

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2003-04, the Australian Government general government sector recorded an underlying cash surplus of \$8.0 billion, or 1.0 per cent of gross domestic product (GDP). This was \$3.5 billion higher than estimated at the time of the 2004-05 Budget. The 2003-04 accrual fiscal balance was a surplus of \$5.6 billion (0.7 per cent of GDP), \$2.6 billion higher than estimated at the 2004-05 Budget.

Table 1: Australian Government general government sector budget aggregates^(a)

	2002-03 Outcome	2003-04 Estimate at 2003-04 Budget	2003-04 Estimate at 2004-05 Budget	2003-04 Outcome
Revenue (\$b)	175.0	178.3	186.2	187.6
Per cent of GDP	23.3	22.4	23.0	23.1
Expenses (\$b)	169.2	178.0	183.1	181.2
Per cent of GDP	22.5	22.4	22.6	22.4
Net operating balance (\$b)	5.8	0.3	3.1	6.3
Net capital investment (\$b)	-0.2	-0.4	0.0	0.7
Fiscal balance (\$b)	6.0	0.7	3.0	5.6
Per cent of GDP	0.8	0.1	0.4	0.7
Underlying cash balance (\$b)	7.5	2.2	4.6	8.0
Per cent of GDP	1.0	0.3	0.6	1.0
<i>Memorandum item:</i>				
Headline cash balance (\$b)	7.3	1.5	4.0	7.6

(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.

Total cash receipts were around \$1.8 billion higher than expected at the 2004-05 Budget. This largely reflects higher than expected tax collections from other individuals. Total accrual revenue was \$1.4 billion higher than the 2004-05 Budget estimate, largely reflecting higher than expected tax revenue from individuals partly offset by lower than expected company tax revenue.

Total cash payments were around \$1.7 billion lower than expected at the 2004-05 Budget. This was partly due to slippage in a range of health grant programmes, along with a slower take-up of newly listed drugs under the Pharmaceutical Benefits Scheme. Total accrual expenses were \$1.9 billion lower than expected at the 2004-05 Budget, while total accrual net capital investment was \$0.7 billion higher than expected at the 2004-05 Budget.

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Australian Government general government sector net debt fell by \$6.2 billion in 2003-04 to \$23.4 billion. At 2.9 per cent of GDP this is the lowest in 26 years. This reduction is \$2.6 billion greater than estimated at the 2004-05 Budget, largely reflecting the stronger than expected underlying cash surplus.

REVENUE

Total accrual revenue in 2003-04 of \$187.6 billion was \$1.4 billion (0.7 per cent) higher than expected at the 2004-05 Budget. The variation largely reflects higher than expected tax revenue from other individuals partly offset by lower than expected company tax revenue.

- Revenue from other individuals was \$1.2 billion (6.3 per cent) higher than anticipated due to stronger than expected profitability for unincorporated small businesses.
- Revenue from income tax withholding was \$225 million (0.2 per cent) above the Budget estimate, reflecting ongoing strength in employment.
- Revenue from companies was \$973 million (2.6 per cent) below the Budget estimate. The lower than expected outcome largely reflected a smaller build-up in company tax receivables¹ than anticipated.
- Other tax revenue was \$304 million (27 per cent) higher than expected, largely due to recognising the Universal Services Levy notionally paid by Telstra of \$166 million. This was fully offset by a corresponding increase in expenses representing the notional return of funds to Telstra for meeting universal service obligations.

1 Tax receivables arise where tax liabilities are recognised by the Australian Taxation Office in one period, but the taxpayer is not expected to pay the liability until a later period.

Table 2: Australian Government general government sector revenue (accrual basis)

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
Taxation revenue		
<i>Income taxation</i>		
Individuals and other withholding taxes(a)		
Gross income tax withholding	89,870	90,095
Gross other individuals	19,760	21,010
less Refunds	12,200	12,325
Total individuals and other withholding taxes	97,430	98,779
Companies	37,310	36,337
Superannuation funds		
Contributions and earnings	4,510	4,487
Superannuation surcharge	1,260	1,298
Total superannuation funds	5,770	5,785
Petroleum resource rent tax	1,200	1,165
Total income taxation	141,710	142,067
<i>Indirect taxation</i>		
Excise duty		
Petroleum and other fuel products and crude oil	13,470	13,529
Other excise	7,470	7,539
Total excise duty	20,940	21,068
Customs duty	5,585	5,622
Other indirect taxes	990	1,002
Total indirect taxation	27,515	27,692
Fringe benefits tax(b)	3,180	3,277
Agricultural levies	561	603
Other taxes	1,116	1,420
Total taxation revenue	174,082	175,058
Non-taxation revenue	12,115	12,501
Total revenue	186,197	187,559

(a) Includes Medicare levy revenue of \$5,560 million in 2003-04.

