

Part III: Fiscal Outlook

OVERVIEW

The Commonwealth's fiscal outlook has strengthened since the 2000-01 Budget. The expected underlying cash surplus for 2000-01 has increased by \$1.5 billion to \$4.3 billion, with a revised fiscal surplus of \$8.4 billion.

As shown in Table 5, the budget is expected to remain in surplus throughout the forward estimates period.

Table 5: Commonwealth general government budget aggregates^(a)

	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	153.5	157.6	158.6	161.1
Per cent of GDP	22.6	23.2	22.3	22.6
Expenses (\$b)	150.3	152.9	156.5	158.1
Per cent of GDP	22.1	22.5	22.0	22.2
Net operating balance (\$b)	3.2	4.8	2.1	2.9
Net capital investment (\$b)(b)	-2.2	-3.6	1.0	-0.3
Fiscal balance (\$b)	5.4	8.4	1.1	3.3
Per cent of GDP	0.8	1.2	0.2	0.5
Underlying cash balance (\$b)	2.8	4.3	3.2	4.7
Per cent of GDP	0.4	0.6	0.5	0.7
	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	168.3	169.5	180.5	181.7
Per cent of GDP	22.3	22.5	22.6	22.7
Expenses (\$b)	160.1	163.0	165.5	168.6
Per cent of GDP	21.2	21.6	20.7	21.1
Net operating balance (\$b)	8.2	6.5	15.0	13.1
Net capital investment (\$b)(b)	0.6	-0.3	1.1	0.3
Fiscal balance (\$b)	7.6	6.8	13.9	12.8
Per cent of GDP	1.0	0.9	1.7	1.6
Underlying cash balance (\$b)	8.8	7.6	14.4	12.9
Per cent of GDP	1.2	1.0	1.8	1.6

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with Goods and Services Tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

(b) Net capital investment is defined as net acquisition of non-financial assets.

Table 6 provides a reconciliation of the fiscal balance estimates between the 2000-01 Budget and the 2000-01 MYEFO. It shows that the fiscal surplus projected for 2000-01 has been revised upwards by \$3.0 billion since Budget. This improvement is partly due to parameter variations — with an increase in expected revenue from stronger economic and employment growth only partly offset by increased expenses. Total new policy decisions since Budget have reduced the expected surplus in 2000-01 by \$509 million.

Table 6: Reconciliation of 2000-01 Budget and MYEFO fiscal balance estimates

	2000-01 \$m	2001-02 \$m	2002-03 \$m	2003-04 \$m
2000-01 Budget fiscal balance	5436	1072	7610	13884
Per cent of GDP	0.8	0.2	1.0	1.7
<i>Changes between 2000-01 Budget and MYEFO</i>				
Effect of policy decisions(a)				
Revenue	88	-66	-294	-276
Expenses	596	321	254	297
Net capital investment	1	6	0	0
Total policy decisions	-509	-393	-548	-573
Effect of parameter and other variations				
Revenue	4066	2579	1512	1540
Expenses(b)	970	166	1709	2100
Net capital investment(b)	-384	-192	95	-78
Total parameter and other variations	3480	2606	-292	-482
2000-01 MYEFO fiscal balance	8407	3285	6769	12829
Per cent of GDP	1.2	0.5	0.9	1.6

(a) Excluding the public debt net interest effect of policy measures.

(b) Excludes the impact of a reclassification of expenditure on defence weapons platforms, which has no effect on the budget balances (see Box 2 in Part V). The reclassification results in net capital investment being reduced by around \$1 billion in each year, which is fully offset by an equivalent increase in expenses.

REVENUE

Estimated total general government revenue has increased in 2000-01 and all forward years since Budget. In 2000-01, total revenue is expected to be \$4.2 billion (2.7 per cent) higher than estimated at the time of the 2000-01 Budget, with less substantial revenue gains in the forward years.

The increase in estimated revenue in 2000-01 is largely due to upward revisions to forecast nominal GDP and employment growth, and some ongoing base effects of a

stronger than expected revenue outcome for 1999-2000¹. Policy decisions taken since the 2000-01 Budget are also expected to increase revenue in 2000-01, but reduce revenue in the forward years.

The major revisions to expected revenue in 2000-01 include:

- a \$2.3 billion increase in company tax revenue (mainly reflecting stronger than anticipated growth in company profits);
- an increase of almost \$760 million in other individuals taxation revenue (due to a stronger than expected outcome for 1999-2000 and a stronger outlook for small business income);
- stronger PAYG Withholding revenue (a positive revision of around \$520 million since Budget, consistent with stronger anticipated employment growth in 2000-01); and
- a \$480 million increase in Petroleum Resource Rent Tax, as a result of sustained strength in the world price of crude oil.

