STATEMENT 2: FISCAL OUTLOOK

This statement summarises the main budget aggregates for the Commonwealth general government sector.

The fiscal outlook is sound, with underlying cash surpluses continuing to be forecast for 2002-03 and 2003-04 and across the forward estimates. These surpluses accommodate responsible reductions in personal income tax and new policy spending in the high priority areas of defence, domestic security, health and education.

With the budget remaining in surplus and interest rates remaining low, further reductions in net debt and net interest payments are expected.

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STATEMENT 2: FISCAL OUTLOOK

The fiscal outlook for 2003-04 and beyond remains sound, with underlying cash surpluses projected over the forward estimates period. These surpluses accommodate responsible reductions in personal income tax and new spending in high priority areas.

BUDGET AGGREGATES

After the delivery of personal tax cuts of $2.4 billion, an underlying cash surplus of $2.2 billion is now expected in 2003-04 compared with an estimated $4.9 billion at the *Mid-Year Economic and Fiscal Outlook 2002-03* (MYEFO). Underlying cash surpluses continue to be projected across the forward estimates.

In accrual terms, the fiscal balance estimates have also been revised downwards since MYEFO. A fiscal surplus of $0.7 billion is now forecast for 2003-04.

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

	Actual	Estimates		Projections		
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue ($b)	**162.4**	**171.8**	**178.3**	**185.0**	**194.2**	**204.7**
Per cent of GDP	22.8	22.8	22.4	22.0	21.9	21.9
Expenses ($b)	**166.5**	**170.5**	**178.0**	**186.5**	**194.2**	**202.4**
Per cent of GDP	23.4	22.6	22.4	22.2	21.9	21.6
Net operating balance ($b)	-4.1	1.3	0.3	-1.5	0.1	2.4
Net capital investment ($b)	-0.4	-0.2	-0.4	-0.4	-0.3	-0.4
Fiscal balance ($b)	**-3.8**	**1.5**	**0.7**	**-1.1**	**0.3**	**2.8**
Per cent of GDP	-0.5	0.2	0.1	-0.1	0.0	0.3
Underlying cash balance ($b)	**-1.0**	**3.9**	**2.2**	**1.3**	**1.2**	**4.7**
Per cent of GDP	-0.1	0.5	0.3	0.2	0.1	0.5
Memorandum item:						
Headline cash balance ($b)	2.5	3.6	1.5	0.5	11.6	14.8

(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.

VARIATIONS TO THE FISCAL BALANCE ESTIMATES

After the delivery of personal tax cuts of $2.4 billion, a fiscal surplus of $0.7 billion is now forecast for 2003-04, a downward revision of $2.7 billion relative to the estimate at MYEFO. The fiscal balance estimates have also been revised downwards for 2004-05 and 2005-06, while the estimated fiscal balance for 2002-03 has improved.

The fall in fiscal surpluses over 2003-04 and the forward estimates period largely reflects personal tax cuts. In addition, new spending is concentrated on priority areas such as defence, domestic security, higher education and health. In 2003-04, these decisions are partly offset by parameter and other variations.

Table 2 provides a reconciliation of the fiscal balance estimates between the 2002-03 Budget, the 2002-03 MYEFO and the 2003-04 Budget.

Table 2: Reconciliation of 2002-03 Budget, 2002-03 MYEFO and 2003-04 Budget fiscal balance estimates[(a)]

	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $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
Changes between 2002-03 Budget and MYEFO				
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	-1,485
Expenses	11	-794	-177	149
Net capital investment	206	154	-8	0
Total parameter and other variations	-333	990	-605	-1,634
2002-03 MYEFO fiscal balance	**-548**	**3,377**	**4,176**	**5,797**
Per cent of GDP	-0.1	0.4	0.5	0.7
Changes between MYEFO and 2003-04 Budget				
Effect of policy decisions(b)				
Revenue	-58	-2,491	-2,828	-2,765
Expenses	732	1,729	1,238	1,298
Net capital investment	192	65	111	72
Total policy decisions	-982	-4,285	-4,177	-4,135
Effect of parameter and other variations				
Revenue	2,235	731	-972	-1,092
Expenses	-863	-875	122	197
Net capital investment	67	-14	54	50
Total parameter and other variations	3,032	1,619	-1,148	-1,338
2003-04 Budget fiscal balance	**1,501**	**711**	**-1,148**	**324**
Per cent of GDP	0.2	0.1	-0.1	0.0

(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.

