

Part III: Fiscal outlook

OVERVIEW

The Commonwealth's underlying cash balance for 2002-03 remains unchanged from Budget, with an underlying cash surplus of \$2.1 billion expected in 2002-03. The underlying cash balance is expected to remain in surplus over the forward estimates period.

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

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	169.6	169.6	179.6	180.1
Per cent of GDP	22.6	22.5	22.6	22.6
Expenses (\$b)	170.2	170.7	177.6	177.2
Per cent of GDP	22.7	22.6	22.3	22.2
Net operating balance (\$b)	-0.5	-1.0	2.0	2.9
Net capital investment (\$b)	-0.7	-0.5	-0.6	-0.5
Fiscal balance (\$b)	0.2	-0.5	2.6	3.4
Per cent of GDP	0.0	-0.1	0.3	0.4
Underlying cash balance (\$b)	2.1	2.1	3.7	4.9
Per cent of GDP	0.3	0.3	0.5	0.6
<i>Memorandum item:</i>				
Headline cash balance (\$b)	4.6	1.7	14.5	4.0

	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Revenue (\$b)	189.4	188.8	199.3	198.1
Per cent of GDP	22.5	22.4	22.3	22.3
Expenses (\$b)	184.9	185.2	192.0	192.7
Per cent of GDP	21.9	22.0	21.5	21.7
Net operating balance (\$b)	4.5	3.6	7.3	5.4
Net capital investment (\$b)	-0.5	-0.5	-0.4	-0.4
Fiscal balance (\$b)	5.0	4.2	7.7	5.8
Per cent of GDP	0.6	0.5	0.9	0.7
Underlying cash balance (\$b)	4.6	4.2	7.1	5.4
Per cent of GDP	0.6	0.5	0.8	0.6
<i>Memorandum item:</i>				
Headline cash balance (\$b)	15.4	14.5	18.1	15.9

(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.

In accrual terms, the fiscal balance is now expected to record a small deficit in 2002-03, returning to surplus in 2003-04 and for each of the forward years.

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The \$0.7 billion reduction in the estimated 2002-03 fiscal balance since Budget is due to the net impact of new policy decisions of \$397 million and parameter and other variations of \$333 million. Major new policy decisions since Budget include support for Australian victims of the Bali terrorist attacks and their immediate families; enhancements to Australia's security following the Bali attacks; assistance to the medical indemnity insurance industry; an immunisation programme against the Meningococcal C virus; and assistance to facilitate structural adjustment by the sugar industry.

Table 6 provides a reconciliation of the fiscal balance estimates between the 2002-03 Budget and the 2002-03 MYEFO.

Table 6: Reconciliation of general government fiscal balance estimates^(a)

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
2002-03 Budget fiscal balance	180	2,611	5,037	7,676
Per cent of GDP	0.0	0.3	0.6	0.9
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions ^(b)				
Revenue	93	181	192	245
Expenses	464	393	449	498
Net capital investment	26	11	0	-7
Total policy decisions	-397	-224	-256	-246
Effect of parameter and other variations				
Revenue	-116	350	-791	-1485
Expenses	11	-794	-177	149
Net capital investment	206	154	-8	0
Total parameter and other variations	-333	990	-605	-1634
2002-03 MYEFO fiscal balance	-548	3,377	4,176	5,797
Per cent of GDP	-0.1	0.4	0.5	0.7

(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

Total Commonwealth general government revenue is expected to be \$169.6 billion in 2002-03, remaining unchanged from 2002-03 Budget expectations. However, the composition of revenue has changed. In particular, gross income tax withholding has been revised downward by \$1.3 billion, mainly reflecting the flow-on effects from the lower than expected outcome in 2001-02. This has been offset by higher expected company revenue and gross other individuals revenue (\$840 million and \$779 million respectively), reflecting strong collections in the year to date.

Policy decisions since Budget have increased revenue by \$93 million in 2002-03 and \$181 million in 2003-04. All revenue policy decisions announced since the 2002-03 Budget are listed at Appendix A.

