater collaboration, commercialisation and technology adoption.

The Government is investing a further $328.3 million in the Strategy. This includes $250.0 million for the Integration and Translation Streams of the Modern Manufacturing Initiative to assist manufacturers to translate good ideas into commercial outcomes. It also includes $53.9 million to fund a third round of the Manufacturing Modernisation Fund to enable small to medium manufacturers to innovate and adopt new technologies. In addition, $500.0 million will support manufacturers in regions through a new Regional Accelerator Stream of the Modern Manufacturing Initiative.

The Government is also strengthening supply chain resilience in critical products, including through a new dedicated $200.0 million Regional Accelerator Stream of the Supply Chain Resilience Initiative that will assist regional businesses to address supply chain vulnerabilities and additional funding for the CSIRO. The initiatives in this Budget will continue to support the Government to anticipate and respond swiftly to emerging supply chain challenges.

Safeguarding critical resources and technology

The Government is providing $200.0 million over 5 years for the Critical Mineral Accelerator Initiative to support strategically significant critical mineral projects in their planning, design, pilot and demonstration phases. This will deliver a steady pipeline of projects to be considered for financing by private sector or government, including through the Government's $2 billion Critical Minerals Facility established in 2021.

Helping Australians with cost of living pressures

Australian households and businesses are facing cost of living pressures as a result of the pandemic, the invasion of Ukraine and extreme weather events. The Government is taking a responsible, temporary and targeted approach to ease cost of living pressures for households and businesses.

Cost of living tax offset for low- and middle-income earners

Through the Personal Income Tax Plan, the Government has provided an estimated $40 billion in tax relief to over 11 million individuals since the start of the pandemic.

The Government is increasing cost of living relief by $420 through the 2021-22 low and middle income tax offset. As a result, more than 10 million eligible low- and middle-income earners will benefit from a tax reduction of up to $1,500 for a single income household, or up to $3,000 for a dual income household. Households will receive this support from 1 July 2022 when they submit their 2021-22 tax returns. The cost of living tax offset is estimated to reduce receipts by $4.1 billion over the forward estimates period.

This is on top of the benefits that were permanently embedded into the tax system in 2020-21. For example, in 2022-23 an Australian earning $90,000 per year (around average full-time earnings) will continue to benefit from $1,215 in tax relief relative to 2017-18 settings.

Cost of living payment

From 20 March 2022, almost 5 million Australians have benefited from an increase to their social security payments, with Age Pension, Disability Support Pension and Carer Payment rates increasing by more than $20 a fortnight for singles and $30 a fortnight for couples.

To further help households with cost of living pressures, the Government will provide a one-off, tax-exempt payment of $250 to eligible pensioners, welfare recipients, veterans and concession card holders. It will be paid automatically to 6 million people at a cost of $1.5 billion. More than half those who will benefit are pensioners.

Halving fuel excise for 6 months

The Government will help reduce the burden of high fuel prices for Australians by halving the excise and excise equivalent customs duty rate which applies to petrol and diesel for 6 months. The excise and excise equivalent customs duty rates for all other fuel and petroleum-based products, except aviation fuels, will also be reduced by 50 per cent for 6 months. This significant reduction will reduce cost of living pressures for Australian households and will decrease the underlying cash balance by $3.0 billion over the forward estimates period.

Putting downward pressure on energy prices

The Government is delivering on its commitment to a secure, affordable, and reliable energy supply and has achieved its goal of wholesale electricity prices under $70/MWh. The Government's actions have helped reduce residential electricity costs by 8 per cent and small business costs by 10 per cent over the past 2 financial years. The Government has invested $1.0 billion in a Grid Reliability Fund, $1.5 billion to establish a domestic hydrogen industry, $1.4 billion in Snowy 2.0, and $50.3 million in this budget to develop priority gas infrastructure.

Supporting the delivery of more affordable housing

Since its establishment in 2018, the National Housing Finance and Investment Corporation (NHFIC) has supported more than 15,000 new and existing affordable dwellings through the provision of low-cost loans to Community Housing Providers. In this Budget, the Government is increasing NHFIC's liability cap by an additional $2.0 billion, to $5.5 billion. This increase in NHFIC's lending capacity is expected to support around 10,000 more affordable dwellings for vulnerable Australians.

The Government's Home Guarantee Scheme has assisted almost 60,000 Australians to achieve homeownership. The Government is committing $8.6 million to expand the Scheme to 50,000 places per year. Up to 35,000 places per year will be available for first home buyers under the First Home Guarantee (previously the First Home Loan Deposit Scheme). A new Regional Home Guarantee with up to 10,000 places per year will help aspiring homebuyers in regional areas. The Family Home Guarantee will be increased to 5,000 places per year to provide a supported pathway into homeownership for more single parents with dependants.

Responding to the floods in Queensland and New South Wales

The Government is providing support to individuals and businesses impacted by the devastating floods in parts of Queensland and New South Wales. The Government expects to spend over $6 billion on disaster relief and recovery as a result of these floods, including:

- $2.2 billion to households for income support, temporary accommodation and social services.

- $665.0 million to businesses and farmers for repairs, new equipment and support services.

- $588.6 million for community clean-up and recovery, including $300 million from the Emergency Response Fund for recovery and post-disaster resilience initiatives.

The full cost of recovery and rebuilding will only become clear once the damage from the floods can be assessed and may not be completely realised for some years. The expected spending includes a provision of $3.0 billion over the forward estimates to accommodate additional Commonwealth expenditure for the floods response, including reimbursement of state expenditure under the Disaster Recovery Funding Arrangements.

Enhancing our disaster resilience

The Government has provided over $1.3 billion since the 2021-22 Budget to implement recommendations of the Royal Commission into National Natural Disaster Arrangements. In this Budget, the Government is providing: an additional

$116.4 million for the Black Summer Bushfire Recovery Grant program; $10.0 million to establish a panel of suppliers to enable rapid procurement of disaster resources for disaster-affected communities; and a review of the jointly funded Commonwealth-State Disaster Recovery Funding Arrangements.

The Government is implementing a cyclone and related flood damage reinsurance pool from 1 July 2022, backed by a $10 billion Government guarantee. The pool will promote resilience by offering discounts for properties that have undertaken cyclone mitigation, while also collecting data to inform natural disaster planning.

Strengthening our regions and critical infrastructure

Building on the Government's $100 billion funding commitment to regional economic development since 2013, the Budget provides record funding for regional infrastructure, improvements to telecommunications and support for the agricultural, fisheries and forestry industries.

A $2.0 billion Regional Accelerator Program will diversify growing regional economies and create jobs in new and existing industries. This includes investments in infrastructure, advanced manufacturing, apprenticeships, and higher education.

Transforming regions primed for growth

The Government will invest $7.1 billion in transformational infrastructure to help Australia push into new frontiers of production and growth. This will focus on 4 key regions that are Australia's export frontiers and poised for major growth at a scale that will boost our national prosperity. The funding includes:

- $2.6 billion for infrastructure that unlocks the Northern Territory's exports through Darwin's gateway to Asia. A further $300.6 million from the Government's $8.9 billion National Water Grid Fund will help improve water security in the greater Darwin region.
- $1.7 billion for water infrastructure and supply chain projects in North and Central Queensland. This is in addition to the $5.4 billion the Government is providing for the Hells Gates Dam.
- $1.5 billion in the Pilbara region to help diversify the north-west economy by increasing low emissions production.
- $750.0 million for the Hunter region for transport and port infrastructure projects that will improve supply chain efficiency and boost exports.

The Government is also increasing funding for the Northern Australia Infrastructure Facility by $2.0 billion – bringing total funding to $7.0 billion – to drive economic growth and promote Indigenous employment in Northern Australia.

Supporting Australia's water infrastructure

Through its $8.9 billion National Water Grid Fund, the Government will provide $7.4 billion to improve Australia's water security and open up new land for irrigation.

This will help drought-proof the Peel Valley, with an additional $433.0 million for the Dungowan Dam, bringing the total investment to $675 million. It also includes $300.6 million to improve water security in the greater Darwin region. This funding will also transform irrigated agriculture throughout Queensland, with $600.0 million for the North Burnett region and $126.5 million for its Granite Belt region.

The National Water Grid Fund will also provide $5.4 billion for the Hells Gates Dam on Queensland's Burdekin River. This transformational project will redefine North and Central Queensland's agricultural sector and underpin long-term export market growth and investment. The Government is also providing $1.7 billion for agricultural and industry development in this region to help farmers and businesses fully harness the opportunity that the Hells Gates Dam offers.

Improving regional telecommunications

Building on the Government's Mobile Black Spot and Regional Connectivity Programs, the Government is enhancing connectivity in regional Australia by investing a further $1.3 billion. A new Connecting Regional Australia initiative provides $811.8 million to address mobile blackspots along approximately 8,000 kilometres of regional transport routes and adjacent premises and businesses, improve the resilience of telecommunications infrastructure against natural disasters, and encourage new technology trials.

An investment of $480.0 million will go towards upgrading the NBN Co's Fixed Wireless Network and enable enhancements to satellite services. This will result in better broadband for up to one million households and businesses in regional, remote and peri-urban areas. This complements the $4.5 billion investment announced by NBN Co in September 2020, which will benefit around 850,000 businesses.

Supporting primary industries

The Government is continuing to support Australia's agricultural sector to increase output to $100 billion by 2030.

This Budget provides over $600 million to enhance innovation, productivity and resilience in the agricultural, fisheries and forestry sectors. To help farmers diversify their income streams and better protect the environment, the Government is providing a further $27.3 million to support biodiversity conservation on farmland.

Infrastructure investment

The Government has increased its unprecedented 10-year infrastructure pipeline to a record $120 billion with an additional $17.9 billion committed to road, rail and community infrastructure projects across Australia. These commitments build on over 35,000 infrastructure projects that have been completed since 2013-14 and are expected to support around 40,000 jobs over the lives of these projects.

This Budget includes $3.1 billion for Melbourne Intermodal Terminals and related infrastructure that will increase efficiency and capacity of the national and Victorian freight industry, creating jobs and boosting productivity while taking trucks off the road. Major commitments also include $3.7 billion for faster rail projects in New South Wales and Queensland that will better connect cities with our growing regions.

The Government's road and rail commitments in this Budget include:

- $3.1 billion for the Melbourne Intermodal Terminals Package, including delivery of the Beveridge and Western Interstate Freight Terminals, and the Outer Metropolitan Ring Rail South in Victoria.
- $2.7 billion for the Brisbane to the Sunshine Coast (Beerwah-Maroochydore) and Brisbane to the Gold Coast (Kuraby-Beenleigh) Faster Rail projects in Queensland.
- $2.3 billion for the North-South Corridor – Darlington to Anzac Highway in South Australia.
- $1.0 billion for the Sydney to Newcastle – Tuggerah to Wyong Faster Rail Upgrade in New South Wales.
- $441.2 million for the METRONET, including the Thornlie-Cockburn Link, High Capacity Signalling, Morrison Road Level Crossing Removal and the Yanchep Rail Extension in Western Australia.
- $392.0 million for the Tasmanian Roads Package.
- $132.0 million for the Central Australian Tourism Roads in the Northern Territory.
- $46.7 million for the Athllon Drive Duplication in the Australian Capital Territory.

The Government is also extending the Local Roads and Community Infrastructure Program until 2024-25, providing $501.7 million for local councils to maintain and deliver priority local road and community infrastructure projects across Australia.

Guaranteeing essential services

The Government is continuing to guarantee quality essential services for all Australians. Along with its COVID-19 health response, the Government has made major investments in disability and aged care, mental health and suicide prevention, women's safety and education.

Transitioning to living with COVID-19

As Australia transitions to live with COVID-19, the Government is working to ensure we continue to have the vaccines, treatments and health system capacity needed to deal with the challenges ahead, including the emergence of new variants.

Since the beginning of the pandemic, the Government has committed $11.6 billion in support to states and territories for the COVID-19 public health response. This includes a further $984.0 million to extend funding under the National Partnership on COVID-19 Response. The National Partnership provides support for public hospitals, COVID-19 testing, and the broader public health response.

This Budget invests an additional $6.0 billion in COVID-19 health support including for the Winter Response Plan. The plan will provide a consistent and coordinated national approach to managing COVID-19 and influenza and has been supported through National Cabinet. Australia has achieved world-leading rates of COVID-19 vaccination with over 95 per cent of people over the age of 16 fully vaccinated. To ensure Australia continues to achieve high vaccine coverage, the Government is investing $1.0 billion to extend the COVID-19 vaccine rollout program.

More than 25 million Rapid Antigen Tests (RATs) have been provided to over 4 million Australians through the Concessional Rapid Antigen Test Program. An additional 10 free RATs per eligible concessional card holder will be available with the extension of the scheme to 31 July 2022. The Government is also ensuring that COVID-19 testing expenses are tax deductible for individuals and fringe benefits tax is not incurred by businesses, where tests are purchased for work-related purposes.

To facilitate access to treatments and medical care, the Government is providing $546.0 million to extend Medicare Benefits Schedule (MBS) pathology items for testing and detection of COVID-19.

Support for vulnerable Australians

The Government is securing additional doses of COVID-19 treatments to protect vulnerable Australians at risk of severe disease. This brings the Government's direct investment to over one million treatment courses.

The Government is investing in transmission prevention and testing to contain outbreaks in high-risk settings. Already, the Government has distributed over

161 million units of PPE and over 26.2 million RATs to aged care facilities. To assist Australians with a disability to monitor for COVID-19 and manage transmission risks, the Government is providing 5.5 million RATs to National Disability Insurance Scheme (NDIS) Supported Independent Living residents and workers.

Targeted support for health and vaccination services for rural and remote Indigenous Communities, who are at risk of severe illness from COVID-19, is also being extended at a cost of $43.3 million.

A healthier Australia

Guaranteeing Medicare

The Government is continuing to guarantee Medicare, with an additional $368.0 million over five years to ensure Australians can access health services. New genetic testing items for prospective parents to show if they are genetic carriers of 3 genetic disorders will be introduced at a cost of $81.2 million over 4 years from 2022-23.

The Government is continuing to guarantee affordable access to essential medicines on the Pharmaceutical Benefits Scheme (PBS). Funding of $2.4 billion over 5 years from 2021-22 will reduce out-of-pocket costs for new and amended listings on the PBS. This includes medicines to treat cystic fibrosis, spinal muscular atrophy, and cancer.

In additional support to ease the cost of living pressures, from 1 July 2022, the Government is reducing the PBS Safety Net thresholds, from $1,542.10 to $1,457.10 for general patients and from $326.40 to $244.80 for concessional patients. These changes are expected to benefit around 2.4 million people by lowering the out-of-pocket costs for medicines. As a result of these changes, concessional patients will reach the PBS Safety Net with approximately 12 fewer scripts per year, and two fewer scripts for general patients.

Investing in aged care

A further $468.3 million is being announced in this Budget to continue implementing the Government's response to the Royal Commission into Aged Care Quality and Safety. This builds on the record $17.7 billion investment in aged care announced in the 2021-22 Budget.

To improve medication management services for the elderly, the Government is providing $345.7 million for residential aged care facilities for pharmacy services. A commitment of $20.1 million will progress implementation of the Australian National Aged Care Classification (AN-ACC) in residential aged care and support the transition of facilities to the new funding model over a 2-year period. The AN-ACC will more closely target funding to older Australians' care needs from 1 October 2022.

Creating better health outcomes

The Government is providing $330.6 million to promote the health of women and girls, including to support the National Women's Health Strategy.

This includes $58 million over 4 years from 2022-23 to improve the treatment, management and diagnosis of endometriosis. As part of this funding, the Government is investing $16.4 million to support the establishment of endometriosis and pelvic pain GP clinics in primary care settings, improving access to diagnostic, treatment and other support services for women with endometriosis and other conditions resulting in pelvic pain.

The Government is also investing $23 million over 4 years to respond to the National Stillbirth Action and Implementation Plan, including funding for bereavement support for families who have experienced stillbirth or miscarriage.

To drive progress under the Strategy, the Government is establishing a National Women's Advisory Council.

All Australians should be able to access our world-class health system, including Australians living in geographically isolated rural and remote locations. Training rurally increases a medical student's chances of staying rural to deliver services to that community. This Budget invests $150.3 million to support medical training in regional and rural Australia. The Government is also continuing its support for aeromedical services for rural and remote communities, providing over $55.0 million to support the operation of service providers.

The Government is building on its record $2.3 billion investment in mental health and suicide prevention at the 2021-22 Budget. This Budget announces $547.0 million for targeted initiatives, including for young Australians, Aboriginal and Torres Strait Islander peoples and multicultural communities. Working towards zero suicides, the Government is investing $42.7 million to continue initiatives that address local risk factors. The measures in this Budget will complement the implementation of the new National Mental Health and Suicide Prevention Agreement.

A strong focus on preventive health and health promotion can extend life expectancy and increase quality of life. The Government is investing $513.8 million in prevention, health promotion, early detection and management of chronic conditions. This includes $375.6 million to establish a world-leading cancer centre in Western Australia.

The Government is continuing to prioritise Australian medical research, committing a further $1.3 billion under the Medical Research Future Fund 10-year investment plan. To promote the integration of genomics in the healthcare system, the Government is establishing Genomics Australia with funding of $28.1 million.

Growing the care and support workforce

The Government is building a skilled workforce to meet the care and support needs of Australians now and in the future. The new *National Care and Support Workforce Strategy* will drive coordinated action to attract new workers to the sector and build the skills they need to provide high-quality care.

The Government is delivering 15,000 low and fee-free training places in aged care courses through the JobTrainer Fund and is contributing $13.9 million for up to 300 scholarships for Aboriginal and Torres Strait Islander peoples to join the health workforce. To build the skills we need where we need them most, $32.8 million will fund up to 5,250 additional clinical placements in the care and support sector and expanded access to rural clinical placements in aged care.

Supporting our community

Women's safety

The Government is committing $1.3 billion to support delivery of the new National Plan to End Violence against Women and Children 2022-32. This funding supports action across 4 pillars: prevention, early intervention, response, and recovery. To stop violence before it starts, the Government is providing $203.6 million for a range of prevention measures such as awareness-raising and education on consent. The Government is investing $328.2 million in early intervention efforts, including training for community frontline workers, health professionals and the justice sector.

To effectively respond to violence against women and children, funding of $480.1 million is being provided for measures such as the extension of the Escaping Violence Payment. To help victim-survivors recover from violence, this Budget invests $290.9 million for a range of health and justice measures. Funding of $19 million is also being provided to build data and evidence to support the next National Plan.

Investing in education

The Government is committing $228.5 million to improve the educational outcomes of Australian school students. This includes extending National School Reform Funding by 2 years at a cost of $62.4 million. This measure builds on record school funding and the $2.0 billion extension of the Preschool Reform Agreement.

Improving educational outcomes of students in regional and remote Australia is a priority. The Government is investing $29.4 million over 4 years to extend the Indigenous Boarding Schools Grants program for one year and establish a Commonwealth Regional Scholarship Program to assist families with the costs of boarding.

In response to the Final Report of the Quality Initial Teacher Education (ITE) Review, the Government is establishing a new Initial Teacher Education Quality Assessment

Expert Panel. The Panel will develop new minimum and excellence threshold standards for ITE courses and advise Government on the application of these thresholds to ITE funding.

Improving access to child care

The Government is investing record funding in child care services, providing more than $10 billion annually to support families. In 2021-22 the Government committed an additional $1.7 billion to improve the affordability of child care for about 250,000 families by removing the annual cap on the Child Care Subsidy and increasing the rate for families with 2 or more children in care.

In 2022-23 the Government is further increasing access to child care for families in regional and remote areas, providing $19.4 million to establish up to 20 child care services in areas where there is an absence or limited supply of child care.

Delivering on our commitment to Close the Gap

The Government is working with the Indigenous community on an ambitious policy reform agenda through the National Agreement on Closing the Gap, the National Roadmap for Indigenous Skills, Jobs and Wealth Creation and the Indigenous Voice. In this Budget, the Government is spending $1.5 billion over 5 years for a suite of measures to improve outcomes for Indigenous Australians. This is in addition to the $6.7 billion Indigenous Advancement Strategy.

The Government has committed $316.5 million to establish Ngurra, a new Aboriginal and Torres Strait Islander cultural precinct in Canberra. Ngurra will include a learning and knowledge centre, a national resting place, and a new home for the Australian Institute of Aboriginal and Torres Strait Islander Studies.

Improving the lives of people with disability

The Government is committed to ensuring people with disability reach their full potential, as equal members of the community. Over the past 12 months, the Government has provided an additional $39.6 billion to support the continued implementation of the NDIS. The NDIS currently provides support to more than 500,000 Australians, with more than 280,000 participants receiving support for the first time.

Supporting our veterans

The Government is continuing its commitment to the wellbeing of veterans and their families with an additional $165.0 million for wellbeing grants and services, such as the Psychiatric Assistance Dog Program for veterans with post-traumatic stress disorder. An investment of $70.5 million will increase the sustainability of Veteran Home Care Services so that they can continue to deliver stable and high-quality care for more than 37,000 veterans and their families. Funding of $26.6 million will be delivered to honour veterans and commemorate Australia's military history.

A resilient Australia

Caring for the environment

The Government is protecting the health and resilience of the Great Barrier Reef with an additional $1.0 billion in funding. This will advance world leading marine science, the deployment of new climate adaptation technology and major investments in water quality programs. This new funding extends the Federal Government's investment under the Reef 2050 Plan to more than $3.0 billion.

New funding of $200.1 million will support an expansion of the Environment Restoration Fund, the recovery and conservation of the koala and koala habitats, community-led tree planting projects, and investment in Commonwealth National Parks.

The Government continues to respond to the *Independent Review of the Environment Protection and Biodiversity Conservation Act 1999* with an additional $192.0 million to improve environmental resilience, protect Indigenous heritage and support economic growth.

A $60.4 million boost to the Recycling Modernisation Fund will support Australia's National Waste Policy Action Plan and the Government's waste targets for 2030. The new funding will leverage investment into new advanced plastic recycling technologies and will work in partnership with states, territories and industry.

Australia has committed to achieving net zero carbon emissions by 2050 and is on track to exceed our 2030 target with a reduction in emissions of up to 35 per cent projected by 2030. The Emissions Reduction Fund (ERF) and Renewable Energy Target (RET) contribute to our net zero goal by supporting projects that reduce carbon emissions, improve energy efficiency and deliver environmental benefits.

Changes to the ERF's fixed contract arrangements will give greater flexibility in how the Fund's participants sell their carbon credits, bolstering Australia's growing private carbon market. Revenue generated from the changes will be reinvested in the ERF and new emissions reduction initiatives. An additional $47.3 million investment in new technology will reduce the money and time ERF and RET participants, particularly farmers, spend on activities such as project audits and manual reporting.

Improving our strategic capabilities in Antarctica

The Government is investing a further $839.9 million to maintain Australia's scientific leadership in Antarctica. Drone fleets, helicopters and other vehicles will enable exploration of areas of East Antarctica's inland that no country has been able to reach. They will ensure that the Antarctic remains a place of science and conservation, free from conflict, and protected from exploitation. The package will create 685 jobs and continue to support Tasmania as an international science hub.

Protecting our interests in an uncertain world

Amid a deteriorating geostrategic environment and economic disruption, the Government is taking action to keep Australians safe and protect our way of life for future generations. The Government is addressing cyber attacks and terrorist threats, strengthening our international partnerships and investing in our defence and strategic capabilities.

Investing in our strategic partnerships

The Government has strengthened Australia's international relationships and security capabilities by establishing the AUKUS trilateral security partnership with the United Kingdom and United States of America. This will enhance Australia's ability to contribute to regional peace and security. In addition to trilateral collaboration within the Nuclear-Powered Submarine Taskforce, AUKUS is focusing on the critical strategic areas of cyber capabilities, artificial intelligence, quantum technologies, and additional undersea capabilities.

Following Russia's invasion of Ukraine, the Government provided $156.5 million in humanitarian aid, military support and resettlement services. As at 25 March 2022, the Government has applied financial sanctions and travel bans to 488 persons and 33 entities and institutions, including senior government officials, members of the Russian parliament, military officers, military industrial figures, and financial institutions. The Government will also allocate a 3-year Temporary Humanitarian Concern Visa (subclass 786) to Ukrainians across 2021-22 and 2022-23.

Expanding and equipping the Australian Defence Force

In response to the shifting strategic environment, and to safeguard Australia's interests, the total Defence workforce will increase by 18,500 personnel by 2040, at a cost of at least $38 billion. The Australian Defence Force will increase to nearly 80,000 personnel and the total Defence workforce to over 101,000. Workforce growth will support the effective use of new air, land, sea and cyber capabilities being acquired over the next 2 decades.

The Government will enhance armoured capabilities for the Australian Army through an investment of $1 billion for Self-Propelled Howitzers and Armoured Ammunition Resupply Vehicles, which includes an initial contract for 30 Self-Propelled Howitzers and 15 Armoured Ammunition Resupply Vehicles. The Government has also invested $3.5 billion in the Main Battle Tank Upgrade and Combat Engineering Vehicle projects which will acquire up to 75 M1A2 Abrams tanks, 29 Assault Breacher Vehicles, 17 Joint Assault Bridge Vehicles and an additional 6 Armoured Recovery Vehicles.

Acquisition and sustainment projects for the Australian Defence Force will boost local employment and improve Australia's sovereign industrial capability as part of $575 billion in total funding to 2029-30, including $270 billion in capability investment.

This includes $151.6 million to support Australia's defence industrial base and workforce skills and a minimum of 300 jobs from the Self-Propelled Howitzers contract.

Keeping Australians safe

The Government will provide $9.9 billion over 10 years to deliver a Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers (REDSPICE) package. This will significantly enhance the offensive and defensive cyber and intelligence capabilities of the Australian Signals Directorate (ASD).

REDSPICE is the largest ever investment in Australia's intelligence and cyber capabilities and will double ASD's size, creating 1,900 new jobs over the next decade, bolstering the Government's commitment to Australia's Five Eyes and AUKUS trilateral partners while supporting a secure Indo-Pacific region.

Through Operation Sovereign Borders, the Australian Government is protecting Australia's borders, combating people smuggling, and preventing people from risking their lives at sea. The Government is providing an additional $136.7 million in 2022-23 to maintain the Australian Border Force's maritime surveillance and response capability.

The Government remains committed to protecting Australians from the evolving terrorist threat and serious crime. Released terrorist offenders can continue to be radicalised, motivated, and capable of further offending, even after extended periods of inactivity. The Government is providing $66.9 million to continue to protect the Australian community from the threat posed by convicted high risk terrorist offenders. An additional $19.8 million is provided to establish and operate a National Convicted Terrorist Offender Register to monitor high-risk terrorist offenders following completion of their sentence and release into the Australian community. A further $116.8 million boosts the Australian Criminal Intelligence Commission's capacity to identify and disrupt serious criminal activity.

Budget 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 proved remarkably resilient to the ongoing impacts of the pandemic, consistently outperforming expectations and all major advanced economies. Forecasts for economic activity have been revised up significantly, reflecting stronger-than-expected momentum in the labour market and consumer spending.

A strong economic recovery is well underway with a record proportion of Australians in work. The recovery is forecast to continue and to drive further employment growth. The unemployment rate is now forecast to reach 3¾ per cent in the September quarter of 2022, nearly 3 percentage points below the Budget forecast from 2 years ago and the lowest rate in close to 50 years. The strong labour market is expected to see wages growth accelerate to its fastest pace in almost a decade.

Real GDP is forecast to grow by 4¼ per cent in 2021-22. Stronger-than-expected consumer spending and employment outcomes have led to an upgrade to growth since the 2021-22 MYEFO, laying the foundations for further strong growth over the forecast period. Real GDP is forecast to grow by 3½ per cent in 2022-23 and 2½ per cent in 2023-24, with broad based growth in consumption, business investment and exports. Real GDP is forecast to remain above the 2021-22 MYEFO profile over the forecast period, growing by 2½ per cent in 2024-25 and 2025-26.

The ongoing pandemic, Russian invasion of Ukraine, strained supply chains and rising inflationary pressures all present risks to the global and domestic outlooks. Nonetheless, the resilience of the Australian economy throughout the pandemic demonstrates that the economy is well placed to adapt to these new developments.

The economy rebounded swiftly following the Delta outbreaks, demonstrating its resilience by achieving the equal best quarter of growth in 46 years in the December quarter. More recent indicators suggest the Omicron outbreak in early 2022 has not derailed this strong momentum, despite considerable disruption to activity because of high case numbers and worker absenteeism.

The strong recovery has been underpinned by the Government's economic plan which has seen household disposable income increase by around 11 per cent since the start of the pandemic. The cost of living package announced at this Budget builds on the $314 billion in direct economic support provided throughout the pandemic that has effectively supported household and small business incomes, and sustained labour market connections. Business and household cash savings are now $182 billion and $251 billion higher than at the start of the pandemic.

Now that pandemic-related activity restrictions have been wound back and vaccination, along with improved treatment options, are the primary tools for managing the virus, the conditions are in place for a sustained economic recovery. While COVID-19 remains a risk to the outlook, the economic impact of outbreaks has continued to moderate over time due to Australia's high vaccination rates, more effective treatment options and the adaptation of consumers and businesses to ongoing community transmission.

As pandemic-related policy support continues to taper, the private sector is expected to be the main driver of growth. Strong labour market conditions combined with personal income tax relief, totalling $40 billion since the start of the pandemic, will underpin robust growth in household disposable incomes and strengthen consumer spending as the savings rate returns to more normal levels. The record pipeline of work in the residential construction sector will support strong dwelling investment. Business investment has been boosted by temporary business tax incentives and investment intentions remain strong.

The Government's targeted policy support will help address the economic impacts of the floods in Queensland and New South Wales. While the floods have had a devastating impact on affected communities, the direct impact on the national economy in the March quarter of 2022 is expected to be small. Over the next few years, the recovery and rebuilding process is expected to contribute to growth. The economic impacts of the floods are discussed in Box 2.3.

The reopening of international borders will see the return of migrants and international students, supporting growth in consumption and education exports and assisting in filling skill gaps. As international tourism returns, a recovery in spending from foreign tourists will be more than offset by tourism imports as Australians return to travelling overseas.

Commodity prices are near record high levels, in part due to the Russian invasion of Ukraine. Metallurgical and thermal coal spot prices have recently reached highs that are 62 per cent and 53 per cent above previous peaks. In line with past practice, elevated coal, iron ore and metals prices are assumed to return to levels consistent with long-run market fundamentals by the end of the September quarter of 2022. Nonetheless, the recent strength in export prices will still see Australia's terms of trade reach a record high in 2021-22. This will support strong profitability in the mining and agricultural sectors, with some positive flow through to the broader economy and to revenue.

The labour market has shown remarkable strength and resilience, with conditions bouncing back swiftly from the Delta and Omicron outbreaks. In February, the unemployment rate reached 4.0 per cent and the participation rate reached a record high of 66.4 per cent. The continued recovery in economic activity is expected to see the unemployment rate fall to 3¾ per cent in the September quarter of 2022 and remain at that level until the end of 2024-25. From that point, the unemployment rate is assumed to steadily transition to the assumed non-accelerating inflation rate of unemployment (NAIRU) of 4¼ per cent.

The strong outlook for the labour market is expected to result in strengthening wage growth. The Wage Price Index (WPI) is forecast to increase from 2¾ per cent through the year to the June quarter of 2022 to 3¼ per cent through the year to the June quarter of 2023. The national accounts measure of wages and labour income is expected to grow faster than the WPI measure, as it captures broader wage pressures resulting from a tight labour market. These broader factors include bonuses and the effect of workers gaining promotions or changing jobs as they take advantage of tight labour market conditions. Growth in the national accounts wage measure on an hourly basis has already picked up, reaching 3.5 per cent through the year to the December quarter of 2021. It is expected to grow by 5 per cent through the year to the June quarter of 2022, 3½ per cent to June quarter of 2023 and 3¾ per cent to June quarter of 2024.

There is, however, significant uncertainty around the pace at which wages growth will accelerate, given the unemployment rate is at a historically low level. Box 2.5 explores the sensitivity of wage forecasts to alternative NAIRU assumptions.

A range of factors are driving up global inflationary pressures. Elevated demand for goods, particularly in the United States, has strained international supply chains and put upwards pressure on goods prices. At the same time, there has been a sustained period of near-record global energy and agricultural prices. As a result, inflation in many advanced economies has increased rapidly and there is some evidence of inflation pressures broadening from goods to services. Annual inflation in the United States reached 7.9 per cent in February, the fastest pace of price growth since the early 1980s, and the rate in the euro area was 5.9 per cent. The Russian invasion of Ukraine, which is not yet fully reflected in inflation data but is evident in energy and agricultural prices, will add further to global inflationary pressures.

Australia has been affected by these global factors, but domestic inflationary pressures are more moderate. Headline inflation in Australia picked up in 2021 to be 3.5 per cent over the year to the December quarter, with underlying inflation now 2.6 per cent over the year to the December quarter of 2021.

The outlook remains for Australian inflation to peak well below that in most other advanced economies, with inflation expected to rise to 4¼ per cent through the year to the June quarter of 2022. This reflects higher global oil prices and ongoing supply chain pressures as well as price pressures in the housing construction sector. In the near term the recent rise in oil prices to above US$125 per barrel will quickly flow through to higher fuel prices for consumers. The average pump price for petrol in Australia has already risen from $1.79 per litre in early February to $2.13 per litre in mid-March. The fuel excise reduction is expected to reduce headline inflation by ¼ of a percentage point in the June quarter of 2022, before being withdrawn in late 2022 as oil prices are expected to moderate.

Given that inflation pressures in Australia are less than in many other countries, financial markets expect the RBA's monetary policy normalisation to lag behind other central banks such as the Federal Reserve, Bank of England and Reserve Bank of New Zealand, who have already started to raise policy interest rates. Nonetheless, monetary policy is expected to begin to normalise from historically low levels in Australia, with the market pricing in a tightening cycle from mid-2022 until 2024.

The Australian economy is forecast to experience a sustained period of strong economic growth, low unemployment, and rising wages growth. However, there are a range of domestic and international factors that pose risks to the outlook.

On the health front, the pandemic will continue to pose a risk to the outlook for some time. The potential emergence of new, more virulent or vaccine-resistant variants of COVID-19 is still a substantial downside risk to the domestic economy. Conversely, high vaccination rates and increased immunity do provide substantial protection. This could add to consumer confidence and see the household savings rate return to pre-pandemic levels more quickly than expected, boosting consumption growth. These risks are discussed further in Box 2.4.

Global supply and demand are also vulnerable to health developments in China. While most countries have adapted to living with the virus, China has not yet experienced widespread community transmission. Recent COVID-19 outbreaks in China's port cities and manufacturing regions have demonstrated these risks associated with more widespread transmission, which would also add further pressure to already strained global supply chains.

The combination of higher global inflation and a historically tight labour market suggests that domestic inflation risks are tilted to the upside. Higher-than-expected inflation would likely see monetary policy tighten further, with the potential to slow economic activity.

The Russian invasion of Ukraine poses significant risks for global prices and activity. The invasion is already having devastating social and economic impacts in Ukraine and sanctions will cause a sharp economic contraction in Russia. There will be significant spillover effects globally, with risks to commodity trade generating sharply higher energy and agricultural prices and further strain on global supply chains. This will add to existing global inflationary pressures on households, dampen investor and business sentiment, interrupt supply chains and production and ultimately drag on global growth.

As an energy and food exporter with very limited direct trade exposure to Russia, Australia is better placed than most countries to absorb the economic effects of the conflict and associated disruptions. Higher fuel and other prices will negatively affect consumers and dampen consumption growth, but higher commodity prices will provide a positive boost to national income through higher export earnings. Nonetheless, an extended conflict or an escalation that more significantly impacts global energy supply and global growth, is a downside risk to Australia. Box 2.2 and 2.6 further explores the potential impacts of the conflict and associated sanctions on the global and Australian economies including the risk of a protracted disruption to the supply of oil.

Russia's actions have also exacerbated existing risk factors around global inflation. This increases the possibility that inflation expectations become unanchored, making it difficult for central banks to contain inflation while avoiding a policy induced 'hard landing'. More rapid monetary policy normalisation or a higher peak in policy rates could also trigger other vulnerabilities in the global economy, especially among emerging market economies with elevated debt levels and those exposed to rising and volatile commodity prices.

Box 2.1: Key COVID-19-related assumptions underpinning the economic forecasts

The key COVID-19-related assumptions that underpin the economic forecasts are set out below.

- Community transmission of COVID-19 will continue to occur.
- A further Omicron wave is assumed to occur over winter 2022, which may again see elevated rates of absenteeism and pressure on supply chains.
- Beyond winter, it is assumed that Australia will continue to experience intermittent, localised waves of Omicron, or other new COVID-19 variants. However, it is assumed that high vaccination rates and improved medical treatments, together with continued community adaptation to COVID-19, will see the economic impact of future outbreaks continue to moderate. Box 2.4 considers a scenario where a new COVID-19 variant of concern poses greater downside risks to the economic forecasts.
- It is assumed that public health measures such as physical distancing and density restrictions are phased down, but reimposed in a targeted way in response to future COVID-19 outbreaks. These public health measures are not expected to materially affect the economic forecasts.
- Australia’s international borders are assumed to be open to migrants and fully vaccinated tourists.

Table 2.1: Domestic economy – detailed forecasts[(a)]

	Outcomes	Forecasts		
	2020-21	2021-22	2022-23	2023-24
Real gross domestic product	**1.5**	**4 1/4**	**3 1/2**	**2 1/2**
Household consumption	1.0	3 1/2	5 3/4	3 3/4
Dwelling investment	3.2	5	3 1/2	- 1/2
Total business investment[(b)]	-1.5	5 1/2	9	1
By industry				
Mining investment	-1.4	1/2	9 1/2	1 1/2
Non-mining investment	-1.5	7	9	1
Private final demand[(b)]	1.2	4 1/4	5 3/4	2 3/4
Public final demand[(b)]	5.8	7 1/4	1 1/4	1 1/2
Change in inventories[(c)]	0.7	- 1/2	1/2	1/4
Gross national expenditure	3.2	4 1/2	5	2 3/4
Exports of goods and services	-8.3	2	5	6
Imports of goods and services	-2.8	4 1/2	12 1/2	7
Net exports[(c)]	-1.4	- 1/2	-1 1/2	- 1/4
Nominal gross domestic product	4.4	10 3/4	1/2	3
Prices and wages				
Consumer price index[(d)]	3.8	4 1/4	3	2 3/4
Wage price index[(d)]	1.7	2 3/4	3 1/4	3 1/4
GDP deflator	2.9	6 1/2	-3	1/2
Labour market				
Participation rate (per cent)[(e)]	66.2	66 1/2	66 1/2	66 1/2
Employment[(d)]	6.5	2 3/4	1 1/2	1 1/2
Unemployment rate (per cent)[(e)]	5.1	4	3 3/4	3 3/4
Balance of payments				
Terms of trade[(f)]	10.4	11	-21 1/4	-8 3/4
Current account balance (per cent of GDP)	3.3	3 3/4	-3 1/4	-6
Net Overseas Migration[(g)]	-89,900	41,000	180,000	213,000

(a) Percentage change on preceding year unless otherwise indicated.
(b) Excluding second-hand asset sales between the public and private sector.
(c) Percentage point contribution to growth in GDP.
(d) Through-the-year growth rate to the June quarter.
(e) Seasonally adjusted rate for the June quarter.
(f) Key commodity prices are assumed to decline from current elevated levels by the end of the September quarter 2022: the iron ore spot price is assumed to decline from US$134/tonne to US$55/tonne free on board (FOB); the metallurgical coal spot price is assumed to decline from US$512/tonne to US$130/tonne FOB; the thermal coal spot price is assumed to decline from US$320/tonne to US$60/tonne FOB; and oil prices (TAPIS) are assumed to decline from US$114/barrel to around US$100/barrel.
(g) The figure for 2020-21 is a preliminary outcome.

Note: The exchange rate is assumed to remain around its recent average level – a trade-weighted index of around 60 and a $US exchange rate of around 72 US cents. Interest rates are assumed to move broadly in line with market expectations. Population growth is forecast to be 0.7 per cent in 2021-22, 1.2 per cent in 2022-23 and 1.3 per cent in 2023-24.

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

Outlook for the international economy

The global recovery gained traction through 2021 and into the early part of 2022, despite significant COVID-19 outbreaks, as most economies continued to adapt to the pandemic. This momentum is expected to drive continued growth through 2022 and 2023. At this stage, headwinds from the spillover effects of Russia's invasion of Ukraine are expected to weigh on global growth but not derail the recovery. However, this impact is highly uncertain and will depend on a range of factors including the duration of the conflict and the extent of energy, commodity and trade disruptions.

Sound private sector fundamentals are expected to drive robust growth in advanced economies through 2022. As at the end of 2021, many major advanced economies were still below their pre-pandemic level of production and are expected to experience above trend growth in 2022 as they continue to recover, although higher energy prices will create some drag.

Emerging market economies are expected to grow more rapidly than advanced economies as they recover closer to trend growth rates, but their outlook is at greater risk from the effects of an extended conflict in Ukraine given typically high exposure to rising fuel and agricultural prices, as well as being more vulnerable to any tightening in global financial conditions.

Most economies are increasingly resilient to pandemic-related disruptions as rising access to vaccination has allowed governments to rely less on widespread lockdowns and other restrictions to manage COVID-19 outbreaks. China remains a potential outlier given that it has not yet transitioned to living with the virus. Recent outbreaks suggests that economic activity in China could be more affected by the pandemic in 2022 than in 2021.

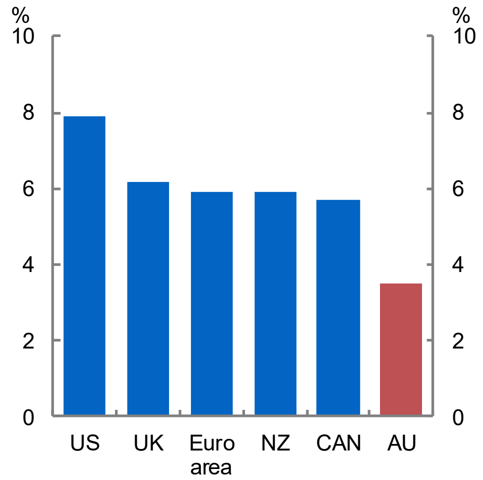
The Russian invasion of Ukraine is expected to generate around ¾ of a percentage point drag on global growth in 2022 and increase global inflation by around 1½ percentage points, primarily through higher oil, gas and wheat prices. Impacts will vary by country, depending on their reliance on energy imports and exposure to trade with Russia. Europe is expected to be more exposed, while net commodity exporters such as Australia relatively less so. The potential for an extended or escalated conflict to generate more significant disruptions is a key downside risk for the global economy. Box 2.2 further explores the global economic impacts of the conflict.

Global growth is expected to be 3¾ per cent in 2022, 3¾ per cent in 2023, and 3½ per cent in 2024. Growth in Australia's major trading partners is forecast to be slightly higher than global growth, at 4¼ per cent in 2022, 4 per cent in 2023 and 3¾ per cent in 2024.

Many advanced economies have experienced more significant inflationary pressures than seen in Australia, including the United States where inflation reached a 40-year high of 7.9 per cent in February (Chart 2.1). The impact of the Ukraine conflict is not yet fully reflected in official data but will further add to global inflationary pressures this year. Higher global energy prices will weigh on real incomes and dampen private demand. Even before the conflict, higher energy prices directly accounted for more than half of headline inflation in some advanced economies, even though energy typically accounts for less than 10 per cent of the consumption basket.

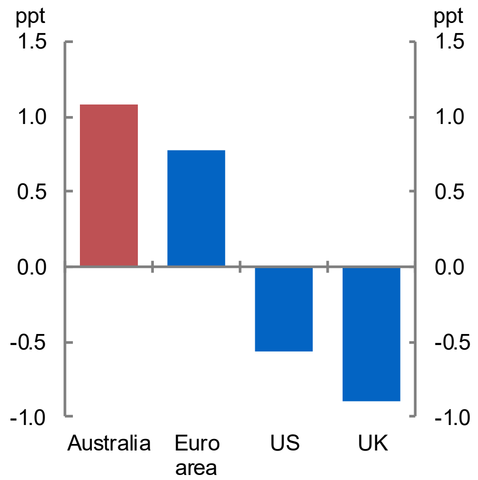
A significant tightening in labour markets is also contributing to inflationary wage pressure in some advanced economies. In the UK and US, employment remains below pre-pandemic levels and participation rates have fallen despite strong demand. This suggests a degree of labour market scarring from the pandemic is constraining labour supply (Chart 2.2). In contrast, in Australia, employment has fully recovered with a record proportion of people in work and the participation rate at a record high of 66.4 per cent.

Chart 2.1 Annual headline consumer price inflation



Source: Refinitiv, national statistical agencies.

Chart 2.2 Change in participation rate relative to pre-pandemic

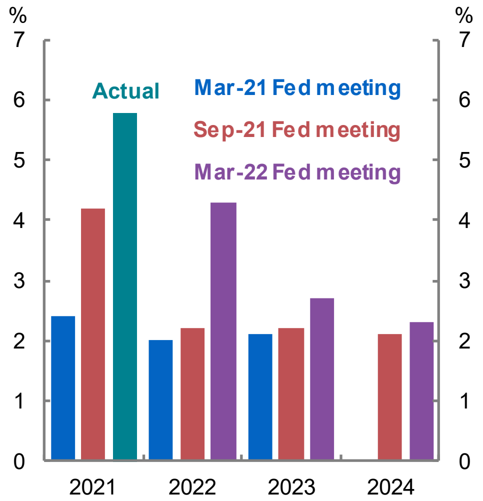


Source: Refinitiv, national statistical agencies.

Financial markets and policy makers have revised up near term inflation projections in response to higher-than-expected inflation and the sharp increase in commodity prices. Inflation last year overshot the Federal Reserve's projection and, at its March meeting, the Federal Reserve significantly increased its inflation projections for 2022 and 2023 (Chart 2.3). Market implied inflation expectations are broadly in line with the Federal Reserve's projection that inflation will return to target around the end of 2024. This suggests longer-term inflation expectations remain anchored.

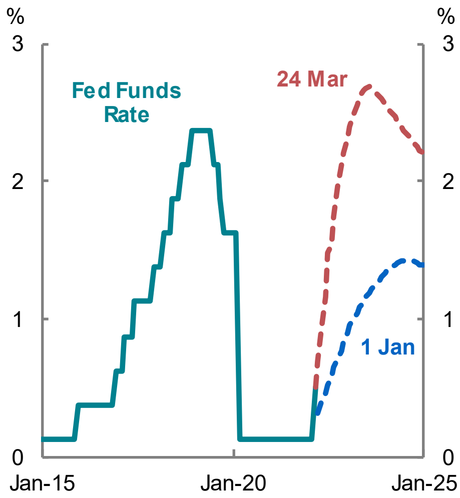
The Federal Reserve and other central banks have responded to higher inflation and tighter labour markets by bringing forward monetary policy normalisation. The Federal Reserve raised its policy interest rate by 25 basis points in March and has signalled additional increases over the course of 2022. Markets expect a faster pace of US monetary policy normalisation than in the previous tightening cycle (Chart 2.4). Other central banks, including the Bank of England and the Reserve Bank of New Zealand, have also started to raise policy rates.

Chart 2.3 US Federal Reserve inflation projections



Source: US Federal Reserve.
Note: Projection of annual inflation for December of the given year.

Chart 2.4 Market-implied US policy rate expectations



Source: Bloomberg.

Intensifying inflationary risks increase the possibility that central banks will need to tighten policy more aggressively to manage inflation. This could potentially see policy rates rise higher than currently expected by markets, with a delayed policy action increasing the risk that higher inflation becomes embedded in expectations. Tighter financial conditions associated with monetary policy normalisation may also increase the already-high levels of volatility in commodity and financial markets. A larger-than-expected tightening of monetary policy could generate pockets of stress in the financial and corporate sectors, especially among emerging market economies, and act to slow global growth.

China's economy is forecast to grow by 4¾ per cent in 2022, 5¼ per cent in 2023 and 5 per cent in 2024. Chinese growth is expected to be hampered this year by challenges managing the pandemic, higher prices for energy imports and an already slowing property sector. China is likely to experience more frequent and severe COVID-19 outbreaks this year than in 2021, with a continuation of its aggressive suppression approach to managing the virus likely to lead to more frequent lockdowns and disruptions to industrial production and normal consumption patterns. These headwinds will be partly offset by more supportive macroeconomic policy settings as central authorities have signalled an increasing willingness to act to support their ambitious growth target over other policy objectives in the near term.

The **United States'** economy rebounded strongly in 2021 and is forecast to grow by 3½ per cent in 2022, 2½ per cent in 2023 and 2 per cent in 2024. Growth is expected to moderate as private demand slows due to energy and other price pressures, declining levels of fiscal support and the normalisation of monetary policy. A very tight labour market will support stronger nominal wage increases, but high inflation will limit real wage growth in the near term. Upside risks to inflation from higher energy prices pose a further downside risk to real wages and consumption, but as the world's largest oil producer with capacity to expand production, the US economy will be partially insulated the impact of from higher oil prices.

The **euro area** economy is forecast to grow by 3½ per cent in 2022, 2¼ per cent in 2023 and 1½ per cent in 2024. This represents a downgrade to 2022 growth of ¾ of a percentage point mainly due to the conflict in Ukraine. Growth had already moderated significantly at the end of 2021 due to supply constraints and significant energy price inflation. The Ukraine invasion will exacerbate these inflationary pressures, as Europe is a large importer of Russian energy exports, and persistent high prices will significantly dampen the underlying momentum in private demand. More severe disruptions to the supply of Russian energy or other raw materials would further constrain growth.

Japan's economy is forecast to grow by 2½ per cent in 2022 and 1½ per cent in 2023. Japan is expected to recover to its pre-pandemic level of GDP towards the end of 2022, with some growth catch up spilling into 2023. Growth is then expected to slow to its long-term trend of ½ per cent in 2024, much lower than other advanced economies due to Japan's declining working age population. The economy also remains vulnerable to further COVID-19 outbreaks as evident by their precautionary health response.

Growth in **Other East Asia** is forecast to be 4¼ per cent in 2022, 4½ per cent in 2023 and 4 per cent in 2024. Growth is expected to remain solid in 2022, supported by a strong rebound in manufacturing production and commodity exports. Easing restrictions and higher vaccine coverage across the region should help bolster private consumption and service industries, though the extent of the recovery will vary by country. Global agricultural and energy price shocks will have varied impacts, with some countries more reliant on imports and exposed to inflationary pressures, whilst commodity and energy exporters will see some benefits from higher export prices.

India's economy is forecast to grow by 8¼ per cent in 2022, followed by 6½ per cent in 2023 and 7¼ per cent in 2024. A strong rebound in private consumption underpinned by a recovery in domestic confidence is expected to drive growth. However, India's high exposure to oil and other commodities imports presents a key risk to growth.

Table 2.2: International GDP growth forecasts[(a)]

	Outcome	Forecasts (Calendar Years)		
	2021	2022	2023	2024
Australia	4.2	4 3/4	2	2 1/2
China	8.5	4 3/4	5 1/4	5
India	8.2	8 1/4	6 1/2	7 1/4
Japan	1.7	2 1/2	1 1/2	1/2
United States	5.7	3 1/2	2 1/2	2
Euro area	5.3	3 1/2	2 1/4	1 1/2
Other East Asia (b)	3.9	4 1/4	4 1/2	4
Major trading partners	6.1	4 1/4	4	3 3/4
World	6.0	3 3/4	3 3/4	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 5 (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Singapore, along with Hong Kong, South Korea, Vietnam and Taiwan.
Source: National statistical agencies, Refinitiv and Treasury.

Box 2.2: Economic implications of the Russian invasion of Ukraine

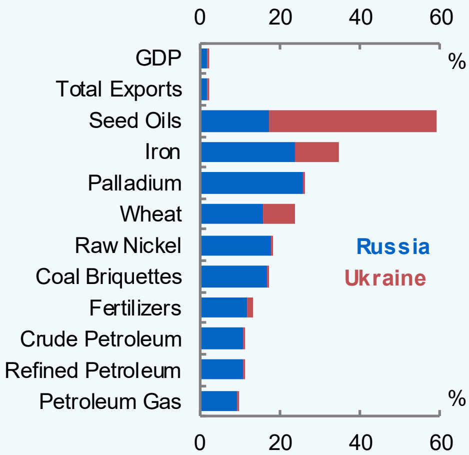
The Russian invasion of Ukraine, and the swift international response, has significantly affected the global economic outlook. The invasion has caused substantial disruption in global commodity markets and has the potential to significantly raise inflation and lower global growth.

The Russian and Ukrainian economies combined comprise less than 3 per cent of global GDP and less than 2½ per cent of global trade. Foreign financial exposures to Russia are small, and the IMF has assessed that a sovereign or bank default is not a systemic risk to global financial stability.

Russia is, however, an important global commodity supplier. Russia produces 18 per cent of the world's gas and 12 per cent of world's oil supply and, together with Ukraine, accounts for around 25 per cent of world wheat exports (Chart 2.5). The invasion has increased the risk of supply disruptions, pushing up energy, agricultural and metals prices. Global supply chains are also reliant on Russian metals exports, especially palladium, so significant supply disruption could have flow-on effects for global manufacturing supply chains.

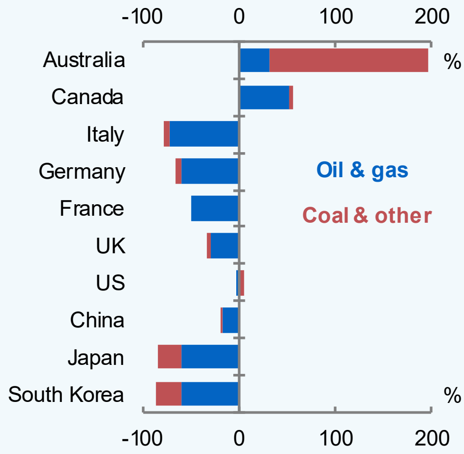
All economies will be affected by the spillover impact on global commodity prices, but the extent of the impact will depend on each economy's reliance on energy and food imports. Among developed economies, European and North Asian economies are highly dependent on energy imports (Chart 2.6). Among large emerging market economies, China and India are dependent on energy imports and many countries in the Middle East and North Africa are major food importers. These countries will suffer a negative terms of trade shock because of the increase in commodity prices.

Chart 2.5 Contribution to global GDP and exports of selected commodities



Source: UN Comtrade, Treasury.

Chart 2.6 Net energy exports as a proportion of domestic energy use



Source: International Energy Agency

Box 2.2: Economic Implications of the Russian invasion of Ukraine (continued)

A smaller set of net commodity-exporting countries, like Australia and Canada, will be somewhat protected from the inflation impacts of higher energy prices, and will potentially benefit from a positive terms of trade shock as export prices rise.

It is estimated that the conflict will cause a ¾ of a percentage point drag on global growth and increase global inflation by around 1½ percentage points. The economic impacts of the conflict are highly uncertain and will depend on the extent of the disruption to global commodity and energy supply. If the conflict has a larger-than-expected impact on global energy supply, such as a cessation of gas supplies to Europe, this would weigh more heavily on global growth and inflation.

Outlook for the domestic economy

Outlook for real GDP growth

The Australian economy has proved remarkably resilient to the ongoing impacts of the pandemic, outperforming all major advanced economies.

The economy grew by 3.4 per cent in the December quarter of 2021, the equal highest growth rate in 46 years, as consumer demand for discretionary goods and services rebounded following the easing of Delta restrictions.

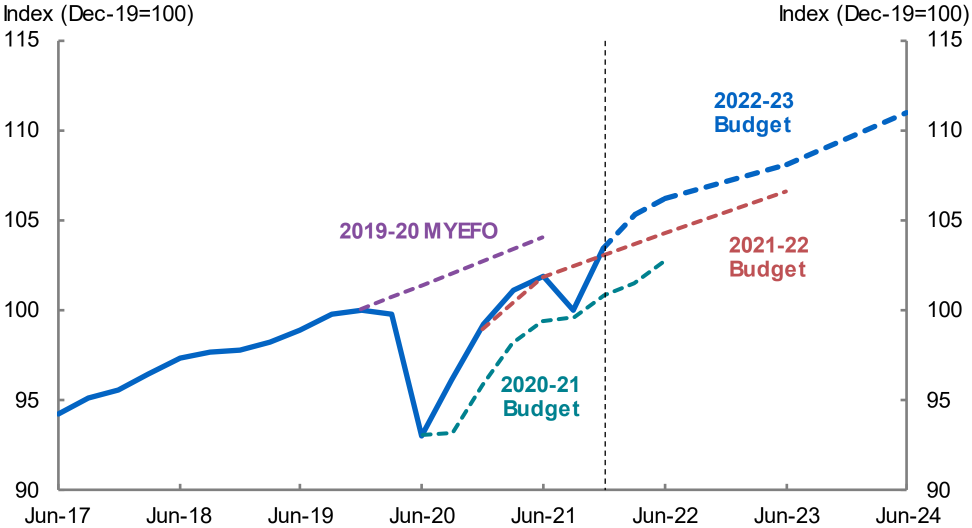
As has been the case throughout the pandemic, this swift recovery in consumption was due in part to the effectiveness of Government support in sustaining household incomes and labour market connections. Going forward, the private sector recovery is expected to become self-sustaining and drive growth as the need for activity restrictions and related policy support lessens.