(b) Consistent with GFS reporting standards, excludes fringe benefits tax collected from Australian Government agencies (\$365 million in 2003-04).

EXPENSES

Total accrual expenses were \$181.2 billion in 2003-04, a reduction of \$1.9 billion (1.0 per cent) from the estimate provided in the 2004-05 Budget. This reduction was largely the result of:

- a decrease in expenses of \$788 million due to the reclassification by the Department of Defence of some supplier expenses to inventory purchases in net capital investment, with no net impact on the fiscal balance;
- slippage in grant expenses of \$373 million across a range of health programmes, due to lower than expected achievement of grant conditions upon which payments are based, including Indigenous and Aged Care capital grants, Co-ordinated Care Trials and medical research grants;
- lower personal benefits expenses of \$244 million, primarily attributable to a slower take-up of newly listed drugs under the Pharmaceutical Benefits Scheme;
- lower expenses of \$127 million due to suspended National Competition Policy Payments not being released to states and territories in 2003-04, pending further assessment and recommendations by the National Competition Council and subsequent Australian Government consideration of such recommendations; and
- lower expenses for Natural Disaster Relief Assistance of \$88 million due to lower than forecast demand from some states, in part due to slippage in infrastructure claims.

Table 3 provides information on Government Finance Statistics (GFS) general government sector expenses by function.

Table 3: Australian Government general government sector expenses by function

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
General public services		
Legislative and executive affairs	754	732
Financial and fiscal affairs	3,304	3,522
Foreign affairs and economic aid	2,238	2,162
General research	2,066	1,910
General services	606	453
Government superannuation benefits	1,946	2,069
Defence	13,687	12,937
Public order and safety	2,381	2,386
Education	13,338	13,398
Health	32,355	31,771
Social security and welfare	79,949	80,103
Housing and community amenities	1,652	1,634
Recreation and culture	2,233	2,168
Fuel and energy	3,692	3,494
Agriculture, forestry and fishing	2,158	2,038
Mining, manufacturing and construction	1,717	1,589
Transport and communication	2,731	2,816
Other economic affairs		
Tourism and area promotion	142	135
Labour and employment affairs	3,317	3,403
Other economic affairs	782	748
Other purposes		
Public debt interest	4,014	4,001
Nominal superannuation interest	5,155	4,898
General purpose intergovernmental transactions	2,775	2,775
Natural disaster relief	144	62
Contingency reserve(a)	0	35
Total expenses	183,136	181,238

(a) Asset sale related expenses are treated as a component of the contingency reserve.

NET CAPITAL INVESTMENT

Total net capital investment for 2003-04 was \$724 million, which is \$706 million higher than the estimate provided in the 2004-05 Budget. This variation relates primarily to the reclassification by the Department of Defence of some inventory purchases incorrectly classified as supplier expenses in the Budget, partially offset by a delay in receiving vaccines and anti-viral medication purchased in 2003-04.

Table 4: Australian Government general government sector net capital investment by function

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
General public services	94	119
Defence	-189	600
Public order and safety	76	62
Education	5	1
Health	153	45
Social security and welfare	31	9
Housing and community amenities	-59	9
Recreation and culture	-192	-188
Fuel and energy	1	0
Agriculture, forestry and fishing	2	11
Mining, manufacturing and construction	5	1
Transport and communication	27	11
Other economic affairs	38	44
Other purposes	26	0
Total net capital investment	18	724

CASH FLOWS

The 2003-04 underlying cash surplus was \$8.0 billion, \$3.5 billion higher than estimated at the 2004-05 Budget. The higher than anticipated outcome was the result of higher cash receipts of \$1.8 billion and lower cash payments of \$1.7 billion.

Total Australian Government general government sector cash receipts of \$187.0 billion were \$1.8 billion (0.9 per cent) higher than estimated at the 2004-05 Budget. The total cash receipts outcome is lower than the total accrual revenue outcome reflecting tax revenue recognised, but not received, in relation to other individuals, income tax withholding, companies and customs.