Detailed Commonwealth general government revenue estimates for 2002-03, compared with the estimates published in the 2002-03 Budget, are provided in Table 7. Detailed cash estimates are listed in Table F3 (Appendix F).

Table 7: Commonwealth general government revenue (accrual basis)

	2002-03			
	Budget estimate \$m	MYEFO estimate \$m	Change on Budget \$m	Change on Budget %
Taxation revenue				
Income tax				
Individuals and other withholding tax(a)				
Gross income tax withholding(b)	86,950	85,680	-1,270	-1.5
Gross other individuals	16,651	17,430	779	4.7
less Refunds	10,570	11,130	560	5.3
Total individuals and other withholding tax	93,031	91,980	-1,051	-1.1
Companies	28,400	29,240	840	3.0
Superannuation funds				
Contributions and earnings	3,840	3,630	-210	-5.5
Superannuation surcharge	820	850	30	3.7
Total superannuation funds	4,660	4,480	-180	-3.9
Petroleum resource rent tax	1,520	1,650	130	8.6
Total income tax	127,611	127,350	-261	-0.2
Indirect tax				
Excise duty				
Petroleum products and crude oil	12,840	13,100	260	2.0
Other excise	6,910	7,060	150	2.2
Total excise duty	19,750	20,160	410	2.1
Customs duty	5,094	5,330	237	4.6
Other indirect taxes(c)	870	810	-60	-6.9
Total indirect tax	25,714	26,300	587	2.3
Fringe benefits tax(d)	3,640	3,360	-280	-7.7
Agricultural levies and other taxes	1,508	1,517	9	0.6
Total tax revenue	158,473	158,528	55	0.0
Non-tax revenue	11,173	11,096	-78	-0.7
Total revenue	169,646	169,623	-23	0.0

(a) Includes Medicare levy revenue.

(b) Includes Pay As You Go (Withholding) and other withholding. Other withholding was previously reported under company and other income tax, and includes amounts withheld for failure to quote a Tax File Number or an Australian Business Number, taxes withheld from 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 wholesale sales tax liability (abolished on 1 July 2000).

(d) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Commonwealth government agencies (estimated at \$380 million in 2002-03).

In 2002-03, gross income tax withholding is expected to be \$1.3 billion lower than anticipated at Budget, reflecting the lower than expected outcome for 2001-02. From 2003-04, the continuing negative impact of the 2001-02 outcome is expected to be offset by higher wages growth than was anticipated at Budget.

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Individuals refunds are expected to be around \$560 million higher than forecast at the 2002-03 Budget, reflecting higher than anticipated refunds paid in the year to date. The strength in refunds is a result of an increase in the average size of refunds paid in 2002-03 and higher than expected levels of prior year refunds.

Taxation revenue from superannuation contributions and earnings has been revised down by \$210 million, reflecting both the flow-on effects from weakness observed in fund earnings in 2001-02 and anticipated continued weakness in fund earnings in 2002-03.

Fringe benefits tax has been revised downward by \$280 million reflecting weaker than expected collections in the year to date.

However, other heads of revenue have been revised up since the 2002-03 Budget, offsetting these changes.

- Company revenue is expected to be \$840 million higher than at Budget, largely reflecting strong collections in the year to date. The strength in these collections partly relates to economic activity in 2001-02 — due to lags between when profits are earned and tax is paid or assessed. This strength in collections is also consistent with the continuing growth in the non-farm economy in 2002-03.
- Gross other individuals revenue has been revised upward by around \$780 million, largely reflecting tax receipts related to the stronger than expected underlying growth in incomes for 2001-02. This strength is expected to be partly offset by the negative impact of the drought in 2002-03, which is anticipated to reduce economic activity by around $\frac{3}{4}$ percentage points and result in lower revenue than otherwise. In 2003-04, gross other individuals revenue has been revised up by \$550 million reflecting the flow-on base effect of recent strong underlying growth in incomes, partly offset by the negative, but moderating, effects of the drought and weaker expected growth in dwellings activity.
- Excise duty has been revised upward by \$410 million reflecting a higher outcome in 2001-02 than anticipated at Budget as well as strong collections of both tobacco and crude oil excise in the year to date.
- Profitable trading conditions and strong collections in the year to date have lead to an upward revision of \$130 million to petroleum resource rent tax.

