

Part III: Fiscal outlook

OVERVIEW

The Commonwealth's fiscal outlook remains sound with an underlying cash surplus of \$0.5 billion now anticipated in 2001-02, compared with a forecast of \$1.5 billion in the 2001-02 Budget. The underlying cash balance is expected to remain in surplus over the forward estimates period.

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

	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Revenue(\$b)	158.8	160.7	164.9	166.3
Per cent of GDP	22.6	22.9	22.1	22.6
Expenses(\$b)	160.9	164.6	166.8	168.6
Per cent of GDP	22.9	23.5	22.4	22.9
Net operating balance(\$b)	-2.0	-3.9	-1.9	-2.3
Net capital investment(\$b)(b)	-1.2	-0.8	-0.4	-1.1
Fiscal balance(\$b)	-0.8	-3.1	-1.5	-1.3
Per cent of GDP	-0.1	-0.4	-0.2	-0.2
Underlying cash balance(\$b)	1.5	0.5	1.1	1.0
Per cent of GDP	0.2	0.1	0.1	0.1
<i>Memorandum item:</i>				
Headline cash balance(\$b)	4.7	3.6	-0.1	-0.2
	2003-04		2004-05	
	Budget	MYEFO	Budget	MYEFO
Revenue(\$b)	175.5	175.7	185.7	185.3
Per cent of GDP	22.2	22.5	22.1	22.4
Expenses(\$b)	173.1	175.5	179.0	182.0
Per cent of GDP	21.9	22.5	21.4	22.0
Net operating balance(\$b)	2.4	0.2	6.7	3.3
Net capital investment(\$b)(b)	-0.3	-0.4	-0.2	-0.4
Fiscal balance(\$b)	2.7	0.6	6.9	3.7
Per cent of GDP	0.3	0.1	0.8	0.4
Underlying cash balance(\$b)	4.1	1.8	7.4	3.9
Per cent of GDP	0.5	0.2	0.9	0.5
<i>Memorandum item:</i>				
Headline cash balance(\$b)	17.6	12.6	20.7	14.6

(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.

In accrual terms, the fiscal balance is expected to be in deficit in 2001-02 and 2002-03 before moving back into surplus. Relative to Budget, the fiscal balance has been revised down in each year with the exception of 2002-03.

The \$2.2 billion reduction in the estimated 2001-02 fiscal balance since Budget is primarily due to a small number of variations that have large accrual effects, but which are not expected to have an immediate corresponding cash effect. These include upward revisions to civilian and military superannuation expenses and a provision for potential expenses associated with the Special Employee Entitlements Scheme for Ansett Group Employees (SEESA).

Table 6 provides a reconciliation of the fiscal balance estimates between the 2001-02 Budget and the 2001-02 MYEFO.

Table 6: Reconciliation of 2001-02 Budget and MYEFO fiscal balance estimates^(a)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
2001-02 Budget fiscal balance	-834	-1,546	2,697	6,935
Per cent of GDP	-0.1	-0.2	0.3	0.8
<i>Changes between 2001-02 Budget and MYEFO</i>				
Effect of policy decisions(b)				
Revenue	-56	-67	-319	-275
Expenses	1,112	52	46	23
Net capital investment	506	-748	-160	-171
Total policy decisions	-1,674	630	-205	-127
Effect of parameter and other variations				
Revenue	1,923	1,421	468	-113
Expenses	2,605	1,734	2,320	2,994
Net capital investment	-118	61	28	30
Total parameter and other variations	-565	-374	-1,881	-3,137
2001-02 MYEFO fiscal balance	-3,073	-1,290	612	3,670
Per cent of GDP	-0.4	-0.2	0.1	0.4

(a) 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.

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

REVENUE

Relative to the 2001-02 Budget, total Commonwealth general government revenue has been revised up in all years other than 2004-05. This mainly reflects the flow-on effects of a stronger revenue base in 2000-01 and continued strength in collections to end-September 2001, partly offset from 2002-03 by the effects of weaker forecast nominal GDP growth. Forecast growth in nominal GDP in 2002-03 is around 0.9 percentage points lower than projected at Budget.

