PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2011-12, the Australian Government general government sector recorded an underlying cash deficit of $43.7 billion (3.0 per cent of gross domestic product (GDP)). The fiscal balance was in deficit by $44.5 billion (3.0 per cent of GDP).

In cash terms, the Final Budget Outcome for 2011-12 was a $661 million improvement compared with the underlying cash deficit estimated at the 2012-13 Budget, with total cash receipts (excluding Future Fund earnings) $356 million higher than expected and total cash payments $305 million lower than expected.

Tax receipts are recovering from their post-financial crisis lows, but still remain low as a proportion of GDP by historical standards, with accumulated losses continuing to flow through the tax system. Tax receipts in 2011-12 were around $26 billion (7.8 per cent) below the level that was forecast in the 2008-09 Budget before the crisis. The tax-to-GDP ratio is expected to continue to recover through 2012-13, while remaining well below the pre-crisis projection.

Tax receipts for 2011-12 were broadly in line with the forecast at the 2012-13 Budget, with total tax receipts around $290 million (0.1 per cent) higher than forecast.

Australian Government general government sector net debt was $147.3 billion (10.0 per cent of GDP), which was $4.8 billion higher than estimated at the time of the 2012-13 Budget. The change was primarily driven by the higher-than-expected market value of Commonwealth Government Securities (CGS), owing to lower than expected yields. Australian Government general government sector net financial worth was -$358.3 billion at the end of 2011-12. Net worth was -$247.2 billion at the end of 2011-12.

Table 1: Australian Government general government sector budget aggregates

	2010-11 Outcome $b	2011-12 Estimate at 2012-13 Budget $b	2011-12 Outcome $b
Receipts(a)	**302.0**	**330.0**	**329.9**
Per cent of GDP	21.6	22.3	22.5
Payments(b)	**346.1**	**371.3**	**371.0**
Per cent of GDP	24.7	25.1	25.3
Future Fund earnings	3.7	3.0	2.6
Underlying cash balance(c)	**-47.7**	**-44.4**	**-43.7**
Per cent of GDP	-3.4	-3.0	-3.0
Revenue(a)	**309.9**	**336.4**	**338.1**
Per cent of GDP	22.1	22.8	23.0
Expenses	**356.1**	**373.7**	**377.7**
Per cent of GDP	25.5	25.3	25.7
Net operating balance	-46.2	-37.3	-39.6
Net capital investment	5.3	4.7	4.9
Fiscal balance	**-51.5**	**-42.0**	**-44.5**
Per cent of GDP	-3.7	-2.8	-3.0
Memorandum item:			
Headline cash balance	-51.1	-48.4	-47.0

(a) Includes Future Fund earnings.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes Future Fund earnings.

UNDERLYING CASH BALANCE

The 2011-12 underlying cash deficit was $43.7 billion, an improvement of $661 million compared with the estimate at the 2012-13 Budget. This was the result of higher cash receipts (excluding Future Fund earnings) of $356 million and lower cash payments of $305 million.

Table 2: Summary of Australian Government general government sector cash flows

	2011-12 Estimate at 2012-13 Budget $b	2011-12 Outcome $b
Cash receipts		
Operating cash receipts excluding Future Fund earnings	326.3	326.8
Future Fund earnings	3.0	2.6
Total operating receipts	*329.4*	*329.4*
Capital cash receipts(a)	0.6	0.5
Total cash receipts	330.0	329.9
Cash payments		
Operating cash payments	360.3	360.5
Capital cash payments(b)	10.9	10.5
Total cash payments	371.2	371.0
Finance leases and similar arrangements(c)	0.1	0.0
GFS cash surplus(+)/deficit(-)	**-41.4**	**-41.2**
Per cent of GDP	-2.8	-2.8
less Future Fund earnings	3.0	2.6
Underlying cash balance(d)	**-44.4**	**-43.7**
Per cent of GDP	-3.0	-3.0
Memorandum items:		
Net cash flows from investments in financial assets for policy purposes	-7.0	-5.9
plus Future Fund earnings	3.0	2.6
Headline cash balance	**-48.4**	**-47.0**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) 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.
(d) Excludes Future Fund earnings.

