Budget 2019-20

Budget Strategy and Outlook
Budget Paper No. 1
2019-20

Circulated by

The Honourable Josh Frydenberg MP
Treasurer of the Commonwealth of Australia

and

Senator the Honourable Mathias Cormann
Minister for Finance and the Public Service
of the Commonwealth of Australia

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on the occasion of the Budget 2019-20

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Manager
Media Unit
The Treasury
Langton Crescent
Parkes ACT 2600
Email: medialiaison@treasury.gov.au

Internet

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Notes

(a) The following definitions are used in this Budget Paper:

- 'real' means adjusted for the effect of inflation;
- real growth in expenses and payments is calculated using the Consumer Price Index (CPI) as the deflator;
- the Budget year refers to 2019-20, while the forward years refer to 2020-21, 2021-22 and 2022-23; and
- one billion is equal to one thousand million.

(b) Figures in tables and generally in the text have been rounded. Discrepancies in tables between totals and sums of components are due to rounding:

- estimates under $100,000 are rounded to the nearest thousand;
- estimates $100,000 and over are generally rounded to the nearest tenth of a million;
- estimates midway between rounding points are rounded up; and
- the percentage changes in statistical tables are calculated using unrounded data.

(c) For the budget balance, a negative sign indicates a deficit while no sign indicates a surplus.

(d) The following notations are used:

-	nil
na	not applicable (unless otherwise specified)
$m	millions of dollars
$b	billions of dollars
nfp	not for publication
(e)	estimates (unless otherwise specified)
(p)	projections (unless otherwise specified)
NEC/nec	not elsewhere classified

(e) The Australian Capital Territory and the Northern Territory are referred to as 'the territories'. References to the 'states' or 'each state' include the territories. The following abbreviations are used for the names of the states, where appropriate:

NSW	New South Wales
VIC	Victoria
QLD	Queensland
WA	Western Australia
SA	South Australia
TAS	Tasmania
ACT	Australian Capital Territory
NT	Northern Territory

(f) In this paper the term 'Commonwealth' refers to the Commonwealth of Australia. The term is used when referring to the legal entity of the Commonwealth of Australia.

The term 'Australian Government' is used when referring to the Government and the decisions and activities made by the Government on behalf of the Commonwealth of Australia.

Budget Paper No. 1, *Budget Strategy and Outlook 2019-20*, is one of a series of Budget Papers that provides information to supplement the Budget Speech. A full list of the series is printed on the inside cover of this paper.

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STATEMENT 1: BUDGET OVERVIEW

The 2019-20 Budget delivers a surplus for the first time in over a decade. This Budget reinforces the Government's commitment to investing in Australia's future by strengthening the economy and guaranteeing essential services, while keeping taxes low.

Australia's economy remains in fundamentally good shape. Employment growth has been strong with over 1.2 million jobs created since September 2013. The unemployment rate is at its lowest level in more than seven years and the participation rate is at a near-record high. However, there are a range of risks both domestically and abroad.

The plan for a stronger economy is based on fiscal discipline and policies that enhance the economy's productive potential. This plan will help meet the challenges ahead while boosting incomes.

The underlying cash balance is forecast to be a surplus of $7.1 billion in 2019-20, with surpluses projected to build to more than 1 per cent of GDP in the medium term.

With the budget returning to surplus, the Government is strengthening its focus on paying down debt to reduce the fiscal burden on future generations.

Over the medium term, net debt is projected to be eliminated entirely and gross debt is projected to fall to 12.8 per cent of GDP.

The Government is delivering lower taxes by:

- providing tax relief to hard-working low- and middle-income Australians, with immediate relief of up to $1,080 for singles, or up to $2,160 for dual income families, and structural reform so a projected 94 per cent of Australian taxpayers will face a marginal tax rate no higher than 30 per cent in 2024-25;
- providing lower taxes to small and medium-sized businesses by increasing the instant asset write-off and expanding access to it alongside the lower tax rates the Government has already legislated; and
- safeguarding the integrity of the tax system by ensuring everyone, including multinationals and big business, pay their fair share.

A major focus of the Budget is the significant increase in infrastructure spending to $100 billion over the next decade. This recognises its role in managing population growth, easing congestion and ensuring towns and regions are better connected. This includes:

- a new fast rail plan for Australia including a $2 billion contribution to the Melbourne-Geelong fast rail project;
- a $3 billion increase in the Urban Congestion Fund including $500 million for a new Commuter Car Park Fund;
- an additional $1 billion for the next phase of the Roads of Strategic Importance initiative; and
- $15.6 billion for additional road and rail projects across the country.

The Government is continuing to guarantee the essential services on which Australians rely by:

- strengthening Medicare to ensure that Australians can access quality and affordable healthcare;
- providing more affordable access to medicines through additional listings on the Pharmaceutical Benefits Scheme;
- continuing to strengthen the safety, quality, integrity of and access to Australia's aged care system;
- providing $291.6 billion to the end of 2029 for government and non-government schools, while working with states and territories to lift student outcomes; and
- investing $525.3 million to modernise the vocational education and training sector, including 80,000 new apprenticeships, to ensure that workers and employers are equipped with the skills they need today and in the future.

The Government is investing in the prosperity, security and resilience of communities by:

- taking decisive action to ensure a more affordable, reliable and sustainable energy system;
- investing in communities to improve local infrastructure, upgrade regional communications connectivity, address local environmental issues and boost tourism;
- providing $328 million for women's and children's safety as well as programs to keep children safe online; and
- better supporting Australians through drought and natural disasters with the creation of new drought resilience and emergency response funds.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The 2019-20 Budget confirms the return to a surplus in 2019-20, with surpluses continuing over the medium term. These surpluses will pay down debt to ensure that Australia is better equipped to deal with future challenges and to reduce the fiscal burden on future generations.

The Australian economy is fundamentally sound, with the unemployment rate falling to 4.9 per cent and the creation of more than 1.2 million jobs since September 2013. Real GDP is expected to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21. The economy is expected to be supported by solid growth in business investment, exports and the roll-out of major public infrastructure projects. Growth in Australia's major trading partners has outpaced global growth over the past decade. This is forecast to continue and, combined with new opportunities from Australia's growing number of free trade agreements, will support the domestic economy. At the same time, there are a number of risks and uncertainties around the outlook, including global trade tensions and conditions in the domestic housing market.

The Government is building on its Personal Income Tax Plan announced in the 2018-19 Budget. In this Budget, the Government will provide additional tax relief for low- and middle-income earners to reward hard-working Australians and support consumption growth. The Government will also introduce further structural tax reform, lowering the 32.5 per cent tax rate to 30 per cent from 2024-25. Combined with the already legislated abolition of the 37 per cent tax rate from that year, this means a single 30 per cent marginal tax rate will apply to taxable incomes from $45,000 to $200,000. These changes will improve incentives for hard-working Australians and increase the reward for effort while maintaining a progressive tax system.

The Government continues to invest in productivity-enhancing infrastructure to ease congestion and manage a growing population, as well as providing Australians with the essential services they rely on.

After a decade of deficits, the budget is returning to surplus in 2019-20 with an underlying cash surplus of $7.1 billion, equal to 0.4 per cent of GDP. Sustained fiscal discipline will ensure these surpluses exceed 1 per cent of GDP in the medium term.

Maintaining a strong economy and ongoing fiscal discipline is the best way of securing a more prosperous future for Australians.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
Underlying cash balance ($b)(b)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Net operating balance ($b)	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.

Payments as a proportion of GDP are expected to fall to 24.5 per cent by the end of the forward estimates, slightly lower than forecast at the 2018-19 MYEFO and remaining lower than the 30-year average of 24.7 per cent of GDP.

Receipts as a proportion of GDP are expected to increase over the forward estimates, broadly in line with forecasts at the 2018-19 MYEFO, with tax receipts remaining below the Government's tax-to-GDP cap of 23.9 per cent.

Net debt is forecast to fall to 18 per cent of GDP in 2019-20 and will continue to decline as a share of GDP over the forward estimates. Further improvements are projected across the medium term to eliminate net debt by 2029-30. Gross debt will also fall below its 30-year average in the medium term.

ECONOMIC OUTLOOK

The Australian economy has entered its 28th consecutive year of annual economic growth and its fundamentals are sound. Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21. Household consumption, business investment, public final demand and exports are all forecast to contribute to growth. The unemployment rate is expected to be 5 per cent across the forecast period.

The economy is expected to continue to benefit from solid global growth, especially amongst Australia's major trading partners. While there was some loss of momentum in the international economy in the second half of 2018 and the IMF and OECD have revised down their growth projections, global growth continues to be supported by accommodative monetary policy, solid labour market outcomes and the unwinding of some temporary dampening factors such as natural disasters in Japan.

Domestically, household consumption growth is expected to pick up over the forecast period supported by continued growth in employment, a pick-up in wage growth, historically low interest rates and the Government's personal income tax relief measures, which have been further enhanced in this Budget and will support household disposable income. Business investment is forecast to record solid growth. Public final demand will contribute to growth as the Government continues to provide essential services such as the National Disability Insurance Scheme and deliver on its $100 billion infrastructure plan. Growth in exports in 2019-20 is expected to be supported by major liquefied natural gas (LNG) projects ramping up production and continuing strong demand for education and travel services from Asia. Rural exports are expected to contribute to growth in 2019-20 on the basis of an assumed return to average seasonal conditions, following a detraction from growth in 2018-19 as a result of the drought.

The labour market is strong, with employment recently growing above its long-run average rate and faster than Australia's population growth. The unemployment rate is at its lowest level in more than seven years and the participation rate is at a near-record high. The female participation rate is historically high and youth labour market outcomes have improved recently. Employment growth is expected to be solid over the forecast period and the unemployment rate is forecast to be 5 per cent. As growth in the economy picks up and spare capacity in the labour market continues to be reduced, wage growth and inflation are expected to rise.

Nominal GDP is forecast to grow by 5 per cent in 2018-19, 3¼ per cent in 2019-20 and 3¾ per cent in 2020-21. Nominal GDP growth is influenced by the terms of trade, which have been supported recently by higher-than-assumed commodity prices, in particular for iron ore and metallurgical coal. The moderation in nominal GDP growth in 2019-20 reflects a fall in the terms of trade as key commodity prices are assumed to decline to more sustainable levels. This is partially offset by a pick-up in real GDP growth and in wages and domestic prices.

As always there are a number of risks and uncertainties around the forecasts. Internationally, while some risks have lessened somewhat since the MYEFO, downside risks remain around trade tensions, emerging market debt vulnerabilities and geopolitical issues. The risks associated with Brexit have become more pronounced in recent months although Australia's trade is oriented more towards Asia than Europe.

Domestically, uncertainty about the outlook for the housing market, in particular the extent to which housing prices fall, poses a downside risk to the forecasts for both dwelling investment and consumption. A more subdued outlook for household income, or a further tightening in credit conditions, could constrain household spending amid high levels of household debt. In contrast, faster-than-expected wage or employment growth could lead to household consumption growth being stronger than forecast. There are also uncertainties around the pace of recovery in rural exports given that the outlook will depend on how weather conditions develop and how the sector recovers from recent drought and flood events.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Real GDP	2.8	2 1/4	2 3/4	2 3/4	3	3
Employment	2.7	2	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5.4	5	5	5	5	5
Consumer price index	2.1	1 1/2	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	2.1	2 1/2	2 3/4	3 1/4	3 1/2	3 1/2
Nominal GDP	4.7	5	3 1/4	3 3/4	4 1/2	4 1/2

(a) Year-average growth unless otherwise stated. From 2017-18 to 2020-21, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

FISCAL STRATEGY AND OUTLOOK

The Government's economic plan for a stronger economy and securing a better future is delivering a much stronger budget position that allows the Government to pay down debt, deliver more jobs, lower taxes and guarantee essential services including schools, hospitals and roads.

After more than a decade of deficits, the budget is returning to surplus in 2019-20 with an underlying cash surplus of $7.1 billion, equal to 0.4 per cent of GDP. Continued fiscal discipline will ensure these surpluses build over time and exceed 1 per cent of GDP in the medium term.

The Government has charted a responsible path back to surplus with the total turnaround in the underlying cash balance between 2013–14 and 2019-20 projected to be $55.5 billion, or 3.4 per cent of GDP.

The net operating balance is forecast to reach a surplus of $12.9 billion (0.6 per cent of GDP) in 2019-20 and maintain sustainable surpluses over the forward estimates. This means that the Government's recurrent spending is more than funded by revenue over the forward estimates.

The Government remains focused on controlling growth in government spending. As a proportion of GDP, payments are forecast to fall below the historical average of 24.7 per cent from 2019-20. The average real growth in spending is expected to be 1.9 per cent under the Government, the lowest average of any government in 50 years.

The Government has continued to offset new spending decisions to make room for new spending priorities. Since 2013-14, the Government has implemented savings measures with a combined effect of more than $200 billion through to 2022-23.

A stronger economy and sustained fiscal discipline has enabled the Government to guarantee essential services, invest in important economic and community infrastructure, and respond to unexpected developments, including the severe effects of drought and floods in parts of Australia.

The Government is committed to keeping the tax burden on hard-working Australians as low as possible. Tax receipts as a share of GDP are expected to be 23.3 per cent in 2019-20 and remain below 23.9 per cent until 2029-30.

Compared with the 2018-19 MYEFO, the 2019-20 Budget forecasts for tax receipts have been revised down by $18.2 billion over the four years to 2022-23. The revisions have been driven by parameter and other variations, and policy decisions, including the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan.* Policy decisions are expected to reduce tax receipts by $3.2 billion over the four years to 2022-23.

Excluding policy decisions, tax receipts have been revised down by $15 billion over the four years to 2022-23, as revisions to the outlook for household consumption, dwelling investment and average wages weigh on the forecasts. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

Net debt is expected to be 18 per cent of GDP in 2019-20, and is projected to continue to decline before being eliminated entirely in the final year of the medium term. Gross debt is expected to be 27.9 per cent of GDP in 2019-20, falling to 12.8 per cent of GDP by the end of the medium term, below its 30-year average.

With ongoing risks to the global economy, strong fiscal management is essential to build the buffers that will allow the Australian economy to better absorb major economic and financial shocks that may be encountered in the future.

BUDGET PRIORITIES

A better tax system

The Government is continuing to provide lower taxes for hard-working Australians and small and medium-sized business, and is improving the integrity of the tax system.

Lower taxes for hard-working Australians

In this Budget, the Government will again provide tax relief for hard-working low- and middle-income Australians. Combined with the legislated Personal Income Tax Plan, this Budget will provide immediate relief of up to $1,080 for singles, or up to $2,160 for dual income families from 2018-19. It will also deliver further structural reform, so that a projected 94 per cent of Australian taxpayers will face a marginal tax rate of no more than 30 per cent in 2024-25.

These changes will maintain Australia's progressive tax system and ease the cost of living. The structural changes improve incentives for working Australians and increase the reward for effort. The changes are consistent with the Government's goals of maintaining a strong economy whilst retaining a sound fiscal position. They build on the Government's legislated Personal Income Tax Plan announced in the 2018-19 Budget.

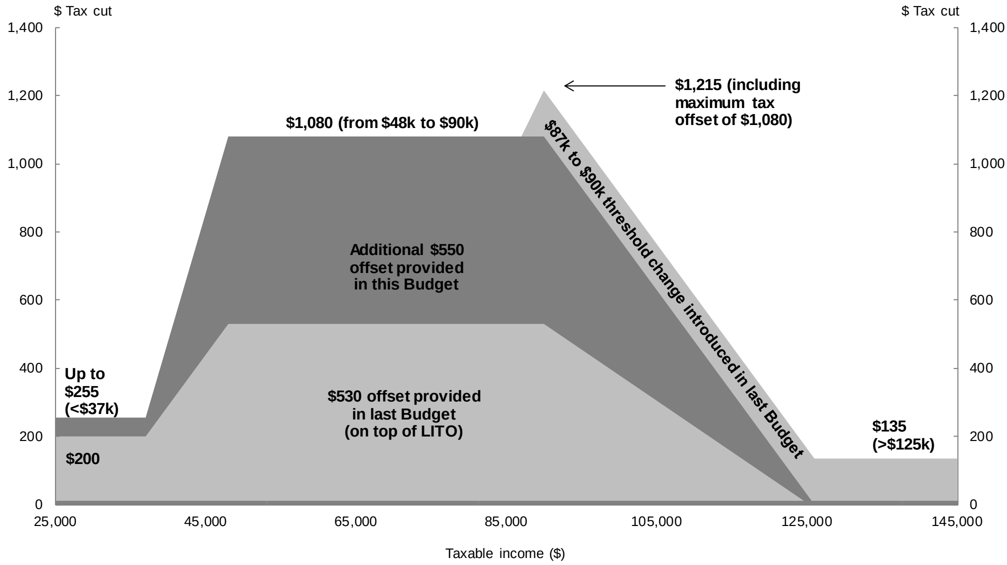
Immediate relief targeted to low- and middle-income earners

From the 2018-19 income year, additional tax relief will be provided to low- and middle-income taxpayers through an increase to the current low and middle income tax offset (LMITO). Under the changes, the maximum tax relief provided by LMITO will increase by $550 from the previous level of $530 to a new maximum of $1,080. The base amount will increase from $200 to $255 for 2018-19 and the next three income years. The LMITO will be received after individuals lodge their 2018-19 tax returns and will continue to be provided in addition to the low income tax offset (LITO).

The LMITO will assist over 10 million Australians, with about 4.5 million taxpayers with taxable incomes between $48,000 and $90,000 receiving the full $1,080 reduction in tax for 2018-19. Families with two people earning between $48,000 and $90,000 will receive a total reduction in tax of $2,160. Around 2.3 million Australians with taxable incomes less than $37,000 will receive an offset of up to $255.

This additional tax relief builds on the increase to the top threshold of the 32.5 per cent tax bracket from $87,000 to $90,000, which took effect from 1 July 2018.

Chart 1: Annual tax relief 2018-19 to 2021-22 from the enhanced plan



Locking in the benefits of lower taxes

The Government will lock in the benefits of the increased LMITO through changes to income tax thresholds and LITO from 1 July 2022. The top threshold of the 19 per cent tax bracket will increase from $41,000 as legislated under the plan to $45,000 and the maximum amount of the LITO will increase from $645 to $700. In total, the Government's enhanced plan will benefit 12.6 million taxpayers in 2022-23.

The widening of the top threshold of the 19 per cent tax bracket from $41,000 to $45,000 will prevent around 590,000 taxpayers from entering the 32.5 per cent tax bracket in 2022-23. This builds on the already legislated increase in the top threshold of the 19 per cent tax bracket from $37,000 to $41,000, which is projected to prevent around 560,000 taxpayers from paying tax at the 32.5 per cent tax rate in 2022-23. In total, more than one million taxpayers will stay under the 32.5 per cent marginal tax rate in 2022-23 as a result of the Government's enhanced plan.

The change to the 19 per cent tax bracket builds on the increase to the top threshold of the 32.5 per cent tax bracket from $90,000 to $120,000, which has already been legislated. This change will prevent around 1.8 million taxpayers from entering the 37 per cent tax bracket in 2022-23.

Structural reforms to the tax system to deliver permanently lower taxes

From 1 July 2024, in addition to the already legislated abolition of the 37 per cent tax rate, the Government will continue to simplify and flatten the tax system to reward hard-working Australians by reducing the 32.5 per cent rate to 30 per cent for taxable incomes between $45,000 and $200,000. The top marginal rate of 45 per cent will remain for taxable incomes above $200,000.

Reducing the 32.5 per cent rate to 30 per cent will more closely align the middle tax rate of the personal income tax system with corporate tax rates, improving incentives for working Australians and increasing the reward for effort. It will also encourage Australians to take on additional work and improve their skills because extra earnings will not be taxed at a higher marginal rate. Around 13.3 million taxpayers are estimated to benefit as a result of the full enhanced plan.

At maturity, the new, simpler tax system will have only three tax rates and will ensure that a projected 94 per cent of taxpayers will face a marginal tax rate of no higher than 30 per cent. This is compared to a projected 16 per cent of taxpayers who would have faced a marginal tax rate of 30 per cent or less if the plan was not in place, and a projected 63 per cent of taxpayers who would have faced a marginal tax rate of 32.5 per cent or less.

Australia currently has relatively high rates of tax, cutting in at relatively low levels of income compared with other countries. Australia's top marginal tax rate cuts in at around 2.2 times average full-time earnings, compared with 4 times in Canada and the UK, and 8 times in the US. Without the changes announced in last year's Budget, Australia's ratio was projected to drop to around 1.7, reducing Australia's international competitiveness and ability to attract and retain talent. Increasing the bottom threshold of the top tax bracket from $180,000 to $200,000 as legislated means that this ratio is now expected to fall more modestly to around 1.9.

Australia will retain a progressive tax system in which those with the greatest ability to pay will continue to contribute a larger share of all personal income tax revenue. It is projected that in 2024-25 around 60 per cent of all personal income tax will be paid by the highest earning 20 per cent of taxpayers, which is broadly similar to that cohort's share if 2017-18 rates and thresholds were left unchanged. By 2024-25 someone earning $200,000 will pay around 10 times more tax than someone earning $45,000.

Table 3: New personal tax rates and thresholds

Rate (%)	2017-18 tax thresholds Income range ($)	Current tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2018 Income range ($)	New tax thresholds From 1 July 2022 Income range ($)
Tax free	0 - 18,200	0 - 18,200	0 - 18,200	0 - 18,200
19	18,201 - 37,000	18,201 - 37,000	18,201 - 37,000	18,201 - 45,000
32.5	37,001 - 87,000	37,001 - 90,000	37,001 - 90,000	45,001 - 120,000
37	87,001 - 180,000	90,001 - 180,000	90,001 - 180,000	120,001 - 180,000
45	>180,000	>180,000	>180,000	>180,000
Low and middle income tax offset	-	Up to 530	Up to 1,080	-
LITO	Up to 445	Up to 445	Up to 445	Up to 700

Rate (%) From 1 July 2024	New tax thresholds From 1 July 2024 Income range ($)
Tax free	0 - 18,200
19	18,201 - 45,000
30	45,001 - 200,000
45	>200,000
LITO	Up to 700

Backing small business

The Government is supporting small and medium-sized businesses to invest, grow and create jobs.

Lower taxes have been fast tracked for around 3.4 million small and medium-sized businesses that employ around 7.1 million workers. Companies with an aggregated annual turnover below $50 million will have a tax rate of just 25 per cent in 2021-22, five years earlier than previously planned. Similar fast tracking will apply to rolling out the 16 per cent tax discount for unincorporated businesses.

The Government is increasing the instant asset write-off threshold for eligible assets to $30,000. It is also expanding access to medium-sized businesses by increasing the aggregated annual turnover threshold for eligibility from $10 million to $50 million. Around 22,000 additional businesses, employing around 1.7 million workers will now be eligible to access the instant asset write-off. This will bring the number of businesses that are eligible to around 3.4 million, employing around 7.7 million workers.

The increased instant asset write-off threshold and expanded eligibility will apply from 7:30pm (AEDT) on 2 April 2019 until 30 June 2020, allowing small and medium-sized businesses to immediately deduct eligible assets costing less than $30,000. The threshold applies on a per asset basis, so eligible businesses can instantly write off multiple assets.

This builds on the Government's announcement of 29 January 2019 that increased the instant asset write-off threshold for small businesses to $25,000.

Improving the integrity of the tax system

The Government is safeguarding the integrity of the tax system by ensuring everyone, including multinationals and big business, pay their fair share. Maintaining tax system integrity helps keep taxes as low as possible and creates a level playing field between businesses.

The Government has taken major steps to increase the integrity of the tax system. The Government has implemented more than a dozen measures, including the Multinational Anti-avoidance Law (MAAL), the Diverted Profits Tax, Country-by-Country Reporting, strengthened transfer pricing rules, hybrid mismatch rules, the Multilateral Instrument and increased penalties for large entities that do not comply with their tax obligations. The ATO estimates the MAAL alone will bring an additional $7 billion of sales revenue back into the Australian tax base each year. Since 1 July 2016, the ATO has raised $12.9 billion in tax liabilities against large public groups and multinationals, as well as wealthy individuals and associated groups.

In this Budget, the Government is extending and expanding the ATO's Tax Avoidance Taskforce, which will help ensure multinationals, trusts and high wealth individuals pay the right amount of tax in Australia. This measure is estimated to raise $4.6 billion in additional tax liabilities over the forward estimates period.

The operations of the black economy risk undermining the tax and other regulatory systems and raises the burden on honest individuals and businesses. Taking measures to tackle its operation remains a priority. The Government has already taken action to clampdown on the black economy, estimated to generate in excess of an additional $5 billion to help fund essential Government services. This has been achieved by extending the taxable payments reporting system to higher risk industries, banning the use of sales suppression tools and establishing the Illicit Tobacco Taskforce.

Investing in economic and community infrastructure

Planning for Australia's future population

The Government has released *Planning for Australia's future population*, a plan to better manage population challenges, including through the Migration Program and increased investment in infrastructure and services in Australia's cities and regions.

The planning level of the Migration Program will be reduced from 190,000 to 160,000 places for four years from 2019-20. The Government is also introducing new visas to support regional Australia and create stronger incentives for new migrants to settle outside the major capitals.

These measures are designed to reduce pressure on Australia's major cities while new arrangements for improved planning across government and more infrastructure are put in place to manage long-term population growth and settlement across Australia.

Managing growth in major cities and investing in the regions

A strong economy depends on ongoing investment in infrastructure to ease congestion in cities and unlock the potential of Australia's regions.

The Australian Government will provide a record $100 billion in funding for its infrastructure plan over the next decade, an increase of around a third compared to the 2018-19 Budget.

This record level of transport infrastructure investment will help get Australians home sooner and safer. These investments also directly support economic activity, create jobs and lift productivity by cutting travel time between worksites and getting products to customers more reliably and quickly.

The Government is committing $2 billion to help deliver a fast rail connection between Geelong and Melbourne. This funding will provide commuters on this key transport corridor with faster and more reliable journey times, cutting travel time in half to just over 30 minutes. The Government will also co-fund five business cases with state governments for fast rail from Sydney to Wollongong, Sydney to Parkes (via Bathurst and Orange), Melbourne to Albury Wodonga, Melbourne to Traralgon, and Brisbane to the Gold Coast. These will build on the fast rail business cases already underway for Sydney to Newcastle, Melbourne to Greater Shepparton, and Brisbane to the regions of Moreton Bay and the Sunshine Coast.

The Government is contributing an additional $3 billion to the Urban Congestion Fund, increasing total funding to $4 billion. This will include $500 million for a Commuter Car Park Fund, which will improve access to public transport by funding park and ride facilities at rail stations. Urban Congestion Fund projects will target congestion in some of the worst affected urban areas and address local pinch points.

Australians expect their roads to be safe. The Government is providing $2.2 billion for a Local and State Government Road Safety Package. This includes additional funding of $1.1 billion for the Roads to Recovery Program; $550 million for the Black Spots Program; $275 million for the Heavy Vehicle Safety and Productivity Program; and $275 million for the Bridges Renewal Program.

An additional $1 billion is being provided for the next phase of the Roads of Strategic Importance initiative, increasing total funding to $4.5 billion. This includes further investment in strategic corridors, associated feeder roads and other rural roads across the country. This will facilitate additional upgrades of key freight routes to better connect the agriculture and resource sectors to export markets and improve road safety.

The Princes Highway will benefit from a further investment of $1 billion across New South Wales, Victoria and South Australia.

The Government is making additional commitments to each of the states and territories:

- New South Wales will receive an additional $6.1 billion for projects including $1.6 billion for the M1 Pacific Motorway Extension to Raymond Terrace and $400 million to upgrade the Newell Highway.

- Victoria will receive an additional $2.8 billion for projects including $1.1 billion for upgrades of south eastern and northern suburban roads and $700 million for a rail upgrade from South Geelong to Waurn Ponds (Stages 2 and 3).

- Queensland will receive an additional $2.6 billion for projects including $800 million for upgrades to the Gateway Motorway between Bracken Ridge and Pine River and $500 million to ease congestion and improve safety on the M1 from Daisy Hill to the Logan Motorway.

- South Australia will receive an additional $1.8 billion for projects including $1.5 billion for the North-South Corridor and $260 million for a South Australia Regional Roads Package.

- Western Australia will receive an additional $933 million for projects including $349 million for Tonkin Highway upgrades and $140 million for construction of stages 2 and 3 of the Albany Ring Road.

- Tasmania will receive an additional $68 million for the Tasmanian Freight Rail Revitalisation Program – Tranche 3.

- The Australian Capital Territory will receive an additional $50 million for projects with $20 million for the duplication of William Slim Drive. The ACT and NSW will benefit from a $30 million upgrade of the Kings Highway.

- The Northern Territory will receive an additional $60 million for Tiwi Island Road upgrades.

City Deals with a total Commonwealth contribution of $5.7 billion are being delivered in Townsville, Launceston, Western Sydney, Darwin, Hobart, Geelong and Adelaide. The Government is continuing to negotiate a deal for Perth while also pursuing a new City Deal for South East Queensland.

Building on the success of the City Deals model the Government is rolling out Regional Deals in the Barkly region in the Northern Territory ($45.4 million), the Hinkler region covering the Bundaberg and Hervey Bay area in Queensland ($172.9 million), and Albury Wodonga on the New South Wales and Victorian border ($3.2 million for initial planning).

Since 2013, the Government has delivered more than $3 billion in support to regional communities through various grants and programs. The Government is increasing support to regional Australians with an additional $1 billion available through the Building Better Regions Fund, Stronger Communities Programme, Stronger Regional Connectivity Package, Regional Airports Program, Communities Environment Program and tourism projects. These investments will improve liveability through better connectivity and access to services.

Supporting Australians through drought and natural disasters

The Government is providing $6.3 billion of assistance and concessional loans to support those affected by drought and $3.3 billion to support those affected by flood.

The Government has invested in future drought resilience by establishing the new Future Drought Fund with an initial investment of $3.9 billion. Each year $100 million of fund earnings will be made available for important water infrastructure and drought resilience projects, with the balance reinvested so the Fund grows to $5 billion over the next decade.

Grant funding of $300 million will be provided this year to support flood-affected farmers in North Queensland in restocking, replanting and replacing damaged infrastructure. This is in addition to $232 million that has been made available to help North Queenslanders manage the impacts of the recent flood and weather events.

The Government is working closely with the banking sector on proposals to lower the interest rate on business loans for eligible primary producers affected by floods in Northern Queensland to ensure accessible and affordable funding.

The Government is also creating a new $3.9 billion Emergency Response Fund (ERF) to provide a sustainable source of funding to respond to future natural disasters. The ERF will be established as a Commonwealth Investment Fund to finance natural disaster recovery and response initiatives above and beyond existing state and federal programs.

In this Budget, the Government is also providing $130.5 million over five years to reduce the risk and impact of disasters. This includes $104.4 million for a new National Partnership Agreement to support states and territories in reducing disaster risks and $26.1 million to deliver initiatives that reduce disaster risk at a national level.

A more affordable, reliable and sustainable energy system

The Government is taking decisive action to create a more affordable, reliable and sustainable energy system. Australia exceeded its first greenhouse gas reduction target under the Kyoto Protocol (2008–2012) by 128 million tonnes of greenhouse gases and is on track to overachieve on its second Kyoto Protocol target (2013–2020) by 240 million tonnes. An investment of $3.5 billion in a new *Climate Solutions Package*, including a $2 billion Climate Solutions Fund, is designed to support projects that will diversify regional economies and help reduce emissions by an anticipated 103 million tonnes by 2030. The *Climate Solutions Package* will help ensure that Australia meets its emissions reduction target under the Paris agreement.

Australian businesses and households will see savings in their power bills with the Government's $79.2 million investment in new energy efficiency measures, including $50 million in grants to eligible businesses and community organisations, which are expected to deliver 63 million tonnes of emissions reductions. The Government is also providing $284 million for a one-off, income tax exempt payment to over 3.9 million Australians to assist with power bills and cost of living pressures. This payment will be made to recipients of the Age Pension, Disability Support Pension, Carer Payment, Parenting Payment Single, Veterans' Service Payment, Veterans' Income Support Supplement, Veterans' Disability Payments, War Widow(er)s Pension or Permanent Impairment Payments who are residing in Australia as at 2 April 2019.

The Commonwealth is partnering with the Tasmanian Government to unlock additional hydro storage potential in Tasmania through the Battery of the Nation initiative and providing $56 million to link that capability to the mainland through the Marinus Link interconnector; a second electricity transmission connection between Tasmania and Victoria.

A Priority Transmission Taskforce will also be established to support timely delivery of the Australian Energy Market Operator's recommended transmission projects from its Integrated System Plan.

The Government is committing up to $1.4 billion of equity for the Snowy 2.0 project with the remainder of the project to be financed by Snowy Hydro Limited. The project will bring 2000 MW of firm electricity generation into the system and up to 175 hours of energy storage that can meet the peak demand of up to 500,000 homes.

A further $3.5 million has been committed to progress the Underwriting New Generation Initiative. The Government has announced a shortlist of projects, across a range of technology types and with a weighted emissions profile around one third of the National Electricity Market average. The Government is also providing $10 million to conduct detailed evaluation and feasibility of projects in North and Central Queensland through the Underwriting New Generation Investments program.

Delivering skills for today and tomorrow

In addition to lower taxes and more infrastructure, the Government's plan for a stronger economy includes a new skills package that will better prepare Australians for the jobs of today and tomorrow.

The *Delivering Skills for Today and Tomorrow* package invests $525.3 million in vocational education and training.

The Government is helping up to 80,000 additional apprentices over the next five years by expanding apprenticeship incentives in occupations facing shortages of skilled workers, including bakers, bricklayers, carpenters and plumbers. Employers will be eligible for an additional $4,000 payment, and apprentices will be eligible for $2,000 paid at key milestones in the apprenticeship. The list of eligible occupations will be reviewed annually to capture contemporary skill shortages as they emerge.

The Government is establishing a National Skills Commission that will work with states and territories to deliver a nation-wide approach to skills development, serving the needs of both students and industry.

A pilot of Skills Organisations will develop training packages for high demand skills, including in information and communications technology, healthcare, cyber security and aged and disability care. These organisations will foster closer links with industry.

Training Hubs will be piloted in ten regional areas with high youth unemployment, to support students to complete their secondary education and access training relevant to industries facing skill shortages.

The Government is establishing a new foundational literacy, language, numeracy and digital skills program, to equip individuals with the skills they need to move into further education or employment.

These measures respond to the Government-commissioned *Expert review of Australia's vocational education and training system.*

A new approach to employment services

The Government is developing a new employment services model to deliver more intensive support for disadvantaged job seekers.

The new model will provide digital services for job-ready job seekers and enhanced services for disadvantaged job seekers. This transformational reform will deliver an improved service with a more targeted mutual obligation framework and better support to address barriers to work.

This reform will drive better outcomes for job seekers and ensure employers are getting the right people for the job.

A trial of the new model will commence in Adelaide South in South Australia and the Mid North Coast in New South Wales on 1 July 2019. During the trial the existing jobactive contracts, and complementary jobactive programs, will be extended for two years, with the new model commencing nationally from July 2022.

Guaranteeing essential services

A strong healthcare system

The Government is continuing to deliver and boost the essential services which Australians expect and rely on. This includes significant investment in a strong healthcare system.

An estimated $81.8 billion is being provided to the health system in 2019-20, with funding expected to grow to $89.5 billion in 2022-23. Access to essential healthcare and medicines will be enhanced through new measures in this Budget.

The Government is continuing to guarantee and strengthen Medicare to ensure affordable healthcare for all Australians. It is providing $187.2 million to bring forward the indexation of all remaining GP services items on the Medicare Benefits Schedule (MBS) to 1 July 2019. Ultrasound and x-ray diagnostic imaging items will also be indexed from 1 July 2020 at a cost of $198.6 million. A further $32.6 million is being provided to improve access to Magnetic Resonance Imaging scans for patients with breast cancer.

To help reduce the prevalence of heart disease, the Government is introducing a new MBS item for heart health checks, providing funding to HeartKids Australia towards the *Childhood Heart Disease National Action Plan* and providing research funding to cardiovascular health.

This Budget continues to provide affordable access to medicines through the Pharmaceutical Benefits Scheme (PBS). In particular, the Government is investing $331 million to help reduce patient out-of-pocket costs through new and amended listings on the PBS, including life-changing medicines to treat lung, bladder, kidney and skin cancer, and leukaemia.

The $1.3 billion *Community Health and Hospitals Program* is boosting health services across Australia in four priority areas: hospital infrastructure; drug and alcohol treatment; preventative health, primary care and chronic disease management; and mental health. The Program is providing funding to improve facilities and establish centres of excellence, including $100 million for a Comprehensive Children's Cancer Centre at Sydney Children's Hospital and $80 million to establish a Centre of Excellence in Cellular Immunotherapy in Victoria. In addition, the Government is funding mental health programs in remote communities, such as support for Red Dust to expand their services in Alice Springs and surrounding remote communities.

The Government is continuing to invest in medical research, helping to position Australia as a world leader in this field. This Budget outlines the Government's $5 billion *Ten Year Investment Plan* for the Medical Research Future Fund, which includes investments in projects to improve patient care, increase access to clinical trials and improve health outcomes for Australians. This includes $605 million in funding for infrastructure to support medical research, and $220 million for research into cardiovascular health.

This Budget provides $736.6 million over seven years for mental health services, including a commitment of $461.1 million for youth mental health. The mental health funding includes $152 million for the National Headspace Network to reduce waiting lists, $111.3 million to provide 30 new *headspace* services, $109.7 million to extend the Early Psychosis Youth Services program and $114.5 million to trial eight adult mental health centres.

The Government is preventing and minimising the harmful effects of drugs, as part of its $337.2 million comprehensive drug strategy. Through health measures under the strategy, the Government is addressing harmful opioid use, improving family drug support services across Australia, and increasing the capacity of the drug and alcohol workforce in regional and remote areas. Under the strategy, the Government is also providing $153.3 million over four years from 2018-19 to extend support for the *National Ice Action Strategy*.

To support a more active Australia, the Government is providing $385.6 million to build on Sports 2030 by encouraging Australians to increase their participation in sport and by upgrading sporting infrastructure. This includes $150 million to support the development of female change room facilities at sporting grounds and community swimming facilities across Australia; and $41 million to continue and expand the Sporting Schools Program to provide free sport-based activities for school students.

Investing in schools

The Government is investing $291.6 billion in schools to the end of 2029. This is an increase in Commonwealth funding of 63 per cent over the next 10 years. The Government is addressing the findings of the Review to Achieve Educational Excellence in Australian Schools (Gonski 2.0) and is working with the states and territories to lift student outcomes across Australian schools. Funding of $30.2 million is being provided to schools in 2019-20 under the Local School Community Fund to allow schools — and their parent committees — to identify and fund individual priorities such as new equipment.

This Budget, $453.1 million is being committed until the end of 2020 to support continued access to 15 hours per week of quality preschool education for Australian children in the year before school. This will ensure children get the best start to their education.

Supporting older Australians

The Government is continuing to strengthen the safety and quality of Australia's aged care system. It is providing older Australians with more support, whether they choose to live in their homes longer or enter residential aged care. Total funding for aged care is estimated to increase by $3.7 billion from $21.6 billion in 2019-20 to $25.4 billion in 2022-23, helping to ensure quality and safe care.

To support older Australians who choose to remain in their own homes for longer, the Government is providing $282.4 million for 10,000 home care packages and increasing home care supplements for dementia and cognition.

The Government is also investing in residential care, with a $320 million general subsidy boost in 2018-19 and 13,500 new places across Australia. A $60 million capital works program will help aged care providers to construct new, or upgrade existing, residential services — with a particular focus on rural and regional locations.

Complementing the work of the Royal Commission into Aged Care Quality and Safety, the Government is delivering a range of measures to improve the safety and quality of aged care — including introducing mandatory reporting against national care quality indicators, and developing a Serious Incident Response Scheme.

Support for young carers is being expanded with an additional $84.3 million for the Integrated Carer Support Service. This funding will provide flexible support to carers by assisting with transport, cooking and cleaning costs. This added support will also enable younger carers to continue education and training. The additional funding will expand the Regional Delivery Partners network that provides outreach activities, face-to-face peer support and coaching.

A more secure Australia

This Budget is delivering the essential services that ensure the safety and security of all Australians. This includes protecting Australia's borders, combatting people smuggling in the region and deterring people from risking their lives at sea by continuing to invest in Operation Sovereign Borders.

The Government is providing $679.4 million for defence operations to protect Australians and Australia's interests. This Budget maintains the Government's commitment to grow the Defence budget to 2 per cent of GDP by 2020-21. The Government's $200 billion commitment over the next decade to build defence capability will create jobs and provide significant opportunities for Australian industries to supply equipment and services to support the defence forces.

Foreign interference is detrimental to Australia's values and interests. In this Budget, the Government is providing $34.8 million over four years to continue to strengthen Australia's ability to counter foreign interference. This includes funding to support investigations under the *National Security Legislation Amendment (Espionage and Foreign Interference) Act 2018*.

The Government is strengthening Australia's national security and law enforcement agencies. The Government is providing $512.8 million to enhance the Australian Federal Police's ability to deliver on national security and community policing priorities and $58.6 million to continue to build the capabilities of the Australian Security Intelligence Organisation.

Safer communities

The Government is contributing $328 million over four years from 2018-19 to the Fourth Action Plan of the *National Plan to Reduce Violence against Women and their Children 2010-2022*. This will fund prevention initiatives and frontline services to address domestic and family violence.

The Government is committed to protecting the most vulnerable Australians. In this Budget, the Government is providing $527.9 million over five years for the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability.

This Budget is continuing the Government's commitment to prevent child sexual abuse. The Government is providing $7.8 million to the Australian Criminal Intelligence Commission to establish a National Public Register of Child Sex Offenders, which will provide a nationally consistent approach to the public release of information about child sex offenders.

The Government will provide $10 million over four years from 2019-20 to the Office of the eSafety Commissioner to establish a new Online Safety Grants Program to support the delivery of online safety education and training projects for children by non-government organisations. The Government is also working with industry to improve access to parental controls and promote child-friendly Wifi connections. This builds on the Government's existing commitment to a $17 million *Children's Online Safety Package*.

A further $58.2 million is being invested in the Safer Communities Fund to support local councils and community organisations to undertake crime prevention activities, and help protect schools, religious organisations and other sites from the risks associated with religious and racial intolerance.

This Budget is increasing support for migrants to become established and integrated in their communities through an additional $64.2 million for new social cohesion measures. This funding will be used to support local sports programs, community languages, national community hubs and deliver grants that will encourage integration, mutual understanding and celebrate diversity.

The Government's comprehensive drug strategy includes $152 million to strengthen law enforcement efforts to disrupt and reduce the supply of illicit drugs including by targeting the threat posed by outlaw motorcycle gangs.

Supporting veterans and their families

The Government is improving the wellbeing of veterans and their families by continuing the *Putting Veterans and their Families First* program. This program will provide earlier access to services, simplified access to treatment and improved care for veterans with complex circumstances.

The Government is also providing the Australian Civilian Surgical and Medical Team members who worked in Vietnam between 1964 and 1972 with a Gold Card to better recognise the service of this group. In addition, the Government is supporting veterans by investing more than $16 million to assist veterans to find meaningful employment. More than $4 million is being provided to extend the Provisional Access to Medical Treatment Trial and $4 million to provide awareness and intervention training to volunteers who work with veterans to recognise people at risk and provide intervention and support. These measures demonstrate the Government's ongoing commitment to recognise and appreciate veterans' service to Australia.

Restoring trust in the financial system

A strong and trusted financial system is a pillar of the Australian economy. That is why a key part of the Government's plan for a stronger economy is restoring trust in Australia's financial system.

Since coming into office, the Government has implemented a comprehensive financial system reform agenda to improve outcomes for consumers and small businesses, increase the accountability of financial institutions and enhance the powers and resources of the financial system regulators.

Building on these reforms, the Government is taking action on all 76 recommendations of the Royal Commission and, in a number of important areas, is going further, with implementation already underway.

In this Budget, the Government is ensuring the financial system regulators have the resources they need to expand their capability to deliver on their new responsibilities and new enforcement and supervision approach.

The Government will provide the Australian Securities and Investments Commission (ASIC) with additional funding of $404.8 million so that it can undertake an accelerated enforcement strategy, implement an enhanced onsite supervisory capability for large institutions and deliver on its expanded role in relation to superannuation as recommended by the Royal Commission.

The Australian Prudential Regulation Authority's (APRA) budget will be increased by $151.7 million to strengthen its supervisory and enforcement activities, including in relation to governance, culture and remuneration, and to enhance the regulation of superannuation funds. The funding will also support the expansion of the Banking Executive Accountability Regime to include all APRA-regulated entities. The

Government will also establish a new Financial Regulator Oversight Authority as recommended by the Royal Commission to assess ASIC and APRA's effectiveness on an ongoing basis.

The Government is ensuring consumers and small businesses affected by misconduct have access to redress. It will provide $36.1 million to compensate consumers and small businesses who have legacy unpaid external dispute resolution determinations; establish an industry-funded compensation scheme of last resort; and extend the jurisdiction of the Australian Financial Complaints Authority to enable it to consider eligible complaints that have occurred since 1 January 2008 (the timeframe adopted by the Royal Commission). For the first time, the jurisdiction of the Federal Court of Australia will expand to include corporate crime, with the Government providing $35.5 million to support this expansion. The expansion of the Federal Court and additional funding will ensure that those who engage in financial sector criminal misconduct are prosecuted and face the appropriate punishment for their actions more quickly.

To ensure that these reforms achieve lasting change, the Government will establish an independent inquiry in three years that will assess whether industry has implemented the recommendations of the Royal Commission.

STATEMENT 2: ECONOMIC OUTLOOK

This Statement presents the economic forecasts that underlie the Budget estimates.

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STATEMENT 2: ECONOMIC OUTLOOK

OVERVIEW

The fundamentals of the Australian economy remain sound. Employment growth has been strong, the unemployment rate is at its lowest level in more than seven years and the participation rate is at a near-record high. Non-mining business investment growth is solid and economic growth is being supported by the roll-out of major public infrastructure projects across the country.

Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21, sustaining solid employment growth and supporting a pick-up in wage growth. Household consumption, business investment, public final demand and exports are all expected to contribute to growth.

Internationally, there has been some loss of momentum in key economies including in the euro area, with the IMF and OECD revising down their growth projections for the global economy. However, global growth is expected to remain solid with strong labour market conditions evident across most advanced economies. The Australian economy is expected to continue to benefit from growth in major trading partners, with economies in the Asian region growing relatively strongly.

Accommodative monetary policy settings continue to support the domestic economy, despite some evidence of tightening credit conditions and a recent decline in housing prices, which appear to be weighing on activity. The Australian dollar remains at levels which are supportive of growth – around one-third lower than the 2011 peak against the US dollar.

Household consumption growth is expected to pick up over the forecast period, supported by continued growth in employment, increasing wage growth, historically low interest rates and the Government's personal income tax relief measures, which have been further enhanced in this Budget. More than 1.2 million jobs have been created since September 2013, driving the unemployment rate down to its lowest level in more than seven years. The participation rate is at a near-record high. Solid employment growth is expected to continue over the forecast period, with the unemployment rate forecast to be 5 per cent. As growth in the economy picks up and spare capacity in the labour market continues to be reduced, wage growth is expected to increase further.

Non-mining business investment is forecast to record solid growth, supported by historically low interest rates, while mining investment is expected to make its first positive contribution to real GDP growth in around seven years. Public final demand will also contribute to growth as the Government continues to provide essential services such as the National Disability Insurance Scheme and deliver on its $100 billion infrastructure package.

Growth in exports in 2019-20 is expected to be supported by major liquefied natural gas (LNG) projects ramping up production along with continuing strong demand for education and travel services from Asia. Rural exports are expected to contribute to growth in 2019-20 on the basis of an assumed return to average seasonal conditions, after detracting from growth in 2018-19 due to the drought.

Dwelling investment, while remaining at a high historical level, is expected to detract from growth over the forecast period. The fall in housing prices accelerated over 2018 and continued into 2019, partly reflecting a rebalancing of supply and demand. As at February 2019, capital city housing prices had fallen by 8.6 per cent from their most recent peak in September 2017. Price falls were largest in Sydney and Melbourne over that period, although prices remain around 40 to 50 per cent higher in those cities relative to their 2012 levels.

Nominal GDP is forecast to grow by 5 per cent in 2018-19, 3¼ per cent in 2019-20 and 3¾ per cent in 2020-21. Nominal GDP growth is influenced by the terms of trade, which have been supported recently by higher-than-assumed commodity prices, in particular for iron ore and metallurgical coal. The terms of trade are forecast to fall in 2019-20, consistent with an assumed decline in key commodity prices. This is reflected in a moderation in nominal GDP growth.

As always there are a number of risks and uncertainties around the forecasts. Internationally, while some risks have lessened somewhat since the MYEFO, downside risks remain around trade tensions, emerging market debt vulnerabilities and geopolitical issues. The risks associated with Brexit have become more pronounced in recent months, although Australia's trade is oriented more towards Asia than Europe. In the near term, there is also uncertainty associated with how quickly some of the temporary factors that affected global growth in the second half of 2018, such as natural disasters in Japan, will dissipate.

Domestically, uncertainty about the outlook for the housing market, in particular the extent to which housing prices fall, poses a downside risk to the forecasts for both dwelling investment and consumption. A more subdued outlook for household income, or a further tightening in credit conditions, could constrain household spending amid high levels of household debt. In contrast, faster-than-expected wage or employment growth could lead to household consumption growth being stronger than forecast. There are also uncertainties around the pace of recovery in rural exports given that the outlook will depend on how weather conditions develop and how the sector recovers from recent drought and flood events.

The outlook for commodity prices is also a source of significant uncertainty for nominal GDP. Consistent with recent practice, the assumptions for these prices remain prudent. Further details on the effect of commodity price movements on nominal GDP and revenue forecasts are discussed in *Budget Statement 7: Forecasting Performance and Scenario Analysis.*

Table 1: Domestic economy forecasts [(a)]

	Outcomes(b)	Forecasts		
	2017-18	2018-19	2019-20	2020-21
Real gross domestic product	**2.8**	**2 1/4**	**2 3/4**	**2 3/4**
Household consumption	**2.8**	2 1/4	2 3/4	3
Dwelling investment	**0.2**	1/2	-7	-4
Total business investment(c)	**6.0**	1	5	4 1/2
By industry				
Mining investment	**-4.1**	-10 1/2	4	4 1/2
Non-mining investment	**9.7**	4 1/2	5 1/2	4 1/2
Private final demand(c)	**3.0**	1 1/2	2 1/4	2 3/4
Public final demand(c)	**4.5**	5 1/2	3 1/4	3
Change in inventories(d)	**0.0**	0	0	0
Gross national expenditure	**3.4**	2 1/2	2 1/2	2 3/4
Exports of goods and services	**4.1**	3 1/2	4	1 1/2
Imports of goods and services	**7.1**	1 1/2	3	2 1/2
Net exports(d)	**-0.6**	1/2	1/4	- 1/4
Nominal gross domestic product	**4.7**	5	3 1/4	3 3/4
Prices and wages				
Consumer price index(e)	**2.1**	1 1/2	2 1/4	2 1/2
Wage price index(f)	**2.1**	2 1/2	2 3/4	3 1/4
GDP deflator	**1.8**	2 1/2	1/2	1
Labour market				
Participation rate (per cent)(g)	**65.6**	65 1/2	65 1/2	65 1/2
Employment(f)	**2.7**	2	1 3/4	1 3/4
Unemployment rate (per cent)(g)	**5.4**	5	5	5
Balance of payments				
Terms of trade(h)	**1.9**	4	-5 1/4	-4 3/4
Current account balance (per cent of GDP)	**-2.8**	-1 3/4	-2 3/4	-3 3/4

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Excluding second-hand asset sales from the public sector to the private sector.
(d) Percentage point contribution to growth in GDP.
(e) Through-the-year growth rate to the June quarter.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) The forecasts are underpinned by price assumptions for key commodities: Iron ore spot price falling over the year to reach US$55 per tonne free-on-board (FOB) by the end of the March quarter 2020; metallurgical coal spot price falling over the year to reach US$150 per tonne FOB by the end of the March quarter 2020; and the thermal coal spot price remaining at US$91 per tonne FOB.

Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 61 and a US$ exchange rate of around 71 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$67 per barrel. Population growth is assumed to average around 1.7 per cent per year over the forecast period.

Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

OUTLOOK FOR THE INTERNATIONAL ECONOMY

Global growth strengthened in 2017 and into 2018, with a pick-up in activity in advanced, emerging market and developing economies leading to an economic expansion estimated to be around 3.7 per cent in both of these years. However, some moderation in growth occurred in the second half of 2018 as the expansion matured in the advanced economies, and as some emerging markets, such as Turkey and Argentina, experienced difficulties. Global growth is forecast to be 3½ per cent in 2019, 2020 and 2021.

A slight downgrade to the forecast for global growth compared with the MYEFO largely reflects slowing growth outside of Australia's major trading partners. Major trading partner growth is forecast to be 4 per cent in 2019, 2020 and 2021. Growth in Australia's major trading partners has outpaced global growth over the past decade and this is expected to continue over the forecast horizon as growth in the Asian region remains relatively strong.

Global labour market conditions continue to be robust. Unemployment rates in the United States, euro area and Japan are all near record lows. There has been an increase in wage growth in the United States after a number of years of modest growth, reflecting the strong labour market, and wage growth has picked up in the euro area and Japan. US non-farm labour productivity also rose solidly in 2018. Core inflation increased slightly in the US and the US Federal Reserve tightened monetary policy through 2018. Inflation remains relatively contained in major advanced economies compared with historical experience. Headline inflation has eased in response to the decline in global oil prices between October and December 2018.

There is a high degree of uncertainty around the global growth outlook amid a range of economic and geopolitical risks that continue to evolve. This uncertainty appears to be weighing on measures of global confidence, which have been falling in recent months. Some risks have lessened somewhat since the MYEFO, notably those from a further escalation in trade tensions between the US and China and those associated with tightening monetary policy. Others, such as risks around the Italian financial sector, are largely unchanged, while the risks associated with Brexit have become more pronounced in recent months, noting that Australia's trade is oriented more towards Asia than Europe. In the near term, there is also uncertainty associated with how quickly some of the temporary factors that affected global growth in the second half of 2018, such as natural disasters in Japan, will dissipate.

There have been recent signs that an escalation of trade tensions between the US and China is less likely; however, trade policy uncertainty remains elevated between a number of economies and global trade growth has eased. This uncertain outlook for trade tensions has been weighing on confidence, new export orders and investment intentions. Escalation of tensions would be expected to negatively affect growth in a number of countries including in Australia's major trading partners. Conversely, a resolution of tensions could result in global growth that is stronger than forecast.

Financial markets are now expecting monetary policy to remain accommodative or neutral for longer than previously. In particular, the indication by the US Federal Reserve that it will be patient as it determines future policy adjustments helped stabilise financial markets. This has lessened the risks associated with emerging economy debt in the near term, but high debt levels in certain economies and certain market segments remain a risk in the medium term.

Over the longer term, unfavourable demographics will constrain potential growth rates in some of the world's major economies. Slower productivity growth could also limit productive capacity in many countries. Future global productivity growth will depend on the dispersion of technology, the mobility of capital and the degree of openness and competition maintained across economies.

Table 2: International GDP growth forecasts (a)

	Outcomes	Forecasts		
	2018	2019	2020	2021
China	6.6	6	6	5 3/4
India	7.3	7 1/2	7 3/4	7 3/4
Japan	0.8	1	3/4	3/4
United States	3.0	2 1/4	2	1 3/4
Euro area	1.8	1 1/4	1 1/2	1 1/2
Other East Asia (b)	4.3	4 1/4	4 1/4	4 1/4
Major trading partners (c)	4.2	4	4	4
World (c)	3.7	3 1/2	3 1/2	3 1/2

(a) World and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners are calculated using goods export trade weights.
(b) Other East Asia comprises the Association of Southeast Asian Nations group of five (ASEAN‑5), comprising Indonesia, Malaysia, the Philippines, Thailand and Vietnam, along with Hong Kong, South Korea, Singapore and Taiwan.
(c) These growth rates are estimates in 2018 rather than outcomes.
Source: National statistical agencies, Refinitiv, International Monetary Fund and Treasury.

The **United States** economy continues to grow solidly. Most leading indicators remain favourable, suggesting that above-potential growth will be sustained in 2019, albeit at a slower pace as the effects of fiscal stimulus diminish. The recent government shutdown is not expected to have a material impact on annual average growth rates, but will shift growth between quarters, with growth expected to pick up from the second quarter with the resumption of usual operations. Wage growth has picked up and inflation has increased slightly, closer to the target rate.

Growth in **China** slowed to 6.6 per cent in 2018, consistent with the authorities' target. The slowing largely reflected weaker domestic demand as authorities addressed risks in the financial system and trade pressures weighed on business confidence. These factors are expected to continue to weigh on growth through 2019, despite some targeted support from macroeconomic policies. There are signs of weakness in China's trade outlook, reflecting both trade tensions and a softer global outlook. Despite these factors, China is expected to meet the authorities' target of 6.0 to 6.5 per cent growth in 2019. A softening of growth is expected from 2021, reflecting the longer-term structural adjustments that China faces, including a declining working-age population.

India experienced a moderation in growth in the second half of 2018, reflecting higher global oil prices between August and October, tighter financial conditions and lower consumer sentiment. Considering these developments, the Reserve Bank of India cut its policy rate and changed its policy stance to neutral in February. Further focus on GST compliance, bringing more firms into the formal economy, and progress on non-performing asset resolutions are expected to lift growth outcomes for 2020 and 2021. Looking forward, India's economic growth will depend on its reform agenda following the national elections in the first half of 2019.

Japan's growth is expected to pick up slightly in 2019 to 1 per cent following a disrupted 2018. However, a planned increase in value-added tax in October 2019 is expected to weigh on private consumption. Real GDP growth is forecast to moderate in 2020 as capacity constraints become more binding, despite a small boost in demand from hosting the Tokyo 2020 Olympics. Alongside a steady tightening of labour market conditions and accommodative monetary policy settings, wage growth has picked up over the past few years. Core inflation is positive but continues to remain more muted than expected given the tightening in labour market conditions.

Growth in the **euro area** slowed in late 2018. While some temporary factors weighed on growth, such as political uncertainty as well as revised auto emission standards and drought in Germany, there was also a broad-based weakening in momentum which is expected to persist in the near term. Industrial output has softened, owing to reduced external demand and weaker trade growth. Sentiment across the region has also been easing, which is expected to weigh on business investment going forward. On the other hand, domestic demand is expected to be supported by historically low interest rates, improved labour market conditions and slightly expansionary fiscal policy. Ongoing uncertainty related to geopolitical factors, the threat of protectionism, management of financial sector risks in Italy and continued uncertainty over Brexit, including the possibility of the United Kingdom leaving the European Union without an agreement in place, remain risks for euro area growth.

ASEAN-5 economies continue to perform solidly, with domestic demand and favourable demographics supporting growth. The near-term risks associated with the withdrawal of supportive monetary policy settings globally have eased somewhat. However, the ASEAN-5 economies face some challenges this year, including moderating global trade growth and election uncertainty.

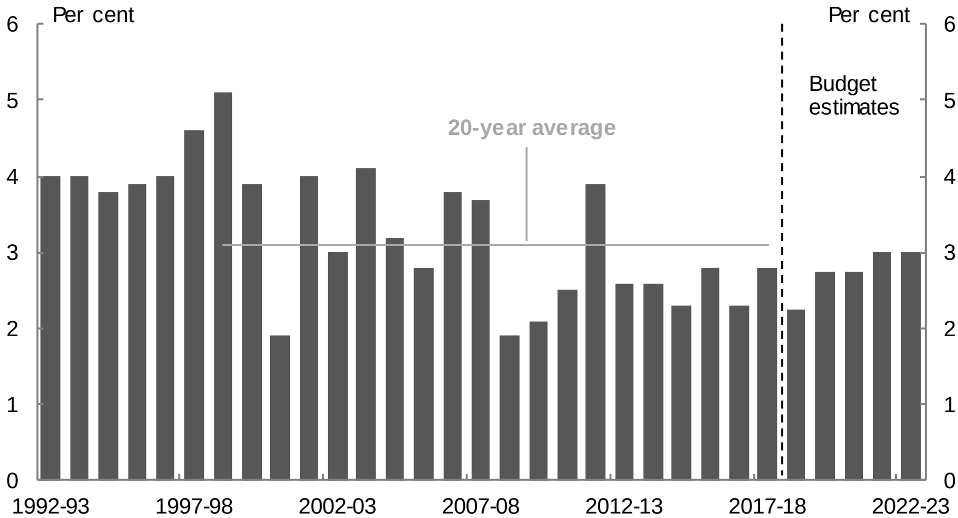
OUTLOOK FOR THE DOMESTIC ECONOMY

Outlook for real GDP growth

The fundamentals of the Australian economy remain sound. Real GDP is forecast to grow at around its estimated potential rate of 2¾ per cent in 2019-20 and 2020-21 (Chart 1). Household consumption, business investment, public final demand and exports are all expected to contribute to growth. Following declines in housing prices and building approvals, partly in response to a rebalancing in supply and demand, dwelling investment is expected to detract from growth.

Solid employment growth is expected to continue over the forecast period and the unemployment rate is forecast to be 5 per cent. Wage growth is expected to pick up as growth in the economy strengthens and spare capacity in the labour market continues to be reduced.

Chart 1: Real GDP growth



Source: ABS cat. no. 5206.0 and Treasury.

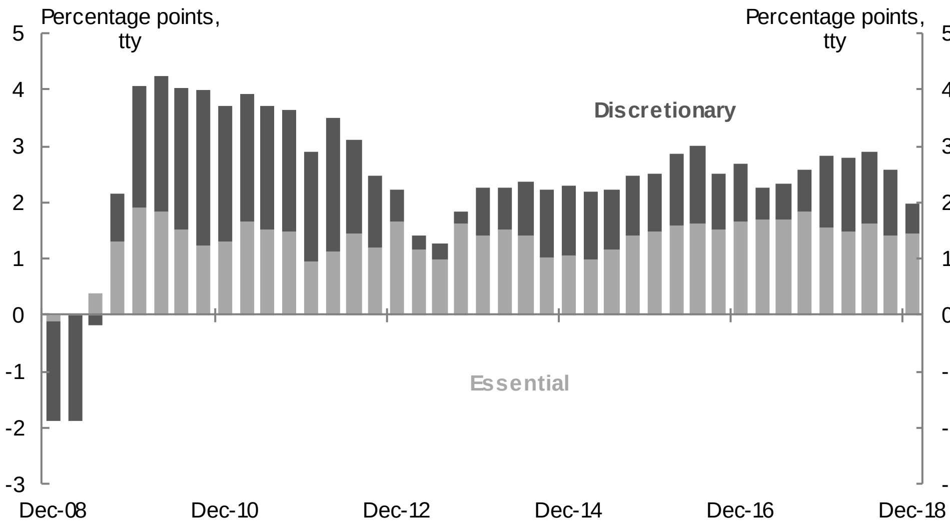
Households

Household consumption growth moderated in the second half of 2018. Consumption of discretionary items was particularly soft, including for those that relate to housing market conditions, such as household furnishings and motor vehicles (Chart 2). The forecast for consumption growth has been downgraded to 2¼ per cent in 2018-19. However, household consumption growth is forecast to pick up to 2¾ per cent in 2019-20 and 3 per cent in 2020-21, underpinned by continued growth in employment and increasing wage growth. Household disposable income and consumption growth are also expected to be supported by continued low interest rates and the Government’s personal income tax relief measures, which have been further enhanced in this Budget. The household saving ratio is expected to be broadly steady over the forecast period.

There is uncertainty, however, about the extent to which the outlook for the housing market will influence overall household consumption (Box 1). Housing price falls accelerated over 2018 and have continued into 2019. As at February 2019, capital city housing prices had fallen by 8.6 per cent from their most recent peak in September 2017. Price falls were largest in Sydney and Melbourne over that period, although prices remain around 40 to 50 per cent higher in those cities relative to 2012. The price falls partly reflect an increase in housing supply in recent years following a period of under-building relative to population growth. Demand has also declined from a tightening in credit conditions, including from macro-prudential measures to address credit quality, and a reduction in demand from overseas buyers.

A more subdued outlook for household income, or a further tightening in credit conditions could constrain household spending amid high levels of household debt. By contrast, faster-than-expected wage or employment growth could lead to household consumption being stronger than forecast. The sensitivity of the forecasts to changes in household consumption is discussed in Budget Statement 7.

Chart 2: Household consumption growth contributions



Source: ABS cat. no. 5206.0, ABS unpublished data and Treasury.

Housing price declines have also affected the outlook for **dwelling investment**. As at January 2019, residential building approvals had fallen by almost 40 per cent relative to late 2017, with the fall concentrated in higher-density projects (Chart 3). Liaison with industry suggests that softer investment intentions reflect both tighter credit conditions and a weakening in sentiment amongst buyers. Nonetheless, a compositional shift towards higher-density dwellings, which can take almost three times as long as houses to complete, has resulted in a solid pipeline of work yet to be done. This pipeline of work is expected to support dwelling investment activity in 2018-19, with forecast growth of ½ per cent, following average annual growth of 5.5 per cent over the previous five years. Dwelling investment is then forecast to fall by 7 per cent in 2019-20 and by a further 4 per cent in 2020-21 as existing projects are completed.

Chart 3: Dwelling approvals and investment growth by sector

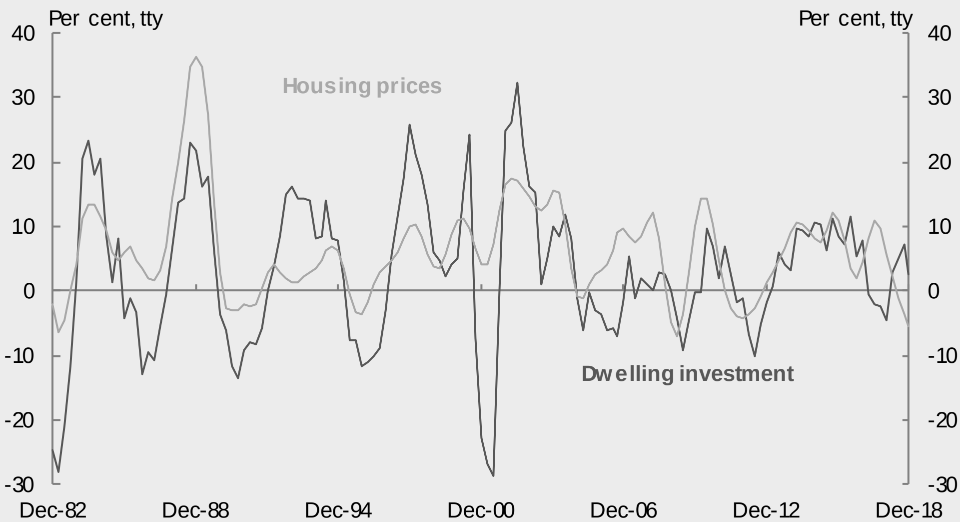
Source: ABS cat. no. 8731.0 and ABS unpublished data.

Box 1: Housing prices, consumption and investment

Buying a dwelling is the largest financial decision made by most households. Housing assets account for around half of total household assets in Australia, and borrowing for housing accounts for the majority of household debt. Overall, Australian households have a ‘net asset’ position in housing, which has strengthened substantially over the past five years. Positive housing wealth is a source of collateral for household borrowing. Changes in housing prices also affect the expected returns to building new dwellings. As such, movements in housing prices can directly influence household consumption and investment in the short to medium term, with flow-on effects to the broader economy.

One of the main channels through which housing prices affect demand in the economy is through dwelling investment. This is because movements in housing prices alter the expected returns to residential construction. Dwelling investment and housing price growth also move together due to the influence of common factors such as interest rates (Chart A). To the extent that housing turnover is affected, movements in housing prices also affect spending on household goods such as furnishings. Further, housing price movements can affect consumption by reducing or increasing borrowing constraints through changes to collateral, affecting confidence and expected future income growth, or by shifting the distribution of wealth. Some households will have more resources to spend if housing prices rise, while other households will have to spend more on a dwelling over their lifetime, and thus less on other goods and services.

Chart A: Housing prices and dwelling investment growth



Note: Housing prices reflect quarterly averages of monthly data for the eight capital cities combined.
Source: ABS cat. no. 5206.0 and CoreLogic.

Box 1: Housing prices, consumption and investment (continued)

There are other channels through which housing prices can affect the economy. For example, the incomes of real estate agents are correlated with housing prices and turnover, as are state government revenues from stamp duty. Changes in housing prices can also affect the borrowing capacity of small and medium-sized businesses given that housing wealth is often used as collateral. Changes to individual components of demand can have flow-on effects to other areas of the economy, including demand for imports and employment, prices and wages.

The precise magnitude of the effect of housing prices on the economy is difficult to estimate as it will vary depending on the reason prices are shifting and other conditions in the economy at the time.

The recent decline in Australian housing prices has followed several years of strong price growth and, unusually, is occurring alongside generally strong labour market conditions, rising incomes, and low interest rates. This adds uncertainty around the estimated response of consumption. In addition, the compositional shift towards the construction of higher-density dwellings, which has changed how the pipeline of work flows through to activity, increases uncertainty around the dwelling investment response.

A plausible central estimate is that housing prices that are (immediately) 10 per cent lower than they otherwise would be due to a reduction in demand for dwellings could result in the level of real GDP being lower by about ½ per cent after two years. Importantly, this estimate is based on the historical relationship between the relevant variables, makes assumptions about the composition of dwellings affected and does not account for any moderating influences from macroeconomic policy settings in response to lower demand.

