PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

Tax receipts have been revised down by over $20 billion over the forward estimates, primarily reflecting a weaker global economy and falls in global commodity prices. This substantial write-down in tax receipts has made the return to surplus more difficult.

Returning the budget to surplus in 2012-13 remains appropriate given the current economic conditions, reflecting a targeted approach to savings that minimises the impact of the Government’s fiscal consolidation on the economy. The Australian economy is forecast to grow around trend, the unemployment rate is forecast to remain low and global commodity prices remain high by historical standards.

The Government’s ongoing commitment to fiscal discipline will ensure that Australia’s public finances remain strong and will sustain confidence in the strength of Australia’s economy at a time of global economic uncertainty.

It will also leave Australia well placed to withstand external shocks to the economic outlook. This is important given ongoing uncertainty about how key international risks, including the European sovereign debt crisis, will unfold.

In this MYEFO the Government has made $16.4 billion in targeted and responsible savings to return the budget to a small surplus, fund new services such as the Dental Health Reform Package, and help make room for the delivery of new priorities in future years.

Savings have been achieved through a range of measures including reforms to improve the operation and integrity of the taxation and superannuation systems, reforms to Private Health Insurance (PHI) and reforms to better target training funding to areas of high skill need. These measures will deliver enduring savings, while minimising the impact on the economy.

The underlying cash surplus is expected to be $1.1 billion (0.1 per cent of GDP) in 2012-13, growing to $6.4 billion (0.4 per cent of GDP) in 2015-16.

Net debt is expected to be 9.4 per cent of GDP in 2012-13, slightly higher than expected at Budget. The average net debt position of the major advanced economies (G7) is projected to peak at 95 per cent of GDP in 2016, almost ten times higher than the expected peak in Australia’s net debt of 10.0 per cent of GDP in 2011-12.

Table 3.1: Budget aggregates

	Estimates			
	2012-13		2013-14	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance($b)(a)	**1.5**	**1.1**	**2.0**	**2.2**
Per cent of GDP	0.1	0.1	0.1	0.1
Fiscal balance($b)	**2.5**	**1.2**	**2.6**	**4.3**
Per cent of GDP	0.2	0.1	0.2	0.3
	Projections			
	2014-15		2015-16	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance($b)(a)	**5.3**	**3.3**	**7.5**	**6.4**
Per cent of GDP	0.3	0.2	0.4	0.4
Fiscal balance($b)	**7.0**	**6.9**	**9.5**	**9.8**
Per cent of GDP	0.4	0.4	0.5	0.5

(a) MYEFO figures include net Future Fund earnings, whereas Budget figures include gross Future Fund earnings. This is further explained in Appendix B.

Fiscal strategy

The Government's medium-term fiscal strategy is designed to ensure fiscal sustainability, while providing the necessary flexibility for the Budget position to vary in line with economic conditions.

The medium-term fiscal strategy, which has remained unchanged since the Government's first Budget in 2008-09, is to:

- achieve budget surpluses, on average, over the medium-term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.7 per cent); and
- improve the Government's net financial worth over the medium-term.

To ensure a timely return to surplus and recovery in the fiscal position, since the beginning of the global financial crisis the Government has further committed to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- build growing surpluses by holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

Pressures on the fiscal position since the Budget

The change in global economic conditions and prospects since the Budget has had a significant impact on the fiscal outlook, with a downward revision to tax receipts of around $4 billion in 2012-13 and over $20 billion over the four years to 2015-16.

The changed economic conditions are expected to mainly affect company profits, particularly in the resource sector due to lower global commodity prices, with resultant write-downs to company tax receipts. The falls in commodity prices have also caused significant downgrades to resource rent taxes.

Other major variations since the 2012-13 Budget include:

- an increase in payments of $1.2 billion in 2012-13 associated with a range of immigration-related programs, mainly owing to higher than expected numbers of irregular maritime arrivals in the first quarter of 2012-13;
- an expected increase in payments for Tertiary Student Assistance of $381 million in 2012-13 ($2.0 billion over the forward estimates) associated with an increase in current and projected enrolments in higher education and a growing take-up of income support payments by higher education students; and
- an expected increase in Medicare payments of $358 million in 2012-13, primarily resulting from the extension of the Chronic Disease Dental Scheme (CDDS) to 30 November 2012.

Returning the budget to surplus

Returning to surplus in 2012-13 remains appropriate given current economic conditions, notwithstanding the task becoming more difficult because of further substantial write-downs in tax receipts, driven by a weakening of international growth prospects and falls in global commodity prices.

The economy is forecast to grow at around its trend rate, unemployment is expected to remain low and global commodity prices remain high by historical standards.

While risks to international growth remain firmly on the downside, Australia remains well placed to manage the effects of any further deterioration in the global economy.

The European sovereign debt crisis has highlighted the importance of maintaining strong fiscal discipline and credibility to sustain confidence at a time of heightened instability in financial markets.

The strength of Australia's public finances is a key reason behind Australia's being one of only seven countries to have a AAA rating with a stable outlook from all three major rating agencies.

The Government's fiscal consolidation should continue to provide scope for monetary policy to be eased, if appropriate, without generating price and wage pressures. This recognises that in normal circumstances, monetary policy should play the primary role in managing demand to keep the economy growing at close to capacity, consistent with the medium-term inflation target. The impact of the fiscal consolidation in 2012-13 should be more than offset by growth in private demand, with the aggregate economy growing around trend.

Importantly, the economic impact of the fiscal consolidation in 2012-13 is much smaller than the 3.1 per cent of GDP turnaround in the underlying cash balance. This is because the surplus is being achieved through a combination of targeted and responsible savings and the natural increase in tax receipts associated with a growing economy, assisted by policy measures in this MYEFO to improve the operation and integrity of the tax and superannuation systems.

The fiscal consolidation strengthens Australia's public finances, contributes to the long-term sustainability of the budget and supports Australia's capacity to withstand future shocks.

Savings

In this MYEFO the Government has identified savings of $16.4 billion in 2012-13 and across the forward estimates. These savings build on previous saves of over $130 billion identified by the Government in the five budgets since 2008-09. After paying for all new expenditure since the 2012-13 Budget, including the Dental Health Reform Package and the Government's response to the Expert Panel on Asylum Seekers, the Government has achieved a net saving of $10.5 billion in this MYEFO.

The savings in this MYEFO have been carefully targeted to minimise the overall impact of the fiscal consolidation on the economy and on vulnerable people. The Government will continue to balance these considerations, particularly if there is any further deterioration in economic conditions or in tax receipts. These savings have helped sustain strength in the position of the budget in 2012-13 and over the forward estimates.

Importantly, some of the savings will continue to improve the underlying position of the budget after the end of the forward estimates by reducing the growth of significant areas of expenditure such as the PHI rebate. These enduring savings build on the long-term savings that this Government has made since the 2008-09 Budget and will help make room for emerging priorities over the medium-term.

