

PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The Government remains on track to deliver a surplus in 2012-13, well ahead of Australia's peers and notwithstanding ongoing challenges to the near-term fiscal outlook that have made the return to surplus more difficult.

The deterioration in the global economy and uneven domestic conditions have resulted in a downward revision to tax receipts by over \$20 billion across the forward estimates.

The Government has responded to the more challenging fiscal outlook in a measured way by making \$6.8 billion in net savings, including meeting the costs of the *Clean Energy Future* package.

Savings have also been achieved through a combination of expenditure cuts, deferrals in initiatives, and measures to improve the integrity and fairness of the taxation system.

At a time of heightened volatility in financial markets, caused by sovereign debt concerns in Europe, it is important for the Government to continue its disciplined approach to spending and return the budget to surplus.

The underlying cash deficit is expected to be \$37.1 billion (2.5 per cent of GDP) in 2011-12, returning to a small surplus of \$1.5 billion (0.1 per cent of GDP) in 2012-13 (Table 3.1).

The return to surplus will ensure Australia's public finances remain among the strongest in the developed world, leaving us well placed to respond to any external shocks to the economic outlook.

Net debt is forecast to peak at 8.9 per cent of GDP in 2011-12, higher than previously anticipated. Still, the average net debt position of the major advanced economies (G7) is projected to reach 92.9 per cent of GDP in 2016, more than 10 times higher than the expected peak in Australia's net debt.

Table 3.1: Budget aggregates

	Estimates			
	2011-12		2012-13	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	-22.6	-37.1	3.5	1.5
Per cent of GDP	-1.5	-2.5	0.2	0.1
Fiscal balance(\$b)	-20.3	-32.4	4.0	4.7
Per cent of GDP	-1.4	-2.2	0.3	0.3
	Projections			
	2013-14		2014-15	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	3.7	1.9	5.8	3.1
Per cent of GDP	0.2	0.1	0.3	0.2
Fiscal balance(\$b)	3.2	4.2	8.5	6.4
Per cent of GDP	0.2	0.3	0.5	0.4

(a) Excludes expected Future Fund earnings

Fiscal strategy

The Government's medium-term fiscal strategy is designed to ensure fiscal sustainability while allowing the flexibility to respond to fluctuations in the economic outlook.

The Government's medium-term fiscal strategy is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP below the level for 2007-08, on average; and
- improve the Government's net financial worth over the medium term.

The strategy has remained unchanged since 2008-09, the Government's first budget. It guided the Government's response to the global financial crisis and provides the basis for the Government's commitment to return the budget to surplus.

The strategy provides the necessary flexibility for the budget position to vary in line with economic conditions to support macroeconomic stability.

Consistent with the fiscal strategy, the Government took action through 2008 and 2009 to support the economy through the global financial crisis. The Government's delivery of a timely, targeted and temporary fiscal stimulus supported economic growth at a time that the private sector was in retreat.

In the *Updated Economic and Fiscal Outlook (UEFO)* released in February 2009 the Government also committed to return the budget to surplus as quickly as economic conditions permitted, once the economy recovered to grow above trend. Returning the budget to surplus is consistent with the medium-term strategy and will support Australia's capacity to respond to any further external shocks.

To help achieve this, the Government committed to allow tax receipts to recover in line with the economy and to hold real growth in spending to 2 per cent a year while the economy is growing above trend until the budget returns to surplus.

In the 2010-11 Budget the Government also committed to maintain a 2 per cent annual cap on real spending growth, on average, until surpluses are at least 1 per cent of GDP, once the budget returns to surplus and while the economy is growing at or above trend.

Returning the budget to surplus

The ongoing European financial crisis has emphasised the importance for governments of maintaining their fiscal credibility.

Australia's strong public finances contrast starkly with that of the major advanced economies, and the Government's disciplined approach to spending will help sustain confidence at a time of heightened instability in financial markets.

Returning the budget to surplus is consistent with Australia's economic outlook, even allowing for the softening of conditions since Budget.

Pressures on the fiscal position since the Budget

The underlying cash deficit in 2011-12 is projected to be \$37.1 billion, with the increase in the deficit since the Budget largely the result of:

- a downward variation of \$4.8 billion in tax receipts (including GST), predominantly the result of the softer economic outlook as the deterioration in global economic conditions has impacted on asset returns, investment and employment prospects, particularly in the non-mining sector of the economy;
- increased payments of \$2.3 billion under the Natural Disaster Relief and Recovery Arrangements, including an additional advance payment to Queensland to ensure the necessary reconstruction and repair work can happen as soon as possible;
- accelerated delivery of infrastructure projects under the Building Australia Fund and the Nation Building Programs, involving an additional payment of \$1.4 billion; and
- the decision to provide upfront support to households and businesses in the introduction of the *Clean Energy Future* package which has an impact of \$2.9 billion in 2011-12.

The change in the estimated deficit in 2011-12 is largely the result of variations to tax receipts and government payments as distinct from changes to government policy.

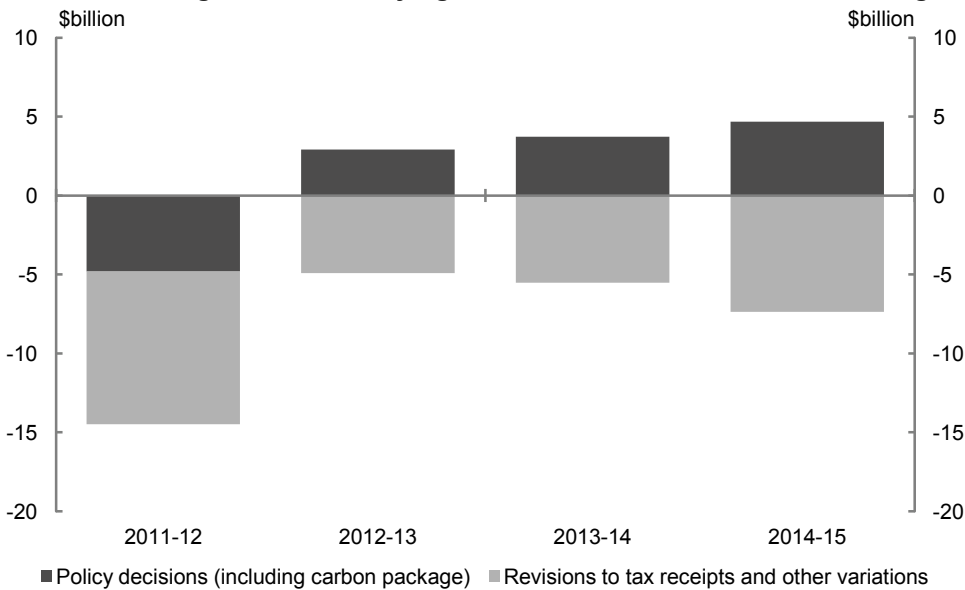
These variations account for around two thirds of the increase in the deficit since the Budget.