In the long run, however, changes in housing prices should have a limited effect on the size of the economy. Changes in the relative price of one asset, housing, over another have not been shown to have a strong relationship with aggregate productivity, participation or population — the long-run determinants of economic growth.

Business investment

Business investment is expected to continue to be supported by historically low interest rates, positive business conditions, and the lower Australian dollar. Business investment is forecast to grow by 5 per cent in 2019-20 and 4½ per cent in 2020-21. While falling mining investment will continue to drag on growth in the near term, it is expected to grow by 4 per cent in 2019-20, as mining companies invest to maintain their large capital stocks and sustain current production levels. This will be its first contribution to real GDP growth in around seven years.

Following robust growth of 9.7 per cent in 2017-18, non-mining business investment is expected to grow steadily over the forecast period. The latest ABS capital expenditure survey showed a firming in non-mining business investment intentions for 2018-19. Although recent survey measures suggest that business conditions have softened from their record highs over 2018, they remain positive, and an elevated pipeline of building and engineering work is expected to support growth in 2019-20. Non-mining business investment is expected to grow by 5½ per cent in 2019-20 and 4½ per cent in 2020-21.

While steady growth in non-mining business investment is expected to continue, there are some risks. Further declines in business conditions and confidence would weigh on the outlook. In contrast, business investment could benefit from additional opportunities arising from large public infrastructure projects.

Box 2: Non-mining business investment

Business investment is an important driver of labour productivity as it increases the capital available per worker and can facilitate the uptake and diffusion of technology across the economy. This raises the demand for labour and results in higher real wages and higher employment as businesses seek to fully utilise the capital stock and maximise output. Following the peak in mining investment in 2012-13, non-mining business investment experienced a period of weak growth and this was a source of uncertainty for the economic outlook.

Over the past two years, there has been an encouraging pick-up in non-mining business investment (Chart A). This pick-up in growth occurred alongside an increase in business conditions which reached record levels in 2018. Non-mining business investment grew by 6.9 per cent in 2016-17 and a further 9.7 per cent in 2017-18, its fastest pace in over a decade. This compares with average annual growth of 1.5 per cent over the preceding ten years.

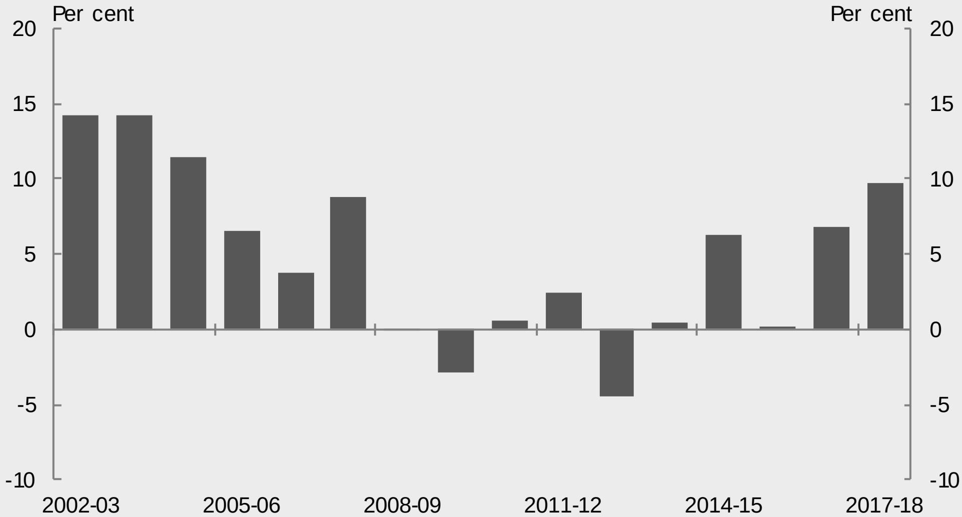
Although most components of business investment have contributed to growth since 2013-14, investment in non-residential buildings made a particularly large contribution. Growth has been supported in recent years by investment in hotels and aged care facilities, while office building activity improved in 2017-18 notably in Victoria and New South Wales. Recent strength in office construction activity has occurred in response to tightness in office property markets in those states.

Box 2: Non-mining business investment (continued)

Growth in business investment in intellectual property products has also been solid in recent years, led by investment in computer software. Businesses have been investing in technology to improve their processes, including data management processes, and to increase their online presence. Investment in computer software grew by over 13 per cent in 2017-18. This was higher than the average annual growth of around 9 per cent over the past decade.

There has also been a pick-up in machinery and equipment investment in recent years, with growth of almost 7 per cent in 2017-18. This largely reflects investment in the non-mining sector, with businesses taking advantage of opportunities in the construction sector, including from public infrastructure investment.

Chart A: Non-mining business investment growth



Source: ABS cat. no. 5206.0, ABS unpublished data and Treasury.

Public final demand

Public final demand has been a source of strong growth for the economy over the past three years, with solid contributions from both public consumption and investment. Growth is expected to continue to be strong in 2018-19 before moderating to 3¼ per cent in 2019-20 and 3 per cent in 2020-21. Contributions to growth are expected to come from the Government's expenditure on the National Disability Insurance Scheme and its $100 billion infrastructure package roll-out, which is supporting and complementing investment by the states and territories.

Net exports

Exports are forecast to grow by 4 per cent in 2019-20, driven by mining and services exports. Mining exports are forecast to grow by 4½ per cent as major liquefied natural gas (LNG) projects ramp up production, and services exports are forecast to grow by 4½ per cent as demand from Asia continues to support tourism and education exports. Rural exports are forecast to increase by 2½ per cent in 2019-20 on the basis of a return to average seasonal conditions following the drought-affected fall of 8 per cent in 2018-19. However, growth in rural exports and farm production overall will depend on how weather conditions develop and how the sector recovers from recent drought and flood events (Box 3).

Export growth is forecast to slow to 1½ per cent in 2020-21, largely as growth in mining exports slows. Iron ore export volumes are expected to have increased by 12 per cent over the five years to 2020-21, while LNG export volumes are expected to have doubled. Recent high bulk commodity prices which have arisen as a result of global supply issues are not expected to generate a significant supply response from Australian producers — there is little spare capacity in the domestic market at present and prices are not expected to be sustained for a sufficiently long period to warrant a significant expansion of capacity. Mining exports are forecast to grow by ½ per cent in 2020-21, while services exports are forecast to grow by 3½ per cent and rural exports by 4 per cent.

Imports are expected to grow moderately over the forecast period, with capital imports forecast to grow at rates slower than those experienced recently, given that the investment phase for the remaining major LNG projects is close to complete. Imports are forecast to grow by 3 per cent in 2019-20 and 2½ per cent in 2020-21.

Box 3: Economic impact of weather events

Drought conditions in southern and eastern Australia are weighing on real GDP growth. Based on the latest information from the Australian Bureau of Agricultural and Resource Economics and Sciences, the fall in farm production is expected to detract around ¼ of a percentage point from real GDP growth in 2018-19, consistent with the MYEFO forecast. *2018-19 MYEFO Part 2: Economic outlook Box A – Impact of the drought on agricultural production and rural exports* outlined the expected effect of the drought on the economy. Assuming seasonal conditions improve, farm production is forecast to recover in 2019-20 with increased crop output partly offset by a decline in livestock slaughter as herds and flocks are rebuilt.

Another significant weather event saw severe flooding in north Queensland in February 2019, resulting in widespread damage across the region. It has significantly affected the local agricultural industry, and had some impact on mining and tourism activity. The Government is committed to supporting individuals, communities and local economies to help them recover and rebuild following natural disasters and periods of severe drought.

While it will be some time before the full extent of the flood damage is known, 300,000 dead cattle would account for around 3 per cent of the Queensland herd and 1 per cent of the Australian herd. A large proportion of stock losses are expected to be breeding stock, due to the nature of the grazing enterprises in the affected region and the run of below-average dry seasons leading up to the floods. Farming infrastructure has also been damaged or destroyed in the floods.

Sugar cane yields may also be affected. The record rainfall that led to flooding in the region has affected the industry just months after the Mackay region was devastated by bushfires. Other crops in the region are also expected to be negatively affected, both from lost output and transport disruptions.

Two of the northern-most mines in Queensland were impacted by the floods. Glencore’s production was temporarily affected by heavy rain at Collinsville and Newlands. The Abbot Point coal export terminal — a major coal export hub — was also closed for around nine days. These temporary closures had a minimal impact on overall operations and production.

The tourism sector was affected as certain tourism operators along the coast had to temporarily curtail their operations. Damage to infrastructure may also contribute to some disruption in the short term.

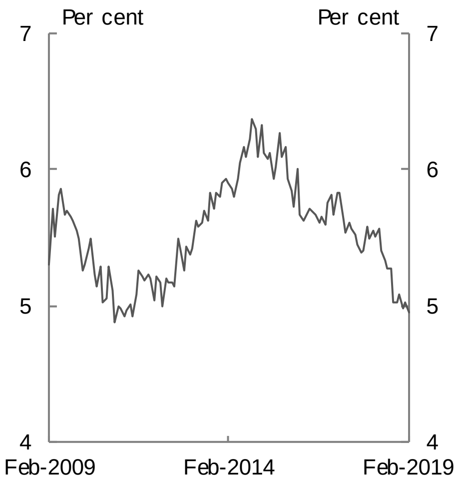
While the regional and industry specific impacts of the floods are material, the impact on the overall economy is expected to be relatively modest.

More recently, tropical cyclones Veronica and Trevor have resulted in evacuations, flooding and damage. Cyclone Veronica has caused temporary halts to commodity exports from Western Australia, in particular iron ore. It is often the case that tropical cyclones occur in the March quarter.

The labour market

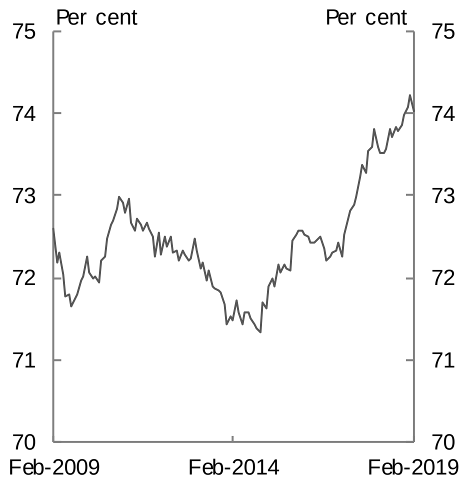
Labour market conditions in Australia continue to be strong. Employment growth has been above its long-run average rate for almost two years and has outpaced population growth. The unemployment rate has fallen to 4.9 per cent, its lowest level in more than seven years (Chart 4). The participation rate is also high relative to historical standards and the employment-to-population ratio for those aged 15-64 is close to record highs (Chart 5). Solid growth in output is expected to continue to support employment growth at 1¾ per cent through the year to the June quarter 2020 and the June quarter 2021. The participation rate is forecast to be 65½ per cent, consistent with continuing strong employment prospects. The unemployment rate is forecast to be 5 per cent across the forecast period.

Chart 4: Unemployment rate



Source: ABS cat. no. 6202.0.

Chart 5: Employment-to-population ratio (15-64)



Source: ABS cat. no. 6202.0.

As economic growth strengthens and spare capacity in the labour market continues to be reduced, **wage growth** is expected to pick up to 2¾ per cent through the year to the June quarter 2020 and 3¼ per cent through the year to the June quarter 2021. Growth in the Wage Price Index was 2.3 per cent through the year to the December quarter 2018, its equal strongest outcome in more than three years. All states and territories and most industries recorded higher wage growth compared with a year ago. In Australia, as in other advanced economies, the response of wages to improving labour market conditions has been slower and more muted than in past cycles. This is partly explained by lower inflation expectations and spare capacity in the labour market as indicated by broader measures of labour underutilisation. Strong employment growth has also drawn people into the labour market who were not previously looking for work. In Australia, slower wage growth also reflects adjustments associated with the unwinding of the terms of trade boom.

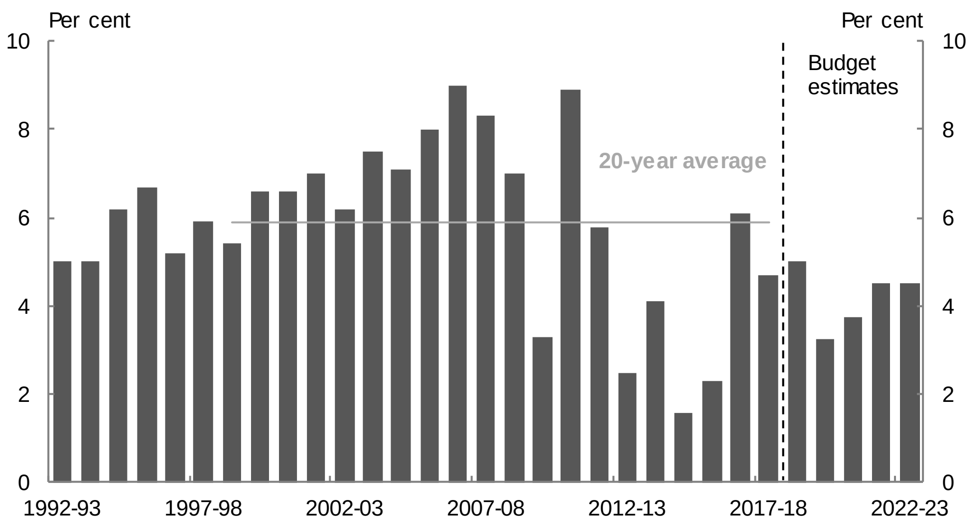
Consumer price inflation has eased a little over recent quarters and was 1.8 per cent through the year to the December quarter 2018. A slowing in administered price inflation, partly reflecting child care policy changes and lower growth in electricity prices, has contributed to softer inflation recently. Housing prices, including both dwelling rents and the cost of building a new dwelling, have also contributed to lower inflation. In contrast, the depreciation of the Australian dollar and associated increase in tradable inflation has put upward pressure on prices over the past year. In the near term, lower petrol prices are expected to reduce inflation. Inflation is expected to increase over the forecast period as growth in the economy picks up and spare capacity in the labour market continues to be reduced. Consumer price inflation is forecast to be 2¼ per cent through the year to the June quarter 2020 and 2½ per cent though the year to the June quarter 2021.

Outlook for nominal GDP growth

Nominal GDP is forecast to grow by 5 per cent in 2018-19, 3¼ per cent in 2019-20 and 3¾ per cent in 2020-21 (Chart 6). The moderation in growth in 2019-20 reflects a fall in the terms of trade as key commodity prices are assumed to decline to more sustainable levels. This is partially offset by a pick-up in real GDP growth and in wage and domestic price growth.

The level of nominal GDP is expected to be around $42.7 billion lower over the four years to 2022-23 compared with the 2018-19 MYEFO, with downgrades to the outlook for compensation of employees, non-mining profits and gross mixed income. This is partially offset by an upgrade to the outlook for mining profits.

Chart 6: Nominal GDP growth

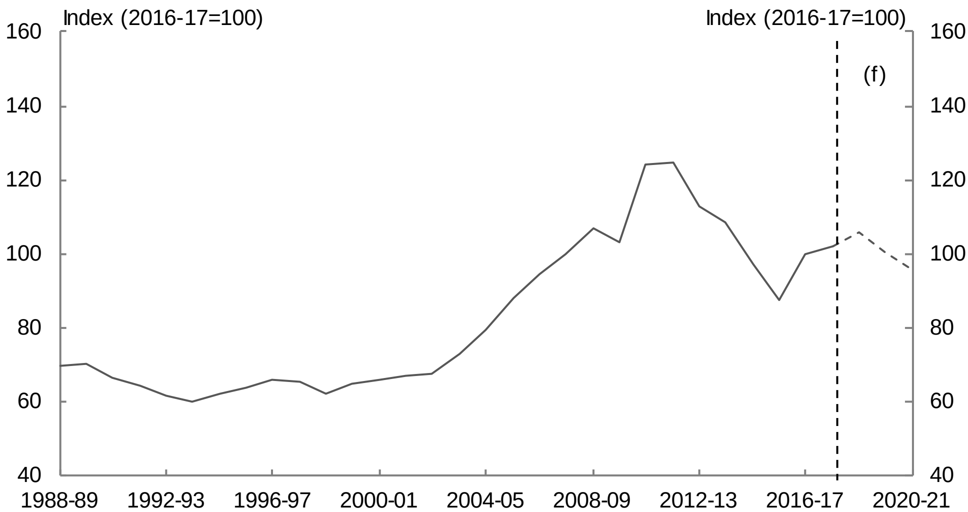


Source: ABS cat. no. 5206.0 and Treasury.

Wage and price growth are expected to increase over the forecast horizon reflecting the pick-up in economic growth and the continued reduction of spare capacity in the labour market. If inflation and wage growth outcomes are lower than forecast, slower nominal GDP growth would constrain taxation receipts, though this will be partially offset by a fall in payments. For example, if inflation outcomes were ½ of a percentage point lower in each of 2019-20 and 2020-21, the direct impact on the level of nominal GDP could result in it being around 0.8 per cent lower than forecast by 2020-21, resulting in a deterioration in the underlying cash balance of around $2.7 billion by 2020-21.

The terms of trade are expected to support nominal GDP growth in 2018-19, but to detract from growth in 2019-20. The near-term strength in the terms of trade reflects higher iron ore and metallurgical coal prices. The terms of trade are expected to fall in 2019-20, as supply and demand rebalance in these markets (Chart 7). The assumptions regarding commodity prices are supported by comprehensive market and industry consultation undertaken by Treasury. There is greater uncertainty than usual around commodity prices as a result of heightened price volatility and policies in China and Brazil. As such, a prudent approach to the bulk commodity price assumptions continues to be appropriate.

Chart 7: Terms of trade



Note: (f) are forecasts.
Source: ABS cat. no. 5206.0 and Treasury.

The iron ore price remained relatively steady during much of 2018, but the tailings dam collapse in Brazil resulted in the price reaching its highest level since early 2017. There are a wide range of market estimates around the impact of the dam collapse and subsequent policy actions in Brazil on the global supply of iron ore. Consultation by Treasury highlighted a relatively common view that the iron ore price will remain elevated over the next four quarters, and that the spot price is expected to decline as supply-side issues are addressed. As such, the iron ore price is assumed to decline over

the year to reach US$55 per tonne free-on-board (FOB) by the end of the March quarter 2020. Some market and industry participants have highlighted a risk that prices could remain high for an even longer period of time.

The metallurgical coal price remained high during 2018, with an average price of over US$200 per tonne FOB. Market and industry consultation undertaken by Treasury supports the view that prices will decline from recent highs, but that the MYEFO assumption of a decline in the price to US$120 per tonne FOB is now too low. The metallurgical coal price has averaged around US$200 per tonne since the 2016-17 MYEFO (when the US$120 per tonne assumption was first implemented) and was last below US$120 per tonne in August 2016. As such, consistent with market and industry participants' views, the metallurgical coal price is assumed to decline over the year to reach US$150 per tonne FOB by the end of the March quarter 2020.

During 2018, the thermal coal spot price ranged from around US$90 per tonne to US$125 per tonne. The thermal coal price was affected by both supply and demand factors during the year, including constrained supply of high-grade Australian coal and unseasonably hot weather in China in the middle of the year. The thermal coal price is assumed to remain around recent levels of US$91 per tonne FOB over the forecast period, which is close to the MYEFO assumption of US$93 per tonne FOB. Policies affecting clearances at Chinese ports, however, are a source of uncertainty for coal prices.

Commodity prices are volatile and the outlook for commodity prices remains a key uncertainty in the outlook for nominal GDP (Box 4).

Box 4: Sensitivity analysis of the iron ore and metallurgical coal spot prices

Movements in commodity prices can have significant effects on nominal GDP and Commonwealth government tax revenue. The analysis below provides an indication of the direct impacts on nominal GDP and company tax receipts of altering the timing around the iron ore and metallurgical coal price assumptions.

If the iron ore price was to fall immediately to US$55 per tonne FOB, four quarters earlier than assumed, nominal GDP could be around $5.8 billion lower than forecast in 2018-19 and $10.6 billion lower in 2019-20. This would result in a decrease in tax receipts of around $0.5 billion in 2018-19, $2.6 billion in 2019-20 and $1.0 billion in 2020-21 (Table A).

By contrast, if the iron ore price was to remain elevated for four quarters longer than currently assumed, before falling immediately to US$55 per tonne FOB, nominal GDP could be around $0.8 billion higher than forecast in 2018-19 and $15.5 billion higher in 2019-20. This would result in an increase in tax receipts of around $0.1 billion in 2018-19, $2.0 billion in 2019-20 and $2.1 billion in 2020-21.

Box 4: Sensitivity analysis of the iron ore and metallurgical coal spot prices (continued)

Table A: Sensitivity analysis of an earlier and later fall in the iron ore spot price

	Earlier fall to US$55/tonne FOB			Later fall to US$55/tonne FOB[(a)]		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Nominal GDP ($billion)	-5.8	-10.6	-	0.8	15.5	-
Tax receipts ($billion)	-0.5	-2.6	-1.0	0.1	2.0	2.1

(a) FOB is the free-on-board price which excludes freight costs.
Source: Treasury.

Similarly, if the metallurgical coal price was to fall immediately to US$150 per tonne FOB, four quarters earlier than assumed, nominal GDP could be around $0.7 billion lower than forecast in 2018-19 and $5.7 billion lower in 2019-20. This would result in a decrease in tax receipts of around $0.1 billion in 2018-19, $0.9 billion in 2019-20 and $0.6 billion in 2020-21 (Table B).

By contrast, if the metallurgical coal price was to remain elevated for four quarters longer than currently assumed, before falling immediately to US$150 per tonne FOB, nominal GDP could be around $0.1 billion higher than forecast in 2018-19, $6.1 billion higher in 2019-20 and $0.3 billion higher in 2020-21. This would result in an increase in tax receipts of around $0.6 billion in 2019-20 and $1.0 billion in 2020-21.

Table B: Sensitivity analysis of an earlier and later fall in the metallurgical coal spot price

	Earlier fall to US$150/tonne FOB			Later fall to US$150/tonne FOB[(a)]		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Nominal GDP ($billion)	-0.7	-5.7	0.0	0.1	6.1	0.3
Tax receipts ($billion)	-0.1	-0.9	-0.6	0.0	0.6	1.0

(a) FOB is the free-on-board price which excludes freight costs.
Source: Treasury.

Further analysis concerning how movements in commodity prices can affect the Australian economy and fiscal estimates is detailed in Budget Statement 7.

Medium-term projections

The fiscal aggregates in this year's Budget are underpinned by economic forecasts for the current financial year, the Budget year and the subsequent financial year, and then by economic projections for the following two financial years. These projections are not forecasts. Rather, they are based on a medium-term methodology and supply-side assumptions.

The medium-term projection methodology, as outlined in the 2014-15 Budget, assumes that any spare capacity in the economy is absorbed over five years following the forecast period. This is a well-established approach but it is not without drawbacks.

The growth rate of potential GDP is estimated to be 2¾ per cent over the next few years. As spare capacity is absorbed, productivity and labour market variables — including employment and the participation rate — are assumed to converge to their potential levels. To absorb the spare capacity in the economy, real GDP from 2021-22 is then projected to grow faster than potential at 3 per cent. By the end of 2025-26 spare capacity is absorbed and real GDP is projected to grow at its potential rate thereafter.

Potential GDP is estimated based on an analysis of underlying trends for population, productivity and participation. In the long run, estimates of participation are affected by demographic factors, including the ageing of the population, while productivity is assumed to grow at its 30-year average rate. The unemployment rate is projected to be 5 per cent consistent with estimates of the non-accelerating inflation rate of unemployment (NAIRU). Inflation is projected to be 2½ per cent, consistent with the mid-point of the RBA's medium-term target band. The terms of trade are projected to remain flat at around their 2005 level from 2022-23. For a discussion of the sensitivity of the GDP growth projections to estimates of potential output, see Budget Statement 7.

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

After more than a decade of budget deficits, the Government is delivering a surplus in 2019-20, reflecting a sound economy and the Government's prudent fiscal management. The budget position will continue to improve with sustained surpluses projected to exceed 1 per cent of GDP in the medium term.

The Government's continued focus on spending restraint has ensured that surpluses are being delivered while at the same time providing lower taxes for hard-working Australians, and guaranteeing the essential services Australians rely on.

The Government will bring the payments-to-GDP ratio down to below historical averages from 2019-20 onwards. Tax receipts as a share of GDP are expected to be 23.3 per cent in 2019-20 and remain below the Government's 23.9 per cent tax-to-GDP cap until 2029-30.

As the budget returns to surplus, the Government will focus on strengthening the balance sheet through public debt reduction to ensure the longer-term sustainability of the budget. Paying down public debt ensures that the Government is better equipped to deal with future challenges and reduces the burden of debt on future generations.

Net debt is expected to decline in each year of the forward estimates and the medium term and is projected to be eliminated by 2029-30.

Gross debt is expected to be 27.9 per cent of GDP in 2019-20 and is projected to fall below its 30 year average to 12.8 per cent of GDP by the end of the medium term.

CONTENTS

STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

After a decade of deficits, the budget is returning to surplus in 2019-20 with an underlying cash surplus of $7.1 billion, equal to 0.4 per cent of GDP. Surpluses are expected to build across the forward estimates period, with cumulative surpluses of $45 billion expected over this period.

The net operating balance is expected to be in surplus for a second consecutive year, with a surplus of $12.9 billion expected in 2019-20 and sustainable surpluses expected across the forward estimates. Budget aggregates are shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
Underlying cash balance ($b)(b)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Net operating balance ($b)	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	

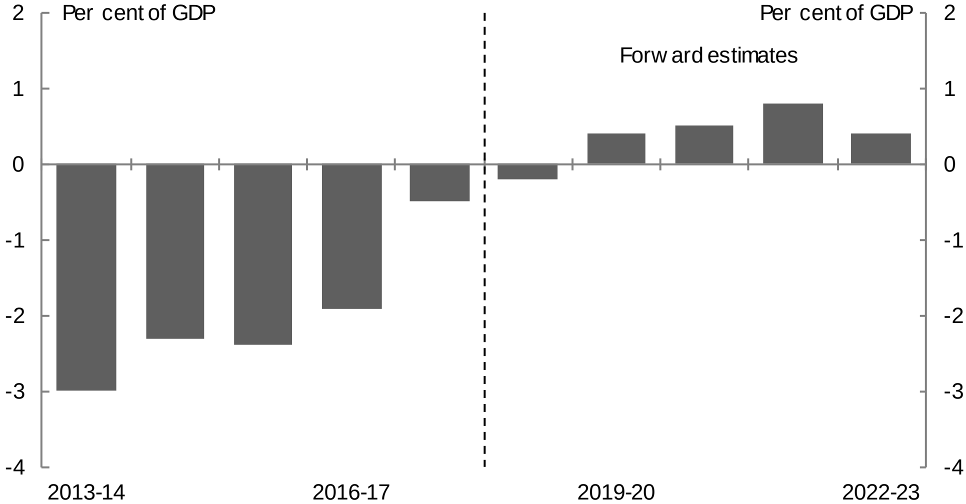
(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.

The Government remains focused on controlling growth in government spending. As a proportion of GDP, payments are forecast to fall below the historical average of 24.7 per cent from 2019-20. Real growth in spending is expected to average 1.9 per cent between 2013-14 and 2022-23, the lowest of any government in 50 years.

The Government has continued to pursue savings to make room for new spending priorities. Since 2013-14, the Government has implemented savings measures with a combined effect of more than $200 billion through to 2022-23.

The Government has charted a responsible path back to surplus with the total turnaround in the underlying cash balance between 2013-14 and 2019-20 expected to be $55.5 billion, or 3.4 per cent of GDP, as shown in Chart 1.

Chart 1: Underlying cash balance to GDP since 2013-14



(a) The underlying cash balance includes expected net Future Fund earnings from 2020-21.

As the budget returns to surplus, the Government will focus on strengthening the balance sheet and public debt reduction to ensure the sustainability of the budget. Paying down debt ensures the Government is better equipped to deal with future challenges and reduces the burden of debt on future generations.

Net debt is expected to decline in each year of the forward estimates and the medium term, falling from 18 per cent of GDP in 2019-20 to a projected zero per cent by 2029-30. Net financial worth is expected to improve from –24.3 per cent of GDP in 2019-20 to -19.7 per cent of GDP in 2022-23, before improving further to -3.3 per cent of GDP in 2029-30.

Gross debt as a percentage of GDP is expected to decline in each year of the forward estimates and the medium term, falling from 27.9 per cent in 2019-20 to a projected 12.8 per cent of GDP by 2029-30, below the 30 year average of around 15 per cent.

FISCAL STRATEGY

The fiscal strategy underlies the Government's commitment to investing in Australia's future by strengthening the economy while keeping taxes low and guaranteeing essential services.

The Government's fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. Reaching surplus in 2019-20 after a decade of deficits has required strong fiscal discipline and consistently pursuing a strategy of budget repair.

As the budget returns to surplus in 2019-20, and with surpluses projected over the medium term, the Government will focus on strengthening the balance sheet and reducing debt.

Maintaining debt at prudent levels is an important element of improving the strength and sustainability of the Government's financial position. It provides the Government with flexibility to respond to changing economic conditions and also ensures that future generations are not burdened by excessive debt from past government spending.

The Government is continuing to reduce government borrowing as a share of the economy over time. Both net debt and gross debt are falling as a share of the economy across the forward estimates and medium term. The Government is on track to eliminate net debt by 2029-30. *Statement 6: Debt Statement, Assets and Liabilities* provides further information on the Government's debt, assets and liabilities**.**

The Government remains focused on managing the budget responsibly and supporting a stronger economy, through policies that drive earnings and economic growth. Consistent with the fiscal strategy, the Government is continuing to invest in quality infrastructure to boost growth and productivity. The Government will continue to control growth in government spending and offset new measures with reductions in spending from elsewhere in the budget.

The Government's tax-to-GDP cap of 23.9 per cent is a key part of its plan to support stronger economic growth. The cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth, costing jobs and investment. The 23.9 per cent cap represents the average level of tax receipts following the introduction of the GST and prior to the onset of the Global Financial Crisis.

A sound budget has allowed the Government to deliver record spending on essential services without increasing taxes, while still providing the flexibility to respond to challenges as they arise.

The Government's fiscal strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 1.

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline by controlling expenditure to reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
  - the payments-to-GDP ratio falling;
  - stabilising and then reducing net debt over time;
- supporting revenue growth by supporting policies that drive earnings and economic growth, while:
  - maintaining a sustainable tax burden consistent with the economic growth objective, including through maintaining the tax-to-GDP ratio at or below 23.9 per cent of GDP; and
- strengthening the Government's balance sheet by improving net financial worth over time.

Budget repair strategy

The budget repair strategy is designed to deliver sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy.

The strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and
- a clear path back to surplus is underpinned by decisions that build over time.

The budget repair strategy will stay in place until a strong and sustainable surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

Returning the budget to surplus

An underlying cash surplus of $7.1 billion (0.4 per cent of GDP) is forecast in 2019-20. Sustainable surpluses are expected to continue across the forward estimates as shown in Table 2.

Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**446.9**	**485.2**	**505.5**	**522.3**	**551.0**	**566.9**	**2,145.7**
Per cent of GDP	24.2	25.0	25.2	25.1	25.4	25.0	
Payments(b)	**452.7**	**482.7**	**493.3**	**511.3**	**533.2**	**557.7**	**2,095.6**
Per cent of GDP	24.5	24.9	24.6	24.6	24.5	24.5	
Net Future Fund earnings(c)	4.3	6.6	5.1	na	na	na	5.1
Underlying cash balance(d)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Revenue	**456.3**	**495.8**	**513.8**	**534.3**	**564.7**	**580.5**	**2,193.2**
Per cent of GDP	24.7	25.6	25.6	25.7	26.0	25.6	
Expenses	**460.3**	**487.3**	**500.9**	**516.1**	**535.9**	**559.9**	**2,112.8**
Per cent of GDP	24.9	25.1	25.0	24.8	24.7	24.6	
Net operating balance	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	
Net capital investment	1.3	6.5	4.7	7.7	9.7	10.8	33.0
Fiscal balance	**-5.3**	**2.0**	**8.1**	**10.4**	**19.1**	**9.8**	**47.5**
Per cent of GDP	-0.3	0.1	0.4	0.5	0.9	0.4	
Memorandum items:							
Net Future Fund earnings(c)	4.3	6.6	5.1	5.2	5.6	6.2	22.2
Headline cash balance	-25.9	-12.7	-4.4	-0.5	7.9	2.5	5.6

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

The Government's continued focus on spending restraint has contributed to the budget returning to surplus. Compared with the 2018-19 Budget, total nominal payments estimates are lower in each year of the forward estimates and $21.2 billion lower in total over the four years from 2019-20. The payments-to-GDP ratio is expected to be 24.6 per cent in 2019-20, falling to 24.5 per cent from 2021-22, below the 30 year average of 24.7 per cent. As a result of decisions to control growth in government spending, average annual real growth in payments over the four years from 2019-20 is expected to be 1.3 per cent and 1.9 per cent over the period since the Government was elected in 2013 – the lowest of any Commonwealth government in 50 years.

Since the 2016 election, the Government has implemented around $62 billion of budget repair measures that have strengthened the budget position. These structural savings

continue to improve the spending growth trajectory over time, which is making room for new spending priorities and is keeping taxes to the minimum necessary to deliver essential government services while maintaining surpluses.

The Government is continuing to pursue savings to ensure the Budget remains on a sustainable trajectory for the future. Taking into account reductions in payments as a result of non-economic parameters and other variations, the net impact of decisions in the 2019-20 Budget on payments is a reduction of $982 million over the four years from 2019-20. This is consistent with the Government's fiscal strategy that new spending measures will be more than offset by reductions in spending elsewhere within the budget.

Table 3: Impact of Government decisions on payments in the 2019-20 Budget

	Estimates		Projections		
	2019-20	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m	$m
Total payments impact of policy decisions taken since the 2018-19 MYEFO	**-1,617**	**-2,699**	**-3,117**	**-842**	**-8,275**
Add Payments impacts of non-economic parameter and other variations	3,285	1,483	1,562	2,926	9,257
Net payments impact of policy decisions in the 2019-20 Budget	**1,668**	**-1,215**	**-1,554**	**2,083**	**982**

The Government is committed to continuing to work with the Parliament to secure the successful passage of unlegislated measures that contribute to the task of budget repair. The estimated impact over the forward estimates of remaining budget repair measures, announced prior to the 2019-20 Budget and after taking account of parameter changes, is now positive $5.7 billion. This comprises around $5 billion of receipt increases and around $0.7 billion of payment saves.

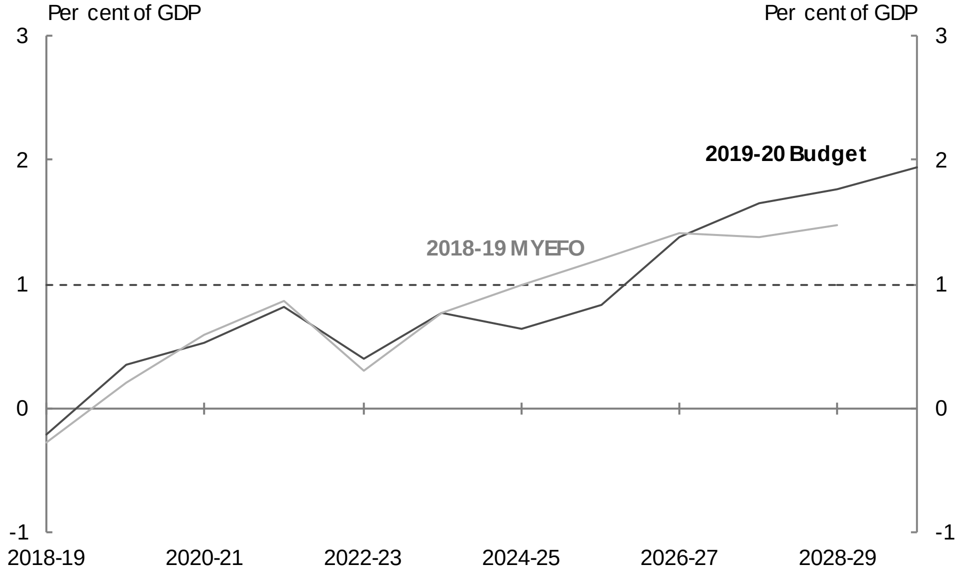
Forecast tax receipts have been revised down by $18.2 billion over the four years to 2022-23. The revisions have been driven by parameter and other variations and policy decisions, including the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.

Policy decisions are expected to reduce tax receipts by $3.2 billion over the four years to 2022-23. This includes the impact of the Government's decision to provide additional tax relief, partly offset by the decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce.

Excluding policy decisions, tax receipts have been revised down by $15 billion over the four years to 2022-23, as revisions to the outlook for household consumption, dwelling investment and average wages weigh on the forecasts. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

The underlying cash balance is projected to record surpluses through to the end of the forward estimates and build steadily to 1 per cent of GDP by 2026-27 as shown in Chart 2.

Chart 2: Underlying cash balance projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

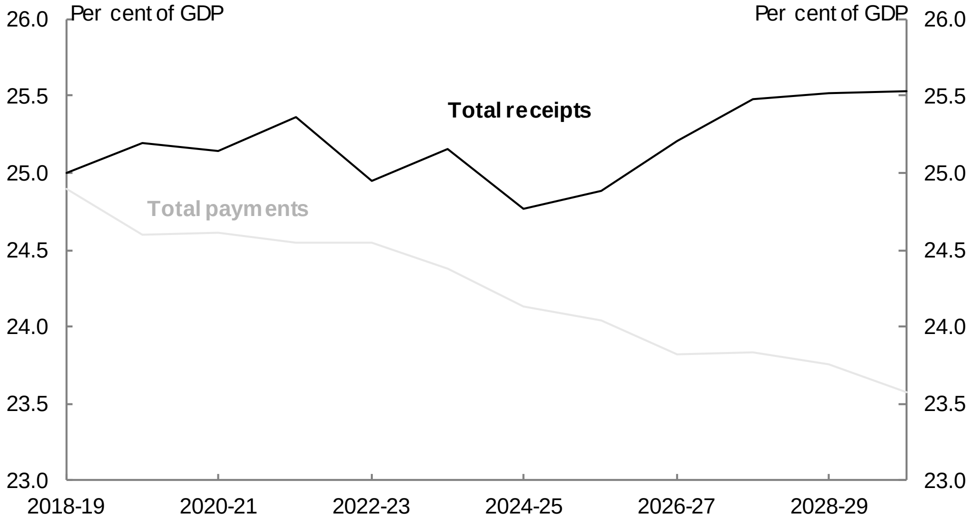
The temporary fall in the underlying cash surplus in 2022-23 reflects timing impacts associated with the legislated Personal Income Tax Plan and additional tax relief in this Budget. In 2022-23, the Government is increasing the top threshold of the 19 per cent tax bracket and the maximum amount of the low income tax offset (LITO) to lock in the benefit provided through the low and middle income tax offset (LMITO) from the year it is removed. The benefit of the threshold change will be received by taxpayers throughout the 2022-23 income year (and later years). In addition, low- and middle-income taxpayers will receive their final LMITO in 2022-23 after they lodge their tax returns for the 2021-22 income year. This results in a larger cash impact in 2022-23.

Projections of the underlying cash balance over the medium term reflect additional personal income tax relief in the Budget, including the reduction in the 32.5 per cent rate to 30 per cent for incomes between $45,000 and $200,000 in 2024-25 (as shown in Table 4). This is partially offset by lower payments, which drive an improvement in the underlying cash balance by the end of the medium term. Lower payment projections have been driven by lower than expected payments across a range of programs in the forward estimates flowing through to the medium term. These include lower income support payments as recipients take advantage of stronger labour market conditions, reducing their dependence on government programs. It also includes the benefits from

lower public debt interest costs arising from lower assumed bond yields across the forward estimates.

Chart 3 shows total payments and total receipts projected to 2029-30.

Chart 3: Total payments and total receipts projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30. Total receipts includes taxation and non-taxation receipts. Net Future Fund earnings are included in projections from 2020-21.
Source: Treasury projections.

Box 2: Impact of lower personal income taxes in the medium term

The Government will lower taxes for hard-working Australians by building on its legislated Personal Income Tax Plan.

The legislated Personal Income Tax Plan and these changes are fiscally affordable over the forward estimates and medium-term, with the underlying cash balance returning to surplus in 2019-20 and sustained surpluses projected over the medium term.

The projections for the medium-term tax receipts take into account all Government policy, including the additional personal income tax relief in this year's Budget. The Government is to deliver additional personal income tax relief, which is expected to reduce tax receipts by $158 billion over the medium term.

Table 4: Projected receipts impact of *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* by component – 2018-19 to 2029-30

	Total to 2022-23 $b	Total to 2029-30 $b
From 2018-19 to 2021-22, increase low and middle income tax offset	-15	-15
From 2022-23, increase low income tax offset and threshold from $41,000 to $45,000	-5	-48
From 2024-25, reduce marginal tax rate from 32.5 to 30 per cent	-	-95
Total	**-20**	**-158**

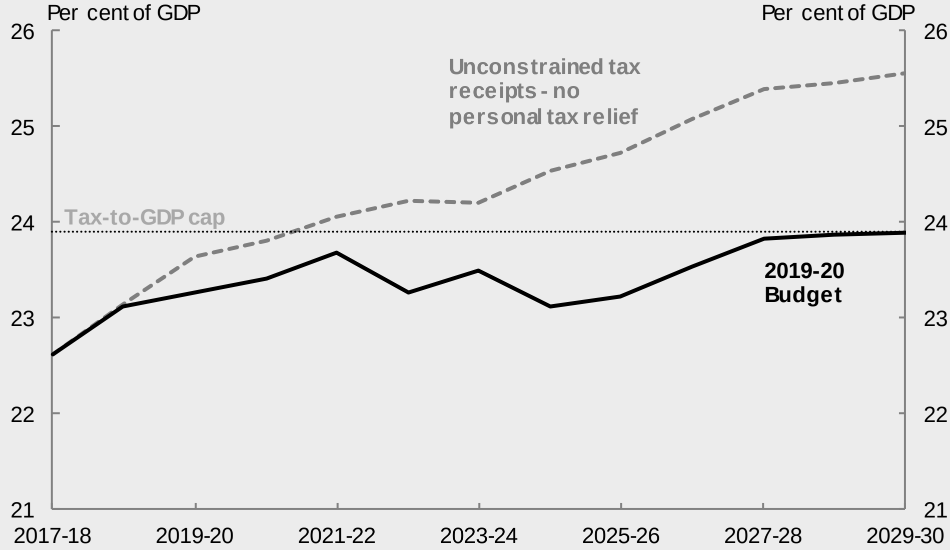
After accounting for policy, including the additional personal income tax relief, tax receipts are projected to remain below the Government's 23.9 per cent tax-to-GDP cap until 2029-30.

Without the legislated Personal Income Tax Plan and the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*, receipts would exceed the Government's 23.9 per cent tax-to-GDP cap from 2021-22, as shown in Chart 4.

Projections of the receipts impact of lower personal income taxes over the medium term are subject to higher levels of uncertainty and are sensitive to changes in economic conditions, underlying assumptions and forecasts.

Box 2: Impact of lower personal income taxes in the medium term (continued)

Chart 4: Impact of the 2018-19 Personal Income Tax Plan and the 2019-20 *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure on the tax-to-GDP ratio



Note: For the 2019-20 Budget, a tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.

The medium-term projections reflect the assumption that current policy settings do not change over the medium term. The Government will remain focused on ongoing expenditure restraint in order to deliver on its fiscal strategy to continue improving the strength and sustainability of the budget.

See *Statement 7: Forecasting Performance and Scenario Analysis* for information on the sensitivity of fiscal projections to changes in assumptions underpinning the economic forecasts and projections.

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government with flexibility to respond to unanticipated events, such as financial crises or economic shocks. There are a range of measures of the Government's financial position. All are expected to improve over the forward estimates period and medium term, as set out in Table 5.

Net debt is the sum of selected financial liabilities less the sum of selected financial assets and is a common measure of the strength of a government's financial position. Net debt imposes a call on future revenue flows to service that debt.

Net debt is estimated to be 18 per cent of GDP in 2019-20, higher than the estimate of 17.1 per cent of GDP at the 2018-19 MYEFO, as shown in Table 5. The revised levels of

net debt primarily reflect an increase in the market value of AGS due to lower yields than were assumed at the time of the 2018-19 MYEFO. Net debt is projected to decline as a share of GDP to 14.4 per cent by 2022-23. Refer to *Statement 6: Debt Statement, Assets and Liabilities* for further information.

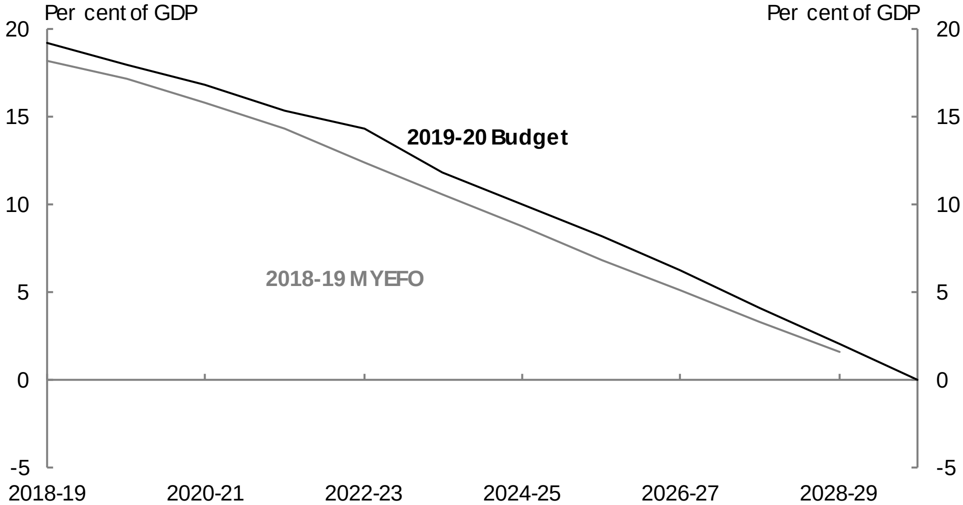
Net debt is projected to be eliminated by 2029-30, as shown in Chart 5.

Table 5: Australian Government general government sector net financial worth, net debt and net interest payments

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Financial assets	431.8	456.4	477.7	507.4	520.4
Non-financial assets	149.9	154.7	161.5	170.0	179.4
Total assets	**581.7**	**611.0**	**639.2**	**677.4**	**699.7**
Total liabilities	**922.6**	**944.3**	**954.6**	**964.6**	**967.2**
Net worth	**-340.9**	**-333.3**	**-315.4**	**-287.2**	**-267.5**
Net financial worth(a)	**-490.8**	**-488.0**	**-476.9**	**-457.2**	**-446.8**
Per cent of GDP	-25.3	-24.3	-23.0	-21.0	-19.7
Net debt(b)	**373.5**	**361.0**	**349.5**	**333.2**	**326.1**
Per cent of GDP	19.2	18.0	16.8	15.3	14.4
Net interest payments	**14.1**	**10.9**	**10.4**	**9.4**	**8.7**
Per cent of GDP	0.7	0.5	0.5	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.

Chart 5: Net debt projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.
Source: Treasury projections.

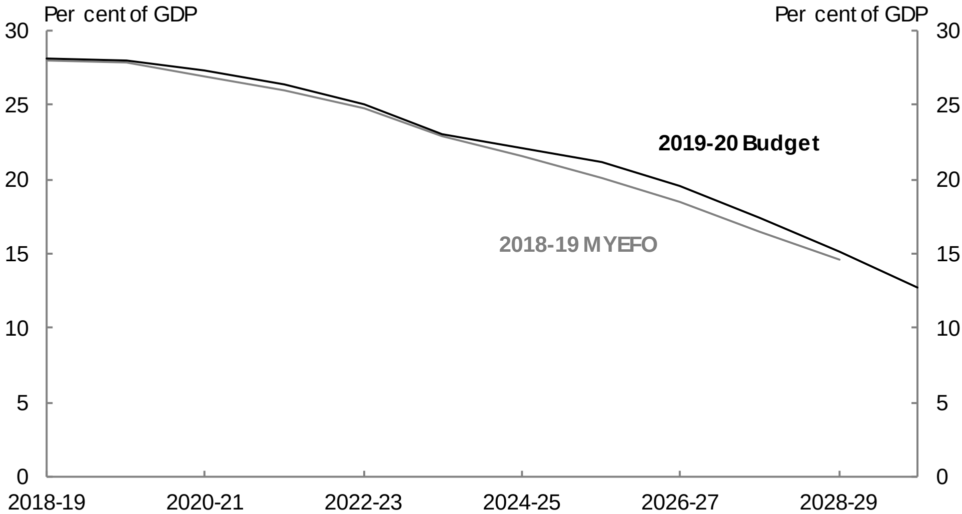
The face value of AGS on issue (gross debt) is projected to rise from $560 billion in 2019-20 to $569 billion by the end of the forward estimates. As a percentage of the economy, gross debt peaked at 28.8 per cent of GDP ($531.9 billion) in 2017-18 and is expected to fall in 2019-20 to 27.9 per cent ($560 billion) and continue falling across every year of the forward estimates to 25 per cent ($569 billion) in 2022-23. Gross debt is then projected to continue to fall to around 12.8 per cent of GDP ($416.8 billion) by 2029-30, below the 30 year average.

The projected fall in gross debt is largely driven by the improvement in the underlying cash balance.

Gross debt levels over the medium term also reflect the Government's decision not to draw down on the Future Fund's earnings to meet unfunded superannuation liabilities.

The projected face value of AGS on issue is shown in Chart 6.

Chart 6: Face value of AGS on issue projected to 2029-30



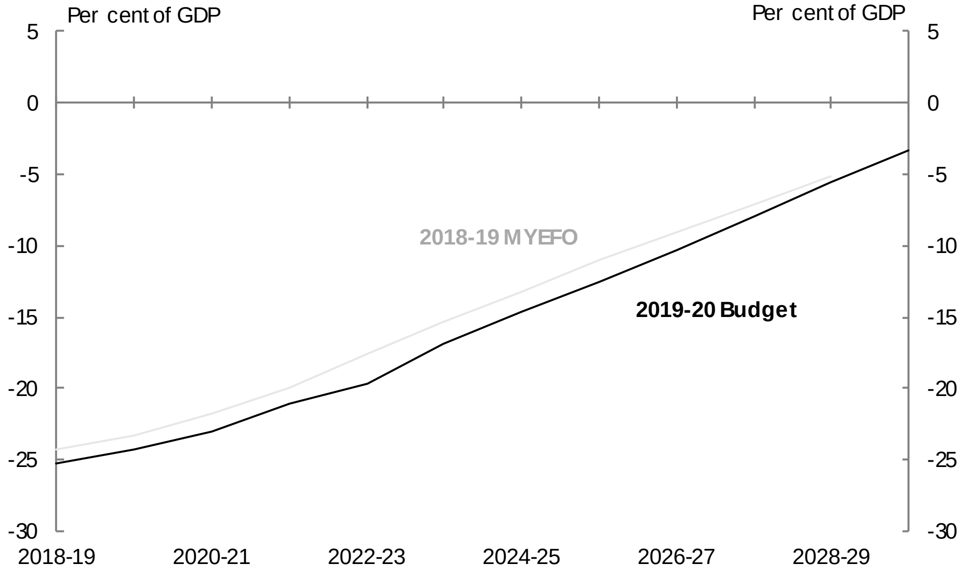
Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.
Source: Australian Office of Financial Management and Treasury projections.

Net financial worth is an indicator of fiscal sustainability. It provides a broader measure of the Government's assets and liabilities as it includes both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance.

Net financial worth is expected to improve in every year over the forward estimates. Net financial worth is estimated to be -$488 billion (-24.3 per cent of GDP) in 2019-20, $20.9 billion lower than estimated at the 2018-19 MYEFO. Compared with the 2018-19 MYEFO, net financial worth has decreased over the forward estimates to 2022-23. This primarily reflects a rise in the market value of AGS due to lower yields.

Net financial worth improves as a share of GDP over the medium term, reaching -3.3 per cent of GDP by 2029-30, as shown in Chart 7.

Chart 7: Net financial worth projected to 2029-30



Source: Treasury projections.

A further measure of the Government's financial position is net worth, which includes non-financial assets such as buildings and plant, equipment and infrastructure. Net worth is expected to be -$333.3 billion in 2019-20, $22.3 billion lower than estimated at the 2018-19 MYEFO. Net worth is expected to be -$267.5 billion by the end of the forward estimates.

Further details on debt and the Government's balance sheet can be found in *Statement 6: Debt Statement, Assets and Liabilities*.

FISCAL OUTLOOK

Budget aggregates

An **underlying cash surplus** of $7.1 billion (0.4 per cent of GDP) is expected in 2019-20, improving to a projected surplus of $9.2 billion (0.4 per cent of GDP) in 2022-23.

In accrual terms, a **net operating surplus** of $12.9 billion (0.6 per cent of GDP) is expected for 2019-20, further improving to a projected surplus of $20.6 billion (0.9 per cent of GDP) by 2022-23.

A **headline cash deficit** of $4.4 billion is expected in 2019-20, improving to a projected surplus of $2.5 billion in 2022-23.

Table 6 provides a summary of the cash flows of the Australian Government general government sector.

Table 6: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	484.5	503.9	522.0	550.8	566.7
Capital cash receipts(a)	0.6	1.6	0.3	0.2	0.2
Total cash receipts	485.2	505.5	522.3	551.0	566.9
Cash payments					
Operating cash payments	467.9	479.1	494.6	514.7	537.8
Capital cash payments(b)	14.9	14.3	16.7	18.6	19.9
Total cash payments	482.7	493.3	511.3	533.2	557.7
GFS cash surplus(+)/deficit(-)	**2.4**	**12.2**	**11.0**	**17.8**	**9.2**
Per cent of GDP	0.1	0.6	0.5	0.8	0.4
less Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
less Net Future Fund earnings(d)	6.6	5.1	na	na	na
Underlying cash balance(e)	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-15.1	-16.6	-11.5	-9.9	-6.6
plus Net Future Fund earnings(d)	6.6	5.1	na	na	na
Headline cash balance	**-12.7**	**-4.4**	**-0.5**	**7.9**	**2.5**
Net Future Fund earnings(d)	6.6	5.1	5.2	5.6	6.2

(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 worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(e) Excludes expected net Future Fund earnings before 2020-21.

Underlying cash balance estimates

The estimated underlying cash surplus in 2019-20 has improved by $2.9 billion compared with the 2018-19 MYEFO. Table 7 provides a reconciliation of the variations in the underlying cash balance since the 2018-19 MYEFO and the 2018-19 Budget. Since the 2018-19 Budget, the underlying cash balance has improved in every year in the forward estimates and medium term.

Since the 2018-19 MYEFO, policy decisions have reduced the underlying cash balance by $10.4 billion in the four years from 2019-20 to 2022-23.

Since the 2018-19 MYEFO, the effect of parameter and other variations has resulted in a $12.7 billion improvement in the underlying cash balance in the four years from 2019-20 to 2022-23.

Table 7: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2018-19 Budget underlying cash balance(b)(c)	**-14,462**	**2,234**	**10,957**	**16,619**	**6,114**	**35,924**
Per cent of GDP	-0.8	0.1	0.5	0.8	0.3	
Changes from 2018-19 Budget to 2018-19 MYEFO						
Effect of policy decisions(d)	-1,905	-3,971	-5,654	-4,778	*	*
Effect of parameter and other variations	11,194	5,848	7,161	7,114	*	*
Total variations(e)	**9,289**	**1,876**	**1,507**	**2,336**	**1,017**	**6,736**
2018-19 MYEFO underlying cash balance(b)(f)	**-5,172**	**4,110**	**12,464**	**18,954**	**7,131**	**42,660**
Per cent of GDP	-0.3	0.2	0.6	0.9	0.3	
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions(d)(g)(h)						
Receipts	*52*	*-1,128*	*-139*	*1,717*	*-2,527*	*-2,077*
Payments	*3,018*	*1,617*	*2,699*	*3,117*	*842*	*8,275*
Total policy decisions impact on underlying cash balance	-2,965	-2,745	-2,837	-1,400	-3,370	-10,352
Effect of parameter and other variations(g)						
Receipts	*3,031*	*622*	*-3,944*	*-5,498*	*-6,263*	*-15,082*
Payments	*-3,651*	*-5,655*	*-5,320*	*-5,735*	*-11,667*	*-28,377*
less Net Future Fund earnings(i)	*2,706*	*588*	*na*	*na*	*na*	*588*
Total parameter and other variations impact on underlying cash balance	3,976	5,689	1,377	237	5,404	12,707
2019-20 Budget underlying cash balance(b)	**-4,162**	**7,054**	**11,004**	**17,792**	**9,165**	**45,014**
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
Memorandum:						
Net Future Fund earnings(i)	*6,592*	*5,140*	*5,207*	*5,563*	*6,249*	*22,159*
Effect of policy decisions on GST						
Receipts	*-2*	*9*	*13*	*14*	*17*	*53*
Payments	*-2*	*9*	*13*	*14*	*17*	*53*

* Data is not available.

(a) Total is equal to the sum of amounts from 2019-20.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) 2022-23 underlying cash balance as published in the medium term projections, page 3-13 of Budget Paper No. 1: Budget Strategy and Outlook 2018-19.
(d) Excludes secondary impacts on public debt interest of policy decisions, offsets from the Contingency Reserve for decisions taken.
(e) 2022-23 shows the total variation between medium term projections of the underlying cash balance published in the 2018-19 Budget and 2018-19 MYEFO, excluding the variation in net Future Fund earnings.
(f) 2022-23 underlying cash balance as published in the medium term projections, page 34 of the 2018-19 MYEFO.
(g) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.
(h) Excludes the impact of policy decisions on GST.
(i) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Receipts estimates

Total receipts are expected to be $497 million lower in 2019-20 than estimated at the 2018-19 MYEFO, with tax receipts $250 million lower and non-taxation receipts $248 million lower.

Policy decisions

Policy decisions since the 2018-19 MYEFO are expected to reduce tax receipts by $1 billion in 2019-20 and $3.2 billion over the four years to 2022-23. Significant measures include:

- *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. This measure, which will provide additional tax relief of $19.5 billion over the four years to 2022-23, reduces tax receipts by $5.7 billion, owing to the inclusion of a provision in the 2018-19 MYEFO.

- ATO Tax Avoidance Taskforce – funding of $1 billion will extend the Taskforce's operation until 30 June 2023 and expand its activities. The Taskforce will target the tax affairs of multinationals, large public and private groups, trusts, high wealth individuals and other high tax risk sectors. This measure is estimated to increase tax receipts by $3.1 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2019-20*.

Parameter and other variations

Parameter and other variations are expected to reduce tax receipts by $15 billion over the four years to 2022-23. Expected GST receipts have been revised down since the 2018-19 MYEFO in line with downward revisions to the forecasts for growth in consumption and dwelling investment. The revisions to the outlook for average wages and non-farm gross mixed income have also weighed on forecast receipts for individuals and other withholding taxes. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

Further information on expected tax receipts is provided in *Statement 4: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Payment estimates

Since the 2018-19 MYEFO, total cash payments have decreased by $4 billion in 2019-20 and decreased by $20 billion over the four years to 2022-23.

Policy decisions

The overall net impact of payment related decisions (after taking account of reductions as a result of non-economic parameter and other variations) has decreased total cash payments by $982 million over the four years to 2022-23.

Major increases in payments as a result of policy decisions since the 2018-19 MYEFO include:

- funding to strengthen primary care and improve frontline health services for Australians, including the reintroduction of indexation to all remaining General Practitioner services on the Medicare Benefits Schedule, which is expected to increase payments by $146 million in 2019-20 ($995 million over the four years to 2022-23);

- funding to support the work of the *Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability*, which is expected to increase payments by $191 million in 2019-20 ($521 million over the four years to 2022-23);

- funding to take action on all 76 recommendations of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* to strengthen oversight of financial institutions, which is expected to increase payments by $54 million in 2019-20 ($488 million over the four years to 2022-23); and

- extending the National Partnership Agreement on Universal Access to Early Childhood Education for the 2020 calendar year to support 15 hours of preschool each week for children attending preschool in 2020, which is expected to increase payments by $136 million in 2019-20 ($454 million over the two years to 2020-21).

Major decreases in payments as a result of policy decisions since the 2018-19 MYEFO include:

- applying a received model of income assessment for employment income for Social Security income support payments, which will also facilitate the automated reporting of employment income through Single Touch Payroll, which is expected to decrease payments by $2.1 billion over the four years to 2022-23.

Parameter and other variations

Parameter and other variations since the 2018-19 MYEFO have decreased cash payments by $5.7 billion in 2019-20 and decreased total cash payments by $28.4 billion over the four years to 2022-23.

Major decreases in cash payments as a result of parameter and other variations since the 2018-19 MYEFO include:

- payments relating to the provision of GST to the States and Territories, which are expected to decrease by $1.8 billion in 2019-20 ($7.3 billion over the three years to 2021-22), consistent with a reduction in GST receipts;
- payments related to the National Disability Insurance Scheme (NDIS), which are expected to decrease in net terms by $1.6 billion in 2019-20 ($1.6 billion over the four years to 2022-23), largely reflecting the slower than expected transition of participants into the NDIS. This includes a decrease in receipts in relation to State and Territory contributions to the NDIS and increases in other Australian Government disability programs, as the Australian Government ensures clients yet to transition into the NDIS continue to receive support;
- payments related to the Income Support for Seniors program, which are expected to decrease by $311 million in 2019-20 ($1.4 billion over the four years to 2022-23), largely reflecting continued reductions in recipient numbers as a result of previously announced Government policies aimed at improving the targeting of payments to those most in need, including the ongoing impact of the previously implemented measure to increase the Age Pension qualifying age to 67 years of age;
- payments relating to Commonwealth Debt Management, which are expected to decrease by $241 million in 2019-20 ($2.7 billion over the four years to 2022-23), largely reflecting the lower-than-expected cost of servicing Australian Government Securities on issue; and
- payments related to the Student Payments program, which are expected to decrease by $193 million in 2019-20 ($890 million over the four years to 2022-23), largely reflecting lower-than-expected recipient numbers and higher recipient earnings reducing average payment rates, resulting from more students moving into work.

Major increases in cash payments as a result of parameter and other variations since the 2018-19 MYEFO include:

- payments relating to Defence operations, which are expected to increase by $635 million in 2019-20 ($707 million over the four years to 2022-23), reflecting continued funding for Australia’s military contribution overseas and the protection of Australia’s borders and offshore maritime interests;
- payments to the States and Territories for public hospitals, which are expected to increase by $472 million in 2019-20 ($1.9 billion over the four years to 2022-23), largely reflecting revised activity growth estimates based on recent historical growth and revised activity estimates from the States and Territories for 2018-19 and 2019-20;

- payments relating to the Military Rehabilitation Compensation Acts – Income Support and Compensation program, which are expected to increase by $296 million in 2019-20 ($840 million over the four years to 2022-23), largely reflecting an increase in the number of permanent impairment claims and higher growth in the average payment amount;

- payments relating to the Fuel Tax Credits Scheme, which are expected to increase by $74 million in 2019-20 ($605 million over the four years to 2022-23), largely reflecting higher-than-expected usage of fuels that are eligible for the Fuel Tax Credits Scheme; and

- payments related to the Aged Care Services program, which are expected to decrease by $115 million in 2019-20 (and increase by $647 million over the four years to 2022-23), largely reflecting an increase in estimated expenditure for residential care.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down is provided in the other purposes section of *Statement 5: Expenses and Net Capital Investment*.

Analysis of the sensitivity of the payments estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Net operating balance estimates

The net operating balance is expected to be a surplus of $12.9 billion (0.6 per cent of GDP) in 2019-20, which reflects an improvement of $2.8 billion compared with the 2018-19 MYEFO. Table 8 provides a reconciliation of the variations in the net operating balance since the 2018-19 Budget.

Table 8: Reconciliation of net operating balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2018-19 Budget net operating balance	**-2,443**	**8,623**	**19,633**	**27,383**	*	*
Per cent of GDP	-0.1	0.4	0.9	1.3		
Changes from 2018-19 Budget to 2018-19 MYEFO						
Effect of policy decisions(b)	-1,807	-4,393	-6,565	-5,492	*	*
Effect of parameter and other variations	9,176	5,883	7,333	7,897	*	*
Total variations	**7,368**	**1,490**	**768**	**2,406**	*	*
2018-19 MYEFO net operating balance	**4,926**	**10,113**	**20,401**	**29,788**	*	*
Per cent of GDP	0.3	0.5	1.0	1.4		
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions(b)(c)						
Revenue	*51*	*-819*	*378*	*2,243*	*-2,252*	*-450*
Expenses	*2,808*	*1506*	*2,688*	*3,020*	*843*	*8,058*
Total policy decisions impact on net operating balance	-2,758	-2,325	-2,310	-777	-3,095	-8,508
Effect of parameter and other variations(c)						
Revenue	*2,457*	*78*	*-4,304*	*-5,877*	*	*
Expenses	*-3,828*	*-5,025*	*-4,368*	*-5,658*	*	*
Total parameter and other variations impact on net operating balance	6,284	5,103	64	-220	*	*
2019-20 Budget net operating balance	**8,452**	**12,891**	**18,155**	**28,791**	**20,606**	**80,443**
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
Net capital investment						
Effect of net capital investment(d)	6,490	4,749	7,717	9,715	10,780	32,961
2019-20 Budget fiscal balance	**1,962**	**8,142**	**10,438**	**19,077**	**9,826**	**47,483**
Per cent of GDP	0.1	0.4	0.5	0.9	0.4	

*Data is not available.
(a) Total is equal to the sum of amounts from 2019-20.
(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 revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens the fiscal balance.

Revenue estimates

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Expense estimates

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

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement; and
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 5: Expenses and Net Capital Investment*.

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of the Australian Rail Track Corporation) and net Future Fund earnings. Table 9 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2019-20 is estimated to be a deficit of $4.4 billion, compared with a deficit of $7.2 billion at the 2018-19 MYEFO. The improvement in the headline cash balance since the 2018-19 MYEFO is primarily driven by the improvement in the underlying cash balance.

Table 9: Reconciliation of general government underlying and headline cash balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2019-20 Budget underlying cash balance(b)	**-4,162**	**7,054**	**11,004**	**17,792**	**9,165**	**45,014**
plus **Net cash flows from investments in financial assets for policy purposes**						
Student loans	-4,476	-4,035	-3,918	-3,771	-3,641	-15,365
NBN loan	-6,954	-5,740	-1,275	0	0	-7,015
WestConnex	-576	-85	0	0	0	-85
Trade support loans	-194	-117	-90	-52	-38	-297
CEFC loans and investments	-872	-769	-401	-92	-373	-1,635
Northern Australia Infrastructure Facility	-69	-1,283	-2,023	-1,394	-228	-4,928
Australian Business Securitisation Fund	0	-200	-200	-400	-402	-1,202
Drought and rural assistance loans	-362	-376	-402	-437	20	-1,195
Water infrastructure and regional development loans	-356	-565	-500	-200	0	-1,265
Official Development Assistance - Multilateral Replenishment	-288	-120	-162	-130	-126	-538
National Housing Finance and Investment Corporation	-50	-225	-175	-175	-175	-750
Net other(c)	-952	-3,067	-2,391	-3,210	-1,657	-10,325
Total net cash flows from investments in financial assets for policy purposes	**-15,149**	**-16,581**	**-11,537**	**-9,861**	**-6,619**	**-44,599**
plus Net Future Fund earnings(d)	6,592	5,140	na	na	na	5,140
2019-20 Budget headline cash balance	**-12,719**	**-4,388**	**-533**	**7,931**	**2,546**	**5,555**
Memorandum:						
Net Future Fund earnings(d)	*6,592*	*5,140*	*5,207*	*5,563*	*6,249*	*22,159*

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) Net other includes proposed equity payments for infrastructure projects and North Queensland flood interest reduction loans. The amounts have not been itemised for commercial-in-confidence reasons.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Structural budget balance estimates

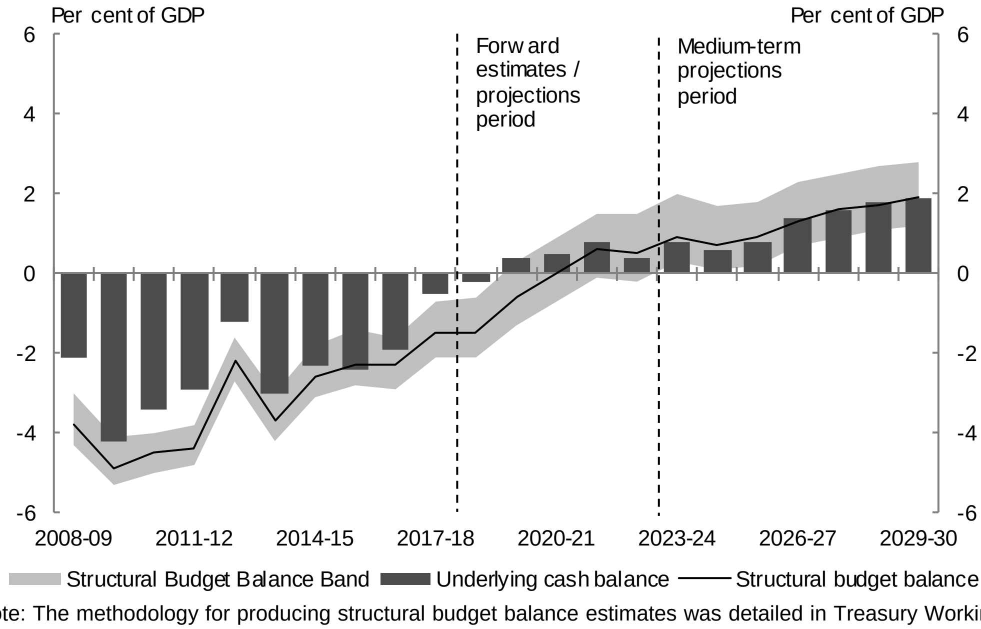
The structural budget balance estimates seek to remove cyclical economic factors that can have a temporary impact on revenues and expenditures, such as the extent to which economic output deviates from its potential level and fluctuations in commodity prices, asset prices and the rate of unemployment.