Box 3.1: Long term savings and the budget position

The Government has made savings decisions since the 2008-09 Budget that will continue to impact on the budget position well beyond the end of the forward estimates. In part, these enduring savings provided the room for significant new priorities, such as the pension increase in the 2009-10 Budget. They have also contributed towards sustaining and improving the budget bottom line over the medium and long-term.

Since the 2008-09 Budget some of the most significant of these savings are:

- Increasing the pension age to 67 by 2023.
- Reforms to the family payments system.
- Means testing of the PHI rebate.
- Reforms to personal tax offsets such as the net medical tax expenses offset and dependent spouse tax offset.
- Fringe benefits tax reforms including changes to the concessions for cars and living away from home allowances.
- Changes to the concessional contribution arrangements for superannuation.
- Means testing for aged care recipients.

In this MYEFO the Government is making further long-term savings to contribute to the budget bottom line beyond the forward estimates. The reforms to the PHI rebate in MYEFO will control one of the fastest growing areas of health expenditure. Other savings include the changes to baby bonus, targeted increases to visa application charges, and the removal of fringe benefits tax concessions for in-house benefits accessed through salary sacrifice.

Without these savings since the 2008-09 Budget, the medium-term budget outlook would be in a much poorer position. Rather than net debt returning to zero in 2020-21, it would be over $250 billion in that year.

Table 3.2 outlines the net budget impact of policy decisions taken since the 2012-13 Budget. It takes into account amounts that have previously been provided for in the Contingency Reserve (and as a result have no net impact on the budget position).

This is the fourth consecutive MYEFO to deliver policy decisions that make a positive contribution to the fiscal outlook across the forward estimates.

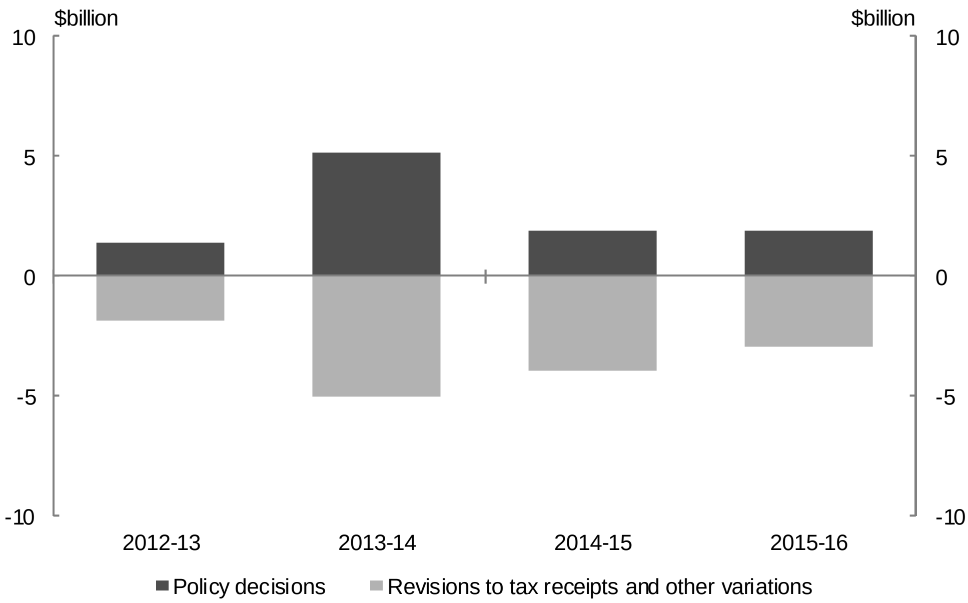
Table 3.2: Delivering fiscal reprioritisation[(a)]

	Estimates		Projections		
	2012-13	2013-14	2014-15	2015-16	Total
	$m	$m	$m	$m	$m
Effect of policy decisions since Budget					
Spends	**-716**	**-1,422**	**-1,875**	**-2,056**	**-6,069**
Saves	**2,127**	**6,543**	**3,792**	**3,953**	**16,415**
Total effect of policy decisions since Budget	**1,411**	**5,121**	**1,917**	**1,897**	**10,346**
Add Contingency Reserve offsets to policy decisions (b)	10	20	44	44	119
Net budget impact of policy decisions	**1,421**	**5,141**	**1,961**	**1,941**	**10,465**

(a) Underlying cash basis.
(b) Includes the revenue provision for the signing of the Malaysian Free Trade Agreement.

The relative impact of revisions in tax receipts (and other variations in MYEFO) 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 and each year of the forward estimates.

Chart 3.1: Change to the underlying cash balance since the 2012-13 Budget



Real growth in payments

Since the 2012-13 Budget, the Government has made a further $16.4 billion in targeted and responsible savings to return the budget to surplus in 2012-13 and deliver small but growing surpluses across the forward estimates. These decisions have contributed to the small change in real growth in payments in 2012-13 compared with the 2012-13 Budget. In total, real growth in payments is estimated to be -4.4 per cent in 2012-13, compared with -4.3 per cent in the 2012-13 Budget.

The Government is delivering on its commitment to restrain real growth in spending to 2 per cent a year on average, until surpluses are at least 1 per cent of GDP, and while the economy is growing at or above trend. Average real growth in payments in 2012-13 and across the forward estimates is around 1.1 per cent (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

	2012-13	2013-14	2014-15	2015-16
Real payment growth	-4.4	4.4	1.6	2.7
Average growth in real payments			1.1	

The discipline imposed on real growth in payments means that government spending, as a share of the economy, is projected to fall by 1.5 percentage points in 2012-13 to 23.8 per cent. It is estimated that payments as a share of GDP will remain relatively stable over the forward estimates. This is the longest period payments will remain at 24 per cent or less as a share of GDP in over 30 years.

FISCAL OUTLOOK

The Australian Government's underlying cash surplus for 2012-13 is estimated to be $1.1 billion (0.1 per cent of GDP). In accrual terms, a fiscal surplus of $1.2 billion (0.1 per cent of GDP) is estimated for 2012-13.

