



Budget

2016-17

Budget Strategy and Outlook Budget Paper No. 1 2016-17

Circulated by

The Honourable Scott Morrison MP
Treasurer of the Commonwealth of Australia

and

Senator the Honourable Mathias Cormann
Minister for Finance of the Commonwealth of Australia

For the information of honourable members
on the occasion of the Budget 2016-17

3 May 2016

© Commonwealth of Australia 2016

ISSN 0728 7194 (print); 1326 4133 (online)

This publication is available for your use under a Creative Commons BY Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, third party content and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Commonwealth of Australia material under a Creative Commons BY Attribution 3.0 Australia licence requires you to attribute the work (but not in any way that suggests that the Commonwealth of Australia endorses you or your use of the work).

Commonwealth of Australia material used 'as supplied'.

Provided you have not modified or transformed Commonwealth of Australia material in any way including, for example, by changing the Commonwealth of Australia text; calculating percentage changes; graphing or charting data; or deriving new statistics from published statistics – then the Commonwealth of Australia prefers the following attribution:

Source: *The Commonwealth of Australia*.

Derivative material

If you have modified or transformed Commonwealth of Australia material, or derived new material from those of the Commonwealth of Australia in any way, then the Commonwealth of Australia prefers the following attribution:

Based on Commonwealth of Australia data.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au).

Other uses

Enquiries regarding this licence and any other use of this document are welcome at:

Manager
Media Unit
The Treasury
Langton Crescent
Parkes ACT 2600
Email: medialiaison@treasury.gov.au

Internet

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

Printed by CanPrint Communications Pty Ltd.

Notes

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

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2016-17, while the forward years refer to 2017-18, 2018-19 and 2020-21; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:

- estimates under \$100,000 are rounded to the nearest thousand;
- estimates \$100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

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

(e) The Australian Capital Territory and the Northern Territory are referred to as 'the Territories'. References to the 'States' or 'each State' include the Territories. The following abbreviations are used for the names of the States, where appropriate:

| | |
|-----|------------------------------|
| NSW | New South Wales |
| VIC | Victoria |
| QLD | Queensland |
| WA | Western Australia |
| SA | South Australia |
| TAS | Tasmania |
| ACT | Australian Capital Territory |
| NT | Northern Territory |

(f) In this paper the term Commonwealth refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term Australian Government is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

Budget Paper No. 1: *Budget Strategy and Outlook 2016-17* 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.

CONTENTS

| | |
|------------------------------------------------------------------------|------------|
| Statement 1: Budget Overview | 1-5 |
| Introduction..... | 1-5 |
| Economic outlook..... | 1-7 |
| Fiscal strategy and outlook | 1-8 |
| Budget priorities | 1-10 |
| Statement 2: Economic Outlook..... | 2-3 |
| Overview | 2-3 |
| Outlook for the international economy | 2-7 |
| Outlook for the domestic economy..... | 2-15 |
| Statement 3: Fiscal Strategy and Outlook | 3-4 |
| Overview | 3-4 |
| Statement 4: Revenue | 4-5 |
| Overview | 4-5 |
| Tax outlook..... | 4-5 |
| Variations in receipts estimates | 4-7 |
| Variations in revenue estimates | 4-17 |
| Statement 5: Expenses and Net Capital Investment | 5-5 |
| Overview | 5-5 |
| Appendix A: Expense by function and sub-function..... | 5-49 |
| Statement 6: Debt Statement, Assets and Liabilities | 6-3 |
| Overview | 6-3 |
| Debt Statement | 6-3 |
| The Australian Government's major assets and liabilities | 6-18 |
| Statement 7: Forecasting Performance and Scenario Analysis..... | 7-3 |
| Overview | 7-3 |
| Forecasting Performance..... | 7-3 |
| Sensitivity and Scenario Analysis | 7-12 |

| | |
|--------------------------------------------------------------------------------|-------------|
| Statement 8: Statement of Risks | 8-3 |
| Risks to the budget — overview | 8-3 |
| Economic and other parameters | 8-5 |
| Fiscal risks..... | 8-5 |
| Contingent liabilities and assets..... | 8-7 |
| Significant but remote contingencies | 8-11 |
| Contingent liabilities — unquantifiable | 8-15 |
| Contingent assets — unquantifiable | 8-28 |
| Contingent liabilities — quantifiable | 8-29 |
| Contingent assets — quantifiable | 8-32 |
| Government loans | 8-33 |
| | |
| Statement 9: Australian Government Budget Financial Statements..... | 9-5 |
| Notes to the general government sector financial statements | 9-20 |
| Appendix A: Financial reporting standards and budget concepts..... | 9-33 |
| AASB 1049 History and conceptual framework | 9-33 |
| Appendix B: Australian Loan Council Allocation | 9-40 |
| | |
| Statement 10: Historical Australian Government Data | 10-3 |
| Data sources | 10-3 |
| Comparability of data across years..... | 10-3 |
| Revisions to previously published data | 10-4 |

STATEMENT 1: BUDGET OVERVIEW

As Australia continues its transition to broader-based growth, the 2016-17 Budget remains focused on jobs and growth. This Budget also reinforces the ongoing commitment to control spending to put the Budget on a sustainable foundation for the future. Excluding tax integrity measures, the Government is reducing the tax burden by around \$1.9 billion over the forward estimates.

The Australian economy is forecast to strengthen over the next few years – with historically low interest rates and a lower exchange rate supporting growth in household consumption and exports. However, expectations for global growth are lower than at the 2015-16 MYEFO and the global environment remains uncertain, providing risks to the forecasts of Australia’s economic growth.

This Budget sets out the Government’s economic plan to ensure Australia continues to successfully transition from the mining investment boom to a stronger, more diversified, new economy in three key ways.

First, by sticking to the Government’s plan for jobs and growth through:

- a *ten year enterprise tax plan* that will boost new investment, create and support jobs and increase real wages, starting with tax cuts for small and medium-sized enterprises, that will permanently increase the size of the economy by just over one per cent in the long term;
- continued investment in the national innovation and science agenda, including support for new start-up businesses;
- securing an advanced local defence manufacturing industry through the twenty year defence industry plan, driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government’s naval shipbuilding programme;
- opening up more export opportunities through trade agreements that are already delivering new jobs and markets for Australian producers, manufacturers and service providers; and
- working to get more than 100,000 vulnerable young people into jobs in the growing Australian economy by giving them real work experience with real employers that leads to real jobs.

Statement 1: Budget Overview

Second, by fixing problems in the tax system to enable us to sustainably cover the Government's responsibilities for the next generation by:

- combatting tax avoidance, especially by multinational corporations, to ensure everyone pays the tax they should on what they earn in Australia;
- closing off generous superannuation tax concessions for Australia's most wealthy and better targeting superannuation tax concessions to support working Australians build independent wealth for their retirement; and
- giving hard working Australians and the Australian businesses that employ them greater tax cuts to earn more without being taxed more.

And third, ensuring that the Government lives within its means, to balance the budget and reduce the burden of long-term debt by:

- continuing to keep government spending growth under control and to ensure spending is as efficient, effective and well-targeted as possible;
- targeting welfare abuse to ensure the social safety net is there for Australia's most vulnerable, in particular those with disabilities; and
- responsibly investing in infrastructure like roads, rail, dams and public transport and guaranteeing real, affordable funding for health and education services that Australians rely on.

The underlying cash balance is expected to improve in each year over the forward estimates notwithstanding a softening in the fiscal outlook compared with the mid-year update. While revenue continues to increase, tax receipts are lower than expected. Despite this, the Government has maintained fiscal discipline. Policy decisions improve the underlying cash balance over the forward estimates, with the Government paying for all new spending with spending reductions in other parts of the Budget.

Although the payments-to-GDP ratio remains above its historical average, it has plateaued and will decrease across the forward estimates. The Government will continue to prioritise spending restraint, consistent with its strategy of returning to surplus as soon as possible and lowering the tax burden over time.

CONTENTS

| | |
|-------------------------------------------------------------------------------|-------------|
| Introduction | 1-5 |
| Economic outlook | 1-7 |
| Fiscal strategy and outlook | 1-8 |
| Budget priorities..... | 1-10 |
| Jobs, growth and productivity..... | 1-10 |
| A ten year enterprise tax plan to support growth and jobs | 1-11 |
| A superannuation system that is sustainable, flexible and has integrity | 1-13 |
| Youth Jobs PaTH Programme | 1-14 |
| National infrastructure plan | 1-16 |
| Defence industry | 1-17 |
| Supporting hospitals and schools | 1-18 |

STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The Australian economy is entering its 26th year of economic expansion and is forecast to strengthen over the next few years. Real GDP is forecast to grow by 2½ per cent in both 2015-16 and 2016-17, before strengthening to 3 per cent in 2017-18.

The transition from the mining investment boom to broader-based growth continues. Falling mining investment is being offset by solid growth in consumption, dwelling investment and exports. The transition is clearly evident in the labour market, with strong employment growth, particularly in the service sectors.

An uncertain global environment, however, continues to pose risks to the Australian economy. Most significantly for Australia, there are uncertainties around the transition facing the Chinese economy; the possibility of renewed volatility in financial markets; and risks that low inflation, wage growth and productivity growth being experienced in many advanced economies could become embedded in lower potential global growth over time.

The underlying cash deficit is expected to be \$37.1 billion in 2016-17 and improve over the forward estimates. The average annual pace of fiscal consolidation is consistent with the 2015-16 MYEFO at 0.4 per cent of GDP.

Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates before rising slightly and remaining stable over the medium term.

Table 1: Budget aggregates

| | Actual | | Estimates | | Projections | | Total(a) |
|--------------------------------|---------|---------|-----------|---------|-------------|---------|----------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | |
| Underlying cash balance | | | | | | | |
| (\$b)(b) | -37.9 | -39.9 | -37.1 | -26.1 | -15.4 | -6.0 | -84.6 |
| Per cent of GDP | -2.4 | -2.4 | -2.2 | -1.4 | -0.8 | -0.3 | |
| Fiscal balance (\$b) | -39.9 | -39.4 | -37.1 | -18.7 | -9.8 | -2.1 | -67.7 |
| Per cent of GDP | -2.5 | -2.4 | -2.2 | -1.0 | -0.5 | -0.1 | |

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes net Future Fund earnings.

Net debt as a share of GDP is expected to peak in 2017-18 before declining over the remainder of the forward estimates. By 2026-27, net debt is projected to fall to 9.1 per cent of GDP.

The Government remains committed to its medium-term fiscal strategy of achieving a sustainable surplus, building to at least one per cent of GDP as soon as possible by continuing to keep downward pressure on payments growth, consistent with budget

Statement 1: Budget Overview

repair. The overall tax burden in this Budget is not being increased as a result of policy changes taken by the Government. Excluding tax integrity measures, the Government is reducing the tax burden by around \$1.9 billion over the forward estimates.

This year's Budget focuses on building a stronger economy to create jobs and growth in a transitioning economy.

Together the changes to superannuation and the *ten year enterprise tax plan* will boost the economy whilst improving sustainability and integrity.

The superannuation changes will improve the sustainability, flexibility and integrity of the superannuation system. Superannuation tax concessions will be better targeted to those who need incentives to save. The flexibility of the superannuation system will be improved, recognising that individuals have different working patterns across their lives. Confidence in the superannuation system will be increased by reducing the extent that superannuation is used for tax minimisation and estate planning purposes.

The *ten year enterprise tax plan* will support growth, higher wages and jobs by lowering the company tax rate over time to an internationally competitive level. This will come with early cuts for smaller and medium-sized businesses and measures that expand the coverage of small business concessions.

At the same time, all businesses must pay their fair share of tax. Multinational corporations that attempt to avoid tax by shifting profits offshore will be subject to targeted anti-avoidance measures and high penalties. The Government will also protect wage earners who would otherwise move into the second top tax bracket by increasing the 32.5 per cent tax threshold from \$80,000 to \$87,000.

While youth unemployment has fallen to its long-term average, the Government is implementing measures to achieve a sustained reduction. The Government is committed to ensuring young working-age Australians have the skills and opportunities to be more competitive in the labour market. The Youth Jobs PaTH Programme will target job seekers under 25 years of age and comprises three stages that focus on increasing skills that improve employability, internships to deliver practical experience and financial incentives to both employers and job seekers.

Other budget priorities include investing record amounts in productivity-enhancing infrastructure, keeping Australians safe by providing over \$30 billion in new funding for national security and supporting hospitals and schools. The defence industry transformation plan will create opportunities for Australian defence manufacturing industries for the next 20 years; while Australia's export trade agreements will contribute to delivering jobs and growth in the expanding export sector.

ECONOMIC OUTLOOK

Despite global headwinds, the Australian economy is expected to continue its transition to broader-based growth. Household consumption, dwelling investment and exports are expected to support near-term economic activity, and there has been strong employment growth particularly in the service sectors.

Expectations for global economic conditions have moderated since the 2015-16 MYEFO, as the world economy continues to struggle to regain sustained momentum. Lower growth is forecast for the United States and economic difficulties in a number of commodity exporting countries have weighed on the outlook. China is expected to support near-term growth but faces a major rebalancing task towards more consumption-led growth. The outlook for the United States is more promising but a return to stronger growth is not assured in Europe and Japan. Importantly, in some countries, including the United States and the United Kingdom, wage growth has been relatively low despite robust employment growth.

Domestically, the transition of the Australian economy to broader-based growth is well underway. Household consumption is expected to grow steadily, underpinned by strong employment growth. Historically low interest rates are supporting growth by lowering borrowing costs for both business and households, although the recovery in non-mining investment has been slower than expected. Real GDP is expected to grow at 2½ per cent in both 2015-16 and 2016-17 before picking up to 3 per cent in 2017-18, little changed from the outlook at the 2015-16 MYEFO.

The transition in the Australian economy towards broader-based growth has been most evident in the labour market where the shift towards the more labour intensive service sectors is underpinning strong employment growth, supported by modest wage growth. Similar to many developed economies, moderate wage growth in Australia is expected to continue to keep inflation contained.

The moderate outlook for wages and weaker forecast prices are weighing on forecast nominal GDP growth of 2½ per cent in 2015-16, 4¼ per cent in 2016-17 and 5 per cent in 2017-18.

There has been some renewed strength over the past quarter in some key commodity export prices, particularly in iron ore. Commodity prices, however, are weaker than those seen over recent years, leading to weaker terms of trade and there is a risk that recent increases in commodity prices will not be sustained. Nevertheless, current prices are closer to longer-term averages than the extraordinary peaks experienced during the mining boom.

As always, forecasts are subject to uncertainty. A lower exchange rate than that which underpins the forecasts would generate stronger economic growth and provide further impetus to broad-based growth. Alternatively, uncertainty around the global economic

Statement 1: Budget Overview

outlook could result in households becoming more cautious, leading to more saving and less consumption than expected.

Table 2: Major economic parameters^(a)

| | Outcomes | Forecasts | | | Projections | |
|----------------------|----------|-----------|---------|---------|-------------|---------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Real GDP | 2.2 | 2 1/2 | 2 1/2 | 3 | 3 | 3 |
| Employment | 1.6 | 2 | 1 3/4 | 1 3/4 | 1 1/4 | 1 1/2 |
| Unemployment rate | 6.1 | 5 3/4 | 5 1/2 | 5 1/2 | 5 1/2 | 5 1/2 |
| Consumer price index | 1.5 | 1 1/4 | 2 | 2 1/4 | 2 1/2 | 2 1/2 |
| Wage price index | 2.3 | 2 1/4 | 2 1/2 | 2 3/4 | 3 1/4 | 3 1/2 |
| Nominal GDP | 1.6 | 2 1/2 | 4 1/4 | 5 | 5 | 5 |

(a) Year average growth unless otherwise stated. From 2014-15 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.

Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

FISCAL STRATEGY AND OUTLOOK

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

The 2016-17 Budget maintains a steady trajectory towards surplus. The deficit is expected to fall from \$37.1 billion in 2016-17 (2.2 per cent of GDP) to \$6 billion in 2019-20 (0.3 per cent of GDP).

Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17 to 25.2 per cent of GDP in 2019-20, above their long-run average level of 24.9 per cent. Tax receipts as a share of GDP are forecast to return to the long-term average in 2017-18. Net debt as a share of GDP is expected to peak in 2017-18 and then decline over the remainder of the forward estimates and the medium term.

Government receipts continue to be impacted by weaker nominal GDP, weighed down by weaker wages and inflation. Downwards revisions to forecast tax receipts since the 2015-16 MYEFO are \$13.5 billion over the four years to 2018-19, excluding new policy. These revisions have been primarily driven by lower taxes from individuals and superannuation funds, partly offset by upward revisions to indirect taxes such as the GST. As a result, the underlying cash balance has deteriorated by \$3.4 billion in 2016-17 compared with the 2015-16 MYEFO.

The Government remains focused on restraining growth in government spending and aims to achieve a steady trajectory towards a balanced budget and lower government debt. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of \$1.7 billion over the four years to 2019-20. Despite slower than

expected growth in nominal GDP and weaker tax receipts since the last Budget, the Government has limited new spending and delivered net savings.

The Government's strategy of maintaining fiscal discipline has helped constrain spending growth across portfolios. As shown in Table 3, expenses are estimated to decline in real terms across the majority of portfolios over the four years to 2019-20. The strong growth in the Social Services, Health and Education and Training portfolios reflects increasing income support recipient numbers and demand for services – noting that the growth in Health and Education and Training expenses is partly due to growth in the programmes transferred to those portfolios from the Social Services portfolio, such as child care and aged care related programmes (under the machinery of government changes).

Table 3: Real growth in portfolio expenses

| | Nominal expenses 2016-17 Estimates (\$m) | Percentage of total expenses (%) | Real growth 2016-17 to 2019-20 (%) ^(c) |
|-----------------------------------------|------------------------------------------|----------------------------------|---------------------------------------------------|
| Agriculture and Water Resources | 2,472 | 0.5 | -6.8 |
| Attorney-General's | 3,577 | 0.8 | -18.7 |
| Communications and the Arts | 2,791 | 0.6 | -12.1 |
| Defence (a) | 33,931 | 7.5 | 6.4 |
| Education and Training | 38,939 | 8.6 | 13.7 |
| Employment | 2,990 | 0.7 | 4.2 |
| Environment | 1,982 | 0.4 | -17.1 |
| Finance | 9,934 | 2.2 | -9.5 |
| Foreign Affairs and Trade | 6,702 | 1.5 | 9.0 |
| Health | 64,349 | 14.3 | 9.7 |
| Immigration and Border Protection | 4,698 | 1.0 | -37.5 |
| Industry, Innovation and Science | 3,223 | 0.7 | -11.8 |
| Infrastructure and Regional Development | 5,053 | 1.1 | 4.6 |
| Parliament | 235 | 0.1 | -2.7 |
| Prime Minister and Cabinet | 2,530 | 0.6 | -8.6 |
| Social Services | 124,509 | 27.6 | 15.6 |
| Treasury (b) | 53,490 | 11.9 | -9.8 |
| Veterans' Affairs | 11,683 | 2.6 | -15.1 |

(a) Excludes Department of Veterans' Affairs.

(b) Excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.

(c) Expense estimates for some portfolios are adjusted to include estimated effects of machinery of government changes in 2015-16. Growth rates are calculated with 2015-16 as the base year.

Statement 1: Budget Overview

The average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP. This is consistent with the average pace of consolidation in the 2015-16 MYEFO. Given the absence of stronger nominal GDP growth, the contribution to consolidation from revenue is less than previously expected.

The Government retains the target of reaching a surplus of one per cent of GDP as soon as possible. This will be achieved by reducing payments to a lower and more sustainable share of the economy at around a quarter of GDP, while boosting revenues by supporting growth through economic policies that drive jobs and growth.

BUDGET PRIORITIES

Jobs, growth and productivity

Productivity has always been an important driver of Australia's economic growth and standards of living. In recent years however, Australia's standard of living has been boosted by an increase in the terms of trade which peaked in 2011.

With the decline in the terms of trade from its 2011 peak and downward pressure on workforce participation due to the ageing of the population, Australia must significantly improve its productivity performance if it is to match the growth in living standards Australians have enjoyed over the past 30 years.

This would require a sustained lift in annual labour productivity growth from 1.6 per cent to 2.4 per cent. Such an improvement would be greater than Australia's productivity performance achieved following the major economic reforms of the 1980s and 1990s.

Policies that encourage firms to innovate or adopt world leading processes or practices will allow them to produce more with the same amount of effort. As a net importer of technology and innovations, the pace of global innovation and Australia's ability to absorb technological advances from abroad will be important to future productivity performance.

The Government's national innovation and science agenda supports science and research, incentivises investment in innovation and encourages collaboration between researchers and businesses.

Trade agreements and competition reforms facilitate the movement of existing resources across the economy from lower value activities to higher value activities, helping prepare Australians for the high-wage jobs of tomorrow.

The Government is building on its national plan for economic growth and jobs through a range of policies such as:

- a *ten year enterprise tax plan* that is expected to boost investment, making Australia more competitive and supporting more jobs, higher wages and improved living standards, permanently expanding the economy by just over one per cent over the long term, with the long-term benefits accruing to Australian workers;
- superannuation changes that better target tax concessions to encourage people to save for retirement and that increase the focus on helping the people who need them the most;
- investing in young working-age people by helping more than 100,000 vulnerable young people into jobs in the growing Australian economy by giving them real work experience with real employers that leads to real jobs;
- investing in quality infrastructure to drive greater private investment by providing businesses with the necessary platform to grow;
- securing an advanced local defence manufacturing industry through the twenty year defence industry plan; driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government's naval shipbuilding programme and making significant investments in Defence capability and cyber security; and
- supporting hospitals and schools with affordable funding increases to continue delivering important services to the community, increasing the investment in human capital.

A ten year enterprise tax plan to support growth and jobs

The Government is introducing a \$9.2 billion package of reforms across company tax and small business, personal income tax and indirect tax.

The Government's *ten year enterprise tax plan* will promote growth and employment outcomes by:

- Delivering tax cuts for companies that will boost investment, make Australia more competitive and are expected to permanently expand the economy by just over one per cent over the long term, leading to more job opportunities, more secure jobs and higher real wages.
- Ensuring the first benefits of the tax cuts flow to small businesses when the company tax rate applicable to companies with annual turnover less than \$2 million is lowered from 28.5 per cent to 27.5 per cent in the 2016-17 income year. So that small businesses are encouraged to grow, this lower rate will apply to businesses with turnover between \$2 million and \$10 million from 2016-17 and the threshold

Statement 1: Budget Overview

will then be progressively extended to all companies by 2023-24. These tax cuts will continue to drive growth and improved international competitiveness through further annual reductions until the tax rate for all companies reaches 25 per cent by 2026-27.

- Further supporting small businesses to expand and create jobs by increasing the small business turnover threshold from \$2 million to less than \$10 million per annum, enabling them to gain access to a number of the small business concessions such as accelerated depreciation provisions and simplified trading stock rules. Over 90,000 businesses will gain access to the concessions from this change.
- Making sure assistance is available for all small businesses by increasing the unincorporated tax discount in the 2016-17 income year from 5 per cent to 8 per cent for unincorporated businesses with annual turnover less than \$5 million, capped at \$1,000. The tax discount will be further increased to 16 per cent in stages by 2026-27.

Improving tax system integrity

The Government will strengthen the integrity of the tax system and target tax avoidance by multinational corporations, including by:

- introducing a new Diverted Profits Tax to prevent multinationals shifting profits made in Australia offshore to avoid paying tax;
- preventing multinational corporations from exploiting differences in the tax laws of two or more jurisdictions to defer or avoid paying tax;
- updating Australia's transfer pricing rules to align with the latest international guidelines;
- establishing a new Tax Avoidance Taskforce that will strengthen the ATO's audit and compliance activities targeting corporates and high wealth individuals;
- improving protections for whistleblowers that provide information on tax avoidance to the ATO; and
- progressing mandatory disclosure rules to uncover aggressive tax planning schemes.

In addition, the *ten year enterprise tax plan* is a responsible first step in alleviating the tax burden on average full-time income earners. It will extend the 32.5 per cent marginal tax rate to individuals with taxable income up to \$87,000. Increasing this threshold from \$80,000 will help prevent taxpayers on average full-time earnings from moving into the second highest tax bracket until 2019-20. This will stop around 500,000 taxpayers facing the 37 per cent marginal tax rate. This is expected to benefit

3.1 million taxpayers and represents a down payment on future tax cuts to be delivered as the budget position allows.

A superannuation system that is sustainable, flexible and has integrity

The objective for superannuation, which will be enshrined in legislation as recommended by the Murray Financial System Inquiry, is to provide income in retirement to substitute or supplement the Age Pension.

With this objective in mind, the Government is improving the sustainability, flexibility and integrity of the superannuation system while ensuring that 96 per cent of Australians with superannuation are not adversely affected.

The Government is better targeting tax concessions to ensure that the superannuation system is sustainable and equitable by:

- introducing a \$1.6 million cap on the total amount of superannuation that can be transferred into retirement phase accounts;
- requiring those with incomes (including superannuation) greater than \$250,000 to pay 30 per cent tax on their concessional contributions, up from 15 per cent, consistent with current treatment for people with incomes over \$300,000;
- lowering the concessional contribution caps so that individuals can contribute up to \$25,000 per annum pre-tax to superannuation;
- introducing a lifetime cap of \$500,000 on the non-concessional contributions that can be made to superannuation; and
- introducing a Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution when it ends on 30 June 2017, to effectively reduce the tax rate on superannuation contributions to zero for low income earners.

Recognising that individuals have different work patterns across their lives, the Government will also improve the flexibility of the superannuation system by:

- allowing all Australians (under age 75) to claim a tax deduction for personal superannuation contributions made to an eligible fund, irrespective of their employment arrangements;
- allowing the rollover of unused concessional caps, for individuals with superannuation balances less than \$500,000, to allow those with interrupted work arrangements to make 'catch-up' superannuation contributions;

Statement 1: Budget Overview

- encouraging partners to make contributions to their low-income spouses' superannuation by extending the eligibility for individuals to claim a tax offset for these contributions; and
- removing the current regulations that restrict people aged 65 to 74 from making contributions to their superannuation. This will assist those who are no longer working to top up their retirement savings from sources not necessarily available to them before retirement.

The superannuation changes will improve the integrity of the superannuation system by reducing the extent to which it is used for tax minimisation and estate planning purposes. The introduction of the \$1.6 million limit on the amount that can be transferred into retirement phase accounts and the \$500,000 lifetime non-concessional cap are key elements in improving confidence that the system is being used for its core purpose.

The Government will further improve the integrity of the superannuation system by:

- ensuring that the transition to retirement income stream scheme is fit-for-purpose, is not accessed primarily for its tax benefits, and still meets the objective of supporting people who want to remain in the workforce; and
- removing the out-dated anti-detriment provision.

Youth Jobs PaTH Programme

Ensuring young people are maximising their potential and taking advantage of employment opportunities as the economy diversifies is key to supporting strong economic growth in the future. Welfare costs can be reduced by helping people transition from welfare to work as early as possible. Supporting more young people into work will improve their wellbeing while also helping to reduce the social costs of long-term welfare dependency. For example, if a person stays on a Newstart or Youth Allowance (Other) payment for two years, on average they will remain on a working-age payment for another five to six years.

The Budget will introduce a new, innovative Youth Employment Package to put more than 100,000 vulnerable young people on a pathway to work.

The new package responds directly to business feedback that more needs to be done to increase young people's employability and to provide them with real work experience.

This major investment will help young people become more competitive in the labour market by giving them the skills that employers want, opportunities for work experience and the support to move from welfare to work.

The key component of the package is the \$752 million Youth Jobs PaTH (Prepare-Trial-Hire) Programme for job seekers under 25 years of age.

Statement 1: Budget Overview

The first stage of the pathway is intensive pre-employment skills training, which will be co-designed with a range of employers to help prepare young job seekers for the workplace by providing them with the basic employability skills they need.

Stage two is an internship placement that links young people with businesses, providing valuable work experience and allowing them to trial the job seeker's fit in the workplace. This stage will provide more than 100,000 job seekers over four years a four to twelve week placement in an industry of their choosing. Both businesses and job seekers will receive a financial incentive to participate. Job seekers will receive an additional \$200 per fortnight on top of their regular income support payment while they complete the internship, and businesses that host a placement will receive a one-off payment of \$1,000.

At stage three of the pathway, employers who hire a young job seeker in an ongoing job will receive a wage subsidy of up to \$10,000, paid over six months rather than the current twelve months.

In addition, existing wage subsidies (including those for youth, parents, indigenous and mature age workers and the long-term unemployed) will be streamlined, making them easier for employers to access, and will be paid sooner, over six months.

The Government will also provide a further \$89 million to encourage young people to start their own businesses, including by expanding the successful New Enterprise Incentive Scheme (NEIS). This will assist more job seekers, including youth, by connecting them with business training, finance and networks they need to develop their innovative ideas into successful businesses.

The Government remains committed to providing more than \$40 billion in child care support over the next four years to support Australian families through the *Jobs for Families* Child Care package announced at the 2015-16 Budget.

To fund this child care package, the Government is restructuring Family Tax Benefit (FTB) payments to give more targeted assistance to families and encourage workforce participation. Given the uncertainty regarding the passage of the legislation enabling the FTB changes, the new Child Care Subsidy, Community Child Care Fund and the Additional Child Care Subsidy will now commence on 1 July 2018.

The Government is implementing the rest of the child care package. This includes extending the Nanny Pilot Programme to 30 June 2018 to provide assistance to more families who are having difficulty accessing mainstream child care, and allowing more time to refine the programme based on experience. The Government is also implementing the Inclusion Support Programme to provide additional care for vulnerable children commencing on 1 July 2016.

Statement 1: Budget Overview

National infrastructure plan

The Government is investing a record \$50 billion in infrastructure from 2013-14 to 2019-20. There are currently around 100 major projects under construction and approximately another 80 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing.

The Government is committing to the Melbourne to Brisbane Inland Rail and, in this Budget, is providing \$594 million in additional equity funding to the Australian Rail Track Corporation to acquire land for the Inland Rail corridor and continue pre-construction and due diligence activities.

The Government is also committing \$115 million for further preparatory activities to support the development of a Western Sydney airport at Badgerys Creek. Construction of the airport would contribute to economic development in Western Sydney.

In Western Australia, \$490 million is being provided for the Forrestfield-Airport Link and \$261 million for Section 2 of the Perth Freight Link.

The \$1.5 billion in funding that was previously paid to Victoria for construction of the East West Link road project will be reallocated to essential Victorian infrastructure, including:

- \$500 million to upgrade the Monash Freeway;
- a further \$350 million to upgrade the M80 Ring Road;
- \$220 million to upgrade the Murray Basin Freight Rail network;
- \$345 million to upgrade rural and regional roads; and
- \$75 million for projects to relieve congestion in urban areas.

This funding is conditional on matched funding by the Victorian Government, projects with a Commonwealth contribution of more than \$100 million being assessed by Infrastructure Australia and projects demonstrating positive economic benefits.

The Government is also extending the successful Roads to Recovery, Black Spot, Heavy Vehicle Safety and Productivity, Bridges Renewal and National Network Maintenance and Research and Evaluation programmes from 2019-20 at an annual cost of \$920 million.

These measures build on the Government's existing investments in major infrastructure projects, including \$5.6 billion for a Pacific Highway upgrade in NSW; \$6.7 billion for a Bruce Highway upgrade in Queensland; \$1.7 billion for the

Adelaide North South Road Corridor; \$925 million for Section 1 of the Perth Freight Link; and \$400 million for a Midland Highway upgrade in Tasmania.

The Government has finalised or is close to finalising agreements under the Asset Recycling Initiative with four States and Territories worth \$3.3 billion. These agreements will unlock over \$23 billion in State and Territory infrastructure spending, including for the Sydney and Melbourne Metro projects.

Carefully chosen infrastructure projects enhance economic productivity and improve Australians' quality of life. Selecting the best projects is critical to ensuring the Government's investment in infrastructure delivers projects where the benefits outweigh the costs. The Government has strengthened the role of Infrastructure Australia as an advisory body to provide independent, evidence-based advice on Australia's future infrastructure needs.

The Government has also released a set of funding and financing principles to guide the Commonwealth's approach to major infrastructure transport projects to ensure that future investment decisions are prudent and consistent with its fiscal objectives.

Defence industry

The Government remains committed to keeping Australia and Australians safe and secure and supporting Australia's defence manufacturing capability. Through the 2016 Defence White Paper, the Government is providing an additional \$29.9 billion for Defence over the period to 2025-26. This funding will allow for an unprecedented investment in Australia's defence capability of approximately \$195 billion over the next decade. This includes 12 new regionally-superior submarines, 9 future frigates and 12 offshore patrol vessels.

Increasing Defence's capability supports the Government's efforts to respond to challenges to global security and secure Australia's advanced defence manufacturing industry here in Australia, driving new high-tech jobs for decades. This Budget provides \$686 million for continued operations in Afghanistan, Iraq and the Middle East to help preserve a stable global rules-based order.

The increased investment in defence capability will also enable us to strengthen Australia's engagement in the region, including to help combat terrorism. Australia's current National Terrorism Threat Level is probable. In light of this environment, the Government is investing \$154 million over five years domestically to enhance protection for the personnel and facilities of our law enforcement agencies.

The security of Australia's interests extends to cyberspace. In line with the Government's Cyber Security Strategy, this Budget provides \$195 million over four years in Australia's cyber security capability, including through partnerships between the public and private sectors, as well as helping Australian businesses develop and promote their cyber security capabilities globally.

Supporting hospitals and schools

The Government will continue to provide record levels of affordable financial assistance to State governments to support health care and schools for all Australians.

At the April 2016 Council of Australian Governments' meeting, the Commonwealth and the States signed a three year Heads of Agreement for public hospitals ahead of consideration of longer-term arrangements. This agreement preserves important parts of the existing system, including activity-based funding and the national efficient price.

The Commonwealth will provide an estimated additional \$2.9 billion over three years for public hospital services with growth capped at 6.5 per cent a year. This additional funding links to reforms which focus on improving patient safety and the quality of services and reducing avoidable hospitalisations.

Between 2018 and 2020, the Commonwealth will also provide \$1.2 billion in additional funding for government and non-government schools. Funding will grow by 3.56 per cent each year with an allowance for changes in enrolments and will be contingent on reform efforts by the States and non-government school sector.

These funding arrangements for hospitals and schools provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

STATEMENT 2: ECONOMIC OUTLOOK

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

CONTENTS

| | |
|----------------------------------------------------|-------------|
| Overview | 2-3 |
| Outlook for the international economy | 2-7 |
| Outlook for the domestic economy | 2-15 |

STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

The Australian economy is entering its 26th consecutive year of economic growth and is forecast to strengthen over the forecast period despite continuing uncertainty internationally. As our economy transitions to broader-based growth, near-term economic activity will continue to be supported by household consumption, dwelling investment and exports, while falling mining investment is expected to continue to detract from growth over the forecast period.

Expectations for global growth have moderated since the 2015-16 Mid-Year Economic and Fiscal Outlook (MYEFO). The global economy is nevertheless forecast to grow by 3¼ per cent in 2016 and 3½ per cent in 2017 but downside risks are increasing. That said, the overall outlook for growth in Australia's major trading partners is expected to be stronger than global growth at 4 per cent in each year of the forecast period, unchanged from the 2015-16 MYEFO.

The world economy continues to struggle to regain sustained momentum. China is expected to support near-term growth but still has a major rebalancing task ahead. While India is expected to be the fastest growing major economy – supported by strengthening domestic demand and a growing working age population – the forecast is dependent on continued favourable conditions, including ongoing low commodity prices. The United States has recorded strong labour market performance but real GDP growth has slowed in recent quarters. Growth in the euro area is expected to remain moderate over the forward estimates, and sluggish growth is expected to continue in Japan.

The US dollar price of Tapis crude oil fell by close to 30 per cent through the year to the end of March 2016. The response to lower oil prices during 2015 has not resulted in as strong an uplift in global demand as in the past. Continuing uncertainty about the global impact of oil prices on consumption and investment presents a risk to the economic outlook over the forecast period.

Domestically, the transition to broader-based growth is well underway, supported by historically low interest rates and a lower exchange rate. Real GDP is forecast to grow by 2½ per cent in both 2015-16 and 2016-17 before strengthening to 3 per cent in 2017-18, little changed from the outlook at the 2015-16 MYEFO.

By lowering borrowing costs for households and businesses, historically low interest rates are supporting growth. The lower exchange rate over the past year has facilitated the shift of resources to the service sectors and moderate wage growth is underpinning strong employment growth. This is expected to continue during the forecast period

Statement 2: Economic Outlook

with the unemployment rate forecast to fall to around 5½ per cent by the June quarter of 2017.

Household consumption is forecast to grow steadily, supported by employment growth, lower petrol prices and a falling household saving rate. The outlook for dwelling investment remains positive with a solid pipeline of work yet to be done, but the rate of growth is expected to ease over the forecast period.

Similar to many advanced economies, moderate wage growth is expected to continue to keep inflation contained. Low petrol prices and competition in the retail sector are also expected to weigh on inflation.

The outlook for business investment will continue to be dominated by shrinking mining investment, which is expected to fall by 27½ per cent in 2015-16 and 25½ per cent in 2016-17. While this drag on growth is expected to lessen by 2017-18, uncertainty remains as to when the transition to broader-based sources of growth, already evident in the labour market, will translate into stronger non-mining investment.

Australia's non-rural commodity exports are expected to grow by 7 per cent in 2016-17 and 7½ per cent in 2017-18 as iron ore and LNG production continues to ramp up. The lower exchange rate over the past year and rising demand from Asia are also expected to support service exports, such as tourism and education. Tourist numbers in 2015 have increased by around 560,000 people or around 8 per cent compared with 2014.

There has been renewed strength over the past quarter in some key commodity export prices – particularly iron ore – driven in part by expectations of ongoing stimulus to meet China's GDP growth targets. Commodity prices are, however, weaker than those seen over recent years leading to lower terms of trade and there is a risk that more recent increases in commodity prices will not be sustained. Nevertheless, current prices are more representative of longer-term averages than the extraordinary peaks experienced during the mining boom. See *Statement 7: Forecasting Performance and Scenario Analysis* (Statement 7) for a discussion of the impact of still lower terms of trade on the Budget estimates.

Australia is currently a net importer of oil and petroleum products and Australian households and businesses are benefiting from lower fuel prices. A sustained drop in oil prices, however, would affect the price of LNG exports going forward as they are linked to oil prices through long-term contracts.

The moderate outlook for wages is weighing on forecasts of nominal GDP. Nominal GDP growth is expected to be 2½ per cent in 2015-16 and 4¼ per cent in 2016-17, before increasing to 5 per cent in 2017-18. Forecasts of nominal GDP are also being affected by weaker forecast inflation than at the 2015-16 MYEFO. Since the 2015-16 MYEFO, the forecast level of nominal GDP has been revised down by \$27½ billion over the four years to 2018-19. This has contributed to a downward revision to tax receipts,

Statement 2: Economic Outlook

excluding new policy, of \$13.5 billion over the four years to 2018-19 compared with the 2015-16 MYEFO.

There are positive and negative risks to the forecasts for the Australian economy. A lower exchange rate than that underpinning the forecasts would generate stronger economic growth and provide further impetus to broader-based growth. Alternatively, uncertainty around the global economic outlook could result in households becoming more cautious, leading to more saving and less consumption than expected. Growth in non-mining business investment also remains a key source of uncertainty as the economy transitions from capital-intensive resource investment to labour-intensive service sectors.

Statement 2: Economic Outlook

Table 1: Domestic economy forecasts^(a)

| | Outcomes(b) | Forecasts | | |
|-------------------------------------------|-------------|--------------|--------------|----------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| Real gross domestic product | 2.2 | 2 1/2 | 2 1/2 | 3 |
| Household consumption | 2.7 | 3 | 3 | 3 |
| Dwelling investment | 7.9 | 8 | 2 | 1 |
| Total business investment(c) | -6.2 | -11 | -5 | 0 |
| <i>By industry</i> | | | | |
| Mining investment | -17.3 | -27 1/2 | -25 1/2 | -14 |
| Non-mining investment | 1.2 | -2 | 3 1/2 | 4 1/2 |
| Private final demand(c) | 1.0 | 1/2 | 1 1/2 | 2 1/2 |
| Public final demand(c) | 0.0 | 2 1/4 | 2 1/4 | 2 |
| Change in inventories(d) | 0.2 | 0 | 0 | 0 |
| Gross national expenditure | 0.9 | 1 | 1 3/4 | 2 1/2 |
| Exports of goods and services | 6.5 | 6 | 5 | 5 1/2 |
| Imports of goods and services | 0.0 | 0 | 2 1/2 | 3 |
| Net exports(d) | 1.4 | 1 1/4 | 3/4 | 3/4 |
| Nominal gross domestic product | 1.6 | 2 1/2 | 4 1/4 | 5 |
| Prices and wages | | | | |
| Consumer price index(e) | 1.5 | 1 1/4 | 2 | 2 1/4 |
| Wage price index(f) | 2.3 | 2 1/4 | 2 1/2 | 2 3/4 |
| GDP deflator | -0.6 | 0 | 1 3/4 | 1 3/4 |
| Labour market | | | | |
| Participation rate (per cent)(g) | 64.8 | 65 | 65 | 65 |
| Employment(f) | 1.6 | 2 | 1 3/4 | 1 3/4 |
| Unemployment rate (per cent)(g) | 6.1 | 5 3/4 | 5 1/2 | 5 1/2 |
| Balance of payments | | | | |
| Terms of trade(h) | -10.3 | -8 3/4 | 1 1/4 | 0 |
| Current account balance (per cent of GDP) | -3.7 | -4 3/4 | -4 | -3 1/2 |

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data unless otherwise indicated.

(c) Excluding second hand asset sales from the public sector to the private sector.

(d) Percentage point contribution to growth in GDP.

(e) Through the year growth rate to the June quarter.

(f) Seasonally adjusted, through the year growth rate to the June quarter.

(g) Seasonally adjusted rate for the June quarter.

(h) The forecasts are underpinned by spot prices of \$55 (\$US/t, FOB) for iron ore; \$91 (\$US/t, FOB) for metallurgical coal and \$52 (\$US/t, FOB) for thermal coal.

Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of around 64 and a \$US exchange rate of around 77 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US\$43 per barrel.

Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

OUTLOOK FOR THE INTERNATIONAL ECONOMY

Australia is still a relatively small, open economy and trade and foreign investment continue to be very important to our economic outlook. Exports and imports, which together represent around 40 per cent of GDP, tangibly demonstrate the importance of global markets to future economic growth. The Australian economy has also always relied on capital from overseas to take full advantage of its resources.

Expectations for global growth have moderated over the course of 2016 and are lower than at the 2015-16 MYEFO, with lower growth forecast for the United States and economic difficulties in a number of commodity exporting countries weighing on the outlook.

Monetary policy settings remain accommodative in advanced economies reflecting low inflation and a weaker growth outlook. The Bank of Japan moved to supplement its quantitative easing programme with negative interest rates on excess bank reserves in early 2016, while the European Central Bank has recently expanded its easing measures. By contrast, the United States Federal Reserve raised interest rates in December 2015 for the first time in more than nine years. A divergence of monetary policy stances across major advanced economies may pose challenges for emerging market economies, with any downward pressure on their currencies making servicing foreign debt more costly. That said, since the United States Federal Reserve's initial step to normalise its monetary policy settings, markets have scaled back expectations for a further rate rise in 2016. The longer-term impact of negative interest rates remains uncertain.

Significant shifts are underway in the international economy. The output of emerging market economies has exceeded advanced economies since 2008. China's share of world GDP has grown continuously from 4 per cent in 1990 to 17 per cent in 2015. India is the world's fastest growing major economy and its share of world GDP is expected to continue to grow, driven by a rising working-age population.

The International Monetary Fund (IMF) has reduced its estimates of medium-term potential growth for both advanced and emerging economies. The softer outlook reflects unresolved crisis legacies, low productivity growth and unfavourable demographics (particularly in advanced economies).

Commodity prices have recovered somewhat since the 2015-16 MYEFO, but remain well below recent peaks. Increases in supply and lower growth in demand, particularly from China, will continue to place downward pressure on prices. Global growth is expected to be supported by continued low energy prices, but the consumer and business response to lower petrol prices has so far been more muted than in the past.

Lower commodity prices and moderating growth in China are having a significant impact on global investment and trade. Investment growth in China is slowing, while

Statement 2: Economic Outlook

lower commodity prices are also contributing to reduced investment in mining projects and exploration globally. The IMF estimates that investment spending in the oil and gas sector in major energy exporting economies has fallen 24 per cent in 2015 relative to a year earlier in US dollar terms. Investment is typically more import intensive than consumption, and slower investment growth has put downward pressure on global trade. Since the 2015-16 MYEFO, global trade is showing signs of a pick up, although growth remains relatively low.

Inflation remains low globally reflecting, in part, the impact of low energy costs and excess capacity in many countries. In major advanced economies, inflation remains below policy targets, and this is expected to remain the case for at least the near term. Low wage growth has also contributed to low inflation in major advanced economies. In some countries, including the United States and the United Kingdom, wage growth has been relatively low despite robust employment growth.

The risks to growth are broadening and are evident in both advanced and emerging economies. The uncertainties around the implications of the transition task ahead of the Chinese economy from investment-led to consumption-led growth are particularly significant for Australia given the exposure both Australia and its major trading partners have to China.

There is also a risk that the low inflation, low wage growth and low productivity growth being experienced in many advanced economies could become embedded in lower potential growth over time.

Globally, banks are better capitalised than they were prior to the global financial crisis. But a number of major economies continue to face financial challenges, particularly the euro area, Japan and a range of emerging market economies. Additionally, there are risks if the renewed volatility in financial markets seen at the start of 2016 were to re-emerge. There are concerns in equity and credit markets as to whether global growth will be strong enough to drive corporate earnings and maintain low default rates in order to sustain current valuations.

Table 2: International GDP growth forecasts

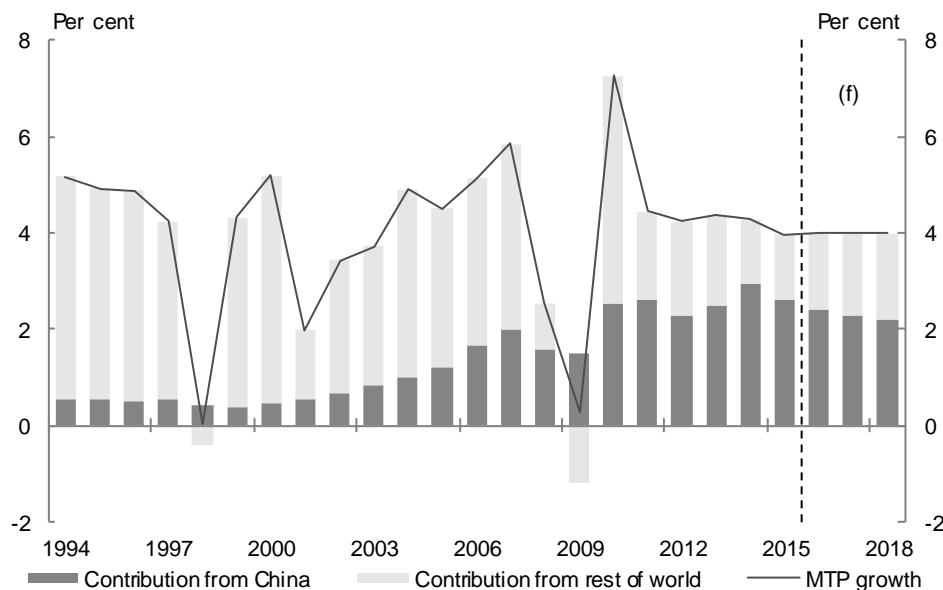
| | Outcomes | Forecasts | | |
|------------------------|----------|-----------|-------|-------|
| | 2015 | 2016 | 2017 | 2018 |
| China | 6.9 | 6 1/2 | 6 1/4 | 6 |
| India | 7.3 | 7 1/2 | 7 1/2 | 7 3/4 |
| Japan | 0.5 | 1/2 | 1/4 | 1/2 |
| United States | 2.4 | 2 | 2 1/4 | 2 1/4 |
| Euro area | 1.6 | 1 1/2 | 1 1/2 | 1 1/2 |
| Other East Asia(a) | 3.7 | 4 | 4 | 4 1/4 |
| Major trading partners | 4.0 | 4 | 4 | 4 |
| World | 3.1 | 3 1/4 | 3 1/2 | 3 3/4 |

(a) Other East Asia comprises the newly industrialised economies of Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nations group of five (ASEAN-5), comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Note: World, euro area and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using export trade weights.

Source: National Statistical Agencies, IMF World Economic Outlook April 2016, Thomson Reuters and Treasury.

The outlook for growth in Australia's major trading partners is of particular importance to domestic economic activity. **Australia's major trading partner** growth is forecast to remain higher than global growth, at 4 per cent across the forecast period (Chart 1). This reflects Australia's trade links to Asia, where growth remains relatively strong.

Chart 1: Major trading partner growth and China's contribution

Source: ABS cat. no. 5368.0, IMF April 2016 World Economic Outlook and Treasury.

Note: MTP growth aggregated using Australia's export shares.

Statement 2: Economic Outlook

Growth in **China** is moderating as the economy transitions towards a more balanced growth model that is increasingly reliant on consumption and services and less on investment (see Box 1). The Chinese authorities are targeting growth of between 6½ and 7 per cent for 2016, down from a target of around 7 per cent for 2015. China is forecast to grow at 6½ per cent in 2016, 6¼ per cent in 2017 and 6 per cent in 2018.

Despite moderating growth, China is expected to continue to make a sizeable contribution to global growth. The Chinese economy is now more than twice the size it was in 2006 and as a result, growth of just below 7 per cent in 2015 equates to growth of more than 13 per cent in 2006.

A key risk to the global economy is that China's transition does not proceed smoothly. China is one of the main trading partners for more than 100 economies. These economies account for about 80 per cent of world GDP, and a larger-than-expected slowdown in China's economy would have a significant impact globally.

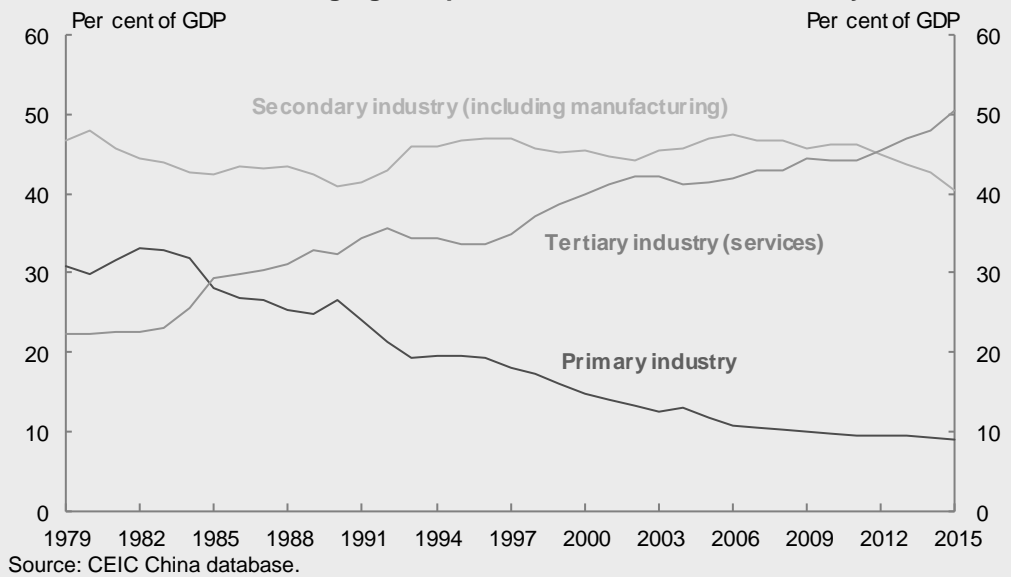
Box 1: Economic transitions — China and Australia

A period of extraordinary growth has made China one of the largest economies in the world. Australia benefited significantly as demand for Australia’s commodities surged, leading to a record increase in mining investment in order to expand capacity. Australia is now benefiting from increasing commodity exports.

China is entering a new stage of development, which the authorities have characterised as the ‘new normal’. The Chinese economy now faces the task of transitioning to a more balanced growth model. Unlike recent decades, growth will increasingly be driven by consumption and services, and be less reliant on investment.

Since 2011, nominal consumption growth has outstripped nominal GDP growth and, in a country that has traditionally been an important global manufacturing producer, the service sectors now contribute over 50 per cent of GDP (Chart A).

Chart A: Changing composition of the Chinese economy



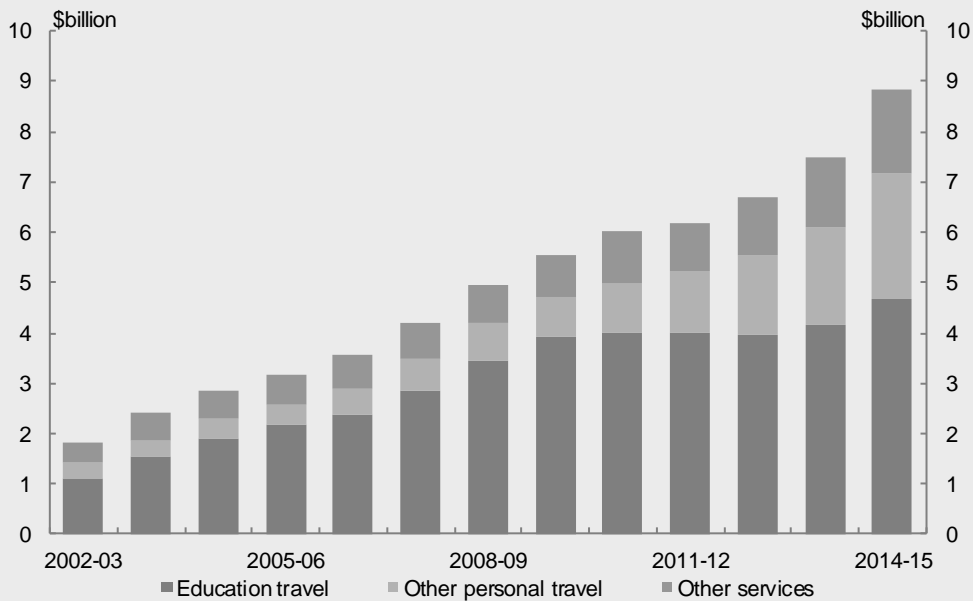
China’s economic transition presents significant opportunities for Australia. Demand for Australian goods and services is expected to benefit from China’s rising middle class, which according to some estimates is expected to grow to more than 850 million people by 2030. Australia’s service exports have seen a substantial rise, with China now Australia’s largest service export destination. China is also Australia’s second largest source of overseas visitors, with the number of tourists exceeding one million for the first time in 2015.

Box 1: Economic transitions — China and Australia (continued)

The growing investment relationship between Australia and China is also bringing opportunities. Continued Chinese investment into Australia will be a key enabler of the ongoing trade relationship as Australia’s export base broadens.

Through the China-Australia Free Trade Agreement, China will further open its economy to Australian businesses by removing or reducing market access barriers in a range of sectors, including health, financial and legal services (Chart B).

Chart B: Australian service exports to China



Source: ABS cat. no. 5368.0.55.003.

China’s economic transition is expected to contribute to more sustainable growth over the longer term. But in the near to medium term, increasing consumption and rising service sectors are unlikely to fully offset the decline in investment and a slowing industrial sector. The key risks to China’s transition are its current industrial overcapacity and domestic debt challenges. Effectively managing these risks will be important in ensuring a smooth rebalancing of the economy.

India was the fastest growing major economy in 2015 and is expected to remain so over the forecast period. Growth is forecast to be 7½ per cent in 2016 and 2017, rising to 7¾ per cent in 2018, supported by low commodity prices and strengthening domestic demand. Inflation has halved since 2012, assisted by weak global inflation, falling commodity prices and the adoption of inflation targeting by the Reserve Bank of India. Other reforms to improve business conditions are also in progress, including the removal of some subsidies (including for fuel), more efficient delivery of other subsidies and relaxation of foreign investment rules.

Already the world's third largest economy in purchasing power parity terms, India will benefit from the largest and youngest workforce in history, with a working age population projected to reach one billion by 2030. This demographic dividend will drive growth and expand India's demand for imports, including from Australia.

Growth in the **United States** is forecast to remain moderate. The United States recovery will continue to be led by the household sector, supported by lower energy costs. Business investment is soft, in part due to a drag from energy sector investment, and a high US dollar is weighing on exports. Following a slow start to this year, the United States is forecast to grow at 2 per cent in 2016, with growth rising to 2¼ per cent in both 2017 and 2018, lower than at the 2015-16 MYEFO. Despite a slowing in GDP growth, and recent job losses in the manufacturing sector, the labour market is expected to continue to absorb discouraged or underutilised workers.

The recovery in the **euro area** is forecast to remain modest. Growth will be supported by accommodative monetary policy and lower energy prices. Relatively low levels of investment and weaker global growth are weighing on growth prospects. Euro area growth is forecast to be 1½ per cent in 2016, 2017 and 2018.

Geopolitical tensions and political risk will also weigh on the outlook for the euro area and recent migration flows into Europe are presenting challenges. The expansionary fiscal policy needed to accommodate migrants, and their gradual integration into the labour market, may support growth in the shorter term. The possibility that the United Kingdom may exit the European Union, with the vote on 'Brexit' scheduled for June 2016, is adding to economic uncertainty in the euro area given the deep trade and financial links between the bloc and the United Kingdom.

Growth in **Japan** is expected to be subdued through to 2018. Weaker growth in the second half of 2015 and sluggish increases in wages are weighing on the outlook. Further, the recent appreciation of the yen, coinciding with slower global growth, is also weighing on prospects for Japanese exports.

The impact of the Bank of Japan's move to supplement its quantitative easing programme with negative interest rates on excess bank reserves is still unclear. While consumption growth is expected to be lifted by low energy prices, the scheduled increase in the consumption tax rate is expected to detract from growth in 2017.

Statement 2: Economic Outlook

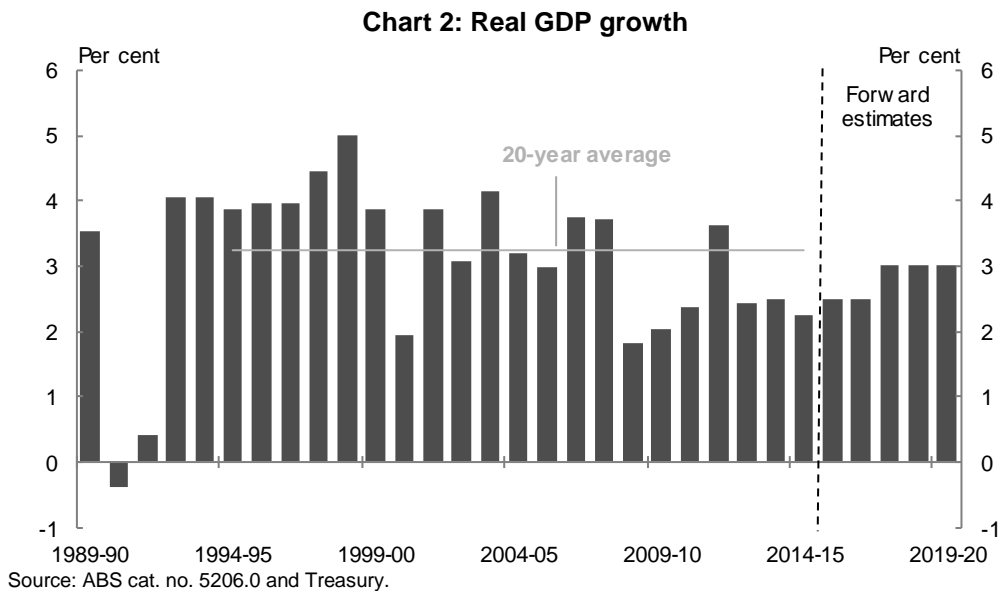
Growth in the **ASEAN-5** grouping has been relatively slow by historical standards, partly reflecting changes to its external environment, including China's transition and lower regional trade growth. In **Indonesia**, the largest economy of the ASEAN-5 grouping, growth in 2015 was affected by softer external demand and lower commodity prices. From 2016 domestic consumption coupled with higher public infrastructure spending is expected to support growth.

OUTLOOK FOR THE DOMESTIC ECONOMY

Outlook for real GDP growth

The Australian economy continues its transition to broader-based growth. In 2011-12 mining investment contributed 2.8 percentage points to GDP growth. In 2015-16 it is expected to detract 1½ percentage points from growth. Household consumption, dwelling investment and exports are supporting near-term economic activity, and there has been strong employment growth, particularly in the service sectors.

The Australian economy is expected to grow at 2½ per cent in both 2015-16 and 2016-17 before strengthening to 3 per cent growth in 2017-18 as the detraction from falling mining investment eases (Chart 2).



Growth is being supported by historically low interest rates, with the Reserve Bank of Australia’s official cash rate set at a record low since May 2015. The accommodative stance of monetary policy is supporting the economy by lowering borrowing costs for businesses and households. The weighted average lending rates faced by businesses are around their lowest levels in at least two decades, while the standard variable mortgage rate is close to its lowest level since the late 1960s.

The depreciation of the Australian dollar is also assisting the transition away from resources investment-led growth to more diverse sources, by improving the competitiveness of Australia’s export and import-competing businesses. While the Australian dollar has risen somewhat against the US dollar and on a trade weighted basis since the 2015-16 MYEFO, it remains around 30 per cent lower than its 2011 peak against the US dollar. Since the 2015-16 MYEFO, the Australian dollar has returned to a similar level as at the 2015-16 Budget, both against the US dollar and on a trade weighted basis.

Box 2: Supporting the economic transition

The transition of the Australian economy from the mining investment boom to broader-based growth is well underway.

Flexibility within the economy has allowed it to perform well and minimised the negative effects of the uneven growth and underutilisation of resources that can accompany commodity price booms. Unlike the terms of trade boom in the 1970s, there has been relatively limited volatility in output, employment and domestic inflation.

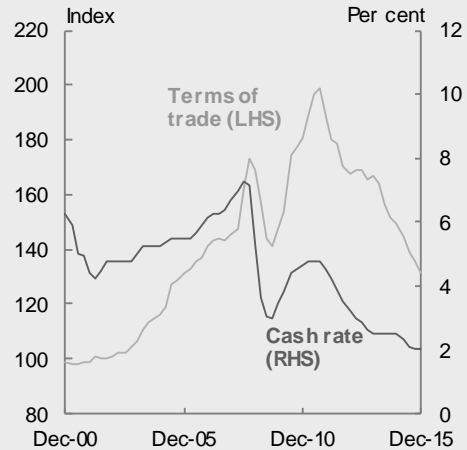
The agility of the economy to respond to changing drivers of growth reflects, in part, the ability of three key prices to adjust: the exchange rate, interest rates and wages.

Flexible prices direct resources to where they are most valued so that the economy's resources are used most efficiently.

During the mining boom price movements helped allocate resources to the mining sector while reducing overheating.

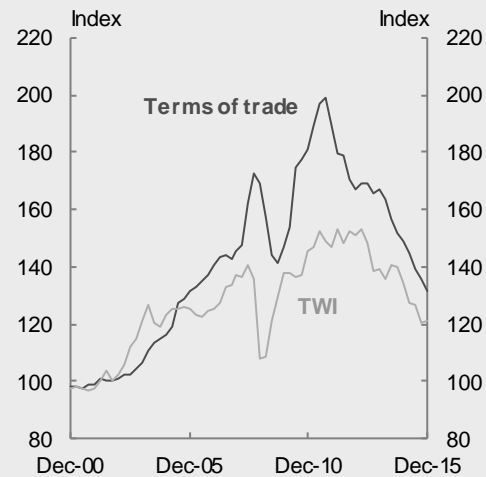
The higher Australian dollar freed up resources from other sectors to make way for the mining expansion while higher interest rates helped to cool aggregate demand.

Chart A: The terms of trade and the official cash rate



Source: ABS cat. no. 5206.0, Reserve Bank of Australia and Treasury.
Note: September 2002 = 100 for the terms of trade.

Chart B: The terms of trade and the TWI



Source: ABS cat. no. 5206.0 and 5302.0.
Note: September 2002 = 100, TWI is the quarterly average Trade Weighted Index.

Box 2: Supporting the economic transition (continued)

Wages in the mining sector grew strongly, which helped attract labour to the sector. Non-mining wages also rose reflecting the overall scarcity of labour resources. This reduced the demand for labour in other sectors and helped to attract higher overseas migration to meet the labour supply shortfall.

Prices also adjust to changes in government spending. For example, when governments increase their spending, flexible prices will adjust to draw resources away from the private sector.

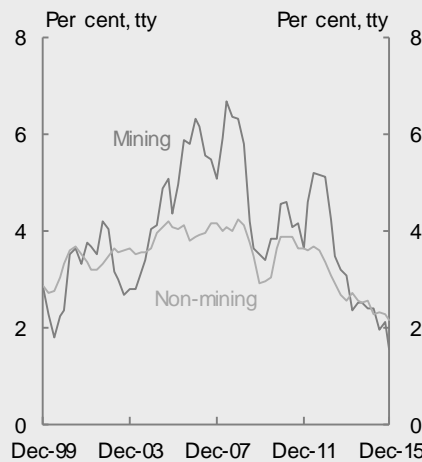
When economic activity is weak, this can draw on spare capacity from the private sector but when the economy is growing it can result in higher interest rates or higher wages, which can crowd out productive private sector activity.

Just as the earlier adjustments during the mining boom helped the economy avoid overheating, they are now helping the economy adjust to lower commodity prices and less investment in the resources sector.

The effect of the exchange rate depreciation over the past year is evident in the improved conditions and prospects for a number of industries, including tourism, education, agriculture and parts of manufacturing.

The effect of low interest rates is most clearly evident in residential construction activity, which increased by 10 per cent over 2015. This strong growth is having positive spillovers to other parts of the economy, for instance in engineering and legal services. A buoyant housing market has also supported consumption through expenditure on related items such as furnishings.

Chart C: Mining and non-mining wages



Source: ABS cat. no. 6345.0 and Treasury.
Note: Wage growth rates are those of the Wage Price Index.

Wage rises due to strong demand for labour during the resources boom have eased and are re-adjusting in response to the changing demand for employment in other sectors.

Moderate wage growth is also supporting employment growth in the non-mining economy, particularly in the service sectors.

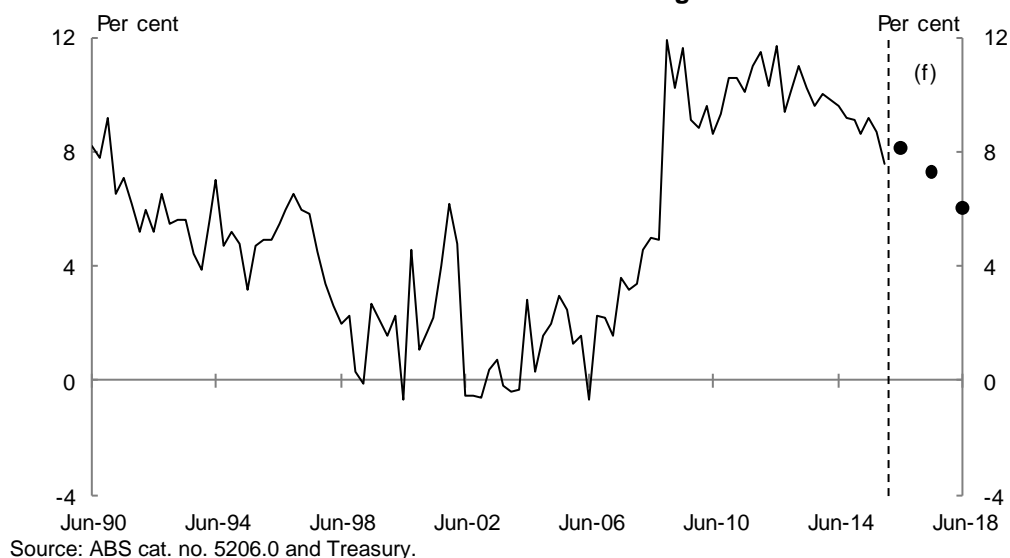
Households

Household consumption is growing steadily, underpinned by strong employment growth, a fall in petrol prices of around 15 per cent over the past year, and a declining household saving rate. A buoyant housing market has also been supporting consumption through rising household wealth, as well as through expenditure on housing-related items such as furnishings.

Steady growth is expected to continue with household consumption forecast to grow by 3 per cent each year across the forecast period. In 2015-16, consumption is expected to be supported by low petrol prices and a still strong housing market. Labour market conditions are expected to remain strong and together with low interest rates will continue to sustain consumption growth as support from the housing sector eases in 2016-17.

A falling household saving rate is also supporting consumption growth. The share of household income saved rose strongly during the period of rapid income growth that accompanied the terms of trade boom, and then more sharply during the global financial crisis. The household saving rate has declined since the recovery from the global financial crisis, providing support to consumption. The household saving rate is expected to decline further at a moderate pace, but remain well above pre-crisis lows (Chart 3). Uncertainty around the pace of decline in the household saving rate poses a risk to the rate of consumption growth.

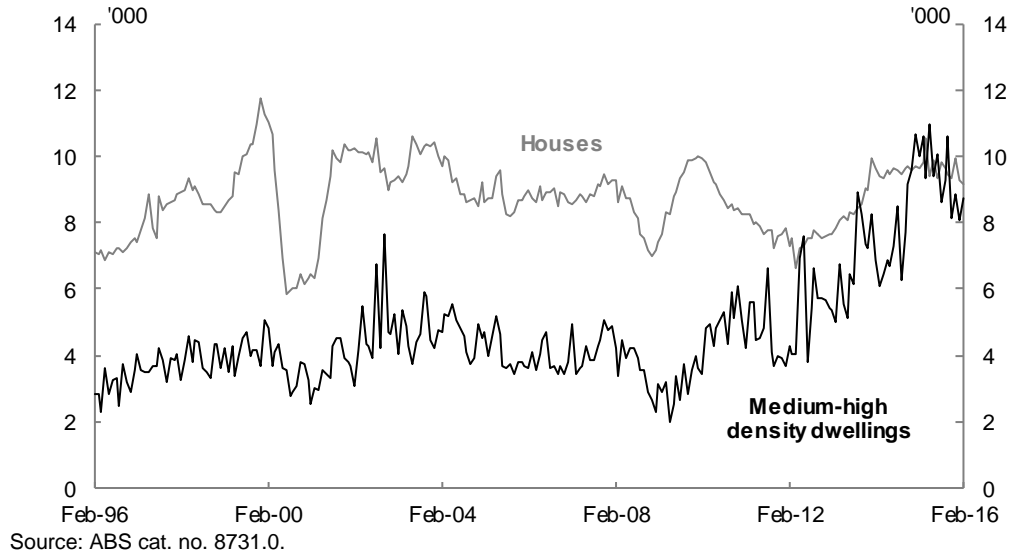
Chart 3: The household saving rate



Dwelling investment grew by 7.9 per cent in 2014-15 — the largest growth seen over the past decade, partly driven by a significant shift towards medium-high density dwellings (Chart 4). Dwelling investment in 2015-16 has remained strong, supported by low interest rates and an elevated level of work under construction. While the level

of investment is expected to remain high, growth is expected to ease to 2 per cent in 2016-17 and 1 per cent in 2017-18 as a record number of dwellings reach completion.

