

PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK 2007

A REPORT BY
THE SECRETARY TO THE TREASURY AND
THE SECRETARY TO THE DEPARTMENT OF FINANCE AND
ADMINISTRATION

OCTOBER 2007

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ISBN 0 642 74425 4

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FOREWORD

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretaries to the Departments of the Treasury and of Finance and Administration (the Secretaries) to publicly release a Pre-Election Economic and Fiscal Outlook report (PEFO) within ten days of the issue of the writ for a general election. Such a writ was issued on 17 October 2007.

The purpose of the PEFO is to provide updated information on the economic and fiscal outlook. The information in the report takes into account, to the fullest extent possible, all Government decisions made before the issue of the writ and all other circumstances that may have a material effect on the fiscal and economic outlook.

In recognition of the limited time available to prepare the PEFO, the Charter provides that information which is unchanged from that provided in an earlier economic and fiscal outlook report may be summarised in the PEFO.

The 2007 PEFO updates the estimates contained in the *Mid-Year Economic and Fiscal Outlook 2007-08* (MYEFO). Like the 2007-08 MYEFO, the 2007 PEFO takes into account information contained in the June quarter national accounts. In addition, it includes all decisions taken by the Government since the 2007-08 MYEFO.

Consistent with the Charter's requirements, the PEFO:

- provides an updated fiscal outlook;
- presents the updated economic forecasts which underpin the revised expenses, capital and revenue estimates;
- summarises the changes in the expenses, capital and revenue estimates;
- provides in **Attachment A** a summary of the external reporting standards used in the preparation of the PEFO;
- provides in **Attachment B** updated financial statements;
- provides in **Appendix A** the general government financial statements on a Government Finance Statistics (GFS) basis, consistent with the *Accrual Uniform Presentation Framework*; and
- provides in **Appendix B** the general government financial statements on an Australian Accounting Standards (AAS) basis.

STATEMENT BY THE TREASURER AND THE MINISTER FOR FINANCE AND ADMINISTRATION

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that we have disclosed to the Secretary to the Treasury and the Secretary to the Department of Finance and Administration all details of any Government decision, or any other circumstance, that we know about:

- (i) that has, or could have, material fiscal or economic implications; and
- (ii) that neither of the responsible Secretaries could reasonably be expected to know about.



Peter Costello
Treasurer



Nick Minchin
Minister for Finance and Administration

18 October 2007

17 October 2007

STATEMENT BY THE SECRETARY TO THE TREASURY AND THE SECRETARY TO THE DEPARTMENT OF FINANCE AND ADMINISTRATION

Consistent with the *Charter of Budget Honesty Act 1998*, we declare that, to the fullest extent possible, the information in the *Pre-Election Economic and Fiscal Outlook 2007* for which we are responsible:

- (i) reflects the best professional judgment of the officers of the Treasury and the Department of Finance and Administration;
- (ii) takes into account all economic and fiscal information available; and
- (iii) incorporates the fiscal implications of Government decisions and circumstances disclosed by the responsible Ministers.



Ken Henry
Secretary to the Treasury

22 October 2007



IJ Watt
Secretary to the Department of Finance
and Administration

22 October 2007

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Notes

- (a) The following definitions are used in the PEFO:
- ‘real’ means adjusted for the effect of inflation;
 - real growth in expenses is measured using the non-farm Gross Domestic Product deflator;
 - Budget year refers to 2007-08, while the forward years refer to 2008-09, 2009-10 and 2010-11; 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:
- | | |
|---------|---|
| NEC/nec | not elsewhere classified |
| - | nil |
| .. | not zero but rounded to zero |
| * | The nature of this measure is such that a reliable estimate cannot be provided. |
| na | not applicable (unless otherwise specified) |
| nfp | not for publication |
| (e) | estimates |
| (p) | projections |
| \$m | \$ million |
| \$b | \$ billion |

- (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

PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK

OVERVIEW

The Australian economy is expected to grow by 4¼ per cent in 2007-08 despite the ongoing effects of drought and heightened downside risks to the world economic outlook.

The underlying cash and fiscal balances are estimated to be in surplus in 2007-08 and the forward years. Table 1 provides revised estimates and projections of the underlying cash and fiscal balances for the period from 2007-08 to 2010-11.