Table 3.4: Australian Government general government sector budget aggregates

	Estimates			
	2012-13		2013-14	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Receipts(a)	**368.8**	**367.0**	**392.5**	**392.6**
Per cent of GDP	23.8	24.0	24.0	24.3
Payments(b)	**364.2**	**363.2**	**387.3**	**387.8**
Per cent of GDP	23.5	23.8	23.7	24.0
Future Fund earnings(c)	3.0	2.7	3.2	2.7
Underlying cash balance(d)	**1.5**	**1.1**	**2.0**	**2.2**
Per cent of GDP	0.1	0.1	0.1	0.1
Revenue(a)	**376.1**	**373.7**	**402.2**	**403.2**
Per cent of GDP	24.2	24.4	24.6	25.0
Expenses	**376.3**	**375.0**	**398.5**	**397.9**
Per cent of GDP	24.3	24.5	24.4	24.7
Net operating balance	-0.2	-1.3	3.7	5.3
Net capital investment	-2.7	-2.5	1.0	1.0
Fiscal balance	**2.5**	**1.2**	**2.6**	**4.3**
Per cent of GDP	0.2	0.1	0.2	0.3
Memorandum item:				
Headline cash balance	**-8.7**	**-7.3**	**-6.8**	**-7.9**

	Projections			
	2014-15		2015-16	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Receipts(a)	**413.6**	**410.0**	**438.4**	**434.6**
Per cent of GDP	24.0	24.1	24.2	24.3
Payments(b)	**404.9**	**403.9**	**427.3**	**425.2**
Per cent of GDP	23.5	23.8	23.6	23.7
Future Fund earnings(c)	3.4	2.8	3.7	3.0
Underlying cash balance(d)	**5.3**	**3.3**	**7.5**	**6.4**
Per cent of GDP	0.3	0.2	0.4	0.4
Revenue(a)	**424.8**	**421.9**	**449.6**	**446.4**
Per cent of GDP	24.7	24.8	24.8	24.9
Expenses	**416.4**	**413.7**	**439.0**	**435.8**
Per cent of GDP	24.2	24.3	24.2	24.3
Net operating balance	8.4	8.2	10.5	10.6
Net capital investment	1.4	1.2	1.1	0.9
Fiscal balance	**7.0**	**6.9**	**9.5**	**9.8**
Per cent of GDP	0.4	0.4	0.5	0.5
Memorandum item:				
Headline cash balance	**-0.1**	**-5.5**	**2.0**	**-0.7**

(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) MYEFO figures report net Future Fund earnings, whereas Budget figures report gross Future Fund earnings. This is further explained in Appendix B.
(d) Excludes expected Future Fund earnings.

Underlying cash balance estimates

The 2012-13 underlying cash surplus is expected to be $0.5 billion lower than expected in the 2012-13 Budget.

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

	Estimates			
	2012-13		2013-14	
	Budget	MYEFO	Budget	MYEFO
	$b	$b	$b	$b
Cash receipts				
Operating cash receipts	363.9	362.2	392.1	392.1
Capital cash receipts(a)	4.9	4.9	0.5	0.5
Total cash receipts(b)	368.8	367.0	392.5	392.6
Cash payments				
Operating cash payments	356.3	355.1	379.8	380.2
Capital cash payments(c)	7.5	7.7	7.0	7.0
Total cash payments	363.8	362.8	386.8	387.3
Finance leases and similar arrangements(d)	0.4	0.4	0.5	0.5
GFS cash surplus(+)/deficit(-)	**4.6**	**3.8**	**5.2**	**4.8**
Per cent of GDP	0.3	0.2	0.3	0.3
less Future Fund earnings(e)	3.0	2.7	3.2	2.7
Underlying cash balance(f)	**1.5**	**1.1**	**2.0**	**2.2**
Per cent of GDP	0.1	0.1	0.1	0.1
Memorandum items:				
Net cash flows from investments in financial assets for policy purposes	-13.3	-11.1	-12.0	-12.7
plus Future Fund earnings(e)	3.0	2.7	3.2	2.7
Headline cash balance	**-8.7**	**-7.3**	**-6.8**	**-7.9**
	Projections			
	2014-15		2015-16	
	Budget	MYEFO	Budget	MYEFO
	$b	$b	$b	$b
Cash receipts				
Operating cash receipts	413.4	409.8	436.8	433.0
Capital cash receipts(a)	0.2	0.2	1.6	1.6
Total cash receipts(b)	413.6	410.0	438.4	434.6
Cash payments				
Operating cash payments	397.2	396.3	418.6	416.6
Capital cash payments(c)	7.7	7.6	8.7	8.6
Total cash payments	404.9	403.9	427.2	425.2
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**8.7**	**6.2**	**11.1**	**9.4**
Per cent of GDP	0.5	0.4	0.6	0.5
less Future Fund earnings(e)	3.4	2.8	3.7	3.0
Underlying cash balance(f)	**5.3**	**3.3**	**7.5**	**6.4**
Per cent of GDP	0.3	0.2	0.4	0.4
Memorandum items:				
Net cash flows from investments in financial assets for policy purposes	-8.8	-11.6	-9.2	-10.1
plus Future Fund earnings(e)	3.4	2.8	3.7	3.0
Headline cash balance	**-0.1**	**-5.5**	**2.0**	**-0.7**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Includes expected Future Fund earnings.
(c) Equivalent to cash payments for purchases of non-financial assets in the 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) MYEFO figures report net Future Fund earnings, whereas Budget figures report gross Future Fund earnings. This is further explained in Appendix B.
(f) Excludes expected Future Fund earnings.

Table 3.6 provides a reconciliation of the variations in the underlying cash balance since the 2012-13 Budget.

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

	Estimates		Projections	
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget underlying cash balance(a)	**1,536**	**2,044**	**5,318**	**7,469**
Per cent of GDP	0.1	0.1	0.3	0.4
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(b)(c)				
Receipts	*1,821*	*6,176*	*2,635*	*2,209*
Payments	*410*	*1,055*	*718*	*312*
Total policy decisions impact on underlying cash balance	1,411	5,121	1,917	1,897
Effect of parameter and other variations(c)				
Receipts	*-3,242*	*-5,595*	*-5,630*	*-5,325*
Payments	*-1,373*	*-595*	*-1,719*	*-2,367*
Total parameter and other variations impact on underlying cash balance	-1,869	-5,000	-3,910	-2,958
2012-13 MYEFO underlying cash balance(a)	**1,077**	**2,165**	**3,325**	**6,408**
Per cent of GDP	0.1	0.1	0.2	0.4

(a) MYEFO figures include net Future Fund earnings, whereas Budget figures include gross Future Fund earnings. This is further explained in Appendix B.
(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 2012-13 Budget have had a positive impact on the underlying cash position of $1.4 billion in 2012-13, and improve the budget position over the forward estimates.

Total parameter and other variations since the 2012-13 Budget have had a negative impact on the underlying cash position of $1.9 billion in 2012-13.

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 2012-13 Budget, total tax receipts have been revised down by $3.9 billion in 2012-13 and $11.4 billion over the four years to 2015-16, leaving the tax-to-GDP ratio broadly unchanged.

While the outlook for the Australian economy is positive, external factors are weighing heavily on parts of the economy and tax receipts. The moderation in world GDP growth has contributed to a greater-than-expected easing in global prices of Australia's non-rural bulk commodities. This has been the primary driver of the substantial write-down in total tax receipts.

The weak external conditions are expected to affect mainly company profits, largely in the resource sector, resulting in substantial downgrades to company tax receipts. These downgrades have been somewhat offset by the scaling back of some resources investment plans, resulting in lower capital expenses. The falls in commodity prices have also led to significant downgrades to resource rent tax receipts.

Taxes on wages and consumption are expected to be broadly unchanged since the Budget.