Chart 4: Building approvals



Business investment

As the economy transitions from the investment phase of the mining boom to the production phase, the outlook for **business investment** continues to be dominated by steep falls in mining investment as resource projects are completed. This contraction is expected to lessen by 2017-18. At the same time the transition to broader-based sources of growth is expected to drive investment in the non-mining sectors. Overall, business investment is forecast to fall by 5 per cent in 2016-17, then remain flat in 2017-18, driven by mining investment that is forecast to fall by 25½ per cent in 2016-17 and 14 per cent in 2017-18.

Conditions are in place for non-mining investment to pick up. Borrowing costs are low, and domestic demand is forecast to strengthen. There are positive signs of bolstered activity in the service sectors and business surveys are showing improving conditions in the non-mining sector (Chart 5). Non-mining capacity utilisation is at its highest level since the global financial crisis (Chart 6).

To date, however, the recovery of non-mining investment has been slower than expected and leading indicators remain mixed, with some business expectations surveys suggesting the delay may continue into 2016-17. The ABS Private New Capital Expenditure and Expected Expenditure Survey (CAPEX) and Treasury's business liaison programme suggest that non-mining businesses have yet to commit to significant new investment plans, which is offsetting some of the more positive indicators.

Statement 2: Economic Outlook

Chart 5: Non-mining conditions

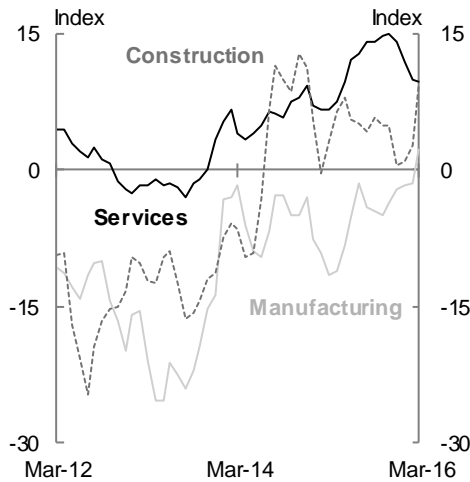
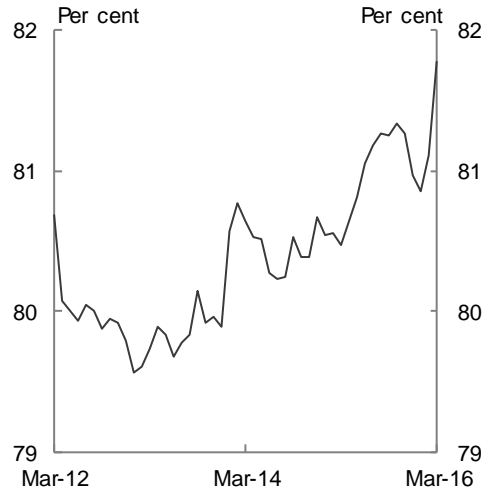


Chart 6: Non-mining capacity utilisation



Note: Figures represent the 3-month moving average.
Source: NAB Monthly Business Survey.

The pace and timing of a pick up in non-mining business investment continues to be a key source of uncertainty for the outlook. Along with mixed indicators, a change in the composition of investment creates uncertainty for the forecasts. As mining investment declines and the economy transitions to broader-based growth, business investment will be underpinned by a greater number of smaller investments, such as investments by small businesses and businesses in the service sectors. The lead times for these kinds of investments are typically shorter than those for large mining projects. This adds to the difficulty in estimating both the timing and scale of the expected pick up in business investment. The sensitivity of the forecasts to a different outlook for business investment is discussed in Statement 7.

Public final demand

The average annual pace of fiscal consolidation in the 2016-17 Budget across the forward estimates is 0.4 per cent of GDP. This is unchanged from the 2015-16 MYEFO.

Public final demand, which captures the direct economic impact of consumption and investment across all levels of government, is forecast to grow modestly as most governments remain focused on budget consolidation. As a result, public final demand is forecast to rise by 2¼ per cent in 2016-17 and 2 per cent 2017-18.

Exports

Total exports are expected to increase by 6 per cent in 2015-16, 5 per cent in 2016-17 and 5½ per cent in 2017-18. While forecast growth in 2015-16 is significantly higher than expected at the 2015-16 MYEFO, forecast growth in 2016-17, while still strong, is

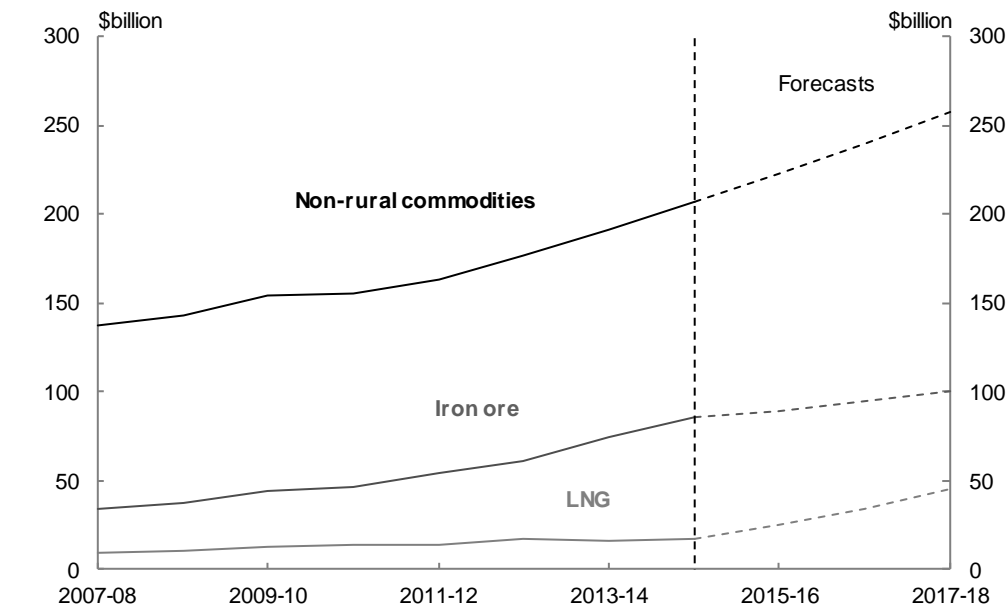
lower than at the 2015-16 MYEFO. This primarily reflects a higher exchange rate and a weaker outlook for base metal exports.

That said, the resource sector continues to underpin growth in total exports with iron ore and LNG production continuing to ramp up after the investment phase of the mining boom. **Mining exports** are expected to increase by 7 per cent in 2016-17 and 7½ per cent in 2017-18.

In 2015, Australia exported over 760 million tonnes of iron ore, with 625 million tonnes exported to China. This compares with 240 million tonnes of iron ore exported in 2005, with almost 120 million tonnes exported to China. In 2015, China's imports of Australian iron ore increased by around 11 per cent with Australia increasing its share of the Chinese iron ore market.

Over the forecast period iron ore exports are expected to increase by around 16 per cent, while LNG exports are expected to continue to grow strongly, with the Department of Industry, Innovation and Science forecasting exports to triple between 2014-15 and 2020-21 (Chart 7).¹

Chart 7: Mining volumes



Source: ABS cat. no. 5302.0, ABS Trade Data and Treasury.

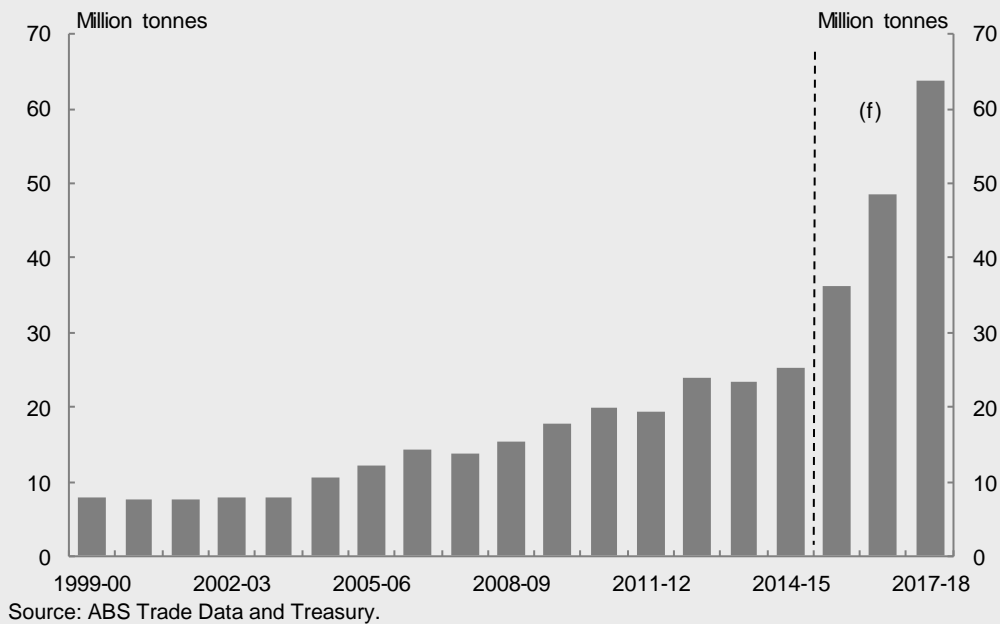
¹ *Resources and Energy Quarterly March 2016*, <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/req/REQ-March-2016.pdf>

Box 3: LNG production increasing

More than \$200 billion has been invested in Australia's LNG projects in the past decade. As these projects come online, production will ramp up. Export volumes of LNG from Australia are expected to increase substantially over the forecast period, with Australia expected to become one of the world's largest exporters of LNG in the next five years. Increasing LNG export volumes will also contribute to both real and nominal GDP growth (Chart A).

While the sustained drop in oil prices is benefiting many parts of the Australian economy, it has had a negative impact on LNG prices. Much of Australia's LNG exports are produced under long-term contracts, which broadly link the price of LNG to the price of oil. This means that low oil prices, if sustained, will weigh on the price of Australia's LNG exports going forward and increasingly offset the positive impact on nominal GDP.

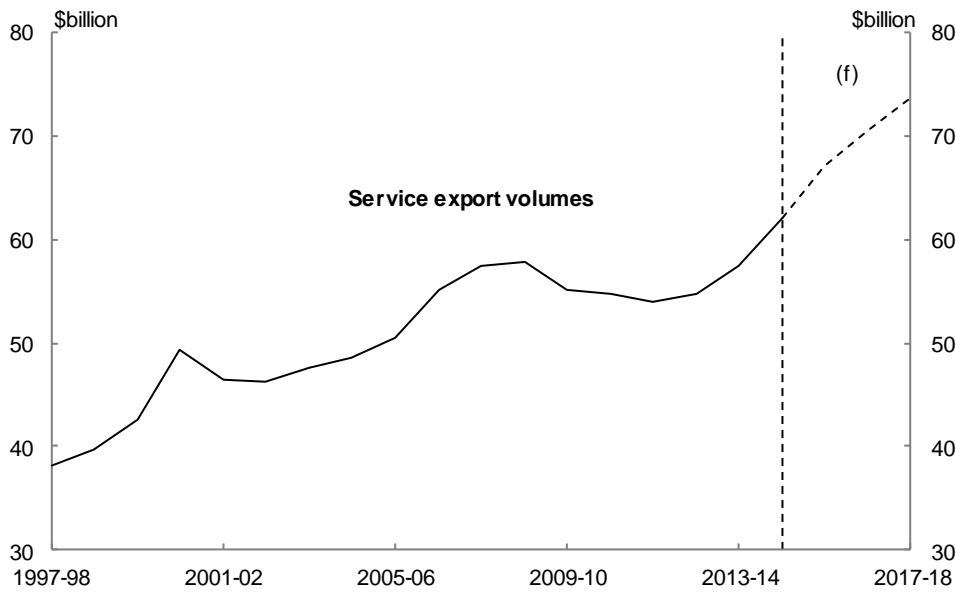
Chart A: Increasing LNG production



Additionally, as LNG projects are very capital intensive, the sector is expected to have deductions (such as depreciation) that reduce their tax liabilities in the short to medium term. This, and the high level of foreign ownership in the sector, will reduce the impact that any profits would have on Australia's national income.

Strong **service sector exports** have been supported over the past year by a lower exchange rate and rising demand from Asia. Service export volumes are expected to grow by 5 per cent in 2016-17 and 4½ per cent in 2017-18 (Chart 8). More than half of service exports are made up of travel services – business, education and tourism travel. Since 2011 visitor arrivals have increased by almost 30 per cent, while Chinese visitors have almost doubled.

Chart 8: Service export volumes



Source: ABS cat. no. 5302.0 and Treasury.
 Note: 2013-14 prices.

A lower Australian dollar since its peak in 2011 and streamlining of student visa policy arrangements have made Australian education exports more attractive over the past two years, with export volumes reaching \$18.5 billion in 2015. Asia’s economic growth and rising middle class are expected to continue to drive demand for Australia’s high quality education sector.

Other service exports have also been growing strongly, albeit from a much lower base. Financial service exports have experienced double-digit growth for the past five years, and computer and information services exports grew strongly in 2015.

Rural exports are expected to fall in 2016-17. Beef exports are forecast to fall as a result of strong domestic restocking which is expected to more than offset the modest growth in Australian wheat exports. Export volumes are forecast to improve in 2017-18 as beef production recovers in response to higher herd numbers and slaughter rates. A higher exchange rate since the 2015-16 MYEFO is expected to weigh on prices for rural goods in 2016-17 and 2017-18.

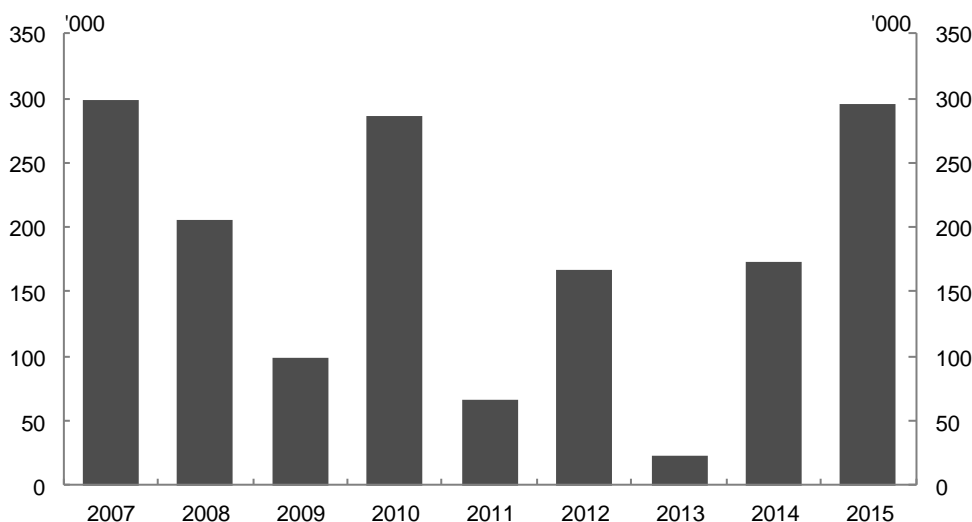
Statement 2: Economic Outlook

Imports continue to reflect the transition of the economy to broader-based growth. Total capital imports are falling as investment in the mining sector winds down, while other imports are rising in line with growth in the broader economy and the appreciation in the Australian dollar since the 2015-16 MYEFO. Total imports are expected to grow by 2½ per cent in 2016-17 and 3 per cent in 2017-18.

The labour market

The transition of the economy towards broader-based drivers of growth has been most evident in the **labour market**. Employment grew strongly over the past two and a half years and with GDP growth picking up to 3 per cent over the year to the December quarter of 2015, employment growth has accelerated. In 2015, there was an almost 300,000 increase in employment, the highest in a calendar year since 2007 (Chart 9). The unemployment rate fell by 0.4 percentage points to 5.7 per cent over the year to March 2016.

Chart 9: Calendar year jobs growth



Source: ABS cat. no. 6202.0.

Employment growth has been supported by moderate wage increases and the transition to more labour-intensive sectors of the economy. The highest level of employment growth over the past year has been in retail trade and health care and social assistance industries (see Box 4).

While the number of people employed has been rising, the average number of hours worked has been falling. This is in line with an increase in part-time work in the service sectors and increased participation of females in the workforce, who have higher rates of part-time employment. The reduction in average hours worked means that total hours worked is spread amongst a larger group of workers, allowing greater employment for a given level of output.

Looking forward, leading indicators such as job advertisements and business survey measures of hiring intentions suggest strong growth in employment will continue. Consistent with the economy's transition, the continuation of strong growth in the labour-intensive service sectors and moderate wage growth are expected to support a further decline in the unemployment rate.

The **unemployment rate** is forecast to be 5¾ per cent in the June quarter of 2016 before falling to 5½ per cent by the June quarter of 2017. The unemployment rate peaked earlier than forecast at the 2015-16 MYEFO and is now at a lower level over the forecast period.

The **participation rate** is expected to remain around recent levels over the forward estimates. The improvement in labour market conditions is expected to continue to encourage job seekers back into the labour force to resume their search for work. Growth in the more flexible service sectors may also increase female participation. These positive effects on workforce participation will be somewhat offset by the ongoing effect of population ageing.

The current strength of the labour market is also being reflected in the opportunities provided to and taken up by Australia's youth. The **youth unemployment** rate has declined significantly to 12.0 per cent in March 2016, down 2.5 percentage points since its recent peak of 14.5 per cent in November 2014. It is now at its lowest level since July 2013.

Moderate **wage growth** is supporting employment and facilitating the economy's transition. Wage growth has been low by historical standards in both the public and private sectors. The Wage Price Index, which measures changes over time in wages and salaries and is unaffected by compositional change in employment, grew by 2.2 per cent through the year to the December quarter of 2015. Wage growth is expected to remain constrained and has been revised down since the 2015-16 MYEFO. It is now forecast to grow by 2¼ per cent through the year to the June quarter of 2016 and 2½ per cent through the year to the June quarter of 2017.

Box 4: Services — a source of strong employment growth

The transition in the economy from the capital-intensive mining sector to the more labour-intensive service sectors has been evident in the strength and composition of employment growth.

Strong growth in labour-intensive service sectors are expected to continue to support strong employment growth over the forecast period.

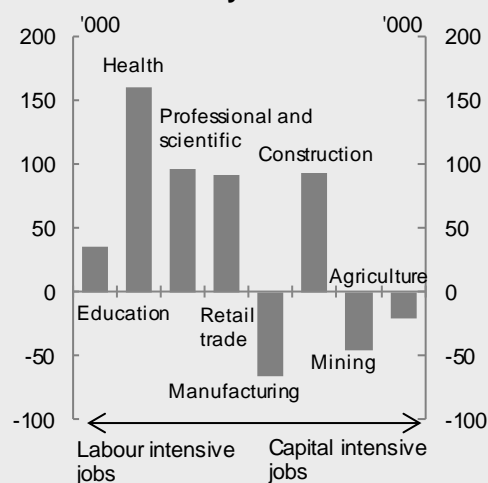
During the resources investment boom, mining employment increased substantially but almost 50,000 jobs have moved out of mining since its peak in May 2012. The mining investment boom also generated demand for construction jobs, however demand for construction jobs is now being generated by dwelling and non-dwelling investment. Since May 2012 total employment has increased by over 500,000 jobs. Most of this growth has been in the service sectors.

Service sectors accounted for 90 per cent of employment growth over the past year.

Within services, retail and health care and social assistance have been the largest contributors, each growing by around 60,000 jobs over the past year. Professional, scientific and technical services has also been contributing strongly to employment growth, driven by the growth in high-skilled consultancy jobs.

The high labour intensity of the service sectors has allowed employment to grow strongly over a period when output has been growing at a little below potential.

Chart A: Change in employment since May 2012



Source: ABS cat. no. 6291.0.55.003 and Treasury.

Chart B: Employment growth since May 2012 — selected industries



Source: ABS cat. no. 6291.055.003.

Consumer prices grew by 1.3 per cent over the year to the March quarter of 2016. This weak result was driven primarily by falls in petrol prices, competition in the retail sector and moderate wage growth. Moderate wage growth is expected to continue to weigh on price growth over the forecast period, which has been downgraded since the 2015-16 MYEFO. CPI inflation is forecast to be 1¼ per cent through the year to the June quarter of 2016 and 2 per cent through the year to the June quarter of 2017. A strengthening economy and increases in tobacco excise are expected to support an increase in inflation to 2¼ per cent through the year to the June quarter of 2018.

Outlook for nominal GDP

Nominal GDP growth is forecast to be a little lower than at the 2015-16 MYEFO, reflecting weaker forecast inflation in 2015-16 and slightly lower forecast growth in real GDP in 2016-17. The level of nominal GDP is expected to be lower than at the 2015-16 MYEFO over the forward estimates, reflecting weaker wages and inflation. This has contributed to lower tax receipts, excluding new policy, of \$13.5 billion over the four years to 2018-19 compared with the 2015-16 MYEFO (see *Statement 4: Revenue*).

Low commodity prices continue to weigh on Australia's **terms of trade** but some renewed strength since the beginning of 2016 has led to some upward revisions to the forecast terms of trade since the 2015-16 MYEFO. The terms of trade are now forecast to fall by 8¾ per cent in 2015-16, before increasing by 1¼ per cent in 2016-17 compared with falls of 10½ per cent and 2¼ per cent respectively at the 2015-16 MYEFO.

Continuing the approach taken at the 2015-16 Budget, the price of oil and key commodity export prices that underpin the forecasts are based on a recent average.

Iron ore prices have risen recently in US dollar terms. The iron ore price underpinning the forecasts is \$US55 per tonne Free on Board (FOB), compared with \$US39 per tonne FOB at the 2015-16 MYEFO. Metallurgical coal is also a key input into steel production. The metallurgical coal price is \$US91 per tonne FOB compared with \$US73 per tonne at the 2015-16 MYEFO. The price of thermal coal remains unchanged in US dollar terms since the 2015-16 MYEFO.

Although prices for some key commodities have increased in US dollar terms since the 2015-16 MYEFO, the overall impact on nominal GDP has been partly offset by an appreciation in the Australian dollar. Australia's key commodities are traded in US dollars and a higher exchange rate has reduced the price exporters receive in Australian dollar terms. The exchange rate is now assumed to be 77 cents against the US dollar compared with 72 cents at the 2015-16 MYEFO.

A key risk to the nominal GDP forecast is the volatility and uncertainty around movements in commodity prices. The inherent uncertainty around both supply and demand factors means the outlook for the price of iron ore is subject to considerable risk.

Statement 2: Economic Outlook

The impact of iron ore prices being US\$10 per tonne lower/higher, based on the sensitivity analysis presented in Statement 7 is set out in Table 3. A US\$10 per tonne reduction/increase in the iron ore price results in just over a \$6 billion reduction/increase in nominal GDP in 2016-17. These illustrative impacts differ from those presented in the 2015-16 Budget due to a more comprehensive analysis presented in this year's Statement 7. In particular, the sensitivity analysis now assumes that export commodity prices fall/rise over the course of a year rather than an immediate movement. The effect of this is to reduce the impact in the first year of the analysis. The effect in the second year is in line with the earlier sensitivity analysis. For purposes of comparison an immediate fall/rise in the iron ore price would have a direct effect in the first year of around an \$11 billion reduction/increase in nominal GDP in that year.

Table 3: Sensitivity analysis of iron ore price movements^(a)

| | US\$45/tonne FOB ^(b) spot price | | US\$65/tonne FOB spot price | |
|--------------------------|--------------------------------------------|---------|-----------------------------|---------|
| | 2016-17 ^(c) | 2017-18 | 2016-17 ^(c) | 2017-18 |
| Nominal GDP (\$billion) | -6.1 | -13.4 | 6.1 | 13.4 |
| Tax Receipts (\$billion) | -1.4 | -3.9 | 1.4 | 3.9 |

(a) Key aggregates are shown relative to the 2016-17 Budget iron ore price forecast of US\$55/tonne and based on an exchange rate assumption of 77 US cents.

(b) FOB is the free-on-board price which excludes freight costs.

(c) This is the price by the end of 2016-17.

Source: Treasury.

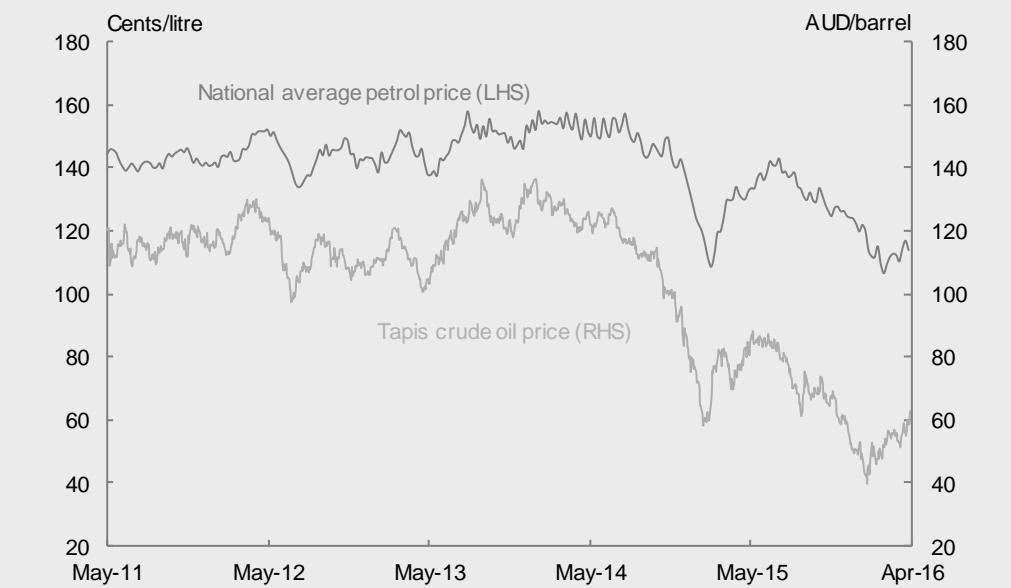
Box 5: Lower oil prices to support economic growth

The price of oil (Tapis crude) has fallen around 50 per cent in Australian dollar terms over the past two years. There have been significant developments in the supply of oil in recent years, including increased production by OPEC members, the US and most recently by Iran following the recent lifting of sanctions. Slower than expected global growth has also contributed to demand for oil being lower than it otherwise would have been.

Oil remains one of the major inputs into the global production process. For this reason, a sustained supply-driven fall in the price of oil in the past has supported global economic growth. During 2015, however, global growth does not appear to have responded as strongly as might have been expected based on historical experience. Factors likely to be muting the positive net impact of lower oil prices on global growth include cutbacks in public expenditure in oil producing nations, detracting from their economic growth; detraction from global economic growth from lower energy investment; and a smaller than expected increase in global private consumption, perhaps as consumers save part of the windfall from lower oil prices.

Australia is currently a net importer of oil and petroleum products, and Australian households and many businesses are benefiting from the fall in oil prices, primarily through lower prices for automotive fuel which fell around 25 per cent over the past two years (Chart A). Lower oil prices also reduce the input costs for a number of consumer and other goods, putting downward pressure on prices. Further, lower travel costs may contribute to a further strengthening in demand for Australia’s tourism exports.

Chart A: Oil and petrol prices



Source: Bloomberg and Australian Institute of Petroleum.

Medium-term projections

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

Crucially, the medium-term projection methodology assumes that spare capacity in the economy is absorbed over five years following the forecast period. The sensitivity of the projections to a different adjustment period is analysed in Statement 7.

As the spare capacity is absorbed, labour market variables, including employment and the participation rate, converge to their long-run trend levels. To absorb the spare capacity in the economy, from 2018-19 real GDP is projected to grow faster than potential at 3 per cent. By the end of 2022-23 spare capacity is absorbed and real GDP grows at its potential rate thereafter.

Potential GDP is estimated based on an analysis of underlying trends for population, productivity and participation. Australia's potential GDP growth rate is estimated to be $2\frac{3}{4}$ per cent over the next few years. The unemployment rate is projected to converge back to 5 per cent over the medium term consistent with Treasury's estimate of the non-accelerating inflation rate of unemployment (NAIRU). Inflation is projected to be $2\frac{1}{2}$ per cent, consistent with the Reserve Bank of Australia's medium-term target band. The terms of trade is projected to remain flat at around its 2005 level from 2019-20.

In the 2015-16 MYEFO, the medium-term projections were updated in response to new data on population and participation. An update in response to changes in the data to account for developments in commodity markets has now been completed resulting in changes to the terms of trade outlook in the medium term (see Box 6).

Box 6: Long-run terms of trade

In the 2013-14 MYEFO a new framework was adopted for projecting the terms of trade over the medium term. The framework has been updated to incorporate data from the past two years and more specifically to account for the significant developments in commodity markets such as updated cost curves. Further information on the methodology underpinning the framework can be found in the 2013-14 MYEFO and the published Treasury Working Paper *Long-run forecasts of Australia's terms of trade*.

The update now suggests a slightly lower terms of trade outlook over the medium term compared with at the 2013-14 MYEFO, primarily reflecting a fall in the export price outlook for bulk commodities (iron ore, metallurgical coal and thermal coal).

Chart A: The terms of trade outlook

Source: ABS cat. no. 5206.0 and Treasury.

Australia's terms of trade is affected significantly by the evolving supply and demand dynamics for commodities exports, especially the bulk commodities. Over the past two years mining companies, including those from Australia, have significantly improved productivity by cutting production costs leading to lower marginal costs of extraction.

Lower production costs for miners combined with a softer demand outlook, particularly from China, has led to a lower export price outlook for the bulk commodities in the medium term.

While lower commodity prices have put downward pressure on the terms of trade, this has been partly offset by a fall in the outlook for import prices. A softer demand outlook has also translated into lower prices for Australia's imports.

Statement 2: Economic Outlook

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This Budget seeks to strengthen Australia's finances as the economy continues its transition from the largest mining investment boom in our history to broader-based growth. It is an instalment in a longer term process where continued discipline will be required to continue to consolidate the budget and return to surplus.

While receipts continue to increase, tax receipts have been impacted by lower than expected nominal GDP which has been weighed down by weaker wages and inflation.

Notwithstanding these pressures, the Government remains fully committed to its fiscal strategy of returning the budget to a sustainable surplus by controlling expenditure growth and redirecting government spending to boost productivity and workforce participation.

The underlying cash balance is expected to improve over the forward estimates and into the medium term. The deficit is expected to fall from \$37.1 billion (2.2 per cent of GDP) in 2016-17 to \$6.0 billion (0.3 per cent of GDP) in 2019-20.

The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP by 2020-21, before peaking at around 0.3 per cent of GDP the following year. It is projected to fall gradually over the rest of the medium term.

The average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP, consistent with the average pace of consolidation in the 2015-16 MYEFO.

This Budget demonstrates the Government's fiscal discipline. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of \$1.7 billion over four years from 2016-17 to 2019-20, with all increases in payments offset by savings in payments, rather than increased taxes or higher debt.

Real payments growth until 2019-20 is expected to be 1.9 per cent per annum on average, broadly consistent with the 2015-16 MYEFO.

Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates period.

CONTENTS

| | |
|-----------------------------------------------------|-------------|
| Overview | 3-5 |
| Fiscal strategy | 3-7 |
| Delivering on the medium term fiscal strategy | 3-8 |
| Fiscal outlook | 3-20 |
| Budget aggregates | 3-21 |
| Fiscal balance estimates | 3-30 |
| Revenue estimates..... | 3-31 |
| Expense and net capital investment estimates | 3-32 |
| Headline cash balance estimates | 3-32 |

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The 2016-17 Budget lays the path for a stronger economy with more jobs, growth and prosperity.

The 2016-17 Budget maintains a steady trajectory towards surplus. The underlying cash balance is expected to improve across the forward estimates period. The deficit is expected to fall from \$37.1 billion (2.2 per cent of GDP) in 2016-17 to \$6.0 billion (0.3 per cent of GDP) in 2019-20. Likewise, the fiscal balance is expected to improve from \$37.1 billion (2.2 per cent of GDP) in 2016-17 to \$2.1 billion (0.1 per cent of GDP) in 2019-20, as shown in Table 1.

Table 1: Budget aggregates

| | Actual | Estimates | | Projections | | Total(a) | |
|-----------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | | 2019-20 |
| Underlying cash balance (\$b)(b) | -37.9 | -39.9 | -37.1 | -26.1 | -15.4 | -6.0 | -84.6 |
| Per cent of GDP | -2.4 | -2.4 | -2.2 | -1.4 | -0.8 | -0.3 | |
| Fiscal balance (\$b) | -39.9 | -39.4 | -37.1 | -18.7 | -9.8 | -2.1 | -67.7 |
| Per cent of GDP | -2.5 | -2.4 | -2.2 | -1.0 | -0.5 | -0.1 | |

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes net Future Fund earnings.

Government receipts continue to be impacted by weaker nominal GDP, weighed down by weaker wages and inflation.

Downwards revisions to forecast tax receipts since the 2015-16 MYEFO are \$13.5 billion over the four years to 2018-19, excluding new policy. These revisions have been primarily driven by lower taxes from individuals and superannuation funds, partly offset by upward revisions to indirect taxes such as the GST.

As a result, compared with the 2015-16 MYEFO the underlying cash balance has deteriorated by \$3.4 billion in 2016-17.

The average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP. This is consistent with the average pace of consolidation in the 2015-16 MYEFO. Given weaker nominal GDP growth in 2015-16, the contribution to consolidation from revenue is less than previously expected.

Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17, consistent with the 2015-16 MYEFO, to 25.2 per cent of GDP in 2019-20, above their long-run average level of 24.9 per cent.

Statement 3: Fiscal Strategy and Outlook

Tax receipts as a share of GDP will return to their 30-year average in 2017-18. The overall tax burden in this Budget is not being increased as a result of policy changes taken by the Government. Excluding tax integrity measures the Government is reducing the tax burden by around \$1.9 billion over the forward estimates.

Net debt as a share of GDP is expected to peak in 2017-18 and then decline over the remainder of the forward estimates and the medium term.

Fiscal strategy

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

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

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

Budget repair strategy

The Budget repair strategy is designed to deliver sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy.

The strategy sets out that:

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

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

Statement 3: Fiscal Strategy and Outlook

The Government's fiscal strategy aims to guide the budget back to a sustainable surplus at a responsible pace, with a particular focus on bringing spending down as a proportion of GDP and redirecting spending towards investment to promote jobs, growth and opportunity.

The Government is working to achieve a budget surplus at a sustainable level of Government expenditure, rather than through an unsustainable increase in the tax burden on the Australian economy that would threaten jobs, growth and Australia's successful economic transition.

Redirecting Government spending towards jobs and growth

This year's Budget focuses on implementing the Government's economic plan for jobs and growth. As Australia transitions to broader-based growth the economy requires careful and considered economic management including continued fiscal restraint.

The Government's *ten year enterprise tax plan* will increase national and household incomes by providing incentives for businesses to invest, innovate and employ while also ensuring businesses pay the right amount of tax in Australia. Overall, the *ten year enterprise tax plan* is expected to deliver a permanent increase of GDP of just over one per cent in the long term. The *ten year enterprise tax plan* will support growth, higher wages and jobs by lowering the company tax rate over time to an internationally competitive level, with early cuts for smaller businesses. In addition, the Government will take a responsible first step towards personal income tax cuts by extending the 32.5 per cent tax threshold from \$80,000 to \$87,000.

The Government's changes to **superannuation** will improve the sustainability, flexibility and integrity of the superannuation system. The changes are anchored by the objective for superannuation, to provide income in retirement to substitute or supplement the Age Pension. They represent the second phase of the Government's reform to retirement incomes, building on fairer pension reforms in the 2015-16 Budget. The changes better target superannuation concessions by introducing or lowering transfer balance and contribution caps, while providing savings support to those who need it most. The Government is enabling greater flexibility and choice in how people save for their retirement by allowing catch-up contributions, allowing all individuals under the age of 75 to claim a tax deduction for personal contributions and extending eligibility for individuals to claim a tax offset for contributions made to their spouse's superannuation.

The Government is supporting labour force participation by all Australians, especially helping young Australians move into employment. The \$840.3 million innovative **Youth Employment Package** will help young people become more competitive in the labour market by giving them the employability skills that employers want, opportunities for work experience and the support to move from welfare to work.

Statement 3: Fiscal Strategy and Outlook

The Government is investing a record \$50 billion in **infrastructure** from 2013-14 to 2019-20. There are currently around 100 major projects under construction and 80 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing.

The Government remains committed to keeping Australia and Australians safe and secure. Through the 2016 Defence White Paper, the Government is providing an additional \$29.9 billion in **defence investments** to boost Australia's defence capabilities over the period to 2025-26. Investing in defence capabilities will secure an advanced local defence manufacturing industry driving high tech jobs for decades.

The Government is providing record and affordable levels of financial assistance to support **hospitals and schools**, with funding linked to reforms which focus on improving quality and patient safety in hospitals and improved student outcomes in schools. These three-year funding arrangements provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

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

Budget surpluses over the course of the economic cycle

The Government remains committed to returning the Budget to surplus as soon as possible. Sustained discipline and determination is needed to consolidate the Budget by bringing expenditure under control and boosting revenues by implementing policies that drive prosperity, investment, jobs and growth. This is why, at this Budget, the overall impact of policy decisions is an improvement of \$1.7 billion over the four years from 2016-17 to 2019-20 in the underlying cash balance.

This Budget maintains a steady trajectory towards surplus. The deficit is expected to fall from \$37.1 billion in 2016-17 (2.2 per cent of GDP) to \$6.0 billion in 2019-20 (0.3 per cent of GDP), as shown in Table 2.

Statement 3: Fiscal Strategy and Outlook

Table 2: Australian Government general government sector budget aggregates

| | Actual | | Estimates | | Projections | | Total(a) |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | |
| | \$b | \$b | \$b | \$b | \$b | \$b | \$b |
| Receipts | 378.3 | 388.0 | 411.3 | 437.4 | 469.9 | 500.7 | 1,819.3 |
| Per cent of GDP | 23.5 | 23.5 | 23.9 | 24.2 | 24.8 | 25.1 | |
| Payments(b) | 412.1 | 425.0 | 445.0 | 459.9 | 481.5 | 502.6 | 1,889.0 |
| Per cent of GDP | 25.6 | 25.8 | 25.8 | 25.5 | 25.4 | 25.2 | |
| Net Future Fund earnings | 4.1 | 3.0 | 3.3 | 3.6 | 3.8 | 4.1 | 14.9 |
| Underlying cash balance(c) | -37.9 | -39.9 | -37.1 | -26.1 | -15.4 | -6.0 | -84.6 |
| Per cent of GDP | -2.4 | -2.4 | -2.2 | -1.4 | -0.8 | -0.3 | |
| Revenue | 380.7 | 396.4 | 416.9 | 449.5 | 484.4 | 515.1 | 1,865.8 |
| Per cent of GDP | 23.7 | 24.0 | 24.2 | 24.9 | 25.5 | 25.9 | |
| Expenses | 417.9 | 431.5 | 450.6 | 464.8 | 489.3 | 511.6 | 1,916.3 |
| Per cent of GDP | 26.0 | 26.1 | 26.2 | 25.7 | 25.8 | 25.7 | |
| Net operating balance | -37.2 | -35.1 | -33.7 | -15.3 | -5.0 | 3.5 | -50.5 |
| Net capital investment | 2.7 | 4.4 | 3.4 | 3.4 | 4.9 | 5.5 | 17.2 |
| Fiscal balance | -39.9 | -39.4 | -37.1 | -18.7 | -9.8 | -2.1 | -67.7 |
| Per cent of GDP | -2.5 | -2.4 | -2.2 | -1.0 | -0.5 | -0.1 | |
| <i>Memorandum item:</i> | | | | | | | |
| Headline cash balance | -38.9 | -51.5 | -53.4 | -34.2 | -23.9 | -14.4 | -126.0 |

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(c) Excludes net Future Fund earnings.

Government receipts, although growing, continue to be impacted by weaker nominal GDP, weighed down by weaker wages and inflation. Expected tax receipts, excluding new policy, have lessened by around \$4.6 billion in 2016-17 and \$13.5 billion over the four years to 2018-19 since the 2015-16 MYEFO. As a result, compared with the 2015-16 MYEFO, the underlying cash balance has deteriorated by \$3.4 billion in 2016-17.

Weaker-than-forecast total wages contribute to lower forecasts for taxes from individuals of \$12 billion over the four years to 2018-19, excluding new policy. In addition, forecast superannuation fund tax, excluding new policy has been revised down by \$5.5 billion. These downward revisions have been partly offset by upwards revisions to forecast indirect taxes. Lower-than-expected taxation receipts remains a major challenge for delivering fiscal consolidation and underlines the importance of continued spending restraint.

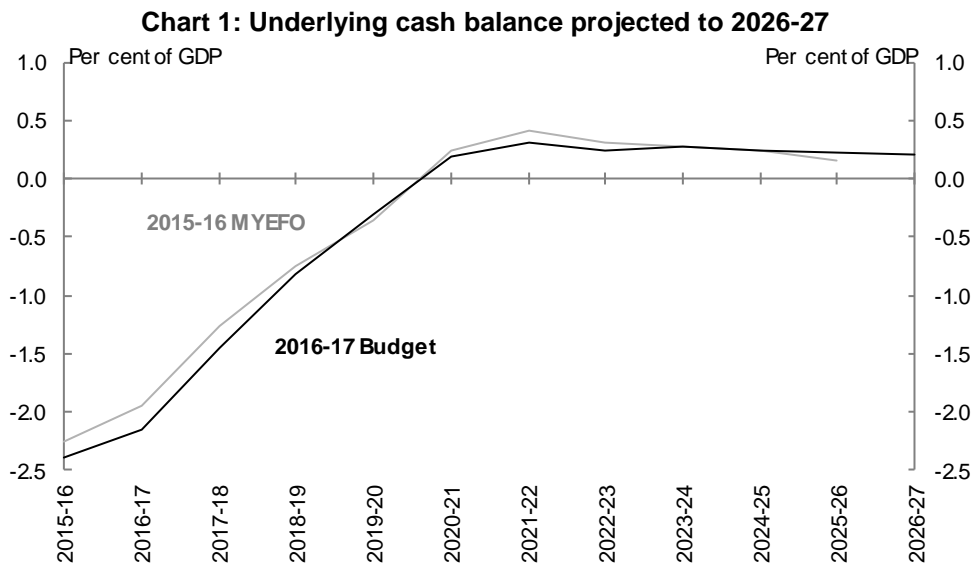
The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP by 2020-21, before peaking at around 0.3 per cent of GDP the following year. It is projected to fall gradually over the rest of the medium term.

The Government has a target of reaching a surplus of 1 per cent of GDP as soon as possible, consistent with the objective of running surpluses on average over the course of the economic cycle.

The medium-term projections do not yet meet this target, indicating that although progress has already been made on the Budget repair task, there is much more work required in the future, noting that projections over the next ten years are subject to considerable uncertainty.

Medium-term projections outline the broad trajectory of the fiscal position under current policy settings. Small changes to underlying assumptions around the economy or future policy can have large impacts on projections of fiscal aggregates (see Box 3).

Chart 1 shows the projection of the underlying cash balance to 2026-27.



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence.

Source: Treasury projections.

Compared with the 2015-16 MYEFO, the revised medium-term projections reflect a number of broadly offsetting factors. Spending on schools, hospitals and defence is projected to be higher over the medium term. This is offset by lower projected public debt interest, as higher borrowing is more than offset by a decline in bond yields. There has also been a significant reduction in payments due to parameter revisions over the forward estimates and this effect carries through over the medium term. After 2021-22, receipts are projected to grow broadly in line with payments.

Statement 3: Fiscal Strategy and Outlook

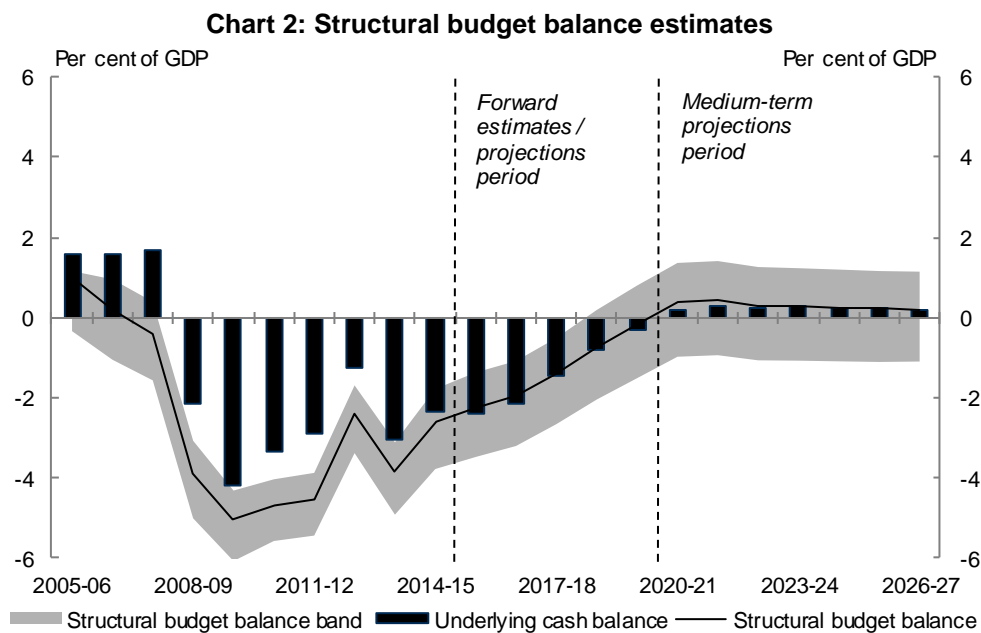
Structural budget balance estimates

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

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

Treasury estimates of the terms of trade outlook over the medium term have been revised downward compared with the 2015-16 MYEFO. This has contributed to downward revisions to estimated structural revenues. In net terms the estimates of the structural budget balance have, on average, deteriorated by less than a quarter of a per cent of annual GDP in each year over the next decade.

Despite the downward revisions since MYEFO, the overall level of the structural budget balance improves from a deficit of around 2 per cent of GDP in 2015-16, to a series of small surpluses from 2020-21 onwards, converging to the underlying cash balance (Chart 2).



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

Maintaining strong fiscal discipline

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

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

Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17 to 25.2 per cent of GDP in 2019-20 but are projected to rise slightly and remain stable over the medium term. Due to demographic and other pressures, payments are projected to increase gradually as a share of GDP to around 25.4 per cent in 2026-27.

Since the 2015-16 MYEFO, the payments-to-GDP ratio has been affected by weaker nominal GDP levels over the forecast period. However, annual nominal payment levels remain consistent with those published at the 2015-16 MYEFO.

Real payments growth from 2015-16 until 2019-20 is expected to be 1.9 per cent per annum on average, broadly consistent with the 2015-16 MYEFO.

Over the period from 2020-21 to 2026-27, average real growth in payments is projected to be around 2.9 per cent per annum, around one percentage point higher than estimated average real growth in payments over the forward estimates.

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

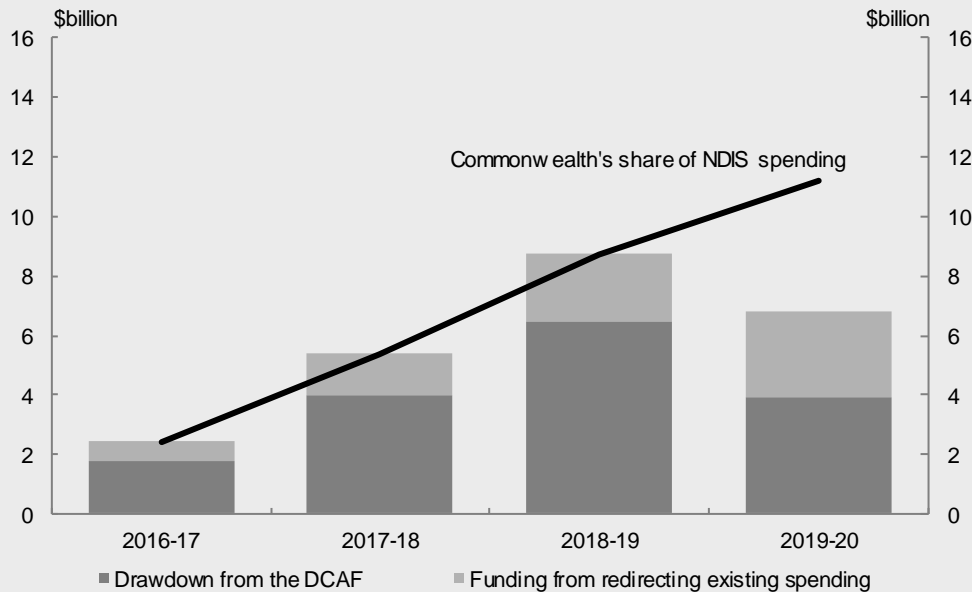
Box 2: National Disability Insurance Scheme

Spending on the National Disability Insurance Scheme (NDIS) increases substantially over the next four years as the scheme expands to full coverage in 2019-20 (see chart 3). When the NDIS reaches full scheme in 2019-20, it is estimated that it will cost \$21.6 billion, or around 1.1 per cent of GDP. The Commonwealth’s contribution will be around \$11.2 billion. The Government is committed to fully funding this vital scheme.

The costs of the NDIS are offset to 2018-19 through redirecting existing disability funding and accumulated funds from the 0.5 percentage point increase in the Medicare Levy invested in the DisabilityCare Australia Fund (DCAF).

By 2019-20 the accumulated DCAF funds will be fully drawn down, so only the \$3.9 billion of the Commonwealth’s share of the Medicare Levy will be available from the DCAF. This combined with the increase of \$2.4 billion in NDIS spending in this year mean that there will be a \$4.4 billion shortfall to be funded from general budget revenue or borrowings. This shortfall continues in each year beyond 2019-20.

Chart 3: Commonwealth NDIS expenditure



The Government is establishing the NDIS Savings Fund to help the Commonwealth to meet these future costs of the NDIS. This fund will hold NDIS underspends, and selected saves from across the Government, and will be drawn down to fund the NDIS from 2019-20.

In addition to the \$162.4 million already set aside in the Savings Fund in the 2015-16 MYEFO, as announced on 16 March 2016, in this Budget the Government will credit an additional \$2.1 billion to the fund. This includes \$711.2 million over five years from reduced net costs in NDIS transition agreements, and \$1.3 billion of savings achieved over five years through more efficiently targeting social welfare expenditure. Additional savings will be added in the coming years.

Strengthening the Government's balance sheet over time

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

Key aggregates of fiscal sustainability are set out in Table 3.

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

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

| | Estimates | | | Projections | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$b | \$b | \$b | \$b | \$b |
| Financial assets | 342.6 | 383.4 | 414.0 | 432.2 | 453.4 |
| Non-financial assets | 122.9 | 126.2 | 130.6 | 134.9 | 139.7 |
| Total assets | 465.4 | 509.6 | 544.6 | 567.2 | 593.1 |
| Total liabilities | 730.4 | 810.6 | 859.2 | 886.6 | 909.2 |
| Net worth | -265.0 | -300.9 | -314.6 | -319.4 | -316.1 |
| Net financial worth(a) | -387.9 | -427.2 | -445.2 | -454.3 | -455.8 |
| Per cent of GDP | -23.5 | -24.8 | -24.6 | -24.0 | -22.9 |
| Net debt(b) | 285.7 | 326.0 | 346.8 | 356.4 | 355.1 |
| Per cent of GDP | 17.3 | 18.9 | 19.2 | 18.8 | 17.8 |
| Net interest payments | 12.0 | 12.6 | 13.4 | 14.2 | 14.2 |
| Per cent of GDP | 0.7 | 0.7 | 0.7 | 0.8 | 0.7 |

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

(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

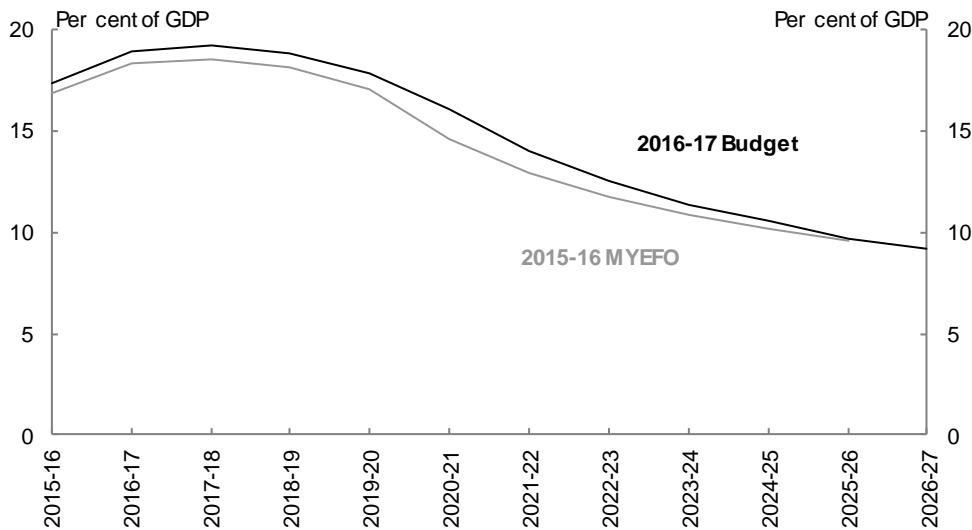
Net debt incorporates both selected financial assets and liabilities mostly at their fair value and provides a broader measure of the financial position of the Commonwealth than gross debt.

Net debt is estimated to be 18.9 per cent of GDP in 2016-17 and to peak as a share of GDP at 19.2 per cent in 2017-18, slightly above the peak of 18.5 per cent of GDP expected at the 2015-16 MYEFO. Net debt then declines as a share of GDP to 17.8 per cent by 2019-20.

Net debt is projected to continue to improve over the medium term, falling to around 9.1 per cent of GDP by 2026-27 (Chart 4). In 2025-26, net debt is projected to be around 9.7 per cent of GDP, this is around 0.1 per cent of GDP higher than projected at the 2015-16 MYEFO.

Statement 3: Fiscal Strategy and Outlook

Chart 4: Net debt projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Treasury projections.

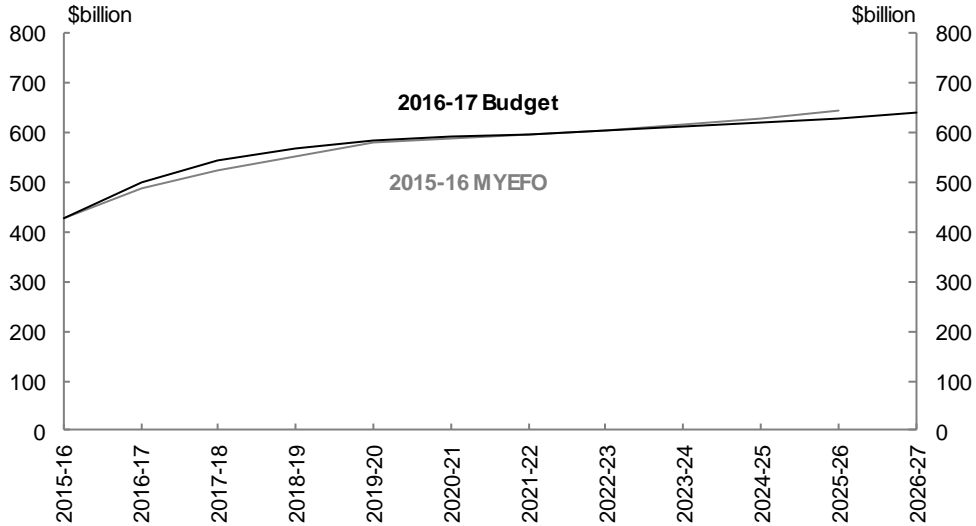
The face value of CGS on issue (gross debt) is projected to rise from \$499 billion in 2016-17 to \$584 billion by the end of the forward estimates. Gross debt is projected to continue to rise to around \$640 billion by 2026-27. At the 2015-16 MYEFO, gross debt was projected to be \$647 billion in 2025-26. The reduction in CGS on issue at the end of the medium term is driven by lower assumed yields across the medium term.

The current projections indicate the maximum face value of CGS on issue, subject to the Treasurer’s Direction, of \$500 billion will be approached in the latter part of 2016-17. A new Treasurer’s Direction would need to be issued before this time.

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

The projected face value of Commonwealth Government Securities on issue is shown in Chart 5.

Chart 5: Face value of Commonwealth Government Securities on issue projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
 Source: Australian Office of Financial Management and Treasury projections.

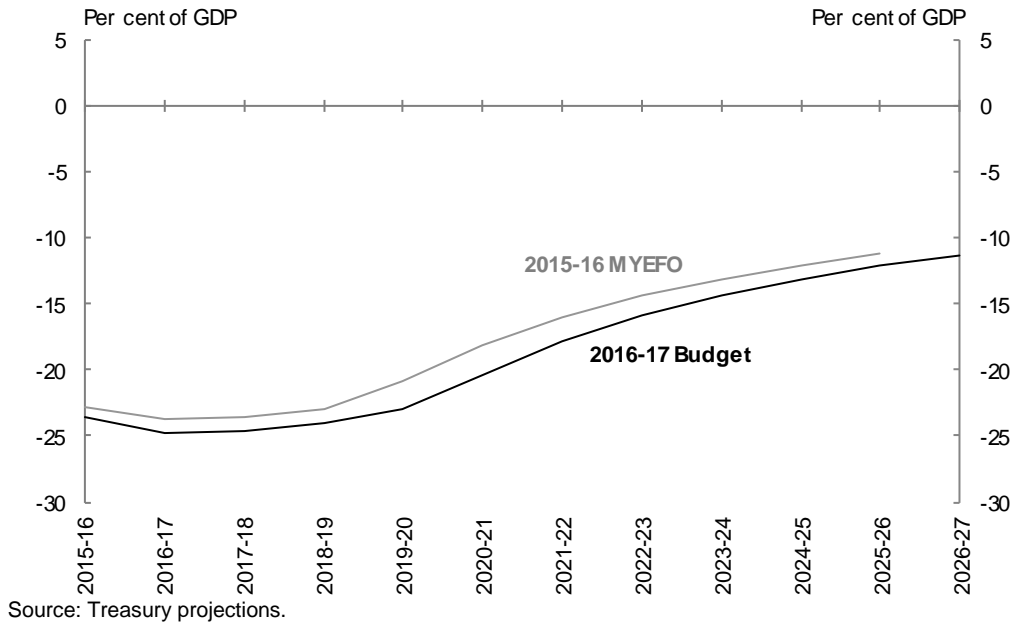
Net worth is expected to be -\$300.9 billion in 2016-17, \$18.0 billion lower than estimated at the 2015-16 MYEFO. Net worth is expected to be -\$316.1 billion by the end of the forward estimates.

Net financial worth is estimated to be -\$427.2 billion (-24.8 per cent of GDP) in 2016-17, \$17.5 billion lower than estimated at the 2015-16 MYEFO. Compared with the 2015-16 MYEFO, net financial worth has deteriorated over the forward estimates. This reflects higher CGS issuance and a lower value of investments held by the Government, including the Future Fund. In part, this has been offset by an increase in deposits held by the Government from 2016-17 onwards and a decrease in superannuation liabilities.

Net financial worth improves as a share of GDP over the medium term, rising to -\$326 billion (-11.3 per cent of GDP) by 2026-27 (Chart 6).

Statement 3: Fiscal Strategy and Outlook

Chart 6: Net financial worth projected to 2026-27



Box 3: Medium-term projections

The 2016-17 Budget projections indicate that the underlying cash balance will reach a surplus in 2020-21, consistent with the projections in the 2015-16 MYEFO. By 2026-27, it is projected to be 0.2 per cent of GDP.

The medium-term projections indicate that there is much more work to do to deliver surpluses building to at least 1 per cent of GDP, consistent with the Government's medium-term fiscal strategy and Budget repair strategy. To achieve surpluses of this magnitude, it will be critical to constrain growth in Government payments over a sustained period. Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates but rise and then stabilise over the medium term.

The medium-term fiscal projections bring together projections of receipts, payments (including interest payments) and the Government's assets and liabilities for the seven years beyond the forward estimates period. They outline how the fiscal position may change over time under current policy settings and prevailing economic assumptions and are not equivalent to forecasts.

Medium-term projections are a product of the assumptions that underpin them and are therefore subject to considerable uncertainty. Small changes in assumptions can have large impacts on the fiscal aggregates over the projection period. Two critical assumptions relate to the level of tax receipts and the rate of payments growth.

The medium-term projections in the Budget assume that tax receipts do not increase above 23.9 per cent of GDP. This is an assumption adopted for technical purposes and does not represent a Government policy or target. This is based on the average tax-to-GDP ratio from the introduction of the GST and prior to the Global Financial Crisis. It reflects that a strict no-policy change scenario would be unrealistic, as unconstrained revenue projections imply constantly increasing average tax rates on personal income. In the 2016-17 Budget, tax receipts are projected to reach 23.9 per cent of GDP in 2021-22.

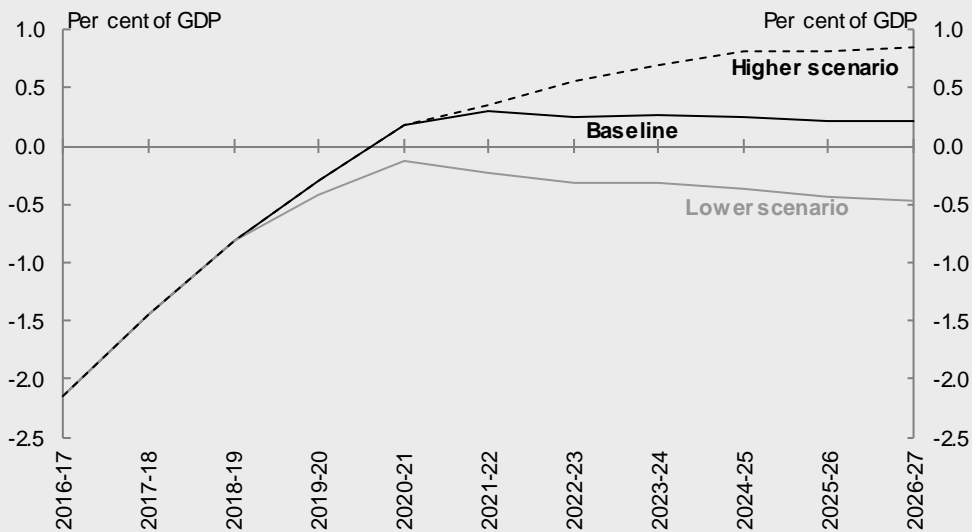
In contrast, payments are assumed to grow in line with current policy settings over the medium term. Under current settings, this is real growth of around 2.9 per cent per year. All else remaining equal, future changes to policy that increase payments, particularly in key expenditure areas, would increase this projected growth rate.

Charts 7 and 8 demonstrate the impact of changes to these assumptions.

Box 3: Medium-term projections (continued)

The Budget projection is for a surplus of around 0.2 per cent of GDP in 2026-27 with an assumed tax-to-GDP level of 23.9 per cent. An assumption of 23.4 per cent would mean a projected underlying cash deficit in 2026-27 of 0.5 per cent of GDP (Chart 7). An assumption of 24.4 per cent would mean a projected surplus of 0.8 per cent of GDP in 2026-27.

Chart 7: Underlying cash balance impact of alternative tax receipts level assumptions

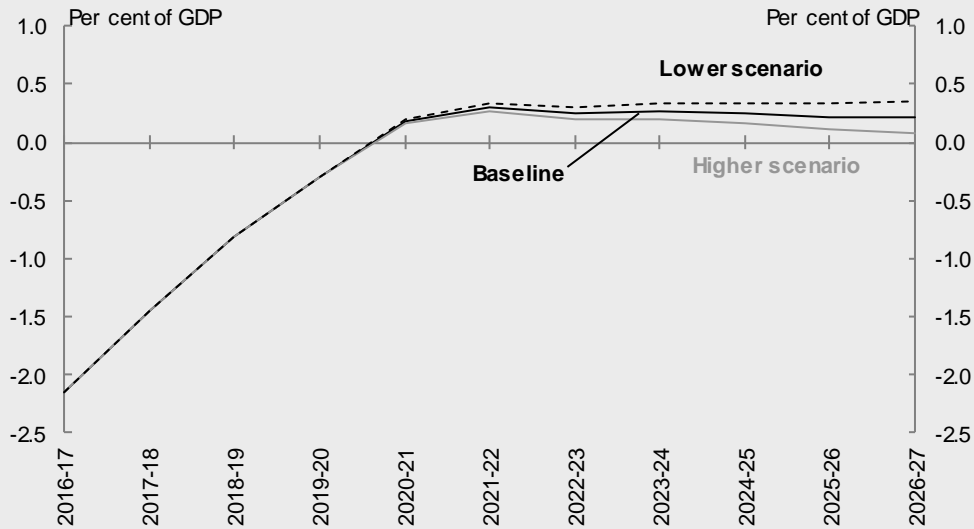


Note: A tax-to-GDP cap of 23.9 per cent of GDP is applied to the baseline projections from 2021-22.
Source: Treasury projections.

Payments growth assumed to be 0.1 percentage points higher in each year of the medium term would mean a lower projected underlying cash result than in the Budget (Chart 8). An equivalent reduction in the assumed rate of payments growth would improve the underlying cash balance.

Box 3: Medium-term projections (continued)

Chart 8: Underlying cash balance impact of alternative payments growth assumptions



Note: A tax-to-GDP cap of 23.9 per cent of GDP is applied to the baseline projections from 2021-22.
Source: Treasury projections.

Fiscal outlook

Budget aggregates

An underlying cash deficit of \$37.1 billion (2.2 per cent of GDP) is expected in 2016-17, improving to a deficit of \$6.0 billion (0.3 per cent of GDP) in 2019-20.

In accrual terms, a fiscal deficit of \$37.1 billion (2.2 per cent of GDP) is expected for 2016-17, improving to a deficit of \$2.1 billion (0.1 per cent of GDP) in 2019-20.

A headline cash deficit of \$53.4 billion is expected in 2016-17, improving to a deficit of \$14.4 billion in 2019-20.

Table 2 provides key budget aggregates for the Australian Government general government sector.

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

Statement 3: Fiscal Strategy and Outlook

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

| | Estimates | | | Projections | |
|-------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$b | 2016-17 \$b | 2017-18 \$b | 2018-19 \$b | 2019-20 \$b |
| Cash receipts | | | | | |
| Operating cash receipts | 387.7 | 408.9 | 436.8 | 469.4 | 500.5 |
| Capital cash receipts(a) | 0.3 | 2.4 | 0.6 | 0.6 | 0.2 |
| Total cash receipts | 388.0 | 411.3 | 437.4 | 469.9 | 500.7 |
| Cash payments | | | | | |
| Operating cash payments | 413.4 | 433.8 | 447.4 | 468.5 | 488.8 |
| Capital cash payments(b) | 11.6 | 11.2 | 12.6 | 13.0 | 13.7 |
| Total cash payments | 425.0 | 445.0 | 459.9 | 481.5 | 502.6 |
| Finance leases and similar arrangements(c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GFS cash surplus(+)/deficit(-) | -36.9 | -33.8 | -22.5 | -11.6 | -1.8 |
| Per cent of GDP | -2.2 | -2.0 | -1.2 | -0.6 | -0.1 |
| less Net Future Fund earnings | 3.0 | 3.3 | 3.6 | 3.8 | 4.1 |
| Underlying cash balance(d) | -39.9 | -37.1 | -26.1 | -15.4 | -6.0 |
| Per cent of GDP | -2.4 | -2.2 | -1.4 | -0.8 | -0.3 |
| <i>Memorandum items:</i> | | | | | |
| Net cash flows from investments in financial assets for policy purposes | -14.6 | -19.7 | -11.7 | -12.4 | -12.6 |
| plus Net Future Fund earnings | 3.0 | 3.3 | 3.6 | 3.8 | 4.1 |
| Headline cash balance | -51.5 | -53.4 | -34.2 | -23.9 | -14.4 |

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.

(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.

(c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(d) Excludes expected net Future Fund earnings.

Underlying cash balance estimates

The estimated underlying cash deficit in 2016-17 has deteriorated by \$3.4 billion when compared with the 2015-16 MYEFO. Table 5 provides a reconciliation of the variations in the underlying cash balance since the 2015-16 Budget.

Since the 2015-16 MYEFO, the effect of parameter and other variations has resulted in a \$23.3 billion reduction in forecast receipts across the five years to 2019-20, partly offset by a \$8.9 billion reduction in payments across the five years to 2019-20.

Since the 2015-16 MYEFO, policy decisions have resulted in a \$1.7 billion improvement in the underlying cash balance in the four years from 2016-17 to 2019-20. The overall impact of policy decisions on the bottom line has been more than fully offset.