Table 1: Summary of budget aggregates

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
Underlying cash balance (\$b)(a)	14.4	14.3	17.7	15.0
Per cent of GDP	1.3	1.2	1.4	1.2
Fiscal balance (\$b)	14.4	13.6	18.4	17.1
Per cent of GDP	1.3	1.1	1.5	1.3

(a) Excludes expected Future Fund earnings.

ECONOMIC OUTLOOK

The Australian economy is forecast to grow by 4¼ per cent in 2007-08 and 3½ per cent in 2008-09. Growth is expected to be broadly based, reflecting continued strong business investment and household consumption. A partial recovery from drought is forecast to contribute to GDP growth, although dry weather conditions and low water storage levels pose a downside risk to the farm outlook. Farm production is not expected to recover to pre-drought levels over the forecast horizon.

In line with the forecasts for GDP growth, employment is expected to grow by 2¼ per cent in 2007-08 before easing to 1¾ per cent in 2008-09. Wage and inflation pressures in the near-term are expected to ease over the forecast horizon.

Strong world growth, particularly in emerging market economies, is expected to support the domestic economy. However, the potential for further financial market volatility associated with the US sub-prime mortgage market poses a downside risk to the outlook.

Table 2 presents the major economic parameters used in preparing the *Pre-Election Economic and Fiscal Outlook 2007* (PEFO). The parameters for 2007-08 and 2008-09 are forecasts, while those for 2009-10 and 2010-11 are projections. The forecast assumptions and projection methodology are consistent with those in the *Mid-Year Economic and Fiscal Outlook 2007-08* (2007-08 MYEFO). As noted in the 2007-08 MYEFO,

if the recent financial market turbulence continues to be resolved in a relatively benign fashion, stronger outcomes are possible for the domestic economy, especially given the magnitude of investment projects in the pipeline. Stronger growth in an economy that is close to full employment could add to wage and price pressures, although if the recent appreciation of the Australian dollar is sustained, this would have a dampening effect on economic activity and prices.

A more detailed discussion of the economic outlook is contained in the 2007-08 MYEFO.

Table 2: Major economic parameters^(a)

	Forecasts		Projections	
	2007-08	2008-09	2009-10	2010-11
Real GDP	4 1/4	3 1/2	3	3
Employment	2 1/4	1 3/4	1 1/4	1 1/4
Wage Price Index	4 1/4	4 1/4	4	4
CPI	2 3/4	2 3/4	2 1/2	2 1/2

(a) Year-average percentage change.

FISCAL OUTLOOK

An underlying cash surplus of \$14.4 billion, or 1.3 per cent of GDP, is estimated for 2007-08. A fiscal surplus of \$14.4 billion, or 1.3 per cent of GDP, is estimated for 2007-08. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years. This is consistent with the outlook published in the 2007-08 MYEFO, after reflecting the impact of decisions taken prior to the dissolution of Parliament.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates^(a)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
Revenue (\$b)	251.9	264.0	278.7	287.5
Per cent of GDP	22.5	22.1	22.4	22.1
Expenses (\$b)	235.8	248.7	259.4	269.5
Per cent of GDP	21.0	20.8	20.8	20.8
Net operating balance (\$b)	16.0	15.3	19.3	18.0
Net capital investment (\$b)	1.6	1.8	1.0	0.9
Fiscal balance (\$b)	14.4	13.6	18.4	17.1
Per cent of GDP	1.3	1.1	1.5	1.3
Underlying cash balance (\$b)(b)	14.4	14.3	17.7	15.0
Per cent of GDP	1.3	1.2	1.4	1.2
<i>Memorandum item:</i>				
Headline cash balance (\$b)	22.3	18.3	19.1	16.3

(a) All estimates are based on Government Finance Statistics (GFS) standards, but with goods and services tax (GST) revenue collected on behalf of the States and Territories netted off revenue and expenses.

(b) Excludes expected Future Fund earnings.

Table 4 provides a reconciliation of the fiscal balance estimates between the 2007-08 Budget, the 2007-08 MYEFO and the 2007 PEFO.