These expected increases in revenue are partially offset by:

- a decrease in estimated other excise revenue of \$320 million (mainly reflecting lower tobacco volumes); and
- a \$245 million reduction in expected Fringe Benefits Tax (FBT) revenue (this reduction is primarily due to some 1999-2000 FBT returns being lodged later than expected with the ATO, causing some refunds on assessment to slip into 2000-01).

Further detail on the revised revenue estimates is provided in Part IV.

EXPENSES

As noted above, the impact on the projected fiscal surplus of higher than anticipated revenue in 2000-01 is partially offset by an upward revision to estimated expenses. The upward revision to expenses is primarily due to programme specific parameter variations, with policy decisions since Budget adding around \$596 million to expenses in 2000-01.

The major parameter driven increases in expected expenses for 2000-01 include:

1 The final outcome for total revenue in 1999-2000 was around \$2 billion higher than estimated at the 2000-01 Budget. While much of this better than anticipated outcome was due to one-off events or shifts in the timing of revenue, some growth in the ongoing tax base also contributed to the higher outcome (see *1999-2000 Final Budget Outcome* for further details).

- higher than expected payments (\$550 million in 2000-01) under the Aged Persons Savings and Self Funded Retirees Supplementary Bonuses (largely due to higher than anticipated investment income among eligible recipients); and
- increased expenses (around \$520 million in 2000-01) associated with a higher than expected take up of private health insurance following the introduction of the Government's Lifetime Health Cover.

These upward variations are partially offset by an anticipated reduction in budget balancing assistance payments to the States and Territories as a result of higher than expected GST collections in 2000-01. As described in Box 1, previously unidentified transitional factors are expected to produce a one-off increase in net GST revenue of \$2.25 billion in 2000-01. This additional GST revenue is expected to reduce budget balancing assistance grants to the States and Territories in 2000-01 and 2001-02.

An additional offsetting reduction in expenses of around \$96 million in 2000-01 (increasing to around \$145 million in 2003-04) is due to a downward revision in the estimated number of unemployment benefit recipients.

Pending finalisation of the Government's Defence White Paper, provision has been made in the Contingency Reserve for a change in defence expenses in 2001-02 and the forward years.

More detailed information on expenses and net capital investment can be found in Part V. Expense policy measures are individually described in Appendix A.

Box 1: The revised outlook for GST collections and budget balancing assistance payments to the States

With the introduction of *The New Tax System*, the Commonwealth has provided an undertaking to ensure that the States and Territories are not financially disadvantaged relative to previous funding arrangements. During the transition period, this undertaking is met by the Commonwealth providing budget balancing assistance (BBA) payments to the States.

The amount of BBA to be paid by the Commonwealth is determined by the difference between GST revenue received by the States and a guaranteed minimum amount (GMA). In turn, the GMA includes estimated revenues forgone by the States as well as additional expenses incurred by the States.

Because GST revenue is paid to the States, a change in GST revenue does not directly affect the Commonwealth's budget surplus. However, during the transition period, it indirectly affects the Commonwealth budget through variations to BBA.

At this stage, the first quarterly GST return has not been fully completed and future projections are subject to much greater uncertainty than is the case with other revenue collections. However, early GST collections have revealed some previously unidentified transitional factors that will tend to boost net GST revenue in 2000-01 only. These factors include:

- a short lag between when businesses report GST receipts on sales and when they claim input tax credits relating to those sales. A short invoice processing lag in claiming input tax credits means slower than expected initial claims sufficient to produce a one-off significant boost to net GST collections in 2000-01; and
- the time between the receipt of GST revenue and the processing of net refunds by the ATO means that some refunds are expected to slip from 2000-01 to early 2001-02 — boosting net GST collections in the current year.

Transitional effects are expected to produce a one-off increase in net GST revenue of \$2.25 billion in 2000-01. Estimated GST revenue is unchanged in the forward years.

Table 7 summarises the expected impact of higher anticipated GST collections and revised GMA estimates on the Commonwealth's budget surplus. The dominant influence is the increase in GST revenue in 2000-01. Together with expected revisions to the GMA (as a result of parameter changes and increased ATO administration costs), the increase in GST is expected to reduce BBA grants to the States by \$360 million in 2000-01 and by \$1,339 million in 2001-02.