EXPENSES

Estimated expenses in 2002-03 have increased by \$475 million since Budget. This increase reflects the combined effect of new policy measures, economic parameter variations and the slippage of 2002-03 Budget measures.

Table 8: Reconciliation of general government expense estimates

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Expenses at 2002-03 Budget	170,192	177,578	184,889	192,035
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions(a)	464	393	449	498
Effect of economic parameter variations				
Unemployment benefits	-159	-62	86	735
Prices and wages	158	217	50	208
Interest and exchange rates	65	42	9	-2
Total economic parameter variations	63	197	145	942
Public debt interest	-69	-155	-207	-304
Programme specific parameter variations	-84	-164	228	207
Slippage	153	0	1	0
Other variations	-52	-672	-344	-696
Total variations	475	-401	271	647
Expenses at 2002-03 MYEFO	170,666	177,177	185,160	192,681

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

Major new policy decisions announced since the 2002-03 Budget that affect forecast expenses include the provision of:

- \$291 million over four years (\$119 million in 2002-03) for an immunisation programme against the Meningococcal C virus. The programme will provide funding for the immunisation of children aged between 12 months and 19 years;
- \$246 million over four years (\$55 million in 2002-03) to implement the Government's package of measures for providing assistance to doctors and the medical indemnity insurance industry. The package is aimed at ensuring key private medical services, including in rural and regional areas, are maintained and provides a new framework for the provision of medical indemnity insurance in Australia;
- up to \$120 million over four years (up to \$37 million in 2002-03) for the Sugar Package to assist the sugar industry to restructure and ensure its long-term sustainability. This measure will be funded by a temporary levy on all sugar sold in Australia for domestic consumption;
- \$103 million over four years (\$27 million in 2002-03) following the Bali terrorist attacks. The Government has allocated funding for the provision of a wide range of support measures for Australian victims of the Bali terrorist attacks and their immediate families and to further enhance Australia's capability to respond to the threat of terrorism; and
- \$250 million over four years (\$20 million in 2002-03) for the extended listing on the Pharmaceutical Benefits Scheme of Glivec, a drug used in the treatment of Chronic Myeloid Leukaemia (CML), to eligible patients in the chronic stage of the

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disease, and the listing of Singulair and Spiriva, from 1 February 2003, for the treatment of asthma in children and Chronic Obstructive Pulmonary Disease respectively.

A full list of expense measures since the 2002-03 Budget is provided at Appendix A.

Since the 2002-03 Budget, parameter and other variations have increased forecast expenses in 2002-03 by \$11 million largely due to:

- a \$158 million increase in expenses indexed to prices and wages, mainly Defence related expenses reflecting higher forecast growth in the non-farm GDP deflator;
- a \$152 million increase in expenses arising from a legislative delay by the Senate in passing proposed increases in Pharmaceutical Benefits Scheme co-payments, announced in the 2002-03 Budget. The increases were expected to occur from 1 August 2002, but are now scheduled to take effect on 1 January 2003;
- \$141 million in programme rescheduling from 2001-02, including in the Workplace Reform Package (\$25 million), Networking the Nation (\$22 million) and a delay in donor countries reaching agreement on replenishment of the International Development Association and the Heavily Indebted Poor Countries Initiative (\$18 million); and
- a \$162 million increase in relation to the uncapped component of the Automotive Competitiveness and Investment Scheme (ACIS), which was not included in the 2002-03 Budget estimates. This variation is matched by a corresponding increase in estimated customs duty, with ACIS credits used by exporters of Australian automotive products to make customs duty payments. Accordingly, there is no overall impact on the fiscal balance.

The above increases in expenses have been largely offset by:

- a decrease of \$170 million in estimated general budget assistance to the States¹, largely reflecting an upward revision to forecast GST revenue in 2002-03 following stronger than anticipated collections in the year to date, partly offset by higher than anticipated payments under the First Home Owners' Scheme;
- a \$159 million reduction in forecast unemployment benefit expenses, largely reflecting a reduction in the estimated number of unemployment benefit recipients relative to Budget;

1 General budget assistance to the States refers to Budget Balancing Assistance grants adjusted for the effect of an overpayment of GST revenue in 2001-02. See the *Final Budget Outcome 2001-02*, page 71 for further information.

