Part I: Commonwealth Budget Outcome

OVERVIEW

In 2001-02 the Commonwealth general government sector recorded a small underlying cash deficit of $1.3 billion, or 0.2 per cent of GDP. This was $0.1 billion greater than estimated at the time the 2002-03 Budget was brought down. The accrual fiscal deficit of $3.7 billion (0.5 per cent of GDP) was $0.7 billion larger than estimated at the 2002-03 Budget.

Commonwealth net debt declined by a further $3.7 billion in 2001-02. This represents the fifth consecutive year that Commonwealth net debt has been reduced.

Table 1: Commonwealth general government sector budget aggregates[(a)]

	2000-01 Outcome	2001-02 Estimate at 2001-02 Budget	2001-02 Estimate at 2002-03 Budget	2001-02 Outcome
Revenue ($b)	**161.5**	**158.8**	**163.2**	**162.4**
Per cent of GDP	24.0	22.6	23.0	22.7
Expenses ($b)	**156.8**	**160.9**	**166.8**	**166.5**
Per cent of GDP	23.3	22.9	23.5	23.3
Net operating balance ($b)	4.7	-2.0	-3.6	-4.1
Net capital investment ($b)	-1.2	-1.2	-0.5	-0.4
Fiscal balance ($b)	**5.9**	**-0.8**	**-3.0**	**-3.7**
Per cent of GDP	0.9	-0.1	-0.4	-0.5
Underlying cash balance ($b)	**5.6**	**1.5**	**-1.2**	**-1.3**
Per cent of GDP	0.8	0.2	-0.2	-0.2
Memorandum item:				
Headline cash balance ($b)	11.3	4.7	-1.8	2.2

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

In relation to revenue, total cash receipts were around $1.5 billion lower than expected at the 2002-03 Budget. This was predominantly due to lower than expected income tax withholding receipts, indicating more subdued underlying wages growth than anticipated at Budget. Total accrual revenue was $0.8 billion below the 2002-03 Budget estimates.

On the expenditure side, total cash payments were $1.4 billion lower than anticipated at the 2002-03 Budget, partly reflecting some slippage of defence expenditure and lower than expected spending on various personal benefit payments (including lower unemployment benefit payments) and a number of health programmes.

In contrast to cash expenditure, accrual expenses were only $0.3 billion lower than expected at the 2002-03 Budget. The smaller reduction was partly due to the recognition in accrual terms of the Commonwealth's liabilities associated with measures to address disruption in the medical indemnity industry. The Prime Minister announced these measures following the Budget, in late May 2002. The associated liabilities, which are estimated to total up to $0.5 billion, will be funded by a future levy on medical practitioners.

Commonwealth general government sector net debt fell by $3.7 billion in 2001-02 to $35.6 billion (5.0 per cent of GDP). This reduction was $3.3 billion larger than anticipated at the 2002-03 Budget, primarily because of the full receipt of cash proceeds from the sale of Sydney Airport Corporation Limited in 2001-02 instead of 2002-03.

REVENUE

In underlying terms, total Commonwealth accrual revenue in 2001-02 was around $8 billion (5 per cent) higher than for 2000-01.[1] This outcome compares with nominal GDP growth over the year of 6.5 per cent.

However, the 2001-02 total Commonwealth accrual revenue outcome of $162.4 billion was around $800 million below the 2002-03 Budget estimate. There are several factors, which explain the lower than expected outcome for 2001-02.

- Gross income tax withholding was $1,118 million (or 1.4 per cent) lower than expected at Budget. This appears to be more in line with the subdued increase in the Wage Cost Index for 2001-02 than the National Accounts measure of compensation of employees, which showed relatively strong growth over the year.

- Company tax revenue was $347 million (or 1.3 per cent) lower than estimated at Budget.

- Taxation refunds to individuals were $287 million higher than expected at Budget, reducing overall revenue by a corresponding amount.

- Superannuation funds revenue was $109 million lower than expected, largely due to higher than expected refunds paid in May and June.

These lower than expected outcomes were partly offset by higher outcomes in other heads of revenue.

- Gross other individuals revenue was $511 million above the Budget estimate.

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1 The 2000-01 accrual revenue outcome included around $8 billion due to an overlap of revenue recognised under the old company instalment system and the new Pay As You Go system. Companies and superannuation funds were able to defer much of this overlap. More information is provided on page 5-7 of the *Budget Strategy and Outlook 2002-03, Budget Paper No. 1.*

- Customs duty was $210 million above the Budget estimate, reflecting higher than expected issuance of Automotive Competitiveness and Investment Scheme (ACIS) credits.[2]

- Excise duty was $130 million higher than expected due to stronger than expected collections of excise from the sale of diesel, unleaded petrol, tobacco and crude oil.