Abstracting from policy decisions, tax receipts are expected to be lower by around $4 billion in 2012-13 and over $20 billion over the four years to 2015-16 relative to Budget.

Table 3.7: Australian Government general government sector cash receipts — 2012-13

	Estimates		Change on Budget	
	Budget	MYEFO		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	150,600	151,300	700	0.5
Gross other individuals	35,500	35,000	-500	-1.4
less: Refunds	26,240	26,500	260	1.0
Total individuals' and other withholding taxation	159,860	159,800	-60	0.0
Fringe benefits tax	3,830	3,970	140	3.7
Company tax	73,480	71,170	-2,310	-3.1
Superannuation funds	8,050	8,050	0	0.0
Resource rent taxes(a)	7,160	5,400	-1,760	-24.6
Income taxation receipts	**252,380**	**248,390**	**-3,990**	**-1.6**
Sales taxes				
Goods and services tax	48,341	48,432	91	0.2
Wine equalisation tax	770	710	-60	-7.8
Luxury car tax	450	450	0	0.0
Total sales taxes	49,561	49,592	31	0.1
Excise duty				
Petrol	5,900	6,000	100	1.7
Diesel	8,700	8,700	0	0.0
Beer	2,035	2,070	35	1.7
Tobacco	5,850	5,200	-650	-11.1
Other excisable products	4,400	4,500	100	2.3
Of which: Other excisable beverages(b)	940	930	-10	-1.1
Total excise duty receipts	26,885	26,470	-415	-1.5
Customs duty				
Textiles, clothing and footwear	730	700	-30	-4.1
Passenger motor vehicles	940	920	-20	-2.1
Excise-like goods	4,370	4,850	480	11.0
Other imports	1,500	1,530	30	2.0
less: Refunds and drawbacks	200	200	0	0.0
Total customs duty receipts	7,340	7,800	460	6.3
Carbon pricing mechanism	4,020	4,020	0	0.0
Other indirect taxation				
Agricultural levies	440	440	0	0.0
Other taxes	2,480	2,497	17	0.7
Total other indirect taxation receipts	2,920	2,937	17	0.6
Indirect taxation receipts	**90,727**	**90,819**	**93**	**0.1**
Taxation receipts	**343,107**	**339,209**	**-3,897**	**-1.1**
Sales of goods and services	8,289	8,818	529	6.4
Interest received	4,660	4,390	-270	-5.8
Dividends	2,518	3,268	751	29.8
Other non-taxation receipts	10,201	11,356	1,155	11.3
Non-taxation receipts(c)	**25,667**	**27,832**	**2,165**	**8.4**
Total receipts(c)	**368,774**	**367,041**	**-1,733**	**-0.5**
Memorandum:				
Capital gains tax	*10,200*	*8,400*	*-1,800*	*-17.6*
Medicare levy receipts	*9,640*	*9,700*	*60*	*0.6*

(a) Resource rent taxes include PRRT and gross receipts from the MRRT.
(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Includes expected Future Fund earnings.

Table 3.8: Australian Government general government sector cash receipts — 2013-14

	Estimates		Change on Budget	
	Budget	MYEFO		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	163,900	163,900	0	0.0
Gross other individuals	37,900	37,300	-600	-1.6
less: Refunds	26,430	26,700	270	1.0
Total individuals' and other withholding taxation	175,370	174,500	-870	-0.5
Fringe benefits tax	4,310	4,450	140	3.2
Company tax	76,370	78,680	2,310	3.0
Superannuation funds	9,010	9,050	40	0.4
Resource rent taxes(a)	8,190	6,400	-1,790	-21.9
Income taxation receipts	**273,250**	**273,080**	**-170**	**-0.1**
Sales taxes				
Goods and services tax	51,049	51,189	140	0.3
Wine equalisation tax	820	720	-100	-12.2
Luxury car tax	460	460	0	0.0
Total sales taxes	52,329	52,369	40	0.1
Excise duty				
Petrol	5,900	5,950	50	0.8
Diesel	9,200	9,300	100	1.1
Beer	2,183	2,180	-3	-0.2
Tobacco	5,190	4,800	-390	-7.5
Other excisable products	4,710	4,750	40	0.8
Of which: Other excisable beverages(b)	1,030	990	-40	-3.9
Total excise duty receipts	27,183	26,980	-203	-0.7
Customs duty				
Textiles, clothing and footwear	785	720	-65	-8.3
Passenger motor vehicles	1,020	960	-60	-5.9
Excise-like goods	5,310	5,850	540	10.2
Other imports	1,625	1,670	45	2.8
less: Refunds and drawbacks	200	200	0	0.0
Total customs duty receipts	8,540	9,000	460	5.4
Carbon pricing mechanism	6,610	6,640	30	0.5
Other indirect taxation				
Agricultural levies	436	436	0	0.0
Other taxes	3,060	2,888	-172	-5.6
Total other indirect taxation receipts	3,496	3,324	-172	-4.9
Indirect taxation receipts	**98,159**	**98,313**	**154**	**0.2**
Taxation receipts	**371,409**	**371,393**	**-16**	**0.0**
Sales of goods and services	8,696	8,758	63	0.7
Interest received	4,679	4,486	-193	-4.1
Dividends	1,967	2,004	37	1.9
Other non-taxation receipts	5,793	5,954	160	2.8
Non-taxation receipts(c)	**21,135**	**21,201**	**67**	**0.3**
Total receipts(c)	**392,544**	**392,595**	**51**	**0.0**
Memorandum:				
Capital gains tax	*12,900*	*11,000*	*-1,900*	*-14.7*
Medicare levy receipts	*10,250*	*10,390*	*140*	*1.4*

(a) Resource rent taxes include PRRT and gross receipts from the MRRT.
(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Includes expected Future Fund earnings.

Policy decisions

Policy decisions since the 2012-13 Budget have increased receipts by $1.8 billion in 2012-13 and by $6.2 billion in 2013-14.

The revenue saving measures include decisions to remove certain inefficient tax expenditures, as well as a package of measures aimed at improving the operation and fairness of the tax system. Major policy decisions that have increased receipts over the budget and forward estimates include:

- a phased introduction of monthly pay-as-you-go (PAYG) instalments for large companies in Australia. This measure is estimated to raise $8.3 billion on an underlying cash basis over four years;

- provision of $390 million funding to the Australian Taxation Office (ATO) for further compliance activities to continue to target profit shifting and high wealth individuals and to focus on outstanding income tax lodgements in the micro and small business segments increasing cash receipts by $1.6 billion over four years;

- changes to the operation of lost superannuation account provisions to help reunite these accounts with their owners and preserve the value of lost accounts. There will be an increased number of lost superannuation accounts transferred to the Australian Taxation Office (ATO) which will be given additional funding to implement this measure and to use their data matching resources to match lost accounts with active accounts. Importantly, this will help keep money in the superannuation system to support individuals' retirement savings. The Government will pay interest on all unclaimed superannuation monies reclaimed from the ATO and these accounts will not be subject to erosion from account fees. The measure will result in increased net receipts of $738 million over four years;

- removing the concessional fringe benefits tax treatment for in-house fringe benefits accessed by way of salary sacrifice arrangements. This measure is estimated to raise $445 million over four years;

- reducing the period of time that banks and other deposit taking and life insurance institutions hold unclaimed moneys from seven to three years increasing receipts by $300 million in 2012-13; and

- targeted increases to a number of Visa Application Charges from 1 January 2013 increasing receipts by $52 million in 2012-13 ($520 million over four years). The changes to visa application charges will apply to skilled graduates, partners, working holiday makers and temporary overseas workers.