Table 4: Reconciliation of 2007-08 Budget, 2007-08 MYEFO and 2007 PEFO fiscal balance estimates^(a)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
2007-08 Budget fiscal balance	9,999	11,860	14,101	13,704
Per cent of GDP	0.9	1.0	1.2	1.1
Changes between 2007-08 Budget and MYEFO				
Effect of policy decisions(b)	-3,909	-10,766	-13,748	-17,836
Effect of parameter and other variations	8,792	12,548	18,062	21,256
Total variations	4,883	1,781	4,314	3,421
2007-08 MYEFO fiscal balance	14,882	13,642	18,415	17,125
Per cent of GDP	1.3	1.1	1.5	1.3
Changes between 2007-08 MYEFO and PEFO				
Effect of policy decisions(b)				
Revenue	-2	24	-1	-1
Expenses	380	84	1	35
Net capital investment	5	3	-1	-2
Total policy decisions impact on fiscal balance	-387	-64	0	-35
Effect of parameter and other variations				
Revenue	-11	-31	-35	-38
Expenses	49	-7	-6	-6
Net capital investment	0	0	0	0
Total parameter and other variations impact on fiscal balance	-61	-24	-29	-33
2007 PEFO fiscal balance	14,435	13,554	18,386	17,057
Per cent of GDP	1.3	1.1	1.5	1.3

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

(b) Excludes the public debt net interest effect of policy measures.

Table 5 provides a list of the policy decisions taken and parameter and other variations from 10 October 2007 (reflecting the inclusion of policy decisions taken up to and including 9 October 2007 in the 2007-08 MYEFO) to the commencement of the caretaker period on 17 October 2007.

Table 5: Variations since the 2007-08 MYEFO^(a)

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
POLICY DECISIONS				
Revenue measures				
Australian Defence Force – reclassification of service by Australian Training Support Team in East Timor	-1.6	..	-	-
Capital gains tax – changes to small business concessions	*	*	*	*
Capital gains tax – demutualisation of health insurers	-	26.3	2.0	1.0
Capital gains tax – ending of interests in widely held entities and the market value substitution rule	*	*	*	*
Commencement date for changes to the consolidation tax cost settling rules	*	*	*	*
Equine influenza – twelve week extension of assistance	-	-	-	-
Personal income tax – tax exemption for the Queensland Government's \$1,000 Early Completion Bonus for apprentices	-0.6	-0.7	-0.8	-0.8
Philanthropy – changes to prescribed private funds	-	-1.1	-0.6	-1.0
Philanthropy – updating the list of deductible gift recipients	-	-1.0	-1.1	-0.6
Total revenue measures	-2.2	23.6	-0.5	-1.4
Expense measures				
Aged Care – increase funding for the National Seniors Association	0.2	0.2	0.2	0.2
Australian Defence Force – inclusion of the Australian Training Support Team in the United Nations Transitional Administration in East Timor	0.6	0.6	0.8	0.9
Australian Made Campaign – additional funding	0.9	0.9	0.9	-
Australian Paralympic Committee – additional contribution	3.5	6.5	5.5	5.5
Australian Red Cross Blood Service – support The Year of the Blood Donor initiative	2.0	-	-	-
Bass Strait Passenger Vehicle Equalisation Scheme – increase the standard passenger vehicle rebate from \$150 to \$168 each way	2.6	2.9	2.9	2.9
Beaconsfield Community Fund – additional funding for Grubb Shaft Gold and Heritage Museum	0.3	-	-	-
Bimbimie Wildlife Park – support for infrastructure costs(b)	-	-	-	-
Bradman Centenary Project – contribution to the construction of two new wings at the Bradman Museum	3.3	3.3	-	-
Bravery medals from the Battle of Long Tan – establishment of review panel	0.2	-	-	-
Brendan's Fund – ex-gratia payment	0.4	-	-	-
Centre for Social Impact – matching contribution to the initial endowment to establish the Centre	12.5	-	-	-
Chamber Music Australia – contribution	0.1	-	-	-
Clever Networks – additional funding for connecting independent Victorian schools(c)	-	-	-	-
Clinical School at Greenslopes Private Hospital	11.7	1.3	-	-
Commonwealth Trade Learning Scholarship – extension of scholarship for early completion of apprenticeship	0.3	0.4	0.4	0.4
Community Water Grants – bring-forward of expenditure	105.0	-10.0	-49.9	-45.2
Cricket Australia Centre of Excellence – contribution	1.0	5.5	11.0	-
Drought assistance – Exceptional Circumstances assistance for primary producers – additional declarations	1.7	2.7	..	-
Drought assistance – Exceptional Circumstances assistance for small business – additional declarations	0.2	0.3	-	-
Employer and apprentice incentives for apprentices in skills shortage – remove the prior-qualification rule	0.8	7.4	8.6	9.8
Employer incentives for intermediate qualifications	0.1	1.0	1.1	0.7
Equine influenza – twelve week extension of assistance	116.8	-	-	-