The impact of the shift in global economic conditions since Budget has had a further significant impact on the fiscal outlook for 2012-13 onwards with a downward revision to tax receipts of over \$20 billion across the forward estimates being the direct result of the softer economic outlook.

The Government has responded to the changing economic and revenue outlook by taking discretionary policy decisions that have generated net savings that grow steadily over the forward estimates to sustain the strength of Australia’s public finances.

The relative impact of the revisions in tax receipts (and other variations in the budget) and the government’s discretionary policy decisions on the fiscal outlook is illustrated in Chart 3.1. Policy decisions improve the fiscal position in 2012-13 with the contribution growing over the forward estimates.

Chart 3.1: Change to the underlying cash balance since the 2011-12 Budget



Savings

The Government has taken savings decisions of \$11.5 billion over the budget and forward estimates.

After paying for the cost of the *Clean Energy Future* package and all other policy decisions since the 2011-12 Budget, the Government has achieved a net save of \$6.8 billion in this MYEFO.

Table 3.2 outlines the net budget impact of policy decisions taken since the 2011-12 Budget. It takes into account amounts that have been previously been provided for in the Contingency Reserve (and as a result have no net impact on the budget position) and which principally relate to Official Development Assistance.

This is the third consecutive MYEFO to deliver policy decisions that improve the fiscal outlook across the forward estimates, with many of the decisions in this MYEFO providing ongoing benefits to the budget position.

Table 3.2: Delivering fiscal reprioritisation^(a)

	Estimates		Projections		Total
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m	
Effect of policy decisions since 2011-12 Budget					
Spends(b)	-2,255	1,027	-589	-827	-2,644
Saves(b)	497	2,150	4,299	4,601	11,548
<i>Clean Energy Future</i> package	-3,102	-368	-352	523	-3,299
Less automatic CPI indexation associated with the <i>Clean Energy Future</i> package(c)	0	48	343	378	769
Total effect of policy decisions	-4,860	2,857	3,701	4,676	6,374
Add Contingency Reserve offsets to policy decisions	59	56	125	169	409
Net budget impact of policy decisions	-4,801	2,913	3,826	4,844	6,783

(a) Underlying cash basis.

(b) Excluding the *Clean Energy Future* package.

(c) This CPI indexation which was published with the *Clean Energy Future* package is an estimates variation, and is therefore not counted in the total effect of policy decisions.

The estimated cost of the *Clean Energy Future* package has been revised since the publication of the financial implications of the *Clean Energy Bill 2011* to reflect more up-to-date and accurate information. The package is estimated to have a net cost to the budget of \$3.3 billion over the forward estimates, although the package is broadly budget neutral over the years 2012-13 to 2014-15. The cost of the *Clean Energy Future* package is made up of \$2.5 billion as a direct result of all policy decisions, and \$769 million associated with the automatic CPI indexation of household assistance payments, which have been reflected against individual agency estimates as parameter variations.

Tax receipts

The commitment to allow the natural increase in tax receipts associated with a growing economy to flow through to the budget is a significant part of the fiscal consolidation.

Downward revisions to the economic outlook since Budget have reduced tax receipts by over \$20 billion over the forward estimates. Even with the introduction of a price on carbon and associated tax cuts, the projected tax-to-GDP ratio in 2012-13 remains significantly below the cap specified in the Government's fiscal strategy, placing a greater weight on spending restraint to return the budget to surplus.

Real growth in payments

In 2011-12, the Government is providing significant assistance to households and businesses in delivering the *Clean Energy Future* package and addressing the effects of the most expensive natural disasters in Australia's history. These decisions have contributed 1.5 percentage points to the increase in real growth in payments in 2011-12. Lower payments in 2010-11 at the Final Budget Outcome compared to estimated payments in the 2011-12 Budget have contributed 1.0 percentage point to real growth in 2011-12. In total, real growth in payments is estimated to be 3.7 per cent in 2011-12. This follows from a contraction in real spending growth of -0.4 per cent in 2010-11.

The unique circumstances affecting payments growth in 2011-12 means that it is more appropriate to assess real payments growth over a longer period.

The savings reported in this MYEFO have contributed to containing average real growth in payments to 1.5 per cent across the forward estimates (see Table 3.3). In comparison, real payments growth averaged around 3.7 per cent in the decade prior to the global financial crisis.

Table 3.3: Real growth in payments

	2011-12	2012-13	2013-14	2014-15
Real payment growth	3.7	-3.0	3.3	2.0
Average growth in real payments		1.5		

The commitment to restrain real growth in spending to 2 per cent, on average, once the budget has returned to surplus and while the economy is growing at or above trend will continue to place a significant restraint on Government expenditure.

The constraint imposed on real growth in payments means that government spending, as a share of the economy, is projected to fall from 24.8 per cent of GDP in 2011-12 to 23.6 per cent of GDP by 2014-15. This is significantly below the average of the ten years preceding the financial crisis of 24.1 per cent of GDP, and highlights the key role disciplined spending is playing in the fiscal consolidation.

FISCAL OUTLOOK

The Australian Government's underlying cash deficit for 2011-12 is estimated to be \$37.1 billion (2.5 per cent of GDP). In accrual terms, a fiscal deficit of \$32.4 billion (2.2 per cent of GDP) is estimated for 2011-12.

Table 3.4: Australian Government general government sector budget aggregates

	Estimates			
	2011-12		2012-13	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts(a)	342.4	336.4	378.5	374.6
Per cent of GDP	23.2	22.6	24.3	23.9
Payments(b)	362.1	370.1	372.1	370.1
Per cent of GDP	24.5	24.8	23.9	23.6
Future Fund earnings	2.9	3.5	2.9	3.0
Underlying cash balance(c)	-22.6	-37.1	3.5	1.5
Per cent of GDP	-1.5	-2.5	0.2	0.1
Revenue(a)	350.0	344.1	383.1	382.8
Per cent of GDP	23.7	23.1	24.6	24.5
Expenses	365.8	371.7	380.5	379.9
Per cent of GDP	24.8	25.0	24.4	24.3
Net operating balance	-15.9	-27.6	2.6	2.8
Net capital investment	4.4	4.8	-1.4	-1.9
Fiscal balance	-20.3	-32.4	4.0	4.7
Per cent of GDP	-1.4	-2.2	0.3	0.3
<i>Memorandum item:</i>				
Headline cash balance	-31.9	-43.3	0.8	-6.4
	Projections			
	2013-14		2014-15	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts(a)	395.9	396.6	415.5	416.0
Per cent of GDP	24.1	24.0	24.0	23.9
Payments(b)	389.2	391.6	406.5	409.5
Per cent of GDP	23.7	23.7	23.5	23.6
Future Fund earnings	3.0	3.2	3.2	3.4
Underlying cash balance(c)	3.7	1.9	5.8	3.1
Per cent of GDP	0.2	0.1	0.3	0.2
Revenue(a)	405.2	407.5	425.8	428.2
Per cent of GDP	24.7	24.7	24.6	24.6
Expenses	399.0	400.6	414.1	418.9
Per cent of GDP	24.3	24.3	23.9	24.1
Net operating balance	6.2	6.9	11.7	9.3
Net capital investment	3.0	2.8	3.2	2.9
Fiscal balance	3.2	4.2	8.5	6.4
Per cent of GDP	0.2	0.3	0.5	0.4
<i>Memorandum item:</i>				
Headline cash balance	0.3	-4.0	3.8	-1.1

(a) Includes expected Future Fund earnings.