Statement 3: Fiscal Strategy and Outlook

Table 5: Reconciliation of underlying cash balance estimates

| | Estimates | | | Projections | | Total(a) \$m |
|------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m | |
| 2015-16 Budget underlying cash balance(b)(c) | -35,115 | -25,836 | -14,396 | -6,905 | 1,300 | -45,837 |
| Per cent of GDP | -2.1 | -1.5 | -0.8 | -0.4 | 0.1 | |
| Changes from 2015-16 Budget to 2015-16 MYEFO | | | | | | |
| Effect of policy decisions(d) | -2,516 | -2,427 | 302 | 921 | * | * |
| Effect of parameter and other variations | 231 | -5,404 | -8,927 | -8,246 | * | * |
| Total variations(e) | -2,285 | -7,831 | -8,625 | -7,325 | -8,600 | -32,381 |
| 2015-16 MYEFO underlying cash balance(b)(f) | -37,399 | -33,667 | -23,021 | -14,229 | -7,300 | -78,218 |
| Per cent of GDP | -2.3 | -2.0 | -1.3 | -0.7 | -0.3 | |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | | |
| Effect of policy decisions(d)(g) | | | | | | |
| <i>Receipts</i> | 417 | -1,670 | 225 | -209 | 317 | -1,338 |
| <i>Payments</i> | 611 | 1,400 | -158 | 1,285 | -5,578 | -3,052 |
| Total policy decisions impact on underlying cash balance | -195 | -3,070 | 384 | -1,494 | 5,894 | 1,714 |
| Effect of parameter and other variations(g) | | | | | | |
| <i>Receipts</i> | -7,280 | -2,373 | -3,723 | -3,401 | -6,475 | -15,971 |
| <i>Payments</i> | -3,985 | -1,633 | 194 | -3,098 | -366 | -4,904 |
| <i>less Net Future Fund earnings</i> | -943 | -396 | -433 | -622 | -1,560 | -3,010 |
| Total parameter and other variations impact on underlying cash balance | -2,352 | -343 | -3,484 | 319 | -4,549 | -8,058 |
| 2016-17 Budget underlying cash balance(b) | -39,946 | -37,081 | -26,123 | -15,406 | -5,955 | -84,565 |
| Per cent of GDP | -2.4 | -2.2 | -1.4 | -0.8 | -0.3 | |

*Data is not available.

(a) Total is equal to the sum of amounts from 2016-17.

(b) Excludes expected net Future Fund earnings.

(c) 2019-20 underlying cash balance as published in the medium term projections, page 3-6 of *Budget Paper No. 1: Budget Strategy and Outlook 2015-16*.

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

(e) 2019-20 shows the total variation between medium term projections of the underlying cash balance published in the 2015-16 Budget and *Mid-Year Economic and Fiscal Outlook 2015-16*, excluding the variation in net Future Fund earnings.

(f) 2019-20 underlying cash balance as published in the medium term projections, page 19 of the 2015-16 MYEFO.

(g) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Offsetting new decisions

The Government remains committed to offsetting all new policy decisions. At this Budget, the overall impact of policy decisions on the bottom line is an improvement of \$1.7 billion over the four years from 2016-17 to 2019-20. All new spending measures have been offset by savings in payments, not by policy increases to tax revenue.

The Government remains committed to implementing reforms, which continue to be delayed in the Senate. At this Budget, the impact of delays in passing these reforms has deteriorated the bottom line by \$2.2 billion over the five years to 2019-20. Prior to the 2016-17 Budget, \$13 billion worth of expenditure savings and \$1.5 billion worth of revenue increases have not yet passed the Parliament.

Receipts estimates

Total receipts are expected to be \$4.0 billion lower in 2016-17 than estimated at the 2015-16 MYEFO, with tax receipts \$6.4 billion lower and non-taxation receipts \$2.3 billion higher.

Since the 2015-16 MYEFO, non-taxation receipts have been revised down by \$3.1 billion in 2015-16, primarily due to the agreement with the Victorian Government to reinvest the \$1.5 billion provided for the East West Link project to fund other mutually agreed projects, and a delay in the expected receipt of proceeds from the reissue of spectrum licences previously expected in 2015-16. Non-taxation receipts have been revised up by \$2.3 billion in 2016-17, largely reflecting higher than expected dividend receipts from the Reserve Bank of Australia and the delayed spectrum licence receipts.

Policy decisions

Policy decisions since the 2015-16 MYEFO are expected to reduce receipts by \$1.7 billion in 2016-17 and decrease receipts by \$921 million over the five years to 2019-20. Significant measures include:

- increasing tobacco excise and equivalent customs duties and reducing the duty free tobacco allowance. Tobacco excise and excise equivalent customs duties will be increased by four annual increases of 12.5 per cent per year from 2017 until 2020. In addition, from 1 July 2017 the duty free tobacco allowance will be reduced to 25 cigarettes or equivalent from the current allowance of 50 cigarettes. This is expected to increase receipts by \$5.1 billion over the forward estimates period, including a GST component of \$445 million that will be paid to States and Territories;
- reforming the taxation of concessional superannuation contributions. From 1 July 2017 the Division 293 tax income threshold will be reduced to \$250,000 (from \$300,000) and the annual cap on contributions will be reduced to \$25,000 (currently \$30,000 under 50; \$35,000 for 50 and over). This is estimated to increase receipts by \$2.4 billion over the forward estimates period;

Statement 3: Fiscal Strategy and Outlook

- providing targeted personal income tax relief by increasing the 32.5 per cent personal income threshold from \$80,000 to \$87,000 from 1 July 2016. This measure will lower taxes for around 3 million individuals and is expected to reduce receipts by \$4.0 billion over the forward estimates period; and
- backing small businesses by reducing their tax rate to 27.5 per cent, starting with businesses with a turnover of up to \$10 million on 1 July this year. Encouraging investment and jobs over 10 years by reducing the company tax rate to 25 per cent by 2026-27. These changes are expected to reduce receipts by \$2.7 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2016-17*.

Parameter and other variations

Since the 2015-16 MYEFO, forecasts for total wages and non-mining profits have been revised down, partly offset by higher forecasts for mining profitability owing to recent strength in commodity prices. As a result, the forecast for nominal GDP has been revised down by \$27.5 billion over the four years to 2018-19. These revisions, the compositional change to nominal GDP and weaker tax collections in the current year have combined to weaken the outlook for tax receipts.

Weaker forecast total wages contribute to lower forecasts for taxes from individuals of \$12 billion over the four years to 2018-19, excluding new policy. In addition, forecast superannuation fund tax has been revised down by \$5.5 billion. These downward revisions have been partly offset by upward revisions to forecast indirect taxes.

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

Payment estimates

The overall impact of new policy decisions on payments in this Budget is an improvement to the bottom line of \$2.4 billion over the five years to 2019-20, with all increases in expenditure offset by savings in payments. Since the 2015-16 MYEFO, total payments for 2016-17 have decreased by \$233 million.

Policy decisions

Major policy decisions since the 2015-16 MYEFO that increase payments include:

- providing additional funding to the State and Territory Governments for public hospitals by retaining key features of Activity Based Funding, including the National Efficient Price, which is expected to increase payments by up to \$2.9 billion over the three years to 2019-20. Growth in the Government's contribution will be capped at 6.5 per cent a year over this period;

Statement 3: Fiscal Strategy and Outlook

- funding support for government and non-government schools for the 2018 to 2020 school years, which is expected to increase payments by \$928 million over the three years to 2019-20. Total school funding will be indexed by an education sector specific index of 3.56 per cent, with an allowance for changes in enrolments;
- establishing a new Tax Avoidance Taskforce as part of the *ten year enterprise tax plan*, which is expected to increase cash payments by \$49 million in 2016-17 and \$679 million over the four years to 2019-20. This measure will enhance the Australian Taxation Office's audit and compliance activities targeting multinationals, large corporations and high wealth individuals. These changes are expected to increase receipts by \$2.2 billion over the forward estimates period;
- continuing Australia's military contribution to the international effort to disrupt and degrade Daesh (or ISIL) in Iraq and Syria, which is expected to increase payments by \$345 million in 2016-17 and \$373 million over the three years to 2018-19;
- delaying the implementation of the higher education reforms announced in the 2014-15 Budget and the 2014-15 MYEFO by an additional year to undertake further consultation, which is expected to increase payments by \$327 million in 2016-17 and \$573 million over five years to 2019-20;
- improving youth employment outcomes through the establishment of a Youth Jobs PaTH program for young job seekers aged under 25 years, which is expected to increase payments by \$12 million in 2016-17 and \$249 million over the five years to 2019-20; and
- continuing Australia's military contribution to international stabilisation and counter-terrorism efforts in the Middle East Region, which is expected to increase payments by \$183 million in 2016-17 and \$189 million over the three years to 2018-19.

Major policy decisions that decrease payments include:

- achieving efficiencies in the operation of the Australian Public Service by maintaining the annual efficiency dividend at 2.5 per cent for an additional year before stepping down to 1 per cent by 2019-20, and reinvesting in specific initiatives to assist agencies to manage their transformation to a more modern public sector, which is expected to decrease payments by \$1.4 billion over the three years to 2019-20;
- revising the Aged Care Funding Instrument, through changes to the criteria that determine the funding paid to aged care providers, which is expected to decrease payments by \$119 million in 2016-17 and \$1.2 billion over the five years to 2019-20, noting that there is a separate upward estimates variation to the Residential and Flexible Care program reflecting higher than anticipated growth;

Statement 3: Fiscal Strategy and Outlook

- deferring implementation of the *Child Care Subsidy*, *Additional Child Care Subsidy* and *Community Child Care Fund* by one year to 1 July 2018, due to the Family Tax Benefit reforms required to fund the child care package not being passed by the Senate, which is expected to decrease payments by \$43 million in 2016-17 and \$1.2 billion over the five years to 2019-20;
- returning unallocated funds from the Asset Recycling Initiative, following negotiation with State and Territory Governments, which is expected to decrease payments by \$453 million in 2016-17 and \$854 million over three years to 2018-19; and
- reforming Work for the Dole to be better targeted and more cost effective, by changing the Stream A job seekers entry into the Work for the Dole phase after twelve months of participation in *jobactive*, instead of the current six months, which is expected to decrease payments by \$128 million in 2016-17 and \$494 million over four years to 2019-20.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2016-17*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align with the payment figures provided in this statement.

Parameter and other variations

This Budget also incorporates some major changes in expected payments in 2016-17 as a result of parameter and other variations since the 2015-16 MYEFO. Major increases include:

- payments related to a number of savings measures that have been delayed in the Senate, which are expected to increase by \$1.0 billion in 2016-17 (\$2.2 billion over the five years to 2019-20);
- payments to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program, which are expected to increase by \$653 million in 2016-17 (although a reduction in payments of \$119 million is expected over the five years to 2019-20), largely reflecting a deferral of payments previously expected to be made in 2015-16;
- payments to the States and Territories for public hospitals, which are expected to increase by \$518 million in 2016-17 (\$1.8 billion over the five years to 2019-20), largely reflecting revised activity estimates from the States and Territories and the release of the final 2016-17 National Efficient Price and National Efficient Cost determinations;
- payments related to the Residential and Flexible Care program, which are expected to increase by \$454 million in 2016-17 (\$2.5 billion over the five years to 2019-20), largely reflecting higher than expected growth in care subsidies provided to residential aged care facilities;

Statement 3: Fiscal Strategy and Outlook

- payments related to the Child Care Subsidy, Child Care Benefit and Child Care Rebate, which together are expected to increase by \$384 million in 2016-17 (\$2.9 billion over the five years to 2019-20), largely reflecting an increase in the forecast number of hours of child care used and average child care fees charged;
- payments related to the Australian Renewable Energy Agency's grant activities, which are expected to increase by \$110 million in 2016-17 (\$155 million over the five years to 2019-20), largely reflecting additional grants provided as part of the Large Scale Solar Competitive funding round and Research and Development funding round; and
- payments related to the public sector defined benefit superannuation schemes, which are expected to increase by \$87 million in 2016-17 (\$312 million over the five years to 2019-20), largely reflecting a reduction in forecast exits from the schemes.

Major decreases in expected payments in 2016-17 as a result of parameter and other variations since the 2015-16 MYEFO include:

- payments related to the Medical Benefits program, which are expected to decrease by \$190 million in 2016-17 (\$454 million over the five years to 2019-20), largely reflecting recent changes in utilisation trends;
- payments under the Fuel Tax Credits Scheme, which are expected to decrease by \$162 million in 2016-17 (\$953 million over the five years to 2019-20), reflecting lower than expected usage of fuels that are eligible for Fuel Tax Credits;
- royalty payments to Western Australia, which are expected to decrease by \$148 million in 2016-17 (\$407 million over the five years to 2019-20), largely reflecting a drop in forecast commodity prices along with a projected reduction in the volume of production across the forward years. This decrease in payments is offset by a corresponding decrease in royalty receipts;
- payments related to the National Blood Agreement for the National Blood Authority (NBA), which are expected to decrease by \$115 million in 2016-17 (\$436 million over the five years to 2019-20), largely reflecting lower than expected demand for blood and blood products;
- payments related to the Jobs, Education & Training Child Care Fee Assistance program, which are expected to decrease by \$94 million in 2016-17 (\$167 million over the five years to 2019-20), largely reflecting decreases in the number of families or children accessing assistance and the total hours of approved care accessed under the program; and

Statement 3: Fiscal Strategy and Outlook

- payments related to the Non-Government Schools National Support program, which are expected to decrease by \$87 million in 2016-17 (\$740 million over the five years to 2019-20), largely reflecting a downward revision to enrolment projections and changes to school structures (opening and closing of schools).

Consistent with previous Budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in the Other Purposes section of *Statement 5: Expenses and Net Capital Investment*.

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

Fiscal balance estimates

The fiscal deficit is expected to be \$37.1 billion (2.2 per cent of GDP) in 2016-17, which reflects a deterioration of \$4.4 billion (0.3 per cent of GDP) compared with the 2015-16 MYEFO. Table 6 provides a reconciliation of the variations in the fiscal balance since the 2015-16 Budget.

Table 6: Reconciliation of fiscal balance estimates

| | Estimates | | | Projections | | Total(a) |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m | |
| 2015-16 Budget fiscal balance(b) | -32,972 | -23,425 | -9,236 | -3,230 | 1,300 | -34,591 |
| Per cent of GDP | -2.0 | -1.3 | -0.5 | -0.2 | 0.1 | |
| Changes from 2015-16 Budget to 2015-16 MYEFO | | | | | | |
| Effect of policy decisions(d) | -1,948 | -1,552 | 1,552 | 1,494 | * | * |
| Effect of parameter and other variations | -845 | -7,773 | -9,731 | -8,473 | * | * |
| Total variations(c) | -2,793 | -9,326 | -8,179 | -6,979 | -8,600 | -33,083 |
| 2015-16 MYEFO fiscal balance(e) | -35,765 | -32,751 | -17,415 | -10,209 | -7,300 | -67,675 |
| Per cent of GDP | -2.2 | -1.9 | -1.0 | -0.5 | -0.3 | |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | | |
| Effect of policy decisions(d)(f) | | | | | | |
| Revenue | 419 | -1,251 | 1,038 | 160 | 533 | 481 |
| Expenses | 590 | 1,097 | -721 | 733 | -6,547 | -5,438 |
| Net capital investment | 7 | 216 | 12 | -116 | -81 | 31 |
| Total policy decisions impact on fiscal balance | -178 | -2,564 | 1,746 | -456 | 7,161 | 5,888 |
| Effect of parameter and other variations(f) | | | | | | |
| Revenue | -4,977 | -5,088 | -4,094 | -2,884 | -4,521 | -16,588 |
| Expenses | -1,355 | -1,750 | -360 | -2,779 | -1,800 | -6,688 |
| Net capital investment | -136 | -1,524 | -728 | -932 | -801 | -3,985 |
| Total parameter and other variations impact on fiscal balance | -3,486 | -1,814 | -3,007 | 826 | -1,920 | -5,914 |
| 2016-17 Budget fiscal balance | -39,429 | -37,129 | -18,675 | -9,839 | -2,059 | -67,701 |
| Per cent of GDP | -2.4 | -2.2 | -1.0 | -0.5 | -0.1 | |

*Data is not available.

(a) Total is equal to the sum of amounts from 2016-17.

(b) 2019-20 fiscal balance is assumed to be consistent with the underlying cash balance as published in the medium term projections, page 3-6 of *Budget Paper No. 1: Budget Strategy and Outlook 2015-16*.

(c) 2019-20 shows the total variation between medium term projections of the assumed fiscal balance published in the 2015-16 Budget and *Mid-Year Economic and Fiscal Outlook 2015-16*.

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

(e) 2019-20 fiscal balance is assumed to be consistent with the underlying cash balance as published in the medium term projections, page 19 of the 2015-16 MYEFO.

(f) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

Revenue estimates

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

Statement 3: Fiscal Strategy and Outlook

Expense and net capital investment estimates

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

- superannuation benefits, where there are differences between the timing of cash payments and accrued expenses as a result of revaluations recommended by the actuary; and
- the Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, rather than when cash payments are made.

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

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co) and net Future Fund earnings. Table 7 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2016-17 is estimated to be a deficit of \$53.4 billion, compared with a deficit of \$48.9 billion at the 2015-16 MYEFO. Over the four years from 2016-17 to 2019-20, the headline cash deficit is projected to decline by \$39.1 billion to \$14.4 billion in 2019-20.

Table 7: Details of the Australian Government general government sector items between the underlying and headline cash balance estimates

| | Estimates | | | Projections | | Total(a) \$m |
|--------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m | |
| 2016-17 Budget underlying cash balance(b) | -39,946 | -37,081 | -26,123 | -15,406 | -5,955 | -84,565 |
| plus Net cash flows from investments in financial assets for policy purposes | | | | | | |
| Student loans | -7,622 | -8,309 | -9,325 | -9,902 | -10,190 | -37,725 |
| NBN investment | -7,488 | -8,825 | 0 | 0 | 0 | -8,825 |
| Residential mortgage backed securities | 1,471 | 839 | 649 | 661 | 398 | 2,548 |
| WestConnex | -38 | -645 | -724 | -546 | -47 | -1,962 |
| Trade support loans | -372 | -511 | -563 | -569 | -574 | -2,217 |
| Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation | -250 | 0 | 50 | 50 | 50 | 150 |
| Northern Australia Infrastructure Facility | 0 | -935 | -870 | -805 | -740 | -3,349 |
| Drought and rural assistance loans | -63 | -250 | -250 | -250 | -140 | -890 |
| National water infrastructure loan facility | 0 | -50 | -50 | -200 | -500 | -800 |
| Net other | -190 | -993 | -615 | -814 | -820 | -3,241 |
| Total net cash flows from investments in financial assets for policy purposes | -14,553 | -19,678 | -11,698 | -12,373 | -12,562 | -56,310 |
| plus Net Future Fund earnings | 3,012 | 3,321 | 3,574 | 3,843 | 4,140 | 14,879 |
| 2016-17 Budget headline cash balance | -51,487 | -53,438 | -34,246 | -23,936 | -14,376 | -125,996 |

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes expected net Future Fund earnings.

STATEMENT 4: REVENUE

The 2016-17 Budget forecasts for tax receipts, excluding new policy, have been revised down since the 2015-16 MYEFO by \$4.6 billion in 2016-17 and \$13.5 billion over the four years to 2018-19. Excluding GST, tax receipts are forecast to be \$4.6 billion lower in 2016-17 and \$14.2 billion lower over the four years to 2018-19.

Since the 2015-16 MYEFO, forecasts for total wages and non-mining profits have been revised down, partly offset by higher forecasts for mining profits owing to recent strength in commodity prices. As a result, the forecast for nominal GDP has been revised down by \$27.5 billion over the four years to 2018-19. These revisions, the compositional change to nominal GDP and weaker tax collections in the current year have combined to weaken the outlook for tax receipts.

Weaker forecast total wages contribute to lower forecasts for taxes from individuals of \$12 billion over the four years to 2018-19, excluding new policy. In addition, forecast superannuation fund tax, excluding new policy, has been revised down by \$5.5 billion. These downward revisions have been partly offset by upward revisions to forecast indirect taxes.

The Government's *ten year enterprise tax plan* will deliver benefits for Australians by encouraging greater investment and higher wages, while the tax integrity package will increase tax receipts by \$2.4 billion over the forward estimates. Superannuation reforms that better target superannuation concessions will also contribute \$3.1 billion to tax receipts over the forward estimates.

In 2016-17, tax receipts as a share of GDP are expected to be 22.2 per cent, lower than the 2015-16 MYEFO estimate of 22.5 per cent.

CONTENTS

Overview5

Tax outlook5

Variations in receipts estimates7

Variations in revenue estimates17

Appendix A: Tax expenditures20

STATEMENT 4: REVENUE

OVERVIEW

Since the 2015-16 MYEFO, expected tax receipts, including new policy, have been revised down by around \$6.4 billion in 2016-17 and \$14.7 billion over the four years to 2018-19. Excluding GST, tax receipts have been revised down by around \$6.3 billion in 2016-17 and \$15.7 billion over the four years to 2018-19. As GST is paid to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government.

Including new policy, tax receipts are forecast to grow by 3.1 per cent in 2015-16 and 5.0 per cent in 2016-17 (Table 1). Total tax receipts as a share of GDP are expected to increase from 22.2 per cent in 2016-17 to 23.5 per cent by 2019-20, an increase of 1.3 percentage points. The 2016-17 tax-to-GDP ratio is forecast to be lower than at the 2015-16 Budget, and lower for each year of the forward estimates. Excluding GST, the tax-to-GDP ratio is expected to increase by 1.3 percentage points from 2016-17 to 2019-20.

Table 1: Australian Government general government receipts

| | Actual | Estimates | | | Projections | |
|-----------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Total taxation receipts (\$b) | 353.5 | 364.5 | 382.8 | 410.2 | 438.8 | 468.3 |
| Growth on previous year (%) | 4.0 | 3.1 | 5.0 | 7.2 | 7.0 | 6.7 |
| Per cent of GDP | 22.0 | 22.1 | 22.2 | 22.7 | 23.1 | 23.5 |
| Tax receipts excluding GST (\$b) | 299.2 | 307.1 | 322.1 | 346.2 | 371.5 | 397.9 |
| Growth on previous year (%) | 3.6 | 2.6 | 4.9 | 7.5 | 7.3 | 7.1 |
| Per cent of GDP | 18.6 | 18.6 | 18.7 | 19.2 | 19.6 | 20.0 |
| Non-taxation receipts (\$b) | 24.8 | 23.5 | 28.5 | 27.2 | 31.1 | 32.5 |
| Growth on previous year (%) | 21.8 | -5.2 | 21.2 | -4.5 | 14.3 | 4.4 |
| Per cent of GDP | 1.5 | 1.4 | 1.7 | 1.5 | 1.6 | 1.6 |
| Total receipts (\$b) | 378.3 | 388.0 | 411.3 | 437.4 | 469.9 | 500.7 |
| Growth on previous year (%) | 5.0 | 2.6 | 6.0 | 6.3 | 7.4 | 6.6 |
| Per cent of GDP | 23.5 | 23.5 | 23.9 | 24.2 | 24.8 | 25.1 |

TAX OUTLOOK

Table 2 reconciles the 2016-17 Budget estimates of tax receipts with the 2015-16 Budget and the 2015-16 MYEFO estimates. Since the 2015-16 MYEFO, tax receipts, including new policy, have been revised down by \$3.7 billion in 2015-16, \$6.4 billion in 2016-17 and \$14.7 billion over the four years to 2018-19.

Statement 4: Revenue

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2015-16 Budget

| | Estimates | | | Projections | Total |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|------------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | |
| Tax receipts at 2015-16 Budget | 370,140 | 396,422 | 422,762 | 452,469 | 1,641,793 |
| Changes from 2015-16 Budget to 2015-16 MYEFO | | | | | |
| Effect of policy decisions | -1,009 | -1,341 | -1,290 | -1,180 | -4,821 |
| Effect of parameter and other variations | -901 | -5,955 | -8,300 | -10,879 | -26,035 |
| Total variations | -1,911 | -7,296 | -9,590 | -12,059 | -30,856 |
| Tax receipts at 2015-16 MYEFO | 368,230 | 389,125 | 413,172 | 440,410 | 1,610,937 |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | |
| Effect of policy decisions | 0 | -1,708 | 113 | 371 | -1,224 |
| Effect of parameter and other variations | -3,723 | -4,648 | -3,121 | -1,961 | -13,452 |
| Total variations | -3,723 | -6,356 | -3,007 | -1,590 | -14,675 |
| Tax receipts at 2016-17 Budget | 364,507 | 382,769 | 410,165 | 438,821 | 1,596,261 |

Since the 2015-16 MYEFO, forecast tax receipts, excluding new policy, are lower by \$4.6 billion in 2016-17 and \$13.5 billion over the four years to 2018-19. This represents a 0.8 per cent reduction in tax receipts over the four years to 2018-19, which is a small revision by historical standards.

The largest contribution to the lower expected tax receipts is from gross income tax withholding, consistent with weaker-than-expected total wages. Wage growth has been low by historical standards and is forecast to be lower in 2015-16 and 2016-17 than at the 2015-16 MYEFO. The recent recovery in some key commodity export prices – particularly iron ore – has led to higher expected mining profits since the 2015-16 MYEFO. However, this has been partly offset by a weaker outlook for non-mining business profits, consistent with weaker domestic prices and activity compared to the 2015-16 MYEFO. For more details on the economic outlook, see Budget Statement 2.

The downgrade to total wages has contributed to individuals tax being reduced by \$12 billion over the four years to 2018-19. In addition, superannuation fund tax has been revised down by \$5.5 billion over the four years to 2018-19, primarily as a result of weaker-than-expected collections in 2015-16. These revisions have been partly offset by increased indirect taxes of \$4.1 billion over the four years to 2018-19. The revision to forecast total tax receipts is affected by the shift in composition of the economic forecasts away from wages to mining gross profits.

The Government's *ten year enterprise tax plan* will deliver benefits for Australians by encouraging greater investment and higher wages. Over the forward estimates, the *ten year enterprise tax plan* decreases tax receipts by \$9.2 billion. The tax integrity package encompasses measures to reinforce the corporate tax base, and will increase tax receipts by \$2.4 billion over the forward estimates. Superannuation reforms that better

target superannuation concessions will contribute \$3.1 billion to tax receipts over the forward estimates. Excluding the tax integrity measures, the Government is reducing the tax burden by around \$1.9 billion over the forward estimates. More information is available in Budget Statement 1 and in Budget Paper 2.

The 2015-16 MYEFO made provisions for the Trans-Pacific Partnership Agreement and the Environmental Goods Agreement, which were still subject to finalisation at the time. The provision for the Trans-Pacific Partnership Agreement has been removed as it is included as a measure in the 2016-17 Budget. As is standard practice, the Environmental Goods Agreement, which removes tariffs on environmental goods such as solar panels and wind turbines, will be published as a measure once the agreement has been formally signed.

VARIATIONS IN RECEIPTS ESTIMATES

Table 3 reconciles the 2016-17 Budget estimates of total receipts, which include non-tax receipts, with the 2015-16 Budget and the 2015-16 MYEFO estimates. These differences reflect the impact of parameter and other variations and the impact of policy decisions.

Table 3: Reconciliation of Australian Government general government receipts estimates from the 2015-16 Budget^(a)

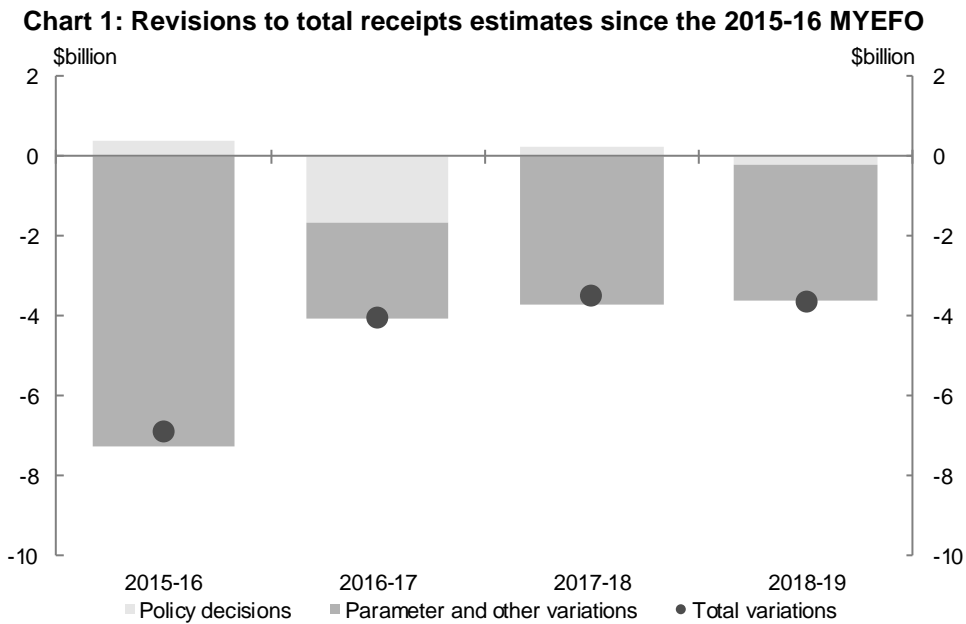
| | Estimates | | | Projections | Total |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|------------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | |
| Receipts at 2015-16 Budget | 397,980 | 422,461 | 453,595 | 488,233 | 1,762,269 |
| Changes from 2015-16 Budget to 2015-16 MYEFO | | | | | |
| Effect of policy decisions | -1,345 | -917 | -907 | -668 | -3,837 |
| Effect of parameter and other variations | -1,744 | -6,216 | -11,805 | -14,034 | -33,800 |
| Total variations | -3,089 | -7,134 | -12,712 | -14,702 | -37,637 |
| Receipts at 2015-16 MYEFO | 394,891 | 415,327 | 440,883 | 473,531 | 1,724,632 |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | |
| Effect of policy decisions | 417 | -1,670 | 225 | -209 | -1,238 |
| Effect of parameter and other variations | -7,280 | -2,373 | -3,723 | -3,401 | -16,777 |
| Total variations | -6,863 | -4,043 | -3,497 | -3,611 | -18,015 |
| Receipts at 2016-17 Budget | 388,027 | 411,284 | 437,385 | 469,921 | 1,706,617 |

(a) Includes expected Future Fund earnings.

Statement 4: Revenue

Since the 2015-16 MYEFO, total receipts have been revised down by around \$18.0 billion in the four years to 2018-19, reflecting a downward revision of \$16.8 billion from parameter and other variations, and a decrease of \$1.2 billion from policy decisions. Excluding GST, total receipts have been revised down \$4.0 billion in 2016-17 and \$19.1 billion over the four years to 2018-19.

Chart 1 shows the revisions to estimates for total receipts since the 2015-16 MYEFO over the four years to 2018-19. The revisions are broken down by revisions owing to policy decisions and revisions owing to parameter and other variations.



Source: Treasury.

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

Table 4: Key economic parameters^(a)

| | Estimates | | | Projections | |
|---------------------------------------------|-----------|---------|---------|-------------|---------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Revenue parameters at 2016-17 Budget | | | | | |
| Nominal gross domestic product | 2 1/2 | 4 1/4 | 5 | 5 | 5 |
| <i>Change since 2015-16 MYEFO</i> | - 1/4 | - 1/4 | 0 | - 1/4 | na |
| Compensation of employees(b) | 3 | 4 | 4 1/2 | 4 1/2 | 5 |
| <i>Change since 2015-16 MYEFO</i> | - 3/4 | 0 | 1/4 | 0 | na |
| Corporate gross operating surplus(c) | 1 1/4 | 5 1/4 | 5 3/4 | 5 1/4 | 4 3/4 |
| <i>Change since 2015-16 MYEFO</i> | 1 1/4 | 0 | -1 | -1 | na |
| Unincorporated business income | 4 1/2 | 4 | 5 1/2 | 5 1/2 | 4 3/4 |
| <i>Change since 2015-16 MYEFO</i> | 1/2 | -1 1/4 | -1 1/4 | -1 1/4 | na |
| Property income(d) | 1 3/4 | 5 | 6 1/4 | 5 | 5 1/4 |
| <i>Change since 2015-16 MYEFO</i> | 1 3/4 | -1 1/4 | 1 3/4 | 1/4 | na |
| Consumption subject to GST | 4 | 4 3/4 | 5 1/4 | 5 1/2 | 5 1/4 |
| <i>Change since 2015-16 MYEFO</i> | - 1/4 | - 3/4 | 1/2 | 1/2 | na |

(a) Current prices, per cent change on previous years. Changes since the 2015-16 MYEFO are percentage points and may not reconcile due to rounding.

(b) Compensation of employees measures total remuneration earned by employees.

(c) Corporate GOS is an Australian System of National Accounts measure of company profits, gross of depreciation.

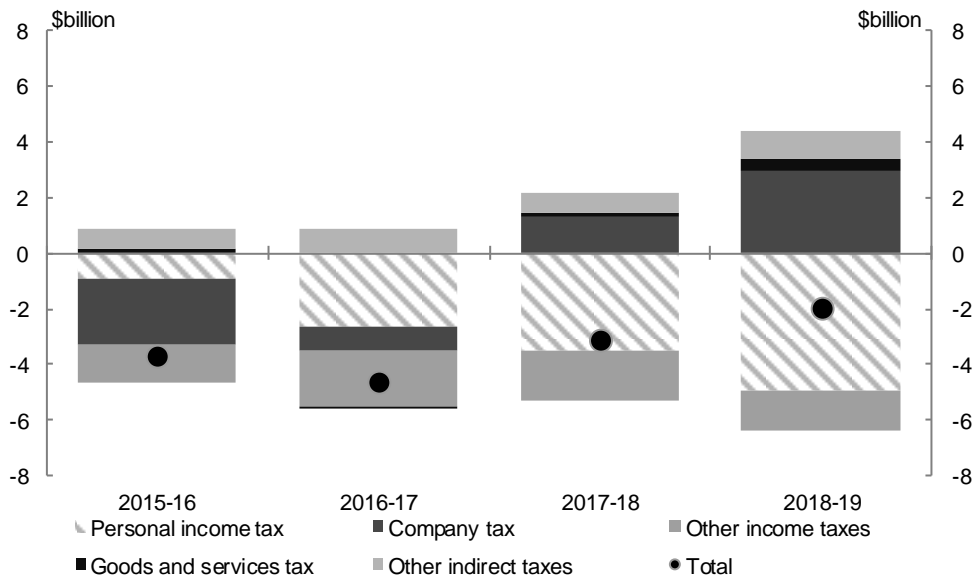
(d) Property income measures income derived from rent, dividends and interest.

na not applicable.

Since the 2015-16 MYEFO, parameter and other variations have reduced forecast tax receipts by \$3.7 billion in 2015-16, \$4.6 billion in 2016-17 and \$13.5 billion over the four years to 2018-19 (Chart 2). Excluding GST, parameter and other variations have reduced forecast tax receipts by \$3.9 billion in 2015-16, by around \$4.6 billion in 2016-17 and by around \$14.2 billion over the four years to 2018-19.

Statement 4: Revenue

Chart 2: Parameter and other variations to tax receipts since the 2015-16 MYEFO



Source: Treasury.

In aggregate, tax receipts are expected to grow by 3.1 per cent in 2015-16 and 5.0 per cent in 2016-17. The primary contributors to growth are income taxes on individuals and companies, and indirect taxes, reflecting growth in wages, profits and consumption respectively. At a disaggregated level, different heads of revenue are expected to grow at different rates, with some expected to experience negative growth.

Individuals and other withholding taxation receipts

Gross income tax withholding (ITW) receipts are forecast to grow by 4.7 per cent in 2015-16 and 4.4 per cent in 2016-17. Since the 2015-16 MYEFO, ITW receipts are expected to be around \$1.0 billion lower in 2015-16 and \$7.9 billion lower over the four years to 2018-19. This fall in expected tax is primarily driven by revisions to total wages forecasts and targeted personal income tax cuts.

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

Gross other individuals taxes are expected to grow by 9.0 per cent in 2015-16 and 5.7 per cent in 2016-17. Since the 2015-16 MYEFO, receipts are expected to be around \$400 million higher in 2015-16 and \$3.2 billion lower over the four years to 2018-19, reflecting lower expected growth in unincorporated business income over the forward estimates. In addition, the Budget includes new policy to increase the tax discount for unincorporated small businesses, which lowers estimated tax receipts. These

reductions in receipts have been partly offset by higher expected realisation of capital gains, based on the latest tax return data.

Income tax refunds for individuals, which have a negative effect on receipts, are expected to grow by 2.8 per cent in 2015-16 and 5.6 per cent in 2016-17. Relative to the 2015-16 MYEFO, forecast refunds are \$300 million higher (a decrease in overall tax receipts) in 2015-16 and \$3.0 billion higher over the four years to 2018-19.

Fringe benefits tax

Receipts from fringe benefits tax (FBT) are forecast to grow by 3.5 per cent in 2015-16 and 3.8 per cent in 2016-17. Since the 2015-16 MYEFO, receipts are expected to be around \$30 million lower in 2015-16 and \$130 million lower over the four years to 2018-19, consistent with lower expected total wages.

Company tax

Company tax receipts are forecast to fall by 2.2 per cent in 2015-16, owing to weaker current year collections, and grow by 6.6 per cent in 2016-17, consistent with increasing corporate profits. Since the 2015-16 MYEFO, receipts are expected to be around \$2.4 billion lower in 2015-16 and \$2.1 billion lower over the four years to 2018-19. This fall in expected tax is primarily due to weaker-than-expected collections in the current year and lowering of the company tax rate for eligible businesses from 2016-17.

Excluding new policy decisions, company tax has been revised down by \$2.4 billion in 2015-16 and up by \$1.0 billion over the four years to 2018-19. Collections for 2015-16 are weaker than expected at MYEFO, primarily owing to lower receipts from the mining sector. This has flow-on impacts to company tax in 2016-17. Higher-than-expected mining profits are not expected to be reflected in increased company tax collections until 2017-18 and 2018-19.

Significant new policies affecting company tax include a reduction in the company tax rate, commencing with a reduction for small businesses, and increasing the small business entity turnover threshold. A more competitive company tax rate will encourage investment, raise productivity, and over time raise real wages and living standards.

In addition, the tax integrity package encompasses measures to reinforce the corporate tax base by preventing multinational corporations from avoiding tax by profit shifting and fighting tax avoidance.

Superannuation fund taxes

Tax receipts from superannuation funds are expected to grow by 12.9 per cent in 2015-16 and 11.3 per cent in 2016-17. Since the 2015-16 MYEFO, receipts are expected to be around \$1.1 billion lower in 2015-16 and \$4.2 billion lower over the four years to

Statement 4: Revenue

2018-19. Lower receipts are due to higher expected foreign exchange losses, lower expected net contributions owing to weaker wages and lower forecast capital gains tax. These parameter changes more than offset additional expected receipts from superannuation policies announced in this Budget, which better target concessions. These policy changes also have impacts on individuals income taxes.

The Budget includes the introduction of a Low Income Superannuation Tax Offset (LISTO). The LISTO reduces tax on superannuation contributions for low income earners, effectively avoiding the situation in which low income earners would pay more tax on savings placed into superannuation than on income earned outside of superannuation.

Petroleum resource rent tax

Petroleum resource rent tax (PRRT) receipts are forecast to fall by over 50 per cent in 2015-16 and remain at a similar level in 2016-17. Since the 2015-16 MYEFO, receipts are expected to be around \$200 million lower in 2015-16 and \$850 million lower over the four years to 2018-19, consistent with lower Australian dollar oil prices.

Goods and services tax

Receipts from GST are forecast to grow by 6.0 per cent in 2015-16 and 5.4 per cent in 2016-17. Since the 2015-16 MYEFO, receipts are expected to be around \$190 million higher in 2015-16 and \$1.1 billion higher over the four years to 2018-19. The 2015-16 estimate has been revised upward largely owing to stronger-than-expected collections. GST receipts are also expected to be higher as a result of the decision to apply GST to low-value goods imported by consumers, so that they will face the same tax regime as goods that are sourced domestically.

Excise and customs duty

Excise and customs duty receipts are forecast to grow by 0.6 per cent in 2015-16 and by 2.8 per cent in 2016-17. These low growth rates are primarily attributable to tariff cuts as part of free trade agreements and weak growth in excise on other fuel products.

Since the 2015-16 MYEFO, receipts are expected to be around \$550 million higher in 2015-16 and \$4.8 billion higher over the four years to 2018-19, reflecting higher current year tax collections and the 2016-17 Budget measure to increase the tobacco excise rate, which is aimed at improving health outcomes. The 2016-17 Budget includes the measure for the Trans-Pacific Partnership Agreement.

Other sales taxes

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

WET receipts are forecast to grow by 8.6 per cent in 2015-16 and 4.7 per cent in 2016-17. Since the 2015-16 MYEFO, forecast WET receipts have been revised up by \$280 million over the four years to 2018-19 as a result of higher current year collections and the wine equalisation tax rebate integrity measure.

LCT receipts are forecast to grow by 11.5 per cent in 2015-16 in line with stronger-than-expected sales of vehicles subject to LCT. Since the 2015-16 MYEFO, forecast LCT receipts have been revised up by \$240 million over the four years to 2018-19.

Non-taxation receipts

Since the 2015-16 MYEFO, non-taxation receipts have been revised down by \$3.1 billion in 2015-16, primarily due to the agreement with the Victorian Government to reinvest the \$1.5 billion provided for the East West Link project to fund other mutually agreed projects, and a delay in the expected receipt of proceeds from the reissue of spectrum licences previously expected in 2015-16. Non-taxation receipts have been revised up by \$2.3 billion in 2016-17, largely reflecting higher expected dividend receipts from the Reserve Bank of Australia and the delayed spectrum licence receipts.

Non-taxation receipts (including Future Fund earnings) are expected to fall by 5.2 per cent in 2015-16, largely reflecting lower expected receipts from the sale of spectrum licences. Non-taxation receipts are expected to grow by 21.2 per cent in 2016-17, primarily due to increased expected receipts from the sale of spectrum licences and increased State and Territory Government contributions to the National Disability Insurance Scheme (NDIS) in line with the expected increase in participants as the NDIS transitions to full Scheme.

The changes in the individual heads of revenue relative to the 2015-16 MYEFO are shown in Table 5 and Table 6 for 2015-16 and 2016-17 respectively.

Table 7 shows the Australian Government general government cash receipts from 2014-15 to 2019-20 by head of revenue.

Statement 4: Revenue

Table 5: Reconciliation of 2015-16 general government (cash) receipts

| | Estimates | | Change on MYEFO | |
|---------------------------------------------------|----------------|----------------|-----------------|--------------|
| | MYEFO \$m | Budget \$m | \$m | % |
| Individuals and other withholding taxes | | | | |
| Gross income tax withholding | 175,200 | 174,200 | -1,000 | -0.6 |
| Gross other individuals | 41,600 | 42,000 | 400 | 1.0 |
| <i>less: Refunds</i> | 27,500 | 27,800 | 300 | 1.1 |
| Total individuals and other withholding tax | 189,300 | 188,400 | -900 | -0.5 |
| Fringe benefits tax | 4,530 | 4,500 | -30 | -0.7 |
| Company tax | 67,100 | 64,700 | -2,400 | -3.6 |
| Superannuation fund taxes | 7,730 | 6,630 | -1,100 | -14.2 |
| Petroleum resource rent tax | 1,000 | 800 | -200 | -20.0 |
| Income taxation receipts | 269,660 | 265,030 | -4,630 | -1.7 |
| Goods and services tax | 57,614 | 57,808 | 194 | 0.3 |
| Wine equalisation tax | 840 | 860 | 20 | 2.4 |
| Luxury car tax | 520 | 580 | 60 | 11.5 |
| Excise and customs duty | | | | |
| Petrol | 6,200 | 6,200 | 0 | 0.0 |
| Diesel | 9,320 | 9,460 | 140 | 1.5 |
| Other fuel products | 2,420 | 2,240 | -180 | -7.4 |
| Tobacco | 9,150 | 9,410 | 260 | 2.8 |
| Beer | 2,330 | 2,360 | 30 | 1.3 |
| Spirits | 1,970 | 2,040 | 70 | 3.6 |
| Other alcoholic beverages(a) | 910 | 910 | 0 | 0.0 |
| Other customs duty | | | | |
| Textiles, clothing and footwear | 440 | 470 | 30 | 6.8 |
| Passenger motor vehicles | 550 | 570 | 20 | 3.6 |
| Other imports | 1,370 | 1,550 | 180 | 13.1 |
| <i>less: Refunds and drawbacks</i> | 420 | 420 | 0 | 0.0 |
| Total excise and customs duty | 34,240 | 34,790 | 550 | 1.6 |
| Agricultural levies | 475 | 514 | 39 | 8.2 |
| Other taxes(b) | 4,881 | 4,925 | 44 | 0.9 |
| Indirect taxation receipts | 98,570 | 99,477 | 907 | 0.9 |
| Taxation receipts | 368,230 | 364,507 | -3,723 | -1.0 |
| Sales of goods and services(b) | 7,870 | 7,686 | -184 | -2.3 |
| Interest received | 3,874 | 2,842 | -1,032 | -26.6 |
| Dividends | 4,516 | 5,332 | 816 | 18.1 |
| Other non-taxation receipts | 10,401 | 7,660 | -2,741 | -26.4 |
| Non-taxation receipts | 26,661 | 23,520 | -3,141 | -11.8 |
| Total receipts | 394,891 | 388,027 | -6,863 | -1.7 |
| <i>Memorandum:</i> | | | | |
| <i>Total excise</i> | 21,330 | 21,360 | 30 | 0.1 |
| <i>Total customs duty</i> | 12,910 | 13,430 | 520 | 4.0 |
| <i>Capital gains tax(c)</i> | 10,600 | 10,600 | 0 | 0.0 |
| <i>Medicare and DisabilityCare Australia levy</i> | 15,014 | 14,970 | -44 | -0.3 |

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

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The back-casting relating to the reclassification is reflected in Statement 10 — Historical Series from 2003-04.

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

Table 6: Reconciliation of 2016-17 general government (cash) receipts

| | Estimates | | Change on MYEFO | |
|---------------------------------------------|----------------|----------------|-----------------|-------------|
| | MYEFO \$m | Budget \$m | \$m | % |
| Individuals and other withholding taxes | | | | |
| Gross income tax withholding | 184,500 | 181,900 | -2,600 | -1.4 |
| Gross other individuals | 44,900 | 44,400 | -500 | -1.1 |
| less: Refunds | 28,900 | 29,350 | 450 | 1.6 |
| Total individuals and other withholding tax | 200,500 | 196,950 | -3,550 | -1.8 |
| Fringe benefits tax | 4,700 | 4,670 | -30 | -0.6 |
| Company tax | 70,700 | 69,000 | -1,700 | -2.4 |
| Superannuation fund taxes | 9,080 | 7,380 | -1,700 | -18.7 |
| Petroleum resource rent tax | 1,050 | 800 | -250 | -23.8 |
| Income taxation receipts | 286,030 | 278,800 | -7,230 | -2.5 |
| Goods and services tax | 60,991 | 60,928 | -64 | -0.1 |
| Wine equalisation tax | 860 | 900 | 40 | 4.7 |
| Luxury car tax | 510 | 570 | 60 | 11.8 |
| Excise and customs duty | | | | |
| Petrol | 6,400 | 6,450 | 50 | 0.8 |
| Diesel | 9,630 | 9,860 | 230 | 2.4 |
| Other fuel products | 2,430 | 2,230 | -200 | -8.2 |
| Tobacco | 9,700 | 10,160 | 460 | 4.7 |
| Beer | 2,330 | 2,390 | 60 | 2.6 |
| Spirits | 2,010 | 2,100 | 90 | 4.5 |
| Other alcoholic beverages(a) | 920 | 940 | 20 | 2.2 |
| Other customs duty | | | | |
| Textiles, clothing and footwear | 300 | 310 | 10 | 3.3 |
| Passenger motor vehicles | 590 | 590 | 0 | 0.0 |
| Other imports | 1,140 | 1,170 | 30 | 2.6 |
| less: Refunds and drawbacks | 420 | 420 | 0 | 0.0 |
| Total excise and customs duty | 35,030 | 35,780 | 750 | 2.1 |
| Agricultural levies | 485 | 494 | 9 | 1.9 |
| Other taxes(b) | 5,219 | 5,298 | 79 | 1.5 |
| Indirect taxation receipts | 103,095 | 103,969 | 874 | 0.8 |
| Taxation receipts | 389,125 | 382,769 | -6,356 | -1.6 |
| Sales of goods and services(b) | 9,580 | 9,176 | -404 | -4.2 |
| Interest received | 4,007 | 3,262 | -745 | -18.6 |
| Dividends | 4,542 | 5,833 | 1,291 | 28.4 |
| Other non-taxation receipts | 8,074 | 10,244 | 2,170 | 26.9 |
| Non-taxation receipts | 26,202 | 28,515 | 2,312 | 8.8 |
| Total receipts | 415,327 | 411,284 | -4,043 | -1.0 |
| <i>Memorandum:</i> | | | | |
| Total excise | 21,530 | 21,770 | 240 | 1.1 |
| Total customs duty | 13,500 | 14,010 | 510 | 3.8 |
| Capital gains tax(c) | 12,300 | 12,300 | 0 | 0.0 |
| Medicare and DisabilityCare Australia levy | 15,592 | 15,440 | -152 | -1.0 |

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

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The back-casting relating to the reclassification is reflected in Statement 10 — Historical Series from 2003-04.

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

Statement 4: Revenue

Table 7: Australian Government general government (cash) receipts

| | Actual | | Estimates | | Projections | |
|---------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Individuals and other withholding taxes | | | | | | |
| Gross income tax withholding | 166,352 | 174,200 | 181,900 | 193,300 | 205,400 | 218,200 |
| Gross other individuals | 38,541 | 42,000 | 44,400 | 48,300 | 52,700 | 57,200 |
| less: Refunds | 27,033 | 27,800 | 29,350 | 31,250 | 34,350 | 35,700 |
| Total individuals and other withholding tax | 177,860 | 188,400 | 196,950 | 210,350 | 223,750 | 239,700 |
| Fringe benefits tax | 4,347 | 4,500 | 4,670 | 4,560 | 4,750 | 4,980 |
| Company tax | 66,174 | 64,700 | 69,000 | 76,700 | 84,600 | 90,700 |
| Superannuation fund taxes | 5,873 | 6,630 | 7,380 | 8,960 | 9,960 | 10,860 |
| Petroleum resource rent tax(a) | 1,870 | 800 | 800 | 800 | 800 | 800 |
| Income taxation receipts | 256,125 | 265,030 | 278,800 | 301,370 | 323,860 | 347,040 |
| Goods and services tax | 54,542 | 57,808 | 60,928 | 64,220 | 67,640 | 70,683 |
| Wine equalisation tax | 792 | 860 | 900 | 990 | 1,040 | 1,200 |
| Luxury car tax | 520 | 580 | 570 | 570 | 600 | 630 |
| Excise and customs duty | | | | | | |
| Petrol | 6,035 | 6,200 | 6,450 | 6,700 | 7,050 | 7,550 |
| Diesel | 8,908 | 9,460 | 9,860 | 10,260 | 10,860 | 11,620 |
| Other fuel products | 2,885 | 2,240 | 2,230 | 2,270 | 2,350 | 2,460 |
| Tobacco | 8,848 | 9,410 | 10,160 | 10,990 | 12,310 | 13,490 |
| Beer | 2,310 | 2,360 | 2,390 | 2,450 | 2,490 | 2,580 |
| Spirits | 1,996 | 2,040 | 2,100 | 2,130 | 2,200 | 2,280 |
| Other alcoholic beverages(b) | 899 | 910 | 940 | 960 | 990 | 1,040 |
| Other customs duty | | | | | | |
| Textiles, clothing and footwear | 645 | 470 | 310 | 260 | 280 | 310 |
| Passenger motor vehicles | 732 | 570 | 590 | 630 | 690 | 760 |
| Other imports | 1,664 | 1,550 | 1,170 | 890 | 940 | 1,010 |
| less: Refunds and drawbacks | 356 | 420 | 420 | 420 | 420 | 420 |
| Total excise and customs duty | 34,568 | 34,790 | 35,780 | 37,120 | 39,740 | 42,680 |
| Agricultural levies | 515 | 514 | 494 | 495 | 501 | 505 |
| Other taxes(c)(d) | 6,432 | 4,925 | 5,298 | 5,400 | 5,439 | 5,539 |
| Indirect taxation receipts | 97,369 | 99,477 | 103,969 | 108,795 | 114,961 | 121,238 |
| Taxation receipts | 353,494 | 364,507 | 382,769 | 410,165 | 438,821 | 468,278 |
| Sales of goods and services(d) | 7,103 | 7,686 | 9,176 | 11,954 | 15,499 | 16,709 |
| Interest received | 3,056 | 2,842 | 3,262 | 3,470 | 3,829 | 4,248 |
| Dividends | 4,745 | 5,332 | 5,833 | 3,462 | 3,886 | 4,304 |
| Other non-taxation receipts | 9,904 | 7,660 | 10,244 | 8,334 | 7,886 | 7,203 |
| Non-taxation receipts | 24,807 | 23,520 | 28,515 | 27,221 | 31,100 | 32,464 |
| Total receipts | 378,301 | 388,027 | 411,284 | 437,385 | 469,921 | 500,742 |
| <i>Memorandum:</i> | | | | | | |
| Total excise | 23,663 | 21,360 | 21,770 | 22,530 | 23,630 | 25,140 |
| Total customs duty | 10,905 | 13,430 | 14,010 | 14,590 | 16,110 | 17,540 |
| Capital gains tax(e) | 9,100 | 10,600 | 12,300 | 13,900 | 15,900 | 17,500 |
| Medicare and DisabilityCare | 14,480 | 14,970 | 15,440 | 16,100 | 16,870 | 17,690 |
| Australia levy | | | | | | |

(a) This includes \$60 million of MRRT receipts in 2014-15. MRRT applied until 30 September 2014.

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

(c) This includes \$1.6 billion of carbon price receipts in 2014-15.

(d) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation receipts to taxation receipts.

(e) Capital gains tax is part of gross other individuals, company tax and superannuation funds taxes. The 2014-15 reported figure is an estimate.

VARIATIONS IN REVENUE ESTIMATES

The revenue estimates are the accrual accounting equivalent of the cash based receipts estimates. Changes in revenue are generally driven by the same factors as receipts. Revenue amounts are usually higher than the cash equivalents because the amounts are generally recognised when they are owed rather than when they are paid. The differences between the accrual and cash amounts therefore generally reflect timing differences. Table 8 provides a reconciliation of the Budget's revenue estimates with those at the 2015-16 MYEFO.

Table 8: Reconciliation of total Australian Government general government revenue estimates from the 2015-16 MYEFO

| | Estimates | | | Projections | Total |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|------------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | |
| Revenue at 2015-16 MYEFO | 400,953 | 423,200 | 452,581 | 487,094 | 1,763,828 |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | |
| Effect of policy decisions(a) | 419 | -1,251 | 1,038 | 160 | 367 |
| Effect of parameter and other variations | -4,977 | -5,088 | -4,094 | -2,884 | -17,044 |
| Total variations | -4,558 | -6,339 | -3,056 | -2,724 | -16,677 |
| Revenue at 2016-17 Budget | 396,396 | 416,862 | 449,524 | 484,370 | 1,747,151 |

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

Since the 2015-16 MYEFO, total revenue has been revised down by around \$6.3 billion in 2016-17 and \$16.7 billion over the four years to 2018-19. The factors affecting revisions to tax receipts are also at play with regards to revenue. Key drivers of the change in revenue include revisions to total wages and profits, weaker-than-expected collections and the impact of new policy.

The changes to individual heads of revenue accrual estimates since the 2015-16 MYEFO are shown in Tables 9 and 10. For the five year accrual table, the accrual equivalent of Table 7, see Budget Statement 9, Note 3.

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

Statement 4: Revenue

Table 9: Reconciliation of 2015-16 general government (accrual) revenue

| | Estimates | | Change on MYEFO | |
|---------------------------------------------|----------------|----------------|-----------------|-------------|
| | MYEFO \$m | Budget \$m | \$m | % |
| Individuals and other withholding taxes | | | | |
| Gross income tax withholding | 176,550 | 175,510 | -1,040 | -0.6 |
| Gross other individuals | 44,310 | 44,850 | 540 | 1.2 |
| less: Refunds | 27,500 | 27,800 | 300 | 1.1 |
| Total individuals and other withholding tax | 193,360 | 192,560 | -800 | -0.4 |
| Fringe benefits tax | 4,610 | 4,590 | -20 | -0.4 |
| Company tax | 67,996 | 65,000 | -2,996 | -4.4 |
| Superannuation fund taxes | 7,780 | 6,710 | -1,070 | -13.8 |
| Petroleum resource rent tax | 960 | 840 | -120 | -12.5 |
| Income taxation revenue | 274,706 | 269,700 | -5,006 | -1.8 |
| Goods and services tax | 59,790 | 60,040 | 250 | 0.4 |
| Wine equalisation tax | 850 | 880 | 30 | 3.5 |
| Luxury car tax | 520 | 590 | 70 | 13.5 |
| Excise and customs duty | | | | |
| Petrol | 6,220 | 6,220 | 0 | 0.0 |
| Diesel | 9,350 | 9,490 | 140 | 1.5 |
| Other fuel products | 2,423 | 2,243 | -180 | -7.4 |
| Tobacco | 9,150 | 9,410 | 260 | 2.8 |
| Beer | 2,340 | 2,370 | 30 | 1.3 |
| Spirits | 1,970 | 2,040 | 70 | 3.6 |
| Other alcoholic beverages(a) | 910 | 910 | 0 | 0.0 |
| Other customs duty | | | | |
| Textiles, clothing and footwear | 440 | 470 | 30 | 6.8 |
| Passenger motor vehicles | 550 | 570 | 20 | 3.6 |
| Other imports | 1,370 | 1,550 | 180 | 13.1 |
| less: Refunds and drawbacks | 420 | 420 | 0 | 0.0 |
| Total excise and customs duty | 34,303 | 34,853 | 550 | 1.6 |
| Agricultural levies | 475 | 514 | 39 | 8.2 |
| Other taxes(b) | 5,279 | 5,346 | 67 | 1.3 |
| Indirect taxation revenue | 101,217 | 102,223 | 1,006 | 1.0 |
| Taxation revenue | 375,923 | 371,923 | -4,000 | -1.1 |
| Sales of goods and services(b) | 7,956 | 7,697 | -260 | -3.3 |
| Interest | 4,519 | 3,506 | -1,013 | -22.4 |
| Dividends | 3,841 | 5,564 | 1,723 | 44.9 |
| Other non-taxation revenue | 8,714 | 7,706 | -1,008 | -11.6 |
| Non-taxation revenue | 25,030 | 24,472 | -558 | -2.2 |
| Total revenue | 400,953 | 396,396 | -4,558 | -1.1 |
| <i>Memorandum:</i> | | | | |
| Total excise | 21,393 | 21,423 | 30 | 0.1 |
| Total customs duty | 12,910 | 13,430 | 520 | 4.0 |
| Capital gains tax(c) | 10,600 | 10,600 | 0 | 0.0 |
| Medicare and DisabilityCare Australia levy | 15,014 | 14,970 | -44 | -0.3 |

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

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Statement 10 — Historical Series from 2003-04.

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

Table 10: Reconciliation of 2016-17 general government (accrual) revenue

| | Estimates | | Change on MYEFO | |
|---------------------------------------------|----------------|----------------|-----------------|-------------|
| | MYEFO \$m | Budget \$m | \$m | % |
| Individuals and other withholding taxes | | | | |
| Gross income tax withholding | 185,950 | 183,380 | -2,570 | -1.4 |
| Gross other individuals | 47,740 | 47,300 | -440 | -0.9 |
| less: Refunds | 28,900 | 29,350 | 450 | 1.6 |
| Total individuals and other withholding tax | 204,790 | 201,330 | -3,460 | -1.7 |
| Fringe benefits tax | 4,780 | 4,760 | -20 | -0.4 |
| Company tax | 71,600 | 70,100 | -1,500 | -2.1 |
| Superannuation fund taxes | 9,150 | 7,510 | -1,640 | -17.9 |
| Petroleum resource rent tax | 1,070 | 850 | -220 | -20.6 |
| Income taxation revenue | 291,390 | 284,550 | -6,840 | -2.3 |
| Goods and services tax | 63,700 | 63,340 | -360 | -0.6 |
| Wine equalisation tax | 860 | 910 | 50 | 5.8 |
| Luxury car tax | 510 | 570 | 60 | 11.8 |
| Excise and customs duty | | | | |
| Petrol | 6,400 | 6,450 | 50 | 0.8 |
| Diesel | 9,640 | 9,870 | 230 | 2.4 |
| Other fuel products | 2,440 | 2,235 | -205 | -8.4 |
| Tobacco | 9,700 | 10,160 | 460 | 4.7 |
| Beer | 2,330 | 2,390 | 60 | 2.6 |
| Spirits | 2,010 | 2,100 | 90 | 4.5 |
| Other alcoholic beverages(a) | 920 | 940 | 20 | 2.2 |
| Other customs duty | | | | |
| Textiles, clothing and footwear | 300 | 310 | 10 | 3.3 |
| Passenger motor vehicles | 590 | 590 | 0 | 0.0 |
| Other imports | 1,140 | 1,170 | 30 | 2.6 |
| less: Refunds and drawbacks | 420 | 420 | 0 | 0.0 |
| Total excise and customs duty | 35,050 | 35,795 | 745 | 2.1 |
| Agricultural levies | 485 | 494 | 9 | 1.9 |
| Other taxes(b) | 5,547 | 5,625 | 78 | 1.4 |
| Indirect taxation revenue | 106,151 | 106,733 | 582 | 0.5 |
| Taxation revenue | 397,541 | 391,283 | -6,258 | -1.6 |
| Sales of goods and services(b) | 9,641 | 9,249 | -391 | -4.1 |
| Interest | 4,938 | 4,280 | -658 | -13.3 |
| Dividends | 3,050 | 3,242 | 192 | 6.3 |
| Other non-taxation revenue | 8,030 | 8,807 | 777 | 9.7 |
| Non-taxation revenue | 25,659 | 25,579 | -80 | -0.3 |
| Total revenue | 423,200 | 416,862 | -6,339 | -1.5 |
| <i>Memorandum:</i> | | | | |
| Total excise | 21,550 | 21,785 | 235 | 1.1 |
| Total customs duty | 13,500 | 14,010 | 510 | 3.8 |
| Capital gains tax(c) | 12,300 | 12,300 | 0 | 0.0 |
| Medicare and DisabilityCare Australia levy | 15,592 | 15,440 | -152 | -1.0 |

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

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Statement 10 — Historical Series from 2003-04.

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

APPENDIX A: TAX EXPENDITURES

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

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

A tax expenditure arises where the actual tax treatment of an activity or class of taxpayer differs from the benchmark tax treatment. The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

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

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

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

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

The CBHA also requires the publication of an annual Tax Expenditures Statement (TES). The 2015 TES was published in January 2016 and provides a detailed description of Australian Government tax expenditures and, where possible, the estimated value or order of magnitude of each tax expenditure.

The information in Table A1 is derived from the 2015 TES and does not include the impact of decisions in this Budget on tax expenditures. Further information on tax expenditures is available in the 2015 TES.

Table A1: Estimates of large measured tax expenditures

| Tax expenditure | | Estimate \$m | | | |
|----------------------------------------|----------------------------------------------------------------------------------------------|--------------|---------|---------|---------|
| | | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Large positive tax expenditures | | | | | |
| E6 | Capital gains tax main residence exemption — discount component | 30,000 | 30,500 | 30,500 | 30,500 |
| E5 | Capital gains tax main residence exemption | 24,500 | 25,000 | 25,000 | 25,000 |
| C3 | Concessional taxation of employer superannuation contributions | 16,200 | 16,850 | 18,750 | 19,900 |
| C6 | Concessional taxation of superannuation entity earnings | 14,100 | 15,350 | 18,050 | 20,850 |
| H28 | GST - Food | 7,000 | 7,300 | 7,600 | 8,000 |
| E11 | Capital gains tax discount for individuals and trusts | 6,840 | 7,600 | 8,570 | 9,090 |
| H16 | GST - Education | 4,550 | 4,950 | 5,350 | 5,800 |
| H19 | GST - Health - medical and health services | 4,000 | 4,250 | 4,550 | 4,900 |
| H2 | GST - Financial supplies - input taxed treatment | 3,450 | 3,650 | 3,850 | 4,050 |
| A35 | Exemption of Family Tax Benefit payments | 2,220 | 2,220 | 2,230 | 2,180 |
| C5 | Concessional taxation of non-superannuation termination benefits | 1,950 | 1,900 | 1,900 | 1,900 |
| A19 | Medicare levy exemption for residents with taxable income below the low-income thresholds | 1,960 | 2,040 | 2,130 | 2,230 |
| B13 | Exemption from interest withholding tax on certain securities | 1,730 | 1,730 | 1,730 | 1,730 |
| 4-21 A17 | Exemption of the Private Health Insurance Rebate | 1,610 | 1,690 | 1,770 | 1,910 |
| D10 | Exemption for public and not-for-profit hospitals and public ambulance services | 1,550 | 1,650 | 1,750 | 1,850 |
| D14 | Exemption for public benevolent institutions (excluding public and not-for-profit hospitals) | 1,500 | 1,600 | 1,650 | 1,700 |
| A24 | Exemption of Child Care Assistance payments | 1,550 | 2,185 | 2,210 | 2,240 |
| H5 | GST - Child care services | 1,390 | 1,670 | 1,840 | 2,020 |
| A49 | Philanthropy - deduction for gifts to deductible gift recipients | 1,230 | 1,280 | 1,330 | 1,370 |
| F7 | Concessional rate of excise levied on aviation gasoline and aviation turbine fuel | 1,240 | 1,310 | 1,390 | 1,460 |
| H20 | GST - Health - residential care, community care and other care services | 1,180 | 1,260 | 1,350 | 1,450 |
| B73 | Capital works expenditure deduction | 1,035 | 1,070 | 1,105 | 1,145 |
| H6 | GST - Water, sewerage and drainage | 1,040 | 1,140 | 1,240 | 1,360 |
| B78 | Research and development - non-refundable tax offset | 850 | 860 | 850 | 850 |
| Large negative tax expenditures | | | | | |
| F11 | Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco | -2,140 | -2,235 | -2,290 | -2,375 |
| F23 | Customs duty | -1,620 | -1,340 | -1,450 | -1,540 |

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

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

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

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

The main trends are:

- in 2016-17 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the social security and welfare function; and
- net capital investment in 2016-17 largely reflects continued investment in defence capital projects.

CONTENTS

| | |
|-------------------------------------------------------------------------|-------------|
| Overview | 5-5 |
| Estimated expenses by function | 5-7 |
| Program expenses | 5-12 |
| General government sector expenses | 5-13 |
| General public services | 5-13 |
| Defence | 5-16 |
| Public order and safety | 5-17 |
| Education | 5-19 |
| Health | 5-21 |
| Social security and welfare | 5-25 |
| Housing and community amenities | 5-30 |
| Recreation and culture | 5-32 |
| Fuel and energy | 5-34 |
| Agriculture, forestry and fishing | 5-35 |
| Mining, manufacturing and construction | 5-37 |
| Transport and communication | 5-38 |
| Other economic affairs | 5-40 |
| Other purposes | 5-43 |
| General government net capital investment | 5-46 |
| Reconciliation of net capital investment since the 2015-16 Budget | 5-46 |
| Net capital investment estimates by function | 5-47 |
| Appendix A: Expense by function and sub-function | 5-49 |

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 2.5 per cent in real terms in 2016-17, with the growth rate increasing to 2.9 per cent in 2018-19, predominantly reflecting the implementation of the National Disability Insurance Scheme. Total expenses are expected to decline as a percentage of GDP from 26.2 per cent in 2016-17 to 25.7 per cent in 2019-20.

Table 1.1: Estimates of general government sector expenses

| | MYEFO | Revised | Estimate | | Projections | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Total expenses (\$b) | 432.2 | 431.5 | 450.6 | 464.8 | 489.3 | 511.6 |
| Real growth on | | | | | | |
| previous year (%) ^(a) | 1.5 | 1.8 | 2.5 | 0.9 | 2.9 | 2.0 |
| Per cent of GDP | 26.2 | 26.1 | 26.2 | 25.7 | 25.8 | 25.7 |

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

As set out in Statement 3 of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. In cash terms, Government spending is forecast to grow by an average of 1.9 per cent per annum in real terms over the five years to 2019-20, and total payments are expected to decline as a percentage of GDP from 25.8 per cent in 2016-17 to 25.2 per cent over the forward estimates.

Table 1.2: Estimates of general government sector payments

| | MYEFO | Revised | Estimate | | Projections | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Total payments (\$b) | 428.3 | 425.0 | 445.0 | 459.9 | 481.5 | 502.6 |
| Real growth on | | | | | | |
| previous year (%) ^(a) | 2.0 | 1.7 | 2.8 | 1.0 | 2.4 | 1.8 |
| Per cent of GDP | 25.9 | 25.8 | 25.8 | 25.5 | 25.4 | 25.2 |

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

Statement 5: Expenses and Net Capital Investment

Over the forward estimates, expenses are expected to decline to 25.7 per cent of GDP in 2019-20 (see Table 1.1), whereas over the period between 2007-08 and 2013-14, total expenditure rose from 23.8 per cent of GDP in 2007-08, to an estimate of 26.1 per cent of GDP in 2013-14.

Table 2 provides a reconciliation of expense estimates between the 2015-16 Budget, the 2015-16 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2016-17 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

| | Estimates | | | Projections | Total |
|------------------------------------------|----------------|----------------|----------------|----------------|------------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | |
| | \$m | \$m | \$m | \$m | \$m |
| 2015-16 Budget expenses | 434,469 | 452,654 | 471,816 | 499,428 | 1,858,366 |
| Changes from 2015-16 Budget to | | | | | |
| 2015-16 MYEFO | | | | | |
| Effect of policy decisions(a) | 829 | 1,015 | -2,356 | -2,114 | -2,627 |
| Effect of parameter and other variations | -3,064 | -2,462 | -3,567 | -5,944 | -15,037 |
| Total variations | -2,235 | -1,448 | -5,923 | -8,059 | -17,664 |
| 2015-16 MYEFO expenses | 432,234 | 451,206 | 465,892 | 491,370 | 1,840,702 |
| Changes from 2015-16 MYEFO to | | | | | |
| 2016-17 Budget | | | | | |
| Effect of policy decisions(a) | 590 | 1,097 | -721 | 733 | 1,699 |
| Effect of economic parameter variations | | | | | |
| Total economic parameter variations | 6 | -1,901 | -2,276 | -1,936 | -6,106 |
| <i>Unemployment benefits</i> | -171 | -719 | -620 | -408 | -1,918 |
| <i>Prices and wages</i> | -53 | -1,183 | -1,958 | -2,308 | -5,502 |
| <i>Interest and exchange rates</i> | 30 | 62 | 52 | 100 | 244 |
| <i>GST payments to the States</i> | 200 | -60 | 250 | 680 | 1,070 |
| Public debt interest | -304 | -430 | -93 | -374 | -1,201 |
| Programme specific parameter variations | 1,639 | 1,298 | 555 | 1,669 | 5,160 |
| Other variations | -2,696 | -717 | 1,454 | -2,138 | -4,096 |
| Total variations | -764 | -653 | -1,081 | -2,046 | -4,544 |
| 2016-17 Budget expenses | 431,470 | 450,553 | 464,812 | 489,324 | 1,836,158 |

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

The combined impact of policy decisions and variations has decreased expenses by \$4.5 billion over the four years from 2015-16 to 2018-19 compared to the 2015-16 MYEFO. In the same period, the Government has made policy decisions that increase expenses by \$1.7 billion, (although reducing expenses by \$4.8 billion in the five years from 2015-16 to 2019-20). While over the four years from 2015-16 to 2018-19, program specific parameter variations have increased expenses by \$5.2 billion, this has been offset by economic parameter, public debt interest and other variations that have decreased expenses by \$11.4 billion compared to the 2015-16 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2015-16 to 2019-20.