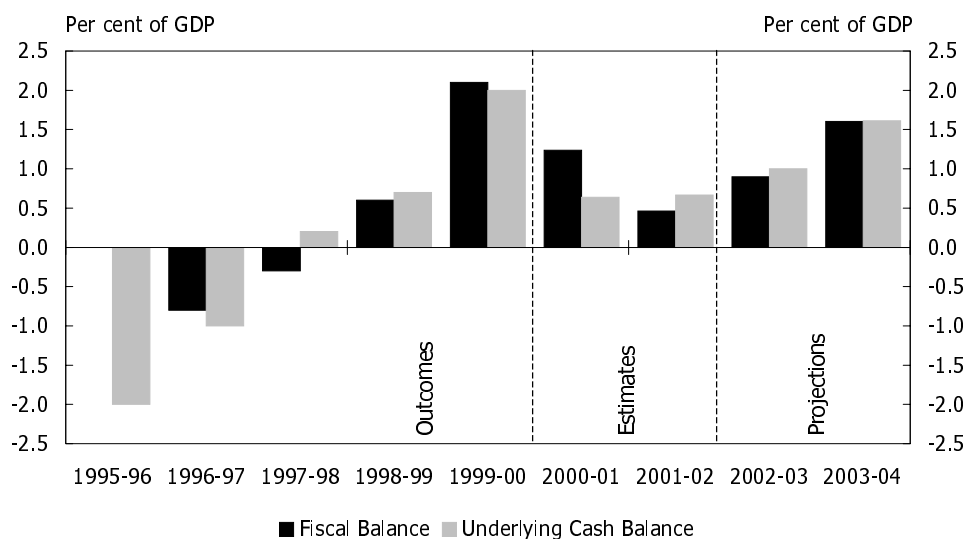
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Table 7: Changes in expected GST revenue and BBA payments

	2000-01			2001-02		
	Budget \$m	MYEFO \$m	Variation \$m	Budget \$m	MYEFO \$m	Variation \$m
GMA	26745	26979	234	31142	29803	-1339
GST	24053	26303	2250	28029	28029	-
BBA	2693	677	-2016	3112	1774	-1339
of which:						
Grant	1037	677	-360	3112	1774	-1339
Loan	1656	-	-1656	-	-	-
Change in fiscal and underlying cash balances			360			1339

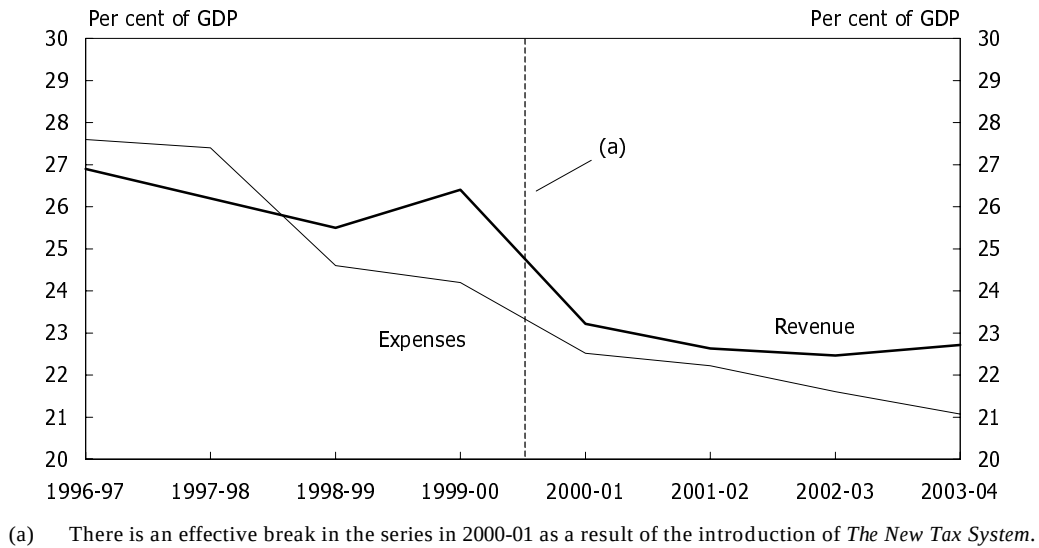
What is the budget effect in 2000-01 and 2001-02?

Table 7 shows that the expected increase in GST revenue in 2000-01 means the States are not expected to require a loan or as much by way of grants under BBA. Because loan repayment is a cost component built into the GMA in 2001-02, the GMA is reduced and BBA is reduced accordingly with positive implications for both the fiscal and underlying cash balances in that year.