Table 5: Variations since the 2007-08 MYEFO^(a) (continued)

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Expense measures (continued)				
General Employee Entitlements and Redundancy Scheme – continue funding liquidators to pursue litigation	-	8.0	-	-
Great Barrier Reef Marine Park Structural Adjustment Package – additional funding	50.8	-	-	-
Immigration Health Screening Process – strengthening	6.7	7.9	6.1	6.2
Innovative rainfall enhancement technology – contribution to operational trials	10.0	-	-	-
Kokoda Track – assistance to Papua New Guinea for World Heritage listing of the Owen Stanley Ranges(d)	0.5	5.4	3.5	3.5
Living Away From Home Allowance – extension to Australian school-based apprentices	0.1	-	-	-
Local government amalgamation – plebiscites in the Northern Territory(e)	*	*	*	*
Medicare Benefits Schedule – make knee and brain Magnetic Resonance Imaging services referred by General Practitioners Medicare-eligible	1.5	4.1	3.8	3.7
Netball Australia – additional funding	1.6	0.4	0.4	-
Operations Catalyst and Slipper – enhanced electronic counter measures(f)	-	-	-	-
Orang-utan conservation in Indonesia – funding(g)	-	-	-	-
Pambula Surf Life Saving Club – contribution	0.1	-	-	-
Patrol vessel in Australian Northern Waters – extension	10.4	24.2	-	-
Pharmaceutical Benefits Scheme – extension to the listing of Remicade®	3.6	6.8	6.6	8.6
Pharmaceutical Benefits Scheme – extension to the listing of Topamax®	6.1	10.8	11.0	11.2
Pharmaceutical Benefits Scheme – listing of Renegal®	6.9	15.2	20.1	22.9
Punt Road Oval – contribution	0.5	1.5	-	-
Ray Owen Sports Centre – contribution	0.2	-	-	-
Regional maritime security capacity-building(d)	0.9	2.4	2.4	2.1
Reversal of a measure reported as a 'decision taken but not yet announced' in the 2007-08 MYEFO	-10.0	-26.0	-36.0	-
Seniors Concession Allowance – increase(h)	-	-	-	-
Sydney 2009 World Masters Games – contribution	8.5	-	-	-
Sydney Dance Company – contribution	1.5	-	-	-
Television Technical Operators College and Westrac National Skills Training Centre of Excellence – grants	16.2	-	-	-
Utilities Allowance – increase and extend eligibility to include all recipients of Disability Support Pension, Service Pension and Carer Payment(i)	-	-	-	-
Depreciation expense(j)	0.1	0.8	1.5	1.5
Total expense measures(k)	379.9	84.3	0.7	34.9
Capital measures				
Australian Defence Force – inclusion of the Australian Training Support Team in the United Nations Transitional Administration in East Timor	0.2	-	-	-
Immigration Health Screening Process – strengthening	3.6	3.6	-	-
Patrol vessel in Australian Northern Waters – extension	0.9	0.1	-	-
Depreciation expense(j)	-0.1	-0.8	-1.5	-1.5
Total capital measures(k)	4.6	2.9	-1.5	-1.5
Total policy decisions impact on fiscal balance	-386.7	-63.7	0.2	-34.7

Table 5: Variations since the 2007-08 MYEFO^(a) (continued)

	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
PARAMETER AND OTHER VARIATIONS				
Revenue variations				
Other	-11.3	-31.0	-34.9	-38.4
Total revenue variations	-11.3	-31.0	-34.9	-38.4
Expense variations				
Department of Immigration and Citizenship funding base adjustment – annual funding reconciliation	49.3	-	-	-
Drawdown of the contingency reserve Official Development Assistance provision(d)	-	-7.4	-5.9	-5.6
Total expense variations	49.3	-7.4	-5.9	-5.6
Total parameter and other variations impact on fiscal balance	-60.6	-23.6	-29.0	-32.8
TOTAL VARIATIONS SINCE THE 2007-08 MYEFO IMPACT ON FISCAL BALANCE	-447.3	-87.3	-28.8	-67.5

* The nature of the measure is such that a reliable estimate cannot be provided.