Considered in conjunction with other measures, estimates of the structural budget balance can provide broad insights into the sustainability of current fiscal settings.

Over the last decade and within the forward estimates period, estimates of the structural budget balance are generally lower than the underlying cash balance. This is because commodity prices have generally been higher than their estimated long-run levels and have outweighed the measured effect of other cyclical factors.

The structural budget balance improves over the forward estimates and medium term, as shown in Chart 8.

Chart 8: Structural budget balance estimates



Note: The methodology for producing structural budget balance estimates was detailed in Treasury Working Paper 2013-01 and incorporates the medium term projection methodology detailed in Treasury Working Paper 2014-02.
Source: ABS cat. no. 5206, 5302.0, 6202.0, 6401.0 and Treasury.

Recurrent and capital spending

Table 10 outlines estimates of the Government's recurrent and capital spending from 2018-19 to 2022-23.

Table 10: The Government's recurrent and capital spending[(a)]

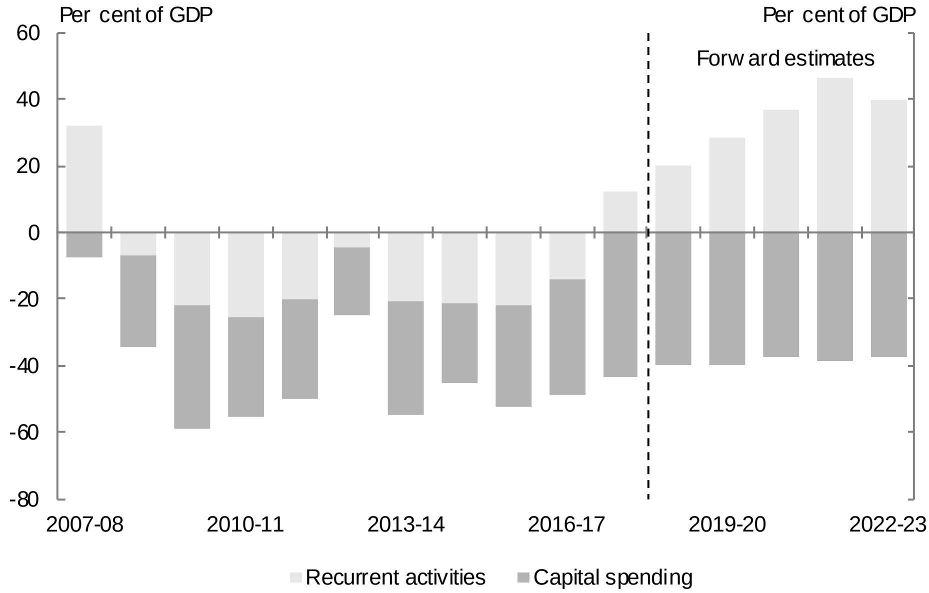
	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Recurrent spending					
Operating payments	308.6	320.0	330.2	343.1	359.1
Recurrent grants	84.1	83.0	85.2	87.4	89.8
Total recurrent spending	**392.7**	**403.0**	**415.4**	**430.5**	**448.9**
Capital spending					
Direct capital investment(b)	14.9	14.3	16.7	18.6	19.9
Capital grants	9.9	8.9	9.2	10.0	11.0
Financial asset investments(c)	19.6	21.3	17.0	16.0	15.1
Total capital spending	**44.3**	**44.5**	**42.9**	**44.6**	**45.9**
Total spending	**437.0**	**447.4**	**458.3**	**475.1**	**494.8**

(a) General Revenue Assistance is excluded from this analysis.
(b) Non-financial asset purchases and net acquisition of assets under finance leases.
(c) Investments in financial assets for policy purposes is presented on a gross basis.
Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes. Capital spending includes the purchase of land and buildings, software and other facilities, grants made for capital purposes and specific purpose payments to states for capital purposes.

Impact of capital and recurrent spending on the borrowing requirement

Chart 9 sets out estimates of the Government's annual borrowing for capital spending and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities (i.e. current revenue less recurrent spending) and the cash flows for capital investment.

Chart 9: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending to acquire physical assets, net spending to acquire financial assets and capital grants to the states and other entities.

In 2017-18, net cash flows from recurrent activities were in surplus for the first time since the Global Financial Crisis, and are expected to remain positive over the forward estimates. As the budget returns to surplus in 2019-20, the positive cash flow from recurrent activities will increasingly contribute to funding capital spending, reducing the Government's borrowing requirement. From 2020-21 onwards, the surplus from recurrent activities is expected to not only fully fund capital spending, but also to pay down gross debt. Gross debt is projected to decline over the medium term.

STATEMENT 4: REVENUE

Compared with the 2018-19 MYEFO, the 2019-20 Budget forecasts for tax receipts have been revised down by $18.2 billion over the four years to 2022-23. The revisions have been driven by parameter and other variations, and policy decisions, including the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.

Parameter and other variations are expected to reduce tax receipts by $15.0 billion over the four years to 2022-23, as revisions to the outlook for household consumption, dwelling investment and average wages weigh on the forecasts. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

Expected GST receipts have been revised down since the 2018-19 MYEFO, including by $1.8 billion in 2019-20, in line with downward revisions to the forecasts for growth in consumption and dwelling investment. Relative to the 2018-19 MYEFO, lower forecasts for average wages and non-farm gross mixed income have also weighed on forecast receipts for individuals and other withholding taxes.

Policy decisions taken since the 2018-19 MYEFO are expected to reduce tax receipts by $3.2 billion over the four years to 2022-23. This includes the impact of the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. This measure, which will provide additional tax relief of $19.5 billion over the four years to 2022-23, reduces tax receipts by $5.7 billion over the four years to 2022-23, owing to the inclusion of a provision in the 2018-19 MYEFO. The Government's decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce increases tax receipts.

In 2019-20, tax receipts as a share of GDP are expected to be 23.3 per cent, similar to the 2018-19 MYEFO estimate. Tax receipts as a share of GDP are expected to remain below the Government's 23.9 per cent tax-to-GDP cap until 2029-30.

CONTENTS

STATEMENT 4: REVENUE

OVERVIEW

Since the 2018-19 MYEFO, expected tax receipts, including new policy, have been revised up by $1.2 billion in 2018-19, but have been revised down by $250 million in 2019-20 and by $18.2 billion over the four years to 2022-23.

Excluding GST, tax receipts including new policy have been revised up by $2.2 billion in 2018-19 and $1.6 billion in 2019-20, but have been revised down by $8.0 billion over the four years to 2022-23. As GST receipts flow through to the States, tax receipts excluding GST represent the tax receipts available to the Australian Government to meet its own spending needs.

Including new policy, total tax receipts are forecast to grow by 7.4 per cent in 2018-19 and 3.9 per cent in 2019-20, and by 4.2 per cent on average over the four years to 2022-23 (Table 1). The growth in tax receipts is in line with growth prospects for the Australian economy, with the continued absorption of spare capacity in the labour market supporting a pick-up in average wage growth.

Total tax receipts as a share of GDP are expected to increase from 23.3 per cent in 2019-20 to 23.7 per cent in 2021-22, before temporarily dipping in 2022-23 to 23.3 per cent. Tax receipts as a share of GDP are then expected to rise over the medium-term period, but remain below the 23.9 per cent tax cap until 2029-30.

Table 1: Australian Government general government receipts

	Actual	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Total taxation receipts ($b)	**418.1**	**448.8**	**466.4**	**486.4**	**514.3**	**528.7**
Growth on previous year (%)	10.2	7.4	3.9	4.3	5.7	2.8
Per cent of GDP	22.6	23.1	23.3	23.4	23.7	23.3
Tax receipts excluding GST ($b)	**354.9**	**383.2**	**399.2**	**416.4**	**440.8**	**451.3**
Growth on previous year (%)	11.1	8.0	4.2	4.3	5.9	2.4
Per cent of GDP	19.2	19.7	19.9	20.0	20.3	19.9
Non-taxation receipts ($b)	**28.9**	**36.3**	**39.1**	**35.9**	**36.7**	**38.2**
Growth on previous year (%)	-5.7	26.0	7.6	-8.1	2.1	4.0
Per cent of GDP	1.6	1.9	2.0	1.7	1.7	1.7
Total receipts ($b)	**446.9**	**485.2**	**505.5**	**522.3**	**551.0**	**566.9**
Growth on previous year (%)	9.0	8.6	4.2	3.3	5.5	2.9
Per cent of GDP	24.2	25.0	25.2	25.1	25.4	25.0

TAX OUTLOOK

Table 2 reconciles the 2019-20 Budget estimates of tax receipts with the 2018-19 Budget and the 2018-19 MYEFO estimates. Since the 2018-19 MYEFO, tax receipts have been revised up by $1.2 billion in 2018-19. This revision was driven by parameter and other variations, which include revisions due to recent economic conditions, the updated economic outlook, year-to-date tax collections and other non-policy factors. Tax receipts have been revised down by $250 million in 2019-20 as the reduction in receipts due to policy decisions more than offsets the increase in receipts from parameter and other variations.

Table 2: Reconciliation of Australian Government general government taxation receipts estimates from the 2018-19 Budget

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
Tax receipts at 2018-19 Budget	**440,480**	**465,504**	**491,025**	**519,595**	*****	*****
Changes from 2018-19 Budget to 2018-19 MYEFO						
Effect of policy decisions	-5	-467	-2,178	-2,317	*	*
Effect of parameter and other variations	7,170	1,609	2,388	1,561	*	*
Total variations	7,165	1,142	209	-756	*	*
Tax receipts at 2018-19 MYEFO	**447,645**	**466,646**	**491,235**	**518,839**	*****	*****
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions	-2	-1,017	-701	1,342	-2,873	-3,249
Effect of parameter and other variations	1,177	769	-4,162	-5,861	-5,698	-14,952
Total variations	1,175	-249	-4,862	-4,519	-8,571	-18,202
Tax receipts at 2019-20 Budget	**448,821**	**466,397**	**486,372**	**514,320**	**528,691**	**1,995,781**

* Data is not available.
(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.

Over the four years to 2022-23, tax receipts have been revised down by $18.2 billion, due to parameter and other variations as well as policy decisions. Policy decisions include the impact of the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. This measure will provide additional tax relief of $19.5 billion over the four years to 2022-23, and is partly offset by the inclusion of a provision in the 2018-19 MYEFO. The decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce will increase tax receipts. For more details on policy decisions, see *Budget Statement 1* and Budget Paper No. 2.

The 2019-20 Budget continues to provide provisions for a number of Free Trade Agreements (FTAs) which have not been finalised:

- Environmental Goods Agreement;
- Australia-Gulf Cooperation Council Free Trade Agreement;

- Australia-India Comprehensive Economic Cooperation Agreement;
- Regional Comprehensive Economic Partnership;
- Australia's Accession to the World Trade Organisation Government Procurement Agreement;
- Pacific Alliance Free Trade Agreement; and
- Australia-European Union Free Trade Agreement.

The 2019-20 Budget also includes a new provision for the Australia-United Kingdom Free Trade Agreement.

VARIATIONS IN RECEIPTS ESTIMATES

Table 3 reconciles the 2019-20 Budget estimates of total receipts, which include both tax and non-tax receipts, with the 2018-19 Budget and the 2018-19 MYEFO estimates. These differences reflect the impact of policy decisions, and the impact of parameter and other variations.

Table 3: Reconciliation of Australian Government general government receipts estimates from the 2018-19 Budget[(a)]

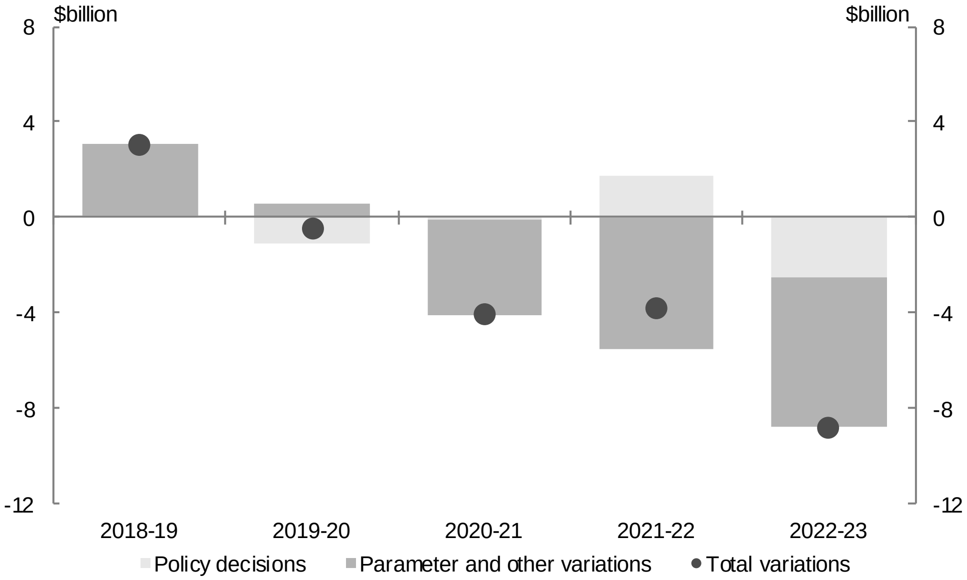
	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total (b)
	$m	$m	$m	$m	$m	$m
Receipts at 2018-19 Budget	**473,745**	**503,666**	**525,458**	**553,966**	*	*
Changes from 2018-19 Budget to 2018-19 MYEFO						
Effect of policy decisions	596	242	-1,580	-1,006	*	*
Effect of parameter and other variations	7,742	2,109	2,509	1,829	*	*
Total variations	**8,338**	**2,351**	**929**	**823**	*	*
Receipts at 2018-19 MYEFO	**482,084**	**506,018**	**526,387**	**554,788**	*	*
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions	51	-1,119	-126	1,731	-2,510	-2,024
Effect of parameter and other variations	3,031	622	-3,944	-5,498	-6,263	-15,082
Total variations	**3,081**	**-497**	**-4,070**	**-3,767**	**-8,773**	**-17,107**
Receipts at 2019-20 Budget	**485,165**	**505,521**	**522,318**	**551,022**	**566,874**	**2,145,734**

* Data is not available.
(a) Includes expected Future Fund earnings.
(b) Total is equal to the sum of amounts from 2019-20 to 2022-23.

Since the 2018-19 MYEFO, total receipts have been revised down by $17.1 billion over the four years to 2022-23, reflecting a downward revision of $15.1 billion from parameter and other variations and a downward revision of $2.0 billion from policy decisions. The downward revision to total receipts is primarily driven by revisions to expected tax receipts. Excluding GST, total receipts have been revised down by $6.8 billion over the four years to 2022-23.

Chart 1 shows the contributions to revisions from policy decisions and from parameter and other variations to the estimates for total receipts since the 2018-19 MYEFO.

Chart 1: Revisions to total receipts estimates since the 2018-19 MYEFO

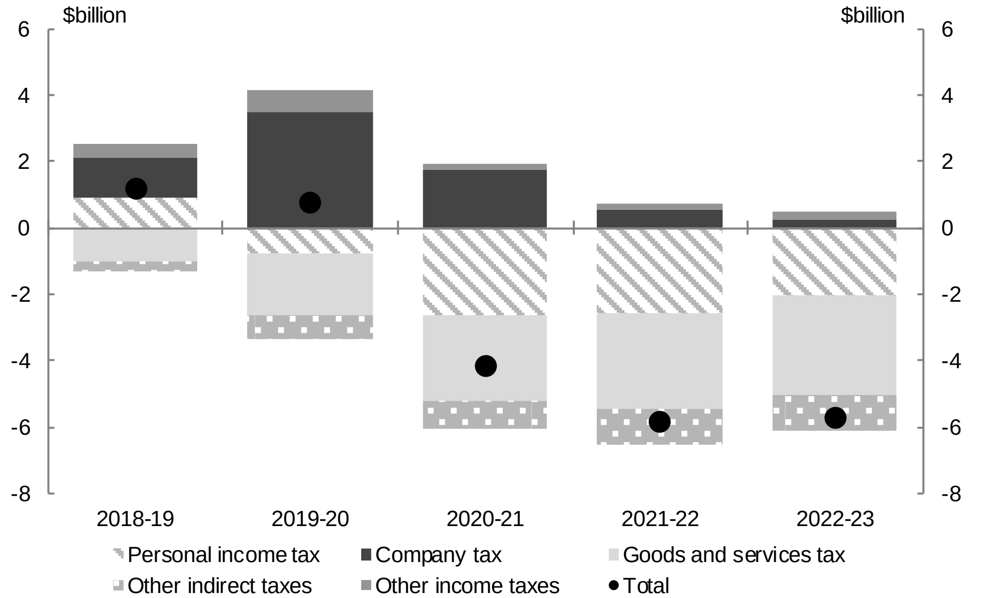


Source: Treasury.

Since the 2018-19 MYEFO, parameter and other variations have increased forecast tax receipts by $1.2 billion in 2018-19 and by $800 million in 2019-20, but have reduced tax receipts by $15.0 billion over the four years to 2022-23 (Chart 2). Excluding GST, parameter and other variations have increased forecast tax receipts by $2.2 billion in 2018-19 and by $2.6 billion in 2019-20, but have reduced forecast receipts by $4.6 billion over the four years to 2022-23.

Chart 2 shows that the outlook for growth in household consumption and dwelling investment is expected to weigh on GST receipts, while the outlook for growth in average wages and non-farm gross mixed income is expected to weigh on personal income tax receipts. In the near term, however, this will be more than offset by the recent observed strength in commodity prices, which is expected to increase company tax collections in 2018-19 and 2019-20.

Chart 2: Parameter and other variations to tax receipts since the 2018-19 MYEFO



Source: Treasury.

The key economic parameters that influence tax receipts are shown in Table 4. Analysis of the sensitivity of the tax receipts estimates to changes in the economic outlook is provided in *Budget Statement 7*.

Table 4: Key economic parameters for revenue(a)

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
Nominal gross domestic product	5	3 1/4	3 3/4	4 1/2	4 1/2
Change since 2018-19 MYEFO	*1/4*	*- 1/4*	*- 1/2*	*1/4*	*na*
Compensation of employees(b)	4 1/4	4 1/4	4 3/4	5	5
Change since 2018-19 MYEFO	*1/4*	*- 1/4*	*- 1/4*	*- 1/4*	*na*
Corporate gross operating surplus(c)	9 1/4	1 1/2	3/4	3	3 1/4
Change since 2018-19 MYEFO	*1 3/4*	*1 1/2*	*-2*	*1*	*na*
Non-farm gross mixed income	3	2 1/4	6	6 1/4	5 1/2
Change since 2018-19 MYEFO	*-3*	*-2 1/2*	*1 1/4*	*2*	*na*
Property income(d)	4	4 1/4	5	4 3/4	4 3/4
Change since 2018-19 MYEFO	*-1 1/4*	*-3 1/2*	*1/2*	*1/4*	*na*
Consumption subject to GST	3 1/4	4 3/4	5 1/4	5 1/4	5 1/4
Change since 2018-19 MYEFO	*-1*	*- 1/2*	*0*	*0*	*na*

(a) Current prices, per cent change on previous year. Changes since the 2018-19 MYEFO are percentage points.
(b) Compensation of employees measures total remuneration earned by employees.
(c) Corporate gross operating surplus is an Australian System of National Accounts measure of company profits, gross of depreciation.
(d) Property income measures income derived from rent, dividends and interest.
na not applicable.

Individuals and other withholding taxation receipts

Compared with the 2018-19 MYEFO, individuals and other withholding taxation receipts have been revised up by $900 million in 2018-19, but then revised down by $1.7 billion in 2019-20 and by $13.5 billion over the four years to 2022-23. The downward revisions reflect parameter and other variations, as well as the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. Despite these revisions, individuals and other withholding taxation receipts are expected to grow by 7.7 per cent in 2018-19, 2.6 per cent in 2019-20, and by 4.3 per cent on average over the four years to 2022-23, which is broadly in line with growth prospects for the Australian economy.

Excluding new policy, individuals and other withholding taxation receipts have been revised up by $900 million in 2018-19, reflecting stronger-than-expected collections relating to prior income years and lower-than-expected deductions, such as work-related expenses. From 2019-20, the revisions to the outlook for growth in average wages and non-farm gross mixed income contribute to a downward revision to individuals and other withholding taxation receipts of $800 million in 2019-20 and $8.1 billion over the four years to 2022-23.

The Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*, which will provide an additional $19.5 billion in personal income tax relief over the four years to 2022-23, will reduce individuals and other withholding taxation receipts by a total of $5.7 billion over the four years to 2022-23, due to the inclusion of a provision in the 2018-19 MYEFO. The measure will provide additional tax relief to individuals, supporting consumption growth and easing cost of living pressures. Further information on the measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* can be found in Budget Paper No. 2, Budget Measures 2019-20.

Fringe benefits tax

Receipts from fringe benefits tax are forecast to fall by 3.9 per cent in 2018-19 but to grow by 4.5 per cent in 2019-20. Relative to the 2018-19 MYEFO, receipts are expected to be $60 million lower in 2018-19, $70 million lower in 2019-20 and $300 million lower over the four years to 2022-23, reflecting a declining share of total compensation of employees expected to be provided as fringe benefits.

Company tax

Compared with the 2018-19 MYEFO, company tax receipts are expected to be $1.2 billion higher in 2018-19, $3.4 billion higher in 2019-20 and $8.0 billion higher over the four years to 2022-23. The large upward revision in 2019-20 reflects expected gains in 2018-19 mining profits flowing into 2019-20 as a result of the delays between when profit is accrued and when company tax is paid. In addition, while commodity prices are assumed to decline over 2019-20, the continued period of elevated prices relative to the 2018-19 MYEFO further improves mining profits and company tax in that year.

The Government's decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce will also increase tax receipts, particularly in 2021-22 and 2022-23.

The strength in company tax receipts, which are forecast to grow by 10.8 per cent in 2018-19 and 5.5 per cent in 2019-20, largely reflects strength in expected mining profits. However, these profits are not anticipated to fully flow through to company tax receipts over the forward estimates. This is in part because several LNG companies have accumulated a large stock of losses from previous investments, which can be used to reduce tax payable in the coming years (see Box 2, *Budget Statement 5*, Budget Paper No. 1 of the 2017-18 Budget for a discussion of losses and company tax timing).

The outlook for commodity prices is a source of significant uncertainty for the forecasts of company tax receipts. Further information on the 2019-20 Budget assumptions for commodity prices is available in *Budget Statement 2* (pages 2-20 and 2-21), and details on the impact of changes in the assumptions on tax receipts are discussed in Box 4, *Budget Statement 2*.

Superannuation fund taxes

Tax receipts from superannuation funds are expected to grow by 5.1 per cent in 2018-19 but fall by 14.5 per cent in 2019-20. The forecast fall in 2019-20 mainly reflects the impact of recent off-market share buybacks.

Compared with the 2018-19 MYEFO, receipts are expected to be around $650 million higher in 2018-19, $800 million higher in 2019-20 and $2.1 billion higher over the four years to 2022-23. Higher receipts mainly reflect stronger outcomes from superannuation funds relating to the 2017-18 income year. Gains in equity markets since the 2018-19 MYEFO have also contributed to the upward revisions to expected tax receipts.

Petroleum resource rent tax (PRRT)

PRRT[1] receipts are forecast to grow by 3.1 per cent in 2018-19 and 21.7 per cent in 2019-20. Since the 2018-19 MYEFO, receipts are expected to be $200 million lower in 2018-19, $100 million lower in 2019-20 and $450 million lower over the four years to 2022-23, consistent with weaker-than-expected collections. These revisions are unrelated to the measures announced in the Government's response to the 2017 Petroleum Resource Rent Tax Review.

1 PRRT estimates include an amount of Minerals Resource Rent Tax (MRRT) receipts which has not been separately disclosed owing to taxpayer confidentiality.

Goods and services tax (GST)

Receipts from GST are forecast to grow by 4.0 per cent in 2018-19 (equivalent to $2.5 billion), and by 2.4 per cent (equivalent to $1.6 billion) in 2019-20. Compared with the 2018-19 MYEFO, receipts are expected to be around $1.0 billion lower in 2018-19, $1.8 billion lower in 2019-20 and $10.3 billion lower over the four years to 2022-23. The downward revisions reflect weaker-than-expected collections, and the downward revisions to forecasts for growth in consumption and dwelling investment.

Nonetheless, GST receipts are expected to grow by 4.2 per cent on average over the four years to 2022-23 and are projected to be $14.3 billion higher in 2022-23 than in 2017-18.

Excise and customs duty

Excise and customs duty receipts are forecast to grow by 3.7 per cent in 2018-19 and 14.9 per cent in 2019-20. The strong growth in 2019-20 partly reflects the commencement of the 2018-19 Budget measure *Black Economy Package — combatting illicit tobacco.*

Since the 2018-19 MYEFO, excise and customs duty receipts have been revised down by $340 million in 2018-19, $420 million in 2019-20 and $2.6 billion over the four years to 2022-23. The downward revision in 2018-19 reflects weaker-than-expected collections. The downward revisions beyond 2018-19 reflect lower forecasts for household consumption growth and crude oil excise.

Other sales taxes

Other sales taxes include the luxury car tax (LCT) and the wine equalisation tax (WET).

LCT receipts are forecast to decline by 7.9 per cent in 2018-19, and remain flat in 2019-20. This is consistent with a decline in the sales of vehicles subject to LCT as well as a decline in the average prices of these vehicles. Since the 2018-19 MYEFO, LCT receipts have been revised down by $360 million over the four years to 2022-23.

WET receipts are forecast to grow by 13.0 per cent in 2018-19 and 6.9 per cent in 2019-20. Since the 2018-19 MYEFO, forecast WET receipts have been revised down by $100 million over the four years to 2022-23.

Other taxes

Compared with the 2018-19 MYEFO, major bank levy receipts are expected to be unchanged in 2018-19, but around $200 million lower over the four years to 2022-23, consistent with lower-than-expected growth in eligible bank liabilities. Nonetheless, major bank levy receipts are forecast to increase from $1.6 billion in 2018-19 to $1.9 billion in 2022-23.

Other taxes are forecast to grow by 12.4 per cent in 2018-19 and by 2.5 per cent in 2019-20. Since the 2018-19 MYEFO, other taxes are around $110 million higher in 2018-19, $180 million lower in 2019-20 and $420 million lower over the four years to 2022-23.

Another component of other taxes is the Skilling Australians Fund levy. Since the 2018-19 MYEFO, Skilling Australians Fund levy receipts are forecast to be $126 million lower over the four years to 2022-23. This reflects lower-than-expected demand for employer nominated visas.

Non-taxation receipts

Since the 2018-19 MYEFO, non-taxation receipts have been revised up by $1.9 billion in 2018-19, largely reflecting upward revisions in Future Fund earnings. Non-taxation receipts have been revised down by $247.9 million in 2019-20, largely reflecting lower than expected State and Territory contributions to the National Disability Insurance Scheme (NDIS) and lower than expected receipts from the Pharmaceutical Benefits Scheme.

Non-taxation receipts (including Future Fund earnings) are expected to grow by 26.0 per cent in 2018-19, primarily due to increased Future Fund earnings and the growth in State and Territory contributions to the NDIS, reflecting the progressive implementation of the NDIS. Non-taxation receipts are expected to grow by 7.6 per cent in 2019-20, largely reflecting higher Unclaimed Super Monies receipts due to the commencement of the Protecting Your Super Package.

The changes in the individual heads of revenue relative to the 2018-19 MYEFO are shown in Table 5 and Table 6, for 2018-19 and 2019-20 respectively. Table 7 shows the Australian Government general government cash receipts from 2017-18 to 2022-23 by head of revenue.

Table 5: Reconciliation of 2018-19 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	205,800	205,800	0	0.0
Gross other individuals	46,300	46,700	400	0.9
less: Refunds	30,000	29,500	-500	-1.7
Total individuals and other withholding tax	222,100	223,000	900	0.4
Fringe benefits tax	3,820	3,760	-60	-1.6
Company tax	92,500	93,700	1,200	1.3
Superannuation fund taxes	10,710	11,360	650	6.1
Petroleum resource rent tax(a)	1,350	1,150	-200	-14.8
Income taxation receipts	**330,480**	**332,970**	**2,490**	**0.8**
Goods and services tax	66,789	65,783	-1,006	-1.5
Wine equalisation tax	1,030	1,010	-20	-1.9
Luxury car tax	700	640	-60	-8.6
Excise and customs duty				
Petrol	6,000	6,000	0	0.0
Diesel	11,550	11,550	0	0.0
Other fuel products	2,280	2,220	-60	-2.6
Tobacco	12,950	12,850	-100	-0.8
Beer	2,490	2,460	-30	-1.2
Spirits	2,350	2,320	-30	-1.3
Other alcoholic beverages(b)	1,000	990	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	200	200	0	0.0
Passenger motor vehicles	450	450	0	0.0
Other imports	1,330	1,320	-10	-0.8
less : Refunds and drawbacks	500	600	100	20.0
Total excise and customs duty	40,100	39,760	-340	-0.8
Major bank levy	1,550	1,550	0	0.0
Agricultural levies	560	541	-19	-3.5
Other taxes	6,436	6,567	131	2.0
Indirect taxation receipts	**117,165**	**115,851**	**-1,315**	**-1.1**
Taxation receipts	**447,645**	**448,821**	**1,175**	**0.3**
Sales of goods and services	14,180	13,467	-713	-5.0
Interest received	4,397	4,412	15	0.3
Dividends	4,390	7,175	2,785	63.4
Other non-taxation receipts	11,471	11,290	-181	-1.6
Non-taxation receipts	**34,438**	**36,344**	**1,906**	**5.5**
Total receipts	**482,084**	**485,165**	**3,081**	**0.6**
Memorandum:				
Total excise	*23,350*	*23,240*	*-110*	*-0.5*
Total customs duty	*16,750*	*16,520*	*-230*	*-1.4*
Capital gains tax(c)	*16,600*	*17,600*	*1,000*	*6.0*

(a) This item includes an amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.
(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 6: Reconciliation of 2019-20 general government (cash) receipts

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	216,200	218,100	1,900	0.9
Gross other individuals	48,900	47,600	-1,300	-2.7
less: Refunds	34,600	36,900	2,300	6.6
Total individuals and other withholding tax	230,500	228,800	-1,700	-0.7
Fringe benefits tax	4,000	3,930	-70	-1.8
Company tax	95,500	98,900	3,400	3.6
Superannuation fund taxes	8,910	9,710	800	9.0
Petroleum resource rent tax	1,500	1,400	-100	-6.7
Income taxation receipts	**340,410**	**342,740**	**2,330**	**0.7**
Goods and services tax	69,195	67,364	-1,831	-2.6
Wine equalisation tax	1,100	1,080	-20	-1.8
Luxury car tax	720	640	-80	-11.1
Excise and customs duty				
Petrol	6,300	6,350	50	0.8
Diesel	12,350	12,300	-50	-0.4
Other fuel products	2,440	2,280	-160	-6.6
Tobacco	17,530	17,410	-120	-0.7
Beer	2,590	2,530	-60	-2.3
Spirits	2,410	2,380	-30	-1.2
Other alcoholic beverages(a)	1,050	1,030	-20	-1.9
Other customs duty				
Textiles, clothing and footwear	200	200	0	0.0
Passenger motor vehicles	440	420	-20	-4.5
Other imports	1,300	1,290	-10	-0.8
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	46,110	45,690	-420	-0.9
Major bank levy	1,650	1,600	-50	-3.0
Agricultural levies	547	520	-27	-5.0
Other taxes	6,913	6,763	-151	-2.2
Indirect taxation receipts	**126,236**	**123,657**	**-2,579**	**-2.0**
Taxation receipts	**466,646**	**466,397**	**-249**	**-0.1**
Sales of goods and services	15,957	15,745	-212	-1.3
Interest received	5,413	5,701	289	5.3
Dividends	5,230	6,165	934	17.9
Other non-taxation receipts	12,771	11,512	-1,259	-9.9
Non-taxation receipts	**39,371**	**39,124**	**-248**	**-0.6**
Total receipts	**506,018**	**505,521**	**-497**	**-0.1**
Memorandum:				
Total excise	*24,780*	*24,540*	*-240*	*-1.0*
Total customs duty	*21,330*	*21,150*	*-180*	*-0.8*
Capital gains tax(b)	*17,000*	*18,100*	*1,100*	*6.5*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 7: Australian Government general government (cash) receipts

	Actual	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Individuals and other withholding taxes						
Gross income tax withholding	192,229	205,800	218,100	230,600	245,600	248,400
Gross other individuals	43,866	46,700	47,600	49,700	54,500	57,200
less: Refunds	29,102	29,500	36,900	38,100	39,800	41,500
Total individuals and other withholding tax	206,993	223,000	228,800	242,200	260,300	264,100
Fringe benefits tax	3,911	3,760	3,930	4,170	4,380	4,610
Company tax	84,591	93,700	98,900	99,500	102,000	104,700
Superannuation fund taxes	10,804	11,360	9,710	13,210	14,760	16,260
Petroleum resource rent tax(a)	1,116	1,150	1,400	1,400	1,400	1,400
Income taxation receipts	**307,415**	**332,970**	**342,740**	**360,480**	**382,840**	**391,070**
Goods and services tax	63,235	65,783	67,364	70,153	73,679	77,549
Wine equalisation tax	894	1,010	1,080	1,110	1,150	1,200
Luxury car tax	695	640	640	650	680	720
Excise and customs duty						
Petrol	6,098	6,000	6,350	6,500	6,750	7,150
Diesel	11,127	11,550	12,300	12,750	13,400	14,150
Other fuel products	2,109	2,220	2,280	2,290	2,360	2,460
Tobacco	11,879	12,850	17,410	15,900	16,530	16,960
Beer	2,451	2,460	2,530	2,580	2,660	2,760
Spirits	2,207	2,320	2,380	2,440	2,520	2,630
Other alcoholic beverages(b)	962	990	1,030	1,040	1,080	1,120
Other customs duty						
Textiles, clothing and footwear	200	200	200	190	200	200
Passenger motor vehicles	504	450	420	350	190	60
Other imports	1,211	1,320	1,290	1,080	980	920
less: Refunds and drawbacks	390	600	500	500	500	500
Total excise and customs duty	38,357	39,760	45,690	44,620	46,170	47,910
Major bank levy	1,139	1,550	1,600	1,700	1,800	1,900
Agricultural levies	555	541	520	564	576	590
Other taxes	5,764	6,567	6,763	7,096	7,424	7,752
Indirect taxation receipts	**110,638**	**115,851**	**123,657**	**125,893**	**131,479**	**137,621**
Taxation receipts	**418,053**	**448,821**	**466,397**	**486,372**	**514,320**	**528,691**
Sales of goods and services	9,941	13,467	15,745	16,985	17,551	17,991
Interest received	3,433	4,412	5,701	6,375	6,731	6,897
Dividends	5,407	7,175	6,165	5,683	6,153	6,984
Other non-taxation receipts	10,072	11,290	11,512	6,903	6,267	6,311
Non-taxation receipts	**28,853**	**36,344**	**39,124**	**35,945**	**36,702**	**38,183**
Total receipts	**446,905**	**485,165**	**505,521**	**522,318**	**551,022**	**566,874**
Memorandum:						
Total excise	*22,703*	*23,240*	*24,540*	*25,200*	*26,300*	*27,710*
Total customs duty	*15,654*	*16,520*	*21,150*	*19,420*	*19,870*	*20,200*
Capital gains tax(c)	*15,600*	*17,600*	*18,100*	*18,700*	*19,800*	*21,000*
Medicare levy(d)	*16,560*	*17,330*	*18,150*	*19,060*	*20,100*	*21,070*

(a) This item includes an amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

(b) ‘Other alcoholic beverages’ are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) ‘Capital gains tax’ is part of gross other individuals, company tax and superannuation fund taxes. The 2017-18 reported figure is an estimate.

(d) Income year basis. Includes a component of taxes linked to the top marginal rate. The 2017-18 reported figure is an estimate.

VARIATIONS IN REVENUE ESTIMATES

The revenue estimates are the accrual accounting equivalent of the cash-based receipts estimates. Changes in revenue are generally driven by the same factors as receipts. Revenue amounts are usually higher than the cash equivalents because the amounts are generally recognised when they are owed rather than when they are paid. The differences between the accrual and cash amounts therefore generally reflect timing differences. Table 8 provides a reconciliation of the 2019-20 Budget's revenue estimates with those at the 2018-19 MYEFO.

Table 8: Reconciliation of Australian Government general government revenue estimates from the 2018-19 MYEFO

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(b)
	$m	$m	$m	$m	$m	$m
Revenue at 2018-19 MYEFO	**493,288**	**514,505**	**538,186**	**568,341**	*	*
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions(a)	51	-819	378	2,243	-2,252	-450
Effect of parameter and other variations	2,457	78	-4,304	-5,877	*	*
Total variations	**2,507**	**-741**	**-3,926**	**-3,634**	*	*
Revenue at 2019-20 Budget	**495,796**	**513,763**	**534,260**	**564,707**	**580,480**	**2,193,210**

* Data is not available.

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

(b) Total is equal to the sum of amounts from 2019-20 to 2022-23.

Since the 2018-19 MYEFO, total revenue has been revised up by around $2.5 billion in 2018-19, but down by $750 million in 2019-20.

The changes in the individual heads of revenue accrual estimates relative to the 2018-19 MYEFO are shown in Tables 9 and 10, for 2018-19 and 2019-20 respectively. For the five year accrual table, the accrual equivalent of Table 7, see *Budget Statement 9*: *Budget Financial Statements*, Note 3.

Additional revenue and receipts historical tables are available online and can be accessed at www.budget.gov.au.

Table 9: Reconciliation of 2018-19 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	207,600	207,600	0	0.0
Gross other individuals	49,500	50,200	700	1.4
less: Refunds	30,000	29,500	-500	-1.7
Total individuals and other withholding tax	227,100	228,300	1,200	0.5
Fringe benefits tax	3,930	3,870	-60	-1.5
Company tax	94,500	95,600	1,100	1.2
Superannuation fund taxes	10,670	11,320	650	6.1
Petroleum resource rent tax(a)	1,480	1,250	-230	-15.5
Income taxation revenue	**337,680**	**340,340**	**2,660**	**0.8**
Goods and services tax	69,180	68,065	-1,115	-1.6
Wine equalisation tax	1,050	1,030	-20	-1.9
Luxury car tax	700	640	-60	-8.6
Excise and customs duty				
Petrol	6,010	6,010	0	0.0
Diesel	11,570	11,570	0	0.0
Other fuel products	2,280	2,220	-60	-2.6
Tobacco	12,950	12,850	-100	-0.8
Beer	2,495	2,560	65	2.6
Spirits	2,350	2,320	-30	-1.3
Other alcoholic beverages(b)	1,000	990	-10	-1.0
Other customs duty				
Textiles, clothing and footwear	200	200	0	0.0
Passenger motor vehicles	450	450	0	0.0
Other imports	1,330	1,320	-10	-0.8
less: Refunds and drawbacks	500	600	100	20.0
Total excise and customs duty	40,135	39,890	-245	-0.6
Major bank levy	1,650	1,560	-90	-5.5
Agricultural levies	561	542	-19	-3.4
Other taxes	7,041	7,018	-23	-0.3
Indirect taxation revenue	**120,317**	**118,745**	**-1,572**	**-1.3**
Taxation revenue	**457,997**	**459,085**	**1,088**	**0.2**
Sales of goods and services	14,024	13,455	-569	-4.1
Interest	4,810	4,837	27	0.6
Dividends	4,648	7,718	3,070	66.0
Other non-taxation revenue	11,809	10,701	-1,108	-9.4
Non-taxation revenue	**35,292**	**36,711**	**1,419**	**4.0**
Total revenue	**493,288**	**495,796**	**2,507**	**0.5**
Memorandum:				
Total excise	*23,385*	*23,370*	*-15*	*-0.1*
Total customs duty	*16,750*	*16,520*	*-230*	*-1.4*
Capital gains tax(c)	*16,600*	*17,600*	*1,000*	*6.0*

(a) This item includes an amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).

(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 10: Reconciliation of 2019-20 general government (accrual) revenue

	Estimates		Change on MYEFO	
	MYEFO	Budget		
	$m	$m	$m	%
Individuals and other withholding taxes				
Gross income tax withholding	217,900	219,800	1,900	0.9
Gross other individuals	51,900	51,200	-700	-1.3
less: Refunds	34,600	36,900	2,300	6.6
Total individuals and other withholding tax	235,200	234,100	-1,100	-0.5
Fringe benefits tax	4,110	4,040	-70	-1.7
Company tax	97,300	100,600	3,300	3.4
Superannuation fund taxes	8,960	9,750	790	8.8
Petroleum resource rent tax	1,520	1,290	-230	-15.1
Income taxation revenue	**347,090**	**349,780**	**2,690**	**0.8**
Goods and services tax	71,650	69,630	-2,020	-2.8
Wine equalisation tax	1,120	1,100	-20	-1.8
Luxury car tax	720	640	-80	-11.1
Excise and customs duty				
Petrol	6,190	6,240	50	0.8
Diesel	12,150	12,100	-50	-0.4
Other fuel products	2,410	2,250	-160	-6.6
Tobacco	17,500	17,380	-120	-0.7
Beer	2,525	2,470	-55	-2.2
Spirits	2,410	2,380	-30	-1.2
Other alcoholic beverages(a)	1,050	1,030	-20	-1.9
Other customs duty				
Textiles, clothing and footwear	200	200	0	0.0
Passenger motor vehicles	440	420	-20	-4.5
Other imports	1,300	1,290	-10	-0.8
less: Refunds and drawbacks	500	500	0	0.0
Total excise and customs duty	45,675	45,260	-415	-0.9
Major bank levy	1,750	1,610	-140	-8.0
Agricultural levies	578	551	-27	-4.7
Other taxes	8,182	8,025	-158	-1.9
Indirect taxation revenue	**129,675**	**126,815**	**-2,860**	**-2.2**
Taxation revenue	**476,765**	**476,596**	**-170**	**0.0**
Sales of goods and services	15,833	15,757	-77	-0.5
Interest	5,785	6,009	224	3.9
Dividends	5,420	6,112	691	12.8
Other non-taxation revenue	10,701	9,290	-1,410	-13.2
Non-taxation revenue	**37,739**	**37,168**	**-572**	**-1.5**
Total revenue	**514,505**	**513,763**	**-741**	**-0.1**
Memorandum:				
Total excise	*24,375*	*24,140*	*-235*	*-1.0*
Total customs duty	*21,300*	*21,120*	*-180*	*-0.8*
Capital gains tax(b)	*17,000*	*18,100*	*1,100*	*6.5*

(a) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

APPENDIX A: TAX BENCHMARKS AND VARIATIONS STATEMENT

This appendix contains an overview of Australian Government tax benchmarks and variations, as required by Section 12 of the *Charter of Budget Honesty Act 1998* (CBHA).

Tax benchmarks represent a standard taxation treatment that applies to similar taxpayers or types of activities. Policy approaches can apply a taxation treatment different from a standard approach and the resulting variations can give rise to positive or negative variations.

The choice of benchmark unavoidably involves judgment and may therefore be contentious in some cases.

Benchmark variation estimates should be interpreted with caution as they do not indicate the revenue gain or loss to the budget if they were to be abolished by a change of policy. In addition, the characterisation of a provision of the tax law that gives rise to a benchmark variation does not indicate a view on how an activity or class of taxpayer ought to be taxed.

Consistent with most OECD countries, estimates of a benchmark variation reflect the extent to which a variation is utilised, similar to budget estimates of outlays on demand-driven expenditure programs.

This is known as the 'revenue forgone' approach which, in practice, involves estimating the difference in revenue between the actual and benchmark tax treatments but, importantly, assuming taxpayer behaviour is the same in each circumstance.

Revenue forgone estimates therefore do not indicate the revenue gain to the Australian Government Budget if specific benchmark variations were abolished through policy change, as there may be significant changes in taxpayer behaviour were the variations removed.

Care needs to be taken when comparing benchmark variations with direct expenditures as they may measure different things. In addition, estimates from different editions of previously released Tax Expenditures Statements (TES) are generally not comparable, because of changes or modifications to — for example — benchmarks, individual benchmark variations, data used or modelling methodology.

The CBHA also requires the publication of an annual report. The 2018 Tax Benchmarks and Variations Statement was published in January 2019 and provides a detailed description of Australian Government benchmarks and benchmark variations and, where possible, the estimated value, or order of magnitude, of each benchmark variation.

The information in Table A1 is derived from the 2018 Tax Benchmarks and Variations Statement and does not include the impact of decisions in this Budget on benchmark variations. Further information on benchmarks and variations from them will be available in future Tax Benchmark and Variations reports.

Table A1: Estimates of large measured benchmark variations

Benchmark variations		Estimate $m			
		2019-20	2020-21	2021-22	2022-23
Large positive benchmark variations					
E7	Main residence exemption - discount component	35,000	36,000	37,500	40,000
E6	Main residence exemption	29,500	31,000	32,000	33,500
C4	Concessional taxation of superannuation entity earnings	20,150	21,100	22,650	23,650
C2	Concessional taxation of employer superannuation contributions	19,100	20,450	22,700	23,350
E14	Discount for individuals and trusts	9,310	9,370	9,430	9,500
H26	Food	7,500	7,800	8,100	8,400
H14	Education	5,050	5,400	5,800	6,200
H17	Health - medical and health services	4,550	4,850	5,150	5,450
H2	Financial supplies - input taxed treatment	3,850	4,150	4,400	4,750
A26	Exemption for National Disability Insurance Scheme amounts	2,550	3,020	3,320	3,600
B2	Local government bodies income tax exemption	2,450	2,790	3,170	3,610
B12	Exemption from interest withholding tax on certain securities	2,360	2,360	2,360	2,360
A24	Concessional taxation of non-superannuation termination benefits	2,200	2,100	2,000	1,900
C6	Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	2,180	2,460	2,870	3,200
A19	Medicare levy exemption for residents with taxable income below the low-income thresholds	1,990	2,015	2,045	2,075
A40	Exemption of Family Tax Benefit payments	1,960	1,980	2,000	1,970
B52	Lower company tax rate	1,900	3,400	4,100	4,000
A27	Exemption of Child Care Assistance payments	1,825	1,920	2,045	2,015
C1	Concessional taxation of capital gains for superannuation funds	1,800	1,950	2,150	2,250
D10	Exemption for public and not-for-profit hospitals and public ambulance services	1,800	1,900	2,000	2,000
D14	Exemption for public benevolent institutions (excluding hospitals)	1,800	1,900	2,000	2,000
H5	Child care services	1,680	1,790	1,920	2,070
A17	Exemption of the Private Health Insurance Rebate	1,540	1,590	1,650	1,710
A57	Philanthropy - deduction for gifts to deductible gift recipients	1,510	1,610	1,715	1,825
C3	Concessional taxation of personal superannuation contributions	1,400	1,650	1,750	1,950
F7	Concessional rate of excise levied on aviation gasoline and aviation turbine fuel	1,400	1,430	1,500	1,540
H18	Health - residential care, community care and other care services	1,270	1,350	1,440	1,530
A39	Exemption of certain income support benefits, pensions or allowances	1,170	1,180	1,190	1,190
H6	Water, sewerage and drainage	1,150	1,210	1,280	1,350
B73	Capital works expenditure deduction	1,150	1,230	1,320	1,410
E30	Small business 50 per cent reduction	1,090	1,170	1,250	1,340
Large negative benchmark variations					
F22	Customs duty	-1,460	-1,290	-1,130	-920
F11	Higher rate of excise levied on cigarettes not exceeding 0.8 grams of tobacco	-2,920	-3,130	-3,290	-3,460

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

Statement 5 presents estimates of general government sector expenses and net capital investment, allocated according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework.

The first part of this statement provides information on trends in estimated expenses and the second part presents trends in net capital investment estimates. Estimates are on an Australian Government general government sector basis.

Statement 5 focuses on short to medium term trends in estimated expenses and their underlying drivers. Consistent with this emphasis, much of Statement 5 explains year on year changes across the forward estimates period.

The main trends are:

- in 2019-20 the social security and welfare, health, defence and education functions account for nearly two thirds of total expenses, with social security and welfare accounting for slightly more than one third of total expenses;
- in real terms, the strongest growth across the budget and forward estimates is expected to occur in the education and the social security and welfare functions; and
- net capital investment in 2019-20 largely reflects continued investment in defence capital projects.

CONTENTS

STATEMENT 5: EXPENSES AND NET CAPITAL INVESTMENT

OVERVIEW

Australian Government general government sector (GGS) accrual expenses are expected to increase by 0.7 per cent in real terms in 2019-20, with the growth rate remaining stable in 2020-2021. This reflects slower growth across a range of Government programs, partially offset by growth in education and social security and welfare programs. Reflecting the Government's continued focus on fiscal restraint, total expenses are expected to decline as a percentage of GDP from 25.0 per cent in 2019-20 to 24.6 per cent in 2022-23. The decline in total expense over the forward estimates compares with significant growth in total expenses during the period 2007-08 to 2013-14 when expenses rose from 23.8 per cent of GDP in 2007-08 to 25.9 per cent of GDP in 2013-14.

Table 1.1: Estimates of general government sector expenses

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total expenses ($b)	**488.4**	**487.3**	**500.9**	**516.1**	**535.9**	**559.9**
Real growth on previous year (%)(a)	4.2	4.2	0.7	0.7	1.5	1.9
Per cent of GDP	25.2	25.1	25.0	24.8	24.7	24.6

(a) Real growth is calculated using the Consumer Price Index.

As set out in *Statement 3: Fiscal Strategy and Outlook* of Budget Paper No. 1, the Government also reports spending on an underlying cash basis. In cash terms, Government spending is forecast to grow by an average of 1.3 per cent per annum in real terms over the four years to 2022-23 and total payments are expected to decline as a percentage of GDP from 24.6 per cent in 2019-20 to 24.5 per cent in 2022-23.

Table 1.2: Estimates of general government sector payments

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total payments ($b)	**483.4**	**482.7**	**493.3**	**511.3**	**533.2**	**557.7**
Real growth on previous year (%)(a)	4.8	4.9	0.1	1.3	1.9	2.0
Per cent of GDP	24.9	24.9	24.6	24.6	24.5	24.5

(a) Real growth is calculated using the Consumer Price Index.

Table 2 provides a reconciliation of expense estimates between the 2018-19 Budget, the 2018-19 *Mid-Year Economic and Fiscal Outlook* (MYEFO) and the 2019-20 Budget showing the effect of policy decisions, and economic parameter and other variations.

Table 2: Reconciliation of expense estimates

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	Total
	$m	$m	$m	$m	$m
2018-19 Budget expenses	**488,584**	**504,171**	**518,247**	**540,830**	**2,051,833**
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	1,867	4,695	4,559	4,018	15,140
Effect of parameter and other variations	-2,089	-4,475	-5,021	-6,296	-17,881
Total variations	**-221**	**220**	**-462**	**-2,278**	**-2,741**
2018-19 MYEFO expenses	**488,363**	**504,392**	**517,785**	**538,552**	**2,049,092**
Changes from 2018-19 MYEFO to 2019-20 Budget					
Effect of policy decisions(a)	2,808	1,506	2,688	3,020	10,023
Effect of economic parameter variations					
Total economic parameter variations	-1,224	-2,469	-3,640	-3,908	-11,242
Unemployment benefits	*-193*	*-27*	*-36*	*67*	*-188*
Prices and wages	*-69*	*-728*	*-920*	*-910*	*-2,628*
Interest and exchange rates	*36*	*105*	*-82*	*-161*	*-102*
GST payments to the States	*-998*	*-1,819*	*-2,603*	*-2,904*	*-8,324*
Public debt interest	-81	-473	-638	-991	-2,182
Program specific parameter variations	-358	-2,332	243	45	-2,401
Other variations	-2,165	248	-333	-804	-3,054
Total variations	**-1,020**	**-3,519**	**-1,680**	**-2,637**	**-8,856**
2019-20 Budget expenses	**487,343**	**500,872**	**516,105**	**535,915**	**2,040,236**

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

The combined impact of policy decisions and variations to program estimates has decreased expenses by $8.9 billion over the four years from 2018-19 to 2021-22 compared to the 2018-19 MYEFO. In the same period, program specific parameter variations, public debt interest and other variations have decreased expenses by $7.6 billion, and economic parameter variations have decreased expenses by $11.2 billion compared to the 2018-19 MYEFO.

Estimated expenses by function

Table 3 sets out the estimates of Australian Government general government sector expenses by function for the period 2018-19 to 2022-23.

Table 3: Estimates of expenses by function

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
General public services	26,048	23,614	23,524	23,828	23,802
Defence	31,014	32,243	32,772	34,739	37,629
Public order and safety	5,760	5,919	5,723	5,730	5,613
Education	34,773	36,350	38,047	39,339	40,893
Health	80,569	81,777	82,530	85,552	89,544
Social security and welfare	172,749	180,125	186,852	193,607	200,217
Housing and community amenities	5,278	5,907	5,264	5,523	4,767
Recreation and culture	3,988	3,849	3,738	3,714	3,696
Fuel and energy	7,956	8,171	8,515	8,865	9,285
Agriculture, forestry and fishing	3,149	2,871	3,075	2,983	3,014
Mining, manufacturing and construction	2,592	3,422	3,730	3,408	2,926
Transport and communication	8,105	9,038	9,225	9,717	11,149
Other economic affairs	10,281	9,297	8,987	8,926	8,996
Other purposes	95,081	98,287	104,122	109,984	118,343
Total expenses	**487,343**	**500,872**	**516,105**	**535,915**	**559,874**

Major expense trends between 2018-19 and 2019-20, and from 2019-20 over the forward years include movements in the following functions:

- **general public services** — the decrease in expenses between 2018-19 and 2019-20 largely reflects the use of different discount rates applied to superannuation expenses;
- **defence** — the increase in expenses from 2019-20 to 2022-23 reflects the funding required to deliver the plans set out in the *2016 Defence White Paper*;
- **education** — the increase in expenses from 2019-20 to 2022-23 largely reflects the school funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools under the 2018-19 MYEFO measure *Response to the Review of the Socio-Economic Status Score Methodology;*
- **health** — the increase in expenses from 2019-20 to 2022-23 is largely driven by growth in the **assistance to the States for public hospitals** and **medical services and benefits** sub-functions. The increase in payments for public hospitals reflects higher growth in activity, and the growth in expenditure for medical services reflects the growth in use of high value items as well as the introduction of measures to strengthen primary care, including a new chronic disease care funding model and increased funding for diagnostic imaging services;

- **social security and welfare** — the increase in expenses from 2019-20 to 2022-23 largely reflects the impact of an ageing population accessing the Aged Pension and residential and home care, the transition to the full National Disability Insurance Scheme to support people with a significant and permanent disability, and growth in child care support for families;

- **housing and community amenities** — the decrease in expenses from 2018-19 to 2019-20 and the decrease from 2019-20 to 2022-23 largely reflects the scheduled completion of payments to the states and territories under National Partnership Agreements and the completion of urban and regional development projects;

- **transport and communication** — the increased profile of expenses from 2019-20 to 2022-23 largely reflects new and existing commitments to major infrastructure projects within the road and rail transport sub-functions; and

- **other purposes** — the increase in expenses from 2018-19 to 2022-23 largely reflects growing general revenue assistance payments (largely GST) to be made to the states and territories and the conservative bias allowance component of the Contingency Reserve.

Government expenses are strongly influenced by underlying trends in spending in the social security and welfare, health and education functions (see Box 1). Together, these functions account for 59.6 per cent of all government expenses in 2019-20. Further details of spending trends against all functions, including movements in expenses from 2018-19 to 2019-20, are set out under individual function headings.

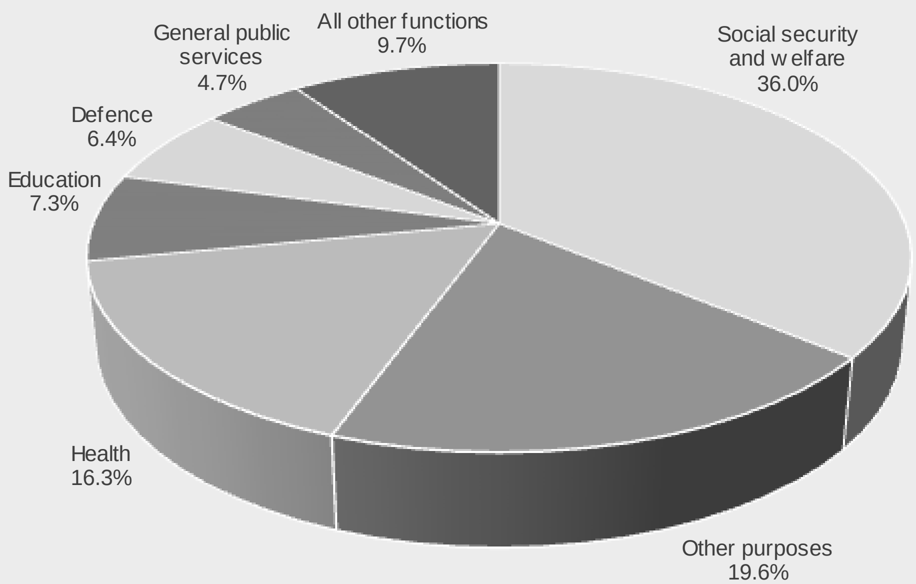
Box 1: Where does government spending go in 2019-20?

Government spending provides a wide range of services to the community. The most significant component of government spending relates to social security and welfare, with around one third of total expenses providing support to the aged, families with children, people with disabilities, veterans, carers and unemployed people.

Another one sixth of government expenses occur in health, including Medicare Benefits Schedule (MBS) and Pharmaceutical Benefits Scheme (PBS) payments. A similar amount is also transferred to the states and territories in general revenue assistance under the other purposes function.

The Government also provides significant investment under the education function, supporting government and non-government schools, as well as higher education and vocational education and training. The remainder is spent on defence and a range of other public services.

Chart 1: Expenses by function in 2019-20



The estimates presented in the chart above are explained in greater detail under each individual function in the following pages.

Program expenses

Table 3.1 reports the top 20 expense programs in the 2019-20 financial year. These programs represent more than two thirds of total expenses in that year. A significant proportion of the top 20 expense programs provide financial assistance or services to the aged, families, people with a disability, students, carers and the unemployed.

Table 3.1: Top 20 programs by expenses in 2019-20

		Estimates			Projections	
		2018-19	2019-20	2020-21	2021-22	2022-23
Program(a)	**Function**	$m	$m	$m	$m	$m
Revenue assistance to the States and Territories	Other purposes	67,134	69,053	71,256	75,067	78,608
Income Support for Seniors	SSW	46,741	48,301	50,265	52,285	54,766
Medical benefits	Health	24,227	25,526	26,858	28,357	30,085
Assistance to the States for public hospitals	Health	21,708	22,535	23,622	24,815	26,183
Aged care services	SSW	18,764	20,027	20,902	22,374	23,903
Family tax benefit	SSW	17,630	18,013	17,913	18,237	18,333
National Disability Insurance Scheme	SSW	12,910	17,439	22,181	23,470	24,755
Income Support for People with Disability	SSW	16,699	17,057	17,044	17,618	17,889
Non-government schools national support	Education	11,956	12,554	13,518	14,245	14,980
Pharmaceutical benefits, services and supply	Health	12,728	11,971	10,173	10,152	10,384
Job seeker income support	SSW	10,476	10,834	10,861	11,337	11,754
Income support for carers	SSW	8,770	9,207	9,493	10,038	10,552
Public sector superannuation(b)	Other purposes; General public services	8,983	8,945	9,064	9,221	9,359
Government schools national support	Education	7,684	8,326	8,995	9,673	10,385
Child Care Subsidy	SSW	7,725	8,267	8,642	9,108	9,646
Fuel Tax Credits Scheme	Fuel and energy	7,168	7,504	7,937	8,424	8,966
Commonwealth Grants Scheme	Education	7,053	7,212	7,341	7,467	7,581
Air Force capabilities	Defence	6,534	6,945	7,644	7,894	8,239
Army Capabilities	Defence	6,760	6,888	7,607	7,896	8,507
Private Health Insurance	Health	6,170	6,313	6,423	6,601	6,809
Sub-total		**327,821**	**342,916**	**357,741**	**374,277**	**391,684**
Other programs		159,522	157,956	158,364	161,638	168,190
Total expenses		**487,343**	**500,872**	**516,105**	**535,915**	**559,874**

(a) The entry for each program includes eliminations for inter-agency transactions within that program.
(b) This program is a combination of superannuation nominal interest and accrual expenses.

General government sector expenses

General public services

The general public services function includes expenses to support the organisation and operation of government such as those related to: the Parliament, the Governor-General; the conduct of elections; the collection of taxes and management of public funds and debt; assistance to developing countries to reduce poverty and achieve sustainable development, particularly countries in the Pacific region; contributions to international organisations; and the operations of the foreign service. It also includes expenses related to research in areas not otherwise connected with a specific function, and those associated with overall economic and statistical services, as well as government superannuation benefits (excluding nominal interest expenses on unfunded liabilities, which are included under the nominal superannuation interest sub-function in the other purposes function).

Table 4: Summary of expenses — general public services

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Legislative and executive affairs	1,533	1,196	1,197	1,528	1,199
Financial and fiscal affairs	6,922	7,344	7,287	7,593	7,495
Foreign affairs and economic aid	5,750	6,253	6,211	5,697	5,918
General research	3,012	3,159	3,212	3,330	3,476
General services	665	651	592	597	581
Government superannuation benefits	8,166	5,011	5,025	5,083	5,134
Total general public services	**26,048**	**23,614**	**23,524**	**23,828**	**23,802**

Total general public services expenses are estimated to decrease by 11.2 per cent in real terms from 2018-19 to 2019-20 and decrease by 6.1 per cent in real terms over the period 2019-20 to 2022-23.

Expenses under the **legislative and executive affairs** sub-function partly reflect costs incurred by the Australian Electoral Commission to support federal elections in 2018-19 and 2021-22.

Expenses in the **financial and fiscal affairs** sub-function are expected to decrease in real terms from 2018-19 to 2022-23. The decrease is partially offset by further enhancements in compliance activities undertaken by the Australian Taxation Office through the 2019-20 Budget measure *Tax Integrity — extension and expansion of the ATO Tax Avoidance Taskforce on Large Corporates, Multinationals and High Wealth Individuals*.

Table 4.1 provides further details of the major components of foreign affairs and economic aid sub-function expenses.

Table 4.1: Trends in the major components of foreign affairs and economic aid sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Foreign aid(b)	3,517	3,947	3,878	3,465	3,657
Diplomacy(c)	1,019	1,050	1,044	923	959
Payments to international organisations	445	503	525	556	580
Passport services	242	238	240	242	246
International police assistance	204	196	197	179	143
International agriculture research and development	128	121	122	119	117
Consular services	97	104	104	104	104
Finance and insurance services for Australian exporters and investors	11	7	7	6	5
Other	87	88	95	103	107
Total	**5,750**	**6,253**	**6,211**	**5,697**	**5,918**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The foreign aid figures reflect aid spending by the Department of Foreign Affairs and Trade in accrual terms. This differs from the international measure of aid reporting, official development assistance (ODA), which is in cash terms. Aid spending by other entities is usually reflected in other sub-functions.
(c) Diplomacy includes Departmental expenditure for the Department of Foreign Affairs and Trade's Operations, Security and IT, overseas property and international climate change engagement.

Total expenses under the **foreign affairs and economic aid** sub-function are expected to increase by 6.6 per cent in real terms from 2018-19 to 2019-20, and are forecast to decrease by 11.8 per cent in real terms from 2019-20 to 2022-23.

The increase in expenses from 2018-19 to 2019-20 and the decrease over the period 2019-20 to 2022-23 reflects the payment cycles of Australia's contributions under the multi-year funding arrangements for multilateral funds such as the Asian Development Fund and the World Bank's International Development Association. The decrease over the period 2019-20 to 2022-23 is partially offset by the Government's 2018-19 Budget decision *Maintaining the Level of Official Development Assistance* to maintain spending at $4.0 billion per year over the forward estimates period with indexation to recommence in 2022-23. The Government continues to invest in significant policies including Foreign Policy White Paper initiatives.

Table 4.2 sets out the major components of general research sub-function expenses.

Table 4.2: Trends in the major components of general research sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Research - science services and innovation fund	1,153	1,142	1,166	1,191	1,214
Discovery - research and research training	495	508	515	527	538
Science and technology solutions	354	392	370	406	399
Linkage - cross sector research partnerships	272	286	293	298	303
Supporting science and commercialisation	234	283	280	311	282
Research capacity	168	191	245	259	401
Other	337	357	343	340	338
Total	**3,012**	**3,159**	**3,212**	**3,330**	**3,476**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The **general research** sub-function incorporates expenses incurred by the Department of Industry, Innovation and Science (DIIS), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), the Australian Nuclear Science and Technology Organisation (ANSTO), the Australian Institute of Marine Science (AIMS), the Department of Education and Training, and the Australian Research Council (ARC).

Total expenses under this sub-function are expected to increase by 2.7 per cent in real terms from 2018-19 to 2019-20 and will increase by 2.6 percent from 2019-20 to 2022-23. The increase in expenses for this sub-function primarily relates to the 2019-20 Budget measure *Strengthening the Australian Nuclear Science and Technology Organisation* and the 2018-19 Budget measure *National Research Infrastructure Investment Plan – implementation of Government response* that expanded the National Collaborative Research Infrastructure Strategy.

The fall in expenses from 2018-19 to 2019-20 in the **government superannuation benefits** sub-function reflects the use of different discount rates. In accordance with accounting standards, the superannuation expenses for 2018-19 were calculated using the long-term government bond rate as at 1 July 2018 that best matched each individual scheme's liability duration. These rates were broadly between 2.7 and 3.1 per cent per annum. Forward years are estimated based on the discount rate recommended by the superannuation scheme actuaries in preparing the latest Long Term Cost Reports (5 per cent).

Defence

The defence function includes expenses incurred by the Department of Defence (Defence) and related agencies. Defence expenses support Australian military operations overseas and the delivery of navy, army, air and intelligence capabilities and strategic policy advice in the defence of Australia and its national interests.

This function records the majority of expenses incurred by the Defence portfolio but does not include the expenses incurred by the Department of Veterans' Affairs, superannuation payments to retired military personnel and housing assistance provided through Defence Housing Australia. These expenses are reported in the social security and welfare, other purposes, and housing and community amenities functions, respectively.

Table 5: Summary of expenses — defence

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Defence	31,014	32,243	32,772	34,739	37,629
Total defence	**31,014**	**32,243**	**32,772**	**34,739**	**37,629**

Total expenses for the **defence** sub-function are estimated to increase by 1.9 per cent in real terms from 2018-19 to 2019-20, and by 8.8 per cent in real terms over the period 2019-20 to 2022-23, reflecting funding to deliver the *2016 Defence White Paper,* and the Government's commitment to increase Defence's funding including through the 2019-20 Budget measure *Additional funding to support Defence Capability*.

$679.4 million will be provided in the 2019-20 Budget to support major Australian Defence Force Operations in the Middle East and the protection of Australia's borders and offshore maritime interests.

Public order and safety

The public order and safety function includes expenses to support the administration of the federal legal system and the provision of legal services, including legal aid, to the community. Public order and safety expenses also include law enforcement, border protection and intelligence activities, and the protection of Australian Government property.

Table 6: Summary of expenses — public order and safety

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Courts and legal services	1,266	1,396	1,467	1,455	1,316
Other public order and safety	4,493	4,523	4,256	4,274	4,297
Total public order and safety	**5,760**	**5,919**	**5,723**	**5,730**	**5,613**

Total expenses for the public order and safety function are estimated to increase by 0.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 11.6 per cent in real terms over the period 2019-20 to 2022-23.

Expenses within the **courts and legal services** sub-function are estimated to increase by 8.0 per cent in real terms from 2018-19 to 2019-20, mainly reflecting increased resourcing for the Federal Court, including for an expansion of its jurisdiction to include corporate crime, funding for the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability and continued funding under the National Partnership on Legal Assistance Services. Expenses are expected to decrease by 12.1 per cent in real terms from 2019-20 to 2022-23, reflecting that the majority of the funding for the Royal Commission will be provided from 2019-20 to 2021-22.

The major components of the other public order and safety sub-function expenses are set out in Table 6.1.

Table 6.1: Trends in the major components of the other public order and safety sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Policing and law enforcement	3,094	3,060	2,929	2,968	2,993
Border protection(b)	1,399	1,463	1,327	1,306	1,304
Total	**4,493**	**4,523**	**4,256**	**4,274**	**4,297**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Total expenses within the **other public order and safety** sub-function are expected to decrease by 1.4 per cent in real terms from 2018-19 to 2019-20. There is an expected decrease of 11.5 per cent in real terms from 2019-20 to 2022-23, which mainly reflects the termination of a number of measures that are subject to future Government consideration and additional short-term funding being provided to Home Affairs in 2019-20 for Border Enforcement activities. The decrease is partially offset by significant

funding increases for the Australian Federal Police and the National Security Agencies for measures announced in the 2019-20 Budget, the *National Security Agencies – additional resourcing* and *Whole of Government Drug Strategy* measures.