Variations in revenue estimates

Forecast revenue for 2003-04 has been revised down since MYEFO by $1.8 billion, largely reflecting the Government's decision to provide further reductions in personal income tax from 1 July 2003. This decision will also detract from revenue over the forward years.

Total estimated tax revenue for 2003-04 has fallen by $2.9 billion since MYEFO, including:

- income tax withholding revenue has been revised down by $4.2 billion, reflecting the effect of the Government's decision to provide further reductions in personal income tax and the flow-on effects from a lower level of expected revenue for 2002-03;
- company tax revenue has been revised up by $1.3 billion, reflecting stronger company profit growth;
- revenues from Commonwealth indirect taxes have been revised up by $440 million, largely reflecting stronger revenue from tobacco excise and higher customs duty revenue;
- fringe benefits tax revenue has been revised down by $250 million, reflecting a decline in the use of fringe benefits since the introduction of *The New Tax System*; and
- revenue has also been revised down by $230 million as a result of an increase in estimated tax refunds to individuals.

Partially offsetting the fall in tax revenue is an increase in non-tax revenue of $1.1 billion in 2003-04, largely reflecting an increase of $728 million in estimated dividend revenue from public financial and non-financial corporations.

Policy decisions included in the above variations since MYEFO are expected to reduce revenue by around $2.5 billion in 2003-04 and around $2.8 billion in 2004-05. The major revenue policy decisions include:

- reductions in personal income tax, which are expected to reduce tax revenue by around $2.4 billion in 2003-04 and by around $2.7 billion in 2004-05;
- the Government's response to the Board of Taxation's Review of International Tax Arrangements which is expected to reduce tax revenue by $60 million in 2003-04 and $165 million in 2004-05;

- the Singapore-Australia Free Trade Agreement (SAFTA), expected to come into force in July 2003, which will reduce customs duty revenue by $30 million in each of 2003-04 and 2004-05; and

- the increase in the Medicare levy thresholds, in line with the increase in the Consumer Price Index, which will reduce tax revenue by $34 million in 2003-04 and $17 million in 2004-05.

In 2002-03 estimated revenue has been revised up by around $2.2 billion since MYEFO, largely due to revisions to economic parameters and other variations. These include higher than expected company tax revenue of around $2.0 billion due to higher than expected company profit growth and higher than anticipated indirect tax revenue of around $810 million, primarily due to higher tobacco, diesel and petrol excise and customs duty revenue.

More detailed information on revenue can be found in Statement 5. A full description of all policy decisions taken since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2003-04*.

Variations in expenses estimates

Since MYEFO, estimated expenses have been revised upwards by around $0.9 billion in 2003-04, with increases in expenses also projected for the forward years. This increase reflects the impact of new policy measures, which has been partly offset by parameter and other variations including savings associated with the recent appreciation of the Australian dollar and a fall in estimated personal benefits expenses.

Policy decisions taken since MYEFO have increased estimated expenses by around $1.7 billion in 2003-04. Major new expense policy decisions affecting 2003-04 include:

- an increase in defence funding of $573 million in 2003-04 ($2.1 billion over the 5 years from 2002-03), including funding for Australia's contribution to the international coalition to disarm Iraq and post-conflict rehabilitation activities, and funding to augment logistics and support for a range of platforms and equipment;

- additional funding for drought relief of $297 million in 2003-04, including income support and interest rate subsidies to assist farmers, small businesses and communities hardest hit by the drought. In total, the government expects to provide around $740 million in drought-related financial support over the three years to 2004-05;

- increased spending of $160 million in 2003-04 to further enhance Australia's security arrangements, including upgrading the security of Australia's critical infrastructure and increased funding for Australia's intelligence agencies and protective security services;

- funding of $158 million in 2003-04 to improve the affordability and accessibility of medical services, under the *A Fairer Medicare* package; and
- additional funding of $66 million in 2003-04 ($1.5 billion over the four years from 2003-04) to ensure the long-term sustainability of the higher education system.