The positive variation in the cash tax receipts outcome primarily reflects higher than expected receipts from other individuals.

- Receipts from other individuals were \$1.0 billion (5.5 per cent) above the 2004-05 Budget estimate, reflecting stronger than expected profitability for small unincorporated businesses.

Total Australian Government general government sector cash payments were \$178.9 billion in 2003-04, \$1.7 billion (0.9 per cent) lower than estimated at the 2004-05 Budget. Many of the differences in expenses and net capital investment from Budget were also reflected in similar cash differences and are explained by the expense and net capital investment variations described earlier in this Part. The greater

decrease in cash payments relative to expenses and net capital investment largely reflects:

- changes in accounting treatments requiring the recognition of higher expenses of \$130 million for the superannuation guarantee charge and \$166 million for Telstra Universal Service Obligation subsidies which did not impact on cash payments; and
- lower than expected military superannuation cash payments of \$105 million, primarily due to lower than forecast retirement rates which did not impact on expenses.

Table 5: Summary of Australian Government general government sector cash flows^(a)

	2003-04 Estimate at 2004-05 Budget \$b	2003-04 Outcome \$b
Cash receipts		
Operating cash receipts	184.1	186.1
Capital cash receipts(b)	1.1	0.8
Total cash receipts	185.2	187.0
Cash payments		
Operating cash payments	178.0	176.2
Capital cash payments(c)	2.6	2.7
Total cash payments	180.6	178.9
Finance leases and similar arrangements(d)	0.0	0.0
Underlying cash balance	4.6	8.0
Per cent of GDP	0.6	1.0
<i>Memorandum items:</i>		
Net cash flows from investments in financial assets for policy purposes(e)		
Major asset sales	0.4	0.4
less Other net advances paid	-1.0	-0.8
Headline cash balance	4.0	7.6

(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 decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

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

The 2003-04 headline cash balance was a surplus of \$7.6 billion, \$3.6 billion higher than estimated at the 2004-05 Budget, primarily due to the higher than expected underlying cash surplus outcome.

NET DEBT AND NET WORTH

In 2003-04, the level of Australian Government net debt continued to fall from a peak of 19.1 per cent of GDP in 1995-96 to 2.9 per cent of GDP in 2003-04. Since 1996-97, net debt has fallen by \$72.9 billion. The fall in net debt was \$2.6 billion greater than estimated at the 2004-05 Budget, largely reflecting the higher than expected underlying cash surplus outcome.

Net interest payments in 2003-04 were in line with expectations at the 2004-05 Budget. Having peaked at \$8.4 billion in 1996-97, net interest payments have declined to \$3.0 billion in 2003-04, representing annual savings in interest payments of \$5.5 billion.

Australian Government general government sector net worth increased from -\$51.3 billion in 2002-03 to -\$37.8 billion at the end of 2003-04. This improvement largely reflects the effect of a net operating balance surplus of \$6.3 billion; an increase in the market value of the Government's shareholding in Telstra due to a rise in the share price over the year to 30 June 2004 (\$4.1 billion); a fall in the market valuation of debt liabilities due to movements in interest rates (\$1.7 billion); and a revaluation to fair value of the National Gallery of Australia's collections (\$1.3 billion).

Table 6: Australian Government general government sector net worth, net debt and net interest payments

	2003-04 Estimate at 2004-05 Budget \$b	2003-04 Outcome \$b
Financial assets	104.9	110.1
Non-financial assets	36.8	40.5
Total assets	141.7	150.6
Total liabilities	185.3	188.4
Net worth	-43.5	-37.8
Net debt(a)	26.0	23.4
Per cent of GDP	3.2	2.9
Net interest payments(b)	3.0	3.0
Per cent of GDP	0.4	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) Australian Government cash interest payments less cash interest receipts.

Attachment A

REPORTING STANDARDS

The *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 for Final Budget Outcome reporting purposes are:

- the Australian Bureau of Statistics' (ABS) Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods* Cat. No. 5514.0, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments*.

Final Budget Outcome tables, with the exception of tables in Part 2, do not include goods and services tax (GST) collections and equivalent payments to the states and territories, which is a departure from ABS GFS and AAS. However, 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 Australian Government. Because the Australian Taxation Office collects GST as an agent for the states and territories, GST receipts are not shown as Australian Government revenue. Estimates of GST receipts are provided in Table A2 of Appendix A.