Education

The education function includes expenses to support the delivery of education services through higher education institutions; vocational education and training providers (including technical and further education institutions); and government (State and Territory) and non-government primary and secondary schools.

Table 7: Summary of expenses — education

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Higher education	9,704	9,856	10,118	10,256	10,372
Vocational and other education	1,675	1,699	1,697	1,723	1,620
Schools	19,641	20,880	22,513	23,917	25,365
Non-government schools	*11,956*	*12,554*	*13,518*	*14,245*	*14,980*
Government schools	*7,684*	*8,326*	*8,995*	*9,673*	*10,385*
School education - specific funding	691	742	561	209	151
Student assistance	2,675	2,753	2,767	2,849	3,011
General administration	388	420	391	385	374
Total education	**34,773**	**36,350**	**38,047**	**39,339**	**40,893**

Total education expenses are expected to increase by 2.4 per cent in real terms between 2018-19 and 2019-20, and increase by 4.8 per cent in real terms from 2019-20 to 2022-23.

Expenses under the **higher education** sub-function are expected to decrease by 0.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 1.9 per cent in real terms between 2019-20 and 2022-23. The forecast decline in expenses over the forward estimates relates to downward revisions to expected claims by universities for superannuation payments and the 2018-19 MYEFO measure *Research Block Grants – growth adjustment.*

Expenses under the **vocational and other education** sub-function are expected to decrease by 0.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 11.1 per cent in real terms from 2019-20 to 2022-23. The change in expenses over the forward estimates primarily reflects the revised funding profile of the National Agreement for Skills and Workforce Development. The expected decrease in expenses in 2022-23 primarily reflects the conclusion of the Skilling Australians Fund National Partnership Agreement on 30 June 2022. The Government is providing additional funding to vocational education and training in the 2019-20 Budget measure *Skills Package – Delivering Skills for Today and Tomorrow* which is reflected in the **vocational and industry training** sub-function under the other economic affairs function below.

Aggregate schools funding expenses are expected to increase by 4.2 per cent in real terms between 2018-19 and 2019-20, and by 13.2 per cent in real terms from 2019-20 to 2022-23. Expenses in the **schools – non-government schools** sub-function are expected to increase by 2.9 per cent in real terms between 2018-19 and 2019-20, and by 11.2 per cent in real terms from 2019-20 to 2022-23. Expenses under the **schools – government schools** sub-function are expected to increase by 6.2 per cent in real terms

between 2018-19 and 2019-20, and by 16.2 per cent in real terms from 2019-20 to 2022-23. The increase in expenses over the forward years is primarily due to the school funding arrangements implemented under the *Quality Schools* package and increased funding for non-government schools under the 2018-19 MYEFO measure *Response to the Review of the Socio-Economic Status Score Methodology.*

Expenses under the **school education — specific funding** sub-function are expected to increase by 5.3 per cent in real terms between 2018-19 and 2019-20, and decrease by 81.1 per cent in real terms from 2019-20 to 2022-23. The increase in expenses in 2019-20 is primarily due to the 2019-20 Budget measure *Local School Community Fund*. The decrease in expenses over the forward years primarily reflects the conclusion of the 2019-20 Budget measure *National Partnership Agreement on Universal Access to Early Childhood Education — further extension* on 30 June 2021.

Expenses under the **student assistance** sub-function are expected to increase by 0.8 per cent in real terms from 2018-19 to 2019-20, and increase by 2.0 per cent in real terms from 2019-20 to 2022-23. The increase from 2018-19 to 2022-23 largely reflects changes in population trends.

Health

The health function includes expenses relating to medical services that are funded through Medicare; payments to the states and territories to deliver essential health services, including public hospitals; the Pharmaceutical Benefits and Repatriation Pharmaceutical Benefits Schemes; the Private Health Insurance Rebate; Aboriginal and Torres Strait Islander health programs; mental health services; and health workforce initiatives.

Table 8: Summary of expenses — health

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Medical services and benefits	32,197	33,687	35,121	36,823	38,814
Pharmaceutical benefits and services	13,457	12,688	10,877	10,862	11,085
Assistance to the States for public hospitals	21,708	22,535	23,622	24,815	26,183
Hospital services(a)	1,385	1,298	1,218	1,181	1,149
Health services	7,505	7,371	7,441	7,646	8,021
General administration	3,395	3,236	3,252	3,194	3,228
Aboriginal and Torres Strait Islander health	922	962	998	1,031	1,065
Total health	**80,569**	**81,777**	**82,530**	**85,552**	**89,544**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the States and Territories for veterans' hospital services.

Expenses for the health function are estimated to increase by 2.0 per cent in real terms from 2019-20 to 2022-23. This is largely driven by growth in the **assistance to the States for public hospitals,** and **medical services and benefits** sub-functions. The **medical services and benefits** sub-function, which primarily consists of Medicare and Private Health Insurance Rebate expenses, comprises 41.2 per cent of total estimated health expenses for 2019-20. Growth in Medicare expenses is the major driver of growth in this sub-function.

The major components of the medical services and benefits sub-function are set out in Table 8.1.

Table 8.1: Trends in the major components of medical services and benefits sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Medical benefits	24,227	25,526	26,858	28,357	30,085
Private health insurance	6,393	6,574	6,694	6,883	7,103
General medical consultations and services	764	740	720	717	730
Dental services(b)	345	346	341	345	364
Other	468	500	509	521	532
Total	**32,197**	**33,687**	**35,121**	**36,823**	**38,814**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Payments under the dental National Partnership Agreement from 2017-18 are provided for under the health services sub-function in Table 8

Expenses for medical benefits are expected to increase by 3.2 per cent in real terms between 2018-19 and 2019-20, and increase by 9.8 per cent in real terms over the period 2019-20 to 2022-23, as a result of ongoing growth in the use of medical services and the use of high value items on the Medicare Benefits Schedule.

Expenses for private health insurance are expected to increase by 0.7 per cent in real terms between 2018-19 and 2019-20, and increase by 0.7 per cent in real terms over the period 2019-20 to 2022-23. The proportion of Australians with private health insurance is around 53.9 per cent, providing a high level of access to private health services and taking pressure off the public system.

Expenses for dental services are expected to decrease by 1.7 per cent in real terms between 2018-19 and 2019-20, and decrease by 2.0 per cent in real terms over the period 2019-20 to 2022-23, reflecting lower utilisation of the Child Dental Benefits Schedule (CDBS).

Expenses for the **pharmaceutical benefits and services** sub-function (but not the Government's overall investment in pharmaceutical benefits) is expected to decrease by 18.6 per cent in real terms over the period 2019-20 to 2023-23. This largely reflects the improved payments administration announced in the 2018-19 Budget which reduces PBS revenues and expenses by a corresponding amount for high-cost medicines with special pricing arrangements. There will be no reduction in the Government's overall investment in the PBS as a result of these changes.

The major components of the pharmaceutical benefits and services sub-function are set out in Table 8.2.

Table 8.2: Trends in the major components of pharmaceutical benefits and services sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Pharmaceutical benefits, services and supply	12,731	11,971	10,173	10,152	10,384
Immunisation	393	395	394	400	391
Veterans' pharmaceutical benefits	333	322	309	309	309
Total	**13,457**	**12,688**	**10,877**	**10,862**	**11,085**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The Australian Government's contribution to public hospital funding is reported through the **assistance to the States for public hospitals** sub-function. Hospital services covered by this sub-function include all admitted services, programs that deliver hospital services in the home and emergency department services. Expenditure for this sub-function is expected to increase by 1.7 per cent in real terms from 2018-19 to 2019-20, largely reflecting higher anticipated growth in the volume of services. Expenditure also reflects the impact of the *National Efficient Price 2019* determination. Expenditure is expected to increase by 8.3 per cent in real terms over the period 2019-20 to 2022-23, reflecting the Government's agreement with states and territories

for the Commonwealth to fund 45.0 per cent of the efficient growth in activity based services for public hospitals from 2017-18 to 2019-20.

The **hospital services** sub-function consists mainly of payments to the states and territories to deliver veterans' hospital services. Expenditure for this sub-function is expected to decrease by 8.2 per cent in real terms between 2018-19 and 2019-20, and by 17.5 per cent in real terms over the period 2019-20 to 2022-23. The decrease in expenses reflects an expected reduction in the number of veterans requiring treatment and efficiencies achieved in the pricing arrangements.

Expenses in the **health services** sub-function include Australian Government expenses associated with the delivery of population health, medical research, mental health, blood and blood products, other allied health services, health infrastructure and disbursement from the *Medical Research Future Fund*.

Health services expenditure is expected to decrease by 3.8 per cent in real terms between 2018-19 and 2019-20, largely reflecting the schedule of payments made under the National Partnership Agreements for the National Health Innovation Fund and for the *Community Health and Hospitals Program*, and the schedule of payments for the Proton Beam Facility, as well as reduced expenditure on health infrastructure. Expenses for this sub-function are expected to increase by 1.4 per cent in real terms between 2019-20 and 2022-23, largely reflecting projected expenditure on blood and blood products under the National Supply Plan and Budget agreed with the states and territories.

The **general administration** sub-function includes the Government's general administrative costs, investment in health workforce measures and support for rural health initiatives. Expenditure for this sub-function is expected to decrease by 6.6 per cent in real terms between 2018-19 and 2019-20 largely as a result of revised payment arrangements to the Royal Flying Doctor Service, and decrease by 7.0 per cent over the period 2019-20 to 2022-23 as a result of the conclusion of the Health Care Home trial.

Expenses in the **Aboriginal and Torres Strait Islander health** sub-function are expected to increase by 2.2 per cent in real terms from 2018-19 to 2019-20, and by 3.2 per cent in real terms over the period 2019-20 to 2022-23 as Aboriginal and Torres Strait Islander people across Australia continue to access Indigenous-specific services under the Indigenous Australians Health Program.

Social security and welfare

The social security and welfare function includes expenses for pensions and services to the aged; assistance to the unemployed; people with disabilities and families with children; and income support and compensation for veterans and their dependants. It also includes assistance provided to Indigenous Australians that has not been included under other functions.

Table 9: Summary of expenses — social security and welfare

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Assistance to the aged	67,449	70,151	72,884	76,293	80,215
Assistance to veterans and dependants	6,717	6,707	6,560	6,509	6,309
Assistance to people with disabilities	44,079	47,005	51,209	53,641	55,499
Assistance to families with children	35,754	37,412	37,740	38,659	39,471
Assistance to the unemployed and the sick	10,476	10,834	10,861	11,337	11,754
Other welfare programs	1,791	1,729	1,743	1,418	1,396
Assistance for Indigenous Australians nec	2,288	2,269	2,231	2,252	2,274
General administration	4,196	4,016	3,625	3,498	3,300
Total social security and welfare	**172,749**	**180,125**	**186,852**	**193,607**	**200,217**

Expenses in the social security and welfare function are estimated to increase by 2.2 per cent in real terms from 2018-19 to 2019-20, and by 3.6 per cent in real terms from 2019-20 to 2022-23.

The most significant drivers of this growth are the **assistance to the aged** and **assistance to people with disabilities** sub-functions. The **assistance to the aged** sub-function is expected to grow by 1.9 per cent in real terms between 2018-19 and 2019-20, and by 6.6 per cent in real terms from 2019-20 to 2022-23. The **assistance to people with disabilities** sub-function is expected to grow by 4.5 per cent in real terms from 2018-19 to 2019-20, and by 10.0 per cent in real terms from 2019-20 to 2022-23 reflecting the progressive implementation of the National Disability Insurance Scheme (NDIS). This sub-function includes Commonwealth as well as State and Territory contributions to the NDIS.

The principal driver of growth over the forward estimates for the **assistance to the aged** sub-function is Income Support for Seniors, which is estimated to grow by 1.2 per cent in real terms from 2018-19 to 2019-20, and by 5.7 per cent in real terms from 2019-20 to 2022-23. Growth in these years is moderated by a reduction in expenses associated with incremental increases in the Age Pension age. Contributing to growth from 2019-20 to 2022-23 is an increase of 11.2 per cent in real terms in expenses associated with the Aged Care Services program, largely reflecting demographic factors and the impact of the 2018-19 Budget measure *More Choices for a Longer Life — healthy ageing and high quality care*.

The estimated decrease of 15.4 per cent in real terms from 2019-20 to 2022-23 for Veterans' Community Care and Support is mainly attributable to the decrease in the

number of veterans and relevant dependants accessing residential aged care reflecting demographic changes. The major components of the assistance to the aged sub-function are outlined below in Table 9.1.

Table 9.1: Trends in the major components of assistance to the aged sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Income Support for Seniors	46,741	48,301	50,265	52,285	54,766
Aged Care Services	18,764	20,027	20,902	22,374	23,903
Veterans' Community Care and Support	1,202	1,130	1,136	1,109	1,025
Access and information	234	245	221	225	228
Mature Age Income Support	171	131	54	10	0
Aged Care Quality	242	221	215	207	210
Allowances, concessions and services for seniors	92	83	75	68	61
National Partnership Payments - Assistance to the Aged	3	13	15	15	21
Total	**67,449**	**70,151**	**72,884**	**76,293**	**80,215**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the **assistance to veterans and dependants** sub-function are estimated to decrease by 2.2 per cent in real terms from 2018-19 to 2019-20, and by 12.3 per cent in real terms from 2019-20 to 2022-23, predominantly reflecting an expected reduction in the number of beneficiaries. The Government is continuing to transform and improve veterans' services, including the 2019-20 Budget measure *Veteran Centric Reform – putting veterans and their families first*.

Expenses for the **assistance to people with disabilities** sub-function are expected to increase by 4.5 per cent in real terms from 2018-19 to 2019-20, and by 10.0 per cent in real terms from 2019-20 to 2022-23, primarily driven by the NDIS. This reflects the increase in the number of people with a disability entering the NDIS under transition arrangements with the states and territories. Growth in NDIS expenses will stabilise in the latter part of the forward estimates, with the NDIS scheduled to achieve national coverage. Of the total $88.1 billion in NDIS expenses from 2019-20 to 2022-23, the Commonwealth is contributing funding of $45.7 billion, with the states and territories contributing the remaining funding.

Subject to negotiations, the Commonwealth will provide payments to the states and territories of $5.4 billion from the *DisabilityCare Australia Fund* over the forward estimates. The timing of these payments will result in *DisabilityCare Australia Fund* expenses of $1.7 billion in 2019-20.

The reduction in the Assistance to the States for Disability Services component reflects the progressive withdrawal of the National Disability Specific Purpose Payment (ND SPP) once existing clients in each State or Territory have transitioned to the NDIS. As ND SPP payments terminate for each State or Territory, equivalent funding will be

redirected to the NDIS. Prior to the ND SPP ceasing, the states and territories will repay part of their ND SPP payments to the Commonwealth to meet NDIS costs. These arrangements will temporarily increase total Commonwealth payments, as part of the ND SPP funding will be expensed twice – when the payment is made to the states and territories, and when the returned funds are expensed on the NDIS.

Expenses for the Income Support for People with Disability program, which primarily consists of Disability Support Pension (DSP), are estimated to increase by 0.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 2.3 per cent in real terms from 2019-20 to 2022-23. This is driven by the ongoing impact of a range of measures, which have better targeted DSP eligibility and assessment processes to ensure those in need receive the support they need.

Expenses for the Income for Carers component are estimated to increase by 2.9 per cent in real terms from 2018-19 to 2019-20, and 6.8 per cent in real terms from 2019-20 to 2022-23. Recipient numbers for the largest component of this, Carer Payment, continue to increase but are expected to moderate once the 2018-19 Budget measure, *Integrated Carer Support Services*, is fully implemented.

The major components of the assistance to people with disabilities sub-function are outlined below in Table 9.2.

Table 9.2: Trends in the major components of assistance to people with disabilities sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Income Support for People with Disability	16,699	17,057	17,044	17,618	17,889
National Disability Insurance Scheme(b)	12,989	17,524	22,253	23,523	24,806
Income Support for Carers	8,770	9,207	9,493	10,038	10,552
Assistance to the States for Disability Services	958	173	0	0	0
Disability and Carers	1,012	1,084	1,085	1,095	1,112
National Disability Insurance Scheme Transition Programme	500	219	38	32	37
National Partnership Payments - Assistance to People with Disabilities	3,151	1,742	1,295	1,336	1,104
Total	**44,079**	**47,005**	**51,209**	**53,641**	**55,499**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Includes both Commonwealth and State contributions to the cost of the National Disability Insurance Scheme delivered through the National Disability Insurance Agency, which is a Commonwealth agency in the General Government Sector.

Expenses for the **assistance to families with children** sub-function are expected to increase by 2.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 1.7 per cent in real terms from 2019-20 to 2022-23, with the decrease driven primarily by reduced expenditure on the Family Tax Benefit (FTB). FTB expenses are expected to increase by 0.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 5.1 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses to 2022-23 is driven by the cumulative impact of policy amendments to target payment eligibility.

The **assistance to families with children** sub-function profile includes an increase in Child Care Fee Assistance expenses of 4.8 per cent in real terms from 2018-19 to 2019-20, and by 8.7 per cent in real terms from 2019-20 to 2022-23. The increase reflects continued growth in the usage of child care by families and also reflects expected increases in fees charged by child care providers.

Families and Children expenses are expected to increase by 165.3 per cent in real terms from 2018-19 to 2019-20, and decrease by 35.3 per cent in real terms from 2019-20 to 2022-23. Both the initial increase and the subsequent decrease in expenses reflect the expected profiles for payments from the National Redress Scheme that commenced on 1 July 2018. Excluding the impact of the Scheme, Families and Children expenses are broadly stable over the forward estimates.

Expenses for Paid Parental Leave (PPL) are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20, and increase by 2.2 per cent in real terms from 2019-20 to 2022-23. These changes from 2018-19 to 2022-23 are largely due to the projected increase in the number of PPL recipients and the 2018-19 MYEFO measure *Women's Economic Security Package,* which provided primary carers of children with better access to PPL and more flexibility in how it is used.

The major components of the assistance to families with children sub-function are set out in Table 9.3.

Table 9.3: Trends in the major components of assistance to families with children sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Family tax benefit	17,630	18,013	17,913	18,237	18,333
Child Care Subsidy	7,725	8,267	8,642	9,108	9,646
Parents income support	5,171	5,190	5,202	5,376	5,487
Paid Parental Leave	2,250	2,326	2,397	2,477	2,551
Child support	1,983	2,002	2,045	2,082	2,118
Support for the child care system	329	342	336	342	350
Families and Children	361	979	913	738	679
Family relationship services	168	182	182	185	188
Child Payments	103	96	95	99	103
Other	15	14	14	15	15
Total	**35,754**	**37,412**	**37,740**	**38,659**	**39,471**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the **assistance to the unemployed and the sick** sub-function are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20 and to increase by 1.1 per cent in real terms from 2019-20 to 2022-23.

Expenses for the **assistance for Indigenous Australians (nec)** sub-function are estimated to decrease by 2.8 per cent in real terms from 2018-19 to 2019-20, and decrease by 6.6 per cent in real terms from 2019-20 to 2022-23. This decrease is largely attributed to significant expenditure from the Aboriginals Benefit Account in 2018-19

that is expected to decrease over time, and the 2019-20 Budget measure *Single National Mechanism for Commonwealth Legal Assistance* which changes the mechanism by which Aboriginal and Torres Strait Islander legal services are funded, and the sub-function, with funding to be provided via State & Territory governments through a single mechanism, which is now recorded against the Courts and Legal Services sub-function from 2020-21.

Expenses for the **general administration** sub-function are estimated to decrease by 23.4 per cent in real terms from 2019-20 to 2022-23. This is mainly attributable to the implementation of measures by the Department of Human Services and Department of Social Services, involving significant upfront service delivery costs that are projected to decrease over time.

Housing and community amenities

The housing and community amenities function includes expenses for the Australian Government's contribution to the National Housing and Homelessness Agreement, other Australian Government housing programs, the expenses of Defence Housing Australia (DHA), urban and regional development programs and environmental protection initiatives.

Table 10: Summary of expenses — housing and community amenities

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Housing	3,051	3,141	3,107	3,057	3,096
Urban and regional development	1,288	1,773	1,152	1,399	570
Environment protection	939	992	1,005	1,068	1,101
Total housing and community amenities	**5,278**	**5,907**	**5,264**	**5,523**	**4,767**

Total expenses under the housing and community amenities function are estimated to increase by 9.6 per cent in real terms from 2018-19 to 2019-20, and decrease by 24.8 per cent in real terms from 2019-20 to 2022-23. The decrease is primarily driven by reduced expenses for the **urban and regional development** sub-function reflecting completion of projects under key programs.

The **housing** sub-function includes the Australian Government's contribution to the National Housing and Homelessness Agreement, the provision of housing for the general public and people with special needs and DHA expenses. The expenses for this sub-function are estimated to increase by 0.9 per cent in real terms from 2018-19 to 2019-20, and decrease by 8.2 per cent in real terms from 2019-20 to 2022-23, reflecting decreasing payments under the *National Rental Affordability Scheme* which is now closed to new applicants and a forecast reduction in the construction and acquisition of DHA properties in 2020-21. The Government also provides housing support through the National Housing Finance and Investment Corporation, which is not reflected in this sub-function.

The **urban and regional development** sub-function comprises of City and Regional Deals, services to territories and regional development programs, including Community Development Grants and the *Building Better Regions Fund*. Expenses are estimated to increase by 34.9 per cent in real terms from 2018-19 to 2019-20 reflecting a number of 2019-20 Budget measures including *Community Development Grants Programme – additional projects, Building Better Regions Fund – round four, Stronger Communities Programme – round five,* and *Implementing Sport 2030,* and projects under various City Deals. Expenses are expected to reduce by 70.0 per cent in real terms from 2019-20 to 2022-23, largely reflecting the expected completion of projects under key programs, such as the *Building Better Regions Fund*, the *National Stronger Regions Fund*, the *Regional Jobs and Investment* packages, the *Regional Growth Fund*, and various City Deals.

The **environment protection** sub-function includes expenses for a variety of initiatives, including the protection and conservation of the environment, water and waste management, pollution abatement and environmental research. Expenses are estimated to increase by 3.5 per cent in real terms from 2018-19 to 2019-20, and increase by 3.5 per cent from 2019-20 to 2022-23. The increase from 2018-19 to 2019-20 is primarily due to additional funding provided through the 2019-20 Budget measure *Practical Environment Restoration* and re-profiling of funding within the Reef Trust.

Recreation and culture

The recreation and culture function includes expenses to support public broadcasting and cultural institutions, funding for the arts and the film industry, assistance to sport and recreation activities, as well as the management and protection of national parks and other world heritage areas. This function also includes expenses relating to the protection and preservation of historic sites and buildings, including war graves.

Table 11: Summary of expenses — recreation and culture

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Broadcasting	1,490	1,476	1,482	1,494	1,500
Arts and cultural heritage	1,455	1,437	1,379	1,390	1,380
Sport and recreation	584	489	397	337	329
National estate and parks	459	448	480	494	487
Total recreation and culture	**3,988**	**3,849**	**3,738**	**3,714**	**3,696**

Total expenses under the recreation and culture function are estimated to decrease by 5.4 per cent in real terms from 2018-19 to 2019-20, and by 10.5 per cent in real terms over the period 2019-2020 to 2022-23.

Expenses under the **broadcasting** sub-function are expected to decrease by 2.9 per cent in real terms from 2018-19 to 2019-20, and by 5.3 per cent in real terms from 2019-20 to 2022-23. This reflects the Government's decision to maintain the Australian Broadcasting Corporation's (ABC) operational funding at 2018-19 levels from 2019-20 to 2021-22, which has no impact on funding for transmission and distribution, and the impact of previous efficiency measures applied to the ABC and the Special Broadcasting Corporation (SBS). This indexation pause is partially offset by additional funding announced in the 2019-20 Budget measure *Guaranteeing Australia's Public Broadcasters – funding for the ABC and SBS* and the 2018-19 Budget measure *Funding for Australian Film and Television Content and the National Broadcasters*.

Table 11.1 provides further details of the major components of broadcasting sub-function expenses.

Table 11.1: Trends in the major components of broadcasting sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
ABC general operational activities	916	900	901	903	902
SBS general operational activities	319	319	320	325	326
ABC transmission and distribution services	181	184	187	190	194
SBS transmission and distribution services	73	73	75	76	77
Total	**1,490**	**1,476**	**1,482**	**1,494**	**1,500**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under the **arts and cultural heritage** sub-function are estimated to decrease by 3.3 per cent in real terms from 2018-19 to 2019-20, and by 10.5 per cent in real terms from 2019-20 to 2022-23. This sub-function includes funding for the arts and cultural institutions. The estimated decreases reflect fewer productions applying for and receiving taxation rebates through the Australian Screen Production Incentive and the effect of implementation of efficiencies in previous economic updates. These decreases are partially offset by the 2018-19 Budget measure *Location Incentive Funding Program* which provides funding to encourage large-budget international productions to film in Australia, and the 2019-20 Budget measures *Bundanon Trust Art Centre; National Library of Australia – Digitisation Fund;* and *National Collecting Institutions – capital works funding*, which provide funding to support agencies in transitioning to more modern, sustainable and productive operating models.

Expenses under the **sport and recreation** sub-function are estimated to decrease by 18.1 per cent in real terms from 2018-19 to 2019-20, and decrease by 37.2 per cent in real terms from 2019-20 to 2022-23. The decrease in 2019-20 primarily reflects a reduction in sport related infrastructure expenditure. The reduction in expenditure from 2019-20 to 2022-23 largely reflects the expected completion of grant funding for short-term community-led projects to increase participation in sport and physical activity, and the completion of elements of the national sport plan, *Sport 2030*. This decrease in expenses is partially offset by additional funding provided through the 2019-20 Budget measure *Implementing Sport 2030,* noting that the majority of that funding will occur in 2019-20 and 2020-21.

Expenses under the **national estate and parks** sub-function are estimated to decrease by 4.3 per cent in real terms from 2018-19 to 2019-20, and increase by 1.3 per cent in real terms from 2019-20 to 2022-23. The decrease from 2018-19 to 2019-20 reflects a range of small short-term programs finalising in 2018-19. The increase from 2019-20 to 2022-23 reflects increased funding for the Australian Antarctic Program, including $473.3 million over 11 years from 2018-19 provided through the 2019-20 Budget measure *Hobart City Deal.*

Fuel and energy

The fuel and energy function includes expenses for the Fuel Tax Credits and Product Stewardship Waste (Oil) schemes, administered by the Australian Taxation Office. It also includes expenses related to improving Australia's energy efficiency, resource related initiatives, and programs to support the production and use of renewable energy.

Table 12: Summary of expenses — fuel and energy

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Fuel and energy	7,956	8,171	8,515	8,865	9,285
Total fuel and energy	**7,956**	**8,171**	**8,515**	**8,865**	**9,285**

Fuel and energy expenses are estimated to increase by 0.6 per cent in real terms from 2018-19 to 2019-20 and increase by 5.9 per cent in real terms over the period 2019-20 to 2022-23.

Table 12.1 provides further details of the fuel and energy sub-function.

Table 12.1: Trends in the major components of fuel and energy sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Fuel Tax Credits Scheme	7,168	7,504	7,937	8,424	8,966
Resources and Energy	141	126	83	71	70
Renewable Energy	405	352	284	207	102
Other	242	189	211	163	147
Total	**7,956**	**8,171**	**8,515**	**8,865**	**9,285**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

The major program within this function is the Fuel Tax Credits Scheme, which is estimated to increase by 2.6 per cent in real terms from 2018-19 to 2019-20, and increase by 11.4 per cent in real terms from 2019-20 to 2022-23, largely reflecting increased usage of fuels that are eligible for the Fuel Tax Credits Scheme.

Expenses under the Resources and Energy component are estimated to decrease by 12.5 per cent in real terms from 2018-19 to 2019-20, and decrease by 48.4 per cent in real terms from 2019-20 to 2022-23. This reflects a number of terminating measures, including the cessation of funding for the development of a detailed business case for the National Radioactive Waste Management Facility and Carbon Capture and Storage Flagships programs in 2018-19, the cessation of the Coal Mining Abatement Technology Support Package in 2019-20 and the cessation of the Supporting the Development of New Onshore Gas Supply program in 2020-21. The decrease in expenses is partly offset by the 2018-19 MYEFO measure *Action Plan to Reduce Power Prices* and the 2019-20 Budget measure *Supporting Reliable Energy Infrastructure* and also does not reflect the Government's significant investment in Snowy 2.0 as part of the

plan to support new renewable energy for Australia's future energy mix to deliver affordable, reliable power, which is supported through an equity investment.

The overall decrease in expenses under the renewable energy component from 2019-20 to 2022-23 reflects the decrease in grants expenses for the Australian Renewable Energy Agency, which is partly offset by an increase in expenses for the Clean Energy Finance Corporation.

Agriculture, forestry and fishing

The agriculture, forestry and fishing function includes expenses to support assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development.

Table 13: Summary of expenses — agriculture, forestry and fishing

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Wool industry	87	70	72	74	77
Grains industry	187	202	204	209	210
Dairy industry	49	48	48	49	49
Cattle, sheep and pig industry	244	242	247	253	258
Fishing, horticulture and other agriculture	404	381	368	360	350
General assistance not allocated to specific industries	55	31	30	30	31
Rural assistance	336	299	380	327	249
Natural resources development	973	776	897	847	955
General administration	815	823	830	834	835
Total agriculture, forestry and fishing	**3,149**	**2,871**	**3,075**	**2,983**	**3,014**

Total expenses under this function are estimated to decrease by 10.7 per cent in real terms from 2018-19 to 2019-20, and decrease by 2.2 per cent in real terms over the period 2019-2020 to 2022-23.

The **rural assistance** sub-function is expected to decrease by 13.0 per cent in real terms from 2018-19 to 2019-20, and decrease by 22.4 per cent in real terms over the period 2019-20 to 2022-23. The initial decrease from 2018-19 to 2019-20 mainly reflects the cessation of additional assistance through the Farm Household Allowance, including the Special Drought Supplement, announced in the 2018-19 MYEFO measure *Assistance for Farmers and Farm Communities in Drought*. The subsequent decrease from 2019-20 to 2022-23 mainly relates to the profile of expenses for concessional loans through the Regional Investment Corporation for both the North Queensland flood recovery effort and drought assistance. The Government is also providing additional funding through the 2019-20 Budget measures *Agricultural Stewardship and Sustainability Package* and *Assistance for Farmers and Farm Communities in Drought — additional funding,* and through the 2018-19 MYEFO measure *Future Drought Fund — establishment* which will make $100 million available annually from 2020-21 to invest in drought resilience programs.

The majority of expenses under the **natural resources development** sub-function are related to water initiatives comprising urban and rural programs, including irrigation modernisation, recycling and stormwater capture. Funding for water purchasing is included under net capital investment.

Table 13.1 provides further details of the natural resources development sub-function.

Table 13.1: Trends in the major components of natural resources development sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Water reform(b)	699	525	666	614	750
Sustainable management - natural resources	10	9	14	15	16
Other	263	243	217	218	189
Total	**973**	**776**	**897**	**847**	**955**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) Water Reform includes the following programs: National Partnership Payments — Water and Natural Resources; Water Reform; and Commonwealth Environment Water.

Expenses under the **natural resources development** sub-function are estimated to decrease by 21.8 per cent in real terms from 2018-19 to 2019-20, and increase by 14.7 per cent in real terms from 2019-2020 to 2022-23. Both the initial decrease from 2018-19 to 2019-20, and subsequent increase from 2019-20 to 2022-23, relate to the funding profile under the Sustainable Rural Water Use and Infrastructure Program, and the Water for the Environment Special Account. The funding profile reflects the Commonwealth's commitments under the Murray-Darling Basin Plan.

Mining, manufacturing and construction

The mining, manufacturing and construction function includes expenses for programs designed to promote the efficiency and competitiveness of Australian industries. The major components include the Research and Development Tax Incentive and industry assistance programs, including the Australian Technology and Science Growth Plan which supports the Government's commitment to science and innovation as key drivers of business growth, economic prosperity and job opportunities.

Table 14: Summary of expenses — mining, manufacturing and construction

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Mining, manufacturing and construction	2,592	3,422	3,730	3,408	2,926
Total mining, manufacturing and construction	**2,592**	**3,422**	**3,730**	**3,408**	**2,926**

Total expenses under the mining, manufacturing and construction function are expected to increase by 29.4 per cent in real terms from 2018-19 to 2019-20, and decrease by 20.3 per cent in real terms over the period 2019-20 to 2022-23.

Table 14.1 provides further details of the major components of the mining, manufacturing and construction sub-function.

Table 14.1: Trends in major components of mining, manufacturing and construction sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Research and Development Tax Incentive	1,967	2,237	2,249	2,292	2,410
Growing Business Investment	317	279	219	194	172
Northern Australia Infrastructure Facility	45	639	1,001	687	116
Other	262	267	261	235	227
Total	**2,592**	**3,422**	**3,730**	**3,408**	**2,926**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses for the Research and Development Tax Incentive, administered by the Australian Taxation Office, are expected to increase by 11.4 per cent in real terms from 2018-19 to 2019-20, reflecting a one-off adjustment recognising lower than estimated claims for prior years which are claimed in 2019-20 (both for the numbers and size of claims). Expenses are expected to increase by 0.4 per cent from 2019-20 to 2022-23, reflecting changes in the number and size of expected claims from eligible companies with an annual turnover of less than $20 million.

Expenses under the Growing Business Investment component of this function are expected to decrease by 42.5 per cent in real terms from 2019-20 to 2022-23. This reflects the reduced demand for Government assistance in the manufacturing sector, noting, however that the Government is supporting business investment through a range of 2019-20 Budget measures in the other economic affairs function including the

Supporting Australian Exports measure, as well as through the tax system in the *Helping Small Business Grow — supporting small businesses with tax disputes* measure.

The Northern Australia Infrastructure Facility (NAIF) was established on 1 July 2016. The NAIF offers concessional finance of up to $5 billion to encourage and complement private sector investment in infrastructure that benefits northern Australia. The change in expenses reflects the accounting treatment of concessional loans expected to be provided as part of the NAIF's operations.

Expenses under the Other component are expected to decrease by 0.2 per cent in real terms from 2018-19 to 2019-20. The decrease by 20.8 per cent in real terms from 2019-20 to 2022-23 is partially driven by the completion of the Junior Minerals Exploration Incentive program, which was extended in the 2017-18 MYEFO.

Transport and communication

The transport and communication function includes expenses to support the infrastructure and regulatory framework for Australia's transport and communication sectors.

Table 15: Summary of expenses — transport and communication

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Communication	964	1,466	1,478	1,394	1,341
Rail transport	1,134	1,001	991	1,439	1,818
Air transport	355	350	317	300	277
Road transport	5,016	5,587	5,773	5,925	7,033
Sea transport	438	444	448	450	475
Other transport and communication	198	190	219	209	205
Total transport and communication	**8,105**	**9,038**	**9,225**	**9,717**	**11,149**

Total expenses under this function are estimated to increase by 9.3 per cent in real terms between 2018-19 and 2019-20, and by 15.0 per cent in real terms over the period 2019-20 to 2022-23.

The estimated expenses for the **communication** sub-function relate to communication activities and support for the digital economy through the Department of Communications and the Arts and the Australian Communications and Media Authority. Total expenses under this sub-function are estimated to increase by 49.0 per cent in real terms between 2018-19 and 2019-20, and decrease by 14.8 per cent in real terms from 2019-20 to 2022-23. The increase primarily reflects commencement in 2019-20 of the Regional Broadband Scheme, which provides funding for regional fixed wireless and satellite connections through the National Broadband Network. The expected decrease in expenses from 2019-20 to 2022-23 reflects the anticipated completion of projects, phased funding for the Digital Transformation Agency and the conclusion of the Regional and Small Publishers Innovation Fund in 2020-21.

The expenses under the **rail transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to decrease by 13.5 per cent in real terms between 2018-19 and 2019-20, but increase by 69.3 per cent in real terms from 2019-20 to 2022-23. The initial decrease in expenditure largely reflects the expected completion of rail projects in 2018-19 including the Ballarat Rail Line Upgrade and rail projects under the *Infrastructure Growth Package – Asset Recycling Fund*. The subsequent significant increase in expenditure from 2019-20 to 2022-23 reflects the Government's commitments to major rail projects, including the Melbourne Airport Rail Link and funding provided for the Western Sydney North South Rail Link in the 2019-20 Budget measure *Infrastructure Investment Program — New South Wales infrastructure investments*. In addition to expenditure on rail transport, the Government is providing an equity investment of $9.0 billion for the delivery of Inland Rail, which is not reflected in this sub-function.

The estimated expenses for the **air transport** and **sea transport** sub-functions primarily relate to activities of the safety regulators — the Civil Aviation Safety Authority, the Australian Maritime Safety Authority (AMSA) and the Australian Transport Safety Bureau (ATSB). Total expenses under the **air transport** sub-functions are estimated to decrease by 3.6 per cent in real terms between 2018-19 and 2019-20, primarily due to expenditure associated with a one-off grant to Avalon Airport in 2018-19. Total expenses under the sub-function are expected to decrease by 26.2 per cent in real terms from 2019-20 to 2022-23 as the Western Sydney Airport preparatory works are completed. In addition, the Government is providing an equity investment of up to $5.3 billion in WSA Co to complete the construction of the airport, which is not reflected in this sub-function. Total expenses under the **sea transport** sub-function are estimated to decrease by 0.5 per cent in real terms between 2018-19 and 2019-20, and decrease by 0.4 per cent in real terms from 2019-20 to 2022-23 due to slower growth in the forecast demand for the Tasmanian Freight Equalisation Scheme.

The expenses under the **road transport** sub-function primarily consist of grants provided under the Infrastructure Investment Program. Expenses are estimated to increase by 9.1 per cent in real terms between 2018-19 and 2019-20, and increase by 17.3 per cent in real terms from 2019-20 to 2022-23. The increase in expenditure largely reflects continued investment in road transport infrastructure under the $4.0 billion *Urban Congestion Fund,* the $4.5 billion *Roads of Strategic Importance* initiative, funding for the Bruce Highway and Pacific Motorway and the $1.1 billion investment in upgrades to south eastern and northern suburban roads in Melbourne through the 2019-20 Budget measure *Infrastructure Investment Program — Victorian infrastructure investments*.

Total expenses under the **other transport and communication** sub-function are estimated to decrease by 6.0 per cent in real terms between 2018-19 and 2019-20 and increase by 0.5 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses primarily reflects the decrease in program support for the Infrastructure, Regional Development and Cities portfolio associated with the expected completion of the Government's preparatory works for the Western Sydney Airport.

Other economic affairs

The other economic affairs function includes expenses on tourism and area promotion, labour market assistance, immigration, industrial relations and other economic affairs not elsewhere classified (nec).

Table 16: Summary of expenses — other economic affairs

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Tourism and area promotion	163	169	178	180	185
Total labour and employment affairs	3,864	3,707	3,717	3,746	3,876
Vocational and industry training	*1,172*	*1,173*	*1,216*	*1,259*	*1,344*
Labour market assistance to job seekers and industry	*2,005*	*1,831*	*1,799*	*1,780*	*1,818*
Industrial relations	*687*	*703*	*702*	*707*	*715*
Immigration	3,761	2,854	2,538	2,507	2,542
Other economic affairs nec	2,492	2,567	2,554	2,493	2,394
Total other economic affairs	**10,281**	**9,297**	**8,987**	**8,926**	**8,996**

Total expenses under the other economic affairs function are expected to decrease by 11.4 per cent in real terms from 2018-19 to 2019-20, and decrease by 9.8 per cent in real terms over the period 2019-20 to 2022-23.

Expenses under the **vocational and industry training** sub-function are expected to decrease by 2.0 per cent in real terms from 2018-19 to 2019-20, and increase by 6.8 per cent in real terms from 2019-20 to 2022-23. This increase in expenses largely reflects the Government's investment in improving the quality of the Vocational Education and Training system through the 2019- 20 Budget measure *Skills Package – Delivering Skills for Today and Tomorrow.*

Expenses under the **labour market assistance to job seekers and industry** sub-function are expected to decrease by 10.5 per cent in real terms from 2018-19 to 2019-20 and by 7.5 per cent in real terms from 2019-20 to 2022-23, mainly reflecting forecast in demand for the jobactive program.

Expenses under the **industrial relations** sub-function are expected to increase by 0.2 per cent in real terms from 2018-19 to 2019-20, reflecting a forecast increase in long service leave payments to employees in the coal mining industry under the *Coal Mining Industry (Long Service Leave) Administration Act 1992*.

The main components of the **immigration** sub-function relate to the management of unlawful non-citizens, providing migration and citizenship services and refugee and humanitarian assistance.

Table 16.1 provides further details of the major components of the immigration sub-function expenses.

Table 16.1: Trends in major components of the immigration sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Management of unlawful non-citizens	2,457	1,624	1,443	1,430	1,444
Citizenship, visas and migration	841	782	706	684	695
Regional co-operation and refugee and humanitarian assistance	463	448	389	393	402
Total other economic affairs	**3,761**	**2,854**	**2,538**	**2,507**	**2,542**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.

Expenses under this sub-function are expected to decrease by 25.7 per cent in real terms between 2018-19 and 2019-20, and by 17.0 per cent in real terms from 2019-20 to 2022-23.

The decrease in expenditure primarily reflects lower forecast occupancy rates in onshore and offshore detention, following an initial increase in expenditure in 2018-19 resulting from implementation of the *Home Affairs Legislation Amendment (Miscellaneous Measures) Act 2019.*

Expenses under the **other economic affairs nec** sub-function are expected to decrease by 0.9 per cent in real terms from 2018-19 to 2019-20, and decrease by 13.1 per cent in real terms from 2019-20 to 2022-23.

Table 16.2 provides further details of the major components of the other economic affairs nec sub-function expenses.

Table 16.2: Trends in major components of the other economic affairs nec sub-function expenses

Component(a)	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Promotion of Australia's export and other international economic interests(b)	360	389	398	398	360
Operating costs for:					
Department of Industry, Innovation and Science	507	487	468	472	465
Australian Securities and Investments Commission	477	512	555	559	537
Bureau of Meteorology	381	392	391	374	348
IP Australia	201	206	213	220	226
Australian Competition and Consumer Commission	166	168	159	153	135
Australian Prudential Regulation Authority	156	184	186	197	201
National Partnership Payments - Competition and Productivity Enhancing Reform	129	107	63	0	0
Other	115	122	120	120	120
Total	**2,492**	**2,567**	**2,554**	**2,493**	**2,394**

(a) The entry for each component includes eliminations for inter-agency transactions within that component.
(b) The programs Export market development grants scheme and Trade, education and investment development have been moved into the Promotion of Australia's export and other international economic interests.

Expenses for the Department of Industry, Innovation and Science are expected to decrease by 6.0 per cent in real terms from 2018-19 to 2019-20. Expenses are expected to decrease by 10.8 per cent in real terms from 2019-20 to 2022-23, largely driven by a number of measures that terminate during the forward estimates. These include new 2019-20 Budget measures such as *Expanding Questacon's Education Outreach* and *Implementing Sport 2030*, where funding will occur between 2019-20 and 2021-22.

Expenses for the Bureau of Meteorology (the Bureau) are projected to decrease by 17.4 per cent in real terms from 2019-20 to 2022-23. The decrease in expenses reflects the expected completion of information and communications technology (ICT) projects, including the first and second tranche of investment to strengthen the Bureau's ICT security and resilience and observations network announced in the 2017-18 Budget and the 2018-19 Budget.

Expenses for National Partnership Payments – Competition and Productivity Enhancing Reform reflect payments to the states for the Small Business Regulatory Reform Agenda, which are expected to commence from 2018-19 with decreasing payments structured over three years before terminating on 30 June 2021. The Commonwealth committed to provide up to $300 million to the states in respect of this project agreement to deliver projects to reduce the regulatory burden on small businesses.

Other purposes

The other purposes function includes expenses incurred in the servicing of public debt interest, and assistance to state, territory and local governments. This function also includes items classified to natural disaster relief, the Contingency Reserve and expenses related to the nominal interest on unfunded liabilities for government superannuation benefits.

Table 17: Summary of expenses — other purposes

Sub-function	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Public debt interest	17,154	17,037	16,625	16,063	15,747
Interest on Commonwealth Government's behalf	*17,154*	*17,037*	*16,625*	*16,063*	*15,747*
Nominal superannuation interest	9,447	11,127	11,466	11,797	12,122
General purpose inter-government transactions	69,698	70,328	73,912	77,831	81,491
General revenue assistance - States and Territories	*67,134*	*69,053*	*71,256*	*75,067*	*78,608*
Local government assistance	*2,564*	*1,275*	*2,656*	*2,764*	*2,883*
Natural disaster relief(a)	775	11	2	0	0
Contingency reserve	-1,993	-216	2,117	4,293	8,982
Total other purposes	**95,081**	**98,287**	**104,122**	**109,984**	**118,343**

(a) Amounts for the Disaster Recovery Funding Arrangements (DRFA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the DRFA.

Total expenses under the other purposes function are estimated to increase by 1.3 per cent in real terms from 2018-19 to 2019-20, and by 12.2 per cent over the period 2019-20 to 2022-23.

Expenses under the **public debt interest** sub-function are expected to decrease by 2.7 per cent in real terms from 2018-19 to 2019-20 and decrease by 13.9 per cent from 2019-20 to 2022-23. The decrease in expenses reflects a drop in expected issuance of Australian Government Securities. *Statement 6: Debt Statement, Assets and Liabilities* of Budget Paper No. 1 provide further information on Government debt, including estimates of the relative contribution of capital and recurrent spending to the Government's annual borrowing task. Expenses under the **nominal superannuation interest** sub-function are projected to increase by 1.5 per cent from 2019-20 to 2022-23, reflecting the growth in the Australian Government's superannuation liability. Further information on the *Future Fund* can be found in *Statement 6*.

Expenses under the **general purpose inter-government transactions** sub-function are expected to grow by 8.0 per cent from 2019-20 to 2022-23. Nearly all of the expenses under this sub-function relate to **general revenue assistance** paid to state and territory governments, which comprise payments of GST entitlements provided on an 'untied' basis. Payments to state and territory governments tied to specific purposes are reported under the relevant sections in this statement. Further information on general revenue assistance to the states and territories can be found in Budget Paper No. 3, *Federal Financial Relations 2019-20.*

Expenses under **local government assistance** relate to financial assistance grants made to the states and territories and consist of a general purpose component and an identified local road component, both of which are untied, allowing councils to direct the grants to local priorities. The expenses are expected to decrease by 51.3 per cent in real terms from 2018-19 to 2019-20, reflecting half of the expected 2019-20 Financial Assistance Grants being brought forward to enable the immediate use of these funds in 2018-19, particularly in areas affected by severe or unexpected weather events. Further information on Australian Government assistance to local governments can be found in Budget Paper No. 3.

The **natural disaster relief** sub-function reflects financial support provided by the Australian Government to affected states and territories under the Natural Disaster Relief and Recovery Arrangements and, since November 2018, the Disaster Recovery Funding Arrangements. The profile over the forward estimates reflects the requirement under accounting standards to recognise the majority of expenses for a disaster in the year in which it occurs. No provision is made for future disasters. Actual (cash) payments expected to be made to states and territories are outlined in Budget Paper No. 3.

The **contingency reserve** sub-function comprises the Contingency Reserve, which is an allowance that principally reflects anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government budget estimates. It is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve and is not appropriated.

Allowances that are included in the Contingency Reserve can only be drawn upon once they have been appropriated by Parliament. These allowances are allocated to specific entities for appropriation closer to the time when the associated events occur.

The **contingency reserve** sub-function in the 2019-20 Budget reduces expenses by \$216 million in 2019-20, and increases expenses by \$2.1 billion in 2020-21, \$4.3 billion in 2021-22 and \$9.0 billion in 2022-23. The largest component of this is the conservative bias allowance (CBA), which makes provision for the tendency for the estimate of expenses for existing Government policy to be revised upwards in the forward years. The 2019-20 Budget includes a provision of:

- zero in the Budget year 2019-20;

- ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in the first forward year 2020-21 ($2.2 billion);
- 1 per cent of expenses in the second forward year 2021-22 ($4.6 billion); and
- 2 per cent of expenses in the third forward year 2022-23 ($9.5 billion).

The drawdown of the CBA reduced expenses by $1.1 billion in 2019-20; $1.0 billion in 2020-21 and $2.2 billion in 2021-22. This is consistent with long standing practice and does not represent a saving.

The Contingency Reserve includes a provision of $138 million over four years from 2019-20 for the continuation of some expiring National Partnerships and possible by-election costs for the Australian Electoral Commission. A provision is also included for the effects of economic parameter revisions received too late in the process for inclusion in entity estimates, and an underspends provision in 2018-19 that reflects the tendency for budgeted expenses for some entities or functions not to be met.

The Contingency Reserve also includes estimates for measures that have been announced but cannot yet be included in entity estimates, usually due to some uncertainty as to their final cost and/or outcomes, or are subject to negotiations.

- Significant expenditure items include a provision for the *Indigenous Recognition Referendum* ($160 million in 2020-21) and funding for the establishment of the Commonwealth Integrity Commission from the 2019-20 Budget measure *Commonwealth Integrity Commission* ($104 million over the four years from 2019-20). Estimates for the Commonwealth Integrity Commission will be transferred to the entity once it is established.
- Significant balance sheet items include the 2018-19 MYEFO *Future Drought Fund – establishment* measure and the 2019-20 Budget measure *Establish the Emergency Response Fund*, as the estimates remain subject to the finalisation of the investment mandates for the Funds.

The Contingency Reserve also includes a number of items that cannot be disclosed for commercial-in-confidence or national security reasons.

General government net capital investment

Net capital investment is broadly defined as the sale and acquisition of non-financial assets less depreciation expenses. It provides a measure of the overall growth in capital assets (including buildings and infrastructure, specialist military equipment and computer software) after taking into account depreciation and amortisation as previously acquired assets age.

Government capital spending involves acquisition of physical assets, financial assets and provision of grants and subsidies to others (primarily state and territory government), which they use to acquire assets.

Australian Government general government sector net capital investment is expected to be $4.7 billion in 2019-20, $1.7 billion lower than the net capital investment in 2018-19. This change is largely due to the auction by the Australian Communications and Media Authority of spectrum licences in the 3.6 GHz bands. Overall, the Government's investment in capital assets is expected to continue to increase over the forward estimates.

Details of movements are further explained in the following section.

Table 18: Estimates of total net capital investment

	MYEFO	Revised	Estimates		Projections	
	2018-19	2018-19	2019-20	2020-21	2021-22	2022-23
Total net capital investment ($m)	**6,826**	**6,490**	**4,749**	**7,717**	**9,715**	**10,780**
Per cent of GDP	0.4	0.3	0.2	0.4	0.4	0.5

Reconciliation of net capital investment since the 2018-19 Budget

A reconciliation of the net capital investment estimates, showing the effect of policy decisions and parameter and other variations since the 2018-19 Budget, is provided in Table 19.

Table 19: Reconciliation of net capital investment estimates

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	Total
	$m	$m	$m	$m	$m
2018-19 Budget net capital investment	**4,989**	**4,923**	**6,720**	**8,000**	**24,632**
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	118	105	132	118	473
Effect of parameter and other variations	1,720	748	1,219	1,680	5,366
Total variations	**1,838**	**853**	**1,351**	**1,798**	**5,839**
2018-19 MYEFO net capital investment	**6,826**	**5,776**	**8,071**	**9,798**	**30,471**
Changes from 2018-19 MYEFO to 2019-20 Budget					
Effect of policy decisions(a)	-5	212	93	113	413
Effect of parameter and other variations	-332	-1,239	-446	-196	-2,213
Total variations	**-336**	**-1,027**	**-353**	**-83**	**-1,800**
2019-20 Budget net capital investment	**6,490**	**4,749**	**7,717**	**9,715**	**28,671**

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

Forecast net capital investment for 2019-20 has reduced by $1 billion since the 2018-19 MYEFO. This decrease is driven by the effect of parameter and other variations of $1.2 billion, partially offset by an increase of $212 million resulting from policy decisions.

Further information on the capital measures since MYEFO can be found in Budget Paper No. 2, *Budget Measures 2019-20*.

Net capital investment estimates by function

Estimates for Australian Government general government sector net capital investment by function for the period 2018-19 to 2022-23 are provided in Table 20.

Table 20: Estimates of net capital investment by function

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
General public services	113	-1	-31	-107	-189
Defence	4,727	5,202	7,844	10,081	11,294
Public order and safety	190	91	-88	-188	-239
Education	4	16	2	-3	-3
Health	62	58	-30	-30	-27
Social security and welfare	114	-38	-159	-136	-104
Housing and community amenities	91	-12	19	43	-3
Recreation and culture	213	138	30	-11	50
Fuel and energy	1	1	-1	-1	-1
Agriculture, forestry and fishing	904	161	149	143	143
Mining, manufacturing and construction	14	15	12	-2	-3
Transport and communication	35	-849	-26	-14	-15
Other economic affairs	25	-41	-95	-140	-192
Other purposes	-3	9	92	80	68
Total net capital investment	**6,490**	**4,749**	**7,717**	**9,715**	**10,780**

A significant component of the Government's net capital investment occurs in the defence function, and relates to primarily the acquisition of military equipment. Major factors contributing to changes in net capital investment, expected to occur in the following functions, include:

- **general public services** — reflects the divestment of the Commonwealth Science and Industrial Research Organisation (CSIRO)'s property portfolio, with the proceeds from divestment to be used for capital upgrades on a number of CSIRO's research facilities. The decreasing trend also reflects the Australian Taxation Office shifting to fee for service ICT arrangements;

- **defence** — reflects funding associated with the implementation of the *2016 Defence White Paper* to build the future Defence Force and capability over 10 years from 2016. These investments are guided through the Defence Integrated Investment Program. Major investments include military capabilities such as ships, aircraft and armoured vehicles, as well as ICT capabilities and infrastructure;

- **public order and safety** — reflects the completion of investment in national security capabilities from previous Budgets for law enforcement and intelligence agencies;

- **social security and welfare** — continues to reflect the Commonwealth's investment in ICT capabilities and infrastructure for the Department of Human Services, including for the 2018-19 Budget measure *Delivering Australia's Digital Future —*

Welfare Payment Infrastructure Transformation – Tranche Three, and for the National Disability Insurance Agency for the ongoing rollout of the National Disability Insurance Scheme;

- **recreation and culture** – reflects funding for the Department of the Environment and Energy for the acquisition of a new icebreaker, which reduces from 2019-20 over the forward estimates, and increasing purchases of assets by arts and cultural heritage entities;
- **agriculture, forestry and fishing** – reflects a decrease in water purchases and water infrastructure investment under the Sustainable Rural Water Use and Infrastructure Program in 2018-19 and 2019-20; and
- **transport and communication** – reflects the auction by the Australian Communications and Media Authority of spectrum licences in the 3.6 GHz band.

Table 21 reports the acquisition of non-financial assets by function before taking into account depreciation or amortisation.

Table 21: Australian Government general government sector purchases of non-financial assets by function

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
General public services	1,098	977	915	804	690
Defence	10,536	10,863	14,030	16,322	17,914
Public order and safety	647	594	418	331	322
Education	31	43	32	26	26
Health	140	134	66	65	63
Social security and welfare	558	373	234	227	225
Housing and community amenities	104	123	104	93	95
Recreation and culture	549	478	394	352	403
Fuel and energy	6	5	4	5	5
Agriculture, forestry and fishing	952	208	197	192	190
Mining, manufacturing and construction	22	24	22	9	8
Transport and communication	97	71	48	55	59
Other economic affairs	570	507	415	366	306
Other purposes	-3	24	92	80	68
General government purchases of non-financial assets	**15,306**	**14,425**	**16,971**	**18,927**	**20,375**

APPENDIX A: EXPENSE BY FUNCTION AND SUB-FUNCTION

Table A1: Estimates of expenses by function and sub-function

	Actuals	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
General public services						
Legislative and executive affairs	1,189	1,533	1,196	1,197	1,528	1,199
Financial and fiscal affairs	7,577	6,922	7,344	7,287	7,593	7,495
Foreign affairs and economic aid	5,407	5,750	6,253	6,211	5,697	5,918
General research	3,009	3,012	3,159	3,212	3,330	3,476
General services	751	665	651	592	597	581
Government superannuation benefits	6,589	8,166	5,011	5,025	5,083	5,134
Total general public services	**24,521**	**26,048**	**23,614**	**23,524**	**23,828**	**23,802**
Defence	**29,288**	**31,014**	**32,243**	**32,772**	**34,739**	**37,629**
Public order and safety						
Courts and legal services	1,231	1,266	1,396	1,467	1,455	1,316
Other public order and safety	4,113	4,493	4,523	4,256	4,274	4,297
Total public order and safety	**5,345**	**5,760**	**5,919**	**5,723**	**5,730**	**5,613**
Education						
Higher education	9,606	9,704	9,856	10,118	10,256	10,372
Vocational and other education	1,733	1,675	1,699	1,697	1,723	1,620
Schools	18,331	19,641	20,880	22,513	23,917	25,365
Non-government schools	*11,220*	*11,956*	*12,554*	*13,518*	*14,245*	*14,980*
Government schools	*7,110*	*7,684*	*8,326*	*8,995*	*9,673*	*10,385*
School education - specific funding	660	691	742	561	209	151
Student assistance	2,842	2,675	2,753	2,767	2,849	3,011
General administration	351	388	420	391	385	374
Total education	**33,523**	**34,773**	**36,350**	**38,047**	**39,339**	**40,893**
Health						
Medical services and benefits	31,067	32,197	33,687	35,121	36,823	38,814
Pharmaceutical benefits and services	13,117	13,457	12,688	10,877	10,862	11,085
Assistance to the States for public hospitals	19,936	21,708	22,535	23,622	24,815	26,183
Hospital services(a)	1,584	1,385	1,298	1,218	1,181	1,149
Health services	6,421	7,505	7,371	7,441	7,646	8,021
General administration	3,043	3,395	3,236	3,252	3,194	3,228
Aboriginal and Torres Strait Islander health	871	922	962	998	1,031	1,065
Total health	**76,039**	**80,569**	**81,777**	**82,530**	**85,552**	**89,544**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Social security and welfare						
Assistance to the aged	63,176	67,449	70,151	72,884	76,293	80,215
Assistance to veterans and dependants	6,340	6,717	6,707	6,560	6,509	6,309
Assistance to people with disabilities	34,612	44,079	47,005	51,209	53,641	55,499
Assistance to families with children	35,031	35,754	37,412	37,740	38,659	39,471
Assistance to the unemployed and the sick	10,839	10,476	10,834	10,861	11,337	11,754
Other welfare programmes	1,675	1,791	1,729	1,743	1,418	1,396
Assistance for Indigenous Australians nec	2,200	2,288	2,269	2,231	2,252	2,274
General administration	3,873	4,196	4,016	3,625	3,498	3,300
Total social security and welfare	**157,745**	**172,749**	**180,125**	**186,852**	**193,607**	**200,217**
Housing and community amenities						
Housing	3,293	3,051	3,141	3,107	3,057	3,096
Urban and regional development	786	1,288	1,773	1,152	1,399	570
Environment protection	1,325	939	992	1,005	1,068	1,101
Total housing and community amenities	**5,405**	**5,278**	**5,907**	**5,264**	**5,523**	**4,767**
Recreation and culture						
Broadcasting	1,536	1,490	1,476	1,482	1,494	1,500
Arts and cultural heritage	1,330	1,455	1,437	1,379	1,390	1,380
Sport and recreation	416	584	489	397	337	329
National estate and parks	453	459	448	480	494	487
Total recreation and culture	**3,735**	**3,988**	**3,849**	**3,738**	**3,714**	**3,696**
Fuel and energy	**7,378**	**7,956**	**8,171**	**8,515**	**8,865**	**9,285**
Agriculture, forestry and fishing						
Wool industry	90	87	70	72	74	77
Grains industry	190	187	202	204	209	210
Dairy industry	53	49	48	48	49	49
Cattle, sheep and pig industry	234	244	242	247	253	258
Fishing, horticulture and other agriculture	370	404	381	368	360	350
General assistance not allocated to specific industries	36	55	31	30	30	31
Rural assistance	122	336	299	380	327	249
Natural resources development	750	973	776	897	847	955
General administration	769	815	823	830	834	835
Total agriculture, forestry and fishing	**2,613**	**3,149**	**2,871**	**3,075**	**2,983**	**3,014**

Table A1: Estimates of expenses by function and sub-function (continued)

	Actuals	Estimates			Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m	$m
Mining, manufacturing and construction	**2,592**	**2,592**	**3,422**	**3,730**	**3,408**	**2,926**
Transport and communication						
Communication	910	964	1,466	1,478	1,394	1,341
Rail transport	1,450	1,134	1,001	991	1,439	1,818
Air transport	563	355	350	317	300	277
Road transport	5,631	5,016	5,587	5,773	5,925	7,033
Sea transport	391	438	444	448	450	475
Other transport and communication	235	198	190	219	209	205
Total transport and communication	**9,180**	**8,105**	**9,038**	**9,225**	**9,717**	**11,149**
Other economic affairs						
Tourism and area promotion	187	163	169	178	180	185
Total labour and employment affairs	3,699	3,864	3,707	3,717	3,746	3,876
Vocational and industry training	*984*	*1,172*	*1,173*	*1,216*	*1,259*	*1,344*
Labour market assistance to job seekers and industry	*2,018*	*2,005*	*1,831*	*1,799*	*1,780*	*1,818*
Industrial relations	*697*	*687*	*703*	*702*	*707*	*715*
Immigration	3,725	3,761	2,854	2,538	2,507	2,542
Other economic affairs nec	2,249	2,492	2,567	2,554	2,493	2,394
Total other economic affairs	**9,861**	**10,281**	**9,297**	**8,987**	**8,926**	**8,996**
Other purposes						
Public debt interest	17,025	17,154	17,037	16,625	16,063	15,747
Interest on Commonwealth Government's behalf	*17,025*	*17,154*	*17,037*	*16,625*	*16,063*	*15,747*
Nominal superannuation interest	9,240	9,447	11,127	11,466	11,797	12,122
General purpose inter-government transactions	66,604	69,698	70,328	73,912	77,831	81,491
General revenue assistance - States and Territories	*64,171*	*67,134*	*69,053*	*71,256*	*75,067*	*78,608*
Local government assistance	*2,432*	*2,564*	*1,275*	*2,656*	*2,764*	*2,883*
Natural disaster relief(b)	188	775	11	2	0	0
Contingency reserve	0	-1,993	-216	2,117	4,293	8,982
Total other purposes	**93,057**	**95,081**	**98,287**	**104,122**	**109,984**	**118,343**
Total expenses	**460,282**	**487,343**	**500,872**	**516,105**	**535,915**	**559,874**

(a) The hospital services sub-function predominantly reflects Commonwealth funding to the states and territories for veterans' hospital services.

(b) Amounts for the Disaster Funding Arrangements (DRFA) reflect expenses being recorded in the year in which the disaster occurs rather than when payments are made to State or Territory governments in relation to Australian Government financial obligations under the DRFA.

STATEMENT 6: DEBT STATEMENT, ASSETS AND LIABILITIES

This statement includes the Debt Statement and information on the major assets and liabilities on the Government's balance sheet.

CONTENTS

Statement 6: Debt Statement, Assets and Liabilities

Overview

This statement provides information on current and projected Government debt and the major assets and liabilities on the Government balance sheet.

Net debt in 2019-20 is expected to be $361 billion, representing 18 per cent of GDP. By 2022-23, net debt is expected to decline to $326.1 billion (14.4 per cent of GDP). Net debt is then projected to be eliminated over the medium term (2029-30).

The end-of-year face value of Australian Government Securities (AGS)[1] on issue subject to the Treasurer's Direction is expected to be around $560 billion in 2019-20, increasing to around $569 billion in 2022-23. Total AGS on issue declines to $416.8 billion by the end of the medium term (2029-30).

The Government's total assets are estimated to be $611 billion in 2019-20, increasing to $699.7 billion by the end of the forward estimates. Total liabilities are estimated to be $944.3 billion in 2019-20 increasing to $967.2 billion by the end of the forward estimates.

Debt Statement

The Debt Statement provides information on estimated and projected Government net debt, current and projected debt on issue and details of climate spending, including the extent to which this spending has contributed to debt.

Australian Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing AGS to investors.

The Australian Office of Financial Management (AOFM) is responsible for issuing AGS and managing the Government's financing activities. The AOFM currently issues three types of securities:

- **Treasury Bonds:** medium-term to long-term securities with a fixed annual rate of interest payable every six months;

1 Previously referred to as Commonwealth Government Securities.

- **Treasury Indexed Bonds (TIBs)**: medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and

- **Treasury Notes**: short-term securities generally maturing within six months of issuance. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows.

Within these three broad categories of AGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating AGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can be more readily traded in the secondary market. Strong liquidity in the secondary market is attractive to investors and intermediaries, promotes demand for AGS and assists in lowering borrowing costs. All AGS issuance is undertaken in Australian dollars.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is therefore determined on the basis of maturing AGS, net new issuance required to fund the Budget and operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in AGS supply from one financial year to the next.

The AOFM conducts regular buyback tenders for Treasury Bonds shorter than those comprising the primary three year Treasury Bond futures contract. The buybacks are funded by issuance of a corresponding face value amount of longer-dated Treasury Bonds. This operation assists the AOFM in its cash management task ahead of bond maturities and contributes to an orderly and efficient Treasury Bond market.

In recent years, the AOFM has taken the opportunity to lengthen the AGS yield curve to include a 30-year benchmark. This has provided for a lower risk profile of maturing debt, further broadened the investor base, and has been achieved during a period when borrowing costs have been low by historical standards.

At times when AGS issuance is not required to finance the Government's activities, successive Governments have continued to issue AGS for policy purposes such as to maintain a liquid AGS market.

The Government remains committed to maintaining a well-functioning and liquid AGS market. In particular, the Government will focus on ensuring a market of sufficient size to maintain liquidity across the longer yield curve and to support the Treasury Bond futures market and other important benchmarks.

A well-functioning and liquid AGS market also supports the development of state government and corporate bond markets by providing a risk-free benchmark.

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of AGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of AGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of AGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.[2] The total face value of AGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

- The **market value** of AGS represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards, the market value of AGS on issue is reported on the Australian Government general government sector balance sheet.

Net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements. As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Commonwealth than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example the Government's unfunded superannuation liability is not accounted for in net debt.

2 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation growth over the life of the security. This amount is not included in the calculation of face value.

Estimates and projections of net debt

Table 1 contains estimates and projections of net debt to the end of the forward estimates period.

In 2019-20, net debt is expected to be $361 billion (18 per cent of GDP) and is then projected to decline to $326.1 billion (14.4 per cent of GDP) in 2022-23.

Table 1: Liabilities and assets included in net debt from 2018-19 to 2022-23

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Liabilities included in net debt					
Deposits held	381	381	381	381	381
Government securities(a)	608,637	619,463	622,539	625,368	620,508
Loans	16,742	16,731	16,779	16,990	17,162
Other borrowing	1,499	1,466	1,438	1,393	1,342
Total liabilities included in net debt	**627,260**	**638,042**	**641,138**	**644,132**	**639,393**
Assets included in net debt					
Cash and deposits	7,563	5,342	5,467	5,230	6,482
Advances paid	71,008	83,302	89,462	93,927	95,250
Investments, loans and placements	175,216	188,358	196,703	211,727	211,594
Total assets included in net debt	**253,787**	**277,002**	**291,632**	**310,885**	**313,326**
Net debt	**373,473**	**361,040**	**349,506**	**333,248**	**326,067**

(a) Government securities are presented at market value.

Changes in net debt since the 2018-19 MYEFO

Table 2 shows the drivers of the change in net debt between the 2018-19 MYEFO and the 2019-20 Budget.

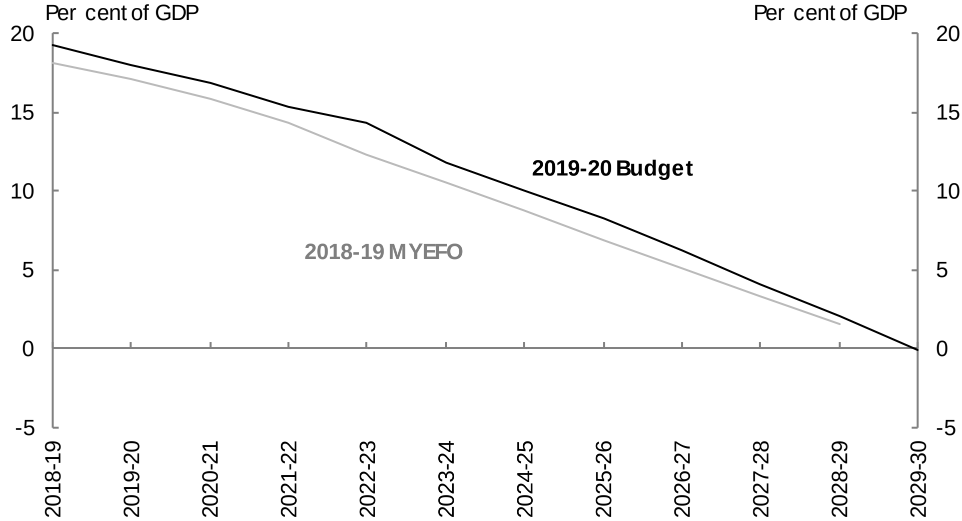
Consistent with the 2018-19 MYEFO, net debt is expected to decrease across the forward estimates but is higher than at MYEFO reflecting a rise in the market value of AGS due to lower yields.