Parameter and other revisions since MYEFO have reduced estimated expenses by around $0.9 billion in 2003-04. These include:

- a downward revision of $425 million in defence expenses reflecting lower estimated Australian dollar acquisition costs associated with the recent appreciation of the Australian dollar;
- a fall in anticipated unemployment benefit expenses of $297 million, due to a reduction in the expected number of benefit recipients in 2003-04 following a lower than expected take up of benefits in 2002-03;
- a reduction in estimated Family Tax Benefit expenses of $231 million, largely due to the provision of higher income estimates by customers in 2002-03; and
- the regular draw-down of the conservative bias allowance reducing estimated expenses by around $875 million each year from 2003-04.[1]

These variations are partly offset in 2003-04 by:

- increased personal benefits expenses of $343 million due to an upward revision to forecast Male Total Average Weekly Earnings, reflecting the Government's ongoing commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings; and
- increased superannuation related expenses of $316 million, largely resulting from an actuarial review of the Commonwealth's civilian superannuation schemes, which has resulted in the incorporation of an allowance for the effects of factors such as redundancy costs, lower than previously estimated mortality rates, and an increased take-up of the more generous early retirement options.

Since MYEFO, estimated expenses have fallen by $132 million in 2002-03. This largely reflects a reduction in estimated Budget Balancing Assistance of $786 million following an increase in estimated GST receipts, and a reduction in estimated personal benefits

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1 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 progressively reduced so that the budget year conservative bias allowance is zero. The conservative bias allowance is a technique to provide for more reliable forward estimates. It is not a policy reserve or 'rainy day' fund.

expenses of $691 million, mainly due to lower Family Tax Benefit and unemployment benefit expense estimates. These variations are partly offset by new spending on defence, drought assistance and the regular drawdown in the provision for underspends.[2]

More detailed information on expenses can be found in Statement 6. A full description of all policy decisions taken since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2003-04*.

Variations in net capital investment estimates

In 2003-04, forecast net capital investment has increased by $51 million since MYEFO. This increase reflects new policy decisions that increase net capital investment by $65 million, including funding to extend Centrelink's capacity to deliver services online.

Further details on net capital investment can be found in Statement 6. A full description of all policy decisions taken since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2003-04*.

CASH FLOWS

After the delivery of personal tax cuts of $2.4 billion, an underlying cash surplus of $2.2 billion is now expected in 2003-04, compared with the MYEFO estimate of $4.9 billion. The underlying cash surpluses for 2004-05 and 2005-06 have also been revised downwards, while the outlook for 2002-03 has improved.

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2 Each year at 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. This allowance has been reduced in the budget estimates to reflect underspends incorporated into agency estimates since MYEFO. An allowance for underspends remains in the 2002-03 expenses estimates to cover expected underspends.

Table 3 provides a summary of Commonwealth general government cash flows.

Table 3: Summary of Commonwealth general government cash flows[(a)]

	Estimates		Projections		
	2002-03	2003-04	2004-05	2005-06	2006-07
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	172.6	177.8	186.3	194.5	204.7
Capital cash receipts(b)	1.3	1.1	0.8	0.4	0.4
Total cash receipts	173.9	178.9	187.1	194.9	205.2
Cash payments					
Operating cash payments	167.3	174.1	183.4	191.4	198.4
Capital cash payments(c)	2.7	2.6	2.4	2.3	2.0
Total cash payments	170.0	176.7	185.8	193.7	200.5
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0	0.0
Underlying cash balance	**3.9**	**2.2**	**1.3**	**1.2**	**4.7**
Per cent of GDP	0.5	0.3	0.2	0.1	0.5
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes(e)	-0.3	-0.7	-0.8	10.4	10.1
Headline cash balance	**3.6**	**1.5**	**0.5**	**11.6**	**14.8**

(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 surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.
(e) Under the cash budgeting framework, these cash flows were referred to as 'net advances'.

The downwards revision to the 2003-04 underlying cash balance estimate largely reflects the impact of new policy decisions, including the reduction in personal income tax rates and new spending on priority areas, partly offset by parameter and other variations.

Table 4 provides a reconciliation of the variations in the underlying cash balance estimates.

Table 4: Reconciliation of general government underlying cash balance estimates

	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m
2002-03 Budget underlying cash balance	**2,094**	**3,665**	**4,641**	**7,132**
Changes between 2002-03 Budget and MYEFO				
Effect of policy decisions(a)	-328	-61	-171	-202
Effect of parameter and other variations	373	1,294	-232	-1,575
Total variations	**45**	**1,234**	**-403**	**-1,777**
2002-03 MYEFO underlying cash balance	**2,141**	**4,899**	**4,238**	**5,356**
Changes between MYEFO and 2003-04 Budget				
Effect of policy decisions(a)	-980	-4,286	-4,046	-3,973
Effect of parameter and other variations	2,757	1,559	1,133	-148
Total variations	**1,777**	**-2,727**	**-2,913**	**-4,121**
2003-04 Budget underlying cash balance	**3,918**	**2,172**	**1,325**	**1,235**

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

The underlying cash and fiscal balance estimates for 2003-04 have both fallen by around $2.7 billion since MYEFO.