ABS GFS 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 Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS financial statements currently record IMF Special Drawing Rights (SDRs) as a liability. This is consistent with AAS. The GFS statements also record SDRs as a liability. However, in accordance with the IMF's GFS manual, IMF SDRs are not treated as a liability in ABS GFS although they are treated this way in other IMF documentation. In view of these differences, the current approach will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

Similarly, the GFS financial statements currently adopt the AAS treatment for circulating coins. Under this treatment revenue is recognised upon the issue of coins and no liability is recorded, as there is no legal obligation requiring coins on issue to be repurchased by the Australian Government. However, in ABS GFS, coins on issue are

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treated as a liability and no revenue is recognised. The current accounting treatment will remain in place pending further consultation with the ABS and IMF, and developments in train to harmonise GFS and AAS.

ABS GFS also requires defence weapons be treated as expenses. Defence weapons inventories are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. The treatment of these inventories as capital or expenses has the same impact on the underlying cash and fiscal balances.

In relation to the recognition of taxation revenue, the preferred basis of recognition and measurement under both GFS and AAS is at the time the underlying activity giving rise to the tax liability occurs. However, in order to ensure the reporting of reliable GFS and AAS 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 Taxation Office or the Australian Customs Service. This alternative method is permitted under both GFS and AAS when there is an inability to reliably measure taxation revenues at the time the underlying transactions or events occur. Accordingly, for most categories of taxation revenue, there is a short lag between the time at which the underlying 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 Appendix A.

Attachment 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 Australian Government general government sector. The budget financial statements are based on GFS Standards with the exception of the divergences discussed in Attachment A.

Table 7: Australian Government general government sector operating statement

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
Revenue		
Taxation revenue	174,082	175,058
Current grants and subsidies	0	0
Sales of goods and services	4,192	4,314
Interest income	1,244	1,304
Dividend income	4,171	4,199
Other	2,507	2,684
Total revenue	186,197	187,559
Expenses		
Gross operating expenses		
Depreciation	1,593	1,643
Superannuation	1,946	2,069
Salaries and wages	11,989	11,004
Payment for supply of goods and services	40,014	38,852
Other operating expenses	2,312	3,174
<i>Total gross operating expenses</i>	<i>57,854</i>	<i>56,742</i>
Nominal superannuation interest expense	5,155	4,898
Other interest expenses	4,248	4,189
Other property expenses	0	0
Current transfers		
Grant expenses	34,634	33,844
Subsidy expenses	5,643	5,844
Personal benefit payments in cash	72,511	72,746
Other current transfers	0	0
<i>Total current transfers</i>	<i>112,788</i>	<i>112,434</i>
Capital transfers	3,091	2,974
Total expenses	183,136	181,238
Net operating balance	3,061	6,320
Net acquisition of non-financial assets		
Purchases of non-financial assets	2,618	2,395
<i>less</i> Sales of non-financial assets	879	602
<i>less</i> Depreciation	1,593	1,643
<i>plus</i> Change in inventories	106	780
<i>plus</i> Other movements in non-financial assets	-235	-206
Total net acquisition of non-financial assets	18	724
Net lending/fiscal balance(a)	3,044	5,597

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

Table 8: Australian Government general government sector balance sheet

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
Assets		
Financial assets		
Cash and deposits	1,607	1,591
Advances paid	19,027	18,060
Investments, loans and placements	19,668	24,188
Other non-equity assets	17,541	16,671
Equity(a)	47,061	49,560
<i>Total financial assets</i>	<i>104,905</i>	<i>110,070</i>
Non-financial assets		
Land	4,576	5,196
Buildings (excluding heritage)	13,417	14,152
Plant, equipment and infrastructure(b)	7,951	8,122
Inventories	4,237	4,832
Heritage and cultural assets(b)	4,949	6,442
Other non-financial assets	1,714	1,747
<i>Total non-financial assets</i>	<i>36,844</i>	<i>40,491</i>
Total assets	141,749	150,560
Liabilities		
Deposits held	325	364
Advances received	0	0
Government securities	60,555	60,650
Loans	5,271	5,979
Other borrowing	175	267
Superannuation liability	87,869	88,090
Other employee entitlements and provisions	8,426	8,541
Other non-equity liabilities	22,672	24,474
Total liabilities	185,294	188,364
Net worth(c)	-43,545	-37,803
Net debt(d)	26,024	23,421

(a) The 2003-04 equity and net worth outcomes include the Telstra shareholding valued at the closing share price on 30 June 2004.