(b) Equivalent to cash payments for operating activities, purchase of non-financial assets and net acquisition of assets under finance leases.

(c) Excludes expected Future Fund earnings.

Underlying cash balance estimates

The 2011-12 underlying cash deficit is expected to be \$14.5 billion higher than forecast in the 2011-12 Budget.

Table 3.5: Summary of Australian Government general government sector cash flows

	Estimates			
	2011-12		2012-13	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts				
excluding Future Fund earnings	338.1	332.4	370.7	366.4
Future Fund earnings	2.9	3.5	2.9	3.0
Total operating receipts	341.0	335.8	373.6	369.5
Capital cash receipts(a)	1.4	0.6	4.9	5.1
Total cash receipts	342.4	336.4	378.5	374.6
Cash payments				
Operating cash payments	351.5	360.0	363.4	361.4
Capital cash payments(b)	10.5	10.0	8.7	8.2
Total cash payments	362.0	370.0	372.1	369.7
Finance leases and similar arrangements(c)	0.1	0.1	0.0	0.4
GFS cash surplus(+)/deficit(-)	-19.7	-33.7	6.4	4.5
Per cent of GDP	-1.3	-2.3	0.4	0.3
less Future Fund earnings	2.9	3.5	2.9	3.0
Underlying cash balance(d)	-22.6	-37.1	3.5	1.5
Per cent of GDP	-1.5	-2.5	0.2	0.1
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-12.2	-9.7	-5.6	-10.9
plus Future Fund earnings	2.9	3.5	2.9	3.0
Headline cash balance	-31.9	-43.3	0.8	-6.4
	Projections			
	2013-14		2014-15	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts				
excluding Future Fund earnings	392.6	393.1	412.1	412.3
Future Fund earnings	3.0	3.2	3.2	3.4
Total operating receipts	395.6	396.2	415.3	415.7
Capital cash receipts(a)	0.4	0.4	0.2	0.2
Total cash receipts	395.9	396.6	415.5	416.0
Cash payments				
Operating cash payments	380.6	382.9	397.6	400.5
Capital cash payments(b)	8.7	8.2	8.9	9.0
Total cash payments	389.2	391.1	406.5	409.5
Finance leases and similar arrangements(c)	0.0	0.5	0.0	0.0
GFS cash surplus(+)/deficit(-)	6.7	5.0	9.0	6.5
Per cent of GDP	0.4	0.3	0.5	0.4
less Future Fund earnings	3.0	3.2	3.2	3.4
Underlying cash balance(d)	3.7	1.9	5.8	3.1
Per cent of GDP	0.2	0.1	0.3	0.2
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-6.4	-9.1	-5.2	-7.6
plus Future Fund earnings	3.0	3.2	3.2	3.4
Headline cash balance	0.3	-4.0	3.8	-1.1

(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 expected Future Fund earnings.

Table 3.6 provides a reconciliation of the variations in the underlying cash balance since the 2011-12 Budget.

Table 3.6: Reconciliation of general government sector underlying cash balance estimates

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
2011-12 Budget underlying cash balance(a)	-22,618	3,498	3,672	5,795
Per cent of GDP	-1.5	0.2	0.2	0.3
Changes from 2011-12 Budget to 2011-12 MYEFO				
Effect of policy decisions(b)(c)				
<i>Receipts</i>	-979	1,898	6,777	7,729
<i>Payments</i>	3,881	-960	3,076	3,053
Total policy decisions impact on underlying cash balance	-4,860	2,857	3,701	4,676
Effect of parameter and other variations(c)				
<i>Receipts</i>	-5,503	-5,972	-6,238	-7,406
<i>Payments</i>	4,131	-1,096	-729	-43
Total parameter and other variations impact on underlying cash balance	-9,634	-4,876	-5,509	-7,363
2011-12 MYEFO underlying cash balance(a)	-37,113	1,479	1,864	3,108
Per cent of GDP	-2.5	0.1	0.1	0.2

(a) Excludes expected Future Fund earnings.

(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Total policy decisions since the 2011-12 Budget have increased the underlying cash deficit by \$4.9 billion in 2011-12, but improve the budget position over the forward estimates.

Total parameter and other variations since the 2011-12 Budget have increased the underlying cash deficit by \$9.6 billion in 2011-12.

Further details of the impact of policy decisions and major variations arising from parameter and other variations on the fiscal outlook is provided in the receipt estimates and payment estimates sections below.

Receipt estimates

Since the 2011-12 Budget, total tax receipts have been revised down by \$5.8 billion in 2011-12 and \$9.8 billion over the four years to 2014-15, resulting in a lower tax-to-GDP ratio in 2011-12 and 2012-13 relative to expectations at Budget. While the tax-to-GDP ratio is expected to continue to recover, it is projected to remain below its 2007-08 level over the forward estimates.

International growth prospects have weakened since Budget. Although the Australian economy is forecast to grow at around its trend rate over the forward estimates, the deterioration in global conditions has contributed to a reduction in momentum in

some parts of the economy. Volatile financial markets are weighing on Australian equity prices, which are affecting capital gains. Moreover, employment growth and wages growth are expected to be weaker than at Budget.

These downward revisions to employment and wages growth since Budget have resulted in reduced gross income tax withholding receipts, as well as indirect taxes due to the subdued consumption outlook associated with lower wages since Budget, combined with continuing consumer caution. Weakness in asset prices, driven particularly by the volatile international outlook, is also contributing to the downgrade in tax receipts.

Receipts for capital gains tax are now expected to grow at a softer pace than was expected at Budget, with the downgrade totalling \$7.0 billion over the forward estimates. This has contributed to downward revisions to company tax. The revised outlook for capital gains, in conjunction with the revised labour market outlook, has also meant downgrades to tax receipts from gross other individuals and superannuation funds.

Abstracting from policy decisions, tax receipts are expected to be lower by \$4.8 billion in 2011-12 and \$24.4 billion over the four years to 2014-15 relative to Budget.