Table 2: Net debt — reconciliation from the 2018-19 MYEFO to the 2019-20 Budget

	Estimates		Projections	
	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Net debt as at 2018-19 MYEFO	**351.9**	**343.4**	**329.9**	**312.6**
Changes in financing requirement	2.3	-0.3	2.5	4.2
Impact of yields on AGS	20.0	19.2	18.5	16.9
Asset and other liability movements	-0.8	-1.2	-1.4	-0.4
Cash and deposits	*-1.7*	*0.8*	*0.5*	*0.6*
Advances paid	*1.7*	*0.9*	*0.6*	*0.8*
Investments, loans and placements	*-0.8*	*-3.1*	*-2.4*	*-1.7*
Other movements	*0.1*	*0.2*	*-0.1*	*-0.2*
Total movements in net debt from 2018-19 MYEFO to 2019-20 Budget	**21.5**	**17.6**	**19.6**	**20.7**
Net debt as at 2019-20 Budget	**373.5**	**361.0**	**349.5**	**333.2**

Net debt is projected to decline from 19.2 per cent of GDP ($373.5 billion) in 2018-19 to 0 per cent of GDP (-$1.2 billion) by the end of the medium term (2029-30) (Chart 1). Net debt is projected to be 2.1 per cent of GDP ($63.9 billion) in 2028-29, higher than projected net debt of 1.5 per cent of GDP in 2028-29 at the 2018-19 MYEFO. The change in net debt since the 2018-19 MYEFO is primarily due to a rise in the market value of AGS due to lower yields.

Chart 1: Net debt projected to 2029-30



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2029-30.
Source: Treasury projections.

Estimates and projections of AGS on issue

Table 3 contains projections of the face value (end-of-year and within-year peak)[3] and the market value (end-of-year) of AGS on issue.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction stipulating the maximum face value of relevant AGS that may be on issue.[4] As required by the *Charter of Budget Honesty Act 1998*, Table 3 reports projections of AGS on issue subject to the Treasurer's Direction.

When considering these projections, it is important to note that the AOFM publishes an issuance program for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates and projections.

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3 End-of-year values are estimates or projections of AGS on issue at 30 June for the particular year. The precise timing and level of within-year peaks of AGS on issue cannot be determined with accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

4 On 9 May 2017, the Treasurer directed that the maximum face value of AGS that can be on issue is $600 billion.

Table 3: Estimates and projections of Australian Government Securities on issue subject to the Treasurer's Direction[(a)]

	Estimates		Projections	
	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b
Face value - end of year	560	567	573	569
Per cent of GDP	27.9	27.3	26.4	25.0
Face value - within-year peak(b)	573	580	585	585
Per cent of GDP(b)	28.6	27.9	26.9	25.8
Month of peak(b)	*Apr-20*	*May-21*	*Dec-21*	*Apr-23*
Market value - end of year(c)	619	623	625	621
Per cent of GDP	30.9	30.0	28.8	27.3

(a) The same stock and securities that were excluded from the previous legislative limit is excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of AGS on issue are therefore subject to considerable uncertainty.
(c) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in *Statement 10: Australian Government Budget Financial Statements*, 'Table 2: Australian Government general government sector balance sheet' that refer to total AGS on issue.
Source: Australian Office of Financial Management.

The total amount of AGS on issue subject to the Treasurer's Direction is reported weekly on the AOFM website.

In 2019-20, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around $560 billion, compared with $558 billion at the 2018-19 MYEFO. The end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around $569 billion in 2022-23.

In 2019-20, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around $573 billion. In 2022-23, this is projected to rise to a within-year peak of $585 billion.

Changes in AGS on issue since the 2018-19 MYEFO

Table 4 shows the change in the projected end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2018-19 MYEFO and the 2019-20 Budget.

Table 4: Projected AGS on issue subject to the Treasurer's Direction — reconciliation from the 2018-19 MYEFO to the 2019-20 Budget

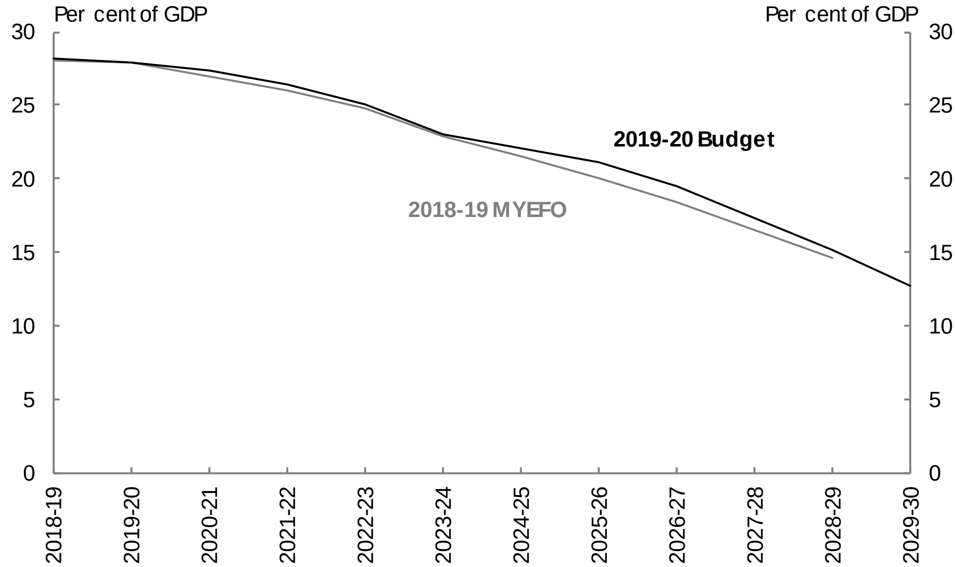
	Estimates		Projections	
	2018-19	2019-20	2020-21	2021-22
	$b	$b	$b	$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2018-19 MYEFO	**542**	**558**	**563**	**567**
Factors affecting the change in face value of AGS on issue from 2018-19 MYEFO to 2019-20 Budget(a)				
Cumulative receipts decisions	-0.1	1.1	1.2	-0.5
Cumulative receipts variations	-3.0	-3.7	0.3	5.8
Cumulative payment decisions	3.0	4.6	7.3	10.5
Cumulative payment variations	-3.7	-9.3	-14.6	-20.4
Cumulative change in net investments in financial assets(b)	5.0	10.1	12.4	13.6
Other contributors	2.1	-1.3	-2.7	-3.3
Total face value of AGS on issue subject to the Treasurer's Direction as at 2019-20 Budget	**545**	**560**	**567**	**573**

(a) Cumulative impact of decisions and variations from 2018-19 to 2021-22. Increases to payments are shown as positive, and increases to receipts are shown as negative.
(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.
Note: End of year data.

The total face value of AGS on issue (gross debt) is projected to fall from 28.1 per cent of GDP ($546 billion) in 2018-19 to 12.8 per cent of GDP ($416.8 billion) by 2029-30 (Chart 2). The face value of AGS on issue is projected to reach 15.1 per cent of GDP ($469.4 billion) by 2028-29, higher than the 14.6 per cent of GDP projected at the 2018-19 MYEFO. The increase in the total face value of AGS across the medium term is largely due to movements in the projected underlying cash balance.

Further details on the changes to the underlying cash balance since the 2018-19 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Chart 2: Face value of AGS on issue projected to 2029-30



Note: A tax to GDP cap of 23.9 per cent is applied to these projections from 2029-30.
Source: Australian Office of Financial Management and Treasury projections.

Breakdown of AGS currently on issue

Table 5 provides a breakdown of the AGS on issue by type of security as at 22 March 2019.

Table 5: Breakdown of current Australian Government Securities on issue

	On issue as at 22 March 2019	
	Face value	Market value
	$m	$m
Treasury Bonds(a)	492,550	549,490
Treasury Indexed Bonds(a)	36,427	48,081
Treasury Notes(a)	4,000	3,992
Total AGS subject to Treasurer's Direction(a)(b)	532,976	601,563
Other stock and securities	395	714
Total AGS on issue	**533,372**	**602,277**

(a) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS that are subject to the Treasurer's Direction.
(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions are outlined in subsection 51JA(2A) of the CIS Act.
Source: Australian Office of Financial Management.

The difference between face value and market value arises from current yields being lower than coupons which were set when bonds were first issued.

Treasury Bonds

Table 6 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 22 March 2019, there were 24 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.6 years and the longest maturity extending to March 2047.

Since late 2010-11, the AOFM has lengthened the AGS yield curve. This supports increases in the average maturity and duration profile of the AOFM's debt portfolio, thereby lowering variability in future debt servicing costs and reducing refinancing risk.

Table 6: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 22 March 2019 $m	Timing of interest payments(a)		
2.75	21-Oct-19	14,932	Twice yearly	21 Oct	21 Apr
4.50	15-Apr-20	21,683	Twice yearly	15 Apr	15 Oct
1.75	21-Nov-20	23,302	Twice yearly	21 Nov	21 May
5.75	15-May-21	30,083	Twice yearly	15 May	15 Nov
2.00	21-Dec-21	17,800	Twice yearly	21 Dec	21 Jun
5.75	15-Jul-22	25,000	Twice yearly	15 Jul	15 Jan
2.25	21-Nov-22	16,500	Twice yearly	21 Nov	21 May
5.50	21-Apr-23	24,500	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	26,200	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	27,900	Twice yearly	21 Apr	21 Oct
4.25	21-Apr-26	32,400	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	29,700	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-27	28,000	Twice yearly	21 Nov	21 May
2.25	21-May-28	28,200	Twice yearly	21 May	21 Nov
2.75	21-Nov-28	25,600	Twice yearly	21 Nov	21 May
3.25	21-Apr-29	27,000	Twice yearly	21 Apr	21 Oct
2.75	21-Nov-29	19,900	Twice yearly	21 Nov	21 May
2.50	21-May-30	15,600	Twice yearly	21 May	21 Nov
4.50	21-Apr-33	13,900	Twice yearly	21 Apr	21 Oct
2.75	21-Jun-35	7,350	Twice yearly	21 Jun	21 Dec
3.75	21-Apr-37	12,000	Twice yearly	21 Apr	21 Oct
3.25	21-Jun-39	8,400	Twice yearly	21 Jun	21 Dec
2.75	21-May-41	3,600	Twice yearly	21 May	21 Nov
3.00	21-Mar-47	13,000	Twice yearly	21 Mar	21 Sep

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Table 7 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 22 March 2019, there were 8 TIB lines on issue, with a weighted average term to maturity of around 10.6 years and the longest maturity extending to February 2050.

Table 7: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 22 March 2019 $m	Timing of interest payments(a)				
4.00	20-Aug-20	3,040	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	6,290	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	7,293	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
0.75	21-Nov-27	4,300	Quarterly	21 Nov	21 Feb	21 May	21 Aug
2.50	20-Sep-30	4,643	Quarterly	20 Sep	20 Dec	20 Mar	20 Jun
2.00	21-Aug-35	3,950	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.25	21-Aug-40	3,550	Quarterly	21 Aug	21 Nov	21 Feb	21 May
1.00	21-Feb-50	3,750	Quarterly	21 Feb	21 May	21 Aug	21 Nov

(a) Where the timing of an interest payment falls on a non-business day the payment will occur on the following business day.
Source: Australian Office of Financial Management.

Treasury Notes

Table 8 lists the Treasury Notes currently on issue. The face value of Treasury Notes on issue as at 22 March 2019 was $4 billion. Treasury Notes do not pay a coupon but instead are issued at a discount to their face value.

Table 8: Treasury Notes on issue

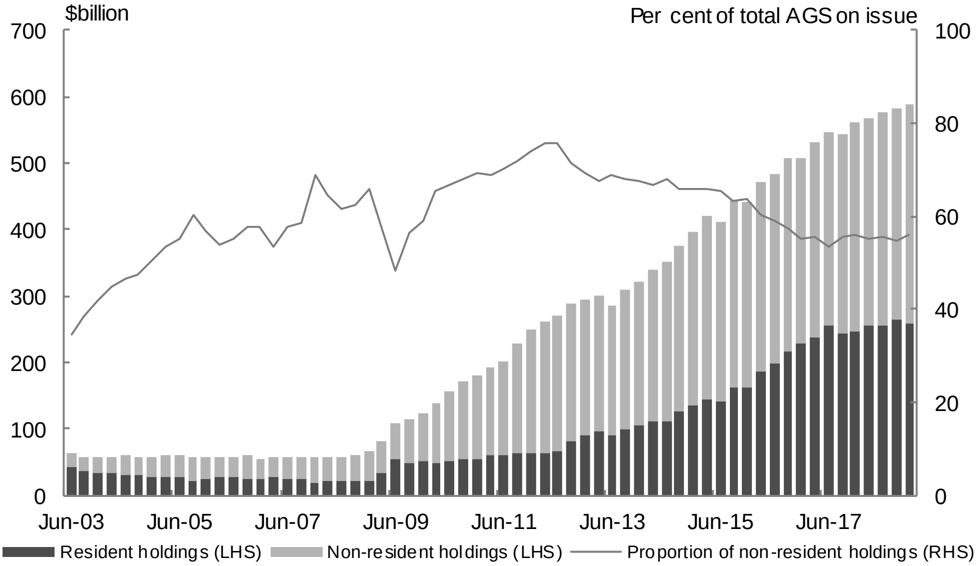
Maturity	On issue as at 22 March 2019 $m	Timing of interest payment	
12-Apr-19	2,500	At maturity	12 Apr
21-Jun-19	1,500	At maturity	21 Jun

Source: Australian Office of Financial Management.

Non-resident holdings of AGS on issue

As at the December quarter 2018, the proportion of non-residents holdings of AGS was around 56 per cent (Chart 3). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 3: Non-resident holdings of Australian Government Securities



Note: Data refer to the market value of holdings.
Source: ABS cat. no. 5302.0 and Australian Office of Financial Management.

Interest on AGS

The interest costs related to AGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised.

- **Interest payments** are recognised in the period when they are paid during the life of the security.

- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when it is actually paid.

Estimates of the interest payments and expense of AGS on issue include the cost of AGS already on issue and future AGS issuance. The cost of:

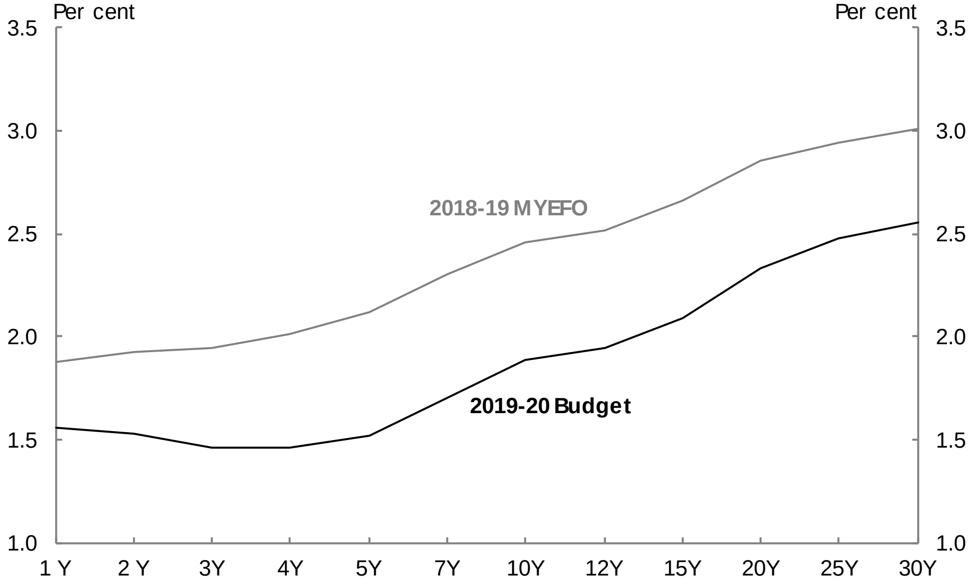
- AGS already on issue uses the actual interest rates incurred at the time of issuance; and

- the expected future issuance of AGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields for the 2019-20 Budget result in a weighted average cost of borrowing of around 1.9 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.5 per cent at the 2018-19 MYEFO.

Chart 4 shows the yield curve assumptions underpinning the 2018-19 MYEFO and 2019-20 Budget.

Chart 4: Yield curve assumptions from 2018-19 to 2021-22



Source: Australian Office of Financial Management.

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of AGS on issue.

The Government's total interest payments in 2019-20 are estimated to be $16.6 billion, of which $16.4 billion relates to AGS on issue (Table 9).

Table 9: Interest payments, interest receipts and net interest payments(a)

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest payments on AGS	18,154	16,398	16,420	15,736	15,214
Per cent of GDP	0.9	0.8	0.8	0.7	0.7
Interest payments	18,491	16,638	16,764	16,090	15,571
Per cent of GDP	1.0	0.8	0.8	0.7	0.7
Interest receipts	4,412	5,701	6,375	6,731	6,897
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest payments(b)	14,079	10,936	10,389	9,359	8,674
Per cent of GDP	0.7	0.5	0.5	0.4	0.4

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.
(b) Net interest payments are equal to the difference between interest payments and interest receipts.

The Government's interest expense in 2019-20 is estimated to be $19.3 billion, of which $17 billion relates to AGS on issue. In the 2018-19 MYEFO, interest expense in 2019-20 was estimated to be $19.7 billion, of which $17.5 billion related to AGS on issue.

Table 10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

Table 10: Interest expense, interest income and net interest expense[(a)]

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest expense on AGS	17,134	17,012	16,599	16,031	15,709
Per cent of GDP	0.9	0.8	0.8	0.7	0.7
Interest expense	18,375	19,264	18,857	17,948	16,994
Per cent of GDP	0.9	1.0	0.9	0.8	0.7
Interest income	4,837	6,009	6,796	7,180	7,605
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense(b)	13,538	13,255	12,060	10,767	9,388
Per cent of GDP	0.7	0.7	0.6	0.5	0.4

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.
(b) Net interest expense is equal to the difference between interest expenses and interest income.

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2018-19 to 2022-23

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Climate spending(a)(b)	1.65	1.70	1.35	1.50	1.70

(a) Spending in this table is on a headline cash balance basis — that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.
(b) These figures do not include expected repayments from the Clean Energy Finance Corporation over the forward estimates.

The key components of climate spending are:

- the Clean Energy Finance Corporation, which invests in renewable energy, energy efficiency and low emissions technologies;
- the Australian Renewable Energy Agency, which supports research and development of renewable energy and related technologies; and
- the Clean Energy Regulator, which administers legislation to reduce carbon emissions and increase the use of clean energy.

The above figures incorporate the Government's decision to provide $3.5 billion over 15 years from 2018-19 for a Climate Solutions package, which provides incentives to support abatement activities across the economy.

Impact of climate spending on debt

Climate spending is financed through either receipts or debt. This Statement assumes that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to the proportion of total spending financed by debt. This is shown in Table 12.

Table 12: Impact on debt — climate spending as a proportion of total spending

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Climate spending(a)	1.65	1.70	1.35	1.50	1.70
Total Spending(b)	498	510	523	543	564
Climate spending (per cent of total spending)	0.3	0.3	0.3	0.3	0.3
Change in face value of AGS from previous year(c)	13.8	14.4	7.1	5.8	-4.2
Contribution to change in face value of AGS from climate spending	0.05	0.05	0.02	0.02	na

(a) The calculation of climate spending in this table is on a headline cash balance basis – that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with the Clean Energy Finance Corporation investments.
(b) The calculation of total spending in this table is on a headline cash balance basis – that is, total payments and net cash flows from investments in financial assets for policy purposes.
(c) Calculations of the change in the face value of AGS are calculated using total AGS on issue.

THE AUSTRALIAN GOVERNMENT'S MAJOR ASSETS AND LIABILITIES

Assets

The Government's total assets are estimated to be $581.7 billion at 30 June 2019, increasing to $611 billion in 2019-20 and $699.7 billion by the end of the forward estimates.

The Government's financial assets are estimated to be $431.8 billion at 30 June 2019, increasing to $456.4 billion in 2019-20 and $520.4 billion by the end of the forward estimates.

The Government's non-financial assets are estimated to be $149.9 billion at 30 June 2019, increasing to $154.7 billion in 2019-20 and $179.4 billion by the end of the forward estimates.

Future Fund

The Future Fund was established in 2006 to accumulate financial assets and invest them on behalf of the Australian Government to address the Government's unfunded superannuation liability.

The Investment Mandate for the Future Fund sets a benchmark rate of return of at least CPI plus 4.0 per cent to 5.0 per cent per annum over the long term. The Investment Mandate gives guidance to the Future Fund Board of Guardians (the Board) in relation to its investment strategy. The Board is independently responsible for the investment decisions of the Future Fund. The Investment Mandate also requires the Board to take an acceptable, but not excessive, level of risk for the Future Fund, measured in terms such as the probability of losses in a particular year.

Since its establishment, the average return has been 7.6 per cent per annum against a target of 6.8 per cent.

For the 12-month period ending 31 December 2018, the Future Fund's return was 5.8 per cent against the benchmark of 5.8 per cent. The Future Fund was valued at $147 billion at 31 December 2018.

The Board continues to maintain clear objectives and manage the portfolio in line with its mandate and strategy. Table 13 shows changes in the asset allocation of the Future Fund since 30 June 2018.

Table 13: Asset allocation of the Future Fund

Asset class	30 June 2018 $m	30 June 2018 % of Fund	31 December 2018 $m	31 December 2018 % of Fund
Australian equities	9,753	6.7	8,502	5.8
Global equities				
Developed markets	*26,500*	*18.2*	*23,920*	*16.3*
Emerging markets	*10,609*	*7.3*	*10,706*	*7.3*
Private equity	20,607	14.1	23,266	15.8
Property	9,366	6.4	10,534	7.2
Infrastructure and Timberland	11,728	8.0	12,513	8.5
Debt securities	12,934	8.9	14,790	10.1
Alternative assets	22,390	15.4	21,442	14.6
Cash	21,950	15.1	21,354	14.5
Total Future Fund assets	145,837	100.0	147,026	100.0

Note: Figures may not sum due to rounding.

Medical Research Future Fund

The Medical Research Future Fund (MRFF) was established on 26 August 2015 to provide additional funding for medical research and medical innovation.

Table 14: Government contributions to the MRFF

Date	Source(s)	Amount $m
22 September 2015	Uncommitted balance of the Health and Hospitals Fund (HHF)	1,010
1 December 2015	Savings from the Health portfolio and residual balance of the HHF	2,139
26 August 2016	Savings from the Health portfolio and residual balance of the HHF	1,277
3 July 2017	Savings from the Health portfolio	2,242
10 July 2018	Savings from the Health portfolio	2,289
	Total	8,957

Note: Figures may not sum due to rounding.

To date, $9 billion has been credited to the MRFF. Remaining credits to the MRFF will consist of the estimated value of health savings published in the 2014−15 Budget, adjusted for the effect of any subsequent associated Government decisions, until the capital value of the MRFF reaches $20 billion. The MRFF is expected to reach a balance of $20 billion in 2020-21.

Earnings available for drawdown from the MRFF are determined by the Future Fund Board of Guardians (the Board) taking into account the requirement to maintain the value of credits to the Fund over the long term. Payments met from drawdowns will be determined through the annual budget process.

The MRFF is managed by the Board. The Treasurer and Minister for Finance and the Public Service have set an Investment Mandate for the MRFF, which provides broad direction to the Board in relation to its investment strategy. The MRFF Investment Mandate sets a benchmark return of the Reserve Bank of Australia’s Cash Rate target plus 1.5 per cent to 2.0 per cent per annum, net of costs, over a rolling 10-year term.

Since inception, MRFF investments have returned 3.3 per cent per annum against a target return of 3.1 per cent per annum. The MRFF was valued at $9.4 billion at 31 December 2018.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund (DCAF) was established on 1 July 2014 to assist the Commonwealth and the State and Territory governments with spending directly related to the National Disability Insurance Scheme (NDIS). This is consistent with the commitment by governments to roll out the NDIS across Australia.

The DCAF is funded by revenue raised from the increase in the Medicare levy of half a percentage point to 2 per cent that was implemented on 1 July 2014. As at 31 December 2018, the DCAF has received credits totalling $14.3 billion.

The investments of the DCAF are managed by the Future Fund Board of Guardians (the Board). The Treasurer and Minister for Finance and the Public Service have set an Investment Mandate for the DCAF, which came into effect from 1 July 2014 and provides guidance to the Board in relation to its investment strategy for the DCAF. The DCAF Investment Mandate sets a benchmark return on the DCAF of the Australian three-month bank bill swap rate plus 0.3 per cent per annum calculated on a rolling 12-month basis (net of fees). In achieving its objectives, the Board must invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

For the 12 month period ending 31 December 2018, the DCAF’s return was 2.2 per cent against the benchmark of 2.2 per cent. The DCAF was valued at $14.4 billion at 31 December 2018.

As at 31 December 2018, payments totalling $551 million were made to reimburse those States and Territories that had signed the *National Partnership on DisabilityCare Australian Fund Payments: Initial Payment*. All State and Territory governments will be able to draw down from the DCAF when they meet key conditions, such as agreeing to fully roll out the NDIS and milestones relating to the participation in the scheme of people with significant and permanent disability. The balance of the DCAF, after taking into account allocations to the States and Territories, will be available to the Commonwealth to assist with meeting the Commonwealth's contribution to the NDIS.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Government established the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILSFF) on 1 February 2019 to support payments to the Indigenous Land and Sea Corporation (ILSC).

The ATSILSFF was seeded with the capital of the former Aboriginal and Torres Strait Islander Land Account (Land Account) — approximately $2 billion. The Land Account was abolished on the establishment of the ATSILSFF.

The investments of the ATSILSFF are managed by the Future Fund Board of Guardians (the Board). Following consultation with the Minister for Indigenous Affairs and the Board, the Treasurer and the Minister for Finance and the Public Service issued an Investment Mandate for the ATSILSFF, which sets a long-term benchmark return of CPI + 2.0 to 3.0 per cent per annum, net of costs.

Future Drought Fund

The Government will establish the Future Drought Fund (FDF) on 1 July 2019 to fund initiatives that enhance future drought resilience, preparedness and response across Australia.

The FDF will be seeded with the uncommitted balance of the Building Australia Fund (BAF) — approximately $3.9 billion. The BAF will be abolished on the establishment of the FDF. By 2028-29, the FDF is expected to grow to approximately $5 billion through reinvestment of net earnings. The Fund will provide disbursements of $100 million per annum from 1 July 2020.

The investments of the FDF will be managed by the Future Fund Board of Guardians (the Board). Following consultation with the Board, the Treasurer and the Minister for Finance and the Public Service will set an Investment Mandate for the FDF. The Investment Mandate will provide strategic guidance to the Board on the Government's expectations for the investment of the FDF, including the level of risk that the Government is prepared to accept in pursuit of target returns.

Emergency Response Fund

The Government will establish the Emergency Response Fund (ERF) on 1 October 2019 to fund initiatives which enhance future national disaster response and recovery efforts across Australia.

The ERF will be seeded with the uncommitted balance of the Education Investment Fund (EIF) – approximately $3.9 billion. The EIF will be abolished on establishment of the ERF. Potential disbursements from the ERF will be up to $150 million from 2019-20 to 2023-24 following a significant and catastrophic natural disaster in Australia. The ERF will only be drawn down in this way where the Government determines there is a need for additional support in parallel with existing national disaster response programs. From 2023-24, the maximum potential disbursements from the ERF would be restricted to the average value of the annual net realised earnings of the Fund over the previous five years.

The investments of the ERF will be managed by the Future Fund Board of Guardians (the Board). Following consultation with the Board, the Treasurer and the Minster for Finance and the Public Service will set an investment mandate for the ERF. The investment mandate will provide strategic direction to the Board on the Government's expectations for investment of the ERF, including the level of risk the Government is prepared to accept in pursuit of target returns.

National Broadband Network

The National Broadband Network (NBN) will deliver fast and affordable broadband to all Australians. The Government has instructed NBN Co Limited (NBN Co) to complete the NBN using the technology best matched to each area of Australia to ensure that the NBN is delivered as soon as possible and at least cost to taxpayers.

The Government provided the final $2 billion of its $29.5 billion equity contribution to NBN Co in 2017-18.

The Government has agreed to provide a loan of up to $19.5 billion to NBN Co on commercial terms. The Government has agreed to extend the duration of its loan by three years (from 30 June 2021 to 30 June 2024) and to allow NBN Co to access up to $2 billion of private sector debt. The expected drawdown by NBN Co on the Government loan is $5.7 billion in 2019-20.

Higher Education Loan Programme

The Higher Education Loan Programme (HELP) comprises concessional loans to students that enable them to defer payment of fees for diploma level and above courses, which are paid back once the loan recipient is earning an income above a certain level.

The fair value of HELP is estimated to be around $46.1 billion at 30 June 2019, which is $0.3 billion lower than projected in the 2018-19 MYEFO. The fair value of HELP is projected to grow to around $53.2 billion by 30 June 2022, which is $1.9 billion lower than estimated in the 2018-19 MYEFO, and to reach $55.3 billion by the end of the forward estimates.

The lower than expected growth in the fair value of HELP to 30 June 2019 is largely a result of higher than expected loan repayments.

From 1 January 2020, a combined HELP loan limit will replace the FEE-HELP limit and will include FEE-HELP, VET Student Loans, VET FEE-HELP and HECS-HELP.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) was established as a Commonwealth Authority in August 2012 through the *Clean Energy Finance Corporation Act 2012* (CEFC Act).

Under the CEFC Act the CEFC has been provided $10 billion to invest in renewable energy, low emissions technology and energy efficiency projects.

The CEFC continues to invest funds and manage its investments. Investment decisions are made by an independent board consistent with the CEFC Act and the CEFC's investment mandate.

Liabilities

The Government's total liabilities are estimated to be $922.6 billion at 30 June 2019, increasing to $944.3 billion in 2019-20 and $967.2 billion by the end of the forward estimates.

The Government's major liabilities are AGS on issue and public sector employee superannuation liabilities.

Public sector employee superannuation liabilities

Public sector employee superannuation entitlements relating to past and present civilian employees and military personnel are a financial liability on the Government's balance sheet. The Government's superannuation liabilities are estimated to be around $224 billion at 30 June 2019 and approximately $316 billion at 30 June 2050.

These liabilities represent the present value of future unfunded superannuation benefits and are based on an actuarially determined discount rate. The long-term nature of the unfunded superannuation liabilities requires the use of a discount rate that best matches the duration of the liabilities. The use of a long-term discount rate for budget purposes avoids the volatility that would occur by using current market yields on Government bonds, which continually change. The value recorded on the balance sheet is highly sensitive to the discount rate used.

Consistent with the latest Long Term Cost Reports for the civilian and military schemes, the discount rate currently applied is 5 per cent per annum.

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes. However, the Future Fund was established in 2006 to help finance the Government's unfunded superannuation liabilities.

For civilian employees, the major defined benefit schemes are the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). These schemes were closed to new members in 1990 and 2005 respectively. The Public Sector Superannuation accumulation plan (PSSap) was introduced on 1 July 2005 and provides fully funded accumulation benefits for new civilian employees from that date.

For military personnel, the defined benefit schemes are the Defence Force Retirement and Death Benefits Scheme (DFRDB), the Defence Forces Retirement Benefits Scheme (DFRB) and the Military Superannuation and Benefits Scheme (MSBS). Following the closure of the MSBS on 30 June 2016, all defined benefit military schemes are now closed to new members. A new military superannuation accumulation scheme, ADF Super, commenced on 1 July 2016. ADF Super is accompanied by a statutory death and disability arrangement ADF cover.

While there have not been any new members to the public service and military defined benefit schemes since closure in 2005 and 2016 respectively, the value of the Government's unfunded superannuation liabilities is projected to continue growing (in nominal terms) into the immediate future — although it is projected to decrease as a proportion of GDP. It is forecast to reach $251 billion by the end of the forward estimates. The increase in the liabilities partly results from the time value of money which recognises future benefits being closer to maturity each year. It also results from the accruing entitlements to current members of the civilian and military defined benefit schemes, and members covered by the statutory death and disability arrangement ADF cover.

As the superannuation liabilities are included in the Government's net worth and net financial worth aggregates, revaluations of the liabilities have an impact on these aggregates (see *Statement 9: Australian Government Budget Financial Statements* for further information about budget aggregation).

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

The economic and fiscal estimates presented in the 2019-20 Budget incorporate assumptions and judgments based on information available at the time of preparation. These estimates are subject to uncertainty.

This Statement provides details of the historical performance of Budget forecasts for the macroeconomic aggregates of real and nominal GDP as well as for estimates of government receipts. The Statement also presents a number of scenarios seeking to illustrate the sensitivity of budget aggregates to changes in economic forecasts and projections and some underlying assumptions.

CONTENTS

STATEMENT 7: FORECASTING PERFORMANCE AND SCENARIO ANALYSIS

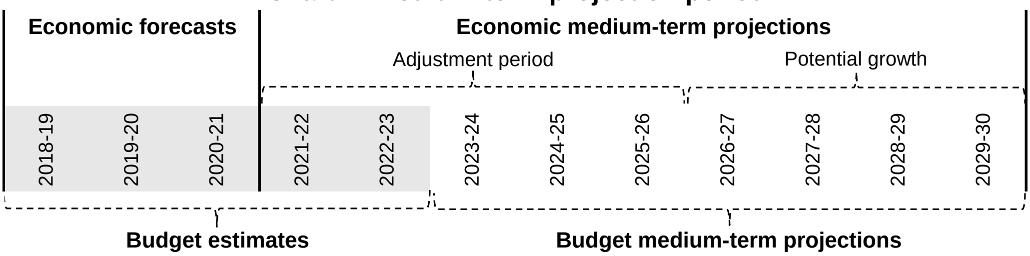
OVERVIEW

Macroeconomic and fiscal forecasts are important for government policy and decision making. The macroeconomic and fiscal forecasts in the Budget are based on information available at the time of preparation, which also informs assumptions and judgments. Better forecasting and a better understanding of the uncertainties around the forecasts contribute to better policy and decision making.

This Statement assesses the historical performance of budget forecasts and estimates of uncertainty around these forecasts. This assessment is consistent with the practice of many other international fiscal agencies to improve forecasting performance and, more importantly, to raise awareness of the uncertainties inherent in forecasting.

The fiscal estimates presented in the Budget are underpinned by short-term economic forecasts for the current financial year, the budget year and the subsequent financial year, and economic projections for the following two years. These five years are followed by medium-term projections for a further seven years to provide an indication of the longer-term fiscal trajectory. The economic projections, which are generated by returning economic activity to its potential level over an adjustment period, underpin the medium-term fiscal projections (Chart 1).

Chart 1: Medium-term projection period



Source: Treasury.

This Statement presents an analysis of the sensitivity of 2019-20 Budget forward estimates to changes in assumptions as required under the *Charter of Budget Honesty Act 1998*. It also provides sensitivity analysis of the medium-term projections.

FORECASTING PERFORMANCE

Macroeconomic forecasting performance

The Government's macroeconomic forecasts are prepared using a range of modelling techniques including macroeconometric models, spreadsheet analysis and accounting frameworks. These are augmented by survey data, business liaison, professional opinion and judgment.

Forecasts are subject to inherent uncertainties. Generally, these uncertainties tend to increase as the forecast horizon lengthens. Forecast errors (the differences between forecasts and outcomes) can arise for a range of reasons — for example, differences between the assumed path of key variables and outcomes, changes in the relationships between different parts of the economy and unexpected events.

Confidence intervals seek to illustrate that there is a range of plausible outcomes around any forecast. Confidence intervals are based on observed historical patterns of forecast errors. They are a guide to the degree of uncertainty around a forecast and can span a wide range of outcomes.

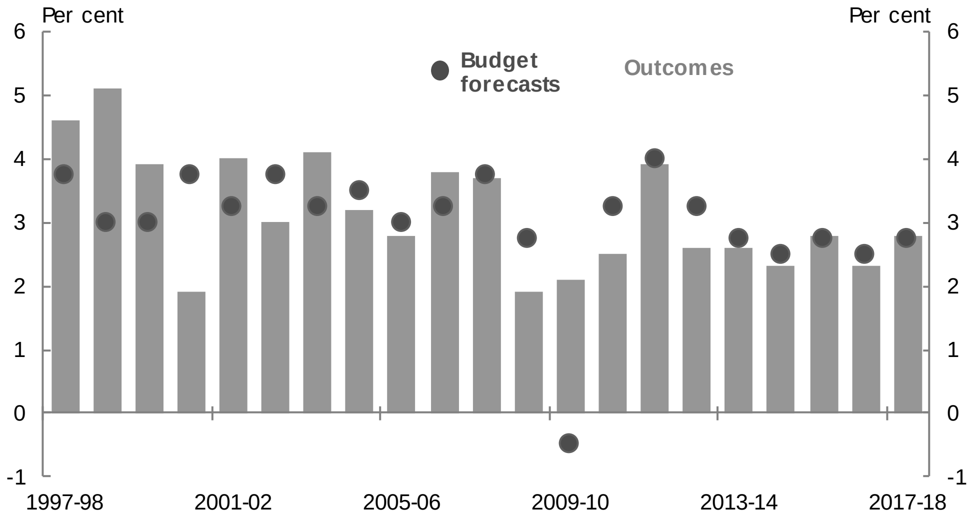
Real GDP forecasts

Real GDP forecasts factor in a number of assumptions, including exchange rates, interest rates and commodity prices. The forecasts also incorporate judgments about how developments in one part of the economy affect other parts and how the domestic economy is affected by events in the international economy. The accuracy of the forecasts is influenced by the extent to which the assumptions and judgments underpinning them prove to be correct — and also the reliability of the economic relationships embodied in the macroeconomic models used to produce them. For example, an exchange rate that is lower than assumed would be expected to result in higher-than-forecast GDP growth.

Forecast errors for real GDP can also result from unexpected shifts in the pace or nature of economic activity during the forecast period. For example, a faster-than-expected pick-up in Australia's economic growth in 2019-20 could be driven by stronger consumer spending, underpinned by faster-than-expected growth in employment and wages. Faster economic growth could also be driven by stronger-than-expected major trading partner growth, which could boost exports and, in turn, stimulate incomes and demand throughout the economy.

Over the past 20 years, the Budget forecasts of real GDP growth have exhibited little evidence of bias, with the mean absolute forecast error being insignificantly different from zero. While forecasts of real GDP growth were less accurate in the years during and immediately after the global financial crisis (GFC), forecast errors have been smaller in recent years (Chart 2).

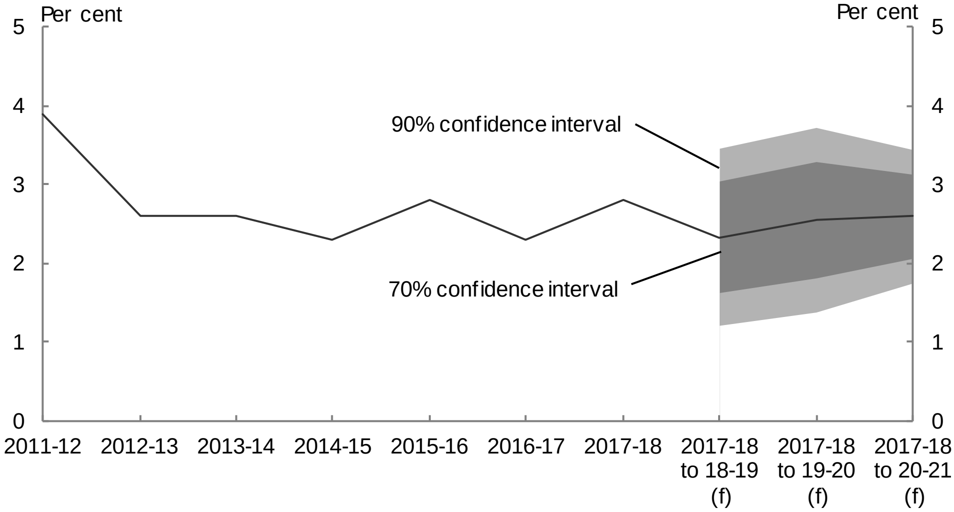
Chart 2: Budget forecasts of real GDP growth



Note: Outcome is as published in the December quarter 2018 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Budget papers.

Chart 3 shows that the average annualised growth rate of real GDP in the two years to 2019-20 is expected to be around 2½ per cent, with the 70 per cent confidence interval ranging from 1¾ per cent to 3¼ per cent. In other words, if forecast errors are similar to those made over recent years, there is a 70 per cent probability that the growth rate will lie in this range.

Chart 3: Confidence intervals around real GDP growth rate forecasts



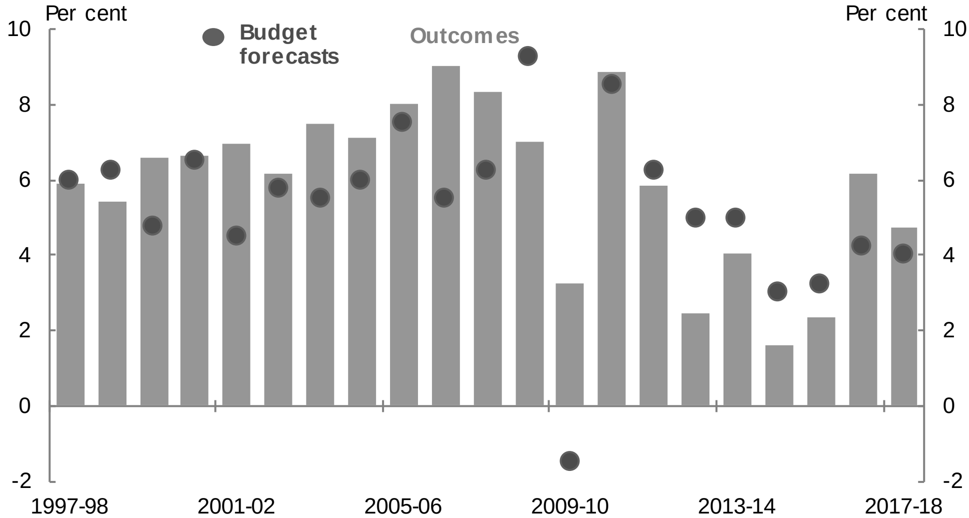
Note: The central line shows the outcomes and the 2019-20 Budget forecasts. Annual growth rates are reported for the outcomes. Average annualised growth rates from 2017-18 are reported for 2018-19 onwards. (f) are forecasts. Confidence intervals are based on the root mean squared errors (RMSEs) of Budget forecasts from 1998-99 onwards, with outcomes based on December quarter 2018 National Accounts data.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Nominal GDP forecasts

Compared with real GDP forecasts, nominal GDP forecasts are subject to additional sources of uncertainty from the evolution of domestic prices and wages, prices of imported goods and world prices for Australia's exports, including commodities.

Since the early 2000s, nominal GDP forecast errors have reflected the greater difficulties in predicting movements in global commodity prices (Chart 4). From 2011-12 to 2015-16, as key commodity prices were falling from their record highs, larger-than-expected falls in the terms of trade meant that nominal GDP growth was overestimated. However, the outcomes for nominal GDP growth in 2016-17 and 2017-18 were higher than were forecast in the Budgets for those years. This primarily reflected stronger-than-expected commodity prices.

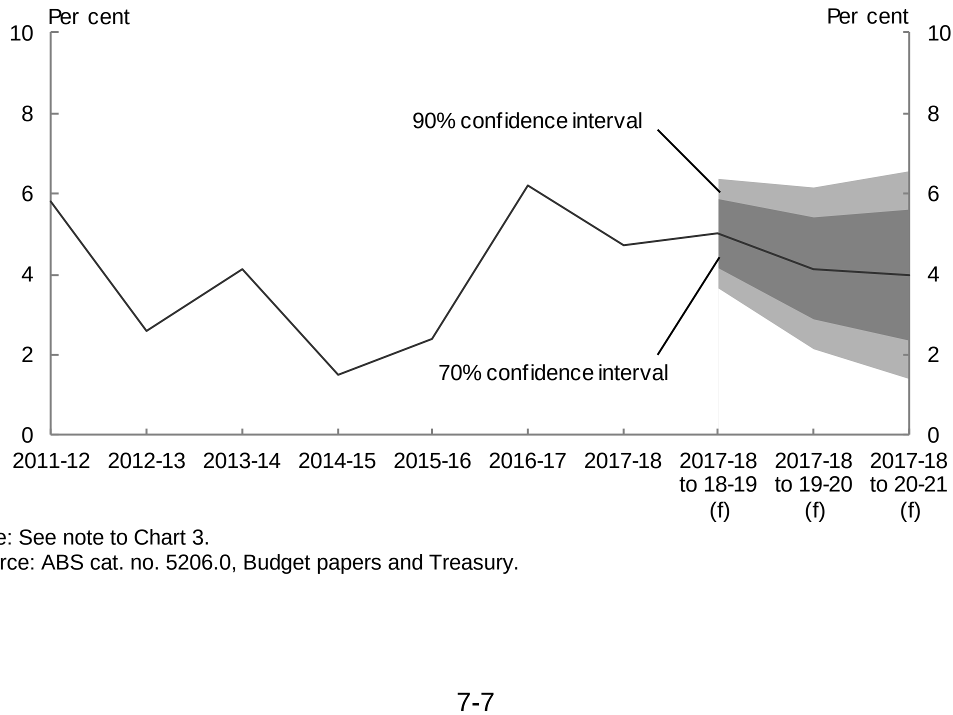
Chart 4: Budget forecasts of nominal GDP growth



Note: Outcome is as published in the December quarter 2018 National Accounts. Forecast is that published in the Budget for that year.
Source: ABS cat. no. 5206.0 and Budget papers.

The confidence intervals around the nominal GDP forecasts are wider than those around the real GDP forecasts, reflecting both the uncertainty around the outlook for real GDP and the added uncertainty about the outlook for domestic prices and commodity prices. Average annualised growth in nominal GDP in the two years to 2019-20 is expected to be around 4¼ per cent, with the 70 per cent confidence interval ranging from 3 per cent to 5½ per cent (Chart 5).

Chart 5: Confidence intervals around nominal GDP growth rate forecasts



Note: See note to Chart 3.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Fiscal forecasting performance

The fiscal estimates contained in the Budget are based on economic and demographic forecasts and projections, as well as estimates of the impact of government spending and revenue measures. Changes to the economic or demographic forecasts and projections underlying the estimates will affect forecasts for receipts and payments. As such, this will have a direct impact on the profile of the underlying cash balance and government debt. Even small movements in economic forecasts and projections or outcomes that differ from the forecasts and projections can result in large changes to the budget aggregates.

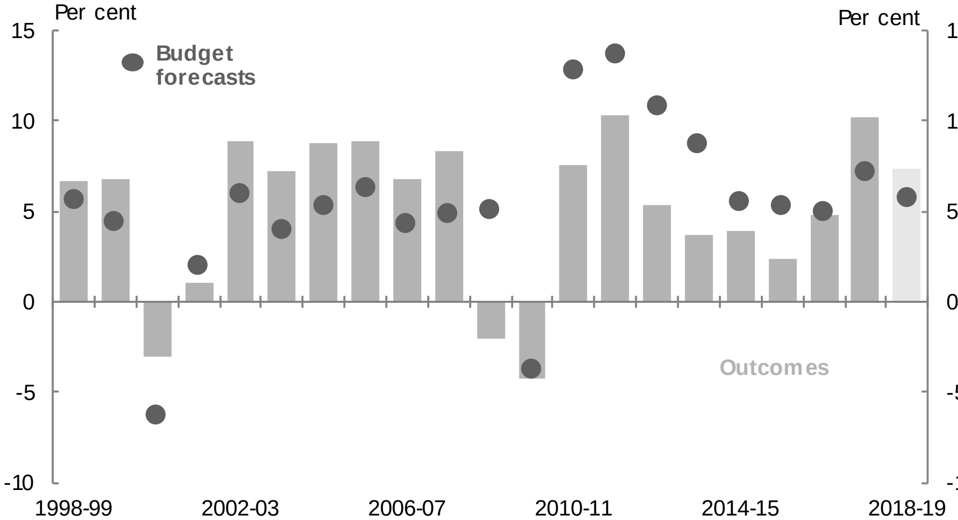
Receipts

Tax receipts estimates are generally prepared using a 'base plus growth' methodology. The last known outcome (2017-18 for the 2019-20 Budget) is used as the base to which estimated growth rates are applied, resulting in tax receipts estimates for the current and future years. Estimates for the current year also incorporate recent trends in tax collections.

Most of the indirect heads of revenue, such as GST and fuel excise, are forecast by mapping the growth rate of an appropriate economic parameter directly to the tax growth rate in the relevant head of revenue. A number of income taxes also involve determining whether this tax will be paid in the year the income is earned, such as for pay-as-you-go withholding tax, or in future years, such as for individuals' refunds.

Over the past two decades, tax receipts forecasts have both under-predicted and over-predicted outcomes (Chart 6).

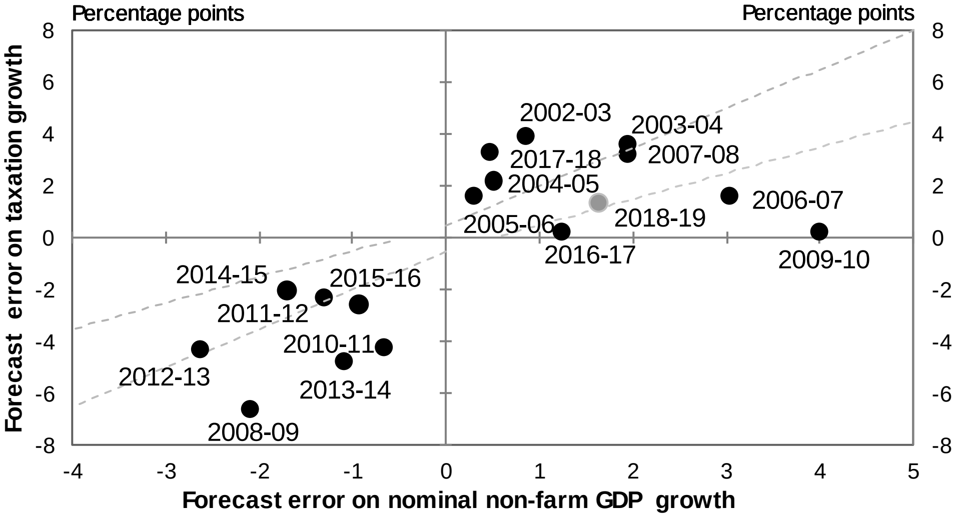
Chart 6: Budget forecasts of tax receipts growth



Note: Forecast error for 2018-19 is an estimate.
Source: Budget papers and Treasury.

Generally, there is a strong correlation between the accuracy of the forecasts of nominal GDP and its components and the forecasts for tax receipts. On average, economic forecast errors will be magnified in receipts forecast errors, owing to the progressive nature of personal income tax. Chart 7 plots the forecast errors for nominal non-farm GDP against the errors for tax receipts excluding capital gains tax (CGT). It shows that where there has been an underestimate of nominal non-farm GDP growth, tax receipts tend to be underestimated and vice versa.

Chart 7: Budget forecast errors on nominal non-farm GDP growth and taxation receipts growth (excluding CGT)



Note: The lower and upper lines indicate the expected forecast error in tax receipts given the associated forecast error in nominal non-farm GDP growth. Forecast errors outside this range could be a result of factors such as timing of tax receipts. The lines are based on aggregate elasticities (of receipts with respect to nominal non-farm GDP) of 1.0 and 1.5 respectively, assuming an error of plus or minus 0.5 per cent if there is zero error on the economic forecasts. Forecast error for 2018-19 is an estimate.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Looking at the medium term, tax receipts projections are driven by long-term economic trends and tax policy settings. External structural pressures and systemic design factors in Australia's tax system could result in tax receipts from many sources as a proportion of GDP declining over this extended time period.

One driver of this decline could be a continuation of consumer preferences away from highly taxed items such as fuel, alcohol and tobacco. GST revenue growth could also weaken if consumption favours non-GST items.

The extent to which the tax system is resilient to these and other factors is highly uncertain and not independent of tax rate differentials, both domestically and internationally.

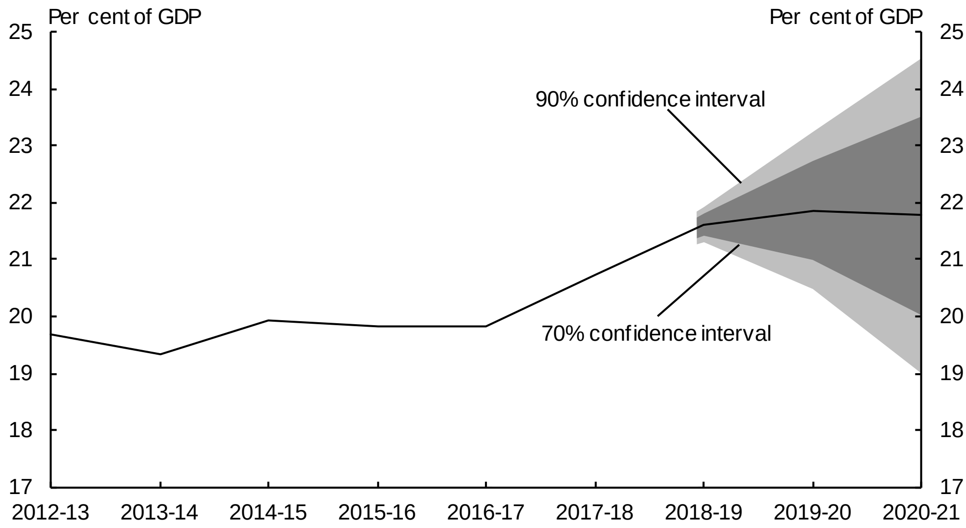
The forecast for 2018-19 tax receipts (excluding CGT) in the 2018-19 Budget is expected to be an underestimate of around 1.3 percentage points, compared with an underestimate of around 1.6 percentage points for nominal non-farm GDP growth.

The largest contributor to the expected forecast error for 2018-19 is company tax, which is estimated to be $4.6 billion (5.2 per cent) higher than expected in the 2018-19 Budget. This is primarily driven by higher-than-expected company profits, including upward revisions to profits in 2017-18 and 2018-19. Gross income tax withholding is estimated to be $4.0 billion (2.0 per cent) above the forecast of the 2018-19 Budget, consistent with strong labour market conditions. These boosts to tax receipts have been partly offset by GST, which is estimated to be $1.7 billion (2.6 per cent) below the forecast of the 2018-19 Budget. These and other variations are discussed further in *Budget Statement 4: Revenue*.

Discussions of earlier years' forecast performance can be found in previous budgets.

Chart 8 shows confidence intervals around the forecasts for receipts (excluding GST[1] and including Future Fund earnings). Confidence intervals constructed around the receipts forecasts exclude historical variations caused by subsequent policy decisions. These intervals take into account errors caused by parameter and other variations in isolation.

Chart 8: Confidence intervals around receipts forecasts



Note: The central line shows the outcomes and the 2019-20 Budget point estimate forecasts. Confidence intervals use RMSEs for Budget forecasts from the 1998-99 Budget onwards.
Source: Budget papers and Treasury.

1 GST was not reported as a Commonwealth tax in budget documents prior to the 2008-09 Budget. As a result, GST data have been removed from historical receipts and payments data to abstract from any error associated with this change in accounting treatment.

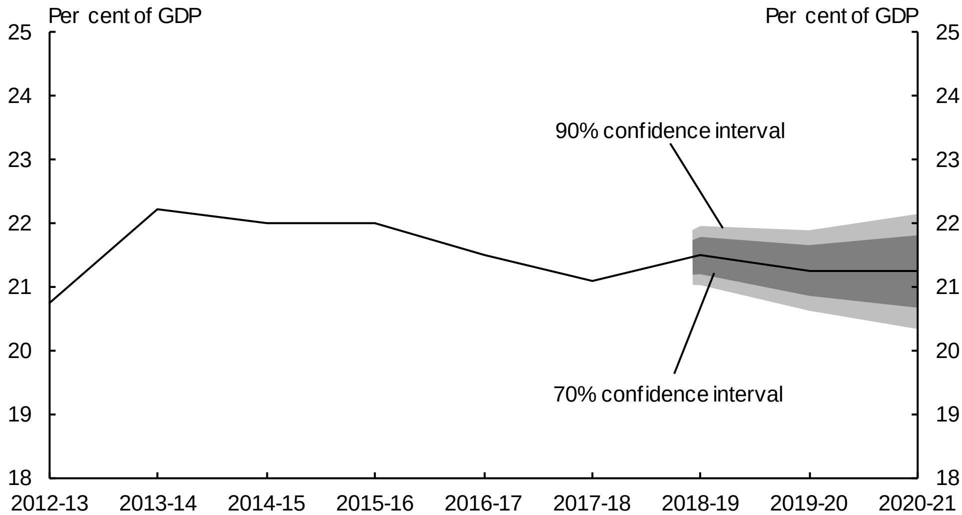
The chart shows that there is considerable uncertainty around receipts forecasts and that this uncertainty increases as the forecast horizon lengthens. It suggests that in 2019-20, the width of the 70 per cent confidence interval for the 2019-20 Budget receipts forecast is approximately 1.7 per cent of GDP ($34.9 billion) and the 90 per cent confidence interval is approximately 2.8 per cent of GDP ($55.3 billion).

Payments

The Government's payments estimates are predominantly prepared by agencies that comprise the Australian Government general government sector. An assessment of payments forecasting performance is not included in this Statement. However, historical errors have been incorporated in estimated confidence intervals.

Chart 9 shows confidence intervals around payments forecasts (excluding GST). As with receipts estimates, historical variations caused by subsequent policy decisions are excluded.[2] Payments estimates include the public debt interest impact of policy decisions and a provision for contingencies.[3]

Chart 9: Confidence intervals around payments forecasts



Note: See note to Chart 8.
Source: Budget papers and Treasury.

2 The allowance for historical policy variations only includes subsequent policy decisions made at each update. No allowance is made for other decisions, such as assistance for the impact of natural disasters or changes to the timing of projects announced in previous updates. These decisions will contribute to historical forecast errors and therefore increase the size of the confidence intervals around payments.

3 The impacts of past policy decisions on historical public debt interest through time cannot be readily identified or estimated. For this reason, no adjustment has been made to exclude these impacts from the analysis.

The chart shows that there is moderate uncertainty around payments forecasts. In 2019-20, the width of the 70 per cent confidence interval for the 2019-20 Budget payments forecast is approximately 0.8 per cent of GDP ($16 billion) and the 90 per cent confidence interval is approximately 1.3 per cent of GDP ($25.3 billion).

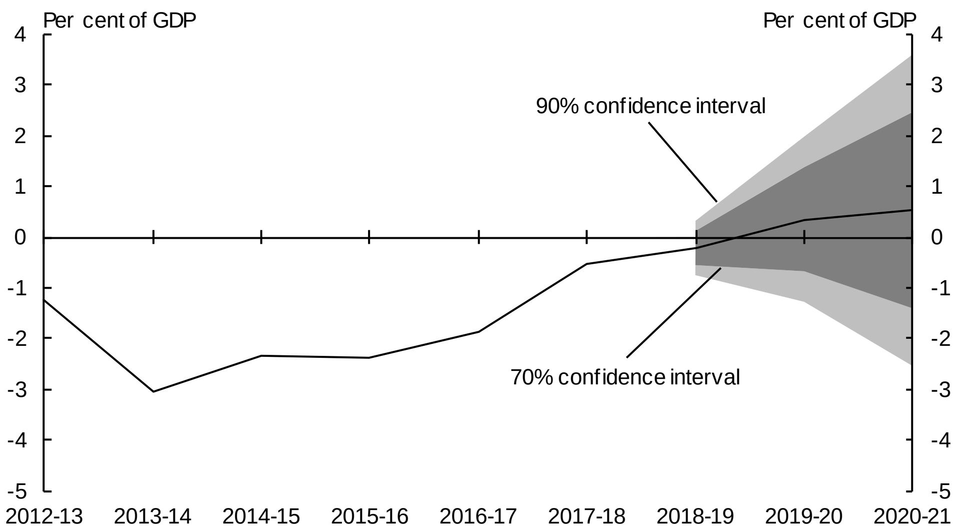
Payments outcomes can differ from forecasts for a number of reasons. Demand-driven programs, such as payments to individuals for social welfare, form the bulk of government expenditure. Forecasts of payments associated with a number of these government programs depend on forecasts of economic conditions. For example, higher than forecast unemployment levels will mean that expenditure for related social services payments, including allowances, will be higher than forecast.

Underlying cash balance

The underlying cash balance estimates are sensitive to the same forecast errors that affect estimates of receipts and payments. Confidence interval analysis shows that there is considerable uncertainty around the underlying cash balance forecasts (Chart 10).

In 2019-20, the width of the 70 per cent confidence interval for the 2019-20 Budget underlying cash balance forecast is approximately 2.1 per cent of GDP ($41.1 billion) and the 90 per cent confidence interval is approximately 3.3 per cent of GDP ($65.2 billion). In line with receipts forecasts, uncertainty increases over the estimates period.

Chart 10: Confidence intervals around the underlying cash balance forecasts



Note: See note to Chart 8.
Source: Budget papers and Treasury.

SENSITIVITY AND SCENARIO ANALYSIS

Small movements in economic forecasts or projections can improve or worsen the underlying cash balance, depending on their impacts on payments and receipts. This in turn can drive changes in gross and net debt. Consideration of particular scenarios and sensitivity analysis demonstrates the potential impact of these changes. The analysis presented considers the impact of changes to the economic outlook over the forecast years to 2020-21 and the projections beyond that.

Scenarios 1 and 2 explore the sensitivity of fiscal aggregates to alternative paths for the terms of trade and consumption growth.

Scenarios 3 and 4 illustrate the sensitivity of fiscal aggregates to changes in assumptions underpinning the medium-term economic projections.

Scenario 5 illustrates the sensitivity of fiscal aggregates to changes in market yields.

Sensitivity analysis over the forecast period

The following two scenarios provide an indication of the sensitivity of receipts, payments and the underlying cash balance to changes in the economic outlook over the forecast period to 2020-21.

Sensitivity analysis on inflation and wages and commodity price assumptions is contained in *Budget Statement 2: Economic Outlook.*

Scenario 1: Alternative paths for the terms of trade

This scenario considers the consequences of a permanent 10 per cent movement in world prices of non-rural commodity exports through 2019-20 relative to the 2019-20 Budget forecast levels. The scenario assumes that there is no change in the exchange rate or interest rates. Under a floating exchange rate, however, a change in the terms of trade would be expected to lead to a movement of the exchange rate in the same direction. This would mitigate the effects on real GDP, meaning the impact on the fiscal position would be smaller than presented below.

Such a price rise (fall) is consistent with a rise (fall) in the terms of trade of 5¼ per cent and an increase (decrease) in nominal GDP of 1¼ per cent by 2020-21. The change in the terms of trade from a 10 per cent movement in non-rural commodity exports varies over time in line with the share of those exports in total exports. The sensitivity analysis shows the flow-on effects to GDP, the labour market and prices. The impacts in Table 1 are stylised and refer to percentage deviations from the Budget forecast levels due to a permanent rise in non-rural commodity prices. The impacts on the economy of a permanent fall in these prices of the same magnitude would be broadly symmetric.

Table 1: Illustrative impact of a permanent 10 per cent rise in non-rural commodity prices (per cent deviation from the Budget level)[4]

	Impact after 1 year (2019-20)	Impact after 2 years (2020-21)
	per cent	per cent
Real GDP	0	1/4
GDP deflator	1/2	1
Nominal GDP	1/2	1 1/4
Employment	1/4	1/4
Wages	1/4	1/2
CPI	0	1/4
Company profits	2	3 1/2
Nominal household consumption	0	1/2

Under this scenario, which assumes no change in exchange rates or interest rates, the increase in export prices leads directly to higher overall output prices (as measured by the GDP deflator) and higher domestic incomes compared with Budget levels. Higher domestic incomes cause both consumption and investment to rise, resulting in higher real GDP and employment and an increase in wages. The rise in aggregate demand puts upward pressure on domestic prices.

On the receipts side, an increase in nominal GDP increases tax collections. The largest impact is on company tax receipts as the increase in export income increases company profits. The impact on company tax is larger in 2020-21, partly owing to lags in tax collections and a larger impact on company profits in the second year of the scenario.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage indicators). Many forms of expenditure, in particular income support payments, are also driven by the number of beneficiaries.

The overall estimated expenditure on income support payments (including pensions, unemployment benefits and other allowances) decreases in both years, reflecting a lower number of unemployment benefit recipients. The fall in spending on unemployment benefits is partially offset by increased expenditure on pensions and allowances reflecting stronger growth in benefit payment rates, resulting from slightly higher inflation. At the same time other payments linked to inflation are also higher in line with the stronger growth in prices.

Given these assumptions, the overall impact of the increase in the terms of trade is an improvement in the underlying cash balance of around $2.3 billion in 2019-20 and around $6.7 billion in 2020-21 (see Table 2). Broadly opposite impacts would be expected for a fall in the terms of trade of the same magnitude.

4 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback effects or policy responses resulting from changed economic conditions and assume no change in the exchange rate, interest rates or government policy over the forecast period.

Table 2: Illustrative sensitivity of the budget balance to a permanent 10 per cent rise in non-rural commodity prices

	2019-20	2020-21
	$b	$b
Receipts		
Individuals and other withholding taxes	0.6	2.5
Superannuation fund taxes	0.1	0.1
Company tax	1.4	3.4
Goods and services tax	0.0	0.3
Excise and customs duty	0.0	0.2
Other taxes	0.1	0.2
Total receipts	**2.2**	**6.7**
Payments		
Income support	0.1	0.3
Other payments	0.0	0.0
Goods and services tax	0.0	-0.3
Total payments	**0.1**	**-0.1**
Public debt interest	0.0	0.1
Underlying cash balance impact(a)	**2.3**	**6.7**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2019-20 and 2020-21, as shown in Charts 8 to 10.
Note: Numbers may not sum due to rounding.

The specific impact of a US$10 per tonne free-on-board (FOB) higher or lower iron ore price is outlined in Box 1.

Box 1: Sensitivity analysis of iron ore price movements

The impacts of a **US$10 per tonne FOB movement in iron ore prices** over the course of a year is set out in Table A. This is based on the sensitivity analysis presented in Scenario 1, and is calibrated to take into account the share of iron ore in the value of total exports, which can change over time. An increase of US$10 per tonne FOB in the iron ore price results in an increase in nominal GDP of around $6.3 billion in 2019-20 and over $13 billion in 2020-21. Similarly, a decrease of US$10 per tonne FOB in the iron ore price results in a decrease in nominal GDP of an equivalent amount.

Table A: Sensitivity analysis of a US$10 per tonne movement in iron ore prices

	US$10/tonne FOB(a) fall		US$10/tonne FOB increase	
	2019-20	2020-21	2019-20	2020-21
Nominal GDP ($billion)	-6.3	-13.6	6.3	13.6
Tax receipts ($billion)	-1.1	-3.7	1.1	3.7

(a) Prices are presented in free-on-board (FOB) terms which exclude the cost of freight.

Scenario 2: Alternative paths for household consumption growth

This scenario considers the economic and fiscal impacts of a change in household consumption growth in 2019-20, consistent with a shift in household saving preferences. The scenario is a two-sided sensitivity analysis, where the low consumption growth analysis illustrates the consequences of households shifting their

preferences towards a higher rate of saving than forecast in the Budget. This could occur if, for example, households reduce consumption in response to lower housing prices. The high consumption growth analysis illustrates the consequences of households reducing their rate of saving by more than forecast in the Budget, for example, due to an increase in risk appetite.

Consumption accounts for a large share of the economy, so its growth profile is an important source of uncertainty around the GDP growth forecasts. Household consumption growth has exceeded household income growth for several years, resulting in a decline in the household saving ratio from 8.4 per cent in the June quarter 2014 to 2.5 per cent in the December quarter 2018. At the same time, year-average growth in household consumption remains below its 20-year average rate, which is also true on a per capita basis. The Budget forecasts assume that the household saving ratio will be broadly flat over the forecast period.

For the scenario, household consumption growth in 2019-20 has been adjusted so that, by the end of 2019-20, the level of consumption is either 1 per cent lower or higher than the levels currently forecast in the Budget.[5] The scenario then evaluates the flow-on effects to GDP, the labour market and prices. It assumes no changes to investment, the exchange rate, interest rates or the cost of capital. The impacts of a lower-than-anticipated pick-up in consumption are presented in Table 3. These are stylised results and refer to percentage deviations from the Budget forecast levels. A higher-than-anticipated pick-up in consumption would have broadly opposite effects on the economy over the scenario period.

Table 3: Illustrative impact of a lower-than-anticipated pick-up in household consumption (per cent deviation from the Budget level)[6]

	Impact after 1 year (2019-20)	Impact after 2 years (2020-21)
	per cent	per cent
Real GDP	- 1/4	- 1/2
Nominal GDP	- 1/4	- 1/2
Employment	0	- 1/4
Company profits	- 1/2	- 1/2
Nominal household consumption	- 1/2	-1

The results of the analysis show that a lower-than-anticipated pick-up in consumption lowers real GDP compared with Budget levels. The fall in output is a little less than would be implied by the direct effect of the fall in consumption as imports also fall. As a result of the decline in output, employment falls and wage and price pressures are modestly lower.

5 Consumption is higher or lower by 1 per cent by the end of 2019-20 in through-the-year terms. Table 3 presents the results in year-average terms.

6 These results represent a partial economic analysis only and do not attempt to capture all the economic feedback effects or policy responses resulting from changed economic conditions, and assume no change in the exchange rate, interest rates or government policy over the forecast period.

On the receipts side, the reduction in consumption immediately affects indirect taxes, particularly goods and services tax. Business income falls in both years but the impact on company tax receipts is larger in the second year, owing to lags in tax collections. Lower employment and wages lead to lower tax receipts from individuals' salary and wage withholding taxes.