RECEIPTS

Total cash receipts (excluding Future Fund earnings) were $327.3 billion in 2011-12, $356 million higher than estimated in the 2012-13 Budget.

Tax receipts for 2011-12 were $309.9 billion, $290 million (0.1 per cent) higher than estimated in the 2012-13 Budget. Excluding GST, tax receipts were around $158 million higher than expected in the 2012-13 Budget.

While tax receipts were broadly in line with the Budget estimate, there were some compositional differences. Consistent with the continued strength in the labour market, tax receipts where the outcome was above expectations compared with the 2012-13 Budget related to:

- higher than expected income tax withholding of $570 million (0.4 per cent);

- higher than expected fringe benefits tax of $251 million (7.2 per cent); and
- higher than expected superannuation funds taxation of $332 million (4.6 per cent) including a one-off payment relating to a previous income year.

In addition, receipts from GST were $132 million (0.3 per cent) above the estimate in the 2012-13 Budget.

These higher than expected tax receipts outlined above were largely offset by:

- a shortfall in company tax receipts of $876 million (1.3 per cent) below the estimate in the 2012-13 Budget, primarily reflecting weaker than expected taxable income of companies; and
- lower than expected excise and customs duty tax receipts of around $149 million (0.5 per cent) below the 2012-13 Budget estimate, mainly reflecting weaker than expected tobacco collections.

Non–tax receipts (excluding Future Fund earnings) were $17.3 billion in 2011-12, broadly in line with the estimate in the 2012-13 Budget.

Future Fund earnings were $2.6 billion; $457 million lower than expected in the 2012-13 Budget. These earnings were below expectations as a result of the timing of dividend and interest receipts which will be received in 2012-13. This variance has no impact on the underlying cash balance as Future Fund earnings are excluded from the calculation of the underlying cash balance.

Table 3: Australian Government general government sector (cash) receipts

	2011-12 Estimate at 2012-13 Budget $m	2011-12 Outcome $m	Change on 2012-13 Budget $m
Individuals' and other withholding taxes			
Gross income tax withholding	142,200	142,770	570
Gross other individuals	31,300	31,141	-159
less: Refunds	25,600	25,537	-63
Total individuals' and other withholding taxation	147,900	148,373	473
Fringe benefits tax	3,480	3,731	251
Company tax	67,460	66,584	-876
Superannuation funds	7,230	7,562	332
Petroleum resource rent tax	1,510	1,463	-47
Income taxation receipts	**227,580**	**227,714**	**134**
Sales taxes			
Goods and services tax	45,729	45,861	132
Wine equalisation tax	720	708	-12
Luxury car tax	440	435	-5
Total sales taxes	46,889	47,004	115
Excise duty			
Petrol	6,000	6,036	36
Diesel	8,200	8,231	31
Beer	1,960	1,938	-22
Tobacco	5,790	5,449	-341
Other excisable products	3,830	3,891	61
Of which: Other excisable beverages(a)	930	909	-21
Total excise duty receipts	25,780	25,545	-235
Customs duty			
Textiles, clothing and footwear	650	655	5
Passenger motor vehicles	850	805	-45
Excise-like goods	4,210	4,307	97
Other imports	1,400	1,440	40
less: Refunds and drawbacks	200	212	12
Total customs duty receipts	6,910	6,996	86
Other indirect taxation			
Agricultural levies	437	421	-16
Other taxes	2,057	2,263	206
Total other indirect taxation receipts	2,494	2,684	190
Indirect taxation receipts	**82,073**	**82,229**	**156**
Taxation receipts	**309,653**	**309,943**	**290**
Sales of goods and services	8,040	7,778	-262
Interest received	4,343	4,267	-77
Dividends	2,222	1,789	-433
Other non-taxation receipts	5,718	6,098	380
Non-taxation receipts(b)	**20,323**	**19,931**	**-392**
Total receipts(b)	**329,976**	**329,874**	**-101**
Memorandum:			
Medicare levy receipts	*9,090*	*9,119*	*29*

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) Includes Future Fund earnings.