Table 3.7: Australian Government general government sector cash receipts — 2011-12

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	143,850	142,500	-1,350	-0.9
Gross other individuals	31,050	30,600	-450	-1.4
less: Refunds	27,400	26,600	-800	-2.9
Total individuals and other withholding taxation	147,500	146,500	-1,000	-0.7
Fringe benefits tax	3,700	3,450	-250	-6.8
Company tax	72,800	70,000	-2,800	-3.8
Superannuation funds	9,230	8,850	-380	-4.1
Resource rent taxes(a)	2,080	1,930	-150	-7.2
Income taxation receipts	235,310	230,730	-4,580	-1.9
Sales taxes				
Goods and services tax	48,482	47,663	-819	-1.7
Wine equalisation tax	750	740	-10	-1.3
Luxury car tax	510	480	-30	-5.9
Total sales taxes	49,742	48,883	-859	-1.7
Excise duty				
Petrol	5,790	6,000	210	3.6
Diesel	7,630	8,000	370	4.8
Beer	2,070	2,050	-20	-1.0
Tobacco	5,830	6,250	420	7.2
Other excisable products	4,950	4,600	-350	-7.1
Of which: Other excisable beverages(b)	960	950	-10	-1.0
Total excise duty receipts	26,270	26,900	630	2.4
Customs duty				
Textiles, clothing and footwear	620	650	30	4.8
Passenger motor vehicles	630	600	-30	-4.8
Excise-like goods	4,830	4,000	-830	-17.2
Other imports	1,400	1,450	50	3.6
less: Refunds and drawbacks	260	260	0	0.0
Total customs duty receipts	7,220	6,440	-780	-10.8
Carbon pricing mechanism	-	-	-	-
Other indirect taxation				
Agricultural levies	414	427	14	3.3
Other taxes	2,147	1,919	-228	-10.6
Total other indirect taxation receipts	2,561	2,346	-215	-8.4
Indirect taxation receipts	85,793	84,569	-1,224	-1.4
Taxation receipts	321,103	315,299	-5,804	-1.8
Sales of goods and services	7,996	7,970	-26	-0.3
Interest received	5,297	4,902	-395	-7.5
Dividends	1,422	2,233	810	57.0
Other non-taxation receipts	6,573	6,029	-544	-8.3
Non-taxation receipts(c)	21,288	21,133	-154	-0.7
Total receipts(c)	342,390	336,432	-5,958	-1.7
<i>Memorandum:</i>				
Capital gains tax	8,300	7,300	-1,000	-12.0
Medicare levy receipts	8,940	8,930	-10	-0.1

(a) Resource rent taxes in 2011-12 only includes PRRT.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes expected Future Fund earnings which are \$524 million higher in 2011-12 (and \$980 million across the budget and forward estimates) than at the time of the 2011-12 Budget. These earnings do not impact on the underlying cash balance.

Table 3.8: Australian Government general government sector cash receipts — 2012-13

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	155,750	150,100	-5,650	-3.6
Gross other individuals	36,100	34,700	-1,400	-3.9
less: Refunds	28,000	27,200	-800	-2.9
Total individuals and other withholding taxation	163,850	157,600	-6,250	-3.8
Fringe benefits tax	4,150	3,800	-350	-8.4
Company tax	76,300	75,810	-490	-0.6
Superannuation funds	10,380	9,900	-480	-4.6
Resource rent taxes(a)	8,100	8,010	-90	-1.1
Income taxation receipts	262,780	255,120	-7,660	-2.9
Sales taxes				
Goods and services tax	51,890	51,229	-660	-1.3
Wine equalisation tax	800	780	-20	-2.5
Luxury car tax	530	510	-20	-3.8
Total sales taxes	53,220	52,519	-700	-1.3
Excise duty				
Petrol	5,680	5,800	120	2.1
Diesel	7,870	8,500	630	8.0
Beer	2,210	2,200	-10	-0.5
Tobacco	5,780	6,250	470	8.1
Other excisable products	5,390	5,150	-240	-4.5
Of which: Other excisable beverages(b)	1,030	1,000	-30	-2.9
Total excise duty receipts	26,930	27,900	970	3.6
Customs duty				
Textiles, clothing and footwear	670	700	30	4.5
Passenger motor vehicles	790	700	-90	-11.4
Excise-like goods	5,160	4,250	-910	-17.6
Other imports	1,600	1,700	100	6.3
less: Refunds and drawbacks	260	260	0	0.0
Total customs duty receipts	7,960	7,090	-870	-10.9
Carbon pricing mechanism	-	4,020	4,020	-
Other indirect taxation				
Agricultural levies	413	432	19	4.7
Other taxes	2,124	2,079	-44	-2.1
Total other indirect taxation receipts	2,536	2,511	-25	-1.0
Indirect taxation receipts	90,646	94,041	3,395	3.7
Taxation receipts	353,426	349,161	-4,265	-1.2
Sales of goods and services	8,157	8,218	61	0.7
Interest received	5,272	4,951	-321	-6.1
Dividends	1,428	1,785	357	25.0
Other non-taxation receipts	10,237	10,444	207	2.0
Non-taxation receipts(c)	25,094	25,398	304	1.2
Total receipts(c)	378,520	374,559	-3,961	-1.0
<i>Memorandum:</i>				
Capital gains tax	12,600	11,000	-1,600	-12.7
Medicare levy receipts	9,670	9,620	-50	-0.5

- (a) Resource rent taxes include PRRT and gross receipts from the MRRT. The net receipts from the MRRT is \$3.7 billion in 2012-13, which represents the net impact on receipts across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.
- (b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.
- (c) Includes expected Future Fund earnings which are \$113 million higher in 2012-13 (and \$980 million across the budget and forward estimates) than at the time of the 2011-12 Budget. These earnings do not impact on the underlying cash balance.

Policy decisions

Policy decisions since the 2011-12 Budget have decreased receipts by \$1.0 billion in 2011-12 and increased receipts by \$1.9 billion in 2012-13.

The Government's plan for a clean energy future raises revenue from the sale of permits for carbon pollution and related measures, which is used to fund tax cuts and provide assistance to households and businesses. Overall this package has a net cost to the Budget of \$3.3 billion (including the automatic CPI indexation of transfer payments which has been reflected as a parameter variation), on an underlying cash basis over the forward estimates period.

The revenue savings measures include decisions to reform certain tax expenditures and defer some measures as part of the Government's commitment to responsible economic management. Major policy decisions that have increased receipts over the budget and forward estimates include:

- placing an explicit price on greenhouse gas emissions through the carbon pricing mechanism. This measure is estimated to raise \$17.8 billion on an underlying cash basis over the forward estimates period from the sale of carbon units, all of which will be used to help households, industry, community organisations, workers and regions adjust to the carbon price;
- deferring the commencement of the 2010-11 Budget measure that provided a standard deduction for work-related expenses and the cost of managing tax affairs by 12 months, to now commence on 1 July 2013. This measure is estimated to raise \$1.2 billion on an underlying cash basis over the forward estimates period;
- applying an effective carbon price on aviation and non-transport gaseous fuels by increasing the excise and excise-equivalent customs duties on these fuels, proportional to the relevant emission rates. This measure is estimated to raise \$920 million on an underlying cash basis over the forward estimates period and forms part of the revenue which will be redirected to households and industry to help them adjust;
- reforming the tax treatment of living-away-from-home allowance and benefits, for periods commencing 1 July 2012 for both new and existing arrangements. These changes will better target this concession to a more appropriate range of circumstances and require individuals to substantiate that the allowance is being used for its intended purpose. This measure is estimated to raise \$682 million on an underlying cash basis over the forward estimates period; and
- pausing indexation of the superannuation concessional contributions cap for one year in 2013-14, improving the underlying cash balance by \$485 million over the forward estimates period.