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2 ACIS credits are issued to exporters of Australian automotive products and may be used to offset future customs duty on imports. Under accrual accounting, an expense is recognised when the ACIS credits are issued and revenue is recognised at the time that they are redeemed. In 2001-02, the higher customs duty is largely offset by higher expenses arising from the issuance of ACIS credits.

Table 2: Commonwealth general government revenue (accrual basis)

	2001-02 Estimate at 2002-03 Budget $m	2001-02 Outcome $m
Taxation revenue		
Income tax		
Individuals and other withholding(a)		
Gross income tax withholding(b)	80,940	79,822
Gross other individuals	16,725	17,237
less Refunds	10,350	10,637
Total Individuals and other withholding	87,315	86,422
Companies	27,480	27,133
Superannuation funds		
Contributions and earnings	3,460	3,341
Surcharge	820	830
Total Superannuation funds	4,280	4,171
Petroleum resource rent tax	1,360	1,306
Total income tax	**120,435**	**119,032**
Indirect tax		
Excise duty		
Petroleum products and crude oil	12,690	12,793
Other excise	6,810	6,837
Total excise duty	19,500	19,630
Customs duty	5,004	5,214
Other indirect taxes(c)	760	791
Total indirect tax	**25,264**	**25,634**
Fringe benefits tax(d)	3,630	3,675
Agricultural levies and other taxes	1,426	1,506
Total tax revenue	**150,756**	**149,848**
Non-tax revenue	**12,406**	**12,540**
Total revenue	**163,161**	**162,388**

(a) Includes Medicare levy revenue of $4,970 million.
(b) Includes Pay As You Go (Withholding) and other withholding. Other withholding includes amounts withheld for failure to quote a Tax File Number or an Australian Business Number, interest, dividends and royalty payments to non-residents, and payments to aboriginal groups for the use of land for mineral exploration and mining.
(c) Includes the wine equalisation tax, luxury car tax and the final wholesale sales tax liability.
(d) Consistent with Government Finance Statistics (GFS) reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies ($360 million in 2001-02).

EXPENSES

Total accrual expenses were $166.5 billion in 2001-02, a reduction of $274 million from the estimate provided in the 2002-03 Budget. This reduction is largely the result of:

- slippage of around $450 million in acquisitions of defence specialist military equipment;
- lower personal benefit expenses of $422 million, partly reflecting lower than forecast final customer numbers across a number of programmes including Newstart Allowance and Parenting payments;
- lower notional interest superannuation expenses largely due to lower than expected earnings rates for public non-financial corporation superannuation schemes ($233 million); and
- lower personal benefit expenses of $224 million in part due to lower than forecast Pharmaceutical Benefits Scheme (PBS) demand for the recently listed COX2 group of anti-arthritis drugs (such as Celebrex) and the anti-smoking drug Zyban, and the impact on the PBS of lower than anticipated uptake of the Commonwealth Seniors Health Card. Over 2001-02 PBS expenses grew by around $400 million.

These lower expenses were partly offset by:

- an increase in the amount of general budget assistance paid to the States and Territories ($549 million) largely due to final GST collections being $532 million lower than expected at Budget. The lower GST outcome partly reflects higher than anticipated payments of cash refunds by the ATO in 2001-02; and
- a $501 million expense relating to the Commonwealth's commitment to assume liability for all currently unfunded incurred but not yet reported liabilities (IBNRs) of Medical Defence Organisations (MDOs). This commitment was announced by the Government subsequent to the 2002-03 Budget.[3]

3 The IBNR scheme was announced by the Prime Minister on 31 May 2002. The $501 million estimated expense represents a preliminary estimate of the liability in relation to the largest MDO, UMP/AMIL. The estimate is based on the information available from a report provided by the provisional liquidator of UMP/AMIL to the Supreme Court of New South Wales on 29 August 2002. It represents the upper figure of a range nominated by the report for the estimated liability. It should be noted that the estimate may include some incidents that are not intended to be covered by the Commonwealth's proposed IBNR scheme, and is subject to future revision following further actuarial analysis. Payments by the Commonwealth relating to this liability are expected to commence from 2002-03. The liability is to be funded by a future levy on medical practitioners.