Policy measures since Budget have reduced estimated total revenue by around \$60 million in both 2001-02 and 2002-03, and by around \$300 million in 2003-04 and 2004-05. Significant policy measures announced since Budget include:

- amendments to the double taxation convention between Australia and the United States to provide for a modern and internationally competitive tax treaty network

for Australian located companies (with an estimated revenue cost of \$10 million in 2002-03, \$235 million in 2003-04 and \$190 million in 2004-05); and

- an air passenger ticket levy to fund a safety net for the entitlements of Ansett group employees (estimated to raise around \$70 million in 2001-02 and around \$100 million per annum from 2002-03).

All revenue policy decisions announced since the 2001-02 Budget are listed in Table 12 (Attachment B).

Table 7 presents a breakdown of Commonwealth general government revenue estimates into individual heads of revenue for the 2001-02 MYEFO, and compares these with the estimates published at the 2001-02 Budget.

Table 7: Revised 2001-02 general government revenue estimates

	2001-02			
	Budget Estimate \$m	MYEFO Estimate \$m	Change on Budget \$m	Change on Budget %
Taxation revenue				
Income tax				
Individuals(a)				
Gross PAYG withholding	78,502	79,000	498	0.6
Gross other individuals	15,560	15,510	-50	-0.3
less Refunds	11,248	10,700	-548	-4.9
Total individuals	82,815	83,810	995	1.2
Companies	27,209	27,085	-124	-0.5
Superannuation funds(b)	4,312	4,560	248	5.8
Other withholding tax(c)	1,487	1,980	493	33.2
Petroleum resource rent tax	1,430	1,450	20	1.4
Total income tax	117,252	118,885	1,633	1.4
Indirect tax(d)				
Excise duty				
Petroleum products and crude oil	12,590	12,590	0	0.0
Other excise	6,460	6,460	0	0.0
Total excise duty	19,050	19,050	0	0.0
Customs duty	4,885	4,885	0	0.0
Other indirect taxes(e)	810	740	-70	-8.6
Total indirect tax	24,745	24,675	-70	-0.3
Fringe benefits tax(f)	3,500	3,440	-60	-1.7
Agricultural levies	573	528	-45	-7.8
Other taxes	698	895	197	28.2
Total tax revenue	146,768	148,424	1,656	1.1
Non-tax revenue	12,072	12,283	211	1.7
Total revenue	158,840	160,706	1,867	1.2

(a) Includes Medicare levy revenue.

(b) Includes the superannuation contributions surcharge.

(c) Includes amounts withheld for failure to quote a Tax File Number (TFN) or an Australian Business Number (ABN).

(d) Indirect taxes exclude the Goods and Services Tax (GST) and surcharge revenue raised by the Commonwealth on an agency basis and paid to the States and Territories (the latter as Revenue Replacement Payments (RRPs)). The final RRP liability was collected and paid to the States in 2000-01.

(e) Includes wine equalisation tax, luxury car tax and final payments of wholesale sales tax (abolished on 1 July 2000).

(f) Excludes FBT collected from Commonwealth government agencies (estimated at \$280 million in 2001-02).

Relative to Budget, estimated total revenue in 2001-02 has increased by around \$1.9 billion. This increase is primarily attributable to a \$1.6 billion upward revision to income tax revenue. Higher income tax revenue largely reflects:

- a downward revision to the estimate of individuals' refunds by around \$550 million, reflecting substantially lower than expected refund payments to end-September 2001, a period over which nearly half of all refunds claimed are normally processed (this is partly offset by higher claims for Family Tax Benefit on the expenses side of the budget — see the expenses section below);
- an increase in the PAYG withholding estimate of around \$500 million, reflecting slightly stronger forecast wages growth in 2001-02 and some strength in collections to end-September 2001; and
- some large one-off payments of dividend withholding tax, unanticipated at Budget.

Other notable revisions to individual heads of revenue in 2001-02 include:

- a downward revision to estimated company tax revenue, reflecting a slightly weaker outlook for company profits, lower than expected company tax collections to end-September 2001 and stronger than expected refunds;
- an upward revision to estimated superannuation revenue, representing the flow-on effects of a higher than expected outcome in 2000-01 and continued strength in collections to end-September 2001, partly offset by slightly lower than expected fund earnings; and
- a downward revision to estimated customs duty cash receipts, representing the flow-on effects of a lower than expected outcome in 2000-01 and a weaker outlook for import demand. In accrual terms, this downward revision is offset by additional accrual revenue recognised in 2001-02 from the issuing of customs duty credits in relation to the Automotive Competitiveness and Investment Scheme. (Under accrual principles, the issuing of these tax credits gives rise to the recognition of an expense and an associated revenue.)