The labour market has continued to exceed expectations. Employment has recovered to pre-pandemic levels faster than in any major advanced economy and the unemployment rate reached the equal lowest rate in almost 50 years in February 2022. Strong demand for labour is expected to continue to absorb spare capacity, supporting solid growth in employment and wages. This will underpin robust growth in household disposable income and consumer spending.

The outlook for real GDP has strengthened in the near term, with growth forecast to be 4¼ per cent in 2021-22 and 3½ per cent in 2022-23, before moderating to 2½ per cent in 2023-24. The economic recovery has been stronger than expected. Activity levels have been revised up over successive Budgets since the onset of COVID-19 as the effect of policy support, ongoing adaptation to COVID-19 and the resilience of the labour market became apparent (Chart 2.7). This Budget predicts real GDP per capita over the forecast period to be higher than was forecast prior to the pandemic in the 2019-20 MYEFO.

Over the remainder of 2021-22, strength in real GDP is expected to be broad-based but particularly driven by household consumption. Both business and dwelling investment are expected to pick up, following lockdowns and temporary supply chain disruptions weighing on activity in late 2021. Public consumption is also expected to support activity, primarily driven by elevated COVID-19-related health expenditures.

Chart 2.7: Real GDP



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

Household consumption growth is expected to remain strong in 2022-23 and 2023-24, supported by higher household incomes as employment increases and wage growth strengthens. Companies are expected to rebuild inventories that have been run down through the pandemic, contributing to growth. In contrast, net exports are expected to weigh on growth, particularly in 2022-23 as outbound tourism more than offsets inbound tourism and goods imports grow faster than goods exports.

The reopening of international borders is expected to generate a return to positive net overseas migration and higher population growth, which will support higher consumption growth. Net overseas migration is forecast to increase from -89,900 persons in 2020-21 to 41,000 persons in 2021-22, before increasing to 235,000 persons in 2024-25 and 2025-26.

Beyond 2023-24, activity is assumed to transition to its potential level while the unemployment rate gradually returns to the NAIRU. These assumptions lead to stable real GDP growth of 2½ per cent in 2024-25 and 2025-26.

Box 2.3: Economic impact of the February 2022 floods

In late February and early March, severe flooding affected many parts of South-East Queensland and New South Wales. Many individuals and communities affected by the floods face temporary displacement, uninsured losses and a long road to recovery. The physical damage has not yet been fully assessed and uncertainty remains about the full extent and timing of the impact on economic activity.

The direct economic cost of the floods is expected to generate a drag on real GDP growth of around ½ a percentage point in the March quarter, largely due to reduced activity in the mining, agriculture, accommodation and food services, retail trade and construction industries. This overstates the net impact of the floods on real GDP over the longer term as this direct cost will be partially offset by increased investment to replace and rebuild damaged housing, infrastructure and household goods. Federal government support will assist in funding the recovery through direct financial support to affected households, as well as contributing to local and state governments' recovery efforts (see also Budget Paper No. 1, Statement 3).

Subdued coal exports are expected in the March quarter, with weather-related disruptions weighing on production. However, the impact of the floods on coal mining is expected to be smaller than previous major weather events, such as the floods and Tropical Cyclone Yasi in 2010-11, which caused coal exports to fall by around 7 per cent in 2011. There will likely be significant localised impacts in the agriculture sector, but the impact on national production quantities and aggregate exports is likely to be limited.

While Treasury analysis of bank data showed that the floods had a negative impact on spending in parts of Queensland and New South Wales in late February and early March, spending has since recovered. Labour market impacts will also be largely seen through an initial reduction in hours worked, with employers expected to retain workers through a temporary period of disruption.

Rebuilding activity following the floods is expected to add to real GDP growth over the next few years, consistent with the experiences following previous natural disasters. However, the scale and timing of this is uncertain, and the rebuilding efforts will place additional pressure on the already strained supply of building materials and labour in the construction sector.

Box 2.4: COVID-19-related uncertainty about the economic outlook

The economic forecasts assume that further waves of COVID-19 occur, but that public health measures imposed to manage future outbreaks do not have material impacts on economic activity (Box 2.1). Nonetheless, as there is uncertainty around the health outlook, Treasury has considered 2 alternative COVID-19 scenarios. The first captures the downside risk to the economic outlook associated with a more challenging-than-expected health environment due to the arrival of a new variant of concern. The second scenario captures the upside risk to the economic forecasts from a faster improvement in the health environment compared with the COVID-19 Budget assumptions (Box 2.1).

Scenario 1: A new COVID-19 variant of concern poses a more challenging health environment

In this scenario, a more virulent variant of concern emerges in the middle of 2022. This outbreak coincides with the winter flu season and is assumed to lead to higher numbers of cases for a longer duration and more severe illness than the initial Omicron wave. As a result, at the peak of the outbreak, workforce absenteeism returns to levels similar to those experienced in January 2022.

It is assumed that baseline public health measures such as physical distancing and density limits are imposed nationally to manage the increased health risks for the duration of the outbreak. Precautionary behaviour, such as reduced social mixing, and the direct impact of activity restrictions would result in weaker consumption and higher household savings than in the forecasts. However, consumption rebounds quickly once the outbreak passes, consistent with strong recoveries seen after previous outbreaks when spending activity typically increased sharply following the easing of restrictions.

In this scenario, economic activity is around $11 billion lower in 2022-23 than in the forecasts, a detraction of ½ of a percentage point (Chart 2.8). Unemployment would be up to ¼ of a percentage point higher in 2022-23 compared with the forecasts. As the health situation improves, economic activity rebounds, returning to levels close to those assumed in the forecasts by the first quarter of 2023. Economic activity remains slightly lower than forecast through to the end of 2023-24.

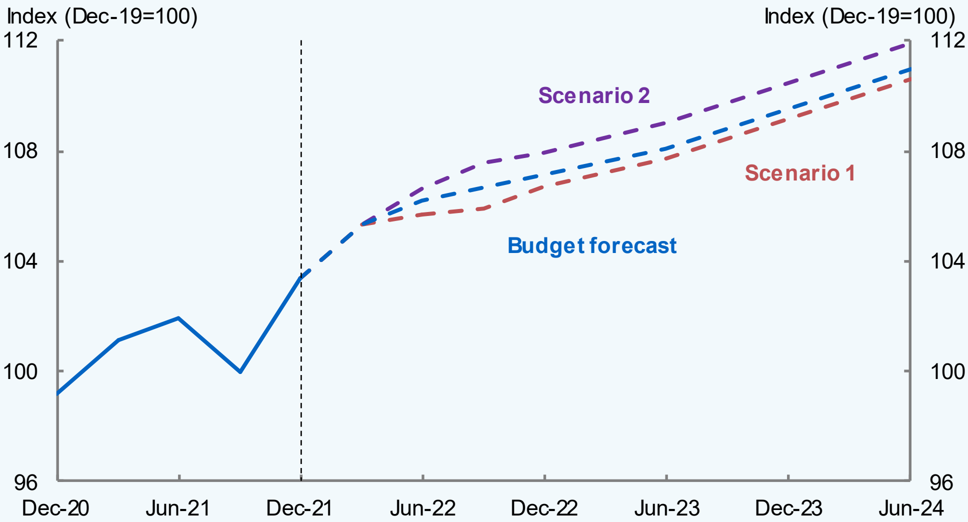
Scenario 2: An improved health situation delivers a boost to confidence

In this scenario, it is assumed that vaccines, new treatments and rising levels of immunity result in fewer cases and a more stable health environment than assumed in the forecasts. A more benign health outlook increases consumer confidence, and the household savings rate returns to pre-pandemic levels around 3 months earlier than in the forecasts. Slightly higher spending is sustained through to 2023-24, reflecting the continued impacts of improved confidence.

Box 2.4: COVID-19-related uncertainty about the economic outlook (continued)

Under this scenario, economic activity will be around $16 billion higher in 2022-23, an increase of around ¾ of a percentage point compared to the forecasts. The impact on the unemployment rate is likely to be small in this scenario. While employment is stronger, putting downward pressure on the unemployment rate, it would also encourage stronger participation.

Chart 2.8: Real GDP stylised scenarios



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

Households

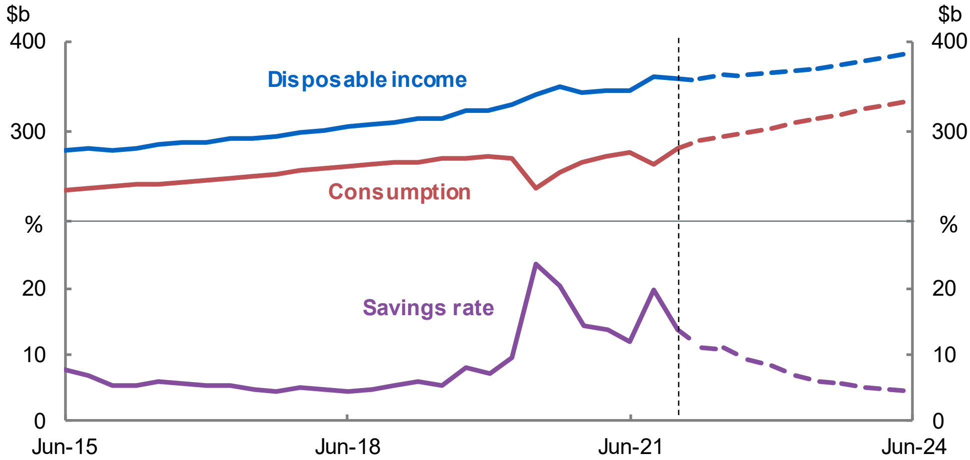
Household consumption rebounded by 6.3 per cent in the December quarter of 2021 to exceed pre-pandemic levels for the first time. This result reflects pent-up demand for discretionary goods and services following the easing of Delta restrictions.

Household consumption is forecast to grow by 3½ per cent in 2021-22, 5¾ per cent in 2022-23 and a further 3¾ per cent in 2023-24. Consumption growth will be driven by increased services demand as household spending behaviour normalises and the savings rate declines. Household balance sheets are in a strong position relative to the pre-pandemic period because of economic support measures and restricted consumption options during lockdowns. This strong financial position is expected to allow households to comfortably normalise the household savings rate towards the lower end of the range experienced over the previous 10 years (Chart 2.9).

In the March quarter of 2022, the Omicron wave, the recent floods in Queensland and New South Wales and the recent large increase in fuel prices will dampen consumption, but these effects are expected to recede. Real-time indicators suggest that the impact of the Omicron wave on consumption has been temporary and muted compared to previous waves.

In 2022-23 and 2023-24, the key driver of the consumption outlook is robust growth in disposable income due strong labour market conditions and wages growth (Chart 2.9). Rising interest rates and weaker housing price growth are expected to temper consumption growth slightly in these years, and there is a risk that the normalisation of monetary policy has a more material negative impact on consumption. However, government support and the increase in savings during the pandemic are helping ensure household balance sheets remain in a strong position.

Chart 2.9: Household consumption, disposable income and savings rate



Note: Data are nominal.
Source: ABS National Accounts: National Income, Expenditure and Product and Treasury.

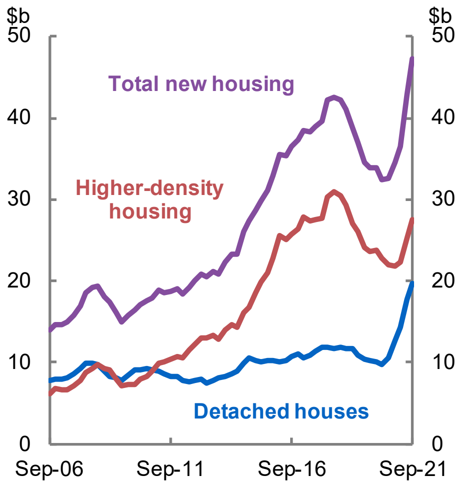
Dwelling investment is forecast to grow by 5 per cent in 2021-22 and a further 3½ per cent in 2022-23. Low interest rates, rising housing prices and government incentives, such as the HomeBuilder program, have contributed to a record pipeline of work yet to be done in the sector (Chart 2.10).

Building material and labour shortages, along with COVID-19 outbreaks and related restrictions on activity, have increased construction costs and completion times for new dwellings. These supply-side pressures have constrained dwelling investment in recent quarters, particularly for detached houses, despite a record number of detached houses under construction (Chart 2.11). Additional risks have emerged which may further exacerbate capacity constraints in the near term. This includes the recent floods in Queensland and New South Wales, as well as the Russian invasion of Ukraine disrupting global building material supply chains. Nevertheless, capacity constraints are expected to slowly alleviate and support growth in dwelling investment in 2022-23.

Rising interest rates will increase the cost of borrowing, placing downward pressure on housing prices and softening demand for investment in new housing. While this is expected to weigh on dwelling investment and contribute to a ½ per cent fall in 2023-24, the existing pipeline of work will support investment to remain at elevated levels. Moreover, the expected pick up in net overseas migration following the reopening of international borders will provide ongoing support for dwelling investment.

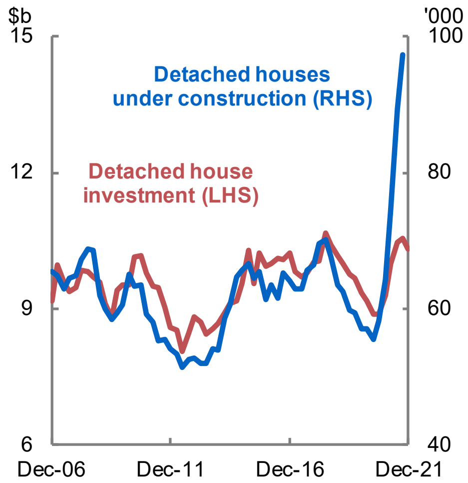
Households remain well placed to service existing debt, assisted by increased savings and mortgage prepayments made during the pandemic. Serviceability buffers should ensure that most existing borrowers are in a position to handle mortgage repayments as interest rates rise.

Chart 2.10: Pipeline of private work yet to be done



Note: Data are in original terms.
Source: ABS Building Activity.

Chart 2.11: Private detached house construction



Note: Detached houses under construction data are in original terms.
Source: Unpublished ABS data; ABS Building Activity.

Business investment

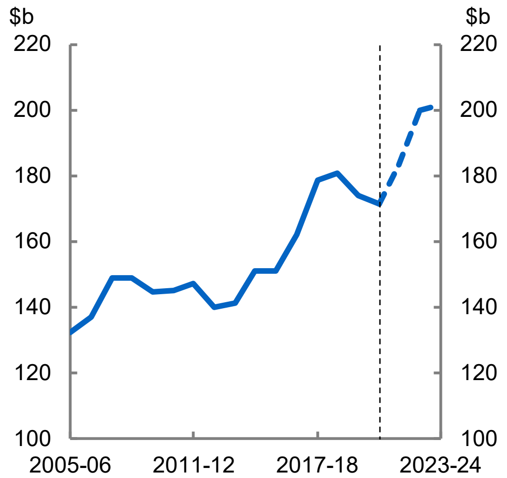
The outlook for **business investment** is strong. In 2021-22 and 2022-23, investment will be supported by further recovery in the domestic economy, temporary business tax incentives and strong business balance sheets. New business investment is forecast to grow by 5½ per cent in 2021-22, 9 per cent in 2022-23 and one per cent in 2023-24.

Non-mining business investment is expected to drive growth in overall business investment over the next 2 years. Non-mining business investment is forecast to rise by

7 per cent in 2021-22 and 9 per cent in 2022-23, to reach its highest quarterly share of the economy since 2011 in the June quarter of 2023. Growth is then expected to slow to around one per cent in 2023-24 with investment activity remaining at elevated levels (Chart 2.12).

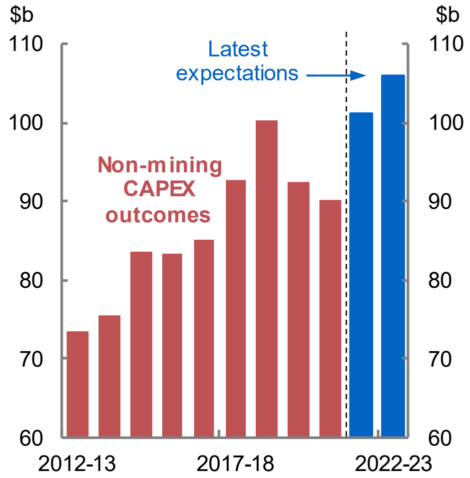
The Delta lockdowns and ongoing supply disruptions for capital goods such as motor vehicles have weighed on growth of non-mining business investment in recent quarters. However, leading indicators suggest that these factors have begun to ease. The Omicron wave is not anticipated to have a significant impact on investment, with business confidence returning quickly after case numbers peaked. ABS investment expectations from January and February suggest record high investment intentions for both 2021-22 and 2022-23 (Chart 2.13). The invasion of Ukraine poses a downside risk to investment intentions, as increasing producer prices could reduce profit margins and weigh on investment.

Chart 2.12: Non-mining business investment



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

Chart 2.13: Non-mining CAPEX expectations



Note: Data are nominal. Expectations data have been adjusted using long-run realisation ratios.

Source: ABS Private New Capital Expenditure, Expected Expenditure and Treasury.

Mining investment is forecast to rise by ½ per cent in 2021-22, 9½ per cent in 2022-23 and by 1½ per cent in 2023-24. Iron ore investment is continuing, largely reflecting investments to maintain production capacity. Liquefied Natural Gas (LNG) investment is expected to lift over coming quarters as construction work on recently announced projects commences. More broadly, ABS investment expectations for the mining sector indicate robust growth in mining investment in 2021-22 and 2022-23 and the highest level of investment since 2015-16. This outlook reflects a limited investment response to the recent rise in commodity prices following Russia's invasion of Ukraine, as elevated prices are expected to be temporary.

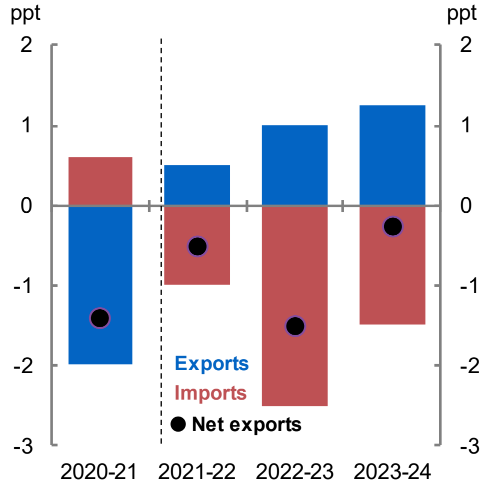
Public final demand

New public final demand is forecast to rise by 7¼ per cent in 2021-22, 1¼ per cent in 2022-23 and by a further 1½ per cent in 2023-24. The strong increase in 2021-22 is primarily driven by elevated COVID-19-related expenditures on public health including treatment of COVID-19 positive patients, the provision of vaccines, as well as the purchase of personal protective equipment (PPE) and rapid antigen tests (RATs). Growth is expected to slow in 2022-23 and 2023-24 as COVID-19-related expenditures fall as immunity increases and the virus becomes endemic in the community.

Net exports

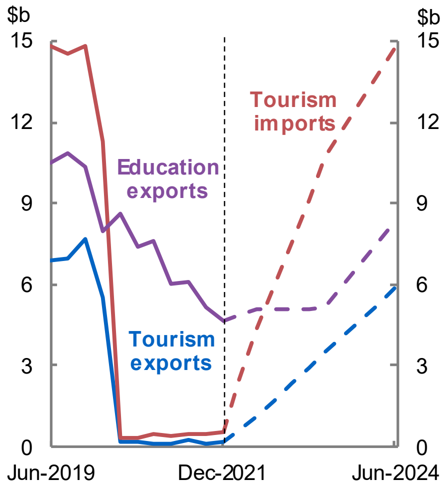
Net exports are expected to detract ½ of a percentage point from GDP growth in 2021-22 as growth in goods and tourism exports is more than offset by strong goods imports, while education exports remain depressed (Chart 2.14). The drag on growth is expected to increase to 1½ percentage points in 2022-23 as outbound tourism more than offsets inbound tourism, consistent with pre-pandemic travel patterns, and as goods imports grow faster than goods exports. The drag on growth moderates in 2023-24 to ¼ of a percentage point, as continued strength in goods and services imports is partially offset by strengthening services exports, as the recovery in tourism and education gathers pace.

Chart 2.14: Net exports contribution to GDP growth



Source: ABS Balance of Payments and International Investment Position, Australia and Treasury.

Chart 2.15: International tourism and education



Note: Tourism imports includes education imports (i.e. Australians studying overseas).

Source: ABS Balance of Payments and International Investment Position, Australia and Treasury.

Exports are forecast to grow by 2 per cent in 2021-22, 5 per cent in 2022-23 and 6 per cent in 2023-24. Strong rural production, owing to good seasonal conditions, is expected to drive growth in exports in 2021-22. A strong increase in tourism exports, as well as a rebound in mining production is expected to drive growth in 2022-23 and 2023-24.

Mining exports are expected to increase by one per cent in 2021-22, weighed down by temporary production disruptions, including from wet weather, operational disruptions and maintenance. Mining exports growth is expected to pick up in 2022-23 to 5 per cent as production disruptions ease and production increases at new iron ore mines, such as BHP's South Flank, Rio Tinto's Gudai Darri and Fortescue Metals Group's Eliwana projects. Mining exports growth is then expected to slow to 2½ per cent in 2023-24 consistent with the slow-down in productive capacity growth.

Service exports are expected to fall in 2021-22 before growing strongly in 2022-23 and 2023-24. The movements in services exports reflect changes to Australia's international borders, which began a progressive reopening in November 2021 and are now open to all vaccinated persons. The reopening of international borders has supported a strong pick up in international travel, with more than 130,000 student arrivals and 190,000 tourist arrivals since November 2021.

The pace of the recovery for both international education and tourism is uncertain, and it is expected to take multiple years for both sectors to return to pre-pandemic levels (Chart 2.15). Consumer hesitancy, from COVID-related health risks, and a slow reopening of China's international borders will constrain international travel in the near term.

Outbound tourism (imports) is expected to recover to pre-pandemic levels faster than inbound tourism (exports) due to China's delayed reopening and the likely strong demand from Australians to travel overseas following the extended closure of Australia's borders. This faster recovery in outbound tourism, along with outbound tourism exceeding inbound tourism pre-pandemic, means international tourism will drag on the growth of net exports in the near term.

Even though student arrivals have picked up significantly, education exports are still expected to fall in 2021-22 as the number of students completing their studies exceeds new student commencements. This will drive a 5½ per cent fall in services exports in 2021-22. By 2022-23 a continued recovery in the number of foreign tourist and international student arrivals is expected to see a strong turnaround with services exports expected to increase by 12 per cent. This recovery is expected to strengthen in 2023-24, with services exports expected to grow by 29 per cent.

Rural exports are forecast to increase by 23½ per cent in 2021-22 largely due to 2 consecutive years of very large grain harvests. The recent floods in Queensland and New South Wales have destroyed crops and impacted herds, posing some downside risk to exports in the short term. In 2022-23 exports are forecast to fall slightly by one per cent and again by 1½ per cent in 2023-24. Nevertheless, this would see exports remain at elevated levels and above the long-run average over 2022-23 and 2023-24 due to replenished grain stocks and greater sheep and cattle availability from 2 years of herd rebuilding.

Imports are forecast to grow strongly in coming years, by 4½ per cent in 2021-22, 12½ per cent in 2022-23 and 7 per cent in 2023-24. The strong growth is driven by the easing of travel restrictions supporting a recovery in tourism imports and the continued recovery of the domestic economy generating robust goods imports growth.

The labour market

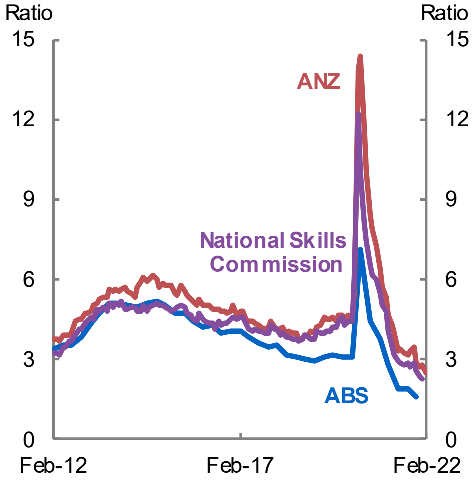
The labour market has displayed resilience through the pandemic and has again recovered strongly in recent months. Employment reached a then-record high in November 2021 and continued employment growth since then has seen the unemployment rate fall to just 4.0 per cent – the equal lowest outcome since 1974. The employment-to-population ratio reached a new record high of 63.8 per cent in February 2022, with the participation rate also at a record high of 66.4 per cent.

Hours worked fell sharply in January reflecting unseasonably high levels of annual leave, as well as the Omicron outbreak leading to around 3 times as many people as usual having worked less hours due to illness or sick leave. During the peak of the Omicron outbreak, absenteeism rates from COVID-19 are estimated to have reached around 6 per cent nationally.

The Omicron wave had a short-lived impact on the labour market compared with previous outbreaks, with hours worked returning to just 0.5 per cent below their December level in February. However, there remained around 50 per cent more people than usual working reduced hours because of illness or sick leave.

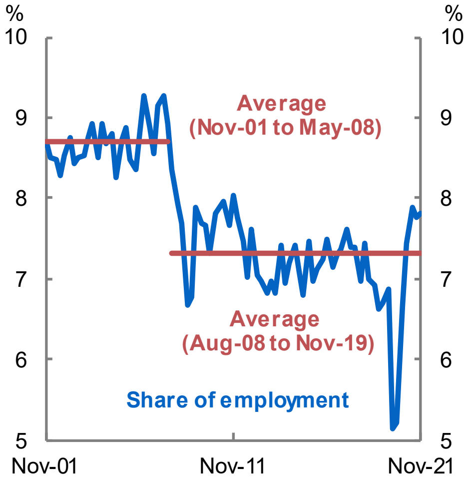
The recovery in the labour market in recent months reflects growth in private consumption supporting strong labour demand. The number of unemployed people per vacancy, a key measure of labour market tightness, fell to just 1.6 in November. This is the lowest value on record and around half the pre-pandemic level (Chart 2.16). The underemployment rate has also fallen sharply to 6.6 per cent in recent months, 2.2 percentage points lower than it was in March 2020. Strong labour demand has allowed more than one million workers to start a new job in the 3 months to November 2021, an increase of 65 per cent from the low experienced in 2020. As a share of employment, the rate at which people are taking up new jobs is around its highest level in nearly a decade (Chart 2.17).

Chart 2.16: Ratio of unemployed to vacancies and advertisements



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

Chart 2.17: Workers with a new job

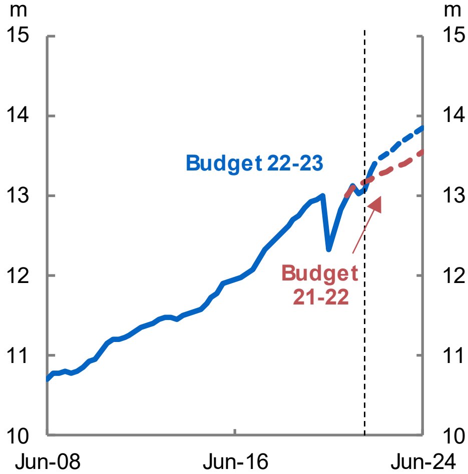


Source: Treasury analysis of ABS Labour Force microdata.

The continued recovery in the domestic economy is expected to see **employment** increase by 2¾ per cent through the year to the June quarter of 2022, before growing by 1½ per cent through the year to the June quarters of 2023 and 2024 (Chart 2.18). This would see the employment-to-population ratio at an unprecedented high across this period, indicating that there has been no long-term scarring impacts from the pandemic.

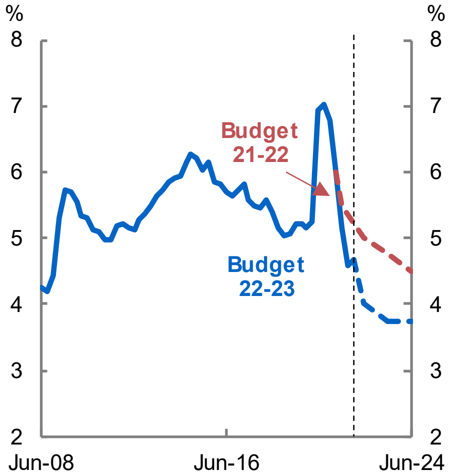
The **unemployment rate** is expected to continue to fall over the next few quarters, reflecting strong growth in the domestic economy. Unemployment is forecast to fall to 3¾ per cent in the September quarter of 2022 (Chart 2.19) and remain there until 2024-25. This would be the first time since the early 1970s the unemployment rate has averaged below 4 per cent and would see the unemployment rate lie below the NAIRU assumption (as discussed in Box 2.5).

Chart 2.18: Employment



Source: ABS Labour Force and Treasury.

Chart 2.19: Unemployment rate



Source: ABS Labour Force and Treasury.

The strength in the labour market is expected to continue to encourage participation as employment growth and higher wages draw people into the labour market, providing more labour supply in response to strong demand. The **participation rate** reached a new record high of 66.4 per cent in February 2022, recovering more quickly than was expected in late 2021. The participation rate is forecast to be at a record high of 66½ per cent by the June quarter of 2022 and remain there through 2023-24, with population ageing dragging against the strength in the labour market and limiting further increases.

Wage growth is expected to build across the forecast period as the labour market remains tight and the unemployment rate remains below the NAIRU. Wage growth, as measured by the Wage Price Index (WPI), increased to 2.3 per cent through the year to the December quarter of 2021 and is forecast to rise to 2¾ per cent through the year to the June quarter of 2022 and 3¼ per cent through the year to the June quarters of 2023 and 2024, which would be the fastest pace in almost a decade.

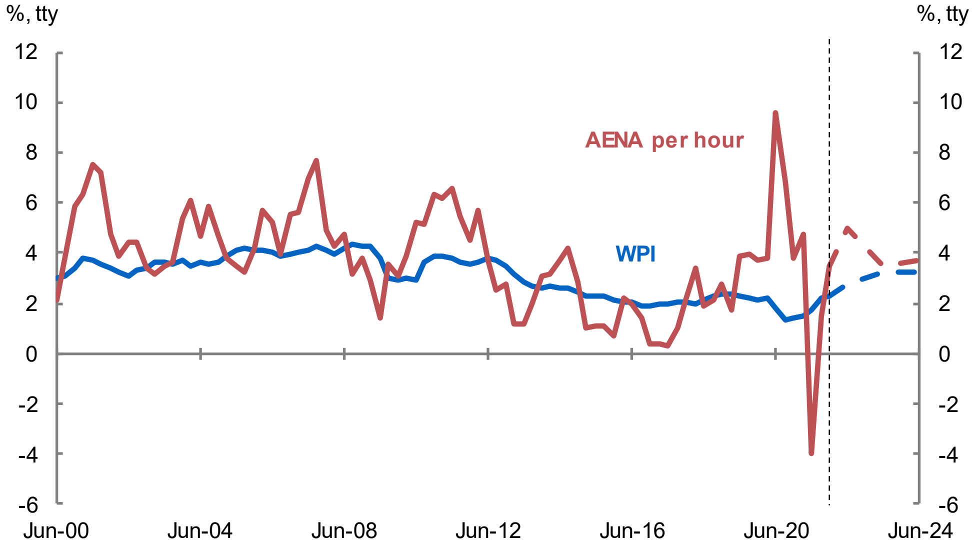
The outlook is even stronger based on the broader National Accounts measure of average earnings (AENA), which captures total renumeration including bonuses, overtime and allowances, as well as the effect of workers gaining promotions or changing jobs as they take advantage of tight labour market conditions. At a time of high mobility and tightness in the labour market, AENA presents a more representative measure of wages. Wages including bonuses have picked up in recent quarters and Single Touch Payroll data shows that workers who moved jobs in mid-2021 typically experienced pay increases of between 8-10 per cent.

AENA on an hourly basis has grown much faster than the WPI, at 3.5 per cent through the year to the December quarter of 2021, which aligns with business liaison reports that many firms are paying non-wage benefits to attract and retain staff. The difference between these 2 measures of wages is expected to persist over the forecast period. Historical evidence shows that AENA is much more responsive to economic fluctuations, and the gap between AENA and WPI is often sustained for several years (Chart 2.20).

AENA per hour is forecast to grow by 5 per cent through the year to the June quarter of 2022, 3½ per cent through the year to June quarter of 2023 and 3¾ per cent through the year to the June quarter of 2024.

Real wages, based on the broader measure of wages, AENA per hour, are forecast to increase across every year of the forecast period.

Chart 2.20: AENA per hour and WPI



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

Box 2.5: Sensitivity of the economic forecasts to the NAIRU

The NAIRU represents the level of the unemployment rate associated with stable growth in wages and prices. The difference between the NAIRU and the unemployment rate is one measure of how much spare capacity there is in the labour market and economy. The NAIRU assumption underpinning the economic forecasts in this Budget is 4¼ per cent.

Treasury has previously assumed the NAIRU to be 4¾ per cent, based on historical economic data and econometric analysis.[1] However, the unemployment rate has fallen faster and lower than previously expected, without generating substantial wage increases.

The underlying level of spare capacity and underemployment present in the economy may not have been captured in the previous NAIRU assumption. Additionally, structural changes may have altered the wage and price setting dynamics in a way which was not fully reflected in earlier estimates.

Australia's experience of low unemployment and wage growth is not unique. Many major economies including the United States, Japan and the United Kingdom experienced decade low unemployment rates prior to COVID-19 with little wage pressure.

One way to understand the influence of the NAIRU on the forecasts is through a concept known as the Phillips curve. It explains the trade-off between the unemployment rate and stable wages or inflation. An unemployment rate below the NAIRU is associated with higher wage and price growth, while an unemployment rate above the NAIRU is associated with lower wage and price growth.

This box presents scenarios to illustrate the impact the NAIRU assumption has on the forecasts. One scenario has a higher NAIRU of 4¾ per cent and the other a lower NAIRU of 3¾ per cent (Chart 2.21). The scenarios hold the unemployment rate at the Budget forecast to illustrate the impact on wages and prices. As illustrative scenarios, these results assume there is no change in monetary policy that would offset some of these price changes.

With the lower NAIRU assumption of 3¾ per cent, there is more spare capacity in the labour market compared to the Budget forecast. This reduces annual wages growth to be ½ of a percentage point lower in 2022-23 and ¾ of a percentage point lower in 2023-24.

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

Box 2.5: Sensitivity of the economic forecasts to the NAIRU (continued)

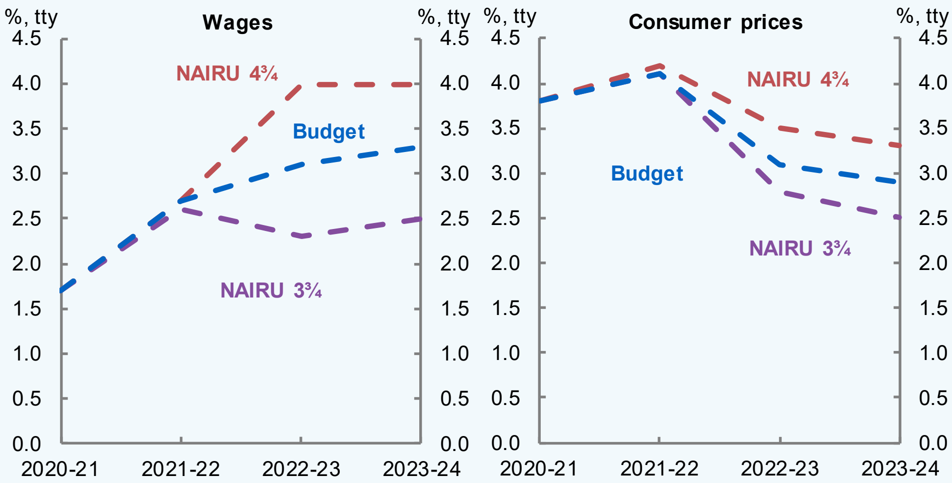
Over time lower wages growth leads to lower consumer price inflation, as firm costs are passed on to consumer prices. CPI growth in the scenario is ¼ of a percentage point lower in 2022-23 and ½ of a percentage point lower in 2023-24. In the June quarter of 2024, through the year growth in both wages and CPI is 2½ per cent.

A higher NAIRU of 4¾ per cent results in an opposite impact, with through the year wages growth of 4 per cent in the June quarters of 2023 and 2024, and through the year CPI growth of 3¼ per cent in the June quarter 2024.

There is limited recent experience in Australia with an unemployment rate below 5 per cent, adding to uncertainty around how wages respond in such an environment. Regardless of the NAIRU assumption, it will take time for tightening labour market conditions to become a key driver of inflation.

The large degree of uncertainty around technical estimates of the NAIRU suggests a degree of caution is required in framing fiscal and monetary policy. Overestimating the NAIRU could see policy tighten prematurely and prevent Australia from attaining the goal of full employment. Treasury will continue to review and assess the NAIRU assumption as more information comes to light.

Chart 2.21: Implications of the NAIRU assumption



Source: ABS Wage Price Index, Australia and Treasury.

Source: ABS Consumer Price Index, Australia and Treasury.

Consumer price inflation is expected to remain elevated in the near-term reflecting price pressures from automotive fuel as a result of higher global oil prices, new dwelling purchases and tradeable goods. Beyond the near term, inflation is expected to moderate, with inflation largely reflecting domestic labour market conditions.

Underlying inflation has increased in recent quarters. The trimmed mean measure rose 2.6 per cent through the year to the December quarter of 2021, its largest annual rise since 2014. The pick-up in underlying inflation signalled broadening price pressures in the economy, particularly for goods.

Petrol prices have increased further in 2022 and business liaison indicates businesses face ongoing cost pressures from supply chain disruptions, particularly in the construction, goods retailing and hospitality sectors. The fuel excise reduction is expected to reduce headline inflation by ¼ of a percentage point in the June quarter of 2022, before being withdrawn in late 2022 as oil prices are expected to moderate.

These factors inform a stronger price outlook in the near term, albeit lower than what has been observed in other countries. CPI is expected to grow by 4¼ per cent through the year to the June quarter of 2022. Headline inflation is then expected to moderate to 3 per cent through the year to the June quarter of 2023, reflecting some continued inflationary pressure from global supply chain issues. Towards the end of the detailed forecast period, the tight labour market and resulting wage growth will generate inflation of 2¾ per cent through the year to the June quarter of 2024.

Russia's invasion of Ukraine presents a risk to the near-term outlook for inflation, given its potential to further increase energy prices, especially for automotive fuel (Box 2.6). Prolonged supply chain issues, associated with the current or future widespread COVID-19 outbreaks in China, present risks to inflation that may persist through 2022 and 2023. The recent floods in Queensland and New South Wales may also impact food prices and add to existing challenges on the supply of construction materials and labour.

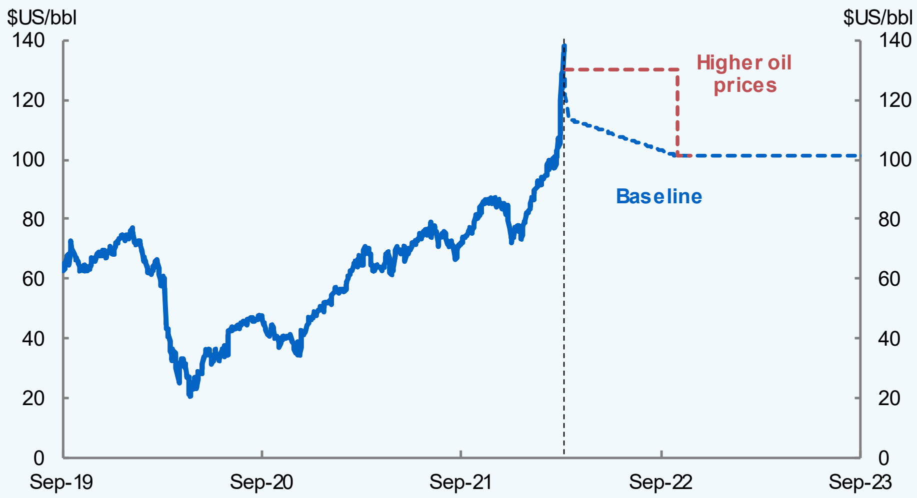
Box 2.6 Inflation impact of a higher global oil price

Oil prices rose strongly in late 2021 and have been volatile in early 2022, spiking to over US$125 per barrel. Continued volatility in the oil price is a key risk to the domestic outlook. Higher global oil prices feed through to Australian automotive fuel prices within around 3 weeks and, over a more protracted period, indirectly feed through to higher costs for producers and other CPI components.

The economic forecasts assume that the global oil price subsides from the recent spike but remains above pre-invasion levels at around US$100 per barrel (Chart 2.22). This is consistent with a scenario in which ongoing uncertainty keeps prices elevated but there is minimal disruption to Russian oil supplies. Of the 4¼ per cent inflation forecast through the year to June 2022, around one percentage point is due to the direct effect of higher oil prices on fuel, offset by ¼ of a percentage point by the temporary reduction in excise taxes.

Treasury has also assessed the impact of a more acute shock to global oil markets on domestic inflation. In this scenario, disruptions to Russian oil exports lead to global shortages and prices remain around US$130 per barrel until alternative sources of supply come online. In this scenario, higher oil prices would add a further ¼ of a percentage point to annual inflation to June 2022.

Chart 2.22 Global oil price scenarios



Source: Bloomberg and Treasury.

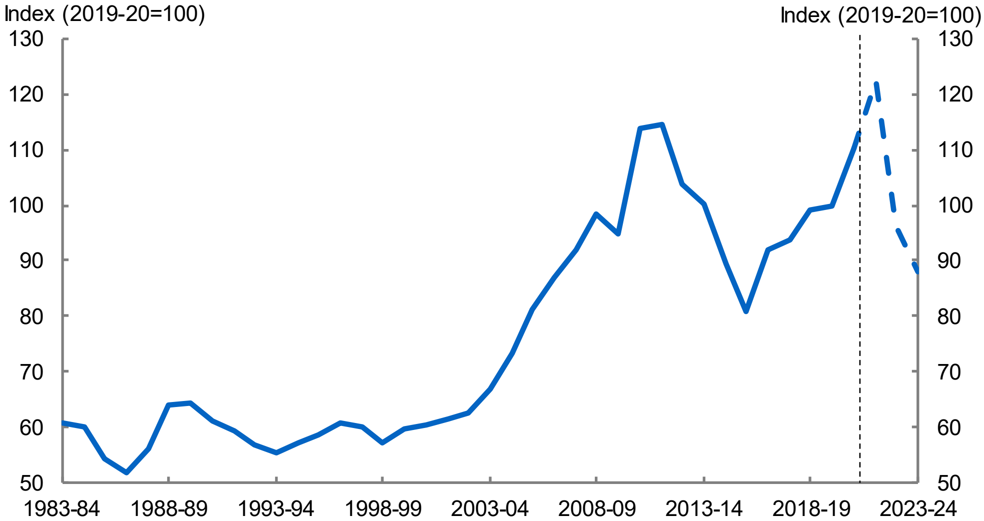
Outlook for nominal GDP growth and the terms of trade

Nominal GDP is forecast to grow by 10¾ per cent in 2021-22 compared to 6½ per cent at 2021-22 MYEFO. The upgrade to nominal GDP growth in 2021-22 is largely driven by higher commodity prices, with non-rural commodity export values $5.6 billion higher in the December quarter of 2021 than forecast at the 2021-22 MYEFO. The higher-than-expected export values are expected to provide additional support to the Australian economy through higher profits and government revenue.

Nominal GDP is expected to grow by ½ of a per cent in 2022-23 and by 3 per cent in 2023-24. The subdued growth across these years reflects a sharply falling terms of trade due to an assumed decrease in commodity prices to levels more consistent with long-term fundamentals (Chart 2.23). This will be partly offset by a tight labour market that increases output and generates robust income and consumption growth. Additionally, rising wage growth is expected to lead to a permanent increase in the labour share of income.

Overall, the level of nominal GDP is around $300 billion higher over the 5 years to 2025-26 compared with the 2021-22 MYEFO. In 2021-22, this largely reflects stronger non-rural commodity prices and in subsequent years it reflects stronger output and a higher domestic price level.

Chart 2.23: Australia's terms of trade



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

The near-term forecasts capture much of the recent increases in commodity prices but, given the current high-level of volatility and uncertainty, conservative export commodity price assumptions have been adopted. Elevated coal, iron ore, metals and other ores prices are unwound over 2 quarters (that is, by the end of the September quarter of 2022) to levels consistent with long-term fundamentals. For iron ore and coal, this is one quarter later than was assumed in the 2021-22 MYEFO. This approach ensures that economic and fiscal parameters are grounded in long-term economic fundamentals and are not unduly influenced by short-term volatility.

The price assumptions for key commodities are:

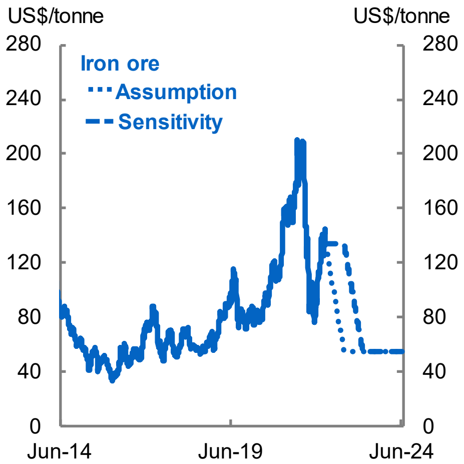
- The iron ore price is assumed to decline from US$134 to US$55 per tonne free on board (FOB).
- Metallurgical and thermal coal prices are assumed to decline from US$512 to US$130 per tonne FOB and US$320 to US$60 per tonne FOB, respectively.
- Given the substantial increase in metals and ores (excluding iron ore) prices since the 2021-22 MYEFO, the prices for these commodities, such as gold, aluminium and nickel, are assumed to decline to their long-term levels by the end of the September quarter of 2022.
- Tapis oil prices are assumed to decline from US$114 to around US$100 per barrel. The end-point is based on the average price over February rather than assessments of long-term fundamentals, reflecting the increased risks around oil supply and the possibility that a large risk premium sees oil prices remain elevated for some time.

The potential for further disruptions to commodity supply from Russia poses an upside risk to the terms of trade forecasts. This would see the prices of some of Australia's key commodity exports remaining elevated for longer than under the 2022-23 Budget assumptions. These disruptions could also support higher-than-expected energy commodity prices, as well as other key commodities exported by Russia, such as metallurgical coal and wheat.

This would have a material impact on tax receipts over the forecast period. For example, if iron ore, thermal coal and metallurgical coal prices remained at elevated levels until the end of the September quarter of 2022, before declining to their long-run levels by the end of the March quarter of 2023 (Chart 2.24 and 2.25), the value of nominal GDP would be $135.2 billion higher over 2021-22 to 2024-25, and tax receipts would be $29.5 billion higher over the same period (Table 2.3). Unlike the analysis in *Budget Statement 7: Forecasting Performance and Sensitivity Analysis*, these estimates do not account for the second-round effects of permanently higher commodity export prices, such as a higher exchange rate. This is consistent with prices being temporarily, not permanently, higher.

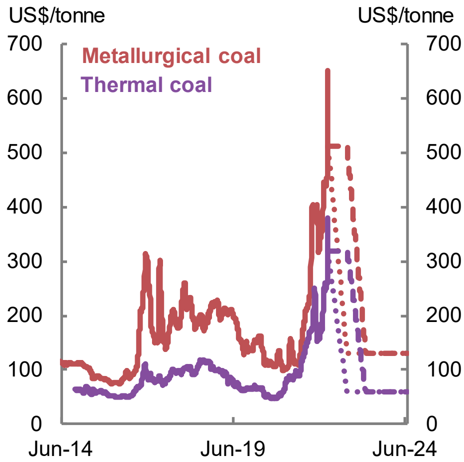
The Chinese economy poses another key uncertainty for the terms of trade. Strength in fixed asset investment in China, spurred by loosening fiscal and monetary policy may mean iron ore prices stay higher for longer than expected. On the other hand, a faster-than-expected slowdown in the Chinese economy, such as due to economic disruptions from a widespread COVID-19 outbreak, could push the prices of Australia's key exports lower than assumed. Further information on the sensitivity of the economy to permanent changes in the iron ore price can be found in *Budget Statement 7: Forecasting Performance and Sensitivity Analysis*.

Chart 2.24: Iron ore spot price



Source: Argus Media and Treasury.

Chart 2.25: Coal spot price



Source: Argus Media and Treasury.

Note: Spot price data are presented as a 5-day moving average and are expressed in Free on Board (FOB) terms, which exclude the cost of freight. Iron ore and coal spot price assumptions were finalised on 14 March 2022. Calculations made by Treasury are based on confidential proprietary data from Argus Media under licence. Argus Media shall not be liable for any loss or damage arising from any party's reliance on, or use of, the data provided or the Treasury's calculations.

Table 2.3 Sensitivity analysis of a later fall in coal and iron ore spot prices

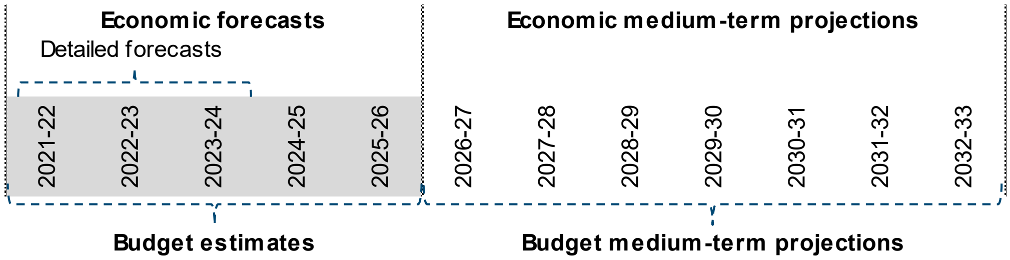
	2021-22	2022-23	2023-24	2024-25	Total
Nominal GDP ($billion)	9.9	123.7	1.6	0.0	135.2
Tax receipts ($billion)	0.7	17.7	10.8	0.2	29.5

Source: Treasury.

Medium-term projections

The fiscal aggregates in the Budget are underpinned by forecasts of economic activity over the Budget estimates period and projections over the medium term (Chart 2.26).

Chart 2.26: Medium-term projection period



Source: Treasury.

In the current financial year (2021-22), the Budget year (2022-23) and the subsequent financial year (2023-24), emphasis is placed on detailed forecasts of the expenditure components of economic activity. Beyond this period, estimates are 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 not equal to potential.

A macroeconometric model of the Australian economy is used to inform the path that the economy takes to close the output gap. This model accounts 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 2023-24.

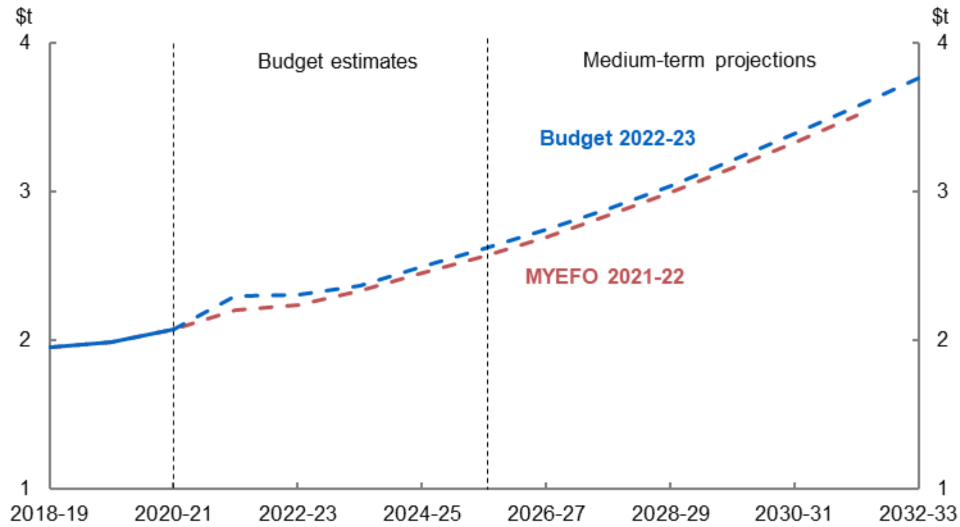
Potential GDP is estimated based on an analysis of trends for population, productivity, and participation. As excess activity in the economy moderates and the output gap closes, real GDP is assumed to converge towards its potential level and the unemployment rate converges towards the NAIRU assumption. On the nominal side, key non-rural commodity export prices are projected based on cost curve analysis. Domestic prices return over time to the midpoint of the RBA’s inflation target band.

Potential GDP grows at an annual average of around 2½ per cent per annum to 2025-26 before increasing to an annual average of around 2¾ per cent per annum over the medium term to 2032-33. The terms of trade are projected to return to around their 2006-07 level from 2023-24 and remain around this level over the medium term.

Overall, the level of nominal GDP over the medium-term projection period is permanently higher compared to the 2021-22 MYEFO (Chart 2.27). In 2021-22 this largely reflects stronger non-rural commodity prices and in later years it reflects stronger output and a higher domestic price level. The tight labour market is expected to lead to rising wage growth and a permanent increase in the labour share of income. It also leads to an increase in domestic price pressures. While inflation returns to the midpoint of the RBA target band by the June quarter of 2026, this increase in the domestic price level is expected to be sustained. Nominal GDP over the medium term is also supported by higher potential output. Higher potential output largely reflects an increase in the size of the productive workforce associated with a permanently lower unemployment rate.

Since the 2021-22 MYEFO, the NAIRU assumption has been revised down to 4¼ per cent resulting in a higher level of potential GDP by the end of the medium term (Box 2.5). Trend projections for the population level and average hours are slightly higher while the trend participation rate is unchanged. The changes to the NAIRU, population and average hours, imply that there is a larger workforce available to produce goods and services over the medium term. The medium-term outlook for underlying labour productivity growth is unchanged. Consistent with the 2021-22 MYEFO, underlying labour productivity 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.

Chart 2.27: Projected nominal GDP



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

Statement 3: Fiscal Strategy and Outlook

The Government's fiscal policy settings have served Australia well. The substantial COVID-19 economic support along with Australia's success in managing the health situation has been instrumental in the strong economic recovery, which is now delivering a large fiscal dividend. The fiscal position has continued to improve markedly despite significant challenges including the Omicron outbreaks and the recent floods in Queensland and New South Wales.

The Government has transitioned to the second phase of the Economic and Fiscal Strategy, consistent with the strength of the economic recovery and having achieved the objective of low unemployment. By supporting economic growth over the medium term, the strategy will underpin stronger public finances, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

This Budget projects stronger finances with a substantial $103.6 billion improvement in the underlying cash balance over the 5 years to 2025-26 since MYEFO. The underlying cash deficit in 2022-23 is expected to be $78.0 billion (3.4 per cent of GDP), a $20.9 billion improvement from MYEFO. The deficit is expected to halve as a share of the economy over the forward estimates to $43.1 billion (1.6 per cent of GDP) in 2025-26 and continue to decline to 0.7 per cent of GDP by 2032-33.

Consistent with the Economic and Fiscal Strategy, the stronger economy and smaller deficits are expected to see gross debt as a share of the economy peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than at MYEFO. Gross debt is then projected to fall to 40.3 per cent of GDP by the end of the medium term, 9.6 percentage points lower or $236 billion lower than expected at MYEFO. This demonstrates the dividend of a clear Economic and Fiscal Strategy that has delivered a stronger economy and low unemployment. It is also an important step in the longer-term task of steadily reducing debt and rebuilding fiscal buffers, which will ensure Australia remains well placed to respond to future shocks.

Contents

Statement 3: Fiscal Strategy and Outlook

Overview

The Australian economy has recovered strongly and the unemployment rate is expected to fall below 4 per cent this year, the first time this has occurred in nearly half a century. With the Government's substantial economic support tapering, the private sector is now leading the recovery underpinned by strong household and business balance sheets and a large pipeline of private investment.

Despite the impact of Omicron outbreaks and the recent floods in Queensland and New South Wales, the fiscal position has improved markedly since MYEFO, reflecting the success of the Government's economic plan to grow the economy and reduce unemployment to historically low levels. While the Russian invasion of Ukraine and potential new variants of COVID-19 continue to present risks to the outlook, optimism can be drawn from the resilience of the economy over recent years.

Strong economic conditions are delivering a significant improvement in the fiscal position. This positive outlook reflects the Government's decisive policy action during the pandemic. The Government has provided an unprecedented level of economic support with $314 billion committed since the onset of the pandemic, equivalent to 15.2 per cent of GDP.

This Budget delivers the next stage of Australia's plan for a stronger future with $39.3 billion in total decisions. It is a plan that delivers more jobs with investments in infrastructure, skills and our regions, and provides temporary and targeted cost of living relief. It also delivers record funding in essential services, invests in small business and local manufacturing, and stronger defence, borders and national security. The Budget also provides immediate financial assistance for communities affected by the devastating floods and provisions for further relief and recovery.