On the payments side, overall estimated expenditure on income support payments is higher in both years due to a higher number of unemployment benefit recipients. The increase in spending on unemployment benefits is partially offset by decreased expenditure on pensions and allowances reflecting slightly lower inflation in 2020-21. In addition, other payments linked to inflation are also lower in line with the weaker growth in prices.

The overall impact of the lower-than-anticipated pick-up in consumption is a deterioration in the underlying cash balance of around $0.8 billion in 2019-20 and around $2.8 billion in 2020-21 (see Table 4). A higher-than-anticipated pick-up in consumption would have a broadly opposite effect on the underlying cash balance over the scenario period.

Table 4: Illustrative sensitivity of the budget balance to a lower-than-anticipated pick-up in household consumption

	2019-20 $b	2020-21 $b
Receipts		
Individuals and other withholding taxes	-0.3	-1.5
Superannuation fund taxes	0.0	-0.1
Company tax	-0.3	-0.5
Goods and services tax	-0.3	-0.5
Excise and customs duty	-0.2	-0.4
Other taxes	0.0	0.0
Total receipts	**-1.1**	**-3.0**
Payments		
Income support	0.0	-0.3
Other payments	0.0	0.0
Goods and services tax	0.3	0.5
Total payments	**0.3**	**0.3**
Public debt interest	0.0	0.0
Underlying cash balance impact(a)	**-0.8**	**-2.8**

(a) Estimated impacts fall within the 70 per cent confidence intervals for years 2019-20 and 2020-21, as shown in Charts 8 to 10.
Note: Numbers may not sum due to rounding.

Sensitivity analysis over the medium term

The medium-term fiscal projection period is the seven years after the Budget forward estimates. These fiscal projections are underpinned by economic projections of key economic variables.

A distinction is drawn between economic forecasts and economic projections. The forecasts are based on a range of short-run forecasting methodologies informed by professional opinion, information from business liaison and broader judgment. By contrast, the economic projections are based on a medium-term methodology which returns economic activity to its potential level over an adjustment period. An important assumption underpinning the economic projections is that specific government policies do not change.

Economic projections framework

Treasury's medium-term economic projection methodology assumes that any spare capacity remaining in the economy at the end of the forecast period will be absorbed over the following five years (the adjustment period). Over this period, productivity and labour force variables, including employment and the participation rate, are assumed to converge to their potential levels as real GDP returns to its estimated potential level. Treasury continues to review the methodology.

Potential GDP is estimated based on analysis of underlying trends for population, productivity and participation. The Budget forecasts imply that the level of real GDP will be lower than potential GDP at the end of the forecast period — that is, there will be a negative output gap. To close the estimated output gap and absorb forecast spare capacity in the economy, real GDP is projected to grow faster than potential over the adjustment period (over the five years from 2021-22). By the end of the adjustment period, the output gap is assumed to have closed completely and real GDP grows at its potential rate thereafter.

Fiscal projections framework

Treasury's medium-term fiscal projections use the Budget forward estimates as a base. They are therefore subject to similar risks and uncertainties that affect the fiscal aggregates discussed earlier in this Statement, but the longer timeframes mean these risks and uncertainties can be amplified.

Beyond the forward estimates, a range of simplifying assumptions are used to project government receipts and payments. The main drivers are movements in economic growth, the size and structure of the population, and prices. The medium-term economic projections are a driver of the fiscal projections. For payments, a key parameter is expected per person costs (in each age bracket) of major government programs based on current policy. The projections assume current policy does not change.

Changes to the assumptions underpinning Treasury's estimate of Australia's potential GDP — as well as the pace of adjustment back to potential — can have large impacts on the fiscal projections. The following section illustrates the sensitivity of fiscal aggregates to these assumptions over the medium-term projection period.

Potential growth scenarios

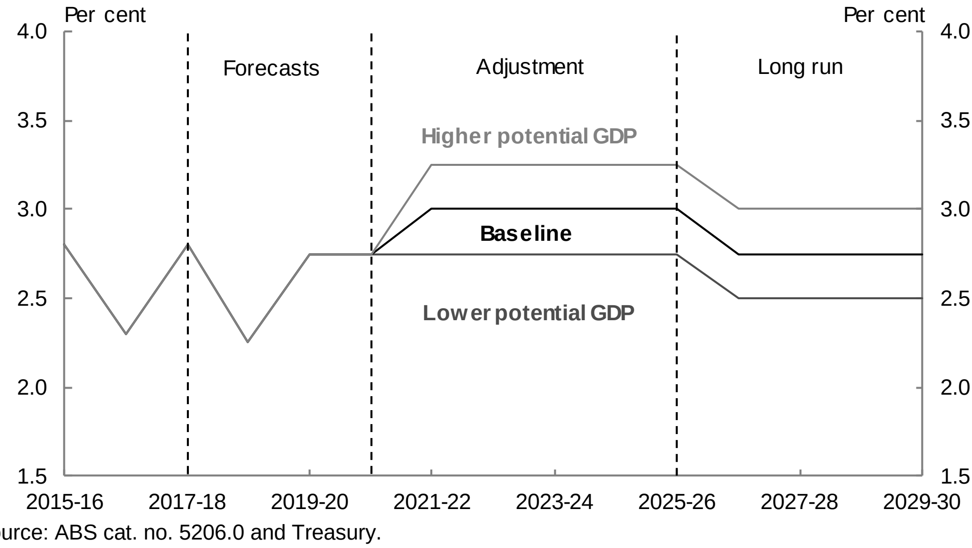
Scenarios 3 and 4: Alternative pathways for potential GDP

As noted above, the estimate of potential GDP underpins projections of real GDP in the medium-term economic projection methodology. The Budget projections are based on an estimate of the growth rate of potential GDP of 2¾ per cent over the next few years. Variations in productivity, population or participation could lead to a lower or higher estimate of potential GDP growth. Indeed, a number of the components are currently some way from their estimated potential levels, which increases the uncertainty around the estimates. In light of this, Scenarios 3 and 4 examine the impacts of higher and lower potential GDP.

Scenario 3 assumes potential GDP grows at 3 per cent, which is ¼ of a percentage point higher than the Budget projections in the medium term (Chart 11). This change could come from one or a combination of the components that make up potential growth. The numbers presented below are calculated off a change in productivity growth, as that has the greatest fiscal impact. The Budget projections assume that potential productivity growth is 1.5 per cent in the long run, in line with its 30-year average. This scenario assumes long-run productivity growth is ¼ of a percentage point higher.

By the end of the projection period in 2029-30, the level of real GDP is around 2¼ per cent higher compared with the Budget projections. Higher labour productivity growth flows through to higher wages. Nominal GDP rises in line with real GDP as there is only a small effect on wages per unit of output (nominal unit labour costs) and, in turn, prices.

Chart 11: Real GDP growth rate – Illustrative impact of lower and higher potential GDP



Source: ABS cat. no. 5206.0 and Treasury.

The higher level of nominal GDP means higher projected tax receipts over the 10-year period to 2029-30. Payments are projected to be lower overall driven by lower projected unemployment which reduces unemployment benefit recipient numbers.

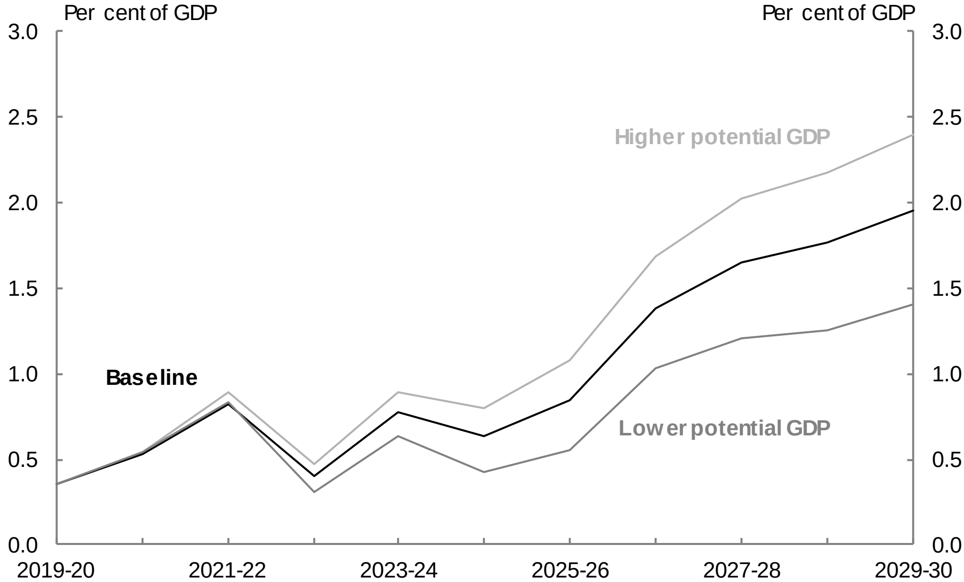
Overall, the higher potential growth in Scenario 3 has a positive impact on the underlying cash balance (Chart 12). In this scenario, the underlying cash balance is 0.4 percentage points of GDP higher at the end of the medium term, compared with the baseline projection.

The variation in the underlying cash balance would have implications for the level of government debt. Under Scenario 3, gross debt, measured by the face value of Australian Government Securities (AGS) on issue, would be lower, reflecting lower government borrowing associated with the stronger budget position. Public debt interest payments would also be lower, further contributing to the improvement in the underlying cash balance.

Scenario 4 assumes potential GDP grows at 2½ per cent, which is a ¼ of a percentage point lower than the Budget projections. This is calculated off a potential productivity assumption that is ¼ of a percentage point lower than the 1.5 per cent used in the medium-term projections framework. This has broadly opposite effects on the economy compared with Scenario 3.

The lower potential growth in Scenario 4 has a negative impact on the underlying cash balance (Chart 12). Receipts are lower across the period and payments higher overall. In this scenario, the underlying cash balance is 0.5 percentage points of GDP lower than baseline at the end of the medium term. Gross debt and public debt interest payments would be higher than in the baseline scenario.

Chart 12: Underlying cash balance — Illustrative impact of higher or lower potential GDP growth



Source: Treasury projections.

Output gap scenarios

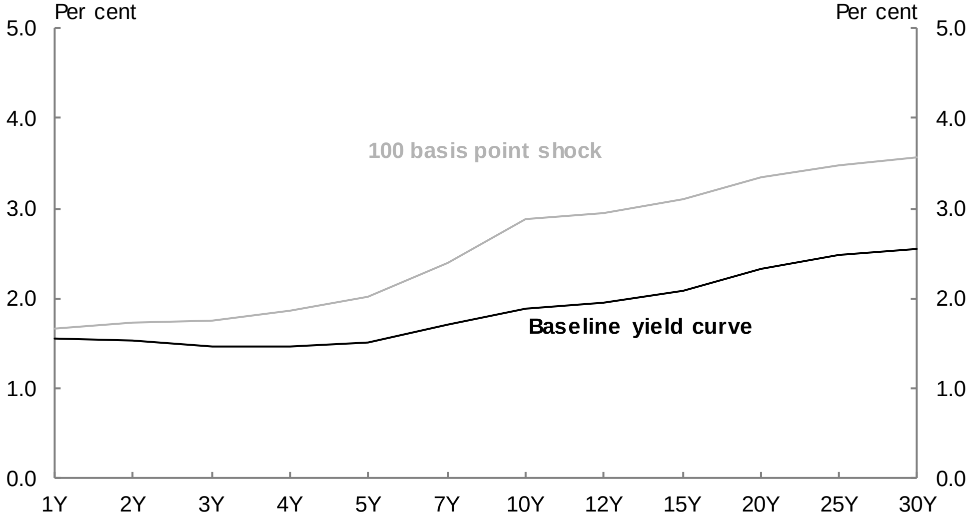
The assumption that the economy will absorb spare capacity over five years affects the economic and fiscal projections. In *2018-19 Budget Paper 1, Statement 8 Forecasting Performance and Scenario Analysis*, the impact of shortening and lengthening this period was examined. The broad conclusions remain unchanged.

Scenario 5: Alternative yield assumption

Over the forward estimates period, yields on Australian Government Securities (AGS) are assumed to remain fixed at the levels observed immediately prior to the Budget update, before converging to a long-run assumed yield curve over the medium term. The long-run curve is based on a 10-year AGS yield of 5 per cent. This is consistent with the 2017 Long-Term Cost Report released by the Australian Government Actuary. The observed yield curve converges to the long-run curve in the medium term.

Scenario 5 examines the consequences of a 100 basis point steepening of the yield curve between the cash rate and the 10-year bond rate (Chart 13). Yields remain higher until the end of the forward estimates, after which yields converge to the assumed long-run yield curve, consistent with the baseline assumption.

Chart 13: Steeper yield curve compared to Budget baseline over the forward estimates



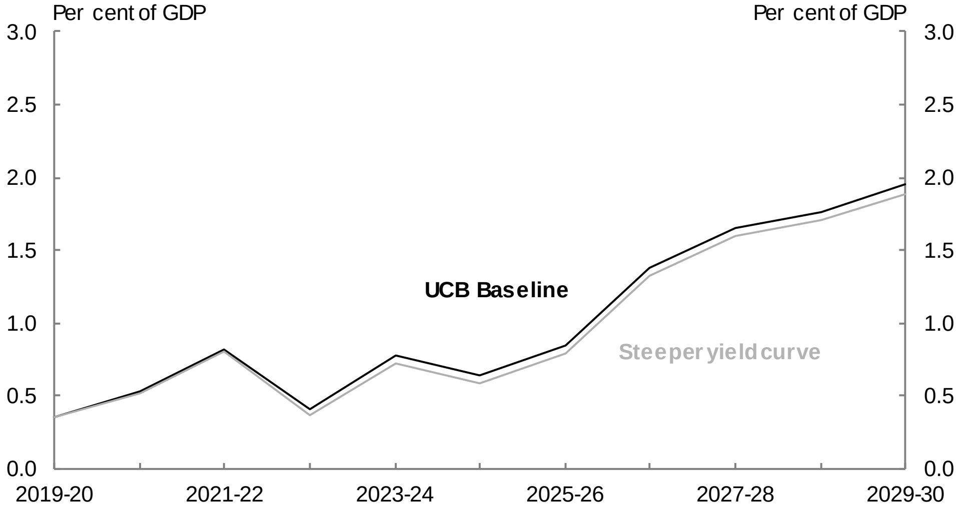
Source: Treasury.

Yields on AGS affect both government income and expenses. Yields affect the amount of public debt interest (PDI) the Government has to pay on its borrowings, but also have an impact on projections of the receipts the Government earns on its investments.

As shown in Table 6 of *Budget Statement 6: Debt Statement, Assets and Liabilities*, the Government borrows a large proportion of its debt in medium and long-dated debt. Conversely, many government investments are held in short-dated assets. As such, a steepening of the yield curve affects government debt more than assets.

Compared with the Budget projections, a steeper-than-assumed yield curve results in a small deterioration to the underlying cash balance over the forward estimates, and a net deterioration in the projected underlying cash balance of around 0.1 percentage points of GDP by 2029-30 (Chart 14).

Chart 14: Impact of alternative yield assumption on underlying cash balance projections



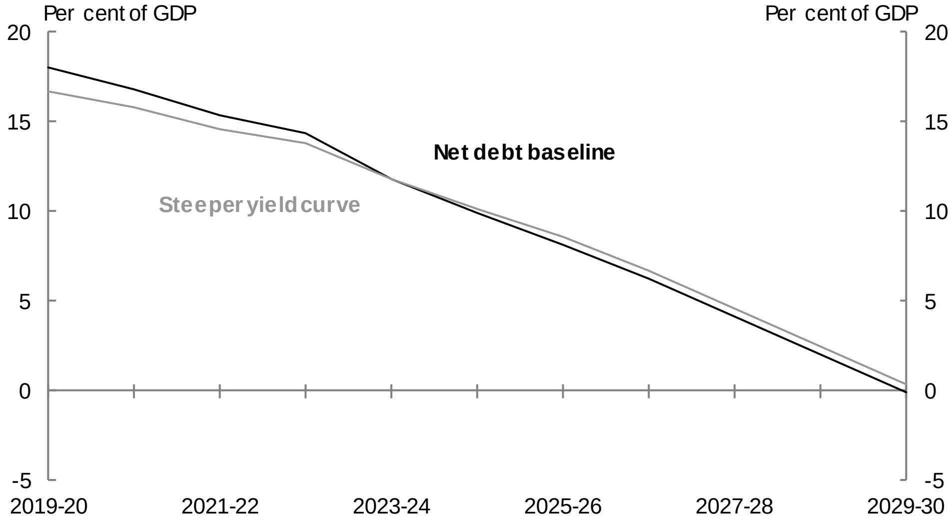
Source: Treasury projections.

Gross debt increases by $2.5 billion compared to the Budget estimates for 2019-20, and increases by $13.0 billion by 2022-23. Gross debt is $10.0 billion higher than the Budget baseline by 2029-30.

The increase in gross debt results in a similar increase in net debt (Chart 15). However, this is offset over the forward estimates by lower market values of AGS from higher yields. As a result, compared to baseline, net debt decreases by 1.3 percentage points of GDP in 2019-20, and remains 0.5 percentage points of GDP lower by 2022-23. Over the medium term, as the baseline yields converge to their long-run rates, the impact of the yield shock is unwound. The combination of increased gross debt and unwinding the valuation effect results in net debt projections being 0.5 percentage points higher compared to the Budget by 2029-30.

A flattening of the yield would have broadly opposite effects.

Chart 15: Impact of alternative yield assumption on net debt projections



Source: Treasury projections.

STATEMENT 8: STATEMENT OF RISKS

A range of factors may influence the actual budget outcome in future years. The *Charter of Budget Honesty Act 1998* requires these factors to be disclosed in a statement of risks in each Budget and Mid-Year Economic and Fiscal Outlook. This statement outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

CONTENTS

STATEMENT 8: STATEMENT OF RISKS

The forward estimates of revenue and expenses in the 2019-20 Budget incorporate assumptions and judgments based on the best information available at the time of publication. A range of factors may influence the actual budget outcome in future years. The disclosure of these factors in this Statement increases the transparency of the fiscal projections.

Events that could affect fiscal outcomes include:

- changes in economic and other parameters, particularly global economic developments;
- matters not included in the fiscal forecasts because of uncertainty about their timing, magnitude or likelihood; and
- the realisation of contingent liabilities or assets.

RISKS TO THE BUDGET — OVERVIEW

The revenue and expense estimates and projections published in the 2019-20 Budget Papers are based on a range of economic and other parameters. If the economic outlook were to differ from that presented in the Budget, the revenue and expense estimates and projections would also change. The sensitivity of budget estimates to changes in economic assumptions is discussed in *Statement 7: Forecasting Performance and Scenario Analysis*.

To the extent that unanticipated changes in economic conditions occur, their impact will flow through to government expense and revenue forecasts. For example, over the past year stronger than expected commodity prices have been reflected in stronger forecasts for company tax revenue.

In addition, revenue forecasting relies on the observed historical relationships between the economy, tax bases and tax revenues. Such relationships may shift as conditions change and present a further risk to the estimates. For example, private sector company losses, including those resulting from large-scale investments, have posed particular challenges in estimating both the quantum and timing of loss utilisation. Revenue forecasts also incorporate costings for new policies, which also typically have a margin of uncertainty.

The Budget is subject to a number of contingent liabilities. A large number of these contingent liabilities reflect indemnities, including those relating to the Department of Defence, the Future Fund Management Agency and Future Fund Board of Guardians, and the Reserve Bank of Australia.

The Australian Government has also issued a number of guarantees, such as those relating to guarantee schemes for the banking and financial sector, payments by the Export Finance and Insurance Corporation and the superannuation liabilities of the Commonwealth Bank prior to its sale to the private sector.

Other significant contingent liabilities relate to uncalled capital subscriptions and credit facilities to international financial institutions and legal cases concerning the Australian Government. The Government has robust and conservative strategies in place to reduce its potential exposure to these contingent liabilities.

There have been several changes to both the quantifiable and unquantifiable risks since the *2018-19 Mid-Year Economic and Fiscal Outlook (MYEFO)*. General revaluations of securities and deposits have led to certain risks such as the Guarantee of State and Territory Borrowings and the Financial Claims Scheme being modified. Several new risk items have also arisen since the MYEFO.

Contingent liabilities, contingent assets and other fiscal risks with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are listed in this Statement. Some financial information in the text may not add to totals due to rounding. Information on contingent liabilities and contingent assets is also provided in the Australian Government's annual consolidated financial statements and in the annual financial statements of departments and other Government entities.

Table 1 outlines how fiscal risks, assets and liabilities and contingent assets and liabilities are disclosed in the Budget.

Table 1: Disclosure of fiscal risks, contingent assets and contingent liabilities, and assets and liabilities in the Budget Papers

Category	Type[(a)]	Disclosure
Fiscal Risks	Fiscal Risks	Statement of Risks
Contingent assets and contingent liabilities	Significant contingent assets and liabilities considered remote	Statement of Risks
	Unquantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Quantifiable contingent assets and liabilities that are improbable but not remote	Statement of Risks
	Contingent assets and liabilities excluded on the basis of immateriality[(b)]	None
Assets and liabilities	Assets and liabilities that are probable and can be reliably measured	Balance sheet[(c)(d)]
	Assets and liabilities that are probable but have an uncertain timing or amount (provisions)	Balance sheet

(a) Items that are described as probable have a 50 per cent or higher chance of occurrence.
(b) Only risks with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are considered material and disclosed in this Statement.
(c) Unearned income from charging guarantee fees is shown as a liability in the balance sheet.
(d) Additional disclosure to increase transparency on loans over $200 million has been included in the Statement of Risks since the 2014-15 Budget.

ECONOMIC AND OTHER PARAMETERS

Changes in economic parameters represent a risk to the estimates included in the Budget. The realisation of any of the domestic or internationally based risks discussed in *Statement 2: Economic Outlook* could potentially affect the budget estimates. *Statement 7: Forecasting Performance and Scenario Analysis* examines the impact on receipts and payments of altering some of the key economic assumptions underlying the Budget estimates.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New, revised or unchanged fiscal risks, contingent assets and contingent liabilities with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, are described below and summarised in Table 2. Information on both contingent assets and contingent liabilities is also provided in the annual financial statements of departments, Corporate and Non-corporate Commonwealth entities and Commonwealth companies.

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2018-19 Budget and the 2018-19 MYEFO[(a)]

Fiscal risks		Status
Agriculture and Water Resources		
Murray Darling Basin Reform — risk assignment		Unchanged
Defence		
Major operations of the Australian Defence Force in 2019-20		Modified
Education and Training		
Recovery of inappropriately claimed VET FEE-HELP payments from VET providers, a remedy for students and interim tuition assurance arrangements		Modified
Environment and Energy		
Snowy Hydro Limited — Snowy 2.0		Modified
Foreign Affairs		
Export Finance and Insurance Corporation — National Interest Account		New
Home Affairs		
Regional Processing Arrangements		Modified
Industry, Innovation and Science		
Risks to External Revenue		Unchanged
Infrastructure, Regional Development and Cities		
Inland Rail — Delivery		Unchanged
Jobs and Small Business		
Departure of the ACT Government from the Comcare workers' compensation scheme		New
Treasury		
Australian Business Securitisation Fund		Removed
Significant but remote contingencies	**Category (b)(c)(d)**	**Status**
Communications and the Arts		
NBN Co Limited — Equity Agreement	Guarantee	Modified
Optus Financial Guarantee	Guarantee	Modified
Telstra Financial Guarantee	Guarantee	Modified
Defence		
ADI Limited — Officers' and Directors' Indemnities	Indemnity	Unchanged
Litigation cases	Other	Modified
Remote contingencies	Other	Unchanged
Environment and Energy		
Snowy Hydro Limited — Board Members' Indemnity	Indemnity	New
Snowy Hydro Limited — Termination of the Equity Subscription Agreement	Other	New
Finance		
Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement	Other	Unchanged
Home Affairs		
Indemnities relating to the Air Security Officer program	Indemnity	Unchanged
Industry, Innovation and Science		
Liability for damages caused by space activities	Other	Modified

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2018-19 Budget and the 2018-19 MYEFO[(a)] (continued)

Significant but remote contingencies (continued)	Category (b)(c)(d)	Status
Infrastructure, Regional Development and Cities		
Maritime Industry Finance Company Limited — Board Members' Indemnity	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement	Indemnity	Unchanged
Moorebank Intermodal Project — Glenfield Waste Site Easement	Indemnity	Unchanged
WSA Co Limited — Board Members' Indemnities	Indemnity	Unchanged
Inland Rail — Termination of the Equity Financing Agreement	Other	Unchanged
Tripartite deeds relating to the sale of federal leased airports	Other	Unchanged
WSA Co Limited — Termination of the Equity Subscription Agreement	Other	Unchanged
Treasury		
Asbestos Injuries Compensation Fund	Guarantee	Unchanged
Cumulative guarantee of states and territories' transitional GST payments	Guarantee	Unchanged
Financial Claims Scheme	Guarantee	Modified
Guarantee for the National Housing Finance and Investment Corporation	Guarantee	Modified
Guarantee of state and territory borrowing	Guarantee	Modified
Guarantees under the *Commonwealth Bank Sale Act 1995*	Guarantee	Modified
Reserve Bank of Australia — Guarantee	Guarantee	Modified

Contingent liabilities — unquantifiable	Category (b)(c)(d)	Status
Agriculture and Water Resources		
Compensation claims arising from suspension of livestock exports to Indonesia	Other	Removed
Commonwealth liabilities in respect of matching payments to industries for research and development contributions	Other	Unchanged
Emergency pest and disease response arrangements	Other	Modified
Attorney-General's		
Native Title costs	Other	Modified
Communications and the Arts		
NBN Co Limited — Board Members' Insolvency Indemnity	Indemnity	Unchanged
Defence		
Cockatoo Island Dockyard	Indemnity	Unchanged
Land decontamination, site restoration and decommissioning of Defence assets	Other	Unchanged
Non-remote contingent liabilities	Other	Modified
Environment and Energy		
Snowy Hydro Limited — water releases	Indemnity	Unchanged
Liability for costs incurred in a national liquid fuel emergency	Other	Unchanged
Finance		
ASC Pty Ltd — Directors' and Executives Indemnities	Indemnity	Modified
ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited	Indemnity	New
Commonwealth Superannuation Corporation — Immunity and Indemnity	Indemnity	Unchanged
Former Commonwealth Site, Fishermans Bend, Victoria	Indemnity	New
Future Fund Management Agency and Future Fund Board of Guardians — Indemnity	Indemnity	Unchanged
Googong Dam	Indemnity	Unchanged
Indemnities for the Reserve Bank of Australia and private sector banks	Indemnity	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2018-19 Budget and the 2018-19 MYEFO[(a)] (continued)

Contingent liabilities — unquantifiable (continued)	Category (b)(c)(d)	Status
Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects	Indemnity	Unchanged
Australian Government domestic property	Other	Modified
Australian Government general insurance fund — Comcover	Other	Unchanged
Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia	Guarantee	New
Health		
Accommodation Payment Guarantee Scheme	Guarantee	Unchanged
Australian Red Cross Society — Indemnities	Indemnity	Unchanged
Blood and blood products liability cover	Indemnity	Unchanged
CSL Ltd	Indemnity	Unchanged
Indemnities relating to vaccines	Indemnity	Unchanged
Medical Indemnity Exceptional Claims Scheme	Indemnity	Unchanged
New South Wales Health Administration Council — Indemnity	Indemnity	Unchanged
Home Affairs		
Garrison, welfare and health services at regional processing countries — liability limit	Indemnity	Modified
Immigration detention services by state and territory governments — liability limit	Indemnity	Unchanged
Immigration detention services contract — liability limit	Indemnity	Modified
Australian Victims of Terrorism Overseas Payment	Other	Unchanged
Disaster Recovery	Other	Modified
Industry, Innovation and Science		
Australian Nuclear Science and Technology Organisation — asbestos contamination	Indemnity	Unchanged
Australian Nuclear Science and Technology Organisation — Indemnity	Indemnity	Unchanged
Former British atomic test site at Maralinga	Indemnity	Unchanged
Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability	Indemnity	Unchanged
Land decontamination, site restoration for CSIRO property	Other	Unchanged
Infrastructure, Regional Development and Cities		
Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory	Indemnity	Unchanged
Moorebank Intermodal Company Limited — Board Members' Indemnity	Indemnity	Modified
Moorebank Intermodal Project — Georges River rail crossing	Indemnity	Unchanged
Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory	Indemnity	Modified
Australian Maritime Safety Authority incident costs	Other	Modified
Aviation rescue & firefighting potential per- and poly-fluoroalkyl substances contamination	Other	Modified
Jobs and Small Business		
jobactive — Employment Fund	Other	Removed
Treasury		
Terrorism insurance — commercial cover	Guarantee	Unchanged
Contingent assets — unquantifiable	**Category**	**Status**
Defence		
Non-remote contingent assets	Other	Unchanged
Health		
Legal action seeking compensation	Other	Unchanged

Table 2: Summary of contingent liabilities and contingent assets in the Statement of Risks since the 2018-19 Budget and the 2018-19 MYEFO[(a)] (continued)

Contingent liabilities — quantifiable	Category (b)(c)(d)	Status
Defence		
Claims against the Department of Defence	Other	Unchanged
Environment and Energy		
Low Carbon Australia Limited — Board of Directors' and senior management indemnities	Indemnity	Unchanged
Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges	Other	Modified
Foreign Affairs and Trade		
Export Finance and Insurance Corporation	Guarantee	Modified
Infrastructure, Regional Development and Cities		
Australian Government contribution to the East West Link project	Other	Unchanged
Australian Government contribution to the Perth Freight Link project	Other	Unchanged
Jobs and Small Business		
Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union	Indemnity	Unchanged
Prime Minister and Cabinet		
Indigenous Land and Sea Corporation — Debt Guarantee	Guarantee	Modified
Leases for public housing in remote Northern Territory	Other	New
Treasury		
Australian Taxation Office — tax disputes	Other	Modified
International financial institutions — uncalled capital subscriptions	Other	Modified
International Monetary Fund	Other	Modified

(a) Detailed descriptions of these items are in the following text.
(b) Guarantees — a guarantee is where one party promises to be responsible for the debt or performance obligations of another party should that party default in some way.
(c) Indemnities — an indemnity is a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer.
(d) Other — contingent liabilities and assets which are not guarantees or indemnities.

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

There are measures which impact on the Budget aggregates that remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates and projections of the Budget.

Specific fiscal risks to the Budget and forward estimates are detailed below.

Agriculture and Water Resources

Murray Darling Basin Reform — risk assignment

The Australian Government has committed to bridge the gap between the Baseline Diversion Limit and the Sustainable Diversion Limits in the Basin Plan through water recovery by 30 June 2019. If water recovery is insufficient to bridge the gap, the *Water Act 2007* provides a risk assignment framework whereby entitlement holders with reductions in water allocations, or changes in the reliability of water allocations, may be eligible for payment from the Commonwealth.

The total cost (if any) of the operation of the risk assignment framework will depend on water recoveries, and the status of water resource plan accreditation. While any remaining gap at 30 June 2019 is expected to be small, the total cost is not able to be quantified, and remains a fiscal risk, until the Sustainable Diversion Limits in the Basin Plan come into effect on 1 July 2019.

Defence

Major operations of the Australian Defence Force in 2019-20

The 2019-20 estimates for the Department of Defence include the cost of major operations of the Australian Defence Force in 2019-20 in Afghanistan, Iraq, Syria, and the broader Middle East region, as well as the protection of Australia's borders and offshore maritime interests. Funding for major Defence operations is considered and provisioned on a year-by-year basis. The forward estimates at the 2019-20 Budget include additional funding for these major operations in the 2019-20 year but do not provide for further extensions. The Department of Defence will likely have additional funding requirements for major operations beyond 30 June 2020.

Education and Training

Recovery of inappropriately claimed VET FEE-HELP payments from VET providers, a remedy for students and interim tuition assurance arrangements

The Australian Government is undertaking compliance action, including court action, to recover VET FEE-HELP payments from VET providers where loans were issued inappropriately to students by providers. The Government has legislated a remedy, which commenced 1 January 2019, for VET FEE–HELP students who incurred debts under the VET FEE-HELP loan scheme following inappropriate conduct by VET providers. The Government will undertake recovery activities against VET providers in cases where the student was ineligible for a VET FEE-HELP loan.

There are potential financial risks to the Commonwealth in the event that it is unable to recover payments from VET providers where they have closed or entered into administration or liquidation.

There is also a financial risk to the Commonwealth that it will be unable to recover the cost of remitting student debts following VET provider closures, either while it administers interim tuition assurance arrangements or from tuition assurance operators for provider closures which occurred prior to 1 January 2018.

The financial risk to the Commonwealth is currently unquantifiable as it depends on the receipt and assessment of applications from students, as well as outcomes from the Government's investigations into VET providers' conduct.

Environment and Energy

Snowy Hydro Limited — Snowy 2.0

The Australian Government has committed up to $1.38 billion in additional equity to Snowy Hydro Limited to support the delivery of the Snowy 2.0 pumped hydro project, subject to Snowy Hydro achieving financial close and issuing the Notice to Proceed for the main project works. Snowy 2.0 will improve the security and reliability of the National Electricity Market by providing reliable, dispatchable power and large-scale energy storage. Project costs will not be finalised until all planning and environmental approvals are completed. Project risks include construction delays, cost pressures, and cash flow forecasts. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders.

Foreign Affairs

Export Finance and Insurance Corporation — National Interest Account

The Government will establish an Australian Infrastructure Finance Facility for the Pacific (AIFFP) from 1 July 2019, which will provide up to $1.5 billion in long-term loans to support high priority infrastructure development in Pacific countries and Timor-Leste. The facility will have no financial implications until drawn on.

The Government has established a Defence Export Facility. The Facility has a maximum aggregate exposure of US$3.0 billion. The Facility has no financial implications until drawn on. As at 25 February 2019, three loans under the Facility had been agreed for a total maximum value of $213 million. These are reflected in the Budget estimates.

Home Affairs

Regional Processing Arrangements

The Australian Government supports the Governments of Nauru and Papua New Guinea (PNG) to provide support and services to transferees residing in Nauru and PNG under regional processing arrangements. Any significant changes in the number of transferees, the arrangements that underpin the provision of those services, relevant litigation or legislative changes, may incur a cost or generate cost reductions which are unquantifiable at this time.

Industry, Innovation and Science

Risks to External Revenue

Estimates for the Commonwealth Scientific and Industrial Research Organisation (CSIRO) include revenue from the non-government sector for research undertaken as part of CSIRO's role within the national innovation system. Changes to the economic climate, and the potential for cyber-attacks to compromise CSIRO research, could reduce the value of scientific research and Intellectual Property and lead to lower levels of external revenue.

Infrastructure, Regional Development and Cities

Inland Rail — Delivery

The Australian Government has committed to deliver the Inland Rail project through the Australian Rail Track Corporation (ARTC) to provide a direct, high-performance freight rail corridor between Melbourne and Brisbane, as well as a new freight corridor between Brisbane and Perth (via Parkes).

The ARTC will deliver Inland Rail using up to a $9 billion equity investment from the Commonwealth. A Public Private Partnership will be established to design, build, finance and maintain the complex Toowoomba to Kagaru (Brisbane) section of the project, including major tunnelling works.

Project costs will not be finalised until reference design, planning, environmental approvals, and procurements are completed. Project risks include securing jurisdictional support, construction delays, cost pressures, and revenues realised. These pressures are being mitigated through close management of the delivery program and engagement with key stakeholders and jurisdictions.

Jobs and Small Business

Departure of the ACT Government from the Comcare workers' compensation scheme

On 1 March 2019 the ACT Government departed the Comcare premium scheme following the decision by the Safety, Rehabilitation and Compensation Commission to grant the ACT Government a licence to self-insure its workers' compensation liabilities under the *Safety, Rehabilitation and Compensation Act 1988*.

The licence conditions transfer all workers' compensation liabilities for ACT Government employees, with a date of injury on or after 1 July 1989, from the Commonwealth to the ACT Government. Funding will be transferred to the ACT Government for outstanding costs relating to claims with a date of injury before 1 March 2019 pending an exit valuation of claims liabilities. The payment will have an impact on the underlying cash balance.

The Commonwealth has made an initial payment of $76.2 million in 2018-19, which has been included in the estimates, but the total costs of these arrangements are yet to be determined.

CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities and contingent assets of the Australian Government are listed below by portfolio. These contingent liabilities and assets are a specific category of fiscal risks. Broadly, they represent possible costs or gains to the Australian Government arising from past events or decisions which will be confirmed or otherwise by the outcome of future events that are not within the Government's control.

Contingencies reported in this Statement include loan guarantees, non-loan guarantees, warranties, indemnities, uncalled capital and letters of comfort, together with those contingencies considered remote. These contingencies are in addition to the liabilities and assets already recognised in the consolidated financial statements of the Australian Government general government sector in *Statement 9*.

In general, information on contingent liabilities and assets is based on information provided by Australian Government departments and entities and is current to 25 February 2019. In some cases, other dates are used and those are noted in the relevant section.

SIGNIFICANT BUT REMOTE CONTINGENCIES

Communications and the Arts

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co Limited (NBN Co). Although this agreement will end in 2019, the Commonwealth retains obligations to meet NBN Co's costs arising from a termination of the roll-out. As at 31 January 2019, NBN Co's termination liabilities were estimated at $19.8 billion.

Optus Financial Guarantee

The Australian Government has provided a guarantee in respect of NBN Co's financial obligations to Optus Networks Pty Ltd, Optus Internet Pty Limited, Optus Vision Media Pty Limited and SingTel Optus Pty Ltd (collectively, Optus) under the Optus HFC Subscriber Agreement (the Agreement). An amended version of the Agreement came into effect on 22 January 2019. The Guarantee continues to apply to that Agreement. The Agreement extends for the period of the National Broadband Network roll-out in Optus Hybrid Fibre Coaxial areas. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Optus Agreement. As at 31 January 2019, NBN Co had generated liabilities covered by the Optus Agreement which are estimated at an amount less than $160.0 million. There is a low risk that a claim would be made under the Guarantee. The Guarantee will terminate in 2021.

Telstra Financial Guarantee

The Australian Government has provided to Telstra Corporation Limited (Telstra) a guarantee in respect of NBN Co financial obligations under the Definitive Agreements. The Agreements were amended on 14 December 2014. The Guarantee was not amended at that time and it continues in force in accordance with its terms in respect of the amended Definitive Agreements. The liabilities under the Definitive Agreements between Telstra and NBN Co arise progressively during the roll-out of the National Broadband Network as Telstra's infrastructure is accessed and Telstra's customers are disconnected from its copper and Hybrid Fibre Coaxial cable networks. The Australian Government is only liable in the event NBN Co does not pay an amount when due under the Definitive Agreements. As at 31 January 2019, NBN Co had generated liabilities covered by the Guarantee estimated at $8.8 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is capitalised by the Commonwealth to the agreed amount; or
- the Minister for Communications declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the National Broadband Network should be treated as built and fully operational.

Defence

ADI Limited — Officers' and Directors' Indemnities

Under the sale agreements for ADI Limited, the Australian Government agreed to indemnify the Directors, officers and employees of ADI Limited for claims and legal costs associated with assistance related to the sale of the Australian Government's shares in the company. The Australian Government has also provided an indemnity to ADI Limited for uninsured losses relating to specific heads of claims.

Litigation cases

The Department of Defence (Defence) is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including for personal injury and property damage. The litigation also includes active prosecutions against Defence by Comcare in relation to alleged breaches of the *Work Health and Safety Act 2011*. A number of claims have been received seeking compensation for loss or damage arising from Defence use of aqueous film forming foam (AFFF) that contained man-made per- and poly-fluoroalkyl substances (PFAS). A number of claims have also been received following reviews into Australian Defence Force and Defence culture. There is also potential for claims to arise from the disposal of assets to third parties where such assets contain hazardous materials or components that have the potential to cause injury.

Remote contingencies

As at 30 June 2018, the Department of Defence carried 1,457 instances of quantifiable remote contingent liabilities valued at $5.4 billion and 24 instances of unquantifiable remote contingent liabilities.

These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security.

Environment and Energy

Snowy Hydro Limited — Board Members' Indemnity

The Australian Government has provided an indemnity for each of the Directors of Snowy Hydro Limited (SHL) to protect them against certain claims relating to their employment as Directors. Until the indemnity agreements are varied or ceased, they will remain as contingent and unquantifiable liabilities.

Snowy Hydro Limited —Termination of the Equity Subscription Agreement

The Australian Government will provide sufficient funding to cover costs and liabilities incurred by Snowy Hydro Limited (SHL) for delivery of Snowy 2.0, capped to the total remaining undrawn equity, in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and SHL.

Finance

Australian Naval Infrastructure Pty Ltd — Termination of the Equity Funding Agreement

The Australian Government will provide sufficient funding to enable Australian Naval Infrastructure Pty Ltd (ANI) to meet the direct costs of termination that may be incurred by ANI in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and ANI.

Home Affairs

Indemnities relating to the Air Security Officer program

The Australian Government has indemnity agreements with Australian airlines that agree to allow Air Security Officers on board their aircraft. The indemnity agreements limit the Government's exposure to a maximum of $2 billion per incident. The indemnity applies to the extent that any loss is not covered by existing relevant insurance policies held by the airline(s) and only applies where the airline(s) can prove that an action on the part of an Air Security Officer under or in connection with the Air Security Officer program caused a loss.

Industry, Innovation and Science

Liability for damages caused by space activities

Under the United Nations Convention on International Liability for Damage Caused by Space Objects, the Australian Government is liable to pay compensation for damage caused to nationals of other countries by space objects launched from, or by, Australia or Australian nationals. The Government currently requires the responsible party for a space activity approved under the *Space Activities Act 1998* (the Act) to insure against, or take financial responsibility for, damage to third parties for the lesser amount of $750 million or maximum probable loss as determined using the method set out in the *Space Activities Regulations 2001*.

Under the Act, the Government also accepts liability for damage suffered by Australian nationals, to a maximum value of $3 billion above the insured level. The Minister has the ability to waive the insurance/financial requirements in certain circumstances.

From 31 August 2019, under the new *Space (Launches and Returns) Act 2018,* the maximum cap for insurance/financial responsibility will be reduced from $750 million to $100 million. High power rocket activity has also been added to the accepted liability for damage suffered by Australian nationals, to a maximum value of $3 billion above the insured level.

Infrastructure, Regional Development and Cities

Maritime Industry Finance Company Limited — Board Members' Indemnity

Indemnities for Maritime Industry Finance Company Limited (MIFCO) board members were provided to protect them against civil claims relating to their employment and conduct as Directors. MIFCO was placed into voluntary liquidation in November 2006 and was deregistered on 24 April 2008. The indemnity is not time limited and continues even though the company has been liquidated. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Company Limited — Termination of the Equity Funding Agreement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by Moorebank Intermodal Company Limited (MIC) in the event that the Commonwealth terminates the Equity Funding Agreement between the Commonwealth and MIC.

Moorebank Intermodal Project — Glenfield Waste Site Easement

The Australian Government has provided an indemnity to cover all costs and liabilities that may be incurred by the Grantor (the private sector owner of the Glenfield Waste Site) of any easement for the rail spur going across the Glenfield Waste Site, to the extent such costs or liabilities are caused or contributed to by the Commonwealth or its agents.

WSA Co Limited — Board Members' Indemnities

The Australian Government has provided an indemnity for each of the Directors of WSA Co Limited (WSA Co) to protect them against certain claims relating to their employment as Directors. Unless the indemnity agreements are varied or brought to an end, they cease to apply from the date the Commonwealth has fully satisfied its obligations to subscribe for equity in WSA Co pursuant to the WSA Co Equity Subscription Agreement.

Inland Rail — Termination of the Equity Financing Agreement

The Australian Government will provide sufficient funding to cover all costs and liabilities incurred by the Australian Rail Track Corporation (ARTC) for delivery of Inland Rail in the event that the Commonwealth terminates the Equity Financing Agreement between the Commonwealth and the ARTC.

Tripartite deeds relating to the sale of federal leased airports

The tripartite deeds between the Australian Government, the airport lessee company and financiers, amend airport (head) leases to provide for limited step-in rights for financiers in circumstances where the Australian Government terminates the head lease to enable the financiers to correct the circumstances that triggered such a termination event. The tripartite deeds may require the Australian Government to pay financiers compensation as a result of terminating the (head) lease, once all Australian Government costs have been recovered. The Australian Government's contingent liabilities are considered to be unquantifiable and remote.

WSA Co Limited — Termination of the Equity Subscription Agreement

The Australian Government is required to cover all costs and liabilities that may be incurred by WSA Co in the event that the Commonwealth terminates the Equity Subscription Agreement between the Commonwealth and WSA Co.

Treasury

Asbestos Injuries Compensation Fund

In February 2016, the Commonwealth agreed to assume one-third of the default risk associated with a $320 million New South Wales (NSW) Government loan to the Asbestos Injuries Compensation Fund (AICF), contingent on all states and territories agreeing to assume the remaining default risk. States and territories agreed to assume the remaining default risk in the period following the publication of the 2016-17 Budget.

The AICF provides compensation to Australian asbestos disease related claims against former subsidiaries of the James Hardie Group, and is funded on an ongoing basis through contributions from the James Hardie Group. NSW provided a $320 million loan facility in 2010 to enable AICF to continue to pay compensation as lump sums, rather than on an instalment basis.

Cumulative guarantee of states and territories' transitional GST payments

The Australian Government has introduced changes to the GST distribution system, to be phased in over six years from 2021-22. During the transition period, between 2021-22 and 2026-27 (inclusive), the Australian Government has guaranteed that each state and territory will receive funding that is at least the cumulative better of the current distribution system or the updated distribution system over that period.

This will be achieved by providing additional financial assistance to a state or territory for a payment year if, for a particular payment year occurring during the period 2021-22 to 2026-27 (inclusive), a state's or a territory's cumulative grant entitlements under the updated distribution system, calculated from the beginning of the transition period, are less than the cumulative entitlements they would have received under the current distribution system.

There is currently no expected liability under the guarantee.

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit-taking institutions (ADIs) and claimants of general insurers with timely access to their funds in the event of a financial institution failure.

Under the *Banking Act 1959*, the scheme provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 31 December 2018, deposits eligible for coverage under the Financial Claims Scheme were estimated to be $920 billion, compared to an estimated $895 billion as at 30 June 2018, reflecting overall deposit growth in the financial system.

Under the *Insurance Act 1973*, the scheme provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. It is not possible to estimate the amounts of any eventual payments that may be required in relation to general insurance claims.

In the very unlikely event of an ADI or general insurer failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there was a shortfall in the amount recovered through the liquidation of the failed institution, a levy could be applied to the relevant industry to recover the difference between the amount expended and the amount recovered in the liquidation.

The Australian Prudential Regulation Authority (APRA) is responsible for administration of the Financial Claims Scheme. Under the Financial Claims Scheme, any payments to account holders with eligible protected accounts or eligible claimants would be made from APRA's Financial Claims Scheme Special Account. Under the legislation, upon activation, up to $20 billion per institution would be available to meet Financial Claims Scheme payments and up to $100 million for administration costs per institution.

Guarantee for the National Housing Finance and Investment Corporation

The Australian Government guarantees the due payment of money payable by the National Housing Finance and Investment Corporation (NHFIC) to anybody other than the Government.

The NHFIC Board must not allow NHFIC to enter into a transaction that would result in the total guaranteed liabilities of the NHFIC, and any outstanding amount which NHFIC has borrowed from the Government, to exceed $2 billion unless approved by the Government.

Guarantee of state and territory borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over state and territory borrowing. The Guarantee of state and territory borrowing commenced on 24 July 2009 and closed on 31 December 2010. New South Wales and Queensland were the only states who chose to participate in the Guarantee.

Securities covered by the Guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the Guarantee is remote and unquantifiable. Australian Government expenditure would arise under the Guarantee only in the unlikely event that a state failed to meet its obligations with respect to a commitment that was subject to the Guarantee and the Guarantee was called upon. In such a case, the Government would likely be able to recover any such expenditure through a claim on the relevant state at a future date. The impact on the Government's budget would depend upon the extent of the default and the state's ability to meet the Government's claim.

As at 31 January 2019, the face value of state and territory borrowings covered by the Guarantee was $3.5 billion, down from $3.6 billion at 30 September 2018.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities: $141.9 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 31 December 2018; and $4.4 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 31 December 2018.

Reserve Bank of Australia — Guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia, measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is Australian banknotes on issue. Banknotes on issue amount to $80.2 billion as at 20 February 2019, and the total Guarantee is $114.2 billion.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Agriculture and Water Resources

Commonwealth liabilities in respect of matching payments to industries for research and development contributions

Under several Acts, the Commonwealth provides matching contributions to encourage expenditure on research and development (R&D) and to increase the competitiveness and sustainability of industries within Australia. Matching contributions on eligible R&D are subject to an annual limit that is calculated based on the determined gross value of production (GVP cap) for the industries. There will be an R&D excess, which can be claimable in future years, where the cumulative R&D expenditure is more than the GVP cap. The Commonwealth's future liability in respect of the matching contributions is contingent on the GVP cap and is therefore unquantifiable.

Emergency pest and disease response arrangements

National emergency response arrangements for animal, plant and environmental pest and disease incursions are largely funded through cost sharing agreements between Australian governments and, where relevant, agricultural industry bodies. Under the terms of the emergency response agreements, the Australian Government is typically liable for 50 per cent of the total government funding for a nationally agreed response to a disease or pest incursion. Funding is provided in the forward estimates for the Australian Government's contribution under the emergency response agreements, which is paid to the relevant state or territory government. This funding is unlikely to be sufficient to meet the costs of a large-scale pest or disease incursion or additional and multiple responses (noting there are currently 14 national cost-shared emergency responses and, until 2026–27, more than half of this funding is allocated to an eradication program for red imported fire ants in Queensland). All Australian governments have agreed to consider new response deeds for aquatic emergency animal diseases and exotic production weeds. Should these be agreed, potential liabilities for the Australian Government will be increased.

The Australian Government may provide financial assistance to an industry party by funding its share of an emergency response. These contributions are recovered from the industry over a period of up to 10 years, usually through an emergency response levy. The Australian Government may also contribute bilaterally in situations where an incursion is not covered by a cost-sharing agreement or where the affected industry body/bodies are not party to an emergency response agreement, depending on the circumstances of the incursion.

Attorney-General's

Native Title costs

The Australian Government will likely be liable for any compensation found to be payable under *Native Title Act 1993* in respect of compensable acts for which the Australian Government is responsible. While the High Court's decision in the *Timber Creek* litigation (*Northern Territory v Griffiths et al* [2019] HCA 7) provides guidance on the principles for calculating compensation under the Native Title Act, the Australian Government's liability cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Communications and the Arts

NBN Co Limited — Board Members' Insolvency Indemnity

The Australian Government has provided Directors of NBN Co with an indemnity against liability should the Government fail to meet its funding obligations to NBN Co. The liabilities covered by this indemnity would be no greater than those covered by the NBN Co Equity Funding Agreement, with the exception of any legal expenses incurred by individual Directors arising from this indemnity.

Defence

Cockatoo Island Dockyard

On 13 October 2001, Cockatoo Island Dockyard (CODOCK) commenced proceedings against the Australian Government (Defence) in the New South Wales (NSW) Supreme Court seeking full reimbursement from the Australian Government for personal injury claims costs incurred by CODOCK after 31 October 1995 in relation to asbestos exposure. Following decisions in the NSW Supreme Court on 17 December 2004 and 4 February 2005, and the NSW Court of Appeal on 23 November 2006, CODOCK was awarded a complete indemnity from the Australian Government for its uninsured exposure to asbestos damages claims, plus profit of 7.5 per cent. Defence continues to manage reimbursement of claims costs incurred by CODOCK.

Land decontamination, site restoration and decommissioning of Defence assets

The Department of Defence has made a financial provision for the estimated costs involved in restoring, decontaminating and decommissioning where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

Non-remote contingent liabilities

The Department of Defence has nine instances of unquantifiable non-remote contingent liabilities. There is potential for claims to arise from legacy contamination at various Defence locations.

Environment and Energy

Snowy Hydro Limited — water releases

On 29 June 2018, Snowy Hydro Limited became a wholly Commonwealth owned company following the Commonwealth's acquisition of the New South Wales (NSW) and Victorian Governments' shares. At the time of corporatisation of Snowy Hydro Limited, on 28 June 2002, the Australian, NSW and Victorian Governments, as the then owners, indemnified the company for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the Snowy Water Licence and related regulatory arrangements agreed between the three governments, including the *Snowy Water Inquiry Outcomes Implementation Deed (SWIOID) 2002*. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

As the sole owner, the Commonwealth is now wholly liable for the indemnity. However, NSW must pay 100 per cent of the amount claimable where the liability is a result of the Snowy Water Licence being inconsistent with the SWIOID or with a direction from NSW that is inconsistent with principles for managing water releases from Jindabyne Dam, as agreed by the Australian, NSW and Victorian governments.

Liability for costs incurred in a national liquid fuel emergency

The Australian Government has responsibility for the *Liquid Fuel Emergency Act 1984* (the Act). In addition, the Australian Government and state and territory governments have entered into an inter-governmental agreement in relation to a national liquid fuel emergency (IGA 2006). Under the IGA, the Australian Government agrees to consult IGA parties on a likely shortage and, if necessary after those consultations, to advise the Governor General to declare a national emergency under the Act.

The IGA also contains three areas where the Australian Government may incur expenses in the unlikely event of a national liquid fuel emergency. These relate to the direct costs of managing a liquid fuel emergency and include the possibility of the Australian Government reimbursing the state and territory governments for costs arising from their responses, and potential compensation for industry arising from Australian Government directions under the Act.

Finance

ASC Pty Ltd — Directors' and Executives' Indemnities

The Australian Government has provided former Directors of the then Australian Submarine Corporation Pty Ltd (now known as ASC Pty Ltd — ASC) with indemnities in relation to any claim against them as a result of complying with the ASC's obligations under the Process Agreement between the Electric Boat Corporation (EBC), the Australian Government and the ASC; any claim against them as a result of complying with the ASC's obligations under the Service Level Agreement between the ASC, the Department of Defence, EBC and Electric Boat Australia; and, any claims and legal costs arising from the Directors acting in accordance with the Board's tasks and responsibilities, as defined under the indemnity.

The Australian Government has provided Directors and senior executives of ASC with indemnities to mitigate personal risk and provide coverage for legal costs related to any legal proceedings that may arise in relation to the transaction to separate ASC Shipbuilding Pty Limited from ASC.

ASC Pty Ltd — Guarantee of Indemnity from ASC in favour of ASC Shipbuilding Pty Limited

The Australian Government has agreed to provide a guarantee of an indemnity from ASC Pty Ltd (ASC) in favour of ASC Shipbuilding Pty Limited (ASC Shipbuilding).

ASC provided an indemnity in favour of ASC Shipbuilding prior to ASC Shipbuilding being separated from ASC Pty Ltd. This indemnity is intended to cover any liabilities unknown at the time of separation which may arise after separation. The indemnity is time limited to seven years.

The guarantee will only be called on in the event that ASC is no longer owned by the Commonwealth and ASC can no longer meet its obligations under the terms of the indemnity. It is Government policy to retain ASC as a Government Business Enterprise.

Commonwealth Superannuation Corporation — Immunity and Indemnity

The *Governance of Australian Government Superannuation Schemes Act 2011* (the Governance Act) provides for specific immunities for activities undertaken in good faith by Directors and delegates of the board of the Commonwealth Superannuation Corporation (CSC), provided these activities relate to the performance of their functions.

Under the Governance Act, other than in cases where the *Superannuation Industry (Supervision) Act 1993* or regulations under that Act do not so permit, any money that becomes payable by CSC in respect of an action, liability, claim or demand that relates to the superannuation schemes or funds for which it is responsible, is to be paid out of the relevant superannuation fund or if there is no fund, the Consolidated Revenue Fund (CRF). Amounts paid from a superannuation fund are reimbursed to the fund from the CRF.

Former Commonwealth Site, Fishermans Bend, Victoria

An indemnity claim has been received relating to contamination on a former Commonwealth property in Victoria, which was disposed of in 1995. It is too early to determine whether the Commonwealth is liable or to quantify the extent of the remediation and the associated costs.

Future Fund Management Agency and Future Fund Board of Guardians — Indemnity

The Australian Government has provided certain staff members of the Future Fund Management Agency (the Agency) and the members (Board members) of the Future Fund Board of Guardians (the FFBG) with deeds of indemnity. The indemnities are intended to cover liabilities in excess of the insurance cover (including Comcover) of the FFBG, its subsidiary entities and the Agency. Board members are indemnified for liabilities incurred arising out of an act, omission or breach of statutory duty by the Board or a Board member that relates to the performance of the FFBG's functions or the exercise of the FFBG's powers or that relates to any act, omission or breach of statutory duty by a Board member as a director or officer of a wholly owned Australian subsidiary of the FFBG. Certain Agency staff members are indemnified in connection with the performance of functions or the exercise of powers in their capacity as a director or officer of investee companies or subsidiaries of the FFBG. Subject to certain exceptions or qualifications, Board members and Agency staff members are indemnified for amounts up to the value of the relevant funds.

Board members are not indemnified in respect of any liability owed by them to the FFBG or its subsidiary, or which results from a contravention of a civil penalty provision of the *Future Fund Act 2006* or the *Corporations Act 2001*. Agency staff members are not indemnified to the extent they are indemnified by the relevant investee company or subsidiary, in respect of any liability owed to the FFBG or the Commonwealth, or to the extent that they are granted and receive financial assistance under Appendix E of the Legal Services Directions 2017. Both Board members and Agency staff members are not indemnified for any liability resulting from conduct they engage in other than in good faith, to the extent they recover a liability under a Directors and Officers insurance policy (including Comcover) or in respect of legal costs incurred by them in unsuccessfully defending or resisting criminal proceedings or proceedings regarding a contravention of a civil penalty provision.

Googong Dam

On 4 September 2008, a 150-year lease for Googong Dam was signed between the Australian Government and the Australian Capital Territory (ACT) Government. The Australian Government is liable to pay just terms compensation if the terms of the lease are breached by introducing new legislation or changing the *Canberra Water Supply (Googong Dam) Act 1974* in a way that impacts on the rights of the ACT. The lease includes a requirement for the Australian Government to undertake rectification of easements or any defects in title in relation to Googong Dam, and remediation of any contamination it may have caused to the site. It also gives an indemnity in relation to acts or omissions by the Australian Government.

Indemnities for the Reserve Bank of Australia and private sector banks

In accordance with Government entities' contracts for transactional banking services, the Australian Government has indemnified the Reserve Bank of Australia and contracted private sector banks against loss and damage arising from error or fraud by the entity, or transactions made by the bank with the authority of the entity.

Indemnities relating to other former asset sales, privatisations and information technology outsourcing projects

Ongoing indemnities have been given in respect of a range of asset sales, privatisations and information technology (IT) outsourcing projects that have been conducted by the Department of Finance (Finance), and the former Office of Asset Sales and Commercial Support and its predecessors. The probability of an action being made under one of these indemnities diminishes over time. Details of indemnities in respect of the other asset sales and privatisations have been provided in previous Budget and MYEFO papers, and previous annual reports of Finance and the Office of Asset Sales and Commercial Support.

Indemnities are listed below. Apart from instances noted elsewhere, Finance does not currently expect any other action to be taken in respect of these indemnities.

Indemnified body	Year(s) raised
ADI Ltd	1998
Australian Airlines	1991
Australian Industry Development Corporation	1996
Australian Multimedia Enterprise	1997
Australian National Rail Commission and National Rail Corporation Ltd	1997 and 2000
Australian River Co Ltd	1999
Australian Submarine Corporation Pty Ltd	2000
ComLand Ltd	2004
Bankstown Airport Limited	2002
Camden Airport Ltd	2002
Commonwealth Accommodation and Catering Services	1988
Commonwealth Bank of Australia	1993 to 1996
Commonwealth Funds Management and Total Risk Management	1996 to 1997
Employment National Ltd	2003
Essendon Airport Ltd	2001

Indemnified body	Year(s) raised
Federal Airports Corporation's Airports	1995 to 1997
Housing Loans Insurance Corporation Ltd	1996
Health Insurance Commission	2000
Hoxton Park Airport Limited	2002
Medibank Private Limited	2014
National Transmission Network	1999
Sydney Airports Corporation Ltd	2001
Telstra	1996, 1999 and 2006
Wool International	1999
Albury–Wodonga Development Corporation	2014

Australian Government domestic property

The Australian Government's domestic property portfolio managed by the Department of Finance has approximately 80 properties. This number has reduced from approximately 90 reported at the 2018-19 Budget due to the ongoing implementation of the measure *Smaller Government – Surplus Commonwealth Properties – divestment*. A small number of properties have had potential remediation issues identified, which are currently the subject of further investigation. Except for the properties at Lucas Heights, New South Wales and Cox Peninsula, Northern Territory, none of the remaining properties with potential remediation issues has had a provision recognised, as neither the conditions for legal nor constructive obligations have been met, nor is a reliable estimate of the obligation currently possible.

Australian Government general insurance fund — Comcover

The Department of Finance (Finance) provides insurance and risk management services to Australian Government general government sector entities. Insurance liabilities are subject to large potential revisions as the ultimate outcome of claims is subject to events that have not yet occurred.

Finance takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures, with estimates and judgements regularly updated based on historical experience and other factors.

Australian Naval Infrastructure Pty Ltd — Guarantee in favour of Naval Group Australia

Under the commercial arrangements in respect of the Future Submarine Program and the Submarine Construction Yard, Australian Naval Infrastructure Pty Ltd (ANI) is responsible for the construction of a purpose built Submarine Construction Yard and providing access to the yard to Naval Group Australia and Naval Group South Australia (SA). As part of these commercial arrangements, the Australian Government has entered into a Deed of Guarantee and Indemnity with Naval Group Australia Pty Limited and Naval Group SA, whereby the Australian Government has agreed to provide a guarantee in respect of ANI's financial obligations under the Submarine Construction Yard Access arrangements with Naval Group Australia and Naval Group SA.

Health

Accommodation Payment Guarantee Scheme

The Accommodation Payment Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of aged care residents' refundable accommodation payments (including refundable deposits and accommodation bonds) if the approved provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Australian Government so it can pursue the approved provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds, entry contributions and refundable accommodation deposits to meet any shortfall.

Australian Red Cross Society — Indemnities

Deeds of Agreement between the Australian Red Cross Society (the Red Cross) and the National Blood Authority in relation to the operation of the Australian Red Cross Blood Service and the development of principal manufacturing sites in Sydney and Melbourne, include certain indemnities and a limitation of liability in favour of the Red Cross. These indemnities cover defined sets of potential business, product and employee risks and liabilities. Certain indemnities for specific risk events that operate within the term of the Deed of Agreement are capped, and must meet specified pre-conditions. Other indemnities and the limitation of liability only operate in the event of the expiry and non-renewal, or the earlier termination, of the Deed of Agreement relating to the operation of the Red Cross or the cessation of funding for the principal sites, and only within a certain scope. All indemnities are also subject to appropriate limitations and conditions, including in relation to mitigation, contributory fault, and the process of handling relevant claims.

Blood and blood products liability cover

The National Managed Fund (NMF) was established by a memorandum of understanding between the Australian Government, the Australian Red Cross Blood Service (the Blood Service) and state and territory governments, to cover potential future claims in relation to the supply of blood and blood products by the Blood Service. The NMF provides for liabilities incurred by the Blood Service where other available mitigation or cover is not available. Under certain conditions, the Australian Government and the state and territory governments may jointly provide indemnity for the Blood Service through a cost-sharing arrangement for claims, both current and potential, regarding personal injury and loss or damage suffered by a recipient of certain blood products. If there are insufficient funds in the NMF to cover claim costs, the Jurisdictional Blood Committee will consider a report provided by the National Funds Manager to determine the level of additional funds required. The Australian Government's share of any additional liability is limited to 63 per cent of any agreed net cost.

CSL Ltd

CSL Ltd (CSL) is indemnified against claims made by individuals who contract specified infections from specified products and against employees contracting asbestos-related injuries. CSL has unlimited cover for most events that occurred before the sale of CSL on 1 January 1994, but has more limited cover for a specified range of events that occurred during the operation of the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004. Where alternative cover was not arranged by CSL, the Australian Government may have a contingent liability.

The Australian Fractionation Agreement with CSL Behring (Australia) Ltd (a subsidiary of CSL), which operated from 1 January 2010 to 31 December 2017, and the National Fractionation Agreement for Australia with CSL Behring (Australia) Ltd, which has operated since 1 January 2018, both include a requirement that the National Blood Authority make a defined payment to CSL Behring (Australia) Ltd, in certain circumstances only, in the event that the volume of plasma supplied annually to CSL Behring (Australia) Ltd is less than a specified amount.

Indemnities relating to vaccines

The Australian Government has provided an indemnity to the manufacturer of the smallpox vaccine held by the Australian Government, covering possible adverse events that could result from the use of the vaccine in an emergency situation. Indemnities have also been provided to particular manufacturers of pandemic and pre pandemic influenza vaccines for the supply or future supply of influenza vaccines under certain conditions (including H1N1 and H5N1).

Medical Indemnity Exceptional Claims Scheme

In May 2003, the Australian Government announced that the Medical Indemnity Exceptional Claims Scheme was to assume liability for 100 per cent of any damages payable against a doctor that exceeds a specified level of cover provided by that doctor's medical indemnity insurer (currently $20 million). These arrangements would apply to payouts either related to a single large claim or to multiple claims that in aggregate exceed the cover provided by the doctor's medical indemnity insurer, and would apply to claims notified under contract-based cover since 1 January 2003.

New South Wales Health Administration Council — Indemnity

The New South Wales government is indemnified by the Commonwealth against liabilities or claims arising in relation to the operation of the National Health Funding Body (NHFB) in two respects:

(i) liabilities or claims arising from acts or omissions of NHFB staff as users of State Pool account information; and

(ii) liabilities or claims arising from unauthorised access to the banking services or system from NHFB premises.

Home Affairs

Garrison, welfare and health services at regional processing countries — liability limit

The Department of Home Affairs (Home Affairs) entered into a contract with Canstruct International Pty Ltd (Canstruct), which commenced on 1 November 2017, for the provision of garrison and welfare services on Nauru in relation to regional processing arrangements. The contract includes a provision that limits Canstruct's liability to the Department of Home Affairs to a maximum of $20 million for any single occurrence and $50 million in aggregate for the term of the contract. The limitation of liability does not apply to personal injury, breach of third-party IP rights, damage to third-party property or malicious acts or omissions attributable to Canstruct.

Immigration detention services by state and territory governments — liability limit

Home Affairs has negotiated arrangements with a number of state and territory governments for the provision of various services (including health, education and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions sought indemnification by the Australian Government for the provision of those services. These agreements, as listed below, contain unquantifiable indemnities relating to any damage or loss incurred by state and territory governments arising out of, or incidental to, the provision of services under the proposed agreements.

	Service streams		
Jurisdictions	**Health**	**Education**	**Police**
WA	$5 million per claim or event	Uncapped liability	$5 million per claim or event
NSW	N/A	$5 million per claim or event	$5 million per claim or event
VIC	Uncapped liability	Uncapped liability	$5 million per claim or event
QLD/TAS/ACT/NT	N/A	$5 million per claim or event	$5 million per claim or event
SA	$5 million per claim or event	$5 million per claim or event	$5 million per claim or event

Home Affairs negotiates arrangements as necessary for the provision of correction services. The indemnity provided to states and territory governments under these arrangements is no more than $30 million per event.

Immigration detention services contract — liability limit

Home Affairs entered into a contract with Serco Australia Pty Ltd (Serco), which commenced on 11 December 2014, to deliver immigration detention services in Australia on behalf of the Australian Government at immigration detention facilities. The contract term limits Serco's liability to Home Affairs to a maximum of any insurance proceeds recovered by Serco up to a value of $330 million for the term of the contract. Serco's liability is unlimited for specific events defined under the contract.

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* to create a scheme for providing financial assistance to Australian residents who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australian residents harmed (primary victims) or whose close family members die as a direct result of a declared terrorist act (secondary victims) are eligible to claim one-off payments of up to $75,000. As acts of terrorism are unpredictable, and the declaration of overseas terrorists acts discretionary, the cost of the scheme is unquantifiable.

Disaster recovery

The Australian Government provides funding to states and territories through the Australian Government Cost Sharing Arrangements (Natural Disaster Relief and Recovery Arrangements (NDRRA) and the Disaster Recovery Funding Arrangements (DRFA) 2018) to assist with natural disaster relief and recovery costs. A state or territory may claim NDRRA/DRFA funding if a natural disaster occurs and state or territory relief and recovery expenditure for that event meets the requirements set out in the arrangements. For major disasters, the Australian Government may approve payments to individuals under the *Social Security Act 1991*. These include the Disaster Recovery Payment and Disaster Recovery Allowance. As disasters and their impacts are unpredictable, the cost relating to these payments from future disasters is unquantifiable and therefore not included in the forward estimates.

The current forward estimates for the NDRRA/ DRFA include preliminary estimates for past events, based on the best information available at the time of preparation. Preliminary estimates of the cost of a disaster and the timing of expenditure are subject to change. The total cost of relief and recovery from these past events may not be completely realised for some years. Estimates of the Commonwealth's share of the costs of restoration or replacement of essential public assets stemming from the recent North Queensland flood disaster were not available at the time of preparation and have not been included in the Budget estimates.

In this Budget the Government has also established an Emergency Response Fund (ERF) which will provide a sustainable source of additional funding for recovery from natural disasters. Consistent with the treatment of NDRRA and DRFA, and reflecting the unpredictability of disasters and their impacts, the cost of any payments from the ERF are unquantifiable and not reflected in Budget estimates. Disbursements from the ERF will be capped at $150 million annually over the 2019-20 to 2023-24 period and from 2023-24 will be restricted to the value of average annual net earnings of the fund over the preceding five years.