The impact of these policy decisions on receipts has been partially offset by a number of decisions that have reduced receipts, including signing the Malaysia-Australia Free Trade Agreement under which both parties agreed to eliminate tariffs on a wide range of goods. This measure has a cost to revenue estimated to be $80 million on an underlying cash basis over four years.

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 circumstances and outlook since the 2012-13 Budget.

Table 3.9: Key economic parameters(a)

	Outcome	Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16
	%	%	%	%	%
Revenue parameters at 2012-13 MYEFO					
Nominal gross domestic product (non-farm)	5.1	4.2	5.5	5 1/4	5 1/4
Change since 2012-13 Budget	*-0.7*	*-0.9*	*0.1*	*0*	*0*
Compensation of employees (non-farm)(b)	7.2	5.4	4.9	5 1/2	5 1/2
Change since 2012-13 Budget	*0.7*	*0.4*	*-0.5*	*0*	*0*
Corporate gross operating surplus(c)	2.7	1.3	6.8	4 3/4	5 1/4
Change since 2012-13 Budget	*-3.4*	*-2.8*	*2.1*	*- 1/2*	*1/4*
Unincorporated business income	-2.6	5.7	4.7	5 1/4	5 1/4
Change since 2012-13 Budget	*-5.5*	*0.4*	*-0.6*	*0*	*0*
Property income(d)	2.8	3.5	6.5	5 1/2	5 1/2
Change since 2012-13 Budget	*-1.1*	*-3.0*	*-0.2*	*0*	*0*
Consumption subject to GST	5.4	5.2	4.6	5 1/2	5 1/2
Change since 2012-13 Budget	*0.3*	*-0.1*	*-0.1*	*0*	*0*

(a) Current prices, per cent change on previous year. Changes since the 2012-13 Budget are percentage points and may not reconcile due to rounding.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate GOS is an Australian National Accounts measure of company profits, gross of depreciation.
(d) Property income measures income derived from rent, dividends and interest.

Parameter and other variations have decreased tax receipts since the 2012-13 Budget by $4.0 billion in 2012-13 and $5.8 billion in 2013-14.

Income tax withholding receipts have been revised up $790 million in 2012-13, reflecting the higher than expected outcome in 2011-12 for both tax receipts and compensation of employees. Receipts in 2013-14 have been revised down by $90 million, consistent with the slightly weaker outlook for employment growth.

Gross other individuals' taxation has been revised down by $580 million in 2012-13 and $740 million in 2013-14, reflecting weaker than expected income from capital gains. Refunds have been revised up by $260 million in both 2012-13 and 2013-14 also reflecting weaker capital gains.

Fringe Benefits tax has been revised up by $120 million in 2012-13 and $140 million in 2013-14, reflecting higher than expected non-cash wage income.

Receipts from superannuation funds are largely unchanged since Budget.

Company tax receipts have been revised down by $2.4 billion in 2012-13 and $3.3 billion in 2013-14, largely reflecting substantial downgrades to resource sector profitability due to lower global commodity prices. These downgrades have been somewhat offset by the scaling back of some business investment plans, resulting in lower capital expenses, and lower resource rent taxes (that are deductible against company tax).

Resource rent taxes have been revised down by $1.8 billion in both 2012-13 and 2013-14, mostly from minerals resource rent tax but also from petroleum resource rent tax. This reflects lower global commodity prices, particularly iron ore prices.

GST receipts remain broadly unchanged since Budget.

Excise duty has been revised down by $400 million in 2012-13 and $220 million in 2013-14, while customs duty has been revised up by $470 million in both 2012-13 and 2013-14. These revisions partly reflect an increase in the share of tobacco excise cleared through the customs system.

Wine equalisation tax receipts have been revised down by $60 million in 2012-13 and $100 million 2013-14, reflecting greater than expected refunds. Luxury car tax receipts remain unchanged from Budget.

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

Major parameter and other variations that have increased non-taxation receipts since the 2012-13 Budget include dividend receipts received by the Government of $500 million in 2012-13 from the Reserve Bank of Australia (RBA). In addition the Government will receive a special dividend from Medibank Private of $300 million in 2012-13 which was already included in the 2012-13 Budget estimates.

Payment estimates

Since the 2012-13 Budget, estimated cash payments for 2012-13 have decreased by $1.0 billion, reflecting increased payments due to new policy decisions of $410 million and decreased payments due to parameter and other variations of $1.4 billion.

Policy decisions

Major policy decisions since the 2012-13 Budget that have increased cash payments in 2012-13 and over the four years to 2015-16 include:

- funding for the Government's Dental Health Reform package which includes initiatives to: establish a Child Dental Benefits Schedule; support the provision of dental health services to adults who rely on the public dental system; and support dental infrastructure and workforce initiatives and redirect the Medicare Teen Dental Plan to offset the package. These measures, which are expected to increase payments by $1.8 billion over four years, are broadly funded by savings in other health-related programs;

- funding of $111 million in 2012-13 ($497 million over four years) as part of the Government's response to the Report for the Expert Panel on Asylum Seekers, including increases to the Humanitarian Program of an additional 6,250 places per annum from 2012-13, and increases to the Family Reunion Stream of the Permanent Migration Program by 4,000 places. The estimated costs of establishing regional processing centres in Nauru and Manus Island, Papua New Guinea are included in MYEFO in the Contingency Reserve but cannot be published as the contracts to build these facilities are currently subject to commercial negotiations;

- funding of $39 million in 2012-13 ($325 million over four years) for the Tasmanian health system to address challenges caused by Tasmania's ageing population, high rates of chronic disease and constraints in their health system; and

- funding to the international contribution to the sustainment of the Afghan National Security Forces (ANSF) with an impact of $154 million over two years from 2014-15. Australia's contribution is part of international efforts to help sustain and support the ANSF beyond the transition of security responsibility in Afghanistan to the Afghan government.