Table 3: Estimates of expenses by function

| | Estimates | | | Projections | |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| General public services | 23,967 | 22,659 | 21,790 | 22,345 | 23,537 |
| Defence | 25,986 | 27,155 | 27,937 | 29,384 | 31,525 |
| Public order and safety | 4,958 | 4,915 | 4,766 | 4,719 | 4,675 |
| Education | 32,515 | 33,669 | 33,815 | 34,494 | 35,804 |
| Health | 69,172 | 71,413 | 73,425 | 76,239 | 79,260 |
| Social security and welfare | 152,838 | 158,612 | 166,518 | 184,260 | 191,828 |
| Housing and community amenities | 4,865 | 5,282 | 5,051 | 4,455 | 4,412 |
| Recreation and culture | 3,512 | 3,401 | 3,337 | 3,249 | 3,301 |
| Fuel and energy | 6,528 | 6,687 | 6,782 | 7,028 | 7,301 |
| Agriculture, forestry and fishing | 2,768 | 3,122 | 3,084 | 2,626 | 2,269 |
| Mining, manufacturing and construction | 3,650 | 3,545 | 3,792 | 3,999 | 4,277 |
| Transport and communication | 8,647 | 11,131 | 10,606 | 6,599 | 5,400 |
| Other economic affairs | 9,626 | 9,832 | 8,620 | 8,600 | 8,531 |
| Other purposes | 82,437 | 89,129 | 95,291 | 101,326 | 109,483 |
| Total expenses | 431,470 | 450,553 | 464,812 | 489,324 | 511,604 |

Major expense trends between 2015-16 and 2016-17, and from 2016-17 over the forward years include movements in the following functions:

- **general public services** – the decrease in expenses between 2015-16 and 2016-17 largely reflects the use of different discount rates applied to superannuation expenses. From 2016-17 to 2019-20, expenses in the general public services function are estimated to remain relatively stable;
- **defence** – the increase in expenses from 2016-17 to 2019-20 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*. Defence expenses are projected to grow by 8.3 per cent in real terms (16.1 per cent in nominal terms);
- **education** – expenses in the education function are estimated to remain relatively stable in real terms from 2015-16 to 2019-20;
- **health** – the increase in expenses from 2016-17 to 2019-20 reflects the growing demand for a range of programs within the medical services and benefits, pharmaceutical benefits and services and assistance to the States for public hospitals sub-functions. Higher demand for health services, and a growing and ageing population, continue to drive increasing health costs;
- **social security and welfare** – the increase in expenses from 2016-17 to 2019-20 largely reflects the impact of the transition to the full National Disability Insurance

Statement 5: Expenses and Net Capital Investment

Scheme to support people with a significant and permanent disability, and an ageing population accessing age, disability and carer payments and residential and home care. This increase is partly offset by decreasing expenses in other social security and welfare programs such as Family Tax Benefit and Paid Parental Leave;

- **housing and community amenities** – the decrease in expenses from 2016-17 to 2019-20 largely reflects the scheduled completion of payments made to the States and Territories under National Partnership Agreements and forecast reductions in the management of Defence Housing Australia properties;
- **transport and communication** – the fluctuating profile of expenses from 2015-16 to 2018-19 largely reflects infrastructure projects within the rail transport and road transport sub-functions, where the funded value of projects varies year on year, and payments correspond to project milestones; and
- **other purposes** – the increase in expenses from 2016-17 to 2019-20 largely reflects growing general revenue assistance payments (largely GST) to be made to the States and Territories, increasing public debt interest costs and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Boxes 1 and 2). Together, these functions account for 58.5 per cent of all government expenses in 2016-17. Further details of spending trends against all functions, including movements in expenses from 2015-16 to 2016-17, are set out under individual function headings.

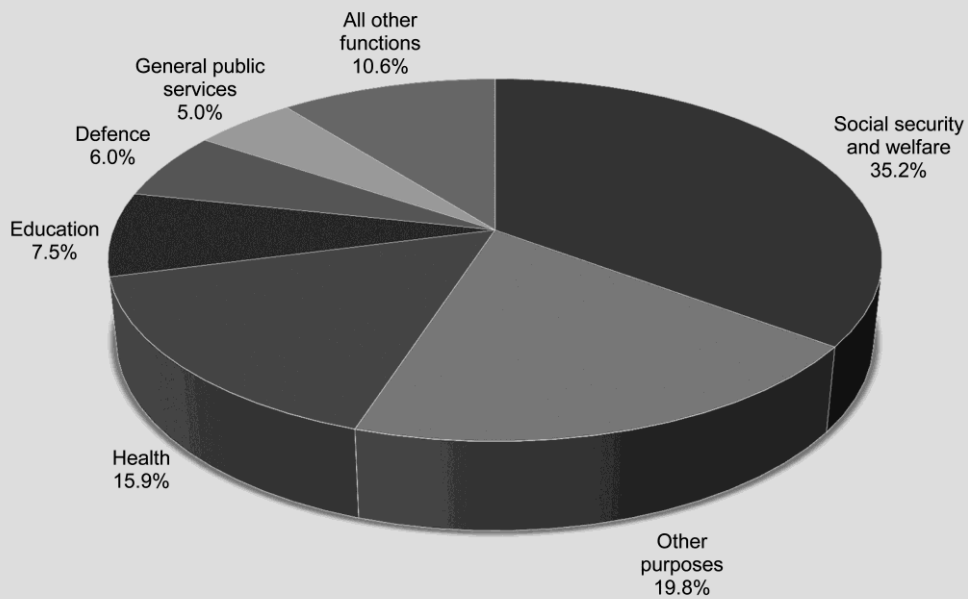
Box 1: Where does government spending go in 2016-17?

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

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) payments. A similar amount is also transferred to the States and Territories in general revenue assistance under the other purposes function.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.

Chart 1: Expenses by function in 2016-17



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

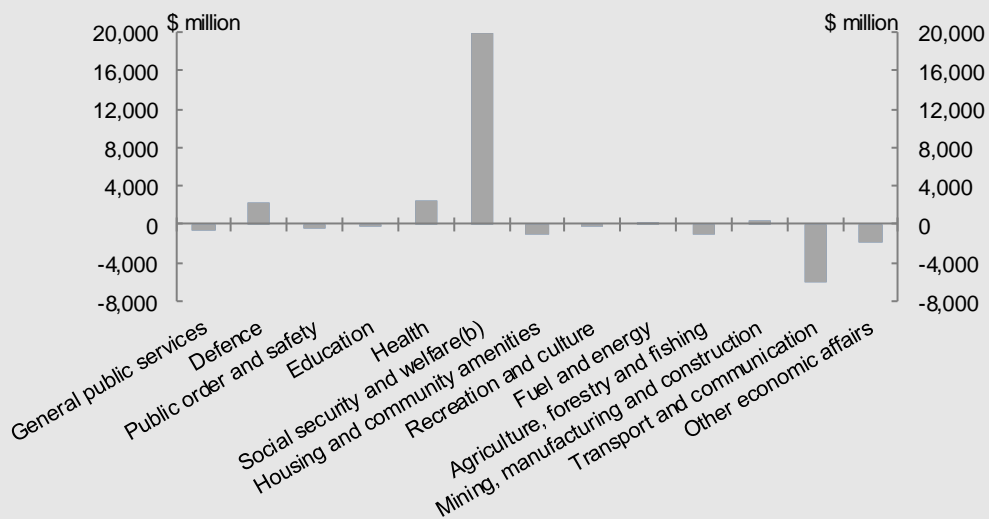
Statement 5: Expenses and Net Capital Investment

Box 2: Trends in future spending

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

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

Chart 2: Total real growth in expenses by function — 2016-17 to 2019-20^(a)

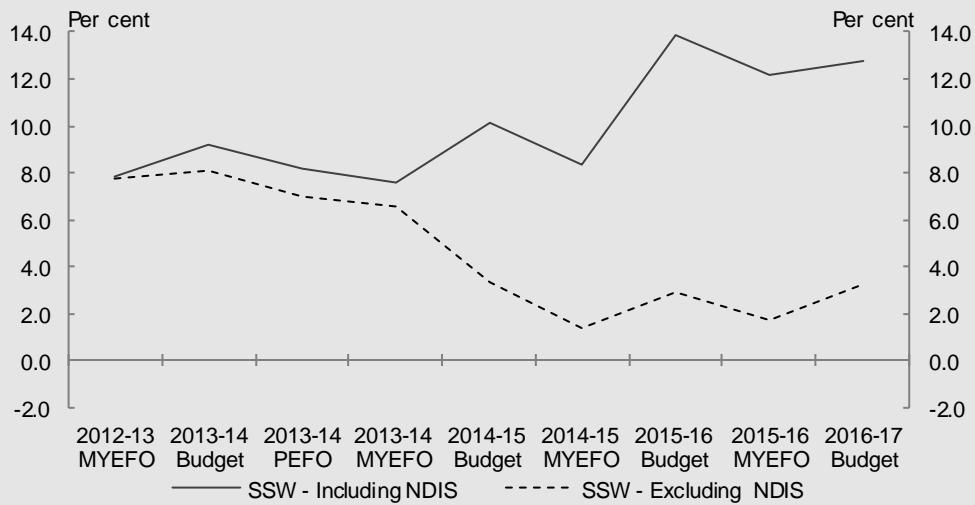


- (a) The other purposes function is not included in this chart as it contains expenses for general revenue assistance to the State and Territory governments (primarily GST), public debt interest, and the conservative bias allowance.
- (b) The most significant driver of growth in the social security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

Box 2.1: Trends in social security and welfare spending

Chart 2.1 shows rates of real expenditure growth in the social security and welfare function over the forward estimates at each budget update with and without the National Disability Insurance Scheme. Expenditure growth in the social security and welfare function reflects the costs associated with the substantial ramp up of the implementation of the National Disability Insurance Scheme over the forward estimates period.

Chart 2.1: Total real growth rates over the forward estimates at each Budget and Economic update from 2012-13 MYEFO to 2016-17 Budget



Statement 5: Expenses and Net Capital Investment

Program expenses

Table 3.1 reports the top 20 expense programs in the 2016-17 financial year. These programs represent approximately two thirds of total expenses in that year. More than half of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2016-17

| Program(a) | Function | Estimates | | | Projections | |
|--------------------------------------------------|-----------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Revenue Assistance to the States and Territories | Other purposes | 58,236 | 61,265 | 64,529 | 67,894 | 70,922 |
| Income support for seniors | SSW | 43,235 | 45,374 | 46,834 | 49,547 | 51,859 |
| Medical benefits(b) | Health | 21,094 | 21,956 | 22,662 | 23,669 | 25,115 |
| Family tax benefit | SSW | 20,895 | 19,341 | 18,481 | 18,466 | 18,685 |
| Assistance to the States for public hospitals | Health | 17,196 | 17,912 | 18,923 | 19,987 | 21,106 |
| Income Support for People with Disability | SSW | 16,597 | 17,056 | 17,498 | 17,983 | 18,633 |
| Residential and flexible care | SSW | 10,695 | 11,319 | 11,919 | 12,600 | 13,469 |
| Pharmaceutical benefits, services and supply | Health | 10,362 | 10,800 | 10,989 | 11,322 | 11,722 |
| Non-government schools National Support | Education | 9,869 | 10,554 | 11,061 | 11,556 | 12,106 |
| Job seeker income support | SSW | 10,896 | 10,458 | 10,305 | 11,441 | 11,828 |
| Income support for carers | SSW | 7,832 | 8,384 | 8,992 | 9,534 | 10,282 |
| Child Care Fee Assistance(c) | | 7,455 | 8,159 | 8,838 | 0 | 0 |
| Child Care Subsidy(c) | SSW | 0 | 0 | 0 | 11,057 | 12,192 |
| Public sector superannuation(d) | Other purposes; General public services | 8,791 | 7,883 | 8,069 | 8,257 | 8,432 |
| Army capabilities | Defence | 7,085 | 7,226 | 7,036 | 7,188 | 7,608 |
| Commonwealth Grants Scheme | Education | 6,988 | 7,066 | 6,868 | 6,627 | 6,842 |
| National Partnership Payments - Road Transport | Transport and Communication | 4,456 | 6,981 | 7,423 | 4,582 | 3,556 |
| Private health insurance | Health | 6,228 | 6,502 | 6,751 | 7,070 | 7,061 |
| Government schools National Support | Education | 5,767 | 6,442 | 6,936 | 7,277 | 7,671 |
| Fuel tax credits scheme | Fuel and energy | 6,117 | 6,236 | 6,466 | 6,724 | 7,070 |
| Navy capabilities | Defence | 5,446 | 5,865 | 5,806 | 6,028 | 6,235 |
| Sub-total | | 285,239 | 296,777 | 306,386 | 318,809 | 332,396 |
| Other programs | | 146,230 | 153,776 | 158,426 | 170,514 | 179,208 |
| Total expenses | | 431,470 | 450,553 | 464,812 | 489,324 | 511,604 |

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

(b) Medical Benefits was formerly the Medicare Services program.

(c) Child Care Fee Assistance includes the Child Care Benefit and Child Care Rebate. From 1 July 2018, the Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

(d) This program is a combination of the public sector superannuation nominal interest and accrual expenses.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to the Parliament, the Governor-General and conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; contributions to international organisations; and the operations of the foreign service. It also includes expenses related to research in areas not otherwise connected with a specific function, and those associated with overall economic and statistical services as well as government superannuation benefits (excluding nominal interest expenses on unfunded liabilities, which are included under the nominal superannuation interest sub-function in the other purposes function).

Table 4: Summary of expenses — general public services

| Sub-function | Estimates | | | Projections | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Legislative and executive affairs | 1,229 | 1,334 | 1,077 | 1,099 | 1,331 |
| Financial and fiscal affairs | 6,895 | 7,536 | 7,502 | 7,595 | 7,802 |
| Foreign affairs and economic aid | 5,470 | 6,090 | 5,522 | 5,823 | 6,602 |
| General research | 2,866 | 2,771 | 2,851 | 2,968 | 3,065 |
| General services | 977 | 963 | 924 | 940 | 943 |
| Government superannuation benefits | 6,530 | 3,965 | 3,913 | 3,921 | 3,794 |
| Total general public services | 23,967 | 22,659 | 21,790 | 22,345 | 23,537 |

Total general public services expenses are estimated to decrease by 7.2 per cent in real terms from 2015-16 to 2016-17, and decrease by 3.1 per cent in real terms over the period 2016-17 to 2019-20.

The uneven profile of expenses under the **legislative and executive affairs** sub-function partly reflects costs that will be incurred by the Australian Electoral Commission in 2016-17 and 2019-20 to support the federal elections.

Expenses in the **financial and fiscal affairs** sub-function are expected to increase from 2015-16 to 2016-17, reflecting an increase in funding for the Australian Bureau of Statistics to conduct the 2016 census, and expenses associated with concessional loans under the Northern Australia Infrastructure Facility. The increase in expenses from 2017-18 to 2019-20 reflects bad and doubtful debts expenses that are expected to increase in line with normal growth in taxation revenue over the forward estimates.

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

Statement 5: Expenses and Net Capital Investment

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

| Component(a) | Estimates | | | Projections | |
|-----------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Foreign aid(b) | 3,351 | 3,874 | 3,448 | 3,725 | 4,420 |
| Diplomacy(c) | 972 | 1,015 | 902 | 898 | 929 |
| Payments to international organisations | 433 | 467 | 491 | 524 | 547 |
| Passport services | 223 | 242 | 238 | 240 | 260 |
| International police assistance | 215 | 205 | 141 | 135 | 143 |
| International agriculture research and development | 115 | 130 | 126 | 126 | 129 |
| Consular services | 94 | 95 | 94 | 94 | 96 |
| Finance and insurance services for Australian exporters and investors | 20 | 17 | 16 | 14 | 12 |
| Other | 47 | 45 | 66 | 67 | 68 |
| Total | 5,470 | 6,090 | 5,522 | 5,823 | 6,602 |

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

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 9.3 per cent in real terms from 2015-16 to 2016-17, and are forecast to increase by 1.1 per cent in real terms across the forward years from 2016-17.

The increase in Foreign Aid spending in 2016-17 and 2019-20 reflects renewed multi-year funding commitments to multilateral funds such as the Asian Development Fund and the World Bank's International Development Association.

The table below sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

| Component(a) | Estimates | | | Projections | |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Research - national flagships, science and services | 1,127 | 1,097 | 1,120 | 1,203 | 1,226 |
| Discovery - research and research training | 528 | 483 | 498 | 499 | 523 |
| Science and technology solutions | 298 | 318 | 332 | 343 | 355 |
| Linkage - cross sector research partnerships | 290 | 264 | 266 | 272 | 278 |
| Supporting science and commercialisation | 198 | 197 | 206 | 235 | 264 |
| Research capacity | 165 | 150 | 159 | 163 | 167 |
| Other | 260 | 260 | 269 | 254 | 252 |
| Total | 2,866 | 2,771 | 2,851 | 2,968 | 3,065 |

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

Statement 5: Expenses and Net Capital Investment

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

Total expenses under this sub-function are expected to decrease by 5.1 per cent in real terms from 2015-16 to 2016-17, and increase by 3.2 per cent in real terms across the forward estimates from 2016-17. The decrease from 2015-16 to 2016-17 primarily reflects decisions taken in the 2014-15 Budget, which reduced funding to a range of science and research organisations. The increase over the forward estimates is primarily due to funding provided for the National Collaborative Research Infrastructure Strategy as part of the National Innovation and Science Agenda which was announced at the 2015-16 MYEFO.

The fall in expenses from 2015-16 to 2016-17 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2015-16 apply a discount rate based on long-term government bonds at the commencement of the financial year (3.7 per cent). Forward years are estimated based on the discount rate applied by the superannuation scheme actuaries in preparing long term cost reports (6 per cent).

Statement 5: Expenses and Net Capital Investment

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests.

This function records the majority of expenses incurred by the defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

| Sub-function | Estimates | | | Projections | |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Defence | 25,986 | 27,155 | 27,937 | 29,384 | 31,525 |
| Total defence | 25,986 | 27,155 | 27,937 | 29,384 | 31,525 |

Total expenses for the defence function are estimated to increase by 2.6 per cent in real terms from 2015-16 to 2016-17, and by 8.3 per cent in real terms over the period 2016-17 to 2019-20. The increase over the period reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*.

Additional funding of \$686.0 million will be provided in the 2016-17 Budget to support major Australian Defence Force (ADF) operations in the Middle East and the protection of Australia's borders.

Expenses do not include the additional cost of major ADF operations beyond 2016-17, as operations funding is considered on a year-by-year basis and subject to future government decisions.

Public order and safety

The public order and safety function includes expenses to support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement, border protection and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

| Sub-function | Estimates | | | Projections | |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Courts and legal services | 1,217 | 1,159 | 1,110 | 1,084 | 1,081 |
| Other public order and safety | 3,741 | 3,756 | 3,656 | 3,635 | 3,594 |
| Total public order and safety | 4,958 | 4,915 | 4,766 | 4,719 | 4,675 |

Total expenses for the public order and safety function are estimated to decrease by 2.7 per cent in real terms from 2015-16 to 2016-17, and decrease by 11.3 per cent in real terms over the period 2016-17 to 2019-20.

Expenses within the **courts and legal services** sub-function are estimated to decrease by 6.5 per cent in real terms from 2015-16 to 2016-17 and decrease by 13.0 per cent in real terms from 2016-17 to 2019-20, mainly reflecting the completion of the Royal Commission into Trade Union Governance and Corruption, and the expected completion of the Royal Commission into Institutional Responses to Child Sexual Abuse in December 2017.

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

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

| Component(a) | Estimates | | | Projections | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Policing and law enforcement | 2,535 | 2,526 | 2,405 | 2,396 | 2,319 |
| Border protection(b) | 1,207 | 1,230 | 1,250 | 1,238 | 1,275 |
| Total | 3,741 | 3,756 | 3,656 | 3,635 | 3,594 |

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

Total expenses within the **other public order and safety** sub-function are expected to decrease by 1.4 per cent in real terms from 2015-16 to 2016-17, and by 10.8 per cent in real terms from 2016-17 to 2019-20.

Statement 5: Expenses and Net Capital Investment

The decrease from 2016-17 to 2019-20 mainly reflects the cessation of up-front capital funding assistance to industry to support telecommunications data retention and the conclusion of the 2013-14 Budget measure *Regional Assistance Mission to Solomon Islands – transition*.

Education

The education function includes expenses to support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government primary and secondary schools.

Table 7: Summary of expenses — education

| Sub-function | Estimates | | | Projections | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Higher education | 9,621 | 9,562 | 9,518 | 9,266 | 9,466 |
| Vocational and other education | 1,848 | 1,992 | 1,499 | 1,522 | 1,548 |
| Schools | 15,636 | 16,996 | 17,997 | 18,833 | 19,777 |
| Non-government schools | 9,869 | 10,554 | 11,061 | 11,556 | 12,106 |
| Government schools | 5,767 | 6,442 | 6,936 | 7,277 | 7,671 |
| School education - specific funding | 712 | 659 | 498 | 122 | 119 |
| Student assistance | 4,367 | 4,114 | 3,956 | 4,403 | 4,551 |
| General administration | 331 | 346 | 346 | 348 | 343 |
| Total education | 32,515 | 33,669 | 33,815 | 34,494 | 35,804 |

Total education expenses are expected to increase by 1.7 per cent in real terms between 2015-16 and 2016-17, and decrease by 0.8 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **higher education** sub-function are expected to decrease by 2.4 per cent in real terms from 2015-16 to 2016-17 reflecting the Government's decision to delay the full implementation of the higher education reforms announced in the 2014-15 Budget and 2014-15 MYEFO until January 2018. Expenses between 2016-17 and 2019-20 are estimated to decrease by 7.7 per cent in real terms, which relate to the reduction of Commonwealth Grant Scheme subsidies from 2018.

Expenses under the **vocational and other education** sub-function are expected to increase by 5.9 per cent in real terms between 2015-16 to 2016-17, and decrease by 27.6 per cent in real terms from 2016-17 to 2019-20. The forecast overall decline in expenses over the forward estimates primarily reflects the conclusion of funding under the Skills Reform National Partnership Agreement, with the final milestone payments contributing to the one-off increase in expenses in 2016-17.

Aggregate school funding expenses are expected to increase by 6.7 per cent in real terms between 2015-16 to 2016-17, and by 8.5 per cent in real terms from 2016-17 to 2019-20 reflecting the Government's school education policy. For the 2018 to 2020 school years, total school funding will be indexed by an education sector specific indexation rate of 3.56 per cent, with an allowance for changes in enrolments.

Statement 5: Expenses and Net Capital Investment

Expenses in the **schools – non-government schools** sub-function are expected to increase by 5.0 per cent in real terms between 2015-16 and 2016-17, and by 7.0 per cent in real terms from 2016-17 to 2019-20. Expenses under the **schools – government schools** sub-function are expected to increase by 9.7 per cent in real terms between 2015-16 and 2016-17, and by 11.1 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **school education – specific funding** sub-function are expected to decrease by 9.2 per cent in real terms between 2015-16 and 2016-17, and by 83.1 per cent in real terms from 2016-17 to 2019-20. The expected decrease in expenses from 2015-16 primarily reflects the conclusion of a number of National Partnerships, including the National Partnership on Trade Training Centres in Schools in 2015-16, the National Partnership Agreement on Universal Access to Early Childhood Education in 2017-18, and the National School Chaplaincy Programme in 2017-18.

Expenses under the **student assistance** sub-function are expected to decrease by 7.5 per cent in real terms from 2015-16 to 2016-17, and increase by 3.2 per cent in real terms from 2016-17 to 2019-20. The decrease from 2015-16 to 2016-17 reflects the impact of converting Student Start-up Scholarships to Student Start-up loans. The increase in expenses from 2016-17 also reflects compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments* and the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity*, which conclude in 2017-18 and 2018-19, and are partly offset by a reduction in expenses under the Higher Education Loan Programme (HELP). Expenses under HELP mainly reflect the estimated cost to the Government of providing concessional loans, which will vary with enrolment numbers and the number and value of HELP loans. These expenses are recorded when loans are issued and are based on actuarial advice.

Health

The health function includes expenses relating to medical services that are funded through Medicare; payments to the States and Territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; the Private Health Insurance Rebate; Aboriginal and Torres Strait Islander health programs; mental health services; and health workforce initiatives.

Table 8: Summary of expenses — health

| Sub-function | Estimates | | | Projections | |
|-----------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Medical services and benefits | 29,025 | 30,181 | 31,108 | 32,437 | 33,891 |
| Pharmaceutical benefits and services | 11,022 | 11,513 | 11,623 | 11,938 | 12,328 |
| Assistance to the States for public hospitals | 17,196 | 17,912 | 18,923 | 19,987 | 21,106 |
| Hospital services(a) | 1,755 | 1,718 | 1,690 | 1,701 | 1,722 |
| Health services | 6,322 | 6,292 | 6,264 | 6,371 | 6,438 |
| General administration | 3,106 | 3,000 | 2,961 | 2,913 | 2,846 |
| Aboriginal and Torres Strait Islander health | 746 | 798 | 856 | 892 | 929 |
| Total health | 69,172 | 71,413 | 73,425 | 76,239 | 79,260 |

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

Total expenses for the health function are estimated to increase by 1.4 per cent in real terms between 2015-16 and 2016-17. Total expenses are estimated to increase by 3.5 per cent in real terms from 2016-17 to 2019-20 reflecting higher demand for health services, and a growing and ageing population.

The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, is 42.3 per cent of total estimated health expenses for 2016-17. Growth in Medicare expenses is the major driver of growth in this sub-function.

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

Statement 5: Expenses and Net Capital Investment

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

| Component(a) | Estimates | | | Projections | |
|--------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Medical benefits | 21,094 | 21,956 | 22,662 | 23,669 | 25,115 |
| Private health insurance | 6,228 | 6,502 | 6,751 | 7,070 | 7,061 |
| General medical consultations and services | 854 | 838 | 823 | 800 | 792 |
| Dental services(b) | 314 | 416 | 416 | 420 | 438 |
| Other | 535 | 469 | 457 | 477 | 484 |
| Total | 29,025 | 30,181 | 31,108 | 32,437 | 33,891 |

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

(b) Payments under the existing dental National Partnership Agreement in 2015-16 are provided for under the health services sub-function in Table 8.

Expenses for medical benefits are expected to increase by 2.2 per cent in real terms between 2015-16 and 2016-17, and by 6.7 per cent in real terms over the period 2016-17 to 2019-20, as a result of ongoing growth in the use of medical services.

Expenses for Private Health Insurance are expected to increase by 2.5 per cent in real terms between 2015-16 and 2016-17, and by 1.3 per cent in real terms over the period 2016-17 to 2019-20 reflecting forecast continued take up of private health insurance. The proportion of Australians with some form of private health insurance is now around 56 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to increase by 30.1 per cent in real terms between 2015-16 and 2016-17 reflecting the consolidation of funding for dental services under a single sub-function to support the Government's dental reforms. Expenses are expected to decrease by 1.8 per cent in real terms over the period 2016-17 to 2019-20, reflecting the funding profile for the implementation period of the new Child and Adult Public Dental Scheme National Partnership. From 2019-20, capped funding will grow by the Consumer Price Index and population growth.

The **pharmaceutical benefits and services** sub-function is expected to increase by 2.5 per cent in real terms between 2015-16 and 2016-17 due largely to new and amended listings on the Pharmaceutical Benefits Scheme (PBS), and growth in the use of existing listings. Expenses are expected to decrease by 0.1 per cent in real terms over the period 2016-17 to 2019-20 as a result of the successful application of pricing policies that have reduced the cost of medicines listed on the PBS. Estimates for the PBS do not include the potential listing of new medicines or price adjustments to existing listings, which typically increase spending above the original estimates.

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

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

| Component(a) | Estimates | | | Projections | |
|----------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Pharmaceutical benefits, services and supply | 10,362 | 10,800 | 10,989 | 11,322 | 11,722 |
| Immunisation | 294 | 376 | 313 | 305 | 304 |
| Veterans' pharmaceutical benefits | 366 | 337 | 321 | 312 | 301 |
| Total | 11,022 | 11,513 | 11,623 | 11,938 | 12,328 |

(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 2.3 per cent in real terms from 2015-16 to 2016-17, largely reflecting 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 2016-17 to 2019-20, following the Government's agreement with States and Territories for the Commonwealth to fund up to 45 per cent of the growth in the efficient price of activity based services for public hospitals from 2017-18, with growth in total Commonwealth funding capped at 6.5 per cent a year for three years.

The **hospital services** sub-function includes payments to the States and Territories through a range of National Partnership Agreements, and support for veterans' hospital services. Expenditure growth for this sub-function is expected to decrease by 3.9 per cent in real terms between 2015-16 and 2016-17, and by 6.5 per cent in real terms over the period 2016-17 to 2019-20, reflecting the completion of hospital infrastructure projects.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, mental health, blood and blood products, research, other allied health services, and health infrastructure funding. As announced in the 2014-15 Budget, the Health and Hospitals Fund (HHF) ceased operation and \$1.1 billion in uncommitted funds were transferred to the Medical Research Futures Fund (MRFF). The MRFF is expected to reach \$20 billion by 2020-21 and will provide a sustainable and growing funding stream to be invested in additional medical research in the medium to long term.

Health services expenditure is expected to decrease by 2.3 per cent in real terms between 2015-16 and 2016-17, and by 4.6 per cent in real terms between 2016-17 and 2019-20 largely reflecting the completion of projects funded from the former HHF.

Statement 5: Expenses and Net Capital Investment

The **general administration – health** sub-function includes the Government’s general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to decrease by 5.2 per cent in real terms between 2015-16 and 2016-17, and by 11.5 per cent over the period 2016-17 to 2019-20, largely as a result of streamlining workforce programs.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 5.0 per cent in real terms from 2015-16 to 2016-17, and by 8.7 per cent in real terms over the period 2016-17 to 2019-20 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program. Substantial investments in Indigenous health will also occur through other health sub-functions.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed, people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes assistance provided to Indigenous Australians that has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

| Sub-function | Estimates | | | Projections | |
|-------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Assistance to the aged | 59,995 | 63,265 | 65,732 | 69,407 | 72,989 |
| Assistance to veterans and dependants | 6,619 | 6,465 | 6,238 | 6,065 | 5,945 |
| Assistance to people with disabilities | 29,084 | 33,395 | 40,507 | 51,135 | 52,922 |
| Assistance to families with children | 38,889 | 37,610 | 37,345 | 39,860 | 41,636 |
| Assistance to the unemployed and the sick | 10,896 | 10,458 | 10,305 | 11,441 | 11,828 |
| Other welfare programs | 1,508 | 1,562 | 922 | 993 | 1,054 |
| Assistance for Indigenous Australians nec | 2,153 | 2,209 | 2,118 | 2,046 | 2,135 |
| General administration | 3,694 | 3,648 | 3,351 | 3,312 | 3,321 |
| Total social security and welfare | 152,838 | 158,612 | 166,518 | 184,260 | 191,828 |

Expenses in the social security and welfare function are estimated to grow by 1.9 per cent in real terms from 2015-16 to 2016-17, and by 12.8 per cent in real terms from 2016-17 to 2019-20.

The most significant driver of this growth is the **assistance to people with disabilities** sub-function, which grows by 12.7 per cent in real terms between 2015-16 and 2016-17, and by 47.8 per cent in real terms between 2016-17 and 2019-20. This reflects the progressive implementation of the National Disability Insurance Scheme (NDIS) and includes Commonwealth as well as State and Territory contributions to the Scheme. Also contributing to growth in the function are expenses in the **assistance to the aged** sub-function, which is expected to grow by 3.5 per cent in real terms between 2015-16 and 2016-17, and by 7.6 per cent in real terms between 2016-17 and 2019-20; the **assistance to families with children** sub-function, which is expected to increase by 3.3 per cent in real terms between 2016-17 and 2019-20; and the **assistance to the unemployed and the sick** sub-function, which is expected to increase by 5.5 per cent in real terms between 2016-17 and 2019-20.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is income support for seniors, which is estimated to grow by 3.0 per cent in real terms from 2015-16 to 2016-17, and by 6.6 per cent in real terms from 2016-17 to 2019-20, reflecting demographic changes. Growth in these years is partially moderated by the reduction in expenses associated with incremental increases in the age pension age.

Statement 5: Expenses and Net Capital Investment

Also contributing to growth from 2016-17 to 2019-20 is an increase in expenses associated with home care, home support and residential and flexible aged care programs, largely reflecting demographic factors.

The estimated decrease of 15.9 per cent in real terms from 2016-17 to 2019-20 for veterans' community care and support is mainly attributable to the decrease in the number of veterans and relevant dependants accessing residential aged care as a proportion of the overall residential aged care population.

The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

| Component(a) | Estimates | | | Projections | |
|--------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Income Support for Seniors | 43,235 | 45,374 | 46,834 | 49,547 | 51,859 |
| Residential and flexible care | 10,695 | 11,319 | 11,919 | 12,600 | 13,469 |
| Veterans' Community Care and Support | 1,471 | 1,475 | 1,422 | 1,373 | 1,330 |
| Home Support and Care | 3,084 | 4,137 | 4,639 | 5,229 | 5,726 |
| National Partnership Payments - Assistance to the Aged | 619 | 191 | 203 | 0 | 0 |
| Mature Age Income Support | 365 | 300 | 240 | 193 | 140 |
| Aged Care Quality | 211 | 134 | 126 | 127 | 131 |
| Access and information | 129 | 196 | 203 | 208 | 216 |
| Allowances, concessions and services for seniors | 94 | 105 | 100 | 88 | 74 |
| Other | 92 | 36 | 47 | 43 | 43 |
| Total | 59,995 | 63,265 | 65,732 | 69,407 | 72,989 |

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

Expenses for the **assistance to veterans and dependants** sub-function are estimated to decrease by 4.1 per cent in real terms from 2015-16 to 2016-17, and by 14.2 per cent in real terms from 2016-17 to 2019-20, predominantly reflecting an expected reduction in the number of beneficiaries.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 12.7 per cent in real terms from 2015-16 to 2016-17, and by 47.8 per cent in real terms from 2016-17 to 2019-20, primarily driven by the National Disability Insurance Scheme (NDIS). This reflects the increase in the number of people with disability entering the scheme under transition arrangements with the States and Territories. Of the total \$53.3 billion in NDIS expenses from 2016-17 to 2019-20, the Commonwealth is contributing funding of \$27.1 billion, with the remainder contributed by the States and Territories. Subject to negotiations, the Commonwealth will provide payments to the States and Territories of \$5.4 billion from the DisabilityCare Australia Fund over the forward estimates. The timing of these payments will result in National Partnership Payment expenses peaking at \$3.6 billion in 2018-19.

Statement 5: Expenses and Net Capital Investment

The reduction in the assistance to the States for Disability Services component reflects the progressive withdrawal of the National Disability Specific Purpose Payment (ND SPP) once existing clients in each state, except Western Australia, have transitioned to the NDIS. As ND SPP payments terminate for each state, equivalent funding will be redirected to the NDIS. Prior to the ND SPP ceasing, the states will repay part of their ND SPP payments to the Commonwealth to meet its NDIS costs. These arrangements will temporarily increase total Commonwealth payments, as part of the ND SPP funding will be expensed twice – when the payment is made to the States, and when the returned funds are expensed on the NDIS.

Expenses for the Disability Support Pension (DSP) are estimated to increase by 0.9 per cent in real terms from 2015-16 to 2016-17. The moderate growth in DSP recipient numbers is underpinned by the ongoing impact of the revised DSP impairment tables, which were announced in the 2009-10 Budget. Expenses are expected to grow by 1.9 per cent in real terms from 2016-17 to 2019-20 primarily reflecting increases in payment rates.

Expenses for income support for carers are estimated to increase by 5.1 per cent in real terms from 2015-16 to 2016-17, and by 14.4 per cent in real terms from 2016-17 to 2019-20, largely as a result of growth in Carer Payment and Carer Allowance (adult) payments. This reflects the increasing number of frail aged Australians receiving care at home.

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

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

| Component(a) | Estimates | | | Projections | |
|------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Income Support for People with Disability | 16,592 | 17,054 | 17,498 | 17,983 | 18,633 |
| Income Support for Carers | 7,832 | 8,384 | 8,992 | 9,534 | 10,282 |
| Assistance to the States for Disability Services | 1,440 | 1,487 | 1,516 | 949 | 185 |
| Disability and Carers | 956 | 1,068 | 1,097 | 1,049 | 992 |
| National Disability Insurance Scheme(b) | 1,142 | 4,183 | 10,016 | 17,573 | 21,500 |
| National Disability Insurance Scheme | | | | | |
| Transition Programme | 587 | 568 | 516 | 405 | 316 |
| National Partnership Payments - Assistance to People with Disabilities | 534 | 651 | 873 | 3,641 | 1,013 |
| Total | 29,084 | 33,395 | 40,507 | 51,135 | 52,922 |

- (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

Statement 5: Expenses and Net Capital Investment

The expenses for the **assistance to families with children** sub-function are expected to decrease by 5.0 per cent in real terms from 2015-16 to 2016-17, and to grow by 3.3 per cent in real terms between 2016-17 and 2019-20, with growth primarily driven by increased Child Care Fee Assistance and Child Care Subsidy expenses.

Child Care Fee Assistance and Child Care Subsidy expenses are expected to increase by 7.5 per cent in real terms from 2015-16 to 2016-17, and by 39.4 per cent in real terms between 2016-17 and 2019-20. The increase in expenses reflects the expected growth in the number of child care hours used by families. From 2018-19, the projected increase in expenses is also the result of the one year deferral of the commencement of the Child Care Subsidy, as announced in the 2016-17 Budget measure *Jobs for Families Package – deferred implementation*.

The profile of the **assistance to families with children** sub-function includes a decrease in Family Tax Benefit expenses by 9.1 per cent in real terms from 2015-16 to 2016-17, and by 9.9 per cent in real terms from 2016-17 to 2019-20 reflecting the cessation of the Schoolkids Bonus from 1 July 2016 and the impact of the 2015-16 MYEFO measure *Family Payment Reform – a new families package*, which improves the targeting and ongoing sustainability of Family Tax Benefit payments.

Expenses for Paid Parental Leave (PPL) are estimated to decrease by 15.9 per cent in real terms from 2015-16 to 2016-17, and by 4.9 per cent in real terms from 2016-17 to 2019-20. The decrease in 2016-17 mainly reflects the impact of the 2015-16 MYEFO measure *Parental Leave Pay – revised arrangements*, which ensures that parents have access to at least 18 weeks of paid parental leave.

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

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

| Component(a) | Estimates | | | Projections | |
|--------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Family tax benefit | 20,895 | 19,341 | 18,481 | 18,466 | 18,685 |
| Child Care Fee Assistance(b) | 7,455 | 8,159 | 8,838 | 0 | 0 |
| <i>Child Care Benefit</i> | 4,009 | 4,238 | 4,438 | 0 | 0 |
| <i>Child Care Rebate</i> | 3,446 | 3,921 | 4,400 | 0 | 0 |
| Child Care Subsidy | 0 | 0 | 0 | 11,057 | 12,192 |
| Parents income support | 5,690 | 5,469 | 5,482 | 5,761 | 6,067 |
| Paid Parental Leave | 2,043 | 1,751 | 1,640 | 1,731 | 1,785 |
| Child support | 1,850 | 1,882 | 1,913 | 1,960 | 2,013 |
| Support for the child care system | 373 | 423 | 425 | 359 | 366 |
| Families and Children | 260 | 262 | 256 | 247 | 251 |
| Family relationship services | 163 | 162 | 164 | 167 | 169 |
| Child Payments | 126 | 128 | 113 | 103 | 98 |
| National Partnership Payments - Child care | 21 | 23 | 22 | 0 | 0 |
| Other | 12 | 11 | 10 | 11 | 11 |
| Total | 38,889 | 37,610 | 37,345 | 39,860 | 41,636 |

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) From 1 July 2018, Child Care Benefit and Child Care Rebate will be replaced by the new Child Care Subsidy.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to decrease by 5.8 per cent in real terms from 2015-16 to 2016-17, and to increase by 5.5 per cent in real terms from 2016-17 to 2019-20. These changes reflect compliance activities resulting from the 2015-16 Budget measure *Strengthening the Integrity of Welfare Payments* and the 2015-16 MYEFO measure *Enhanced Welfare Payment Integrity*, which conclude in 2017-18 and 2018-19.

Expenses for the **assistance for Indigenous Australians not elsewhere classified (nec)** sub-function are estimated to increase by 0.7 per cent in real terms from 2015-16 to 2016-17, and to decrease by 9.9 per cent in real terms from 2016-17 to 2019-20. This decrease largely reflects the conclusion of a number of Indigenous measures, including *Addressing Welfare Reliance in Remote Communities*, and *Permanent Police Presence in Remote Indigenous Communities*, which end on 30 June 2017. Expenditure in 2019-20 is estimated to increase by 1.8 per cent in real terms reflecting the recommencement of indexation of the Indigenous Advancement Strategy.

Expenses for the **general administration** sub-function are estimated to decrease by 15.1 per cent in real terms from 2016-17 to 2019-20. This is mainly attributable to Budget measures to be implemented by the Department of Human Services, involving significant upfront service delivery costs that are projected to decrease over time.

Housing and community amenities

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

Table 10: Summary of expenses — housing and community amenities

| Sub-function | Estimates | | | Projections | |
|----------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Housing | 3,267 | 3,568 | 3,517 | 3,057 | 3,027 |
| Urban and regional development | 703 | 688 | 592 | 439 | 386 |
| Environment protection | 895 | 1,026 | 942 | 960 | 998 |
| Total housing and community amenities | 4,865 | 5,282 | 5,051 | 4,455 | 4,412 |

Total expenses under the housing and community amenities function are estimated to increase by 6.6 per cent in real terms from 2015-16 to 2016-17, and to decrease by 22.1 per cent in real terms from 2016-17 to 2019-20. The decrease is primarily driven by a reduction in expenses for the **housing** sub-function of 15.0 per cent in real terms from 2017-18 to 2018-19.

The **housing** sub-function includes the Australian Government's contribution to the National Affordable Housing Specific Purpose Payment and associated National Partnerships, the provision of housing for the general public and people with special needs and the expenses of DHA. Expenses for this sub-function are estimated to increase by 7.2 per cent in real terms from 2015-16 to 2016-17 relating to rescheduling within DHA's work program. This sub-function decreases by 20.9 per cent in real terms from 2016-17 to 2019-20. This largely reflects the scheduled completion of National Partnership payments for remote Indigenous housing and a forecast reduction in the construction and acquisition of DHA properties in 2018-19 and 2019-20.

The **urban and regional development** sub-function comprises regional development programs and services to territories, including Community Development Grants, the National Stronger Regions Fund and the Stronger Communities program. This sub-function also reflects funding for the delivery of services to Norfolk Island under governance reforms, which were announced in the 2015-16 Budget. Expenses are estimated to decrease by 3.9 per cent in real terms from 2015-16 to 2016-17, and by 47.6 per cent in real terms from 2016-17 to 2019-20, largely reflecting the completion of projects under key programs, such as Community Development Grants and the Regional Development Australia Fund.

Statement 5: Expenses and Net Capital Investment

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 12.6 per cent in real terms from 2015-16 to 2016-17 primarily reflecting the continued implementation of the Emissions Reduction Fund. There is a 9.3 per cent decrease in real terms from 2016-17 to 2019-20 reflecting the profile of contractual commitments for the Emissions Reduction Fund, and limiting the overall number of Green Army projects.

Statement 5: Expenses and Net Capital Investment

Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Table 11: Summary of expenses — recreation and culture

| Sub-function | Estimates | | | Projections | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Broadcasting | 1,496 | 1,425 | 1,430 | 1,431 | 1,447 |
| Arts and cultural heritage | 1,287 | 1,252 | 1,219 | 1,153 | 1,166 |
| Sport and recreation | 349 | 341 | 308 | 298 | 306 |
| National estate and parks | 380 | 382 | 381 | 367 | 382 |
| Total recreation and culture | 3,512 | 3,401 | 3,337 | 3,249 | 3,301 |

Total expenses under the recreation and culture function are estimated to decrease by 4.9 per cent in real terms from 2015-16 to 2016-17, and by 9.5 per cent in real terms over the period 2016-17 to 2019-20.

Expenses under the **broadcasting** sub-function are expected to decrease by 6.5 per cent in real terms from 2015-16 to 2016-17 and by 5.3 per cent in real terms from 2016-17 to 2019-20. These reductions primarily reflect the 2014-15 Budget and 2014-15 MYEFO measures *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – efficiency savings* and *Australian Broadcasting Corporation and Special Broadcasting Service Corporation – additional efficiency savings*. These savings measures are partially offset by two measures providing operational funding for the ABC and the SBS at the 2016-17 Budget (*Australian Broadcasting Corporation – operational funding* and *Special Broadcasting Services Corporation – operational funding*).

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

| Component(a) | Estimates | | | Projections | |
|--------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| ABC general operational activities | 920 | 849 | 853 | 857 | 871 |
| SBS general operational activities | 300 | 302 | 299 | 294 | 291 |
| ABC transmission and distribution services | 194 | 198 | 202 | 206 | 210 |
| SBS transmission and distribution services | 83 | 77 | 76 | 74 | 74 |
| Total | 1,496 | 1,425 | 1,430 | 1,431 | 1,447 |

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

Statement 5: Expenses and Net Capital Investment

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 4.5 per cent in real terms from 2015-16 to 2016-17, and by 13.2 per cent in real terms over the period 2016-17 to 2019-20. This sub-function includes programs that support funding for the arts and cultural institutions. The estimated decreases reflect the implementation of efficiencies and arts-related savings measures, including the ongoing savings associated with the 2014-15 Budget measure *Arts programmes – reduced funding*, the 2015-16 Budget measure *Arts and Cultural Programmes – efficiencies*, and the 2015-16 MYEFO measure *Communications and the Arts Portfolio – efficiencies*.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 4.2 per cent in real terms from 2015-16 to 2016-17, and by 16.1 per cent in real terms over the period 2016-17 to 2019-20. The decrease in 2016-17 primarily reflects the completion of sporting infrastructure projects which were announced at the 2014-15 MYEFO. Estimated decreases in expenses over the forward estimates reflect the termination of the 2014-15 Budget measure *Sporting Schools Initiative* on 30 June 2017, and ongoing efficiencies at the Australian Sports Commission and the Australian Sports Anti-Doping Authority.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 1.2 per cent in real terms from 2015-16 to 2016-17, and by 6.8 per cent in real terms over the period 2016-17 to 2019-20. The decrease from 2015-16 to 2016-17 largely reflects a reduction in expenses for the Australian Antarctic Program. The increase in expenses in 2019-20 primarily reflects changes in operating and maintenance costs for the new icebreaker.

Statement 5: Expenses and Net Capital Investment

Fuel and energy

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

Table 12: Summary of expenses — fuel and energy

| Sub-function | Estimates | | | Projections | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Fuel and energy | 6,528 | 6,687 | 6,782 | 7,028 | 7,301 |
| Total fuel and energy | 6,528 | 6,687 | 6,782 | 7,028 | 7,301 |

Fuel and energy expenses are estimated to increase by 0.6 per cent in real terms from 2015-16 to 2016-17, and increase by 1.8 per cent in real terms over the period 2016-17 to 2019-20.

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

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

| Component(a) | Estimates | | | Projections | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Fuel Tax Credits Scheme | 6,117 | 6,236 | 6,466 | 6,724 | 7,070 |
| Resources and Energy | 112 | 108 | 37 | 55 | 25 |
| Clean and Renewable Energy Innovation | 188 | 236 | 168 | 133 | 89 |
| Other | 112 | 107 | 111 | 116 | 116 |
| Total | 6,528 | 6,687 | 6,782 | 7,028 | 7,301 |

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

The major program within this function is the Fuel Tax Credits Scheme, which is expected to remain constant in real terms from 2015-16 to 2016-17, and increase by 5.7 per cent in real terms from 2016-17 to 2019-20.

The decrease in expenses under the resources and energy component from 2015-16 to 2019-20 reflects the Government's 2014-15 Budget decisions to reduce funding for the Carbon Capture and Storage Flagships program as well as the closure of the Low Emissions Technology Demonstration Fund and the Low Carbon Communities program in 2015-16 and Coal Mining Technology Abatement Support Package in 2016-17.

The overall decrease in expenses under the clean and renewable energy innovation component over 2015-16 to 2019-20 reflects the Government's 2014-15 Budget decision to reduce grant funding for the Australian Renewable Energy Agency (ARENA), which is partly offset by an increase in expenses, reflecting the Government's 2016-17 Budget decision to retain the Clean Energy Finance Corporation and ARENA.

Agriculture, forestry and fishing

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

Table 13: Summary of expenses — agriculture, forestry and fishing

| Sub-function | Estimates | | | Projections | |
|---------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Wool industry | 69 | 69 | 69 | 69 | 69 |
| Grains industry | 224 | 221 | 214 | 214 | 214 |
| Dairy industry | 58 | 58 | 59 | 59 | 59 |
| Cattle, sheep and pig industry | 212 | 184 | 183 | 187 | 189 |
| Fishing, horticulture and other agriculture | 322 | 314 | 327 | 327 | 329 |
| General assistance not allocated to specific industries | 26 | 31 | 32 | 31 | 35 |
| Rural assistance | 170 | 200 | 153 | 161 | 148 |
| Natural resources development | 976 | 1,295 | 1,295 | 850 | 540 |
| General administration | 712 | 750 | 752 | 729 | 686 |
| Total agriculture, forestry and fishing | 2,768 | 3,122 | 3,084 | 2,626 | 2,269 |

Total expenses under this function are estimated to increase by 10.7 per cent in real terms from 2015-16 to 2016-17, and decrease by 32.2 per cent in real terms over the period 2016-17 to 2019-20.

The **rural assistance** sub-function is expected to increase by 15.1 per cent in real terms from 2015-16 to 2016-17, and decrease by 30.9 per cent in real terms over the period 2016-17 to 2019-20. The increase followed by the large decrease mainly reflects the Farm Household Allowance (FHA), which is available to eligible farm households for a maximum of three years. Many households that have received payment since the program's inception will no longer qualify beyond 2016-17.

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

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

Statement 5: Expenses and Net Capital Investment

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

| Component(a) | Estimates | | | Projections | |
|--------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Water reform(b) | 720 | 1,030 | 1,095 | 670 | 385 |
| Sustainable management - natural resources | 13 | 15 | 13 | 7 | 0 |
| Other | 243 | 250 | 187 | 173 | 155 |
| Total | 976 | 1,295 | 1,295 | 850 | 540 |

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

(b) Water Reform includes the following programs: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

Expenses under the natural resources development sub-function are estimated to increase by 30.3 per cent in real terms from 2015-16 to 2016-17, and decrease by 61.1 per cent in real terms from 2016-17 to 2019-20. The increase in expenses from 2015-16 to 2016-17 reflects a re-phasing of expenditure in the Sustainable Rural Water Use and Infrastructure Program (SRWUIP) to better reflect the need for increased expenditure in 2016-17 and 2017-18. The subsequent reduction in expenses primarily relates to the currently scheduled cessation of funding for the Murray-Darling Basin Authority's basin planning functions in 2017-18 and SRWUIP in 2018-19.

Mining, manufacturing and construction

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

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

| Sub-function | Estimates | | | Projections | |
|-----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Mining, manufacturing and construction | 3,650 | 3,545 | 3,792 | 3,999 | 4,277 |
| Total mining, manufacturing and construction | 3,650 | 3,545 | 3,792 | 3,999 | 4,277 |

Total expenses under the mining, manufacturing and construction function are expected to decrease by 4.6 per cent in real terms from 2015-16 to 2016-17, and increase by 12.5 per cent in real terms from 2016-17 to 2019-20.

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

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

| Component(a) | Estimates | | | Projections | |
|----------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Research and Development Tax Incentive | 2,885 | 2,901 | 3,290 | 3,567 | 3,873 |
| Growing business investment | 562 | 427 | 317 | 237 | 208 |
| Other | 203 | 218 | 185 | 195 | 197 |
| Total | 3,650 | 3,545 | 3,792 | 3,999 | 4,277 |

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

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

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

Statement 5: Expenses and Net Capital Investment

Transport and communication

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

Table 15: Summary of expenses — transport and communication

| Sub-function | Estimates | | | Projections | |
|------------------------------------------|--------------|---------------|---------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Communication | 632 | 692 | 638 | 568 | 567 |
| Rail transport | 1,555 | 1,533 | 742 | 97 | 0 |
| Air transport | 222 | 245 | 224 | 201 | 198 |
| Road transport | 5,501 | 7,971 | 8,300 | 5,079 | 3,979 |
| Sea transport | 388 | 426 | 428 | 432 | 437 |
| Other transport and communication | 350 | 264 | 274 | 223 | 220 |
| Total transport and communication | 8,647 | 11,131 | 10,606 | 6,599 | 5,400 |

Total expenses under this function are estimated to increase by 26.4 per cent in real terms between 2015-16 and 2016-17, and to decrease by 54.7 per cent in real terms from 2016-17 to 2019-20.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications, the Australian Communications and Media Authority and the Digital Transformation Office. Total expenses under the **communication** sub-function are estimated to increase by 7.4 per cent in real terms between 2015-16 and 2016-17, and decrease by 23.6 per cent in real terms from 2016-17 to 2019-20. The estimated decrease primarily reflects the cessation of the Mobile Black Spots program from 30 June 2018.

Total expenses under the **rail transport** sub-function are estimated to decrease by 3.2 per cent in real terms from 2015-16 to 2016-17, and decrease by 93.9 per cent from 2016-17 to 2018-19 reflecting payments against project milestones. Expenses on rail transport will cease from 2018-19 reflecting the completion of existing rail projects, and the Government's decision to provide equity investment in future rail projects.

Statement 5: Expenses and Net Capital Investment

The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators – the Civil Aviation Safety Authority, the Australian Maritime Safety Authority and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to increase by 8.4 per cent in real terms between 2015-16 and 2016-17, and decrease by 24.7 per cent in real terms from 2016-17 to 2019-20 primarily reflecting the completion of airstrip improvements under the Regional Aviation Access program and preparatory work associated with the Western Sydney Airport site at Badgerys Creek. Total expenses under the **sea transport** sub-function are estimated to increase by 7.9 per cent in real terms between 2015-16 and 2016-17 reflecting the expansion of the Tasmanian Freight Equalisation Scheme to include exports, and to decrease by 4.4 per cent in real terms from 2016-17 to 2019-20 reflecting reduced levy collections.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Programme. Expenses are estimated to increase by 42.3 per cent in real terms between 2015-16 and 2016-17, and decrease by 53.4 per cent in real terms from 2016-17 to 2019-20. The increase in expenses over 2015-16 to 2016-17 is largely driven by additional funding for the Roads to Recovery Programme announced in the 2015-16 MYEFO. The decline from 2017-18 to 2019-20 reflects the expected completion of projects such as the Toowoomba Second Range Crossing in Queensland, and reduced Commonwealth contributions to major projects, including the NorthConnex in NSW, which are near completion.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 26.0 per cent in real terms between 2015-16 and 2016-17 and by 22.4 per cent in real terms from 2016-17 to 2019-20. This sub-function primarily reflects a decrease in departmental funding for the Department of Infrastructure and Regional Development over the forward estimates, in line with the estimated decline in road and rail expenses.

Statement 5: Expenses and Net Capital Investment

Other economic affairs

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified (nec).

Table 16: Summary of expenses — other economic affairs

| Sub-function | Estimates | | | Projections | |
|------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Tourism and area promotion | 186 | 188 | 188 | 177 | 180 |
| Total labour and employment affairs | 3,528 | 3,884 | 3,941 | 3,963 | 3,981 |
| Vocational and industry training | 1,238 | 1,325 | 1,322 | 1,343 | 1,353 |
| Labour market assistance to job seekers and industry | 1,477 | 1,873 | 1,953 | 1,958 | 1,953 |
| Industrial relations | 813 | 686 | 666 | 663 | 676 |
| Immigration | 3,792 | 3,659 | 2,409 | 2,344 | 2,203 |
| Other economic affairs nec | 2,119 | 2,100 | 2,082 | 2,115 | 2,166 |
| Total other economic affairs | 9,626 | 9,832 | 8,620 | 8,600 | 8,531 |

Total expenses under the other economic affairs function are expected to increase by 0.3 per cent in real terms from 2015-16 to 2016-17, and decrease by 19.1 per cent in real terms from 2016-17 to 2019-20.

Expenses under the **vocational and industry training** sub-function are expected to increase by 5.0 per cent in real terms from 2015-16 to 2016-17, in line with the forecast increase in Trade Support Loans recipients. Expenses between 2016-17 and 2019-20 are expected to decrease by 4.8 per cent in real terms, largely reflecting a reduction in funding available under the Industry Skills Fund.

Expenses under the **labour market assistance to job seeker and industry** sub-function are expected to increase by 24.5 per cent in real terms from 2015-16 to 2016-17 reflecting larger increases in the uptake of wage subsidies and Work for the Dole placements in 2016-17 as a result of the introduction of *jobactive* from 1 July 2015. Expenses between 2016-17 and 2019-20 are expected to decrease by 2.8 per cent in real terms, mainly driven by the lower number of unemployment benefit recipients.

Expenses under the **industrial relations** sub-function are expected to decrease by 17.2 per cent in real terms from 2015-16 to 2016-17 reflecting a forecast reduction in assistance payments to claimants under the Fair Entitlements Guarantee scheme. Expenses between 2016-17 and 2019-20 are expected to decrease by 8.1 per cent in real terms, mainly reflecting the measure *Fair Entitlements Guarantee – aligning redundancy payments to national employment standards* announced in the 2014-15 Budget.

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

Statement 5: Expenses and Net Capital Investment

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

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

| Component(a) | Estimates | | | Projections | |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Management of unlawful non-citizens | 2,729 | 2,508 | 1,452 | 1,406 | 1,312 |
| Citizenship, visas and migration(b) | 656 | 623 | 610 | 571 | 550 |
| Regional co-operation and refugee and humanitarian assistance | 407 | 528 | 347 | 367 | 341 |
| Total other economic affairs | 3,792 | 3,659 | 2,409 | 2,344 | 2,203 |

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

Expenses under this sub-function are expected to decrease by 5.3 per cent in real terms between 2015-16 and 2016-17, and by 43.8 per cent in real terms from 2016-17 to 2019-20. The key driver is the reduction in expenditure for managing unlawful non-citizens, reflecting forecast lower occupancy rates in the detention network.

Expenses under the **other economic affairs (nec)** sub-function are expected to decrease by 2.7 per cent in real terms from 2015-16 to 2016-17, and by 3.8 per cent in real terms from 2016-17 to 2019-20.

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

Statement 5: Expenses and Net Capital Investment

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

| Component(a) | Estimates | | | Projections | |
|-------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Promotion of Australia's export and other international economic interests(b) | 376 | 359 | 358 | 359 | 355 |
| Operating costs for: | | | | | |
| Department of Industry, Innovation and Science | 446 | 438 | 476 | 512 | 502 |
| Australian Securities and Investments Commission | 422 | 420 | 410 | 404 | 448 |
| Bureau of Meteorology | 338 | 339 | 294 | 295 | 292 |
| IP Australia | 177 | 185 | 187 | 188 | 209 |
| Australian Competition and Consumer Commission | 143 | 135 | 134 | 135 | 132 |
| Australian Prudential Regulation Authority | 131 | 131 | 138 | 135 | 137 |
| Other | 85 | 94 | 85 | 89 | 90 |
| Total | 2,119 | 2,100 | 2,082 | 2,115 | 2,166 |

- (a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The programs Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.

The decrease in expenses under this sub-function from 2015-16 to 2016-17 mainly reflects the change in the way unclaimed money in savings accounts and life insurance policies is managed. This decrease reflects the 2015-16 Budget measure *Reversal of Banking and Life Insurance unclaimed provisions*. The decrease for the Bureau of Meteorology (BOM) beyond 2016-17 reflects the scheduled termination on 30 June 2017 of funding to improve the detail and scope of nationally available water information and the shift from acquisition to operation of the BOM's new supercomputer.

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve, and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

| Sub-function | Estimates | | | Projections | |
|-----------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Public debt interest | 15,376 | 16,644 | 17,627 | 18,346 | 18,684 |
| Interest on Commonwealth Government's behalf | 15,376 | 16,644 | 17,627 | 18,346 | 18,684 |
| Nominal superannuation interest | 9,167 | 9,959 | 10,330 | 10,706 | 11,085 |
| General purpose inter-government transactions | 59,380 | 63,553 | 66,910 | 70,368 | 73,497 |
| General revenue assistance - States and Territories | 58,236 | 61,265 | 64,529 | 67,894 | 70,922 |
| Local government assistance | 1,144 | 2,289 | 2,381 | 2,474 | 2,575 |
| Natural disaster relief(a) | 49 | 27 | 11 | 0 | 0 |
| Contingency reserve | -1,536 | -1,055 | 412 | 1,906 | 6,217 |
| Total other purposes | 82,437 | 89,129 | 95,291 | 101,326 | 109,483 |

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

Total expenses under the other purposes function are estimated to increase by 6.2 per cent in real terms from 2015-16 to 2016-17, and by 14.6 per cent over the period 2016-17 to 2019-20. This increase in expenses is primarily driven by **general revenue assistance** paid to State and Territory governments, nearly all of which comprise payments of GST entitlements provided on an 'untied' basis. Payments to State and Territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the States and Territories can be found in Budget Paper No. 3, *Federal Financial Relations 2016-17*.

The increase in expenses under the **public debt interest** sub-function in 2016-17 and over the forward years reflects the increased issuance of Australian Government Securities. Expenses under the **nominal superannuation interest** sub-function are projected to increase over time, reflecting the growth in the Australian Government's superannuation liability. The Future Fund was established to assist in meeting the cost of this liability. Further information on the Future Fund can be found in Statement 6 of Budget Paper No. 1.

Statement 5: Expenses and Net Capital Investment

Expenses in the **local government assistance** sub-function relate to financial assistance grants made to the States and Territories and consist of a general purpose component and an identified local road component, both of which are untied, allowing councils to direct the grants to local priorities. The increase in expenses from 2015-16 to 2016-17 reflects a decision to bring forward the first two instalments of the 2015-16 Financial Assistance Grants program estimate for payment in 2014-15, which assisted councils to provide important services through early access to funding for critical infrastructure. The growth in local government funding over the forward estimates reflects the forecast estimated resident population growth. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3, *Federal Financial Relations 2016-17*.

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

The **Contingency Reserve** sub-function comprises the Contingency Reserve, which is an allowance that principally reflects anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. It is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve and is not appropriated.

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 2016-17 Budget reduces expenses by \$1.1 billion in 2016-17, and increases expenses by \$412 million in 2017-18, \$1.9 billion in 2018-19 and \$6.2 billion in 2019-20. The largest component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy to be revised upwards in the forward years. The 2016-17 Budget includes a provision of:

- zero in the Budget year 2016-17;
- ½ of a percentage point of total general government sector expenses (excluding GST payments to the states) in the first forward year 2017-18 (\$2.0 billion);
- 1 per cent of expenses in the second forward year 2018-19 (\$4.2 billion); and

Statement 5: Expenses and Net Capital Investment

- a 2 per cent provision has been included in the third forward year 2019-20 (\$8.7 billion).

The drawdown of the CBA reduced expenses by \$976 million in 2016-17; \$1.0 billion in 2017-18 and \$2.1 billion in 2018-19. This is consistent with long standing practice and does not represent a saving or offset to spending measures.

The Contingency Reserve includes a provision of \$729 million over four years to 2019-20 for a number of items, including continuation of some expiring National Partnerships and possible by-election and redistribution costs for the Australian Electoral Commission. A provision is also included for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspend provision in 2015-16 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes estimates for measures which cannot yet be included in entity estimates usually due to some uncertainty as to their final cost and/or outcomes, or are subject to negotiations. Significant spending items include funding for *Investing in ChildCare - ICT system* and *Better Management of Biosecurity Risks - advanced analytical capability*. Savings items include the *Public Sector Transformation* and the *Efficiency Dividend* and the *New Veteran Public Hospital Pricing Agreement*.

The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons.

Statement 5: Expenses and Net Capital Investment

General government net capital investment

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment, and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

Australian Government general government sector net capital investment is expected to be \$3.4 billion in 2016-17; \$0.9 billion lower than the net capital investment in 2015-16. This change is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 2.3GHz, 3.4 GHz and 1800 MHz bands.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

| | MYEFO | Revised | Estimates | | Projections | |
|-------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| Total net capital investment (\$m) | 4,484 | 4,355 | 3,437 | 3,388 | 4,885 | 5,517 |
| Per cent of GDP | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 |

Reconciliation of net capital investment since the 2015-16 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2015-16 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

| | Estimates | | | Projections | |
|-----------------------------------------------------|--------------|---------------|--------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | Total |
| | \$m | \$m | \$m | \$m | \$m |
| 2015-16 Budget net capital investment | 3,854 | 4,198 | 3,598 | 5,090 | 16,740 |
| Changes from 2015-16 Budget to 2015-16 MYEFO | | | | | |
| Effect of policy decisions(a) | 128 | 46 | -56 | -75 | 43 |
| Effect of parameter and other variations | 502 | 501 | 560 | 918 | 2,482 |
| Total variations | 630 | 547 | 505 | 843 | 2,525 |
| 2015-16 MYEFO net capital investment | 4,484 | 4,745 | 4,103 | 5,933 | 19,265 |
| Changes from 2015-16 MYEFO to 2016-17 Budget | | | | | |
| Effect of policy decisions(a) | 7 | 216 | 12 | -116 | 120 |
| Effect of parameter and other variations | -136 | -1,524 | -728 | -932 | -3,320 |
| Total variations | -129 | -1,308 | -715 | -1,048 | -3,200 |
| 2016-17 Budget net capital investment | 4,355 | 3,437 | 3,388 | 4,885 | 16,065 |

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

Statement 5: Expenses and Net Capital Investment

Forecast net capital investment for 2016-17 has decreased by \$1.3 billion since the 2015-16 MYEFO. This decrease is driven by the effect of parameter and other variations of \$1.5 billion, and an increase relating to new policy decisions of \$0.2 billion.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2016-17*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2015-16 to 2019-20 are provided in Table 20.

Table 20: Estimates of net capital investment by function

| | Estimates | | | Projections | |
|----------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| General public services | 458 | 47 | -279 | -202 | -104 |
| Defence | 3,597 | 3,426 | 5,060 | 5,813 | 6,168 |
| Public order and safety | 101 | 160 | 63 | -44 | -148 |
| Education | 20 | -9 | -15 | -20 | -24 |
| Health | 35 | 59 | -10 | -27 | -20 |
| Social security and welfare | 65 | 74 | 13 | -88 | -113 |
| Housing and community amenities | 1 | 39 | -107 | -116 | -4 |
| Recreation and culture | 87 | 120 | 132 | 30 | 54 |
| Fuel and energy | -3 | -2 | -1 | -1 | 0 |
| Agriculture, forestry and fishing | 84 | 193 | 455 | 299 | 231 |
| Mining, manufacturing and construction | -2 | 7 | 4 | 0 | -3 |
| Transport and communication | -158 | -524 | -9 | -19 | -18 |
| Other economic affairs | 148 | 131 | -33 | -70 | -39 |
| Other purposes | -78 | -284 | -1,887 | -670 | -463 |
| Total net capital investment | 4,355 | 3,437 | 3,388 | 4,885 | 5,517 |

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

- **defence** – funding associated with the 2016 Defence White Paper and the accompanying 2016 Integrated Investment Program, which identifies spending over the next 10 years on equipment such as ships, aircraft and armoured vehicles, ICT capabilities and infrastructure;
- **public order and safety** – funding in 2016-17 to enhance protective security arrangements for law enforcement agencies and the establishment of a Crimtrac Biometric Identification Services system;

Statement 5: Expenses and Net Capital Investment

- **recreation and culture** – reflects the completion of the ABC’s Melbourne Accommodation Project to rationalise existing property holdings in 2017-18, funding for the Department of the Environment from 2015-16 for the acquisition of the new icebreaker to replace the existing Aurora Australis, which is nearing the end of its operational life, and the purchase of assets by arts and cultural heritage entities;
- **agriculture, forestry and fishing** – reflects an increase in water purchases under the Sustainable Rural Water Use and Infrastructure Programme in 2016-17 and 2017-18;
- **transport and communication** – the negative investment in 2015-16 and 2016-17 is largely due to the reissue and auction by the Australian Communications and Media Authority of spectrum licences in the 2.3GHz, 3.4 GHz and 1800 MHz bands;
- **other economic affairs** – the increase in investment in 2015-16, largely reflecting previous decisions relating to construction of offshore immigration facilities, and the positive investment in 2016-17, which is largely due to the Government’s decision to reconfigure and consolidate the onshore network; and
- **other purposes** – the negative investments in this function largely reflect the Government’s intention to sell the remaining 700MHz spectrum and the renewal of the telecommunications carrier’s 15 year licences for 2.0 GHz spectrum, with expected receipts in 2015-16 being moved to the forward estimates.