- \$116 million from a lower than expected increase in costs associated with the Senior Health Care Card following the extensions of eligibility and entitlements in recent years; and
- the scheduled reductions to contingency reserve expense estimates following the inclusion of the provision for underspends in 2002-03.²

NET CAPITAL INVESTMENT

Estimated net capital investment in 2002-03 has increased by \$232 million since the 2002-03 Budget. This increase represents the combined effect of:

- new policy decisions (\$26 million) largely relating to investment associated with security initiatives to enhance Australia's capability to respond to the threat of terrorism following the Bali terrorist attacks; and
- parameter and other variations (\$206 million) including the reclassification of some specialist military equipment expenditure (reported as expenses at Budget) to infrastructure, plant and equipment (reported as part of net capital investment). The reclassification has no impact on the budget balance.

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

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m
Net capital investment at 2002-03 Budget	-725	-634	-537	-370
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions	26	11	0	-7
Effect of parameter and other variations	206	154	-8	0
Total variations	232	165	-9	-6
Net capital investment at 2002-03 MYEFO	-495	-468	-546	-377

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

NET DEBT AND NET WORTH

With the budget remaining in cash surplus, net debt is expected to continue to fall in 2002-03 and the forward years. Reflecting the lower level of net debt, estimated net interest payments are also expected to fall in 2002-03.

² 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.

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While declining throughout the forward estimates period, projected net debt from 2003-04 is higher than anticipated at Budget. This mainly reflects a delay in the schedule for further sales of the Commonwealth's shareholding in Telstra.

Commonwealth general government net worth is expected to fall to -\$45.8 billion in 2002-03, compared with expected net worth of -\$43.6 billion at Budget. This primarily reflects a downward revision to the market value of the Commonwealth's shareholding in Telstra following recent declines in the market price of Telstra shares.

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

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Financial assets	94.7	90.3	82.9	90.7
Non-financial assets	33.0	35.0	32.8	34.9
Total assets	127.8	125.3	115.6	125.6
Total liabilities	171.4	171.1	158.1	168.5
Net worth	-43.6	-45.8	-42.5	-42.9
Net debt(a)	34.5	34.1	19.0	29.0
Per cent of GDP	4.6	4.5	2.4	3.6
Net interest payments(c)	3.7	3.5	3.3	3.5
Per cent of GDP	0.5	0.5	0.4	0.4
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Financial assets	72.3	81.5	60.6	70.9
Non-financial assets	32.4	34.5	32.1	34.3
Total assets	104.6	116.0	92.7	105.2
Total liabilities	143.6	155.5	125.5	139.6
Net worth	-39.0	-39.5	-32.8	-34.4
Net debt(a)(b)	1.8	12.8	-18.9	-5.7
Per cent of GDP	0.2	1.5	-2.1	-0.6
Net interest payments(c)	2.3	3.0	2.6	3.6
Per cent of GDP	0.3	0.4	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 the further sale of the Commonwealth's shareholding in Telstra.

(c) Excludes superannuation related interest flows. In 2005-06, there are some one-off factors leading to a marginal increase in estimated net cash interest payments, including the recognition in cash terms of the capital growth on inflation indexed bonds maturing in this year and repurchase premia on nominal bonds repurchased in earlier years and held to their maturity in this year.

CASH FLOWS

In 2002-03, the underlying cash balance is expected to be a surplus of \$2.1 billion.