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

- a reduction and movement in funding to a number of grant programs across a range of Government portfolios by $157 million in 2012-13 ($89 million over four years);

- slowing the rate of funding increases for Sustainable Research Excellence by maintaining funding at the 2012 level for the 2013 calendar year, then increasing funding over the three years to a maximum amount of $300 million in 2016. This will decrease payments by $79 million in 2012-13 ($499 million over four years). Funding will then be indexed annually from 2017 by the Higher Education Indexation Factor;

- discontinuing the $1,500 standard commencement incentive, and reducing the standard completion incentive to $1,500, for employers of part-time and casual apprenticeships in non-National Skills Needs List occupations, decreasing payments by $19 million in 2012-13 ($277 million over four years). This will apply immediately for all commencing apprentices. Employers of ongoing apprentices will continue to be eligible for incentives under the previous arrangements until 30 June 2013;

- changes to the calculation of the Government's contribution to private health insurance, which will now be calculated using commercial premiums as at

1 April 2013 and then indexed annually by the lesser of CPI or the actual increase in commercial premiums. This will be used to determine an individual's private health insurance rebate. This decision will take effect from 1 April 2014 and will decrease payments by around $700 million over three years from 2013-14;

- removing the PHI Rebate on the Lifetime Health Cover loading component of PHI premiums decreasing payments from 1 July 2013 and reducing payments by around $390 million over three years;

- reducing the baby bonus rate from $5,000 to $3,000 for second and subsequent children from 1 July 2013 reducing payments by $461 million over three years;

- extending the Trade Training Centres in Schools program to 2018-19, rephasing funding to evenly distribute projects over the life of the program. This rephasing reduces payments by $305 million over four years, with overall funding over the life of the program remaining unchanged; and

- ceasing Facilitation Funding for universities from 1 January 2014 reducing payments by $270 million over three years from 2013-14.

Parameter and other variations

Major increases in cash payments in 2012-13, as a result of parameter and other variations since the 2012-13 Budget, include:

- a range of immigration related programs which are expected to increase payments by $1.1 billion in 2012-13. These include an update in the number of irregular maritime arrivals to reflect experience to date in 2012-13; the forecast impact of Government policies for Offshore Asylum Seeker Management; the consequential impacts of the increase of the Humanitarian Program by 6,250, to 20,000 places; and an increase to the Family Reunion Stream of the Permanent Migration Program;

- Medicare payments which are expected to increase by $358 million in 2012-13, primarily resulting from the extension of the Chronic Disease Dental Scheme (CDDS) to 30 November 2012. The closure of the CDDS is an element of the Government's Dental Health Reform package;

- PHI payments which are expected to increase by $313 million in 2012-13, reflecting a higher than expected increase in the prepayment of PHI policies in June 2012, with a consequent increase in the PHI rebate paid by government in 2012-13;

- Tertiary Student Assistance payments which are expected to increase by $381 million in 2012-13 ($2.0 billion over four years), largely reflecting an increase in projected enrolments in higher education and a growing take up of income support payments by higher education students;

- payments related to Family Tax Benefit (FTB) which are expected to increase by $155 million in 2012-13 ($111 million over four years), largely reflecting a one-off increase in 2012-13 for the Schoolkids Bonus. The increase in 2012-13 largely reflects a shift in recipient preferences to receive FTB payments within the entitlement year (rather than after the end of the year) which is expected to result in a fall in future FTB liabilities and lump sum payments;

- Child Care Benefit and Child Care Rebate payments which are expected to increase by $133 million in 2012-13 ($654 million over four years), largely reflecting higher than expected growth in the hours of childcare utilised;

- employee assistance payments which are expected to increase by $102 million in 2012-13, reflecting an increase in demand for the General Employee Entitlements and Redundancy Scheme. This scheme provides assistance to employees of bankrupt businesses who are owed certain employee entitlements when their employer is subject to an insolvency event;

- Natural Disaster Relief and Recovery Arrangements which are expected to decrease by $9 million in 2012-13 (and increase by $867 million over four years, with the majority of the impact in 2014-15). This largely reflects updated estimates of Australian Government contributions for Queensland disasters that occurred in 2011-12; and

- Residential Care Subsidies, which are expected to increase by $390 million over four years (with no impact in 2012-13), reflecting revised forecasts for demand based on 2011-12 data.

Major reductions in expected payments in 2012-13, as a result of parameter and other variations since the 2012-13 Budget include:

- changes in the timing of funding to a number of grant programs across a range of Government portfolios to better reflect the expected timing of payments ($324 million in 2012-13 ($125 million over four years));

- Australian Government general recurrent grants funding for schools which is expected to be $317 million lower in 2012-13 ($1.5 billion over four years) than forecast in the 2012-13 Budget. This reflects lower than previously forecast cost increases in average recurrent expenditure on educating students at government schools;

- National Health Reform Funding, which is expected to be $254 million lower in 2012-13 ($1.5 billion over four years), reflecting downward revisions to the weighted population used to calculate hospital utilisation following the 2011 Census and the Australian Institute of Health and Welfare health price index, which has been driven by a higher Australian dollar leading to lower prices for medical equipment that is sourced from overseas;

- a delay in consideration of reward payment funding of up to $175 million in 2012-13 for the Improving Teacher Quality National Partnership as a result of performance milestones for 2012-13 being renegotiated with the States. This negotiation process is likely to impact on the COAG Reform Council's ability to complete its assessment before May 2013 and subsequently delay the Australian Government making payment until 2013-14; and

- payments to Job Services Australia which are expected to decrease by $150 million in 2012-13 ($376 million over four years) reflecting a reduction in forecast client numbers and a decline in the proportion of jobseekers requiring more intensive employment assistance services.

Consistent with previous budgets, the underlying cash balance has been improved by the regular drawdown 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 surplus by $1.2 billion in 2012-13, a deterioration of $1.3 billion from the expectation in the 2012-13 Budget.

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

Table 3.10: Reconciliation of general government sector fiscal balance estimates

	Estimates		Projections	
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget fiscal balance	**2,500**	**2,646**	**7,020**	**9,457**
Per cent of GDP	0.2	0.2	0.4	0.5
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)(b)				
Revenue	839	6,486	2,918	2,499
Expenses	215	530	596	223
Net capital investment	238	104	-120	-149
Total policy decisions impact on fiscal balance	386	5,852	2,442	2,424
Effect of parameter and other variations(a)				
Revenue	-3,171	-5,522	-5,877	-5,620
Expenses	-1,439	-1,179	-3,340	-3,456
Net capital investment	-53	-121	2	-46
Total parameter and other variations impact on fiscal balance	-1,679	-4,222	-2,539	-2,118
2012-13 MYEFO fiscal balance	**1,207**	**4,275**	**6,923**	**9,762**
Per cent of GDP	0.1	0.3	0.4	0.5

(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 $2.3 billion in 2012-13. 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.

Movements in non-taxation revenue that are not matched by an equal movement in non-taxation receipts include:

- the dividends expected to be received by the Government from the RBA ($500 million) and the Australian Reinsurance Pool Commission ($400 million over four years), which have a significantly different impact on accrual revenue compared to cash receipts. The dividend revenue is recognised when the entitlement to the dividend is established, not when the dividend receipt is received;
- a reduction in the revenue attributable to the Higher Education Loan Program of $348 million in 2012-13 as a result of revised discount rates used in the valuation of student loans, with no impact on the underlying cash balance. The decrease in revenue is more than offset by a decrease in expenses relating to the revised discount rate; and
- changes to the operation of lost superannuation account provisions where there are differences between the timing of accrual revenue and expenses compared to cash receipts and payments (a difference of $63 million across the forward estimates).