On a cash basis, estimated company tax revenue in 2001-02 has been revised down by around \$450 million, which significantly exceeds the accrual company tax revenue revision of around \$120 million. The difference is due to a lower than expected take-up of the deferral arrangements offered under the new PAYG system. This resulted in a higher cash outcome in 2000-01, with correspondingly lower receipts in later years, relative to expectations at Budget. The extent to which companies utilised the deferral option has no effect on accrual revenue.

Other taxes estimates have increased by around \$200 million in 2001-02 since the Budget, in part due to increased revenue from transport levies (including the air passenger ticket levy) and the superannuation guarantee charge.

EXPENSES

Estimated expenses in 2001-02 have increased by around \$3.7 billion since Budget. This increase reflects the combined effect of economic parameter variations, including the impact of higher than previously anticipated prices and wages growth in 2001-02, new policy measures, and a range of programme specific parameter and other variations. Several major variations to expenses involve the recognition of liabilities in 2001-02 without a corresponding impact on cash expenditure.

Table 8: Reconciliation of general government expenses estimates

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Expenses at 2001-02 Budget	160,875	166,813	173,117	178,959
<i>Changes between 2001-02 Budget and MYEFO</i>				
Effect of policy decisions(a)	1,112	52	46	23
Effect of economic parameter variations				
Unemployment benefits	-139	350	481	470
Prices and wages	627	570	724	798
Interest and exchange rates	311	134	151	193
Total economic parameter variations	799	1,054	1,356	1,461
Public debt interest	-2	-71	-68	-52
Programme specific parameter variations	983	863	1,079	1,524
Slippage	100	5	7	30
Other variations	726	-117	-53	31
Total variations	3,717	1,786	2,367	3,017
Expenses at 2001-02 MYEFO	164,592	168,599	175,484	181,975

(a) Excludes the public debt net interest effect of policy decisions.

Major new policy decisions announced since the Budget that affect expenses in 2001-02 include:

- the Special Employees Entitlements Scheme for Ansett Group employees, providing a safety net arrangement for the entitlements of Ansett employees. Provision for the Commonwealth's total potential liability is recognised as a \$468 million expense in 2001-02. However, the Commonwealth's total liability will be reduced to the extent that employee entitlements are paid by Ansett or Ansett group employees continue to remain employed by a restructured company. This measure has a minimal impact on the underlying cash balance (see the cash flow section below for more information);
- \$52 million of assistance to airline passengers and communities stranded by the cancellation of Ansett flights;
- the provision of \$108 million of additional funding to the Australian Taxation Office (ATO), principally due to the greater than anticipated number of Australian

Business Number registrations which has led to higher processing, client assistance and compliance assessment costs being incurred by the ATO; and

- \$103 million of additional expenditure in 2001-02 to address the flow of unauthorised arrivals to Australia.

Parameter and other variations have increased expenses by \$2.6 billion in 2001-02. The major variations in 2001-02 include:

- a \$500 million increase in the Commonwealth's nominal superannuation liability as a result of stronger than anticipated CPI inflation in 2001-02;
- an increase of \$115 million in estimated pension expenses due to an upward revision to the Male Total Average Weekly Earnings (MTAWE) parameter (reflecting the Government's ongoing commitment to maintain most pensions at 25 per cent of MTAWE);
- an increase in estimated Budget Balancing Assistance grants to the States and First Home Owners Scheme expenses of around \$615 million, mainly reflecting an increase in the Guaranteed Minimum Amount (GMA) primarily due to higher CPI forecasts,¹ and a greater than anticipated demand for housing;
- a \$300 million increase in Family Tax Benefit (FTB) expenses, as a result of more taxpayers claiming entitlements from Centrelink, rather than as refunds through the tax system. The impact on the fiscal balance of this increase in expenses is more than offset by an increase in taxation revenue arising from lower payments being claimed as tax refunds;
- a one-off increase in military superannuation expenses of \$140 million, reflecting an increase in the Commonwealth's military superannuation liability following the decision to index Commonwealth military superannuation pensions twice-yearly (rather than annually);
- increased veterans' hospital and disability expenses, of around \$120 million, relating to the need for more intensive health care for veterans as their population ages;
- the slippage into 2001-02 of expenses relating to a number of programmes, including: \$125 million of payments announced in the 2001-02 Budget to former detainees of the Japanese or their surviving widow/ers;² \$115 million of grants

1 The GMA provides that the States will not receive less than the amount they would have received under the previous arrangements for Commonwealth-State relations, indexed for various factors including the change in CPI.