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

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

| | Estimates | | | Projections | |
|-------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| General public services | 1,318 | 1,028 | 773 | 665 | 742 |
| Defence | 7,969 | 8,073 | 9,879 | 11,021 | 11,913 |
| Public order and safety | 536 | 593 | 513 | 419 | 338 |
| Education | 47 | 28 | 26 | 25 | 25 |
| Health | 125 | 121 | 76 | 52 | 58 |
| Social security and welfare | 404 | 440 | 359 | 240 | 230 |
| Housing and community amenities | 56 | 36 | 35 | 32 | 32 |
| Recreation and culture | 379 | 429 | 590 | 335 | 366 |
| Fuel and energy | 2 | 2 | 2 | 2 | 2 |
| Agriculture, forestry and fishing | 131 | 237 | 499 | 343 | 272 |
| Mining, manufacturing and construction | 6 | 15 | 11 | 7 | 5 |
| Transport and communication | 50 | 69 | 56 | 45 | 45 |
| Other economic affairs | 612 | 532 | 353 | 330 | 321 |
| Other purposes | -78 | -186 | -179 | -260 | -304 |
| General government purchases of non-financial assets | 11,559 | 11,416 | 12,993 | 13,255 | 14,046 |

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION**Table A1: Estimates of expenses by function and sub-function**

| | Actuals | | Estimates | | Projections | |
|-----------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2014-15 \$m | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| General public services | | | | | | |
| Legislative and executive affairs | 1,124 | 1,229 | 1,334 | 1,077 | 1,099 | 1,331 |
| Financial and fiscal affairs | 7,145 | 6,895 | 7,536 | 7,502 | 7,595 | 7,802 |
| Foreign affairs and economic aid | 6,393 | 5,470 | 6,090 | 5,522 | 5,823 | 6,602 |
| General research | 2,766 | 2,866 | 2,771 | 2,851 | 2,968 | 3,065 |
| General services | 720 | 977 | 963 | 924 | 940 | 943 |
| Government superannuation benefits | 6,457 | 6,530 | 3,965 | 3,913 | 3,921 | 3,794 |
| Total general public services | 24,605 | 23,967 | 22,659 | 21,790 | 22,345 | 23,537 |
| Defence | 23,790 | 25,986 | 27,155 | 27,937 | 29,384 | 31,525 |
| Public order and safety | | | | | | |
| Courts and legal services | 1,021 | 1,217 | 1,159 | 1,110 | 1,084 | 1,081 |
| Other public order and safety | 3,422 | 3,741 | 3,756 | 3,656 | 3,635 | 3,594 |
| Total public order and safety | 4,443 | 4,958 | 4,915 | 4,766 | 4,719 | 4,675 |
| Education | | | | | | |
| Higher education | 9,078 | 9,621 | 9,562 | 9,518 | 9,266 | 9,466 |
| Vocational and other education | 1,823 | 1,848 | 1,992 | 1,499 | 1,522 | 1,548 |
| Schools | 14,706 | 15,636 | 16,996 | 17,997 | 18,833 | 19,777 |
| <i>Non-government schools</i> | <i>9,474</i> | <i>9,869</i> | <i>10,554</i> | <i>11,061</i> | <i>11,556</i> | <i>12,106</i> |
| <i>Government schools</i> | <i>5,232</i> | <i>5,767</i> | <i>6,442</i> | <i>6,936</i> | <i>7,277</i> | <i>7,671</i> |
| School education - specific funding | 886 | 712 | 659 | 498 | 122 | 119 |
| Student assistance | 4,372 | 4,367 | 4,114 | 3,956 | 4,403 | 4,551 |
| General administration | 235 | 331 | 346 | 346 | 348 | 343 |
| Total education | 31,101 | 32,515 | 33,669 | 33,815 | 34,494 | 35,804 |
| Health | | | | | | |
| Medical services and benefits | 27,768 | 29,025 | 30,181 | 31,108 | 32,437 | 33,891 |
| Pharmaceutical benefits and services | 10,322 | 11,022 | 11,513 | 11,623 | 11,938 | 12,328 |
| Assistance to the States for public hospitals | 15,466 | 17,196 | 17,912 | 18,923 | 19,987 | 21,106 |
| Hospital services(a) | 2,007 | 1,755 | 1,718 | 1,690 | 1,701 | 1,722 |
| Health services | 6,335 | 6,322 | 6,292 | 6,264 | 6,371 | 6,438 |
| General administration | 3,103 | 3,106 | 3,000 | 2,961 | 2,913 | 2,846 |
| Aboriginal and Torres Strait Islander health | 695 | 746 | 798 | 856 | 892 | 929 |
| Total health | 65,696 | 69,172 | 71,413 | 73,425 | 76,239 | 79,260 |
| Social security and welfare | | | | | | |
| Assistance to the aged | 57,506 | 59,995 | 63,265 | 65,732 | 69,407 | 72,989 |
| Assistance to veterans and dependants | 6,865 | 6,619 | 6,465 | 6,238 | 6,065 | 5,945 |
| Assistance to people with disabilities | 27,465 | 29,084 | 33,395 | 40,507 | 51,135 | 52,922 |
| Assistance to families with children | 38,080 | 38,889 | 37,610 | 37,345 | 39,860 | 41,636 |

Statement 5: Expenses and Net Capital Investment

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

| | Actuals | | Estimates | | Projections | |
|------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2014-15 \$m | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Social security and welfare (continued) | | | | | | |
| Assistance to the unemployed and the sick | 10,728 | 10,896 | 10,458 | 10,305 | 11,441 | 11,828 |
| Other welfare programmes | 1,441 | 1,508 | 1,562 | 922 | 993 | 1,054 |
| Assistance for Indigenous Australians nec | 2,102 | 2,153 | 2,209 | 2,118 | 2,046 | 2,135 |
| General administration | 3,601 | 3,694 | 3,648 | 3,351 | 3,312 | 3,321 |
| Total social security and welfare | 147,787 | 152,838 | 158,612 | 166,518 | 184,260 | 191,828 |
| Housing and community amenities | | | | | | |
| Housing | 3,269 | 3,267 | 3,568 | 3,517 | 3,057 | 3,027 |
| Urban and regional development | 679 | 703 | 688 | 592 | 439 | 386 |
| Environment protection | 887 | 895 | 1,026 | 942 | 960 | 998 |
| Total housing and community amenities | 4,835 | 4,865 | 5,282 | 5,051 | 4,455 | 4,412 |
| Recreation and culture | | | | | | |
| Broadcasting | 1,555 | 1,496 | 1,425 | 1,430 | 1,431 | 1,447 |
| Arts and cultural heritage | 1,175 | 1,287 | 1,252 | 1,219 | 1,153 | 1,166 |
| Sport and recreation | 401 | 349 | 341 | 308 | 298 | 306 |
| National estate and parks | 402 | 380 | 382 | 381 | 367 | 382 |
| Total recreation and culture | 3,534 | 3,512 | 3,401 | 3,337 | 3,249 | 3,301 |
| Fuel and energy | 6,799 | 6,528 | 6,687 | 6,782 | 7,028 | 7,301 |
| Agriculture, forestry and fishing | | | | | | |
| Wool industry | 61 | 69 | 69 | 69 | 69 | 69 |
| Grains industry | 197 | 224 | 221 | 214 | 214 | 214 |
| Dairy industry | 57 | 58 | 58 | 59 | 59 | 59 |
| Cattle, sheep and pig industry | 205 | 212 | 184 | 183 | 187 | 189 |
| Fishing, horticulture and other agriculture | 276 | 322 | 314 | 327 | 327 | 329 |
| General assistance not allocated to specific industries | 27 | 26 | 31 | 32 | 31 | 35 |
| Rural assistance | 142 | 170 | 200 | 153 | 161 | 148 |
| Natural resources development | 848 | 976 | 1,295 | 1,295 | 850 | 540 |
| General administration | 599 | 712 | 750 | 752 | 729 | 686 |
| Total agriculture, forestry and fishing | 2,411 | 2,768 | 3,122 | 3,084 | 2,626 | 2,269 |
| Mining, manufacturing and construction | 3,550 | 3,650 | 3,545 | 3,792 | 3,999 | 4,277 |
| Transport and communication | | | | | | |
| Communication | 636 | 632 | 692 | 638 | 568 | 567 |
| Rail transport | 724 | 1,555 | 1,533 | 742 | 97 | 0 |
| Air transport | 205 | 222 | 245 | 224 | 201 | 198 |
| Road transport | 4,207 | 5,501 | 7,971 | 8,300 | 5,079 | 3,979 |
| Sea transport | 345 | 388 | 426 | 428 | 432 | 437 |
| Other transport and communication | 315 | 350 | 264 | 274 | 223 | 220 |
| Total transport and communication | 6,433 | 8,647 | 11,131 | 10,606 | 6,599 | 5,400 |

Statement 5: Expenses and Net Capital Investment

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

| | Actuals | | Estimates | | Projections | |
|-------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2014-15 \$m | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Other economic affairs | | | | | | |
| Tourism and area promotion | 186 | 186 | 188 | 188 | 177 | 180 |
| Total labour and employment affairs | 3,673 | 3,528 | 3,884 | 3,941 | 3,963 | 3,981 |
| <i>Vocational and industry training</i> | 1,288 | 1,238 | 1,325 | 1,322 | 1,343 | 1,353 |
| <i>Labour market assistance to job seekers and industry</i> | 1,573 | 1,477 | 1,873 | 1,953 | 1,958 | 1,953 |
| <i>Industrial relations</i> | 811 | 813 | 686 | 666 | 663 | 676 |
| Immigration | 4,036 | 3,792 | 3,659 | 2,409 | 2,344 | 2,203 |
| Other economic affairs nec | 2,151 | 2,119 | 2,100 | 2,082 | 2,115 | 2,166 |
| Total other economic affairs | 10,046 | 9,626 | 9,832 | 8,620 | 8,600 | 8,531 |
| Other purposes | | | | | | |
| Public debt interest | 14,491 | 15,376 | 16,644 | 17,627 | 18,346 | 18,684 |
| <i>Interest on Commonwealth Government's behalf</i> | 14,491 | 15,376 | 16,644 | 17,627 | 18,346 | 18,684 |
| Nominal superannuation interest | 8,999 | 9,167 | 9,959 | 10,330 | 10,706 | 11,085 |
| General purpose inter-government transactions | 58,859 | 59,380 | 63,553 | 66,910 | 70,368 | 73,497 |
| <i>General revenue assistance - States and Territories</i> | 55,425 | 58,236 | 61,265 | 64,529 | 67,894 | 70,922 |
| <i>Local government assistance</i> | 3,433 | 1,144 | 2,289 | 2,381 | 2,474 | 2,575 |
| Natural disaster relief(b) | 522 | 49 | 27 | 11 | 0 | 0 |
| Contingency reserve | 0 | -1,536 | -1,055 | 412 | 1,906 | 6,217 |
| Total other purposes | 82,871 | 82,437 | 89,129 | 95,291 | 101,326 | 109,483 |
| Total expenses | 417,898 | 431,470 | 450,553 | 464,812 | 489,324 | 511,604 |

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

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

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

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

CONTENTS

| | |
|-----------------------------------------------------------------------|-------------|
| Overview | 6-3 |
| Debt Statement | 6-3 |
| Commonwealth Government Securities issuance | 6-3 |
| Estimates and projections of key debt aggregates | 6-5 |
| Estimates and projections of net debt | 6-5 |
| Estimates and projections of CGS on issue..... | 6-8 |
| Changes in CGS on issue since the 2015-16 MYEFO | 6-9 |
| Breakdown of CGS currently on issue | 6-10 |
| Non-resident holdings of CGS on issue | 6-12 |
| Interest on CGS..... | 6-13 |
| Climate spending..... | 6-15 |
| Recurrent and capital spending | 6-16 |
| The Australian Government's major assets and liabilities | 6-18 |
| Assets..... | 6-18 |
| Liabilities..... | 6-23 |

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

OVERVIEW

This Statement provides information on estimated and projected Government net debt. Net debt is expected to be \$326.0 billion (18.9 per cent of GDP) in 2016-17. Net debt is projected to peak at 19.2 per cent of GDP in 2017-18, before declining over the medium term to a projected 9.1 per cent of GDP (\$264 billion) in 2026-27.

The end-of-year face value of Commonwealth Government Securities (CGS) on issue subject to the Treasurer's Direction is expected to be \$497 billion in 2016-17 and is expected to increase to \$581 billion in 2019-20. By the end of the medium term (2026-27) the total face value of CGS on issue is projected to rise to \$640 billion.

Information is also provided on the major assets and liabilities on the Government's balance sheet. The Government's total stock of assets is estimated to be \$509.6 billion in 2016-17 and increase to \$593.1 billion by the end of the forward estimates. Total liabilities are estimated to be \$810.6 billion in 2016-17 and increase to \$909.2 billion by the end of the forward estimates.

DEBT STATEMENT

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

Commonwealth Government Securities issuance

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

The Australian Office of Financial Management (AOFM) is responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

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

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

Statement 6: Debt statement, assets and liabilities

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

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

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

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

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is therefore determined on the basis of maturing CGS, net new issuance required to fund the Budget, and other operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in CGS supply from one financial year to the next.

In recent years, the AOFM has taken the opportunity to lengthen the CGS yield curve. This has provided for a lower risk profile of maturing debt and has been achieved during a period when borrowing costs have been low by historical standards.

At times when CGS issuance is not required to finance the government's activities, successive governments have continued to issue CGS for policy purposes, such as to maintain a liquid CGS market.

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

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

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of CGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of CGS on issue are published in both face value and market value terms in this Statement.

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

The **market value** of CGS represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards the market value of CGS on issue is reported on the Australian Government general government sector balance sheet.

Net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements. As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Commonwealth than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example, neither the Government's unfunded superannuation liability nor the equity holdings of the Future Fund are accounted for in net debt.

Estimates and projections of net debt

Table 1 contains estimates and projections of net debt to the end of the forward estimates period.

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

Statement 6: Debt statement, assets and liabilities

In 2016-17, net debt is expected to be \$326.0 billion, compared to \$316.5 billion at the 2015-16 MYEFO. Over the forward estimates, net debt is projected to peak at 19.2 per cent of GDP in 2017-18. This peak is higher than expected at the 2015-16 MYEFO, when net debt was expected to peak at 18.5 per cent of GDP in 2017-18. Over the medium term, net debt is projected to decline to 9.1 per cent of GDP (\$264 billion) in 2026-27.

Table 1: Liabilities and assets included in net debt from 2015-16 to 2019-20

| | Estimates | | | Projections | |
|-----------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Liabilities included in net debt | | | | | |
| Deposits held | 218 | 218 | 218 | 218 | 218 |
| Government securities | 476,999 | 549,537 | 594,439 | 614,904 | 628,828 |
| Loans | 16,425 | 15,739 | 15,732 | 15,731 | 15,643 |
| Other borrowing | 1,569 | 1,458 | 1,356 | 1,310 | 1,244 |
| Total liabilities included in net debt | 495,211 | 566,952 | 611,745 | 632,163 | 645,933 |
| Assets included in net debt | | | | | |
| Cash and deposits | 3,512 | 4,874 | 3,440 | 3,160 | 2,688 |
| Advances paid | 52,782 | 62,637 | 72,852 | 83,557 | 95,356 |
| Investments, loans and placements | 153,233 | 173,479 | 188,611 | 189,073 | 192,823 |
| Total assets included in net debt | 209,526 | 240,990 | 264,903 | 275,790 | 290,867 |
| Net debt | 285,684 | 325,962 | 346,842 | 356,373 | 355,066 |

Changes in net debt since the 2015-16 MYEFO

Table 2 shows the drivers of the change in net debt between the 2015-16 MYEFO and the 2016-17 Budget.

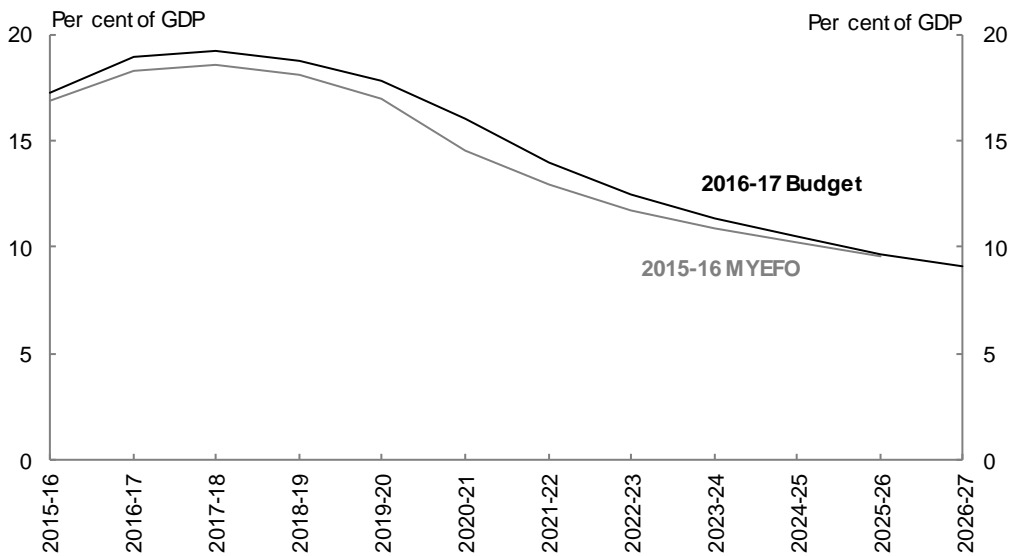
Net debt is estimated to increase across the forward estimates compared with the 2015-16 MYEFO. This increase is primarily driven by higher levels of CGS on issue owing to changes in the financing requirement, and an increase in the market value of CGS owing to lower average yields. These factors are partially offset by the higher value of investments held by the Government.

Table 2: Net debt — reconciliation from the 2015-16 MYEFO to the 2016-17 Budget

| | 2015-16 \$b | 2016-17 \$b | 2017-18 \$b | 2018-19 \$b |
|-------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Net debt as at 2015-16 MYEFO (\$b) | 278.8 | 316.5 | 336.4 | 346.6 |
| Changes in financing requirement | -2.0 | 8.8 | 17.4 | 12.6 |
| Impact of yields on CGS | 6.6 | 6.9 | 6.6 | 6.0 |
| Asset and other liability movements | 2.3 | -6.3 | -13.5 | -8.8 |
| <i>Cash and deposits</i> | 0.4 | -1.4 | 0.0 | 0.3 |
| <i>Advances paid</i> | 0.4 | 0.7 | 0.3 | 0.2 |
| <i>Investments, loans and placements</i> | 1.3 | -5.7 | -14.0 | -9.6 |
| <i>Other movements</i> | 0.2 | 0.1 | 0.2 | 0.3 |
| Total movements in net debt from 2015-16 MYEFO to 2016-17 Budget | 6.9 | 9.4 | 10.4 | 9.8 |
| Net debt as at 2016-17 Budget (\$b) | 285.7 | 326.0 | 346.8 | 356.4 |

Net debt is projected to decline over the medium term to 9.1 per cent of GDP (\$264 billion) in 2026-27 (Chart 1). Net debt is projected to be 9.7 per cent of GDP (\$266 billion) in 2025-26, broadly in line with projected net debt in 2025-26 at the 2015-16 MYEFO.

Chart 1: Net debt projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Treasury projections

Statement 6: Debt statement, assets and liabilities

Estimates and projections of CGS on issue

Table 3 contains projections of the face value (end-of-year and within-year peak)² and the market value (end-of-year) of CGS on issue.

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

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

Table 3: Estimates and projections of CGS on issue subject to the Treasurer's Direction^(a)

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| | \$b | \$b | \$b | \$b | \$b |
| Face value - end of year | 425 | 497 | 542 | 565 | 581 |
| Per cent of GDP | 25.7 | 28.9 | 30.0 | 29.8 | 29.2 |
| Face value - within-year peak(b) | 437 | 498 | 542 | 566 | 593 |
| Per cent of GDP(b) | 26.5 | 28.9 | 30.0 | 29.9 | 29.8 |
| <i>Month of peak(b)</i> | <i>Jun-16</i> | <i>Jun-17</i> | <i>Jun-18</i> | <i>Mar-19</i> | <i>Apr-20</i> |
| Market value - end of year(c) | 472 | 545 | 590 | 610 | 624 |
| Per cent of GDP | 28.6 | 31.7 | 32.6 | 32.2 | 31.4 |

(a) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.

(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of CGS on issue are therefore subject to considerable uncertainty.

(c) The Treasurer's Direction applies only to the face value of CGS on issue. This table also shows the market value of CGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in Statement 9: Australian Government Budget Financial Statements Table 2: Australian Government general government sector balance sheet that refer to total CGS on issue.

Source: Australian Office of Financial Management.

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

2 End-of-year values are estimates or projections of CGS on issue at 30 June for the particular year. The precise timing of within-year peaks of CGS on issue is not known. The timing of the within-year peak is therefore reported to the given month in the particular year.

3 On 11 December 2013, the Treasurer directed that the maximum face value of CGS that can be on issue is \$500 billion.

Statement 6: Debt statement, assets and liabilities

In 2016-17, the end-of-year face value of CGS on issue subject to the Treasurer's Direction is expected to be \$497 billion, compared to \$486 billion at the 2015-16 MYEFO. The end-of year face value of CGS on issue subject to the Treasurer's Direction is expected to reach at \$581 billion in 2019-20.

In 2016-17, the face value of CGS on issue is expected to reach a within-year peak of \$498 billion. Over the forward estimates, the face value of CGS on issue is projected to rise to a within-year peak of \$593 billion in 2019-20.

Changes in CGS on issue since the 2015-16 MYEFO

Table 4 shows the change in the projected end of year face value of CGS on issue between the 2015-16 MYEFO and the 2016-17 Budget.

Table 4: Projected CGS on issue subject to the Treasurer's Direction — reconciliation from the 2015-16 MYEFO to the 2016-17 Budget

| | 2015-16 \$b | 2016-17 \$b | 2017-18 \$b | 2018-19 \$b |
|-----------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
| Total face value of CGS on issue subject to the Treasurer's Direction as at 2015-16 MYEFO | 426 | 486 | 523 | 549 |
| Factors affecting the change in face value of CGS on issue from 2015-16 MYEFO to 2016-17 Budget(a) | | | | |
| Cumulative receipts decisions | -0.4 | 1.3 | 1.0 | 1.2 |
| Cumulative receipts variations | 7.3 | 9.7 | 13.4 | 16.8 |
| Cumulative payment decisions | 0.6 | 2.0 | 1.9 | 3.1 |
| Cumulative payment variations | -4.0 | -5.6 | -5.4 | -8.5 |
| Cumulative change in net investments in financial assets(b) | -3.9 | 3.1 | 10.1 | 4.4 |
| Other contributors | -1.1 | 0.1 | -1.8 | -1.3 |
| Total face value of CGS on issue subject to the Treasurer's Direction as at 2016-17 Budget | 425 | 497 | 542 | 565 |

(a) Cumulative impact of decisions and variations from 2015-16 to 2018-19. Increases to payments are shown as positive, and increases to receipts are shown as negative.

(b) Change in net cash flows from investments in policy and liquidity purposes.

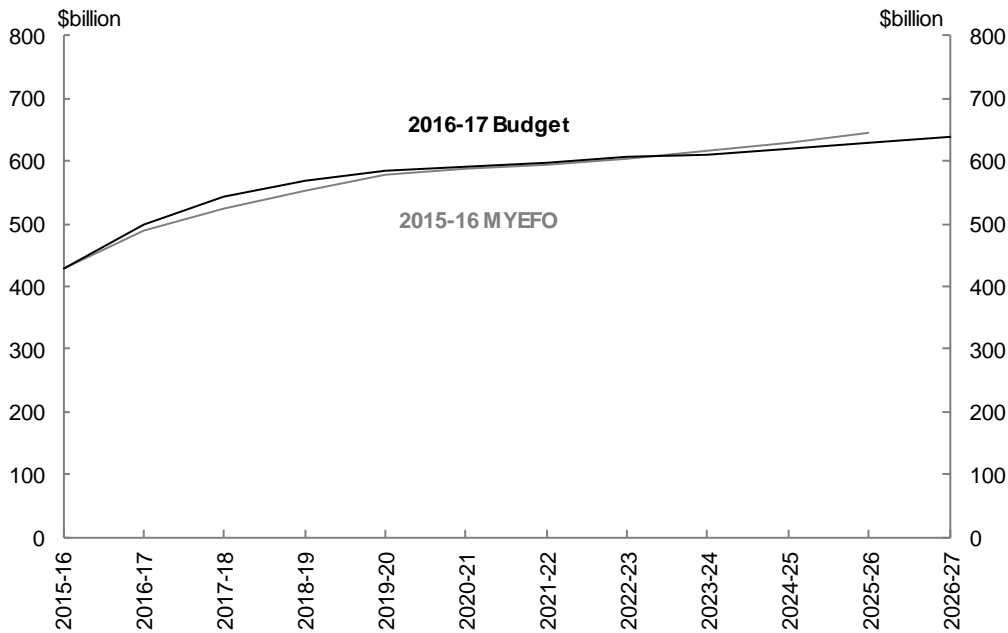
Note: End of year data.

The total face value of CGS on issue is projected to rise to \$640 billion by 2026-27. The face value of CGS on issue is projected to rise to \$629 billion by 2025-26, around \$18 billion lower than the \$647 billion projected at the 2015-16 MYEFO (Chart 2), driven by lower assumed yields across the medium term.

Further details on the changes to the underlying cash balance since the 2015-16 MYEFO can be found in Statement 3: Fiscal Strategy and Outlook.

Statement 6: Debt statement, assets and liabilities

Chart 2: Face value of CGS on issue projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Australian Office of Financial Management and Treasury projections.

Breakdown of CGS currently on issue

Table 5 provides a breakdown of the CGS on issue by type of security as at 26 April 2016.

Table 5: Breakdown of current Commonwealth Government Securities on issue

| | On issue as at 26 April 2016 | |
|---------------------------------------------------------|------------------------------|---------------------|
| | Face value \$m | Market value \$m |
| Treasury Bonds (a) | 389,587 | 425,282 |
| Treasury Indexed Bonds (a) | 27,116 | 35,367 |
| Treasury Notes (a) | 4,000 | 3,981 |
| Total CGS subject to Treasurer's Direction(a)(b) | 420,703 | 464,629 |
| Other stock and securities | 2,484 | 4,709 |
| Total CGS on issue | 423,187 | 469,338 |

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table also shows the market value of CGS that are subject to the Treasurer's Direction.

(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions, outlined in subsection 51JA(2A) of the CIS Act, are: stock and securities issued in relation to money borrowed under the *Loan (Temporary Revenue Deficits) Act 1953*; stock and securities loaned by the Treasurer under a securities lending arrangement under section 5BA of the *Loans Securities Act 1919*, or held by or on behalf of the Treasurer for the purpose of such an arrangement; stock and securities invested under subsection 58 of the *Public Governance, Performance and Accountability Act 2013*; and stock and securities on issue as at the start of 13 July 2008, other than Treasury Fixed Coupon Bonds.

Source: Australian Office of Financial Management

TREASURY BONDS

Table 6 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 26 April 2016, there were 22 Treasury Bond lines on issue, with a weighted average term to maturity of around 6.6 years and the longest maturity extending to June 2039.

Since late 2010-11, the AOFM has incrementally lengthened the CGS yield curve while the cost of borrowing has been low by historical standards. This increases the average maturity and duration profile of the AOFM's debt portfolio, thereby lowering variability in future debt servicing costs and reducing refinancing risk.

Table 6: Treasury Bonds on issue

| Coupon Per cent | Maturity | On issue as at | Timing of interest payments(a) | | |
|--------------------|-----------|----------------------|--------------------------------|--------|--------|
| | | 26 April 2016 \$m | | | |
| 4.75 | 15-Jun-16 | 15,900 | Twice yearly | 15 Jun | 15 Dec |
| 6.00 | 15-Feb-17 | 21,096 | Twice yearly | 15 Feb | 15 Aug |
| 4.25 | 21-Jul-17 | 18,900 | Twice yearly | 21 Jul | 21 Jan |
| 5.50 | 21-Jan-18 | 20,500 | Twice yearly | 21 Jan | 21 Jul |
| 3.25 | 21-Oct-18 | 18,100 | Twice yearly | 21 Oct | 21 Apr |
| 5.25 | 15-Mar-19 | 22,947 | Twice yearly | 15 Mar | 15 Sep |
| 2.75 | 21-Oct-19 | 20,700 | Twice yearly | 21 Oct | 21 Apr |
| 4.50 | 15-Apr-20 | 23,397 | Twice yearly | 15 Apr | 15 Oct |
| 1.75 | 21-Nov-20 | 12,600 | Twice yearly | 21 Nov | 21 May |
| 5.75 | 15-May-21 | 22,299 | Twice yearly | 15 May | 15 Nov |
| 5.75 | 15-Jul-22 | 21,400 | Twice yearly | 15 Jul | 15 Jan |
| 5.50 | 21-Apr-23 | 21,300 | Twice yearly | 21 Apr | 21 Oct |
| 2.75 | 21-Apr-24 | 24,700 | Twice yearly | 21 Apr | 21 Oct |
| 3.25 | 21-Apr-25 | 26,100 | Twice yearly | 21 Apr | 21 Oct |
| 4.25 | 21-Apr-26 | 27,500 | Twice yearly | 21 Apr | 21 Oct |
| 4.75 | 21-Apr-27 | 23,700 | Twice yearly | 21 Apr | 21 Oct |
| 2.75 | 21-Nov-27 | 8,500 | Twice yearly | 21 Nov | 21 May |
| 3.25 | 21-Apr-29 | 11,500 | Twice yearly | 21 Apr | 21 Oct |
| 4.50 | 21-Apr-33 | 10,400 | Twice yearly | 21 Apr | 21 Oct |
| 2.75 | 21-Jun-35 | 5,550 | Twice yearly | 21 Jun | 21 Dec |
| 3.75 | 21-Apr-37 | 8,500 | Twice yearly | 21 Apr | 21 Oct |
| 3.25 | 21-Jun-39 | 4,000 | Twice yearly | 21 Jun | 21 Dec |

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 7 lists Treasury Indexed Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 26 April 2016, there were seven TIB lines on issue, with a weighted average term to maturity of around 9.3 years and the longest maturity extending to August 2040.

Statement 6: Debt statement, assets and liabilities

Table 7: Treasury Indexed Bonds on issue

| Coupon Per cent | Maturity | On issue as at 26 April 2016 | | Timing of interest payments(a) | | | | |
|--------------------|-----------|---------------------------------|-----------|--------------------------------|--------|--------|--------|--|
| | | \$m | | | | | | |
| 1.00 | 21-Nov-18 | 5,089 | Quarterly | 21 Nov | 21 Feb | 21 May | 21 Aug | |
| 4.00 | 20-Aug-20 | 5,114 | Quarterly | 20 Aug | 20 Nov | 20 Feb | 20 May | |
| 1.25 | 21-Feb-22 | 4,940 | Quarterly | 21 Feb | 21 May | 21 Aug | 21 Nov | |
| 3.00 | 20-Sep-25 | 6,393 | Quarterly | 20 Sep | 20 Dec | 20 Mar | 20 Jun | |
| 2.50 | 20-Sep-30 | 3,443 | Quarterly | 20 Sep | 20 Dec | 20 Mar | 20 Jun | |
| 2.00 | 21-Aug-35 | 3,050 | Quarterly | 21 Aug | 21 Nov | 21 Feb | 21 May | |
| 1.25 | 21-Aug-40 | 1,550 | Quarterly | 21 Aug | 21 Nov | 21 Feb | 21 May | |

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: Australian Office of Financial Management.

Treasury Notes

The face value of Treasury Notes on issue as at 26 April 2016 was \$4 billion. Table 8 lists the Treasury Notes currently on issue. Treasury Notes do not pay a coupon, but they are issued at a discount – the face value received at maturity is higher than the price paid at issuance.

Table 8: Treasury Notes on issue

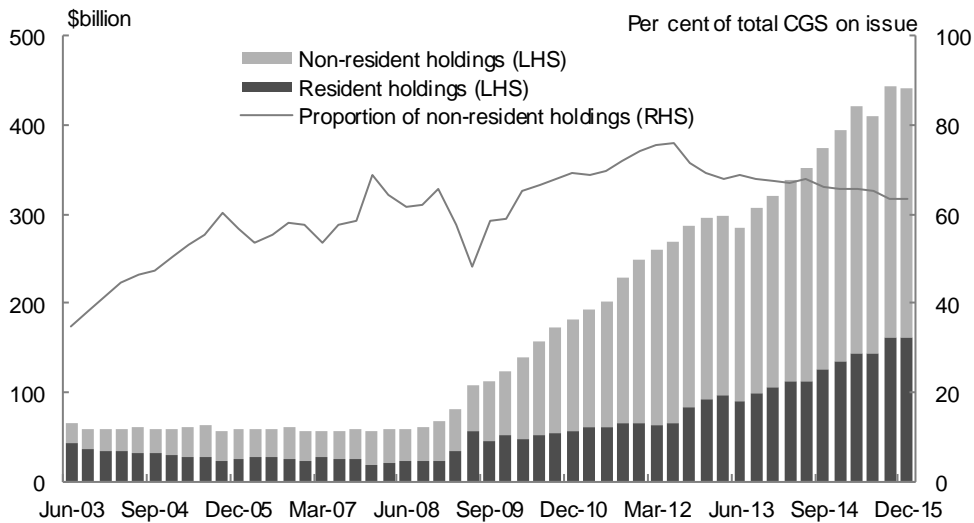
| Maturity | On issue as at 26 April 2016 | | Timing of interest payment | |
|-----------|---------------------------------|--|----------------------------|--------|
| | \$m | | | |
| 3-Jun-16 | 1,500 | | At maturity | 3 June |
| 29-Jul-16 | 500 | | At maturity | 29 Jul |
| 26-Aug-16 | 2,000 | | At maturity | 26 Aug |

Non-resident holdings of CGS on issue

The sale of CGS is not restricted to Australian residents. As at the December quarter 2015, 63.5 per cent of total CGS on issue was held by non-residents of Australia (Chart 3). The proportion of CGS held by non-residents rose significantly between 2009 and 2012. The proportion has fallen from historically high levels in 2012 but remains elevated.

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

Chart 3: Non-resident holdings of Commonwealth Government Securities



Note: Data refers to the market value of holdings.

Source: ABS Catalogue Number 5203.0 and the Australian Office of Financial Management.

Interest on CGS

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

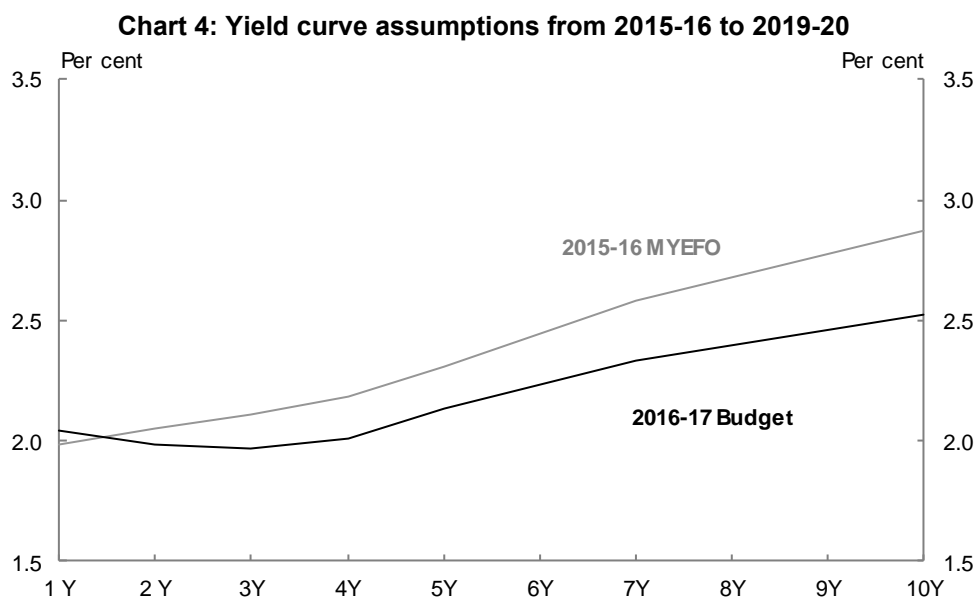
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather than when they are actually paid.

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

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

Statement 6: Debt statement, assets and liabilities

The assumed market yields at the 2016-17 Budget result in a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.7 per cent at the 2015-16 MYEFO. Chart 4 shows the yield curve assumptions underpinning the 2015-16 MYEFO and 2016-17 Budget.



Source: Australian Office of Financial Management

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

The Government's total interest payments in 2016-17 are estimated to be \$15.9 billion, of which \$15.5 billion relates to CGS on issue (Table 9).

Table 9: Interest payments, interest receipts and net interest payment^(a)

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|--------------------------------------|---------|---------|---------|---------|---------|
| | \$m | \$m | \$m | \$m | \$m |
| Interest payments on CGS | 14,450 | 15,529 | 16,402 | 17,608 | 18,001 |
| Per cent of GDP | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Interest payments | 14,822 | 15,903 | 16,826 | 18,054 | 18,463 |
| Per cent of GDP | 0.9 | 0.9 | 0.9 | 1.0 | 0.9 |
| Interest receipts | 2,842 | 3,262 | 3,470 | 3,829 | 4,248 |
| Per cent of GDP | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Net interest payments ^(b) | 11,980 | 12,642 | 13,356 | 14,224 | 14,215 |
| Per cent of GDP | 0.7 | 0.7 | 0.7 | 0.8 | 0.7 |

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.

(b) Net interest payments are equal to the difference between interest payments and interest receipts.

Statement 6: Debt statement, assets and liabilities

The Government's total interest expense in 2016-17 is estimated to be \$18.7 billion, of which \$16.6 billion relates to CGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on CGS, interest income and net interest expense over the forward estimates.

Table 10: Interest expense, interest income and net interest expense^(a)

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|-------------------------|---------|---------|---------|---------|---------|
| | \$m | \$m | \$m | \$m | \$m |
| Interest expense on CGS | 15,360 | 16,643 | 17,626 | 18,345 | 18,683 |
| Per cent of GDP | 0.9 | 1.0 | 1.0 | 1.0 | 0.9 |
| Interest expense | 16,774 | 18,725 | 19,764 | 20,539 | 20,818 |
| Per cent of GDP | 1.0 | 1.1 | 1.1 | 1.1 | 1.0 |
| Interest income | 3,506 | 4,280 | 4,841 | 5,775 | 6,825 |
| Per cent of GDP | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| Net interest expense | 13,268 | 14,445 | 14,923 | 14,764 | 13,993 |
| Per cent of GDP | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

Climate spending

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

Table 11: Climate spending from 2015-16 to 2019-20

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---------------------|---------|---------|---------|---------|---------|
| | \$b | \$b | \$b | \$b | \$b |
| Climate spending(a) | 0.75 | 1.30 | 1.20 | 1.30 | 1.25 |

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

The key components of climate spending are:

- the Emissions Reduction Fund, which will provide incentives to support abatement activities across the economy; and
- the Clean Energy Finance Corporation which invests in renewable energy, energy efficiency and low emissions technologies.

Estimates of climate spending have been updated to include the Government's decision to retain the Clean Energy Finance Corporation and the Australian Renewable Energy Agency.

Impact of climate spending on debt

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

Statement 6: Debt statement, assets and liabilities

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

| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|-------------------------------------------------------------------------|---------|---------|---------|---------|---------|
| Climate spending (\$b) (a) | 0.75 | 1.30 | 1.20 | 1.30 | 1.25 |
| Total spending (\$b) (b) | 440 | 465 | 472 | 494 | 515 |
| Climate spending (per cent of total spending) | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 |
| Change in face value of CGS from previous year (\$b) (c) | 58.5 | 71.9 | 45.6 | 22.9 | 16.0 |
| Contribution to change in face value of CGS from climate spending (\$b) | 0.10 | 0.20 | 0.12 | 0.06 | 0.04 |

(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.

(b) The calculation of total spending in this table is on a headline cash balance basis; that is, total payments and net cash flows from investments in financial assets for policy purposes.

(c) Calculations of the change in the face value of CGS are calculated using total CGS on issue.

Recurrent and capital spending

In the 2013-14 MYEFO, the Government made a commitment to enhance disclosure on the proportion of the total budget⁴ allocated to recurrent and capital spending.

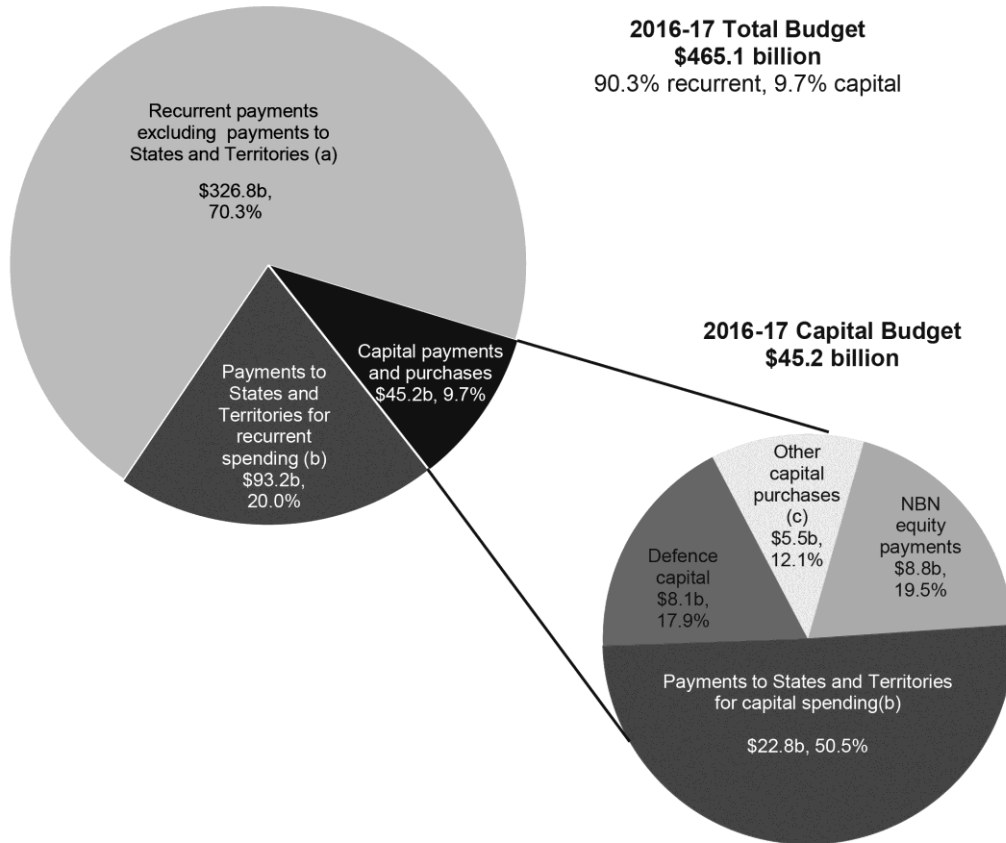
The **recurrent budget** includes pension and income support payments, funding in the areas of health and education (except where funding is allocated to the building of facilities), interest payments on public debt, student loans, and operating costs of the Government including payments to employees.

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

Chart 5 below presents a detailed breakdown of recurrent and capital spending for the 2016-17 year.

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

Chart 5: Recurrent and capital spending as a proportion of the Budget in 2016-17



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

Chart 5 shows that 90.3 per cent of estimated total budget spending in 2016-17 is recurrent, and the remaining 9.7 per cent of the budget is capital.

Of the total budget, 70.3 per cent comprises recurrent payments such as income support payments, grants and subsidies to recipients other than States and Territories, interest payments on public debt, operating costs of the Government, and student loans. Payments to states and territories to fund recurrent spending make up 20.0 per cent of the budget. This amount includes specific purpose payments to States and Territories, including in the areas of health and education, and recurrent spending by the States and Territories estimated to be funded through general revenue assistance.

Statement 6: Debt statement, assets and liabilities

Of the \$45.2 billion of the capital budget, around 50.5 per cent relates to specific purpose payments to the States and Territories for capital purposes and the portion of General Revenue Assistance that is estimated to fund capital spending by the States and Territories. Equity payments to NBN Co comprise around 19.5 per cent of the capital budget and purchases of defence capital (for example, defence weapons and aircraft) comprises around 17.9 per cent. Other capital purchases such as software facilities upgrades make up around 12.1 per cent of the capital budget.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total stock of assets is estimated to be \$465.4 billion at 30 June 2016, increasing to \$509.6 billion in 2016-17 and \$593.1 billion by the end of the forward estimates.

The Government's financial assets are estimated to be \$342.6 billion at 30 June 2016, increasing to \$383.4 billion in 2016-17 and \$453.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be \$122.9 billion at 30 June 2016, increasing to \$126.2 billion in 2016-17 and \$139.7 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark return of at least CPI plus 4.5 per cent to 5.5 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Fund. The Investment Mandate also requires the Board to take an acceptable but not excessive level of risk for the Fund, measured in terms such as the probability of losses in a particular year.

The portfolio of assets has performed well. Since the first contribution to the Future Fund on 5 May 2006, the average return has been 7.4 per cent per annum.

At 31 March 2016, the Future Fund's return for the financial year to date was 0.2 per cent. The Future Fund was valued at \$117.4 billion at 31 March 2016.

Statement 6: Debt statement, assets and liabilities

The Board continues to focus on maintaining clear objectives and manages the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2015.

Table 13: Asset allocation of the Future Fund

| Asset class | 30 June 2015 | 31 March 2016 |
|---------------------------------|----------------|----------------|
| | \$m | \$m |
| Australian equities | 7,957 | 7,629 |
| Global equities | | |
| <i>Developed markets</i> | 20,629 | 17,899 |
| <i>Emerging markets</i> | 11,034 | 8,594 |
| Private equity | 12,609 | 11,474 |
| Property | 6,980 | 8,316 |
| Infrastructure and Timberland | 8,751 | 8,330 |
| Debt securities | 11,467 | 13,314 |
| Alternative assets | 14,904 | 14,938 |
| Cash | 22,890 | 26,885 |
| Total Future Fund assets | 117,222 | 117,378 |

Note: Data may not sum due to rounding

Asset Recycling Fund

The Asset Recycling Fund (ARF) was announced in the 2014-15 Budget. It is intended to be a dedicated vehicle for providing funding and financial incentives primarily to the States and Territories to invest in infrastructure, including under the Asset Recycling Initiative. Legislation to establish the ARF has not yet passed the Parliament.

The ARF will be seeded with \$7 billion of capital from uncommitted balances of the Building Australia Fund (BAF) and Education Investment Fund (EIF). Further contributions to the Fund will be made from proceeds from the sale of Medibank Private, to be credited on 1 July 2017, and other privatisations.

Drawdowns from the ARF for payments relating to the Infrastructure Growth Package will be made from capital and net earnings. Such drawdowns will primarily fund payments to States and Territories through the Council of Australian Governments (COAG) Reform Fund, governed by the National Partnership Agreements that will include those for the Asset Recycling Initiative and Land Transport Infrastructure Projects. Pending the establishment of the ARF, the Australian Government will enable funding for infrastructure investments under the Infrastructure Growth Package by providing funding of \$2.5 billion in 2016-17 through existing appropriation mechanisms.

The ARF will be managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance will set an investment mandate for the Fund which will provide broad direction to the Board in relation to its investment strategy.

Once the ARF is established and the uncommitted balances of the BAF and EIF are transferred to the ARF, the BAF and the EIF will be abolished. Remaining committed milestone payments of the BAF and EIF will be transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the relevant department.

Medical Research Future Fund

The Medical Research Future Fund (MRFF) was established on 26 August 2015 to provide additional funding for medical research and medical innovation.

The first credit to the MRFF of \$1.010 billion, which represented the uncommitted balance of the Health and Hospitals Fund (HHF), occurred on 22 September 2015. The second credit of \$2.139 billion, comprising savings from the Health portfolio, and residual amounts from the HHF, was transferred to the MRFF on 1 December 2015. Remaining credits to the Fund will consist of the estimated value of health function savings published in the 2014-15 Budget including any subsequent associated Government decisions, until the capital value of the MRFF reaches \$20 billion. The MRFF is expected to reach a balance of \$20 billion in 2020-21.

Statement 6: Debt statement, assets and liabilities

Net earnings on MRFF capital for a given financial year will be available for drawdown the following financial year. Payments met from drawdowns will be determined through the annual budget process. The capital of the Fund will be preserved in perpetuity.

The MRFF is managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an investment mandate for the Fund which provides broad direction to the Board in relation to its investment strategy.

The HHF was abolished on 29 October 2015. Remaining committed milestone payments of the HHF have been transferred to consolidated revenue to continue to be paid based on contractual obligations under the responsibility of the Department of Health.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) was established on 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS). This is consistent with the commitment by governments to roll out the NDIS across Australia.

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 3 May 2016 the DCAF has received credits totalling \$5.9 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance have set an Investment Mandate for the DCAF which came into effect from 1 July 2014 and provides guidance to the Board in relation to its investment strategy for the Fund. The DCAF Investment Mandate sets a benchmark return on the Fund of the Australian three month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12 month basis (net of fees). In achieving its objectives, the Board must invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

A fixed amount of the money flowing into the DCAF each year is set aside (commencing from 2014-15) for the State and Territory governments consistent with the DisabilityCare Australia Fund Act 2013. In 2016-17, this fixed amount is \$884 million, which was indexed by 3.5 per cent from the previous financial year. This amount will continue to be indexed annually by 3.5 per cent until 2023-24.

The State and Territory governments will be able to draw down from the DCAF when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme. The balance of the DCAF, after taking into account allocations to the states and territories, will be available to the Commonwealth to assist with meeting the Commonwealth's contribution to the NDIS.

Statement 6: Debt statement, assets and liabilities

Residential mortgage backed securities

During the global financial crisis, the previous Government directed the Australian Office of Financial Management (AOFM) to invest in AAA-rated residential mortgage backed securities (RMBS) to support competition from smaller lenders in residential mortgage and small business lending markets. Between 2008 and 2012 the AOFM purchased around \$15.5 billion in high-quality RMBS.

In May 2015 the Government announced its intention to progressively sell down the Commonwealth's holdings of RMBS through a regular competitive auction process, subject to market conditions. Monthly auctions were conducted from June 2015 to October 2015, resulting in total sales of \$458 million in amortised face value terms. As at the end of April 2016, the Government's RMBS portfolio was valued at \$2.9 billion in amortised face value terms.

To achieve value for money for the Commonwealth, the Treasurer's Direction gave the AOFM the discretion to not proceed with a sale where an acceptable price could not be achieved. Against a background of heightened global volatility, in November 2015 the AOFM exercised its discretion to suspend, until further notice, the regular auction process. In the absence of any further sales, the amortised face value outstanding of the RMBS portfolio is expected to be less than \$100 million by around the end of 2020.

National Broadband Network

The National Broadband Network (NBN) will deliver fast, affordable broadband to all Australians. The Government has instructed NBN Co Limited (nbn) to complete the NBN using a multi-technology mix (including fibre to the premises, fibre to the node, hybrid fibre coaxial cable, and wireless and satellite technologies), to ensure the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government will provide \$8.8 billion in equity to nbn in 2016-17, including \$0.4 billion moved from 2015-16. The Government's equity contributions are capped at \$29.5 billion.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) comprises concessional loans to students that enable them to defer payment of fees for diploma level and above courses, which are paid back once the loan recipient is earning an income above a certain level.

Statement 6: Debt statement, assets and liabilities

The fair value of HELP is estimated to be \$37.1 billion at 30 June 2016, which is \$0.2 billion lower than estimated in the 2015-16 MYEFO. The fair value represents the total accumulated HELP debt adjusted to take account of bad and doubtful debts (amounts not expected to be repaid); and deferral costs (the difference between the present value of repayments and the present value of repayments had a risk-free interest rate been applied, noting that HELP debts are indexed to inflation). The fair value of HELP is projected to grow to \$60.2 billion in 2018-19, which is \$1.5 billion lower than estimated in the 2015-16 MYEFO. It is projected to reach \$69.2 billion by the end of the forward estimates.

The Government has announced, in this Budget, that it will delay the implementation of the higher education reforms announced in the 2014-15 Budget and the 2014-15 MYEFO by an additional year to undertake further consultation. Higher education funding arrangements for 2017 will remain in line with currently legislated arrangements. The Government will also not proceed with the deregulation of university fees announced in the 2014-15 Budget. These changes are driving the lower HELP projections in this Budget compared to those estimated at MYEFO.

The Government is currently undertaking consultation on a redesign of the VET FEE-HELP scheme, following the release of a discussion paper on 29 April 2016. A redesigned VET FEE-HELP scheme is aimed at improving the integrity and sustainability of the scheme.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act).

The CEFC Act provides the CEFC with \$10 billion over five years to invest in renewable energy, low emissions technology and energy efficiency projects.

Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

On 23 March 2016, the Government announced that it would retain the CEFC.

Liabilities

The Government's total liabilities are estimated to be \$730.4 billion at 30 June 2016, increasing to \$810.6 billion in 2016-17 and \$909.2 billion by the end of the forward estimates.

The Government's major liabilities are CGS on issue and public sector employee superannuation liabilities. For further information on CGS on issue, see the Debt Statement.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. The Government's superannuation liability is estimated to be around \$169 billion at 30 June 2016 and approximately \$263 billion at 30 June 2050.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. For civilian employees, the major defined benefit schemes are the Commonwealth Sector Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Defence Forces Retirement Benefits Scheme (DFRB) and the Military Superannuation and Benefits Scheme (MSBS). The DFRDB and DFRB are closed to new members. MSBS will be closed to new members from 1 July 2016. A new military superannuation accumulation scheme, ADF Super, will commence on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

While there will not be any civilian or military defined benefit schemes available to new members from 1 July 2016, the value of the Government's unfunded superannuation liability is projected to continue growing (in nominal terms) into the immediate future – although it is projected to decrease as a proportion of GDP – and is forecast to reach \$195 billion by the end of the forward estimates. The increase in the liability partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit schemes, and members covered by the statutory death and disability arrangement ADF cover.

An actuarially determined discount rate is used to estimate the present value of future unfunded superannuation benefits. The long term nature of the unfunded superannuation liability requires the use of a discount rate that best matches the duration of the liability. The value recorded on the balance sheet is highly sensitive to the discount rate used. The use of a long term discount rate for budget purposes avoids the volatility that would occur by using current market yields on government bonds which continually change. Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 6 per cent per annum. This rate is in the context of a long term assumed rate of CPI inflation of 2.5 per cent per annum.

Civilian defined benefit schemes

Lower salary growth assumptions in the short term, as determined by the scheme actuary, is the major driver in the decrease in the civilian schemes liability in 2015-16 by \$3.6 billion compared to projections in the 2015-16 Budget.

As the superannuation liability is included in the Government's net worth and net financial worth aggregates, revaluations of the liability have an impact on these aggregates (see Statement 9: Australian Government Budget Financial Statements for further information about budget aggregation).

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

The economic and fiscal forecasts presented in the 2016-17 Budget incorporate assumptions and judgments based on information available at the time of preparation. These forecasts are subject to considerable uncertainty.

This Statement provides details of the historical performance of Budget forecasts for the key macroeconomic aggregates of real and nominal GDP as well as for estimates of government receipts. The Statement also presents a number of scenarios seeking to illustrate the sensitivity of budget aggregates to changes in economic forecasts and projections, and some underlying assumptions.

CONTENTS

| | |
|-----------------------------------------------------|-------------|
| Overview | 7-3 |
| Forecasting Performance | 7-3 |
| Macroeconomic forecasting performance | 7-3 |
| Fiscal forecasting performance | 7-7 |
| Sensitivity and Scenario Analysis | 7-12 |
| Sensitivity analysis over the forecast period | 7-13 |
| Sensitivity analysis over the medium term | 7-17 |

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

OVERVIEW

The macroeconomic and fiscal forecasts presented in the 2016-17 Budget incorporate assumptions and judgments based on information available at the time of preparation.

Macroeconomic and fiscal forecasts are important for Government policy and decision making. The budget estimates provide a fiscal baseline against which policy decisions are taken by the Government. Better forecasting and a better understanding of the uncertainties around the forecasts contribute to better policy and decision making.

This Statement presents an assessment of the historical performance of Budget forecasts and estimates of uncertainty around the forecasts. This assessment is consistent with the practice of many other international fiscal agencies to improve forecasting performance and, more importantly, to raise awareness of the uncertainties inherent in forecasting.

This Statement also presents an analysis of the sensitivity of 2016-17 Budget estimates to changes in key assumptions as required under the *Charter of Budget Honesty Act 1998*. An analysis of how alternative assumptions over the medium term can affect the economic and fiscal projections is also included.

FORECASTING PERFORMANCE

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques including macroeconometric models, spreadsheet analysis and accounting frameworks. These are supplemented by survey data, business liaison, professional opinion and judgment.

Forecasts are subject to inherent uncertainties. Generally, these uncertainties tend to increase as the forecast horizon lengthens. Forecast errors (the difference between forecasts and outcomes) can arise for a range of reasons — for example, differences between the assumed path of key variables and outcomes, as well as changes in the relationships between different parts of the economy.

Confidence intervals seek to illustrate that there is a range of plausible outcomes around any forecast. Confidence intervals are based on observed historical patterns of forecast errors. They are a guide to the degree of uncertainty around a forecast and can span a wide range of outcomes.

Real GDP forecasts

Real GDP forecasts in the Budget are based on a number of key assumptions including the exchange rate, interest rates and commodity prices. The forecasts also incorporate judgments about how developments in one part of the Australian economy affect other parts and how the domestic economy is affected by events in the international economy. The accuracy of the forecasts depends on the extent to which the assumptions and judgments underpinning them prove to be correct – and also the reliability of the economic relationships embodied in the macroeconomic models used to produce them.

For example, a lower exchange rate than assumed would be expected to result in higher than forecast growth in Australia's export volumes, including in tourism and manufacturing. At the same time, import prices would be higher, resulting in lower growth in import volumes. Overall, this would lead to a larger contribution from net exports to economic growth, although there would be some mitigating effect on real GDP from the impact of higher import prices on real household income.

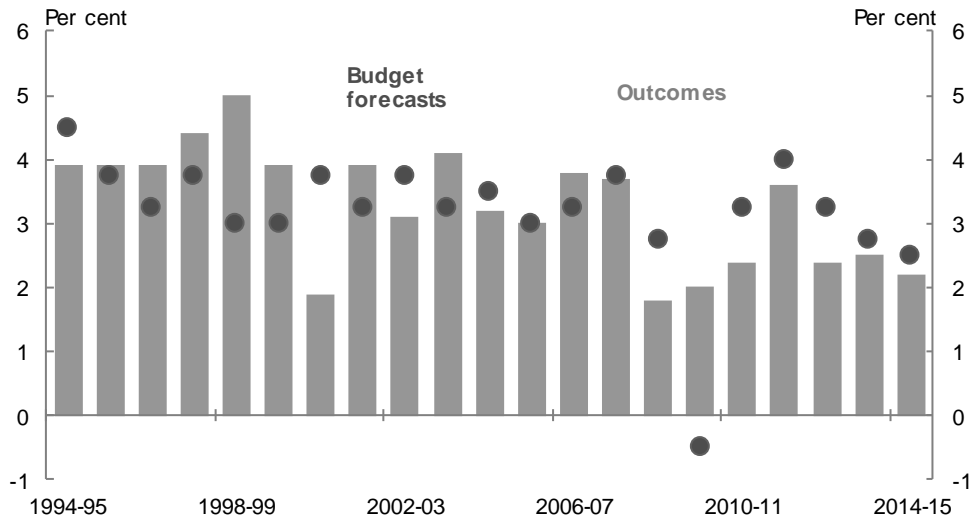
Forecast errors for real GDP can also result from unexpected shifts in the pace or nature of economic activity during the forecast period. A faster than forecast pick-up in Australia's economic growth in 2016-17 could be driven by stronger consumer spending, underpinned by faster than forecast growth in employment, as activity gathers pace in the economy's labour-intensive service sectors. Alternatively, faster economic growth could be driven by stronger than expected major trading partner growth, which could boost exports and, in turn, stimulate incomes and demand throughout the economy.

Over the past 20 years, Treasury's forecasts of real GDP growth have exhibited little evidence of bias, and accuracy has generally remained within a range of ½ to one percentage point (Chart 1). While forecasts of real GDP growth were less accurate in the years during and immediately after the global financial crisis (GFC), forecast errors seem to have since returned to the usual range.

National Accounts data are not yet available for the whole of 2015-16. Information to date suggests that real GDP growth is evolving broadly in line with last year's Budget forecast, however there are offsetting results at the component level. Stronger growth in dwelling investment and exports are expected broadly to balance higher import growth and softer than expected business investment, particularly in the economy's non-mining sectors. Other components of GDP, including consumption and mining investment, have so far evolved broadly as forecast in the 2015-16 Budget.

Statement 7: Forecasting performance and scenario analysis

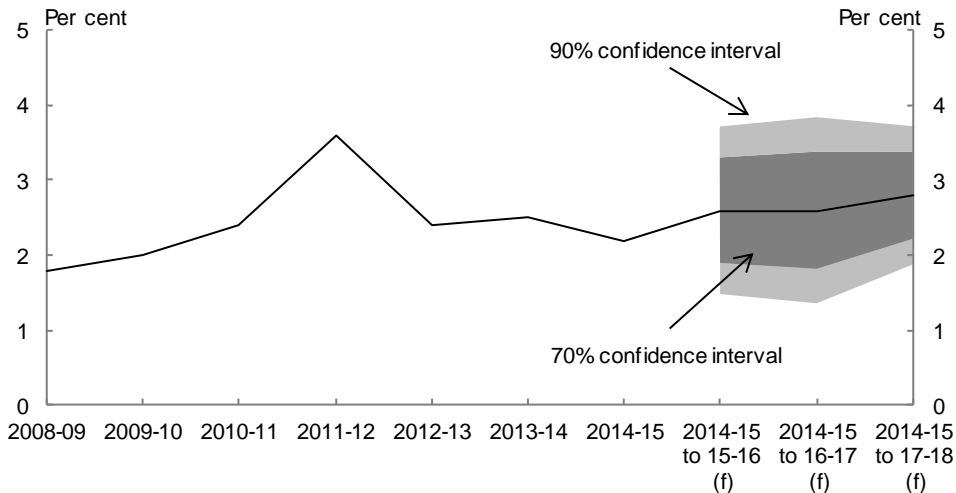
Chart 1: Budget forecasts of real GDP growth



Note: Outcome is as published in the December quarter 2015 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Treasury.

Chart 2 shows that the average annualised growth rate in real GDP in the two years to 2016-17 is expected to be around 2½ per cent, with the 70 per cent confidence interval ranging from 1¾ to 3½ per cent. In other words, if forecast errors are similar to those made over recent years, there is a 70 per cent probability that the growth rate will lie in this range.

Chart 2: Confidence intervals around real GDP growth rate forecasts



Note: The central line shows the outcomes and the 2016-17 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2014-15 are reported for 2015-16 onwards. (f) are forecasts. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1998-99 onwards, with outcomes based on December quarter 2015 National Accounts data.

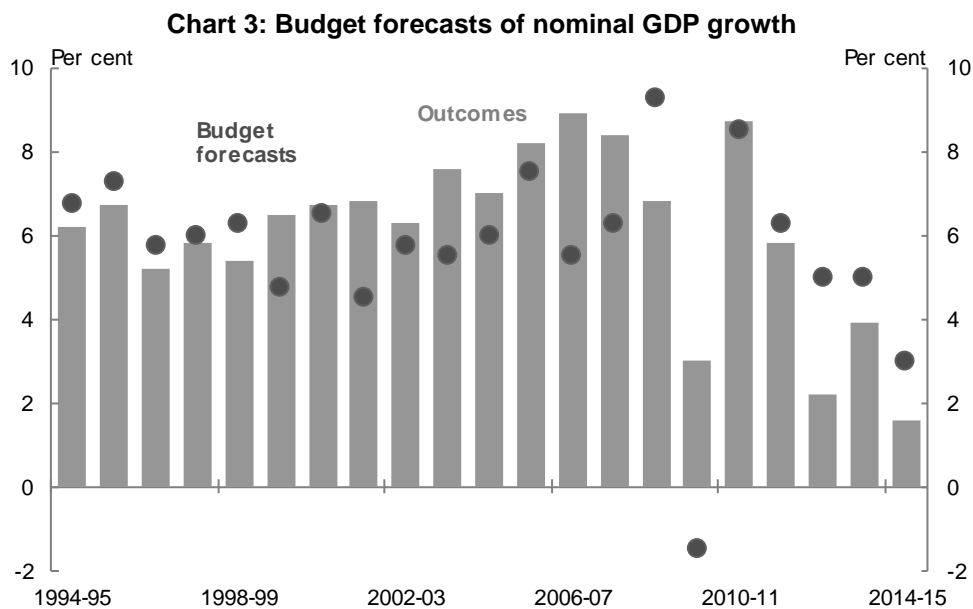
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Nominal GDP forecasts

Compared with real GDP forecasts, nominal GDP forecasts are subject to additional sources of uncertainty from the evolution of domestic prices and wages, and world prices for commodities.

Over the past decade, nominal GDP forecast errors have reflected the difficulties in predicting movements in global commodity prices (Chart 3). Faster than expected or assumed declines in the prices of key commodities in recent years — particularly for iron ore — have meant that nominal GDP was overestimated.

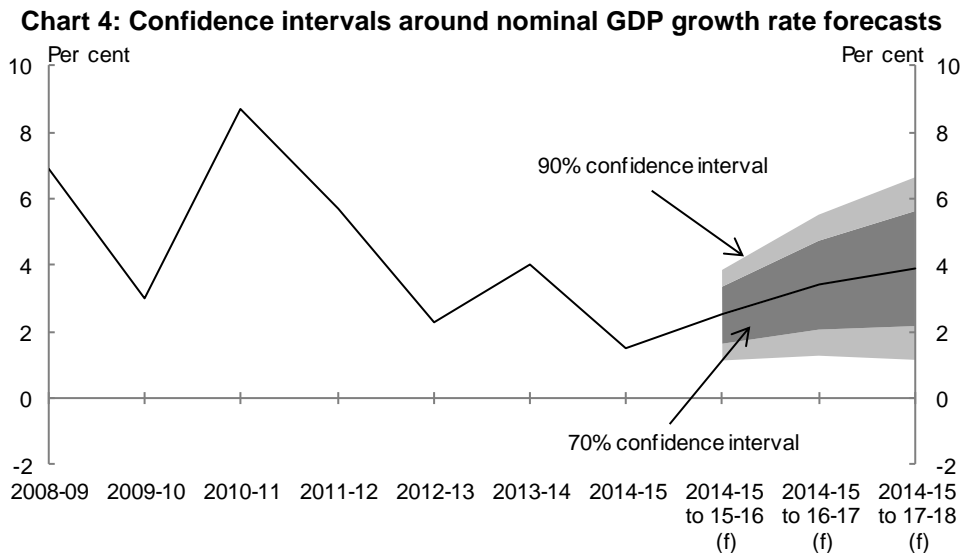
In 2015-16, the outcome for nominal GDP growth is expected to be lower than forecast in last year's Budget. This primarily reflects weaker than expected wages and domestic price inflation, which has contributed to lower than forecast outcomes for the GDP deflator.



Note: Outcome is as published in the December quarter 2015 National Accounts. Forecast is that published in the Budget for that year.

Source: ABS cat. no. 5206.0 and Treasury.

The confidence intervals around nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting both the uncertainty over the outlook for real GDP and the added uncertainty about the outlook for domestic prices and commodity prices. Average annualised growth in nominal GDP in the two years to 2016-17 is expected to be around 3½ per cent, with the 70 per cent confidence interval ranging from 2 to 4¾ per cent (Chart 4).



Note: See note to Chart 2.

Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Fiscal forecasting performance

The fiscal estimates contained in the Budget are based on economic forecasts and projections as well as estimates of the impact of Government spending and revenue measures. Changes to the economic forecasts and projections underlying the estimates – for example, inflation, profits, wages growth, population and unemployment – will affect forecasts for receipts and payments. As such, this will have a direct impact on the profile of the underlying cash balance and government debt. Even small movements in economic forecasts and projections or outcomes that defer from the forecasts and projections can result in large changes to the budget aggregates, for example, decreasing payments or increasing receipts with flow-on effects to the underlying cash balance.

Receipts

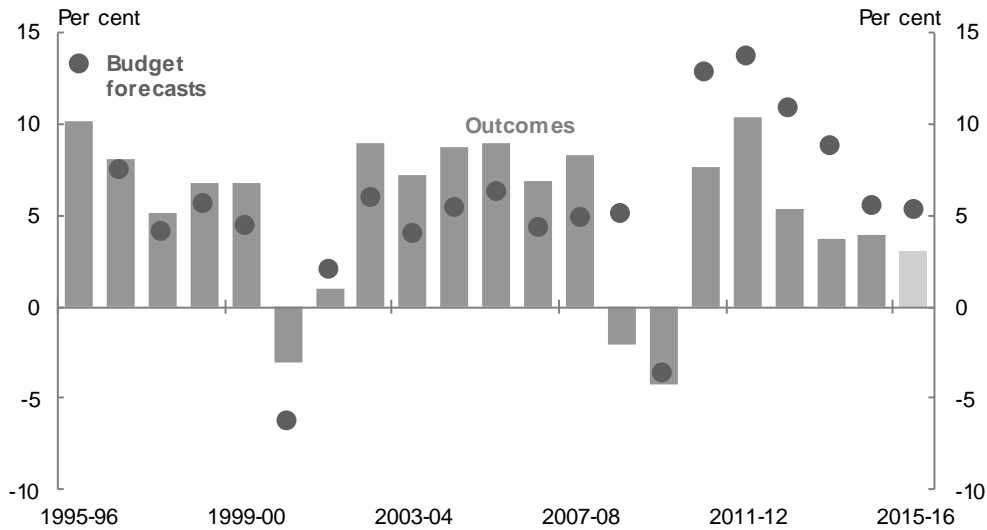
The Government's tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2014-15 for the 2016-17 Budget) is used as the base to which estimated growth rates are applied, resulting in tax receipts estimates for the current and future years.

Most of the indirect heads of revenue, such as GST and fuel excise, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. A number of income taxes also involve determining whether this tax will be paid in the year the income is earned, such as for pay-as-you-go withholding tax, or in future years, such as for individuals' refunds.

Over the past two decades, receipts forecasts have both under- and over-predicted outcomes (Chart 5).