Detailed Australian Government general sector revenue estimates for 2012-13 and 2013-14, compared with the estimates published in the 2012-13 Budget, are provided in Tables 3.11 and 3.12 respectively.

Table 3.11: Australian Government general government sector accrual revenue — 2012-13

	Estimates		Change on Budget	
	Budget	MYEFO		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	151,620	152,590	970	0.6
Gross other individuals	37,670	37,840	170	0.5
less: Refunds	26,240	26,500	260	1.0
Total individuals' and other withholding taxation	163,050	163,930	880	0.5
Fringe benefits tax	3,900	4,040	140	3.6
Company tax	75,032	72,982	-2,050	-2.7
Superannuation funds	8,250	8,250	0	0.0
Resource rent taxes(a)	7,410	5,580	-1,830	-24.7
Income taxation revenue	**257,642**	**254,782**	**-2,860**	**-1.1**
Sales taxes				
Goods and services tax	50,486	50,790	304	0.6
Wine equalisation tax	780	720	-60	-7.7
Luxury car tax	450	450	0	0.0
Total sales taxes	51,716	51,960	244	0.5
Excise duty				
Petrol	5,900	6,000	100	1.7
Diesel	8,700	8,700	0	0.0
Beer	2,035	2,070	35	1.7
Tobacco	5,850	5,200	-650	-11.1
Other excisable products	4,400	4,520	120	2.7
Of which: Other excisable beverages(b)	940	930	-10	-1.1
Total excise duty revenue	26,885	26,490	-395	-1.5
Customs duty				
Textiles, clothing and footwear	730	700	-30	-4.1
Passenger motor vehicles	940	920	-20	-2.1
Excise-like goods	4,370	4,850	480	11.0
Other imports	1,510	1,540	30	2.0
less: Refunds and drawbacks	180	180	0	0.0
Total customs duty revenue	7,370	7,830	460	6.2
Carbon pricing mechanism	7,690	7,690	-	-
Other indirect taxation				
Agricultural levies	440	440	0	0.0
Other taxes	2,883	2,900	17	0.6
Total other indirect taxation revenue	3,323	3,339	17	0.5
Indirect taxation revenue	**96,984**	**97,309**	**326**	**0.3**
Taxation revenue	**354,626**	**352,092**	**-2,534**	**-0.7**
Sales of goods and services	8,264	8,594	330	4.0
Interest	5,113	4,465	-648	-12.7
Dividends	2,485	2,479	-6	-0.2
Other non-taxation revenue	5,583	6,109	526	9.4
Non-taxation revenue(c)	**21,445**	**21,647**	**202**	**0.9**
Total revenue(c)	**376,071**	**373,739**	**-2,332**	**-0.6**
Memorandum:				
Capital gains tax	*10,200*	*8,400*	*-1,800*	*-17.6*
Medicare levy revenue	*9,640*	*9,700*	*60*	*0.6*

(a) Resource rent taxes include PRRT and gross revenue from the MRRT.
(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Include Future Fund earnings.

Table 3.12: Australian Government general government sector accrual revenue — 2013-14

	Estimates		Change on Budget	
	Budget	MYEFO		
	$m	$m	$m	%
Individuals' and other withholding taxes				
Gross income tax withholding	164,980	165,250	270	0.2
Gross other individuals	40,250	40,080	-170	-0.4
less: Refunds	26,430	26,700	270	1.0
Total individuals' and other withholding taxation	178,800	178,630	-170	-0.1
Fringe benefits tax	4,390	4,530	140	3.2
Company tax	77,901	80,459	2,558	3.3
Superannuation funds	9,220	9,290	70	0.8
Resource rent taxes(a)	8,350	6,560	-1,790	-21.4
Income taxation revenue	**278,661**	**279,469**	**808**	**0.3**
Sales taxes				
Goods and services tax	53,234	53,730	496	0.9
Wine equalisation tax	830	730	-100	-12.0
Luxury car tax	460	460	0	0.0
Total sales taxes	54,524	54,920	396	0.7
Excise duty				
Petrol	5,380	5,840	460	8.6
Diesel	9,200	9,120	-80	-0.9
Beer	2,183	2,140	-43	-2.0
Tobacco	5,190	4,710	-480	-9.2
Other excisable products	4,710	4,640	-70	-1.5
Of which: Other excisable beverages(b)	1,030	990	-40	-3.9
Total excise duty revenue	26,663	26,450	-213	-0.8
Customs duty				
Textiles, clothing and footwear	785	720	-65	-8.3
Passenger motor vehicles	1,020	960	-60	-5.9
Excise-like goods	5,310	5,850	540	10.2
Other imports	1,635	1,680	45	2.8
less: Refunds and drawbacks	180	180	0	0.0
Total customs duty revenue	8,570	9,030	460	5.4
Carbon pricing mechanism	8,685	8,685	0	0
Other indirect taxation				
Agricultural levies	436	436	0	0.0
Other taxes	3,188	3,033	-155	-4.9
Total other indirect taxation revenue	3,625	3,470	-155	-4.3
Indirect taxation revenue	**102,067**	**102,555**	**488**	**0.5**
Taxation revenue	**380,727**	**382,023**	**1,296**	**0.3**
Sales of goods and services	8,641	8,791	149	1.7
Interest	5,209	4,628	-580	-11.1
Dividends	1,966	1,950	-16	-0.8
Other non-taxation revenue	5,654	5,769	115	2.0
Non-taxation revenue(c)	**21,470**	**21,138**	**-332**	**-1.5**
Total revenue(c)	**402,197**	**403,161**	**964**	**0.2**
Memorandum:				
Capital gains tax	*12,900*	*11,000*	*-1,900*	*-14.7*
Medicare levy revenue	*10,250*	*10,390*	*140*	*1.4*

(a) Resource rent taxes include PRRT and gross revenue from the MRRT.
(b) Other excisable beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) Include Future Fund earnings.

Expense and net capital investment

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

- an increase in accrued superannuation expenses for civilian superannuation schemes of $1.1 billion reflecting differences between the timing of cash payments and accrued expenses;
- a reduction in the expenses attributable to the concessional loans under the Higher Education Loan Program (HELP) of $736 million in 2012-13 as a result of revised discount rates used in the valuation of student loans, with no impact on the underlying cash balance. This expense reduction is related to the decrease in HELP revenue outlined above; and
- the provision of GST to the States and Territories, reflecting higher than estimated GST entitlements ($440 million) relating to the 2011-12 financial year. This amount was accrued in 2011-12 and will be paid in 2012-13.