.. Not zero, but rounded to zero.

- Nil.

- (a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.
- (b) The *Bimbimie Wildlife Park — support for infrastructure costs* measure includes funding of \$2.5 million in 2007-08. This funding will be met from within the existing resourcing of the Department of the Environment and Water Resources.
- (c) The *Clever Networks — additional funding for connecting independent Victorian schools* measure includes funding of \$2.0 million in 2007-08 and \$3.0 million in 2008-09. This funding will be met from within the existing resourcing of the Department of Communications, Information Technology and the Arts.
- (d) The *Drawdown of the contingency reserve Official Development Assistance provision* estimates variation partially offsets the *Kokoda Track — assistance to Papua New Guinea for World Heritage listing of the Owen Stanley Ranges and Regional maritime security capacity-building* measures.
- (e) The *Local government amalgamation — plebiscites in the Northern Territory* measure funding is unquantifiable at this stage as it will depend on the number of local government areas included in the plebiscites and the format for the plebiscites.
- (f) The *Operations Catalyst and Slipper — enhanced electronic counter measures* measure includes funding of \$46.0 million in 2007-08 and \$27.0 million in 2008-09. This funding will be met from within the existing resourcing of the Department of Defence.
- (g) The *Orang-utan conservation in Indonesia — funding* measure includes funding of \$500,000 over four years. This funding will be met from within the existing resourcing of AusAID.
- (h) The *Seniors Concession Allowance — increase* measure includes funding of \$36.0 million in 2007-08, \$65.0 million in 2008-09, \$63.0 million in 2009-10 and \$65.0 million in 2010-11. This measure was included as a 'decision taken but not yet announced' in the 2007-08 MYEFO.
- (i) The *Utilities Allowance — increase and extend eligibility to include all recipients of Disability Support Pension, Service Pension, and Carer Payment* measure includes funding of \$504.0 million in 2007-08, \$1,041 million in 2008-09, \$1,077 million in 2009-10 and \$1,122 million in 2010-11. This measure was included as a 'decision taken but not yet announced' in the 2007-08 MYEFO.
- (j) Aggregate depreciation expenses in relation to capital measures.
- (k) Measures may not add due to rounding.

Cash flows

In 2007-08, an underlying cash surplus of \$14.4 billion is expected. New policy decisions and parameter and other variations since the 2007-08 MYEFO have had a similar impact on the underlying cash balance as the fiscal balance.

Table 6: Reconciliation of 2007-08 Budget and 2007 PEFO underlying cash balance estimates

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
2007-08 Budget underlying cash balance(a)	10,637	12,712	13,812	12,447
Changes from 2007-08 Budget to MYEFO				
Effect of policy decisions(b)	-3,886	-10,840	-13,859	-17,996
Effect of parameter and other variations	8,083	12,525	17,776	20,638
Total variations	4,197	1,685	3,917	2,642
2007-08 MYEFO underlying cash balance(a)	14,834	14,396	17,729	15,089
Changes from 2007-08 MYEFO to PEFO				
Effect of policy decisions(b)	-406	-53	11	-35
Effect of parameter and other variations	-61	-24	-29	-33
Total variations	-467	-77	-18	-68
2007 PEFO underlying cash balance(a)	14,367	14,319	17,711	15,021

(a) Excludes expected Future Fund earnings.

(b) Excludes the public debt net interest effect of policy measures.

Statement of risks and sensitivity of fiscal expenses and revenues to economic developments

The statement of risks and the estimated sensitivity of the fiscal aggregates to changes to the economic parameters for the 2007 PEFO are unchanged from that provided in the 2007-08 MYEFO. They are therefore not included in this report. The 2007-08 MYEFO statement of risks updated those material fiscal risks and contingent liabilities that had changed since the 2007-08 Budget.

REPORTING STANDARDS

The *Charter of Budget Honesty Act 1998* requires that the Pre-Election Economic and Fiscal Outlook (PEFO) be based on external reporting standards and that departures from applicable external reporting standards be identified.

This attachment describes the external reporting standards upon which the financial statements in Attachment B are based. The standards are consistent with those used in the 2007-08 Budget and the 2007-08 MYEFO.