A stronger-than-expected labour market recovery and associated pick-up in wages growth has driven large upward revisions to personal income tax receipts, notwithstanding $11.9 billion in tax relief that will be provided when taxpayers lodge their 2021-22 tax returns. Along with reductions in unemployment benefit recipients from a stronger labour market and the effect of higher near-term commodity prices, this has resulted in a substantial $103.6 billion improvement in the expected underlying cash balance between 2021-22 and 2025-26 since MYEFO (Table 3.1). In 2022-23, the expected underlying cash deficit has improved to $78.0 billion (3.4 per cent of GDP) from an estimate of $98.9 billion (4.4 per cent of GDP) at MYEFO.

Table 3.1: Change in underlying cash balance from MYEFO

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total
	$b	$b	$b	$b	$b	$b
Underlying cash balance						
Budget	-79.8	-78.0	-56.5	-47.1	-43.1	-304.5
MYEFO	*-99.2*	*-98.9*	*-84.5*	*-57.5*	*-68.1*	*-408.1*
Change from MYEFO	**19.4**	**20.9**	**27.9**	**10.4**	**25.0**	**103.6**

Having peaked in 2020-21 at 6.5 per cent of GDP, the deficit in the underlying cash balance is expected to narrow to 1.9 per cent of GDP in 2024-25, the fastest 4-year improvement in over 70 years. The deficit is expected to narrow further to 1.6 per cent of GDP ($43.1 billion) in 2025-26. The improvement in the fiscal position is projected to continue across the medium term, with the deficit declining to 0.7 per cent of GDP by 2032-33, less than half the deficit at the end of the medium term at MYEFO.

The Government has transitioned to the medium-term phase of the Economic and Fiscal Strategy in light of the strength of the recovery and having achieved the objective of low unemployment. The time for emergency fiscal support has passed and it is appropriate for fiscal settings to normalise with a focus on growing the economy in order to stabilise and reduce debt.

Consistent with the medium term fiscal strategy, the Government is turning the corner on debt. Both net debt and gross debt as a share of GDP are expected to be significantly lower over the entire forward estimates and medium term than at MYEFO. The improved outlook reflects the benefits of a strong and sustained economic recovery for the underlying cash balance.

Net interest payments also remain low at 0.7 per cent of GDP to 2024-25, rising slightly to 0.9 per cent of GDP in 2025-26 before declining to 0.8 per cent of GDP by the end of the medium term, despite yields rising since MYEFO (Chart 6.2 in *Statement 6: Debt Statement*). Given economic growth is projected to be higher than yields, gross debt as a share of GDP is projected to reduce over the medium term notwithstanding ongoing budget deficits.

Despite the considerable fiscal cost of responding to COVID–19, the Australian Government's debt burden remains manageable and Australia continues to have lower debt as a share of its economy than many other advanced economies (see Box 3.4). Australia is one of only nine countries to maintain a AAA credit rating from all 3 major ratings agencies.

Table 3.2: Australian Government general government sector budget aggregates

	Actual	Estimates						Projections
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)	2032-33
	$b	$b	$b	$b	$b	$b	$b	$b
Underlying cash balance	**-134.2**	**-79.8**	**-78.0**	**-56.5**	**-47.1**	**-43.1**	**-224.7**	
Per cent of GDP	-6.5	-3.5	-3.4	-2.4	-1.9	-1.6		-0.7
Receipts	**519.9**	**556.6**	**547.6**	**585.2**	**615.2**	**643.9**	**2,392.0**	
Per cent of GDP	25.1	24.3	23.8	24.7	24.7	24.6		25.8
Tax receipts	**473.9**	**512.5**	**508.4**	**541.8**	**566.6**	**598.2**	**2,215.0**	
Per cent of GDP	22.9	22.4	22.1	22.9	22.8	22.9		23.9
Non-tax receipts	**46.1**	**44.1**	**39.2**	**43.5**	**48.6**	**45.7**	**177.0**	
Per cent of GDP	2.2	1.9	1.7	1.8	2.0	1.7		1.9
Payments(b)	**654.1**	**636.4**	**625.6**	**641.7**	**662.3**	**687.0**	**2,616.6**	
Per cent of GDP	31.6	27.8	27.2	27.1	26.6	26.3		26.5
Gross debt(c)	**817.0**	**906.0**	**977.0**	**1,056.0**	**1,117.0**	**1,169.0**		
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7		40.3
Net debt(d)	**592.2**	**631.5**	**714.9**	**772.1**	**823.3**	**864.7**		
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1		26.9
Net interest payments(e)	**14.3**	**14.9**	**15.1**	**16.9**	**18.0**	**22.4**	**72.3**	
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9		0.8

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.
(c) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
(d) Net debt is 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).
(e) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *Statement 6: Debt Statement*).

Economic and Fiscal Strategy

The Government has transitioned to the medium-term phase of the Economic and Fiscal Strategy, acknowledging Australia's strong economic recovery and that the time for emergency fiscal support has passed.

The Government continues to prioritise sustainable, private sector-led growth and job creation, and restoring the fiscal position to ensure that Australia is well placed to respond to future shocks. The Government will also prioritise structural reforms and other measures that expand the economy's supply side capacity. By supporting economic growth over the medium term, the strategy will underpin stronger public finances, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

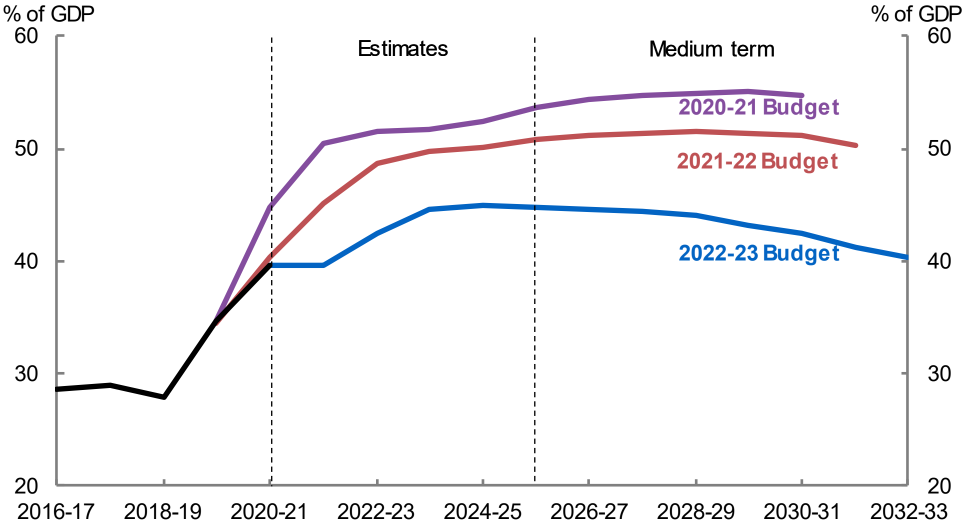
The Government's fiscal policy settings over the past two years have served Australia well. The substantial COVID-19 economic support along with Australia's success in managing the health situation has been instrumental in the strong economic recovery.

While these emergency measures helped the Australian economy through the crisis, economic circumstances mean it is now appropriate to reduce support in a measured way that allows the transition to private sector-led growth to continue. In line with the Government's principles that economic support be temporary and targeted, payments as a share of the economy are expected to decline over the forward estimates as remaining economic support is phased out.

Consistent with the Economic and Fiscal Strategy, debt as a share of GDP stabilises and reduces over the medium term, ensuring Australia is well prepared to respond to future shocks. Net and gross debt as a share of GDP are lower across the entire forward estimates and medium term than at the past two Budgets (Chart 3.1). This reduction in debt shows how focusing on a stronger economy improves the fiscal position. The Government will sustain this momentum by controlling expenditure growth, while maintaining a low tax burden consistent with the tax-to-GDP cap.

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.

Chart 3.1: Evolution of gross debt forecasts across budget updates



Source: Treasury

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, guarantee provision of essential services and maintain taxes within the 23.9 per cent tax-to-GDP cap.

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.

Box 3.2 Recovering and rebuilding from recent floods in Queensland and New South Wales

The recent floods in parts of Queensland and New South Wales have had a devasting impact on many communities. The Government expects to spend more than $6 billion on disaster relief and recovery as a result of these floods, including:

- $2.2 billion to households for income support, temporary accommodation and social services
- $665.0 million to businesses and farmers for repairs, new equipment and support services
- $588.6 million for community clean-up and recovery, including $300 million from the Emergency Response Fund for recovery and post-disaster resilience initiatives.

This support is provided both through direct Commonwealth expenditure, and jointly funded measures through the Australian Government-State Disaster Recovery Funding Arrangements (DRFA).

The DRFA aim to alleviate the financial burden on states and territories for the provision of urgent financial assistance to disaster affected areas. Following a natural disaster the Australian Government may fund up to 75 per cent of the assistance provided by state and territory governments.

Assistance under the DRFA can cover emergency support for individuals, small businesses, primary producers and not-for-profit organisations, reconstruction of essential public assets (like roads and schools), clean-up costs and funding for other community recovery.

The full cost of recovery and rebuilding, including reimbursement of state expenditure, will only become clear once the damage from the floods can be assessed and may not be completely realised for some years. The expected spending includes a provision of $3.0 billion over the forward estimates to accommodate additional Commonwealth expenditure for the floods response.

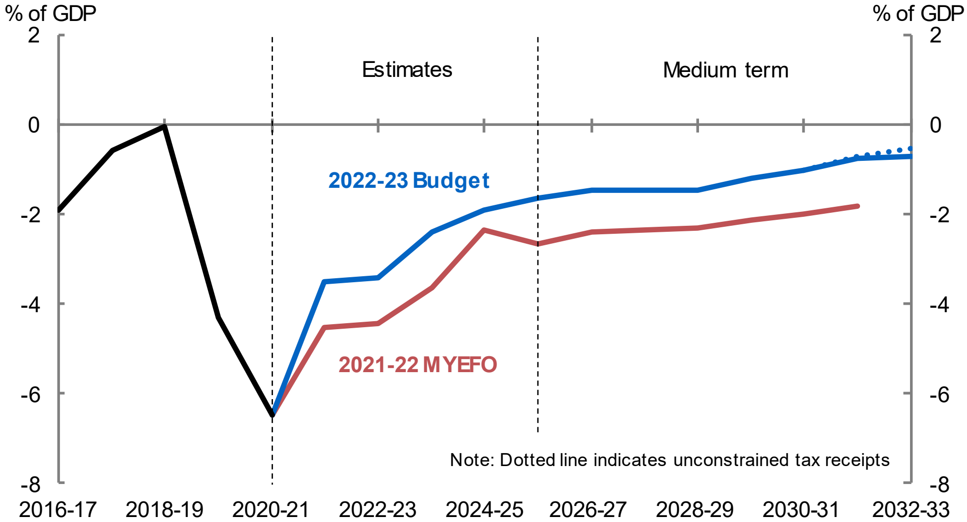
Fiscal outlook

The fiscal outlook has improved materially since MYEFO. This reflects large upgrades to tax receipts flowing from the stronger-than-anticipated labour market recovery and higher-than-assumed near term commodity prices.

Underlying cash balance estimates and projections

An underlying cash deficit of 3.4 per cent of GDP ($78.0 billion) is estimated in 2022-23, improving to an estimated deficit of 1.6 per cent of GDP ($43.1 billion) in 2025-26. The underlying cash balance is projected to continue to improve over the medium term to a deficit of 0.7 per cent of GDP in 2032-33 (Chart 3.2).

Chart 3.2: Underlying cash balance

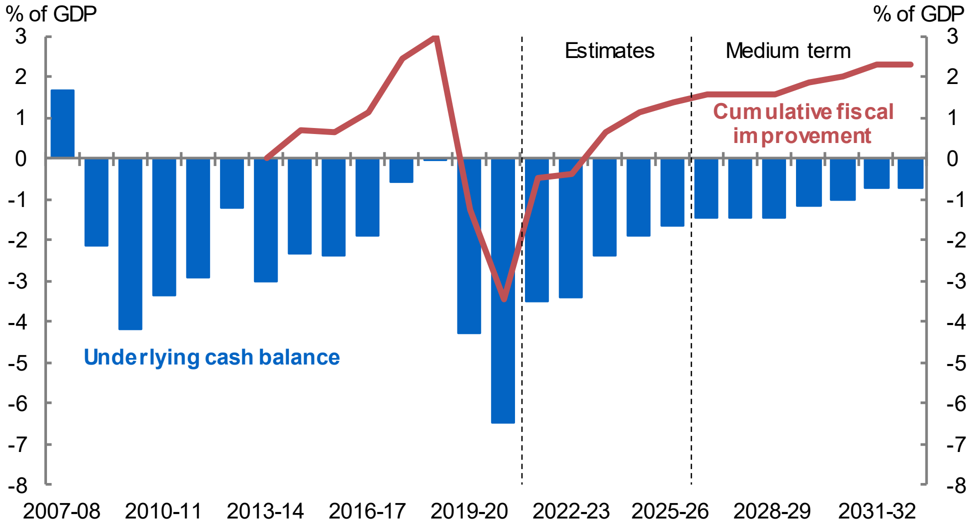


Note: The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32. Underlying cash balance projections exclude net Future Fund earnings before 2020-21.
Source: Treasury.

Cumulative fiscal improvement since 2013-14

While the fiscal cost of the pandemic has been substantial, a strong economic outlook and adherence to the Economic and Fiscal Strategy is expected to underpin ongoing improvements in the fiscal position. Having peaked in 2020-21, the deficit in the underlying cash balance is now expected to narrow to 1.6 per cent of GDP by the end of the forward estimates. This would be a 1.4 per cent of GDP improvement from the underlying cash balance in 2013-14 (Chart 3.3).

Chart 3.3: Cumulative fiscal improvement from 2013-14 to 2032-33

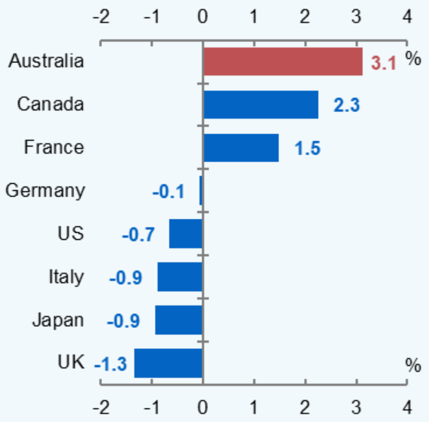


Note: Excludes net Future Fund earnings before 2020-21.
Source: Treasury.

Box 3.3: The fiscal dividend of a strong labour market recovery

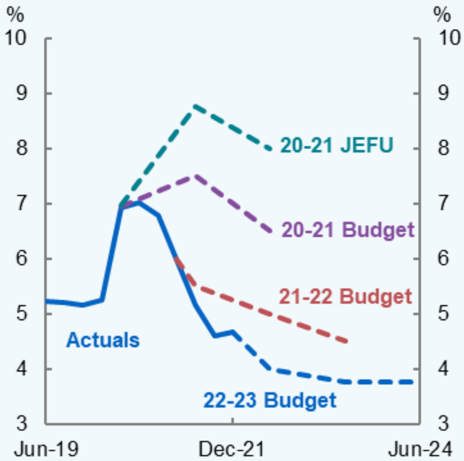
Supported by the Government's economic plan, the Australian labour market has been resilient throughout the pandemic. Employment is now 3.1 per cent above its pre-pandemic level, a greater improvement than any major advanced economy (Chart 3.4). With the labour market consistently exceeding expectations, Australia's unemployment rate forecasts have been successively revised downwards (Chart 3.5).

Chart 3.4: Employment relative to pre-pandemic levels, Australia and G7



Note: Latest available employment data.
Source: Refinitiv, National statistical agencies

Chart 3.5: Evolution of unemployment rate forecasts

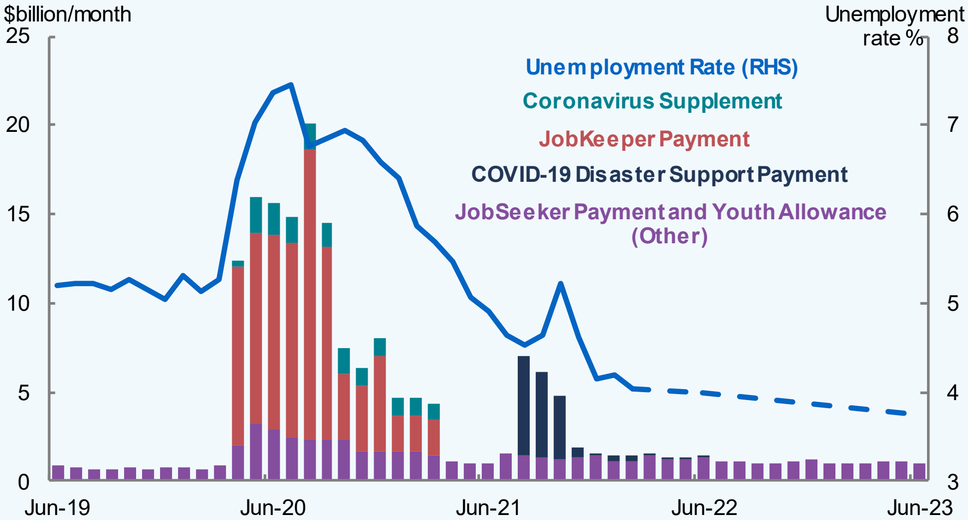


Source: Treasury, ABS Labour Force

The resilience and swift recovery of the Australian labour market was supported by the Government's carefully designed package of measures including JobKeeper and the Coronavirus supplement, and the subsequent introduction of the COVID-19 Disaster Payment. These measures provided needed income support when large parts of the economy were shut down and many people were unable to work their usual hours, while JobKeeper also helped to maintain employee-business connections. The temporary nature of these measures has ensured that economic support has tapered alongside easing health restrictions, allowing a strong private sector-led recovery in the labour market to take place (Chart 3.6).

Box 3.3: The fiscal dividend of a strong labour market recovery (continued)

Chart 3.6 Labour market payments during the pandemic

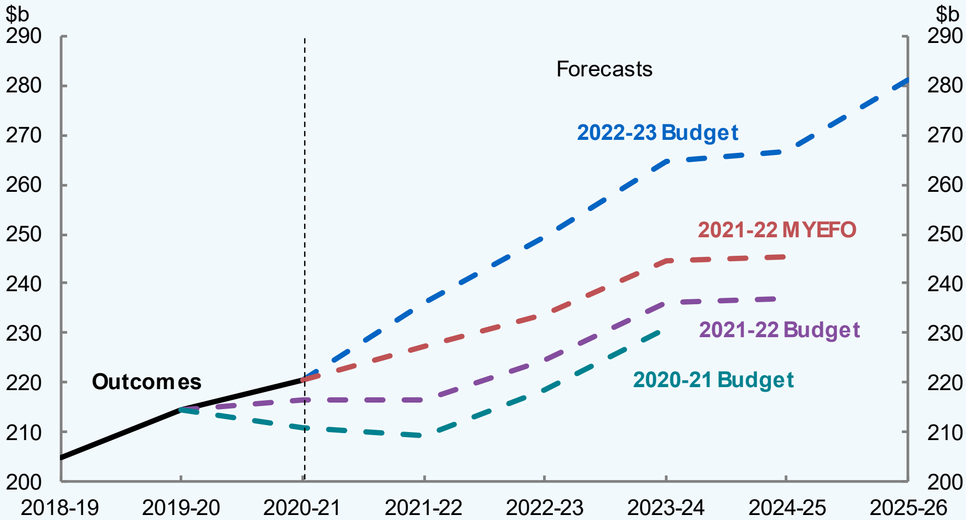


Source: Treasury, ABS Labour Force and Department of Finance.

The strong labour market performance has underpinned better fiscal outcomes. The faster-than-expected decline in the unemployment rate has seen labour market support payments taper more quickly than previously anticipated. At the same time, the stronger-than-anticipated recovery in employment and average wages has driven sizable upgrades to income tax withholding receipts (Chart 3.7). These factors alone contributed $98.5 billion of the improvement in the underlying cash balance over the 5 years to 2025-26 since MYEFO.

Box 3.3: The fiscal dividend of a strong labour market recovery (continued)

Chart 3.7: Evolution of income tax withholding forecasts

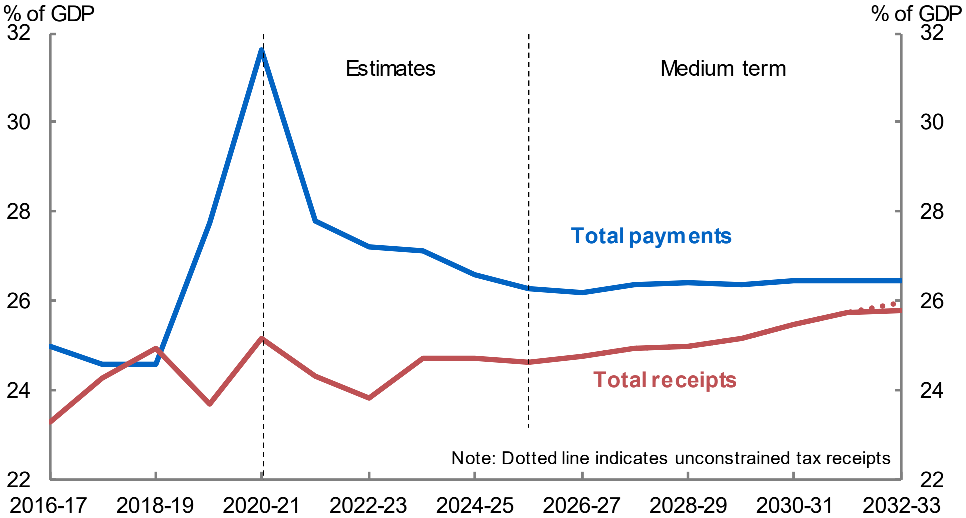


Note: Income tax withholding is collected primarily from salary and wages.
Source: Treasury.

Receipts and payments estimates and projections

Total receipts are expected to be 23.8 per cent of GDP in 2022-23 and are projected to reach 25.8 per cent of GDP in 2032-33. Total payments are expected to fall from 27.2 per cent of GDP in 2022-23 to be 26.3 per cent of GDP in 2025-26. Payments as a share of GDP are projected to remain largely stable across the medium term to be 26.5 per cent in 2032-33 (Chart 3.8).

Chart 3.8: Total payments and receipts



Note: Total receipts includes taxation and non-taxation receipts. The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32.
Source: Treasury.

Changes in the underlying cash balance over the forward estimates

Parameter and other variations have improved the underlying cash balance by $38.1 billion in 2022-23, and by $114.6 billion over the 4 years to 2025-26. Significantly higher-than-expected tax receipts have been partly offset by the effect of higher inflation and wages forecasts on payments (Table 3.3).

Policy decisions since MYEFO have reduced the underlying cash balance by $17.2 billion in 2022-23 and $30.4 billion over the 4 years to 2025-26. This includes $4.1 billion for a one-off cost of living tax offset of $420 in 2021-22, $3.0 billion to reduce the fuel excise by 50 per cent for 6 months and funding for priority road and rail projects across Australia to support economic recovery and jobs.

Table 3.3: Reconciliation of the general government sector underlying cash balance estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget underlying cash balance	**-106,619**	**-99,266**	**-79,514**	**-56,966**	*	*
Per cent of GDP	-5.0	-4.6	-3.5	-2.4	*	
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions(b)	-30,702	-6,428	-4,114	-3,556	*	*
Effect of parameter and other variations	38,075	6,835	-840	3,053	*	*
Total variations	**7,372**	**408**	**-4,954**	**-502**	*	*
2021-22 MYEFO underlying cash balance(c)	**-99,247**	**-98,859**	**-84,468**	**-57,469**	**-68,069**	**-308,864**
Per cent of GDP	-4.5	-4.4	-3.6	-2.3	-2.7	
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(b)(d)						
Receipts	*-2,342*	*-8,351*	*1,596*	*602*	*739*	*-5,415*
Payments	*6,520*	*8,822*	*5,732*	*5,814*	*4,636*	*25,004*
Total policy decisions impact on underlying cash balance	-8,861	-17,173	-4,136	-5,212	-3,898	-30,419
Effect of parameter and other variations(d)						
Receipts	*26,838*	*39,534*	*33,358*	*23,470*	*29,601*	*125,963*
Payments	*-1,449*	*1,464*	*1,287*	*7,898*	*702*	*11,351*
Total parameter and other variations impact on underlying cash balance	28,287	38,070	32,072	15,573	28,898	114,613
2022-23 Budget underlying cash balance	**-79,821**	**-77,961**	**-56,532**	**-47,108**	**-43,068**	**-224,670**
Per cent of GDP	-3.5	-3.4	-2.4	-1.9	-1.6	

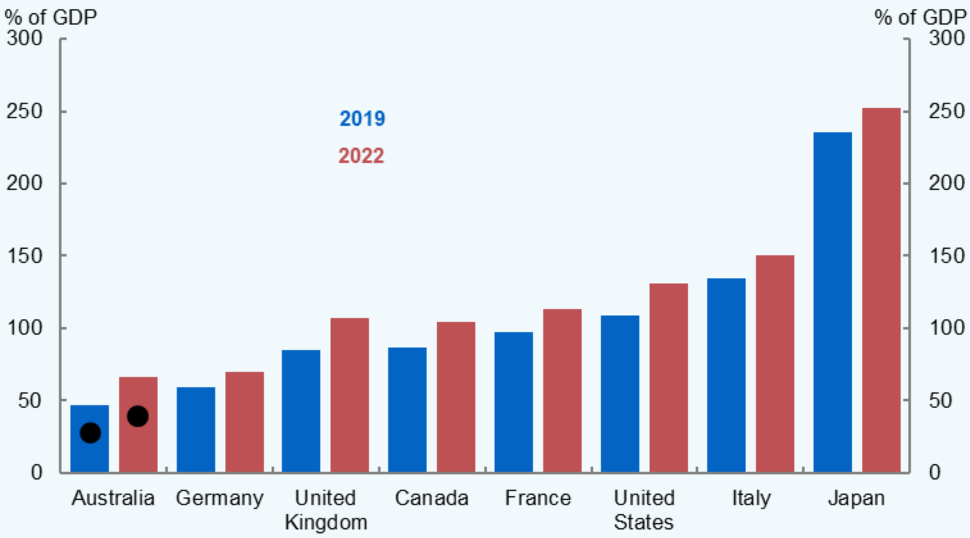
*Data is not published.
(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) 2025-26 underlying cash balance as published in the medium-term projections, page 47 of the 2021-22 MYEFO.
(d) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

Box 3.4: Australia's fiscal performance in an international context

The pandemic has left a large mark on government finances globally. General government debt as a share of GDP for the G7 economies is expected to be 17.7 percentage points higher in 2022 than in 2019, while global government debt has reached record levels at almost 100 per cent of GDP according to the IMF.

Relative to international peers, Australia entered the pandemic in a strong fiscal position with the budget in balance and our debt-to-GDP ratio lower than most other advanced economies. This strong fiscal position allowed the Government to to respond to the pandemic with a large package of health and economic measures while maintaining relatively low debt as a share of GDP (Chart 3.9).

Chart 3.9: Gross debt in Australia and G7 economies



Note: Data are prepared by the IMF and include total government debt (inclusive of state and local debt), slightly different assets and liabilities, and are prepared on a calendar year basis; they are not directly comparable to other debt metrics included in this Budget. Black dots show the Treasury estimate for Commonwealth Government gross debt as at 30 June.
Source: IMF Fiscal Monitor October 2021, Treasury.

By ensuring a swift recovery in the economy and thereby tax receipts, the mix of measures chosen by the Government has been a key factor behind Australia's relatively strong fiscal prospects (Box 3.3). In particular, countries that introduced job retention schemes such as JobKeeper have successfully preserved employment and supported incomes, according to OECD research. However, even among economies that introduced job retention schemes, Australia's recovery has been notable. By March 2021, Australia had surpassed its pre-COVID-19 levels of GDP and employment, a better outcome than all major advanced economies.

Box 3.4: Australia's fiscal performance in an international context (continued)

At the same time, the focus on policies that were temporary, targeted and proportionate has allowed government payments to taper and the budget deficit to narrow as the economy recovers. Despite the pandemic, this means Australia's fiscal position remains sound with relatively low levels of debt ensuring that borrowing costs also remain low.

The large increases in debt experienced by many countries during the pandemic will present policy challenges in the years ahead. As well as reducing the fiscal space available to address future crises, higher debt results in higher interest payments as a share of GDP and make fiscal positions more sensitive to future increases in yields.

In this context, some governments have signalled their intention to tighten fiscal policy in 2022 and 2023 as their economies have recovered, while others have yet to define specific targets or timeframes. For Australia, our strong economic recovery has allowed the Government to transition to the task of rebuilding fiscal space earlier than most other economies. Reducing debt over the medium term will help maintain Australia's status as one of just nine countries with a AAA credit rating by all 3 major rating agencies (Table 3.4).

Table 3.4: Credit Ratings of Advanced Economies

	Moody's	S&P	Fitch
Selected countries rated AAA by all 3 agencies			
Australia	AAA	AAA	AAA
Germany	AAA	AAA	AAA
Other selected countries			
Canada	AAA	AAA	AA+
France	AA	AA	AA
Italy	BBB-	BBB	BBB
Japan	A+	A+	A
United Kingdom	AA-	AA	AA-
United States	AAA	AA+	AAA

Note: Moody's data presented is S&P Equivalent.
Source: Bloomberg.

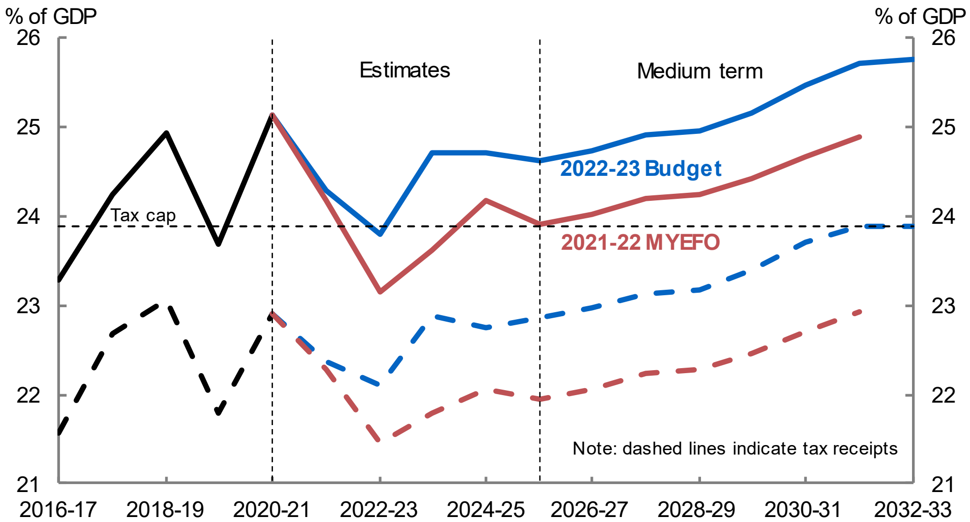
Receipts estimates and projections

Total receipts are projected to have increased since MYEFO by $31.2 billion in 2022-23, and by $120.5 billion over the 4 years to 2025-26. This reflects an expected increase in tax receipts of $126.1 billion over the 4 years to 2025-26, partly offset by a decrease in non-tax receipts. Almost three quarters of the improvement to the tax receipts outlook over the forward estimates has been led by stronger household incomes.

While returning to trend growth rates, nominal wages are projected to remain at a higher level across the medium term than at MYEFO, resulting in higher personal income tax and sustained increases in household consumption. This drives a higher tax-to-GDP ratio over the medium term, reaching the 23.9 per cent cap in 2031-32.

Total receipts are now expected to be 23.8 per cent of GDP in 2022-23 and increase over the forward estimates and medium term to reach 25.8 per cent of GDP in 2032-33. In 2022-23, tax receipts are expected to be 22.1 per cent of GDP and non-tax receipts 1.7 per cent of GDP. Tax receipts are expected to increase to 22.9 per cent of GDP in 2025-26 while non-tax receipts remain at 1.7 per cent of GDP. Tax receipts reach 23.9 per cent of GDP and non-tax receipts 1.9 per cent of GDP by 2032-33 (Chart 3.10).

Chart 3.10: Total Receipts



Note: The 2022-23 Budget projections have tax receipts reaching the 23.9 per cent tax-to-GDP cap in 2031-32.
Source: Treasury.

Receipts policy decisions

Policy decisions since MYEFO have decreased total receipts by $8.4 billion in 2022-23 and by $5.4 billion over the 4 years to 2025-26.

Policy decisions have decreased tax receipts by $7.4 billion over the 4 years to 2025-26. Key tax receipt measures include:

- Providing a one-off cost of living tax offset of $420 for the 2021-22 income year. This measure is estimated to decrease receipts by $4.1 billion over the 4 years to 2025-26
- Reducing the excise and excise equivalent customs duty rate that applies to petrol and diesel by 50 per cent for six months from 30 March 2022. The excise and excise equivalent customs duty rates for all other fuel and petroleum-based products, except aviation fuels, will also be reduced by 50 per cent for 6 months. This measure is estimated to decrease receipts by $5.6 billion over the 2 years to 2022-23, offset by an associated reduction in fuel tax credits and GST payments of $2.7 billion
- Extending the operation of the ATO Tax Avoidance Taskforce by two years to 30 June 2025. The Taskforce was established in 2016 to undertake compliance activities targeting multinationals, large public and private groups, trusts and high wealth individuals. This measure is estimated to increase receipts by $2.1 billion over the 4 years to 2025-26.

Since MYEFO, policy decisions are expected to increase non-taxation receipts by $0.5 billion in 2022-23, and by $2.0 billion over the 4 years to 2025-26, including proceeds arising from the Clean Energy Regulator allowing permit holders to exit their fixed delivery contracts held under the Emissions Reduction Fund.

Further details of Government policy decisions are provided in *Budget Paper No. 2, Budget Measures 2022-23*.

Receipts parameter and other variations

Parameter and other variations have increased total receipts since MYEFO by $39.5 billion in 2022-23 and by $126.0 billion over the 4 years to 2025-26.

The increase in total receipts due to parameter and other variations primarily reflects tax receipts, which have been revised up by $38.7 billion in 2022-23 and by $133.5 billion over the 4 years to 2025-26. The upward tax receipts revision is primarily driven by higher employment and wages leading to higher personal income tax receipts. This supports increased household consumption leading to higher GST receipts across the forward estimates. Elevated bulk commodity prices in the near term have also supported company tax receipts.

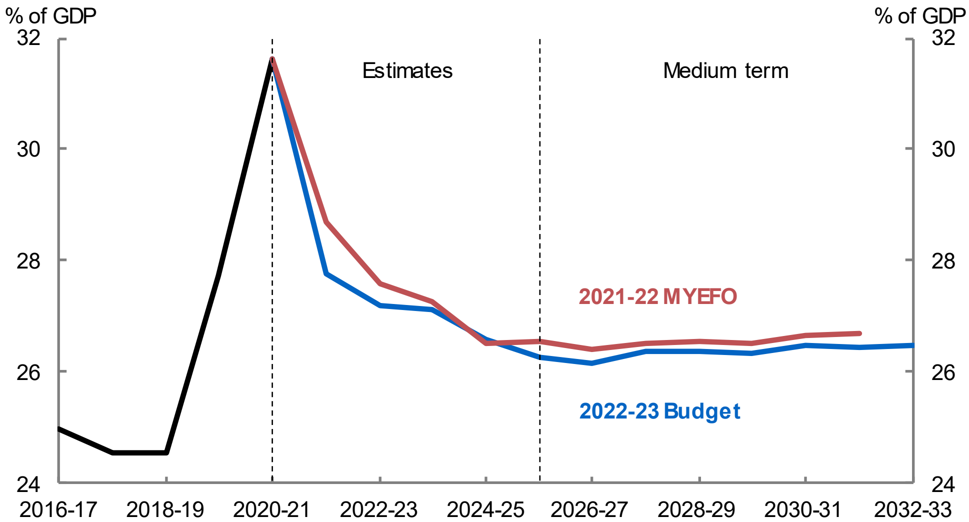
Since MYEFO, parameter and other variations are expected to increase non-taxation receipts by $0.9 billion in 2022-23, and to decrease non-taxation receipts by $7.5 billion over the 4 years to 2025-26. This is primarily due to lower expected dividends from the Reserve Bank of Australia, with the assumed rise in interest rates reducing the RBA's profits. This is partially offset by higher than expected Future Fund earnings and an increase in liquefied natural gas (LNG) royalties.

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

Payments estimates and projections

Total payments are expected to fall from 27.2 per cent of GDP in 2022-23 to be 26.3 per cent of GDP in 2025-26. Since MYEFO, total payments have increased by $10.3 billion in 2022-23 and by $36.4 billion over the 4 years to 2025-26.

Chart 3.11: Total Payments



Source: Treasury.

The Government's commitment to guaranteeing essential services, including additional investment in key priorities such as NDIS and aged care has contributed to an increase in payments as a share of the economy since prior to the pandemic. In the absence of further measures, payments as a share of the economy are currently projected to remain broadly stable across the medium term to be 26.5 per cent of GDP in 2032-33. This would see payments remaining at a higher share of the economy than pre-pandemic.

Payment policy decisions

Policy decisions since MYEFO have increased total payments by $8.8 billion in 2022-23 and by $25.0 billion over the 4 years to 2025-26.

Significant measures in this Budget include:

- funding for priority road and rail projects across Australia to support economic recovery and jobs, which is expected to increase payments by $16.8 billion over 10 years from 2021-22
- funding for expanded cyber and intelligence capability to the Australian Signals Directorate to deliver a Resilience, Effects, Defence, Space, Intelligence, Cyber and Enablers package, which is expected to increase payments by $9.9 billion over 10 years from 2022-23
- investment in nationally significant water infrastructure projects to assist in developing regional communities, which is expected to increase payments by $6.9 billion over 12 years from 2021-22, and establishing the Regional Accelerator Program to drive transformative economic growth and productivity in regional areas, which is expected to increase payments by $2.0 billion over 5 years from 2022-23
- investment in strategic projects and programs in the 4 key regions of the Northern Territory, North and Central Queensland, Pilbara region in Western Australia and the Hunter region in New South Wales, with the potential to generate significant growth and employment opportunities in existing and emerging industries. This is expected to increase payments by $7.1 billion over 11 years from 2022-23
- new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, which are expected to increase payments by $2.4 billion over 5 years from 2021-22
- funding to support communities and the recovery from the February – March 2022 floods in Queensland and New South Wales, which is expected to increase payments by $1.9 billion over 5 years from 2021-22
- provision of a $250 Cost of Living Payment to help eligible pensioners, income support recipients, veterans and concession card holders with higher cost of living pressures, which is expected to increase payments by $1.5 billion in 2021-22
- improved regional telecommunications as part of the Government's response to the *2021 Regional Telecommunications Review*, which is expected to increase payments by $1.3 billion over 6 years from 2021-22

- initiatives to reduce all forms of family, domestic and sexual violence against women and children, and to enhance support and recovery services to victims, which is expected to increase payments by $1.3 billion over 6 years from 2021-22.

In addition, since MYEFO the Government has provided funding for Rapid Antigen Tests (RATs) and Personal Protective Equipment (PPE), support to hospitals and health care services, continued funding for the distribution and uptake of COVID-19 vaccines and treatments and support for access to health care services, as it continues to address the health impacts of COVID-19, which is expected to increase payments by over $6.0 billion mainly in 2021-22 and 2022-23.

Payment parameter and other variations

Parameter and other variations since MYEFO have increased payments by $1.5 billion in 2022-23 and by $11.4 billion over the 4 years to 2025-26.

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

- payments relating to the provision of GST to the states and territories, which are expected to increase by $2.8 billion in 2022-23 ($11.5 billion over the 4 years to 2025-26), consistent with an increase in GST receipts

- payments related to Support for Seniors, which are expected to increase by $870.7 million in 2022-23 ($5.5 billion over the 4 years to 2025-26), largely reflecting a higher than projected rate of indexation

- payments relating to the Financial Support for People with Disability (Disability Support Pension), which are expected to increase by $687.0 million in 2022-23 ($4.2 billion over the 4 years to 2025-26), largely reflecting more Australians receiving support payments and staying on the payment longer

- payments to the states and territories for non-government schools, which are expected to increase by $167.3 million in 2022-23 ($834.9 million over the 4 years to 2025-26), reflecting increased student enrolments in 2021

- payments to the states and territories for public hospitals, which are expected to increase by $92.1 million in 2022-23 ($781.4 million over the 4 years to 2025-26), largely reflecting growth in the volume of hospital services

- payments related to the Pharmaceutical Benefits Scheme (PBS), which are expected to increase by $174.2 million in 2022-23 ($537.2 million over the 4 years to 2025-26), largely reflecting volume increases for subsidised medicines, offset by increases to receipts.

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

- payments relating to the Job Seeker Income Support program, which are expected to decrease by $1.8 billion in 2022-23 ($7.7 billion over the 4 years to 2025-26), largely reflecting a lower-than-expected number of recipients due to stronger labour market projections as the economy recovers from the COVID-19 pandemic

- payments to the states and territories for government schools, which are expected to decrease by $138.2 million in 2022-23 ($796.5 million over the 4 years to 2025-26), reflecting decreased student enrolments in 2021.

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 5: Expenses and Net Capital Investment*.

A significant proportion of Government spending is adjusted at each update to reflect changes in economic parameters (including prices and wages, unemployment and foreign exchange rates). Table 3.5 shows the impact of improved economic conditions on payments. Prices and wages have increased payments by $19.3 billion over the 4 years to 2025-26, while lower unemployment forecasts have reduced payments by $5.3 billion over the 4 years to 2025-26.

Table 3.5: Reconciliation of payments estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 MYEFO payments(b)	**631,377**	**615,308**	**634,721**	**648,634**	**681,629**	**2,580,292**
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(c)(e)	6,520	8,822	5,732	5,814	4,636	25,004
Effect of economic parameter variations						
Total economic parameter variations(e)	307	5,285	7,219	7,237	8,497	28,238
Unemployment benefits	*-70*	*-507*	*-1,185*	*-1,660*	*-1,991*	*-5,344*
Prices and wages	*40*	*2,593*	*4,549*	*5,540*	*6,631*	*19,313*
Interest and exchange rates	*30*	*434*	*639*	*763*	*935*	*2,771*
GST payments to the States	*308*	*2,766*	*3,216*	*2,595*	*2,923*	*11,499*
Program specific parameter variations(e)	5,370	-1,315	749	748	598	781
Other variations(d)(e)	-7,127	-2,507	-6,682	-87	-8,393	-17,668
Total variations	**5,070**	**10,285**	**7,019**	**13,712**	**5,339**	**36,355**
2022-23 Budget payments	**636,448**	**625,594**	**641,740**	**662,346**	**686,968**	**2,616,647**

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) 2025-26 payments as published in the medium-term projections, page 48 of the 2021-22 MYEFO.
(c) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(d) Includes public debt interest (including secondary impacts on public debt interest of policy decisions), changes in the conservative bias allowance component in the Contingency Reserve and impacts of changes in program payments for a range of reasons including movement of funds and re-profiling.
(e) A positive number for payments worsens the underlying cash balance.

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 3.6 provides further details of differences between the underlying and headline cash balance estimates.

A headline cash deficit of $90.8 billion (3.9 per cent of GDP) is estimated in 2022-23, improving to an estimated deficit of $49.9 billion (1.9 per cent of GDP) in 2025-26 (Table 3.6). This compares with a deficit of $111.1 billion (5.0 per cent of GDP) in 2022-23 estimated at MYEFO.

Net cash flows from investments in financial assets for policy purposes have decreased by $0.6 billion in 2022-23 compared to estimates at MYEFO.

Table 3.6: Reconciliation of general government sector underlying and headline cash balance estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2022-23 Budget underlying cash balance	**-79,821**	**-77,961**	**-56,532**	**-47,108**	**-43,068**	**-224,670**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-3,454	-3,812	-3,684	-3,395	-2,980	-13,871
NBN loan(b)	5,825	0	7,375	0	0	7,375
Trade support loans	-124	-130	-145	-129	-107	-511
CEFC loans and investments	-891	-693	-335	-454	-195	-1,677
Northern Australia Infrastructure Facility	-487	-1,145	-1,956	-1,533	-728	-5,362
Australian Business Securitisation Fund	-648	-251	-501	-502	-3	-1,257
Structured Finance Support Fund	1,218	400	139	0	0	539
Drought and rural assistance loans	-1,912	-252	-88	-73	-30	-442
Official Development Assistance - Multilateral Replenishment	-135	-128	-132	-139	-193	-592
National Housing Finance and Investment Corporation	35	-169	-146	193	-24	-146
COVID-19 Support for Indonesia – loan	100	100	100	100	100	400
Financial Assistance to Papua New Guinea – loan	-614	72	72	72	72	288
Net other(c)	-4,861	-6,849	-4,572	-4,270	-2,731	-18,422
Total net cash flows from investments in financial assets for policy purposes	**-5,949**	**-12,857**	**-3,873**	**-10,130**	**-6,818**	**-33,679**
2022-23 Budget headline cash balance	**-85,770**	**-90,819**	**-60,406**	**-57,238**	**-49,887**	**-258,350**

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) This financial profile represents the actual repayments for 2021-22. 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 that have not been itemised for commercial-in-confidence reasons.

The Government's balance sheet

The balance sheet measures changes in the value of the Government's assets and liabilities over time. Balance sheet measures capture the sustainability of government operations which is key to the Economic and Fiscal Strategy. Balance sheet measures have broadly improved since MYEFO, reflecting improvements in the underlying cash balance over the forward estimates and medium term. Together, these measures indicate that the Government's fiscal position remains sustainable.

Different balance sheet metrics measure different groupings of assets and liabilities.

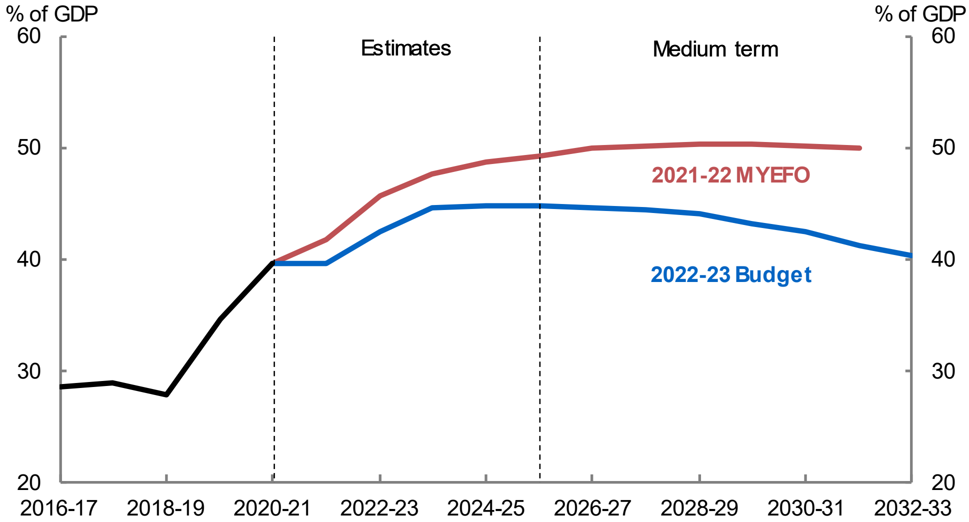
- Gross debt measures the face value of Australian Government Securities (AGS) on issue. This is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.
- Net debt is measured at market value and incorporates specific financial assets and liabilities and provides a broader measure of the financial obligations of the Government than gross debt.
- Net financial worth 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 worth is the sum of all assets less all liabilities. It includes non–financial assets such as buildings and plant, equipment, and infrastructure.

Further information on the definitions of these metrics is available in *Statement 9: Australian Government Budget Financial Statements*.

Gross debt estimates and projections

Estimates of gross debt as a share of GDP have been successively revised downwards at each update since 2020-21 Budget. Very strong nominal GDP growth in 2021-22 has resulted in the profile for gross debt as a share of GDP remaining flat between 2020-21 and 2021-22, despite the budget deficit. Gross debt is now expected to peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than at MYEFO. Gross debt is projected to decline to 40.3 per cent of GDP by the end of the medium term, 9.6 percentage points or $236 billion lower than expected at MYEFO.

Chart 3.12: Gross debt



Source: Australian Office of Financial Management, Treasury.

Since MYEFO, yields have increased with the 10-year bond yield rising from 1.8 to 2.3 per cent. The rise in yields is due to the economic recovery and an increase in expectations for inflation and official interest rates, both domestically and globally. Despite an assumption that yields will rise further over time, debt servicing costs are projected to remain relatively low, with net interest payments rising marginally from 0.7 per cent of GDP in 2022-23 to 0.8 per cent of GDP by the end of the medium term.

The relatively modest impact on debt servicing costs over time primarily reflects 2 factors.[1] First, the cumulative financing requirement through to the end of the medium term has almost halved since MYEFO. Second, the rise in yields only affects the cost of new issuance. Over the past decade, the Australian Office of Financial Management (AOFM) has extended the average maturity of the debt portfolio, reducing the proportion of existing debt needing to be refinanced at market yields.[2] This has seen the weighted average term to maturity on the stock of Treasury Bonds rise from 4.8 years in 2009-10 to around 7.2 years now.

The AOFM has issued over $360 billion of Treasury Bonds since the beginning of the pandemic in March 2020. This was done at historically low interest rates, with a weighted average yield across this issuance of around 1 per cent.

1 For further information on yield assumptions, see Box 2 in Budget Paper No. 1 *Statement 7: Debt Statement* in the 2020-21 Budget.

2 For further information on actions to extend the yield curve, see Box 3.2 in Budget Paper No. 1 *Statement 3: Fiscal Strategy and Outlook* in the 2021-22 Budget.

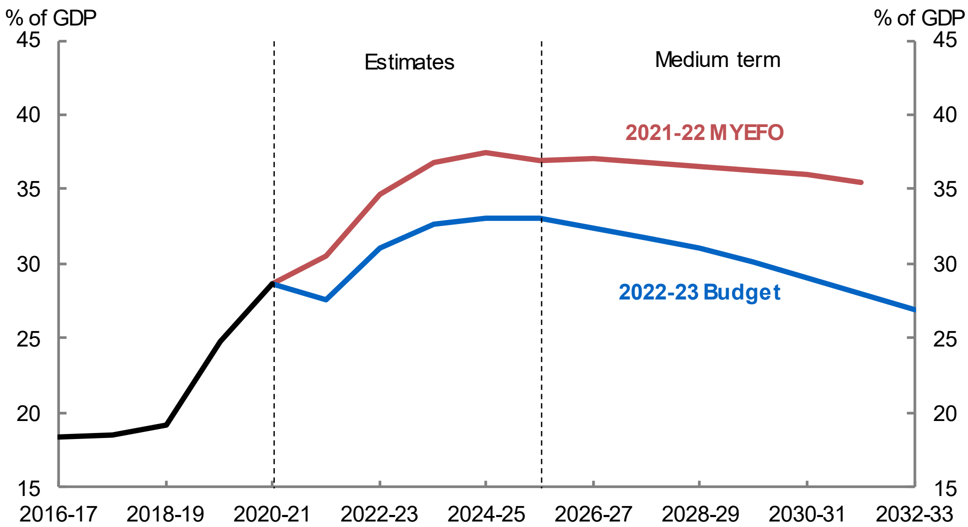
With economic growth projected to exceed the average yield on the debt portfolio for some time, gross debt is projected to stabilise in the forward estimates and decline over the medium term notwithstanding ongoing deficits (Chart 3.12). *Statement 7: Sensitivity Analysis* contains information on the impact on gross debt if the future trajectory for yields is higher or lower than projected.

Net debt estimates and projections

Net debt is estimated to decrease from 28.6 per cent of GDP in 2020-21 to 27.6 per cent of GDP in 2021-22, in part due to very strong nominal GDP growth. Net debt is estimated to be 31.1 per cent of GDP ($714.9 billion) at 30 June 2023 (Table 3.7), lower than the estimate of 34.7 per cent of GDP ($773.1 billion) at MYEFO. This primarily reflects the Government's decreased borrowing requirement resulting from the expected improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields.

Net debt is expected to stabilise at 33.1 per cent of GDP at the end of the forward estimates, before improving over the medium term to reach 26.9 per cent of GDP at 30 June 2033 (Chart 3.13). Net debt as a share of the economy is expected to be lower across the forward estimates and medium term than projected at MYEFO.

Chart 3.13: Net debt



Source: Treasury.

Further information on gross debt and net debt is provided in *Statement 6: Debt Statement*.

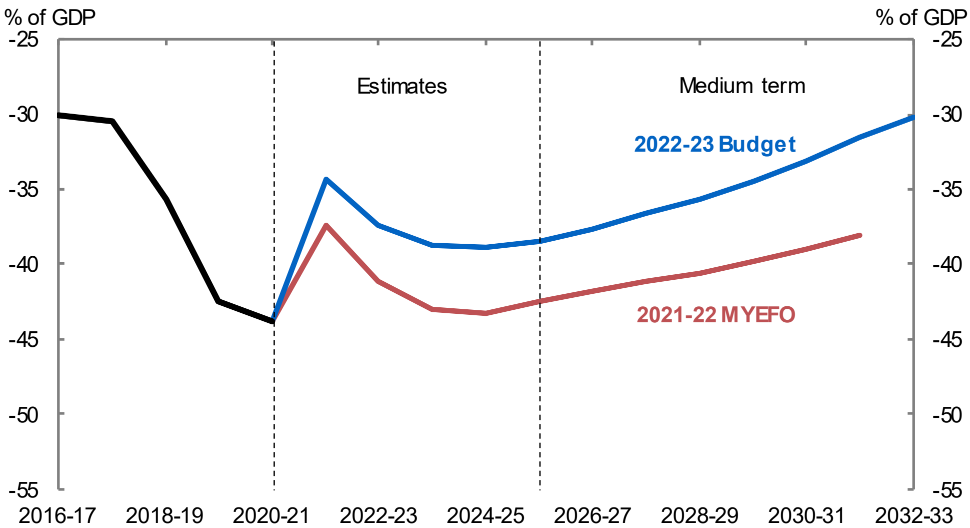
Net financial worth and net worth estimates and projections

Net financial worth is estimated to be -37.4 per cent of GDP (-$859.3 billion) at 30 June 2023 (Table 3.7), compared with the estimate of -41.2 per cent of GDP (-$919.0 billion) at MYEFO.

Net financial worth is expected to deteriorate to –38.9 per cent of GDP at 30 June 2025 before improving thereafter to reach -30.2 per cent of GDP by the end of the medium term (Chart 3.14). At MYEFO, net financial worth was projected to be -38.1 per cent of GDP at 30 June 2032.

The improvement in net financial worth between 30 June 2021 and 30 June 2022 is largely due to a decrease in the value of the Government's defined benefit superannuation liability. This reflects the different discount rates used to value the liability between Budgets and Final Budget Outcomes (see 2020-21 Final Budget Outcome: *Part 1* for more detail).

Chart 3.14: Net financial worth



Source: Treasury.

Net worth is estimated to be -28.6 per cent of GDP (-$657.5 billion) at 30 June 2023 (Table 3.7), compared with the estimate of -32.1 per cent of GDP (-$716.9 billion) at MYEFO. Net worth is projected to deteriorate to -30.0 per cent of GDP at 30 June 2025 before improving to reach –21.6 per cent of GDP at the end of the medium term.

Table 3.7: Australian Government general government sector balance sheet aggregates

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b	$b
Financial assets	**547.0**	**566.0**	**575.5**	**610.3**	**636.1**	**659.6**
Per cent of GDP	26.5	24.7	25.0	25.8	25.5	25.2
Non-financial assets	**180.7**	**191.6**	**201.8**	**211.5**	**220.2**	**227.5**
Per cent of GDP	8.7	8.4	8.8	8.9	8.8	8.7
Total assets	**727.7**	**757.6**	**777.2**	**821.7**	**856.2**	**887.1**
Per cent of GDP	35.2	33.1	33.8	34.7	34.4	33.9
Total liabilities	**1,453.0**	**1,352.6**	**1,434.8**	**1,528.3**	**1,604.2**	**1,666.2**
Per cent of GDP	70.3	59.0	62.4	64.6	64.4	63.7
Net worth	**-725.2**	**-595.0**	**-657.5**	**-706.5**	**-747.9**	**-779.1**
Per cent of GDP	-35.1	-26.0	-28.6	-29.9	-30.0	-29.8
Net financial worth(a)	**-905.9**	**-786.6**	**-859.3**	**-918.0**	**-968.1**	**-1,006.6**
Per cent of GDP	-43.8	-34.3	-37.4	-38.8	-38.9	-38.5
Gross debt(b)	**817.0**	**906.0**	**977.0**	**1,056.0**	**1,117.0**	**1,169.0**
Per cent of GDP	39.5	39.5	42.5	44.6	44.9	44.7
Net debt(c)	**592.2**	**631.5**	**714.9**	**772.1**	**823.3**	**864.7**
Per cent of GDP	28.6	27.6	31.1	32.6	33.1	33.1
Total interest payments	**17.1**	**17.5**	**17.9**	**20.3**	**21.6**	**26.3**
Per cent of GDP	0.8	0.8	0.8	0.9	0.9	1.0
Net interest payments(d)	**14.3**	**14.9**	**15.1**	**16.9**	**18.0**	**22.4**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7	0.9

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Gross debt measures the face value of Australian Government Securities (AGS) on issue.
(c) Net debt is 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).
(d) Net interest payments are equal to the difference between interest payments and interest receipts. The increase in 2025-26 primarily reflects a Treasury Indexed Bond maturing in that year (details can be found in *Statement 6: Debt Statement*).