2 The slippage of this payment is less than was reported in the *Final Budget Outcome 2000-01* due to a minor downward revision to total estimated payments under this programme.

under the Roads to Recovery programme; and \$45 million of grants for the Alice Springs to Darwin rail link project; and

- the recognition of the Commonwealth's liability in relation to the Automotive Competitiveness and Investment Credit Scheme as an expense of around \$300 million, largely matched by an equivalent increase in revenue.

These variations are partially offset in 2001-02 by:

- a downward economic parameter revision of \$139 million to estimated Newstart and Youth Allowance expenses due to a reduction in the expected number of unemployment benefit recipients in 2001-02; and
- the scheduled reductions to contingency reserve expenses estimates following the inclusion of the provision for underspends³ in 2001-02 and the regular drawdown of the conservative bias allowance⁴ in each year from 2002-03.

NET CAPITAL INVESTMENT

Estimated net capital investment in 2001-02 has increased by \$388 million since the 2001-02 Budget. This increase largely reflects the rescheduling of some Defence property sales from 2001-02 to 2002-03 (proceeds from the sale of non-financial assets, including property, reduce net capital investment).

The decrease in net capital investment from 2002-03 largely reflects increased property sales, including an acceleration of the Defence Housing Authority's (DHA) sale of excess properties and sale and lease back programmes.

3 Each year at the MYEFO, an allowance for underspends is included in the contingency reserve for the established tendency of departments and agencies to underspend their budgets in the current financial year.

4 The forward estimates include an allowance for the established tendency for spending on existing government policy (particularly demand driven programmes) to be higher than estimated in the forward years. This allowance, known as the conservative bias allowance, is gradually reduced so that the budget year conservative bias allowance is zero.

Table 9: Reconciliation of general government net capital investment estimates^(a)

	2001-02 \$m	2002-03 \$m	2003-04 \$m	2004-05 \$m
Change in non-financial assets at 2001-02 Budget	-1201	-364	-266	-236
<i>Changes between 2001-02 Budget and MYEFO</i>				
Effect of policy decisions	506	-748	-160	-171
Effect of economic parameter and other variations	-118	61	28	30
Total variations	388	-687	-132	-141
Change in non-financial assets at 2001-02 MYEFO	-812	-1051	-398	-377

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

NET DEBT AND NET WORTH

In 2001-02, Commonwealth general government net debt is estimated to fall to 5.1 per cent of GDP, from a high of almost 20 per cent of GDP in 1995-96. In dollar terms, around \$60 billion of debt will have been repaid since 1995-96, reflecting the combined effect of budget surpluses and the proceeds of privatisations, predominantly Telstra.

Estimated net debt at the end of 2001-02 is \$2.2 billion better than forecast at the 2001-02 Budget, reflecting higher debt repayments as a result of the 2000-01 budget outcome. Net debt is expected to fall further through the forward estimates period.

Consistent with the reduction in net debt, net interest outlays are expected to continue to fall, to 0.6 per cent of GDP in 2001-02 from a high of 1.6 per cent of GDP in 1996-97.

Table 10: Commonwealth general government net worth and net debt (\$b)