PAYMENTS

Total cash payments were $371.0 billion in 2011-12, $305 million lower than estimated in the 2012-13 Budget. The reduction in payments was largely a result of lower than forecast payments for:

- a range of Industry Development and Investment and Innovative Industry programs ($266 million), with lower than expected demand for assistance, combined with slower than expected contracted payments for the Automotive Transformation Scheme;
- a range of health programs ($264 million), primarily reflecting lower than anticipated demand and costs for a range of programs including residential aged care, rural workforce programs and pharmaceutical related programs;
- Income Support for Seniors ($229 million), largely reflecting lower than projected recipient numbers and a change in the composition of income support recipients leading to a lower than expected average payment rate;
- Department of Defence support for overseas operations ($181 million), reflecting lower than expected costs relating to suppliers, freight, strategic lift, catering contracts and additional facilities;
- capital payments by the Department of Foreign Affairs and Trade ($145 million), with the largest component attributable to delays in finalising the purchasing of land overseas for a chancery relocation; and
- a range of grant programs administered by the Department of Resources, Energy and Tourism, including the Clean Energy Initiative programs ($121 million). The lower grant payments largely reflect delays in grant recipients meeting contract milestones.

These decreases in cash payments were largely offset by the provision for underspends included in the Contingency Reserve in the 2012-13 Budget, and higher than forecast payments relating to:

- Tertiary Student Assistance ($196 million) reflecting an increased overall average payment rate for Youth Allowance than was estimated in the 2012-13 Budget. This is largely explained by a greater number of higher education recipients than expected; and
- the Government's payment to the New South Wales Office of State Revenue in full and final payment in settlement of a disputed stamp duty assessment issued under the *Duties Act 1997* (NSW) following the Commonwealth's sale of the Sydney Airport.

FISCAL BALANCE

The 2011-12 fiscal balance deficit was $44.5 billion, a $2.5 billion deterioration on the deficit of $42.0 billion estimated in the 2012-13 Budget. The cash receipt and payment variations outlined previously have a similar impact on revenue and expenses since fiscal and cash variances are typically driven by the same factors. However, the deterioration in the fiscal balance of $2.5 billion, compared with the improvement in the underlying cash balance of $661 million, is the result of revenue and expense variations that do not have a corresponding cash impact in 2011-12 as outlined below.

REVENUE

Total revenue was $338.1 billion in 2011-12, $1.7 billion higher than estimated in the 2012-13 Budget.

Accrual taxation revenue was $316.8 billion in 2011-12, $325 million above the estimate in the 2012-13 Budget, which is in line with the variation in cash receipts.

Total non-tax revenue was $21.3 billion in 2011-12, $1.4 billion higher than estimated in the 2012-13 Budget. Non-tax receipts (excluding Future Fund earnings) were $17.3 billion, in line with estimates in the Budget. The largest component of the difference in outcomes between non-tax revenue and non-tax receipts (excluding Future Fund earnings) is the change in the accounting recognition of dividends from:

- the Reserve Bank of Australia, a $500 million dividend has been recognised in 2011-12 instead of 2012-13, based on advice from the Australian National Audit Office; and
- the Australian Reinsurance Pool Corporation, reflecting a change to the timing of accrual revenue at Budget, with the full amount of $400 million being recorded in 2011-12 instead of over the forward estimates.