Other fiscal aggregates

The following section presents alternative measures of the Government's fiscal position, including, accrual, structural budget balance and primary balance estimates.

Accrual aggregates

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.

The net operating balance is expected to be a deficit of $67.5 billion (2.9 per cent of GDP) in 2022-23 (Table 3.8), compared to an expected deficit of $86.0 billion (3.9 per cent of GDP) in MYEFO. The net operating balance has improved by $52.5 billion over the 3 years to 2024-25 since MYEFO.

Table 3.8: Australian Government general government sector accrual aggregates

	Actual	Estimates					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Revenue	**523.0**	**566.4**	**560.9**	**595.7**	**621.7**	**655.2**	**2,433.6**
Per cent of GDP	25.3	24.7	24.4	25.2	25.0	25.1	
Expenses	**651.9**	**639.6**	**628.5**	**643.8**	**665.4**	**686.8**	**2,624.5**
Per cent of GDP	31.5	27.9	27.3	27.2	26.7	26.3	
Net operating balance	**-128.9**	**-73.2**	**-67.5**	**-48.2**	**-43.6**	**-31.6**	**-190.9**
Per cent of GDP	-6.2	-3.2	-2.9	-2.0	-1.8	-1.2	
Net capital investment	**7.2**	**11.1**	**11.3**	**10.6**	**7.4**	**8.2**	**37.5**
Per cent of GDP	0.3	0.5	0.5	0.4	0.3	0.3	
Fiscal balance	**-136.1**	**-84.2**	**-78.8**	**-58.8**	**-51.1**	**-39.8**	**-228.4**
Per cent of GDP	-6.6	-3.7	-3.4	-2.5	-2.1	-1.5	

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

Table 3.9 provides a reconciliation of net operating balance estimates, including the impact of policy decisions and parameter and other variations on revenue and expenses since MYEFO. The drivers of movements in the net operating balance estimates are largely the same as for the underlying cash balance.

Table 3.9: Reconciliation of general government sector net operating balance estimates

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
2021-22 Budget net operating balance	**-92,713**	**-90,233**	**-70,178**	**-55,736**	*	*
Per cent of GDP	-4.3	-4.1	-3.1	-2.3		
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions(b)	-31,653	-6,012	-4,021	-3,353	*	*
Effect of parameter and other variations	33,056	10,272	1,585	5,853	*	*
Total variations	**1,403**	**4,260**	**-2,436**	**2,501**	*	*
2021-22 MYEFO net operating balance	**-91,310**	**-85,973**	**-72,614**	**-53,235**	*	*
Per cent of GDP	-4.1	-3.9	-3.1	-2.2		
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(b)(c)						
Revenue	*-2,379*	*-8,318*	*2,305*	*1,081*	*260*	*-4,672*
Expenses	*5,673*	*7,897*	*5,852*	*6,094*	*5,265*	*25,108*
Total policy decisions impact on net operating balance	-8,052	-16,214	-3,547	-5,013	-5,005	-29,780
Effect of parameter and other variations(c)						
Revenue	*26,268*	*38,924*	*29,386*	*23,337*	*	*
Expenses	*58*	*4,259*	*1,398*	*8,717*	*	*
Total parameter and other variations impact on net operating balance	26,209	34,665	27,987	14,620	*	*
2022-23 Budget net operating balance	**-73,153**	**-67,522**	**-48,174**	**-43,629**	**-31,607**	**-190,931**
Per cent of GDP	-3.2	-2.9	-2.0	-1.8	-1.2	
Net capital investment						
Effect of net capital investment(d)	11,092	11,319	10,580	7,443	8,172	37,515
2022-23 Budget fiscal balance	**-84,245**	**-78,841**	**-58,754**	**-51,072**	**-39,779**	**-228,447**
Per cent of GDP	-3.7	-3.4	-2.5	-2.1	-1.5	

*Data is not available.

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens the fiscal balance.

Revenue estimates

Total revenue has been revised up by $30.6 billion in 2022-23 and by $86.7 billion over the 3 years to 2024-25 since MYEFO. The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors as receipts.

Revenue amounts are usually higher than the cash equivalents as they include amounts that a taxpayer is liable to pay but has not paid. The differences between the accrual and cash amounts therefore generally reflect timing differences.

Expense estimates

Total expenses have been revised up by $12.2 billion in 2022-23 and by $34.2 billion over 3 years to 2024-25 since MYEFO. The expenses estimates are the accrual accounting equivalent of the cash-based payments estimates.

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

- Superannuation benefits programs (civilian and military), 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.

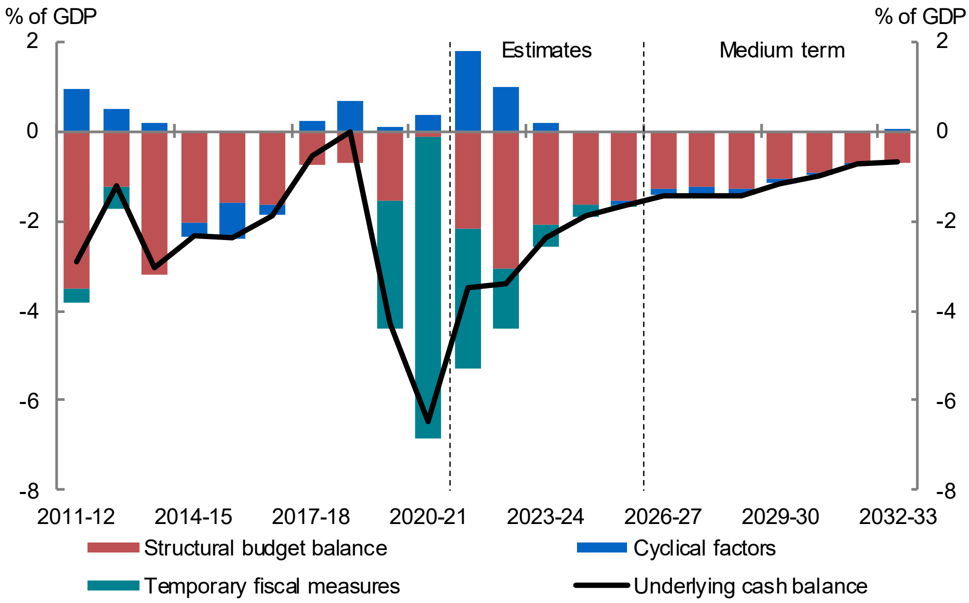
Detailed information on expenses can be found in *Statement 5: Expenses and Net Capital Investment.*

Structural budget balance estimates

Estimates of the structural budget balance adjust for temporary factors that influence the underlying cash balance. By removing these factors, the structural budget balance can provide broad insights into the sustainability of fiscal settings. Because it is estimated rather than observed, the structural budget balance is sensitive to the assumptions and parameters that underpin it. Due to the pandemic and recent volatility in commodity prices, there is greater than usual uncertainty around estimates of the structural budget balance.

The underlying cash balance is projected to steadily improve over the forward estimates as temporary fiscal support measures unwind (Chart 3.15). Cyclical factors are estimated to contribute to the underlying cash balance in the near term, driven by commodity prices which are expected to be well above their assumed long-run levels. This positive contribution is projected to recede as commodity prices return to their assumed long-run levels, in line with the prudent approach adopted in the Budget, and economic activity returns to its potential level.

Chart 3.15: 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 selected direct economic and health support measures implemented following the onset 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.

The structural budget balance has undergone a deterioration since the onset of the pandemic, with a deficit projected to persist over the forward estimates and medium term. This reflects the major investment in essential services that the Government has undertaken in recent years in areas such as the NDIS and aged care. An increase in interest payments also contributes to the higher payments profile over the medium term, reflecting the increased levels of debt accumulated as a result of the pandemic.

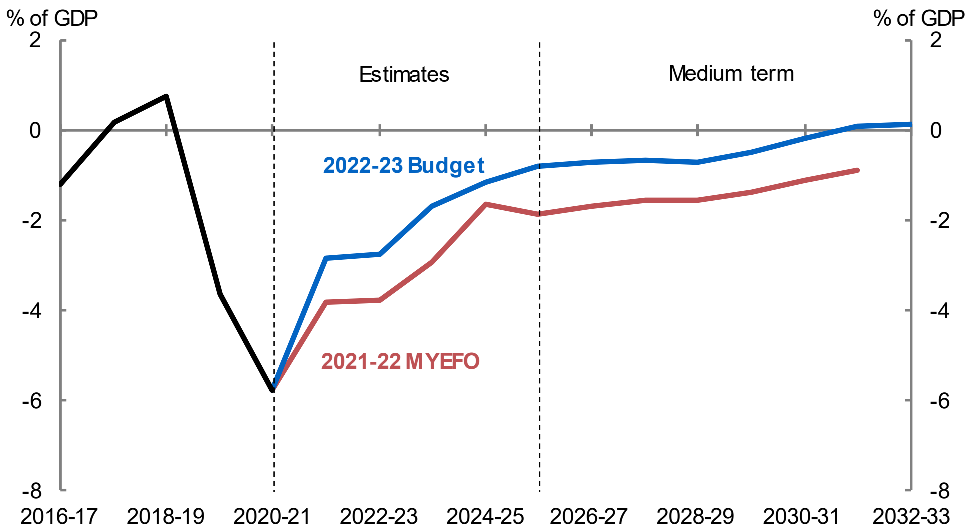
The structural budget deficit is smaller across the forward estimates and medium term than estimated in MYEFO. This largely reflects a stronger outlook for economic conditions and labour income compared with MYEFO, which drive higher tax receipts. The structural budget balance is projected to improve over the medium term, consistent with the outlook for the underlying cash balance.

Primary balance estimates

The primary balance includes the same expenditure and receipts as the underlying cash balance but excludes interest payments and receipts. By excluding net interest, the primary balance can highlight imbalances between government receipts and spending.

The primary balance is expected to be a deficit of 2.7 per cent of GDP ($62.9 billion) in 2022-23 and improve to a deficit of 0.8 per cent of GDP ($20.7 billion) in 2025-26. The primary balance is projected to improve to a surplus of 0.1 per cent of GDP by the end of the medium term, compared to a deficit of 0.9 per cent of GDP at MYEFO (Chart 3.16).

Chart 3.16: Primary cash balance



Source: Treasury.

Statement 4: Revenue

Despite ongoing impacts of the COVID-19 pandemic, the Australian economy continues to outperform expectations, and the outlook for revenue has improved substantially.

Parameter and other variations since MYEFO have increased expected tax receipts by $133.5 billion over the 4 years to 2025-26. Almost three quarters of the improvement to the outlook since MYEFO has been led by stronger household incomes, with a tightening labour market and higher average wages driving stronger personal income tax and GST receipts across the forward estimates and into the medium-term. In the near-term, strong bulk commodity prices are supporting company tax receipts.

Policy decisions in this Budget will ease cost of living pressures through temporary, targeted and responsible action. Policy decisions taken since MYEFO reduce tax receipts by $7.4 billion over the 4 years to 2025-26.

After accounting for policy decisions, total tax receipts have been revised up in each year of the forward estimates and by a total of $126.1 billion (or 6.0 per cent) over the 4 years to 2025-26.

In 2021-22, tax receipts as a share of GDP are expected to be 22.4 per cent, around 1.5 percentage points higher than the 2021-22 Budget estimate of 20.9 per cent. Tax receipts as a share of GDP are expected to be 22.9 per cent in 2025-26, the final year of the forward estimates.

As a result of the stronger outlook, which reflects both the success of the Government's economic plan and the resilience of the Australian economy, tax receipts in 2021-22 are now expected to exceed the levels forecast in the 2019-20 MYEFO, prior to the onset of the COVID-19 pandemic.

There remains considerable uncertainty around the implications for the revenue estimates associated with the unfolding events in Ukraine and Russia. In addition, while its ongoing impacts are expected to be moderate, COVID-19 remains a risk to the outlook.

Contents

Statement 4: Revenue

Overview

The outlook for the Australian economy has strengthened. The stronger-than-expected labour market coupled with higher commodity prices has translated into significantly higher receipts in 2021-22 than expected at MYEFO and the 2021-22 Budget. Falling unemployment and an improved outlook for average earnings has resulted in upward revisions to receipts across the forward estimates.

Tax receipts across the three months to February are $12.6 billion above MYEFO forecasts for the 2021-22 financial year. This is driven by a strong domestic economy, with the equal lowest unemployment rate since 1974 driving higher personal income tax, elevated near-term commodity prices increasing company tax receipts, and strong on-assessment outcomes from the 2020-21 income year across individuals, companies and superannuation funds.

As a result of the stronger outlook, tax receipts are now expected to exceed the levels forecast prior to the onset of the COVID-19 pandemic in the 2019-20 MYEFO for the 2021-22 financial year. This reflects the success of the Government's economic response to COVID-19, including direct economic support that has been highly effective at sustaining both labour market connections and household and small business incomes, as well as strong near-term commodity prices.

Policy decisions since MYEFO reduce tax receipts by $7.4 billion over the 4 years to 2025-26. For more details on policy decisions, see Budget Statement 1 and Budget Paper No. 2.

While total tax receipts in 2022-23 are significantly higher than expected at MYEFO, tax receipts are forecast to decrease by 0.8 per cent in 2022-23 compared to 2021-22, largely the result of the assumed decline in commodity prices. Tax receipts are then expected to grow by 4.0 per cent on average over the 4 years to 2025-26 (Table 4.1).

Table 4.1: Australian Government general government receipts

	Actual	Estimates(a)				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b	$b
Total taxation receipts ($b)	**473.9**	**512.5**	**508.4**	**541.8**	**566.6**	**598.2**
Growth on previous year (%)	9.7	8.2	-0.8	6.6	4.6	5.6
Per cent of GDP	22.9	22.4	22.1	22.9	22.8	22.9
Tax receipts excluding GST ($b)	**400.8**	**439.8**	**429.0**	**458.9**	**480.1**	**507.9**
Growth on previous year (%)	7.9	9.7	-2.4	7.0	4.6	5.8
Per cent of GDP	19.4	19.2	18.7	19.4	19.3	19.4
Non-taxation receipts ($b)	**46.1**	**44.1**	**39.2**	**43.5**	**48.6**	**45.7**
Growth on previous year (%)	22.4	-4.2	-11.1	10.8	11.9	-6.1
Per cent of GDP	2.2	1.9	1.7	1.8	2.0	1.7
Total receipts ($b)	**519.9**	**556.6**	**547.6**	**585.2**	**615.2**	**643.9**
Growth on previous year (%)	10.8	7.1	-1.6	6.9	5.1	4.7
Per cent of GDP	25.1	24.3	23.8	24.7	24.7	24.6

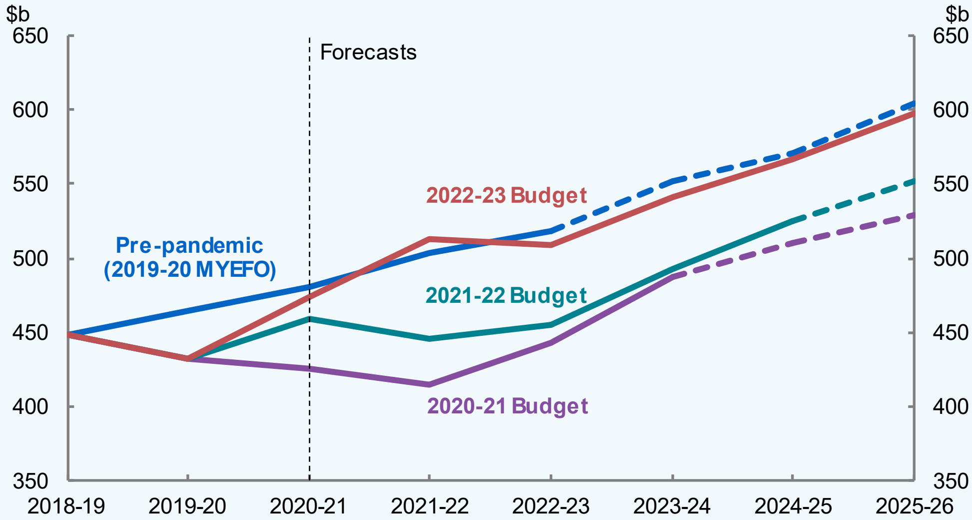
(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back cast from 2014-15 for this change.

Box 4.1: The impact of COVID-19 on taxation receipts

Tax receipts have recovered more quickly than expected and in 2021-22 are estimated to return to levels forecast prior to the pandemic (see Chart 4.1). Underpinned by the Government's economic plan and policy response, this reflects the faster-than-expected economic recovery, dampening the impact of the structural features of the tax system that operate as automatic stabilisers during a downturn, along with strong commodity prices (see *Budget 2020-21*, Box 1: Supporting households and businesses during a downturn).

The outlook for tax receipts was revised down substantially in the 2020-21 Budget. In the 2021-22 Budget, while there were expected to be short-term windfall gains due to elevated commodity prices, the increase in revenue over the medium-term was forecast to be only modestly higher.

Chart 4.1: The outlook for tax receipts at Budget updates compared to pre-pandemic forecasts (2019-20 MYEFO)



Source: Budget papers, Treasury
Note: Dashed lines indicate medium term projections.

Tax receipts are now expected to return close to pre-pandemic levels in all years. In addition to stronger-than-expected business profits in the near-term, this recovery has been led by the labour market, with a stronger outlook for employment and average wages. This is despite a smaller population due to reduced net overseas migration, although increased labour force participation has partially offset this effect.

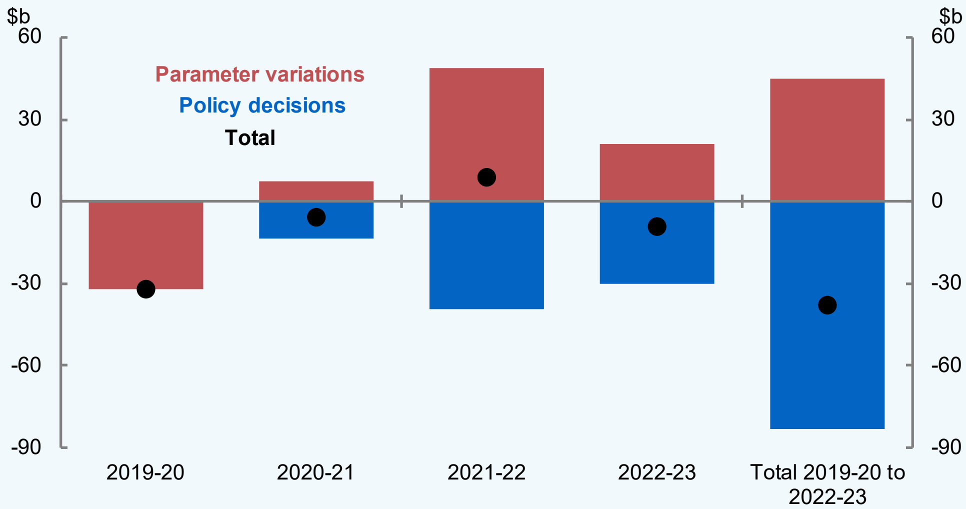
Box 4.1: The impact of COVID-19 on taxation receipts (continued)

In addition to the impact of parameter variations, the Government has also provided more than $80 billion in tax relief measures for individuals and businesses in response to the pandemic over the three years to 2022-23 (Chart 4.2).

The Government lowered taxes for individuals by bringing forward Stage 2 of the legislated Personal Income Tax Plan and retaining the low and middle income tax offset to support household incomes through to 2021-22. In this Budget, the Government has announced additional tax measures to ease cost of living pressures, including *Addressing Cost of Living Pressures – temporary reduction in fuel excise* and *Cost of living tax offset*. As these measures are all temporary, they do not have a structural impact on tax receipts.

The measures *Small Business – skills and training boost* and *Small Business – technology investment boost* included in this Budget provide further incentives for small and medium businesses to invest in technology, upskill staff and grow their business. These build on measures such as temporary loss carry-back and temporary full expensing. These measures provided a significant up-front benefit by supporting cash flow, investment, and job creation.

Chart 4.2: Policy and parameter variations compared to pre-pandemic forecasts (2019-20 MYEFO)



Source: Budget papers, Treasury

Tax receipts outlook

On the back of the faster-than-expected recovery from the COVID-19 pandemic, the outlook for the Australian economy has strengthened. This translates into an improved outlook for tax receipts which, relative to MYEFO, are forecast to be $126.1 billion (6.0 per cent) higher over the 4 years to 2025-26.

The unemployment rate is now at a multi-decade low, with the tightening labour market and wage increases expected to drive higher personal income tax receipts, and flow through to higher nominal consumption. Elevated commodity prices will also continue to support company tax receipts in the near term. Over the latter half of the forward estimates period, a significant improvement in the outlook for employment is expected to drive higher prices and wages growth, further supporting personal income tax and GST receipts.

The outlook for personal income tax receipts reflects the improved labour market outlook more broadly. Compensation of employees is stronger, supported by the recovery in employment to date, with wage growth also expected to be higher later in the forward estimates as firms compete to attract labour. This strength is partly offset by a downgrade to dividends and unincorporated business income forecasts across the forward estimates. Relative to MYEFO, individuals and other withholding taxes have been revised up by $90.0 billion over the 4 years to 2025-26.

Upgrades to the forecast for resources sector profits, largely due to ongoing strong non-rural commodity exports, are supporting an improved short-term outlook for company profits. Since MYEFO, company tax forecasts have been revised up by $9.8 billion over the 4 years to 2025-26.

Upgrades to the outlook for household consumption and dwelling investment have resulted in GST receipts being revised up by $11.4 billion over the 4 years to 2025-26. The improved outlook for household consumption combined with higher inflation expectations are driving upwards revisions to forecasts for excise and customs duties, which have been upgraded by $1.1 billion over the 4 years to 2025-26.

The improved labour market outlook, along with broad-based strength in earnings on investments held by superannuation funds, supports an improved outlook for superannuation taxes, which are forecast to be $8.6 billion higher over the 4 years to 2025-26.

Policy decisions in this Budget help to ease cost of living pressures for households and support small businesses. Policy decisions taken since MYEFO reduce tax receipts by $7.4 billion over the 4 years to 2025-26. Key policy decisions include:

- Support for individuals by providing a cost of living tax offset when they lodge their 2021-22 tax returns, reducing receipts by $4.1 billion over the 4 years to 2025-26.

- Addressing cost of living pressures through a temporary reduction in fuel excise, reducing receipts by $2.8 billion in 2021-22 and $2.9 billion in 2022-23.
- Providing businesses with a temporary technology investment boost and skills and training boost, reducing receipts by $1.6 billion over the 4 years to 2025-26.

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. The full impact of the unfolding events of the Russian invasion of Ukraine is still uncertain, presenting substantial risks to the outlook, including volatility in world commodity prices.

Variations in receipts estimates

Since MYEFO, total receipts have been revised up by $31.2 billion in 2022-23 and $120.5 billion over the 4 years to 2025-26. Table 4.2 reconciles the 2022-23 Budget estimates of total receipts with the 2021-22 Budget and 2021-22 MYEFO.

Table 4.2: Reconciliation of Australian Government general government receipts estimates from the 2021-22 Budget[(a)]

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(b)
	$m	$m	$m	$m	$m	$m
Receipts at 2021-22 Budget	**482,053**	**494,000**	**532,855**	**571,969**	*	*
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions	562	897	941	770	*	*
Effect of parameter and other variations	49,515	21,552	16,458	18,426	*	*
Total variations	**50,077**	**22,449**	**17,399**	**19,196**	*	*
Receipts at 2021-22 MYEFO	**532,130**	**516,449**	**550,254**	**591,165**	**613,560**	**2,271,428**
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions	-2,342	-8,351	1,596	602	739	-5,415
Effect of parameter and other variations	26,838	39,534	33,358	23,470	29,601	125,963
Total variations	**24,496**	**31,183**	**34,954**	**24,072**	**30,339**	**120,549**
Receipts at 2022-23 Budget	**556,626**	**547,632**	**585,208**	**615,237**	**643,900**	**2,391,977**

*Data is not published.
(a) Includes expected Future Funds earnings.
(b) Total is equal to the sum of amounts from 2022-23 to 2025-26.

Since MYEFO, parameter and other variations have increased total receipts by $39.5 billion in 2022-23 and $126.0 billion over the 4 years to 2025-26. Policy decisions reduce receipts by $5.4 billion over the 4 years to 2025-26 compared with MYEFO.

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 MYEFO, forecasts of total tax receipts have been revised up by $29.9 billion in 2022-23 and by $126.1 billion over the 4 years to 2025-26. While these upgrades are broad-based, the most significant upwards revision is to total individuals and other withholding taxes.

Table 4.3 reconciles the 2022-23 Budget estimates of tax receipts with the 2021-22 Budget and 2021-22 MYEFO.

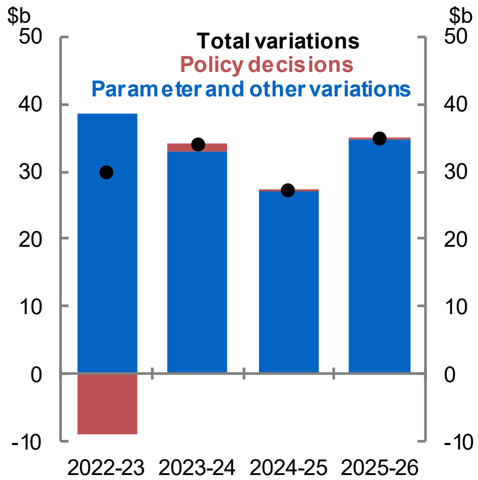
Table 4.3: Reconciliation of Australian Government general government taxation receipts estimates from the 2021-22 Budget

	Estimates(b)					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
Tax receipts at 2021-22 Budget	**445,599**	**455,328**	**493,106**	**525,353**	*	*
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions	17	649	553	493	*	*
Effect of parameter and other variations	44,872	22,551	13,950	13,625	*	*
Total variations	44,888	23,200	14,502	14,119	*	*
Tax receipts at 2021-22 MYEFO	**490,487**	**478,528**	**507,609**	**539,472**	**563,285**	**2,088,894**
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions	-2,742	-8,810	1,141	87	210	-7,372
Effect of parameter and other variations	24,735	38,682	33,008	27,066	34,739	133,494
Total variations	21,993	29,872	34,148	27,153	34,948	126,122
Tax receipts at 2022-23 Budget	**512,480**	**508,400**	**541,757**	**566,625**	**598,233**	**2,215,015**

* Data is not published.
(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.

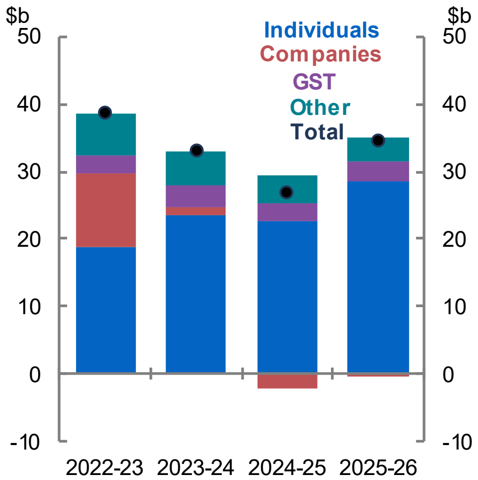
Since MYEFO, parameter and other variations are expected to increase tax receipts by $38.7 billion in 2022-23 and $133.5 billion over the 4 years to 2025-26. Policy decisions reduce tax receipts by $7.4 billion over the 4 years to 2025-26 compared with MYEFO.

Chart 4.3: Revisions to total tax receipts since MYEFO



Source: Treasury

Chart 4.4: Parameter and other variations to total tax receipts since MYEFO



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 4.4.

Table 4.4: Key economic parameters for tax receipts(a)

	Outcomes	Forecasts				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Nominal gross domestic product	4.4	10 3/4	1/2	3	5 1/4	5
Change since 2021-22 MYEFO		*4 1/4*	*- 3/4*	*-1 1/2*	*1/4*	
Compensation of employees(b)	3.3	5 1/2	6 1/4	5 1/4	5 1/4	5 1/4
Change since 2021-22 MYEFO		*2*	*2*	*1/4*	*1/4*	
Corporate gross operating surplus(c)	9.6	12 1/2	-13	-2 1/2	4 1/4	4 1/4
Change since 2021-22 MYEFO		*10 1/4*	*-4 3/4*	*-5 3/4*	*- 3/4*	
Non-farm gross mixed income	11.0	1/4	-2 1/4	3	6 3/4	6 1/2
Change since 2021-22 MYEFO		*2 3/4*	*-3 1/4*	*-3*	*1 3/4*	
Property income(d)	-2.4	8 3/4	6 1/4	8	5 3/4	5 1/2
Change since 2021-22 MYEFO		*-3 1/4*	*1/4*	*3 1/4*	*3/4*	
Consumption subject to GST	1.3	6 3/4	9 1/2	7	5 3/4	5 1/4
Change since 2021-22 MYEFO		*2 3/4*	*-3/4*	*0*	*0*	

(a) Current prices, per cent change on previous year. Changes since the 2021-22 MYEFO 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.
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 MYEFO, total individuals and other withholding taxation receipts have been revised up by $13.8 billion in 2022-23 and $90.0 billion over the 4 years to 2025-26. Individuals and other withholding taxation receipts are expected to increase by 8.3 per cent in 2021-22 and by 4.6 per cent in 2022-23.

Excluding new policy decisions, individuals and other withholding taxation receipts have been revised up by $18.9 billion in 2022-23 and $93.8 billion in the 4 years to 2025-26. This is due to higher-than-expected tax collections in 2021-22, on the back of a faster recovery in employment and higher average wages, reflecting tightening in the labour market. Strength in net capital gains and net rental income relating to prior income years also contributes to the upgrade, but this is partly offset by forecast weakness in unincorporated business income and dividend income.

New tax policy measures announced since MYEFO are expected to reduce individuals and other withholding taxation receipts by $3.8 billion over the 4 years to 2025-26. This is largely the result of the measure *Cost of living tax offset*, which will increase the low and middle income tax offset by $420 for the 2021-22 income year.

Fringe benefits tax

Since MYEFO, fringe benefits tax receipts have been revised up by $40 million in 2022-23 and $580 million over the 4 years to 2025-26. Receipts are expected to increase over the forward estimates period in line with returning strength in the revenue base due to substantial upgrades to total compensation of employees.

Company tax

Since MYEFO, company tax receipts are expected to be $10.3 billion higher in 2022-23 and $9.8 billion higher over the 4 years to 2025-26.

Compared with MYEFO, parameter and other variations account for $10.8 billion of the upgrade in the forecast for company tax receipts in 2022-23 and $9.2 billion of the upgrade over the 4 years 2025-26. Company tax receipts have been revised up significantly in 2021-22 and 2022-23 largely as a result of elevated bulk commodity 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 and coal prices. For more information on the sensitivity of company tax receipts to the terms of trade, see Budget Statement 7, Table 7.1: Sensitivity analysis of a US$10 per tonne movement in iron ore prices.

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, particularly given commodity price volatility as a result of the Russian invasion of Ukraine (Budget Statement 2 refers), as well as uncertainty around the extent to which companies will use losses incurred during the COVID-19 pandemic to offset future profits.

New tax policy measures announced since MYEFO are expected to increase company tax receipts by $0.6 billion over the 4 years to 2025-26. This is largely as a result of the extension of the ATO's Tax Avoidance Taskforce on multinationals, large corporates and high wealth individuals, which is estimated to increase total tax receipts by $2.1 billion over the 4 years to 2025-26.

The Government is also providing $1.6 billion in additional tax relief to small businesses through the 2022-23 Budget, as detailed in Box 4.2. This reduces company tax as well as personal income tax receipts over the forward estimates period.

Box 4.2: Targeted tax support for small businesses

Small businesses – those with annual turnover below $50 million – are a critical part of our economy. In 2013-14, there were around 3.3 million small businesses employing around 7.1 million people. By 2018-19, this had grown to around 3.6 million businesses, employing around 7.8 million people. Sole traders are an important part of this sector, with around 1.4 million in operation. The Government is committed to leveraging the tax system to support small businesses to invest, grow and employ more Australians.

Prior to the COVID-19 pandemic, the Government legislated a staged reduction in the company tax rate for small businesses, from 30 per cent in 2013-14 to 25 per cent from 2021-22 onwards. The incorporated small business share of total company tax paid declined in each year between 2015-16 and 2018-19. By 2018-19, these small businesses were paying 29 per cent of company tax compared with 35 per cent in 2015-16. Alongside the company tax cut, the Government has introduced and subsequently enhanced the tax discount for unincorporated small businesses. It is estimated these two legislative changes will deliver more than $21 billion in tax cuts to small businesses between 2015-16 and 2024-25, with around $2.6 billion flowing to small businesses in 2022-23.

In response to the COVID-19 pandemic, the Government introduced the *Boosting Cash Flow for Employers* measure, which supported over 820,000 eligible businesses and not-for-profit entities that employ individuals, providing around $36 billion in support to date. The Government introduced accelerated depreciation deductions and an expansion of the instant asset write-off. The accelerated depreciation deductions allow businesses with annual turnover below $5 billion to immediately deduct the full cost of eligible assets used or ready for use by 30 June 2023. This can work in combination with the loss carry-back scheme, which allows companies to obtain a tax offset or refund by offsetting losses against previously taxed profits derived in earlier years.

In this Budget, the Government is providing $1.6 billion in tax incentives for small businesses through the technology investment boost and the skills and training boost. Small businesses will be able to deduct a bonus 20 per cent of the cost of expenses and depreciating assets that support digital uptake, up to $100,000 of expenditure per year, between 7.30pm (AEDT) on 29 March 2022 and 30 June 2023. Small businesses will also have access to a bonus 20 per cent deduction for the cost of eligible external training courses for employees, which will apply between 7:30pm (AEDT) on 29 March 2022 and 30 June 2024. Small businesses also benefit from the Government's other initiatives to encourage innovation such as the patent box (which has been extended in this Budget) and the Research and Development Tax Incentive.

Superannuation fund taxes

Since MYEFO, superannuation fund tax receipts have been revised up by $3.0 billion in 2022-23 and $8.6 billion across the 4 years to 2025-26. Tax receipts from superannuation funds are expected to grow strongly, by 89.6 per cent in 2021-22 but then decrease by 36.2 per cent in 2022-23.

This reflects strong outcomes from prior income years, including substantial one-off strength in capital gains. Superannuation fund tax receipts are then supported by higher employment earnings leading to higher tax on contributions as well as a decline in forecast franking credits from dividends affecting 2022-23 and 2023-24.

Petroleum resource rent tax (PRRT)

Since MYEFO, PRRT receipts have been revised up by $1.0 billion in 2022-23, and by $4.0 billion over the 4 years to 2025-26, consistent with significantly higher recent oil prices. PRRT receipts are forecast to increase by 110.0 per cent in 2021-22 and by 45.5 per cent in 2022-23.

Goods and services tax (GST)

Since MYEFO, GST receipts have been revised up by $2.6 billion in 2022-23 and by $11.4 billion over the 4 years to 2025-26. Receipts from GST are forecast to decrease by 0.2 per cent in 2021-22 and increase by 9.1 per cent in 2022-23.

Increases in GST receipts largely reflect upgrades to consumption subject to GST and private dwelling investment. Increases in employment and wages are expected to flow through to higher nominal consumption, while private dwelling investment upgrades are partly driven by near term supply chain shortages driving up prices in the construction sector.

Excise and customs duty

Since MYEFO, total excise and customs duty receipts have been revised down by $1.0 billion in 2022-23 and up by $1.1 billion over the 4 years to 2025-26. Excise and customs duties are forecast to decline by 7.6 per cent in 2021-22 but grow by 8.2 per cent in 2022-23. 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 $4.1 billion over the 4 years to 2025-26. This largely reflects the measure *Addressing Cost of Living Pressures – temporary reduction in fuel excise*, which will help reduce the burden of higher fuel prices by halving the excise for 6 months from 30 March 2022.

The 2022-23 Budget estimates continue to include provisions for the Australia-European Union Free Trade Agreement (FTA) and the Australia-India Comprehensive Economic Cooperation Agreement which have not been finalised and impact the customs duty head of revenue.

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 MYEFO, luxury car tax (LCT) receipts have been revised up by $160 million in 2022-23 and $570 million over the 4 years to 2025-26. LCT receipts are forecast to decrease by 3.7 per cent in 2021-22 and remain steady in 2022-23. This is consistent with the expectation that purchases of new motor vehicles are beginning to ease off the elevated levels recorded in 2020-21 and will moderate in the latter years of the forward estimates.

Since MYEFO, wine equalisation tax (WET) receipts have been revised up by $70 million in 2022-23, and $280 million over the 4 years to 2025-26. WET receipts are forecast to grow by 1.9 per cent in 2021-22 and by 2.6 per cent in 2022-23.

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 MYEFO, other taxes have been revised down by $29.3 million in 2022-23, and by $143.1 million over the 4 years to 2025-26. Other taxes are forecast to increase by 2.0 per cent in 2021-22 and increase by 16.0 per cent in 2022-23.

Excluding new policy decisions, other taxes have been revised up by $81.2 million in 2022-23, but revised down by $39.6 million over the 4 years to 2025-26.

Non-taxation receipts

Since MYEFO, non-taxation receipts are expected to increase by $1.3 billion in 2022-23 and decrease by $5.6 billion over the 4 years to 2025-26.

Parameter and other variations are expected to increase non-taxation receipts by $0.9 billion in 2022-23, and to decrease non-taxation receipts by $7.5 billion over the 4 years to 2025-26. This is primarily due to lower expected dividends from the Reserve Bank of Australia (RBA), with the assumed rise in interest rates reducing the

RBA's profits. This is partially offset by higher-than-expected Future Fund earnings and an increase in liquefied natural gas (LNG) royalties.

Since MYEFO, policy decisions are expected to increase non-taxation receipts by $0.5 billion in 2022-23, and by $2.0 billion over the 4 years to 2025-26, including proceeds arising from the Clean Energy Regulator allowing permit holders to exit their fixed delivery contracts held under the Emissions Reduction Fund.

Table 4.5: Reconciliation of 2021-22 general government (cash) receipts

	Estimates		Change from MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	227,400	236,300	8,900	3.9
Gross other individuals	50,300	54,200	3,900	7.8
less: Refunds	38,700	38,200	-500	-1.3
Total individuals and other withholding tax	239,000	252,300	13,300	5.6
Fringe benefits tax	3,310	3,330	20	0.6
Company tax	100,300	109,100	8,800	8.8
Superannuation fund taxes	23,210	24,560	1,350	5.8
Petroleum resource rent tax	1,400	1,650	250	17.9
Income taxation receipts	**367,220**	**390,940**	**23,720**	**6.5**
Goods and services tax	72,541	72,782	241	0.3
Wine equalisation tax	1,140	1,140	0	0.0
Luxury car tax	770	880	110	14.3
Excise and customs duty				
Petrol	5,650	4,950	-700	-12.4
Diesel	13,580	11,720	-1,860	-13.7
Other fuel products	1,640	1,510	-130	-7.9
Tobacco	13,300	12,950	-350	-2.6
Beer	2,490	2,440	-50	-2.0
Spirits	3,080	3,280	200	6.5
Other alcoholic beverages(a)	1,270	1,440	170	13.4
Other customs duty				
Textiles, clothing and footwear	190	190	0	0.0
Passenger motor vehicles	350	330	-20	-5.7
Other imports	1,290	1,340	50	3.9
less: Refunds and drawbacks	800	800	0	0.0
Total excise and customs duty	42,040	39,350	-2,690	-6.4
Major Bank Levy	1,500	1,500	0	0.0
Agricultural levies	554	600	46	8.2
Other taxes(b)	4,723	5,289	566	12.0
Indirect taxation receipts	**123,267**	**121,540**	**-1,727**	**-1.4**
Taxation receipts	**490,487**	**512,480**	**21,993**	**4.5**
Sales of goods and services	17,520	17,626	106	0.6
Interest received	2,732	2,557	-175	-6.4
Dividends and distributions(c)	7,980	9,142	1,162	14.6
Other non-taxation receipts(b)	13,411	14,821	1,411	10.5
Non-taxation receipts	**41,642**	**44,146**	**2,504**	**6.0**
Total receipts	**532,130**	**556,626**	**24,496**	**4.6**
Memorandum:				
Total excise	*24,850*	*22,370*	*-2,480*	*-10.0*
Total customs duty	*17,190*	*16,980*	*-210*	*-1.2*
Capital gains tax(d)	*24,500*	*24,100*	*-400*	*-1.6*

(a) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.
(c) ‘Dividends’ has been renamed ‘dividends and distributions’ to more accurately reflect the transactions included in this item.
(d) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes.

Table 4.6: Reconciliation of 2022-23 general government (cash) receipts

	Estimates		Change from MYEFO	
	MYEFO $m	Budget $m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	233,900	249,600	15,700	6.7
Gross other individuals	54,100	55,400	1,300	2.4
less: Refunds	37,900	41,100	3,200	8.4
Total individuals and other withholding tax	250,100	263,900	13,800	5.5
Fringe benefits tax	3,590	3,630	40	1.1
Company tax	79,900	90,200	10,300	12.9
Superannuation fund taxes	12,660	15,660	3,000	23.7
Petroleum resource rent tax	1,400	2,400	1,000	71.4
Income taxation receipts	**347,650**	**375,790**	**28,140**	**8.1**
Goods and services tax	76,861	79,432	2,571	3.3
Wine equalisation tax	1,100	1,170	70	6.4
Luxury car tax	720	880	160	22.2
Excise and customs duty				
Petrol	6,300	6,050	-250	-4.0
Diesel	14,530	12,880	-1,650	-11.4
Other fuel products	1,900	2,700	800	42.1
Tobacco	13,150	12,800	-350	-2.7
Beer	2,600	2,650	50	1.9
Spirits	2,920	3,080	160	5.5
Other alcoholic beverages(a)	1,080	1,220	140	13.0
Other customs duty				
Textiles, clothing and footwear	200	170	-30	-15.0
Passenger motor vehicles	290	310	20	6.9
Other imports	1,330	1,400	70	5.3
less: Refunds and drawbacks	700	700	0	0.0
Total excise and customs duty	43,600	42,560	-1,040	-2.4
Major Bank Levy	1,600	1,550	-50	-3.1
Agricultural levies	541	560	19	3.4
Other taxes(b)	6,456	6,458	2	0.0
Indirect taxation receipts	**130,878**	**132,610**	**1,732**	**1.3**
Taxation receipts	**478,528**	**508,400**	**29,872**	**6.2**
Sales of goods and services	18,136	18,346	210	1.2
Interest received	3,032	2,820	-212	-7.0
Dividends and distributions(c)	4,825	5,284	459	9.5
Other non-taxation receipts(b)	11,929	12,783	854	7.2
Non-taxation receipts	**37,921**	**39,232**	**1,311**	**3.5**
Total receipts	**516,449**	**547,632**	**31,183**	**6.0**
Memorandum:				
Total excise	*26,550*	*25,640*	*-910*	*-3.4*
Total customs duty	*17,050*	*16,920*	*-130*	*-0.8*
Capital gains tax(d)	*22,500*	*22,400*	*-100*	*-0.4*

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

(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.

(c) ‘Dividends’ has been renamed ‘dividends and distributions’ to more accurately reflect the transactions included in this item.

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

Table 4.7: Australian Government general government (cash) receipts

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	220,457	236,300	249,600	264,500	266,500	281,100
Gross other individuals	48,769	54,200	55,400	58,800	61,200	65,300
less: Refunds	36,265	38,200	41,100	34,300	37,400	38,200
Total individuals and other withholding tax	232,961	252,300	263,900	289,000	290,300	308,200
Fringe benefits tax	3,569	3,330	3,630	3,930	4,120	4,330
Company tax	98,786	109,100	90,200	87,500	103,000	109,600
Superannuation fund taxes	12,956	24,560	15,660	19,410	20,560	22,110
Petroleum resource rent tax	786	1,650	2,400	2,400	2,400	2,400
Income taxation receipts	**349,058**	**390,940**	**375,790**	**402,240**	**420,380**	**446,640**
Goods and services tax	72,932	72,782	79,432	82,921	86,603	90,362
Wine equalisation tax	1,119	1,140	1,170	1,200	1,250	1,300
Luxury car tax	914	880	880	850	890	940
Excise and customs duty						
Petrol	5,985	4,950	6,050	7,350	7,950	8,250
Diesel	12,740	11,720	12,880	15,120	16,270	16,820
Other fuel products	1,580	1,510	2,700	2,200	2,280	2,280
Tobacco	14,264	12,950	12,800	12,700	13,100	13,550
Beer	2,543	2,440	2,650	2,710	2,890	2,970
Spirits	3,160	3,280	3,080	3,100	3,280	3,410
Other alcoholic beverages(a)	1,301	1,440	1,220	1,260	1,280	1,320
Other customs duty						
Textiles, clothing and footwear	178	190	170	120	120	120
Passenger motor vehicles	372	330	310	90	90	100
Other imports	1,189	1,340	1,400	1,000	1,040	1,050
less: Refunds and drawbacks	729	800	700	700	700	700
Total excise and customs duty	42,582	39,350	42,560	44,950	47,600	49,170
Major Bank Levy	1,619	1,500	1,550	1,600	1,650	1,750
Agricultural levies	525	600	560	572	578	589
Other taxes(b)	5,101	5,289	6,458	7,424	7,673	7,483
Indirect taxation receipts	**124,792**	**121,540**	**132,610**	**139,517**	**146,245**	**151,593**
Taxation receipts	**473,850**	**512,480**	**508,400**	**541,757**	**566,625**	**598,233**
Sales of goods and services	16,390	17,626	18,346	19,520	20,413	20,943
Interest received	2,812	2,557	2,820	3,393	3,670	3,932
Dividends and distributions(c)	9,757	9,142	5,284	5,672	6,048	6,418
Other non-taxation receipts(b)	17,105	14,821	12,783	14,866	18,481	14,374
Non-taxation receipts	**46,063**	**44,146**	**39,232**	**43,451**	**48,612**	**45,667**
Total receipts	**519,913**	**556,626**	**547,632**	**585,208**	**615,237**	**643,900**
Memorandum:						
Total excise	*24,462*	*22,370*	*25,640*	*31,320*	*33,450*	*34,480*
Total customs duty	*18,120*	*16,980*	*16,920*	*13,630*	*14,150*	*14,690*
Capital gains tax(d)	*19,600*	*24,100*	*22,400*	*21,600*	*22,300*	*23,100*

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

(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.

(c) 'Dividends' has been renamed 'dividends and distributions' to more accurately reflect the transactions included in this item.

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

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 4.8 provides a reconciliation of the 2022-23 Budget's revenue estimates with those at the 2021-22 Budget and 2021-22 MYEFO.

Table 4.8: Reconciliation of Australian Government general government revenue estimates from the 2021-22 Budget

	Estimates					
	2021-22	2022-23	2023-24	2024-25	2025-26	Total(a)
	$m	$m	$m	$m	$m	$m
Revenue at 2021-22 Budget	**496,621**	**505,145**	**544,487**	**577,959**	*	*
Changes from 2021-22 Budget to 2021-22 MYEFO						
Effect of policy decisions(b)	530	1,266	918	781	*	*
Effect of parameter and other variations	45,378	23,929	18,564	18,584	*	*
Total variations	**45,907**	**25,195**	**19,482**	**19,364**	*	*
Revenue at 2021-22 MYEFO	**542,528**	**530,340**	**563,969**	**597,323**	*	*
Changes from 2021-22 MYEFO to 2022-23 Budget						
Effect of policy decisions(b)	-2,379	-8,318	2,305	1,081	260	-4,672
Effect of parameter and other variations	26,268	38,924	29,386	23,337	*	*
Total variations	**23,889**	**30,606**	**31,691**	**24,417**	*	*
Revenue at 2022-23 Budget	**566,417**	**560,947**	**595,660**	**621,741**	**655,232**	**2,433,579**

*Data is not published

(a) Total is equal to the sum of amounts from 2022-23 to 2025-26.

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

Since MYEFO, total revenue has been revised up by $30.6 billion in 2022-23 and by $116.2 billion over the 4 years to 2025-26.

The changes in the individual heads of revenue accrual estimates relative to MYEFO are shown in Tables 4.9 and 4.10, for 2021-22 and 2022-23, respectively. For the 5-year accrual table, the accrual equivalent of Table 4.7, see Budget Statement 9, Note 3.

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

Table 4.9: Reconciliation of 2021-22 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	229,700	238,500	8,800	3.8
Gross other individuals	53,800	57,500	3,700	6.9
less: Refunds	38,700	38,200	-500	-1.3
Total individuals and other withholding tax	244,800	257,800	13,000	5.3
Fringe benefits tax	3,160	3,180	20	0.6
Company tax	102,700	111,500	8,800	8.6
Superannuation fund taxes	23,230	24,580	1,350	5.8
Petroleum resource rent tax	1,470	1,720	250	17.0
Income taxation revenue	**375,360**	**398,780**	**23,420**	**6.2**
Goods and services tax	76,410	76,409	-1	0.0
Wine equalisation tax	1,160	1,160	0	0.0
Luxury car tax	770	880	110	14.3
Excise and customs duty				
Petrol	5,650	4,950	-700	-12.4
Diesel	13,580	11,720	-1,860	-13.7
Other fuel products	1,640	1,510	-130	-7.9
Tobacco	13,300	12,950	-350	-2.6
Beer	2,490	2,440	-50	-2.0
Spirits	3,080	3,280	200	6.5
Other alcoholic beverages(a)	1,270	1,440	170	13.4
Other customs duty				
Textiles, clothing and footwear	190	190	0	0.0
Passenger motor vehicles	350	330	-20	-5.7
Other imports	1,290	1,340	50	3.9
less: Refunds and drawbacks	800	800	0	0.0
Total excise and customs duty	42,040	39,350	-2,690	-6.4
Major bank levy	1,510	1,510	0	0.0
Agricultural levies	554	600	46	8.2
Other taxes(b)	6,237	6,692	455	7.3
Indirect taxation revenue	**128,681**	**126,600**	**-2,081**	**-1.6**
Taxation revenue	**504,041**	**525,380**	**21,339**	**4.2**
Sales of goods and services	17,424	17,628	204	1.2
Interest	3,619	3,916	297	8.2
Dividends and distributions(c)	5,178	6,219	1,042	20.1
Other non-taxation revenue(b)	12,266	13,273	1,007	8.2
Non-taxation revenue	**38,487**	**41,036**	**2,549**	**6.6**
Total revenue	**542,528**	**566,417**	**23,889**	**4.4**
Memorandum:				
Total excise	*24,850*	*22,370*	*-2,480*	*-10.0*
Total customs duty	*17,190*	*16,980*	*-210*	*-1.2*
Capital gains tax(d)	*24,500*	*24,100*	*-400*	*-1.6*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.
(c) 'Dividends' has been renamed 'dividends and distributions' to more accurately reflect the transactions included in this item.
(d) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 4.10: Reconciliation of 2022-23 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	236,400	252,100	15,700	6.6
Gross other individuals	57,800	59,100	1,300	2.2
less: Refunds	37,900	41,100	3,200	8.4
Total individuals and other withholding tax	256,300	270,100	13,800	5.4
Fringe benefits tax	3,540	3,580	40	1.1
Company tax	81,900	92,200	10,300	12.6
Superannuation fund taxes	12,690	15,690	3,000	23.6
Petroleum resource rent tax	1,440	2,440	1,000	69.4
Income taxation revenue	**355,870**	**384,010**	**28,140**	**7.9**
Goods and services tax	79,880	82,460	2,580	3.2
Wine equalisation tax	1,120	1,190	70	6.3
Luxury car tax	720	880	160	22.2
Excise and customs duty				
Petrol	6,300	6,050	-250	-4.0
Diesel	14,530	12,880	-1,650	-11.4
Other fuel products	1,900	2,700	800	42.1
Tobacco	13,150	12,800	-350	-2.7
Beer	2,600	2,650	50	1.9
Spirits	2,920	3,080	160	5.5
Other alcoholic beverages(a)	1,080	1,220	140	13.0
Other customs duty				
Textiles, clothing and footwear	200	170	-30	-15.0
Passenger motor vehicles	290	310	20	6.9
Other imports	1,330	1,400	70	5.3
less: Refunds and drawbacks	700	700	0	0.0
Total excise and customs duty	43,600	42,560	-1,040	-2.4
Major bank levy	1,620	1,570	-50	-3.1
Agricultural levies	541	560	19	3.4
Other taxes(b)	7,735	7,729	-7	-0.1
Indirect taxation revenue	**135,217**	**136,949**	**1,732**	**1.3**
Taxation revenue	**491,087**	**520,959**	**29,872**	**6.1**
Sales of goods and services	18,128	18,326	198	1.1
Interest	3,718	3,751	33	0.9
Dividends and distributions(c)	5,682	5,292	-390	-6.9
Other non-taxation revenue(b)	11,726	12,619	894	7.6
Non-taxation revenue	**39,254**	**39,988**	**734**	**1.9**
Total revenue	**530,340**	**560,947**	**30,606**	**5.8**
Memorandum:				
Total excise	*26,550*	*25,640*	*-910*	*-3.4*
Total customs duty	*17,050*	*16,920*	*-130*	*-0.8*
Capital gains tax(d)	*22,500*	*22,400*	*-100*	*-0.4*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change.
(c) 'Dividends' has been renamed 'dividends and distributions' to more accurately reflect the transactions included in this item.
(d) '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. Section 12 of the *Charter of Budget Honesty Act 1998* (CBHA) requires the publication of an overview of estimated tax expenditures.

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 (TBAVS) are generally not directly comparable, because of changes or modifications to – for example – benchmarks, individual benchmark variations, data used or modelling methodology.

The information in Table A.1 is derived from the 2021 TBAVS, published in January 2022, based on economic parameters as at the publication of the 2021-22 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 the next TBAVS, scheduled to be published in January 2023.

Table A.1: Estimates of large measured benchmark variations

Benchmark variations		Estimate $m			
		2022-23	2023-24	2024-25	2025-26
Large positive benchmark variations					
E8	Main residence exemption – discount component	33,500	35,000	34,500	35,500
E7	Main residence exemption	29,000	30,000	29,500	31,000
C4	Concessional taxation of superannuation entity earnings	26,350	20,000	19,900	21,050
C2	Concessional taxation of employer superannuation contributions	21,800	23,400	21,450	22,250
E15	Discount for individuals and trusts	11,730	12,270	12,870	12,620
B67	Accelerated depreciation for business entities	11,000	5,200	-7,400	-8,100
H26	Food	8,700	9,100	9,400	9,800
H14	Education	5,450	5,700	5,950	6,200
A25	Exemption for National Disability Insurance Scheme amounts	5,270	6,820	7,340	8,020
H17	Health – medical and health services	5,200	5,500	5,800	6,100
B83	Simplified depreciation rules	4,700	1,700	-5,000	-6,200
H2	Financial supplies – input taxed treatment	3,550	3,750	3,900	4,100
A26	Exemption of Child Care Assistance payments	2,700	2,900	2,900	3,100
B24	Temporary loss carry-back for certain incorporated entities	2,660	2,570	-880	-680
B12	Exemption from interest withholding tax on certain securities	2,410	2,410	2,410	2,410
D15	Exemption for public benevolent institutions (excluding hospitals)	2,300	2,400	2,300	2,400
A23	Concessional taxation of non-superannuation termination benefits	2,250	2,200	1,950	1,900
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	2,050	2,050	2,050	2,050
B57	Lower company tax rate	2,000	2,500	3,200	3,100
D11	Exemption for public and not-for-profit hospitals and public ambulance services	2,000	2,000	1,900	2,000
H5	Child care services	1,880	1,980	2,120	2,270
C6	Deductibility of life and total and permanent disability insurance premiums provided inside of superannuation	1,850	1,970	1,950	2,050
A38	Exemption of Family Tax Benefit payments	1,840	1,880	1,770	1,790
B2	Local government bodies income tax exemption	1,680	1,690	1,690	1,700
A55	Philanthropy – deduction for gifts to deductible gift recipients	1,645	1,760	1,830	1,790
A17	Exemption of the Private Health Insurance Rebate	1,560	1,640	1,690	1,620
H18	Health – residential care, community care and other care services	1,500	1,590	1,680	1,770
C3	Concessional taxation of personal superannuation contributions	1,350	1,400	1,500	1,400
C1	Concessional taxation of capital gains for superannuation funds	1,200	1,150	1,350	1,550
B78	Capital works expenditure deduction	1,200	1,210	1,210	1,130
A37	Exemption of certain income support benefits, pensions or allowances	1,200	1,250	1,200	1,210
B6	Reduced withholding tax under international tax treaties	1,170	1,350	1,550	1,800
H6	Water, sewerage and drainage	1,150	1,180	1,220	1,250
F6	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,020	1,070	1,150	1,180

Table A.1: Estimates of large measured benchmark variations (continued)

Benchmark variations		Estimate $m			
		2022-23	2023-24	2024-25	2025-26
Large negative benchmark variations					
F10	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-1,445	-1,485	-1,525	-1,570
F21	Customs duty	-1,850	-1,080	-1,120	-1,160

Statement 5: Expenses and Net Capital Investment

Statement 5 presents estimates of the Australian Government general government sector expenses and net capital investment by the functions of government. 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 5 are presented in nominal fiscal terms.