The impact of these policy decisions on receipts has been partially offset by a number of decisions that have reduced receipts, including:

- as part of the Government's *Clean Energy Future* package, increasing the statutory tax-free threshold from \$6,000 to \$18,200 from 1 July 2012 for personal income tax. From 1 July 2015, the statutory tax-free threshold will further increase to \$19,400. Associated adjustments will be made to the low income tax offset and statutory marginal tax rates and thresholds. This measure has a cost to revenue estimated to be \$8.0 billion on an underlying cash basis over the forward estimates period;
- deferring the commencement of the new Research and Development Tax Incentive by 12 months as a result of delays in the passage of the measure through parliament. The new incentive will now apply to income years commencing on or after 1 July 2011. This measure has an estimated cost to revenue of \$760 million on an underlying cash basis over the forward estimates period. This measure is largely offset by the decrease in cash payments by \$720 million in 2011-12; and
- allowing small businesses to immediately write off depreciating assets costing less than \$6,500 (up from \$5,000), with effect from the 2012-13 income year. This measure has an estimated cost to revenue of \$200 million on an underlying cash basis over the forward estimates period.

Parameter and other variations

The key economic parameters that influence revenue are shown in Table 3.9. The table shows effects on the Australian Government's main tax bases of the changed economic circumstances and outlook since the 2011-12 Budget.

Table 3.9: Key economic parameters^(a)

	Outcome	Estimates		Projections	
	2010-11 %	2011-12 %	2012-13 %	2013-14 %	2014-15 %
Revenue parameters at 2011-12 MYEFO					
Nominal gross domestic product (non-farm)	8.0	6.4	5.4	5 1/4	5 1/4
<i>Change since Budget</i>	-0.1	0.1	-0.4	0	0
Compensation of employees (non-farm)(b)	7.7	6.3	5.4	5 1/2	5 1/2
<i>Change since Budget</i>	0.3	-0.9	-1.0	0	0
Corporate gross operating surplus(c)	9.6	5.8	4.5	5 1/4	5
<i>Change since Budget</i>	-2.2	1.0	0.0	1/4	0
Unincorporated business income	0.5	6.1	5.0	5 1/2	5 1/2
<i>Change since Budget</i>	-4.0	2.8	0.1	1/4	1/4
Property income(d)	17.7	5.3	3.9	5 1/2	5 1/4
<i>Change since Budget</i>	1.0	-3.3	-1.4	1/4	0
Consumption subject to GST	4.8	4.5	5.8	5 1/2	5 1/2
<i>Change since Budget</i>	0.4	-0.9	0.3	0	0

(a) Current prices, per cent change on previous year.

(b) Compensation of employees measures total remuneration earned by employees.

(c) Corporate GOS is an Australian National Accounts measure of company profits.

(d) Property income measures income derived from rent, dividends and interest.

Parameter and other variations have decreased tax receipts since the 2011-12 Budget by \$4.8 billion in 2011-12 and \$6.1 billion in 2012-13.

Income tax withholding receipts have been revised down by \$1.3 billion in 2011-12 and \$3.2 billion in 2012-13, reflecting a softening in the outlook for employment and wages growth.

Gross other individuals' taxation receipts have been revised down by \$450 million in 2011-12 and \$940 million in 2012-13, reflecting the revised economic outlook, as well as weakness in capital gains.

Refunds are around \$800 million lower in both 2011-12 and 2012-13, consistent with recent outcomes and the downward revisions to individuals' income taxes.

Fringe benefits tax has been revised down by \$250 million in 2011-12 and \$270 million in 2012-13, due to a lower than expected 2010-11 outcome and the revised labour market outlook.

Superannuation taxes are expected to be \$380 million lower in 2011-12 and \$480 million lower in 2012-13, as weaker employment and wages growth results in lower contributions, in addition to lower capital gains.

Company tax receipts have been revised down by \$1.8 billion in 2011-12 and \$780 million in 2012-13, partly due to lower capital gains in both years and increased company refunds in 2011-12. The impact of the refunds is muted in 2012-13 due to a range of revenue protection measures.

Resource rent taxes have been revised down by \$150 million in 2011-12 and \$70 million in 2012-13. The revisions reflect increased state royalties, weaker production expectations and lower commodity price assumptions, partly offset by the lower Australian dollar.

GST has been revised down by \$820 million in 2011-12 and \$660 million in 2012-13, reflecting lower consumption and subdued dwelling investment.

Since Budget, excise duty has been revised up by \$590 million in 2011-12 and \$570 million in 2012-13, while customs duty has been revised down by \$770 million in 2011-12 and \$830 million in 2012-13. The composition of receipts between excise and customs duties has been revised relating to the relocation of a large tobacco manufacturer. Abstracting from this, tax receipts from tobacco have been revised down since Budget.

Both the luxury car tax and the wine equalisation tax have been revised down in 2011-12 and 2012-13, reflecting the consumption outlook.

Analysis of the sensitivity of the taxation receipts estimates to changes in the economic outlook is provided in Attachment A to this part.

Payment estimates

Since the 2011-12 Budget, estimated cash payments for 2011-12 have increased by \$8.0 billion reflecting new policy decisions of \$3.9 billion and parameter and other variations of \$4.1 billion.

Policy decisions

Major policy decisions since the 2011-12 Budget that have increased cash payments in 2011-12 and across the forward estimates include:

- assistance for households to meet additional costs under the *Clean Energy Future* package. This measure is expected to increase cash payments by \$1.5 billion in 2011-12 (\$6.2 billion over four years);
- support, under the *Clean Energy Future* package, for emissions-intensive coal mines, coal-fired power stations, Australian steel and other manufacturing industries, and those activities in the economy that are the most emissions-intensive and highly exposed to international competition to transition to a low carbon future. These measures are expected to increase cash payments by \$1.4 billion in 2011-12 (\$6.1 billion over four years);
- accelerating funding for a range of Nation Building road and rail infrastructure projects, including the duplication of the Pacific Highway, works on the Bruce Highway, the Interchange at Mains and Kessels Road, the Hunter Expressway, Western Ring Road in Melbourne and the South Road Superway, the Gawler Line Modernisation project in Adelaide and the Blacksoil Interchange Project. These decisions are expected to increase cash payments by \$1.4 billion in 2011-12 (a net increase of \$45 million over four years);
- new listings on the Pharmaceutical Benefits Scheme which are expected to increase cash payments by \$67 million in 2011-12 (\$445 million over four years); and
- setting aside funding to meet the Commonwealth's share of the costs to the Social and Community Services sector for the equal remuneration case currently before Fair Work Australia.