Headline cash balance

A headline cash surplus of $1.5 billion is now forecast for 2003-04, compared with the surplus of $4.0 billion expected at MYEFO. The reduction in the 2003-04 headline cash surplus estimate since MYEFO largely reflects the fall in the estimated underlying cash balance, which principally reflects policy decisions, in particular, personal tax cuts.

In addition to the lower estimated underlying cash surpluses, the headline cash surplus estimates for the forward years also reflect the effect of a further postponement in the expected sale of the Commonwealth's remaining shareholding in Telstra.

NET DEBT AND NET WORTH

With the budget remaining in cash surplus in 2003-04 and the forward years, further reductions in net debt are expected. Net interest payments are also expected to fall over the forward estimates, reflecting lower net debt levels and the low interest rate environment.

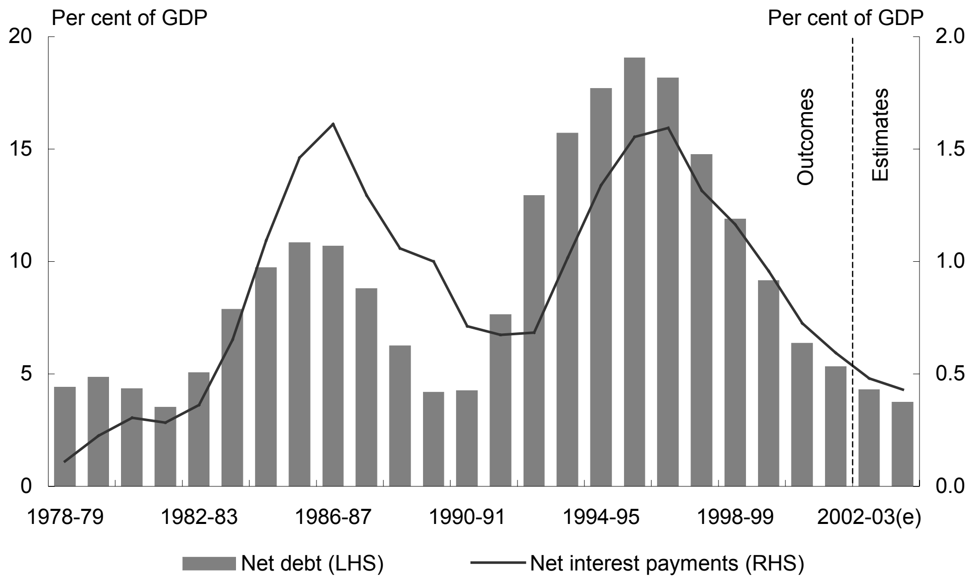
Table 5 and Chart 1 provide a summary of Commonwealth general government net worth, net debt and net interest payments.

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

	Estimates		Projections		
	2002-03	2003-04	2004-05	2005-06	2006-07
	$b	$b	$b	$b	$b
Financial assets	102.4	96.1	96.9	86.4	76.7
Non-financial assets	36.1	35.5	35.1	34.9	34.6
Total assets	**138.5**	**131.5**	**132.0**	**121.4**	**111.3**
Total liabilities	**185.7**	**177.6**	**179.7**	**169.4**	**157.4**
Net worth	**-47.2**	**-46.1**	**-47.8**	**-48.1**	**-46.1**
Net debt(a)(b)	**32.4**	**29.8**	**27.6**	**14.1**	**-1.8**
Per cent of GDP	4.3	3.7	3.3	1.6	-0.2
Net interest payments(c)	3.6	3.4	3.2	3.7	2.1
Per cent of GDP	0.5	0.4	0.4	0.4	0.2

(a) 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.
(b) Includes the impact of the further sale of Commonwealth shareholdings in Telstra.
(c) Commonwealth cash interest payments less cash interest receipts. The 2005-06 estimates include the recognition in cash terms of the capital growth on inflation indexed bonds maturing in that year.