The major external standards used for PEFO 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* cat. no. 5514.0, which in turn is based on the International Monetary Fund (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments*.

Consistent with the presentation adopted by the Government in the 2007-08 MYEFO, the PEFO tables, with the exception of tables in Appendix A, do not include goods and services tax (GST) collections and equivalent payments to the States and Territories (the States), which is a departure from ABS GFS and AAS. Estimates of GST receipts are provided in Table A5 of Appendix A.

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted because excluding such provisions would overstate the value of Australian Government assets in the balance sheet (and would, therefore, be inconsistent with the market valuation principle).

The AAS financial statements currently record IMF Special Drawing Rights (SDRs) as a liability. This is consistent with AAS. The GFS statements also record SDRs as a liability. However, in accordance with the IMF's GFS manual, IMF SDRs are not treated as a liability in ABS GFS although IMF treats them this way in some of its other documentation. The statistical standard underpinning the GFS manual (the System of National Accounts 1993) is currently being updated and includes a proposal to treat SDRs as a liability.

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

the Australian Government. However, in ABS GFS, coins on issue are treated as a liability and no revenue is recognised. The treatment of coins on issue is listed for clarification as part of the update of the statistical standard referred to above.

ABS GFS also requires defence weapons be treated as expenses. This treatment is currently adopted in the GFS financial statements; however the update of the statistical standard is expected to change the treatment of defence weapons to assets. The AAS financial statements record defence weapons as assets, which is consistent with AAS.

Defence weapons inventories acquired and disposed of during the estimates periods are recorded as capital investment rather than expenses until such inventories can be reliably identified and measured. Consistent with the *Final Budget Outcome 2006-07*, defence weapons inventories at 2006-07 have been removed from the balance sheet for budget reporting purposes.

BUDGET FINANCIAL STATEMENTS

The budget financial statements consist of an operating statement, balance sheet, cash flow statement and statement of other economic flows (reconciliation of net worth) for the Australian Government general government sector. The budget financial statements are based on GFS Standards with the exception of the departures discussed in Attachment A.

Table 7: Australian Government general government sector operating statement

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Revenue				
Taxation revenue	235,869	246,790	260,070	267,265
Current grants and subsidies	0	0	0	0
Sales of goods and services	5,191	5,322	5,452	5,567
Interest income	4,656	4,440	5,570	6,502
Dividend income	2,707	4,017	4,003	4,384
Other	3,447	3,467	3,609	3,751
Total revenue	251,871	264,035	278,703	287,469
Expenses				
Gross operating expenses				
Depreciation	2,483	2,651	2,762	2,767
Superannuation	2,675	2,724	2,805	2,945
Salaries and wages	15,122	15,005	15,430	15,830
Payment for supply of goods and services	58,111	61,784	64,930	66,881
Other operating expenses	3,314	3,537	3,678	3,882
<i>Total gross operating expenses</i>	<i>81,705</i>	<i>85,701</i>	<i>89,605</i>	<i>92,304</i>
Nominal superannuation interest expense	6,276	6,319	6,470	6,723
Other interest expenses	3,992	3,911	3,886	3,737
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	45,214	47,858	49,335	50,506
Subsidy expenses	7,317	7,552	7,836	8,148
Personal benefit payments in cash	84,500	89,795	94,957	100,934
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>137,030</i>	<i>145,205</i>	<i>152,129</i>	<i>159,588</i>
Capital transfers	6,835	7,578	7,266	7,110
Total expenses	235,840	248,715	259,356	269,462
Net operating balance	16,031	15,320	19,347	18,007
Net acquisition of non-financial assets				
Purchases of non-financial assets	3,720	4,333	3,670	3,449
<i>less</i> Sales of non-financial assets	<i>256</i>	<i>252</i>	<i>250</i>	<i>92</i>
<i>less</i> Depreciation	<i>2,483</i>	<i>2,651</i>	<i>2,762</i>	<i>2,767</i>
<i>plus</i> Change in inventories	<i>238</i>	<i>221</i>	<i>188</i>	<i>212</i>
<i>plus</i> Other movements in non-financial assets	<i>378</i>	<i>116</i>	<i>115</i>	<i>148</i>
Total net acquisition of non-financial assets	1,597	1,766	961	950
Net lending/fiscal balance(a)	14,435	13,554	18,386	17,057