Explanatory text in Statement 5 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 5 explains year on year changes across the forward estimates period. Some nominal increases in function expenditure across this period may be described as decreases in real terms. This occurs where forecast CPI growth exceeds underlying program growth.

As the Australian Government's large-scale, economy-wide response to the COVID-19 pandemic reduces, expenses decrease from $640 billion in 2021-22 to $628 billion in 2022-23 – an impact that is primarily reflected in the health, social security and welfare, and other economic affairs functions. Expenses are expected to reach $687 billion in 2025-26. While, in this Budget, low unemployment and increased economic growth has reduced expenditure on income support programs, higher inflation and wages growth forecasts have impacted indexation rates and led to increased expenditure estimates on government payments to individuals.

The main trends in functional expenditure are:

- an estimated decline in government expenditure from 2021-22 to 2022-23 reflecting the conclusion of temporary and targeted measures that were part of the Government's 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 social security and welfare, other purposes and defence functions; and
- net capital investment from 2022-23 to 2025-26 largely reflects a significant investment in defence capital projects.

Contents

Statement 5: Expenses and Net Capital Investment

Overview

Australian Government general government sector (GGS) accrual expenses are expected to decrease by 5.0 per cent in real terms in 2022-23, which is primarily driven by the reduction in large-scale, economy-wide responses to the health and economic impacts of the COVID-19 pandemic. Real growth is expected to remain relatively stable in real terms over the period 2023-24 to 2025-26.

As a percentage of GDP, total expenses are expected to reach 27.9 per cent in 2021-22 then gradually reduce to 26.3 per cent in 2025-26, reflecting projected improvements in GDP growth over the forward estimates period.

Table 5.1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimates			
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total expenses ($b)	**633.8**	**639.6**	**628.5**	**643.8**	**665.4**	**686.8**
Real growth on previous year (%)(a)	-5.6	-5.4	-5.0	-0.5	0.5	0.6
Per cent of GDP	28.8	27.9	27.3	27.2	26.7	26.3

(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 decrease by 5.0 per cent in real terms in 2022-23, which is primarily driven by the reduction in large-scale, economy-wide responses to the COVID-19 pandemic. Annual real growth in payments is estimated to remain stable over 2023-24 and 2024-25, before increasing to 1.1 per cent in 2025-26.

As a percentage of GDP, total payments are expected to reach 27.8 per cent in 2021-22 and then to gradually decline to 26.3 per cent in 2025-26.

Table 5.1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimates			
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total payments ($b)	**631.4**	**636.4**	**625.6**	**641.7**	**662.3**	**687.0**
Real growth on previous year (%)(a)	-6.3	-6.2	-5.0	-0.4	0.4	1.1
Per cent of GDP	28.7	27.8	27.2	27.1	26.6	26.3

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

Table 5.2 provides a reconciliation of expense estimates between the 2021-22 Budget and the 2022-23 Budget showing the effect of policy decisions, economic parameter and other variations.

Table 5.2: Reconciliation of expense estimates

	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	Total $m
2021-22 Budget expenses	**589,334**	**595,378**	**614,665**	**633,694**	**2,433,071**
Changes from 2021-22 Budget to 2021-22 MYEFO					
Effect of policy decisions(a)	32,183	7,278	4,938	4,133	48,533
Effect of parameter and other variations	12,322	13,657	16,979	12,730	55,688
Total variations	**44,504**	**20,935**	**21,917**	**16,864**	**104,221**
2021-22 MYEFO expenses	**633,838**	**616,313**	**636,582**	**650,558**	**2,537,292**
Changes from 2021-22 MYEFO to 2022-23 Budget					
Effect of policy decisions(a)	5,673	7,897	5,852	6,094	25,516
Effect of economic parameter variations					
Total economic parameter variations	247	4,890	6,607	6,497	18,241
Unemployment benefits	*-70*	*-507*	*-1,185*	*-1,660*	*-3,423*
Prices and wages	*42*	*2,636*	*4,575*	*5,561*	*12,815*
Interest and exchange rates	*-32*	*-5*	*1*	*2*	*-34*
GST payments to the States	*308*	*2,766*	*3,216*	*2,595*	*8,884*
Public debt interest	601	1,231	587	765	3,183
Program specific parameter variations	6,245	-630	334	1,195	7,143
Other variations	-7,034	-1,231	-6,130	260	-14,134
Total variations	**5,731**	**12,156**	**7,251**	**14,811**	**39,949**
2022-23 Budget expenses	**639,569**	**628,469**	**643,833**	**665,369**	**2,577,241**

(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 $144.2 billion over the four years from 2021-22 to 2024-25 compared to the 2021-22 Budget. Since the 2021-22 MYEFO, variations related to economic parameters have increased expenses by $18.2 billion, largely driven by a significant increase in prices and wages of $12.8 billion and GST payments to the states of $8.9 billion, which has been partially offset by a reduction in expenses related to unemployment benefits of $3.4 billion.

Estimated expenses by function

Table 5.3 sets out the estimates of Australian Government general government sector expenses by function for the period 2021-22 to 2025-26.

Table 5.3: Estimates of expenses by function

		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	33,121	26,518	25,514	27,159	25,821
Defence	35,882	38,268	39,672	41,661	44,544
Public order and safety	6,713	7,014	6,364	6,265	5,729
Education	43,357	44,788	46,034	47,353	48,977
Health	111,467	105,754	102,575	106,225	109,932
Social security and welfare	227,800	221,685	229,996	237,837	248,953
Housing and community amenities	8,431	8,221	7,174	6,944	6,274
Recreation and culture	4,716	4,493	4,330	4,238	4,206
Fuel and energy	8,444	9,381	10,647	10,922	11,347
Agriculture, forestry and fishing	4,119	4,810	3,846	2,690	2,602
Mining, manufacturing and construction	4,310	4,781	4,616	4,012	4,081
Transport and communication	16,070	18,915	20,570	18,020	12,739
Other economic affairs	23,631	13,155	10,919	10,716	10,431
Other purposes	111,508	120,685	131,575	141,328	151,202
Total expenses	**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

Major expense trends between 2021-22 and 2022-23, and from 2022-23 over the forward years (in nominal terms) include movements in the following functions:

- **Defence** — the increase in expenses from 2021-22 to 2022-23 and from 2022-23 to 2025-26 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 increase in expenses from 2021-22 to 2022-23 and from 2022-23 to 2025-26 reflects 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;*

- **Health** — the decrease in expenses from 2021-22 to 2022-23 is primarily driven by the cessation of some of the COVID-19 emergency response measures. The increase in expenses from 2022-23 to 2025-26 is primarily driven by expected growth in the **assistance to the states for public hospitals** sub-function, largely reflecting anticipated growth in the volume of services and changes in the efficient price of those services;

- **Social security and welfare** — the decrease in expenses from 2021-22 to 2022-23 largely reflects the higher level of spending for the COVID-19 Disaster Payment and the Pandemic Leave Disaster Payment in 2021-22, as well as an anticipated reduction in the number of unemployed individuals over the forward estimates. The increase from 2022-23 to 2025-26 is primarily driven by expected growth in expenditure on the aged pension, aged care services and supporting people with disability through the National Disability Insurance Scheme under the **assistance to the aged** and **assistance to people with disabilities** sub-functions;

- **Transport and communication** — the increase in expenses from 2021-22 to 2022-23 largely reflects the Government's commitment to priority rail and road infrastructure. The decrease in expenses from 2022-23 to 2025-26 is driven by the conclusion of short-term stimulus initiatives;

- **Other economic affairs** — the decrease in expenses from 2021-22 to 2022-23 is primarily driven by the temporary economic response to the COVID-19 pandemic and reflects the conclusion of the COVID-19 Business Support Payment to the states and territories in 2022-23; and

- **Other purposes** — the increase in expenses from 2022-23 to 2025-26 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories, expenses related to public debt interest 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, defence and education functions (see Box 5.1). Together, these functions account for 65 per cent of all government expenses in 2022-23. Further details of spending trends against all functions, including movements in expenses from 2021-22 to 2022-23, are set out under individual function headings.

Box 5.1: Where does government spending go in 2022-23?

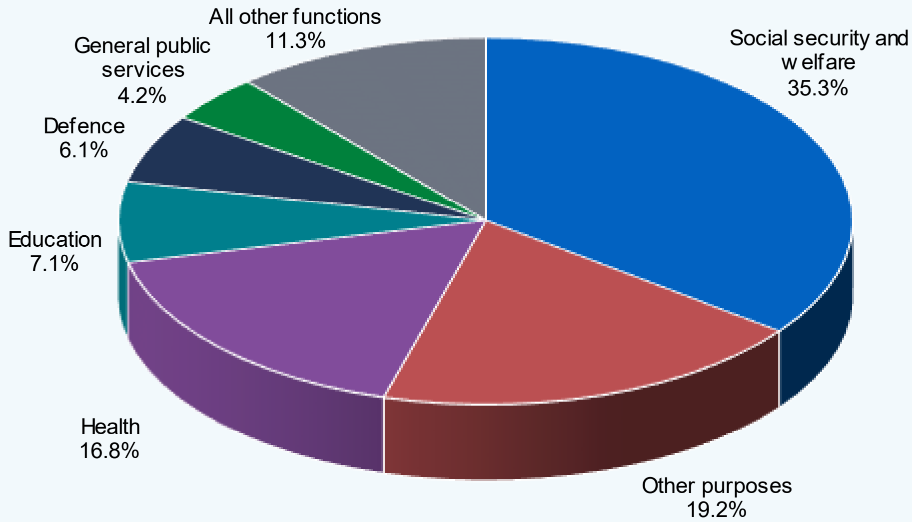
Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with over one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule and Pharmaceutical Benefits Scheme expenditure.

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.

Defence is another significant component of government expenditure, providing capability to the Australian Defence Force to protect Australia's security and defend our national interests.

Chart 5.1: Expenses by function in 2022-23



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 5.3.1 reports the top 20 expense programs in the 2022-23 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 disability, students, carers and the unemployed.

Table 5.3.1: Top 20 programs by expenses in 2022-23

			Estimates			
		2021-22	2022-23	2023-24	2024-25	2025-26
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	76,495	84,787	88,405	92,667	94,158
Support for Seniors	SSW	51,610	54,153	56,579	58,846	61,895
National Disability Insurance Scheme	SSW	30,773	35,756	39,444	42,857	46,083
Medical Benefits	Health	30,431	30,794	31,674	33,296	34,989
Aged Care Services	SSW	24,551	27,770	30,083	31,432	33,010
Assistance to the States for Public Hospitals	Health	25,013	27,333	28,717	30,659	32,653
Family Assistance	SSW	19,295	20,640	21,387	21,705	22,222
Financial Support for People with Disability	SSW	18,279	18,965	19,951	20,571	21,316
Pharmaceutical Benefits	Health	15,633	16,414	16,289	16,413	16,468
Non-Government Schools National Support	Education	15,302	16,126	16,890	17,468	18,005
Job Seeker Income Support	SSW	15,783	12,548	11,910	12,059	12,672
National Partnership Payments - Road Transport	Transport and communication	8,120	11,772	13,266	11,286	6,693
Child Care Subsidy	SSW	9,918	10,713	11,319	11,828	12,403
Financial Support for Carers	SSW	9,867	10,316	10,892	11,394	11,928
Government Schools National Support	Education	9,726	10,284	10,808	11,220	11,652
Public Sector Superannuation - Benefits(b)	Other purposes; General public services	8,654	9,118	9,125	9,140	9,486
Defence Force Superannuation - Benefits(b)	Other purposes; General public services	10,495	8,307	8,748	9,101	9,512
Army Capabilities	Defence	7,624	7,941	8,752	8,934	9,038
Air Force Capabilities	Defence	6,934	7,764	8,302	9,398	5,928
Fuel Tax Credits Scheme	Fuel and Energy	6,894	7,721	9,262	9,952	10,699
Sub-total		**401,398**	**429,224**	**451,803**	**470,229**	**480,810**
Other programs		238,172	199,245	192,030	195,141	206,029
Total expenses		**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

(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 5.4: Summary of expenses – general public services

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,933	1,519	1,500	1,757	1,423
Financial and fiscal affairs	9,313	8,043	7,733	7,956	7,739
Foreign affairs and economic aid	7,185	7,191	6,245	7,235	6,315
General research	3,533	3,750	3,909	4,010	4,036
General services	832	883	854	861	874
Government superannuation benefits	10,326	5,131	5,273	5,339	5,434
Total general public services	**33,121**	**26,518**	**25,514**	**27,159**	**25,821**

Total general public services expenses are estimated to decrease by 22.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 10.4 per cent in real terms over the period 2022-23 to 2025-26.

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 16.5 per cent in real terms from 2021-22 to 2022-23 and are forecast to decrease by 11.5 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 is largely due to temporary support provided for markets and businesses in 2021-22. The subsequent decrease from 2022-23 to 2024-25 reflects the termination of a number of compliance measures.

Table 5.4.1 sets out the major components of the **foreign affairs and economic aid** sub-function.

Table 5.4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Foreign aid(b)	3,767	4,483	3,708	4,731	3,796
Diplomacy(c)	1,327	1,410	1,223	1,210	1,247
Payments to international organisations	365	426	421	417	410
Passport services	266	276	281	283	284
International police assistance	166	160	167	157	161
International agriculture research and development	111	112	112	111	113
Consular services	181	137	134	136	121
Finance and insurance services for Australian exporters and investors	846	28	41	47	42
Other	157	160	158	144	141
Total	**7,185**	**7,191**	**6,245**	**7,235**	**6,315**

(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 3.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 19.2 per cent in real terms from 2022-23 to 2025-26. The variation in the profile of expenses across the forward estimates largely reflects the impact of financing provided through Export Finance Australia, additional support provided for the Pacific to recover from the impacts of COVID-19, and the payment cycles of Australia's contributions under funding arrangements for multilateral funds.

Table 5.4.2 sets out the major components of the **general research** sub-function.

Table 5.4.2: Trends in the major components of general research sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Research – science services and innovation fund	1,460	1,495	1,532	1,479	1,492
Discovery – research and research training	490	512	537	564	587
Science and technology solutions	381	394	393	400	407
Linkage – cross sector research partnerships	327	343	360	378	393
Supporting science and commercialisation	438	409	360	320	318
Research capacity	318	459	599	743	713
Other	120	137	129	127	126
Total	**3,533**	**3,750**	**3,909**	**4,010**	**4,036**

(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, 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 2.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.0 per cent in real terms from 2022-23 to 2025-26. The increase in 2022-23 is primarily due to the 2022-23 Budget measure *Investing in Australia's University Research Commercialisation*, reflecting the commencement of grants paid to universities under Australia's Economic Accelerator, new workforce mobility opportunities through Industry PhDs and Fellowships, and the Trailblazer Universities program. The decrease in expenses in real terms from 2022-23 to 2025-26 primarily reflects the funding profile of 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 increase by 2.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 8.9 per cent in real terms from 2022-23 to 2025-26. The variation primarily reflects the profile of insurance claims expenditure over the forward estimates.

The fall in expenses from 2021-22 to 2025-26 in the **government superannuation benefits** sub-function primarily reflects the use of different discount rates. In accordance with accounting standards, superannuation expenses for 2021-22 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 1.6 and 2.3 per cent per annum. In preparing the latest Long Term Cost Reports, the scheme actuaries have determined that a discount rate of 5.0 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 of 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 5.5: Summary of expenses – defence

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Defence	35,882	38,268	39,672	41,661	44,544
Total defence	**35,882**	**38,268**	**39,672**	**41,661**	**44,544**

Total expenses for the **defence** sub-function are estimated to increase by 3.1 per cent in real terms from 2021-22 to 2022-23, and by 7.1 per cent in real terms over the period 2022-23 to 2025-26. 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*, as well as increased investment in the capabilities of the Australian Signals Directorate through the 2022-23 Budget measure *REDSPICE – Expanded cyber and intelligence capability.*

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 5.6: Summary of expenses – public order and safety

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Courts and legal services	1,620	1,661	1,503	1,466	999
Other public order and safety	5,094	5,353	4,861	4,799	4,730
Total public order and safety	**6,713**	**7,014**	**6,364**	**6,265**	**5,729**

Total expenses for the public order and safety function are estimated to increase by 1.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 24.9 per cent in real terms over the period 2022-23 to 2025-26.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 0.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 44.7 per cent in real terms from 2022-23 to 2025-26, reflecting the planned reporting and conclusion dates of the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability and the Royal Commission into Defence and Veteran Suicide.

Table 5.6.1 sets out the major components of the **other public order and safety** sub-function.

Table 5.6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Policing and law enforcement	3,688	3,876	3,524	3,447	3,362
Border protection	1,405	1,476	1,338	1,352	1,368
Total	**5,094**	**5,353**	**4,861**	**4,799**	**4,730**

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

Total expenses within the **other public order and safety** sub-function are expected to increase by 1.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 18.7 per cent in real terms from 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 is partially due to new investment through the following 2022-23 Budget measures: *Transnational, Serious and Organised Crime Package* and *Strengthening Australia's Arrangements for Managing Terrorist Offenders and Countering Violent Extremism*. The decrease from 2022-23 to 2025-26 primarily reflects terminating measures across a number of programs.

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 5.7: Summary of expenses – education

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Higher education	10,666	10,434	10,360	10,551	10,935
Vocational and other education	2,150	2,300	2,198	2,385	2,530
Schools	25,028	26,411	27,699	28,688	29,657
Non-government schools	*15,302*	*16,126*	*16,890*	*17,468*	*18,005*
Government schools	*9,726*	*10,284*	*10,808*	*11,220*	*11,652*
School education – specific funding	800	836	810	695	726
Student assistance	4,422	4,513	4,686	4,756	4,853
General administration	291	294	280	278	275
Total education	**43,357**	**44,788**	**46,034**	**47,353**	**48,977**

Total education function expenses are expected to remain largely stable in real terms from 2021-22 to 2022-23 and increase by 0.6 per cent in real terms from 2022-23 to 2025-26.

Expenses under the **higher education** sub-function are expected to decrease by 5.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 3.6 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses in 2022-23, and the subsequent decrease in expenses over the forward estimates, primarily reflect 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 increase by 3.4 per cent in real terms from 2021-22 to 2022-23 and increase by 1.2 per cent in real terms between 2022-23 and 2025-26. The increase in expenses in 2022-23 primarily reflects the impact of new investment in this Budget in skills reform, and support for job seekers to access training to develop new skills in growth sectors of the economy, through the 2022-23 Budget measure *Skills Reform to Support Future Growth*.

Aggregate schools funding expenses are expected to increase by 2.0 per cent in real terms between 2021-22 and 2022-23 and increase by 3.3 per cent in real terms from 2022-23 to 2025-26. Expenses in the **schools – non-government schools** sub-function are expected to increase by 1.9 per cent in real terms between 2021-22 and 2022-23 and increase by 2.7 per cent in real terms from 2022-23 to 2025-26. Expenses under the **schools – government schools** sub-function are expected to increase by 2.2 per cent in real terms between 2021-22 and 2022-23 and increase by 4.2 per cent in real terms from 2022-23 to

2025-26. 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 1.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 20.1 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2022-23 to 2025-26 primarily reflects a number of measures terminating over the period within the Early Learning and Schools Support program.

Expenses under the **student assistance** sub-function are expected to decrease by 1.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.1 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses is largely due to a decrease in student support payments as recipient numbers return to historical levels and the economy recovers following the COVID-19 pandemic. This is partially offset by an increase in Higher Education Loan Program (HELP) 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 5.8: Summary of expenses – health

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Medical services and benefits	38,980	39,471	40,317	42,115	43,998
Pharmaceutical benefits and services	16,443	17,229	17,101	17,226	17,281
Assistance to the states for public hospitals	25,013	27,333	28,717	30,659	32,653
Hospital services(a)	1,105	1,062	1,058	1,055	1,059
Health services	24,133	15,290	10,552	10,403	10,244
General administration	4,801	4,227	3,684	3,595	3,560
Aboriginal and Torres Strait Islander health	992	1,142	1,145	1,172	1,137
Total health	**111,467**	**105,754**	**102,575**	**106,225**	**109,932**

(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 decrease by 8.3 per cent in real terms between 2021-22 and 2022-23 and decrease by 4.4 per cent in real terms over the period 2022-23 to 2025-26, largely due to the profile of expenditure for measures responding to the COVID-19 pandemic, which are primarily in 2021-22 and 2022-23. This includes the 2022-23 Budget measures *COVID-19 Response Package – vaccines and treatments* and *COVID-19 Response Package – supporting hospitals and emergency response extension*.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 37.3 per cent of total estimated health expenses for 2022-23. Growth in Medicare expenses is the major driver of growth in this sub-function, with sub-function expenses estimated to increase by 2.5 per cent in real terms over the period 2022-23 to 2025-26.

Table 5.8.1 sets out the major components of the **medical services and benefits** sub-function.

Table 5.8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Medical benefits	30,431	30,794	31,674	33,296	34,989
Private health insurance	6,741	6,898	7,071	7,254	7,454
General medical consultations and services	687	706	689	679	662
Dental services(b)	338	343	343	342	342
Other	782	730	540	544	551
Total	**38,980**	**39,471**	**40,317**	**42,115**	**43,998**

(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 2020-21 are provided for under the health services sub-function in Table 5.8.

Expenses for medical benefits are expected to decrease by 2.2 per cent in real terms between 2021-22 and 2022-23 and increase by 4.5 per cent in real terms over the period 2022-23 to 2025-26, largely as a result of population growth, ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for the private health insurance component are expected to decrease by 1.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 0.6 per cent in real terms over the period 2022-23 to 2025-26.

Expenses for the **pharmaceutical benefits and services** sub-function are expected to increase by 1.3 per cent in real terms between 2021-22 and 2022-23 and decrease by 7.7 per cent in real terms over the period 2022-23 to 2025-26. The decrease in expenses is primarily due to the impacts of existing pricing policies under the Pharmaceutical Benefits Scheme.

Table 5.8.2 sets out the major components of the **pharmaceutical benefits and services** sub-function.

Table 5.8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	15,633	16,414	16,289	16,413	16,468
Immunisation	479	473	479	479	480
Veterans' pharmaceutical benefits	331	342	334	333	333
Total	**16,443**	**17,229**	**17,101**	**17,226**	**17,281**

(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 5.6 per cent in real terms from 2021-22 to 2022-23, largely reflecting anticipated growth in the volume of services and changes in the efficient price of those services. Expenditure is expected to increase by 9.9 per cent in real terms over the period 2022-23 to 2025-26, 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 decrease by 7.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 8.2 per cent in real terms over the period 2022-23 to 2025-26. The decrease in expenses reflects the expected reduction in the number of older veterans in the population who are the primary users of these services.

Expenses in the **health services** sub-function include 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 38.7 per cent in real terms between 2021-22 and 2022-23 and decrease by 38.4 per cent in real terms over the period from 2022-23 to 2025-26, largely driven by the impact of measures responding to the COVID-19 pandemic, with expenditure primarily incurred in 2021-22 and 2022-23. This includes the 2022-23 Budget measure *COVID-19 Response Package – vaccines and treatments*.

The **general administration** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to decrease by 14.9 per cent in real terms between 2021-22 and 2022-23 and decrease by 22.5 per cent in real terms over the period 2022-23 to 2025-26, largely reflecting the cessation of temporary and targeted measures to respond to the COVID-19 pandemic.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 11.3 per cent in real terms from 2021-22 to 2022-23, largely reflecting the remote and Indigenous response components of the 2022-23 Budget measure *COVID-19 Response Package – guaranteeing Medicare and access to medicines* and utilisation of Indigenous-specific services under the Indigenous Australians Health Program. Expenditure is expected to decrease by 8.4 per cent in real terms over the period 2022-23 to 2025-26, largely reflecting the temporary nature of the remote and Indigenous response components of the 2022-23 Budget measure *COVID-19 Response Package – guaranteeing Medicare and access to medicines* and reduced payments to states and territories for an expiring national partnership agreement.

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 5.9: Summary of expenses – social security and welfare

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Assistance to the aged	78,589	84,217	88,483	91,978	96,635
Assistance to veterans and dependants	7,358	8,144	6,917	6,834	6,770
Assistance to people with disabilities	62,643	68,003	73,135	76,501	81,032
Assistance to families with children	38,631	40,751	42,244	43,230	44,567
Assistance to the unemployed and the sick	15,783	12,548	11,910	12,059	12,672
Other welfare programs	17,063	1,628	1,426	1,391	1,368
Assistance for Indigenous Australians nec	2,666	2,803	2,696	2,729	2,813
General administration	5,066	3,592	3,184	3,115	3,096
Total social security and welfare	**227,800**	**221,685**	**229,996**	**237,837**	**248,953**

Expenses in the social security and welfare function are estimated to decrease by 5.9 per cent in real terms from 2021-22 to 2022-23 and increase by 3.3 per cent in real terms from 2022-23 to 2025-26.

The most significant driver of the reduction in real expenditure between 2021-22 and 2022-23 is the **other welfare programs** sub-function which is expected to decrease by 90.8 per cent in real terms from 2021-22 to 2022-23 as a result of the completion of the

COVID-19 Disaster Payment in December 2021 and the Pandemic Leave Disaster Payment on 30 June 2022.

The increase in expenses from 2022-23 to 2025-26 is primarily driven by increases in expenditure on the **assistance to the aged** and **assistance to people with disabilities** sub-functions. The **assistance to the aged** sub-function is expected to increase by 5.6 per cent in real terms from 2022-23 to 2025-26, reflecting additional funding associated with the response to the Royal Commission into Aged Care Quality and Safety. The **assistance to people with disabilities** sub-function is expected to increase by 9.6 per cent in real terms from 2022-23 to 2025-26, largely due to an increasing number of people with disability entering the National Disability Insurance Scheme (NDIS) and increases in participant plan values over the period from 2022-23 to 2025-26.

A significant 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 9.4 per cent in real terms from 2021-22 to 2022-23, and by 9.4 per cent from 2022-23 to 2025-26. Contributing to this growth in expenditure is the 2022-23 Budget measure *Ageing and Aged Care*. This measure builds on 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,* and the 2021-22 MYEFO measure *Ageing and Aged Care;* which increased expenditure on home care and residential aged care services.

Table 5.9.1 sets out the major components of the **assistance to the aged** sub-function.

Table 5.9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Support for Seniors	51,610	54,153	56,579	58,846	61,895
Aged Care Services	24,551	27,770	30,083	31,432	33,010
Veterans' Community Care and Support	953	951	790	818	849
Aged Care Quality	887	631	336	213	206
Access and information	370	464	478	481	489
National Partnership Payments – Assistance to the Aged	19	30	30	0	0
Other	200	219	188	188	186
Total	**78,589**	**84,217**	**88,483**	**91,978**	**96,635**

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

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 increase by 1.4 per cent in real terms from 2021-22 to 2022-23 and increase by 5.1 per cent in real terms from 2022-23 to 2025-26. While there has been a downward revision to the forecast number of Age Pension recipients since the 2021-22 MYEFO, the real growth in expenditure over the forward estimates reflects underlying population trends over the period to 2025-26.

Expenses in the Aged Care Quality program are estimated to decrease by 70.0 per cent in real terms from 2022-23 to 2025-26. This reflects terminating funding provided in the 2021-22 Budget measures *Aged Care – Government response to the Royal Commission into Aged Care Quality and Safety – residential aged care quality and safety* and *Aged Care – Government response to the Royal Commission into Aged Care Quality and Safety – home care*, in response to COVID-19 and immediate safety concerns raised by the Royal Commission into Aged Care Quality and Safety.

Expenses for veterans' community care and support are estimated to decrease by 3.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 17.8 per cent in real terms from 2022-23 to 2025-26, reflecting an expected decline in the number of veterans and dependents.

Expenses for **assistance to veterans and dependants** are expected to increase by 7.0 per cent in real terms from 2021-22 to 2022-23 and decrease by 23.5 per cent in real terms from 2022-23 to 2025-26. The increase in expenditure from 2021-22 to 2022-23 is mainly attributable to an increase in expenditure under the Military Rehabilitation and Compensation Acts due to the higher number of military compensation claims expected to be processed in 2022-23 compared with 2021-22. The decrease in expenditure from 2022-23 to 2025-26 is mainly attributable to the declining veteran population.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 4.9 per cent in real terms from 2021-22 to 2022-23 and increase by 9.6 per cent in real terms from 2022-23 to 2025-26. These increases largely reflect an increasing number of people with disability entering the NDIS over the forward estimates period and associated increases in individual support costs, which contribute to 12.3 per cent growth in real terms from 2021-22 to 2022-23, and 18.6 per cent growth in real terms from 2022-23 to 2025-26 for the NDIS.

Table 5.9.2 sets out the major components of the **people with disabilities** sub-function.

Table 5.9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
National Disability Insurance Scheme(b)	30,773	35,756	39,444	42,857	46,083
Financial Support for People with Disability	18,279	18,965	19,951	20,571	21,316
Financial Support for Carers	11,592	12,196	12,596	13,073	13,632
National Partnership Payments – Assistance to People with Disabilities	1,999	1,087	1,143	0	0
Total	**62,643**	**68,003**	**73,135**	**76,501**	**81,032**

(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 Financial Support for People with Disability program, which primarily consists of the Disability Support Pension, are estimated to increase by 0.3 per cent in real terms from 2021-22 to 2022-23 and to increase by 3.4 per cent in real terms from 2022-23 to 2025-26, reflecting gradual growth in estimated recipient numbers.

Expenses for the Financial Support for Carers component are estimated to increase by 1.7 per cent in real terms from 2021-22 to 2022-23 and increase by 2.8 per cent in real terms from 2022-23 to 2025-26, reflecting higher recipient numbers and payment rates.

Expenses for the **assistance to families with children** sub-function are expected to increase by 2.0 per cent in real terms from 2021-22 to 2022-23 and increase by 0.6 per cent in real terms from 2022-23 to 2025-26. The major programs impacting this trend include Family Assistance, Parents Income Support, and the Child Care Subsidy. Family Assistance expenses are expected to increase by 3.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 1.0 per cent in real terms from 2022-23 to 2025-26. The decrease in Family Assistance expenses to 2025-26 is driven by Family Tax Benefit estimated recipient numbers and average payment rates falling from 2021-22 as the economy recovers from the effects of COVID-19 pandemic and is partially offset by an increase in Paid Parental Leave expenses due to the increased flexibility and relaxed income testing arrangements as part of the 2022-23 Budget measure *Women's Economic Security Package*.

Table 5.9.3 sets out the major components of the **assistance to families with children** sub-function.

Table 5.9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Family Assistance	19,295	20,640	21,387	21,705	22,222
Child Care Subsidy	9,918	10,713	11,319	11,828	12,403
Parents income support	5,922	5,900	6,020	6,175	6,393
Child Support	2,201	2,220	2,235	2,254	2,270
Support for the childcare system	394	303	299	304	302
Families and Children	656	711	714	694	704
Family relationship services	229	244	253	252	256
Other	15	20	17	18	17
Total	**38,631**	**40,751**	**42,244**	**43,230**	**44,567**

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

The **assistance to families with children** sub-function profile includes an increase in Child Care Subsidy (CCS) expenses of 4.4 per cent in real terms from 2021-22 to 2022-23, and an increase of 6.5 per cent in real terms from 2022-23 to 2025-26. The increase primarily reflects growth in the use of childcare. The increase from 2021-22 to 2022-23 also reflects the Government's decision to bring forward the removal of the CCS annual cap and the increase to CCS payments to services on behalf of families with multiple children, aged five years and under in care, under the 2021-22 Budget measure *Women's Economic Security Package*. This measure was initially due to commence in 2022-23 but was brought forward to 2021-22.

Expenses for the support for the childcare system component are expected to decrease by 25.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 8.2 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2021-22 to 2022-23 is driven by the cessation of additional funding for the Inclusion Support Program under the 2021-22 MYEFO measure *COVID-19 Response Package – transitional support for the childcare sector*. The decline in expenses from 2022-23 to 2025-26 reflects temporary expenditure on flood support through the 2022-23 Budget measure *Flood Package*, COVID-19 support, and other terminating measures.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to decrease by 23.1 per cent in real terms from 2021-22 to 2022-23 and decrease by 7.1 per cent in real terms from 2022-23 to 2025-26. The fall in expenditure is largely due to forecast improvements in labour market conditions as the economy recovers from the COVID-19 pandemic.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 1.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 7.7 per cent in real terms from 2022-23 to 2025-26. This decrease over the forward estimates is largely due to the cessation of the Stronger Futures in the

Northern Territory – Remote Engagement and Coordination, and the Remote Community Store Licensing Scheme National Partnership Agreements.

Expenses for the **general administration** sub-function are estimated to decrease by 31.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 20.7 per cent in real terms from 2022-23 to 2025-26. The initial decrease in expenses from 2021-22 to 2022-23 is mainly attributable to expenses related to the administration of COVID-19 support payments and the Australian Government response to the 2022 flooding events in Queensland and New South Wales, primarily occurring in 2021-22. The subsequent decrease from 2022-23 to 2025-26 is attributed to an estimated reduction in recipients of income support payments as the economic recovery builds, as well as the reduction in temporary implementation costs of measures to improve service delivery.

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 5.10: Summary of expenses – housing and community amenities

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Housing	4,645	3,018	2,617	2,523	2,539
Urban and regional development	1,780	2,891	2,571	2,234	1,565
Environment protection	2,006	2,312	1,987	2,187	2,170
Total housing and community amenities	**8,431**	**8,221**	**7,174**	**6,944**	**6,274**

Total expenses under the housing and community amenities function is estimated to decrease by 5.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 29.8 per cent in real terms from 2022-23 to 2025-26.

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 decrease by 37.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 22.6 per cent in real terms from 2022-23 to 2025-26. This is largely driven by the cessation of the temporary HomeBuilder program in 2022-23, the conclusion of the National Housing and Homelessness Agreement on 30 June 2023, 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. These are not captured within this Statement as they are balance sheet items and are recorded separately in the Government Financial Statements.

The **urban and regional development** sub-function comprises 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 57.0 per cent in real terms from 2021-22 to 2022-23 reflecting a number of 2022-23 Budget measures, including *Regional Accelerator Program – establishment, Energy Security and Regional Development Plan,* and the *South East Queensland City Deal* and *Albury Wodonga Regional Deal*. Expenses are estimated to decrease by 50.2 per cent in real terms from 2022-23 to 2025-26, largely reflecting the expected completion of a number of projects under key programs such as the Building Better Regions Fund, 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 11.4 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.6 per cent in real terms from 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 primarily reflects the continued investment in water infrastructure projects under the National Water Grid Fund. The decrease in expenditure from 2022-23 to 2025-26 primarily relates to re-profiling of project funding under the National Water Grid Fund to match expected construction milestones, and the funding profile of waste and recycling and environmental assessment congestion busting measures over the forward estimates. These decreases are partially offset by increases to investment in water infrastructure through the 2022-23 Budget measure titled *National Water Grid Fund – project funding.*

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 5.11: Summary of expenses – recreation and culture

Sub-function		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Broadcasting	1,555	1,581	1,609	1,625	1,636
Arts and cultural heritage	1,885	1,743	1,678	1,648	1,645
Sport and recreation	594	531	461	377	354
National estate and parks	682	638	582	589	571
Total recreation and culture	**4,716**	**4,493**	**4,330**	**4,238**	**4,206**

Total expenses under the recreation and culture function are estimated to decrease by 7.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.9 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **broadcasting** sub-function are estimated to decrease by 1.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 4.9 per cent in real terms from 2022-23 to 2025-26. However, expenditure increases in nominal terms in line with funding agreements in place with the Australian Broadcasting Corporation (ABC) and Special Broadcasting Service Corporation (SBS).

Table 5.11.1 sets out the major components of the **broadcasting** sub-function.

Table 5.11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
ABC general operational activities	912	925	945	961	963
SBS general operational activities	380	392	394	390	395
ABC transmission and distribution services	193	194	197	200	203
SBS transmission and distribution services	70	71	72	73	74
Total	**1,555**	**1,581**	**1,609**	**1,625**	**1,636**

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

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 10.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 13.1 per cent in real terms from 2022-23 to 2025-26. This sub-function includes funding for the arts and cultural institutions. The expected decrease from 2021-22 to 2022-23 is predominantly driven by the 2021-22 Budget measures *COVID-19 Response Package – additional arts sector support* and *National Collecting Institutions – enhancements*, and the 2021-22 MYEFO measure *COVID-19 Response Package – additional arts sector support* that included a range of temporary support measures, many of which terminate in 2022-23.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 13.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 38.7 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 primarily reflects the cessation of time-limited funding provided for sport in the 2020-21 Budget, 2020-21 MYEFO, 2021-22 Budget and 2022-23 Budget. The reduction in expenditure from 2022-23 to 2025-26 largely reflects the expected completion of grant funding for time-limited community-led projects to increase participation in sport and physical activity following COVD-19, 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 9.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 17.7 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 primarily reflects the Government's decision to no longer proceed with a year-round all-weather runway at Australia's Davis research station announced in the 2019-20 MYEFO measure *Strengthening the Australian Antarctic Program*. The decrease from 2022-23 to 2025-26 reflects the cessation of temporary investment in the management of Commonwealth National Parks in 2022-23 through the 2022-23 Budget measure *Supporting the Management of Commonwealth National Parks*.

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 5.12: Summary of expenses – fuel and energy

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Fuel and energy	8,444	9,381	10,647	10,922	11,347
Total fuel and energy	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**

Fuel and energy expenses are estimated to increase by 7.4 per cent in real terms from 2021-22 to 2022-23 and increase by 11.3 per cent in real terms over the period 2022-23 to 2025-26 reflecting 2021-22 Budget measures that invest in fuel security and as a result of the 2022-23 Budget measure *Addressing Cost of Living Pressures – Temporary Reduction in Fuel Excise.*

Table 5.12.1 sets out the major components of the **fuel and energy** sub-function.

Table 5.12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	6,894	7,721	9,262	9,952	10,699
Resources and Energy	376	406	244	98	58
Renewable Energy	395	404	410	377	371
Other	779	850	731	495	219
Total	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**

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

The major program within this sub-function is the Fuel Tax Credits Scheme, which is estimated to increase by 8.3 per cent in real terms from 2021-22 to 2022-23, and 27.5 per cent in real terms from 2022-23 to 2025-26, largely reflecting reduced payments on fuels that are eligible for the Fuel Tax Credits Scheme in 2021-22 and 2022-23 as a result of the 2022-23 Budget measure *Addressing Cost of Living Pressures – Temporary Reduction in Fuel Excise.*

Expenses under the Resources and Energy component are estimated to increase by 4.6 per cent in real terms from 2021-22 to 2022-23 and decrease by 86.8 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2022-23 to 2025-26 reflects the funding profile associated with the decommissioning of the Northern Endeavour.

Expenses under the Renewable Energy component are expected to decrease by 1.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 15.4 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses from 2021-22 to 2022-23 reflects implementation costs for the Australian Renewable Energy Agency (ARENA) financing functions in the 2021-22 Budget measure *Emissions Reduction and New Investments under the Technology Investment Roadmap*. The overall decrease in expenses under the Renewable Energy component from 2022-23 to 2025-26 largely reflects a reduction in ARENA's funding profile over the period.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function include expenses to support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Table 5.13: Summary of expenses – agriculture, forestry and fishing

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Wool industry	68	67	72	74	77
Grains industry	211	226	237	237	238
Dairy industry	54	55	55	56	57
Cattle, sheep and pig industry	253	258	260	254	253
Fishing, horticulture and other agriculture	485	466	421	406	382
General assistance not allocated to specific industries	40	40	41	41	41
Rural assistance	488	400	310	341	389
Natural resources development	1,443	2,216	1,465	323	301
General administration	1,076	1,083	986	958	864
Total agriculture, forestry and fishing	**4,119**	**4,810**	**3,846**	**2,690**	**2,602**

Total expenses under this function are estimated to increase by 12.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 50.2 per cent in real terms over the period 2022-23 to 2025-26. The increase from 2021-22 to 2022-23 and the decrease over the forward years is primarily driven by the investment in 2022-23 and subsequent decline of expenses in the **natural resources development** sub-function.

The **rural assistance** sub-function is expected to decrease by 20.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 10.4 per cent in real terms over the period

2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 mainly reflects the timing of payments under the Future Drought Fund and of concessional loan discount expenses on loans issued by the Regional Investment Corporation (RIC). The decrease from 2022-23 to 2025-26 similarly relates to the timing of concessional loan discount expenses on loans issued by the RIC.

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. Expenses are estimated to increase by 48.4 per cent in real terms from 2021-22 to 2022-23, which reflects the Government's commitment to enhancing the implementation of the Murray Darling-Basin Plan (Basin Plan). The decrease of 87.5 per cent in real terms from 2022-23 to 2025-26 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.

Table 5.14: Summary of expenses – mining, manufacturing and construction

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	4,310	4,781	4,616	4,012	4,081
Total mining, manufacturing and construction	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**

Total expenses under the mining, manufacturing and construction function are expected to increase by 7.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 21.5 per cent in real terms over the period 2022-23 to 2025-26.

Table 5.14.1 sets out the major components of the **mining, manufacturing and construction** sub-function.

Table 5.14.1: Trends in the major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	2,729	2,759	2,891	3,030	3,176
Growing Business Investment	845	1,035	878	312	290
Northern Australia Infrastructure Facility	407	540	456	323	303
Other	330	447	390	346	312
Total	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**

(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 increase by 5.9 per cent in real terms from 2022-23 to 2025-26, 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 18.5 per cent in real terms from 2021-22 to 2022-23 and decrease by 74.3 per cent in real terms from 2022-23 to 2025-26. The increase and subsequent decrease in expenditure reflects the funding profile of the Modern Manufacturing Strategy, including additional investment through the 2022-23 Budget measure *Boosting the Modern Manufacturing Strategy and Addressing Critical Supply Chain Vulnerabilities*, which provides financial support to the manufacturing sector.

The Northern Australia Infrastructure Facility offers debt and equity finance to projects that contribute to the establishment or enhancement of economic activity in northern Australia. Expenses are expected to increase by 28.3 per cent in real terms from 2021-22 to 2022-23 and decrease by 48.4 per cent in real terms from 2022-23 to 2025-26 due to changes in concessional loan discount expenses associated with the expected commitment of concessional loans across the forward estimates.

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 5.15: Summary of expenses – transport and communication

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Communication	2,090	1,791	1,578	1,558	1,591
Rail transport	2,755	3,658	4,164	3,700	2,976
Air transport	1,866	410	322	282	267
Road transport	8,663	12,315	13,788	11,803	7,213
Sea transport	458	459	480	488	488
Other transport and communication	238	281	239	190	204
Total transport and communication	**16,070**	**18,915**	**20,570**	**18,020**	**12,739**

Total expenses under this function are estimated to increase by 13.8 per cent in real terms between 2021-22 and 2022-23 and decrease by 38.0 per cent in real terms over the period 2022-23 to 2025-26.

The estimated expenses for the **communication** sub-function relate to communications 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 decrease by 17.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 18.3 per cent in real terms from 2022-23 to 2025-26. The decrease in expenditure from 2021-22 to 2022-23 primarily reflects the provision of a $480 million grant to NBN Co in 2021-22 to fully upgrade its fixed wireless and satellite networks as part of the 2022-23 Budget measure *Government Response to 2021 Regional Telecommunications Review*. The decrease over 2022-23 to 2025-26 reflects the conclusion of programs, including the Regional Connectivity Program and the Mobile Black Spot Program, partially offset by additional expenditure associated with the 2022-23 Budget measure *Government Response to 2021 Regional Telecommunications Review*.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 28.4 per cent in real terms between 2021-22 and 2022-23 and decrease by 25.2 per cent in real terms from 2022-23 to 2025-26. The initial increase in expenditure primarily reflects the Government's continued investment in priority rail projects, including through the 2022-23 Budget measure titled *Infrastructure Investment – Priority Regional Infrastructure Investments*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects priority rail projects nearing completion.

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 78.8 per cent in real terms between 2021-22 and 2022-23 and decrease by 40.2 per cent in real terms from 2022-23 to 2025-26. 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 3.0 per cent in real terms between 2021-22 and 2022-23 and decrease by 2.3 per cent in real terms from 2022-23 to 2025-26, 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 37.4 per cent in real terms between 2021-22 and 2022-23 and decrease by 46.1 per cent in real terms from 2022-23 to 2025-26. The initial increase in expenditure reflects the Government's continued investment in priority road projects, including through the 2022-23 Budget measure titled *Infrastructure Investment – Priority Regional Infrastructure Investments*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects the realignment of profiles to more accurately reflect delivery schedules, completion of road infrastructure projects, and the completion of short-term 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 14.1 per cent in real terms between 2021-22 and 2022-23 and decrease by 33.2 per cent in real terms from 2022-23 to 2025-26. 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 2022-23 Budget measures *Infrastructure Investment – Priority Regional Infrastructure Investments* and *Airport Building Controller and Airport Environmental Officer Functions – additional funding*. The subsequent decrease in expenditure from 2022-23 to 2025-26 reflects the cessation of short-term components of program support provided through these measures.

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 5.16: Summary of expenses – other economic affairs

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Tourism and area promotion	193	220	185	169	165
Total labour and employment affairs	8,326	6,577	5,158	4,911	4,686
Vocational and industry training	*4,951*	*3,576*	*2,063*	*1,893*	*1,647*
Labour market assistance to job seekers and industry	*2,706*	*2,357*	*2,443*	*2,338*	*2,327*
Industrial relations	*669*	*644*	*652*	*680*	*712*
Immigration	3,917	3,335	2,786	2,880	2,848
Other economic affairs nec	11,195	3,023	2,789	2,756	2,732
Total other economic affairs	**23,631**	**13,155**	**10,919**	**10,716**	**10,431**

Total expenses for the other economic affairs function are estimated to decrease by 46.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 27.1 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **tourism and area promotion** sub-function are expected to increase by 10.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 30.9 per cent in real terms from 2022-23 to 2025-26. The decreases in expenses from 2022-23 to 2025-26 largely reflect the temporary nature of the Government's tourism marketing campaigns, as international travel resumes.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 30.2 per cent in real terms from 2021-22 to 2022-23 and decrease by 57.6 per cent in real terms from 2022-23 to 2025-26. The decrease in expenses across the forward estimates largely reflects the cessation of temporary COVID-19 support such as the 2021-22 Budget measure *Building Skills for the Future – Boosting Apprenticeship Commencements wage subsidy – expansion*. A new streamlined Australian Apprenticeships Incentive System will be introduced from 1 July 2022 to support a skilled and responsive workforce.

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 15.8 per cent in real terms from 2021-22 to 2022-23 and decrease by 9.2 per cent in real terms from 2022-23 to 2025-26. The decrease from 2021-22 to 2022-23 is primarily due to the strength of the economic recovery leading to a higher number of job seekers exiting employment services. Expenses under this sub-function are expected to decrease from 2022-23 to 2025-26, primarily as a result of the cessation of temporary arrangements to smooth the transition between *jobactive* and the new *Workforce Australia* employment services system.

Expenses under the **industrial relations** sub-function are expected to decrease by 7.0 per cent in real terms from 2021-22 to 2022-23, which reflects cessation of measures responding to the COVID-19 pandemic. Expenses under the sub-function are expected to increase by 1.8 per cent in real terms from 2022-23 to 2025-26 as a result of higher expected payments for employee entitlements under the *Fair Entitlements Guarantee Act 2012*.

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 5.16.1 sets out the major components of the **immigration** sub-function.

Table 5.16.1: Trends in the major components of immigration sub-function expenses

Component(a)	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	2,216	1,760	1,412	1,394	1,376
Citizenship, visas and migration	822	785	684	771	753
Regional co-operation and refugee and humanitarian assistance	879	790	691	715	719
Total	**3,917**	**3,335**	**2,786**	**2,880**	**2,848**

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

Expenses under this sub-function are expected to decrease by 17.7 per cent in real terms from 2021-22 to 2022-23 and decrease by 21.4 per cent in real terms from 2022-23 to 2025-26. The decrease in expenditure primarily reflects declining expenses for visas, migration and humanitarian assistance in the context of the COVID-19 pandemic, and the cessation of Australia Government regional processing contracts in Papua New Guinea.

Expenses under the **other economic affairs nec** sub-function are expected to decrease by 73.9 per cent in real terms from 2021-22 to 2022-23 and decrease by 16.9 per cent in real terms from 2022-23 to 2025-26.

Table 5.16.2 provides further details of the major components of the **other economic affairs nec** sub-function.

Table 5.16.2: Trends in the major components of other economic affairs nec sub-function expenses

Component(a)	Estimates				
	2021-22 $m	2022-23 $m	2023-24 $m	2024-25 $m	2025-26 $m
Economic Response to the Coronavirus	7,158	5	0	0	0
Promotion of Australia's export and other international economic interests	1,274	470	396	383	379
Operating costs for:					
Department of Industry, Science, Energy and Resources	620	619	528	497	485
Australian Securities and Investments Commission	618	592	577	578	574
Bureau of Meteorology	503	519	499	509	507
IP Australia	227	230	238	243	250
Australian Competition and Consumer Commission	216	217	197	189	178
Australian Prudential Regulation Authority	221	227	228	230	232
National Partnership Payments – Competition and Productivity Enhancing Reform	220	1	0	0	0
Other	138	141	126	128	128
Total	**11,195**	**3,023**	**2,789**	**2,756**	**2,732**

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

The decrease in expenditure for the **other economic affairs nec** sub-function between 2021-22 and 2022-23 is primarily the result of the temporary nature of the Government's economic response to the COVID-19 pandemic and reflects the conclusion of the COVID-19 Business Support Payment to the states and territories in 2022-23.

The decrease in expenditure for the promotion of Australia's export and other international economic interests between 2021-22 and 2022-23 is primarily driven by the temporary support provided as part of the Government's response to the COVID-19 pandemic, including through the International Freight Assistance Mechanism and Consumer Travel Support Program.

Expenses for the Department of Industry, Science, Energy and Resources are expected to decrease by 28.0 per cent in real terms from 2022-23 to 2025-26. This is largely driven by measures which terminate during the forward estimates, including the 2021-22 Budget measure *Australia's Global Resources Strategy.*

Expenses for the Bureau of Meteorology (the Bureau) are expected to decrease by 10.3 per cent in real terms from 2022-23 to 2025-26, which reflects the anticipated completion of information and communications technology (ICT) projects, including 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 5.17: Summary of expenses – other purposes

Sub-function	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Public debt interest	18,462	19,817	21,239	23,089	24,647
Interest on Commonwealth Government's behalf	*18,462*	*19,817*	*21,239*	*23,089*	*24,647*
Nominal superannuation interest	8,976	12,453	12,758	13,053	13,716
General purpose inter-government transactions	80,934	86,161	91,682	95,966	97,327
General revenue assistance – states and territories	*76,495*	*84,787*	*88,405*	*92,667*	*94,158*
Local government assistance	*4,440*	*1,374*	*3,277*	*3,298*	*3,170*
Natural disaster relief	5,176	763	646	539	35
Contingency reserve	-2,040	1,491	5,250	8,682	15,476
Total other purposes	**111,508**	**120,685**	**131,575**	**141,328**	**151,202**

Total expenses under the other purposes function are estimated to increase by 4.6 per cent in real terms from 2021-22 to 2022-23 and increase by 15.3 per cent in real terms over the period 2022-23 to 2025-26.

Expenses under the **public debt interest** sub-function are expected to increase by 3.8 per cent in real terms from 2021-22 to 2022-23 and increase by 14.4 per cent in real terms from 2022-23 to 2025-26. The increase in expenses reflects an increase in expected issuance of Australian Government Securities. *Statement 6: Debt Statement* of Budget Paper No. 1 provides further information on Government debt.

The increase in **nominal superannuation interest** expenses from 2021-22 to 2022-23 and over the forward estimates primarily reflects the use of different discount rates. In accordance with accounting standards, superannuation expenses for 2021-22 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 broadly between 1.6 and 2.3 per cent per annum. In preparing the latest Long Term Cost Reports, the scheme actuaries have determined that a discount rate of 5.0 per cent should be applied to the forward estimates.

Expenses under the **general purpose inter-government transactions** sub-function are expected to increase by 3.9 per cent in real terms from 2022-23 to 2025-26. Nearly all the expenses under this sub-function relate to **general revenue assistance** paid to state and territory governments, which is expected to increase by 7.2 per cent in real terms from

2021-22 to 2022-23 and increase by 2.2 per cent in real terms from 2022-23 to 2025-26, largely comprising 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 2022-23.*

Expenses under **local government assistance** are expected to decrease by 70.1 per cent in real terms from 2021-22 to 2022-23 and increase by 112.1 per cent in real terms from 2022-23 to 2025-26, largely reflecting 75 per cent of the expected 2022-23 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2021-22.

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 (DRFA). 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 a general rule, as no provision is made for future disasters, the amount reduces over time.

In relation to the February-March 2022 floods in northern New South Wales and Queensland, the expense profile includes a range of Commonwealth assistance already announced through the 2022-23 Budget measure *Flood Package* and a provision of $3.0 billion acknowledging the expected significant impact on future Government spending. Future unquantifiable costs will include the Commonwealth's up to 75 per cent share of the cost of rebuilding of essential public infrastructure damaged by the floods, under categories A and B of the DRFA. The sub-function also reflects departmental funding for the 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 2022-23 Budget increases expenses by $1.5 billion in 2022-23, $5.3 billion in 2023-24, $8.7 billion in 2024-25 and $15.5 billion in 2025-26. A key component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy (excluding GST payments to the states) to be revised upwards in the forward years. The 2022-23 Budget includes a provision of:

- nil in the Budget year 2022-23;
- ½ of a percentage point of total general government sector (GGS) expenses in the first forward year 2023-24 ($2.7 billion);
- 1 per cent of GGS expenses in the second forward year 2024-25 ($5.6 billion); and
- 2 per cent of GGS expenses in the third forward year 2025-26 ($11.6 billion).

The drawdown of the CBA decreased expenses by $1.3 billion in 2022-23, $1.3 billion in 2023-24, $2.6 billion in 2024-25 and $1.7 billion in 2025-26. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

The Contingency Reserve also includes estimates for policy decisions that have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, or as they are subject to negotiations.

Significant expenditure items include:

- a provision of $3.0 billion over four years from 2021-22 for the potential costs of the long-term response to the February-March 2022 floods in northern New South Wales and Queensland. This recognises some of the expected significant impacts on future Government spending, including for demand driven payments under categories A and B of the DRFA and delayed claims on the Australian Government Disaster Recovery Payment and Disaster Recovery Allowance. This has been included in the **natural disaster relief** sub-function for the purpose of functional expense reporting;
- funding for the negotiation of a new National Skills Agreement with the states. Funding for this Agreement will remain in the Contingency Reserve as the agreement is subject to ongoing negotiations with the states. This has been included in the **vocational and other education** sub-function for the purpose of functional expense reporting;
- funding for the Indigenous Recognition Referendum ($160 million) and the establishment of a Commonwealth Integrity Commission ($67 million over four years from 2022-23, this is an ongoing measure);
- a provision of $148 million over four years from 2022-23 for the continuation of some expiring National Partnerships funding agreements and for possible by-election costs for the Australian Electoral Commission; and

- a provision for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspend provision in 2021-22 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons. These include a provision for the replacement of the Australian Electoral Commission's election and roll management systems as part of tranche 2 of their ICT modernisation program. The amount of this provision is not-for-publication due to commercial sensitivities, as the program is subject to future procurement activity.

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 $11.3 billion in 2022-23, $0.2 billion higher than net capital investment in 2021-22. This reflects increased investment by the Department of Defence as outlined in the *2016 Defence White Paper* and *2020 Force Structure Plan*. From 2022-23 to 2025-26 net capital investment is expected to decrease.

Details of movements are further explained in the following section.

Table 5.18: Estimates of total net capital investment

	MYEFO	Revised	Estimates			
	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
Total net capital investment ($m)	**11,593**	**11,092**	**11,319**	**10,580**	**7,443**	**8,172**
Per cent of GDP	0.5	0.5	0.5	0.4	0.3	0.3

Reconciliation of net capital investment since the 2021-22 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2021-22 Budget, is provided in Table 5.19.