Statement 7: Forecasting performance and scenario analysis

Chart 5: Budget forecasts of tax receipts growth



Note: Forecast error for 2015-16 is an estimate, and abstracts from Visa Application Charges which were reclassified from non-tax receipts to tax receipts at the 2015-16 MYEFO.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

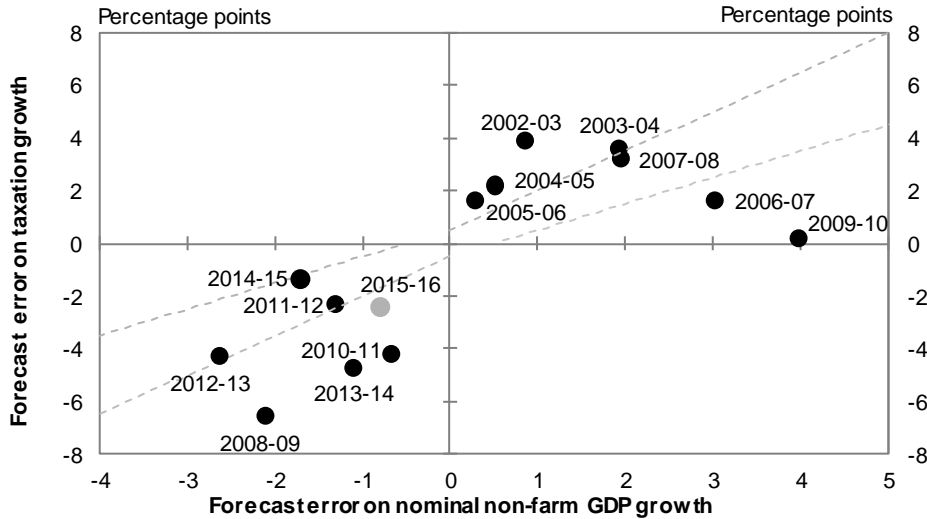
Generally, there is a strong correlation between the accuracy of the forecasts of nominal GDP and its components and the forecasts for tax receipts. On average, economic forecast errors will be magnified in receipts forecast errors, owing to the progressive nature of personal income tax. Chart 6 plots the forecast errors for nominal non-farm GDP against the errors for tax receipts excluding capital gains tax (CGT). It shows that where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and *vice versa*.

The forecast for 2015-16 tax receipts (excluding CGT) in the 2015-16 Budget is expected to be an over-estimate of around 2.4 percentage points, compared with an over-estimate of around 0.8 percentage points for nominal non-farm GDP growth.

The largest contributor to the expected forecast error in 2015-16 is from the shortfall in company tax. In 2015-16, company tax is estimated to be \$3.5 billion (5.1 per cent) lower than expected in the 2015-16 Budget. This is primarily driven by the fall in commodity prices in recent years, lowering profitability in the mining sector.

Another significant contributor to the expected forecast error for 2015-16 is from gross income tax withholding which is estimated to be \$2.6 billion (1.5 per cent) below the forecast of the 2015-16 Budget as a result of lower-than-expected wages growth. Discussions of earlier years' forecast performance can be found in previous budgets.

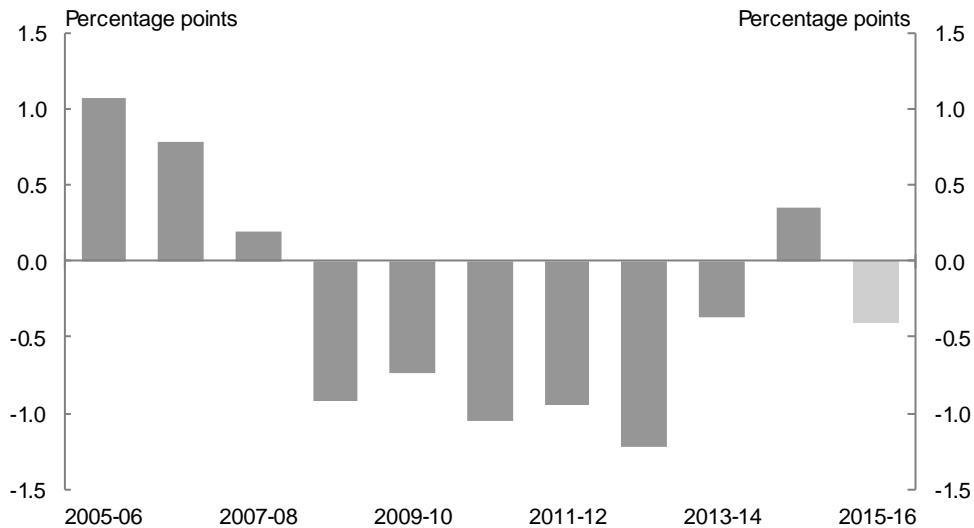
Chart 6: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Note: The lower and upper lines indicate the expected forecast error in tax receipts given the associated forecast error in nominal non-farm GDP growth. Forecast errors outside this range could be a result of factors such as timing of tax receipts. The lines are based on aggregate elasticities (of receipts with respect to nominal non-farm GDP) of 1.0 and 1.5 respectively, assuming an error of plus or minus 0.5 per cent if there is zero error on the economic forecasts. Forecast error for 2015-16 is an estimate, and abstracts from Visa Application Charges which were reclassified from non-tax receipts to tax receipts at the 2015-16 MYEFO.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

From 2008-09, forecast errors in tax receipts have been affected significantly by the economic downturn following the global financial crisis and, in particular, the impact on CGT (Chart 7).

Chart 7: Forecast error on capital gains tax (contribution to tax receipts growth)



Note: Forecast error for 2015-16 is an estimate.
Source: Treasury.

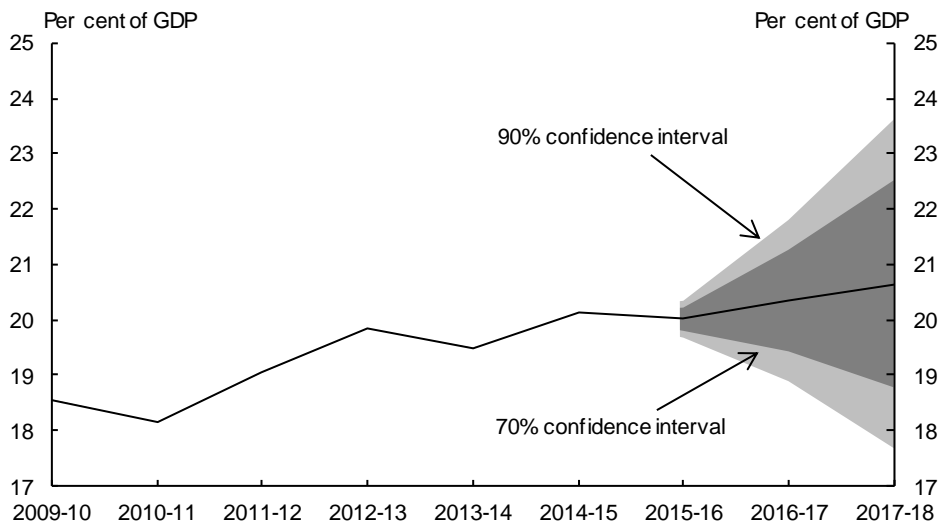
Statement 7: Forecasting performance and scenario analysis

Forecasting CGT is very difficult. Asset price movements above or below the assumption may cause CGT to differ significantly from the forecast. Further, CGT only applies to realised gains, so even if the asset prices are consistent with the assumptions, there may be more or less gains realised than was assumed.

Following the GFC, a large stock of capital losses were carried forward (see Box 2 of Statement 5 of the 2011-12 Budget), and the utilisation of these losses continues to generate large uncertainties in both the timing and magnitude of the forecasts.

Chart 8 shows confidence intervals around the forecasts for receipts (excluding GST¹ and including Future Fund earnings). Confidence intervals constructed around the receipts forecasts exclude historical variations caused by subsequent policy decisions. These intervals take into account errors caused by parameter and other variations in isolation.

Chart 8: Confidence intervals around receipts forecasts



Note: The central line shows the outcomes and the 2016-17 Budget point estimate forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards.

Source: Treasury.

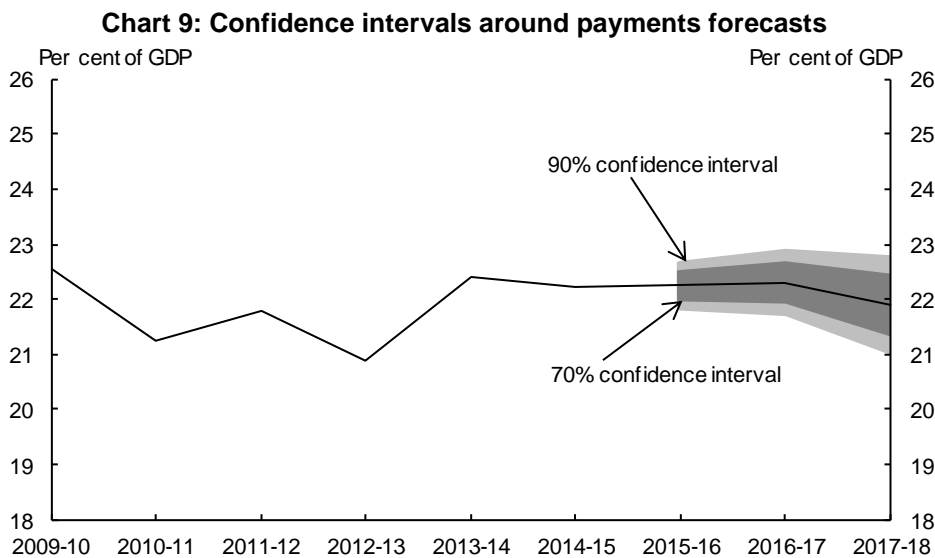
The chart shows that there is always considerable uncertainty around receipts forecasts and that this uncertainty increases as the forecast horizon lengthens. It suggests that in 2016-17, the width of the 70 per cent confidence interval for the 2016-17 Budget receipts forecast is approximately 1.8 per cent of GDP (\$30 billion) and the 90 per cent confidence interval is approximately 2.9 per cent of GDP (\$50 billion).

1 GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

Payments

The Government's payments estimates are prepared by agencies that comprise the Australian Government general government sector. An assessment of payments forecasting performance is not included in this Statement. However, historical errors have been incorporated in estimated confidence intervals.

Chart 9 shows confidence intervals around payments forecasts (excluding GST). As with receipts estimates, historical policy decisions are excluded², and future policy decisions are out of scope. Payments estimates include the public debt interest impact of policy decisions.³



Note: See note to Chart 8.
Source: Treasury.

The chart shows that there is moderate uncertainty around payments forecasts. In 2016-17, the width of the 70 per cent confidence interval for the 2016-17 Budget payments forecast is approximately 0.8 per cent of GDP (\$15 billion) and the 90 per cent confidence interval is approximately 1.2 per cent of GDP (\$20 billion).

-
- 2 The allowance for historical policy includes only new policy decisions made at each update. No allowance is made for other decisions, such as assistance for the impact of natural disasters or changes to the timing of projects announced in previous updates. These decisions will contribute to historical forecast errors and therefore increase the size of the confidence intervals around payments.
 - 3 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the analysis.

Statement 7: Forecasting performance and scenario analysis

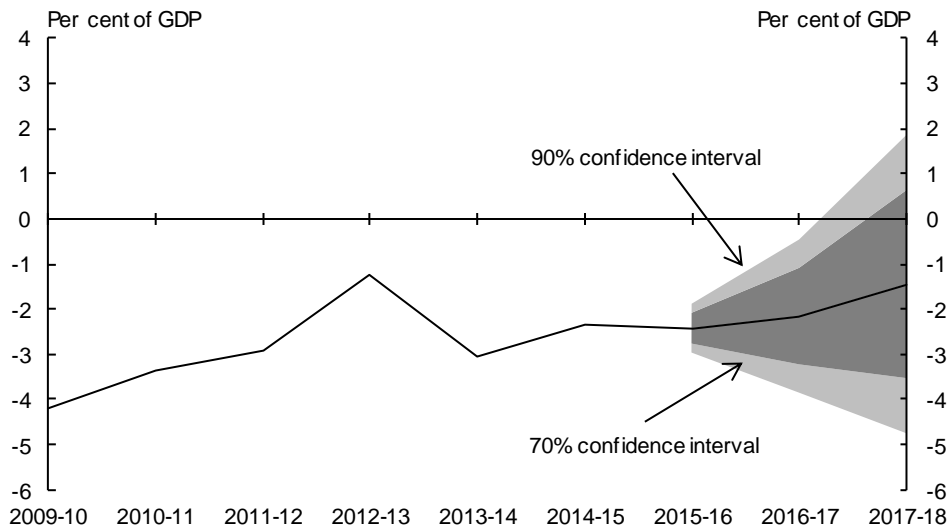
Payments outcomes can differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals and some social services, form the bulk of Government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure on related services, including allowances, will be higher than forecast.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Confidence interval analysis shows that there is considerable uncertainty around the underlying cash balance forecasts (Chart 10).

In 2016-17, the width of the 70 per cent confidence interval for the 2016-17 Budget underlying cash balance forecast is approximately 2.1 per cent of GDP (\$35 billion) and the 90 per cent confidence interval is approximately 3.4 per cent of GDP (\$60 billion). In line with receipts forecasts, uncertainty increases over the estimates period.

Chart 10: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 8.
Source: Treasury.

SENSITIVITY AND SCENARIO ANALYSIS

Small movements in economic forecasts or projections can improve or worsen the underlying cash balance, depending on their impacts on payments and receipts. This in turn can drive changes in gross and net debt. Consideration of particular scenarios and sensitivity analysis demonstrates the potential impact of these changes. This

Statement 7: Forecasting performance and scenario analysis

analysis highlights the uncertainties that governments face should risks eventuate — for example, in meeting budget forecasts or fiscal targets.

At the 2015-16 Budget, the analysis included two economic scenarios covering the two forecast years showing the illustrative impact on the fiscal aggregates.

The analysis presented in the 2016-17 Budget has been expanded to include four economic scenarios that have impacts over the medium term.

Scenarios 1 and 2 explore the sensitivity of fiscal aggregates to a fall in the terms of trade and a delayed recovery in non-mining business investment. These risks are outlined in Statement 2.

Scenarios 3 to 6 illustrate the sensitivity of fiscal aggregates to changes in key assumptions underpinning the medium-term economic projections.

Sensitivity analysis over the forecast period

The following two scenarios provide a rule of thumb indication of the sensitivity of receipts, payments and the underlying cash balance to changes in the economic outlook over the forecast period.

Scenario 1: Fall in the terms of trade

This scenario considers the consequences of a permanent 10 per cent fall in world prices of non-rural commodity exports through 2016-17. The price fall is consistent with a fall in the terms of trade of $4\frac{3}{4}$ per cent and a reduction in nominal GDP of 1 per cent by 2017-18. The sensitivity analysis shows the flow-on effects to GDP, the labour market and prices. The impacts in Table 1 are stylised and refer to percentage deviations from the Budget forecast levels.

Table 1: Illustrative impact of a permanent 10 per cent fall in non-rural commodity prices (per cent deviation from the Budget level)⁴

| | Impact after 1 year (2016-17) | Impact after 2 years (2017-18) |
|-------------------------------|-------------------------------|--------------------------------|
| | per cent | per cent |
| Real GDP | 0 | - 1/4 |
| GDP deflator | - 1/2 | - 3/4 |
| Nominal GDP | - 1/2 | -1 |
| Employment | 0 | - 1/4 |
| Wages | - 1/4 | - 1/2 |
| CPI | 0 | - 1/4 |
| Company profits | -1 3/4 | -3 1/4 |
| Nominal household consumption | 0 | - 1/2 |

4 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback and other policy responses related to changed economic conditions, and assume no change in the exchange rate, interest rates or policy over the forecast period.

Statement 7: Forecasting performance and scenario analysis

Assuming no change in exchange rates or interest rates, the fall in export prices leads directly to lower overall output prices (as measured by the GDP deflator) and lower domestic incomes compared with Budget levels. Lower domestic incomes cause both consumption and investment to fall, resulting in lower real GDP and employment and further falls in wages. The fall in aggregate demand puts downward pressure on domestic prices.

On the receipts side, a fall in nominal GDP reduces tax collections. The largest impact is on company tax receipts as the fall in export income decreases company profits. The impact on company tax is larger in 2017-18, partly owing to lags in tax collections and a larger impact on company profits in the second year of the scenario period. Lower company profits are assumed to flow through to lower Australian equity prices, therefore reducing capital gains tax from individuals, companies and superannuation funds.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage indicators). Some forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions, unemployment benefits and other allowances) increases in both years, reflecting a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits in 2017-18 is partially offset by reduced expenditure on pensions and allowances reflecting slower growth in benefit rates resulting from lower inflation and wages growth. At the same time other payments linked to inflation fall in line with the reduced growth in prices.

Given these assumptions, the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around \$2.2 billion in 2016-17 and around \$5.4 billion in 2017-18 (see Table 2).

Table 2: Illustrative sensitivity of the budget balance to a permanent 10 per cent fall in non-rural commodity prices

| | 2016-17 | 2017-18 |
|------------------------------------------|-------------|-------------|
| | \$b | \$b |
| Receipts | | |
| Individuals and other withholding taxes | -0.4 | -1.4 |
| Superannuation fund taxes | 0.0 | -0.1 |
| Company tax | -1.6 | -3.2 |
| Goods and services tax | 0.0 | -0.3 |
| Excise and customs duty | 0.0 | -0.2 |
| Other taxes | -0.1 | -0.2 |
| Total receipts | -2.1 | -5.4 |
| Payments | | |
| Income support | -0.1 | -0.2 |
| Other payments | 0.0 | 0.0 |
| Goods and services tax | 0.0 | 0.3 |
| Total payments | -0.1 | 0.1 |
| Public debt interest | 0.0 | -0.1 |
| Underlying cash balance impact(a) | -2.2 | -5.4 |

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2016-17 and 2017-18, as shown in Charts 8 to 10.

This scenario assumes no change in exchange rates. Under a floating exchange rate, however, a fall in the terms of trade would be expected to lead to a depreciation. This would likely dampen the effects on real GDP, meaning the impact on the fiscal position could be smaller.

Scenario 2: Delayed recovery in non-mining business investment

This scenario considers the consequences of a weaker outlook for business investment than forecast in the Budget. The scenario involves a 3 and 6 per cent reduction in new business investment in 2016-17 and 2017-18 respectively, compared with Budget levels, as a result of a delayed recovery in non-mining business investment. Under this scenario, the level of non-mining business investment would be broadly flat over this two-year period.

Once again, the sensitivity analysis evaluates the flow-on effects to GDP, the labour market and prices. The impacts in Table 3 are stylised and refer to percentage deviations from the Budget forecast levels.

Table 3: Illustrative impact of a delayed recovery in non-mining business investment (per cent deviation from the Budget level)⁵

| | Impact after 1 year (2016-17) per cent | Impact after 2 years (2017-18) per cent |
|-------------------------------|-------------------------------------------|--------------------------------------------|
| Real GDP | - 1/4 | - 1/2 |
| GDP deflator | 0 | - 1/4 |
| Nominal GDP | - 1/4 | - 3/4 |
| Employment | - 1/4 | - 1/2 |
| Wages | 0 | - 1/4 |
| CPI | 0 | - 1/4 |
| Company profits | -1 | -1 3/4 |
| Nominal household consumption | 0 | - 1/2 |

Assuming no change in exchange rates or interest rates, the delayed recovery in non-mining business investment leads directly to lower real GDP compared with Budget levels and also lower imports. This fall in output depresses employment and, in turn, wages. This results in lower levels of consumption. The fall in aggregate demand puts downward pressure on domestic prices.

On the receipts side, lower nominal GDP results in lower tax collections. The initial impact is largest on corporate profits and company tax. In the second year, the larger impact on wages and consumption is expected to result in a larger reduction to tax receipts from individuals and the goods and services tax.

On the payments side, similar to Scenario 1, overall estimated expenditure on income support payments increases in both years due to a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits in 2017-18 is partially offset by reduced expenditure on pensions and allowances reflecting lower inflation and wages growth. In addition, other payments linked to inflation fall in line with the reduced growth in prices.

The overall impact of the delayed recovery in non-mining business investment is a decrease in the underlying cash balance of around \$1.5 billion in 2016-17 and around \$3.9 billion in 2017-18 (see Table 4).

5 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback and other policy responses related to changed economic conditions, and assume no change in the exchange rate, interest rates or policy over the forecast period.

Table 4: Illustrative sensitivity of the budget balance to a delayed recovery in non-mining business investment

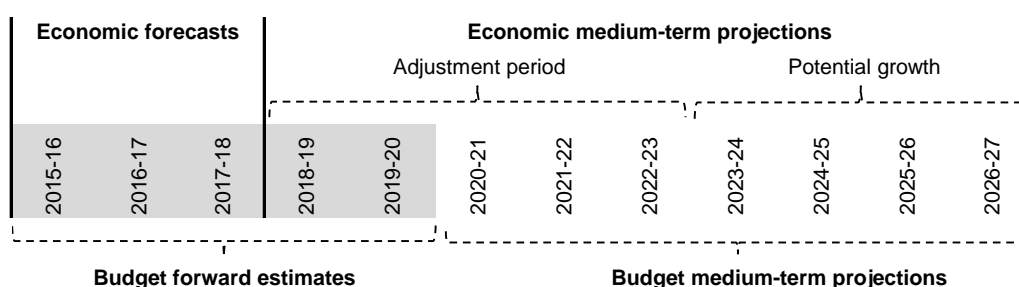
| | 2016-17 \$b | 2017-18 \$b |
|------------------------------------------|----------------|----------------|
| Receipts | | |
| Individuals and other withholding taxes | -0.4 | -1.4 |
| Superannuation fund taxes | 0.0 | -0.1 |
| Company tax | -0.9 | -1.7 |
| Goods and services tax | 0.0 | -0.3 |
| Excise and customs duty | -0.1 | -0.2 |
| Other taxes | 0.0 | 0.0 |
| Total receipts | -1.4 | -3.7 |
| Payments | | |
| Income support | -0.1 | -0.4 |
| Other payments | 0.0 | 0.0 |
| Goods and services tax | 0.0 | 0.3 |
| Total payments | -0.1 | -0.1 |
| Public debt interest | 0.0 | -0.1 |
| Underlying cash balance impact(a) | -1.5 | -3.9 |

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2016-17 and 2017-18, as shown in Charts 8 to 10.

Sensitivity analysis over the medium term

The economic estimates underlying the fiscal projections divide the forecast horizon into a near-term forecast period and a medium-term projection period. The forecast period covers the two years following the current financial year. The medium-term projection period covers the remaining nine years (Chart 11). For the fiscal projections, the medium-term projection period is the seven years after the Budget forward estimates.

Chart 11: Medium-term projection period



Source: Treasury.

The economic and fiscal projections are not equivalent to the economic and fiscal forecasts. The forecasts are based on a range of short-run forecasting methodologies informed by professional opinion and information from business liaison. By contrast, the projections are based on a medium-term methodology. It is crucial to note that they are not estimates or judgments about how conditions will unfold over the medium term. An important assumption is that Government policy does not change.

Economic projections framework

Treasury's medium-term economic projection methodology assumes that any spare capacity remaining in the economy at the end of the forecast period will be absorbed over the following five years (the adjustment period). Over this period, labour force variables including employment and the participation rate converge to their long-run trend levels as real GDP returns to potential – the maximum output the economy can produce when there is full employment. This assumption is crucial to the methodology. Importantly, the assumed five-year timeframe may not be validated and this would affect the projections.

Potential GDP is estimated based on analysis of underlying trends for population, productivity and participation. The Budget forecasts imply that real GDP will be lower than potential GDP at the end of the forecast period – that is, there will be a negative output gap. To close the estimated output gap and absorb forecast spare capacity in the economy, real GDP is projected to grow faster than potential over the adjustment period (over the five years from 2018-19). By the end of the adjustment period, the output gap is assumed to have closed completely and real GDP grows at its potential rate thereafter.

Fiscal projections framework

Treasury's medium-term fiscal projections use the Budget forward estimates as a base. They are therefore subject to similar risks and uncertainties that affect the fiscal aggregates discussed earlier in this Statement, but the longer timeframes mean these risks and uncertainties can be amplified.

Beyond the forward estimates, a range of simplifying assumptions are used to project government receipts and payments. The main drivers are movements in economic growth, the size and structure of the population and prices. The medium-term economic projections are a critical driver of the fiscal projections. For payments, a key parameter is expected per person costs (in each age bracket) of major government programs based on current Government policy. The projections assume current Government policy does not change.

Changes to the assumptions underpinning Treasury's estimate of Australia's potential GDP – as well as the pace of adjustment back to potential – can have large impacts on the fiscal projections. The following section illustrates the sensitivity of fiscal aggregates to these assumptions over the medium-term projection period.

Output gap scenarios

Scenarios 3 and 4: Alternative output gap adjustment period assumptions

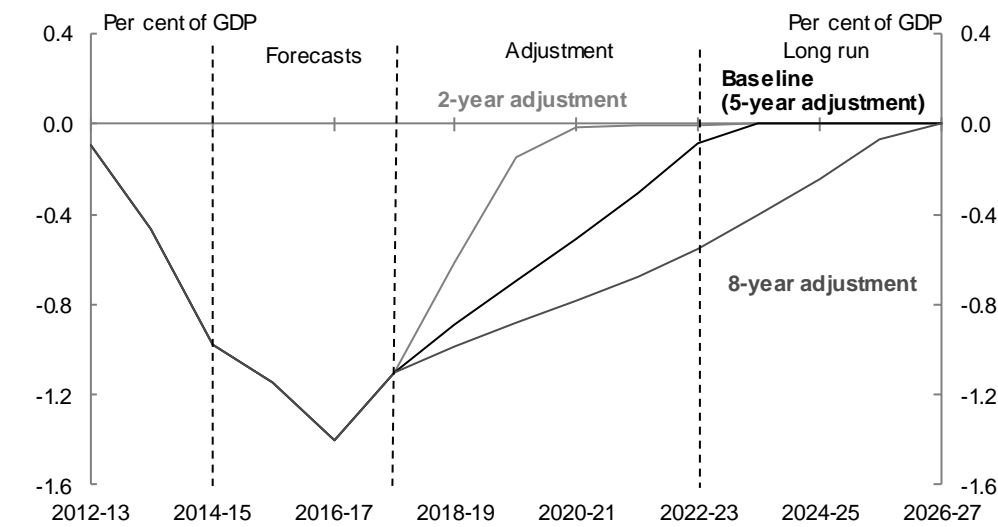
As noted above, the assumption that the adjustment takes five years is crucial and is subject to considerable conjecture as to whether it is appropriate. Scenarios 3 and 4 examine the consequences of shorter (2 years) and longer (8 years) adjustment periods, respectively.

Statement 7: Forecasting performance and scenario analysis

Over the five year adjustment period, real GDP is projected to grow at 3 per cent a year — faster than the estimated potential growth rate of the economy of 2¾ per cent — to close an estimated output gap of around 1 per cent of GDP.

In Scenario 3, a shorter adjustment period requires faster real GDP growth over the adjustment period (Chart 12). In the two-year adjustment period, annual real GDP growth is 0.3 percentage points higher than in the baseline projections to return the economy to its potential level over two years rather than five years.

Chart 12: Output gap — Illustrative impact of closing the output gap over two or eight years



Source: Treasury.

Under this scenario employment grows more quickly than in the Budget projections, leading to lower unemployment over the first five projection years. This in turn generates faster growth in wages and domestic prices. While the long-run level of real GDP is unchanged from Budget, the price level is permanently higher. As a result, closing the output gap over two years increases the level of nominal GDP in 2026-27 by around 1 per cent compared with Budget.

The higher level of nominal GDP also means higher projected tax receipts over the 10-year period to 2026-27. Payments are projected to be lower, driven largely by lower projected unemployment which reduces unemployment benefit recipient numbers.

Overall, the faster adjustment in Scenario 3 has a positive impact on the underlying cash balance (Chart 13). In this scenario, the underlying cash balance peaks at 0.6 per cent of GDP in 2020-21, to be 0.5 per cent of GDP in 2026-27. This is compared with a peak of 0.3 per cent of GDP in 2021-22 to be 0.2 per cent of GDP by the end of the medium term in the baseline.

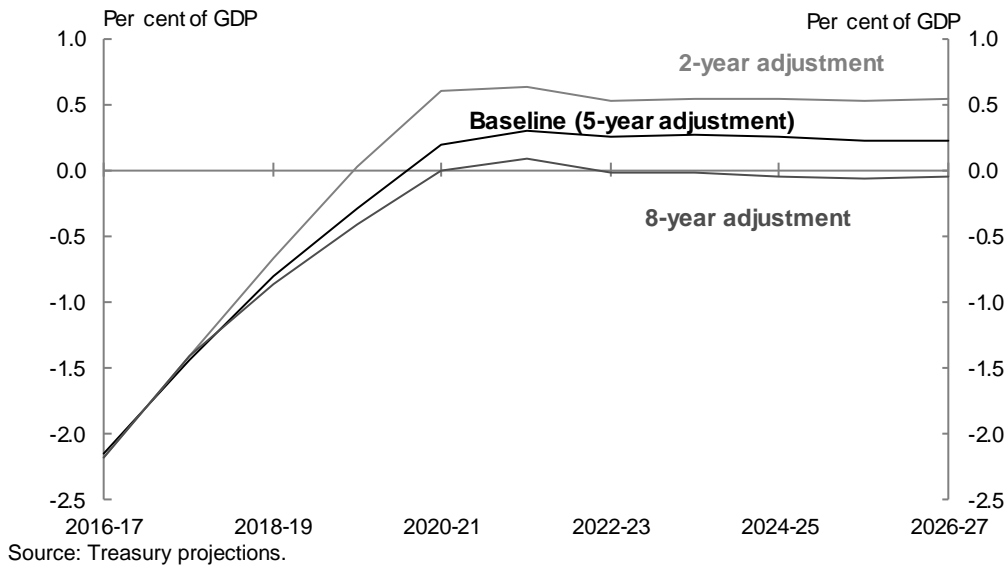
Statement 7: Forecasting performance and scenario analysis

The variation in the underlying cash balance would have implications for the level of government debt. Under Scenario 3, gross debt would be lower, reflecting lower Government borrowing associated with the stronger Budget position. Public debt interest payments would also be lower. This reinforces the improvement in the underlying cash balance.

In Scenario 4, a longer adjustment period requires slower real GDP growth over the adjustment period to return the economy to its potential level over eight years rather than five. This leads to higher unemployment over the eight years of the adjustment period and slower growth in wages and domestic prices compared with the Budget projections.

A slower adjustment in Scenario 4 has a negative impact on the underlying cash balance. Receipts are lower across the period and payments higher overall. In this scenario, the underlying cash balance peaks at 0.1 per cent of GDP in 2021-22, reaching a small deficit in 2026-27. Gross debt and public debt interest payments would be higher than in the baseline scenario.

Chart 13: Underlying cash balance – Illustrative impact of closing the output gap over two or eight years



Productivity scenarios

Scenarios 5 and 6: Alternative trend labour productivity growth assumptions

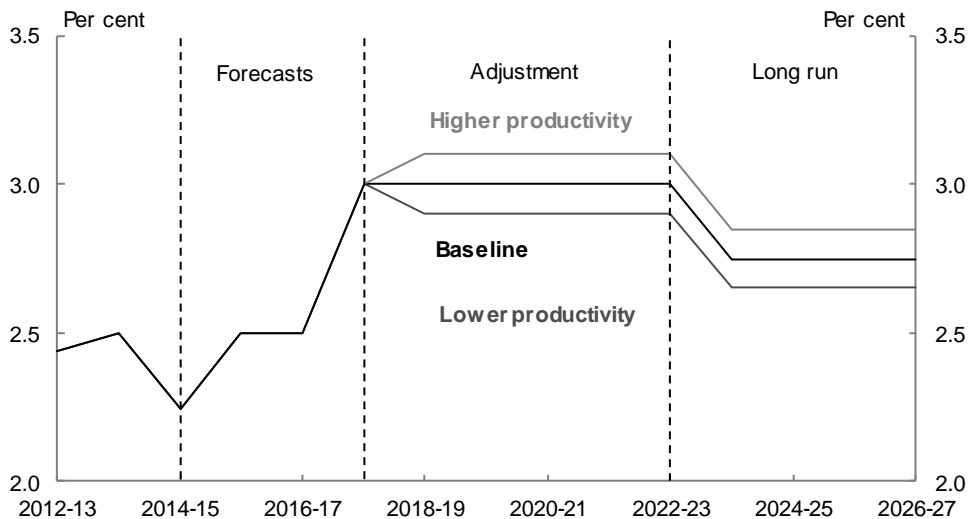
Labour productivity growth is an important determinant of Australia's potential GDP growth. The Budget projections assume that labour productivity grows at a trend rate of 1.6 per cent a year, in line with its 30-year average annual growth rate.

Statement 7: Forecasting performance and scenario analysis

Scenario 5 examines the consequences of a trend rate of labour productivity growth of 1.5 per cent a year, which is 0.1 percentage points lower than the Budget projections. This reduces the economy’s potential growth rate over the projection period (Chart 14). As a result, real GDP grows more slowly over the adjustment period compared with the baseline projections to close the output gap and absorb spare capacity in the economy.

By the end of the projection period in 2026-27, real GDP is around 1 per cent lower compared with the Budget projections. Lower labour productivity growth also flows through to lower wages. Nominal GDP falls in line with real GDP as there is only a small effect on wages per unit of output (nominal unit labour costs) and, in turn, prices.

Chart 14: Real GDP growth rate — Illustrative impact of higher and lower trend productivity growth



Source: ABS cat. no. 5206.0 and Treasury.

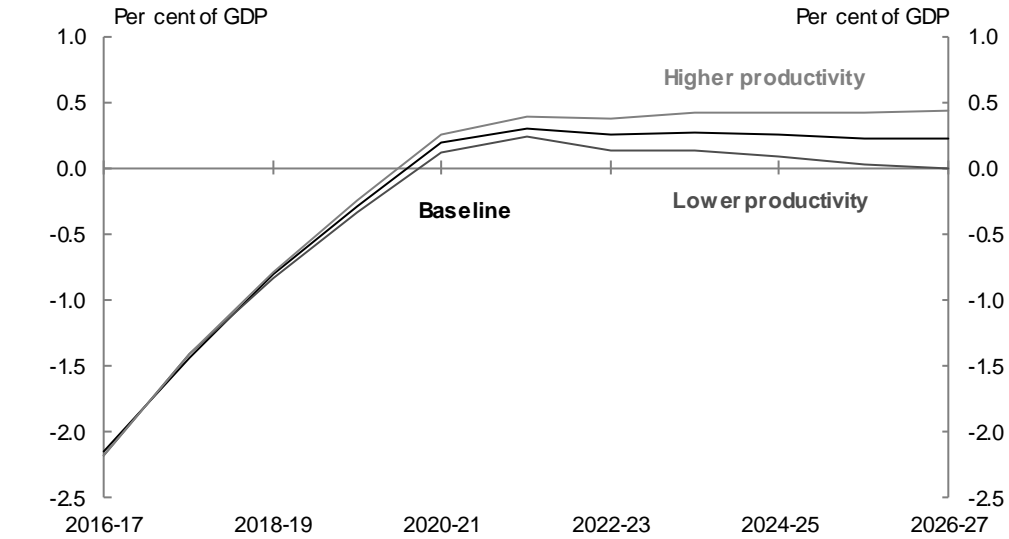
In Scenario 5, the underlying cash balance peaks at 0.2 per cent of GDP in 2021-22 before deteriorating to balance by the end of the medium term. This is because of lower projected receipts, owing to lower nominal GDP and a broadly neutral impact on government payments. Gross debt would be higher, reflecting higher borrowing associated with larger Budget deficits. Public debt interest would also be higher.

Scenario 6 assumes a trend labour productivity growth rate of 1.7 per cent a year, which is 0.1 percentage points higher than the assumption factored into the Budget projections. This has broadly opposite effects on the economy compared with Scenario 5, resulting in higher real GDP and higher wages.

Statement 7: Forecasting performance and scenario analysis

In Scenario 6, the underlying cash balance reaches a surplus, peaking at 0.4 per cent of GDP (Chart 15). Gross debt would be lower, reflecting lower Government borrowing. Public debt interest would also be lower.

Chart 15: Underlying cash balance — Illustrative impact of higher and lower trend productivity growth



Source: Treasury projections.

STATEMENT 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

| | |
|------------------------------------------------------|-------------|
| Risks to the budget — overview | 8-3 |
| Economic and other parameters | 8-5 |
| Fiscal risks | 8-5 |
| Contingent liabilities and assets | 8-7 |
| Significant but remote contingencies | 8-11 |
| Communications and the Arts | 8-11 |
| Defence | 8-12 |
| Industry, Innovation and Science | 8-13 |
| Infrastructure and Regional Development | 8-13 |
| Treasury | 8-14 |
| Contingent liabilities — unquantifiable | 8-15 |
| Agriculture and Water Resources | 8-15 |
| Attorney-General's | 8-16 |
| Communications and the Arts | 8-18 |
| Defence | 8-18 |
| Finance | 8-18 |
| Health | 8-21 |
| Immigration and Border Protection | 8-23 |
| Industry, Innovation and Science | 8-24 |
| Infrastructure and Regional Development | 8-26 |
| Social Services..... | 8-27 |
| Treasury | 8-28 |

Statement 8: Statement of Risks

| | |
|--------------------------------------------------------------------------------------------------------|-------------|
| Contingent assets — unquantifiable | 8-28 |
| Defence | 8-28 |
| Health | 8-28 |
| Industry, Innovation and Science | 8-29 |
| Contingent liabilities — quantifiable | 8-29 |
| Defence | 8-29 |
| Employment | 8-29 |
| Environment | 8-29 |
| Foreign Affairs and Trade | 8-30 |
| Health | 8-30 |
| Infrastructure and Regional Development | 8-30 |
| Treasury | 8-31 |
| Contingent assets — quantifiable | 8-32 |
| Defence | 8-32 |
| Government loans | 8-33 |
| Higher Education Loan Programme..... | 8-37 |
| Commonwealth-State financing arrangements — Housing and Specific Purpose Capital | 8-37 |
| Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation | 8-37 |
| Clean Energy Finance Corporation..... | 8-37 |
| International Monetary Fund New Arrangements to Borrow..... | 8-38 |
| Indigenous Home Ownership, Business Development and Assistance | 8-38 |
| Student Financial Supplement Scheme | 8-38 |
| Trade Support Loans Programme..... | 8-38 |
| Papua New Guinea Liquefied Natural Gas | 8-39 |
| Drought Concessional Loans | 8-39 |
| Zero Real Interest Loans..... | 8-39 |
| Indigenous Land Corporation..... | 8-40 |
| Development Import Finance Facility..... | 8-40 |

STATEMENT 8: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2016-17 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this Statement increases the transparency of the fiscal projections.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, particularly global economic developments;
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood; and
- the realisation of contingent liabilities or assets.

RISKS TO THE BUDGET — OVERVIEW

The revenue and expense estimates and projections published in the 2016-17 Budget Papers are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in the Budget, the revenue and expense estimates and projections would also change. The sensitivity of budget estimates to changes in economic assumptions is discussed in *Statement 7: Forecasting Performance and Scenario Analysis*.

To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year weaker than expected growth in wages has been reflected in weaker forecasts for tax revenue and higher than expected social services payments.

In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates. For example, losses incurred during the global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Revenue forecasts also incorporate costings for new policies which also typically have a margin of uncertainty.

The Budget is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

Statement 8: Statement of Risks

The Australian Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government has robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

There have been several changes to both the quantifiable and unquantifiable risks since the 2015-16 *Mid-Year Economic and Fiscal Outlook (MYEFO)*. General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Several new risk items have also arisen since the MYEFO.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period, are listed in this Statement. Some financial information in the text may not add to totals due to rounding. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers

| Category | Type ^(a) | Disclosure |
|----------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------|
| Fiscal Risks | Fiscal Risks | Statement of Risks |
| Contingent assets and contingent liabilities | Significant contingent assets and liabilities considered remote | Statement of Risks |
| | Unquantifiable contingent assets and liabilities that are improbable but not remote | Statement of Risks |
| | Quantifiable contingent assets and liabilities that are improbable but not remote | Statement of Risks |
| | Contingent assets and liabilities excluded on the basis of immateriality ^(b) | None |
| Assets and liabilities | Assets and liabilities that are probable and can be reliably measured | Balance sheet ^{(c)(d)} |
| | Assets and liabilities that are probable but have an uncertain timing or amount (provisions) | Balance sheet |

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.

(b) Only risks with a possible impact on the forward estimates greater than \$20 million in any one year, or \$50 million over the forward estimates period, are considered material and disclosed in this Statement.

(c) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.

(d) Additional disclosure to increase transparency on loans over \$200 million has been included in the Statement of Risks since the 2014-15 Budget.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. The realisation of any of the domestic or internationally based risks discussed in *Statement 2: Economic Outlook* could potentially affect the budget estimates. Statement 7 examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known. Specific fiscal risks to the budget and forward estimates are detailed below.

The 2016-17 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2016-17 in Afghanistan, Iraq, Syria, the broader Middle East region, and the protection of Australia's borders and offshore maritime interests. Funding is considered on a year-by-year basis and the forward estimates do not provide for extensions of currently approved operations beyond 2016-17. This is consistent with past practice. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2017.

The Australian Government has supported the Gold Coast's bid to host the 2018 Commonwealth Games through the provision of commitments in areas such as immigration, customs, work permits, taxation, security, protection of commercial rights, and communications and information technology. Not all costs associated with delivery of the commitments are available at this time.

The introduction in the 2014-15 Budget of a 1500 gigalitre (GL) cap on Australian Government water purchasing under the Basin Plan comes with a potential, but currently unquantifiable, fiscal risk for the Government. If there is a substantial shortfall in sustainable diversion limit (SDL) adjustments from supply measures, then the cap on water purchases may be reached and other potentially more expensive means of water recovery will need to be used to meet SDLs. It will not be possible to identify whether this risk will be realised, and what the financial implications are, until the SDL adjustment mechanism commences in 2016-17.

In February 2016 the Commonwealth agreed to assume one-third of the default risk associated with a \$320 million New South Wales Government loan to the Asbestos Injuries Compensation Fund (AICF), contingent on all States and Territories agreeing to assume the remaining default risk. 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 the \$320 million loan facility in 2010 to enable AICF to continue

Statement 8: Statement of Risks

to pay compensation as lump sums, rather than on an instalment basis. As at 31 March 2016, not all States and Territories have confirmed their agreement to this arrangement.

The Australian Government has confirmed that the site for a Western Sydney Airport will be Badgerys Creek. The Government has been progressing its obligations under the Right of First Refusal contained in the 2002 Sydney (Kingsford Smith) Airport Sale Agreement and is considering options for an airport proposal to meet Sydney's future aviation capacity needs. The Government may then make a decision to enter a contractual phase, which would involve issuing a Notice of Intention (setting out the detailed terms for the development and operation of the airport) to Sydney Airport Group. Sydney Airport Group would have the opportunity to exercise its option to develop and operate the proposed airport. Should Sydney Airport Group decline the opportunity, the Government may approach the market, or choose to develop and/or operate the airport itself. When the terms for developing and operating the airport are finalised and the party that will develop and operate the airport identified, financial support from the Government may be required. Government financial support for the project would have implications for the fiscal position, for example by increasing assets and liabilities on the balance sheet, and depending on the nature of support, could have positive or negative impacts on the underlying cash balance.

The Australian Government has committed \$29.5 billion in equity to NBN Co Limited (nbn), which is expected to be fully utilised by the end of the 2016-17 financial year. Consistent with nbn's 2016 Corporate Plan, nbn is expected to raise debt from external markets of between \$16.5 billion and \$26.5 billion (with a base case of \$19.5 billion) to complete the rollout of the network. nbn is currently undertaking the necessary preparatory work on the proposed debt raising. In the event that nbn is initially unable to raise the necessary debt on acceptable terms, interim funding support may be required. Were it required, additional Government financial support for nbn would have implications for the fiscal position, for example by increasing assets and liabilities on the balance sheet and, depending on the nature of support, could have positive or negative impacts on the underlying cash balance.

The Australian Government has committed to build the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane as well as creating a new freight corridor between Brisbane and Perth (via Parkes). The Government has committed \$594 million in equity for land acquisition for the Inland Rail corridor and further due diligence activities. Decisions on financing arrangements and delivery options will take into account the results of a market testing process. The full cost of Inland Rail is expected to be up to \$10.7 billion with the possibility of significant private sector involvement in project delivery. Any further Government financial support for the project would have implications for the fiscal position, for example by increasing assets and liabilities on the balance sheet, and depending on the nature of support, could have positive or negative impacts on the underlying cash balance.

The Australian Government funds the care and management of asylum seekers in Regional Processing Centres (RPCs) to support host governments' management, removal and resettlement of these people. Any significant changes in the number of asylum seekers managed under these arrangements, the operations of the facilities, or to estimates of the number of refugees being resettled may incur a cost or generate cost reductions which are unquantifiable at this time.

There are a significant number of measures that impact on the Budget aggregates and remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates and projections of the Budget.

CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's control.

Contingencies reported in this statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in Statement 9.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 31 March 2016. In some cases, other dates are used and those are noted in the relevant section.

Statement 8: Statement of Risks

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2015-16 Budget and the 2015-16 MYEFO^(a)

| Significant but remote contingencies | Status | Category (b)(c)(d) |
|------------------------------------------------------------------------------------|---------------|-------------------------------|
| Communications and the Arts | | |
| NBN Co Limited — Equity Agreement | Modified | Guarantee |
| Optus financial guarantee | Modified | Guarantee |
| Telstra Financial Guarantee | Modified | Guarantee |
| Termination of the funding agreement with OPEL Network Pty Ltd | Unchanged | Other |
| Defence | | |
| ADI Limited — Officers' and Directors' indemnities | Unchanged | Indemnity |
| Remote contingencies | Modified | Indemnity |
| Litigation cases | Unchanged | Other |
| Employment | | |
| <i>jobactive</i> — Employment Fund | Removed | Other |
| Industry, Innovation and Science | | |
| Liability for damages caused by space activities | Unchanged | Other |
| Infrastructure and Regional Development | | |
| Maritime Industry Finance Company Limited — Board Members' Indemnity | Unchanged | Indemnity |
| Moorebank Intermodal Company Limited — Board Members' Indemnity | Unchanged | Indemnity |
| Moorebank Intermodal Company Limited — Glenfield Waste Site Easement | New | Indemnity |
| Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement | New | Indemnity |
| Tripartite deeds relating to the sale of federal leased airports | Unchanged | Other |
| Treasury | | |
| Financial Claims Scheme | Modified | Guarantee |
| Guarantee of State and Territory Borrowing | Modified | Guarantee |
| Guarantees under the <i>Commonwealth Bank Sale Act 1995</i> | Modified | Guarantee |
| Reserve Bank of Australia — guarantee | Modified | Guarantee |
| Contingent liabilities — unquantifiable | | |
| Agriculture and Water Resources | | |
| Compensation claims arising from suspension of livestock exports to Indonesia | Modified | Other |
| Compensation claims arising from equine influenza outbreak | Modified | Other |
| Emergency pest and disease response arrangements and funding | Modified | Other |
| Attorney-General's | | |
| Native Title agreements — access to geospatial data | Removed | Indemnity |
| Australian Victims of Terrorism Overseas Payment | Modified | Other |
| Disaster Recovery | Unchanged | Other |
| Native Title costs | Unchanged | Other |
| Communications and the Arts | | |
| NBN Co Limited — Board Members' Insolvency Indemnity | Modified | Indemnity |

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2015-16 Budget and the 2015-16 MYEFO^(a) (continued)

| Contingent liabilities — unquantifiable (continued) | Status | Category |
|------------------------------------------------------------------------------------------------------------------|---------------|-----------------|
| Defence | | |
| Cockatoo Island Dockyard | Unchanged | Indemnity |
| Land decontamination, site restoration and decommissioning of Defence assets | Modified | Other |
| Non-remote contingent liabilities | Modified | Other |
| Finance | | |
| ASC Pty Ltd — Directors' indemnities | Unchanged | Indemnity |
| Commonwealth Superannuation Corporation — immunity and indemnity | Unchanged | Indemnity |
| Future Fund Management Agency and Future Fund Board of Guardians — indemnity | Unchanged | Indemnity |
| Googong Dam | Unchanged | Indemnity |
| Indemnities for the Reserve Bank of Australia and private sector banks | Unchanged | Indemnity |
| Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects | Unchanged | Indemnity |
| Australian Government general insurance fund — Comcover | Modified | Other |
| Australian Government domestic property | Modified | Other |
| Health | | |
| Australian Medical Association — Private Mental Health Alliance | Unchanged | Indemnity |
| Australian Red Cross Society — indemnities | Modified | Indemnity |
| Blood and blood products liability cover | Unchanged | Indemnity |
| CSL Ltd | Unchanged | Indemnity |
| Indemnities relating to vaccines | Unchanged | Indemnity |
| Medical Indemnity Exceptional Claims Scheme | Unchanged | Indemnity |
| New South Wales Health Administration Council — indemnity | Unchanged | Indemnity |
| Tobacco plain packaging litigation | Unchanged | Other |
| Immigration and Border Protection | | |
| Immigration detention services by State and Territory governments — liability limit | Modified | Indemnity |
| Immigration detention services contract — liability limit | Unchanged | Indemnity |
| Garrison and welfare services at Regional Processing Countries contract — liability limit | Modified | Indemnity |
| Industry, Innovation and Science | | |
| Australian Nuclear Science and Technology Organisation — indemnity | Modified | Indemnity |
| British atomic test site at Maralinga | Unchanged | Indemnity |
| Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability | Unchanged | Indemnity |
| Snowy Hydro Limited — water releases | Unchanged | Indemnity |
| Liability for costs incurred in a national liquid fuel emergency | Unchanged | Other |
| Infrastructure and Regional Development | | |
| Indemnity provided to the New South Wales Rural Fire Service in relation to the Jervis Bay Territory | Unchanged | Indemnity |
| Aviation Rescue & Fire Fighting potential Polyfluorinated Chemical Contamination | Modified | Other |
| Australian Maritime Safety Authority incident costs | Unchanged | Other |
| Service Delivery Arrangement Indemnities — External Territories | Modified | Indemnity |

Statement 8: Statement of Risks

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2015-16 Budget and the 2015-16 MYEFO^(a) (continued)

| Contingent liabilities — unquantifiable (continued) | Status | Category |
|-------------------------------------------------------------------------------------------------------|---------------|-----------------|
| Social Services | | |
| Business Services Wage Assessment Tool | Modified | Other |
| National Disability Insurance Scheme | Modified | Other |
| Treasury | | |
| Terrorism insurance — commercial cover | Unchanged | Guarantee |
| Contingent assets — unquantifiable | | |
| Defence | | |
| Non-remote contingent assets | Unchanged | Other |
| Health | | |
| Legal action seeking compensation from Sanofi | Modified | Other |
| Legal action seeking compensation from Wyeth | Modified | Other |
| Industry, Innovation and Science | | |
| Wireless Local Area Network | Modified | Other |
| Contingent liabilities — quantifiable | | |
| Defence | | |
| Claims against the Department of Defence | Unchanged | Other |
| Employment | | |
| Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union | Unchanged | Indemnity |
| Environment | | |
| Low Carbon Australia Limited — Board of Directors' and senior management indemnities | Unchanged | Indemnity |
| Foreign Affairs and Trade | | |
| Export Finance and Insurance Corporation | Modified | Guarantee |
| Health | | |
| Accommodation Payment Guarantee Scheme | Modified | Guarantee |
| Infrastructure and Regional Development | | |
| Australian Government contribution to the East West Link project | Unchanged | Other |
| Virgin Australia Airlines Pty Ltd Confidentiality and Non-Disclosure Agreement | Unchanged | Indemnity |
| Treasury | | |
| Australian Taxation Office — tax disputes | Modified | Other |
| International financial institutions — uncalled capital subscriptions | Modified | Other |
| International Monetary Fund | Modified | Other |
| Contingent assets — quantifiable | | |
| Defence | | |
| Claims by the Department of Defence | Unchanged | Other |

(a) Detailed descriptions of these items are in the following text.

(b) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.

(c) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.

(d) Other — contingent liabilities and assets which are not guarantees or indemnities.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications and the Arts

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (nbn). The Agreement formalises the Australian Government's intention to provide equity to fund the roll-out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Australian Government, in the event of a termination of the National Broadband Network roll-out, to provide sufficient funds to nbn to meet its costs arising from that termination. Although the nbn Equity Funding Agreement will end in 2019, the Commonwealth would retain obligations to meet nbn's costs arising from a termination of the roll-out. As at 29 February 2016, nbn's termination liabilities were estimated at \$9.4 billion.

Optus financial guarantee

The Australian Government has provided a guarantee in respect of the NBN Co Limited'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 (Guarantee). An amended version of that Agreement came into effect on 19 September 2015 and 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 areas. As at 29 February 2016 it is estimated that the Australian Government's liability under the Guarantee will not exceed \$50 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided a guarantee to Telstra Corporation Limited (Telstra) in respect of NBN Co Limited's (nbn) financial obligations to Telstra under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the agreements between Telstra and nbn arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event nbn does not pay an amount when due under the Definitive Agreements. As at 29 February 2016, nbn had generated liabilities covered by the guarantee estimated at \$4.3 billion. The guarantee will terminate when nbn achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount; or

Statement 8: Statement of Risks

- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational.

Termination of the funding agreement with OPEL Network Pty Ltd

As at 31 March 2016, the Australian Government is a party to legal action brought by OPEL Networks Pty Ltd (in Liquidation) (OPEL) and Optus Networks Pty Ltd (Optus) in relation to an agreement under the Broadband Connect Infrastructure Programme. OPEL is a joint venture between Optus and Elders Telecommunications Infrastructure Pty Ltd. The outcome of that litigation is unknown as the proceedings are ongoing.

Defence

ADI Limited — Officers' and Directors' indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has also provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

Remote contingencies

These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security.

As at 31 March 2016, the Department of Defence carried 1,520 instances of quantifiable remote contingent liabilities valued at \$5.5 billion and 529 instances of unquantifiable remote contingent liabilities, of which 520 relate to Foreign Military Sales. Defence also had three instances of quantifiable remote contingent assets valued at \$0.3 million.

Litigation cases

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for personal injury and property damage. A number of claims have been received seeking compensation for loss, injury or damage caused by the use of a Defence Practice Area. A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Industry, Innovation and Science

Liability for damages caused by space activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia or Australian nationals. The Government requires the responsible party for a space activity approved under the *Space Activities Act 1998* (the Act) to insure against, or take financial responsibility for, damage to third parties for an amount not less than the maximum probable loss or a minimum amount of insurance determined by an insurance analyst, up to a maximum of \$750 million indexed for inflation. Under the Act, the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of \$3 billion above the insured level.

Infrastructure and Regional Development

Maritime Industry Finance Company Limited — Board Members' Indemnity

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as Directors. MIFCO was placed into voluntary liquidation on November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the Directors and Officers of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct. The indemnities apply to the period of appointment as Directors or Officers of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Company Limited — 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.

Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Moorebank Intermodal Company Limited (MIC) in the

Statement 8: Statement of Risks

event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and MIC, for reasons other than a breach by MIC.

Tripartite deeds relating to the sale of federal leased airports

The tripartite deeds between the Australian Government, the airport lessee company and financiers, amend airport (head) leases to provide for limited step-in-rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of its termination of the (head) lease, once all Australian Government costs have been recovered. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959* the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at \$250,000 per account holder per ADI. As at 31 December 2015, deposits eligible for coverage under the Financial Claims Scheme were estimated to be \$810 billion, compared to an estimated \$777 billion as at 30 June 2015, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973* the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

The Australian Prudential Regulation Authority (APRA) is responsible for the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to account-holders with eligible protected accounts or eligible claimants would be made from APRA's Financial Claims Scheme Special Account. Under the legislation, upon activation, up to \$20 billion per institution would be available to meet Financial Claims Scheme payments and up to \$100 million for administration costs per institution.

Guarantee of State and Territory Borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over State and Territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed on 31 December 2010.

Securities covered by the guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Australian Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory failed to meet its obligations with respect to a commitment that was subject to the guarantee and the guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant State or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government's claim.

As at 31 March 2016, the face value of State and Territory borrowings covered by the guarantee was \$9.3 billion, down from \$10.8 billion at 30 September 2015.

Guarantees under the Commonwealth Bank Sale Act 1995

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities: \$180 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 31 March 2016; and \$4.3 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 March 2016.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. Notes on issue amount to \$70.1 billion, as at 16 March 2016, and the total guarantee is \$110.0 billion (\$101.9 billion at the 2015-16 Budget).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Compensation claims arising from suspension of livestock exports to Indonesia

Proceedings have commenced in the Federal Court of Australia seeking compensation for alleged losses due to the temporary suspension of exports of live animals to Indonesia that was put in place on 7 June 2011.

Statement 8: Statement of Risks

The final quantum of any damages sought cannot be predicted. The Department of Finance, which has responsibility for Comcover (the Australian Government's general insurance fund), has assumed responsibility for the potential claims under its insurance arrangements with the Department of Agriculture and Water Resources. The Commonwealth has denied liability.

Compensation claims arising from equine influenza outbreak

The Australian Government may become liable for compensation should it be found negligent in relation to the outbreak of equine influenza in 2007.

Proceedings have commenced in the Federal Court of Australia by Maurice Blackburn Lawyers with Attwood Marshall Lawyers who represent a closed class of 586 applicants claiming damages as a result of the 2007 equine influenza outbreak. No final quantum of damages sought can be calculated. The Department of Finance, which has responsibility for Comcover (the Australian Government's general insurance fund), has assumed responsibility for the potential claims under its insurance arrangements with the Department of Agriculture and Water Resources. The Commonwealth has denied liability.

Emergency pest and disease response arrangements and funding

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Limited funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements to pay the relevant State or Territory government. This funding is unlikely to be sufficient to meet the unquantifiable costs of a major pest or disease incursion, additional and multiple responses (noting there are currently 12 national cost shared emergency responses) or a large scale emergency response exercise.

The Australian Government may also be expected to contribute bilaterally in situations where an incursion is not covered by a cost sharing agreement or where the affected industry body/ies are not party to an emergency response agreement. The Australian Government may also provide financial assistance to an industry party by funding its share of an emergency response. These contributions may subsequently be recovered from the industry over a period of up to 10-years, usually through an emergency response levy.

Attorney-General's

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* to create a scheme for

providing financial assistance to Australian residents who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australian residents harmed (primary victims) or whose close family members die as a direct result of a declared terrorist act (secondary victims) are eligible to claim one-off payments of up to \$75,000. As acts of terrorism are unpredictable, and the declaration of overseas terrorists acts discretionary, the cost of the scheme is unquantifiable.

Disaster Recovery

The Australian Government provides funding to States and Territories through the Natural Disaster Relief and Recovery Arrangements (NDRRA) to assist with natural disaster relief and recovery costs. A State or Territory may claim NDRRA funding if a natural disaster occurs and State or Territory relief and recovery expenditure for that event meets the requirements set out in the NDRRA Determination. For major disasters, payments to individuals may be approved under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As natural disasters and their impacts are unpredictable, the cost of future disasters is unquantifiable and not included in the forward estimates.

Further, while current forward estimates for the NDRRA are based on the best information available at the time of preparation, preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change and the total cost of relief and recovery from these events may not be completely realised for some years. Estimates of all natural disasters are regularly reviewed and revised by the States and Territories as new information becomes available, and this, or the occurrence of future natural disasters, can in turn significantly affect the estimated NDRRA liability and payments.

Native Title costs

The Commonwealth can assist State and Territory governments in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. A National Partnership Agreement was executed in 2010 between the Australian Government and Victoria, under which the Commonwealth provided a contribution towards the settlement of two native title claims. No other agreement has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA (and potentially also the Constitution) in respect of compensable acts for which the Australian Government is responsible. The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Communications and the Arts

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided each Director of NBN Co Limited (nbn) with an indemnity against liability as a result of the Government failing to meet its funding obligations to nbn. The liabilities covered by this indemnity would be no greater than those covered by the nbn Equity Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

Defence

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Defence) in the New South Wales (NSW) Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence (Defence) has made a financial provision for the estimated costs involved in restoring, decontaminating and decommissioning where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

Non-remote contingent liabilities

The Department of Defence has 26 instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Finance

ASC Pty Ltd — Directors' indemnities

The Australian Government has provided former Directors of the then Australian Submarine Corporation Pty Ltd (now known as ASC Pty Ltd – ASC) with indemnities in relation to any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; for any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and for any claims and legal costs arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

Commonwealth Superannuation Corporation — immunity and indemnity

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions. These immunities do not prevent CSC from being subject to any action, liability, claim or demand. Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Future Fund Management Agency and Future Fund Board of Guardians — indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (the Agency) and the members (Board members) of the Future Fund Board of Guardians (the FFBG) with deeds of indemnity. The indemnities are intended to cover liabilities in excess of the insurance cover (including Comcover) of the FFBG, its subsidiary entities and the Agency. Board members are indemnified for liabilities incurred arising out of an act, omission or breach of statutory duty by the Board or a Board member that relates to the performance of the FFBG's functions or the exercise of the FFBG's powers or that relates to any act, omission or breach of statutory duty by a Board member as a director or officer of a wholly owned Australian subsidiary of the FFBG. Certain Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a director or officer of investee companies or subsidiaries of the FFBG. Subject to certain exceptions or qualifications, Board members and Agency staff members are indemnified for amounts up to the value of the relevant funds.

Board members are not indemnified in respect of any liability owed by them to the FFBG or its subsidiary, or which results from a contravention of a civil penalty provision of the *Future Fund Act 2006* or the *Corporations Act 2001*. Agency staff members are not indemnified to the extent they are indemnified by the relevant investee company or subsidiary, in respect of any liability owed to the FFBG or the Commonwealth, or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions 2005. Both Board members and Agency staff members are not indemnified for any liability resulting from conduct they engage in other than in good faith, to the extent they recover a liability under a Directors and Officers insurance policy (including Comcover) or in respect of legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings or proceedings regarding a contravention of a civil penalty provision.

Statement 8: Statement of Risks

Googong Dam

On 4 September 2008, a 150 year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

Indemnities for the Reserve Bank of Australia and private sector banks

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by the entity, or transactions made by the bank with the authority of the entity.

Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset sales and privatisations have been provided in previous Budget and MYEFO papers, and previous annual reports of Finance and the Office of Asset Sales and Commercial Support.

Indemnities (including the year they were raised) are still current for: ADI Ltd (1998), Australian Airlines (1991), Australian Industry Development Corporation (1996), Australian Multimedia Enterprise (1997), Australian National Rail Commission and National Rail Corporation Ltd (1997 and 2000), Australian River Co Ltd (1999), Australian Submarine Corporation Pty Ltd (2000), ComLand Ltd (2004), Bankstown Airport Limited (2002), Camden Airport Ltd (2002), Commonwealth Accommodation and Catering Services (1988), Commonwealth Bank of Australia (1993 to 1996), Commonwealth Funds Management and Total Risk Management (1996 to 1997), Employment National Ltd (2003), Essendon Airport Ltd (2001), Federal Airports Corporation's Airports (1995 to 1997), Housing Loans Insurance Corporation Ltd (1996), Health Insurance Commission (2000), Hoxton Park Airport Limited (2002), Medibank Private Limited (2014) – these indemnities cease after 30 June 2022, National Transmission Network (1999), Sydney Airports Corporation Ltd (2001), Telstra (1996, 1999 and 2006), Wool International (1999), and the Albury Wodonga Development Corporation (2014). Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Australian Government general insurance fund — Comcover

The Department of Finance through Comcover, the Australian Government's general insurance fund, provides insurance and risk management services to the Australian Government general government sector entities. The Department takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgements regularly evaluated and updated based on historical experience and other factors.

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 170 properties. This number has reduced from approximately 190 reported at the 2015-16 MYEFO due to the ongoing implementation of the measure – *Smaller Government – Surplus Commonwealth Properties – divestment*. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales; and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues 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.

Health

Australian Medical Association — Private Mental Health Alliance

An agreement has been entered into between the Australian Medical Association Ltd (AMA), the Commonwealth, the Australian Private Hospitals Association Ltd and Private Healthcare Australia for participation in, and support of the Private Mental Health Alliance. Each party has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of confidential information, or breach of the *Privacy Act 1988* in respect of identified information collected, held or exchanged by the parties in connection with the National Model for the Collection and Analysis of a Minimum Data Set with Outcome Measures in Private, Hospital based Psychiatric Services. The AMA's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage. The indemnity survives the expiration or termination of the agreement.

Australian Red Cross Society — indemnities

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of the Australian Red Cross Blood Service and the development of principal manufacturing sites in Sydney and Melbourne include certain indemnities and a limitation of liability in favour of the Red Cross. These cover defined sets of potential business, product and employee risks and liabilities. 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

Statement 8: Statement of Risks

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

A National Managed Fund (NMF) has been established between the Australian Government, the Australian Red Cross Blood Service (the Blood Service) and the State and Territory governments which spreads the liability risks associated with the supply of blood and blood products by the Blood Service. The NMF provides for liabilities incurred by the Blood Service where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the State and Territory governments may jointly provide indemnity for the Blood Service through a cost sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL Behring (Australia) Ltd, a subsidiary of CSL, which has operated since 1 January 2010, includes a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd is less than a specified amount.

Indemnities relating to vaccines

The Australian Government has provided an indemnity to the manufacturer of smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Further, under certain conditions, certain indemnities have been provided to particular manufacturers of pandemic and pre pandemic influenza vaccines for the supply or future supply of influenza vaccines (including H1N1 and H5N1).

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (currently \$20 million). These arrangements would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contracts based cover since 1 January 2003.

New South Wales Health Administration Council — indemnity

The National Health Funding Body (NHFB) provided an indemnity to the New South Wales government through the New South Wales Health Administration Council (NSW HAC), in relation to a state funding pool account with the Reserve Bank of Australia. The indemnity includes liabilities or claims arising in relation to the NHFB in two respects:

- (i) liabilities or claims arising from acts or omissions of NHFB staff as users of pool account information; and
- (ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

NSW HAC has provided a reciprocal indemnity for the actions of staff of the NHFB to the Reserve Bank of Australia.

Tobacco plain packaging litigation

The Australian Government will continue to fund the defence of legal challenges to the tobacco plain packaging legislation in international forums. Further information about these cases has not been disclosed on the grounds that it may prejudice the outcomes of these cases or may relate to commercial information.

Immigration and Border Protection

Immigration detention services by State and Territory governments — liability limit

The Department of Immigration and Border Protection (DIBP) has negotiated arrangements with a number of State and Territory governments for the provision of various services (including health, education and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions sought indemnification by the Australian Government for the provision of those services. These agreements, as listed below, contain unquantifiable indemnities relating to any damage or loss incurred by State and Territory governments arising out of, or incidental to, the provision of services under the proposed agreements.

Statement 8: Statement of Risks

| Jurisdictions | Service streams | | |
|----------------|--------------------------------|--------------------------------|--------------------------------|
| | Health | Education | Police |
| WA | \$5 million per claim or event | Uncapped liability | \$5 million per claim or event |
| NSW | N/A | \$5 million per claim or event | \$5 million per claim or event |
| VIC | Uncapped liability | Uncapped liability | \$5 million per claim or event |
| QLD/TAS/ACT/NT | N/A | \$5 million per claim or event | \$5 million per claim or event |
| SA | \$5 million per claim or event | \$5 million per claim or event | \$5 million per claim or event |

DIBP negotiates arrangements as necessary for the provision of correction services. The indemnity provided to States and Territory governments under these arrangements is no more than \$30 million per event.

Immigration detention services contract — liability limit

The Department of Immigration and Border Protection (DIBP) entered into a contract with Serco Australia Pty Ltd (Serco), which commenced on 11 December 2014, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention facilities. The contract term limits Serco’s liability to DIBP to a maximum of any insurance proceeds recovered by Serco up to a value of \$330 million. Serco’s liability is unlimited for specific events defined under the contract.

Garrison and welfare services at Regional Processing Countries contract — liability limit

The Department of Immigration and Border Protection (DIBP) entered into a contract with Broadspectrum Limited (BRS), formerly known as Transfield Services Ltd, which commenced on 24 March 2014, for the provision of garrison and welfare services at Regional Processing Countries on behalf of the Australian Government. The contract terms limit BRS’ liability to DIBP to a maximum of any insurance proceeds recovered by BRS up to a value of \$50 million.

Industry, Innovation and Science

Australian Nuclear Science and Technology Organisation — Indemnity

A Deed of Indemnity between the Commonwealth Government and ANSTO, under which the government has formally agreed to indemnify ANSTO and ANSTO Officers from any loss or liability arising from claims caused by ionising radiation, remains in place until August 2018. This indemnity does not specify that subsidiaries are included.

British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site – Maralinga section 400 – to the site’s Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project — long term liability

The Australian and Western Australian Governments have agreed to provide an indemnity to the Gorgon Joint Venture Partners (GJV) to indemnify the GJV against independent third party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project, and subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The Western Australian Government will indemnify the GJV, and the Australian Government will indemnify the Western Australian Government for 80 per cent of its liability to the GJV, for 15 years following the site closure certificate, for any amount determined to be payable under that indemnity. The formal agreement between the Australian and Western Australian Governments in relation to the indemnity was signed by the Prime Minister and the Premier of Western Australia on 13 February 2015.

Snowy Hydro Limited — water releases

The Australian, New South Wales and Victorian Governments have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and State and Territory governments have entered into an inter governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor General to declare a national emergency under the Act.

The IGA also contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the

Statement 8: Statement of Risks

direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the State and Territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

Infrastructure and Regional Development

Indemnity provided to the New South Wales Rural Fire Service in relation to the Jervis Bay Territory

The Department of Infrastructure and Regional Development is required to engage the New South Wales Rural Fire Service (NSW RFS) to provide fire management support for the volunteer brigade located in the Jervis Bay Territory (JBT). To provide this service, the NSW RFS requires the Australian Government to provide an uncapped indemnity whereby the Australian Government would be liable for any damage caused as a result of the actions of the NSW RFS in the JBT while fighting a fire. The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

Aviation Rescue & Fire Fighting potential Polyfluorinated Chemical Contamination

Airservices Australia has identified a number of sites around the country that potentially have been contaminated with polyfluorinated chemicals (PFC) that were contained in firefighting foams. The foams containing these chemicals were widely used internationally and were used by Airservices Australia's predecessors from 1980 until 1995 and then by Airservices Australia from 1995 until 2010. The identified contaminants do not breakdown in the natural environment. Testing and assessment of the fire training grounds commenced in 2008-09 with some additional site assessments conducted in the years following. The amount for potential long-term remediation costs cannot be quantified at this time.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority (AMSA) is responsible for the provision of funds necessary to meet the clean up costs arising from ship sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. AMSA has established a pollution response reserve of \$10 million supported by a commercial line of credit of \$40 million to provide funding should the overall clean up costs exceed the liability limit of the ship owner.