Industry, Innovation and Science

Australian Nuclear Science and Technology Organisation — asbestos contamination

The Australian Nuclear Science and Technology Organisation (ANSTO) site contains asbestos in a number of buildings and potentially in soil surrounding these buildings. Although there is potential for claims being made in relation to asbestos related diseases, the potential costs have not been assessed and are unquantifiable contingencies.

Australian Nuclear Science and Technology Organisation — Indemnity

On 21 April 2016, the Minister for Industry, Innovation and Science signed a Deed of Indemnity between the Commonwealth Government, ANSTO and ANSTO Nuclear Medicine Pty Ltd (ANM), under which the Government has formally agreed to indemnify ANSTO and ANSTO Officers, and ANM and ANM Officers, from any loss or liability arising from claims caused by ionising radiation. This Deed will remain in place until April 2026.

Former British atomic test site at Maralinga

The Australian Government is responsible for 14 unlimited indemnities relating to the Maralinga Rehabilitation Project (1995-2000). In November 2009, the Australian Government agreed to the handback of the former nuclear test site — Maralinga section 400 — to the site’s Traditional Owners, Maralinga Tjarutja. Under the terms of the *Maralinga Nuclear Test Site Handback Deed*, the Australian Government has indemnified the Maralinga Tjarutja people and the South Australian Government in respect of claims arising from test site contamination.

Gorgon liquefied natural gas and carbon dioxide storage project — long-term liability

The Australian and Western Australian (WA) Governments have provided an indemnity to the Gorgon Joint Venture Partners (GJV) against independent third-party claims (relating to stored carbon dioxide) under common law following closure of the carbon dioxide sequestration project. The claims are subject to conditions equivalent to those set out in the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*.

The WA Government has indemnified the GJV, and the Australian Government has indemnified the WA Government for 80 per cent of any amount determined to be payable under that indemnity.

Land decontamination and site restoration for CSIRO property

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) has made a financial provision for the estimated costs in restoring and decontaminating land where a legal or constructive obligation has arisen. For cases where there is no legal or constructive obligation, the potential costs have not been assessed and are unquantifiable contingencies.

Infrastructure, Regional Development and Cities

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Infrastructure, Regional Development and Cities engages the New South Wales Rural Fire Service (NSW RFS) to provide fire management in the Jervis Bay Territory (JBT). To provide these services, the NSW RFS requires the Australian Government to provide an uncapped indemnity against any actions or claims resulting from the actions of the NSW RFS while providing fire management services in the JBT. The indemnity covers the same period of time for which NSW RFS is engaged to provide the fire management services. The likelihood of an event occurring that may result in a liability for the Australian Government is assessed as remote. The risk of a liability is mitigated through a range of risk management measures, including NSW RFS staff training and professional qualifications.

Moorebank Intermodal Company Limited — Board Members' Indemnity

The Australian Government has provided certain indemnities for the Directors and Officers of the Moorebank Intermodal Company Limited to protect them against civil claims relating to their employment and conduct. The indemnities apply to the period of appointment as Directors or Officers of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Moorebank Intermodal Project — Georges River rail crossing

The Australian Government has provided an indemnity to cover costs and liabilities that may be incurred by the State of New South Wales arising under the *Native Title Act 1993 (Cth)* associated with the construction of a rail bridge over the Georges River to the Moorebank Intermodal Terminal. The likelihood of costs being incurred is considered remote and potential costs are unquantifiable.

Service Delivery Arrangement Indemnities — External Territories and Jervis Bay Territory

A range of services are delivered to the Indian Ocean Territories (Christmas Island and the Cocos (Keeling) Islands) by the Western Australian (WA) Government under Service Delivery Arrangements (SDAs) agreed with the Australian Government. There are 45 SDAs in place with WA Government agencies for services to the Indian Ocean Territories.

The Australian Government has provided certain indemnities for the WA Government, their respective officers, agents, contractors and employees against civil claims relating to their employment and conduct as officers.

From 1 July 2016, the New South Wales (NSW) Government has provided a range of services to the Norfolk Island community through a Heads of Agreement. The NSW Government also provides rural fire services to the Jervis Bay Territory under a Service Delivery Agreement. The Australian Government provides certain indemnities for the State of NSW and NSW authorities and officials in respect of the delivery of services to Norfolk Island and the Jervis Bay Territory.

The Australian Capital Territory (ACT) provides a number of services to the Jervis Bay Territory under Memorandums of Understanding. The Australian Government has provided certain indemnities for the ACT Government authorities and officials in respect of the delivery of services to the Jervis Bay Territory.

The likelihood of an event occurring that may result in a liability for the Australian Government has been assessed as remote and the risks are currently mitigated through the training and professional qualifications of the staff of these agencies.

Australian Maritime Safety Authority incident costs

In the normal course of operations, the Australian Maritime Safety Authority (AMSA) is responsible for the provision of funds necessary to meet the clean-up costs arising from ship-sourced marine pollution and, in all circumstances, is responsible for making appropriate efforts to recover the costs of any such incidents. The Australian Government meets costs that cannot be recovered from such incidents. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these incident costs. AMSA has established a pollution response financial capability of $50 million, backed by liquid investment funds, to provide funding should the overall clean-up costs exceed the liability limit of the ship-owner.

Aviation rescue and firefighting potential per- and poly-fluoroalkyl substances contamination

Airservices Australia (Airservices) has identified a number of sites in Australia potentially contaminated with per- and poly-fluoroalkyl substances (PFAS) previously contained in firefighting foams.

The identified contaminants do not naturally break down in the environment. According to the Environmental Health Standing Committee (enHealth), a joint Commonwealth-state standing committee of the Australian Health Protection Principal Committee (AHPPC), which reports to the Australian Health Ministers Advisory Council (AHMAC), there is currently no consistent evidence that exposure to PFAS causes adverse human health effects. Airservices continues to implement its national PFAS management program which included PFAS investigations at 20 airport sites. Potential long-term management option costs cannot be quantified at this time. Up to 36 airports sites are potentially contaminated with PFAS (19 federally leased airports and 17 regional airports).

For federally leased airports, Airport Lessee Companies are responsible for environmental management of their airport sites. Airport leases indemnify the Commonwealth in relation to damages or injury to the environment. Liability has not yet been established for costs arising from PFAS contamination.

Currently, there are three class actions against the Commonwealth seeking damages over the use of historical PFAS-containing firefighting foam by the Department of Defence at Williamtown, Oakey and Katherine (Tindal), with potential implications for the Department of Infrastructure, Regional Development and Cities, and Airservices. Brisbane Airport Corporation has also commenced legal proceedings in the Queensland Supreme Court against Airservices in relation to legacy PFAS contamination from Airservices' firefighting activities at the airport.

Treasury

Terrorism insurance — commercial cover

The *Terrorism Insurance Act 2003* established a scheme for terrorism insurance covering damage to commercial property, including associated business interruption and public liability (extended in 2017 to mixed-use and high-value residential buildings). The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses, to maintain a pool of funds and to purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the responsible Minister (or delegate) must declare a reduced payout rate to insured entities if the Government's liability would otherwise exceed $10 billion.

CONTINGENT ASSETS — UNQUANTIFIABLE

Defence

Non-remote contingent assets

As at 30 June 2018, the Department of Defence had five instances of unquantifiable non-remote contingent assets.

Health

Legal action seeking compensation

The Department of Health is engaged in legal action against certain pharmaceutical companies to recover savings denied to the Commonwealth because interim injunctions granted to these companies in unsuccessful patent litigation delayed generic versions of drugs being listed on the Pharmaceutical Benefits Scheme and thereby delaying statutory and price disclosure related price reductions for these drugs.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence

Claims against the Department of Defence

The Department of Defence (Defence) has six instances of non-remote, quantifiable contingent liabilities in respect of claims on Defence valued at $53.8 million. The estimated figure is determined by conducting an objective analysis of the probable amount payable for all matters managed by firms engaged by Defence through the Attorney-General's Legal Services Multi-Use List and those being handled in-house by Defence Legal Division. However, the exact amount payable under those claims is uncertain. Defence is defending the claims or is trying to resolve them by recourse to alternative dispute resolution measures.

Environment and Energy

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of the former Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds were executed in 2014. Each indemnity covers liability incurred by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of $100 million to cover all claims has been established, and the indemnities will operate for seven years from execution (to 2020).

Renewable Energy Target — *Renewable Energy (Electricity) Act 2000* — refunds of large-scale renewable energy shortfall charges

Under the *Renewable Energy (Electricity) Act 2000*, liable entities that pay a shortfall charge instead of surrendering certificates may choose to claim a refund if they subsequently surrender certificates for which they initially paid the charge.

Refunds are only allowed during the 'allowable refund period'. This period starts the day after the liable entity lodges its large-scale generation shortfall statement for the year following the year the shortfall charge was paid and ends three years after the charge was paid.

The Clean Energy Regulator has recorded $191.1 million in large-scale generation shortfall charges which are subject to this rule.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. The Government has agreed (but not yet legislated) to increase EFIC's callable capital by $1.0 billion to $1.2 billion and grant it a new overseas infrastructure financing power. As at 31 January 2019, the Government's total contingent liability was $3.4 billion. The $3.4 billion contingent liability comprises EFIC's liabilities to third parties ($2.7 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($0.7 billion). Of the total contingent liability, $3.0 billion relates to EFIC's Commercial Account and $0.4 billion relates to the National Interest Account.

Infrastructure, Regional Development and Cities

Australian Government contribution to the East West Link project

The Australian Government remains committed to the construction of East West Link, despite the decision of the Victorian Government not to proceed with the project.

To this end, the Australian Government will provide $3 billion to the first Victorian Government willing to build the East West Link and is therefore recording this commitment as a contingent liability in the Budget.

Australian Government contribution to the Perth Freight Link project

The Australian Government remains committed to the construction of the Roe 8 and 9 extensions to complete the Perth Freight Link, despite the decision of the Western Australian (WA) Government not to proceed with the project.

To this end, the Australian Government will provide $1.2 billion to the first WA Government willing to build the Perth Freight Link by constructing the Roe 8 and 9 extensions and is therefore recording this commitment as a contingent liability in the Budget.

Jobs and Small Business

Indemnity provided to the Administrator and the Assistant Administrators of the Health Services Union

The Australian Government continues to provide the Administrator and the Assistant Administrators of the Health Services Union with indemnities associated with their performance, pursuant to section 323 of the *Fair Work (Registered Organisations) Act 2009 (Cth)*.

The Commonwealth will irrevocably indemnify the indemnified parties against any and all demands, claims, suits, actions, liabilities, losses, costs and expenses which may be made or brought against or suffered or incurred by the indemnified parties in respect of the indemnified event or as a direct or indirect result of any claim made or purported to be made in respect of the indemnified event as evidenced in writing up to $20 million.

There are three indemnities, each of which is to the value of $20 million.

Prime Minister and Cabinet

Indigenous Land and Sea Corporation — Debt Guarantee

The Indigenous Land and Sea Corporation provides a guarantee to a major bank that has provided a $120 million facility to its wholly-owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd. As at 30 June 2019, the outstanding balance of the facility is expected to be $107.5 million.

Leases for public housing in remote Northern Territory

The Commonwealth has entered into long-term leases for public housing lots in remote Northern Territory communities for a period of 40–99 years. Under these leases, the Commonwealth enters into subleases with a third-party housing provider to deliver property and tenancy management on its behalf, or delivers these responsibilities itself. The Northern Territory Government currently has short-term subleases for all communities where Commonwealth long-term leases are in place. Should these arrangements not continue, the Commonwealth will become responsible for delivering landlord duties under the leases.

Treasury

Australian Taxation Office — tax disputes

At any point in time the Australian Taxation Office is involved in a range of dispute resolution processes, including litigation, relating to tax disputes.

Details of the outcome of dispute resolution processes are uncertain until a court ruling is made and/or an agreement is reached with the taxpayer. As a result, in most cases it is not possible to estimate with any reliability the likely financial impact of current disputes. The estimated aggregate value of tax in dispute as at 31 January 2019, for which a provision has not been made, is $5.6 billion.

Outcomes of dispute resolution processes are included in the Commissioner of Taxation's Annual Report each year. This may include disputes resolved through objections, settlements and court and tribunal decisions. It may also include amounts owed by taxpayers that are subject to dispute but not finalised.

International financial institutions — uncalled capital subscriptions

The Australian Government has held an uncalled capital subscription in the International Bank for Reconstruction and Development (IBRD) since 1947. In 2018, the Australian Government agreed to participate in a capital increase package which will increase the uncalled capital subscription by US$0.8 billion (estimated value A$1.1 billion as at 25 February 2019). Subject to enabling legislation being passed by Parliament, Australia's uncalled capital subscription to the IBRD totals US$4.4 billion (estimated value A$6.1 billion as at 25 February 2019).

The Australian Government has also held an uncalled capital subscription in the European Bank for Reconstruction and Development (EBRD) since 1991. Australia's uncalled capital subscription to the EBRD totals EUR237.5 million (estimated value A$377.0 million as at 25 February 2019).

The Australian Government has further held an uncalled capital subscription in the Asian Development Bank (ADB) since 1966. Australia's uncalled capital subscription to the ADB totals US$7.0 billion (estimated value A$9.9 billion as at 25 February 2019).

The Australian Government has further held an uncalled capital subscription in the Multilateral Investment Guarantee Agency of US$26.5 million (estimated value A$37.0 million as at 25 February 2019).

The Asian Infrastructure Investment Bank (AIIB) was established on 25 December 2015. The Australian Government has subscribed to shares in the AIIB, which includes an uncalled capital subscription. Australia's uncalled capital subscription to the AIIB totals US$3.0 billion (estimated value A$4.1 billion as at 25 February 2019).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. This is a contingent loan to help ensure that the IMF has the resources available to maintain stability in the global economy. The value of Australia's NAB credit arrangement now stands at Special Drawing Rights (SDR, the IMF's unit of account) SDR2.2 billion (estimated value A$4.3 billion at 25 February 2019). On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022.

In addition, Australia has made available a SDR4.61 billion (approximately A$9.0 billion at 25 February 2019) contingent bilateral loan to the IMF. This contingent loan is on terms consistent with separate bilateral loan and note purchase agreements between the IMF and other contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The Treasurer agreed to renew Australia's loan agreement with the IMF on 19 December 2016. The renewed agreement extends Australia's existing funding commitment to December 2019, with the possibility of an additional one-year extension with Australia's consent.

GOVERNMENT LOANS

Loans are recorded as financial assets and accordingly the amounts advanced and repaid do not normally affect the budget aggregates of fiscal balance and underlying cash balance. Loans that are concessional (lower than market interest rate) or are agreed to be written off may result in an impact on fiscal balance in some circumstances.

The Government makes loans for policy purposes. All loans contain some element of credit risk that they will not be repaid in full, although in many cases this risk is small. Table 3 summarises Government loans estimated to exceed $200 million at 30 June 2019.

Table 3: Summary of Australian Government loans exceeding $200 million

Entity	Loan amount[a] ($m)	Borrower	Interest rate	Term	Status[b][c]
Department of Education and Training					
Higher Education Loan Program	46,109	Eligible tertiary education students	Consumer Price Index (CPI)	9.1 years*	Unchanged
Department of Communications and the Arts					
NBN Co Loan	12,485	NBN Co Limited	3.96 per cent	30 June 2024	Unchanged
Clean Energy Finance Corporation					
Clean Energy Finance Corporation	2,470	Approved entities undertaking clean energy technology projects	4.6 per cent weighted average	5-15 years	Unchanged
Australian Office of Financial Management					
Commonwealth-State financing arrangements — Housing and Specific Purpose Capital	1,711	State and Northern Territory governments	4.0-6.0 per cent	Up to 30 June 2042	Modified
Department of Infrastructure, Regional Development and Cities					
National Water Infrastructure Loan Facility	299	State and territory governments and non-government entities	3.12 per cent	Up to 30 Years	Unchanged
WestConnex Stage 2 Concessional Loan	1,625	WCX M5 Finco Pty Ltd	3.4 per cent	November 2015 to July 2034	Unchanged
Concessional loan for asbestos removal in the ACT — Mr Fluffy loose fill asbestos remediation	889	Australian Capital Territory Government	Australian Government 10-year bond rate	Up to 30 June 2024	Unchanged
Department of Agriculture and Water Resources					
Drought related and Farm Finance Concessional Loans — Agriculture	664	State Governments (that, through their delivery agencies, on-lend to eligible farm businesses)	Various	Various	Modified
Farm Investment Loans and Drought Loans	448	Eligible farm businesses	3.58 per cent	Up to 10 years	Modified
Indigenous Business Australia					
Indigenous Home Ownership, Business Development and Assistance	869	Eligible Indigenous persons	4.0-5.75 per cent*	3.9-28.3 years*	Unchanged
Department of the Treasury					
Affordable Housing Bond Aggregator	255	National Housing Finance and Investment Corporation	Commonwealth cost of borrowing	Various	Unchanged
IMF New Arrangements to Borrow	310	International Monetary Fund	1.14 per cent	10 years	Unchanged

Table 3: Summary of Australian Government loans exceeding $200 million (continued)

Entity	Loan amount[a] ($m)	Borrower	Interest rate	Term	Status[b][c]
Department of Education and Training					
Trade Support Loans Program	596	Eligible Australian Apprentices	Consumer Price Index (CPI)	—#	Modified
Department of Social Services					
Student Financial Supplement Scheme	287	Eligible recipients of Youth Allowance (student), Austudy and ABSTUDY	Consumer Price Index (CPI)	Various	Unchanged
Student Start-Up Loan	201	Eligible Youth Allowance (student), Austudy and ABSTUDY Living Allowance recipients	Consumer Price Index (CPI)	Various	Modified
Indigenous Land Corporation					
Voyages Indigenous Tourism Australia Pty Ltd	281	Voyages Indigenous Tourism Australia Pty Ltd	90 Day bank bill swap reference rate + 5 per cent	9 years, 11 months	Modified
Department of Health					
Zero Real Interest Loans	268	Residential aged care providers	Consumer Price Index (CPI)	Up to 22 years	Modified
Export Finance and Insurance Corporation					
Papua New Guinea Liquefied Natural Gas	254	Entities associated with the Papua New Guinea Liquefied Natural Gas project	Commercial-In-Confidence	Until 2026	Unchanged

* Average.
\# To be determined after sufficient numbers of compulsory repayments commence.
^ Estimated.
(a) Loan amount is the estimated loan program amounts outstanding as at 30 June 2019 in $ million.
(b) Status of loan items are considered ‘unchanged’ unless there are modifications to respective interest rates and/or loan terms.
(c) The Australian Government will set up a Commonwealth loan scheme to provide financial assistance to eligible primary producers negatively affected by the 2019 floods in North Queensland. The loan scheme will be administered by the newly established North Queensland Livestock Industry Recovery Agency, which will provide concessional loans to Authorised Deposit-taking Institutions, with the lower funding costs being passed on to eligible borrowers. This loan scheme has been capped at $1.75 billion. The line of credit is for a period of up to three years, with loans commencing 1 July 2019, and funds borrowed will be repaid with interest. Further details are provided at Budget Paper 2: 2019-20 Budget.

Higher Education Loan Program

The Higher Education Loan Program (HELP) is an income-contingent loan program that assists eligible tertiary education students with the cost of their fees. As at 30 June 2019, the fair value of debt outstanding is estimated to be $46.1 billion. The fair value takes into account the concessionality of HELP loans and makes an allowance for debt not expected to be repaid.

Debts are indexed annually by the Consumer Price Index. The repayment term depends on individual circumstances, including the amount borrowed and each debtor's income. There were 2,872,603 HELP debtors as at 30 June 2018. The repayment term of a HELP debt can only be determined for people who have fully repaid their debt. As at the end of June 2018, the average time taken to repay HELP debts was 9.1 years.

HELP comprises a number of programs, including the VET Student Loans program, which replaced VET FEE-HELP from 1 January 2017.

NBN Co Loan

In December 2016, the Australian Government provided a loan to NBN Co on commercial terms of up to $19.5 billion for the period from 1 July 2017 to 30 June 2021, with drawings available on a monthly basis. The loan has a fixed interest rate of 3.96 per cent per annum, with interest calculated daily and payable monthly over the life of the facility.

In August 2018, the Australian Government agreed to extend the term of this loan by three years (to 30 June 2024). The decision will be implemented by agreement, which will be subject to the approval of the Government.

A Government loan on commercial terms continues to represent the most cost-effective way to raise necessary debt and secure funding to complete the rollout of this important national infrastructure project. A Government loan assists in ensuring NBN Co can focus on the remaining rollout as it significantly scales up toward completion in 2020.

Clean Energy Finance Corporation

The Clean Energy Finance Corporation (CEFC) has developed a portfolio of loans and investments across the spectrum of clean energy technologies, as required by the *Clean Energy Finance Corporation Act 2012*. This portfolio has an acceptable but not excessive level of risk relative to the sector, as required under the Clean Energy Finance Corporation Investment Mandate Direction 2018.

The CEFC's loan portfolio consists of predominantly senior-ranking, secured loans, and secured project finance facilities, typically secured against energy-generating assets such as wind or solar farms or biogas facilities or energy efficiency assets. The CEFC has predominantly made loans as a co-financier either jointly or in consortiums with private sector financial institutions. Interest rates vary with a current average expected return of approximately 4.6 per cent. Loans have various maturity dates, typically in the range of 5–15 years. As at 30 June 2018, loans contracted and outstanding are expected to total $2.470 billion.

Commonwealth-State Financing Arrangements — Housing and Specific Purpose Capital

From 1945 to 1989, the Australian Government made concessional advances to the state and Northern Territory Governments under Commonwealth–State financing arrangements for housing and for specific purpose capital. The advances are concessional fixed-rate loans to be repaid over 53 years, with the last loans maturing in 2042. Annual payments, comprising both interest and principal repayment, are made by the states and the Northern Territory. As at 30 June 2019, the estimated amortised value of the advances is $1.7 billion (and principal value of $1.9 billion).

The Australian Office of Financial Management manages the receipt of interest and principal repayments from the state and Northern Territory Governments.

National Water Infrastructure Loan Facility

The National Water Infrastructure Loan Facility (the loan facility), available since 2016-17, addresses gaps in the capital market for water infrastructure projects, stimulating and accelerating state and territory government investments in water infrastructure in regional areas (including public/private partnerships). This includes, but is not limited to, the construction of dams, pipelines and managed aquifer recharge projects that are economically viable and will generate affordable water to grow regional economies.

The loan facility will make available $2 billion until 2025–26 in loans. Loans have a maximum term of 30 years. The loans include a no repayment period of up to 5 years during construction. During the construction period, interest will be capitalised, becoming payable as part of the principal after the deferred repayment period. Loan principal and interest are required to be repaid within 25 years of the completion of construction.

Loans are for a minimum amount of $10 million. Total Commonwealth funding for a water infrastructure project would not exceed 49 per cent of the total project cost (from all sources). In practice, this means eligible projects would have a minimum cost of at least $20.4 million.

The loan facility is administered by the Regional Investment Corporation.

WestConnex Stage 2 Concessional Loan

The WestConnex Concessional Loan is a $2 billion loan facility provided to WCX M5 Finco Pty Ltd, a company wholly owned by the Sydney Motorway Corporation, to accelerate Stage 2 of the WestConnex project. The concessional loan assisted in ensuring finance for the New M5, thereby accelerating delivery of Stage 2 and allowing Stage 1 and Stage 2 of the project to be built concurrently. Stage 2 comprises the King Georges Road Interchange Upgrade that is now complete and the New M5 that is currently under construction.

Concessional Loan for Asbestos Removal in the ACT — Mr Fluffy Loose Fill Asbestos Remediation

On 27 January 2015, the Australian Government provided the ACT Government with a $1.0 billion concessional loan to deliver a program to buy back and demolish houses in the ACT affected by Mr Fluffy loose-fill asbestos.

The ACT Government will make annual repayments to the Australian Government from 2017-18 to 2023-24.

Drought related and farm finance concessional loans — Agriculture

As at 30 June 2019, the fair value of farm business, drought and dairy farm related loans is estimated to total $666.4 million. These include:

Drought Concessional Loans Scheme: This scheme provided loans to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014 as a loans scheme available for two years and operated in Queensland, Victoria, New South Wales, South Australia, Western Australia, Tasmania and the Northern Territory. The Government extended the application period until 31 October 2016 to cover the period until the new 10-year Farm Business Concessional Loans Scheme was able to commence on 1 November 2016. The Government also extended the Western Australian application period for the Drought Concessional Loans Scheme until 30 June 2017.

As at 1 February 2019, the interest rate is 3.16 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan at commercial rates.

Drought Recovery and Dairy Recovery Concessional Loans Scheme(s): The drought recovery component of this scheme provided loans to farm businesses affected by unprecedented drought or, where applicable, Queensland farm businesses directly impacted by the combined effects of drought and the mid-2011 disruption to live cattle exports to Indonesia. The loans funded planting and restocking activities and associated expenses, when seasonal conditions allowed. The loans were available from January 2015, and in 2014-15, operated in Queensland and New South Wales. In 2015-16, drought recovery concessional loans were available in Queensland, New South Wales, South Australia and Tasmania.

The dairy recovery component of this scheme provided concessional loans to dairy farm businesses affected by the 2016 reduction in farm gate milk prices by Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses or productivity enhancement activities, or a combination of these purposes. Dairy recovery concessional loans became available in Victoria, New South Wales, South Australia and Tasmania from June 2016. Applications closed on 31 October 2016. A dairy recovery concessional loan product was available under the Farm Business Concessional Loans Scheme until 30 June 2018.

As at 1 February 2019, the interest rate is 2.69 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years with interest-only payments required for the first five years. Principal and interest repayments will be made in the remaining five years of the loan term.

Farm Business Concessional Loans Scheme: This scheme provided three types of concessional loans — drought assistance, dairy recovery and business improvement. This scheme was designed to cover a farmer's short-term needs when income was tight and to supplement, rather than replace, commercial finance. Loans under the scheme were first available in November 2016. Applications for loans under the scheme closed on 30 June 2018.

Drought assistance concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for debt restructuring, operating expenses, drought preparedness activities or drought-recovery activities or a combination of these purposes.

Business improvement concessional loans were available in Queensland, New South Wales, Victoria, South Australia, Tasmania and the Northern Territory. Loans were available for eligible Farm Household Allowance (FHA) recipients who were recovering from financial hardship and had exhausted, or would exhaust their FHA 1,095-day income support entitlement, by 30 June 2018. These loans were for debt restructuring only.

Dairy recovery concessional loans were available in New South Wales, Victoria, South Australia and Tasmania to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products. Loans were available for debt restructuring, providing new debt for operating expenses, productivity enhancement activities or a combination of these purposes.

As at 1 February 2019, the interest rate is 3.09 per cent, reviewed on a six-monthly basis and revised in accordance with changes in the 10-year Australian Government bond rate. Loans have a maximum term of 10 years.

Farm Finance Concessional Loans Scheme: This scheme provided concessional loans to eligible farm businesses experiencing financial difficulties that were considered commercially viable in the long term, and were for productivity enhancements and debt restructuring. Applications for Farm Finance Concessional Loans closed on 30 June 2015.

As at 1 February 2019, the interest rate is 3.66 per cent, reviewed on a six-monthly basis and revised in accordance with material changes in the five-year Commonwealth bond rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two-year extension to the loan, on commercial terms.

Farm Investment Loans and Drought Loans

The Regional Investment Corporation commenced operations on 1 July 2018.

There are three loan products available – farm investment loans, drought loans and North Queensland flood recovery debt relief loans (available in 2019-20). The three products provide concessional loans to eligible farm businesses that are experiencing financial difficulties and are considered financially viable in the long term (additional criteria apply for each product and terms and conditions may vary).

As at 1 February 2019, the variable interest rate is 3.58 per cent. Interest rates are revised on a six monthly basis in line with any material changes to the Australian Government 10-year bond rate, where a material change is taken to be a movement of more than 10 basis points (0.1 per cent).

Loans have a maximum term of 10 years.

Indigenous Home Ownership, Business Development and Assistance

Indigenous Business Australia (IBA) delivers flexible loans with concessional interest rates to improve Indigenous home ownership across Australia, including in remote Indigenous communities. IBA also provides concessional interest rate business loans and business support to increase Indigenous ownership of small to medium sized enterprises, and support their sustainability and growth. As at 30 June 2019, the fair value of outstanding loans for Indigenous Home Ownership and Business Development and Assistance is estimated to total $869.1 million.

Affordable Housing Bond Aggregator

The Australian Government, through the Treasury, has made available a line of credit for the National Housing Finance and Investment Corporation's (NHFIC) Affordable Housing Bond Aggregator (AHBA). The provision of funds will be in accordance with appropriations under the *National Housing Finance and Investment Corporation Act 2018*. The line of credit is ongoing and funds borrowed will be repaid with interest. The Treasury manages the receipt of interest and principal repayments from the NHFIC.

International Monetary Fund New Arrangements to Borrow

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. On 4 November 2016, the IMF Executive Board agreed to renew the NAB for an additional five-year period to 16 November 2022. The NAB is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest. It is expected that the fair value of loans outstanding to Australia will be approximately A$310 million as at 30 June 2019.

Trade Support Loans Program

The Trade Support Loans Program is an income-contingent, concessional loan program that assists eligible Australian Apprentices by providing financial support of up to $20,808 to assist with the costs of living, learning and undertaking an apprenticeship, helping apprentices to focus on completing a trade qualification.

Eligible Australian Apprentices can access up to $8,323 in the first year, $6,242 in the second, $4,162 in the third and $2,081 in the fourth year of their apprenticeships. The lifetime limit of $20,808 was indexed on 1 July 2018 and will continue to be indexed annually on 1 July to maintain its real value.

As an incentive to finish their training, apprentices who successfully complete their apprenticeships are eligible for a 20 per cent discount on their loan. The loans become repayable at the same thresholds as the Higher Education Loan Program, which is $51,957 for the 2018-19 income year. This is a demand-driven program.

Student Financial Supplement Scheme

The Student Financial Supplement Scheme (SFSS) was a program under which student income support recipients could trade one dollar of entitlement for two dollars provided as an income contingent loan. The program closed for new recipients on 1 January 2004. The outstanding debt relates to debtors who received loans prior to 2004. Debtors are required to start repaying their SFSS loan once they earn more than $51,957 for 2018-19. As at 30 June 2019, the fair value of loans outstanding is estimated to total $287.0 million.

Student Start-up Loan

The Student Start-up Loan (SSL) is a voluntary income contingent loan for student payment (Youth Allowance (student), Austudy and ABSTUDY living allowance) recipients undertaking higher education. Introduced on 1 January 2016, the SSL is paid a maximum of twice a year and each SSL payment is valued at $1,077 (in 2019). The SSL is repayable under similar arrangements to Higher Education Loan Program (HELP) debts. Students are required to start repaying their SSL once they reach an income threshold which is $51,957 in 2018-19 and only after they have repaid their HELP debt. When it commenced, the SSL was initially for new student payment recipients undertaking higher education. From 1 July 2017, with the closure of the Student Start-up Scholarship, the SSL has become available to all eligible student payment recipients undertaking higher education. As at 30 June 2019, the fair value of the Student Start-up Loan is estimated to be $201.2 million.

Voyages Indigenous Tourism Australia Pty Ltd

The Indigenous Land and Sea Corporation (ILSC) purchased Ayers Rock Resort (ARR) for $291.2 million in May 2011 and immediately on-sold it to its wholly owned subsidiary, Voyages Indigenous Tourism Australia Pty Ltd (Voyages), creating an intercompany loan that is partly funded by borrowings. The interest rate is set at the 90-day bank bill swap reference rate plus 5 per cent, and is reset six-monthly. As at 30 June 2019, the outstanding loan is estimated to total $281.1 million.

Zero Real Interest Loans

The Zero Real Interest Loans program provided loans to assist aged care providers to build or extend residential aged care services in areas of high need. Loans provided under the program attract an interest rate equivalent to the change in the All Groups Consumer Price Index (updated quarterly). Four funding rounds were completed, with the final round of offers finalised in 2013. No further loans will be allocated under the program. It is estimated that by 30 June 2019, the total amount owing to the Commonwealth will be $267.8 million.

Papua New Guinea Liquefied Natural Gas

The loan in support of the Papua New Guinea Liquefied Natural Gas (PNG LNG) project involves the development, construction, operation and maintenance of a LNG liquefaction plant, gas production and processing facilities, onshore and offshore pipelines, associated ancillary facilities and infrastructure. As at 30 June 2019, the fair value of the loan amount outstanding is estimated to total $253.5 million.

STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Consistent with the *Charter of Budget Honesty Act 1998* (the Charter), the Government has produced a single set of financial statements for the Australian Government general government sector (GGS), the public non-financial corporations (PNFC) sector, the total non-financial public sector (NFPS) and the public financial corporations (PFC) sector. The financial statements comply with both the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) and Australian Accounting Standards (AAS), with departures disclosed. These statements are:

- an operating statement, including other economic flows, which shows net operating balance and net lending/borrowing (fiscal balance);
- a balance sheet, which also shows net worth, net financial worth, net financial liabilities and net debt; and
- a cash flow statement, which includes the calculation of the underlying cash balance.

In addition to these general purpose statements, notes to the financial statements are required. These notes include a summary of accounting policies, disaggregated information and other disclosures required by AAS.

The statements reflect the policy that the ABS GFS remains the basis of budget accounting policy, except where the Government applies AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports.

The Australian, state and territory governments have an agreed framework — the Uniform Presentation Framework (UPF) — for the presentation of government financial information on a basis broadly consistent with the Australian Accounting Standards Board standard AASB 1049. The financial statements are consistent with the requirements of the UPF.

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STATEMENT 9: AUSTRALIAN GOVERNMENT BUDGET FINANCIAL STATEMENTS

Table 1: Australian Government general government sector operating statement

		Estimates			Projections	
		2018-19	2019-20	2020-21	2021-22	2022-23
	Note	$m	$m	$m	$m	$m
Revenue						
Taxation revenue	3	459,085	476,596	496,734	525,620	540,100
Sales of goods and services	4	13,455	15,757	16,909	17,448	18,051
Interest income	5	4,837	6,009	6,796	7,180	7,605
Dividend income	5	7,718	6,112	5,815	6,597	6,903
Other	6	10,701	9,290	8,005	7,861	7,820
Total revenue		**495,796**	**513,763**	**534,260**	**564,707**	**580,480**
Expenses						
Gross operating expenses						
Wages and salaries(a)	7	20,693	21,348	21,344	21,724	22,148
Superannuation	7	9,043	5,907	5,921	5,995	6,007
Depreciation and amortisation	8	8,742	8,505	8,906	9,074	9,441
Supply of goods and services	9	117,709	125,566	130,020	135,623	142,073
Other operating expenses(a)	7	6,693	6,873	6,785	6,944	7,007
Total gross operating expenses		*162,881*	*168,199*	*172,976*	*179,360*	*186,676*
Superannuation interest expense	7	9,447	11,127	11,466	11,797	12,122
Interest expenses	10	18,375	19,264	18,857	17,948	16,994
Current transfers						
Current grants	11	148,852	150,408	155,843	161,666	168,312
Subsidy expenses		11,367	12,661	13,097	13,673	14,326
Personal benefits	12	125,230	128,972	133,211	139,880	148,812
Total current transfers		*285,449*	*292,040*	*302,151*	*315,219*	*331,450*
Capital transfers	11					
Mutually agreed write-downs		1,317	1,368	1,458	1,549	1,681
Other capital grants		9,875	8,874	9,197	10,043	10,951
Total capital transfers		*11,192*	*10,241*	*10,655*	*11,591*	*12,632*
Total expenses		**487,343**	**500,872**	**516,105**	**535,915**	**559,874**
Net operating balance		**8,452**	**12,891**	**18,155**	**28,791**	**20,606**
Other economic flows – included in operating result						
Net write-downs of assets (including bad and doubtful debts)		-8,049	-7,996	-8,134	-8,412	-8,495
Assets recognised for the first time		189	190	191	192	192
Actuarial revaluations		30	54	48	38	29
Net foreign exchange gains		-208	61	0	312	325
Net swap interest received		-356	0	0	0	0
Market valuation of debt		-21,460	5,040	4,099	3,268	3,035
Other gains/(losses)		2,584	3,090	3,269	3,829	3,906
Total other economic flows – included in operating result		**-27,269**	**439**	**-526**	**-773**	**-1,007**
Operating Result(b)		**-18,816**	**13,330**	**17,629**	**28,018**	**19,599**

Table 1: Australian Government general government sector operating statement (continued)

		Estimates			Projections	
		2018-19	2019-20	2020-21	2021-22	2022-23
	Note	$m	$m	$m	$m	$m
Non-owner movements in equity						
Revaluation of equity investments		-3,499	-6,017	-4	0	0
Actuarial revaluations		1,441	262	297	119	97
Other economic revaluations		25	-10	37	28	39
Total other economic flows - included in equity		**-2,033**	**-5,765**	**330**	**148**	**136**
Comprehensive result - Total change in net worth		**-20,849**	**7,565**	**17,959**	**28,166**	**19,735**
Net operating balance		**8,452**	**12,891**	**18,155**	**28,791**	**20,606**
Net acquisition of non-financial assets						
Purchases of non-financial assets		15,306	14,425	16,971	18,927	20,375
less Sales of non-financial assets		194	1,171	379	199	185
less Depreciation		8,742	8,505	8,906	9,074	9,441
plus Change in inventories		118	3	32	60	31
plus Other movements in non-financial assets		2	-3	0	0	0
Total net acquisition of non-financial assets		**6,490**	**4,749**	**7,717**	**9,715**	**10,780**
Fiscal balance (Net lending/borrowing)(c)		**1,962**	**8,142**	**10,438**	**19,077**	**9,826**

(a) Consistent with the ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) Operating result under AAS.
(c) The term fiscal balance is not used by the ABS.

Table 2: Australian Government general government sector balance sheet

		Estimates			Projections	
		2018-19	2019-20	2020-21	2021-22	2022-23
	Note	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits		7,563	5,342	5,467	5,230	6,482
Advances paid	13	71,008	83,302	89,462	93,927	95,250
Investments, loans and placements	14	175,216	188,358	196,703	211,727	211,594
Other receivables	13	55,700	57,430	59,053	61,964	63,904
Equity investments						
Investments in other public sector entities		52,907	48,324	50,859	54,109	57,818
Equity accounted investments		3,405	3,562	3,654	3,752	3,846
Investments - shares		66,000	70,034	72,506	76,733	81,464
Total financial assets		*431,799*	*456,352*	*477,704*	*507,443*	*520,357*
Non-financial assets	15					
Land		11,586	11,484	11,441	11,342	11,262
Buildings		27,072	27,589	28,724	29,661	30,664
Plant, equipment and infrastructure		81,742	86,178	92,293	100,260	108,933
Inventories		8,397	8,045	7,730	7,444	7,129
Intangibles		9,039	9,353	9,337	9,292	9,408
Investment properties		193	193	193	193	193
Biological assets		20	14	11	11	11
Heritage and cultural assets		11,604	11,594	11,582	11,570	11,560
Assets held for sale		183	179	179	179	180
Other non-financial assets		34	31	31	31	31
Total non-financial assets		*149,869*	*154,660*	*161,522*	*169,984*	*179,371*
Total assets		**581,668**	**611,012**	**639,226**	**677,426**	**699,728**
Liabilities						
Interest bearing liabilities						
Deposits held		381	381	381	381	381
Government securities		608,637	619,463	622,539	625,368	620,508
Loans	16	16,742	16,731	16,779	16,990	17,162
Other borrowing		1,499	1,466	1,438	1,393	1,342
Total interest bearing liabilities		*627,260*	*638,042*	*641,138*	*644,132*	*639,393*

Table 2: Australian Government general government sector balance sheet (continued)

		Estimates			Projections	
		2018-19	2019-20	2020-21	2021-22	2022-23
	Note	$m	$m	$m	$m	$m
Provisions and payables						
Superannuation liability	17	223,720	230,748	237,683	244,417	251,141
Other employee liabilities	17	20,166	20,591	21,003	21,449	21,903
Suppliers payables	18	6,027	6,809	7,090	7,470	7,828
Personal benefits payables	18	3,389	3,746	3,538	3,530	3,530
Subsidies payables	18	519	1,210	1,268	1,303	1,296
Grants payables	18	3,539	3,927	4,027	3,717	3,460
Other payables	18	2,316	2,202	2,124	2,048	1,942
Provisions	18	35,622	37,060	36,721	36,558	36,699
Total provisions and payables		*295,297*	*306,294*	*313,453*	*320,493*	*327,799*
Total liabilities		**922,557**	**944,336**	**954,591**	**964,625**	**967,192**
Net worth(a)		**-340,889**	**-333,324**	**-315,365**	**-287,199**	**-267,464**
Net financial worth(b)		*-490,758*	*-487,984*	*-476,887*	*-457,183*	*-446,835*
Net financial liabilities(c)		*543,665*	*536,308*	*527,746*	*511,292*	*504,653*
Net debt(d)		*373,473*	*361,040*	*349,506*	*333,248*	*326,067*

(a) Net worth equals total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of interest bearing liabilities (deposits held, government securities, loans and other borrowing), minus the sum of cash and deposits, advances paid, and investments, loans and placements.

Table 3: Australian Government general government sector cash flow statement[(a)]

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Cash receipts from operating activities					
Taxes received	448,821	466,397	486,372	514,320	528,691
Receipts from sales of goods and services	13,467	15,745	16,985	17,551	17,991
Interest receipts	4,412	5,701	6,375	6,731	6,897
Dividends and income tax equivalents	7,175	6,165	5,683	6,153	6,984
Other receipts	10,643	9,897	6,572	6,066	6,125
Total operating receipts	**484,518**	**503,906**	**521,986**	**550,820**	**566,688**
Cash payments for operating activities					
Payments for employees	-29,603	-31,101	-31,463	-32,562	-33,375
Payments for goods and services	-116,831	-123,277	-127,746	-133,418	-139,689
Grants and subsidies paid	-170,609	-171,775	-177,490	-185,207	-193,098
Interest paid	-18,491	-16,638	-16,764	-16,090	-15,571
Personal benefit payments	-125,961	-129,783	-134,782	-140,879	-149,554
Other payments	-6,358	-6,493	-6,374	-6,520	-6,562
Total operating payments	**-467,853**	**-479,066**	**-494,619**	**-514,676**	**-537,849**
Net cash flows from operating activities	**16,665**	**24,840**	**27,368**	**36,144**	**28,840**
Cash flows from investments in non-financial assets					
Sales of non-financial assets	647	1,615	331	201	186
Purchases of non-financial assets	-14,881	-14,261	-16,695	-18,553	-19,861
Net cash flows from investments in non-financial assets	**-14,234**	**-12,647**	**-16,364**	**-18,352**	**-19,675**
Net cash flows from investments in financial assets for policy purposes	**-15,149**	**-16,581**	**-11,537**	**-9,861**	**-6,619**
Net cash flows from investments in financial assets for liquidity purposes	**1,979**	**-12,248**	**-5,683**	**-13,521**	**1,631**
Cash receipts from financing activities					
Borrowing	83,567	169,891	253,248	194,239	125,400
Other financing	1,215	22	21	21	21
Total cash receipts from financing activities	**84,782**	**169,912**	**253,268**	**194,260**	**125,421**
Cash payments for financing activities					
Borrowing	-69,166	-152,946	-243,809	-185,937	-125,887
Other financing	-4,093	-2,552	-3,117	-2,970	-2,459
Total cash payments for financing activities	**-73,259**	**-155,498**	**-246,927**	**-188,907**	**-128,346**
Net cash flows from financing activities	**11,523**	**14,414**	**6,342**	**5,353**	**-2,926**
Net increase/(decrease) in cash held	**783**	**-2,222**	**126**	**-237**	**1,252**

Table 3: Australian Government general government sector cash flow statement[(a)] (continued)

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
GFS cash surplus(+)/deficit(-)(b)	**2,430**	**12,193**	**11,004**	**17,792**	**9,165**
less Finance leases and similar arrangements(c)	0	0	0	0	0
less Net Future Fund earnings(d)	6,592	5,140	na	na	na
Equals underlying cash balance(e)	**-4,162**	**7,054**	**11,004**	**17,792**	**9,165**
plus Net cash flows from investments in financial assets for policy purposes	-15,149	-16,581	-11,537	-9,861	-6,619
plus Net Future Fund earnings(d)	6,592	5,140	na	na	na
Equals headline cash balance	**-12,719**	**-4,388**	**-533**	**7,931**	**2,546**
Memorandum:					
Net Future Fund earnings(d)	6,592	5,140	5,207	5,563	6,249

(a) A positive number denotes a cash inflow; a negative number denotes a cash outflow.
(b) GFS cash surplus/deficit equals net cash flows from operating activities and investments in non-financial assets.
(c) The acquisition of assets under finance leases worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(e) The term underlying cash balance is not used by the ABS.

Table 4: Australian Government public non-financial corporations sector operating statement

	Estimates	
	2018-19	2019-20
	$m	$m
Revenue		
Current grants and subsidies	101	55
Sales of goods and services	15,317	16,661
Interest income	31	23
Other	40	37
Total revenue	**15,490**	**16,776**
Expenses		
Gross operating expenses		
Wages and salaries(a)	4,461	4,487
Superannuation	456	460
Depreciation and amortisation	3,883	4,674
Supply of goods and services	10,045	10,728
Other operating expenses(a)	586	543
Total gross operating expenses	*19,430*	*20,891*
Interest expenses	1,074	1,454
Other property expenses	299	309
Current transfers		
Tax expenses	232	194
Total current transfers	*232*	*194*
Total expenses	**21,035**	**22,848**
Net operating balance	**-5,545**	**-6,072**
Other economic flows	**-554**	**412**
Comprehensive result - Total change in net worth excluding contribution from owners	**-6,099**	**-5,660**
Net acquisition of non-financial assets		
Purchases of non-financial assets	8,368	7,329
less Sales of non-financial assets	26	3
less Depreciation	3,883	4,674
plus Change in inventories	18	2
plus Other movements in non-financial assets	27	48
Total net acquisition of non-financial assets	**4,505**	**2,702**
Fiscal balance (Net lending/borrowing)(b)	**-10,050**	**-8,774**

(a) Consistent with the ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 5: Australian Government public non-financial corporations sector balance sheet

	Estimates	
	2018-19	2019-20
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,958	1,838
Investments, loans and placements	974	802
Other receivables	2,300	2,659
Equity investments	165	182
Total financial assets	*5,397*	*5,481*
Non-financial assets		
Land and other fixed assets	47,753	50,428
Other non-financial assets(a)	3,679	3,499
Total non-financial assets	*51,432*	*53,927*
Total assets	**56,829**	**59,408**
Liabilities		
Interest bearing liabilities		
Deposits held	9	9
Advances received	282	288
Loans	15,621	21,877
Other borrowing	8,537	9,164
Total interest bearing liabilities	*24,449*	*31,338*
Provisions and payables		
Superannuation liability	31	31
Other employee liabilities	1,581	1,659
Other payables	5,433	5,742
Other provisions(a)	622	397
Total provisions and payables	*7,668*	*7,829*
Total liabilities	**32,117**	**39,167**
Shares and other contributed capital	**24,712**	**20,241**
Net worth(b)	**24,712**	**20,241**
Net financial worth(c)	*-26,720*	*-33,686*
Net debt(d)	*21,516*	*28,698*

(a) Excludes the impact of commercial taxation adjustments.
(b) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(c) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Net debt equals the sum of interest bearing liabilities (deposits held, advances received, loans and other borrowing), minus the sum of cash and deposits and investments, loans and placements.

Table 6: Australian Government public non-financial corporations sector cash flow statement[(a)]

	Estimates	
	2018-19	2019-20
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	16,238	17,319
Grants and subsidies received	129	172
GST input credit receipts	1,131	1,031
Other receipts	-12	22
Total operating receipts	**17,485**	**18,544**
Cash payments for operating activities		
Payments to employees	-4,833	-4,522
Payment for goods and services	-10,561	-11,628
Interest paid	-442	-713
GST payments to taxation authority	-929	-966
Other payments	-955	-964
Total operating payments	**-17,721**	**-18,793**
Net cash flows from operating activities	**-236**	**-249**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	214	29
Purchases of non-financial assets	-7,804	-7,126
Net cash flows from investments in non-financial assets	**-7,590**	**-7,097**
Net cash flows from investments in financial assets for policy purposes	**-8**	**-4**
Net cash flows from investments in financial assets for liquidity purposes	**-51**	**-19**
Net cash flows from financing activities		
Borrowing (net)	7,261	6,485
Other financing (net)	909	1,072
Distributions paid (net)	-299	-308
Net cash flows from financing activities	**7,871**	**7,249**
Net increase/(decrease) in cash held	**-13**	**-120**
Cash at the beginning of the year	**1,972**	**1,958**
Cash at the end of the year	**1,958**	**1,838**
Net cash from operating activities and investments in non-financial assets	**-7,825**	**-7,346**
Distributions paid	-299	-308
GFS cash surplus(+)/deficit(-)	**-8,125**	**-7,654**

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

Table 7: Australian Government total non-financial public sector operating statement

	Estimates	
	2018-19	2019-20
	$m	$m
Revenue		
Taxation revenue	458,861	475,730
Sales of goods and services	27,749	31,482
Interest income	4,505	5,409
Dividend income	7,419	5,803
Other	10,799	9,345
Total revenue	**509,333**	**527,769**
Expenses		
Gross operating expenses		
Wages and salaries(a)	25,154	25,835
Superannuation	9,500	6,367
Depreciation and amortisation	12,625	13,179
Supply of goods and services	126,720	135,345
Other operating expenses(a)	7,279	7,415
Total gross operating expenses	*181,277*	*188,141*
Superannuation interest expense	9,447	11,127
Interest expenses	19,086	20,096
Current transfers		
Current grants	148,852	150,408
Subsidy expenses	11,363	11,975
Personal benefits	125,230	128,972
Total current transfers	*285,445*	*291,354*
Capital transfers	11,172	10,231
Total expenses	**506,426**	**520,949**
Net operating balance	**2,907**	**6,819**
Other economic flows	**-24,039**	**1,171**
Comprehensive result - Total change in net worth	**-21,132**	**7,990**
Net acquisition of non-financial assets		
Purchases of non-financial assets	23,674	21,754
less Sales of non-financial assets	220	1,174
less Depreciation	12,625	13,179
plus Change in inventories	137	5
plus Other movements in non-financial assets	29	45
Total net acquisition of non-financial assets	**10,995**	**7,451**
Fiscal balance (Net lending/borrowing)(b)	**-8,088**	**-632**

(a) Consistent with the ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 8: Australian Government total non-financial public sector balance sheet

	Estimates	
	2018-19	2019-20
	$m	$m
Assets		
Financial assets		
Cash and deposits	9,522	7,180
Advances paid	58,248	64,797
Investments, loans and placements	176,170	189,141
Other receivables	57,969	59,459
Equity investments	97,830	102,353
Total financial assets	*399,738*	*422,929*
Non-financial assets		
Land and fixed assets	188,154	195,317
Other non-financial assets	13,110	13,230
Total non-financial assets	*201,264*	*208,547*
Total assets	**601,002**	**631,476**
Liabilities		
Interest bearing liabilities		
Deposits held	390	390
Advances received	0	0
Government securities	608,637	619,463
Loans	19,865	20,371
Other borrowing	10,036	10,630
Total interest bearing liabilities	*638,928*	*650,855*
Provisions and payables		
Superannuation liability	223,752	230,779
Other employee liabilities	21,747	22,250
Other payables	21,094	22,865
Other provisions	36,226	37,481
Total provisions and payables	*302,819*	*313,376*
Total liabilities	**941,747**	**964,231**
Net worth(a)	**-340,745**	**-332,754**
Net financial worth(b)	*-542,009*	*-541,301*
Net debt(c)	*394,989*	*389,737*

(a) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.

(b) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities, minus shares and other contributed capital. The AASB 1049 method is used in this table.

(c) Net debt equals the sum of interest bearing liabilities (deposits held, advances received, government securities, loans and other borrowing), minus the sum of cash and deposits, advances paid and investments, loans and placements.

Table 9: Australian Government total non-financial public sector cash flow statement[(a)]

	Estimates	
	2018-19	2019-20
	$m	$m
Cash receipts from operating activities		
Taxes received	448,543	466,193
Receipts from sales of goods and services	27,835	31,117
Interest receipts	4,091	5,119
Dividends and income tax equivalents	6,883	5,865
Other receipts	10,758	10,047
Total operating receipts	**498,110**	**518,341**
Cash payments for operating activities		
Payments to employees	-34,436	-35,622
Payments for goods and services	-125,406	-132,891
Grants and subsidies paid	-170,585	-171,760
Interest paid	-18,583	-16,741
Personal benefit payments	-125,961	-129,783
Other payments	-7,026	-7,232
Total operating payments	**-481,996**	**-494,029**
Net cash flows from operating activities	**16,114**	**24,312**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	861	1,644
Purchases of non-financial assets	-22,669	-21,417
Net cash flows from investments in non-financial assets	**-21,808**	**-19,773**
Net cash flows from investments in financial assets for policy purposes	**-7,067**	**-9,639**
Net cash flows from investments in financial assets for liquidity purposes	**1,927**	**-12,267**
Net cash flows from financing activities		
Borrowing (net)	14,715	17,546
Other financing (net)	-3,112	-2,520
Net cash flows from financing activities	**11,604**	**15,026**
Net increase/(decrease) in cash held	**770**	**-2,342**
Cash at the beginning of the year	**8,755**	**9,522**
Cash at the end of the year	**9,522**	**7,180**
Net cash from operating activities and investments in non-financial assets	**-5,694**	**4,539**
Distributions paid	0	0
GFS cash surplus(+)/deficit(-)	**-5,694**	**4,539**

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

Table 10: Australian Government public financial corporations sector operating statement

	Estimates	
	2018-19	2019-20
	$m	$m
Revenue		
Current grants and subsidies	140	144
Sales of goods and services	722	722
Interest income	2,484	2,538
Other	52	50
Total revenue	**3,398**	**3,453**
Expenses		
Gross operating expenses		
Wages and salaries(a)	170	177
Superannuation	50	32
Depreciation and amortisation	63	66
Supply of goods and services	513	534
Other operating expenses(a)	54	58
Total gross operating expenses	*849*	*868*
Interest expenses	1,216	1,268
Other property expenses	1,465	1,067
Current transfers		
Tax expenses	7	7
Total current transfers	*7*	*8*
Total expenses	**3,538**	**3,211**
Net operating balance	**-140**	**242**
Other economic flows	**2,281**	**-157**
Comprehensive result - Total change in net worth excluding contribution from owners	**2,141**	**85**
Net acquisition of non-financial assets		
Purchases of non-financial assets	5	0
less Sales of non-financial assets	159	0
less Depreciation	63	66
plus Change in inventories	-33	0
plus Other movements in non-financial assets	0	0
Total net acquisition of non-financial assets	**-249**	**-66**
Fiscal balance (Net lending/borrowing)(b)	**109**	**308**

(a) Consistent with the ABS GFS classification, other employee related expenses are reported under other operating expenses. Total employee expenses equal wages and salaries plus other operating expenses.
(b) The term fiscal balance is not used by the ABS.

Table 11: Australian Government public financial corporations sector balance sheet[(a)]

	Estimates	
	2018-19	2019-20
	$m	$m
Assets		
Financial assets		
Cash and deposits	1,531	1,437
Investments, loans and placements	165,588	167,152
Other receivables	140	139
Equity investments	504	542
Total financial assets	*167,763*	*169,270*
Non-financial assets		
Land and other fixed assets	781	776
Other non-financial assets(b)	97	96
Total non-financial assets	*878*	*872*
Total assets	**168,641**	**170,142**
Liabilities		
Interest bearing liabilities		
Deposits held	129,918	129,918
Borrowing	6,684	7,050
Total interest bearing liabilities	*136,602*	*136,968*
Provisions and payables		
Superannuation liability	393	393
Other employee liabilities	177	177
Other payables	1,773	2,813
Other provisions(b)	1,347	1,347
Total provisions and payables	*3,690*	*4,730*
Total liabilities	**140,292**	**141,698**
Shares and other contributed capital	**28,349**	**28,445**
Net worth(c)	**28,349**	**28,445**
Net financial worth(d)	*27,471*	*27,572*
Net debt(e)	*-30,516*	*-31,621*

(a) Assumes no valuation or currency movement.
(b) Excludes the impact of commercial taxation adjustments.
(c) Under AASB 1049, net worth equals total assets minus total liabilities. Under the ABS GFS, net worth equals total assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(d) Under AASB 1049, net financial worth equals total financial assets minus total liabilities. Under the ABS GFS, net financial worth equals total financial assets minus total liabilities minus shares and other contributed capital. The AASB 1049 method is used in this table.
(e) Net debt equals the sum of interest bearing liabilities (deposits held and borrowing), minus the sum of cash and deposits, and investments, loans and placements.

Table 12: Australian Government public financial corporations sector cash flow statement[(a)]

	Estimates	
	2018-19	2019-20
	$m	$m
Cash receipts from operating activities		
Receipts from sales of goods and services	747	751
Grants and subsidies received	140	144
GST input credit receipts	25	11
Interest receipts	2,483	2,534
Other receipts	48	4
Total operating receipts	**3,442**	**3,444**
Cash payments for operating activities		
Payments to employees	-271	-210
Payment for goods and services	-700	-718
Interest paid	-1,192	-1,242
GST payments to taxation authority	-12	-14
Other payments	-5	-58
Total operating payments	**-2,180**	**-2,242**
Net cash flows from operating activities	**1,262**	**1,203**
Cash flows from investments in non-financial assets		
Sales of non-financial assets	171	0
Purchases of non-financial assets	-3	0
Net cash flows from investments in non-financial assets	**168**	**0**
Net cash flows from investments in financial assets for policy purposes	**-353**	**-329**
Net cash flows from investments in financial assets for liquidity purposes	**27,639**	**-1,307**
Net cash flows from financing activities		
Borrowing and deposits received (net)	-31,787	247
Other financing (net)	4,773	118
Distributions paid (net)	-807	-25
Net cash flows from financing activities	**-27,822**	**340**
Net increase/(decrease) in cash held	**895**	**-93**
Cash at the beginning of the year	**635**	**1,531**
Cash at the end of the year	**1,531**	**1,437**
Net cash from operating activities and investments in non-financial assets	**1,430**	**1,202**
Distributions paid	-807	-25
GFS cash surplus(+)/deficit(-)	**623**	**1,177**

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

NOTES TO THE GENERAL GOVERNMENT SECTOR FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

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

The external standards used for budget reporting purposes are:

- the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) publication, *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0), which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and

- the Australian Accounting Standards (AAS), issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

The financial statements have been prepared on an accrual basis that complies with both the ABS GFS and AAS, except for departures disclosed at Note 2. A more detailed description of the AAS and the ABS GFS frameworks, in addition to definitions of key terms used in these frameworks, can be found in Appendix A. Detailed accounting policies, as well as a set of notes and other disclosures, as required by AAS, are disclosed in the Australian Government annual Consolidated Financial Statements.

Fiscal reporting focuses on the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. This sector comprises all government departments, offices and some other bodies. In preparing financial statements for the GGS, all material transactions and balances between entities within the GGS have been eliminated.

The Government's key fiscal aggregates are based on the ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 and the UPF also provide a basis for reporting of the public non-financial corporations (PNFC) and public financial corporations (PFC) sectors and the total non-financial public sector (NFPS).

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. The ABS GFS does not require total assets to be attributed to functions. In accordance with the ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function is disclosed in *Statement 5: Expenses and Net Capital Investment*. In accordance with the UPF, purchases of non-financial assets by function are also disclosed in *Statement 5*.

AASB 1055 requires major variances between original budget estimates and outcomes to be explained in the financial statements. Explanations of variations in fiscal balance, revenue, expenses, net capital investment, cash flows, net debt, net financial worth and net worth since the *Mid-Year Economic and Fiscal Outlook 2018-19* (MYEFO) are disclosed in *Statement 3: Fiscal Strategy and Outlook*, with decisions taken since the MYEFO disclosed in Budget Paper No. 2 *Budget Measures 2019-20*. All policy decisions taken between the 2018-19 Budget and the 2018-19 MYEFO are disclosed in Appendix A of the MYEFO.

Details of the Australian Government's GGS contingent liabilities are disclosed in *Statement 8: Statement of Risks*.

Note 2: Departures from external reporting standards

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in Table 13.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to the ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2015 (cat. no. 5514.0).

Table 13: Major differences between AAS and the ABS GFS[(a)]

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Valuation of loans	Changes in the valuation of loans are treated as a revenue or an expense. In some circumstances recognition as a revenue or an expense is delayed until the loan ends or is transferred.	Changes in the valuation of loans (excluding mutually agreed write-downs) are treated as an other economic flow.	ABS GFS
Concessional loans	Concessional elements are treated as an expense on initial recognition and unwound over the loan term.	Concessional elements are treated as an other economic flow.	AAS
Investment in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS
Provision for restoration, decommissioning and make-good	Capitalised when the asset is acquired.	Capitalised when make-good activity takes place.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenue or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Dividends paid by public corporations	Treated as an equity distribution. Equity distributions are treated as a distribution of profits, as opposed to an expense.	Dividends are treated as an expense.	ABS GFS
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
National Disability Insurance Scheme (NDIS) revenue	Funding contributions by the state and territory governments to NDIS are treated as sales of goods and services revenue. In-kind disability services provided by the state and territory governments are treated as other revenue.	Funding contributions by the state and territory governments to NDIS are treated as grants revenue. In-kind disability services provided by the state and territory governments are treated as sales of goods and services revenue.	AAS

(a) An interest measurement divergence has been removed because the ABS has advised that as a result of limitations in source data availability, the ABS will continue to publish interest expense on a debtor basis (contract interest rate) rather than on a creditor basis (market interest rate).

Table 13: Major differences between AAS and the ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Commercial tax effect accounting assets and liabilities	Corporations in the PNFC and PFC sectors record tax expenses on a commercial basis.	Deferred tax assets and liabilities are reversed so that corporations record tax expenses on a consistent basis to the Australian Taxation Office.	ABS GFS
Fiscal aggregates differences			
Net worth of PNFC and PFC sectors	Calculated as assets less liabilities.	Calculated as assets less liabilities less shares and other contributed capital.	AAS
Net financial worth of PNFC and PFC sectors	Calculated as financial assets less total liabilities.	Calculated as financial assets less total liabilities less shares and contributed capital.	AAS
Classification differences			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when payment is made and the licences take effect, which may be after the auction of licences, as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point at which control is transferred. Recognise cash at the time of receipt.	AAS

Note 3: Taxation revenue by type

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Individuals and other withholding taxes					
Gross income tax withholding	207,600	219,800	232,200	247,300	250,100
Gross other individuals	50,200	51,200	53,500	58,600	61,400
less Refunds	29,500	36,900	38,100	39,800	41,500
Total individuals and other withholding taxation	228,300	234,100	247,600	266,100	270,000
Fringe benefits tax	3,870	4,040	4,280	4,490	4,720
Company tax	95,600	100,600	100,800	103,400	106,000
Superannuation fund taxes	11,320	9,750	13,270	14,820	16,320
Petroleum resource rent tax(a)	1,250	1,290	1,380	1,400	1,400
Income taxation revenue	**340,340**	**349,780**	**367,330**	**390,210**	**398,440**
Goods and services tax	68,065	69,630	72,620	76,290	80,240
Wine equalisation tax	1,030	1,100	1,130	1,170	1,220
Luxury car tax	640	640	650	680	720
Excise and Custom duty					
Petrol	6,010	6,240	6,500	6,750	7,150
Diesel	11,570	12,100	12,760	13,410	14,160
Other fuel products	2,220	2,250	2,290	2,360	2,460
Tobacco	12,850	17,380	15,630	16,530	16,960
Beer	2,560	2,470	2,580	2,660	2,760
Spirits	2,320	2,380	2,440	2,520	2,630
Other alcoholic beverages(b)	990	1,030	1,040	1,080	1,120
Other customs duty					
Textiles, clothing and footwear	200	200	190	200	200
Passenger motor vehicles	450	420	350	190	60
Other imports	1,320	1,290	1,080	980	920
less Refunds and drawbacks	600	500	500	500	500
Total excise and customs duty	39,890	45,260	44,360	46,180	47,920
Major bank levy	1,560	1,610	1,710	1,810	1,910
Agricultural levies	542	551	565	581	590
Other taxes	7,018	8,025	8,370	8,699	9,060
Mirror taxes	607	636	665	698	727
less Transfers to States in relation to mirror tax revenue	607	636	665	698	727
Mirror tax revenue	0	0	0	0	0
Indirect taxation revenue	**118,745**	**126,815**	**129,404**	**135,410**	**141,660**
Taxation revenue	**459,085**	**476,596**	**496,734**	**525,620**	**540,100**

Note 3: Taxation revenue by type (continued)

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Memorandum:					
Total excise	*23,370*	*24,140*	*25,210*	*26,310*	*27,720*
Total customs duty	*16,520*	*21,120*	*19,150*	*19,870*	*20,200*
Capital gains tax(c)	*17,600*	*18,100*	*18,700*	*19,800*	*21,000*

(a) This item includes an amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidently.
(b) 'Other alcoholic beverages' are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Note 3(a): Taxation revenue by source

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Taxes on income, profits and capital gains					
Income and capital gains levied on individuals	232,170	238,140	251,880	270,590	274,720
Income and capital gains levied on enterprises	108,170	111,640	115,450	119,620	123,720
Total taxes on income, profits and capital gains	**340,340**	**349,780**	**367,330**	**390,210**	**398,440**
Taxes on employers' payroll and labour force	957	984	966	976	1,039
Taxes on the provision of goods and services					
Sales/goods and services tax	69,735	71,370	74,400	78,140	82,180
Excises and levies	23,912	24,691	25,775	26,891	28,310
Taxes on international trade	16,520	21,120	19,150	19,870	20,200
Total taxes on the provision of goods and services	**110,167**	**117,181**	**119,325**	**124,901**	**130,690**
Taxes on the use of goods and performance of activities	7,621	8,651	9,114	9,533	9,931
Total taxation revenue	**459,085**	**476,596**	**496,734**	**525,620**	**540,100**

Note 4: Sales of goods and services revenue

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Sales of goods	1,331	1,600	1,619	1,764	1,937
Rendering of services	10,082	12,048	13,169	13,518	13,894
Operating lease rental	111	112	107	107	114
Fees from regulatory services	1,931	1,997	2,014	2,059	2,106
Total sales of goods and services revenue	**13,455**	**15,757**	**16,909**	**17,448**	**18,051**

Note 5: Interest and dividend revenue

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest from other governments					
State and territory debt	61	68	76	80	39
Housing agreements	98	93	88	83	78
Total interest from other governments	**159**	**161**	**164**	**162**	**117**
Interest from other sources					
Advances	328	391	438	443	419
Deposits	782	578	574	566	506
Indexation of HELP receivable and other student loans	795	1,001	1,165	1,177	1,380
Other	2,773	3,878	4,456	4,832	5,184
Total interest from other sources	**4,678**	**5,847**	**6,632**	**7,018**	**7,488**
Total interest	**4,837**	**6,009**	**6,796**	**7,180**	**7,605**
Dividends					
Dividends from other public sector entities	1,749	1,379	1,552	2,061	1,747
Other dividends	5,970	4,733	4,263	4,536	5,156
Total dividends	**7,718**	**6,112**	**5,815**	**6,597**	**6,903**
Total interest and dividend revenue	**12,555**	**12,120**	**12,612**	**13,778**	**14,508**

Note 6: Other sources of non-taxation revenue

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Industry contributions	165	178	177	177	179
Royalties	1,435	1,044	927	863	775
Seigniorage	72	69	69	64	64
Other	9,028	7,999	6,832	6,756	6,802
Total other sources of non-taxation revenue	**10,701**	**9,290**	**8,005**	**7,861**	**7,820**

Note 7: Employee and superannuation expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Wages and salaries expenses	**20,693**	**21,348**	**21,344**	**21,724**	**22,148**
Other operating expenses					
Leave and other entitlements	2,485	2,492	2,436	2,474	2,448
Separations and redundancies	107	60	59	77	67
Workers compensation premiums and claims	1,615	1,760	1,774	1,794	1,795
Other	2,486	2,561	2,516	2,599	2,697
Total other operating expenses	**6,693**	**6,873**	**6,785**	**6,944**	**7,007**
Superannuation expenses					
Superannuation	9,043	5,907	5,921	5,995	6,007
Superannuation interest cost	9,447	11,127	11,466	11,797	12,122
Total superannuation expenses	**18,490**	**17,035**	**17,387**	**17,792**	**18,130**
Total employee and superannuation expense	**45,876**	**45,255**	**45,516**	**46,460**	**47,285**

Note 8: Depreciation and amortisation expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Depreciation					
Specialist military equipment	4,392	4,231	4,567	4,714	5,027
Buildings	1,465	1,473	1,490	1,479	1,496
Other infrastructure, plant and equipment	1,665	1,660	1,755	1,852	1,865
Heritage and cultural assets	79	76	75	75	76
Total depreciation	**7,600**	**7,441**	**7,887**	**8,120**	**8,464**
Total amortisation	**1,142**	**1,065**	**1,020**	**955**	**977**
Total depreciation and amortisation expense	**8,742**	**8,505**	**8,906**	**9,074**	**9,441**

Note 9: Supply of goods and services expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Supply of goods and services	33,414	34,300	33,288	34,527	35,802
Operating lease rental expenses	2,616	2,579	2,510	2,504	2,531
Personal benefits – indirect	74,269	81,318	87,157	91,624	96,850
Health care payments	4,750	4,603	4,530	4,485	4,426
Other	2,659	2,766	2,535	2,483	2,464
Total supply of goods and services expense	**117,709**	**125,566**	**130,020**	**135,623**	**142,073**

Note 10: Interest expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Interest on debt					
Government securities(a)	17,134	17,012	16,599	16,031	15,709
Loans	0	1	1	1	1
Other	222	243	245	253	262
Total interest on debt	**17,356**	**17,256**	**16,845**	**16,285**	**15,972**
Other financing costs	**1,019**	**2,008**	**2,012**	**1,662**	**1,022**
Total interest expense	**18,375**	**19,264**	**18,857**	**17,948**	**16,994**

(a) Public debt interest estimates are calculated using the contract interest rates incurred on existing Australian Government Securities (AGS), previously referred to as Commonwealth Government Securities, when issued and on technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future AGS issuance.