Table 3: Commonwealth general government expenses by function

	2001-02 Estimate at 2002-03 Budget $m	2001-02 Outcome $m
General public services		
Legislative and executive affairs	846	778
Financial and fiscal affairs	3,101	3,567
Foreign affairs and economic aid	2,093	2,151
General research	1,674	1,698
General services	399	550
Government superannuation benefits	1,789	1,497
Defence	12,232	12,017
Public order and safety	1,859	1,856
Education	11,692	11,761
Health	27,461	27,614
Social security and welfare	69,637	69,081
Housing and community amenities	2,206	2,210
Recreation and culture	2,042	2,036
Fuel and energy	3,193	3,052
Agriculture, forestry and fishing	1,797	1,691
Mining and mineral resources (other than fuels), manufacturing and construction	1,505	1,686
Transport and communications	2,872	2,647
Other economic affairs		
Tourism and area promotion	159	142
Labour and employment affairs	3,441	3,243
Other economic affairs	529	513
Other purposes		
Public debt interest	4,984	4,995
Nominal superannuation interest	5,239	4,987
General purpose intergovernmental transactions	5,993	6,561
Natural disaster relief	108	87
Contingency reserve	-141	0
Asset sales	48	64
Total GFS expenses	**166,756**	**166,482**

NET CAPITAL INVESTMENT

Net capital investment was $181 million higher than estimated at the 2002-03 Budget, largely due to higher than budgeted Defence inventory purchases to maintain stock levels needed for increased capability for overseas deployments in 2001-02 ($293 million).

This is partially offset by:

- delays in the construction of a replacement nuclear reactor at Lucas Heights due to the requirement to carry out geological investigations ($64 million); and
- delays in the construction of an immigration reception and processing centre on Christmas Island ($75 million).

Table 4: Commonwealth general government net capital investment by function

	2001-02 Estimate at 2002-03 Budget $m	2001-02 Outcome $m
General public services	-157	-258
Defence	-384	-41
Public order and safety	46	44
Education	-2	13
Health	47	20
Social security and welfare	69	49
Housing and community amenities	-239	-274
Recreation and Culture	-66	-33
Fuel and energy	0	13
Agriculture, forestry and fishing	2	2
Mining and mineral resources (other than fuels), manufacturing and construction	3	5
Transport and communications	20	14
Other economic affairs	139	93
Other purposes	-28	-14
Net capital investment	**-550**	**-369**

NET DEBT AND NET WORTH

The level of Commonwealth general government net debt fell to $35.6 billion at the end of 2001-02. Since 1996-97, $60.7 billion of net debt has been repaid. The fall in net debt in 2001-02 was $3.3 billion greater than estimated at the 2002-03 Budget, mainly reflecting the earlier than expected full receipt of proceeds from the sale of Sydney Airport Corporation Limited in late June 2002. Net debt fell to 5 per cent of GDP in 2001-02 compared with a high of over 19 per cent in 1995-96.

Commonwealth general government net worth fell from -$41.2 billion in 2000-01 to -$47.0 billion in 2001-02. This reduction was due mainly to a fall in the Telstra share price over the year to 30 June 2002, reducing the market value of the Commonwealth's shareholding.

Net interest payments in 2001-02 were higher than anticipated at the 2002-03 Budget. This partly reflects higher than anticipated interest payments by the ATO on overpaid taxation and lower than expected earnings on Commonwealth investments. The greater than expected fall in net debt did not have a large impact on net interest payments as it occurred late in the financial year.

Table 5: Commonwealth general government net worth, net debt and net interest payments

	2001-02 Estimate at 2002-03 Budget $b	2001-02 Outcome $b
Financial assets	105.2	98.8
Non-financial assets	33.6	35.6
Total assets	**138.8**	**134.5**
Total liabilities	**181.3**	**181.5**
GFS net worth	**-42.5**	**-47.0**
Net debt(a)	**38.8**	**35.6**
Per cent of GDP	5.5	5.0
Net interest payments(b)	**4.2**	**4.4**
Per cent of GDP	0.6	0.6

(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) Commonwealth cash interest payments less cash interest receipts.

CASH FLOWS

The 2001-02 underlying cash balance was a deficit of $1.3 billion, $0.1 billion higher than estimated at the 2002-03 Budget. This balance was the result of lower than anticipated cash receipts ($1.5 billion), which more than offset the lower than estimated cash payments ($1.4 billion).

Table 6: Summary of Commonwealth general government cash flows[(a)]

	2001-02 Estimate at 2002-03 Budget $b	2001-02 Outcome $b
Cash receipts		
Operating cash receipts	163.1	161.6
Capital cash receipts(b)	0.9	0.9
Total cash receipts	164.0	162.5
Cash payments		
Operating cash payments	163.0	161.8
Capital cash payments(c)	2.3	2.1
Total cash payments	165.3	163.9
Finance leases and similar arrangements(d)	0.1	0.1
Underlying cash balance	**-1.2**	**-1.3**
Per cent of GDP	-0.2	-0.2
Memorandum items:		
Net cash flows from investments in financial assets for policy purposes(e)		
Major asset sales	0.6	4.5
less Other net advances paid	-1.2	-1.1
Headline cash balance	**-1.8**	**2.2**

(a) Cash flows are derived from the accrual GFS framework excluding GST.
(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) The acquisition of assets under finance leases reduces the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(e) Under the cash budgeting framework, these cash flows were referred to as 'net advances'.