Service Delivery Arrangement Indemnities — External Territories

A range of services are delivered to the Indian Ocean Territories through arrangements that are in place with the Western Australian (WA) Government (referred to as Service

Delivery Arrangements or SDAs). There are 40 WA Government agencies delivering services to the Indian Ocean Territories.

The Australian Government has provided certain indemnities for the WA Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

Commencing 1 July 2016, the New South Wales (NSW) Government will provide a range of services to the Norfolk Island community through an SDA. The Australian Government will provide certain indemnities for the NSW Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers. A short term Memorandum of Understanding between NSW and the Australian Government to cover transitional activities to 30 June 2016 will also provide indemnities similar to that to be provided in the SDA.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Social Services

Business Services Wage Assessment Tool

The Australian Government may become liable for a significant range of costs following the Full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*.

The Australian Government's potential liability cannot be quantified at this time. A representative proceeding against the Commonwealth continues in the Federal Court. Parties in the representative proceeding signed a settlement agreement on 9 February 2016. The settlement agreement requires approval of the Federal Court, which will be sought in the latter half of 2016.

National Disability Insurance Scheme

In bilateral negotiations to establish the National Disability Insurance Scheme (NDIS), the Australian Government committed to provide temporary, untied financial assistance to some jurisdictions that expected to have their GST entitlements adversely affected during the transition to the NDIS.

Under this commitment, the expected liability will depend on a range of factors including when participating jurisdictions achieve full rollout of the scheme, whether Western Australia signs up to the NDIS, and any impact resulting from the Commonwealth Grants Commission's treatment of the NDIS.

Treasury

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses, 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 Treasurer must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed \$10 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non remote contingent assets

The Department of Defence has 17 instances of unquantifiable non-remote contingent assets.

Health

Legal action seeking compensation from Sanofi

The Department of Health has initiated legal action to seek compensation from Sanofi, the original patent owner of clopidogrel (Plavix®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of clopidogrel. The first generic version of this medicine was listed in 2010 and the first price disclosure-based reduction occurred in 2012. Listing a generic form of clopidogrel on the Australian market earlier than 2010 would have triggered an automatic reduction to the price paid by the Government for clopidogrel through the PBS and would have resulted in further price disclosure reductions.

Legal action seeking compensation from Wyeth

The Department of Health has initiated legal action to seek compensation from Wyeth, the original patent owner of venlafaxine (Efexor®), for additional costs to the Pharmaceutical Benefits Scheme (PBS) resulting from a delay in listing a generic version of venlafaxine. The first generic version of this medicine was listed in 2012 and the first price disclosure-based reduction occurred in 2013. Listing a generic form of venlafaxine on the Australian market earlier than 2012 would have triggered an automatic reduction to the price paid by the Government for venlafaxine through the PBS and have resulted in further price disclosure-based reductions.

Industry, Innovation and Science

Wireless Local Area Network

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has ongoing patent infringement proceedings in the United States of America and Europe against one defendant. The patents cover CSIRO's invention of a wireless local area network. CSIRO expects to receive additional revenue which would exceed the associated legal costs.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has 19 instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at \$25 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by the members of Defence's Legal Services Panel and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Employment

Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union

The Australian Government continues to provide the Administrator and the Assistant Administrators of the Health Services Union with indemnities associated with their performance, pursuant to section 323 of the *Fair Work (Registered Organisations) Act 2009* (Cth).

The Commonwealth will irrevocably indemnify the indemnified parties against any and all demands, claims, suits, actions, liabilities, losses, costs and expenses which may be made or brought against or suffered or incurred by the indemnified parties in respect of the indemnified event or as a direct or indirect result of any claim made or purported to be made in respect of the indemnified event as evidenced in writing up to \$20 million.

There are three indemnities, each of which is to the value of \$20 million.

Environment

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of the former Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds were executed in 2014. Each indemnity covers liability incurred

Statement 8: Statement of Risks

by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of \$100 million to cover all claims has been established, and the indemnities will operate for seven years from execution (to 2020).

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a \$200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 31 March 2016, the Government's total contingent liability was \$3.5 billion, which represents a \$0.3 billion reduction compared with the figure reported at the 2015-16 MYEFO. The \$3.5 billion contingent liability comprises EFIC's liabilities to third parties (\$2.8 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees (\$0.7 billion). Of the total contingent liability, \$2.9 billion relates to EFIC's Commercial Account and \$0.6 billion relates to the National Interest Account.

Health

Accommodation Payment Guarantee Scheme

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' accommodation bond, entry contribution balances and, from 1 July 2014, refundable accommodation deposits and contributions if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds, entry contributions and refundable accommodation deposits to meet any shortfall. On 30 June 2015, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately \$18.3 billion.

Infrastructure and Regional Development

Australian Government contribution to the East West Link project

The Australian Government remains committed to the construction of East West Link, despite the decision of the Victorian Government not to proceed with the project.

To this end, the Australian Government will provide \$3 billion to the first Victorian Government willing to build the East West Link and is therefore recording this commitment as a contingent liability in the Budget.

Virgin Australia Airlines Pty Ltd Confidentiality and Non-Disclosure Agreement

Under the 2002 Sydney (Kingsford-Smith) Airport Sale Agreement, the owners of Sydney Airport have a Right of First Refusal, which gives them first opportunity to develop and operate a second major airport within 100 kilometres of Sydney's centre. The Australian Government must seek the views of major airlines during the consultation phase.

When establishing the industry consultations, Virgin Australia Airlines Pty Ltd sought a capped indemnity whereby they could seek damages for any financial loss they may suffer in the event of unauthorised disclosure by the Australian Government of confidential information. Until the information becomes publicly available (not through a breach of confidentiality by the Commonwealth) the contingent liability remains capped at a maximum cumulative liability of \$20 million. The risk of an event occurring that may result in a liability for the Australian Government is currently mitigated through the training of staff and compliance with a comprehensive information management plan.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 March 2016, for which a provision has not been made, is \$4.4 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. Australia's uncalled capital subscription to the IBRD totals US\$3.6 billion (estimated value A\$4.7 billion as at 31 March 2016).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A\$351.1 million as at 31 March 2016).

Statement 8: Statement of Risks

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US\$7.0 billion (estimated value A\$9.2 billion as at 31 March 2016).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US\$26.5 million (estimated value A\$34.6 million as at 31 March 2016).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government is purchasing shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB will total US\$3.0 billion (estimated value A\$3.9 billion as at 31 March 2016).

None of these international financial institutions have ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The IMF's 14th General Review of Quotas, which became effective on 26 January 2016, resulted in a doubling of the IMF's quota resources and a corresponding rollback in the size of the NAB facility. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) 2.22 billion (estimated value A\$4.08 billion at 31 March 2016).

In addition to the NAB credit line, as part of a broad international effort to increase the resources available to the IMF, Australia has made available a SDR4.61 billion (approximately A\$8.47 billion at 31 March 2016) contingent bilateral loan to the IMF. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and all contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy.

CONTINGENT ASSETS — QUANTIFIABLE

Defence

Claims by the Department of Defence

The Department of Defence has 25 instances of non-remote, quantifiable contingent assets in respect of claims by the Department valued at \$7.2 million. Defence is expecting to succeed in its claims. The estimated figure is determined by conducting an objective analysis of the probable amounts owing to Defence.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on fiscal balance in some circumstances.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table 3 summarises Government loans estimated to exceed \$200 million at 30 June 2016.

Table 3: Summary of Australian Government loans exceeding \$200 million^{(a)(b)(c)}

| Entity | Loan amount ^(e) (\$m) | Borrower | Interest rate | Term | Status |
|-----------------------------------------------------------------------------------------------|----------------------------------|----------------------------------------------------------------|-------------------------------------------|--------------------|-----------|
| Department of Education and Training | | | | | |
| Higher Education Loan Programme | 37,080 | Eligible tertiary education students | Consumer Price Index (CPI) | 8.7 years* | Modified |
| Australian Office of Financial Management | | | | | |
| Commonwealth-State financing arrangements — Housing and Specific Purpose Capital | 1,958 | State and Northern Territory governments | 3.5-6 per cent | Up to 30 June 2042 | Unchanged |
| Department of Infrastructure and Regional Development | | | | | |
| Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation | 981 | Australian Capital Territory Government | Commonwealth Government 10-year bond rate | Up to 30 June 2024 | Modified |
| Clean Energy Finance Corporation | | | | | |
| Clean Energy Finance Corporation ^(d) | 800 | Eligible entities undertaking clean energy technology projects | 4.5 per cent | 5-10 years | Modified |
| Department of the Treasury | | | | | |
| International Monetary Fund New Arrangements to Borrow | 734 | International Monetary Fund | 0.05 per cent at 31 March 2016 | 10 years | Modified |
| Indigenous Business Australia | | | | | |
| Indigenous Home Ownership, Business Development and Assistance | 713 | Eligible Indigenous persons | 4.41per cent* | 28.9 years* | Modified |

Table 3: Summary of Australian Government loans exceeding \$200 million^{(a)(b)(c)} (continued)

| Entity | Loan amount ^(e) (\$m) | Borrower | Interest rate | Term | Status |
|------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------------|----------------|-----------|
| Department of Social Services | | | | | |
| Student Financial Supplement Scheme | 483 | Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY | CPI | Various | Unchanged |
| Department of Education and Training | | | | | |
| Trade Support Loans Programme | 332 | Eligible Australian apprentices | CPI | — [#] | Modified |
| Export Finance and Insurance Corporation | | | | | |
| Papua New Guinea Liquefied Natural Gas | 332 | Entities associated with the Papua New Guinea Liquefied Natural Gas project | Commercial-In-Confidence | Until 2026 | Modified |
| Department of Agriculture and Water Resources | | | | | |
| Drought Concessional Loans | 331 | State governments | 3.05 per cent | 5 years | Modified |
| Department of Health | | | | | |
| Zero Real Interest Loans | 311 | Residential aged care providers building or extending residential aged care facilities in areas of high need | CPI | 12-22 years | Modified |

Table 3: Summary of Australian Government loans exceeding \$200 million^{(a)(b)(c)} (continued)

| Entity | Loan amount ^(e) (\$m) | Borrower | Interest rate | Term | Status |
|-------------------------------------------------|----------------------------------|------------------------------------------------------------------|---------------------------------------------------|--------------------|----------|
| Indigenous Land Corporation | | | | | |
| Voyages Indigenous Tourism Australia Pty Ltd | 277 | Voyages Indigenous Tourism Australia Pty Ltd | 90 Day bank bill swap reference rate + 5 per cent | 9 years, 11 months | Modified |
| Export Finance and Insurance Corporation | | | | | |
| Development Import Finance Facility | 272 | The Republic of Indonesia acting through its Ministry of Finance | Various | Various | Modified |

* Average

#To be determined after sufficient numbers of compulsory repayments commence.

- (a) The Government will establish a concessional financing facility of up to \$5 billion, with the objective of increasing private sector investment in infrastructure in northern Australia. The facility is being established through legislation and will commence operation from 1 July 2016 or after the legislation receives royal assent (if this has not occurred by 1 July 2016). Further details are provided in Budget Paper No. 2, *Budget Measures 2015-16* and Budget Paper No.2 *Budget Measures 2016-17*.
- (b) The *National Water Infrastructure Loan Facility* will be available from 1 July 2016 to support major water infrastructure projects. The loan facility will make available \$2 billion over ten years in loans directly to the States and Territories. Further details are provided in Budget Paper No. 2, *Budget Measures 2016-17*.
- (c) From 1 July 2016, the Government will implement a New Drought Concessional Loans Scheme that will provide up to \$250 million in loans per year over 10 years (\$2.5 billion in total), to assist drought-affected farm business across Australia. This loan scheme will replace the current Drought Concessional Loans and Drought Recovery Concessional Loans schemes that cease on 31 October 2016. Further details are provided in 2015-16 MYEFO Appendix A (*Stronger Farmers Stronger Economy — new drought management framework*).
- (d) A Clean Energy Innovation Fund will be established as a subsidiary fund under the Clean Energy Finance Corporation (CEFC), with \$100 million a year for 10 years to be made available for investment from within the CEFC's legislated funds. Further details are provided in Budget Paper No. 2, *Budget Measures 2016-17*.
- (e) Loan amount is the estimated loan program amounts outstanding as at 30 June 2016 in \$ million.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) is an income contingent loan program that assists eligible tertiary education students with the cost of their fees. As at 30 June 2016, the fair value of debt outstanding is estimated to be \$37.1 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are indexed annually by the Consumer Price Index. The repayment term depends on individual circumstances including the amount borrowed and each debtor's income. There were 2,223,041 HELP debtors as at 30 June 2015. 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 2015, the average time taken to repay HELP debts was 8.7 years.

Commonwealth-State financing arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the State and Northern Territory Governments under Commonwealth-State financing arrangements for housing and for specific purpose capital. The advances are concessional fixed rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made by the States and the Northern Territory. As at 30 June 2016, the estimated amortised value of the advances is \$1.96 billion.

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the State and Northern Territory governments.

Concessional Loan for Asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation

On 27 January 2015, the Australian Government provided the ACT Government with a \$1.0 billion concessional loan to deliver a program to buy-back and demolish houses in the ACT affected by Mr Fluffy loose fill asbestos.

The ACT Government will make annual repayments to the Australian Government from 2017-18 up to 2023-24.

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 2015 (No.2)* (Investment Mandate). As at 30 June 2016, loans contracted and outstanding loans are estimated to total \$800 million.

Statement 8: Statement of Risks

The CEFC's portfolio consists of predominantly senior ranking, secured loans, and secured project finance facilities, typically secured against energy generating assets such as wind or solar farms or biogas facilities or other assets such as building or council rates.

The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.5 per cent. Loans have various maturity dates, typically in the range of 5-10 years. On 23 March 2016, the Government announced that it will retain the CEFC.

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. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. It is expected that loans outstanding will be approximately \$734 million as at 30 June 2016.

The total value of Australia's NAB credit arrangement is Special Drawing Rights (SDR, the IMF's unit of account) 2.22 billion (estimated value A\$4.08 billion at 31 March 2016).

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. Indigenous Business Australia also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program whereby student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. As at 30 June 2016 loans outstanding are estimated to total \$483.2 million.

Trade Support Loans Programme

The Trade Support Loans Programme is an income contingent, concessional loan program that assists eligible Australian apprentices by providing financial support of up to \$20,000 to assist with the costs of living, learning and completing an apprenticeship.

Eligible Australian apprentices can access up to \$8,000 in their first year, \$6,000 in the second, \$4,000 in the third and \$2,000 in the fourth year. The lifetime limit of \$20,000 will be indexed on 1 July 2017 and each year after on 1 July to maintain its real value.

Upon successful completion of an apprenticeship, Australian apprentices will be entitled to a 20 per cent discount on the loan. The loans become repayable at the same thresholds as the Higher Education Loan Programme, which is \$54,126 in 2015-16.

Papua New Guinea Liquefied Natural Gas

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2016, the loan amount outstanding is estimated to total \$332 million.

Drought Concessional Loans

The Drought Concessional Loans Scheme provides loans to drought affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014, and in 2014-15, operated in all States and Territories except Tasmania and the ACT. The Government is providing up to \$150 million for Drought Concessional Loans until 31 October 2016, covering all States and Territories except the ACT. All eligible jurisdictions have opened the scheme for 2015-16, except Western Australia which is expected to open shortly. Loans have a maximum loan term of five years with interest only payments required during the loan term.

To give effect to the scheme, loans from the Commonwealth are made to the State and Northern Territory governments that on-lend to eligible farm businesses through state delivery agencies.

The variable concessional interest rate on loans to eligible businesses will remain 0.5 per cent below the Farm Finance Concessional Loan concessional interest rate. Since 1 August 2015, the interest rate has been 3.05 per cent. The interest rate will continue to be reviewed on a six-monthly basis and revised in accordance with changes to the Farm Finance Concessional Loans interest 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.

Zero Real Interest Loans

The Zero Real Interest Loans programme provides loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the Consumer Price Index. Four funding rounds were completed with the final round of offers finalised in 2013.

Statement 8: Statement of Risks

No further new loan offers will be available under the program. As at 30 June 2016, the total amount owed to the Commonwealth is estimated to be \$311 million.

Indigenous Land Corporation

The Indigenous Land Corporation (ILC) purchased Ayers Rock Resort (ARR) for \$292 million in May 2011 and immediately on-sold it to its wholly-owned subsidiary Voyages Indigenous Tourism Australia Pty Ltd (Voyages) creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90 day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. An additional \$26.9 million in accrued interest on the intercompany loan and other advances (between the ILC and Voyages) has been incurred since the purchase of ARR. The external borrowings were refinanced in 2015-16. Part of the amount refinanced was transferred to Voyages, decreasing the intercompany loan to \$277.2 million.

Development Import Finance Facility

The Development Import Finance Facility (DIFF), administered by the Export Finance and Insurance Corporation on behalf of the former Australian Agency for International Development (AusAID), provided concessional loans to Indonesia to deliver development benefits to that country. The DIFF was discontinued in 1996 with no further concessional loans being provided. As at 30 June 2016, loans outstanding are estimated to total \$271.9 million.

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector, the total non-financial public sector (NFPS) and the public financial corporations (PFC) sector. The financial statements comply with both Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- a balance sheet, which also shows net worth, net financial worth, net financial liabilities and net debt; and
- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS.

The statements reflect the policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

The Australian, State and Territory governments have an agreed framework – the Uniform Presentation Framework (UPF) – for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard AASB 1049. The budget financial statements are consistent with the requirements of the UPF.

In accordance with the UPF requirements, this statement also contains an update of the Australian Loan Council Allocation.

CONTENTS

| | |
|----------------------------------------------------------------------------|-----------|
| Notes to the general government sector financial statements | 20 |
| Appendix A: Financial reporting standards and budget concepts | 33 |
| Appendix B: Australian Loan Council Allocation..... | 40 |

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

| | Note | Estimates | | | Projections | |
|------------------------------------------------------------------|------|----------------|----------------|----------------|----------------|----------------|
| | | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Revenue | | | | | | |
| Taxation revenue | 3 | 371,923 | 391,283 | 419,944 | 449,793 | 478,563 |
| Sales of goods and services | 4 | 7,697 | 9,249 | 12,011 | 15,558 | 16,763 |
| Interest income | 5 | 3,506 | 4,280 | 4,841 | 5,775 | 6,825 |
| Dividend income | 5 | 5,564 | 3,242 | 3,666 | 4,045 | 3,845 |
| Other | 6 | 7,706 | 8,807 | 9,063 | 9,198 | 9,066 |
| Total revenue | | 396,396 | 416,862 | 449,524 | 484,370 | 515,062 |
| Expenses | | | | | | |
| Gross operating expenses | | | | | | |
| Wages and salaries(a) | 7 | 19,767 | 20,071 | 19,864 | 20,015 | 20,417 |
| Superannuation | 7 | 7,052 | 4,618 | 4,693 | 4,783 | 4,828 |
| Depreciation and amortisation | 8 | 7,165 | 7,522 | 7,660 | 8,061 | 8,640 |
| Supply of goods and services | 9 | 81,414 | 86,745 | 87,558 | 97,400 | 101,857 |
| Other operating expenses(a) | 7 | 5,483 | 5,452 | 5,418 | 5,445 | 5,504 |
| <i>Total gross operating expenses</i> | | <i>120,881</i> | <i>124,408</i> | <i>125,193</i> | <i>135,705</i> | <i>141,247</i> |
| Superannuation interest expense | 7 | 9,167 | 9,959 | 10,330 | 10,706 | 11,085 |
| Interest expenses | 10 | 16,774 | 18,725 | 19,764 | 20,539 | 20,818 |
| Current transfers | | | | | | |
| Current grants | 11 | 128,393 | 138,966 | 148,480 | 162,171 | 168,786 |
| Subsidy expenses | | 12,763 | 13,425 | 14,102 | 14,918 | 16,024 |
| Personal benefits | 12 | 133,416 | 132,562 | 134,844 | 137,165 | 146,374 |
| <i>Total current transfers</i> | | <i>274,572</i> | <i>284,953</i> | <i>297,426</i> | <i>314,254</i> | <i>331,184</i> |
| Capital transfers | | | | | | |
| Mutually agreed write-downs | 11 | 1,722 | 1,845 | 1,959 | 2,102 | 2,246 |
| Other capital grants | | 8,354 | 10,663 | 10,139 | 6,018 | 5,024 |
| <i>Total capital transfers</i> | | <i>10,076</i> | <i>12,508</i> | <i>12,098</i> | <i>8,121</i> | <i>7,270</i> |
| Total expenses | | 431,470 | 450,553 | 464,812 | 489,324 | 511,604 |
| Net operating balance | | -35,074 | -33,691 | -15,287 | -4,954 | 3,458 |
| Other economic flows - included in operating result | | | | | | |
| Net write-downs of assets | | | | | | |
| (including bad and doubtful debts) | | -7,106 | -8,077 | -8,602 | -8,977 | -9,350 |
| Assets recognised for the first time | | 296 | 348 | 317 | 330 | 343 |
| Liabilities recognised for the first time | | 0 | 0 | 0 | 0 | 0 |
| Actuarial revaluations | | 0 | 0 | 0 | 0 | 0 |
| Net foreign exchange gains | | -9 | 8 | 119 | 150 | 33 |
| Net swap interest received | | -437 | 0 | 0 | 0 | 0 |
| Market valuation of debt | | -4,673 | 3,156 | 2,547 | 2,350 | 1,960 |
| Other gains/(losses) | | 713 | 4,705 | 7,205 | 6,305 | 6,298 |
| Total other economic flows - included in operating result | | -11,215 | 140 | 1,586 | 157 | -715 |
| Operating result(b) | | -46,289 | -33,552 | -13,701 | -4,797 | 2,743 |

Statement 9: Australian Government Budget Financial Statements

Table 1: Australian Government general government sector operating statement (continued)

| | Note | Estimates | | | Projections | |
|--------------------------------------------------------|------|----------------|----------------|----------------|----------------|----------------|
| | | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Non-owner movements in equity | | | | | | |
| Revaluation of equity investments | | -3,026 | -2,880 | 31 | 49 | 0 |
| Actuarial revaluations | | 1,032 | -6 | -16 | -3 | 9 |
| Other economic revaluations | | 371 | 536 | 7 | -30 | 509 |
| Total other economic flows - included in equity | | -1,623 | -2,350 | 21 | 16 | 518 |
| Comprehensive result - | | | | | | |
| Total change in net worth | | -47,912 | -35,902 | -13,680 | -4,780 | 3,262 |
| Net operating balance | | -35,074 | -33,691 | -15,287 | -4,954 | 3,458 |
| Net acquisition of non-financial assets | | | | | | |
| Purchases of non-financial assets | | 11,559 | 11,416 | 12,993 | 13,255 | 14,046 |
| <i>less</i> Sales of non-financial assets | | 404 | 932 | 2,030 | 562 | 233 |
| <i>less</i> Depreciation | | 7,165 | 7,522 | 7,660 | 8,061 | 8,640 |
| <i>plus</i> Change in inventories | | 310 | 449 | 239 | 260 | 346 |
| <i>plus</i> Other movements in non-financial assets | | 56 | 26 | -154 | -7 | -2 |
| Total net acquisition of non-financial assets | | 4,355 | 3,437 | 3,388 | 4,885 | 5,517 |
| Fiscal balance (Net lending/borrowing)(c) | | -39,429 | -37,129 | -18,675 | -9,839 | -2,059 |

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) Operating result under AAS.

(c) The term fiscal balance is not used by the ABS.

Statement 9: Australian Government Budget Financial Statements

Table 2: Australian Government general government sector balance sheet

| | Note | Estimates | | | Projections | |
|---------------------------------------------|------|----------------|----------------|----------------|----------------|----------------|
| | | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Assets | | | | | | |
| Financial assets | | | | | | |
| Cash and deposits | | 3,512 | 4,874 | 3,440 | 3,160 | 2,688 |
| Advances paid | 13 | 52,782 | 62,637 | 72,852 | 83,557 | 95,356 |
| Investments, loans and placements | 14 | 153,233 | 173,479 | 188,611 | 189,073 | 192,823 |
| Other receivables | 13 | 48,492 | 48,646 | 51,997 | 55,560 | 57,404 |
| Equity investments | | | | | | |
| Investments in other public sector entities | | 44,798 | 50,846 | 50,959 | 51,270 | 51,618 |
| Equity accounted investments | | 344 | 354 | 364 | 374 | 384 |
| Investments - shares | | 39,394 | 42,558 | 45,746 | 49,253 | 53,116 |
| <i>Total financial assets</i> | | <i>342,555</i> | <i>383,395</i> | <i>413,970</i> | <i>432,248</i> | <i>453,389</i> |
| Non-financial assets | | | | | | |
| Land | 15 | 9,729 | 9,674 | 9,610 | 9,604 | 9,617 |
| Buildings | | 25,992 | 26,391 | 26,676 | 26,926 | 27,532 |
| Plant, equipment and infrastructure | | 59,692 | 62,239 | 66,468 | 70,661 | 74,835 |
| Inventories | | 8,195 | 8,184 | 7,933 | 7,691 | 7,513 |
| Intangibles | | 6,881 | 7,414 | 7,820 | 8,017 | 8,173 |
| Investment property | | 200 | 200 | 200 | 200 | 200 |
| Biological assets | | 44 | 44 | 44 | 44 | 44 |
| Heritage and cultural assets | | 11,697 | 11,658 | 11,620 | 11,582 | 11,543 |
| Assets held for sale | | 174 | 147 | 80 | 80 | 80 |
| Other non-financial assets | | 262 | 288 | 134 | 127 | 125 |
| <i>Total non-financial assets</i> | | <i>122,866</i> | <i>126,238</i> | <i>130,584</i> | <i>134,930</i> | <i>139,662</i> |
| Total assets | | 465,421 | 509,633 | 544,554 | 567,178 | 593,051 |
| Liabilities | | | | | | |
| Interest bearing liabilities | | | | | | |
| Deposits held | | 218 | 218 | 218 | 218 | 218 |
| Government securities | | 476,999 | 549,537 | 594,439 | 614,904 | 628,828 |
| Loans | 16 | 16,425 | 15,739 | 15,732 | 15,731 | 15,643 |
| Other borrowing | | 1,569 | 1,458 | 1,356 | 1,310 | 1,244 |
| <i>Total interest bearing liabilities</i> | | <i>495,211</i> | <i>566,952</i> | <i>611,745</i> | <i>632,163</i> | <i>645,933</i> |

Statement 9: Australian Government Budget Financial Statements

Table 2: Australian Government general government sector balance sheet (continued)

| | Note | Estimates | | | Projections | |
|-------------------------------------------|------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Provisions and payables | | | | | | |
| Superannuation liability | 17 | 169,308 | 175,661 | 182,026 | 188,394 | 194,739 |
| Other employee liabilities | 17 | 17,004 | 17,332 | 17,671 | 18,046 | 18,445 |
| Suppliers payable | 18 | 5,868 | 6,092 | 6,188 | 6,307 | 6,319 |
| Personal benefits provisions and payables | 18 | 14,446 | 13,542 | 12,294 | 11,883 | 12,086 |
| Subsidies provisions and payables | 18 | 4,908 | 5,216 | 5,489 | 5,816 | 6,211 |
| Grants provisions and payables | 18 | 10,466 | 10,876 | 10,246 | 10,386 | 11,714 |
| Other provisions and payables | 18 | 13,237 | 14,891 | 13,503 | 13,573 | 13,731 |
| <i>Total provisions and payables</i> | | <i>235,237</i> | <i>243,610</i> | <i>247,417</i> | <i>254,404</i> | <i>263,246</i> |
| Total liabilities | | 730,448 | 810,561 | 859,163 | 886,567 | 909,178 |
| Net worth(a) | | -265,027 | -300,929 | -314,608 | -319,389 | -316,127 |
| <i>Net financial worth(b)</i> | | <i>-387,893</i> | <i>-427,167</i> | <i>-445,192</i> | <i>-454,319</i> | <i>-455,789</i> |
| <i>Net financial liabilities(c)</i> | | <i>432,691</i> | <i>478,013</i> | <i>496,152</i> | <i>505,589</i> | <i>507,407</i> |
| <i>Net debt(d)</i> | | <i>285,684</i> | <i>325,962</i> | <i>346,842</i> | <i>356,373</i> | <i>355,066</i> |

(a) Net worth is calculated as total assets minus total liabilities.

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

(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.

(d) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 3: Australian Government general government sector cash flow statement^(a)

| | Estimates | | | Projections | |
|-----------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Cash receipts from operating activities | | | | | |
| Taxes received | 364,507 | 382,769 | 410,165 | 438,821 | 468,278 |
| Receipts from sales of goods and services | 7,686 | 9,176 | 11,954 | 15,499 | 16,709 |
| Interest receipts | 2,842 | 3,262 | 3,470 | 3,829 | 4,248 |
| Dividends and income tax equivalents | 5,332 | 5,833 | 3,462 | 3,886 | 4,304 |
| Other receipts | 7,321 | 7,879 | 7,737 | 7,324 | 6,970 |
| Total operating receipts | 387,688 | 408,919 | 436,788 | 469,358 | 500,509 |
| Cash payments for operating activities | | | | | |
| Payments for employees | -27,893 | -28,259 | -28,530 | -29,128 | -29,938 |
| Payments for goods and services | -80,834 | -87,036 | -87,498 | -97,188 | -101,994 |
| Grants and subsidies paid | -149,656 | -161,853 | -171,131 | -180,047 | -186,189 |
| Interest paid | -14,822 | -15,903 | -16,826 | -18,054 | -18,463 |
| Personal benefit payments | -134,887 | -135,637 | -138,318 | -139,049 | -147,135 |
| Other payments | -5,308 | -5,141 | -5,049 | -5,060 | -5,118 |
| Total operating payments | -413,400 | -433,829 | -447,353 | -468,525 | -488,837 |
| Net cash flows from operating activities | -25,712 | -24,909 | -10,565 | 833 | 11,673 |
| Cash flows from investments in non-financial assets | | | | | |
| Sales of non-financial assets | 339 | 2,365 | 597 | 562 | 233 |
| Purchases of non-financial assets | -11,559 | -11,216 | -12,581 | -12,958 | -13,719 |
| Net cash flows from investments in non-financial assets | -11,221 | -8,851 | -11,984 | -12,396 | -13,487 |
| Net cash flows from investments in financial assets for policy purposes | -14,553 | -19,678 | -11,698 | -12,373 | -12,562 |
| Cash flows from investments in financial assets for liquidity purposes | | | | | |
| Increase in investments | -9,396 | -19,579 | -13,223 | 1,719 | -1,162 |
| Net cash flows from investments in financial assets for liquidity purposes | -9,396 | -19,579 | -13,223 | 1,719 | -1,162 |
| Cash receipts from financing activities | | | | | |
| Borrowing | 63,753 | 77,572 | 49,696 | 25,470 | 17,927 |
| Other financing | 6 | 34 | 0 | 0 | 0 |
| Total cash receipts from financing activities | 63,759 | 77,606 | 49,696 | 25,470 | 17,927 |
| Cash payments for financing activities | | | | | |
| Borrowing | 0 | 0 | 0 | 0 | 0 |
| Other financing | -2,522 | -3,227 | -3,661 | -3,533 | -2,862 |
| Total cash payments for financing activities | -2,522 | -3,227 | -3,661 | -3,533 | -2,862 |
| Net cash flows from financing activities | 61,238 | 74,379 | 46,035 | 21,937 | 15,065 |
| Net increase/(decrease) in cash held | 356 | 1,362 | -1,434 | -280 | -472 |

Statement 9: Australian Government Budget Financial Statements

Table 3: Australian Government general government sector cash flow statement^(a) (continued)

| | Estimates | | | Projections | |
|---------------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-) | -36,933 | -33,760 | -22,548 | -11,563 | -1,814 |
| Finance leases and similar arrangements(b) | -2 | 0 | 0 | 0 | 0 |
| GFS cash surplus(+)/deficit(-) | -36,934 | -33,760 | -22,548 | -11,563 | -1,814 |
| less Net Future Fund earnings | 3,012 | 3,321 | 3,574 | 3,843 | 4,140 |
| Equals underlying cash balance(c) | -39,946 | -37,081 | -26,123 | -15,406 | -5,955 |
| plus Net cash flows from investments in financial assets for policy purposes | -14,553 | -19,678 | -11,698 | -12,373 | -12,562 |
| plus Net Future Fund earnings | 3,012 | 3,321 | 3,574 | 3,843 | 4,140 |
| Equals headline cash balance | -51,487 | -53,438 | -34,246 | -23,936 | -14,376 |

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

(c) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

| | Estimates | |
|--------------------------------------------------------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Revenue | | |
| Current grants and subsidies | 80 | 154 |
| Sales of goods and services | 9,889 | 10,359 |
| Interest income | 49 | 32 |
| Other | 27 | 104 |
| Total revenue | 10,044 | 10,649 |
| Expenses | | |
| Gross operating expenses | | |
| Wages and salaries(a) | 4,093 | 4,185 |
| Superannuation | 348 | 439 |
| Depreciation and amortisation | 1,532 | 2,021 |
| Supply of goods and services | 5,458 | 6,800 |
| Other operating expenses(a) | 471 | 344 |
| <i>Total gross operating expenses</i> | <i>11,901</i> | <i>13,789</i> |
| Interest expenses | 456 | 567 |
| Other property expenses | 127 | 127 |
| Current transfers | | |
| Tax expenses | 24 | 59 |
| <i>Total current transfers</i> | <i>24</i> | <i>59</i> |
| Total expenses | 12,509 | 14,543 |
| Net operating balance | -2,465 | -3,894 |
| Other economic flows | -514 | -68 |
| Comprehensive result - Total change in net worth excluding contribution from owners | -2,979 | -3,962 |
| Net acquisition of non-financial assets | | |
| Purchases of non-financial assets | 4,667 | 6,335 |
| <i>less</i> Sales of non-financial assets | 65 | 306 |
| <i>less</i> Depreciation | 1,532 | 2,021 |
| <i>plus</i> Change in inventories | 33 | 166 |
| <i>plus</i> Other movements in non-financial assets | 1,667 | 2,984 |
| Total net acquisition of non-financial assets | 4,771 | 7,158 |
| Fiscal balance (Net lending/borrowing)(b) | -7,236 | -11,052 |

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) The term fiscal balance is not used by the ABS.

Table 5: Australian Government public non-financial corporations sector balance sheet

| | Estimates | |
|---------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Assets | | |
| Financial assets | | |
| Cash and deposits | 2,524 | 1,120 |
| Investments, loans and placements | 817 | 505 |
| Other receivables | 1,805 | 1,637 |
| Equity investments | 3 | 4 |
| <i>Total financial assets</i> | <i>5,149</i> | <i>3,266</i> |
| Non-financial assets | | |
| Land and other fixed assets | 21,974 | 27,969 |
| Other non-financial assets(a) | 5,247 | 8,230 |
| <i>Total non-financial assets</i> | <i>27,221</i> | <i>36,199</i> |
| Total assets | 32,370 | 39,466 |
| Liabilities | | |
| Interest bearing liabilities | | |
| Advances received | 277 | 280 |
| Loans | 2,553 | 2,324 |
| Other borrowing | 4,282 | 6,265 |
| <i>Total interest bearing liabilities</i> | <i>7,112</i> | <i>8,868</i> |
| Provisions and payables | | |
| Superannuation liability | 4 | 1 |
| Other employee liabilities | 1,567 | 1,640 |
| Other provisions and payables(a) | 3,933 | 4,200 |
| <i>Total provisions and payables</i> | <i>5,504</i> | <i>5,840</i> |
| Total liabilities | 12,616 | 14,708 |
| Shares and other contributed capital | 19,754 | 24,757 |
| Net worth(b) | 19,754 | 24,757 |
| <i>Net financial worth(c)</i> | <i>-7,467</i> | <i>-11,442</i> |
| <i>Net debt(d)</i> | <i>3,772</i> | <i>7,243</i> |

(a) Excludes the impact of commercial taxation adjustments.

(b) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(d) Net debt equals the sum of interest bearing liabilities (deposit held, advances received, loans and other borrowing), minus the sum of cash and deposits and investments, loans and placements.

Table 6: Australian Government public non-financial corporations sector cash flow statement^(a)

| | Estimates | |
|-----------------------------------------------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Cash receipts from operating activities | | |
| Receipts from sales of goods and services | 11,357 | 11,913 |
| GST input credit receipts | 376 | 342 |
| Other receipts | 167 | 465 |
| Total operating receipts | 11,900 | 12,719 |
| Cash payments for operating activities | | |
| Payments to employees | -4,930 | -4,851 |
| Payment for goods and services | -6,952 | -8,087 |
| Interest paid | -402 | -518 |
| GST payments to taxation authority | 0 | 0 |
| Other payments | -18 | -23 |
| Total operating payments | -12,302 | -13,480 |
| Net cash flows from operating activities | -402 | -760 |
| Cash flows from investments in non-financial assets | | |
| Sales of non-financial assets | 65 | 300 |
| Purchases of non-financial assets | -6,267 | -9,335 |
| Net cash flows from investments in non-financial assets | -6,203 | -9,035 |
| Net cash flows from investments in financial assets for policy purposes | 0 | 0 |
| Cash flows from investments in financial assets for liquidity purposes | | |
| Increase in investments | -18 | 133 |
| Net cash flows from investments in financial assets for liquidity purposes | -18 | 133 |
| Net cash flows from financing activities | | |
| Borrowing (net) | 94 | -61 |
| Other financing (net) | 7,135 | 8,454 |
| Distributions paid (net) | -125 | -134 |
| Net cash flows from financing activities | 7,104 | 8,258 |
| Net increase/(decrease) in cash held | 482 | -1,405 |
| Cash at the beginning of the year | 2,042 | 2,524 |
| Cash at the end of the year | 2,524 | 1,120 |
| Net cash from operating activities and investments in non-financial assets | -6,605 | -9,795 |
| Distributions paid | -125 | -134 |
| Equals surplus(+)/deficit(-) | -6,729 | -9,930 |
| Finance leases and similar arrangements(b) | -7 | 0 |
| GFS cash surplus(+)/deficit(-) | -6,736 | -9,930 |

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table 7: Australian Government total non-financial public sector operating statement

| | Estimates | |
|---------------------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Revenue | | |
| Taxation revenue | 371,899 | 391,224 |
| Sales of goods and services | 16,636 | 18,758 |
| Interest income | 3,536 | 4,294 |
| Dividend income | 5,437 | 3,114 |
| Other | 7,733 | 8,911 |
| Total revenue | 405,241 | 426,301 |
| Expenses | | |
| Gross operating expenses | | |
| Wages and salaries(a) | 23,860 | 24,256 |
| Superannuation | 7,400 | 5,057 |
| Depreciation and amortisation | 8,697 | 9,543 |
| Supply of goods and services | 85,923 | 92,696 |
| Other operating expenses(a) | 5,953 | 5,796 |
| <i>Total gross operating expenses</i> | <i>131,833</i> | <i>137,348</i> |
| Superannuation interest expense | 9,167 | 9,959 |
| Interest expenses | 17,211 | 19,273 |
| Current transfers | | |
| Current grants | 128,393 | 138,966 |
| Subsidy expenses | 12,684 | 13,271 |
| Personal benefits | 133,416 | 132,562 |
| <i>Total current transfers</i> | <i>274,492</i> | <i>284,799</i> |
| Capital transfers | 10,076 | 12,508 |
| Total expenses | 442,780 | 463,887 |
| Net operating balance | -37,539 | -37,585 |
| Other economic flows | -10,727 | 1,568 |
| Comprehensive result - Total change in net worth | -48,266 | -36,018 |
| Net acquisition of non-financial assets | | |
| Purchases of non-financial assets | 16,226 | 17,752 |
| <i>less</i> Sales of non-financial assets | 469 | 1,238 |
| <i>less</i> Depreciation | 8,697 | 9,543 |
| <i>plus</i> Change in inventories | 343 | 615 |
| <i>plus</i> Other movements in non-financial assets | 1,723 | 3,010 |
| Total net acquisition of non-financial assets | 9,126 | 10,595 |
| Fiscal balance (Net lending/borrowing)(b) | -46,665 | -48,181 |

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) The term fiscal balance is not used by the ABS.

Table 8: Australian Government total non-financial public sector balance sheet

| | Estimates | |
|---------------------------------------------|-----------------|-----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Assets | | |
| Financial assets | | |
| Cash and deposits | 6,036 | 5,993 |
| Advances paid | 52,504 | 62,357 |
| Investments, loans and placements | 154,050 | 173,984 |
| Other receivables | 50,206 | 50,205 |
| Equity investments | 64,849 | 68,952 |
| <i>Total financial assets</i> | <i>327,645</i> | <i>361,492</i> |
| Non-financial assets | | |
| Land and other fixed assets | 137,279 | 146,115 |
| Other non-financial assets | 12,808 | 16,323 |
| <i>Total non-financial assets</i> | <i>150,087</i> | <i>162,437</i> |
| Total assets | 477,732 | 523,930 |
| Liabilities | | |
| Interest bearing liabilities | | |
| Deposits held | 218 | 218 |
| Advances received | 0 | 0 |
| Government securities | 476,999 | 549,537 |
| Loans | 18,978 | 18,063 |
| Other borrowing | 5,851 | 7,723 |
| <i>Total interest bearing liabilities</i> | <i>502,046</i> | <i>575,540</i> |
| Provisions and payables | | |
| Superannuation liability | 169,312 | 175,662 |
| Other employee liabilities | 18,571 | 18,972 |
| Other provisions and payables | 52,767 | 54,738 |
| <i>Total provisions and payables</i> | <i>240,650</i> | <i>249,371</i> |
| Total liabilities | 742,696 | 824,912 |
| Shares and other contributed capital | 19,754 | 24,757 |
| Net worth(a) | -264,964 | -300,982 |
| <i>Net financial worth(b)</i> | <i>-415,051</i> | <i>-463,419</i> |
| <i>Net debt(c)</i> | <i>289,456</i> | <i>333,205</i> |

(a) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(b) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(c) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Statement 9: Australian Government Budget Financial Statements

Table 9: Australian Government total non-financial corporations sector cash flow statement^(a)

| | Estimates | |
|-----------------------------------------------------------------------------------|-----------------|-----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Cash receipts from operating activities | | |
| Taxes received | 364,526 | 382,756 |
| Receipts from sales of goods and services | 17,320 | 19,276 |
| Interest receipts | 2,876 | 3,276 |
| Dividends and income tax equivalents | 5,207 | 5,699 |
| Other receipts | 7,436 | 8,310 |
| Total operating receipts | 397,365 | 419,317 |
| Cash payments for operating activities | | |
| Payments to employees | -32,823 | -33,110 |
| Payments for goods and services | -85,687 | -92,968 |
| Grants and subsidies paid | -149,656 | -161,853 |
| Interest paid | -15,206 | -16,403 |
| Personal benefit payments | -134,887 | -135,637 |
| Other payments | -5,345 | -5,151 |
| Total operating payments | -423,604 | -445,121 |
| Net cash flows from operating activities | -26,239 | -25,804 |
| Cash flows from investments in non-financial assets | | |
| Sales of non-financial assets | 404 | 2,665 |
| Purchases of non-financial assets | -17,827 | -20,551 |
| Net cash flows from investments in non-financial assets | -17,423 | -17,886 |
| Net cash flows from investments in financial assets for policy purposes | -6,979 | -10,712 |
| Cash flows from investments in financial assets for liquidity purposes | | |
| Increase in investments | -9,414 | -19,446 |
| Net cash flows from investments in financial assets for liquidity purposes | -9,414 | -19,446 |
| Net cash flows from financing activities | | |
| Borrowing (net) | 63,847 | 77,511 |
| Other financing (net) | -2,954 | -3,706 |
| Net cash flows from financing activities | 60,893 | 73,805 |
| Net increase/(decrease) in cash held | 838 | -43 |
| Cash at the beginning of the year | 5,198 | 6,036 |
| Cash at the end of the year | 6,036 | 5,993 |
| Net cash from operating activities and investments in non-financial assets | -43,662 | -43,690 |
| Distributions paid | 0 | 0 |
| Equals surplus(+)/deficit(-) | -43,662 | -43,690 |
| Finance leases and similar arrangements(b) | -8 | 0 |
| GFS cash surplus(+)/deficit(-) | -43,670 | -43,690 |

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table 10: Australian Government public financial corporations sector operating statement

| | Estimates | |
|--------------------------------------------------------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Revenue | | |
| Current grants and subsidies | 150 | 150 |
| Sales of goods and services | 679 | 722 |
| Interest income | 2,447 | 2,904 |
| Other | 46 | 48 |
| Total revenue | 3,322 | 3,824 |
| Expenses | | |
| Gross operating expenses | | |
| Wages and salaries(a) | 149 | 157 |
| Superannuation | 50 | 32 |
| Depreciation and amortisation | 33 | 42 |
| Supply of goods and services | 400 | 483 |
| Other operating expenses(a) | 247 | 215 |
| <i>Total gross operating expenses</i> | 878 | 930 |
| Interest expenses | 1,234 | 1,305 |
| Other property expenses | 2,820 | 207 |
| Current transfers | | |
| Tax expenses | 5 | 5 |
| <i>Total current transfers</i> | 5 | 5 |
| Total expenses | 4,938 | 2,446 |
| Net operating balance | -1,616 | 1,378 |
| Other economic flows | 1,249 | -480 |
| Comprehensive result - Total change in net worth excluding contribution from owners | -367 | 898 |
| Net acquisition of non-financial assets | | |
| Purchases of non-financial assets | 3 | 0 |
| <i>less</i> Sales of non-financial assets | 51 | 0 |
| <i>less</i> Depreciation | 33 | 42 |
| <i>plus</i> Change in inventories | -9 | 0 |
| <i>plus</i> Other movements in non-financial assets | 0 | 16 |
| Total net acquisition of non-financial assets | -90 | -26 |
| Fiscal balance (Net lending/borrowing)(b) | -1,525 | 1,403 |

(a) Consistent with ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.

(b) The term fiscal balance is not used by the ABS.

Table 11: Australian Government public financial corporations sector balance sheet^(a)

| | Estimates | |
|---------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Assets | | |
| Financial assets | | |
| Cash and deposits | 519 | 506 |
| Investments, loans and placements | 161,902 | 161,036 |
| Other receivables | 262 | 244 |
| Equity investments | 410 | 410 |
| <i>Total financial assets</i> | <i>163,093</i> | <i>162,196</i> |
| Non-financial assets | | |
| Land and other fixed assets | 707 | 703 |
| Other non-financial assets(b) | 32 | 49 |
| <i>Total non-financial assets</i> | <i>740</i> | <i>752</i> |
| Total assets | 163,832 | 162,948 |
| Liabilities | | |
| Interest bearing liabilities | | |
| Deposits held | 124,634 | 124,634 |
| Borrowing | 10,074 | 9,941 |
| <i>Total interest bearing liabilities</i> | <i>134,708</i> | <i>134,575</i> |
| Provisions and payables | | |
| Superannuation liability | 64 | 64 |
| Other employee liabilities | 1,423 | 1,423 |
| Other provisions and payables(b) | 2,940 | 1,291 |
| <i>Total provisions and payables</i> | <i>4,427</i> | <i>2,778</i> |
| Total liabilities | 139,135 | 137,353 |
| Shares and other contributed capital | 24,697 | 25,595 |
| Net worth(c) | 24,697 | 25,595 |
| <i>Net financial worth(d)</i> | <i>23,958</i> | <i>24,844</i> |
| <i>Net debt(e)</i> | <i>-27,713</i> | <i>-26,967</i> |

(a) Assumes no valuation or currency movement.

(b) Excludes the impact of commercial taxation adjustments.

(c) Under AASB 1049, net worth is calculated as total assets minus total liabilities. Under ABS GFS, net worth is calculated as total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(d) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(e) Net debt equals the sum of deposits held and borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 12: Australian Government public financial corporations sector cash flow statement^(a)

| | Estimates | |
|-----------------------------------------------------------------------------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m |
| Cash receipts from operating activities | | |
| Receipts from sales of goods and services | 692 | 721 |
| Grants and subsidies received | 0 | 0 |
| GST input credit receipts | 9 | 0 |
| Interest receipts | 2,516 | 2,970 |
| Other receipts | 369 | 228 |
| Total operating receipts | 3,585 | 3,920 |
| Cash payments for operating activities | | |
| Payments to employees | -445 | -404 |
| Payment for goods and services | -417 | -480 |
| Interest paid | -1,269 | -1,338 |
| GST payments to taxation authority | 0 | 0 |
| Other payments | -21 | -27 |
| Total operating payments | -2,152 | -2,248 |
| Net cash flows from operating activities | 1,433 | 1,672 |
| Cash flows from investments in non-financial assets | | |
| Sales of non-financial assets | 51 | 0 |
| Purchases of non-financial assets | -3 | -16 |
| Net cash flows from investments in non-financial assets | 48 | -16 |
| Net cash flows from investments in financial assets for policy purposes | 0 | 0 |
| Cash flows from investments in financial assets for liquidity purposes | | |
| Increase in investments | -431 | 945 |
| Net cash flows from investments in financial assets for liquidity purposes | -431 | 945 |
| Net cash flows from financing activities | | |
| Borrowing (net) | -3,494 | 200 |
| Deposits received (net) | 0 | 0 |
| Other financing (net) | 5,056 | -1 |
| Distributions paid (net) | -2,573 | -2,812 |
| Net cash flows from financing activities | -1,011 | -2,614 |
| Net increase/(decrease) in cash held | 39 | -13 |
| Cash at the beginning of the year | 480 | 519 |
| Cash at the end of the year | 519 | 506 |
| Net cash from operating activities and investments in non-financial assets | 1,481 | 1,655 |
| Distributions paid | -2,573 | -2,812 |
| Equals surplus(+)/deficit(-) | -1,092 | -1,157 |
| Finance leases and similar arrangements(b) | 0 | 0 |
| GFS cash surplus(+)/deficit(-) | -1,092 | -1,157 |

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

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 2005*, (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The financial statements have been prepared on an accrual basis that complies with both ABS GFS and AAS, except for departures disclosed at Note 2. A more detailed description of the AAS and ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the annual Consolidated Financial Statements.

Fiscal reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies, user charging and external funding. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

Statement 9: Australian Government Budget Financial Statements

AASB 1049 and the UPF also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets to be attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in *Statement 5: Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in *Statement 5*.

AASB 1055 requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the *Mid-Year Economic and Fiscal Outlook 2015-16* (MYEFO) are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2016-17*. All policy decisions taken between the 2015-16 Budget and the 2015-16 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in *Statement 8: Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 13.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2005 (cat. no. 5514.0).

Table 13: Major differences between AAS and ABS GFS

| Issue | AAS treatment | ABS GFS treatment | Treatment adopted |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Acquisition of defence weapons platforms (DWP) | AASB 1049 allows cost to be used where fair value of assets cannot be reliably measured. | ABS record DWP on a market value basis using the perpetual inventory method. | AAS cost method until fair value can be measured reliably |
| Circulating coins — seigniorage | The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue. | Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense. | AAS |
| Provisions for bad and doubtful debts | Reported in the balance sheet as an offset to assets. Under AASB 1049, it is included in the operating statement as other economic flows. | Creating provisions for bad and doubtful debts is not considered an economic event and is therefore not considered to be an expense or reflected in the balance sheet. | AAS |
| Advances to the International Development Association and Asian Development Fund | Recorded at fair value in the balance sheet. | Recorded at nominal value in the balance sheet. | ABS GFS |
| Concessional loans | Discounts concessional loans by a market rate of a similar instrument. | Does not discount concessional loans as no secondary market is considered to exist. | AAS |
| Investment in other public sector entities | Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible. | Unlisted entities valued based on their net assets in the balance sheet. | AAS |
| Provision for restoration, decommissioning and make-good | Included in the fiscal balance capital adjustment. | Excluded from the calculation of net lending capital adjustment. | AAS |
| Renewable Energy Certificates (RECs) | The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenues or expenses are recognised. | The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses. | AAS |
| Dividends paid by public corporations | Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense. | Dividends are treated as an expense. | ABS GFS |
| 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 |

Statement 9: Australian Government Budget Financial Statements

Table 13: Major differences between AAS and ABS GFS (continued)

| Issue | AAS treatment | ABS GFS treatment | Treatment adopted |
|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| Commercial tax effect accounting assets and liabilities | Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis. | Deferred tax assets and liabilities are reversed so that corporations record tax expenses on a consistent basis to the Australian Taxation Office. | ABS GFS |
| Fiscal aggregates differences | | | |
| Finance leases | Does not deduct finance leases in the derivation of the cash surplus/deficit. | Deducts finance leases in the derivation of the cash surplus/deficit. | Both are disclosed |
| Net worth of PNFC and PFC sectors | Calculated as assets less liabilities. | Calculated as assets less liabilities less shares and other contributed capital. | AAS |
| Net financial worth of PNFC and PFC sectors | Calculated as financial assets less total liabilities. | Calculated as financial assets less total liabilities less shares and contributed capital. | AAS |
| Classification difference | | | |
| Prepayments | Treated as a non-financial asset. | Treated as a financial asset. | ABS GFS |
| Spectrum sales | Recognise non-financial asset sales for fiscal balance when payment is made and the licences take effect, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt. | Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point control is transferred. Recognise cash at the time of receipt. | AAS |

Statement 9: Australian Government Budget Financial Statements

Note 3: Taxation revenue by type

| | Estimates | | | Projections | |
|------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Individuals and other withholding taxes | | | | | |
| Gross income tax withholding | 175,510 | 183,380 | 194,920 | 207,120 | 219,990 |
| Gross other individuals | 44,850 | 47,300 | 51,530 | 56,330 | 60,915 |
| less Refunds | 27,800 | 29,350 | 31,250 | 34,350 | 35,700 |
| Total individuals and other withholding taxation | 192,560 | 201,330 | 215,200 | 229,100 | 245,205 |
| Fringe benefits tax | 4,590 | 4,760 | 4,650 | 4,840 | 5,070 |
| Company tax | 65,000 | 70,100 | 78,300 | 86,400 | 92,318 |
| Superannuation fund taxes | 6,710 | 7,510 | 9,140 | 10,160 | 11,080 |
| Petroleum resource rent tax | 840 | 850 | 780 | 790 | 810 |
| Income taxation revenue | 269,700 | 284,550 | 308,070 | 331,290 | 354,483 |
| Goods and services tax | 60,040 | 63,340 | 66,910 | 70,740 | 73,470 |
| Wine equalisation tax | 880 | 910 | 1,000 | 1,050 | 1,210 |
| Luxury car tax | 590 | 570 | 570 | 600 | 630 |
| Excise and customs duty | | | | | |
| Petrol | 6,220 | 6,450 | 6,710 | 7,060 | 7,430 |
| Diesel | 9,490 | 9,870 | 10,270 | 10,870 | 11,440 |
| Other fuel products | 2,243 | 2,235 | 2,270 | 2,350 | 2,460 |
| Tobacco | 9,410 | 10,160 | 10,990 | 12,310 | 13,490 |
| Beer | 2,370 | 2,390 | 2,450 | 2,490 | 2,520 |
| Spirits | 2,040 | 2,100 | 2,130 | 2,200 | 2,280 |
| Other alcoholic beverages(a) | 910 | 940 | 960 | 990 | 1,040 |
| Other customs duty | | | | | |
| Textiles, clothing and footwear | 470 | 310 | 260 | 280 | 310 |
| Passenger motor vehicles | 570 | 590 | 650 | 710 | 770 |
| Other imports | 1,550 | 1,170 | 900 | 950 | 1,020 |
| less: Refunds and drawbacks | 420 | 420 | 420 | 420 | 420 |
| Total excise and customs duty | 34,853 | 35,795 | 37,170 | 39,790 | 42,340 |
| Agricultural levies | 514 | 494 | 495 | 501 | 505 |
| Other taxes(b) | 5,346 | 5,625 | 5,728 | 5,822 | 5,925 |
| Mirror taxes | 527 | 553 | 582 | 611 | 630 |
| less Transfers to States in relation to mirror tax revenue | 527 | 553 | 582 | 611 | 630 |
| Mirror tax revenue | 0 | 0 | 0 | 0 | 0 |
| Indirect taxation revenue | 102,223 | 106,733 | 111,873 | 118,503 | 124,080 |
| Taxation revenue | 371,923 | 391,283 | 419,944 | 449,793 | 478,563 |

Statement 9: Australian Government Budget Financial Statements

Note 3: Taxation revenue by type (continued)

| | Estimates | | | Projections | |
|--------------------------------------------|-----------|---------|---------|-------------|---------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| <i>Memorandum:</i> | | | | | |
| Total excise | 21,423 | 21,785 | 22,550 | 23,650 | 24,780 |
| Total customs duty | 13,430 | 14,010 | 14,620 | 16,140 | 17,560 |
| Capital gains tax(c) | 10,600 | 12,300 | 13,900 | 15,900 | 17,500 |
| Medicare and DisabilityCare Australia levy | 14,970 | 15,440 | 16,100 | 16,870 | 17,690 |

- (a) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
- (b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Statement 10 - Historical Series from 2003-04. See also Note 3(a), Taxation revenue by source and Note 4, Sales of goods and services revenue.
- (c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Note 3(a): Taxation revenue by source

| | Estimates | | | Projections | |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Taxes on income, profits and capital gains | | | | | |
| Income and capital gains levied on individuals | 197,160 | 206,120 | 219,860 | 233,950 | 250,285 |
| Income and capital gains levied on enterprises | 72,540 | 78,430 | 88,210 | 97,340 | 104,198 |
| Total taxes on income, profits and capital gains | 269,700 | 284,550 | 308,070 | 331,290 | 354,483 |
| Taxes on employers' payroll and labour force | 710 | 702 | 684 | 722 | 725 |
| Taxes on the provision of goods and services | | | | | |
| Sales/goods and services tax | 61,510 | 64,820 | 68,480 | 72,390 | 75,310 |
| Excises and levies | 21,937 | 22,279 | 23,045 | 24,151 | 25,285 |
| Taxes on international trade | 13,430 | 14,010 | 14,620 | 16,140 | 17,560 |
| Total taxes on the provision of goods and services | 96,877 | 101,109 | 106,145 | 112,681 | 118,155 |
| Other taxes(a) | 4,636 | 4,923 | 5,045 | 5,100 | 5,199 |
| Total taxation revenue | 371,923 | 391,283 | 419,944 | 449,793 | 478,563 |
| <i>Memorandum:</i> | | | | | |
| Medicare and DisabilityCare Australia levy | 14,970 | 15,440 | 16,100 | 16,870 | 17,690 |

- (a) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Statement 10 - Historical Series from 2003-04. See also Note 3, Taxation revenue by type and Note 4, Sales of goods and services revenue.

Statement 9: Australian Government Budget Financial Statements

Note 4: Sales of goods and services revenue

| | Estimates | | | Projections | |
|--------------------------------------------------|--------------|--------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Sales of goods | 1,680 | 1,790 | 1,954 | 1,865 | 1,827 |
| Rendering of services | 4,123 | 5,514 | 8,032 | 11,613 | 12,711 |
| Operating lease rental | 74 | 64 | 66 | 68 | 68 |
| Fees from regulatory services(a) | 1,820 | 1,881 | 1,959 | 2,012 | 2,157 |
| Total sales of goods and services revenue | 7,697 | 9,249 | 12,011 | 15,558 | 16,763 |

(a) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Statement 10 - Historical Series from 2003-04. See also Note 3, Taxation revenue by type and Note 3(a), Taxation revenue by source.

Note 5: Interest and dividend revenue

| | Estimates | | | Projections | |
|-------------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Interest from other governments | | | | | |
| State and Territory debt | 54 | 63 | 74 | 85 | 97 |
| Housing agreements | 129 | 124 | 119 | 114 | 109 |
| Total interest from other governments | 183 | 187 | 193 | 199 | 206 |
| Interest from other sources | | | | | |
| Advances | 47 | 61 | 87 | 114 | 130 |
| Deposits | 88 | 92 | 92 | 93 | 95 |
| Bank deposits | 144 | 114 | 113 | 120 | 124 |
| Indexation of HELP receivable and other student loans | 504 | 873 | 1,015 | 1,258 | 1,529 |
| Other | 2,541 | 2,953 | 3,342 | 3,991 | 4,742 |
| Total interest from other sources | 3,323 | 4,093 | 4,648 | 5,576 | 6,619 |
| Total interest | 3,506 | 4,280 | 4,841 | 5,775 | 6,825 |
| Dividends | | | | | |
| Dividends from other public sector entities | 2,955 | 360 | 571 | 720 | 266 |
| Other dividends | 2,609 | 2,882 | 3,095 | 3,325 | 3,579 |
| Total dividends | 5,564 | 3,242 | 3,666 | 4,045 | 3,845 |
| Total interest and dividend revenue | 9,069 | 7,522 | 8,507 | 9,821 | 10,670 |

Note 6: Other sources of non-taxation revenue

| | Estimates | | | Projections | |
|----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Industry contributions | 116 | 127 | 130 | 131 | 129 |
| Royalties | 1,065 | 716 | 689 | 626 | 635 |
| Seigniorage | 132 | 120 | 105 | 97 | 90 |
| Other | 6,393 | 7,844 | 8,138 | 8,344 | 8,213 |
| Total other sources of non-taxation revenue | 7,706 | 8,807 | 9,063 | 9,198 | 9,066 |

Statement 9: Australian Government Budget Financial Statements

Note 7: Employee and superannuation expense

| | Estimates | | | Projections | |
|--------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Wages and salaries expenses | 19,767 | 20,071 | 19,864 | 20,015 | 20,417 |
| Other operating expenses | | | | | |
| Leave and other entitlements | 2,146 | 2,149 | 2,115 | 2,114 | 2,076 |
| Separations and redundancies | 168 | 51 | 39 | 38 | 38 |
| Workers compensation premiums and claims | 892 | 948 | 980 | 989 | 1,009 |
| Other | 2,277 | 2,304 | 2,284 | 2,304 | 2,382 |
| Total other operating expenses | 5,483 | 5,452 | 5,418 | 5,445 | 5,504 |
| Superannuation expenses | | | | | |
| Superannuation | 7,052 | 4,618 | 4,693 | 4,783 | 4,828 |
| Superannuation interest cost | 9,167 | 9,959 | 10,330 | 10,706 | 11,085 |
| Total superannuation expenses | 16,220 | 14,577 | 15,023 | 15,489 | 15,913 |
| Total employee and superannuation expense | 41,469 | 40,100 | 40,305 | 40,949 | 41,835 |

Note 8: Depreciation and amortisation expense

| | Estimates | | | Projections | |
|----------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Depreciation | | | | | |
| Specialist military equipment | 3,232 | 3,587 | 3,740 | 4,143 | 4,688 |
| Buildings | 1,401 | 1,373 | 1,383 | 1,404 | 1,432 |
| Other infrastructure, plant and equipment | 1,454 | 1,431 | 1,448 | 1,452 | 1,465 |
| Heritage and cultural assets | 91 | 94 | 94 | 94 | 94 |
| Total depreciation | 6,178 | 6,485 | 6,666 | 7,094 | 7,680 |
| Total amortisation | 988 | 1,037 | 994 | 968 | 960 |
| Total depreciation and amortisation expense | 7,165 | 7,522 | 7,660 | 8,061 | 8,640 |

Note 9: Supply of goods and services expense

| | Estimates | | | Projections | |
|---------------------------------------------------|---------------|---------------|---------------|---------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Supply of goods and services | 26,337 | 29,132 | 27,759 | 28,274 | 29,099 |
| Operating lease rental expenses | 2,541 | 2,544 | 2,581 | 2,665 | 2,641 |
| Personal benefits – indirect(a) | 45,327 | 47,397 | 49,471 | 59,033 | 62,757 |
| Health care payments | 5,080 | 5,048 | 4,962 | 4,872 | 4,842 |
| Other | 2,129 | 2,624 | 2,786 | 2,556 | 2,518 |
| Total supply of goods and services expense | 81,414 | 86,745 | 87,558 | 97,400 | 101,857 |

(a) Includes the Child Care Subsidy, which commences from 2018-19, with the majority of payments to be made directly to child care providers. See also Note 12, Personal benefits expense.

Statement 9: Australian Government Budget Financial Statements

Note 10: Interest expense

| | Estimates | | | Projections | |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Interest on debt | | | | | |
| Government securities(a) | 15,360 | 16,643 | 17,626 | 18,345 | 18,683 |
| Loans | 10 | 5 | 5 | 5 | 5 |
| Other | 258 | 253 | 309 | 332 | 350 |
| Total interest on debt | 15,627 | 16,901 | 17,940 | 18,682 | 19,037 |
| Other financing costs | 1,146 | 1,824 | 1,824 | 1,858 | 1,781 |
| Total interest expense | 16,774 | 18,725 | 19,764 | 20,539 | 20,818 |

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and on technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future CGS issuance.

Note 11: Current and capital grants expense

| | Estimates | | | Projections | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Current grants expense | | | | | |
| State and Territory governments | 100,142 | 106,264 | 111,013 | 118,048 | 119,930 |
| Local governments | 6 | 2 | 0 | 0 | 0 |
| Private sector | 6,461 | 8,257 | 8,100 | 8,193 | 8,166 |
| Overseas | 3,680 | 4,243 | 3,716 | 4,018 | 4,733 |
| Non-profit organisations | 2,771 | 3,110 | 3,438 | 3,112 | 2,938 |
| Multi-jurisdictional sector | 10,527 | 10,390 | 10,381 | 10,147 | 10,335 |
| Other | 4,807 | 6,701 | 11,832 | 18,652 | 22,684 |
| Total current grants expense | 128,393 | 138,966 | 148,480 | 162,171 | 168,786 |
| Capital grants expense | | | | | |
| Mutually agreed write-downs | 1,722 | 1,845 | 1,959 | 2,102 | 2,246 |
| Other capital grants | | | | | |
| State and Territory governments | 7,075 | 9,492 | 8,873 | 4,784 | 3,594 |
| Local governments | 972 | 786 | 668 | 353 | 379 |
| Private sector | 0 | 0 | 0 | 0 | 0 |
| Multi-jurisdictional sector | 106 | 105 | 105 | 102 | 104 |
| Other | 200 | 279 | 494 | 778 | 947 |
| Total capital grants expense | 10,076 | 12,508 | 12,098 | 8,121 | 7,270 |
| Total grants expense | 138,469 | 151,474 | 160,578 | 170,291 | 176,055 |

Statement 9: Australian Government Budget Financial Statements

Note 12: Personal benefits expense

| | Estimates | | | Projections | |
|-----------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Social welfare - assistance to the aged | 43,758 | 45,778 | 47,174 | 49,828 | 52,074 |
| Assistance to veterans and dependants | 5,730 | 5,518 | 5,292 | 5,128 | 4,992 |
| Assistance to people with disabilities | 24,440 | 25,490 | 26,520 | 27,528 | 28,915 |
| Assistance to families with children(a) | 35,825 | 34,153 | 33,548 | 28,736 | 29,486 |
| Assistance to the unemployed | 10,896 | 10,431 | 10,277 | 11,420 | 11,823 |
| Student assistance | 3,440 | 3,072 | 2,957 | 3,330 | 3,460 |
| Other welfare programs | 1,096 | 1,057 | 377 | 404 | 437 |
| Financial and fiscal affairs | 364 | 347 | 337 | 331 | 340 |
| Vocational and industry training | 63 | 84 | 92 | 93 | 94 |
| Other | 7,803 | 6,631 | 8,268 | 10,367 | 14,752 |
| Total personal benefits expense | 133,416 | 132,562 | 134,844 | 137,165 | 146,374 |

(a) The majority of payments under the Child Care Subsidy, which commences from 2018-19, are to be made directly to child care providers. See also Note 9, Supply of goods and services expense.

Note 13: Advances paid and other receivables

| | Estimates | | | Projections | |
|---------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Advances paid | | | | | |
| Loans to State and Territory governments(a) | 3,907 | 4,175 | 4,357 | 4,646 | 5,076 |
| Higher Education Loan Program | 37,080 | 44,105 | 51,976 | 60,249 | 69,210 |
| Student Financial Supplement Scheme | 483 | 438 | 389 | 339 | 289 |
| Other(a) | 11,560 | 14,294 | 16,631 | 18,962 | 21,569 |
| less Provision for doubtful debts | 248 | 375 | 501 | 639 | 788 |
| Total advances paid | 52,782 | 62,637 | 72,852 | 83,557 | 95,356 |
| Other receivables | | | | | |
| Goods and services receivable | 882 | 885 | 890 | 898 | 911 |
| Recoveries of benefit payments | 4,767 | 5,635 | 6,233 | 5,911 | 5,779 |
| Taxes receivable | 19,514 | 20,874 | 22,949 | 25,542 | 27,321 |
| Prepayments | 4,492 | 4,324 | 4,110 | 3,832 | 3,527 |
| Other | 20,515 | 19,080 | 20,402 | 22,092 | 22,650 |
| less Provision for doubtful debts | 1,678 | 2,153 | 2,588 | 2,715 | 2,785 |
| Total other receivables | 48,492 | 48,646 | 51,997 | 55,560 | 57,404 |

(a) Farm loans have been reclassified from 'other' to 'loans to State and Territory governments' to reflect the actual circumstances of the loans.