The impact of these policy decisions on payments has been partially offset by a number of decisions that have reduced payments, including:

- a one-off increase of 2.5 per cent to the efficiency dividend for most Commonwealth departments and agencies in the 2012-13 financial year. This measure has no impact in 2011-12 but is expected to reduce cash payments by \$1.5 billion over the period 2012-13 to 2014-15;

- a 20 per cent reduction in funding provided under capital budgeting arrangements for relevant Commonwealth agencies and departments. This measure has no impact in 2011-12 but is expected to reduce cash payments by \$710 million over the period 2012-13 to 2014-15;
- implementing an effective carbon charge on the use of liquid and gaseous fuels through the fuel tax system by reducing the business fuel tax credit entitlement for the use of these fuels. This measure is expected to cost \$2 million in 2011-12 but deliver a net reduction in cash payments of \$962 million over four years;
- reducing the maximum co-contribution payable and rate at which the government matches eligible personal superannuation contributions for low to middle income earners from 1 July 2012. This measure is expected to reduce cash payments by \$660 million over two years from 2013-14;
- resetting the baby bonus to \$5,000 per child from 1 September 2012 and pausing indexation from 1 July 2012. This measure is expected to cost \$1 million in 2011-12 but delivers a net reduction in cash payments of \$320 million over four years;
- ceasing the student experience and quality learning components of Higher Education Reward Funding, reducing expected cash payments by \$3 million in 2011-12 (\$241 million over four years). Funding will continue to be provided for the achievement of participation and social inclusion outcomes; and
- making the payment of Family Tax Benefit Part A supplement conditional on a child being fully immunised from 1 July 2012. From 1 July 2013, children will be required to receive vaccines for meningococcal C, pneumococcal and varicella to be assessed as fully immunised. From this date, Priorix-Tetra®, a combination vaccine, will be added to the National Immunisation Program. This measure is expected to cost \$13 million in 2011-12, but deliver savings of \$197 million over four years.

A full description of all policy measures since the 2011-12 Budget can be found in Appendix A.

Parameter and other variations

Major increases in expected cash payments in 2011-12 as a result of parameter and other variations since the 2011-12 Budget include:

- natural disaster relief payments to the States and Territories under the Natural Disaster Relief and Recovery Arrangements reflecting: a further advance payment of \$1.4 billion in 2011-12 to meet the cost of claims by the Queensland Government to ensure reconstruction work can progress as quickly as possible; higher than expected costs for the Queensland 2010-11 floods and Cyclone Yasi; and delays in claims for reimbursement for disaster restoration work undertaken in 2008, 2009 and 2010. These adjustments increase estimated cash payments by \$2.3 billion in 2011-12 (\$1.0 billion over four years);

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- child care fee assistance which is expected to increase by \$100 million in 2011-12 (\$1.4 billion over four years), in part reflecting higher growth in child care demand than was expected at Budget;
- private health insurance payments which are expected to increase by \$910 million in 2011-12 (\$1.3 billion over four years). The increase in 2011-12 is largely driven by the delay of the 2009-10 Budget Measure: *Private health insurance – fair and sustainable support for the future* which increases expected payments by \$732 million in 2011-12. The Government announced this measure in the 2009-10 Budget; however, the enabling legislation has not been passed by Parliament. This measure remains the Government's policy. The remaining increase in expected payments of \$178 million in 2011-12 (\$571 million over four years) reflects a higher than anticipated number of people with health insurance and higher levels of coverage by individuals;
- residential aged care subsidies which are expected to increase by \$444 million in 2011-12 (\$1.9 billion over four years), owing to an increase in the estimated average subsidy for aged care residents as a result of older Australians entering residential aged care facilities with greater care needs than previously anticipated;
- onshore processing costs related to irregular maritime arrivals, which are expected to increase by \$1.3 billion over four years as a result of an increase in expected arrival rates compared to those at Budget. This is partly offset by \$1.1 billion in reduced costs and savings associated with not progressing offshore processing arrangements at this time, leaving a net impact on the budget of \$197 million over four years;
- payments related to the Research and Development Tax Offset, which are expected to increase by \$327 million in 2011-12 reflecting updated forecasts for claims in 2011-12;
- payments related to Fuel Tax Credits which are expected to increase by \$304 million in 2011-12 (\$1.7 billion over four years), reflecting updated production forecasts and associated fuel consumption;
- Remote Indigenous Housing National Partnership payments, which are expected to increase by \$234 million in 2011-12 (no net impact over four years), reflecting the acceleration of building and refurbishing housing in a number of States and Territories;
- Medicare Services payments which are expected to increase by \$231 million in 2011-12, primarily stemming from the extension of the Chronic Disease Dental Scheme (CDDS) to 31 March 2012 as a result of the Senate disallowing the determination to close the Scheme. The closure of the CDDS remains the Government's policy;

- the impact of foreign exchange rate movements which have increased cash payments by \$216 million in 2011-12 (\$891 million over four years), primarily reflecting higher capital purchase costs for the Department of Defence;
- payments to Job Services Australia which are expected to increase by \$180 million in 2011-12 (\$735 million over four years), largely reflecting a greater than expected use, since Budget, of the Employment Pathway Fund to assist job seekers; and
- the re-profiling of existing renewable energy technology programs which has increased expected cash payments in 2011-12 by \$161 million (\$425 million over four years).

Major reductions in expected cash payments in 2011-12 as a result of parameter and other variations since the 2011-12 Budget include:

- GST payments to the States and Territories which are expected to fall by \$412 million in 2011-12 (\$2.6 billion over four years), consistent with a reduction in GST receipts. The reduction in GST receipts in 2011-12 is partly offset by higher than estimated GST receipts in 2010-11 which, as noted in the *Final Budget Outcome 2010-11*, will be paid in 2011-12;
- Pharmaceutical Benefits Scheme payments which are expected to fall by \$265 million in 2011-12 (\$1.8 billion over four years), largely reflecting lower than expected usage of medicines such as higher cost cancer therapies. These estimates do not account for future drug listings; and
- National Healthcare specific purpose payments which are expected to fall by \$110 million in 2011-12 (\$723 million over four years), reflecting changes to hospital utilisation rates and a fall in the five year average growth of the Australian Institute of Health and Welfare health price index.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this drawdown are provided at Attachment C.

Fiscal balance estimates

The fiscal balance is expected to be in deficit by \$32.4 billion in 2011-12, \$12.2 billion higher than forecast in the 2011-12 Budget.

Table 3.10 provides a reconciliation of the fiscal balance estimates, including the impact of policy decisions and parameter and other variations on revenue, expenses and net capital investment.