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

Table 8: Australian Government general government sector balance sheet

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Assets				
Financial assets				
Cash and deposits	577	592	457	791
Advances paid	25,013	26,132	27,062	28,197
Investments, loans and placements	57,039	74,542	91,902	100,089
Other non-equity assets	20,563	19,835	20,065	20,768
Equity(a)	72,191	74,229	77,567	81,154
Total financial assets	175,382	195,329	217,052	230,998
Non-financial assets				
Land	6,940	6,972	6,900	7,016
Buildings	16,981	18,258	19,122	20,062
Plant, equipment and infrastructure	10,932	11,085	11,049	10,785
Inventories	3,486	3,610	3,788	3,971
Heritage and cultural assets	8,245	8,258	8,280	8,294
Other non-financial assets	3,094	3,213	3,256	3,311
Total non-financial assets	49,678	51,395	52,395	53,438
Total assets	225,060	246,723	269,447	284,436
Liabilities				
Deposits held	263	263	263	263
Advances received	0	0	0	0
Government securities	59,288	59,469	58,917	50,947
Loans	7,085	6,801	6,556	6,610
Other borrowing	365	824	784	741
Superannuation liability	106,879	110,654	114,379	118,158
Other employee entitlements and provisions	8,479	8,829	9,204	9,645
Other non-equity liabilities	25,927	26,270	26,408	26,949
Total liabilities	208,286	213,110	216,510	213,313
Net worth(b)	16,774	33,614	52,937	71,123
Net debt(c)(d)	-15,628	-33,908	-52,901	-70,516

(a) Equity includes share holdings of the Future Fund.

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

(c) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

(d) Includes the impact of the sale of the Government's holding in Telstra. The net debt estimate in 2007-08 assumes that the Future Fund will be increasingly invested in equities, which are not included in the calculation of net debt.

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

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Cash receipts from operating activities				
Taxes received	231,816	242,287	255,418	262,536
Receipts from sales of goods and services	5,446	5,593	5,701	5,813
Grants and subsidies received	0	0	0	0
Interest receipts	4,476	4,158	5,279	6,205
Dividends	2,692	4,017	3,983	4,434
GST input credits received by general government	3,957	3,926	3,889	3,882
Other receipts	3,146	3,352	3,505	3,650
Total operating receipts	251,533	263,334	277,774	286,520
Cash payments for operating activities				
Payments for goods and services	-62,126	-65,667	-68,772	-70,845
Grants and subsidies paid	-56,952	-59,400	-61,951	-63,527
Interest paid	-3,646	-3,594	-3,472	-4,472
Personal benefit payments	-83,994	-89,530	-94,803	-100,636
Salaries, wages and other entitlements	-20,074	-20,222	-20,888	-21,663
GST payments by general government to taxation authority	-74	-73	-73	-73
Other payments for operating activities	-3,272	-3,517	-3,577	-3,682
Total operating payments	-230,138	-242,003	-253,535	-264,897
Net cash flows from operating activities	21,395	21,331	24,239	21,622
Cash flows from investments in non-financial assets				
Sales of non-financial assets	301	258	254	88
Purchases of non-financial assets	-3,943	-3,702	-3,568	-3,371
Net cash flows from investments in non-financial assets	-3,642	-3,443	-3,313	-3,283
Net cash flows from investments in financial assets for policy purposes	4,550	891	-1,806	-2,008
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-24,884	-18,415	-18,010	-8,773
Net cash flows from investments in financial assets for liquidity purposes	-24,884	-18,415	-18,010	-8,773
Cash flows from financing activities				
Advances received (net)	0	0	0	0
Borrowing (net)	2,542	167	-699	-6,995
Deposits received (net)	0	0	0	0
Other financing (net)	-540	-516	-546	-229
Net cash flows from financing activities	2,002	-349	-1,245	-7,224
Net increase/decrease in cash held	-579	15	-135	334

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

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Net cash from operating activities and investments in non-financial assets	17,753	17,887	20,926	18,339
Finance leases and similar arrangements(b)	-4	-502	-6	0
GFS cash surplus(+)/deficit(-)	17,749	17,386	20,920	18,338
less Future Fund earnings	3,382	3,066	3,210	3,317
Equals underlying cash balance(c)	14,367	14,319	17,711	15,021
plus net cash flows from investments in financial assets for policy purposes	4,550	891	-1,806	-2,008
plus Future Fund earnings	3,382	3,066	3,210	3,317
Equals headline cash balance	22,299	18,277	19,114	16,331

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

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

(c) The term underlying cash balance is not used by the ABS.