Note 14: Investments, loans and placements

| | Estimates | | | Projections | |
|------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| | \$m | \$m | \$m | \$m | \$m |
| Investments - deposits | 40,954 | 52,357 | 55,004 | 51,988 | 40,032 |
| IMF quota | 12,852 | 12,852 | 13,077 | 13,304 | 13,304 |
| Other | 99,427 | 108,270 | 120,530 | 123,781 | 139,487 |
| Total investments, loans and placements | 153,233 | 173,479 | 188,611 | 189,073 | 192,823 |

Statement 9: Australian Government Budget Financial Statements

Note 15: Total non-financial assets

| | Estimates | | | Projections | |
|--------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Land and buildings | | | | | |
| Land | 9,729 | 9,674 | 9,610 | 9,604 | 9,617 |
| Buildings | 25,992 | 26,391 | 26,676 | 26,926 | 27,532 |
| Total land and buildings | 35,721 | 36,065 | 36,285 | 36,530 | 37,149 |
| Plant, equipment and infrastructure | | | | | |
| Specialist military equipment | 45,580 | 47,473 | 51,111 | 55,318 | 59,517 |
| Other | 14,112 | 14,766 | 15,357 | 15,343 | 15,318 |
| Total plant, equipment and infrastructure | 59,692 | 62,239 | 66,468 | 70,661 | 74,835 |
| Inventories | | | | | |
| Inventories held for sale | 1,454 | 1,615 | 1,591 | 1,570 | 1,615 |
| Inventories not held for sale | 6,741 | 6,569 | 6,342 | 6,121 | 5,898 |
| Total inventories | 8,195 | 8,184 | 7,933 | 7,691 | 7,513 |
| Intangibles | | | | | |
| Computer software | 3,914 | 4,055 | 3,972 | 3,907 | 3,840 |
| Other | 2,967 | 3,359 | 3,848 | 4,110 | 4,333 |
| Total intangibles | 6,881 | 7,414 | 7,820 | 8,017 | 8,173 |
| Total investment properties | 200 | 200 | 200 | 200 | 200 |
| Total biological assets | 44 | 44 | 44 | 44 | 44 |
| Total heritage and cultural assets | 11,697 | 11,658 | 11,620 | 11,582 | 11,543 |
| Total assets held for sale | 174 | 147 | 80 | 80 | 80 |
| Total other non-financial assets | 262 | 288 | 134 | 127 | 125 |
| Total non-financial assets | 122,866 | 126,238 | 130,584 | 134,930 | 139,662 |

Note 16: Loans

| | Estimates | | | Projections | |
|------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Promissory notes | 10,010 | 9,474 | 9,449 | 9,426 | 9,401 |
| Special drawing rights | 5,667 | 5,667 | 5,773 | 5,880 | 5,880 |
| Other | 747 | 598 | 510 | 426 | 362 |
| Total loans | 16,425 | 15,739 | 15,732 | 15,731 | 15,643 |

Statement 9: Australian Government Budget Financial Statements

Note 17: Employee and superannuation liabilities

| | Estimates | | | Projections | |
|------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Total superannuation liability(a) | 169,308 | 175,661 | 182,026 | 188,394 | 194,739 |
| Other employee liabilities | | | | | |
| Leave and other entitlements | 7,323 | 7,414 | 7,491 | 7,589 | 7,677 |
| Accrued salaries and wages | 566 | 609 | 618 | 628 | 666 |
| Workers compensation claims | 3,265 | 3,293 | 3,325 | 3,361 | 3,404 |
| Other | 5,850 | 6,016 | 6,237 | 6,467 | 6,697 |
| Total other employee liabilities | 17,004 | 17,332 | 17,671 | 18,046 | 18,445 |
| Total employee and superannuation liabilities | 186,313 | 192,993 | 199,697 | 206,440 | 213,184 |

(a) For budget reporting purposes, a discount rate applied by actuaries in preparing Long Term Cost Reports is used to value the superannuation liability. This reduces the volatility in reported liabilities that would occur from year to year if the long term government bond rate were used. Consistent with AAS, the long term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting.

Note 18: Provisions and payables

| | Estimates | | | Projections | |
|--------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Suppliers payable | | | | | |
| Trade creditors | 4,670 | 4,780 | 4,872 | 4,993 | 5,009 |
| Operating lease rental payable | 330 | 343 | 345 | 342 | 336 |
| Other creditors | 868 | 969 | 971 | 972 | 974 |
| Total suppliers payable | 5,868 | 6,092 | 6,188 | 6,307 | 6,319 |
| Total personal benefits provisions and payables | 14,446 | 13,542 | 12,294 | 11,883 | 12,086 |
| Total subsidies provisions and payables | 4,908 | 5,216 | 5,489 | 5,816 | 6,211 |
| Grants provisions and payables | | | | | |
| State and Territory governments | 87 | 111 | 109 | 105 | 107 |
| Non-profit organisations | 146 | 146 | 145 | 145 | 145 |
| Private sector | 373 | 372 | 371 | 371 | 371 |
| Overseas | 1,166 | 2,097 | 1,751 | 1,568 | 2,538 |
| Local governments | 2 | 2 | 2 | 2 | 2 |
| Other | 8,692 | 8,149 | 7,867 | 8,194 | 8,550 |
| Total grants provisions and payables | 10,466 | 10,876 | 10,246 | 10,386 | 11,714 |
| Other provisions and payables | | | | | |
| Provisions for tax refunds | 2,932 | 2,955 | 2,969 | 2,961 | 2,952 |
| Other | 10,305 | 11,936 | 10,535 | 10,612 | 10,779 |
| Total other provisions and payables | 13,237 | 14,891 | 13,503 | 13,573 | 13,731 |

Statement 9: Australian Government Budget Financial Statements

Note 19: Reconciliation of cash

| | Estimates | | | Projections | |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2015-16 \$m | 2016-17 \$m | 2017-18 \$m | 2018-19 \$m | 2019-20 \$m |
| Operating balance (revenues less expenses) | -35,074 | -33,691 | -15,287 | -4,954 | 3,458 |
| <i>less</i> Revenues not providing cash | | | | | |
| Other | 1,862 | 2,362 | 2,173 | 2,296 | 2,916 |
| Total revenues not providing cash | 1,862 | 2,362 | 2,173 | 2,296 | 2,916 |
| <i>plus</i> Expenses not requiring cash | | | | | |
| Increase/(decrease) in employee entitlements | 8,261 | 6,690 | 6,714 | 6,747 | 6,751 |
| Depreciation/amortisation expense | 7,165 | 7,522 | 7,660 | 8,061 | 8,640 |
| Mutually agreed write-downs | 1,722 | 1,845 | 1,959 | 2,102 | 2,246 |
| Other | 1,146 | 1,156 | 1,673 | 1,706 | 1,103 |
| Total expenses not requiring cash | 18,295 | 17,214 | 18,006 | 18,616 | 18,740 |
| <i>plus</i> Cash provided/(used) by working capital items | | | | | |
| Decrease/(increase) in inventories | -135 | -260 | -42 | -54 | -131 |
| Decrease/(increase) in receivables | -7,398 | -6,351 | -10,230 | -10,744 | -9,754 |
| Decrease/(increase) in other financial assets | 1,716 | 2,478 | 2,945 | 2,811 | 2,425 |
| Decrease/(increase) in other non-financial assets | 0 | -61 | -49 | -37 | -27 |
| Increase/(decrease) in benefits, subsidies and grants payable | -298 | -67 | -1,423 | 190 | 1,958 |
| Increase/(decrease) in suppliers' liabilities | 690 | 74 | 73 | 64 | -24 |
| Increase/(decrease) in other provisions and payables | -1,646 | -1,884 | -2,383 | -2,762 | -2,058 |
| Net cash provided/(used) by working capital | -7,072 | -6,070 | -11,110 | -10,533 | -7,610 |
| <i>equals</i> (Net cash from/(to) operating activities) | -25,712 | -24,909 | -10,565 | 833 | 11,673 |
| <i>plus</i> (Net cash from/(to) investing activities) | -35,169 | -48,108 | -36,905 | -23,050 | -27,210 |
| Net cash from operating activities and investment | -60,881 | -73,017 | -47,469 | -22,217 | -15,537 |
| <i>plus</i> (Net cash from/(to) financing activities) | 61,238 | 74,379 | 46,035 | 21,937 | 15,065 |
| equals Net increase/(decrease) in cash | 356 | 1,362 | -1,434 | -280 | -472 |
| Cash at the beginning of the year | 3,156 | 3,512 | 4,874 | 3,440 | 3,160 |
| Net increase/(decrease) in cash | 356 | 1,362 | -1,434 | -280 | -472 |
| Cash at the end of the year | 3,512 | 4,874 | 3,440 | 3,160 | 2,688 |

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The Budget primarily focuses on the financial performance and position of the general government sector (GGS). The ABS defines the GGS as providing public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 HISTORY AND CONCEPTUAL FRAMEWORK

The Australian Accounting Standards Board (AASB) released AASB 1049 for application from the 2008-09 financial year. AASB 1049 seeks to 'harmonise' ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. While AASB 1049 provides a basis for whole of government (including the PNFC and PFC sectors) and GGS outcome reporting, budget reporting focuses on the GGS.

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues and expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, overriding AASB 10 *Consolidated Financial Statements*. AASB 1049 also follows ABS GFS by requiring changes in net worth to be split into either transactions or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2014*.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, 2005* (cat. no. 5514.0).

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or other economic flows). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.²

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations, and exchange rates, and changes in volumes from discoveries, depletion and destruction. All 'other economic flows' are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets. This measures the net effect of purchases, sales and consumption (for example, depreciation of fixed assets and use of inventory) of non-financial assets during an accounting period.

Other economic flows are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and other economic flows sum to the total change in net worth

² Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

during a period. The majority of other economic flows for the Australian Government GGS arise from price movements in its assets and liabilities.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.³

The fiscal balance measures the Australian Government's investment saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

3 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation also forms part of net capital investment, which (in the calculation of fiscal balance) offsets the inclusion of depreciation in the net operating balance.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non-debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors in government results is a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) less the sum of selected financial assets⁴ (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets held by the Future Fund which are invested in these asset classes, including term deposits and investments in collective investment vehicles. Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings (ABS GFS cash surplus/deficit) is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment saving balance.

4 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

Statement 9: Australian Government Budget Financial Statements

For the GGS, the underlying cash balance is calculated as shown below:

| |
|------------------------------------------------------------------------------------------------|
| Net cash flows from operating activities |
| <i>plus</i> |
| Net cash flows from investments in non-financial assets |
| <i>less</i> |
| Net acquisitions of assets acquired under finance leases and similar arrangements ⁵ |
| <i>equals</i> |
| ABS GFS cash surplus/deficit |
| <i>less</i> |
| Net Future Fund cash earnings |
| <i>equals</i> |
| Underlying cash balance |

The Government has excluded net Future Fund cash earnings from the calculation of the underlying cash balance. Prior to the 2012-13 MYEFO, the underlying cash balance only excluded the gross earnings of the Future Fund. Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Future Fund becomes available to meet the Government's superannuation liabilities from 2020. At this time, when drawdowns from the Future Fund are permitted under governing legislation, the Government's cash saving-investment balance would no longer be adjusted to reflect reinvestment of Future Fund earnings.

In contrast, net Future Fund earnings are included in the fiscal balance because superannuation expenses relating to future cash payments are recorded in the fiscal balance.

Net Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and related tables in *Statement 3: Fiscal Strategy and Outlook* and *Statement 10 - Historical Australian Government Data*.

5 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease – acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

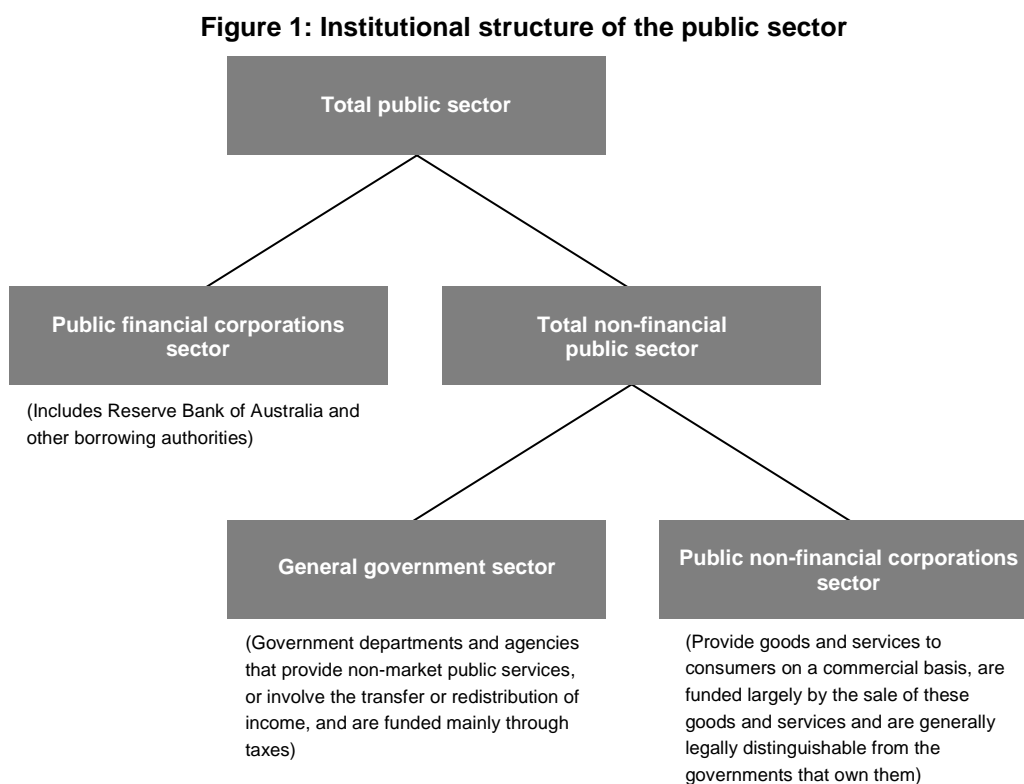
Headline cash balance

The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

Cash flows from investments in financial assets for policy purposes include equity transactions and net advances.⁶ Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Net advances include net loans to the States, net loans to students under the Higher Education Loan Program (HELP), and contributions to international organisations that increase the Australian Government's financial assets.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. ABS GFS defines the general government sector (GGS) and the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors. AASB 1049 has also adopted this sectoral reporting.



6 Cash flows from investments in financial assets for policy purposes are often referred to as net advances.

Statement 9: Australian Government Budget Financial Statements

All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

A table which provides a full list of public sector principal entities is available on the Department of Finance website at: www.finance.gov.au/sites/default/files/list-ggs-pnfc-pfc-pgpa.pdf?v=2.

Table A1: Entities outside of the general government sector

| Public financial corporations |
|---------------------------------------------------------------|
| Employment Portfolio |
| Coal Mining Industry (Long Service Leave Funding) Corporation |
| Foreign Affairs and Trade Portfolio |
| Export Finance and Insurance Corporation |
| Treasury Portfolio |
| Australia Reinsurance Pool Corporation |
| Reserve Bank of Australia |
| Public non-financial corporations |
| Communications and the Arts Portfolio |
| Australian Postal Corporation |
| NBN Co Ltd |
| Finance Portfolio |
| ASC Pty Ltd |
| Industry, Innovation and Science Portfolio |
| ANSTO Nuclear Medicine Pty Ltd |
| Infrastructure and Regional Development Portfolio |
| Airservices Australia |
| Australian Rail Track Corporation Ltd |
| Moorebank Intermodal Company Ltd |
| Prime Minister and Cabinet Portfolio |
| Voyages Indigenous Tourism Australia Pty Ltd |
| Social Services Portfolio |
| Australian Hearing Services |

APPENDIX B: AUSTRALIAN LOAN COUNCIL ALLOCATION

Under the Loan Council arrangements, every year the Commonwealth and each State Government nominates an annual Loan Council Allocation (LCA). A jurisdiction's LCA incorporates:

- the estimated non-financial public sector ABS GFS cash surplus/deficit (made up from the balance of the general government and public non-financial corporations sectors and total non-financial public sector acquisitions under finance leases and similar arrangements);
- net cash flows from investments in financial assets for policy purposes; and
- memorandum items, which involve transactions that are not formally borrowings but nevertheless have many of the characteristics of borrowings.

LCA nominations are considered by the Loan Council, having regard to each jurisdiction's fiscal position and infrastructure requirements, as well as the macroeconomic implications of the aggregate figure.

As set out in Table B1, the Commonwealth's revised estimate for the 2016-17 LCA is a \$62.0 billion deficit. This compares with its LCA nomination of a \$55.0 billion deficit for the year. The LCA Budget estimate falls within the tolerance limit set at nomination.

Table B1: Commonwealth's Loan Council Allocation budget update for 2016-17

| | 2016-17 Nomination \$m | 2016-17 Budget estimate \$m |
|--------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|
| GGs cash surplus(-)/deficit(+) | 29,950 | 33,760 |
| PNFC sector cash surplus(-)/deficit(+) | 7,484 | 9,930 |
| NFPS cash surplus(-)/deficit(+)(a) | 37,434 | 43,690 |
| Acquisitions under finance leases and similar arrangements | -5 | 0 |
| <i>equals</i> ABS GFS cash surplus(-)/deficit(+) | 37,430 | 43,690 |
| <i>minus</i> Net cash flows from investments in financial assets for policy purposes(b) | -18,922 | -19,678 |
| <i>plus</i> Memorandum items(c) | -1,348 | -1,348 |
| Loan Council Allocation | 55,004 | 62,020 |
| 2016-17 tolerance limit(d) | 8,489 | 8,386 |

(a) May not directly equate to the sum of the GGS and the PNFC sector due to intersectoral transfers which are netted out.

(b) Net cash flows from investments in financial assets for policy purposes are displayed with the same sign as they are reported in cash flow statements. Such transactions involve the transfer or exchange of a financial asset and are not included within the cash surplus/deficit. However, the cash flow from investments in financial assets for policy purposes has implications for a government's call on financial markets.

(c) For the Commonwealth's LCA, memorandum items include the change in net present value (NPV) of operating leases (with NPV greater than \$5 million), the net funding of superannuation and the net financing requirement of the Australian National University.

(d) A tolerance limit equal to two per cent of NFPS cash receipts from operating activities applies to the movement between the LCA nomination and budget estimate, and again between the budget estimate and outcome.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This Statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

| | | |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Table 1: | Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance | 10-5 |
| Table 2: | Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance | 10-7 |
| Table 3: | Australian Government general government sector taxation receipts, non-taxation receipts and total receipts..... | 10-9 |
| Table 4: | Australian Government general government sector net debt and net interest payments | 10-11 |
| Table 5: | Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid | 10-13 |
| Table 6: | Australian Government general government sector revenue, expenses, net capital investment and fiscal balance | 10-15 |
| Table 7: | Australian Government general government sector net worth and net financial worth | 10-16 |
| Table 8: | Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue..... | 10-17 |
| Table 9: | Australian Government cash receipts, payments and surplus by institutional sector..... | 10-18 |
| Table 10: | Australian Government accrual revenue, expenses and fiscal balance by institutional sector | 10-20 |

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

Statement 10 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

DATA SOURCES

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-1999 onwards where applicable.
- Cash data prior to 1999-2000 are sourced from ABS data, which have been calculated using methodology consistent with that used for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.
- Net debt data prior to 1999-2000 are from ABS cat. no. 5512.0 *Government Finance Statistics 2003-04* in 1998-99, ABS cat. no. 5501.0 *Government Financial Estimates 1999-2000* and ABS cat. no. 5513.0 *Public Sector Financial Assets and Liabilities 1998* in 1987-88 to 1997-98, and Treasury estimates (see Treasury's *Economic Roundup*, Spring 1996, pages 97-103) prior to 1987-88.

COMPARABILITY OF DATA ACROSS YEARS

The data set contains a number of structural breaks owing to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back casting because of data limitations. These breaks can affect the comparability of data across years, especially when the analysis is taken over a large number of years. Specific factors causing structural breaks include:

- from 2005-06 onwards, underlying Government Finance Statistics (GFS) data are provided by agencies in accordance with Australian Accounting Standards (AAS) which includes International Financial Reporting Standards (IFRS) as adopted in Australia. Prior to 2005-06, underlying GFS data are based on data provided by agencies applying AAS prior to the adoption of IFRS;

Statement 10: Historical Australian Government Data

- most recent accounting classification changes that require revisions to the historical series have been back-cast (where applicable) to 1998-1999, ensuring that data are consistent across the accrual period from 1998-1999 onwards. However, because of data limitations, these changes have not been back-cast to earlier years;
- prior to 1999-2000, Australian Government general government sector debt instruments are valued at historic cost, whereas from 1999-2000 onwards they are valued at market prices (consistent with accrual GFS standards). This affects net debt and net interest payments;
- cash data up to and including 1997-98 are calculated under a cash accounting framework, while cash data from 1998-99 onwards are derived from an accrual accounting framework.¹ Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies;
- adjustments in the coverage of agencies included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back-casting to account for this change;
- changes in arrangements for transfer payments, where tax concessions or rebates have been replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction (tax expenditures replacing payments) reduce both cash payments and receipts; and
- classification differences in the data relating to the period prior to 1976-77 (which means that earlier data may not be entirely consistent with data for 1976-77 onwards).

REVISIONS TO PREVIOUSLY PUBLISHED DATA

Under the accrual GFS framework and generally under AAS, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

¹ Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

Statement 10: Historical Australian Government Data

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance^(a)

| | Receipts(b) | | Payments(c) | | | | Net Future Fund earnings | Underlying cash balance(d) | |
|---------|-----------------|--------|-----------------|----------------------|---------------------------------------|--------------------|--------------------------|----------------------------|-----------------|
| | Per cent \$m | of GDP | Per cent | | | | | Per cent \$m | Per cent \$m |
| | | | Per cent \$m | real growth (CPI) | real growth (NFGDP deflator)(f) | Per cent of GDP | | | |
| | | | | | | | | | |
| 1970-71 | 8,290 | 20.6 | 7,389 | na | na | 18.3 | - | 901 | 2.2 |
| 1971-72 | 9,135 | 20.6 | 8,249 | 4.1 | 4.7 | 18.6 | - | 886 | 2.0 |
| 1972-73 | 9,735 | 19.6 | 9,388 | 7.7 | 7.8 | 18.9 | - | 348 | 0.7 |
| 1973-74 | 12,228 | 20.3 | 11,078 | 4.2 | 3.6 | 18.4 | - | 1,150 | 1.9 |
| 1974-75 | 15,643 | 22.0 | 15,463 | 19.9 | 14.6 | 21.8 | - | 181 | 0.3 |
| 1975-76 | 18,727 | 22.5 | 20,225 | 15.7 | 13.5 | 24.3 | - | -1,499 | -1.8 |
| 1976-77 | 21,890 | 22.8 | 23,157 | 0.6 | 1.9 | 24.1 | - | -1,266 | -1.3 |
| 1977-78 | 24,019 | 22.9 | 26,057 | 2.7 | 3.3 | 24.9 | - | -2,037 | -1.9 |
| 1978-79 | 26,129 | 22.1 | 28,272 | 0.3 | 2.7 | 23.9 | - | -2,142 | -1.8 |
| 1979-80 | 30,321 | 22.6 | 31,642 | 1.5 | 2.1 | 23.6 | - | -1,322 | -1.0 |
| 1980-81 | 35,993 | 23.7 | 36,176 | 4.6 | 3.6 | 23.8 | - | -184 | -0.1 |
| 1981-82 | 41,499 | 23.6 | 41,151 | 2.9 | 0.5 | 23.4 | - | 348 | 0.2 |
| 1982-83 | 45,463 | 24.1 | 48,810 | 6.3 | 6.2 | 25.8 | - | -3,348 | -1.8 |
| 1983-84 | 49,981 | 23.4 | 56,990 | 9.4 | 9.6 | 26.7 | - | -7,008 | -3.3 |
| 1984-85 | 58,817 | 25.0 | 64,853 | 9.1 | 9.0 | 27.6 | - | -6,037 | -2.6 |
| 1985-86 | 66,206 | 25.4 | 71,328 | 1.5 | 3.7 | 27.4 | - | -5,122 | -2.0 |
| 1986-87 | 74,724 | 26.2 | 77,158 | -1.1 | 0.7 | 27.0 | - | -2,434 | -0.9 |
| 1987-88 | 83,491 | 25.8 | 82,039 | -0.9 | 0.0 | 25.3 | - | 1,452 | 0.4 |
| 1988-89 | 90,748 | 24.7 | 85,326 | -3.1 | -4.4 | 23.2 | - | 5,421 | 1.5 |
| 1989-90 | 98,625 | 24.4 | 92,684 | 0.6 | 1.7 | 22.9 | - | 5,942 | 1.5 |
| 1990-91 | 100,227 | 24.2 | 100,665 | 3.1 | 3.8 | 24.3 | - | -438 | -0.1 |
| 1991-92 | 95,840 | 22.7 | 108,472 | 5.7 | 5.9 | 25.6 | - | -12,631 | -3.0 |
| 1992-93 | 97,633 | 22.0 | 115,751 | 5.6 | 5.9 | 26.1 | - | -18,118 | -4.1 |
| 1993-94 | 103,824 | 22.3 | 122,009 | 3.5 | 4.4 | 26.1 | - | -18,185 | -3.9 |
| 1994-95 | 113,458 | 22.9 | 127,619 | 1.4 | 2.5 | 25.8 | - | -14,160 | -2.9 |
| 1995-96 | 124,429 | 23.5 | 135,538 | 1.9 | 3.2 | 25.6 | - | -11,109 | -2.1 |
| 1996-97 | 133,592 | 24.0 | 139,689 | 1.7 | 1.5 | 25.1 | - | -6,099 | -1.1 |
| 1997-98 | 140,736 | 23.9 | 140,587 | 0.6 | -0.7 | 23.9 | - | 149 | 0.0 |
| 1998-99 | 152,063 | 24.5 | 148,175 | 4.1 | 4.9 | 23.9 | - | 3,889 | 0.6 |
| 1999-00 | 166,199 | 25.2 | 153,192 | 1.0 | 0.8 | 23.2 | - | 13,007 | 2.0 |
| 2000-01 | 182,996 | 25.9 | 177,123 | 9.1 | 10.8 | 25.1 | - | 5,872 | 0.8 |
| 2001-02 | 187,588 | 24.9 | 188,655 | 3.5 | 4.1 | 25.0 | - | -1,067 | -0.1 |
| 2002-03 | 204,613 | 25.6 | 197,243 | 1.4 | 1.4 | 24.6 | - | 7,370 | 0.9 |
| 2003-04 | 217,775 | 25.3 | 209,785 | 3.9 | 2.6 | 24.4 | - | 7,990 | 0.9 |
| 2004-05 | 235,984 | 25.6 | 222,407 | 3.5 | 2.0 | 24.1 | - | 13,577 | 1.5 |
| 2005-06 | 255,943 | 25.7 | 240,136 | 4.6 | 2.6 | 24.1 | 51 | 15,757 | 1.6 |
| 2006-07 | 272,637 | 25.1 | 253,321 | 2.5 | 0.5 | 23.3 | 2,127 | 17,190 | 1.6 |
| 2007-08 | 294,917 | 25.0 | 271,843 | 3.8 | 2.7 | 23.1 | 3,319 | 19,754 | 1.7 |
| 2008-09 | 292,600 | 23.3 | 316,046 | 12.7 | 10.4 | 25.1 | 3,566 | -27,013 | -2.1 |
| 2009-10 | 284,662 | 22.0 | 336,900 | 4.2 | 5.5 | 26.0 | 2,256 | -54,494 | -4.2 |

Statement 10: Historical Australian Government Data

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance^(a) (continued)

| | Receipts(b) | | Payments(c) | | | | Net | Underlying | |
|--------------------|----------------|-------------|----------------|--------------|------------|-------------|--------------|----------------|-------------|
| | | | | | | | Future Fund | cash | |
| | | | | | | | earnings | balance(d) | |
| | | Per cent | | Per cent | Per cent | Per cent | | | Per cent |
| | \$m | of GDP | \$m | real growth | (NFGDP | of GDP | \$m | \$m | of GDP |
| | | | (CPI) | deflator)(f) | | | | | |
| 2010-11 | 302,024 | 21.4 | 346,102 | -0.4 | -3.2 | 24.5 | 3,385 | -47,463 | -3.4 |
| 2011-12 | 329,874 | 22.1 | 371,032 | 4.8 | 5.1 | 24.9 | 2,203 | -43,360 | -2.9 |
| 2012-13 | 351,052 | 23.0 | 367,204 | -3.2 | -0.7 | 24.1 | 2,682 | -18,834 | -1.2 |
| 2013-14 | 360,322 | 22.7 | 406,430 | 7.8 | 9.1 | 25.6 | 2,348 | -48,456 | -3.1 |
| 2014-15 | 378,301 | 23.5 | 412,079 | -0.3 | 2.2 | 25.6 | 4,089 | -37,867 | -2.4 |
| 2015-16 (e) | 388,027 | 23.5 | 424,961 | 1.7 | 3.4 | 25.8 | 3,012 | -39,946 | -2.4 |
| 2016-17 (e) | 411,284 | 23.9 | 445,045 | 2.8 | 2.9 | 25.8 | 3,321 | -37,081 | -2.2 |
| 2017-18 (e) | 437,385 | 24.2 | 459,934 | 1.0 | 1.5 | 25.5 | 3,574 | -26,123 | -1.4 |
| 2018-19 (p) | 469,921 | 24.8 | 481,484 | 2.4 | 2.8 | 25.4 | 3,843 | -15,406 | -0.8 |
| 2019-20 (p) | 500,742 | 25.1 | 502,556 | 1.8 | 2.4 | 25.2 | 4,140 | -5,955 | -0.3 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.

(c) Payments are equal to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(d) Underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the purposes of consistent comparison with years prior to 2005-06, net Future Fund earnings should be added back to the underlying cash balance.

(e) Estimates.

(f) Real spending growth is calculated using the Consumer Price Index as the deflator. Real spending growth using the non-farm GDP deflator is included for comparative purposes only.

(p) Projections.

Table 2: Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance^(a)

| | | | Net cash flows | | Headline cash | |
|---------|----------|----------|----------------------|--------------------|---------------|--------------------|
| | Receipts | Payments | from investments in | | cash | |
| | | | financial assets for | | balance(c) | |
| | \$m | \$m | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1970-71 | 8,290 | 7,389 | -851 | -2.1 | 50 | 0.1 |
| 1971-72 | 9,135 | 8,249 | -987 | -2.2 | -101 | -0.2 |
| 1972-73 | 9,735 | 9,388 | -977 | -2.0 | -629 | -1.3 |
| 1973-74 | 12,228 | 11,078 | -1,275 | -2.1 | -125 | -0.2 |
| 1974-75 | 15,643 | 15,463 | -2,648 | -3.7 | -2,467 | -3.5 |
| 1975-76 | 18,727 | 20,225 | -2,040 | -2.5 | -3,539 | -4.3 |
| 1976-77 | 21,890 | 23,157 | -1,530 | -1.6 | -2,796 | -2.9 |
| 1977-78 | 24,019 | 26,057 | -1,324 | -1.3 | -3,361 | -3.2 |
| 1978-79 | 26,129 | 28,272 | -1,074 | -0.9 | -3,216 | -2.7 |
| 1979-80 | 30,321 | 31,642 | -702 | -0.5 | -2,024 | -1.5 |
| 1980-81 | 35,993 | 36,176 | -962 | -0.6 | -1,146 | -0.8 |
| 1981-82 | 41,499 | 41,151 | -1,008 | -0.6 | -660 | -0.4 |
| 1982-83 | 45,463 | 48,810 | -1,363 | -0.7 | -4,711 | -2.5 |
| 1983-84 | 49,981 | 56,990 | -1,136 | -0.5 | -8,144 | -3.8 |
| 1984-85 | 58,817 | 64,853 | -922 | -0.4 | -6,959 | -3.0 |
| 1985-86 | 66,206 | 71,328 | -810 | -0.3 | -5,932 | -2.3 |
| 1986-87 | 74,724 | 77,158 | -545 | -0.2 | -2,979 | -1.0 |
| 1987-88 | 83,491 | 82,039 | 657 | 0.2 | 2,109 | 0.7 |
| 1988-89 | 90,748 | 85,326 | 168 | 0.0 | 5,589 | 1.5 |
| 1989-90 | 98,625 | 92,684 | 1,217 | 0.3 | 7,159 | 1.8 |
| 1990-91 | 100,227 | 100,665 | 1,563 | 0.4 | 1,125 | 0.3 |
| 1991-92 | 95,840 | 108,472 | 2,156 | 0.5 | -10,475 | -2.5 |
| 1992-93 | 97,633 | 115,751 | 2,471 | 0.6 | -15,647 | -3.5 |
| 1993-94 | 103,824 | 122,009 | 3,447 | 0.7 | -14,738 | -3.2 |
| 1994-95 | 113,458 | 127,619 | 1,546 | 0.3 | -12,614 | -2.5 |
| 1995-96 | 124,429 | 135,538 | 5,188 | 1.0 | -5,921 | -1.1 |
| 1996-97 | 133,592 | 139,689 | 7,241 | 1.3 | 1,142 | 0.2 |
| 1997-98 | 140,736 | 140,587 | 15,154 | 2.6 | 15,303 | 2.6 |
| 1998-99 | 152,063 | 148,175 | 6,948 | 1.1 | 10,837 | 1.7 |
| 1999-00 | 166,199 | 153,192 | 9,500 | 1.4 | 22,507 | 3.4 |
| 2000-01 | 182,996 | 177,123 | 5,673 | 0.8 | 11,545 | 1.6 |
| 2001-02 | 187,588 | 188,655 | 3,422 | 0.5 | 2,355 | 0.3 |
| 2002-03 | 204,613 | 197,243 | -229 | 0.0 | 7,141 | 0.9 |
| 2003-04 | 217,775 | 209,785 | -452 | -0.1 | 7,538 | 0.9 |
| 2004-05 | 235,984 | 222,407 | -1,139 | -0.1 | 12,438 | 1.3 |
| 2005-06 | 255,943 | 240,136 | -1,647 | -0.2 | 14,160 | 1.4 |
| 2006-07 | 272,637 | 253,321 | 7,403 | 0.7 | 26,720 | 2.5 |
| 2007-08 | 294,917 | 271,843 | 5,108 | 0.4 | 28,181 | 2.4 |
| 2008-09 | 292,600 | 316,046 | -7,889 | -0.6 | -31,336 | -2.5 |
| 2009-10 | 284,662 | 336,900 | -4,278 | -0.3 | -56,516 | -4.4 |

Statement 10: Historical Australian Government Data

Table 2: Australian Government general government sector net cash flows for investments in financial assets for policy purposes and headline cash balance^(a) (continued)

| | Receipts | | Payments | | Net cash flows from investments in financial assets for policy purposes(b) | | Headline cash balance(c) | |
|--------------------|----------------|----------------|----------------|-------------|----------------------------------------------------------------------------|-----------------|--------------------------|-----------------|
| | \$m | \$m | \$m | \$m | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 2010-11 | 302,024 | 346,102 | -7,028 | -0.5 | -51,106 | -3.6 | | |
| 2011-12 | 329,874 | 371,032 | -5,866 | -0.4 | -47,023 | -3.2 | | |
| 2012-13 | 351,052 | 367,204 | -4,802 | -0.3 | -20,954 | -1.4 | | |
| 2013-14 | 360,322 | 406,430 | -6,371 | -0.4 | -52,479 | -3.3 | | |
| 2014-15 | 378,301 | 412,079 | -5,158 | -0.3 | -38,936 | -2.4 | | |
| 2015-16 (e) | 388,027 | 424,961 | -14,553 | -0.9 | -51,487 | -3.1 | | |
| 2016-17 (e) | 411,284 | 445,045 | -19,678 | -1.1 | -53,438 | -3.1 | | |
| 2017-18 (e) | 437,385 | 459,934 | -11,698 | -0.6 | -34,246 | -1.9 | | |
| 2018-19 (p) | 469,921 | 481,484 | -12,373 | -0.7 | -23,936 | -1.3 | | |
| 2019-20 (p) | 500,742 | 502,556 | -12,562 | -0.6 | -14,376 | -0.7 | | |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Prior to 1999-2000, net cash flows from investments in financial assets for policy purposes were referred to as 'net advances'. A negative number reflects a cash outflow, while a positive number reflects a cash inflow.

(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Receipts and payments are identical to Table 1.

(e) Estimates.

(p) Projections.

Statement 10: Historical Australian Government Data

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts^(a)

| | Taxation receipts(b) | | Non-taxation receipts(b) | | Total receipts(c) | |
|---------|----------------------|-----------------|--------------------------|-----------------|-------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1970-71 | 7,193 | 17.9 | 1,097 | 2.7 | 8,290 | 20.6 |
| 1971-72 | 7,895 | 17.8 | 1,240 | 2.8 | 9,135 | 20.6 |
| 1972-73 | 8,411 | 16.9 | 1,324 | 2.7 | 9,735 | 19.6 |
| 1973-74 | 10,832 | 18.0 | 1,396 | 2.3 | 12,228 | 20.3 |
| 1974-75 | 14,141 | 19.9 | 1,502 | 2.1 | 15,643 | 22.0 |
| 1975-76 | 16,920 | 20.3 | 1,807 | 2.2 | 18,727 | 22.5 |
| 1976-77 | 19,714 | 20.5 | 2,176 | 2.3 | 21,890 | 22.8 |
| 1977-78 | 21,428 | 20.4 | 2,591 | 2.5 | 24,019 | 22.9 |
| 1978-79 | 23,409 | 19.8 | 2,720 | 2.3 | 26,129 | 22.1 |
| 1979-80 | 27,473 | 20.5 | 2,848 | 2.1 | 30,321 | 22.6 |
| 1980-81 | 32,641 | 21.5 | 3,352 | 2.2 | 35,993 | 23.7 |
| 1981-82 | 37,880 | 21.6 | 3,619 | 2.1 | 41,499 | 23.6 |
| 1982-83 | 41,025 | 21.7 | 4,438 | 2.3 | 45,463 | 24.1 |
| 1983-84 | 44,849 | 21.0 | 5,132 | 2.4 | 49,981 | 23.4 |
| 1984-85 | 52,970 | 22.5 | 5,847 | 2.5 | 58,817 | 25.0 |
| 1985-86 | 58,841 | 22.6 | 7,365 | 2.8 | 66,206 | 25.4 |
| 1986-87 | 66,467 | 23.3 | 8,257 | 2.9 | 74,724 | 26.2 |
| 1987-88 | 75,076 | 23.2 | 8,415 | 2.6 | 83,491 | 25.8 |
| 1988-89 | 83,452 | 22.7 | 7,296 | 2.0 | 90,748 | 24.7 |
| 1989-90 | 90,773 | 22.5 | 7,852 | 1.9 | 98,625 | 24.4 |
| 1990-91 | 92,739 | 22.4 | 7,488 | 1.8 | 100,227 | 24.2 |
| 1991-92 | 87,364 | 20.7 | 8,476 | 2.0 | 95,840 | 22.7 |
| 1992-93 | 88,760 | 20.0 | 8,873 | 2.0 | 97,633 | 22.0 |
| 1993-94 | 93,362 | 20.0 | 10,462 | 2.2 | 103,824 | 22.3 |
| 1994-95 | 104,921 | 21.2 | 8,537 | 1.7 | 113,458 | 22.9 |
| 1995-96 | 115,700 | 21.9 | 8,729 | 1.7 | 124,429 | 23.5 |
| 1996-97 | 124,559 | 22.4 | 9,033 | 1.6 | 133,592 | 24.0 |
| 1997-98 | 130,984 | 22.3 | 9,752 | 1.7 | 140,736 | 23.9 |
| 1998-99 | 138,420 | 22.3 | 13,643 | 2.2 | 152,063 | 24.5 |
| 1999-00 | 151,313 | 22.9 | 14,887 | 2.3 | 166,199 | 25.2 |
| 2000-01 | 170,354 | 24.2 | 12,641 | 1.8 | 182,996 | 25.9 |
| 2001-02 | 175,108 | 23.2 | 12,481 | 1.7 | 187,588 | 24.9 |
| 2002-03 | 192,131 | 24.0 | 12,482 | 1.6 | 204,613 | 25.6 |
| 2003-04 | 206,478 | 24.0 | 11,296 | 1.3 | 217,775 | 25.3 |
| 2004-05 | 223,723 | 24.3 | 12,262 | 1.3 | 235,984 | 25.6 |
| 2005-06 | 241,681 | 24.2 | 14,262 | 1.4 | 255,943 | 25.7 |
| 2006-07 | 257,973 | 23.7 | 14,665 | 1.3 | 272,637 | 25.1 |
| 2007-08 | 279,018 | 23.7 | 15,899 | 1.3 | 294,917 | 25.0 |
| 2008-09 | 273,379 | 21.7 | 19,221 | 1.5 | 292,600 | 23.3 |
| 2009-10 | 261,864 | 20.2 | 22,798 | 1.8 | 284,662 | 22.0 |

Statement 10: Historical Australian Government Data

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts^(a) (continued)

| | Taxation receipts(b) | | Non-taxation receipts(b) | | Total receipts(c) | |
|--------------------|----------------------|-----------------|--------------------------|-----------------|-------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 2010-11 | 281,767 | 20.0 | 20,257 | 1.4 | 302,024 | 21.4 |
| 2011-12 | 310,972 | 20.9 | 18,902 | 1.3 | 329,874 | 22.1 |
| 2012-13 | 327,589 | 21.5 | 23,464 | 1.5 | 351,052 | 23.0 |
| 2013-14 | 339,962 | 21.5 | 20,359 | 1.3 | 360,322 | 22.7 |
| 2014-15 | 353,494 | 22.0 | 24,807 | 1.5 | 378,301 | 23.5 |
| 2015-16 (e) | 364,507 | 22.1 | 23,520 | 1.4 | 388,027 | 23.5 |
| 2016-17 (e) | 382,769 | 22.2 | 28,515 | 1.7 | 411,284 | 23.9 |
| 2017-18 (e) | 410,165 | 22.7 | 27,221 | 1.5 | 437,385 | 24.2 |
| 2018-19 (p) | 438,821 | 23.1 | 31,100 | 1.6 | 469,921 | 24.8 |
| 2019-20 (p) | 468,278 | 23.5 | 32,464 | 1.6 | 500,742 | 25.1 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. Back-casting occurs from 2003-04.

(c) Receipts are equal to receipts from operating activities and sales of non-financial assets. Receipts are identical to Table 1.

(e) Estimates.

(p) Projections.

Statement 10: Historical Australian Government Data

Table 4: Australian Government general government sector net debt and net interest payments^(a)

| | Net debt(b) | | Net interest payments(c) | |
|---------|-------------|-----------------|--------------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1970-71 | 344 | 0.9 | -189 | -0.5 |
| 1971-72 | -496 | -1.1 | -245 | -0.6 |
| 1972-73 | -790 | -1.6 | -252 | -0.5 |
| 1973-74 | -1,851 | -3.1 | -286 | -0.5 |
| 1974-75 | -1,901 | -2.7 | -242 | -0.3 |
| 1975-76 | -341 | -0.4 | -330 | -0.4 |
| 1976-77 | 898 | 0.9 | -62 | -0.1 |
| 1977-78 | 2,896 | 2.8 | 4 | 0.0 |
| 1978-79 | 4,983 | 4.2 | 254 | 0.2 |
| 1979-80 | 6,244 | 4.6 | 440 | 0.3 |
| 1980-81 | 6,356 | 4.2 | 620 | 0.4 |
| 1981-82 | 5,919 | 3.4 | 680 | 0.4 |
| 1982-83 | 9,151 | 4.8 | 896 | 0.5 |
| 1983-84 | 16,015 | 7.5 | 1,621 | 0.8 |
| 1984-85 | 21,896 | 9.3 | 2,813 | 1.2 |
| 1985-86 | 26,889 | 10.3 | 3,952 | 1.5 |
| 1986-87 | 29,136 | 10.2 | 4,762 | 1.7 |
| 1987-88 | 27,344 | 8.4 | 4,503 | 1.4 |
| 1988-89 | 21,981 | 6.0 | 4,475 | 1.2 |
| 1989-90 | 16,123 | 4.0 | 4,549 | 1.1 |
| 1990-91 | 16,915 | 4.1 | 3,636 | 0.9 |
| 1991-92 | 31,041 | 7.3 | 3,810 | 0.9 |
| 1992-93 | 55,218 | 12.4 | 3,986 | 0.9 |
| 1993-94 | 70,223 | 15.0 | 5,628 | 1.2 |
| 1994-95 | 83,492 | 16.8 | 7,292 | 1.5 |
| 1995-96 | 95,831 | 18.1 | 8,861 | 1.7 |
| 1996-97 | 96,281 | 17.3 | 9,489 | 1.7 |
| 1997-98 | 82,935 | 14.1 | 8,279 | 1.4 |
| 1998-99 | 72,065 | 11.6 | 8,649 | 1.4 |
| 1999-00 | 53,869 | 8.2 | 7,514 | 1.1 |
| 2000-01 | 42,719 | 6.1 | 6,195 | 0.9 |
| 2001-02 | 38,180 | 5.1 | 5,352 | 0.7 |
| 2002-03 | 29,047 | 3.6 | 3,758 | 0.5 |
| 2003-04 | 22,639 | 2.6 | 3,040 | 0.4 |
| 2004-05 | 10,741 | 1.2 | 2,502 | 0.3 |
| 2005-06 | -4,531 | -0.5 | 2,303 | 0.2 |
| 2006-07 | -29,150 | -2.7 | 228 | 0.0 |
| 2007-08 | -44,820 | -3.8 | -1,015 | -0.1 |
| 2008-09 | -16,148 | -1.3 | -1,196 | -0.1 |
| 2009-10 | 42,283 | 3.3 | 2,386 | 0.2 |

Statement 10: Historical Australian Government Data

Table 4: Australian Government general government sector net debt and net interest payments^(a) (continued)

| | Net debt(b) | | Net interest payments(c) | |
|--------------------|----------------|-----------------|--------------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 2010-11 | 84,551 | 6.0 | 4,608 | 0.3 |
| 2011-12 | 147,334 | 9.9 | 6,609 | 0.4 |
| 2012-13 | 152,982 | 10.0 | 8,285 | 0.5 |
| 2013-14 | 202,463 | 12.8 | 10,843 | 0.7 |
| 2014-15 | 238,721 | 14.8 | 10,868 | 0.7 |
| 2015-16 (e) | 285,684 | 17.3 | 11,980 | 0.7 |
| 2016-17 (e) | 325,962 | 18.9 | 12,642 | 0.7 |
| 2017-18 (e) | 346,842 | 19.2 | 13,356 | 0.7 |
| 2018-19 (p) | 356,373 | 18.8 | 14,224 | 0.8 |
| 2019-20 (p) | 355,066 | 17.8 | 14,215 | 0.7 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Net debt is equal to the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

(c) Net interest payments are equal to the difference between interest paid and interest receipts.

(e) Estimates.

(p) Projections.

Statement 10: Historical Australian Government Data

Table 5: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid^(a)

| | Face value of CGS on issue(b) | | | | | |
|---------|-------------------------------|--------------------|-------------------------------------|--------------------|------------------|--------------------|
| | Total CGS on issue(c) | | Subject to Treasurer's direction(d) | | Interest Paid(f) | |
| | End of year \$m | Per cent of GDP | End of year \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1970-71 | 10,887 | 27.0 | - | - | 580 | 1.4 |
| 1971-72 | 11,490 | 25.8 | - | - | 614 | 1.4 |
| 1972-73 | 12,217 | 24.6 | - | - | 675 | 1.4 |
| 1973-74 | 12,809 | 21.3 | - | - | 712 | 1.2 |
| 1974-75 | 14,785 | 20.8 | - | - | 893 | 1.3 |
| 1975-76 | 17,940 | 21.6 | - | - | 1,001 | 1.2 |
| 1976-77 | 20,845 | 21.7 | - | - | 1,485 | 1.5 |
| 1977-78 | 23,957 | 22.9 | - | - | 1,740 | 1.7 |
| 1978-79 | 28,120 | 23.7 | - | - | 2,080 | 1.8 |
| 1979-80 | 29,321 | 21.8 | - | - | 2,356 | 1.8 |
| 1980-81 | 30,189 | 19.9 | - | - | 2,723 | 1.8 |
| 1981-82 | 31,060 | 17.7 | - | - | 3,058 | 1.7 |
| 1982-83 | 37,071 | 19.6 | - | - | 3,580 | 1.9 |
| 1983-84 | 45,437 | 21.3 | - | - | 4,558 | 2.1 |
| 1984-85 | 54,420 | 23.2 | - | - | 5,952 | 2.5 |
| 1985-86 | 63,089 | 24.2 | - | - | 7,394 | 2.8 |
| 1986-87 | 67,172 | 23.5 | - | - | 8,339 | 2.9 |
| 1987-88 | 62,794 | 19.4 | - | - | 8,139 | 2.5 |
| 1988-89 | 56,854 | 15.5 | - | - | 8,222 | 2.2 |
| 1989-90 | 48,399 | 12.0 | - | - | 8,064 | 2.0 |
| 1990-91 | 48,723 | 11.7 | - | - | 6,994 | 1.7 |
| 1991-92 | 58,826 | 13.9 | - | - | 6,819 | 1.6 |
| 1992-93 | 76,509 | 17.2 | - | - | 6,487 | 1.5 |
| 1993-94 | 90,889 | 19.5 | - | - | 7,709 | 1.7 |
| 1994-95 | 105,466 | 21.3 | - | - | 9,144 | 1.8 |
| 1995-96 | 110,166 | 20.8 | - | - | 10,325 | 2.0 |
| 1996-97 | 111,067 | 20.0 | - | - | 10,653 | 1.9 |
| 1997-98 | 93,664 | 15.9 | - | - | 9,453 | 1.6 |
| 1998-99 | 85,331 | 13.8 | - | - | 9,299 | 1.5 |
| 1999-00 | 75,536 | 11.4 | - | - | 8,509 | 1.3 |
| 2000-01 | 66,403 | 9.4 | - | - | 7,335 | 1.0 |
| 2001-02 | 63,004 | 8.4 | - | - | 6,270 | 0.8 |
| 2002-03 | 57,435 | 7.2 | - | - | 4,740 | 0.6 |
| 2003-04 | 54,750 | 6.4 | - | - | 4,096 | 0.5 |
| 2004-05 | 55,151 | 6.0 | - | - | 3,902 | 0.4 |
| 2005-06 | 54,070 | 5.4 | - | - | 4,628 | 0.5 |
| 2006-07 | 53,264 | 4.9 | - | - | 3,959 | 0.4 |
| 2007-08 | 55,442 | 4.7 | - | - | 3,754 | 0.3 |
| 2008-09 | 101,147 | 8.0 | 95,103 | 7.6 | 3,970 | 0.3 |
| 2009-10 | 147,133 | 11.3 | 141,806 | 10.9 | 6,411 | 0.5 |

Statement 10: Historical Australian Government Data

Table 5: Australian Government general government sector face value of Commonwealth Government Securities (CGS) on issue and interest paid^(a) (continued)

| | Face value of CGS on issue(b) | | | | | |
|--------------------|-------------------------------|--------------------|-------------------------------------|--------------------|------------------|--------------------|
| | Total CGS on issue(c) | | Subject to Treasurer's direction(d) | | Interest Paid(f) | |
| | End of year \$m | Per cent of GDP | End of year \$m | Per cent of GDP | \$m | Per cent of GDP |
| 2010-11 | 191,292 | 13.6 | 186,704 | 13.2 | 9,551 | 0.7 |
| 2011-12 | 233,976 | 15.7 | 229,389 | 15.4 | 10,875 | 0.7 |
| 2012-13 | 257,378 | 16.9 | 252,791 | 16.6 | 11,846 | 0.8 |
| 2013-14 | 319,481 | 20.2 | 316,952 | 20.0 | 13,972 | 0.9 |
| 2014-15 | 368,738 | 22.9 | 366,202 | 22.8 | 13,924 | 0.9 |
| 2015-16 (e) | 427,000 | 25.9 | 425,000 | 25.8 | 14,822 | 0.9 |
| 2016-17 (e) | 499,000 | 29.0 | 497,000 | 28.9 | 15,903 | 0.9 |
| 2017-18 (e) | 545,000 | 30.2 | 542,000 | 30.0 | 16,826 | 0.9 |
| 2018-19 (p) | 568,000 | 30.0 | 565,000 | 29.8 | 18,054 | 1.0 |
| 2019-20 (p) | 584,000 | 29.3 | 581,000 | 29.2 | 18,463 | 0.9 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) From 2015-16 onwards, data for CGS on issue are projections and are rounded to the nearest \$1 billion.

(c) Total CGS on issue includes CGS held on behalf of the States and the Northern Territory, but excludes Commonwealth holdings of CGS.

(d) The face value of CGS subject to the Treasurer's Direction excludes the stock and securities outlined in subsection 51JA(2A) of the *Commonwealth Inscribed Stock Act 1911*. These are the same stock and securities that were excluded from the previous legislative debt limit. CGS on issue subject to the Treasurer's Direction are not available prior to 2008-09 because the limit was first introduced in July 2008.

(e) Estimates.

(f) Interest paid consists of all cash interest payments of the general government sector, including those relating to CGS on issue.

(p) Projections.

Table 6: Australian Government general government sector revenue, expenses, net capital investment and fiscal balance^(a)

| | Revenue | | Expenses | | Net capital investment | | Fiscal balance(b) | |
|--------------------|----------------|-----------------|----------------|-----------------|------------------------|-----------------|-------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1996-97 | 141,688 | 25.5 | 145,821 | 26.2 | 90 | 0.0 | -4,223 | -0.8 |
| 1997-98 | 146,820 | 24.9 | 148,652 | 25.3 | 147 | 0.0 | -1,979 | -0.3 |
| 1998-99 | 152,106 | 24.5 | 146,772 | 23.7 | 1,433 | 0.2 | 3,901 | 0.6 |
| 1999-00 | 167,304 | 25.3 | 155,558 | 23.5 | -69 | 0.0 | 11,815 | 1.8 |
| 2000-01 | 186,106 | 26.4 | 180,090 | 25.5 | 8 | 0.0 | 6,007 | 0.9 |
| 2001-02 | 190,432 | 25.3 | 192,984 | 25.6 | 382 | 0.1 | -2,935 | -0.4 |
| 2002-03 | 206,778 | 25.8 | 201,113 | 25.1 | 287 | 0.0 | 5,377 | 0.7 |
| 2003-04 | 222,042 | 25.8 | 215,235 | 25.0 | 660 | 0.1 | 6,148 | 0.7 |
| 2004-05 | 242,354 | 26.3 | 229,092 | 24.8 | 1,034 | 0.1 | 12,228 | 1.3 |
| 2005-06 | 260,569 | 26.1 | 241,665 | 24.2 | 2,498 | 0.3 | 16,406 | 1.6 |
| 2006-07 | 277,895 | 25.6 | 258,761 | 23.8 | 2,333 | 0.2 | 16,801 | 1.5 |
| 2007-08 | 303,402 | 25.8 | 279,862 | 23.8 | 2,593 | 0.2 | 20,948 | 1.8 |
| 2008-09 | 298,508 | 23.7 | 324,188 | 25.8 | 4,064 | 0.3 | -29,743 | -2.4 |
| 2009-10 | 292,387 | 22.5 | 339,829 | 26.2 | 6,433 | 0.5 | -53,875 | -4.2 |
| 2010-11 | 309,204 | 21.9 | 355,667 | 25.2 | 5,297 | 0.4 | -51,760 | -3.7 |
| 2011-12 | 337,324 | 22.6 | 377,220 | 25.3 | 4,850 | 0.3 | -44,746 | -3.0 |
| 2012-13 | 359,496 | 23.6 | 381,980 | 25.1 | 987 | 0.1 | -23,472 | -1.5 |
| 2013-14 | 374,151 | 23.6 | 414,047 | 26.1 | 3,850 | 0.2 | -43,746 | -2.8 |
| 2014-15 | 380,746 | 23.7 | 417,898 | 26.0 | 2,706 | 0.2 | -39,857 | -2.5 |
| 2015-16 (e) | 396,396 | 24.0 | 431,470 | 26.1 | 4,355 | 0.3 | -39,429 | -2.4 |
| 2016-17 (e) | 416,862 | 24.2 | 450,553 | 26.2 | 3,437 | 0.2 | -37,129 | -2.2 |
| 2017-18 (e) | 449,524 | 24.9 | 464,812 | 25.7 | 3,388 | 0.2 | -18,675 | -1.0 |
| 2018-19 (p) | 484,370 | 25.5 | 489,324 | 25.8 | 4,885 | 0.3 | -9,839 | -0.5 |
| 2019-20 (p) | 515,062 | 25.9 | 511,604 | 25.7 | 5,517 | 0.3 | -2,059 | -0.1 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Fiscal balance is equal to revenue less expenses less net capital investment.

(e) Estimates.

(p) Projections.

**PROTECTED:
SENSITIVE: CABINET**

Statement 10: Historical Australian Government Data

Table 7: Australian Government general government sector net worth and net financial worth^(a)

| | Net worth(b) | | Net financial worth(c) | |
|--------------------|-----------------|-----------------|------------------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1999-00 | -7,046 | -1.1 | -67,036 | -10.1 |
| 2000-01 | -6,618 | -0.9 | -71,876 | -10.2 |
| 2001-02 | -11,655 | -1.5 | -78,032 | -10.4 |
| 2002-03 | -15,330 | -1.9 | -82,931 | -10.4 |
| 2003-04 | -1,152 | -0.1 | -72,389 | -8.4 |
| 2004-05 | 14,556 | 1.6 | -58,882 | -6.4 |
| 2005-06 | 17,971 | 1.8 | -59,763 | -6.0 |
| 2006-07 | 46,351 | 4.3 | -35,696 | -3.3 |
| 2007-08 | 70,859 | 6.0 | -14,690 | -1.2 |
| 2008-09 | 19,427 | 1.5 | -71,490 | -5.7 |
| 2009-10 | -45,938 | -3.5 | -144,485 | -11.1 |
| 2010-11 | -95,386 | -6.8 | -198,787 | -14.1 |
| 2011-12 | -247,208 | -16.6 | -355,834 | -23.9 |
| 2012-13 | -202,650 | -13.3 | -312,724 | -20.5 |
| 2013-14 | -256,045 | -16.2 | -370,331 | -23.4 |
| 2014-15 | -302,350 | -18.8 | -421,129 | -26.2 |
| 2015-16 (e) | -265,027 | -16.1 | -387,893 | -23.5 |
| 2016-17 (e) | -300,929 | -17.5 | -427,167 | -24.8 |
| 2017-18 (e) | -314,608 | -17.4 | -445,192 | -24.6 |
| 2018-19 (p) | -319,389 | -16.8 | -454,319 | -24.0 |
| 2019-20 (p) | -316,127 | -15.9 | -455,789 | -22.9 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Net worth is equal to total assets less liabilities.

(c) Net financial worth is equal to financial assets less liabilities.

(e) Estimates.

(p) Projections.

Statement 10: Historical Australian Government Data

Table 8: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue^(a)

| | Taxation revenue(b) | | Non-taxation revenue(b) | | Total revenue | |
|--------------------|---------------------|-----------------|-------------------------|-----------------|----------------|-----------------|
| | \$m | Per cent of GDP | \$m | Per cent of GDP | \$m | Per cent of GDP |
| 1999-00 | 153,409 | 23.2 | 13,895 | 2.1 | 167,304 | 25.3 |
| 2000-01 | 175,876 | 24.9 | 10,229 | 1.5 | 186,106 | 26.4 |
| 2001-02 | 178,154 | 23.6 | 12,278 | 1.6 | 190,432 | 25.3 |
| 2002-03 | 195,057 | 24.4 | 11,719 | 1.5 | 206,778 | 25.8 |
| 2003-04 | 210,220 | 24.4 | 11,822 | 1.4 | 222,042 | 25.8 |
| 2004-05 | 230,198 | 25.0 | 12,155 | 1.3 | 242,354 | 26.3 |
| 2005-06 | 245,512 | 24.6 | 15,056 | 1.5 | 260,569 | 26.1 |
| 2006-07 | 262,576 | 24.2 | 15,320 | 1.4 | 277,895 | 25.6 |
| 2007-08 | 286,544 | 24.3 | 16,858 | 1.4 | 303,402 | 25.8 |
| 2008-09 | 278,981 | 22.2 | 19,528 | 1.6 | 298,508 | 23.7 |
| 2009-10 | 268,512 | 20.7 | 23,875 | 1.8 | 292,387 | 22.5 |
| 2010-11 | 289,247 | 20.5 | 19,957 | 1.4 | 309,204 | 21.9 |
| 2011-12 | 317,023 | 21.3 | 20,301 | 1.4 | 337,324 | 22.6 |
| 2012-13 | 337,823 | 22.2 | 21,673 | 1.4 | 359,496 | 23.6 |
| 2013-14 | 352,884 | 22.3 | 21,267 | 1.3 | 374,151 | 23.6 |
| 2014-15 | 357,176 | 22.2 | 23,570 | 1.5 | 380,746 | 23.7 |
| 2015-16 (e) | 371,923 | 22.5 | 24,472 | 1.5 | 396,396 | 24.0 |
| 2016-17 (e) | 391,283 | 22.7 | 25,579 | 1.5 | 416,862 | 24.2 |
| 2017-18 (e) | 419,944 | 23.2 | 29,581 | 1.6 | 449,524 | 24.9 |
| 2018-19 (p) | 449,793 | 23.7 | 34,577 | 1.8 | 484,370 | 25.5 |
| 2019-20 (p) | 478,563 | 24.0 | 36,499 | 1.8 | 515,062 | 25.9 |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. Back-casting occurs from 2003-04.

(e) Estimates.

(p) Projections.

Table 9: Australian Government cash receipts, payments and surplus by institutional sector(\$m)^(a)

| | General government | | | Public non-financial corporations | | | Non-financial public sector | | |
|---------|--------------------|-------------|-----------------|-----------------------------------|-------------|--------------|-----------------------------|-------------|--------------|
| | Receipts(b) | Payments(c) | Underlying cash | Receipts(b) | Payments(c) | Cash surplus | Receipts(b) | Payments(c) | Cash surplus |
| | | | balance(d) | | | | | | |
| 1988-89 | 90,748 | 85,326 | 5,421 | 4,177 | 6,035 | 257 | 93,923 | 90,312 | 5,678 |
| 1989-90 | 98,625 | 92,684 | 5,942 | 3,926 | 11,322 | -5,261 | 101,495 | 102,883 | 681 |
| 1990-91 | 100,227 | 100,665 | -438 | 4,804 | 9,351 | -2,139 | 103,837 | 108,808 | -2,577 |
| 1991-92 | 95,840 | 108,472 | -12,631 | 3,899 | 7,713 | 101 | 97,937 | 114,369 | -12,530 |
| 1992-93 | 97,633 | 115,751 | -18,118 | 4,385 | 7,819 | -196 | 100,512 | 122,042 | -18,314 |
| 1993-94 | 103,824 | 122,009 | -18,185 | 5,178 | 6,476 | 1,482 | 106,747 | 126,214 | -16,703 |
| 1994-95 | 113,458 | 127,619 | -14,160 | 5,262 | 7,318 | 1,956 | 116,751 | 132,965 | -12,204 |
| 1995-96 | 124,429 | 135,538 | -11,109 | 4,927 | 8,190 | -527 | 126,593 | 140,963 | -11,636 |
| 1996-97 | 133,592 | 139,689 | -6,099 | 4,782 | 7,373 | 473 | 135,259 | 143,948 | -5,626 |
| 1997-98 | 140,736 | 140,587 | 149 | 6,238 | 7,923 | 1,119 | 144,517 | 145,985 | 1,268 |
| 1998-99 | 152,063 | 148,175 | 3,889 | na | na | -353 | na | na | 3,536 |
| 1999-00 | 166,199 | 153,192 | 13,007 | na | na | -2,594 | na | na | 10,413 |
| 2000-01 | 182,996 | 177,123 | 5,872 | na | na | 391 | na | na | 6,264 |
| 2001-02 | 187,588 | 188,655 | -1,067 | na | na | 1,210 | na | na | 143 |
| 2002-03 | 204,613 | 197,243 | 7,370 | 27,386 | 26,105 | 1,280 | na | na | 8,650 |
| 2003-04 | 217,775 | 209,785 | 7,990 | 27,718 | 26,142 | 1,575 | 238,236 | 228,669 | 9,564 |
| 2004-05 | 235,984 | 222,407 | 13,577 | 29,621 | 28,071 | 1,550 | 257,946 | 242,818 | 15,128 |
| 2005-06 | 255,943 | 240,136 | 15,757 | 30,875 | 31,874 | -999 | 278,254 | 263,445 | 14,809 |
| 2006-07 | 272,637 | 253,321 | 17,190 | 16,882 | 18,641 | -1,759 | 285,336 | 267,778 | 17,566 |
| 2007-08 | 294,917 | 271,843 | 19,754 | 7,758 | 8,232 | -473 | 300,503 | 277,903 | 22,651 |
| 2008-09 | 292,600 | 316,046 | -27,013 | 7,987 | 8,960 | -973 | 297,421 | 321,841 | -24,352 |
| 2009-10 | 284,662 | 336,900 | -54,494 | 8,419 | 9,341 | -922 | 290,681 | 343,841 | -52,904 |

10-18

Table 9: Australian Government cash receipts, payments and surplus by institutional sector (\$m)^(a) (continued)

| | General government | | | Public non-financial corporations | | | Non-financial public sector | | |
|--------------------|--------------------|----------------|----------------------------|-----------------------------------|---------------|---------------|-----------------------------|----------------|----------------|
| | Receipts(b) | Payments(c) | Underlying cash balance(d) | Receipts(b) | Payments(c) | Cash surplus | Receipts(b) | Payments(c) | Cash surplus |
| 2010-11 | 302,024 | 346,102 | -47,463 | 8,558 | 9,733 | -1,175 | 308,258 | 353,511 | -44,970 |
| 2011-12 | 329,874 | 371,032 | -43,360 | 8,845 | 10,847 | -2,002 | 336,122 | 379,282 | -42,779 |
| 2012-13 | 351,052 | 367,204 | -18,834 | 9,766 | 14,135 | -4,369 | 358,088 | 378,609 | -20,521 |
| 2013-14 | 360,322 | 406,430 | -48,456 | 11,042 | 16,322 | -5,280 | 368,521 | 419,910 | -51,388 |
| 2014-15 | 378,301 | 412,079 | -37,867 | 11,256 | 15,544 | -4,288 | 386,643 | 424,709 | -38,067 |
| 2015-16 (e) | 388,027 | 424,961 | -39,946 | 11,965 | 18,701 | -6,736 | 397,769 | 441,439 | -43,670 |
| 2016-17 (e) | 411,284 | 445,045 | -37,081 | 13,019 | 22,949 | -9,930 | 421,982 | 465,672 | -43,690 |
| 2017-18 (e) | 437,385 | 459,934 | -26,123 | na | na | na | na | na | na |
| 2018-19 (p) | 469,921 | 481,484 | -15,406 | na | na | na | na | na | na |
| 2019-20 (p) | 500,742 | 502,556 | -5,955 | na | na | na | na | na | na |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.

(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(d) These items exclude net Future Fund earnings from 2005-06 onwards. Net Future Fund earnings are shown in Table 1.

(e) Estimates.

(p) Projections.

na Data not available.

10-19

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector(\$m)^(a)

| | General government | | | Public non-financial corporations | | | Non-financial public sector | | |
|--------------------|--------------------|----------------|-------------------|-----------------------------------|---------------|-------------------|-----------------------------|----------------|-------------------|
| | Revenue | Expenses | Fiscal balance(b) | Revenue | Expenses | Fiscal balance(b) | Revenue | Expenses | Fiscal balance(b) |
| 1996-97 | 141,688 | 145,821 | -4,223 | 27,431 | 26,015 | -331 | na | na | -4,554 |
| 1997-98 | 146,820 | 148,652 | -1,979 | 29,618 | 26,999 | 2,360 | na | na | 387 |
| 1998-99 | 152,106 | 146,772 | 3,901 | 27,687 | 26,088 | -816 | 175,891 | 168,958 | 3,085 |
| 1999-00 | 167,304 | 155,558 | 11,815 | 25,485 | 23,542 | 1,062 | 188,841 | 175,152 | 11,721 |
| 2000-01 | 186,106 | 180,090 | 6,007 | 25,869 | 24,762 | -826 | 207,367 | 200,246 | 5,181 |
| 2001-02 | 190,432 | 192,984 | -2,935 | 26,638 | 25,341 | 793 | 212,462 | 213,718 | -2,142 |
| 2002-03 | 206,778 | 201,113 | 5,377 | 24,339 | 22,916 | 1,975 | 225,989 | 218,944 | 7,311 |
| 2003-04 | 222,042 | 215,235 | 6,148 | 25,449 | 23,444 | 2,143 | 241,746 | 232,934 | 8,291 |
| 2004-05 | 242,354 | 229,092 | 12,228 | 26,965 | 25,191 | 1,473 | 263,434 | 248,398 | 13,700 |
| 2005-06 | 260,569 | 241,665 | 16,406 | 28,143 | 29,531 | -2,442 | 281,927 | 264,410 | 13,964 |
| 2006-07 | 277,895 | 258,761 | 16,801 | 15,443 | 16,360 | -1,763 | 289,551 | 271,335 | 15,038 |
| 2007-08 | 303,402 | 279,862 | 20,948 | 6,854 | 6,686 | -584 | 308,888 | 285,179 | 20,364 |
| 2008-09 | 298,508 | 324,188 | -29,743 | 6,998 | 7,576 | -1,495 | 303,309 | 329,566 | -31,238 |
| 2009-10 | 292,387 | 339,829 | -53,875 | 7,288 | 7,297 | -1,079 | 298,033 | 345,483 | -54,954 |
| 2010-11 | 309,204 | 355,667 | -51,760 | 7,563 | 7,787 | -1,446 | 315,001 | 361,689 | -53,205 |
| 2011-12 | 337,324 | 377,220 | -44,746 | 8,046 | 8,238 | -2,158 | 343,722 | 383,810 | -46,904 |
| 2012-13 | 359,496 | 381,980 | -23,472 | 8,863 | 9,415 | -4,189 | 366,642 | 389,678 | -27,661 |
| 2013-14 | 374,151 | 414,047 | -43,746 | 9,537 | 11,127 | -6,070 | 381,971 | 423,457 | -49,816 |
| 2014-15 | 380,746 | 417,898 | -39,857 | 9,987 | 11,850 | -4,856 | 389,011 | 428,025 | -44,713 |
| 2015-16 (e) | 396,396 | 431,470 | -39,429 | 10,044 | 12,509 | -7,236 | 405,241 | 442,780 | -46,665 |
| 2016-17 (e) | 416,862 | 450,553 | -37,129 | 10,649 | 14,543 | -11,052 | 426,301 | 463,887 | -48,181 |
| 2017-18 (e) | 449,524 | 464,812 | -18,675 | na | na | na | na | na | na |
| 2018-19 (p) | 484,370 | 489,324 | -9,839 | na | na | na | na | na | na |
| 2019-20 (p) | 515,062 | 511,604 | -2,059 | na | na | na | na | na | na |

(a) Data have been revised in the 2016-17 Budget to improve accuracy and comparability through time.

(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.

(e) Estimates.

(p) Projections.

na Data not available

10-20