Chart 2: Fiscal and underlying cash balances^(a)

(a) Fiscal balance figures are available only from 1996-97 onwards.

Chart 3: Commonwealth general government revenue and expenses



NET DEBT AND NET WORTH

In 2000-01, Commonwealth general government net debt is estimated to fall to its lowest level as a percentage of GDP since 1990-91. Net debt is forecast to continue falling through the forward estimates period and is projected to be eliminated by 2003-04. Net debt has fallen from a high of almost 20 per cent of GDP in 1995-96 to an expected 6.4 per cent in 2000-01 — a net reduction of over \$50 billion.

- As a percentage of GDP, Commonwealth general government net debt in 2000-01 is expected to fall to 6.4 per cent, compared with the Budget estimate of 7.0 per cent. This improvement in the outlook for net debt is the result of the stronger than anticipated budget outcome in 1999-2000 and the improvement in the forecast surplus in 2000-01.

Table 8: Commonwealth general government net worth and net debt (\$b)

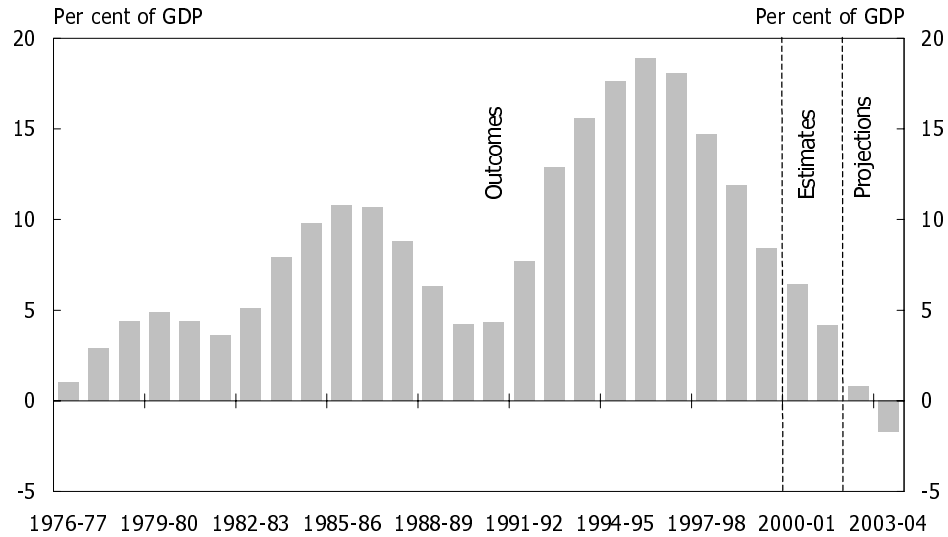
	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
Financial assets	56.0	94.7	57.5	86.7
Non-financial assets	55.8	29.7	56.6	30.0
Total assets	111.8	124.4	114.1	116.7
Total liabilities	162.5	165.3	148.4	151.9
Net worth	-50.7	-40.9	-34.3	-35.2
Net debt(a)(b)	47.4	43.6	34.7	29.5
Per cent of GDP	7.0	6.4	4.9	4.2
	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Financial assets	55.1	71.9	48.2	63.9
Non-financial assets	57.2	30.9	58.1	32.8
Total assets	112.3	102.8	106.3	96.6
Total liabilities	124.0	128.1	103.5	108.1
Net worth	-11.7	-25.4	2.8	-11.5
Net debt(a)(b)	9.2	5.9	-11.9	-13.7
Per cent of GDP	1.2	0.8	-1.5	-1.7

(a) Net debt comprises a sub-set of liabilities (deposits held, advances received and borrowing) less a sub-set of financial assets (cash and deposits; advances paid; and investments, loans and placements).

(b) Includes the impact of further sales of the Government's shareholding in Telstra.