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

	2002-03		2003-04	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	171.0	170.9	180.3	180.8
Capital cash receipts(b)	1.4	1.4	0.9	0.9
Total cash receipts	172.3	172.3	181.2	181.6
Cash payments				
Operating cash payments	167.8	167.4	175.3	174.4
Capital cash payments(c)	2.5	2.7	2.2	2.4
Total cash payments	170.3	170.2	177.5	176.7
Finance leases and similar arrangements(d)	0.1	0.0	0.0	0.0
Underlying cash balance	2.1	2.1	3.7	4.9
Per cent of GDP	0.3	0.3	0.5	0.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	2.5	-0.4	10.8	-0.9
Headline cash balance	4.6	1.7	14.5	4.0
	2004-05		2005-06	
	Budget	MYEFO	Budget	MYEFO
Cash receipts				
Operating cash receipts	190.1	189.4	200.2	198.8
Capital cash receipts(b)	0.6	0.6	0.3	0.3
Total cash receipts	190.8	190.1	200.4	199.1
Cash payments				
Operating cash payments	184.0	183.8	191.3	191.8
Capital cash payments(c)	2.1	2.1	2.0	2.0
Total cash payments	186.1	185.8	193.3	193.8
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
Underlying cash balance	4.6	4.2	7.1	5.4
Per cent of GDP	0.6	0.5	0.8	0.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes(e)	10.7	10.3	11.0	10.5
Headline cash balance	15.4	14.5	18.1	15.9

(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 budget cash flow statement in Attachment B.

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

(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'.

The underlying cash balance estimate for 2002-03 remains unchanged since Budget, reflecting favourable parameter and other variations, which offset the decline in the underlying cash balance due to new policy decisions.

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Table 12 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 12: Reconciliation of general government underlying cash balance estimates (\$b)

	2002-03	2003-04	2004-05	2005-06
	\$m	\$m	\$m	\$m
2002-03 Budget underlying cash balance	2,094	3,665	4,641	7,132
Per cent of GDP	0.3	0.5	0.6	0.8
<i>Changes between 2002-03 Budget and MYEFO</i>				
Effect of policy decisions(a)	-328	-61	-171	-202
Effect of parameter and other variations	373	1294	-232	-1575
Total variations	45	1234	-403	-1777
2002-03 MYEFO underlying cash balance	2,141	4,899	4,238	5,356
Per cent of GDP	0.3	0.6	0.5	0.6

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

Major new policy decisions impacting on the underlying cash balance in 2002-03 are largely the same as those impacting on the fiscal balance, and include support for the victims of the Bali terrorist attacks, an immunisation programme against the Meningococcal C virus and assistance to facilitate structural adjustment by the sugar industry.

Major parameter and other variations are also broadly consistent with the fiscal balance variations, and include:

- a decrease of \$170 million in estimated general budget assistance to the States, reflecting stronger than anticipated GST collections in the year to date;
- a \$150 million reduction in forecast unemployment benefit payments, largely reflecting a reduction in the expected number of unemployment benefit recipients;
- a \$144 million reduction in cash payments in 2002-03 under the Medical Benefits Schedule and Pharmaceutical Benefits Scheme, resulting from the lagged impact of lower than expected expenses in 2001-02; and
- a reduction in estimated operating cash flows of \$163 million in 2002-03 arising from the reclassification of superannuation transactions relating to public non-financial corporations employees from operating transactions to financing transactions. This reclassification was announced by the ABS in *Government Financial Estimates, Australia* (Cat. No. 5501.0).

While the 2002-03 underlying cash balance estimate remains unchanged from Budget, the estimated fiscal balance has deteriorated by \$0.7 billion. This difference primarily results from the following:

- the reclassification of the Commonwealth's transactions relating to superannuation arrangements for public non-financial corporations' employees, which results in an improvement in the forecast underlying cash balance of around \$163 million but has only a minor impact on the fiscal balance;
- a \$144 million reduction in cash payments under the Medical Benefits Schedule and the Pharmaceutical Benefits Scheme in 2002-03, resulting from the lagged impact of lower than expected expenses in 2001-02. There is no impact on the fiscal balance in 2002-03, as accounts payable are expected to return to their usual trend;
- a downwards variation of around \$100 million in estimated accrual revenue in relation to Child Support Assistance transactions, which has only a minor effect on expected cash flows; and
- the delay in donor countries reaching agreement on contributions to the thirteenth replenishment of the International Development Association and the Heavily Indebted Poor Countries Initiative, and changes in the composition of payments under the initiatives, which results in a \$86 million increase in expenses in 2002-03 with only a minor impact on cash payments.