Table 3.10: Reconciliation of general government sector fiscal balance estimates

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
2011-12 Budget fiscal balance	-20,262	3,966	3,166	8,539
Per cent of GDP	-1.4	0.3	0.2	0.5
Changes from 2011-12 Budget to 2011-12 MYEFO				
Effect of policy decisions(a)(b)				
Revenue	-960	5,700	8,890	9,773
Expenses	4,805	1,166	6,269	6,468
Net capital investment	-175	-424	-200	-251
Total policy decisions impact on fiscal balance	-5,589	4,958	2,820	3,555
Effect of parameter and other variations(a)				
Revenue	-4,890	-6,058	-6,522	-7,458
Expenses	1,125	-1,754	-4,620	-1,742
Net capital investment	583	-94	-74	-16
Total parameter and other variations impact on fiscal balance	-6,599	-4,210	-1,828	-5,700
2011-12 MYEFO fiscal balance	-32,450	4,714	4,159	6,395
Per cent of GDP	-2.2	0.3	0.3	0.4

(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) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Revenue estimates

Total revenue has been revised down by \$5.9 billion in 2011-12. While changes in revenue are generally driven by the same factors as receipts, there are differences, as not all revenue raised in a given year is actually paid in that year. For example, past tax assessments may be amended as a result of compliance activity or the settlement of legal disputes and taxpayers may accrue new tax debts. These differences exist for most revenue heads, and vary across years. In addition, the *Clean Energy Future* package has a significantly different impact on accrual revenue compared to cash receipts, largely due to differences in the treatment of the allocation of free carbon units under the Jobs and Competitiveness Program and the Energy Security Fund.

Detailed Australian Government general government sector revenue estimates for 2011-12 and 2012-13, compared with the estimates published in the 2011-12 Budget, are provided in Tables 3.11 and 3.12 respectively.

Table 3.11: Australian Government general government sector accrual revenue — 2011-12

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	144,930	143,520	-1,410	-1.0
Gross other individuals	33,360	32,910	-450	-1.3
less: Refunds	27,400	26,600	-800	-2.9
Total individuals and other withholding taxation	150,890	149,830	-1,060	-0.7
Fringe benefits tax	3,760	3,530	-230	-6.1
Company tax	74,600	71,800	-2,800	-3.8
Superannuation funds	9,330	8,990	-340	-3.6
Resource rent taxes(a)	2,050	2,030	-20	-1.0
Income taxation revenue	240,630	236,180	-4,450	-1.8
Sales taxes				
Goods and services tax	50,630	49,750	-880	-1.7
Wine equalisation tax	760	750	-10	-1.3
Luxury car tax	510	480	-30	-5.9
Total sales taxes	51,900	50,980	-920	-1.8
Excise duty				
Petrol	5,870	6,080	210	3.6
Diesel	7,610	7,980	370	4.9
Beer	2,070	2,050	-20	-1.0
Tobacco	5,830	6,250	420	7.2
Other excisable products	4,950	4,600	-350	-7.1
Of which: Other excisable beverages(b)	960	950	-10	-1.0
Total excise duty revenue	26,330	26,960	630	2.4
Customs duty				
Textiles, clothing and footwear	620	650	30	4.8
Passenger motor vehicles	780	750	-30	-3.8
Excise-like goods	4,830	4,000	-830	-17.2
Other imports	1,410	1,460	50	3.5
less: Refunds and drawbacks	120	120	0	0.0
Total customs duty revenue	7,520	6,740	-780	-10.4
Carbon pricing mechanism	-	-	-	-
Other indirect taxation				
Agricultural levies	414	427	14	3.3
Other taxes	2,453	2,344	-109	-4.5
Total other indirect taxation revenue	2,867	2,771	-96	-3.3
Indirect taxation revenue	88,617	87,451	-1,166	-1.3
Taxation revenue	329,247	323,631	-5,616	-1.7
Sales of goods and services	8,050	8,050	0	0.0
Interest	5,735	5,190	-544	-9.5
Dividends	1,328	1,652	324	24.4
Other non-taxation revenue	5,601	5,587	-15	-0.3
Non-taxation revenue(c)	20,714	20,479	-235	-1.1
Total revenue(c)	349,961	344,110	-5,851	-1.7
<i>Memorandum:</i>				
Capital gains tax	8,300	7,300	-1,000	-12.0
Medicare levy revenue	8,940	8,930	-10	-0.1

(a) Resource rent taxes in 2011-12 only includes PRRT.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes expected Future Fund earnings which are \$524 million higher in 2011-12 (and \$980 million across the budget and forward estimates) than at the time of the 2011-12 Budget. These earnings do not impact on the underlying cash balance.

Table 3.12: Australian Government general government sector accrual revenue — 2012-13

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	156,920	151,190	-5,730	-3.7
Gross other individuals	38,680	37,350	-1,330	-3.4
less: Refunds	28,000	27,200	-800	-2.9
Total individuals and other withholding taxation	167,600	161,340	-6,260	-3.7
Fringe benefits tax	4,220	3,870	-350	-8.3
Company tax	78,140	77,620	-520	-0.7
Superannuation funds	10,490	10,060	-430	-4.1
Resource rent taxes(a)	8,090	8,000	-90	-1.1
Income taxation revenue	268,540	260,890	-7,650	-2.8
Sales taxes				
Goods and services tax	54,230	53,560	-670	-1.2
Wine equalisation tax	810	790	-20	-2.5
Luxury car tax	530	510	-20	-3.8
Total sales taxes	55,570	54,860	-710	-1.3
Excise duty				
Petrol	5,680	5,800	120	2.1
Diesel	7,850	8,480	630	8.0
Beer	2,210	2,200	-10	-0.5
Tobacco	5,780	6,250	470	8.1
Other excisable products	5,390	5,150	-240	-4.5
Of which: Other excisable beverages(b)	1,030	1,000	-30	-2.9
Total excise duty revenue	26,910	27,880	970	3.6
Customs duty				
Textiles, clothing and footwear	670	700	30	4.5
Passenger motor vehicles	790	700	-90	-11.4
Excise-like goods	5,160	4,250	-910	-17.6
Other imports	1,610	1,710	100	6.2
less: Refunds and drawbacks	120	120	0	0.0
Total customs duty revenue	8,110	7,240	-870	-10.7
Carbon pricing mechanism	-	7,690	7,690	-
Other indirect taxation				
Agricultural levies	413	432	19	4.7
Other taxes	2,552	2,687	135	5.3
Total other indirect taxation revenue	2,965	3,119	154	5.2
Indirect taxation revenue	93,555	100,789	7,234	7.7
Taxation revenue	362,095	361,679	-416	-0.1
Sales of goods and services	8,225	8,295	69	0.8
Interest	5,763	5,417	-346	-6.0
Dividends	1,402	1,786	384	27.4
Other non-taxation revenue	5,636	5,587	-49	-0.9
Non-taxation revenue(c)	21,026	21,085	58	0.3
Total revenue(c)	383,121	382,764	-358	-0.1
<i>Memorandum:</i>				
Capital gains tax	12,600	11,000	-1,600	-12.7
Medicare levy revenue	9,670	9,620	-50	-0.5

(a) Resource rent taxes include PRRT and gross revenue from the MRRT. The net revenue from the MRRT is \$3.7 billion in 2012-13, which represents the net impact on revenue across several different revenue heads. This includes the offsetting reductions in company tax (through deductibility) and interactions with other taxes.