Chart 1: Commonwealth general government net debt and net interest payments



Source: ABS Cat. No. 5501.0 and 5513.0, Commonwealth Final Budget Outcomes and Treasury estimates.

Australia's net debt is at low levels and is projected to fall over the forward estimates period. The level of Australia's net debt compares very favourably with other industrialised economies. The ratio of Australia's total general government net debt to GDP is among the lowest in the OECD, and is considerably lower than in Europe, Japan and the United States (see Statement 1).

While declining throughout the forward estimates period, the net debt estimates are higher than anticipated at MYEFO. This mainly reflects a deferral in further sales of the Commonwealth's shareholding in Telstra and the move to market valuation of net debt (see Box 1).

Having peaked at $8.4 billion in 1996-97, net interest payments are expected to decline to $3.4 billion in 2003-04, representing annual savings in interest payments of around $5 billion. This has freed up funds to deliver tax reductions and for spending on priority areas such as families, education and health.

Net worth is expected to improve from -$47.2 billion in 2002-03 to -$46.1 billion in 2006-07, mainly reflecting the cumulative surpluses in the forward estimates.

Box 1: Market valuation of net debt

The Australian Bureau of Statistics (ABS) accrual Government Finance Statistics (GFS) framework requires that flows and stocks are valued at current market prices (or where these are not observable, a suitable proxy indicator). Previous budgets foreshadowed that the Commonwealth would align reporting with the ABS GFS treatment of debt as the accruals framework is bedded down. The Australian Office of Financial Management is introducing a new debt valuation system which allows the Commonwealth to more readily value publicly traded debt at market prices.

The market value of a debt instrument generally increases as market interest rates fall. This is because the interest coupon payments are relatively higher than the market rates currently available. Investors seek the instrument for higher returns, thus driving the price of bonds higher. As interest rates have fallen substantially over the last decade, reflecting the low inflation environment, the market value of Commonwealth net debt still on issue has been higher than its historic cost. As a result, valuing outstanding debt to market results in a higher value than historic cost (see Table 6).

Table 6: Market valuation of net debt

	Net debt (historic cost)		Net debt (market value)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	53,106	8.4	57,560	9.2
2000-01	39,258	5.9	42,651	6.4
2001-02	35,568	5.0	38,022	5.3
2002-03(e)	30,010	4.0	32,420	4.3
2003-04(e)	**27,966**	**3.5**	**29,826**	**3.7**
2004-05(p)	26,036	3.1	27,578	3.3
2005-06(p)	12,780	1.4	14,110	1.6
2006-07(p)	-2,944	-0.3	-1,771	-0.2

The revised valuation methodology has been applied from the 1999-2000 fiscal year, when accrual accounting was introduced and the ABS accrual GFS framework was adopted. This creates a disconformity in the net debt series as outcomes prior to 1999-2000 are based on historic cost, consistent with the applicable budgeting framework of the time.

The move to market valuation of net debt in the 2003-04 Budget is accompanied by a number of technical adjustments to the timing and recognition of interest flows to align the budget accounting treatment with the ABS GFS framework. Further information on these adjustments is reported in Statement 8.

APPENDIX A: REPORTING STANDARDS

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

The major external standards used in the budget 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 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 ABS GFS publication also requires that defence weapons inventories be treated as expenses. Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. This treatment does not affect the underlying cash or fiscal balances.

Budget estimates, with the exception of estimates in Statement 9, 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*, 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. Estimates of GST receipts are provided in Table 2 of Statement 8.

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 the time at which the underlying income (or economic activity) giving rise to the tax liability occurs and when the revenue is recognised. Longer lags of up to a year occur for some elements of company and superannuation funds taxation.

Additional information on the reporting standards and budget concepts is provided in Statement 8.

APPENDIX B: BUDGET FINANCIAL STATEMENTS

The budget financial statements consist of an operating statement, balance sheet, cash flow statement and statement of other economic flows (reconciliation of net worth) for the Commonwealth general government sector. The budget financial statements are based on GFS standards with the exception of the divergences discussed in Appendix A.