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	
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget expenses	**376,273**	**398,503**	**416,449**	**439,044**
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)	215	530	596	223
Effect of economic parameter variations				
Total economic parameter variations	245	576	29	199
Unemployment benefits	*-197*	*186*	*-59*	*-67*
Prices and wages	*391*	*288*	*-113*	*-60*
Interest and exchange rates	*1*	*1*	*1*	*1*
GST payments to the States	*50*	*100*	*200*	*325*
Public debt interest	0	-313	-377	-527
Program specific parameter variations	1,299	-631	-1,522	-1,742
Other variations	-2,984	-810	-1,470	-1,386
Total variations	**-1,224**	**-649**	**-2,744**	**-3,233**
2012-13 MYEFO expenses	**375,049**	**397,854**	**413,704**	**435,811**

(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	
	2012-13	2013-14	2014-15	2015-16
	$m	$m	$m	$m
2012-13 Budget net capital investment	**-2,701**	**1,048**	**1,361**	**1,059**
Changes from 2012-13 Budget to 2012-13 MYEFO				
Effect of policy decisions(a)	238	104	-120	-149
Effect of parameter and other variations	-53	-121	2	-46
Total variations	**185**	**-17**	**-118**	**-194**
2012-13 MYEFO net capital investment	**-2,517**	**1,032**	**1,244**	**865**

(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 expected to be $144.0 billion (or 9.4 per cent of GDP) in 2012-13, slightly higher than the level expected in the 2012-13 Budget ($143.3 million or 9.2 per cent of GDP).

The increase in the expected level of net debt since the Budget is primarily driven by an increase in the market value of the stock of Commonwealth Government Securities (CGS) on issue, owing to lower yields (interest rates) than were assumed at the time of the Budget.

The impact on net debt from the increase in the market value of CGS has been partially offset by an increase in the value of some financial assets, including an increase in the value of HELP assets.

Net debt is expected to have peaked, as a percentage of GDP, at 10 per cent in 2011-12, and is expected to reduce to 7.7 per cent of GDP in 2015-16. Australia's level of net debt remains low by international standards. Based on the latest IMF forecasts, the average level of net debt for the major advanced economies (G7), measured for all levels of government, was 84.1 per cent of GDP in 2011. The average net debt position of the major advanced economies is projected to peak at 95 per cent of GDP in 2016, almost ten times higher than the expected peak in Australia's net debt.

Net financial worth for the Australia Government general government sector is expected to be -$257.9 billion (16.9 per cent of GDP) in 2012-13, compared to the Budget estimate of -$248.6 billion (16.0 per cent of GDP). Net worth for the Australian Government general government sector is expected to be -$145.3 billion (9.5 per cent of GDP) in 2012-13, compared to the Budget estimate of -$137.8 billion (8.9 per cent of GDP).

The changes to net debt described above also impact on net financial worth and net worth. Other factors impacting on the value of net financial worth and net worth in 2012-13 since the Budget include increases in the provisions for military workers compensation and university superannuation as a result of actuarial revaluations.

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

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

	Estimates			
	2012-13		2013-14	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Financial assets	238.5	245.7	255.4	263.8
Non-financial assets	110.9	112.6	111.5	113.2
Total assets	**349.4**	**358.4**	**366.8**	**377.0**
Total liabilities	**487.2**	**503.7**	**499.6**	**515.3**
Net worth	**-137.8**	**-145.3**	**-132.8**	**-138.3**
Net financial worth(a)	**-248.6**	**-257.9**	**-244.3**	**-251.5**
Per cent of GDP	-16.0	-16.9	-15.0	-15.6
Net debt(b)	**143.3**	**144.0**	**144.9**	**144.6**
Per cent of GDP	9.2	9.4	8.9	9.0
Net interest payments	**7.0**	**7.1**	**6.8**	**6.6**
Per cent of GDP	0.5	0.5	0.4	0.4
	Projections			
	2014-15		2015-16	
	Budget $b	MYEFO $b	Budget $b	MYEFO $b
Financial assets	269.6	281.1	283.4	294.8
Non-financial assets	112.2	113.9	114.0	115.5
Total assets	**381.9**	**395.0**	**397.4**	**410.3**
Total liabilities	**505.5**	**524.1**	**509.1**	**527.2**
Net worth	**-123.6**	**-129.1**	**-111.8**	**-116.9**
Net financial worth(a)	**-235.9**	**-243.0**	**-225.8**	**-232.4**
Per cent of GDP	-13.7	-14.3	-12.4	-13.0
Net debt(b)	**140.1**	**144.3**	**131.6**	**137.7**
Per cent of GDP	8.1	8.5	7.3	7.7
Net interest payments	**7.0**	**6.7**	**8.2**	**7.8**
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, 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, the same year as projected in Budget. This reflects the natural recovery in tax receipts as the economy continues to grow and the application of the Government's commitment to hold real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend (Chart 3.2). Net debt is projected to return to zero in 2020-21, also unchanged from Budget (Chart 3.3).

Chart 3.2: Underlying cash balances projected to 2022-23

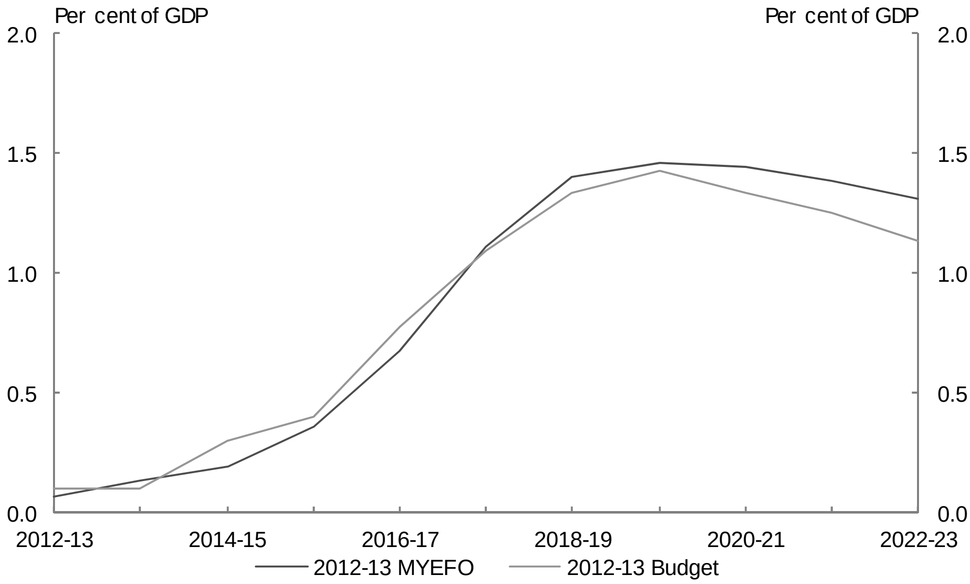


Chart 3.3: Government net debt projected to 2022-23