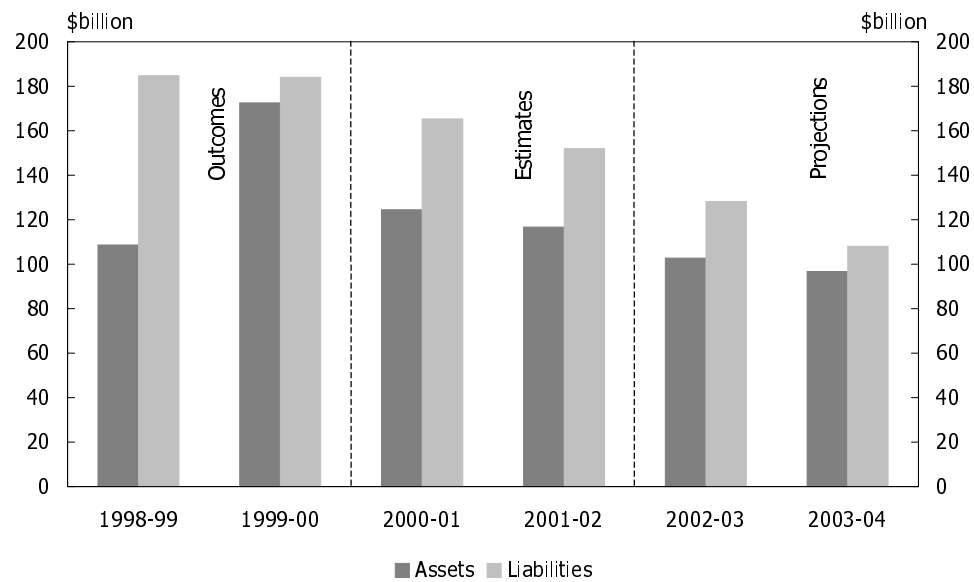
In 2000-01, Commonwealth general government GFS net worth is estimated to improve by a further \$9.8 billion compared with the 2000-01 Budget estimate. The changes in estimated net worth since Budget are primarily due to two partially offsetting classification changes: the removal of defence weapons platforms from the balance sheet (see Box 2 in Part V) and the move to value Commonwealth investments in public corporations at market value instead of historic cost (see Box 1 of the *1999-2000 Final Budget Outcome*).

Chart 4: Commonwealth general government net debt^(a)



(a) Includes the impact of further sales of the Government's shareholding in Telstra.

Chart 5: Commonwealth general government assets and liabilities^(a)



(a) The revaluation of Telstra at market value from 1999-2000 and the reclassification of expenditure on defence weapons platforms from 2000-01 lead to breaks in the asset series in those years.

CASH FLOWS

In 2000-01, the underlying cash balance is expected to be in surplus by \$4.3 billion, around \$1.5 billion higher than the corresponding estimate at the 2000-01 Budget.

Table 9: Summary of Commonwealth general government cash flows (\$b)

	2000-01		2001-02	
	Budget	MYEFO	Budget	MYEFO
Cash receipts from operating activities	149.5	154.6	159.4	163.7
Cash payments for operating activities	146.1	152.6	152.4	158.1
Net cash flows from operating activities	3.4	2.0	7.0	5.6
Net cash flows from investments in non-financial assets	-0.6	2.3	-3.8	-0.9
Underlying cash balance	2.8	4.3	3.2	4.7
Per cent of GDP	0.4	0.6	0.5	0.7
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(a)	5.2	6.5	10.7	8.9
Headline cash balance	8.0	10.9	14.0	13.6
	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Cash receipts from operating activities	168.8	171.7	179.6	183.2
Cash payments for operating activities	156.3	163.1	161.1	168.9
Net cash flows from operating activities	12.6	8.6	18.5	14.3
Net cash flows from investments in non-financial assets	-3.8	-1.0	-4.1	-1.4
Underlying cash balance	8.8	7.6	14.4	12.9
Per cent of GDP	1.2	1.0	1.8	1.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(a)	15.9	15.6	6.5	6.2
Headline cash balance	24.7	23.2	21.0	19.1

(a) Under the cash budgeting framework, these cash flows were referred to as 'net advances'.

Many of the variations to accrual revenue, expenses and net capital investment since the 2000-01 Budget (described earlier in this Part) also explain the changes in the underlying cash balance. However, some variations have different impacts on the cash and accrual budget aggregates. This accounts for the different magnitude of changes in the underlying cash balance and the fiscal balance since the 2000-01 Budget.

Major variations that contribute to this difference include:

- a carryover from 1999-2000 into 2000-01 of \$260 million in cash payments associated with GST start-up assistance certificates for small business (with no impact on accrual expenses);
- a changed accounting treatment of superannuation that has the effect of increasing aggregate estimated operating cash payments by around \$500 million in each year but with no impact on accrual expenses; and
- a smaller increase in estimated cash taxation receipts than the increase in accrual taxation revenue (of around \$350 million). This is due to an increase in the expected number of taxation assessments recorded in 2000-01 with the corresponding cash flows not occurring until 2001-02 or later years.