	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Financial assets	100.8	91.8	100.5	91.3
Non-financial assets	30.7	33.9	30.9	33.4
Total assets	131.5	125.8	131.4	124.8
Total liabilities	165.4	168.9	166.7	169.6
Net worth	-33.9	-43.1	-35.4	-44.8
Net debt(a)(b)	37.7	35.5	36.6	34.2
Per cent of GDP	5.4	5.1	4.9	4.6
Net interest outlays(c)	4.5	4.4	4.2	4.1
Per cent of GDP	0.6	0.6	0.6	0.6
	2003-04		2004-05	
	Budget	MYEFO	Budget	MYEFO
Financial assets	85.8	79.3	71.8	68.5
Non-financial assets	31.0	33.4	31.1	33.2
Total assets	116.8	112.7	102.9	101.7
Total liabilities	150.1	157.3	130.0	143.2
Net worth	-33.3	-44.6	-27.1	-41.5
Net debt(a)(b)	17.9	20.1	-4.7	3.4
Per cent of GDP	2.3	2.6	-0.6	0.4
Net interest outlays(c)	3.7	3.7	2.6	2.9
Per cent of GDP	0.5	0.5	0.3	0.4

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

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

(c) Commonwealth cash interest payments less cash interest receipts.

Estimated Commonwealth general government net worth in 2001-02 has fallen by \$9.2 billion since the Budget. This reflects both a fall in the Telstra share price, reducing the market value of the Commonwealth's shareholding, and revisions to the forecast accrual operating deficit in 2001-02.

CASH FLOWS

In 2001-02, the underlying cash balance is expected to be a surplus of \$0.5 billion.

Table 11: Summary of Commonwealth general government cash flows (\$b)

	2001-02		2002-03	
	Budget	MYEFO	Budget	MYEFO
Cash receipts(a)				
Operating cash receipts	161.1	162.3	167.2	167.7
Capital cash receipts(b)	1.7	1.1	0.7	1.5
Total cash receipts	162.8	163.4	167.9	169.2
Cash payments(a)				
Operating cash payments	159.6	160.9	165.0	166.3
Capital cash payments(c)	1.8	2.0	1.8	2.0
Total cash payments	161.4	163.0	166.8	168.3
<i>plus</i> Finance leases and similar arrangements	0.1	0.1	0.0	0.1
Underlying cash balance	1.5	0.5	1.1	1.0
Per cent of GDP	0.2	0.1	0.1	0.1
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(d)	3.2	3.1	-1.1	-1.2
Headline cash balance	4.7	3.6	-0.1	-0.2
	2003-04		2004-05	
	Budget	MYEFO	Budget	MYEFO
Cash receipts(a)				
Operating cash receipts	176.8	176.3	186.8	185.8
Capital cash receipts(b)	0.7	0.9	0.6	0.7
Total cash receipts	177.5	177.1	187.4	186.5
Cash payments(a)				
Operating cash payments	171.7	173.7	178.3	181.0
Capital cash payments(c)	1.7	1.7	1.6	1.6
Total cash payments	173.4	175.4	180.0	182.7
<i>plus</i> Finance leases and similar arrangements	0.0	0.0	0.0	0.0
Underlying cash balance	4.1	1.8	7.4	3.9
Per cent of GDP	0.5	0.2	0.9	0.5
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(d)	13.5	10.9	13.3	10.7
Headline cash balance	17.6	12.6	20.7	14.6

(a) Cash receipts and payments are derived from the accrual Australian Bureau of Statistics (ABS) GFS framework.

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

(c) Equivalent to cash payments for purchases of new and second-hand non-financial assets in the GFS cash flow statement.

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

The difference in the revision to the fiscal balance, as compared to the cash balance, primarily results from the following.

- The impact of higher CPI forecasts on the Commonwealth's nominal superannuation interest expense leads to an increase in estimated accrual expenses of around \$500 million, with no impact on cash payments.
- The one-off increase in military superannuation expenses of \$140 million flowing from the introduction of twice-yearly indexation of Commonwealth military superannuation pensions has no impact on cash payments.
- The Commonwealth's total potential liability under the Special Employee Entitlements Scheme for Ansett Group Employees (SEESA) is recognised as an expense in 2001-02, reducing the fiscal balance by \$468 million in that year. However, initial financing for the scheme will be provided by a private sector firm to ensure that former employees are paid promptly, with cash payments being made by the Commonwealth as the Air Passenger Ticket Levy is collected. Consequently, this measure will have a minimal net impact on the underlying cash balance in 2001-02 and the forward years.
- The slippage from 2000-01 into 2001-02 of \$160 million of expenses under the Roads to Recovery programme and the Alice Springs to Darwin rail link project, as identified in the *Final Budget Outcome 2000-01*, are accrual variations only. The corresponding cash prepayments were made in 2000-01 as previously scheduled.