Table 4: Australian Government general government sector (accrual) revenue

	2011-12 Estimate at 2012-13 Budget $m	2011-12 Outcome $m	Change on 2012-13 Budget $m
Individuals' and other withholding taxes			
Gross income tax withholding	143,220	143,978	758
Gross other individuals	33,610	32,992	-618
less: Refunds	25,600	25,537	-63
Total individuals' and other withholding taxation	151,230	151,433	203
Fringe benefits tax	3,540	3,964	424
Company tax	67,950	66,726	-1,225
Superannuation funds	7,390	7,852	462
Petroleum resource rent tax	1,840	1,293	-547
Income taxation revenue	**231,950**	**231,268**	**-683**
Sales taxes			
Goods and services tax	47,790	48,849	1,059
Wine equalisation tax	730	716	-14
Luxury car tax	440	440	0
Total sales taxes	48,960	50,004	1,044
Excise duty			
Petrol	6,080	6,016	-64
Diesel	8,200	8,203	3
Beer	1,960	1,932	-28
Tobacco	5,790	5,449	-341
Other excisable products	3,830	3,881	51
Of which: Other excisable beverages(a)	930	906	-24
Total excise duty revenue	25,860	25,480	-380
Customs duty			
Textiles, clothing and footwear	650	655	5
Passenger motor vehicles	850	903	53
Excise-like goods	4,210	4,307	97
Other imports	1,410	1,441	31
less: Refunds and drawbacks	180	202	22
Total customs duty revenue	6,940	7,105	165
Other indirect taxation			
Agricultural levies	437	421	-16
Other taxes	2,307	2,501	194
Total other indirect taxation revenue	2,744	2,922	178
Indirect taxation revenue	**84,504**	**85,511**	**1,007**
Taxation revenue	**316,454**	**316,779**	**325**
Sales of goods and services	8,256	8,106	-150
Interest	4,703	4,617	-86
Dividends	1,669	2,662	992
Other non-taxation revenue	5,336	5,945	609
Non-taxation revenue(b)	**19,964**	**21,330**	**1,366**
Total revenue(b)	**336,418**	**338,109**	**1,691**
Memorandum:			
Medicare levy revenue	*9,090*	*9,119*	*29*

(a) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) Includes Future Fund earnings.

EXPENSES AND NET CAPITAL INVESTMENT

Total expenses were $377.7 billion in 2011-12, $4.1 billion higher than estimated at the 2012-13 Budget. Total net capital investment was $4.9 billion, $102 million higher than estimated at the 2012-13 Budget.

The difference between the higher than estimated outcome for expenses and net capital investment of $4.2 billion and the lower than estimated outcome for cash payments of $305 million includes:

- increased estimates for the Natural Disaster Relief and Recovery Arrangements (NDRRA) program ($701 million), reflecting updated information on the disasters that occurred in the summer of 2012, leading to an increase in the estimates for those disasters compared with the 2012-13 Budget estimates. The total expense is recorded in the year in which the disaster occurs, rather than when the State or Territory lodges a claim for reimbursement from the Commonwealth;

- the Department of Veterans' Affairs ($569 million), largely as a result of increases to the military workers compensation provision for future claims under the *Military Rehabilitation and Compensation Act 2004* and the *Safety, Rehabilitation and Compensation Act 1988*, reflecting revised actuarial calculations;

- increases in personal benefits and grants payable for a number of Health programs ($549 million), largely reflecting a higher than forecast number of policy prepayments by Private Health Insurance customers and higher than expected claims for Medicare services;

- the provision of GST to the States and Territories, reflecting higher than estimated GST collections ($440 million)[1];

- an increase in the provision for workers compensation and asbestos related disease claims by Comcare ($333 million), reflecting revised actuarial calculations undertaken for the 2011-12 financial statements; and

- increased accrued expenses relating to higher supplier expenditure incurred in detention centre management, detainees and refugee settlement areas, primarily as a result of the increase in irregular maritime arrivals ($208 million).

1 There will be differences in the amount of GST received and GST paid to States and Territories reflecting timing of payments between financial years (see Part 3, Table 30).