Table 5.19: Reconciliation of net capital investment estimates

	Estimates				
	2021-22	2022-23	2023-24	2024-25	Total
	$m	$m	$m	$m	$m
2021-22 Budget net capital investment	**10,330**	**10,939**	**10,135**	**9,161**	**40,565**
Changes from 2021-22 Budget to 2021-22 MYEFO					
Effect of policy decisions(a)	1,586	189	181	116	2,072
Effect of parameter and other variations	-324	249	605	-1,073	-542
Total variations	**1,263**	**438**	**786**	**-956**	**1,530**
2021-22 MYEFO net capital investment	**11,593**	**11,376**	**10,920**	**8,205**	**42,094**
Changes from 2021-22 MYEFO to 2022-23 Budget					
Effect of policy decisions(a)	1,697	97	-67	-251	1,476
Effect of parameter and other variations	-2,198	-154	-273	-511	-3,135
Total variations	**-501**	**-57**	**-340**	**-762**	**-1,660**
2022-23 Budget net capital investment	**11,092**	**11,319**	**10,580**	**7,443**	**40,435**

(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 2022-23 has an overall increase of $381 million since the 2021-22 Budget. This increase is driven by the effect of policy decisions of $286 million and an increase of $95 million as a result of parameter and other variations.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2021-22 to 2025-26 are provided in Table 5.20.

Table 5.20: Estimates of net capital investment by function

		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	1,819	448	-165	-401	-695
Defence	8,648	9,802	10,847	10,678	10,031
Public order and safety	461	-132	-258	-296	-281
Education	65	40	32	-10	-10
Health	509	271	-106	-98	-138
Social security and welfare	-165	307	-110	-162	-394
Housing and community amenities	11	56	36	-57	-154
Recreation and culture	354	326	140	-66	-99
Fuel and energy	-83	158	-1	0	-2
Agriculture, forestry and fishing	59	48	26	3	-26
Mining, manufacturing and construction	-25	-20	-17	-29	-22
Transport and communication	-974	-36	74	-2,178	-72
Other economic affairs	417	-186	-409	-427	-466
Other purposes	-3	238	491	486	499
Total net capital investment	**11,092**	**11,319**	**10,580**	**7,443**	**8,172**

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 decrease in net capital investment from 2021-22 to 2025-26 largely reflects the construction of Centres for National Resilience in 2021-22, and the timing of lease renewals and completion of major ICT projects by the Australian Taxation Office;

- **Defence** — the increase in net capital investment from 2021-22 to 2025-26 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 enabling ICT capabilities, infrastructure and the Defence estate;

- **Public order and safety** — the decrease in net capital investment from 2021-22 reflects the timing of lease renewals by the Department of Home Affairs;

- **Health** — the decrease in net capital investment from 2021-22 to 2025-26 largely reflects the change in the National Medical Stockpile procurement strategies in response to the COVID-19 pandemic;

- **Social security and welfare** — the decrease in net capital investment from 2022-23 to 2025-26 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 in 2022-23 for the 2021-22 Budget measures *GovERP – Common Corporate Australian Public Service System* and *Digital Economy Strategy*, and the 2020-21 Budget measure *Welfare Payment Infrastructure Transformation – tranche four;*

- **Recreation and culture** — the decrease in net capital investment from 2022-23 reflects the expected completion of capital investments at the Australian War Memorial and within Australia's Antarctic program and Commonwealth National Parks;

- **Transport and communication** — the variable profile of net capital investment reflects the sale of non-financial assets through the 850/900 MHz and 2.4 Gigahertz Spectrum Auctions; and

- **Other economic affairs** — the decrease in net capital investment from 2021-22 reflects the timing of lease renewals by the Department of Home Affairs and the phasing down of investment under the second and third tranches of capital projects to strengthen the Bureau of Meteorology's ICT security and resilience, and observations network.

Table 5.21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 5.21: Australian Government general government sector purchases of non-financial assets by function

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
General public services	3,441	2,066	1,424	1,185	928
Defence	14,160	15,807	17,871	18,386	18,519
Public order and safety	1,304	728	591	534	558
Education	91	70	62	19	19
Health	408	479	136	130	75
Social security and welfare	714	1,151	679	574	313
Housing and community amenities	461	472	416	368	335
Recreation and culture	799	803	588	384	332
Fuel and energy	33	43	14	16	13
Agriculture, forestry and fishing	152	143	123	102	72
Mining, manufacturing and construction	12	17	21	9	16
Transport and communication	106	98	210	52	58
Other economic affairs	1,330	724	508	517	474
Other purposes	13	240	493	488	501
General government purchases of non-financial assets	**23,025**	**22,842**	**23,138**	**22,766**	**22,213**

Appendix A: Expense by function and sub-function

Table 5A.1: Estimates of expenses by function and sub-function

	Actual		Estimates			
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,371	1,933	1,519	1,500	1,757	1,423
Financial and fiscal affairs	8,848	9,313	8,043	7,733	7,956	7,739
Foreign affairs and economic aid	6,470	7,185	7,191	6,245	7,235	6,315
General research	3,069	3,533	3,750	3,909	4,010	4,036
General services	1,283	832	883	854	861	874
Government superannuation benefits	10,900	10,326	5,131	5,273	5,339	5,434
Total general public services	**31,942**	**33,121**	**26,518**	**25,514**	**27,159**	**25,821**
Defence	**34,007**	**35,882**	**38,268**	**39,672**	**41,661**	**44,544**
Public order and safety						
Courts and legal services	1,527	1,620	1,661	1,503	1,466	999
Other public order and safety	5,127	5,094	5,353	4,861	4,799	4,730
Total public order and safety	**6,655**	**6,713**	**7,014**	**6,364**	**6,265**	**5,729**
Education						
Higher education	11,318	10,666	10,434	10,360	10,551	10,935
Vocational and other education	2,145	2,150	2,300	2,198	2,385	2,530
Schools	22,159	25,028	26,411	27,699	28,688	29,657
Non-government schools	*13,107*	*15,302*	*16,126*	*16,890*	*17,468*	*18,005*
Government schools	*9,052*	*9,726*	*10,284*	*10,808*	*11,220*	*11,652*
School education – specific funding	678	800	836	810	695	726
Student assistance	5,757	4,422	4,513	4,686	4,756	4,853
General administration	274	291	294	280	278	275
Total education	**42,331**	**43,357**	**44,788**	**46,034**	**47,353**	**48,977**
Health						
Medical services and benefits	35,785	38,980	39,471	40,317	42,115	43,998
Pharmaceutical benefits and services	15,199	16,443	17,229	17,101	17,226	17,281
Assistance to the states for public hospitals	22,508	25,013	27,333	28,717	30,659	32,653
Hospital services(a)	1,032	1,105	1,062	1,058	1,055	1,059
Health services	13,286	24,133	15,290	10,552	10,403	10,244
General administration	3,955	4,801	4,227	3,684	3,595	3,560
Aboriginal and Torres Strait Islander health	975	992	1,142	1,145	1,172	1,137
Total health	**92,740**	**111,467**	**105,754**	**102,575**	**106,225**	**109,932**
Social security and welfare						
Assistance to the aged	77,009	78,589	84,217	88,483	91,978	96,635
Assistance to veterans and dependants	7,853	7,358	8,144	6,917	6,834	6,770
Assistance to people with disabilities	55,959	62,643	68,003	73,135	76,501	81,032
Assistance to families with children	41,245	38,631	40,751	42,244	43,230	44,567

Table 5A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Social security and welfare (continued)						
Assistance to the unemployed and the sick	29,718	15,783	12,548	11,910	12,059	12,672
Other welfare programs	1,745	17,063	1,628	1,426	1,391	1,368
Assistance for Indigenous Australians nec	2,334	2,666	2,803	2,696	2,729	2,813
General administration	4,498	5,066	3,592	3,184	3,115	3,096
Total social security and welfare	**220,360**	**227,800**	**221,685**	**229,996**	**237,837**	**248,953**
Housing and community amenities						
Housing	3,642	4,645	3,018	2,617	2,523	2,539
Urban and regional development	1,176	1,780	2,891	2,571	2,234	1,565
Environment protection	1,473	2,006	2,312	1,987	2,187	2,170
Total housing and community amenities	**6,291**	**8,431**	**8,221**	**7,174**	**6,944**	**6,274**
Recreation and culture						
Broadcasting	1,502	1,555	1,581	1,609	1,625	1,636
Arts and cultural heritage	1,567	1,885	1,743	1,678	1,648	1,645
Sport and recreation	541	594	531	461	377	354
National estate and parks	487	682	638	582	589	571
Total recreation and culture	**4,096**	**4,716**	**4,493**	**4,330**	**4,238**	**4,206**
Fuel and energy	**8,242**	**8,444**	**9,381**	**10,647**	**10,922**	**11,347**
Agriculture, forestry and fishing						
Wool industry	50	68	67	72	74	77
Grains industry	185	211	226	237	237	238
Dairy industry	54	54	55	55	56	57
Cattle, sheep and pig industry	230	253	258	260	254	253
Fishing, horticulture and other agriculture	469	485	466	421	406	382
General assistance not allocated to specific industries	36	40	40	41	41	41
Rural assistance	806	488	400	310	341	389
Natural resources development	430	1,443	2,216	1,465	323	301
General administration	906	1,076	1,083	986	958	864
Total agriculture, forestry and fishing	**3,165**	**4,119**	**4,810**	**3,846**	**2,690**	**2,602**
Mining, manufacturing and construction	**4,034**	**4,310**	**4,781**	**4,616**	**4,012**	**4,081**
Transport and communication						
Communication	1,094	2,090	1,791	1,578	1,558	1,591
Rail transport	1,328	2,755	3,658	4,164	3,700	2,976
Air transport	2,185	1,866	410	322	282	267
Road transport	7,554	8,663	12,315	13,788	11,803	7,213
Sea transport	427	458	459	480	488	488
Other transport and communication	216	238	281	239	190	204
Total transport and communication	**12,804**	**16,070**	**18,915**	**20,570**	**18,020**	**12,739**

Table 5A.1: Estimates of expenses by function and sub-function (continued)

	Actual	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m	$m
Other economic affairs						
Tourism and area promotion	210	193	220	185	169	165
Total labour and employment affairs	5,260	8,326	6,577	5,158	4,911	4,686
Vocational and industry training	*2,495*	*4,951*	*3,576*	*2,063*	*1,893*	*1,647*
Labour market assistance to job seekers and industry	*2,111*	*2,706*	*2,357*	*2,443*	*2,338*	*2,327*
Industrial relations	*654*	*669*	*644*	*652*	*680*	*712*
Immigration	3,419	3,917	3,335	2,786	2,880	2,848
Other economic affairs nec	73,179	11,195	3,023	2,789	2,756	2,732
Total other economic affairs	**82,067**	**23,631**	**13,155**	**10,919**	**10,716**	**10,431**
Other purposes						
Public debt interest	17,123	18,462	19,817	21,239	23,089	24,647
Interest on Commonwealth Government's behalf	*17,123*	*18,462*	*19,817*	*21,239*	*23,089*	*24,647*
Nominal superannuation interest	7,177	8,976	12,453	12,758	13,053	13,716
General purpose inter-government transactions	78,538	80,934	86,161	91,682	95,966	97,327
General revenue assistance – states and territories	*75,097*	*76,495*	*84,787*	*88,405*	*92,667*	*94,158*
Local government assistance	*3,441*	*4,440*	*1,374*	*3,277*	*3,298*	*3,170*
Natural disaster relief	344	5,176	763	646	539	35
Contingency reserve	0	-2,040	1,491	5,250	8,682	15,476
Total other purposes	**103,182**	**111,508**	**120,685**	**131,575**	**141,328**	**151,202**
Total expenses	**651,916**	**639,569**	**628,469**	**643,833**	**665,369**	**686,839**

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

Statement 6: Debt Statement

The Debt Statement provides information on Government gross debt, net debt, Australian Government Securities (AGS) issuance, interest costs, and details of climate spending, including the extent to which spending has contributed to debt.

Contents

Statement 6: Debt Statement

Overview

Gross and net debt as a share of GDP are both expected to be lower than at MYEFO and decline over time.

Gross debt is expected to be 42.5 per cent of GDP at 30 June 2023, increasing to a peak of 44.9 per cent of GDP at 30 June 2025 before declining to 40.3 per cent of GDP by the end of the medium term.

Net debt is expected to be 31.1 per cent of GDP at 30 June 2023 before stabilising at 33.1 per cent of GDP at the end of forward estimates and falling to 26.9 per cent of GDP by the end of the medium term.

Interest payments on AGS as a share of GDP are expected to remain broadly consistent with estimates at MYEFO and around long-run average levels.

Further detail on debt over the forward estimates is provided below. Charts showing debt projections over the forward estimates and medium term can be found in *Statement 3: Fiscal Strategy and Outlook*.

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 of AGS on issue

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 (also referred to as gross debt) is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[1] 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,

1 For TIBs, the final repayment amount paid to investors includes an additional amount to reflect the impact of inflation over the life of the security. This additional amount is not included in the calculation of face value.

the market value of AGS on issue is reported in the Australian Government general government sector balance sheet.

Table 6.1 contains estimates of the face value (end-of-year and within-year peak)[2] and the market value (end-of-year) of AGS on issue.

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. Effective from 7 October 2020, the Treasurer directed that the maximum face value of AGS that can be on issue is $1,200 billion. As required by the *Charter of Budget Honesty Act 1998*, Table 6.1 reports estimates of AGS on issue subject to the Treasurer's Direction.

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 6.1: Estimates of AGS on issue subject to the Treasurer's Direction(a)(b)

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b
Face value – end-of-year	906	977	1,056	1,117	1,169
Per cent of GDP	39.5	42.5	44.6	44.9	44.7
Face value – within-year peak(c)	906	982	1,071	1,131	1,193
Per cent of GDP(c)	39.5	42.7	45.2	45.4	45.6
Month of peak(c)	*Jun-22*	*Apr-23*	*Apr-24*	*Apr-25*	*Apr-26*
Market value – end-of-year	929	1,004	1,088	1,153	1,207
Per cent of GDP	40.5	43.6	46.0	46.3	46.1

(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 2022-23, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around $977 billion, compared with $1,017 billion at MYEFO.

2 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 end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around $1,169 billion in 2025-26.

In 2022-23, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around $982 billion. In 2025-26, this is estimated to rise to a within-year peak of $1,193 billion. The estimates of within-year peak and end-of-year face value of AGS on issue to the end of the forward estimates period remain below the Treasurer's Direction of the maximum face value of AGS that can be on issue.

Changes in AGS on issue since the 2021-22 MYEFO

Table 6.2 shows the change in the estimated end-of-year face value of AGS on issue subject to the Treasurer's Direction between MYEFO and the 2022-23 Budget.

Gross debt as a share of GDP is expected to be lower across each year of the forward estimates and medium term than expected at MYEFO. The improvement is primarily driven by the improved outlook for the underlying cash balance.

Gross debt as a share of the economy is expected to peak at 44.9 per cent of GDP at 30 June 2025, 5.4 percentage points lower and 4 years earlier than at MYEFO. Gross debt is then projected to fall to 40.3 per cent of GDP by the end of the medium term. At MYEFO, gross debt was projected to stabilise at around 50 per cent of GDP in the medium term.

Table 6.2: Estimates of AGS on issue subject to the Treasurer's Direction — reconciliation from the 2021-22 MYEFO to the 2022-23 Budget

	2021-22 $b	2022-23 $b	2023-24 $b	2024-25 $b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2021-22 MYEFO	**919**	**1,017**	**1,110**	**1,189**
Factors affecting the change in face value of AGS on issue from 2021-22 MYEFO to 2022-23 Budget(a)				
Cumulative receipts decisions	2.3	10.7	9.1	8.5
Cumulative receipts variations	-26.8	-66.4	-99.7	-123.2
Cumulative payment decisions	6.5	15.3	21.1	26.9
Cumulative payment variations	-1.4	0.0	1.3	9.2
Cumulative change in net investments in financial assets(b)	-0.7	-0.3	0.3	1.9
Other contributors	6.9	0.4	14.3	4.3
Total face value of AGS on issue subject to the Treasurer's Direction as at 2022-23 Budget	**906**	**977**	**1,056**	**1,117**

(a) Cumulative impact of decisions and variations from 2021-22 to 2024-25. Increases to payments are shown as positive and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End-of-year data.

Breakdown of AGS currently on issue

Table 6.3 provides a breakdown of the AGS on issue by type of security as at 18 March 2022.

Table 6.3: Breakdown of current Australian Government Securities on issue

	On issue as at 18 March	
	Face value	Market value
	$m	$m
Treasury Bonds	800,112	799,297
Treasury Indexed Bonds	36,535	48,474
Treasury Notes	31,500	31,496
Total AGS subject to Treasurer's Direction(a)	**868,147**	**879,267**
Other stock and securities	5	5
Total AGS on issue	**868,153**	**879,272**

(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 6.4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 18 March 2022, there were 28 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.2 years and the longest maturity extending to June 2051. Further information on the AOFM's strategy that has lengthened the weighted average term to maturity over the past decade can be found in *Statement 3: Fiscal Strategy and Outlook*.

Table 6.4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 18 March 2022 $m	Timing of interest payments(a)		
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	34,400	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-24	39,600	Twice yearly	21-Nov	21-May
3.25	21-Apr-25	38,100	Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	36,800	Twice yearly	21-Nov	21-May
4.25	21-Apr-26	38,100	Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	32,800	Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	33,900	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	29,700	Twice yearly	21-Nov	21-May
2.25	21-May-28	29,700	Twice yearly	21-May	21-Nov
2.75	21-Nov-28	32,600	Twice yearly	21-Nov	21-May
3.25	21-Apr-29	33,000	Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	33,400	Twice yearly	21-Nov	21-May
2.50	21-May-30	36,600	Twice yearly	21-May	21-Nov
1.00	21-Dec-30	38,700	Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	37,300	Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	40,000	Twice yearly	21-Nov	21-May
1.25	21-May-32	33,200	Twice yearly	21-May	21-Nov
1.75	21-Nov-32	22,800	Twice yearly	21-Nov	21-May
4.50	21-Apr-33	19,800	Twice yearly	21-Apr	21-Oct
2.75	21-Jun-35	9,550	Twice yearly	21-Jun	21-Dec
3.75	21-Apr-37	12,000	Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	9,900	Twice yearly	21-Jun	21-Dec
2.75	21-May-41	13,500	Twice yearly	21-May	21-Nov
3.00	21-Mar-47	13,300	Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	15,900	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 6.5 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 18 March 2022, there were 7 TIB lines on issue, with a weighted average term to maturity of around 10.6 years and the longest maturity extending to February 2050.

Table 6.5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 18 March 2022 $m	Timing of interest payments(a)				
3.00	20-Sep-25	7,893	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
0.75	21-Nov-27	6,500	Quarterly	21-Nov	21-Feb	21-May	21-Aug
2.50	20-Sep-30	6,343	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun
0.25	21-Nov-32	3,550	Quarterly	21-Nov	21-Feb	21-May	21-Aug
2.00	21-Aug-35	4,350	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.25	21-Aug-40	3,950	Quarterly	21-Aug	21-Nov	21-Feb	21-May
1.00	21-Feb-50	3,950	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 6.6 lists the Treasury Notes currently on issue. As at 18 March 2022 there were 8 Treasury Note lines on issue. Treasury Notes do not pay a coupon.

Table 6.6: Treasury Notes on issue

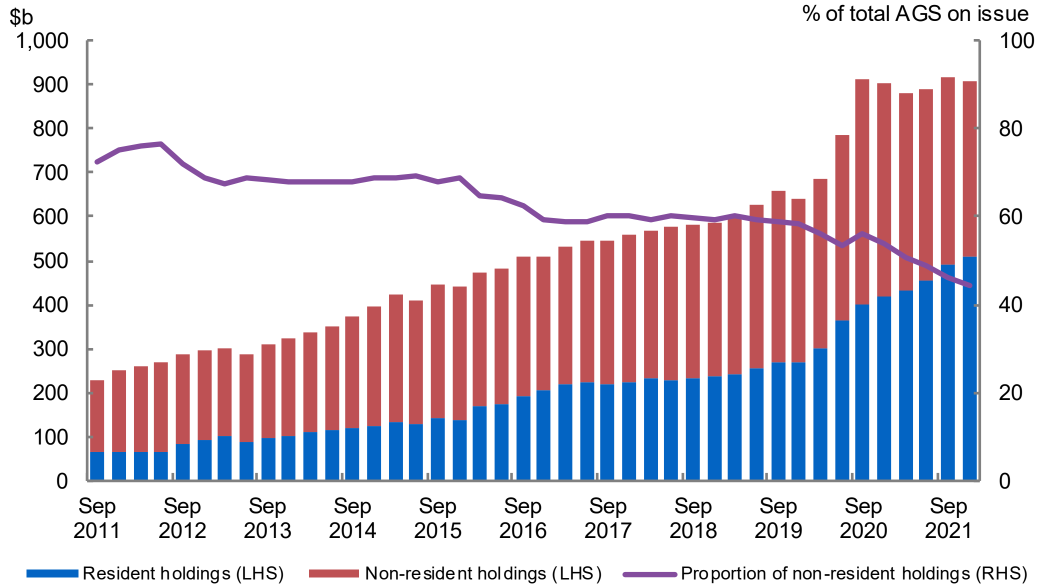
Maturity	On issue as at 18 March 2022 $m	Timing of interest payment	
25-Mar-22	7,000	At maturity	25-Mar
22-Apr-22	7,000	At maturity	22-Apr
13-May-22	4,000	At maturity	13-May
27-May-22	3,250	At maturity	27-May
10-Jun-22	3,000	At maturity	10-Jun
24-Jun-22	3,250	At maturity	24-Jun
8-Jul-22	2,000	At maturity	8-Jul
22-Jul-22	2,000	At maturity	22-Jul

Source: AOFM.

Non-resident holdings of AGS on issue

As at the December quarter 2021, the proportion of non-resident holdings of AGS was around 44 per cent (Chart 6.1). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 6.1: 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 2021, AOFM, RBA.

Estimates and projections of net debt

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.

Net debt is expected to be 31.1 per cent of GDP at 30 June 2023, lower than the estimate of 34.7 per cent of GDP at MYEFO. Net debt is expected to stabilise at 33.1 per cent of GDP at the end of forward estimates, before improving over the medium term to reach 26.9 per cent of GDP at 30 June 2033. Net debt as a share of the economy is expected to be lower across the forward estimates and medium term than projected at MYEFO.

Table 6.7 contains the liabilities and assets included in net debt over the forward estimates.

Table 6.7: Liabilities and assets included in net debt

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	598	598	598	598	598
Government securities(a)	929,091	1,004,288	1,087,754	1,152,547	1,206,526
Loans	29,640	29,583	29,403	29,151	28,837
Other borrowing	19,901	20,068	19,421	18,370	16,962
Total liabilities included in net debt	979,230	1,054,537	1,137,176	1,200,665	1,252,923
Assets included in net debt					
Cash and deposits	62,206	36,061	49,275	50,588	51,253
Advances paid	81,915	86,550	83,582	86,997	89,438
Investments, loans and placements	203,633	216,979	232,197	239,804	247,579
Total assets included in net debt	**347,753**	**339,589**	**365,053**	**377,388**	**388,271**
Net debt	**631,477**	**714,947**	**772,123**	**823,277**	**864,653**

(a) Government securities are presented at market value.

Changes in net debt since the 2021-22 MYEFO

Table 6.8 shows the drivers of the change in net debt between MYEFO and the 2022-23 Budget. Net debt is expected to be lower than estimated at MYEFO across all years of the forward estimates. This primarily reflects the Government's decreased borrowing requirement resulting from the expected improvement in the underlying cash balance, and a decrease in the market value of AGS due to higher yields than were assumed at MYEFO.

Table 6.8: Net debt – reconciliation from the 2021-22 MYEFO to the 2022-23 Budget

	2021-22	2022-23	2023-24	2024-25
	$b	$b	$b	$b
Net debt as at 2021-22 MYEFO	**673.4**	**773.1**	**855.9**	**914.8**
Changes in financing requirement	-13.1	-37.4	-52.1	-69.6
Impact of yields on AGS	-27.3	-27.0	-25.5	-23.6
Asset and other liability movements	-1.6	6.2	-6.1	1.6
Cash and deposits	*-4.7*	*2.9*	*-8.3*	*1.2*
Advances paid	*1.1*	*0.7*	*-0.5*	*-1.8*
Investments, loans and placements	*1.8*	*2.5*	*2.5*	*2.0*
Other movements	*0.2*	*0.1*	*0.2*	*0.2*
Total movements in net debt from 2021-22 MYEFO to 2022-23 Budget	**-41.9**	**-58.2**	**-83.7**	**-91.6**
Net debt as at 2022-23 Budget	**631.5**	**714.9**	**772.1**	**823.3**

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 than when it is actually paid.

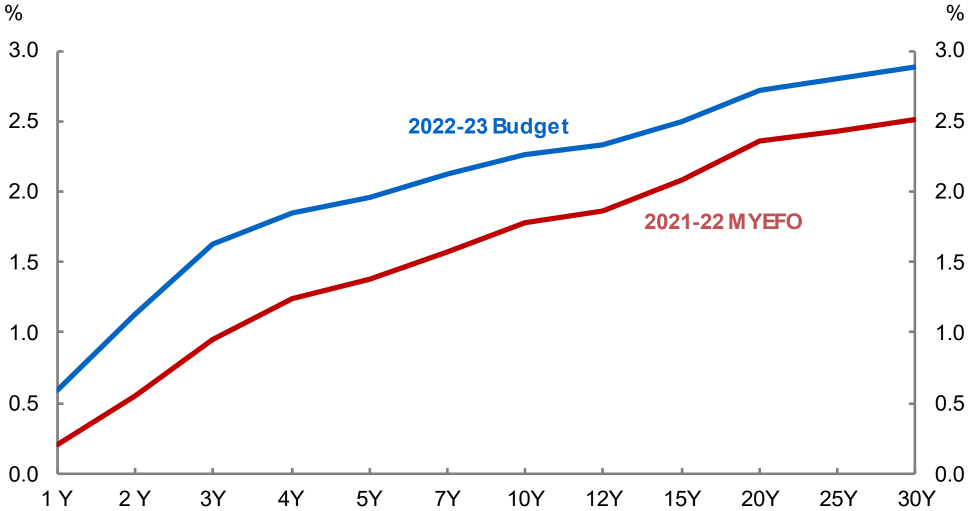
Estimates of the interest payments and expense of AGS on issue include the cost of AGS already on issue and future AGS issuance.

- 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 recent increase in market yields has resulted in an assumed weighted average cost of borrowing of around 2.2 per cent for future issuance of Treasury Bonds over the forward estimates, compared with around 1.7 per cent at MYEFO.

Chart 6.2 shows the yield curve assumptions underpinning MYEFO and the 2022-23 Budget. For Budget updates, a recent average of daily spot rates is 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 6.2: Yield curve assumptions from 2021-22 to 2025-26



Source: AOFM.

The Government's total interest payments in 2022-23 are estimated to be $17.9 billion, of which $17.4 billion relates to AGS on issue (Table 6.9).

Table 6.9: Interest payments, interest receipts and net interest payments(a)

		Estimates			
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Interest payments on AGS (b)	17,006	17,379	19,712	21,021	25,676
Per cent of GDP	0.7	0.8	0.8	0.8	1.0
Interest payments(c)	17,456	17,894	20,288	21,631	26,322
Per cent of GDP	0.8	0.8	0.9	0.9	1.0
Interest receipts	2,557	2,820	3,393	3,670	3,932
Per cent of GDP	0.1	0.1	0.1	0.1	0.2
Net interest payments(d)	14,899	15,074	16,895	17,961	22,390
Per cent of GDP	0.7	0.7	0.7	0.7	0.9

(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) The increase in 2025-26 primarily reflects a Treasury Indexed Bond line maturing in that year.
(c) Interest payments include interest payments on AGS, loans and other borrowing, as well as interest payments on lease liabilities.
(d) Net interest payments are equal to the difference between interest payments and interest receipts.

Interest payments as a share of GDP are expected to remain broadly consistent with estimates at MYEFO over the forward estimates, with the expected impact of the recent rise in interest rates partially offset by lower issuance of AGS. By the end of the medium term, interest payments as a share of GDP are projected to be lower than projected at MYEFO, as assumed higher interest rates are more than offset by the expected lower issuance of AGS. Interest payments as a share of the economy are expected to remain around the 30-year average of just under one per cent through the forward estimates.

The Government's interest expense in 2022-23 is estimated to be $21.5 billion, of which $19.8 billion relates to AGS on issue. Table 6.10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

Table 6.10: Interest expense, interest income and net interest expense[(a)]

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Interest expense on AGS	18,443	19,784	21,206	23,056	24,614
Per cent of GDP	0.8	0.9	0.9	0.9	0.9
Total Interest expense(b)	20,638	21,481	22,567	24,666	25,922
Per cent of GDP	0.9	0.9	1.0	1.0	1.0
Interest income	3,916	3,751	4,294	4,576	4,649
Per cent of GDP	0.2	0.2	0.2	0.2	0.2
Net interest expense(c)	16,722	17,730	18,273	20,090	21,274
Per cent of GDP	0.7	0.8	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) Total Interest expense includes interest expense on AGS, loans and other borrowing, as well as interest expense on lease liabilities and other financing costs (including debt not expected to be repaid (DNER)).
(c) Net interest expense is equal to the difference between interest expenses and interest income.

Climate spending

The Government has outlined a practical, responsible way to deliver net zero emissions by 2050 while preserving Australian jobs and generating new opportunities for industries and regional Australia. Consistent with Australia's Long Term Emissions Reduction Plan, the Government will invest more than $22 billion in clean energy technologies, which is expected to unlock more than $84 billion of total private and public investment to achieve lower emissions, while retaining our energy independence. Key investments include:

- $2.5 billion for projects through the Emissions Reduction Fund - Australia's carbon offset scheme
- $2 billion for further abatement through the Climate Solutions Fund
- $1.5 billion to develop a world-leading Australian clean hydrogen industry
- $1.0 billion in additional funding to protect the health and resilience of the Great Barrier Reef, extending the Federal Government's investment under the Reef 2050 Plan to more than $3.0 billion
- investments with Australia international partners, including $565 million for international low emissions technology partnerships

Table 6.11 aggregates select climate spending, including:

- 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.

Table 6.11: Select climate spending from 2021-22 to 2025-26

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b
Climate spending(a)(b)	2.0	2.0	1.9	1.5	1.3

(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.

Impact of select climate spending on debt

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 6.12.

Table 6.12: Impact on debt – select climate spending as a proportion of total spending

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$b	$b	$b	$b	$b
Climate spending(a)	2.0	2.0	1.9	1.5	1.3
Total Spending(b)	642	638	643	672	694
Climate spending (per cent of total spending)	0.3	0.3	0.3	0.2	0.2
Change in face value of AGS from previous year(c)	89	71	79	61	53
Contribution to change in face value of AGS from climate spending	0.3	0.2	0.2	0.1	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 7: Forecasting Performance and Sensitivity Analysis

The economic and fiscal forecasts and projections presented in the 2022-23 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.

The large forecast errors in 2019-20 and 2020-21 due to the COVID-19 pandemic show that there is heightened uncertainty in the forecasts. In addition to the uncertainties of living with COVID-19, Russia's invasion of Ukraine could increase the extent to which ultimate outcomes vary from the current forecasts.

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 on economic and fiscal forecasts.

Contents

Statement 7: Forecasting Performance and Sensitivity Analysis

Overview

Economic and fiscal forecasts and projections 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.

This Statement assesses the performance of previous budget forecasts by looking at the forecast errors over the past 2 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 pandemic and Russia's invasion of Ukraine means that forecast errors could potentially be larger than previously.

Finally, this Statement assesses the sensitivity of the 2022-23 Budget forecasts to movements in 2 underlying assumptions that are consistently pertinent to the economic and fiscal forecasts: the iron ore price and yields. The sensitivity of economic forecasts to other key assumptions, including those particularly relevant to the impact of the Russian invasion of Ukraine, is considered in *Budget Statement 2: Economic Outlook*.

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.

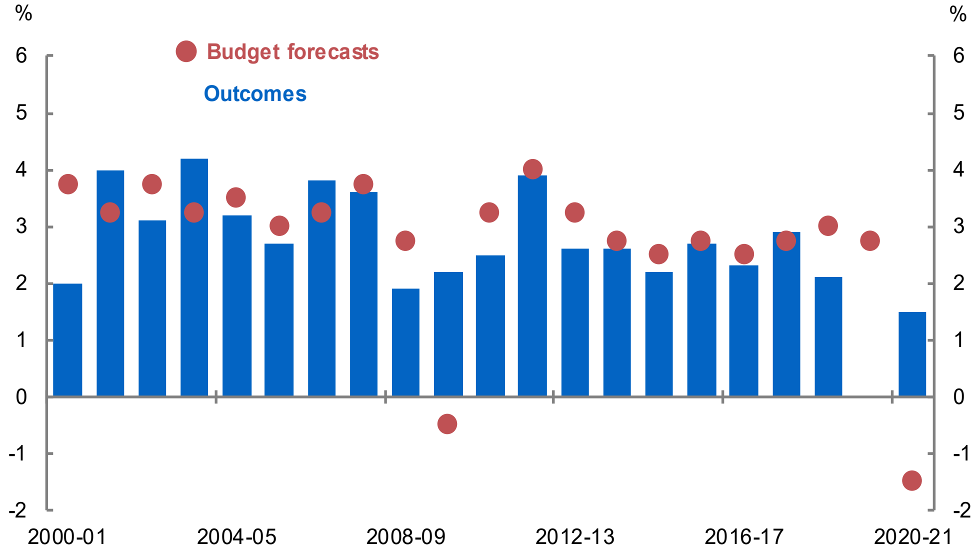
Forecasts incorporate a number of assumptions and judgments. The accuracy of the forecasts is influenced by the extent to which the assumptions and judgments underpinning them prove to be correct, and the reliability of the economic and fiscal relationships embodied in the models used to produce them. 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.

The large forecast error in 2019-20 was due to the onset of the COVID-19 pandemic. The 2020-21 forecasting error illustrates how the economic recovery was significantly stronger than anticipated. This economic recovery was underpinned by Australia's success in containing the health crisis. In addition, 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 market scarring from the crisis (Chart 7.1).

Chart 7.1: Comparison of forecasts and outcomes for real GDP growth

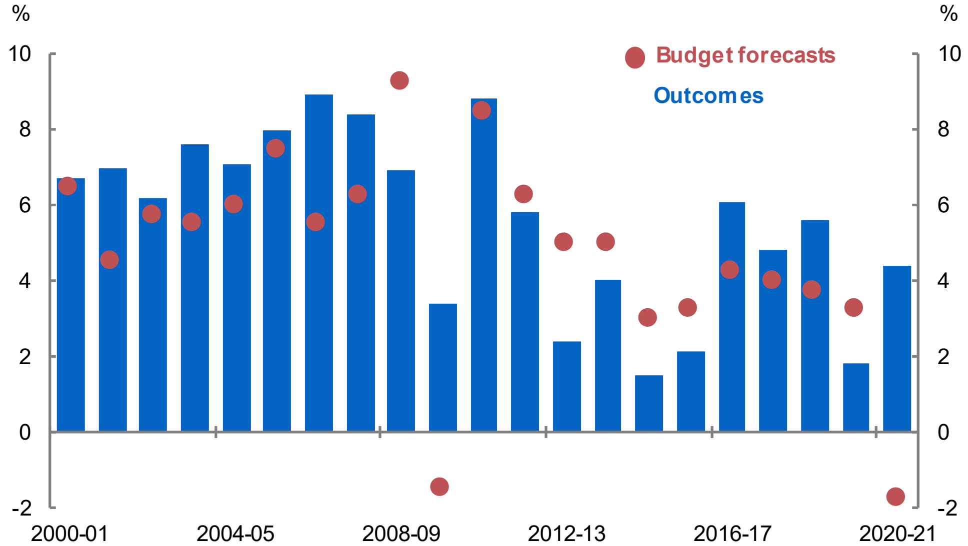


Note: Outcome is as published in the December quarter 2021 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

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 largely reflected the difficulties in predicting movements in global commodity prices (Chart 7.2). 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. Forecast errors have been smaller in recent years with the notable exception of 2020-21, reflecting the stronger than expected recovery from the COVID-19 pandemic, and stronger than expected commodity prices.

Chart 7.2: Comparison of forecasts and outcomes for nominal GDP growth

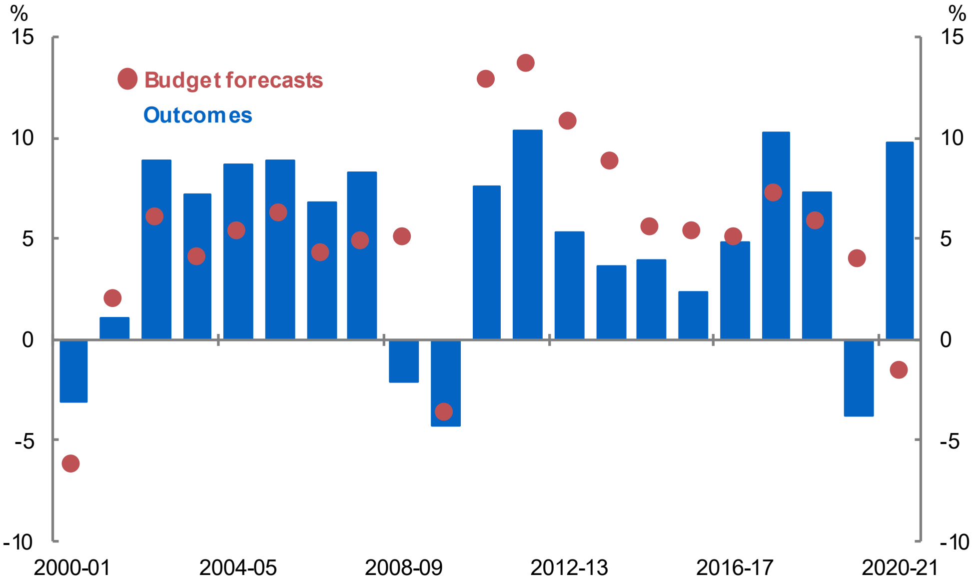


Note: Outcome is as published in the December quarter 2021 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS Australian National Accounts: National Income, Expenditure and Product and Budget papers.

Tax receipts forecasting performance

Over the past 2 decades, tax receipts forecasts have both under-predicted and over-predicted outcomes (see Chart 7.3).

Chart 7.3: Comparison of forecasts and outcomes for tax receipts growth

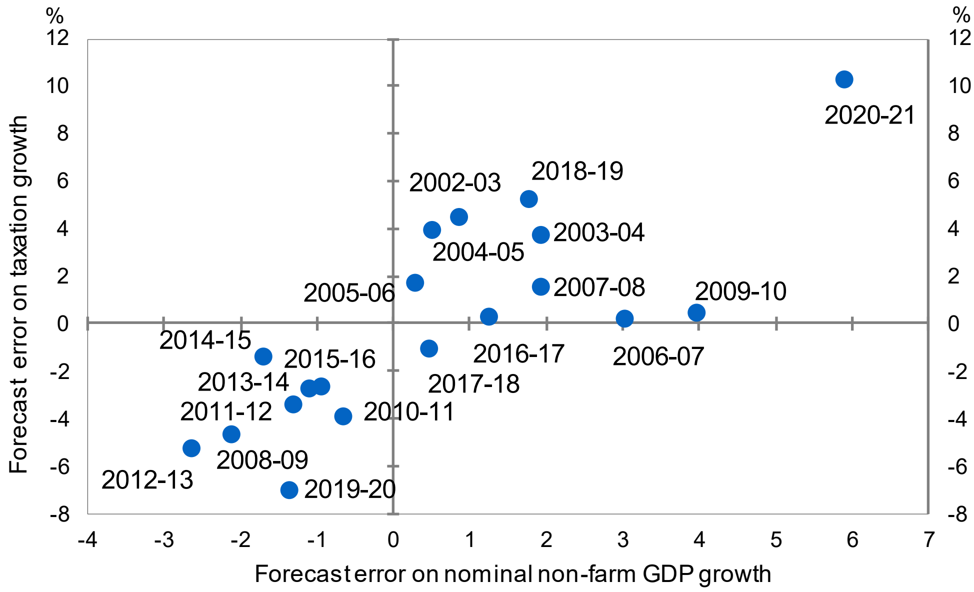


Source: Budget papers and Treasury.

Total tax receipts were $49.2 billion higher in 2020-21 than the estimate at the 2020-21 Budget. This outcome reflects the strength in tax collections across almost all revenue heads, driven by stronger-than-expected economic outcomes and higher-than-expected commodity prices. Further information on this variation can be found in the *2020-21 Final Budget Outcome.*

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 7.4 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 7.4: Forecast errors for nominal non-farm GDP growth and taxation receipts growth[(a)]



(a) Excludes CGT.
Source: ABS Australian National Accounts: National Income, Expenditure and Product, Budget papers and Treasury.

Assessing current forecasts through confidence interval analysis

This section 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 the distribution of forecast errors since 1998-99.[1]

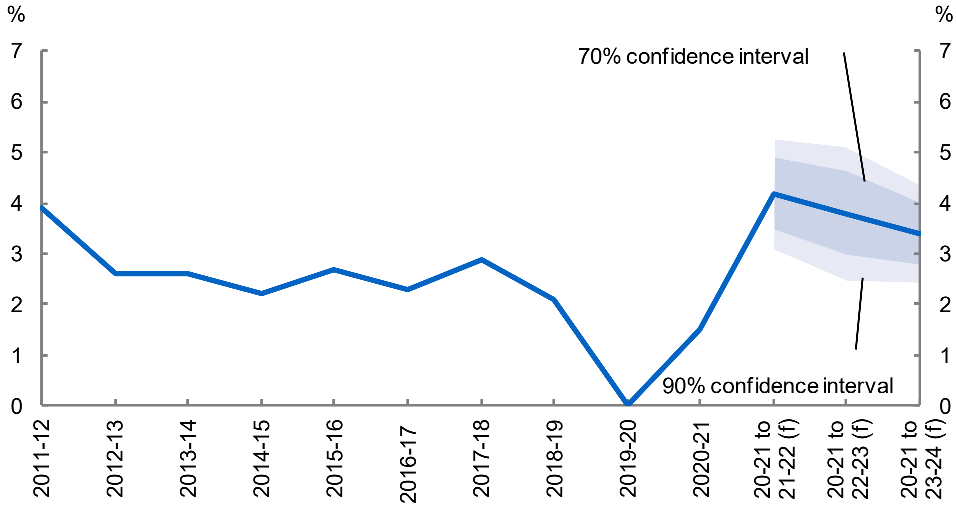
Forecast errors in the future will not necessarily be consistent with the distribution of historical forecast errors. Forecast errors driven by unusual developments can be larger than experienced during the historical sample period. During such periods, the range of outcomes for economic and fiscal estimates can be considerably wider than normal. The large forecast errors in 2019-20 and 2020-21, due to the unforeseen nature of the COVID-19 pandemic, are an example of the type of event not previously captured in the historical sample. While the estimated confidence intervals now include the large errors in these years, they are still based predominantly on more normal periods of time and are therefore likely to understate the true uncertainty during the pandemic.

Economic uncertainty based on historical forecast errors

Based on forecast errors for real GDP in the past, Chart 7.5 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 3 years to 2023-24 is expected to be around 3½ per cent, with the 70 per cent confidence interval ranging from 2¾ per cent to 4 per cent. The 90 per cent confidence interval ranges from 2½ per cent to 4¼ 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 3 years to 2023-24 will lie in this range.

1 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 7.5: Confidence intervals around real GDP growth rate forecasts

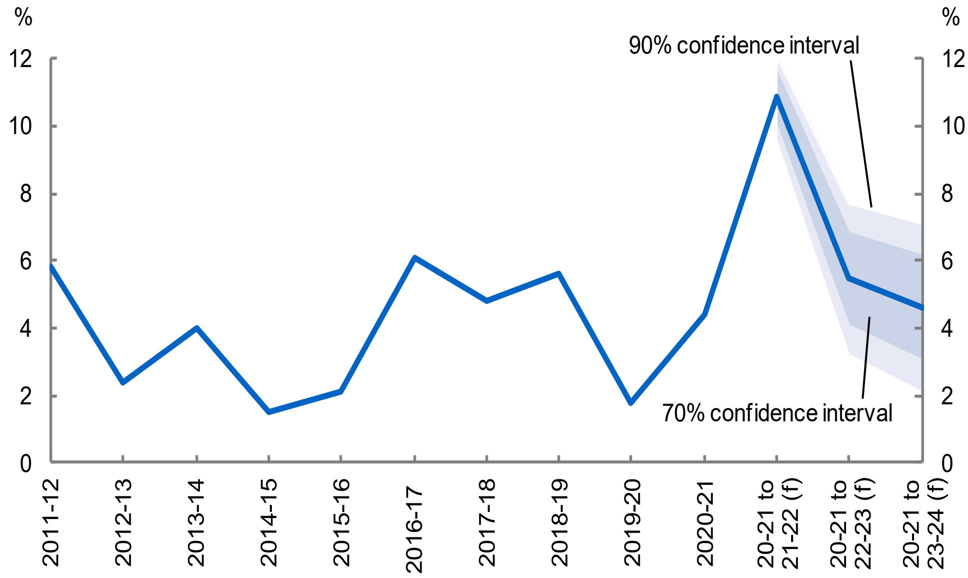


Note: The central line shows the outcomes and the 2022-23 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2020-21 are reported for 2021-22 onwards. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1998-99 onwards. (f) are forecasts.

Source: December quarter 2021 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 3 years to 2023-24 is expected to be around 4½ per cent, with the 70 per cent confidence interval ranging from 3 per cent to 6¼ per cent. The 90 per cent confidence interval ranges from 2¼ per cent to 7 per cent (Chart 7.6).

Chart 7.6: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 7.5.
Source: December quarter 2021 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.[2]

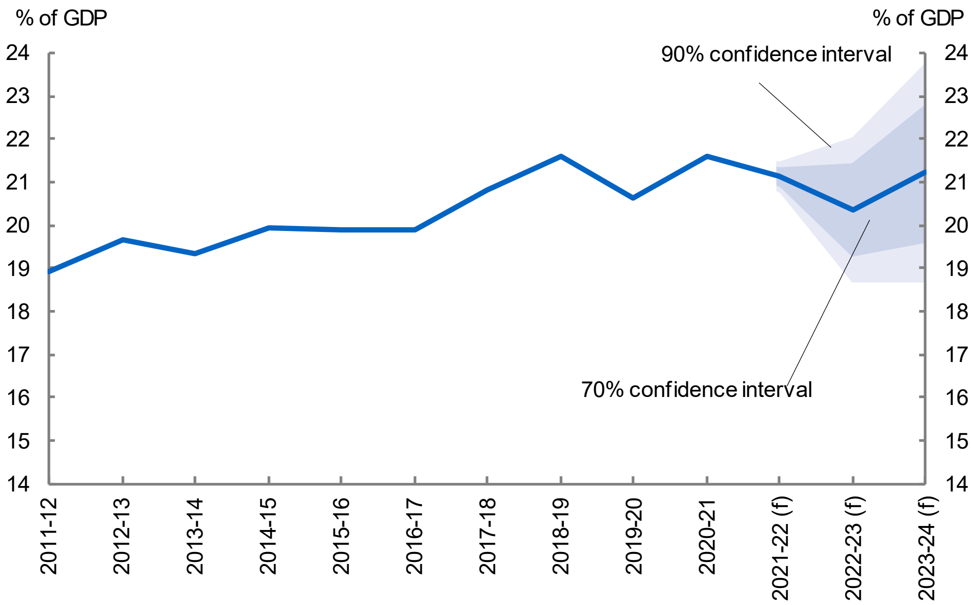
2 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the confidence interval analysis.

Total receipts

Chart 7.7 shows confidence intervals around the forecasts for total receipts (excluding GST[3]). 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 20.4 per cent of GDP in 2022-23, with the 70 per cent confidence interval ranging from 19.3 per cent to 21.4 per cent of GDP. The 90 per cent confidence interval ranges from 18.7 per cent to 22.0 per cent (Chart 7.7).

Chart 7.7: Confidence intervals around total receipts forecasts[(a)]



(a) Excludes GST and includes Future Fund earnings.
Note: The central line shows the outcomes and the 2022-23 Budget forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards. (f) are forecasts.
Source: Budget papers and Treasury.

Payments

Chart 7.8 shows confidence intervals around payments forecasts (excluding GST). Payments (excluding GST) are expected to be around 23.7 per cent of GDP in 2022-23, with the 70 per cent confidence interval ranging from 23.3 per cent to 24.2 per cent of GDP. The 90 per cent confidence interval ranges from 23.1 per cent to 24.4 per cent (Chart 7.8).

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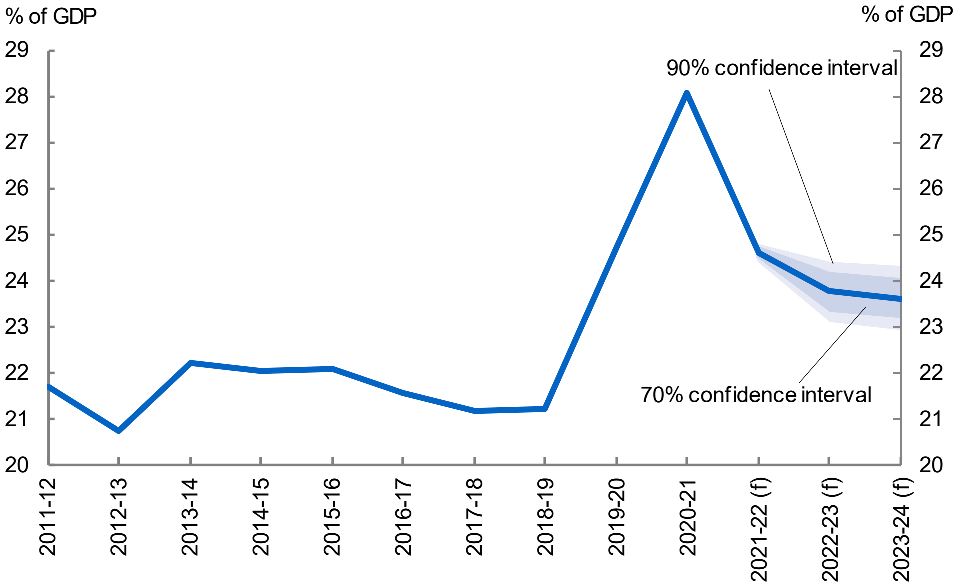
3 GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

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.

Chart 7.8: Confidence intervals around payments forecasts[(a)]

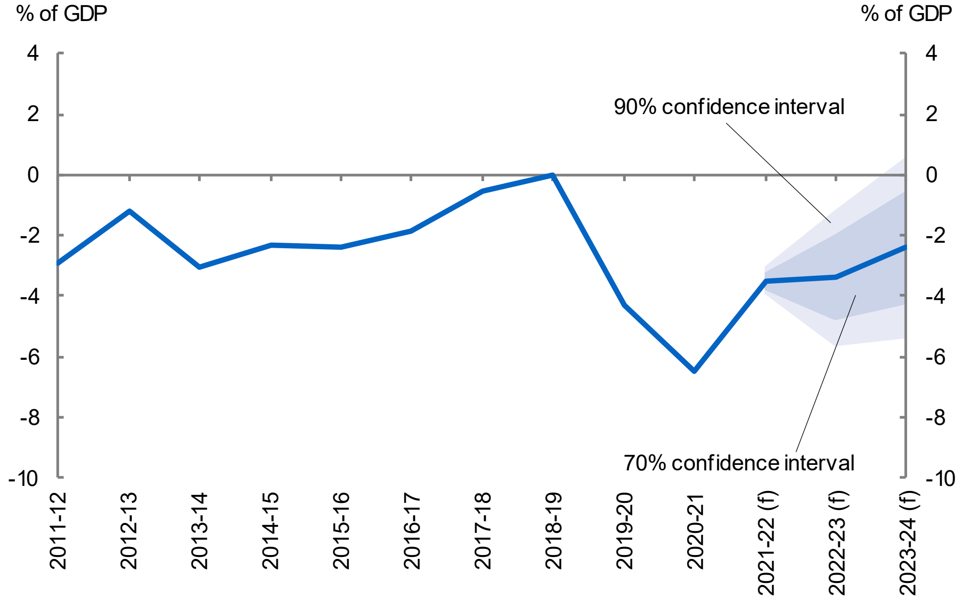


(a) Excludes GST payments.
Note: See note to Chart 7.7.
Source: Budget papers and Treasury.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Chart 7.9 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 2022-23 is expected to be 3.4 per cent of GDP, with the 70 per cent confidence interval ranging from a deficit of 4.8 per cent to 2.0 per cent of GDP. The 90 per cent confidence interval ranges from a deficit of 5.6 per cent to 1.1 per cent (Chart 7.9).

Chart 7.9: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 7.7.
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.

There are a range of variables that could have different outcomes from those assumed in the forecasting process. The iron ore price and yields have been chosen for the following sensitivity analysis as they are fundamental to Australia's economic and fiscal outcomes and have varied considerably over time. The economic impact of other key variables, including the recent significant increase in oil prices due to Russia's invasion of Ukraine, is considered in *Budget Statement 2: Economic Outlook*.

Movements in the iron ore price

The forecasts for nominal GDP and tax receipts are sensitive to assumptions about commodity prices, particularly iron ore which represented around a third of the value of goods and services exports in 2020-21. Iron ore prices are affected by many factors, are volatile and are uncertain. Refer to *Budget Statement 2: Economic Outlook* for more information on recent developments in commodity prices. The results of both an increase and a decrease in the iron ore price are presented in Table 7.1 below.

This analysis considers the impact that a permanent US$10 per tonne increase in the iron ore price has on nominal GDP and tax receipts relative to baseline levels in the 2022-23 Budget forecasts. The effects of a US$10 per tonne decrease in the iron ore price are broadly symmetrical with the effects of a US$10 per tonne increase.

The US$10 per tonne increase in the assumed price for iron ore exports is expected to result in an increase in nominal GDP of around $4.4 billion in 2022-23 and around $2.3 billion in 2023-24. The economic response to a permanent change in the price of iron ore is derived from a generic terms of trade shock in Treasury's Macroeconometric Model of Australia (EMMA). The model incorporates forward-looking financial markets, which are able to anticipate the permanent increase in commodity prices.

Under this analysis, an increase in iron ore export prices leads directly to higher export prices and a higher terms of trade. However, this is moderated somewhat by an appreciation in the exchange rate, which partially offsets the increase in export prices. The appreciation also reduces import prices across all industries which flows through to lower consumer price inflation. Output, investment and export volumes in the mining sector increase in response to higher iron ore prices, although this is limited over the short term due to adjustment costs in increasing the capital stock.

A US$10 per tonne increase in the assumed price for iron ore exports is expected to result in an increase in tax receipts of around $0.2 billion in 2022-23 and $0.6 billion in 2023-24. An increase in iron ore export prices increases mining company profits and, as a result, increases company tax receipts. Lower domestic prices result in lower individuals and other withholding taxes and indirect tax receipts, partially offsetting the increase in company tax. The impact on tax receipts is larger in 2023-24, largely owing to lags in tax collections.

Table 7.1: Sensitivity analysis of a US$10 per tonne movement in iron ore prices

	US$10/tonne FOB[a] fall		US$10/tonne FOB increase	
	2022-23	2023-24	2022-23	2023-24
Nominal GDP ($billion)	-4.4	-2.3	4.4	2.3
Tax receipts ($billion)	-0.2	-0.6	0.2	0.6

(a) Prices are presented in free-on-board (FOB) terms which exclude the cost of freight.
Source: Treasury.

Alternative pathways for yields

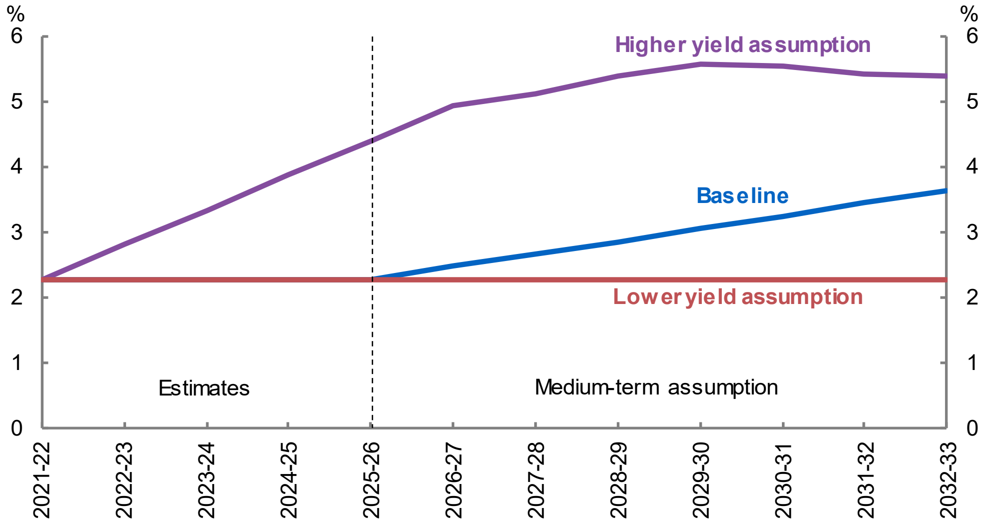
Yields on Australian Government bonds reflect the cost of government borrowing. Despite the recent increase, Australia continues to experience low yields on government debt. The following analysis illustrates sensitivity of the underlying cash balance and gross debt over the next 10 years using different 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, isolating the yield effect shows how changes in yields may impact fiscal aggregates, above and beyond other changes. 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 growing at a faster rate than the rate on 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 the following 3 years at the levels observed immediately prior to the Budget update. The 10-year bond yield then converges to a long-run yield of around 5 per cent, consistent with long-run nominal GDP growth. The timeframe for this transition is 15 years (Chart 7.10). This section examines the consequences of different yield assumptions.