Total Commonwealth cash receipts were $162.5 billion in 2001-02, around $1.5 billion lower than estimated at the 2002-03 Budget, compared with the accrual revenue outcome which was around $800 million lower than the Budget estimate.[4] This divergence between the cash and accrual outcomes largely represents the difference between when accrual taxation revenue is recognised (such as by the issue of an assessment) and when it is paid. For example, accrual revenue from gross other individuals (mostly small business) was $511 million higher than anticipated at Budget, but only $75 million of this increase was paid in 2001-02.

The shortfall in cash against Budget expectations reflects:

- lower than expected collections of gross income tax withholding (ITW) ($1,307 million);
- higher individuals refunds than estimated in the 2002-03 Budget ($287 million);
- lower than expected fringe benefits tax collections ($138 million); and

4 Commonwealth cash receipts on a revenue head basis are provided in Table C3.

- lower than expected collections from superannuation funds ($87 million), due to higher than anticipated refunds in the June quarter 2002.

These outcomes were partly offset by higher than expected collections from company tax ($130 million), excise duty ($116 million) and gross other individuals ($75 million).

Total Commonwealth cash payments were $163.9 billion in 2001-02, $1.4 billion lower than estimated at the 2002-03 Budget. This compares with lower than expected accrual expenses and net capital investment of $0.1 billion. While many of the differences in expenses from Budget were also reflected in similar cash differences, there were some major areas where the cash and accrual outcomes diverged. These largely explain why the shortfall in cash payments was greater than the corresponding accrual shortfall. They include:

- recognition of a $501 million expense relating to the Commonwealth's assumption of unfunded IBNR liabilities of Medical Defence Organisations (cash payments under the IBNR scheme are not expected to occur until 2002-03);

- the shortfall in cash payments by Defence relative to expectations at Budget was $250 million greater than the shortfall in expenses. This largely reflects timing issues between the recognition and payment of suppliers;

- higher subsidy expenses reflecting higher than expected issuance of ACIS credits ($182 million). ACIS credits are used by exporters of Australian automotive products to pay customs duty and have no associated cash effects; and

- lower than expected lump sum civilian superannuation cash payments for CSS and PSS members, reflecting changing composition of member benefits, including a reduced impact from public sector redundancies ($120 million).

The 2001-02 headline cash balance was a surplus of $2.2 billion, $4.0 billion greater than estimated at the 2002-03 Budget. The higher than anticipated outcome was primarily the result of the full proceeds from the sale of Sydney Airport Corporation Limited being received in 2001-02 instead of 2002-03.

EXTERNAL REPORTING STANDARDS

The Commonwealth *Charter of Budget Honesty Act 1998* requires that the Final Budget Outcome be based on external reporting standards, and that departures from applicable external reporting standards be identified.

The major external standards used in the Final Budget Outcome are the Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework and Australian accounting standards, including *Australian Accounting Standard No. 31 Financial Reporting by Governments* (AAS31).

The GFS framework requires that flows and stocks are valued at current market prices (or where these are not observable, a suitable proxy indicator). While this is the case for flows in the operating statement and the cash flow statement, not all assets and liabilities in the GFS balance sheet are currently valued at current market prices. This is principally because Australian accounting standards allow reporting entities to elect to value their assets at either cost or fair value (current market value). The accounting profession is considering general valuation issues relating to liabilities. In addition, the early years of accrual budgeting have focussed on preparing robust GFS operating and cash flow statements. Refinements to the GFS balance sheet valuations of assets and liabilities will be considered over time, in consultation with the ABS, as the new framework is bedded down.

The draft ABS GFS publication (*Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0) requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Commonwealth assets in the balance sheet (and would therefore be inconsistent with the market valuation principle).

The Commonwealth revenue and expenses outcomes in Parts I and III and Appendices B and C do not include goods and services tax (GST) collections and equivalent payments to the States. Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (the IGA), all GST receipts are appropriated to the States and Territories and thus are not available for expenditure by the Commonwealth. Because the Commonwealth collects GST as an agent for the States and Territories, GST receipts are not shown as Commonwealth revenue. GST cash receipts are provided in Note 15 of Part III.

In order to ensure the reporting of reliable budget estimates and outcomes, taxation revenue is recognised the earlier of when an assessment of a tax liability is made or cash payment is received by the Australian Tax Office or the Australian Customs Service. Accordingly, for most categories of taxation revenue, there is a short lag between when the revenue is recognised and the time at which the underlying income (or economic activity) giving rise to the tax liability occurs. Longer lags, of up to a year, occur for some elements of company and superannuation funds taxation.

Additional information on the external reporting standards and budget concepts is provided in Appendix A.