(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol.

(c) Includes expected Future Fund earnings which are \$113 million higher in 2012-13 (and \$980 million across the budget and forward estimates) than at the time of the 2011-12 Budget. These earnings do not impact on the underlying cash balance.

Expense and net capital investment

Movements in accrual expenses and net capital investments over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- support under the *Clean Energy Future* package, in the form of the provision of free carbon permits to the most emissions-intensive activities in the economy and coal-fired power stations, as this arrangement has a larger impact on accrual expenses compared to cash payments (\$7.2 billion over four years);
- deferring the commencement of the new Research and Development Tax Incentive by 12 months where the effect on cash payments (a reduction of \$720 million) occurs in 2011-12 but the impact on expenses was reflected in 2010-11 through lower refundable offset outlays;
- the provision of GST to the States and Territories, reflecting higher than estimated GST collections (\$437 million) relating to the 2010-11 financial year. This amount will be paid in 2011-12 following a determination by the Treasurer but was accrued in 2010-11; and
- the Natural Disaster Relief and Recovery Arrangements, where the expense is recorded in the year in which the disaster occurs rather than when the State or Territory lodges a claim for reimbursement following completion of the work.

Estimates of Australian Government general expenses by function can be found in Attachment C.

Table 3.13 provides a reconciliation of expense estimates.

Table 3.13: Reconciliation of general government sector expense estimates

	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15
	\$m	\$m	\$m	\$m
2011-12 Budget expenses	365,817	380,523	398,974	414,137
Changes from 2011-12 Budget to 2011-12 MYEFO				
Effect of policy decisions(a)	4,805	1,166	6,269	6,468
Effect of economic parameter variations				
Total economic parameter variations	-556	-35	-1,208	-1,096
<i>Unemployment benefits</i>	106	764	-207	-104
<i>Prices and wages</i>	247	-43	-248	-209
<i>Interest and exchange rates</i>	-59	-56	-53	-33
<i>GST payments to the States</i>	-850	-700	-700	-750
Public debt interest	-1	-296	-401	-344
Program specific parameter variations	1,809	-639	-2,779	88
Slippage in 2011-12 Budget decisions	-94	-4	-1	99
Other variations	-33	-779	-232	-488
Total variations	5,929	-587	1,649	4,726
2011-12 MYEFO expenses	371,747	379,935	400,623	418,863

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Table 3.14 provides a reconciliation of the net capital investment estimates.

Table 3.14: Reconciliation of general government sector net capital investment estimates

	Estimates		Projections	
	2011-12 \$m	2012-13 \$m	2013-14 \$m	2014-15 \$m
2011-12 Budget net capital investment	4,405	-1,367	3,034	3,160
Changes from 2011-12 Budget to 2011-12 MYEFO				
Effect of policy decisions(a)	-175	-424	-200	-251
Effect of parameter and other variations	583	-94	-74	-16
Total variations	408	-518	-274	-267
2011-12 MYEFO net capital investment	4,813	-1,885	2,760	2,893

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.

Net debt, net financial worth and net worth

Net debt for the Australian Government general government sector is forecast to be \$132.6 billion in 2011-12, \$25.9 billion higher compared to the forecast in the 2011-12 Budget.

The increase in the level of net debt since the 2011-12 Budget largely reflects both an increase in the market value of the stock of existing Commonwealth Government Securities (CGS) outstanding owing to lower interest rates and an increase in issuance of CGS on account of the weaker fiscal outlook in 2011-12. CGS are reported in the general government sector's balance sheet in market value terms, consistent with external accounting standards, and the limit on issuance under the *Commonwealth Inscribed Stock Act 1911* is based on the face value of CGS.

Net debt has also been affected by a decrease in the value of investments held by the Future Fund primarily as a result of revised earnings estimates based on actual performance year-to-date.

The Australian Government's net debt remains low by international standards. The average net debt position of the major advanced economies (G7) is projected to reach 92.9 per cent of GDP in 2016.

The changes to net debt described above also impact on net financial worth and net worth.

- Net financial worth is forecast to be -\$232.2 billion in 2011-12, compared to the Budget estimate of -\$200.6 billion.
- Net worth is forecast to be -\$122.3 billion in 2011-12, compared to the Budget estimate of -\$87.5 billion.

The change in net financial worth and net worth also reflect changes in the value of the Government's investment in the Reserve Bank of Australia, owing to revaluation losses associated with the appreciation in the exchange rate, and changes in the accounting treatment for disaster recovery payments made to the States and Territories through the Natural Disaster Relief and Recovery Arrangements program.

Table 3.15 provides a summary of Australian Government general government sector net debt, net financial worth, net worth and net interest payments.

Table 3.15: Australian Government general government sector net financial worth, net debt, net interest payments and net worth.

	Estimates			
	2011-12		2012-13	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	232.1	218.6	241.0	241.3
Non-financial assets	113.1	109.9	115.1	112.4
Total assets	345.2	328.5	356.1	353.7
Total liabilities	432.7	450.8	439.5	469.6
Net worth	-87.5	-122.3	-83.4	-115.9
Net financial worth(a)	-200.6	-232.2	-198.5	-228.3
Per cent of GDP	-13.6	-15.6	-12.7	-14.6
Net debt(b)	106.6	132.6	104.6	133.3
Per cent of GDP	7.2	8.9	6.7	8.5
Net interest payments	5.5	5.9	6.7	6.8
Per cent of GDP	0.4	0.4	0.4	0.4
	Projections			
	2013-14		2014-15	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	252.2	256.9	263.9	272.4
Non-financial assets	115.4	114.7	117.4	117.0
Total assets	367.6	371.5	381.3	389.4
Total liabilities	447.6	480.7	452.3	490.2
Net worth	-80.0	-109.2	-71.0	-100.8
Net financial worth(a)	-195.4	-223.8	-188.5	-217.8
Per cent of GDP	-11.9	-13.6	-10.9	-12.5
Net debt(b)	105.3	135.7	100.9	134.1
Per cent of GDP	6.4	8.2	5.8	7.7
Net interest payments	6.8	6.8	7.5	7.3
Per cent of GDP	0.4	0.4	0.4	0.4

(a) Net financial worth equals total financial assets minus total liabilities.

(b) 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.

Medium term

The budget position is projected to continue to strengthen over the medium term. The underlying cash balance is projected to reach a surplus of 1 per cent of GDP in 2017-18 (Chart 3.2). Net debt is projected to return to zero in 2020-21, after peaking at 8.9 per cent of GDP in 2011-12 (Chart 3.3).