Table B1: Commonwealth general government sector operating statement

	2002-03	2003-04	2004-05	2005-06	2006-07
	$m	$m	$m	$m	$m
Revenue					
Taxation revenue	159,817	166,483	173,655	182,802	193,104
Current grants and subsidies	0	0	0	0	0
Sales of goods and services	4,002	4,190	4,305	4,433	4,525
Interest income	1,208	900	922	1,080	1,588
Dividend income	3,960	3,974	3,394	3,155	2,640
Other	2,813	2,778	2,715	2,773	2,859
Total revenue	**171,800**	**178,325**	**184,991**	**194,244**	**204,715**
Expenses					
Gross operating expenses					
Depreciation	1,780	1,908	1,903	2,047	2,097
Superannuation	2,095	2,120	2,186	2,197	2,204
Salaries and wages	10,625	11,390	11,847	11,754	12,165
Payment for supply of goods and services	36,661	38,725	40,112	41,843	43,768
Other operating expenses	2,145	2,063	2,091	2,100	2,084
Total gross operating expenses	*53,305*	*56,207*	*58,139*	*59,941*	*62,318*
Nominal superannuation interest expense	5,350	5,209	5,507	5,591	5,773
Other interest expenses	4,843	4,354	4,099	3,652	3,468
Other property expenses	0	0	0	0	0
Current transfers					
Grant expenses	33,506	35,175	36,385	37,992	38,372
Subsidy expenses	5,147	5,370	5,379	5,292	5,540
Personal benefit payments in cash	65,252	68,815	73,808	78,695	83,943
Other current transfers	0	0	0	0	0
Total current transfers	*103,905*	*109,361*	*115,572*	*121,979*	*127,855*
Capital transfers	3,131	2,900	3,203	3,013	2,937
Total expenses	**170,534**	**178,031**	**186,521**	**194,176**	**202,351**
Net operating balance	**1,266**	**294**	**-1,529**	**68**	**2,364**
Net acquisition of non-financial assets					
Purchases of non-financial assets	2,682	2,542	2,383	2,237	2,060
less Sales of non-financial assets	1,304	852	760	422	440
less Depreciation	1,780	1,908	1,903	2,047	2,097
plus Change in inventories	104	-46	-78	-64	52
plus Other movements in non-financial assets	63	-153	-23	40	-23
Total net acquisition of non-financial assets	**-235**	**-417**	**-381**	**-256**	**-448**
Net lending/fiscal balance(a)	**1,501**	**711**	**-1,148**	**324**	**2,812**

(a) The term 'fiscal balance' is not used by the ABS.

Table B2: Commonwealth general government sector balance sheet

	2002-03	2003-04	2004-05	2005-06	2006-07
	$m	$m	$m	$m	$m
Assets					
Financial assets					
Cash and deposits	2,507	2,346	2,269	2,381	2,469
Advances paid	19,050	19,507	20,723	21,237	22,061
Investments, loans and placements	18,220	9,943	10,335	10,211	10,077
Other non-equity assets	13,136	14,265	13,634	14,026	14,844
Equity	49,498	50,006	49,895	38,596	27,297
Total financial assets	*102,411*	*96,066*	*96,857*	*86,450*	*76,747*
Non-financial assets					
Land	4,416	4,242	4,014	4,026	4,055
Buildings	12,285	12,218	12,107	12,178	12,023
Plant, equipment and infrastructure	12,471	12,544	12,559	12,533	12,328
Inventories	3,903	3,857	3,779	3,714	3,767
Other non-financial assets	3,006	2,598	2,646	2,492	2,430
Total non-financial assets	*36,082*	*35,459*	*35,104*	*34,943*	*34,602*
Total assets	**138,493**	**131,525**	**131,961**	**121,393**	**111,349**
Liabilities					
Deposits held	300	300	300	300	300
Advances received	0	0	0	0	0
Government securities	61,939	51,633	51,081	39,007	23,889
Loans	9,737	9,518	9,381	8,528	8,578
Other borrowing	221	171	143	103	69
Superannuation liability	89,040	91,541	93,957	96,317	98,680
Other employee entitlements and provisions	7,449	7,542	7,673	7,784	7,880
Other non-equity liabilities	17,056	16,904	17,191	17,406	18,029
Total liabilities	**185,742**	**177,609**	**179,726**	**169,446**	**157,424**
Net worth(a)	**-47,249**	**-46,084**	**-47,766**	**-48,053**	**-46,075**
Net debt(b)	32,420	29,826	27,578	14,110	-1,771

(a) Net worth is calculated as total assets minus total liabilities.

(b) 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.