Table 5: Australian Government general government sector expenses by function

	2011-12 Estimate at 2012-13 Budget $m	2011-12 Outcome $m
General public services		
Legislative and executive affairs	1,010	1,003
Financial and fiscal affairs	7,663	7,982
Foreign affairs and economic aid	5,798	5,878
General research	2,789	2,764
General services	841	1,432
Government superannuation benefits	3,843	4,094
Defence	21,656	21,692
Public order and safety	4,072	3,999
Education	29,259	29,050
Health	61,168	62,012
Social security and welfare	126,879	126,747
Housing and community amenities	6,238	6,180
Recreation and culture	3,705	3,809
Fuel and energy	6,633	6,464
Agriculture, forestry and fishing	3,255	2,953
Mining, manufacturing and construction	2,114	2,245
Transport and communication	9,178	9,129
Other economic affairs		
Tourism and area promotion	171	177
Total labour and employment affairs	4,765	4,783
Immigration	2,475	2,740
Other economic affairs nec	2,347	2,354
Other purposes		
Public debt interest	11,510	11,421
Nominal superannuation interest	7,358	7,376
General purpose inter-governmental transactions	49,555	49,940
Natural disaster relief	815	1,516
Contingency reserve	-1,426	0
Total expenses	**373,671**	**377,739**

Table 6: Australian Government general government sector net capital investment by function

	2011-12 Estimate at 2012-13 Budget $m	2011-12 Outcome $m
General public services	468	191
Defence	2,408	2,741
Public order and safety	220	262
Education	7	-2
Health	280	163
Social security and welfare	103	253
Housing and community amenities	182	187
Recreation and culture	71	41
Fuel and energy	11	6
Agriculture, forestry and fishing	596	678
Mining, manufacturing and construction	18	0
Transport and communication	36	25
Other economic affairs	146	305
Other purposes	203	0
Total net capital investment	**4,749**	**4,850**

NET DEBT, NET FINANCIAL WORTH AND NET WORTH

At the end of 2011-12, the level of Australian Government net debt was $147.3 billion (10.0 per cent of GDP), $4.8 billion higher than estimated at the time of the 2012-13 Budget.

Despite lower-than-expected debt issuance in 2011-12, the increase in net debt since the Budget was primarily driven by an increase in the market value of the existing stock of Commonwealth Government Securities (CGS) on issue, owing to lower yields. CGS are reported in the general government sector balance sheet in market value terms, consistent with the Australian Accounting Standards. The lower yields experienced after the Budget have resulted in an increase in the market value of CGS outstanding while the face value has not been affected.

- Net financial worth was -$358.3 billion at the end of 2011-12, compared with -$251.3 billion estimated at the 2012-13 Budget.

- Net worth was -$247.2 billion at the end of 2011-12, compared with -$141.8 billion estimated at the 2012-13 Budget.

The change in the market value of CGS described above also impacts on net financial worth and net worth. In addition to this, changes to net financial worth and net worth after the Budget reflect a significant increase in the Government's superannuation liability. This is the result of a large difference between the long-term discount rate used in the Budget (6.0 per cent per annum) and the actual bond rate as at 30 June 2012 (3.1 per cent per annum) used to value the superannuation liability. The use of two different rates is the usual practice, applied in previous budgets and final budget outcomes, and reduces the volatility in reported liabilities for budget reporting purposes.

Table 7: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	2011-12 Estimate at 2012-13 Budget $b	2011-12 Outcome $b
Financial assets	216.3	221.3
Non-financial assets	109.5	111.1
Total assets	**325.8**	**332.4**
Total liabilities	**467.6**	**579.6**
Net worth	**-141.8**	**-247.2**
Net financial worth(a)	**-251.3**	**-358.3**
Per cent of GDP	-17.0	-24.4
Net debt(b)	**142.5**	**147.3**
Per cent of GDP	9.6	10.0
Net interest payments	**6.5**	**6.6**
Per cent of GDP	0.4	0.4

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.