(b) Heritage and cultural assets were previously included in plant, equipment and infrastructure.

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

(d) 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 9: Australian Government general government sector cash flow statement^(a)

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
Cash receipts from operating activities		
Taxes received	170,544	172,243
Receipts from sales of goods and services	4,342	4,422
Grants and subsidies received	0	0
Interest receipts	1,132	1,056
Dividends	3,207	3,223
GST input credits received by general government	2,461	2,462
Other receipts	2,417	2,734
Total operating receipts	184,102	186,140
Cash payments for operating activities		
Payments for goods and services	-44,041	-42,319
Grants and subsidies paid	-41,793	-41,247
Interest paid	-4,113	-4,050
Personal benefit payments	-70,694	-70,808
Salaries, wages and other entitlements	-16,768	-15,612
GST payments by general government to taxation authority	-129	-89
Other payments for operating activities	-499	-2,121
Total operating payments	-178,037	-176,248
Net cash flows from operating activities	6,065	9,892
Cash flows from investments in non-financial assets		
Sales of non-financial assets	1,112	832
Purchases of new and secondhand non-financial assets	-2,594	-2,682
Net cash flows from investments in non-financial assets	-1,482	-1,850
Net cash flows from investments in financial assets for policy purposes	-599	-452
Cash flows from investments in financial assets for liquidity purposes		
Increase in investments	-70	-3,040
Net cash flows from investments in financial assets for liquidity purposes	-70	-3,040
Cash flows from financing activities		
Advances received (net)	0	0
Borrowing (net)	-1,697	-2,458
Deposits received (net)	-1	38
Other financing (net)	-2,948	-2,876
Net cash flows from financing activities	-4,645	-5,296
Net increase/decrease in cash held	-731	-747
Net cash from operating activities and investments in non-financial assets	4,583	8,042
Finance leases and similar arrangements(b)	3	-5
Equals underlying cash balance	4,586	8,036
<i>plus</i> net cash flows from investments in financial assets for policy purposes	-599	-452
Equals headline cash balance	3,986	7,584

(a) A positive number denotes a cash inflow; a negative sign denotes a cash outflow.

(b) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.

Table 10: Australian Government general government sector statement of other economic flows (reconciliation of net worth)

	2003-04 Estimate at 2004-05 Budget \$m	2003-04 Outcome \$m
Opening net worth	-50,442	-50,442
Opening net worth adjustments(a)	-891	-891
Adjusted opening net worth	-51,333	-51,333
Change in net worth from operating transactions	3,061	6,320
Change in net worth from other economic flows		
Revaluation of equity(b)	3,210	5,767
Net writedowns of assets (including bad and doubtful debts)(c)	-2,189	-4,183
Assets recognised for the first time(c)	-1	450
Defence weapon platform adjustment(c)	0	0
Liabilities recognised for the first time(d)	0	-1,411
Actuarial revaluations	840	840
Net foreign exchange gains	306	599
Net swap interest received	339	340
Market valuation of debt	1,809	1,739
Other economic revaluations(c)(e)	412	3,068
Total other economic flows	4,727	7,210
Closing net worth	-43,545	-37,803

(a) Includes the initial recognition of a provision for asbestos disease related claims. At the time of the 2002-03 *Final Budget Outcome* a reliable actuarial measure was not available. Following an actuarial review, a provision for asbestos related claims was included in the audited 2002-03 *Consolidated Financial Statements*. This liability has now been back-dated to 2002-03.

(b) The 2003-04 Equity and Net worth outcomes include the Telstra shareholding valued at the closing share price on 30 June 2004.

(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. The adjustment to remove defence weapons has now been reallocated to net write-down of assets, assets recognised for the first time and other economic revaluations.

(d) Includes the initial recognition of a \$944 million provision for claims under the Dairy Structural Adjustment Fund for which a reliable measure is now available. The historical series will be amended at a future date after consultation with the ABS of the appropriate treatment of this liability.

(e) Largely reflects revaluation of assets and liabilities.