The lower yield assumption has the 10-year bond yield remaining at current levels over the next 10 years rather than beginning to rise after 4 years, as is assumed in the baseline assumption. Notwithstanding the recent increase in yields, 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 has yields converging immediately from current levels over 5 years to the long-run yield of around 5 per cent. While the medium and long-term effects on yields of the pandemic are unclear, a further increase in inflation expectations, among other factors, could drive yields to increase more quickly than assumed under the baseline assumption.

Chart 7.10: Baseline and alternative pathways for the 10-year bond yield



Source: Treasury.

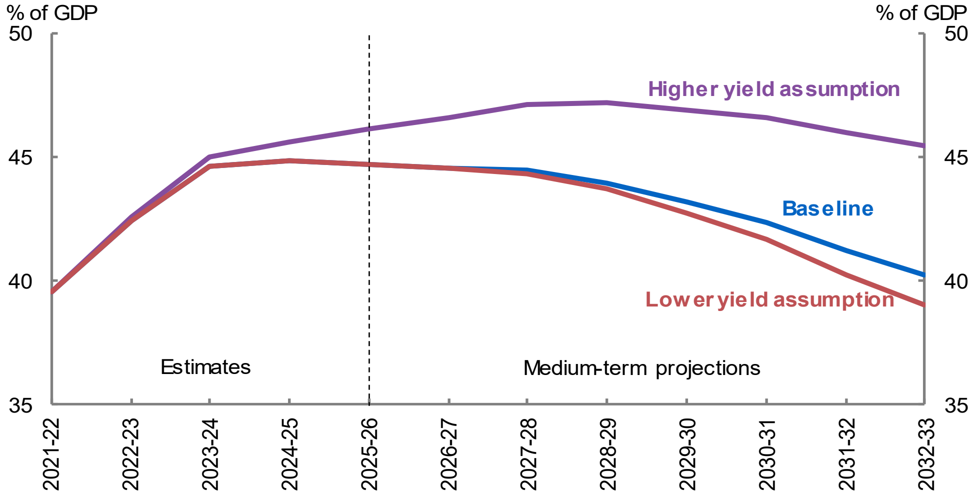
Yields affect both government receipts and payments. Yields affect the amount of public debt interest that the Government has to pay on its borrowings, but also have an impact on the receipts that the Government earns on its investments.

Compared with the baseline 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 1.3 percentage points of GDP at 30 June 2033 (Chart 7.11).

Conversely, the higher yield assumption results in a deterioration in the underlying cash balance of around 0.6 percentage points of GDP by 2032-33. This has flow on effects for debt with gross debt projected to be 5.2 percentage points of GDP higher compared to the Budget baseline at 30 June 2033.

Even under the higher yield assumption, gross debt as a share of GDP declines towards the end of the medium term and remains lower than the baseline projections in the 2021-22 MYEFO (Chart 7.11). Projected Commonwealth gross debt as a share of GDP under the higher yield assumption is almost a third of the average general government gross debt as a share of GDP in G7 economies today.

Chart 7.11: Gross debt, impact of alternative yield assumptions



Source: Australian Office of Financial Management and Treasury.

Statement 8: Statement of Risks

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a statement of risks in each Budget and Mid-Year Economic and Fiscal Outlook. This Statement outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

Contents

Statement 8: Statement of Risks

Risks to the Budget – Overview

The forward estimates of revenue and expenses in the 2022-23 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 continuing uncertainty posed by the evolving COVID-19 pandemic and implications of international disputes
- 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 2022-23 Budget are based on a range of economic and other parameters that are consistent with the domestic and international outlook detailed in *Statement 2: Economic Outlook*. Economic outcomes that differ from the parameters used in the Budget represent a material risk to the Budget estimates. *Part 5: Forecast Uncertainties and Sensitivity 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 will 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 relationships between the economy, tax bases and tax revenues. Such relationships may shift over time as the economy changes, 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 in the short term. 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.

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.

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 6.1 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 summarised in Table 6.2. Risks that are new or that have materially changed are detailed by portfolio following Table 6.2. 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 2022 are included at the conclusion of this Part.

Table 6.1: 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 this Statement.

Table 6.2: 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	Modified
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**
Contingent liabilities – unquantifiable	
Native Title costs	Unchanged
Prospective investor-State claim against Australia	Unchanged
Defence	**Status**
Fiscal Risks	
Acquisition of nuclear-powered submarine technology	Modified
Cancellation of the diesel-powered Attack class submarine program	Removed
Major operations of the Australian Defence Force in 2022-23	Modified
Significant but remote contingencies	
ADI Limited – Officers’ and Directors’ Indemnities	Unchanged
Litigation cases	Unchanged
Remote contingencies	Unchanged
Contingent liabilities – unquantifiable	
Cockatoo Island Dockyard	Unchanged
Land decontamination, site restoration and decommissioning of Defence assets	Unchanged
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 liabilities – quantifiable	
jobactive	Modified
ParentsNext program	Modified
Finance	**Status**
Fiscal Risk	
Commonwealth rent-free housing – superannuation	New
Significant but remote contingency	
Australian Naval Infrastructure Pty Ltd – Termination of the Equity Funding Agreement	Unchanged
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 general insurance fund – Comcover	Unchanged
Australian Naval Infrastructure Pty Ltd – Guarantee in favour of Naval Group Australia	Unchanged

Table 6.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Finance (continued)	Status
Contingent liabilities – unquantifiable	
Commonwealth Superannuation Corporation – Immunity and Indemnity	Unchanged
Finance Owned Estate	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
Contingent liability – quantifiable	
Export Finance Australia	Modified
Health	**Status**
Contingent liabilities – unquantifiable	
Accommodation Payment Guarantee Scheme	Unchanged
Advance Purchasing Agreements for COVID-19 treatments	Modified
Advance Purchasing Agreements for COVID-19 vaccines	Unchanged
Australian Red Cross Society – Indemnities	Unchanged
Blood and blood products liability cover	Unchanged
CSL Ltd	Unchanged
Indemnities relating to vaccines	Unchanged
Indemnity Coverage for the COVID-19 Vaccination Rollout Program (Vaccine Claims Scheme)	Modified
Major Sporting Events	Modified
Medical Indemnity Exceptional Claims Scheme	Modified
mRNA Manufacturing Facility – indemnities	New
New South Wales Health Administration Council – Indemnity	Unchanged
Contingent asset – unquantifiable	
Legal action seeking compensation	Unchanged
Home Affairs	**Status**
Fiscal Risk	
Regional Processing Arrangements	Modified
Significant but remote contingency	
Indemnities relating to the Air Security Officer Capability	Modified
Contingent liabilities – unquantifiable	
Australian Victims of Terrorism Overseas Payment	Unchanged
Garrison, welfare and health services at regional processing countries – liability limit	Unchanged
Immigration detention services by state and territory governments – liability limit	Unchanged

Table 6.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Home Affairs (continued)	Status
Immigration detention services contract – liability limit	Unchanged
Contingent asset – unquantifiable	
Civil penalty relating to the Anti-Money Laundering and Counter-Terrorism Financing Act 2006	New
Industry, Science, Energy and Resources	**Status**
Fiscal Risk	
Snowy Hydro Limited	Unchanged
Significant but remote contingencies	
Liability for damages caused by space and certain high-power rocket activities	Unchanged
Operations and Maintenance of the Northern Endeavour and Associated Infrastructure	Modified
Snowy Hydro Limited – Board Members' Indemnity	Unchanged
Snowy Hydro Limited – Termination of the Equity Subscription Agreement	Unchanged
Contingent liabilities – unquantifiable	
Australian Nuclear Science and Technology Organisation – asbestos contamination	Unchanged
Australian Nuclear Science and Technology Organisation – Indemnity	Unchanged
Australian Nuclear Science and Technology Organisation – Legacy Waste Management to Final Disposal	Unchanged
Former British atomic test site at Maralinga	Unchanged
Gorgon liquefied natural gas and carbon dioxide storage project – long-term liability	Unchanged
Land decontamination and site restoration for CSIRO property	Unchanged
Liability for costs incurred in a national liquid fuel emergency	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
Contingent asset – quantifiable	
CSIRO insurance claim – hailstorm	Unchanged
Infrastructure, Transport, Regional Development and Communications	**Status**
Fiscal Risk	
Inland Rail – Delivery	Modified
Significant but remote contingencies	
Inland Rail – Termination of the Equity Financing Agreement	Unchanged
Maritime Industry Finance Company Limited – Board Members' Indemnity	Unchanged
Moorebank Intermodal Project – Glenfield Waste Site Easement	Unchanged
National Intermodal Corporation Limited – Termination of the Equity Funding Agreement	Modified
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 – Sydney Metro-Western Sydney Airport Indemnity	Unchanged
WSA Co Limited – Termination of the Equity Subscription Agreement	Unchanged

Table 6.2: 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 Project – Georges River rail crossing	Unchanged
National Intermodal Corporation Limited – Board Members' Indemnity	Modified
Service Delivery Arrangement Indemnities – Indian Ocean Territories and Jervis Bay Territory	Modified
Contingent liabilities – quantifiable	
Australian Government contribution to the East West Link project	Unchanged
Australian Government contribution to the extension of the Roe Highway	Modified
Prime Minister and Cabinet	**Status**
Contingent liabilities – unquantifiable	
Basil Dawson and Ors v Commonwealth of Australia (Community Development Program Class Action)	Removed
Disaster Recovery	Modified
McDonald v Commonwealth (Stolen Wages Class Action)	Unchanged
Northern Territory Stolen Generations Class Action	Unchanged
Contingent liability – quantifiable	
Indigenous Land and Sea Corporation – Voyages Indigenous Tourism Australia	Modified
Social Services	**Status**
Fiscal Risk	
COVID-19 Social Welfare Debt Pause for Affected Lockdown Areas	Modified
Contingent asset – quantifiable	
National Redress Scheme	Modified
Treasury	**Status**
Significant but remote contingencies	
Asbestos Injuries Compensation Fund	Unchanged
Financial Claims Scheme	Modified
Guarantee for the National Housing Finance and Investment Corporation	Modified
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	
Establishment of a Cyclone and related flooding reinsurance pool	Unchanged
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 and SME Recovery Loan	Modified
Terrorism insurance – commercial cover	Unchanged

Table 6.2: Summary of contingent liabilities and contingent assets in the Statement of Risks[(a)] (continued)

Treasury (continued)	**Status**
Contingent liabilities – quantifiable	
Australian Taxation Office – tax disputes	Modified
Historical Interest on Early Payment entitlements	Modified
International financial institutions – uncalled capital subscriptions	Modified
International Monetary Fund – New Arrangements to Borrow & Bilateral Borrowing Agreement	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 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

On 26 June 2021, the Australian Government officially returned ownership of Jabiru to the Traditional Owners. A Memorandum of Understanding was signed in 2019 between the Australian Government, the Northern Territory Government, and Energy Resources Australia which underpins the transfer of ownership of Jabiru to traditional owners and related make good and rehabilitation arrangements. Rehabilitation work includes renewal of some essential services infrastructure, managing contamination in Jabiru Lake, management or removal of hazardous materials and chemicals, replacing asbestos tiled rooves, and ecological remediation. Expenditure for the rehabilitation work will be shared across all parties to the arrangements.

The Australian Government provided $35.0 million toward the remediation of contaminants and hazards in Jabiru as part of its Securing Tourism and Jobs in Kakadu measure in the 2019-20 Budget.

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 a 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 13 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. This program is under review and the outcome of the review and subsequent deliberations with affected jurisdictions may result in financial implications for the Australian Government.

Governments have agreed to develop an Aquatic Emergency Animal Disease Deed (the Deed) covering aquatic emergency animal diseases. Final consultation has been undertaken with prospective industry signatories and the Deed will be presented to jurisdictions and potential industry signatories in early 2022. If the Deed is finalised, potential liabilities for the Australian Government will be increased, the extent of which will depend on which parties sign the Deed and what emergency aquatic incursions occur that would be subject to deed arrangements.

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

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)*. 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 Risks

Acquisition of nuclear-powered submarine technology

On 16 September 2021, the Australian Government announced the formation of AUKUS, an enhanced security agreement between Australia, the United Kingdom (UK) and the United States of America (USA). The first program committed to under AUKUS is a nuclear-powered submarine program for Australia. Through AUKUS, Australia has commenced a period of consultation with the UK and USA to determine the optimal pathway to achieve this capability. The costs of consultation will be met from within the existing Defence budget. The costs associated with the acquisition of a nuclear-powered submarine capability will be assessed as part of this process and are not fully reflected in the Budget estimates for Defence.

Major operations of the Australian Defence Force in 2022-23

The 2022-23 estimates for the Department of Defence (Defence) include the cost of major operations of the Australian Defence Force in 2022-23 in the Middle East region and to protect Australia's borders and offshore maritime interests. Funding for major Defence operations is considered and provisioned on a year-by-year basis.

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 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. Claims may also 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 30 June 2021, the Department of Defence carried 183 instances of quantifiable remote contingent liabilities valued at $5.0 billion and 1,546 instances of unquantifiable remote contingent liabilities.

These significant but remote contingent liabilities are restricted in nature and details are not given due to commercial and/or national security sensitivities.

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 Defence assets 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 13 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $45.8 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 trying to resolve them through 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 liabilities – quantifiable

jobactive

jobactive supports job seekers to access support, tailored to their individual circumstances, to help them find work. Under the Program, providers accumulate one-off credits which accrue to their Employment Fund on commencement of a job seeker. Providers have been spending less than the value of the available credits, creating an accumulated surplus of credits. As at 31 January 2022, there was $195.8 million in unspent Employment Fund credits in the Employment Fund notional bank. The current outstanding credits accumulated from years prior to 2021-22 represent a contingent liability for the Budget. The program terminates on 30 June 2022.

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 a 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 2021-22 represent a contingent liability for the Budget.

Finance

Fiscal Risk

Commonwealth rent-free housing – superannuation

Court proceedings against the Commonwealth have commenced which claim that, in certain circumstances, the value of Commonwealth rent-free housing provided to certain employees should be a superannuable allowance under Commonwealth superannuation legislation (*Brendan Peace & Ors v Commonwealth of Australia and Anor*). Depending on the outcome of the case, there may be broader implications that represent a fiscal risk to the Budget.

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 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 it has appropriate information regarding its claims exposures, including regularly updating estimates and parameters 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 for the Attack class future submarine program and the Submarine Construction Yard, the Australian Government entered into a Deed of Guarantee and Indemnity with Naval Group Australia Pty Limited and Naval Group S.A (Société Anonyme). This guarantee remains in place notwithstanding the Government's announcement on 16 September 2021 that it would not proceed with the Attack class submarine program and will be reviewed in the context of closing out the agreements with Naval Group.

Commonwealth Superannuation Corporation – immunity and indemnity

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides 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.

Finance Owned Estate

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 may require remediation and 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 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.

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 Ltd	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 four 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 $3.5 billion in facilities, including up to $500 million in grants and the balance in loans and guarantees, to support high priority infrastructure development in Pacific countries and Timor-Leste. To date, the Government has agreed to provide loan, guarantee and grant contracts to support the development of six infrastructure projects in Fiji, Palau, the Solomon Islands and Papua New Guinea. As at 28 February 2022, the maximum exposure is $95.5 million, of which $52.1 million has been drawn down. The fiscal impact of the loans and guarantees are reflected in the Budget estimates.

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 28 February 2022, three loans under the DEF had been agreed for a total signing value of $228 million. Currently $171.1 million is outstanding and $24.0 million is undrawn. The Fiscal impact of the loans is 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. The COVID-19 Facility expired in April 2021. As at 28 February 2022, the COVID-19 Facility has an outstanding amount of $40.9 million and the fiscal impact of these loans are reflected in the Budget estimates.

The Critical Minerals Facility (the Facility) was established on 28 September 2021 to provide finance to critical minerals projects in Australia where private sector finance is unavailable. The Facility has a maximum aggregate exposure of $2.0 billion. On 2 February 2022, the Australian Government announced two loans under the Facility with a total maximum value of $239 million. The Government has also commenced negotiations on financing an additional project. As of 28 February 2022, no funds have been drawn down.

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 28 February 2022, 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 ($2.4 billion) and Export Finance Australia's overseas investment insurance, contracts of insurance and guarantees ($0.3 billion). Of the total contingent liability, $2.2 billion relates to Export Finance Australia's Commercial Account and $0.5 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 treatments

The Australian Government has entered into Advance Purchase Agreements for the supply of COVID-19 treatments. The Australian Government has provided indemnities to Pfizer Australia to cover certain liabilities that could result from the use of the treatments.

Advance Purchasing Agreements for COVID-19 vaccines

The Australian Government has provided indemnities to the suppliers of potential COVID-19 vaccines, for which the Australian Government has entered into Advance Purchasing Agreements, covering certain liabilities that could result from the use of the vaccines. This comprises the University of Oxford vaccine which is sponsored by AstraZeneca, the Pfizer vaccine, the Moderna vaccine, and the Novavax vaccine.

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.

The Australian Government has also entered into risk-sharing arrangements with Pfizer and Novavax 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).

Indemnity Coverage for the COVID-19 Vaccination Rollout Program (Vaccine Claims Scheme)

The Australian Government has established the COVID-19 Vaccine Claims Scheme (the Scheme). Under the Scheme the Commonwealth assumes responsibility for paying 100 per cent of all claims, for which compensation is payable above the $1,000 threshold, from patients who suffer a significant adverse event following a TGA approved COVID-19 Vaccination or its administration. Successful claimants would need to provide evidence that:

- a TGA-approved COVID-19 vaccine was received
- administration of the vaccine was linked in medical documentation to the injury or harm related to a condition identified by the TGA
- they received inpatient hospital treatment (with limited exemptions)
- they met the threshold for accessing the Scheme of at least $1,000 in losses (such as out of pocket medical costs and lost income)

The Scheme will also provide compensation where the injury or harm caused or materially contributed to death.

Claims of $20,000 or more will be assessed by a panel of independent experts and compensation paid based on its recommendations.

Major sporting events

2032 Brisbane Olympic and Paralympics Games – On 21 July 2021, the International Olympic Committee (IOC) selected Brisbane 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 is subject to 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 hosting the Games at no cost to the Organising Committee for the Olympic Games. The costs of these arrangements are yet to be determined.

2026 Commonwealth Games – The Australian Government has provided a commitment to support the hosting of the Commonwealth Games 2026 in Victoria, should Commonwealth Games Australia and the Victorian Government's bid be successful. The Commonwealth has provided a commitment relating to the provision of government services to support the bid. The detail and cost of these arrangements are yet to be determined.

Rugby World Cup 2027 (Men's) and Rugby World Cup 2029 (Women's) – The Australian Government has committed support to Rugby Australia's bid to host the Rugby World Cup 2027 (Men's) and the Rugby World Cup 2029 (Women's). In addition to the financial assistance provided in the 2022-23 Budget to support event delivery and legacy programs, the Government has committed to provide services and support (such as security commitments and visa processing for participants and support staff) should Rugby Australia's bid be successful. The financial implication of this additional support is not quantifiable at this time.

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). 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 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*.

mRNA manufacturing facility – indemnities

The Australian Government has agreed to provide certain indemnities to Moderna in relation to the Moderna mRNA Partnership for onshore end-to-end population scale mRNA manufacturing capability. These indemnities cover certain liabilities that could result from implementation of the Partnership. These indemnities are also mutual in nature, reflecting risk-sharing arrangements with Moderna to limit financial exposure to the Australian Government.

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.

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, thereby delaying statutory and price disclosure related price reductions for these drugs.

Home Affairs

Fiscal Risk

Regional Processing Arrangements

Effective 1 January 2022, the Australian Government supports regional processing arrangements in Nauru, assisting the Government of Nauru to provide support and services to transferees residing in Nauru. 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 Capability

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 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.

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 intellectual property rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

Immigration detention services by state and territory governments – liability limit

The Department of Home Affairs (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, provide 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 these 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 corrective services. The indemnity provided to states and territory governments under these arrangements is no more than $30 million per event.

Immigration detention services contract – liability limit

The Department of Home Affairs (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.

Contingent asset – unquantifiable

Civil penalty relating to the Anti-Money Laundering and *Counter-Terrorism Financing Act 2006*

On 1 March 2022, AUSTRAC applied to the Federal Court of Australia for civil penalty orders against Crown Casino for alleged serious contraventions of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).

AUSTRAC alleges Crown Casino failed to comply with its obligations under the AML/CTF Act, including failures to properly assess its money laundering and terrorism financing risks, and failures to undertake appropriate customer due diligence. The outcome of this matter is unknown, including whether any penalty is imposed by the Court and, if so, the quantum of such penalty.

Industry, Science, Energy and Resources

Fiscal Risk

Snowy Hydro Limited

The Australian Government has committed to provide additional equity to Snowy Hydro Limited to support the delivery of the Snowy 2.0 pumped hydro project and the Hunter Power Project. These projects 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 potential 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

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 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.

The Australian Government has committed to decommission the Northern Endeavour floating production storage and offtake facility (FPSO) and remediate the

Laminaria-Corallina oil fields. The cost to deliver Phase One of the decommissioning, including the disconnection of the FPSO, is taken into account in the forward estimates. However, cost estimates for the subsequent phases of the decommissioning: the permanent plug and abandonment of the wells (Phase Two); and the removal of subsea infrastructure (Phase Three), which are estimated to commence over the forward estimates period, are not able to be fully quantified until procurement activities for those Phases has been conducted. Actual costs associated with Northern Endeavour decommissioning will be recovered through the Government's proposed Laminaria and Corallina Decommissioning Cost Recovery Levy.

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 Agreements

The Australian Government will provide sufficient funding to cover costs and liabilities incurred by Snowy Hydro Limited (SHL) for the delivery of Snowy 2.0 and the Hunter Power Project, capped to the total remaining undrawn equity, in the event that the Commonwealth terminates the Equity Subscription Agreements between the Commonwealth and SHL.

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.

Australian Nuclear Science and Technology Organisation (ANSTO) – Legacy Waste Management to Final Disposal

ANSTO has accumulated, and will continue to accumulate, nuclear waste, the final disposal of which is unfunded. The majority of this waste has arisen from the production of nuclear medicine and will require characterisation in order to determine the nature, and therefore the costs and timing required to manage the waste to final disposal. It is anticipated that the long-term storage of the nuclear waste will be the responsibility of the planned National Radioactive Waste Management Facility. If this changes ANSTO may need to meet the costs of the future management of the waste.

Former British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site – Maralinga section 400 – to the site's Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project – long-term liability

The Australian and Western Australian (WA) Governments have provided an indemnity to the Gorgon Joint Venture Partners (GJV) against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project. The claims are subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The WA Government has indemnified the GJV, and the Australian Government has indemnified the WA Government for 80 per cent of any amount determined to be payable under that indemnity.

Land decontamination and site restoration for CSIRO property

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has made a financial provision for the estimated costs in restoring and decontaminating land where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

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.

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) and Victorian Governments to provide early works underwriting support to the HumeLink and the Victoria to NSW Interconnector West (VNI West) projects.

The Australian Government and NSW Government have committed to underwrite early works for HumeLink (up to a total of $65.7 million). The Australian Government and Victorian Government have committed to jointly underwrite early works for VNI West (with a preferred route known as KerangLink). The specific terms and conditions of the underwriting arrangements associated with this project are not yet finalised.

The Australian Government will provide up to $181.5 million in underwriting support under an agreement secured with the NSW transmission provider TransGrid to enable transmission lines being built from south of Coleambally to Wagga Wagga as part of enabling Project EnergyConnect to be constructed at a larger capacity, which would reduce the future construction cost of the VNI West project.

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.

Contingent asset – quantifiable

CSIRO insurance claim – hailstorm

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has an outstanding insurance claim for business interruption and costs incurred from a natural disaster (hailstorm) that occurred at the CSIRO Black Mountain site on 20 January 2020. A recent review of the value of the CSIRO's insurance claim suggested it is likely to exceed $20 million (the threshold for inclusion in the Statement of Risks), and it has not been reflected in CSIRO's Budget estimates.

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, pre-existing land contamination 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.

The Australian Government has also agreed in-principle to the extension of Inland Rail from Toowoomba to the Port of Gladstone, subject to the outcomes of the business case demonstrating the project is economically beneficial.

The business case is expected to identify a preferred route, delivery approach, benefits and costs in order to optimise network connectivity through regional Queensland to the Port of Gladstone. The business case will also explore commercial development and private sector funding opportunities, which may reduce the potential level of Australian Government funding. The cost of extension has not been quantified at this time and is not reflected in the estimates.

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 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 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.

National Intermodal Corporation Limited – Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the National Intermodal Corporation Limited (National Intermodal) in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and National Intermodal.

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 31 January 2022, NBN Co had generated liabilities covered by the Optus Agreement which are estimated at an amount less than $76.0 million. There is a low risk that a claim would be made under the Guarantee.

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 Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 31 January 2022, NBN Co had liabilities covered by the Guarantee estimated at $10.54 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years, and:

- the company is capitalised by the Commonwealth to the agreed amount
- 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 – Sydney Metro-Western Sydney Airport Indemnity

The Australian Government will provide an indemnity to cover liabilities that may be incurred by WSA Co Limited related to the integration of the Sydney Metro-Western Sydney Airport project (delivered by the New South Wales Government) with the Western Sydney International (Nancy-Bird Walton) Airport, to the extent such liabilities are established in the Airport-Rail Integration Deed.

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.

A number of ALCs have requested that the Airport Environment Officer (AEO) issue remedial orders to Airservices for PFAS contamination under the Airports (Environment Protection) Regulations 1997. AEOs are actively considering regulatory action at Brisbane, Launceston, Moorabbin and Melbourne Airports. 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 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.

National Intermodal Corporation Limited – Board Members' Indemnity

The Australian Government has provided certain indemnities for the Directors and Officers of the National Intermodal Corporation 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.

Service Delivery Arrangement Indemnities – Indian Ocean 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.

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 extension of the Roe Highway

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 liabilities – unquantifiable

Disaster Recovery

The Australian Government provides funding to states and territories (states) through the jointly funded Commonwealth-State Disaster Recovery Funding Arrangements (DRFA) to assist with natural disaster relief and recovery costs. States may claim DRFA funding if a natural disaster occurs and states' relief and recovery expenditure for that event meets the thresholds set out in the arrangements.

The current forward estimates for the 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 the flooding affecting NSW and Queensland from February 2022 onwards, there have been a number of measures and packages activated under the DRFA to provide assistance to communities impacted, for which expenditure has not yet been forecast. The recovery process, including restoring community wellbeing and rebuilding assets is not instantaneous, with support for flood-affected communities released over time. As the cost of providing assistance to disaster affected communities increases, so too does the level of financial support from the Commonwealth Government.

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. The limits outlined in the *Emergency Response Fund Act 2019* allow the Government to access up to $200 million from the fund each financial year under specified conditions. Consistent with the unpredictability of natural disasters the cost of any payments from the ERF are unquantifiable and not included in the Budget estimates, except where decisions for release of funding have been made.

McDonald v Commonwealth (Stolen Wages Class Action)

A class action against the Commonwealth has been filed in the Federal Court Victorian Registry on behalf of all Aboriginal and Torres Strait Islander persons who lived and worked in the Northern Territory during the period 1 June 1933 to 12 November 1971, and whose wages were allegedly unjustly withheld, inadequate or not paid as a result of wage control legislation. 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 filed 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 – Voyages Indigenous Tourism Australia

Voyages Indigenous Tourism Australia Pty Ltd (Voyages), the owners of the Ayers Rock Resort, have debt facilities with ANZ ($112.5 million) and the Northern Australia Infrastructure Facility ($27.5 million). The Indigenous Land and Sea Corporation is the guarantor for each of these facilities.

A sharp decline in occupancy rates associated with the COVID-19 pandemic has eroded the financial position of Voyages and raised additional risks regarding its viability.

Social Services

Fiscal Risk

COVID-19 Social Welfare Debt Pause for Specified Areas

The Government implemented a temporary pause on a range of debt activities from 4 August 2021 in New South Wales, Victoria, the Australian Capital Territory and 11 Local Government Areas (LGA's) in South East Queensland. This was undertaken to help ease pressure on people subject to stay at home orders. Consistent with the easing of COVID-19 restrictions, the temporary pause on Centrelink debt activities was lifted on 9 January 2022, with repayments to recommence from 1 July 2022.

There is currently an unquantifiable financial risk as the debt pause (and the arrangements lifting the debt pause) may reduce the value of debts raised and the amount of funds recovered by Services Australia, which also has flow on impacts on Social Security payments expenditure.

Contingent asset – quantifiable

National Redress Scheme

The *National Redress Scheme for Institutional Child Sexual Abuse Act 2018* aims to support people who experienced institutional child sexual abuse from institutions participating in the National Redress Scheme (the Scheme) to gain access to counselling and psychological services, a direct personal response from the responsible institution, and a monetary payment. The Department of Social Services (DSS) administers the Scheme. In this capacity, DSS makes the monetary payment to the survivor and then recovers the costs from the institution determined to be responsible for the abuse.

As at 31 December 2021, DSS has an administered quantifiable contingent asset of $121.1 million in relation to the probable recovery from responsible institutions of monetary payments that may be made to survivors under the Scheme. The value is based on applications that have been referred to an Independent Decision Maker for assessment and the payment values.

As at 31 December 2021, DSS also has an administered quantifiable contingent liability of $56.0 million in relation to applications made under the Scheme that have been referred to an Independent Decision Maker for assessment. The amount is based on the number of applications and the payment values.

The difference between the contingent asset and the contingent liability represents the net risk to the Budget from the Scheme.

Treasury

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.

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. Deposits eligible for coverage under the Financial Claims Scheme were estimated at $1.2 trillion of 31 December 2021.

Under the *Insurance Act 1973*, the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

The Australian Prudential Regulation Authority (APRA) is responsible for the 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 $3.5 billion unless approved by the Government. In the 2022-23 Budget, the Government agreed to increase the liability cap by a further $2.0 billion to bring the total cap to $5.5 billion.

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 Budget would depend on the extent of the default and the state's ability to meet the Government's claim.

As at 31 December 2021, the face value of state and territory borrowings covered by the Guarantee was $0.5 billion, the same as at 31 August 2021.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government guarantees various superannuation and other liabilities: $137.7 million is attributable to liabilities of the Commonwealth Bank of Australia as at 31 December 2021; and $4.9 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation as at 31 December 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 principal component of the Bank's liabilities is exchange settlement balances. As at 9 February 2022, exchange settlement balances amount to $444.7 billion, and the total Guarantee is $567.2 billion.

Contingent liabilities – unquantifiable

Establishment of a Cyclone and related flooding reinsurance pool

The Government will provide a $10 billion annually reinstated Government guarantee to the Australian Reinsurance Pool Corporation (ARPC), to support a reinsurance pool for the impact of cyclones and related flooding on eligible insured properties. Subject to the passage of legislation, the guarantee will take effect from 1 July 2022 and may be called upon in the event of a large cyclone and related flooding, or in a year with a high number of cyclones and related flooding, to ensure the ARPC can pay any liabilities.

The reinsurance pool is 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 due to significant uncertainty in the frequency and severity of cyclones and the resulting losses.

Government Guarantees for Housing

The Australian Government has a number of programs to support individuals to enter the housing market sooner.

The **First Home Guarantee** (FHG – formerly the First Home Loan Deposit 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 FHG 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 was made available from 1 July 2021.

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.

The **Rural Home Guarantee** is designed to support eligible citizens and permanent residents who have not owned a home for five years to purchase a new home in a regional location by providing a guarantee to participating lenders for up to 15 percent of the property purchase price. The Rural Home Guarantees will commence in 2022-23 subject to passage of legislation.

For the four 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) 500 million (approximately A$953.2 million estimated as at 30 June 2021) to loan to the IMF under the PRGT. As at 21 February 2022, SDR 210.6 million (approximately A$401.4 million) has been drawn down, leaving SDR 289.4 million (approximately A$551.8 million) remaining available to the IMF under the PRGT.

On 13 October 2021, the Government announced that it intended to provide an additional SDR 250 million (approximately A$476.6 million estimated as at 30 June 2022) to the PRGT.

Small and Medium Enterprise Guarantee Scheme and SME Recovery Loan Scheme

The Australian Government will guarantee 50 per cent of loans issued under the Coronavirus Small and Medium Enterprises (SME) Guarantee Scheme and has guaranteed 100 per cent of loans issued under the Show Starter Loan Scheme provided by eligible lenders.

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 of, and to provide continued assistance to, firms 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. The Government is working with lenders to ensure that eligible firms continue to have access to finance to maintain and grow their businesses.

On 25 August 2021, the Government announced that the SME Recovery Loan Scheme would be expanded to provide support to SMEs adversely economically affected by the Coronavirus pandemic. This change was effective from 1 October 2021.

Loans under the SME Recovery Loan Scheme were available from 1 April 2021 until 31 December 2021. The Australian Government guaranteed 80 per cent of loans issued under the SME Recovery Loan Scheme provided by eligible lenders to SMEs.

The Government has agreed to extend the existing SME Loan Recovery Scheme for SMEs that have been adversely economically affected by the Coronavirus pandemic, with a guarantee of 50 per cent. The extension commenced on 1 January 2022 and end on 30 June 2022.

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 21 February 2022, for which a provision has not been made is $5.6 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.

Historical Interest on Early Payment entitlements

Interest on early payments (IEP) is payable by the Commissioner of Taxation on payments made by a taxpayer towards an applicable liability where the payment is made more than 14 days before the relevant due date. As at 21 February 2022, historical entitlements are estimated to be $221 million and are not recognised in the Budget estimates.

The ATO is designing system functionality to automatically identify, calculate and pay interest on early payment entitlements to taxpayers. If successfully deployed, the ATO may expand the system, to include payment of historical amounts.

International financial institutions – uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947.

Australia's current uncalled capital subscription to the IBRD totals approximately US$4.4 billion (estimated value A$5.8 billion as at 30 October 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$367.1 million as at 30 October 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 30 October 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$35.1 million as at 30 October 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 30 October 2021).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund – New Arrangements to Borrow & Bilateral Borrowing Agreement

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 stands at around SDR 4.4 billion (estimated value A$8.5 billion at 30 June 2022). 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 the arrangement from 1 January 2021 to 31 December 2025.

In addition, Australia has made available approximately SDR 2.0 billion (estimated as approximately A$3.8 billion at 30 June 2022) 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 to 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.

DSH Insurance is funded by premiums collected from policy holders, commissions from QBE and returns on investments. Due to the nature of insurance, DSH Insurance's financial performance can be volatile from year to year. The last three years have been challenging for DSH Insurance, due to increases in claims from extreme weather events (including bushfires, hailstorms and floods) combined with low investment returns and increased pricing on reinsurance premiums. These are industry wide challenges affecting all general insurers.

The Scheme manages the volatility of the insurance cycle by holding an appropriate level of capital (that is, 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 6.3 summarises Government loans estimated to exceed $200 million at 30 June 2022.

Table 6.3: 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	283	State Governments (that through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Farm Investment Loans, Drought Loans, AgriStarter Loans, AgBiz Drought Loans and AgRebuild Loans	2,831	Eligible Australian farm businesses and related small businesses, via Regional Investment Corporation	1.89 per cent for Plantation Loans 2.31 per cent for all other loans	Up to 20 years for plantation loans Up to 10 years for all other loans	Modified
Education, Skills and Employment					
Higher Education Loan Program and VET Student Loans Program	56,400	Eligible tertiary education students	Consumer Price Index (CPI) growth	9.4 years*	Modified
Trade Support Loans Program	929	Eligible Australian Apprentices	CPI growth		Modified
Foreign Affairs and Trade					
Papua New Guinea Liquefied Natural Gas	178	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-in-confidence	Until 2026	Modified
Telstra acquisition of Digicel Pacific[c]	0	Telstra	Commercial-in-confidence	Not yet finalised	Modified
Health					
Zero Real Interest Loans	226	Residential aged care providers	CPI growth	Up to 22 years	Unchanged
Industry, Science, Energy and Resources					
Clean Energy Finance Corporation	2,960	Approved entities undertaking clean energy technology projects	3.9 per cent weighted average	5-15 years	Unchanged

Table 6.3: 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	7,375	NBN Co Limited	3.96 per cent	30 June 2024	Modified
Northern Australia Infrastructure Facility Loans	675	Northern Australia jurisdictions (Western Australia, Queensland or the Northern Territory) for on lending to project proponents. The NAIF Investment Mandate Direction 2021 additionally allows for provision of financial assistance directly to other entities	Various (circa. 5 per cent)	Various	Modified
WestConnex stage 2 Concessional loan	1,750	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	998	Eligible Indigenous persons	2.5-6.9 per cent	Up to 30 years	Unchanged
Voyages Indigenous Tourism Australia Pty Ltd	292	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Social Services					
Student Financial Supplement Scheme	339	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY recipients	CPI growth	Various	Modified
Student Start up Loan	733	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	CPI growth	Various	Modified

Table 6.3: Summary of Australian Government loans exceeding $200 million (continued)

Entity	Loan amount[(a)] ($m)	Borrower	Interest rate	Term	Status[(b)]
Treasury					
Affordable Housing Bond Aggregator	57	National Housing Finance and Investment Corporation	Commonwealth cost of borrowing	Various	Unchanged
Commonwealth State financing arrangements – Housing and Specific Purpose Capital	1,333	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	87	International Monetary Fund	0.1 per cent	10 years	Modified
International Monetary Fund – Poverty Reduction and Growth Trust	381	International Monetary Fund	IMF SDR interest rate	10 years	Modified
Loan Agreement between the Government of Australia and the Government of Indonesia	1,350	Government of Indonesia	Commonwealth cost of Borrowing plus 0.5 per cent	15 years	Unchanged
Loan to the Government of Papua New Guinea	547	Government of Papua New Guinea	Commonwealth cost of Borrowing plus 0.5 per cent	15 years	Unchanged
2021 Loan to Government of Papua New Guinea	637	Government of Papua New Guinea	Commonwealth cost of Borrowing plus 0.5 per cent	20 years	New

* Average.
(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2022 in $ millions.
(b) Status of loan items are considered 'unchanged' unless there are modifications to respective interest rates and/or loan term.
(c) As at 31 January 2022, the Telstra acquisition of Digicel Pacific loan had not been drawn down.Loan Item

Agriculture, Water and the Environment

Drought related and farm finance concessional loans – Agriculture

As at 30 June 2022, the fair value of farm business, drought and dairy farm related loans is estimated to total $283.5 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 2022, the interest rate was 1.56 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 2022, the interest rate was 1.41 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 2022, the interest rate was 1.81 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 2022, the interest rate was 2.06 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, AgRebuild Loans and Plantation Loans

The Regional Investment Corporation commenced operations on 1 July 2018.

There are four loan products currently available to farm businesses — Farm Investment Loans, Drought Loans, AgriStarter Loans and Plantation Loans (launched on 6 December 2021). In addition, AgBiz Drought Loans are available for small businesses. AgRebuild Loans (North Queensland flood) closed on 30 June 2020.

The Farm Investment Drought, AgriStarter and AgBiz Drought 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, except for AgBiz Drought Loans which are for small businesses that provide primary production related goods and services for drought affected farm businesses.

Plantation loans provide concessional loans to eligible farmers and commercial growers to develop or establish plantations or replant existing bushfire-damaged plantations resulting from the 2019-20 Black Summer Bushfires. Additional criteria apply, including the requirement to have insurance for managing natural disaster risks.

As at 1 February 2022, the variable interest rate is 2.31 per cent for the Farm Investment, Drought, AgriStarter and AgBiz Drought loan products. The variable interest rate for Plantation Loans is 1.89 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). The next update will be on 1 August 2022.

Interest was not payable during the first two years of the AgRebuild Loan, or on the Drought Loans and AgBiz Drought Loans for loan applications that were received before 30 September 2020.

Loans have a maximum term of 10 years, except Plantation Loans which have a maximum term of 20 years.

Education, Skills and Employment

Higher Education Loan Program 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 2022, the combined fair value of HELP and VSL debt outstanding is estimated to be $56.4 billion. The fair value takes into account the concessionality of HELP and VSL 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 2,901,607 HELP debtors as at 30 June 2021. 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 2021 the average time taken to repay HELP debts was 9.4 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 $21,779 (2021-22) 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 $725.97 per month in the first year of their apprenticeship, $544.48 per month in the second year, $362.99 per month in the third year and $181.49 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 $21,779 was indexed on 1 July 2021 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 $47,014 for the 2021-22 income year. This is a demand-driven program.

Foreign Affairs and Trade

Papua New Guinea Liquefied Natural Gas

A 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 2022, the fair value of the loan amount outstanding is estimated to total $172.9 million.

Telstra acquisition of Digicel Pacific

The Government will provide a financing package of USD1.33 billion through Export Finance Australia to Telstra for its acquisition of Digicel Pacific. Telstra will own and operate Digicel Pacific, contributing to secure and reliable infrastructure in the Pacific region, which is critical to economic growth and development. This package will include debt and equity like securities designed to secure the Government a long-term return. As at 31 January 2022, no funds have been drawn down.

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 2022 is $225.9 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 3.9 per cent. Loans have various maturity dates, typically in the range of 5 to 15 years. As at 30 June 2022, loans contracted and outstanding are expected to total $2.96 billion.

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. NBN Co commenced repaying the loan in December 2020, and as at 28 February 2022 has made repayments of $12.1 billion. The outstanding balance of the loan is $7.4 billion. The loan has a fixed interest rate of 3.96 per cent per annum, with interest payable monthly over the life of the facility.

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. The primary purpose of the NAIF is to provide loans or alternative financing mechanisms to infrastructure projects. The infrastructure that NAIF is able to finance is wide ranging and includes assets that facilitate the establishment or enhancement of business activity or increase economic activity in a 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 30 June 2021. Since its establishment, the NAIF has been amended to:

- expand the eligibility for NAIF financing to include non-construction activities associated with the development of economic infrastructure
- provide NAIF with expanded debt tools, including the ability to provide letters of credit, guarantees and lend in foreign currency, finance smaller loans through working with financing partnerships and in certain circumstances provide financing directly to proponents rather than via the States or Northern Territory
- make equity investments subject to a cap of $50 million and a minimum of $5 million per investment, for non-controlling interest
- 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.

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 outstanding loan balance was $292.2 million.

Social Services

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 $47,014 for 2021-22 and only after they have repaid any HELP and Vocational Education Training (VET) student loan debt. As at 30 June 2022, the fair value of SFSS loans outstanding was valued at $339.0 million.

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 $1,132 (in 2022). 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

$47,014 for 2021-22 and only after they have repaid any HELP and Vocational Education Training (VET) student loan 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 2022, the fair value of the Student Start-up Loan was valued at $732.9 million.

Treasury

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.

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 estimated that the value of loans outstanding to Australia is SDR 45.7 million (approximately A$86.8 million) as at 30 June 2022.

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.

It is estimated that the value of loans outstanding to Australia was SDR 210.6 million (approximately A$401.4 million) as at 30 June 2022.

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.

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 with PNG to temporarily 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.

2021 Loan to Government of Papua New Guinea

On 10 December 2021, the Australian Government entered into a loan agreement for AU$650 million in 2021-22 to the Government of Papua New Guinea. The loan was provided in response to a request from the PNG Prime Minister for further support to enable the PNG Government to meet required expenditure in their 2021 Budget, including on the health and economic response to the COVID-19 pandemic. The loan is also provided to help PNG continue progress on economic reforms under the second International Monetary Fund Staff-Monitored Program.

Statement 9: Australian Government Budget Financial Statements

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a 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 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 9: Australian Government Budget Financial Statements

Table 9.1: Australian Government general government sector operating statement

				Estimates		
		2021-22	2022-23	2023-24	2024-25	2025-26
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue(a)	3	525,380	520,959	554,464	579,359	612,184
Sales of goods and services	4	17,628	18,326	19,518	20,398	20,943
Interest income	5	3,916	3,751	4,294	4,576	4,649
Dividend and distribution income(b)	5	6,219	5,292	5,681	6,057	6,428
Other(a)	6	13,273	12,619	11,702	11,350	11,029
Total revenue		**566,417**	**560,947**	**595,660**	**621,741**	**655,232**
Expenses						
Gross operating expenses						
Wages and salaries(c)	7	23,572	23,367	23,161	23,721	24,022
Superannuation	7	12,285	7,064	7,176	7,415	7,632
Depreciation and amortisation	8	11,745	12,462	13,304	14,035	14,817
Supply of goods and services	9	167,523	173,327	173,571	180,160	188,672
Other operating expenses(c)	7	8,168	9,277	8,260	8,442	8,557
Total gross operating expenses		*223,293*	*225,497*	*225,471*	*233,772*	*243,700*
Superannuation interest expense	7	8,976	12,453	12,758	13,053	13,716
Interest expenses	10	20,638	21,481	22,567	24,666	25,922
Current transfers						
Current grants	11	189,064	186,084	190,984	196,697	199,756
Subsidy expenses		18,017	15,892	16,072	16,681	17,204
Personal benefits	12	156,348	141,860	149,752	157,270	169,583
Total current transfers		*363,429*	*343,836*	*356,807*	*370,647*	*386,542*
Capital transfers	11					
Mutually agreed write-downs		2,768	2,915	3,130	3,319	3,459
Other capital grants		20,465	22,287	23,100	19,913	13,500
Total capital transfers		*23,234*	*25,202*	*26,230*	*23,231*	*16,958*
Total expenses		**639,569**	**628,469**	**643,833**	**665,369**	**686,839**
Net operating balance		**-73,153**	**-67,522**	**-48,174**	**-43,629**	**-31,607**
Other economic flows – included in operating result						
Net write-downs of assets		-7,051	-7,491	-7,705	-8,039	-8,356
Assets recognised for the first time		242	251	261	271	282
Actuarial revaluations		-15	83	59	37	27
Net foreign exchange gains		-602	-55	-124	-108	-166
Net swap interest received		-427	0	0	0	0
Market valuation of debt		48,066	-3,364	-3,285	-2,533	-2,496
Other gains/(losses)		5,751	9,340	10,111	10,652	11,278
Total other economic flows – included in operating result		**45,964**	**-1,235**	**-684**	**281**	**568**
Operating result(d)		**-27,189**	**-68,757**	**-48,857**	**-43,348**	**-31,039**

Table 9.1: Australian Government general government sector operating statement (continued)

		Estimates				
		2021-22	2022-23	2023-24	2024-25	2025-26
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		-8,494	6,348	0	0	0
Actuarial revaluations		-880	-190	-195	-198	-210
Other economic revaluations		1,061	60	51	2,157	41
Total other economic flows - included in equity		**-8,312**	**6,218**	**-144**	**1,959**	**-169**
Comprehensive result – Total change in net worth		**-35,502**	**-62,539**	**-49,001**	**-41,389**	**-31,208**
Net operating balance		**-73,153**	**-67,522**	**-48,174**	**-43,629**	**-31,607**
Net acquisition of non-financial assets						
Purchases of non-financial assets		23,025	22,842	23,138	22,766	22,213
less Sales of non-financial assets		1,149	119	80	2,215	139
less Depreciation		11,745	12,462	13,304	14,035	14,817
plus Change in inventories		988	1,064	827	928	916
plus Other movements in non-financial assets		-27	-6	0	0	0
Total net acquisition of non-financial assets		**11,092**	**11,319**	**10,580**	**7,443**	**8,172**
Fiscal balance (Net lending/borrowing)(e)		**-84,245**	**-78,841**	**-58,754**	**-51,072**	**-39,779**

(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. This results in an increase in taxation revenue and a decrease in other revenue.
(b) 'Dividend income' has been renamed 'dividend and distribution income' to more accurately reflect the transactions included in this item.
(c) 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.
(d) Operating result under AAS.
(e) The term fiscal balance is not used by the ABS.

Table 9.2: Australian Government general government sector balance sheet

			Estimates			
		2021-22	2022-23	2023-24	2024-25	2025-26
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		62,206	36,061	49,275	50,588	51,253
Advances paid	13	81,915	86,550	83,582	86,997	89,438
Investments, loans and placements	14	203,633	216,979	232,197	239,804	247,579
Other receivables	13	65,948	69,848	74,451	78,637	83,708
Equity investments						
Investments in other public sector entities		56,373	69,644	74,165	78,473	81,022
Equity accounted investments		4,034	4,109	4,146	4,142	4,096
Investments – shares		91,886	92,275	92,438	97,450	102,527
Total financial assets		*565,993*	*575,465*	*610,253*	*636,091*	*659,624*
Non-financial assets	15					
Land		12,327	12,680	12,684	12,698	12,603
Buildings		45,800	47,855	49,421	50,487	51,085
Plant, equipment and infrastructure		99,155	105,313	112,723	119,852	126,295
Inventories		11,196	11,877	12,292	12,791	13,260
Intangibles		10,706	11,636	11,925	11,926	11,835
Investment properties		214	216	216	216	216
Biological assets		21	21	21	21	21
Heritage and cultural assets		11,873	11,880	11,887	11,877	11,864
Assets held for sale		286	279	279	279	279
Other non-financial assets		13	7	7	7	7
Total non-financial assets		*191,590*	*201,765*	*211,454*	*220,155*	*227,466*
Total assets		**757,583**	**777,230**	**821,707**	**856,246**	**887,090**
Liabilities						
Interest bearing liabilities						
Deposits held		598	598	598	598	598
Government securities		929,091	1,004,288	1,087,754	1,152,547	1,206,526
Loans	16	29,640	29,583	29,403	29,151	28,837
Lease liabilities		19,901	20,068	19,421	18,370	16,962
Total interest bearing liabilities		*979,230*	*1,054,537*	*1,137,176*	*1,200,665*	*1,252,923*

Table 9.2: Australian Government general government sector balance sheet (continued)

		Estimates				
		2021-22	2022-23	2023-24	2024-25	2025-26
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	251,251	257,862	264,321	276,144	284,152
Other employee liabilities	17	38,518	39,209	40,164	41,125	41,768
Suppliers payables	18	12,113	12,936	13,356	13,661	13,872
Personal benefits payables	18	2,950	2,968	3,804	3,872	3,960
Subsidies payables	18	985	991	1,000	1,012	1,037
Grants payables	18	3,648	3,509	3,152	3,799	3,376
Other payables	18	2,629	2,652	4,742	2,663	2,678
Provisions	18	61,263	60,110	60,536	61,237	62,465
Total provisions and payables		*373,358*	*380,237*	*391,076*	*403,514*	*413,307*
Total liabilities		**1,352,588**	**1,434,773**	**1,528,252**	**1,604,179**	**1,666,231**
Net worth(a)		**-595,005**	**-657,543**	**-706,545**	**-747,933**	**-779,141**
Net financial worth(b)		*-786,594*	*-859,308*	*-917,999*	*-968,088*	*-1,006,607*
Net financial liabilities(c)		*842,967*	*928,953*	*992,164*	*1,046,562*	*1,087,629*
Net debt(d)		*631,477*	*714,947*	*772,123*	*823,277*	*864,653*

(a) Net worth equals total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt 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 9.3: Australian Government general government sector cash flow statement[(a)]

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received(b)	512,480	508,400	541,757	566,625	598,233
Receipts from sales of goods and services	17,626	18,346	19,520	20,413	20,943
Interest receipts	2,557	2,820	3,393	3,670	3,932
Dividends, distributions and income tax equivalents(c)	9,142	5,284	5,672	6,048	6,418
Other receipts(b)(d)	14,334	12,535	12,562	18,227	14,102
Total operating receipts	**556,139**	**547,384**	**582,904**	**614,983**	**643,628**
Cash payments for operating activities					
Payments to employees(d)(e)	-37,212	-37,127	-37,507	-38,797	-40,193
Payments for goods and services	-164,372	-172,351	-173,204	-180,375	-189,037
Grants and subsidies paid	-230,162	-226,249	-230,276	-232,294	-229,880
Interest paid	-17,456	-17,894	-20,288	-21,631	-26,322
Personal benefit payments	-157,130	-142,214	-149,578	-157,900	-170,197
Other payments(e)	-7,496	-8,556	-7,296	-7,489	-7,608
Total operating payments	**-613,828**	**-604,392**	**-618,149**	**-638,487**	**-663,237**
Net cash flows from operating activities	**-57,689**	**-57,008**	**-35,245**	**-23,504**	**-19,609**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	487	248	2,304	255	272
Purchases of non-financial assets	-20,159	-18,759	-21,117	-21,371	-21,252
Net cash flows from investments in non-financial assets	**-19,672**	**-18,511**	**-18,813**	**-21,117**	**-20,980**
Net cash flows from investments in financial assets for policy purposes	**-5,949**	**-12,857**	**-3,873**	**-10,130**	**-6,818**
Net cash flows from investments in financial assets for liquidity purposes	**-3,200**	**-4,754**	**-5,097**	**-1,592**	**-1,962**
Cash receipts from financing activities					
Borrowing	262,545	612,724	714,048	756,275	759,709
Other financing	72	13	21	16	12
Total cash receipts from financing activities	**262,617**	**612,737**	**714,069**	**756,291**	**759,720**
Cash payments for financing activities					
Borrowing	-168,956	-538,436	-632,479	-692,682	-703,492
Other financing	-7,356	-7,315	-5,348	-5,952	-6,193
Total cash payments for financing activities	**-176,312**	**-545,751**	**-637,827**	**-698,634**	**-709,685**
Net cash flows from financing activities	**86,305**	**66,986**	**76,243**	**57,657**	**50,035**
Net increase/(decrease) in cash held	**-206**	**-26,145**	**13,214**	**1,313**	**666**

Table 9.3: Australian Government general government sector cash flow statement (continued)[(a)]

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(f)	**-77,361**	**-75,519**	**-54,058**	**-44,621**	**-40,590**
plus Net cash flows from financing activities for leases(g)	-2,460	-2,443	-2,474	-2,487	-2,479
Equals underlying cash balance(h)	**-79,821**	**-77,961**	**-56,532**	**-47,108**	**-43,068**
plus Net cash flows from investments in financial assets for policy purposes	-5,949	-12,857	-3,873	-10,130	-6,818
Equals headline cash balance	**-85,770**	**-90,819**	**-60,406**	**-57,238**	**-49,887**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipt to taxation receipt to reflect the change in the nature of this receipt. The taxation receipt and non-taxation receipt series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. This results in an increase in taxes received and a decrease in other receipts.
(c) 'Dividends and income tax equivalents' has been renamed to 'dividends, distributions and income tax equivalents' to more accurately reflect the types of receipts included in this item.
(d) As result of a voluntary accounting policy change, the pass-through of defined benefit member superannuation receipts and payments are reported on a gross basis in the cash flow statement. This was previously reported on a net basis.
(e) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(f) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(g) 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.
(h) The term underlying cash balance is not used by the ABS.

Table 9.4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2021-22	2022-23
	$m	$m
Revenue		
Grants and subsidies	964	207
Sales of goods and services	18,785	19,645
Interest income	4	3
Other	24	69
Total revenue	**19,777**	**19,924**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,584	4,840
Superannuation	506	515
Depreciation and amortisation	4,671	4,956
Supply of goods and services	9,421	8,971
Other operating expenses(a)	693	451
Total gross operating expenses	*19,874*	*19,734*
Interest expenses	1,609	1,651
Other property expenses	281	214
Current transfers		
Tax expenses	74	1
Total current transfers	*74*	*1*
Total expenses	**21,838**	**21,599**
Net operating balance	**-2,061**	**-1,676**
Other economic flows	**-1,129**	**-1,908**
Comprehensive result – Total change in net worth excluding contribution from owners	**-3,190**	**-3,583**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,022	9,519
less Sales of non-financial assets	56	47
less Depreciation	4,671	4,956
plus Change in inventories	7	20
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**3,301**	**4,536**
Fiscal balance (Net lending/borrowing)(b)	**-5,362**	**-6,212**

(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 9.5: Australian Government public non-financial corporations sector balance sheet

	Estimates	
	2021-22	2022-23
	$m	$m
Assets		
Financial assets		
Cash and deposits	2,043	4,064
Investments, loans and placements	972	888
Other receivables	3,358	3,512
Equity investments	250	260
Total financial assets	*6,623*	*8,725*
Non-financial assets		
Land and other fixed assets	59,656	62,553
Other non-financial assets(a)	3,737	3,492
Total non-financial assets	*63,392*	*66,045*
Total assets	**70,016**	**74,769**
Liabilities		
Interest bearing liabilities		
Deposits held	16	16
Advances received and loans	30,909	32,415
Lease liabilities	12,447	12,476
Total interest bearing liabilities	*43,371*	*44,906*
Provisions and payables		
Superannuation liability	21	21
Other employee liabilities	1,723	1,761
Other payables	4,992	4,891
Other provisions(a)	751	720
Total provisions and payables	*7,487*	*7,393*
Total liabilities	**50,859**	**52,299**
Shares and other contributed capital	**19,157**	**22,471**
Net worth(b)	**19,157**	**22,471**
Net financial worth(c)	*-44,235*	*-43,574*
Net debt(d)	*40,356*	*39,954*

(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 9.6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Estimates	
	2021-22	2022-23
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	19,901	20,617
Grants and subsidies received	867	181
GST input credit receipts	981	897
Other receipts	89	73
Total operating receipts	**21,839**	**21,768**
Cash payments for operating activities		
Payments to employees(b)	-5,032	-5,321
Payment for goods and services	-11,487	-10,281
Interest paid	-1,695	-1,712
GST payments to taxation authority	-848	-883
Distributions paid	-282	-214
Other payments(b)	-1,168	-447
Total operating payments	**-20,513**	**-18,857**
Net cash flows from operating activities	**1,326**	**2,911**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	57	47
Purchases of non-financial assets	-7,303	-8,877
Net cash flows from investments in non-financial assets	**-7,246**	**-8,830**
Net cash flows from investments in financial assets for policy purposes	**-3**	**0**
Net cash flows from investments in financial assets for liquidity purposes	**64**	**58**
Net cash flows from financing activities		
Borrowing (net)	2,549	1,489
Other financing (net)	3,186	6,394
Net cash flows from financing activities	**5,735**	**7,883**
Net increase/(decrease) in cash held	**-124**	**2,022**
Cash at the beginning of the year	**2,167**	**2,043**
Cash at the end of the year	**2,043**	**4,064**
GFS cash surplus(+)/deficit(-)(c)	**-5,920**	**-5,919**
plus Net cash flows from financing activities for leases(d)	-480	-521
Adjusted GFS cash surplus(+)/deficit(-)(d)	**-6,400**	**-6,440**

(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 GFS cash surplus/deficit to maintain consistency of measure following the implementation of AASB 16.