Table B3: Commonwealth general government sector cash flow statement[(a)]

	2002-03 $m	2003-04 $m	2004-05 $m	2005-06 $m	2006-07 $m
Cash receipts from operating activities					
Taxes received	158,502	164,849	171,950	181,004	190,991
Receipts from sales of goods and services	4,240	4,319	4,444	4,588	4,670
Grants and subsidies received	0	0	0	0	0
Interest receipts	964	754	758	900	1,387
Dividends	3,960	3,074	4,294	3,155	2,640
GST input credits received by general government	2,277	2,277	2,296	2,312	2,378
Other receipts	2,652	2,559	2,550	2,555	2,646
Total receipts	**172,595**	**177,832**	**186,292**	**194,514**	**204,713**
Cash payments for operating activities					
Payments for goods and services	-39,484	-40,966	-42,324	-44,072	-46,213
Grants and subsidies paid	-40,977	-42,073	-43,759	-45,022	-45,541
Interest paid	-4,584	-4,180	-3,924	-4,552	-3,496
Personal benefit payments	-65,248	-68,691	-74,341	-78,696	-83,543
Salaries, wages and other entitlements	-14,739	-15,970	-16,798	-16,857	-17,441
GST payments by general government to taxation authority	-145	-147	-149	-151	-154
Other payments for operating activities	-2,084	-2,103	-2,072	-2,074	-2,059
Total payments	**-167,261**	**-174,129**	**-183,367**	**-191,424**	**-198,447**
Net cash flows from operating activities	**5,334**	**3,703**	**2,925**	**3,090**	**6,265**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	1,312	1,073	835	427	445
Purchases of new and secondhand non-financial assets	-2,731	-2,603	-2,427	-2,275	-2,034
Net cash flows from investments in non-financial assets	**-1,420**	**-1,530**	**-1,592**	**-1,848**	**-1,589**
Net cash flows from investments in financial assets for policy purposes	**-288**	**-701**	**-810**	**10,393**	**10,095**
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	2,037	-239	-23	-229	-216
Net cash flows from investments in financial assets for liquidity purposes	**2,037**	**-239**	**-23**	**-229**	**-216**
Cash flows from financing activities					
Advances received (net)	0	0	0	0	0
Borrowing (net)	-5,945	-1,199	-196	-11,800	-14,909
Deposits received (net)	0	0	0	0	0
Other financing (net)	559	-196	-380	506	441
Net cash flows from financing activities	**-5,386**	**-1,394**	**-576**	**-11,294**	**-14,468**
Net increase/decrease in cash held	**277**	**-162**	**-77**	**112**	**88**
Net cash from operating activities and investments in non-financial assets	**3,914**	**2,173**	**1,333**	**1,242**	**4,677**
Finance leases and similar arrangements(b)	4	-1	-8	-7	-8
Equals underlying cash balance	**3,918**	**2,172**	**1,325**	**1,235**	**4,668**
plus net cash flows from investments in financial assets for policy purposes	-288	-701	-810	10,393	10,095
Equals headline cash balance	**3,630**	**1,471**	**515**	**11,628**	**14,763**

(a) A positive number denotes a cash inflow, a negative sign denotes a cash outflow.
(b) The acquisition of assets under finance leases reduces the surplus/deficit. The disposal of assets previously held under finance leases improves the surplus/deficit.

Table B4: Commonwealth general government sector statement of other economic flows (reconciliation of net worth)

	2002-03	2003-04	2004-05	2005-06	2006-07
	$m	$m	$m	$m	$m
Opening net worth(a)	**-49,440**	**-47,249**	**-46,084**	**-47,766**	**-48,053**
Change in net worth from operating transactions	**1,266**	**294**	**-1,529**	**68**	**2,364**
Change in net worth from other economic flows					
Revaluation on sale of assets	55	281	139	9,650	9,650
Revaluations and sales of investments in commercial entities	5,319	436	-41	-9,629	-9,629
Total revaluation and profit on asset sales(b)	*5,373*	*718*	*98*	*20*	*20*
Net writedowns of assets (including bad and doubtful debts)	-2,104	-1,445	-1,147	-1,168	-1,145
Assets recognised for the first time	821	281	1	1	1
Defence weapon platform adjustment(c)	393	210	100	100	100
Actuarial revaluations	-4,967	0	0	0	0
Net foreign exchange gains	753	-122	-28	-10	0
Net swap interest received	554	504	400	310	253
Market valuation of debt	101	597	386	272	210
Other economic revaluations	2	128	38	120	174
Total other economic flows	**924**	**871**	**-153**	**-355**	**-386**
Closing net worth	**-47,249**	**-46,084**	**-47,766**	**-48,053**	**-46,075**

(a) Includes a reduction in opening net worth for 2002-03 of $2.5 billion due to the adoption of market valuation of debt. This change has been back-cast to 1999-2000, as discussed in Box 1 of this Statement.