Note 11: Current and capital grants expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Current grants expense					
State and territory governments	119,275	119,876	124,932	130,991	137,008
Private sector	9,883	9,931	9,961	10,102	10,193
Overseas	3,862	4,016	4,184	3,800	4,012
Non-profit organisations	4,201	4,011	3,637	3,491	3,554
Multi-jurisdictional sector	10,478	10,636	11,018	11,203	11,498
Other	1,154	1,937	2,110	2,080	2,048
Total current grants expense	**148,852**	**150,408**	**155,843**	**161,666**	**168,312**
Capital grants expense					
Mutually agreed write-downs	1,317	1,368	1,458	1,549	1,681
Other capital grants					
State and territory governments	8,293	6,993	7,844	8,327	10,070
Local governments	436	489	474	474	474
Non-profit organisations	719	1,178	627	980	215
Private sector	176	14	39	39	20
Other	250	200	214	223	171
Total capital grants expense	**11,192**	**10,241**	**10,655**	**11,591**	**12,632**
Total grants expense	**160,044**	**160,649**	**166,498**	**173,258**	**180,944**

Note 12: Personal benefits expense

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Social welfare - assistance to the aged	47,005	48,515	50,394	52,364	54,827
Assistance to veterans and dependants	4,982	4,836	4,718	4,697	4,497
Assistance to people with disabilities	25,469	26,264	26,538	27,655	28,441
Assistance to families with children	26,807	27,864	27,840	28,306	28,575
Assistance to the unemployed	10,443	10,791	10,845	11,331	11,749
Student assistance	2,329	2,406	2,421	2,485	2,584
Other welfare programs	1,089	1,142	1,168	1,187	1,203
Financial and fiscal affairs	420	390	402	416	453
Vocational and industry training	41	33	34	35	35
Other	6,646	6,730	8,852	11,404	16,448
Total personal benefits expense	**125,230**	**128,972**	**133,211**	**139,880**	**148,812**

Note 13: Advances paid and other receivables

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Advances paid					
Loans to state and territory governments	3,935	4,199	4,387	4,310	4,016
Student loans	47,536	50,418	53,074	55,443	57,864
Other	20,095	29,375	32,833	35,163	34,518
less Provision for doubtful debts	558	690	833	989	1,147
Total advances paid	**71,008**	**83,302**	**89,462**	**93,927**	**95,250**
Other receivables					
Goods and services receivable	1,334	1,419	1,377	1,292	1,232
Recoveries of benefit payments	5,995	6,570	7,237	7,671	7,835
Taxes receivable	26,623	29,376	30,870	32,690	34,282
Prepayments	4,014	3,702	3,503	3,453	3,250
Other	21,328	20,546	20,845	22,066	22,843
less Provision for doubtful debts	3,594	4,183	4,778	5,209	5,538
Total other receivables	**55,700**	**57,430**	**59,053**	**61,964**	**63,904**

Note 14: Investments, loans and placements

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Investments - deposits	36,464	33,333	30,815	38,092	28,983
IMF quota	12,732	12,819	12,819	13,243	13,681
Other	126,020	142,206	153,069	160,393	168,930
Total investments, loans and placements	**175,216**	**188,358**	**196,703**	**211,727**	**211,594**

Note 15: Non-financial assets

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Land and buildings					
Land	11,586	11,484	11,441	11,342	11,262
Buildings	27,072	27,589	28,724	29,661	30,664
Total land and buildings	**38,658**	**39,073**	**40,165**	**41,003**	**41,927**
Plant, equipment and infrastructure					
Specialist military equipment	65,846	69,650	75,402	83,451	92,264
Other	15,897	16,528	16,891	16,809	16,670
Total plant, equipment and infrastructure	**81,742**	**86,178**	**92,293**	**100,260**	**108,933**
Inventories					
Inventories held for sale	1,325	1,307	1,336	1,390	1,407
Inventories not held for sale	7,071	6,738	6,394	6,053	5,721
Total inventories	**8,397**	**8,045**	**7,730**	**7,444**	**7,129**
Intangibles					
Computer software	4,307	4,319	4,161	3,971	3,946
Other	4,732	5,035	5,176	5,321	5,461
Total intangibles	**9,039**	**9,353**	**9,337**	**9,292**	**9,408**
Total investment properties	**193**	**193**	**193**	**193**	**193**
Total biological assets	**20**	**14**	**11**	**11**	**11**
Total heritage and cultural assets	**11,604**	**11,594**	**11,582**	**11,570**	**11,560**
Total assets held for sale	**183**	**179**	**179**	**179**	**180**
Total other non-financial assets	**34**	**31**	**31**	**31**	**31**
Total non-financial assets	**149,869**	**154,660**	**161,522**	**169,984**	**179,371**

Note 16: Loans

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Promissory notes	10,364	10,339	10,339	10,341	10,343
Special drawing rights	5,973	6,014	6,014	6,212	6,418
Other	406	379	427	437	401
Total loans	**16,742**	**16,731**	**16,779**	**16,990**	**17,162**

Note 17: Employee and superannuation liabilities

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Total superannuation liability(a)	**223,720**	**230,748**	**237,683**	**244,417**	**251,141**
Other employee liabilities					
Leave and other entitlements	8,286	8,384	8,478	8,565	8,663
Accrued salaries and wages	265	311	312	336	348
Workers compensation claims	2,475	2,416	2,363	2,320	2,287
Military compensation	8,722	9,079	9,447	9,825	10,202
Other	418	402	402	403	403
Total other employee liabilities	**20,166**	**20,591**	**21,003**	**21,449**	**21,903**
Total employee and superannuation liabilities	**243,886**	**251,339**	**258,685**	**265,866**	**273,043**

(a) For budget reporting purposes, a discount rate of 5 per cent used by actuaries in preparing the 2017 Long-Term Cost Reports is used to value the superannuation liability. This reflects the average annual rate estimated to apply over the term of the liability and it reduces the volatility in reported liabilities that would occur from year to year if the spot rates on long-term government bonds were used. Consistent with AAS, the superannuation liability for the 2017-18 Final Budget Outcome (FBO) was calculated using the spot rates on long-term government bonds as at 30 June 2018 that best matched each individual scheme's liability duration. These rates were between 2.7 and 3.1 per cent per annum.

Note 18: Provisions and payables

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Suppliers payables					
Trade creditors	4,293	4,440	4,626	4,970	5,292
Operating lease rental payable	502	506	494	472	448
Personal benefits payables - indirect	614	1,236	1,339	1,387	1,440
Other creditors	618	627	631	642	648
Total suppliers payables	**6,027**	**6,809**	**7,090**	**7,470**	**7,828**
Total personal benefits payables - direct	**3,389**	**3,746**	**3,538**	**3,530**	**3,530**
Total subsidies payable	**519**	**1,210**	**1,268**	**1,303**	**1,296**
Grants payables					
State and territory governments	84	66	61	55	49
Non-profit organisations	223	224	225	226	227
Private sector	334	333	333	333	333
Overseas	1,482	1,844	1,928	1,599	1,337
Local governments	1	1	1	1	1
Other	1,415	1,459	1,480	1,504	1,515
Total grants payables	**3,539**	**3,927**	**4,027**	**3,717**	**3,460**
Total other payables	**2,316**	**2,202**	**2,124**	**2,048**	**1,942**
Provisions					
Provisions for tax refunds	3,437	3,442	3,450	3,458	3,465
Grants provisions	7,486	6,719	6,351	6,064	5,767
Personal benefits provisions - direct(a)	7,179	7,163	7,030	6,990	6,956
Personal benefits provisions - indirect	2,377	2,501	2,896	2,957	3,051
Other(a)	15,143	17,236	16,993	17,089	17,459
Total provisions	**35,622**	**37,060**	**36,721**	**36,558**	**36,699**

(a) Consistent with the 2017-18 FBO, Child Support Scheme provisions have been reclassified from ‘other’ provisions to ‘personal benefits provisions – direct’ to better reflect the nature of benefits provided to households.

Note 19: Reconciliation of cash

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$m	$m	$m	$m	$m
Net Operating balance (revenues *less* expenses)	**8,452**	**12,891**	**18,155**	**28,791**	**20,606**
less **Revenues not providing cash**					
Other	1,130	1,195	1,951	2,099	2,530
Total revenues not providing cash	**1,130**	**1,195**	**1,951**	**2,099**	**2,530**
plus **Expenses not requiring cash**					
Increase/(decrease) in employee entitlements	10,115	7,715	7,643	7,300	7,274
Depreciation/amortisation expense	8,742	8,505	8,906	9,074	9,441
Mutually agreed write-downs	1,317	1,368	1,458	1,549	1,681
Other	214	1,251	1,901	1,587	1,008
Total expenses not requiring cash	**20,388**	**18,839**	**19,909**	**19,510**	**19,404**
plus **Cash provided/(used) by working capital items**					
Decrease/(increase) in inventories	-118	-3	-32	-60	-31
Decrease/(increase) in receivables	-8,739	-9,646	-8,352	-9,618	-8,734
Decrease/(increase) in other financial assets	-329	-50	-576	-645	-748
Decrease/(increase) in other non-financial assets	-840	229	151	79	244
Increase/(decrease) in benefits, subsidies and grants payable	408	1,103	60	-422	-371
Increase/(decrease) in suppliers' liabilities	-635	89	182	371	309
Increase/(decrease) in other provisions and payables	-790	2,586	-174	240	692
Net cash provided/(used) by working capital	**-11,043**	**-5,692**	**-8,741**	**-10,055**	**-8,639**
equals (Net cash from/(to) operating activities)	16,665	24,840	27,368	36,144	28,840
plus (Net cash from/(to) investing activities)	-27,404	-41,476	-33,584	-41,734	-24,662
Net cash from operating activities and investment	**-10,739**	**-16,636**	**-6,216**	**-5,590**	**4,177**
plus (Net cash from/(to) financing activities)	11,523	14,414	6,342	5,353	-2,926
equals **Net increase/(decrease) in cash**	**783**	**-2,222**	**126**	**-237**	**1,252**
Cash at the beginning of the year	**6,783**	**7,563**	**5,342**	**5,467**	**5,230**
Net increase/(decrease) in cash	783	-2,222	126	-237	1,252
Cash at the end of the year	**7,563**	**5,342**	**5,467**	**5,230**	**6,482**

APPENDIX A: FINANCIAL REPORTING STANDARDS AND BUDGET CONCEPTS

The Budget primarily focuses on the financial performance and position of the general government sector (GGS). The GGS provides public services that are mainly non-market in nature and for the collective consumption of the community, or involve the transfer or redistribution of income. These services are largely financed through taxes and other compulsory levies. AASB 1049 recognises the GGS as a reporting entity.

AASB 1049 CONCEPTUAL FRAMEWORK

AASB 1049 seeks to 'harmonise' the ABS GFS and AAS.

The reporting framework for AASB 1049 requires the preparation of accrual-based general purpose financial reports, showing government assets, liabilities, revenue, expenses and cash flows. GGS reporting under AASB 1049 aims to provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macroeconomic impact. While AASB 1049 provides a basis for whole of government (including the PNFC and PFC sectors), reporting focuses on the GGS.

AASB 1049 has adopted the AAS conceptual framework and principles for the recognition of assets, liabilities, revenues and expenses and their presentation, measurement and disclosure. In addition, AASB 1049 has broadly adopted the ABS GFS conceptual framework for presenting government financial statements. In particular, AASB 1049 requires the GGS to prepare a separate set of financial statements, overriding AASB 10 *Consolidated Financial Statements.* AASB 1049 also follows the ABS GFS by requiring changes in net worth to be split into either transactions or 'other economic flows' and for this to be presented in a single operating statement. AASB 1049 is therefore broadly consistent with international statistical standards and the International Monetary Fund's (IMF) *Government Finance Statistics Manual 2014*.[1]

1 Additional information on the Australian accrual GFS framework is available in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2015* (cat. no. 5514.0).

All financial data presented in the financial statements are recorded as either stocks (assets and liabilities) or flows (classified as either transactions or 'other economic flows'). Transactions result from a mutually agreed interaction between economic entities. Despite their compulsory nature, taxes are transactions deemed to occur by mutual agreement between the government and the taxpayer. Transactions that increase or decrease net worth (assets less liabilities) are reported as revenues and expenses respectively in the operating statement.[2]

A change to the value or volume of an asset or liability that does not result from a transaction is an 'other economic flow'. This can include changes in values from market prices, most actuarial valuations and exchange rates, and changes in volumes from discoveries, depletion and destruction. All 'other economic flows' are reported in the operating statement.

Consistent with the ABS GFS framework, and in general AAS, the financial statements record flows in the period in which they occur. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods and can be reliably assigned to the relevant period(s).

Operating statement

The operating statement presents details of transactions in revenues, expenses, the net acquisition of non-financial assets (net capital investment) and other economic flows for an accounting period.

Revenues arise from transactions that increase net worth and expenses arise from transactions that decrease net worth. Revenues less expenses gives the net operating balance. The net operating balance is similar to the National Accounts concept of government saving plus capital transfers.

The net acquisition of non-financial assets (net capital investment) equals gross fixed capital formation, less depreciation, plus changes (investment) in inventories, plus other transactions in non-financial assets.

'Other economic flows' are presented in the operating statement and outline changes in net worth that are driven by economic flows other than revenues and expenses. Revenues, expenses and 'other economic flows' sum to the total change in net worth during a period. The majority of 'other economic flows' for the Australian Government GGS arise from price movements in its assets and liabilities.

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2 Not all transactions impact on net worth. For example, transactions in financial assets and liabilities do not impact on net worth as they represent the swapping of assets and liabilities on the balance sheet.

Net operating balance

The net operating balance is the excess of revenue from transactions over expenses from transactions. The net operating balance excludes expenditure on the acquisition of capital assets, but includes non-cash costs such as accruing superannuation entitlements and the consumption of capital (depreciation). By including all accruing costs, including depreciation, the net operating balance encompasses the full current cost of providing government services. This makes it a measure of the sustainability of the government's fiscal position over time and provides an indication of the sustainability of the existing level of government services.

The net operating balance is a flow measure in the operating statement.

Fiscal balance

The fiscal balance (or net lending/borrowing) is the net operating balance less net capital investment. Thus, the fiscal balance includes the impact of net expenditure (effectively purchases less sales) on non-financial assets rather than consumption (depreciation) of non-financial assets.[3]

The fiscal balance measures the Australian Government's investment-saving balance. It measures in accrual terms the gap between government savings plus net capital transfers, and investment in non-financial assets. As such, it approximates the contribution of the Australian Government GGS to the balance on the current account in the balance of payments.

Balance sheet

The balance sheet shows stocks of assets, liabilities and net worth. In accordance with the UPF, net debt, net financial worth and net financial liabilities are also reported in the balance sheet.

Net worth

The net worth of the GGS, PNFC and PFC sectors is defined as assets less liabilities. This differs from the ABS GFS definition for the PNFC and PFC sectors where net worth is defined as assets less liabilities less shares and other contributed capital. Net worth is an economic measure of wealth, reflecting the Australian Government's contribution to the wealth of Australia.

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3 The net operating balance includes consumption of non-financial assets because depreciation is an expense. Depreciation is deducted in the calculation of net capital investment as the full investment in non-financial assets is included in the calculation of fiscal balance.

Net financial worth

Net financial worth measures a government's net holdings of financial assets. It is calculated from the balance sheet as financial assets minus liabilities. This differs from the ABS GFS definition of net financial worth for the PNFC and PFC sectors, defined as financial assets, less liabilities, less shares and other contributed capital. Net financial worth is a broader measure than net debt, in that it incorporates provisions made (such as superannuation) as well as holdings of equity. Net financial worth includes all classes of financial assets and all liabilities, only some of which are included in net debt. As non-financial assets are excluded from net financial worth, this is a narrower measure than net worth. However, it avoids the concerns inherent with the net worth measure relating to the valuation of non-financial assets and their availability to offset liabilities.

Net financial liabilities

Net financial liabilities comprises total liabilities less financial assets but excludes equity investments in the other sectors of the jurisdiction. Net financial liabilities is a more accurate indicator than net debt of a jurisdiction's fiscal position as it includes substantial non debt liabilities such as accrued superannuation and long service leave entitlements. Excluding the net worth of other sectors in government results in a purer measure of financial worth than net financial worth, as, in general, the net worth of other sectors of government, in particular the PNFC sector, is backed up by physical assets.

Net debt

Net debt is the sum of selected financial liabilities (deposits held, advances received, government securities, loans, and other borrowing) less the sum of selected financial assets[4] (cash and deposits, advances paid, and investments, loans and placements). This includes financial assets held by the Future Fund which are invested in these asset classes, including term deposits and investments in collective investment vehicles. Net debt does not include superannuation related liabilities. Net debt is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

The 2015 ABS GFS Manual presents debt in a matrix format, with no single net debt aggregate identified. The Commonwealth Government continues to report net debt in accordance with the UPF as described above.

4 Financial assets are defined as cash, an equity instrument of another entity, a contractual right to receive cash or financial asset, and a contract that will or may be settled in the entity's own equity instruments.

The new Australian Accounting Standard, AASB 16 *Leases*, applies to all Australian Government entities from 1 July 2019. The effect of AASB 16 is to introduce a single lease accounting framework. This is achieved by removing the current distinction between operating and finance leases. As a result, leases that were previously accounted for as operating expenses and payments will be included as additional assets and liabilities on the balance sheet. The new standard will have implications for a number of budget aggregates; in particular, there will be a worsening of net debt, net financial worth and the fiscal balance. It will not have a material impact on the underlying cash balance. The estimates will be updated to reflect the changed treatment of leases following finalisation of implementation arrangements.

Cash flow statement

The cash flow statement identifies how cash is generated and applied in a single accounting period. The cash flow statement reflects a cash basis of recording (rather than an accrual basis) where information is derived indirectly from underlying accrual transactions and movements in balances. This, in effect, means that transactions are captured when cash is received or when cash payments are made. Cash transactions are specifically identified because cash management is considered an integral function of accrual budgeting.

Underlying cash balance

The underlying cash balance plus net Future Fund earnings is the cash counterpart of the fiscal balance, reflecting the Australian Government's cash investment-saving balance.

For the GGS, the underlying cash balance is calculated as shown below:

Net cash flows from operating activities
plus
Net cash flows from investments in non-financial assets
equals
ABS GFS cash surplus/deficit
less
Net acquisitions of assets acquired under finance leases and similar arrangements[5]
less
Net Future Fund cash earnings
equals
Underlying cash balance

5 The underlying cash balance treats the acquisition and disposal of non-financial assets in the same manner regardless of whether they occur by purchase/sale or finance lease — acquisitions reduce the underlying cash balance and disposals increase the underlying cash balance. However, finance leases do not generate cash flows at the time of acquisition or disposal equivalent to the value of the asset. As such, net acquisitions of assets under finance leases are not shown in the body of the cash flow statement but are reported as a supplementary item for the calculation of the underlying cash balance.

Under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the Government's future public sector superannuation liabilities. The Government excludes net Future Fund cash earnings from the calculation of the underlying cash balance between 2005-06 and 2019-20. From 2020-21 onwards, net Future Fund cash earnings are included in the calculation of the underlying cash balance because the Future Fund becomes available to meet the Government's superannuation liabilities from that year.

In contrast, net Future Fund earnings are included in the net operating balance and fiscal balance for all years because superannuation expenses relating to future cash payments are recorded in the net operating balance and fiscal balance.

Net Future Fund earnings are separately identified in the Australian Government GGS cash flow statement in Table 3 of this statement and related tables in Statement 3, and Statement 10.

Headline cash balance

The headline cash balance is calculated by adding net cash flows from investments in financial assets for policy purposes and net Future Fund earnings to the underlying cash balance.

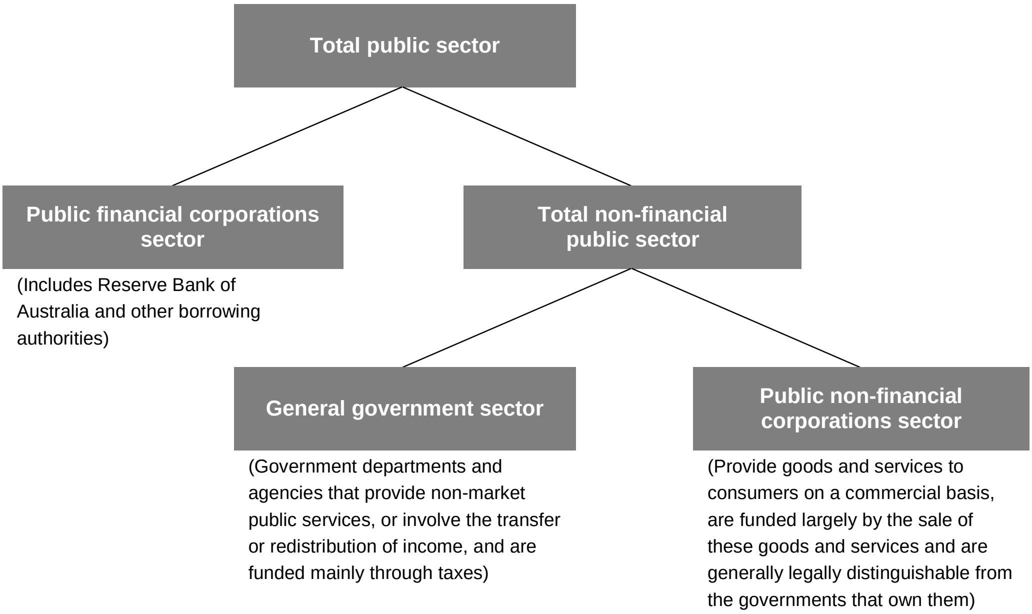
Net cash flows from investments in financial assets for policy purposes include equity transactions and advances paid.[6] Equity transactions include equity injections into controlled businesses and privatisations of government businesses. Advances paid include net loans to the states and net loans to students.

6 Net cash flows from investments in financial assets for policy purposes are often referred to as net advances.

Sectoral classifications

To assist in analysing the public sector, data are presented by institutional sector as shown in Figure 1. The ABS GFS defines the GGS and the PNFC and PFC sectors. AASB 1049 has also adopted this sectoral reporting.

Figure 1: Institutional structure of the public sector



All entities are classified as GGS entities except for the following list of portfolio entities that are classified as PFC or PNFC (Table A1).

A table which provides a full list of public sector principal entities under the current portfolio structure is available on the Department of Finance website at www.finance.gov.au/resource-management /governance/#flipchart.

Table A1: Entities outside of the general government sector – 2018-19

Public financial corporations

Foreign Affairs and Trade Portfolio

- Export Finance and Insurance Corporation

Industry, Innovation and Science Portfolio

- CSIRO General Partner Pty Ltd
- CSIRO General Partner 2 Pty Ltd
- CSIRO FollowOn Services Pty Ltd

Jobs and Small Business Portfolio

- Coal Mining Industry (Long Service Leave Funding) Corporation

Treasury Portfolio

- Australian Reinsurance Pool Corporation
- National Housing Finance and Investment Corporation (Bond Aggregator)*
- Reserve Bank of Australia

Public non-financial corporations

Communications and the Arts Portfolio

- Australian Postal Corporation (Australia Post)
- nbn Co Ltd

Environment and Energy Portfolio

- Snowy Hydro Limited

Finance Portfolio

- ASC Pty Ltd
- Australian Naval Infrastructure Pty Ltd

Social Services Portfolio

- Australian Hearing Services (Australian Hearing)

Infrastructure, Regional Development and Cities Portfolio

- Airservices Australia
- Australian Rail Track Corporation Limited
- Moorebank Intermodal Company Limited
- WSA Co Ltd

Public non-financial corporations (continued)

Industry, Innovation and Science Portfolio

- ANSTO Nuclear Medicine Pty Ltd

Prime Minister and Cabinet Portfolio

- Voyages Indigenous Tourism Australia Pty Ltd

* The National Housing Finance and Investment Corporation (NHFIC), a corporate Commonwealth entity, operates an affordable housing bond aggregator to encourage greater private and institutional investment and provide cheaper and longer term finance to registered providers of affordable housing. The NHFIC bond aggregator is a PFC. NHFIC also administers the National Housing Infrastructure Facility. The Facility is included in the GGS.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

This statement reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

STATEMENT 10: HISTORICAL AUSTRALIAN GOVERNMENT DATA

Statement 10 reports historical data for the Australian Government fiscal aggregates across the general government, public non-financial corporations and non-financial public sectors.

DATA SOURCES

Data are sourced from Australian Government *Final Budget Outcomes*, the Australian Bureau of Statistics (ABS), the Australian Office of Financial Management and Australian Government *Consolidated Financial Statements*.

- Accrual data from 1996-97 onwards and cash data, net debt data, net financial worth data and net worth data from 1999-2000 onwards are sourced from Australian Government *Final Budget Outcomes*. Back-casting adjustments for accounting classification changes and other revisions have been made from 1998-99 onwards where applicable.

- Cash data prior to 1999-2000 are sourced from ABS data, which have been calculated using methodology consistent with that used for later years in ABS cat. no. 5512.0 *Government Finance Statistics*.

- Net debt data prior to 1999-2000 are from ABS cat. no. 5512.0 *Government Finance Statistics 2003-04* in 1998-99, ABS cat. no. 5501.0 *Government Financial Estimates 1999-2000* and ABS cat. no. 5513.0 *Public Sector Financial Assets and Liabilities 1998* from 1987-88 to 1997-98, and Treasury estimates (see Treasury's *Economic Roundup, Spring 1996*, pages 97-103) prior to 1987-88.

COMPARABILITY OF DATA ACROSS YEARS

The data set contains a number of structural breaks owing to accounting classification differences and changes to the structure of the budget which cannot be eliminated through back-casting because of data limitations. These breaks can affect the comparability of data across years, especially when the analysis is taken over a large number of years. Specific factors causing structural breaks include:

- From 2005-06 onwards, underlying Government Finance Statistics (GFS) data are provided by agencies in accordance with Australian Accounting Standards (AAS), which includes International Financial Reporting Standards (IFRS) as adopted in Australia. Prior to 2005-06, underlying GFS data are based on data provided by agencies applying AAS prior to the adoption of IFRS.

- Most recent accounting classification changes that require revisions to the historical series have been back-cast (where applicable) to 1998-99, ensuring that data are consistent across the accrual period from 1998-99 onwards. However, because of data limitations, these changes have not been back-cast to earlier years.

- Prior to 1999-2000, Australian Government general government sector debt instruments are valued at historic cost, whereas from 1999-2000 onwards they are valued at market prices (consistent with accrual GFS standards). This affects net debt and net interest payments.

- Cash data up to and including 1997-98 are calculated under a cash accounting framework, while cash data from 1998-99 onwards are derived from an accrual accounting framework.[1] Although the major methodological differences associated with the move to the accrual framework have been eliminated through back-casting, comparisons across the break may still be affected by changes to some data sources and collection methodologies.

- Adjustments in the coverage of agencies are included in the accounts of the different sectors. These include the reclassification of Central Banking Authorities from the general government to the public financial corporations sector in 1998-99, and subsequent back-casting to account for this change.

- Changes have been made in arrangements for transfer payments, where tax concessions or rebates are replaced by payments through the social security system. This has the effect of increasing both cash receipts and payments, as compared with earlier periods, but not changing cash balances. Changes in the opposite direction reduce both cash payments and receipts.

- Classification differences in the data relating to the period prior to 1976-77 mean that earlier data may not be entirely consistent with data for 1976-77 onwards.

REVISIONS TO PREVIOUSLY PUBLISHED DATA

Under the accrual GFS framework and generally under AAS, flows are recorded in the period in which they occurred. As a result, prior period outcomes may be revised for classification changes relating to information that could reasonably have been expected to be known in the past, is material in at least one of the affected periods, and can be reliably assigned to the relevant period(s).

There have been no material classification changes that have resulted in back-casting in this update.

1 Prior to the 2008-09 Budget, cash data calculated under the cash accounting framework was used up to and including 1998-99. In the 2008-09 Budget, cash data prior to 1998-99 have been replaced by ABS data derived from the accrual framework.

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)]

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
1970-71	8,290	20.6	7,389	na	18.3	-	901	2.2
1971-72	9,135	20.5	8,249	4.1	18.5	-	886	2.0
1972-73	9,735	19.6	9,388	7.7	18.9	-	348	0.7
1973-74	12,228	20.3	11,078	4.2	18.4	-	1,150	1.9
1974-75	15,643	22.0	15,463	19.9	21.7	-	181	0.3
1975-76	18,727	22.5	20,225	15.7	24.3	-	-1,499	-1.8
1976-77	21,890	22.8	23,157	0.6	24.1	-	-1,266	-1.3
1977-78	24,019	22.9	26,057	2.7	24.8	-	-2,037	-1.9
1978-79	26,129	22.0	28,272	0.3	23.8	-	-2,142	-1.8
1979-80	30,321	22.6	31,642	1.5	23.5	-	-1,322	-1.0
1980-81	35,993	23.7	36,176	4.6	23.8	-	-184	-0.1
1981-82	41,499	23.6	41,151	2.9	23.4	-	348	0.2
1982-83	45,463	24.0	48,810	6.3	25.8	-	-3,348	-1.8
1983-84	49,981	23.4	56,990	9.4	26.7	-	-7,008	-3.3
1984-85	58,817	25.0	64,853	9.1	27.6	-	-6,037	-2.6
1985-86	66,206	25.4	71,328	1.5	27.4	-	-5,122	-2.0
1986-87	74,724	26.2	77,158	-1.1	27.0	-	-2,434	-0.9
1987-88	83,491	25.8	82,039	-0.9	25.3	-	1,452	0.4
1988-89	90,748	24.7	85,326	-3.1	23.2	-	5,421	1.5
1989-90	98,625	24.4	92,684	0.6	22.9	-	5,942	1.5
1990-91	100,227	24.2	100,665	3.1	24.3	-	-438	-0.1
1991-92	95,840	22.7	108,472	5.7	25.7	-	-12,631	-3.0
1992-93	97,633	22.0	115,751	5.6	26.1	-	-18,118	-4.1
1993-94	103,824	22.3	122,009	3.5	26.2	-	-18,185	-3.9
1994-95	113,458	22.9	127,619	1.4	25.8	-	-14,160	-2.9
1995-96	124,429	23.6	135,538	1.9	25.7	-	-11,109	-2.1
1996-97	133,592	24.1	139,689	1.7	25.2	-	-6,099	-1.1
1997-98	140,736	23.9	140,587	0.6	23.9	-	149	0.0
1998-99	152,063	24.5	148,175	4.1	23.9	-	3,889	0.6
1999-00	166,199	25.1	153,192	1.0	23.2	-	13,007	2.0
2000-01	182,996	26.0	177,123	9.1	25.1	-	5,872	0.8
2001-02	187,588	24.9	188,655	3.5	25.0	-	-1,067	-0.1
2002-03	204,613	25.5	197,243	1.4	24.6	-	7,370	0.9
2003-04	217,775	25.3	209,785	3.9	24.4	-	7,990	0.9
2004-05	235,984	25.6	222,407	3.5	24.1	-	13,577	1.5
2005-06	255,943	25.7	240,136	4.6	24.1	51	15,757	1.6
2006-07	272,637	25.1	253,321	2.5	23.3	2,127	17,190	1.6
2007-08	294,917	25.0	271,843	3.8	23.1	3,319	19,754	1.7
2008-09	292,600	23.2	316,046	12.7	25.1	3,566	-27,013	-2.1
2009-10	284,662	21.9	336,900	4.2	25.9	2,256	-54,494	-4.2

Table 1: Australian Government general government sector receipts, payments, net Future Fund earnings and underlying cash balance[(a)] (continued)

	Receipts(b)		Payments(c)			Net Future Fund earnings	Underlying cash balance(d)	
	$m	Per cent of GDP	$m	Per cent real growth(f)	Per cent of GDP	$m	$m	Per cent of GDP
2010-11	302,024	21.3	346,102	-0.4	24.4	3,385	-47,463	-3.4
2011-12	329,874	22.0	371,032	4.8	24.7	2,203	-43,360	-2.9
2012-13	351,052	22.9	367,204	-3.2	23.9	2,682	-18,834	-1.2
2013-14	360,322	22.5	406,430	7.8	25.4	2,348	-48,456	-3.0
2014-15	378,301	23.3	412,079	-0.3	25.4	4,089	-37,867	-2.3
2015-16	386,924	23.3	423,328	1.3	25.5	3,202	-39,606	-2.4
2016-17	409,868	23.2	439,375	2.0	24.9	3,644	-33,151	-1.9
2017-18	446,905	24.2	452,742	1.1	24.5	4,305	-10,141	-0.5
2018-19 (e)	485,165	25.0	482,734	4.9	24.9	6,592	-4,162	-0.2
2019-20 (e)	**505,521**	**25.2**	**493,327**	**0.1**	**24.6**	**5,140**	**7,054**	**0.4**
2020-21 (e)	522,318	25.1	511,314	1.3	24.6	na	11,004	0.5
2021-22 (p)	551,022	25.4	533,230	1.9	24.5	na	17,792	0.8
2022-23 (p)	566,874	25.0	557,709	2.0	24.5	na	9,165	0.4

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to cash receipts from operating activities and sales of non-financial assets.
(c) Payments are equal to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the years 1970-71 to 2004-05 and from 2020-21 onwards, the underlying cash balance is equal to receipts less payments.
(e) Estimates.
(f) Real spending growth is calculated using the Consumer Price Index as the deflator.
(p) Projections.

Table 2: Australian Government general government sector net cash flows from investments in financial assets for policy purposes and headline cash balance[(a)]

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	8,290	7,389	-851	-2.1	50	0.1
1971-72	9,135	8,249	-987	-2.2	-101	-0.2
1972-73	9,735	9,388	-977	-2.0	-629	-1.3
1973-74	12,228	11,078	-1,275	-2.1	-125	-0.2
1974-75	15,643	15,463	-2,648	-3.7	-2,467	-3.5
1975-76	18,727	20,225	-2,040	-2.5	-3,539	-4.3
1976-77	21,890	23,157	-1,530	-1.6	-2,796	-2.9
1977-78	24,019	26,057	-1,324	-1.3	-3,361	-3.2
1978-79	26,129	28,272	-1,074	-0.9	-3,216	-2.7
1979-80	30,321	31,642	-702	-0.5	-2,024	-1.5
1980-81	35,993	36,176	-962	-0.6	-1,146	-0.8
1981-82	41,499	41,151	-1,008	-0.6	-660	-0.4
1982-83	45,463	48,810	-1,363	-0.7	-4,711	-2.5
1983-84	49,981	56,990	-1,136	-0.5	-8,144	-3.8
1984-85	58,817	64,853	-922	-0.4	-6,959	-3.0
1985-86	66,206	71,328	-810	-0.3	-5,932	-2.3
1986-87	74,724	77,158	-545	-0.2	-2,979	-1.0
1987-88	83,491	82,039	657	0.2	2,109	0.7
1988-89	90,748	85,326	168	0.0	5,589	1.5
1989-90	98,625	92,684	1,217	0.3	7,159	1.8
1990-91	100,227	100,665	1,563	0.4	1,125	0.3
1991-92	95,840	108,472	2,156	0.5	-10,475	-2.5
1992-93	97,633	115,751	2,471	0.6	-15,647	-3.5
1993-94	103,824	122,009	3,447	0.7	-14,738	-3.2
1994-95	113,458	127,619	1,546	0.3	-12,614	-2.6
1995-96	124,429	135,538	5,188	1.0	-5,921	-1.1
1996-97	133,592	139,689	7,241	1.3	1,142	0.2
1997-98	140,736	140,587	15,154	2.6	15,303	2.6
1998-99	152,063	148,175	6,948	1.1	10,837	1.7
1999-00	166,199	153,192	9,500	1.4	22,507	3.4
2000-01	182,996	177,123	5,673	0.8	11,545	1.6
2001-02	187,588	188,655	3,422	0.5	2,355	0.3
2002-03	204,613	197,243	-229	0.0	7,141	0.9
2003-04	217,775	209,785	-452	-0.1	7,538	0.9
2004-05	235,984	222,407	-1,139	-0.1	12,438	1.3
2005-06	255,943	240,136	-1,647	-0.2	14,160	1.4
2006-07	272,637	253,321	7,403	0.7	26,720	2.5
2007-08	294,917	271,843	5,108	0.4	28,181	2.4
2008-09	292,600	316,046	-7,889	-0.6	-31,336	-2.5
2009-10	284,662	336,900	-4,278	-0.3	-56,516	-4.3

Table 2: Australian Government general government sector net cash flows from investments in financial assets for policy purposes and headline cash balance[(a)] (continued)

	Receipts	Payments	Net cash flows from investments in financial assets for policy purposes(b)		Headline cash balance(c)	
	$m	$m	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	302,024	346,102	-7,028	-0.5	-51,106	-3.6
2011-12	329,874	371,032	-5,866	-0.4	-47,023	-3.1
2012-13	351,052	367,204	-4,802	-0.3	-20,954	-1.4
2013-14	360,322	406,430	-6,371	-0.4	-52,479	-3.3
2014-15	378,301	412,079	-5,158	-0.3	-38,936	-2.4
2015-16	386,924	423,328	-12,684	-0.8	-49,088	-3.0
2016-17	409,868	439,375	-13,501	-0.8	-43,008	-2.4
2017-18	446,905	452,742	-20,041	-1.1	-25,878	-1.4
2018-19 (e)	485,165	482,734	-15,149	-0.8	-12,719	-0.7
2019-20 (e)	**505,521**	**493,327**	**-16,581**	**-0.8**	**-4,388**	**-0.2**
2020-21 (e)	522,318	511,314	-11,537	-0.6	-533	0.0
2021-22 (p)	551,022	533,230	-9,861	-0.5	7,931	0.4
2022-23 (p)	566,874	557,709	-6,619	-0.3	2,546	0.1

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Prior to 1999-2000, net cash flows from investments in financial assets for policy purposes were referred to as ‘net advances’. A negative number reflects a cash outflow, while a positive number reflects a cash inflow.
(c) Headline cash balance is equal to receipts less payments, plus net cash flows from investments in financial assets for policy purposes. Receipts and payments are identical to Table 1.
(e) Estimates.
(p) Projections.

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)]

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	7,193	17.8	1,097	2.7	8,290	20.6
1971-72	7,895	17.7	1,240	2.8	9,135	20.5
1972-73	8,411	16.9	1,324	2.7	9,735	19.6
1973-74	10,832	18.0	1,396	2.3	12,228	20.3
1974-75	14,141	19.9	1,502	2.1	15,643	22.0
1975-76	16,920	20.3	1,807	2.2	18,727	22.5
1976-77	19,714	20.5	2,176	2.3	21,890	22.8
1977-78	21,428	20.4	2,591	2.5	24,019	22.9
1978-79	23,409	19.7	2,720	2.3	26,129	22.0
1979-80	27,473	20.4	2,848	2.1	30,321	22.6
1980-81	32,641	21.5	3,352	2.2	35,993	23.7
1981-82	37,880	21.6	3,619	2.1	41,499	23.6
1982-83	41,025	21.7	4,438	2.3	45,463	24.0
1983-84	44,849	21.0	5,132	2.4	49,981	23.4
1984-85	52,970	22.5	5,847	2.5	58,817	25.0
1985-86	58,841	22.6	7,365	2.8	66,206	25.4
1986-87	66,467	23.3	8,257	2.9	74,724	26.2
1987-88	75,076	23.2	8,415	2.6	83,491	25.8
1988-89	83,452	22.7	7,296	2.0	90,748	24.7
1989-90	90,773	22.5	7,852	1.9	98,625	24.4
1990-91	92,739	22.4	7,488	1.8	100,227	24.2
1991-92	87,364	20.7	8,476	2.0	95,840	22.7
1992-93	88,760	20.0	8,873	2.0	97,633	22.0
1993-94	93,362	20.0	10,462	2.2	103,824	22.3
1994-95	104,921	21.2	8,537	1.7	113,458	22.9
1995-96	115,700	21.9	8,729	1.7	124,429	23.6
1996-97	124,559	22.4	9,033	1.6	133,592	24.1
1997-98	130,984	22.3	9,752	1.7	140,736	23.9
1998-99	138,420	22.3	13,643	2.2	152,063	24.5
1999-00	151,313	22.9	14,887	2.3	166,199	25.1
2000-01	170,354	24.2	12,641	1.8	182,996	26.0
2001-02	175,371	23.3	12,218	1.6	187,588	24.9
2002-03	192,391	24.0	12,222	1.5	204,613	25.5
2003-04	206,734	24.0	11,041	1.3	217,775	25.3
2004-05	223,986	24.3	11,999	1.3	235,984	25.6
2005-06	241,987	24.3	13,956	1.4	255,943	25.7
2006-07	258,252	23.8	14,385	1.3	272,637	25.1
2007-08	279,317	23.7	15,600	1.3	294,917	25.0
2008-09	273,674	21.7	18,926	1.5	292,600	23.2
2009-10	262,167	20.1	22,495	1.7	284,662	21.9

Table 3: Australian Government general government sector taxation receipts, non-taxation receipts and total receipts[(a)] (continued)

	Taxation receipts		Non-taxation receipts		Total receipts(b)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	282,106	19.9	19,918	1.4	302,024	21.3
2011-12	311,269	20.8	18,606	1.2	329,874	22.0
2012-13	327,835	21.3	23,218	1.5	351,052	22.9
2013-14	340,283	21.3	20,038	1.3	360,322	22.5
2014-15	353,883	21.8	24,418	1.5	378,301	23.3
2015-16	362,387	21.8	24,537	1.5	386,924	23.3
2016-17	379,271	21.5	30,597	1.7	409,868	23.2
2017-18	418,053	22.6	28,853	1.6	446,905	24.2
2018-19 (e)	448,821	23.1	36,344	1.9	485,165	25.0
2019-20 (e)	**466,397**	**23.3**	**39,124**	**2.0**	**505,521**	**25.2**
2020-21 (e)	486,372	23.4	35,945	1.7	522,318	25.1
2021-22 (p)	514,320	23.7	36,702	1.7	551,022	25.4
2022-23 (p)	528,691	23.3	38,183	1.7	566,874	25.0

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets. Receipts are identical to Table 1.
(e) Estimates.
(p) Projections.

Table 4: Australian Government general government sector net debt and net interest payments(a)

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1970-71	344	0.9	-189	-0.5
1971-72	-496	-1.1	-245	-0.6
1972-73	-790	-1.6	-252	-0.5
1973-74	-1,851	-3.1	-286	-0.5
1974-75	-1,901	-2.7	-242	-0.3
1975-76	-341	-0.4	-330	-0.4
1976-77	898	0.9	-62	-0.1
1977-78	2,896	2.8	4	0.0
1978-79	4,983	4.2	254	0.2
1979-80	6,244	4.6	440	0.3
1980-81	6,356	4.2	620	0.4
1981-82	5,919	3.4	680	0.4
1982-83	9,151	4.8	896	0.5
1983-84	16,015	7.5	1,621	0.8
1984-85	21,896	9.3	2,813	1.2
1985-86	26,889	10.3	3,952	1.5
1986-87	29,136	10.2	4,762	1.7
1987-88	27,344	8.4	4,503	1.4
1988-89	21,981	6.0	4,475	1.2
1989-90	16,123	4.0	4,549	1.1
1990-91	16,915	4.1	3,636	0.9
1991-92	31,041	7.3	3,810	0.9
1992-93	55,218	12.5	3,986	0.9
1993-94	70,223	15.1	5,628	1.2
1994-95	83,492	16.9	7,292	1.5
1995-96	95,831	18.2	8,861	1.7
1996-97	96,281	17.3	9,489	1.7
1997-98	82,935	14.1	8,279	1.4
1998-99	72,065	11.6	8,649	1.4
1999-00	57,661	8.7	7,514	1.1
2000-01	46,802	6.6	6,195	0.9
2001-02	42,263	5.6	5,352	0.7
2002-03	33,403	4.2	3,758	0.5
2003-04	26,995	3.1	3,040	0.4
2004-05	15,604	1.7	2,502	0.3
2005-06	331	0.0	2,303	0.2
2006-07	-24,288	-2.2	228	0.0
2007-08	-39,958	-3.4	-1,015	-0.1
2008-09	-11,285	-0.9	-1,196	-0.1
2009-10	47,874	3.7	2,386	0.2

Table 4: Australian Government general government sector net debt and net interest payments[(a)] (continued)

	Net debt(b)		Net interest payments(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
2010-11	90,660	6.4	4,608	0.3
2011-12	153,443	10.2	6,609	0.4
2012-13	159,594	10.4	8,285	0.5
2013-14	209,559	13.1	10,843	0.7
2014-15	245,817	15.1	10,868	0.7
2015-16	303,467	18.3	12,041	0.7
2016-17	322,320	18.3	12,365	0.7
2017-18	341,961	18.5	13,135	0.7
2018-19 (e)	373,473	19.2	14,079	0.7
2019-20 (e)	**361,040**	**18.0**	**10,936**	**0.5**
2020-21 (e)	349,506	16.8	10,389	0.5
2021-22 (p)	333,248	15.3	9,359	0.4
2022-23 (p)	326,067	14.4	8,674	0.4

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Net debt is equal to 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.
(c) Net interest payments are equal to the difference between interest paid and interest receipts.
(e) Estimates.
(p) Projections.

Table 5: Australian Government general government sector face value of Australian Government Securities (AGS)[(a)] on issue and interest paid[(b)]

	Face value of AGS on issue(c)					
	Total AGS on issue(d)		Subject to Treasurer's Direction(f)		Interest paid(g)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
1970-71	10,887	27.0	-	-	580	1.4
1971-72	11,490	25.8	-	-	614	1.4
1972-73	12,217	24.6	-	-	675	1.4
1973-74	12,809	21.3	-	-	712	1.2
1974-75	14,785	20.8	-	-	893	1.3
1975-76	17,940	21.6	-	-	1,001	1.2
1976-77	20,845	21.7	-	-	1,485	1.5
1977-78	23,957	22.8	-	-	1,740	1.7
1978-79	28,120	23.7	-	-	2,080	1.8
1979-80	29,321	21.8	-	-	2,356	1.8
1980-81	30,189	19.8	-	-	2,723	1.8
1981-82	31,060	17.7	-	-	3,058	1.7
1982-83	37,071	19.6	-	-	3,580	1.9
1983-84	45,437	21.3	-	-	4,558	2.1
1984-85	54,420	23.2	-	-	5,952	2.5
1985-86	63,089	24.2	-	-	7,394	2.8
1986-87	67,172	23.5	-	-	8,339	2.9
1987-88	62,794	19.4	-	-	8,139	2.5
1988-89	56,854	15.5	-	-	8,222	2.2
1989-90	48,399	12.0	-	-	8,064	2.0
1990-91	48,723	11.8	-	-	6,994	1.7
1991-92	58,826	13.9	-	-	6,819	1.6
1992-93	76,509	17.3	-	-	6,487	1.5
1993-94	90,889	19.5	-	-	7,709	1.7
1994-95	105,466	21.3	-	-	9,144	1.8
1995-96	110,166	20.9	-	-	10,325	2.0
1996-97	111,067	20.0	-	-	10,653	1.9
1997-98	93,664	15.9	-	-	9,453	1.6
1998-99	85,331	13.8	-	-	9,299	1.5
1999-00	75,536	11.4	-	-	8,509	1.3
2000-01	66,403	9.4	-	-	7,335	1.0
2001-02	63,004	8.4	-	-	6,270	0.8
2002-03	57,435	7.2	-	-	4,740	0.6
2003-04	54,750	6.4	-	-	4,096	0.5
2004-05	55,151	6.0	-	-	3,902	0.4
2005-06	54,070	5.4	-	-	4,628	0.5
2006-07	53,264	4.9	-	-	3,959	0.4
2007-08	55,442	4.7	-	-	3,754	0.3
2008-09	101,147	8.0	95,103	7.5	3,970	0.3
2009-10	147,133	11.3	141,806	10.9	6,411	0.5

Table 5: Australian Government general government sector face value of Australian Government Securities (AGS)[(a)] on issue and interest paid[(b)] (continued)

	Face value of AGS on issue(c)					
	Total AGS on issue(d)		Subject to Treasurer's Direction(f)		Interest paid(g)	
	End of year $m	Per cent of GDP	End of year $m	Per cent of GDP	$m	Per cent of GDP
2010-11	191,292	13.5	186,704	13.2	9,551	0.7
2011-12	233,976	15.6	229,389	15.3	10,875	0.7
2012-13	257,378	16.8	252,791	16.5	11,846	0.8
2013-14	319,487	20.0	316,952	19.8	13,972	0.9
2014-15	368,738	22.7	366,202	22.5	13,924	0.9
2015-16	420,420	25.3	417,936	25.1	14,977	0.9
2016-17	500,979	28.4	498,510	28.3	15,290	0.9
2017-18	531,937	28.8	529,467	28.7	16,568	0.9
2018-19 (e)	546,000	28.1	545,000	28.1	18,491	1.0
2019-20 (e)	**560,000**	**27.9**	**560,000**	**27.9**	**16,638**	**0.8**
2020-21 (e)	567,000	27.3	567,000	27.3	16,764	0.8
2021-22 (p)	573,000	26.4	573,000	26.4	16,090	0.7
2022-23 (p)	569,000	25.0	569,000	25.0	15,571	0.7

(a) Previously referred to as Commonwealth Government Securities.
(b) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(c) From 2018-19 onwards, data for AGS on issue are projections and are rounded to the nearest $1 billion.
(d) Total AGS on issue includes AGS held on behalf of the states and the Northern Territory, but excludes Commonwealth holdings of AGS.
(e) Estimates.
(f) The face value of AGS subject to the Treasurer's Direction excludes the stock and securities outlined in subsection 51JA(2A) of the *Commonwealth Inscribed Stock Act 1911*. These are the same stock and securities that were excluded from the previous legislative debt limit. Data on AGS on issue subject to the Treasurer's Direction are not available prior to 2008-09 because the limit was first introduced in July 2008.
(g) Interest paid consists of all cash interest payments of the general government sector, including those relating to AGS on issue.
(p) Projections.

Table 6: Australian Government general government sector revenue, expenses, net operating balance, net capital investment and fiscal balance[(a)]

	Revenue		Expenses		Net operating balance(b)		Net capital investment		Fiscal balance(c)	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1996-97	141,688	25.5	145,821	26.3	-4,133	-0.7	90	0.0	-4,223	-0.8
1997-98	146,820	25.0	148,652	25.3	-1,832	-0.3	147	0.0	-1,979	-0.3
1998-99	152,106	24.5	146,772	23.7	5,334	0.9	1,433	0.2	3,901	0.6
1999-00	167,304	25.3	155,558	23.5	11,746	1.8	-69	0.0	11,815	1.8
2000-01	186,106	26.4	180,090	25.5	6,016	0.9	8	0.0	6,007	0.9
2001-02	190,432	25.2	192,984	25.6	-2,553	-0.3	382	0.1	-2,935	-0.4
2002-03	206,778	25.8	201,113	25.1	5,665	0.7	287	0.0	5,377	0.7
2003-04	222,042	25.8	215,235	25.0	6,808	0.8	660	0.1	6,148	0.7
2004-05	242,354	26.3	229,092	24.8	13,261	1.4	1,034	0.1	12,228	1.3
2005-06	260,569	26.2	241,665	24.3	18,904	1.9	2,498	0.3	16,406	1.6
2006-07	277,895	25.6	258,761	23.8	19,134	1.8	2,333	0.2	16,801	1.5
2007-08	303,402	25.8	279,862	23.8	23,540	2.0	2,593	0.2	20,948	1.8
2008-09	298,508	23.7	324,387	25.7	-25,879	-2.1	4,064	0.3	-29,943	-2.4
2009-10	292,387	22.5	339,829	26.1	-47,442	-3.6	6,433	0.5	-53,875	-4.1
2010-11	309,204	21.8	356,084	25.1	-46,880	-3.3	5,297	0.4	-52,176	-3.7
2011-12	337,324	22.5	377,220	25.2	-39,896	-2.7	4,850	0.3	-44,746	-3.0
2012-13	359,496	23.4	382,397	24.9	-22,901	-1.5	987	0.1	-23,888	-1.6
2013-14	374,151	23.4	414,500	25.9	-40,349	-2.5	3,850	0.2	-44,198	-2.8
2014-15	379,455	23.4	417,514	25.7	-38,059	-2.3	2,706	0.2	-40,764	-2.5
2015-16	395,055	23.8	428,691	25.8	-33,636	-2.0	3,829	0.2	-37,464	-2.3
2016-17	415,723	23.6	447,807	25.4	-32,084	-1.8	2,876	0.2	-34,960	-2.0
2017-18	456,280	24.7	460,282	24.9	-4,001	-0.2	1,284	0.1	-5,285	-0.3
2018-19 (e)	495,796	25.6	487,343	25.1	8,452	0.4	6,490	0.3	1,962	0.1
2019-20 (e)	**513,763**	**25.6**	**500,872**	**25.0**	**12,891**	**0.6**	**4,749**	**0.2**	**8,142**	**0.4**
2020-21 (e)	534,260	25.7	516,105	24.8	18,155	0.9	7,717	0.4	10,438	0.5
2021-22 (p)	564,707	26.0	535,915	24.7	28,791	1.3	9,715	0.4	19,077	0.9
2022-23 (p)	580,480	25.6	559,874	24.6	20,606	0.9	10,780	0.5	9,826	0.4

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Net operating balance is equal to revenue less expenses.
(c) Fiscal balance is equal to revenue less expenses less net capital investment.
(e) Estimates.
(p) Projections.

Table 7: Australian Government general government sector net worth and net financial worth[(a)]

	Net worth(b)		Net financial worth(c)	
	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	-10,424	-1.6	-70,414	-10.7
2000-01	-10,287	-1.5	-75,544	-10.7
2001-02	-15,330	-2.0	-81,707	-10.8
2002-03	-18,856	-2.4	-86,456	-10.8
2003-04	-4,740	-0.6	-75,976	-8.8
2004-05	11,066	1.2	-62,372	-6.8
2005-06	14,293	1.4	-63,442	-6.4
2006-07	42,677	3.9	-39,370	-3.6
2007-08	67,122	5.7	-18,428	-1.6
2008-09	15,452	1.2	-75,465	-6.0
2009-10	-50,383	-3.9	-148,930	-11.4
2010-11	-100,504	-7.1	-203,904	-14.4
2011-12	-252,046	-16.8	-360,672	-24.1
2012-13	-207,769	-13.5	-317,843	-20.7
2013-14	-261,596	-16.4	-375,882	-23.5
2014-15	-308,390	-19.0	-427,169	-26.3
2015-16	-423,674	-25.5	-548,028	-33.0
2016-17	-390,897	-22.2	-529,225	-30.0
2017-18	-418,135	-22.6	-562,183	-30.4
2018-19 (e)	-340,889	-17.6	-490,758	-25.3
2019-20 (e)	**-333,324**	**-16.6**	**-487,984**	**-24.3**
2020-21 (e)	-315,365	-15.2	-476,887	-23.0
2021-22 (p)	-287,199	-13.2	-457,183	-21.0
2022-23 (p)	-267,464	-11.8	-446,835	-19.7

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Net worth is equal to total assets less liabilities.
(c) Net financial worth is equal to financial assets less total liabilities.
(e) Estimates.
(p) Projections.

Table 8: Australian Government general government sector accrual taxation revenue, non-taxation revenue and total revenue[(a)]

	Taxation revenue		Non-taxation revenue		Total revenue	
	$m	Per cent of GDP	$m	Per cent of GDP	$m	Per cent of GDP
1999-00	153,409	23.2	13,895	2.1	167,304	25.3
2000-01	175,876	24.9	10,229	1.5	186,106	26.4
2001-02	178,410	23.7	12,022	1.6	190,432	25.2
2002-03	195,319	24.4	11,458	1.4	206,778	25.8
2003-04	210,541	24.5	11,501	1.3	222,042	25.8
2004-05	230,490	25.0	11,863	1.3	242,354	26.3
2005-06	245,846	24.7	14,723	1.5	260,569	26.2
2006-07	262,876	24.2	15,019	1.4	277,895	25.6
2007-08	286,869	24.4	16,534	1.4	303,402	25.8
2008-09	279,303	22.2	19,206	1.5	298,508	23.7
2009-10	268,841	20.7	23,546	1.8	292,387	22.5
2010-11	289,566	20.4	19,639	1.4	309,204	21.8
2011-12	317,413	21.2	19,911	1.3	337,324	22.5
2012-13	338,106	22.0	21,390	1.4	359,496	23.4
2013-14	353,239	22.1	20,912	1.3	374,151	23.4
2014-15	356,321	21.9	23,134	1.4	379,455	23.4
2015-16	369,410	22.2	25,645	1.5	395,055	23.8
2016-17	388,641	22.0	27,082	1.5	415,723	23.6
2017-18	427,403	23.1	28,878	1.6	456,280	24.7
2018-19 (e)	459,085	23.7	36,711	1.9	495,796	25.6
2019-20 (e)	**476,596**	**23.8**	**37,168**	**1.9**	**513,763**	**25.6**
2020-21 (e)	496,734	23.9	37,526	1.8	534,260	25.7
2021-22 (p)	525,620	24.2	39,086	1.8	564,707	26.0
2022-23 (p)	540,100	23.8	40,380	1.8	580,480	25.6

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(e) Estimates.
(p) Projections.

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)]

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	Cash surplus
1988-89	90,748	85,326	5,421	4,177	6,035	257	93,923	90,312	5,678
1989-90	98,625	92,684	5,942	3,926	11,322	-5,261	101,495	102,883	681
1990-91	100,227	100,665	-438	4,804	9,351	-2,139	103,837	108,808	-2,577
1991-92	95,840	108,472	-12,631	3,899	7,713	101	97,937	114,369	-12,530
1992-93	97,633	115,751	-18,118	4,385	7,819	-196	100,512	122,042	-18,314
1993-94	103,824	122,009	-18,185	5,178	6,476	1,482	106,747	126,214	-16,703
1994-95	113,458	127,619	-14,160	5,262	7,318	1,956	116,751	132,965	-12,204
1995-96	124,429	135,538	-11,109	4,927	8,190	-527	126,593	140,963	-11,636
1996-97	133,592	139,689	-6,099	4,782	7,373	473	135,259	143,948	-5,626
1997-98	140,736	140,587	149	6,238	7,923	1,119	144,517	145,985	1,268
1998-99	152,063	148,175	3,889	na	na	-353	na	na	3,536
1999-00	166,199	153,192	13,007	na	na	-2,594	na	na	10,413
2000-01	182,996	177,123	5,872	na	na	391	na	na	6,323
2001-02	187,588	188,655	-1,067	na	na	1,210	na	na	65
2002-03	204,613	197,243	7,370	27,386	26,105	1,280	na	na	8,651
2003-04	217,775	209,785	7,990	27,718	26,142	1,575	238,236	228,664	9,569
2004-05	235,984	222,407	13,577	29,621	28,071	1,550	257,946	242,805	15,141
2005-06	255,943	240,136	15,757	30,875	31,874	-999	278,254	263,421	14,833
2006-07	272,637	253,321	17,190	16,882	18,641	-1,759	285,336	267,719	17,625
2007-08	294,917	271,843	19,754	7,758	8,231	-472	300,503	277,754	22,800
2008-09	292,600	316,046	-27,013	7,987	8,960	-973	297,421	321,275	-23,786
2009-10	284,662	336,900	-54,494	8,419	9,341	-922	290,681	343,816	-52,879

Table 9: Australian Government cash receipts, payments and surplus by institutional sector ($m)[(a)] (continued)

	General government			Public non-financial corporations			Non-financial public sector		
	Receipts(b)	Payments(c)	Underlying cash balance(d)	Receipts(b)	Payments(f)	Cash surplus	Receipts(b)	Payments(f)	Cash surplus
2010-11	302,024	346,102	-47,463	8,558	9,733	-1,175	308,258	353,452	-44,911
2011-12	329,874	371,032	-43,360	8,845	10,847	-2,002	336,122	379,266	-42,763
2012-13	351,052	367,204	-18,834	9,766	13,061	-3,294	358,088	377,221	-19,133
2013-14	360,322	406,430	-48,456	11,042	14,246	-3,204	368,521	417,248	-48,726
2014-15	378,301	412,079	-37,867	11,256	15,136	-3,880	386,643	424,229	-37,586
2015-16	386,924	423,328	-39,606	11,606	17,753	-6,147	395,842	438,228	-42,386
2016-17	409,868	439,375	-33,151	12,406	19,543	-7,138	419,433	456,020	-36,587
2017-18	446,905	452,742	-10,141	14,195	22,348	-8,153	457,604	471,451	-13,846
2018-19 (e)	485,165	482,734	-4,162	17,699	25,824	-8,125	498,971	504,665	-5,694
2019-20 (e)	**505,521**	**493,327**	**7,054**	**18,573**	**26,227**	**-7,654**	**519,984**	**515,445**	**4,539**
2020-21 (e)	522,318	511,314	11,004	na	na	na	na	na	na
2021-22 (p)	551,022	533,230	17,792	na	na	na	na	na	na
2022-23 (p)	566,874	557,709	9,165	na	na	na	na	na	na

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.
(c) Payments in the general government sector are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(d) Between 2005-06 and 2019-20, the underlying cash balance is equal to receipts less payments, less net Future Fund earnings. For the years 1970-71 to 2004-05 and from 2020-21 onwards, the underlying cash balance is equal to receipts less payments.
(e) Estimates.
(f) Payments in the public non-financial corporations and non-financial public sectors are equal to payments for operating activities, purchases of non-financial assets and distributions paid.
(p) Projections.
na Data not available.

Table 10: Australian Government accrual revenue, expenses and fiscal balance by institutional sector ($m)[a]

	General government			Public non-financial corporations			Non-financial public sector		
	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)	Revenue	Expenses	Fiscal balance(b)
1996-97	141,688	145,821	-4,223	27,431	26,015	-331	na	na	-4,554
1997-98	146,820	148,652	-1,979	29,618	26,999	2,360	na	na	387
1998-99	152,106	146,772	3,901	27,687	26,088	-816	175,891	168,958	3,085
1999-00	167,304	155,558	11,815	25,485	23,542	1,062	188,841	175,152	11,721
2000-01	186,106	180,090	6,007	25,869	24,762	-826	207,367	200,246	5,181
2001-02	190,432	192,984	-2,935	26,638	25,341	793	212,462	213,718	-2,142
2002-03	206,778	201,113	5,377	24,339	22,916	1,975	225,989	218,944	7,311
2003-04	222,042	215,235	6,148	25,449	23,444	2,143	241,746	232,934	8,291
2004-05	242,354	229,092	12,228	26,965	25,191	1,473	263,434	248,398	13,700
2005-06	260,569	241,665	16,406	28,143	29,531	-2,442	281,927	264,410	13,964
2006-07	277,895	258,761	16,801	15,443	16,360	-1,763	289,551	271,335	15,038
2007-08	303,402	279,862	20,948	6,854	6,686	-584	308,888	285,179	20,364
2008-09	298,508	324,387	-29,943	6,998	7,576	-1,495	303,309	329,766	-31,438
2009-10	292,387	339,829	-53,875	7,288	7,297	-1,079	298,033	345,483	-54,954
2010-11	309,204	356,084	-52,176	7,563	7,787	-1,446	315,001	362,106	-53,622
2011-12	337,324	377,220	-44,746	8,046	8,238	-2,158	343,722	383,810	-46,904
2012-13	359,496	382,397	-23,888	8,863	9,415	-4,189	366,642	390,094	-28,077
2013-14	374,151	414,500	-44,198	9,537	11,127	-6,070	381,971	423,910	-50,269
2014-15	379,455	417,514	-40,764	9,987	11,850	-4,856	387,719	427,641	-45,620
2015-16	395,055	428,691	-37,464	10,044	12,809	-7,486	403,868	440,270	-44,950
2016-17	415,723	447,807	-34,960	10,894	15,035	-9,918	425,114	461,338	-44,879
2017-18	456,280	460,282	-5,285	12,318	16,934	-10,055	466,661	475,195	-15,255
2018-19 (e)	495,796	487,343	1,962	15,490	21,035	-10,050	509,333	506,426	-8,088
2019-20 (e)	**513,763**	**500,872**	**8,142**	**16,776**	**22,848**	**-8,774**	**527,769**	**520,949**	**-632**
2020-21 (e)	534,260	516,105	10,438	na	na	na	na	na	na
2021-22 (p)	564,707	535,915	19,077	na	na	na	na	na	na
2022-23 (p)	580,480	559,874	9,826	na	na	na	na	na	na

(a) Data have been revised in the 2019-20 Budget to improve accuracy and comparability through time.
(b) Fiscal balance is equal to revenue less expenses less net capital investment. Net capital investment is not shown in this table.
(e) Estimates.
(p) Projections.
na Data not available.

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)]

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
1970-71	5,494	838	6,331	5,643	688	263	-144
1971-72	5,524	868	6,391	5,771	620	-347	-171
1972-73	5,484	863	6,348	6,122	227	-515	-164
1973-74	6,138	791	6,930	6,278	652	-1,049	-162
1974-75	6,797	722	7,519	7,433	87	-914	-116
1975-76	7,125	761	7,886	8,516	-631	-144	-139
1976-77	7,212	796	8,008	8,471	-463	329	-23
1977-78	7,073	855	7,928	8,601	-672	956	1
1978-79	7,066	821	7,887	8,534	-647	1,504	77
1979-80	7,430	770	8,200	8,557	-358	1,689	119
1980-81	7,954	817	8,771	8,815	-45	1,549	151
1981-82	8,208	784	8,992	8,916	75	1,283	147
1982-83	7,861	850	8,712	9,353	-642	1,754	172
1983-84	7,956	910	8,866	10,110	-1,243	2,841	288
1984-85	8,889	981	9,870	10,883	-1,013	3,674	472
1985-86	8,978	1,124	10,102	10,883	-782	4,103	603
1986-87	9,131	1,134	10,265	10,600	-334	4,003	654
1987-88	9,453	1,060	10,512	10,329	183	3,443	567
1988-89	9,628	842	10,470	9,844	625	2,536	516
1989-90	9,555	827	10,382	9,756	625	1,697	479
1990-91	9,153	739	9,893	9,936	-43	1,670	359
1991-92	8,368	812	9,180	10,390	-1,210	2,973	365
1992-93	8,341	834	9,175	10,877	-1,703	5,189	375
1993-94	8,532	956	9,488	11,150	-1,662	6,417	514
1994-95	9,191	748	9,938	11,179	-1,240	7,314	639
1995-96	9,608	725	10,333	11,255	-922	7,958	736
1996-97	10,096	732	10,828	11,322	-494	7,804	769
1997-98	10,511	783	11,294	11,282	12	6,655	664
1998-99	10,852	1,070	11,922	11,617	305	5,650	678
1999-00	11,455	1,127	12,582	11,597	985	4,365	569
2000-01	12,010	891	12,901	12,487	414	3,299	437
2001-02	11,882	828	12,710	12,782	-72	2,863	363
2002-03	12,500	794	13,294	12,815	479	2,170	244
2003-04	12,983	693	13,677	13,175	502	1,695	191
2004-05	13,566	727	14,293	13,470	822	945	152
2005-06	14,012	808	14,820	13,904	912	19	133
2006-07	14,269	795	15,064	13,997	950	-1,342	13
2007-08	14,630	817	15,447	14,239	1,035	-2,093	-53
2008-09	13,618	942	14,559	15,726	-1,344	-562	-60
2009-10	12,552	1,077	13,629	16,131	-2,609	2,292	114

Table 11: Australian Government general government sector receipts, payments, underlying cash balance, net debt and net interest payments presented on a real per capita basis[(a)] (continued)

	Taxation receipts	Non-taxation receipts	Total receipts	Payments	Underlying cash balance	Net debt	Net interest payments
2010-11	12,919	912	13,831	15,849	-2,174	4,152	211
2011-12	13,692	818	14,511	16,321	-1,907	6,750	291
2012-13	13,859	982	14,841	15,524	-796	6,747	350
2013-14	13,798	813	14,611	16,480	-1,965	8,497	440
2014-15	13,906	960	14,866	16,193	-1,488	9,660	427
2015-16	13,829	936	14,765	16,154	-1,511	11,580	459
2016-17	13,992	1,129	15,121	16,210	-1,223	11,891	456
2017-18	14,895	1,028	15,923	16,131	-361	12,184	468
2018-19 (e)	15,465	1,252	16,717	16,634	-143	12,869	485
2019-20 (e)	**15,476**	**1,298**	**16,774**	**16,369**	**234**	**11,980**	**363**
2020-21 (e)	15,501	1,146	16,647	16,296	351	11,139	331
2021-22 (p)	15,748	1,124	16,872	16,327	545	10,204	287
2022-23 (p)	15,528	1,121	16,649	16,380	269	9,577	255

(a) The real levels are derived using the Consumer Price Index (CPI). The current reference period for the CPI is 2011-12, which means the real levels per capita are reported in 2011-12 dollars.
(e) Estimates.
(p) Projection.