Table 9.7: Australian Government total non-financial public sector operating statement

	Estimates	
	2021-22	2022-23
	$m	$m
Revenue		
Taxation revenue(a)	524,424	520,242
Sales of goods and services	35,556	37,097
Interest income	3,566	3,452
Dividend and distribution income(b)	5,938	5,115
Other(a)	13,317	12,660
Total revenue	**582,801**	**578,566**
Expenses		
Gross operating expenses		
Wages and salaries(c)	28,156	28,207
Superannuation	12,791	7,579
Depreciation and amortisation	16,416	17,418
Supply of goods and services	176,074	181,409
Other operating expenses(c)	8,861	9,728
Total gross operating expenses	*242,297*	*244,342*
Superannuation interest expense	8,976	12,453
Interest expenses	21,893	22,831
Current transfers		
Current grants	189,064	186,084
Subsidy expenses	17,235	15,152
Personal benefits	156,348	141,860
Total current transfers	*362,647*	*343,096*
Capital transfers	22,409	25,047
Total expenses	**658,222**	**647,769**
Net operating balance	**-75,421**	**-69,202**
Other economic flows	**36,835**	**3,408**
Comprehensive result – Total change in net worth	**-38,585**	**-65,795**
Net acquisition of non-financial assets		
Purchases of non-financial assets	31,045	32,360
less Sales of non-financial assets	1,206	166
less Depreciation	16,416	17,418
plus Change in inventories	995	1,084
plus Other movements in non-financial assets	-27	-6
Total net acquisition of non-financial assets	**14,391**	**15,854**
Fiscal balance (Net lending/borrowing)(d)	**-89,812**	**-85,056**

(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. This results in an increase in taxation revenue and a decrease in other revenue.
(b) 'Dividend income' has been renamed 'dividend and distribution income' to more accurately reflect the transactions included in this item.
(c) 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.
(d) The term fiscal balance is not used by the ABS.

Table 9.8: Australian Government total non-financial public sector balance sheet

	Estimates	
	2021-22	2022-23
	$m	$m
Assets		
Financial assets		
Cash and deposits	64,248	40,125
Advances paid	74,256	78,887
Investments, loans and placements	204,586	217,848
Other receivables	68,454	72,413
Equity investments	112,141	119,321
Total financial assets	*523,685*	*528,595*
Non-financial assets		
Land and other fixed assets	239,991	252,142
Other non-financial assets	15,027	15,703
Total non-financial assets	*255,018*	*267,845*
Total assets	**778,704**	**796,440**
Liabilities		
Interest bearing liabilities		
Deposits held	613	613
Government securities	929,091	1,004,288
Advances received and loans	52,873	54,317
Lease liabilities	32,338	32,535
Total interest bearing liabilities	*1,014,915*	*1,091,753*
Provisions and payables		
Superannuation liability	251,272	257,883
Other employee liabilities	40,241	40,970
Other payables	27,210	27,799
Other provisions	61,310	60,074
Total provisions and payables	*380,034*	*386,727*
Total liabilities	**1,394,949**	**1,478,479**
Net worth(a)	**-616,245**	**-682,040**
Net financial worth(b)	*-871,263*	*-949,884*
Net debt(c)	*671,824*	*754,892*

(a) 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.

(b) 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.

(c) 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 9.9: Australian Government total non-financial public sector cash flow statement[(a)]

	Estimates	
	2021-22	2022-23
	$m	$m
Cash receipts from operating activities		
Taxes received(b)	512,259	508,381
Receipts from sales of goods and services	34,808	36,273
Interest receipts	2,216	2,530
Dividends, distributions and income tax equivalents(c)	8,864	5,107
Other receipts(b)(d)	14,253	12,558
Total operating receipts	**572,401**	**564,849**
Cash payments for operating activities		
Payments to employees(d)(e)	-42,244	-42,448
Payments for goods and services	-173,004	-179,914
Grants and subsidies paid	-229,138	-226,074
Interest paid	-18,806	-19,313
Personal benefit payments	-157,130	-142,214
Other payments(e)	-8,437	-8,978
Total operating payments	**-628,760**	**-618,942**
Net cash flows from operating activities	**-56,359**	**-54,093**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	544	295
Purchases of non-financial assets	-27,462	-27,636
Net cash flows from investments in non-financial assets	**-26,918**	**-27,341**
Net cash flows from investments in financial assets for policy purposes	**-8,495**	**-5,969**
Net cash flows from investments in financial assets for liquidity purposes	**-3,134**	**-4,696**
Net cash flows from financing activities		
Borrowing (net)	101,957	75,780
Other financing (net)	-7,378	-7,804
Net cash flows from financing activities	**94,579**	**67,976**
Net increase/(decrease) in cash held	**-327**	**-24,123**
Cash at the beginning of the year	**64,576**	**64,248**
Cash at the end of the year	**64,249**	**40,125**

Table 9.9: Australian Government total non-financial public sector cash flow statement (continued)[(a)]

	Estimates	
	2021-22	2022-23
	$m	$m
GFS cash surplus(+)/deficit(-)(f)	**-83,277**	**-81,434**
plus Net cash flows from financing activities for leases(g)	-2,940	-2,963
Adjusted GFS cash surplus(+)/deficit(-)(g)	**-86,217**	**-84,397**

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipt to taxation receipt to reflect the change in the nature of this receipt. The taxation receipt and non-taxation receipt series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. This results in an increase in taxes received and a decrease in other receipts.
(c) 'Dividends and income tax equivalents' has been renamed to 'dividends, distributions and income tax equivalents' to more accurately reflect the types of receipts included in this item.
(d) As result of a voluntary accounting policy change, the pass-through of defined benefit member superannuation receipts and payments are reported on a gross basis in the cash flow statement. This was previously reported on a net basis.
(e) Consistent with the ABS GFS classification, other employee related payments are classified separately from wages and salaries under other payments.
(f) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(g) Principal payments on lease liabilities, which are financing cash payments, are deducted in the calculation of the GFS cash surplus/deficit to maintain consistency of measure following the implementation of AASB 16.

Table 9.10: Australian Government public financial corporations sector operating statement

	Estimates	
	2021-22	2022-23
	$m	$m
Revenue		
Grants and subsidies	145	145
Sales of goods and services	688	573
Interest income	8,894	9,598
Other	92	92
Total revenue	**9,820**	**10,409**
Expenses		
Gross operating expenses		
Wages and salaries(a)	230	250
Superannuation	69	42
Depreciation and amortisation	73	78
Supply of goods and services	568	513
Other operating expenses(a)	55	62
Total gross operating expenses	*996*	*944*
Interest expenses	177	159
Other property expenses	16	5
Current transfers		
Tax expenses	7	7
Total current transfers	*7*	*7*
Total expenses	**1,195**	**1,115**
Net operating balance	**8,624**	**9,294**
Other economic flows	**-16,774**	**-2,561**
Comprehensive result – Total change in net worth excluding contribution from owners	**-8,150**	**6,733**
Net acquisition of non-financial assets		
Purchases of non-financial assets	30	2
less Sales of non-financial assets	0	0
less Depreciation	73	78
plus Change in inventories	-60	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-104**	**-76**
Fiscal balance (Net lending/borrowing)(b)	**8,728**	**9,370**

(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 9.11: Australian Government public financial corporations sector balance sheet[(a)]

	Estimates	
	2021-22	2022-23
	$m	$m
Assets		
Financial assets		
Cash and deposits	908	855
Investments, loans and placements	656,922	664,438
Other receivables	269	220
Equity investments	898	951
Total financial assets	*658,997*	*666,464*
Non-financial assets		
Land and other fixed assets	961	955
Other non-financial assets(b)	87	87
Total non-financial assets	*1,048*	*1,042*
Total assets	**660,045**	**667,507**
Liabilities		
Interest bearing liabilities		
Deposits held	614,486	614,476
Borrowing	25,939	26,361
Total interest bearing liabilities	*640,425*	*640,837*
Provisions and payables		
Superannuation liability	539	539
Other employee liabilities	210	211
Other payables	915	1,124
Other provisions(b)	1,870	1,976
Total provisions and payables	*3,534*	*3,850*
Total liabilities	**643,958**	**644,687**
Shares and other contributed capital	**16,087**	**22,820**
Net worth(c)	**16,087**	**22,820**
Net financial worth(d)	*15,039*	*21,777*
Net debt(e)	*-17,406*	*-24,456*

(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 9.12: Australian Government public financial corporations sector cash flow statement[(a)]

	Estimates	
	2021-22	2022-23
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	735	574
Grants and subsidies received	145	145
GST input credit receipts	11	2
Interest receipts	8,875	9,564
Other receipts	15	104
Total operating receipts	**9,782**	**10,388**
Cash payments for operating activities		
Payments to employees(b)	-307	-292
Payment for goods and services	-747	-671
Interest paid	-132	-134
GST payments to taxation authority	-18	0
Distributions paid	-2,687	-5
Other payments(b)	-68	-62
Total operating payments	**-3,958**	**-1,164**
Net cash flows from operating activities	**5,824**	**9,224**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	4	0
Purchases of non-financial assets	-98	-2
Net cash flows from investments in non-financial assets	**-94**	**-2**
Net cash flows from investments in financial assets for policy purposes	**-2,084**	**-470**
Net cash flows from investments in financial assets for liquidity purposes(c)	**-109,295**	**-9,297**
Net cash flows from financing activities		
Borrowing and deposits received (net)(c)	98,882	422
Other financing (net)	6,779	70
Net cash flows from financing activities	**105,661**	**492**
Net increase/(decrease) in cash held	**12**	**-53**
Cash at the beginning of the year	**896**	**908**
Cash at the end of the year	**908**	**855**
GFS cash surplus(+)/deficit(-)(d)	**5,730**	**9,222**
plus Net cash flows from financing activities for leases(e)	-2	-2
Adjusted GFS cash surplus(+)/deficit(-)(e)	**5,728**	**9,220**

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

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 5: Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in *Statement 5*.

AASB 1055 *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 2021-22 Budget are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the *Mid-Year Economic and Fiscal Outlook 2021-22* (MYEFO) disclosed in Budget Paper No. 2 *Budget Measures 2022-23*. All policy decisions taken between the 2021-22 Budget and the 2021-22 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in *Statement 8: Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 9.13.

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 9.13: 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 is 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 9.13: 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				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	238,500	252,100	267,300	269,300	284,200
Gross other individuals	57,500	59,100	62,600	65,200	69,200
less: Refunds	38,200	41,100	34,300	37,400	38,200
Total individuals and other withholding taxation	257,800	270,100	295,600	297,100	315,200
Fringe benefits tax	3,180	3,580	3,880	4,070	4,280
Company tax	111,500	92,200	89,200	105,200	111,600
Superannuation fund taxes	24,580	15,690	19,440	20,590	22,140
Petroleum resource rent tax	1,720	2,440	2,410	2,410	2,380
Income taxation revenue	**398,780**	**384,010**	**410,530**	**429,370**	**455,600**
Goods and services tax	76,409	82,460	85,920	89,880	93,960
Wine equalisation tax	1,160	1,190	1,220	1,270	1,320
Luxury car tax	880	880	850	890	940
Excise and Custom duty					
Petrol	4,950	6,050	7,350	7,850	8,250
Diesel	11,720	12,880	15,170	15,970	16,820
Other fuel products	1,510	2,700	2,220	2,250	2,280
Tobacco	12,950	12,800	12,700	13,100	13,550
Beer	2,440	2,650	2,740	2,810	2,970
Spirits	3,280	3,080	3,140	3,280	3,410
Other alcoholic beverages(a)	1,440	1,220	1,270	1,280	1,320
Other customs duty					
Textiles, clothing and footwear	190	170	120	120	120
Passenger motor vehicles	330	310	90	90	100
Other imports	1,340	1,400	1,000	1,040	1,050
less: Refunds and drawbacks	800	700	700	700	700
Total excise and customs duty	39,350	42,560	45,100	47,090	49,170
Major bank levy	1,510	1,570	1,620	1,670	1,770
Agricultural levies	600	560	572	578	589
Other taxes(b)	6,692	7,729	8,652	8,611	8,835
Mirror taxes	621	691	727	759	796
less: Transfers to states in relation to mirror tax revenue	621	691	727	759	796
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**126,600**	**136,949**	**143,934**	**149,989**	**156,584**
Taxation revenue	**525,380**	**520,959**	**554,464**	**579,359**	**612,184**

Note 3: Taxation revenue by type (continued)

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*22,370*	*25,640*	*31,420*	*32,940*	*34,480*
Total customs duty	*16,980*	*16,920*	*13,680*	*14,150*	*14,690*
Capital gains tax(c)	*24,100*	*22,400*	*21,600*	*22,300*	*23,100*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. See also Note 3(a), Taxation revenue by source and Note 6, Other sources of non-taxation revenue.
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Note 3(a): Taxation revenue by source

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	260,980	273,680	299,480	301,170	319,480
Income and capital gains levied on enterprises	137,800	110,330	111,050	128,200	136,120
Total taxes on income, profits and capital gains	**398,780**	**384,010**	**410,530**	**429,370**	**455,600**
Taxes on employers' payroll and labour force	1,000	946	1,017	1,099	1,184
Taxes on the provision of goods and services					
Sales/goods and services tax	78,449	84,530	87,990	92,040	96,220
Excises and levies	22,970	26,200	31,992	33,518	35,069
Taxes on international trade	16,980	16,920	13,680	14,150	14,690
Total taxes on the provision of goods and services	**118,399**	**127,650**	**133,662**	**139,708**	**145,979**
Taxes on the use of goods and performance of activities(a)	7,202	8,353	9,255	9,182	9,421
Total taxation revenue	**525,380**	**520,959**	**554,464**	**579,359**	**612,184**

(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. See also Note 3, Taxation revenue by type and Note 6, Other sources of non-taxation revenue.

Note 4: Sales of goods and services revenue

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Sales of goods	1,633	1,458	1,481	1,458	1,420
Rendering of services	13,716	14,279	15,653	16,535	17,063
Lease rental	329	324	336	332	412
Fees from regulatory services	1,950	2,265	2,048	2,073	2,048
Total sales of goods and services revenue	**17,628**	**18,326**	**19,518**	**20,398**	**20,943**

Note 5: Interest and dividend and distribution revenue

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Interest from other governments					
State and territory debt	13	10	8	7	5
Housing agreements	77	72	67	62	57
Total interest from other governments	**89**	**81**	**75**	**69**	**63**
Interest from other sources					
Advances	665	516	568	623	584
Deposits	80	69	76	80	81
Indexation of HELP receivable and other student loans	1,904	1,504	1,530	1,603	1,679
Other	1,178	1,580	2,045	2,201	2,242
Total interest from other sources	**3,826**	**3,670**	**4,219**	**4,507**	**4,586**
Total interest	**3,916**	**3,751**	**4,294**	**4,576**	**4,649**
Dividends and distributions(a)					
Dividends from other public sector entities	269	222	297	340	353
Other dividends and distributions	5,950	5,071	5,383	5,717	6,075
Total dividends and distributions	**6,219**	**5,292**	**5,681**	**6,057**	**6,428**
Total interest and dividend and distribution revenue	**10,135**	**9,043**	**9,975**	**10,633**	**11,077**

(a) ‘Dividends’ has been renamed to ‘dividends and distributions’ to more accurately reflect the transactions included in this item.

Note 6: Other sources of non-taxation revenue

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Industry contributions(a)	73	80	80	80	80
Royalties	1,346	1,213	1,073	906	680
Seigniorage	79	59	67	64	4
Other	11,775	11,267	10,482	10,300	10,265
Total other sources of non-taxation revenue	**13,273**	**12,619**	**11,702**	**11,350**	**11,029**

(a) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue series in Statement 10: Historical Australian Government Data have been back-cast from 2014-15 for this change. See also Note 3, Taxation revenue by type and Note 3(a), Taxation revenue by source.

Note 7: Employee and superannuation expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Wages and salaries expenses	**23,572**	**23,367**	**23,161**	**23,721**	**24,022**
Other operating expenses					
Leave and other entitlements	3,099	3,006	2,994	3,027	2,990
Separations and redundancies	116	88	83	99	97
Workers compensation premiums and claims	2,563	3,624	2,658	2,711	2,726
Other	2,390	2,559	2,525	2,605	2,743
Total other operating expenses	**8,168**	**9,277**	**8,260**	**8,442**	**8,557**
Superannuation expenses					
Superannuation	12,285	7,064	7,176	7,415	7,632
Superannuation interest cost	8,976	12,453	12,758	13,053	13,716
Total superannuation expenses	**21,260**	**19,516**	**19,933**	**20,468**	**21,348**
Total employee and superannuation expense	**53,000**	**52,161**	**51,354**	**52,630**	**53,927**

Note 8: Depreciation and amortisation expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	4,347	4,768	5,408	5,953	6,651
Buildings	3,947	4,096	4,219	4,305	4,427
Other infrastructure, plant and equipment	2,239	2,292	2,394	2,474	2,473
Heritage and cultural assets	76	77	76	76	73
Other	6	6	6	6	6
Total depreciation(a)	**10,616**	**11,238**	**12,103**	**12,814**	**13,630**
Total amortisation	**1,129**	**1,225**	**1,200**	**1,221**	**1,187**
Total depreciation and amortisation expense	**11,745**	**12,462**	**13,304**	**14,035**	**14,817**
Memorandum:					
Depreciation relating to right of use assets					
Specialist military equipment	*24*	*24*	*24*	*24*	*24*
Buildings	*2,305*	*2,291*	*2,293*	*2,280*	*2,173*
Other infrastructure, plant and equipment	*335*	*330*	*329*	*327*	*430*
Other	*6*	*6*	*6*	*6*	*6*
Total depreciation of right of use assets	***2,670***	***2,651***	***2,652***	***2,637***	***2,632***

(a) Includes depreciation of right of use (leased) assets, resulting from implementation of AASB 16.

Note 9: Supply of goods and services expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Supply of goods and services	44,305	43,570	39,140	39,148	40,770
Lease expenses	338	344	188	204	171
Personal benefits – indirect	114,026	122,120	127,082	133,421	140,449
Health care payments	5,476	5,302	5,226	5,329	5,391
Other	3,378	1,990	1,936	2,058	1,892
Total supply of goods and services expense	**167,523**	**173,327**	**173,571**	**180,160**	**188,672**

Note 10: Interest expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	18,443	19,784	21,206	23,056	24,614
Loans	2	24	38	46	49
Other	117	152	200	232	276
Total interest on debt	**18,563**	**19,960**	**21,443**	**23,335**	**24,938**
Interest on lease liabilities	**340**	**348**	**345**	**341**	**327**
Other financing costs	**1,736**	**1,173**	**778**	**990**	**657**
Total interest expense	**20,638**	**21,481**	**22,567**	**24,666**	**25,922**

(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.

Note 11: Current and capital grants expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Current grants expense					
State and territory governments	148,811	146,211	152,562	158,508	162,319
Private sector	15,113	14,764	13,755	12,842	12,929
Overseas	4,721	4,407	3,955	4,625	4,011
Non-profit organisations	5,786	5,711	5,311	5,099	5,138
Multi-jurisdictional sector	11,623	11,589	11,684	12,045	12,485
Other	3,010	3,402	3,717	3,577	2,875
Total current grants expense	**189,064**	**186,084**	**190,984**	**196,697**	**199,756**
Capital grants expense					
Mutually agreed write-downs	2,768	2,915	3,130	3,319	3,459
Other capital grants					
State and territory governments	17,219	19,098	20,540	17,665	11,901
Local governments	1,398	1,124	811	723	473
Non-profit organisations	661	1,741	1,638	1,455	1,099
Private sector	252	73	46	45	24
Other	935	250	65	25	2
Total capital grants expense	**23,234**	**25,202**	**26,230**	**23,231**	**16,958**
Total grants expense	**212,297**	**211,286**	**217,214**	**219,928**	**216,714**

Note 12: Personal benefits expense

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Social welfare – assistance to the aged	51,603	54,141	56,566	58,833	61,880
Assistance to veterans and dependants	4,584	4,305	4,144	4,014	3,916
Assistance to people with disabilities	28,146	29,281	30,843	31,965	33,244
Assistance to families with children	27,334	28,714	29,588	30,078	30,830
Assistance to the unemployed	15,779	12,547	11,910	12,059	12,672
Student assistance	3,113	3,061	3,047	3,025	3,058
Other welfare programs	16,283	901	897	926	878
Financial and fiscal affairs	612	593	641	693	747
Vocational and industry training	73	68	78	77	77
Other	8,822	8,249	12,038	15,601	22,280
Total personal benefits expense	**156,348**	**141,860**	**149,752**	**157,270**	**169,583**

Note 13: Advances paid and other receivables

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Advances paid					
Loans to state and territory governments	1,842	1,702	1,563	1,422	1,286
Student loans	58,456	61,578	64,325	66,472	68,027
Other	21,912	23,596	18,057	19,498	20,546
less Impairment allowance	295	326	364	395	421
Total advances paid	**81,915**	**86,550**	**83,582**	**86,997**	**89,438**
Other receivables					
Goods and services receivable	1,184	1,220	1,219	1,220	1,223
Recoveries of benefit payments	5,482	5,423	5,511	5,601	5,682
Taxes receivable	36,312	39,431	42,688	46,038	49,548
Prepayments	4,883	4,577	5,184	5,784	6,491
Other	20,762	21,867	22,585	22,794	23,621
less Impairment allowance	2,675	2,671	2,736	2,799	2,857
Total other receivables	**65,948**	**69,848**	**74,451**	**78,637**	**83,708**

Note 14: Investments, loans and placements

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Investments – deposits	8,185	8,180	8,026	7,995	8,030
IMF quota	12,530	12,455	12,295	12,157	11,945
Other	182,919	196,343	211,875	219,652	227,605
Total investments, loans and placements	**203,633**	**216,979**	**232,197**	**239,804**	**247,579**

Note 15: Non-financial assets

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Land and buildings					
Land	12,327	12,680	12,684	12,698	12,603
Buildings	45,800	47,855	49,421	50,487	51,085
Total land and buildings	**58,127**	**60,535**	**62,104**	**63,186**	**63,688**
Plant, equipment and infrastructure					
Specialist military equipment	80,020	85,793	93,199	100,767	108,245
Other plant, equipment and infrastructure	19,135	19,520	19,524	19,085	18,049
Total plant, equipment and infrastructure	**99,155**	**105,313**	**112,723**	**119,852**	**126,295**
Inventories					
Inventories held for sale	691	817	875	878	810
Inventories not held for sale	10,506	11,060	11,417	11,912	12,450
Total inventories	**11,196**	**11,877**	**12,292**	**12,791**	**13,260**
Intangibles					
Computer software	5,916	6,882	7,221	7,257	7,196
Other	4,790	4,754	4,705	4,669	4,639
Total intangibles	**10,706**	**11,636**	**11,925**	**11,926**	**11,835**
Total investment properties	**214**	**216**	**216**	**216**	**216**
Total biological assets	**21**	**21**	**21**	**21**	**21**
Total heritage and cultural assets	**11,873**	**11,880**	**11,887**	**11,877**	**11,864**
Total assets held for sale	**286**	**279**	**279**	**279**	**279**
Total other non-financial assets	**13**	**7**	**7**	**7**	**7**
Total non-financial assets(a)	**191,590**	**201,765**	**211,454**	**220,155**	**227,466**
Memorandum:					
Total relating to right of use assets					
Land	*167*	*161*	*154*	*148*	*143*
Buildings	*15,917*	*16,021*	*15,457*	*14,591*	*13,426*
Specialist military equipment	*236*	*212*	*188*	*164*	*140*
Other plant, equipment and infrastructure	*2,632*	*2,547*	*2,389*	*2,158*	*1,834*
Total right of use assets	***18,952***	***18,941***	***18,188***	***17,061***	***15,544***

(a) Include right of use (leased) assets, resulting from implementation of AASB 16.

Note 16: Loans

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Promissory notes	9,420	9,420	9,419	9,418	9,417
Special drawing rights	17,887	17,781	17,553	17,355	17,052
Other	2,334	2,383	2,431	2,378	2,369
Total loans	**29,640**	**29,583**	**29,403**	**29,151**	**28,837**

Note 17: Employee and superannuation liabilities

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**251,251**	**257,862**	**264,321**	**276,144**	**284,152**
Other employee liabilities					
Leave and other entitlements	9,643	9,766	9,906	10,023	10,137
Accrued salaries and wages	610	663	713	759	480
Workers compensation claims	1,947	1,864	1,805	1,768	1,741
Military compensation	25,667	26,268	27,083	27,911	28,739
Other	651	648	656	663	671
Total other employee liabilities	**38,518**	**39,209**	**40,164**	**41,125**	**41,768**
Total employee and superannuation liabilities	**289,769**	**297,071**	**304,485**	**317,268**	**325,919**

(a) For budget reporting purposes, a discount rate of 5 per cent determined by actuaries in preparing the 2020 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 2020-21 Final Budget Outcome (FBO) was calculated using the spot rates on long-term government bonds as at 30 June 2021 that best matched each individual scheme's liability duration. These rates were between 1.6 and 2.3 per cent per annum.

Note 18: Provisions and payables

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Suppliers payables					
Trade creditors	7,495	8,037	8,319	8,553	8,868
Lease rental payable	1	1	0	0	0
Personal benefits payables – indirect	2,173	2,466	2,617	2,696	2,597
Other creditors	2,443	2,433	2,420	2,412	2,406
Total suppliers payables	**12,113**	**12,936**	**13,356**	**13,661**	**13,872**
Total personal benefits payables – direct	**2,950**	**2,968**	**3,804**	**3,872**	**3,960**
Total subsidies payable	**985**	**991**	**1,000**	**1,012**	**1,037**
Grants payables					
State and territory governments	479	73	63	49	40
Non-profit organisations	206	204	204	204	204
Private sector	268	271	272	272	272
Overseas	1,736	1,997	1,653	2,319	1,909
Local governments	7	7	7	7	7
Other	951	957	953	948	944
Total grants payables	**3,648**	**3,509**	**3,152**	**3,799**	**3,376**
Total other payables	**2,629**	**2,652**	**4,742**	**2,663**	**2,678**
Provisions					
Provisions for tax refunds	3,181	3,171	3,161	3,151	3,141
Grants provisions	9,035	6,276	5,550	5,165	4,827
Personal benefits provisions – direct	7,344	7,589	7,738	7,887	8,038
Personal benefits provisions – indirect	3,471	3,850	4,132	4,370	4,586
Provisions for subsidies	5,095	5,635	5,828	6,117	6,537
Other	33,136	33,588	34,127	34,547	35,336
Total provisions	**61,263**	**60,110**	**60,536**	**61,237**	**62,465**

Note 19: Reconciliation of cash

	Estimates				
	2021-22	2022-23	2023-24	2024-25	2025-26
	$m	$m	$m	$m	$m
Net operating balance (revenues *less* expenses)	**-73,153**	**-67,522**	**-48,174**	**-43,629**	**-31,607**
less **Revenues not providing cash**					
Other	2,682	2,364	2,322	2,405	4,584
Total revenues not providing cash	**2,682**	**2,364**	**2,322**	**2,405**	**4,584**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	9,883	7,195	7,278	12,623	8,500
Depreciation/amortisation expense	11,745	12,462	13,304	14,035	14,817
Mutually agreed write-downs	2,768	2,915	3,130	3,319	3,459
Other	2,956	3,456	2,132	2,893	1,577
Total expenses not requiring cash	**27,352**	**26,028**	**25,844**	**32,870**	**28,353**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-988	-1,064	-827	-928	-916
Decrease/(increase) in receivables	-8,375	-10,208	-10,433	-10,786	-11,032
Decrease/(increase) in other financial assets	-71	-874	-729	-227	-861
Decrease/(increase) in other non-financial assets	125	-288	-304	-255	-282
Increase/(decrease) in benefits, subsidies and grants payable	-2,072	-1,660	669	867	233
Increase/(decrease) in suppliers' liabilities	396	581	226	248	286
Increase/(decrease) in other provisions and payables	1,779	365	805	742	800
Net cash provided/(used) by working capital	**-9,206**	**-13,148**	**-10,593**	**-10,339**	**-11,772**
equals (Net cash from/(to) operating activities)	-57,689	-57,008	-35,245	-23,504	-19,609
plus (Net cash from/(to) investing activities)	-28,822	-36,123	-27,783	-32,839	-29,760
Net cash from operating activities and investment	**-86,511**	**-93,131**	**-63,029**	**-56,343**	**-49,370**
plus (Net cash from/(to) financing activities)	86,305	66,986	76,243	57,657	50,035
***equals* Net increase/(decrease) in cash**	**-206**	**-26,145**	**13,214**	**1,313**	**666**
Cash at the beginning of the year	**62,412**	**62,206**	**36,061**	**49,275**	**50,588**
Net increase/(decrease) in cash	-206	-26,145	13,214	1,313	666
Cash at the end of the year	**62,206**	**36,061**	**49,275**	**50,588**	**51,253**

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*.[1]

1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0).

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or 'other economic flows'). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.[2]

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations and exchange rates, and changes in volumes from discoveries, depletion and destruction. All 'other economic flows' are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

'Other economic flows' are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and 'other economic flows' sum to the total change in net worth during a period. The majority of 'other economic flows' for the Australian Government GGS arise from price movements in its assets and liabilities.

2 Not all transactions impact 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.[3]

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

3 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation is deducted in the calculation of net capital investment as the full investment in non-financial assets is included in the calculation of fiscal balance.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as 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 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 have been included in the calculation of the underlying cash balance because the Future Fund became 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 the historical tables in *Statement 10: Historical Australian Government Data*.

Headline cash balance

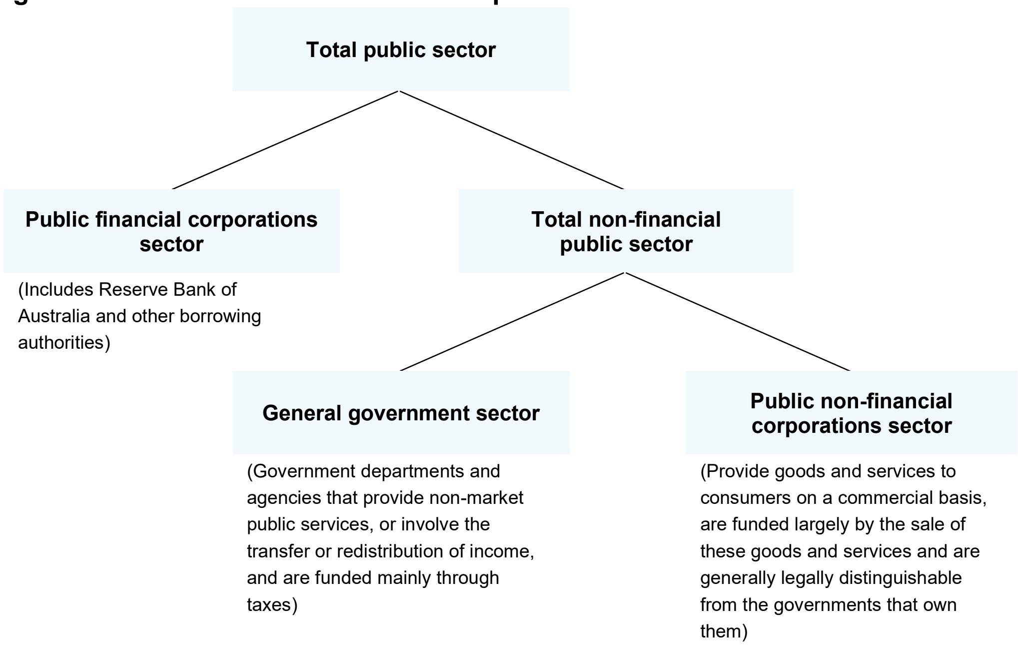
The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes to the underlying cash balance.

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 9.1. The ABS GFS defines the GGS, PNFC and PFC sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 9.1: 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 A9.1).

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 A9.1: Entities outside of the general government sector – 2021-22

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
- National Intermodal Corporation Limited#
- NBN Co Ltd
- WSA Co Ltd

Table A9.1: Entities outside of the general government sector – 2021-22 (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.

In February 2022, Moorebank Intermodal Company Limited has been renamed National Intermodal Corporation Limited.

Appendix B: Assets and Liabilities

The Australian Government's major assets and liabilities

Assets

The Government's total assets are estimated to be $757.6 billion in 2021-22, increasing to $887.1 billion by the end of the forward estimates.

The Government's financial assets[1] are estimated to be $566.0 billion in 2021-22, increasing to $659.6 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $191.6 billion in 2021-22, increasing to $227.5 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 Future Fund 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 December 2021, the average return has been 8.3 per cent per annum against the benchmark return of 6.6 per cent. For the 12 month period ending 31 December 2021, the Future Fund's return was 19.1 per cent. The Future Fund was valued at $203.6 billion as at 31 December 2021.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 9B.1 shows changes in the asset allocation of the Future Fund since 30 June 2021.

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1 Financial assets include loans. Information on Government loans, including the *Higher Education Loan Program*, can be found in *Statement 9: Statement of Risks*.

Table 9B.1: Asset allocation of the Future Fund

Asset class	31 December 2021 $m	31 December % of Fund	30 June 2021 $m	30 June 2021 % of Fund
Australian equities	15,449	7.6	16,805	8.5
Global equities				
Developed markets	*31,871*	*15.7*	*35,806*	*18.2*
Emerging markets	*15,656*	*7.7*	*18,002*	*9.1*
Private equity	34,255	16.8	34,485	17.5
Property	13,149	6.5	11,707	5.9
Infrastructure & Timberland	16,309	8.0	14,548	7.4
Debt securities	14,250	7.0	12,982	6.6
Alternative assets	28,405	14.0	26,547	13.5
Cash	34,239	16.8	25,942	13.2
Total Future Fund assets	203,583	100.0	196,825	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 $20.0 billion to the MRFF fulfilling the commitment in the 2014-15 Budget to grow the MRFF to $20.0 billion through annual credits. There are no further credits scheduled for the MRFF.

The investments of the MRFF are managed by the Future Fund 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 December 2021, MRFF investments have returned 4.7 per cent per annum against a benchmark return of 2.5 per cent per annum. The MRFF was valued at $22.3 billion as at 31 December 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 2.0 per cent. As at 31 December 2021, the DCAF had received credits totalling $27.8 billion. Since inception to 31 December 2021, $14.1 billion has been paid from the DCAF.

The investments of the DCAF are managed by the Future Fund 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 December 2021, the DCAF's return was 0.1 per cent against the benchmark return of 0.3 per cent. The DCAF was valued at $14.9 billion as at 31 December 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 $2.0 billion. The Land Account was abolished on the establishment of the ATSILSFF.

The investments of the ATSILSFF are managed by the Future Fund 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 December 2021, the ATSILSFF has returned 10.7 per cent against a benchmark return of 5.5 per cent. The ATSILSFF was valued at $2.2 billion as at 31 December 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 $4.0 billion. The BAF was abolished on the establishment of the FDF. The Fund provides disbursements of $100.0 million per annum, with the first disbursement made in July 2020.

The investments of the FDF are managed by the Future Fund 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 December 2021, the FDF has returned 10.8 per cent against the benchmark return of 5.5 per cent. The FDF was valued at $4.7 billion as at 31 December 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 $4.0 billion. The EIF was abolished on establishment of the ERF. Disbursements from the ERF are limited to $200.0 million in each year that the Government decides to access the fund. This is comprised of up to $150.0 million for emergency response and recovery after a significant or catastrophic natural disaster, and up to $50.0 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. 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 December 2021, the ERF has returned 10.8 per cent against the benchmark return of 5.5 per cent. The ERF was valued at $4.8 billion as at 31 December 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 repaid $12.1 billion of the loan as at 28 February 2022.

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 $10.0 billion to invest in renewable energy, low emissions technology and energy efficiency projects. The CEFC will also administer the $1.0 billion Grid Reliability Fund, when established, to support investment in new energy generation, storage and transmission infrastructure.

The Government has also provided $500.0 million to the CEFC, to combine with $500.0 million from the private sector, to establish a $1.0 billion Low Emissions Technology Commercialisation Fund.

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 $1.4 trillion in 2021-22, 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 $284.2 billion and approximately $432.6 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 5.0 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 10: Historical Australian Government Data

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Statement 10: Historical Australian Government Data

Statement 10 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

Data sources

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-99 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.[1] Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies.

- Adjustments in the coverage of agencies are included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back-casting to account for this change.

- Changes have been made in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction reduce both cash payments and receipts.

- Classification differences in the data relating to the period prior to 1976-77 mean that earlier data may not be entirely consistent with data for 1976-77 onwards.

1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

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).

In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue figures in this statement have been back-cast from 2014-15 for this change. The same treatment has been applied to taxation receipts and non-taxation receipts to reflect these changes in cash terms.

Table 10.1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)]

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.5	7,389	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	18.5	-	886	2.0
1972-73	9,735	19.5	9,388	7.7	18.8	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	24.8	-	-2,037	-1.9
1978-79	26,129	22.0	28,272	0.3	23.8	-	-2,142	-1.8
1979-80	30,321	22.5	31,642	1.5	23.5	-	-1,322	-1.0
1980-81	35,993	23.6	36,176	4.6	23.7	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	27.4	-	-5,122	-2.0
1986-87	74,724	26.1	77,158	-1.1	27.0	-	-2,434	-0.9
1987-88	83,491	25.7	82,039	-0.9	25.3	-	1,452	0.4
1988-89	90,748	24.7	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	24.1	100,665	3.1	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	25.6	-	-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	23.5	135,538	1.9	25.6	-	-11,109	-2.1
1996-97	133,592	24.0	139,689	1.7	25.1	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	23.9	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	23.2	-	13,007	2.0
2000-01	182,996	25.9	177,123	9.1	25.1	-	5,872	0.8
2001-02	187,588	24.8	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	25.2	209,785	3.9	24.3	-	7,990	0.9
2004-05	235,984	25.5	222,407	3.5	24.1	-	13,577	1.5
2005-06	255,943	25.6	240,136	4.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.8	336,900	4.2	25.9	2,256	-54,494	-4.2

Table 10.1: 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	-3.3
2011-12	329,874	22.0	371,032	4.8	24.7	2,203	-43,360	-2.9
2012-13	351,052	22.8	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	25.0	3,644	-33,151	-1.9
2017-18	446,905	24.2	452,742	1.1	24.6	4,305	-10,141	-0.6
2018-19	485,286	24.9	478,098	3.9	24.6	7,878	-690	0.0
2019-20	469,398	23.7	549,634	13.4	27.7	5,036	-85,272	-4.3
2020-21	519,913	25.1	654,084	17.1	31.6	6,619	-134,171	-6.5
2021-22 (e)	556,626	24.3	636,447	-6.2	27.8	5,932	-79,821	-3.5
2022-23 (e)	**547,632**	**23.8**	**625,593**	**-5.0**	**27.2**	**4,491**	**-77,961**	**-3.4**
2023-24 (e)	585,208	24.7	641,740	-0.4	27.1	4,724	-56,532	-2.4
2024-25 (e)	615,237	24.7	662,346	0.4	26.6	5,034	-47,108	-1.9
2025-26 (e)	643,900	24.6	686,968	1.1	26.3	5,365	-43,068	-1.6

(a) Data have been revised in the 2022-23 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 10.2: Australian Government general government sector net cash flows from investments in financial assets for policy purposes and headline cash balance[(a)]

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	7,389	-851	-2.1	50	0.1
1971-72	9,135	8,249	-987	-2.2	-101	-0.2
1972-73	9,735	9,388	-977	-2.0	-629	-1.3
1973-74	12,228	11,078	-1,275	-2.1	-125	-0.2
1974-75	15,643	15,463	-2,648	-3.7	-2,467	-3.5
1975-76	18,727	20,225	-2,040	-2.4	-3,539	-4.2
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.7
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.5
1995-96	124,429	135,538	5,188	1.0	-5,921	-1.1
1996-97	133,592	139,689	7,241	1.3	1,142	0.2
1997-98	140,736	140,587	15,154	2.6	15,303	2.6
1998-99	152,063	148,175	6,948	1.1	10,837	1.7
1999-00	166,199	153,192	9,500	1.4	22,507	3.4
2000-01	182,996	177,123	5,673	0.8	11,545	1.6
2001-02	187,588	188,655	3,422	0.5	2,355	0.3
2002-03	204,613	197,243	-229	0.0	7,141	0.9
2003-04	217,775	209,785	-452	-0.1	7,538	0.9
2004-05	235,984	222,407	-1,139	-0.1	12,438	1.3
2005-06	255,943	240,136	-1,647	-0.2	14,160	1.4
2006-07	272,637	253,321	7,403	0.7	26,720	2.5
2007-08	294,917	271,843	5,108	0.4	28,181	2.4
2008-09	292,600	316,046	-7,889	-0.6	-31,336	-2.5
2009-10	284,662	336,900	-4,278	-0.3	-56,516	-4.3

Table 10.2: 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	519,913	654,084	-3,364	-0.2	-137,535	-6.6
2021-22 (e)	556,626	636,447	-5,949	-0.3	-85,770	-3.7
2022-23 (e)	**547,632**	**625,593**	**-12,857**	**-0.6**	**-90,819**	**-3.9**
2023-24 (e)	585,208	641,740	-3,873	-0.2	-60,406	-2.6
2024-25 (e)	615,237	662,346	-10,130	-0.4	-57,238	-2.3
2025-26 (e)	643,900	686,968	-6,818	-0.3	-49,887	-1.9

(a) Data have been revised in the 2022-23 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 10.1.
(e) Estimates.

Table 10.3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)]

	Taxation receipts(g)		Non-taxation receipts(g)		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	7,193	17.8	1,097	2.7	8,290	20.5
1971-72	7,895	17.7	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.5
1973-74	10,832	17.9	1,396	2.3	12,228	20.3
1974-75	14,141	19.8	1,502	2.1	15,643	22.0
1975-76	16,920	20.3	1,807	2.2	18,727	22.5
1976-77	19,714	20.5	2,176	2.3	21,890	22.8
1977-78	21,428	20.4	2,591	2.5	24,019	22.9
1978-79	23,409	19.7	2,720	2.3	26,129	22.0
1979-80	27,473	20.4	2,848	2.1	30,321	22.5
1980-81	32,641	21.4	3,352	2.2	35,993	23.6
1981-82	37,880	21.5	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.2	8,257	2.9	74,724	26.1
1987-88	75,076	23.2	8,415	2.6	83,491	25.7
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.4	7,852	1.9	98,625	24.4
1990-91	92,739	22.3	7,488	1.8	100,227	24.1
1991-92	87,364	20.7	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	23.5
1996-97	124,559	22.4	9,033	1.6	133,592	24.0
1997-98	130,984	22.2	9,752	1.7	140,736	23.9
1998-99	138,420	22.3	13,643	2.2	152,063	24.5
1999-00	151,313	22.9	14,887	2.2	166,199	25.1
2000-01	170,354	24.1	12,641	1.8	182,996	25.9
2001-02	175,371	23.2	12,218	1.6	187,588	24.8
2002-03	192,391	24.0	12,222	1.5	204,613	25.5
2003-04	206,734	23.9	11,041	1.3	217,775	25.2
2004-05	223,986	24.2	11,999	1.3	235,984	25.5
2005-06	241,987	24.2	13,956	1.4	255,943	25.6
2006-07	258,252	23.7	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	21.8

Table 10.3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)] (continued)

	Taxation receipts(g)		Non-taxation receipts(g)		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	22.8
2013-14	340,283	21.3	20,038	1.3	360,322	22.5
2014-15	353,927	21.8	24,374	1.5	378,301	23.3
2015-16	362,445	21.9	24,480	1.5	386,924	23.3
2016-17	379,336	21.6	30,532	1.7	409,868	23.3
2017-18	418,118	22.7	28,787	1.6	446,905	24.2
2018-19	448,654	23.1	36,631	1.9	485,286	24.9
2019-20	431,854	21.8	37,544	1.9	469,398	23.7
2020-21	473,941	22.9	45,972	2.2	519,913	25.1
2021-22 (e)	512,480	22.4	44,146	1.9	556,626	24.3
2022-23 (e)	**508,400**	**22.1**	**39,232**	**1.7**	**547,632**	**23.8**
2023-24 (e)	541,757	22.9	43,451	1.8	585,208	24.7
2024-25 (e)	566,625	22.8	48,612	2.0	615,237	24.7
2025-26 (e)	598,233	22.9	45,667	1.7	643,900	24.6

(a) Data have been revised in the 2022-23 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 10.1.
(e) Estimates.
(g) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts figures have been back-cast from 2014-15 for this change.

Table 10.4: Australian Government general government sector net debt and net interest payments[(a)]

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.8	4	0.0
1978-79	4,983	4.2	254	0.2
1979-80	6,244	4.6	440	0.3
1980-81	6,356	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.5	1,621	0.8
1984-85	21,896	9.3	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.2	4,762	1.7
1987-88	27,344	8.4	4,503	1.4
1988-89	21,981	6.0	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.4	3,986	0.9
1993-94	70,223	15.1	5,628	1.2
1994-95	83,492	16.8	7,292	1.5
1995-96	95,831	18.1	8,861	1.7
1996-97	96,281	17.3	9,489	1.7
1997-98	82,935	14.1	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	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 10.4: 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	18.6	13,135	0.7
2018-19	373,566	19.2	15,149	0.8
2019-20	491,217	24.8	13,280	0.7
2020-21	592,221	28.6	14,290	0.7
2021-22 (e)	631,477	27.6	14,899	0.7
2022-23 (e)	**714,947**	**31.1**	**15,074**	**0.7**
2023-24 (e)	772,123	32.6	16,895	0.7
2024-25 (e)	823,277	33.1	17,961	0.7
2025-26 (e)	864,653	33.1	22,390	0.9

(a) Data have been revised in the 2022-23 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 10.5: 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	24.5	-	-	675	1.4
1973-74	12,809	21.2	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.5	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	1,740	1.7
1978-79	28,120	23.7	-	-	2,080	1.8
1979-80	29,321	21.8	-	-	2,356	1.8
1980-81	30,189	19.8	-	-	2,723	1.8
1981-82	31,060	17.7	-	-	3,058	1.7
1982-83	37,071	19.6	-	-	3,580	1.9
1983-84	45,437	21.3	-	-	4,558	2.1
1984-85	54,420	23.1	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.5	-	-	8,339	2.9
1987-88	62,794	19.4	-	-	8,139	2.5
1988-89	56,854	15.5	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.7	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.2	-	-	6,487	1.5
1993-94	90,889	19.5	-	-	7,709	1.7
1994-95	105,466	21.3	-	-	9,144	1.8
1995-96	110,166	20.8	-	-	10,325	2.0
1996-97	111,067	20.0	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.7	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.3	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.3	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.5	3,970	0.3
2009-10	147,133	11.3	141,806	10.9	6,411	0.5

Table 10.5: 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	22.6	13,924	0.9
2015-16	420,420	25.4	417,936	25.2	14,977	0.9
2016-17	500,979	28.5	498,510	28.3	15,290	0.9
2017-18	531,937	28.9	529,467	28.7	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	816,991	39.5	816,985	39.5	17,102	0.8
2021-22 (e)	906,000	39.5	906,000	39.5	17,456	0.8
2022-23 (e)	**977,000**	**42.5**	**977,000**	**42.5**	**17,894**	**0.8**
2023-24 (e)	1,056,000	44.6	1,056,000	44.6	20,288	0.9
2024-25 (e)	1,117,000	44.9	1,117,000	44.9	21,631	0.9
2025-26 (e)	1,169,000	44.7	1,169,000	44.7	26,322	1.0

(a) Data have been revised in the 2022-23 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 10.6: 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	26.2	-4,252	-0.8	90	0.0	-4,342	-0.8
1997-98	146,820	24.9	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	23.5	11,576	1.7	-69	0.0	11,645	1.8
2000-01	186,106	26.3	180,277	25.5	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	25.7	215,634	25.0	6,409	0.7	660	0.1	5,749	0.7
2004-05	242,354	26.2	229,427	24.8	12,926	1.4	1,034	0.1	11,892	1.3
2005-06	260,569	26.1	241,977	24.2	18,592	1.9	2,498	0.3	16,094	1.6
2006-07	277,895	25.5	259,197	23.8	18,698	1.7	2,333	0.2	16,365	1.5
2007-08	303,402	25.7	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	22.4	340,354	26.1	-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	26.0	-35,684	-2.2	3,829	0.2	-39,513	-2.4

Table 10.6: 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	25.6	-33,989	-1.9	2,876	0.2	-36,865	-2.1
2017-18	456,280	24.8	461,490	25.0	-5,209	-0.3	1,284	0.1	-6,493	-0.4
2018-19	493,346	25.3	485,869	25.0	7,476	0.4	6,126	0.3	1,350	0.1
2019-20	486,278	24.5	578,117	29.2	-91,839	-4.6	4,005	0.2	-95,844	-4.8
2020-21	523,012	25.3	651,916	31.5	-128,904	-6.2	7,204	0.3	-136,108	-6.6
2021-22 (e)	566,417	24.7	639,569	27.9	-73,153	-3.2	11,092	0.5	-84,245	-3.7
2022-23 (e)	**560,947**	**24.4**	**628,469**	**27.3**	**-67,522**	**-2.9**	**11,319**	**0.5**	**-78,841**	**-3.4**
2023-24 (e)	595,660	25.2	643,833	27.2	-48,174	-2.0	10,580	0.4	-58,754	-2.5
2024-25 (e)	621,741	25.0	665,369	26.7	-43,629	-1.8	7,443	0.3	-51,072	-2.1
2025-26 (e)	655,232	25.1	686,839	26.3	-31,607	-1.2	8,172	0.3	-39,779	-1.5

(a) Data have been revised in the 2022-23 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 10.7: 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	-10.6
2000-01	-10,287	-1.5	-75,544	-10.7
2001-02	-15,330	-2.0	-81,707	-10.8
2002-03	-18,856	-2.3	-86,456	-10.8
2003-04	-4,740	-0.5	-75,976	-8.8
2004-05	11,066	1.2	-62,372	-6.7
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	-24.0
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	-25.6	-548,028	-33.1
2016-17	-390,897	-22.2	-529,225	-30.1
2017-18	-418,135	-22.7	-562,183	-30.5
2018-19	-543,459	-27.9	-694,448	-35.7
2019-20	-664,892	-33.6	-840,557	-42.4
2020-21	-725,230	-35.1	-905,924	-43.8
2021-22 (e)	-595,005	-26.0	-786,594	-34.3
2022-23 (e)	**-657,543**	**-28.6**	**-859,308**	**-37.4**
2023-24 (e)	-706,545	-29.9	-917,999	-38.8
2024-25 (e)	-747,933	-30.0	-968,088	-38.9
2025-26 (e)	-779,141	-29.8	-1,006,607	-38.5

(a) Data have been revised in the 2022-23 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 10.8: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue[(a)]

	Taxation revenue(g)		Non-taxation revenue(g)		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,409	23.2	13,895	2.1	167,304	25.3
2000-01	175,876	24.9	10,229	1.4	186,106	26.3
2001-02	178,410	23.6	12,022	1.6	190,432	25.2
2002-03	195,319	24.3	11,458	1.4	206,778	25.8
2003-04	210,541	24.4	11,501	1.3	222,042	25.7
2004-05	230,490	24.9	11,863	1.3	242,354	26.2
2005-06	245,846	24.6	14,723	1.5	260,569	26.1
2006-07	262,876	24.2	15,019	1.4	277,895	25.5
2007-08	286,869	24.3	16,534	1.4	303,402	25.7
2008-09	279,303	22.2	19,206	1.5	298,508	23.7
2009-10	268,841	20.6	23,546	1.8	292,387	22.4
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	356,365	22.0	23,090	1.4	379,455	23.4
2015-16	369,468	22.3	25,587	1.5	395,055	23.8
2016-17	388,706	22.1	27,017	1.5	415,723	23.6
2017-18	427,249	23.2	29,031	1.6	456,280	24.8
2018-19	456,147	23.4	37,198	1.9	493,346	25.3
2019-20	447,605	22.6	38,673	2.0	486,278	24.5
2020-21	480,312	23.2	42,700	2.1	523,012	25.3
2021-22 (e)	525,380	22.9	41,036	1.8	566,417	24.7
2022-23 (e)	**520,959**	**22.6**	**39,988**	**1.7**	**560,947**	**24.4**
2023-24 (e)	554,464	23.4	41,196	1.7	595,660	25.2
2024-25 (e)	579,359	23.3	42,381	1.7	621,741	25.0
2025-26 (e)	612,184	23.4	43,049	1.6	655,232	25.1

(a) Data have been revised in the 2022-23 Budget to improve accuracy and comparability through time.
(e) Estimates.
(g) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation revenue to taxation revenue to reflect the change in the nature of this revenue. The taxation revenue and non-taxation revenue figures have been back-cast from 2014-15 for this change.

Table 10.9: 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 10.9: 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	519,913	654,084	-134,171	21,264	26,635	-5,371	535,940	675,484	-139,544
2021-22 (e)	556,626	636,447	-79,821	21,896	28,296	-6,400	572,945	659,162	-86,217
2022-23 (e)	**547,632**	**625,593**	**-77,961**	**21,815**	**28,255**	**-6,440**	**565,144**	**649,541**	**-84,397**
2023-24 (e)	585,208	641,740	-56,532	na	na	na	na	na	na
2024-25 (e)	615,237	662,346	-47,108	na	na	na	na	na	na
2025-26 (e)	643,900	686,968	-43,068	na	na	na	na	na	na

(a) Data have been revised in the 2022-23 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 10.10: 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 10.10: 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	523,012	651,916	-136,108	19,166	22,941	-5,264	538,350	670,849	-141,187
2021-22 (e)	566,417	639,569	-84,245	19,777	21,838	-5,362	582,801	658,222	-89,812
2022-23 (e)	**560,947**	**628,469**	**-78,841**	**19,924**	**21,599**	**-6,212**	**578,566**	**647,769**	**-85,056**
2023-24 (e)	595,660	643,833	-58,754	na	na	na	na	na	na
2024-25 (e)	621,741	665,369	-51,072	na	na	na	na	na	na
2025-26 (e)	655,232	686,839	-39,779	na	na	na	na	na	na

(a) Data have been revised in the 2022-23 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 10.11: 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(g)	Non-taxation receipts(g)	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 10.11: 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(g)	Non-taxation receipts(g)	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	13,908	958	14,866	16,193	-1,488	9,660	427
2015-16	13,831	934	14,765	16,154	-1,511	11,580	459
2016-17	13,995	1,126	15,121	16,210	-1,223	11,891	456
2017-18	14,903	1,026	15,929	16,137	-361	12,188	468
2018-19	15,494	1,265	16,759	16,511	-24	12,901	523
2019-20	14,530	1,263	15,793	18,493	-2,869	16,527	447
2020-21	15,664	1,519	17,183	21,617	-4,434	19,573	472
2021-22 (e)	16,218	1,397	17,615	20,141	-2,526	19,984	471
2022-23 (e)	**15,371**	**1,186**	**16,557**	**18,914**	**-2,357**	**21,615**	**456**
2023-24 (e)	15,699	1,259	16,958	18,596	-1,638	22,375	490
2024-25 (e)	15,752	1,351	18,413	18,413	-1,310	22,886	499
2025-26 (e)	15,989	1,221	18,361	18,361	-1,151	23,110	598

(a) Data have been revised in the 2022-23 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.
(g) In the 2022-23 Budget, following a determination issued by the ABS, the industry contribution levy collected by the Australian Transaction Reports and Analysis Centre has been reclassified from non-taxation receipts to taxation receipts to reflect the change in the nature of these receipts. The taxation receipts and non-taxation receipts figures have been back-cast from 2014-15 for this change.