(b) Revaluations and profit on sale of assets are derived from Australian Accounting Standards data. Revaluations reflect the difference between the GFS valuation of commercial entities at market value and the AAS valuation at historic cost.

(c) Defence weapons are treated as expenses rather than assets under the GFS framework, hence changes in value do not contribute to net worth and are not included in other economic flows. This component represents the removal of defence weapons included in net writedowns and other movements.

APPENDIX C: SENSITIVITY OF FISCAL AGGREGATES TO ECONOMIC DEVELOPMENTS

A guide to the sensitivity of the forward estimates of expenses and revenue to variations in economic parameters in 2003–04 is provided in Table C1. It is important to note that the sensitivity analysis gives only a 'rule of thumb' indication of the impact on the budget of changes in prices, wages and other parameters. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly.

Table C1: Sensitivity of fiscal aggregates to changes in economic parameters

	2003-04	2004-05	2005-06	2006-07
	$m	$m	$m	$m
Expenses				
Prices	1,140	730	770	780
Wages	100	370	390	410
Unemployment benefit recipients	270	280	280	280
Safety Net Adjustment	60	110	180	260
Revenue				
Prices	50	100	100	100
Wages	1,510	1,620	1,730	1,860
Employment	1,020	1,090	1,170	1,250
Private final demand	270	270	280	290
Profit	170	270	280	300

Expenses

On the expenses side, the sensitivity analysis of the estimates provides for the following assumptions about changes to four broad groups of parameters. An increase in any of the parameters considered will lead to an increase in expenses, and a decrease in any parameters will lead to a reduction in expenses.

Prices

All price deflators are assumed to change by one percentage point at the start of the September quarter 2003, with wage deflators left unchanged.

- The effect of a change in prices is due to the indexation of Commonwealth expenses and a change in the nominal superannuation interest expense.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September quarter 2003, with price deflators left unchanged.

- The effect of a change in wage and salary growth rates is largely due to the Government's commitment to maintain selected pensions at 25 per cent of Male Total Average Weekly Earnings. The wages effect in Table C1 above does not include changes to wage and salary payments in Commonwealth departmental expenses.

Unemployment benefit recipients (includes Newstart Allowance and Unemployed Youth Allowance recipients)

The total number of recipients is assumed to change by five per cent in the Budget year and in all the forward years.

Safety Net Adjustment

The Safety Net Adjustment determined by the Australian Industrial Relations Commission is assumed to change by $2 per week, taking effect from the beginning of the September quarter 2003, and each year after that.

- About $45 billion of expenses, comprising agency departmental expenses, other Commonwealth own purpose expenses and Specific Purpose Payments to the States of a departmental expense nature, are indexed to weighted averages of movements in inflation and the Safety Net Adjustment.

Revenue

On the revenue side, the sensitivity analysis of the estimates provides for the following assumptions about changes to five broad groups of parameters. An increase in any of the parameters considered would lead to an increase in revenue, and a decrease in any of the parameters will lead to a reduction in revenue.

Prices

All price deflators are assumed to change by one percentage point at the start of the September quarter 2003, with wage deflators left unchanged.

- A change in prices affects revenue primarily through changes in excise collections.

Wages

All wage and salary growth rates are assumed to change by one percentage point from the beginning of the September quarter 2003, with price deflators left unchanged.

- A change in wage and salary growth rates affects revenue through changes in gross income tax withholding and fringe benefits tax collections.

Employment

The level of employment is assumed to change by one percentage point from the beginning of the September quarter 2003, with no change in the composition of employment.

- A change in employment affects revenue through increases in gross income tax withholding collections.

Private final demand

The level of private final demand (consumption plus investment) is assumed to change by one percentage point from the beginning of the September 2003 quarter, with no change in the composition of demand.

- A change in private final demand affects revenue primarily through changes in excise and customs duty collections.

Profits

The level of company profits is assumed to change by one percentage point from the beginning of the September quarter 2003.

- A change in the level of company profits affects revenue through changes in company tax collections.