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

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Opening net worth	-6,068	16,774	33,614	52,937
Opening net worth adjustments(a)	8,291	0	0	0
Adjusted opening net worth	2,223	16,774	33,614	52,937
Change in net worth from operating transactions	16,031	15,320	19,347	18,007
Change in net worth from other economic flows				
Revaluation of equity(b)	608	3,866	2,627	2,917
Net writedowns of assets (including bad and doubtful debts)	-2,020	-1,833	-2,060	-2,144
Assets recognised for the first time	7	4	19	12
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	0	0	0	0
Net swap interest received	-113	-127	-109	-99
Market valuation of debt	-381	152	117	125
Other economic revaluations(c)	419	-543	-619	-632
Total other economic flows	-1,480	1,519	-24	179
Closing net worth	16,774	33,614	52,937	71,123

(a) Adjustment to net worth arising mainly from a change in accounting policy for education grants. For further details refer to the 2007-08 MYEFO.

(b) Revaluations of equity reflects changes in the market valuation of investments. This line also reflects any revaluations at the point of disposal or sale.

(c) Largely reflects revaluation of assets and liabilities.

APPENDIX A: GOVERNMENT FINANCE STATISTICS STATEMENTS

Financial tables presented in this Appendix are prepared in accordance with the Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) framework.

The tables include an operating statement, balance sheet, cash flow statement and statement of other economic flows for the Australian Government general government sector.

The Australian, State and Territory Governments have an agreed framework – the *Accrual Uniform Presentation Framework* – for the presentation of government financial information on a basis consistent with the ABS GFS publication. This Appendix presents Australian Government data on an ABS GFS basis, as required by the *Accrual Uniform Presentation Framework*, except for the departures (other than in relation to the treatment of goods and services tax (GST)) detailed in Attachment A.

The only difference between the Australian Government general government sector statements in Attachment B and this Appendix is the treatment of the GST. The tables in this Appendix show GST as taxation revenue and payments to the States and Territories (the States) as grant expenses.

As a result of the different treatments of GST related transactions, fiscal balance, net operating balance and net worth estimates in this Appendix differ from those reported elsewhere in this document. This difference represents the effect of GST revenue accrued but not yet received and, therefore, not yet paid or payable to the States (as GST obligations to the States are on a cash basis).¹ The cash flows presented in this Appendix include GST (except in respect to GST flows internal to the general government sector), whereas the cash flows presented elsewhere in this document do not. The GFS cash surplus/deficit is not affected and provides identical results under both treatments of GST receipts.

Tables A5 and A6 of this Appendix provide reconciliations between key GFS aggregates and their Australian Accounting Standards counterparts.

1 Table A6 shows the difference in the net operating and fiscal balance estimates resulting from the two treatments. The change in expenses when moving between the two GFS presentations of the estimates is less than the change in revenue.

Table A1: Australian Government general government sector operating statement

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
GFS revenue				
Taxation revenue	279,399	293,440	309,060	318,885
Current grants and subsidies	0	0	0	0
Sales of goods and services	5,191	5,322	5,452	5,567
Interest income	4,656	4,440	5,570	6,502
Dividend income	2,707	4,017	4,003	4,384
Other	3,447	3,467	3,609	3,751
Total GFS revenue	295,401	310,685	327,693	339,089
GFS expenses				
Gross operating expenses				
Depreciation	2,483	2,651	2,762	2,767
Superannuation	2,675	2,724	2,805	2,945
Salaries and wages	15,122	15,005	15,430	15,830
Payment for supply of goods and services	58,111	61,784	64,930	66,881
Other operating expenses	3,314	3,537	3,678	3,882
<i>Total gross operating expenses</i>	<i>81,705</i>	<i>85,701</i>	<i>89,605</i>	<i>92,304</i>
Nominal superannuation interest expense	6,276	6,319	6,470	6,723
Other interest expenses	3,992	3,911	3,886	3,737
Other property expenses	0	0	0	0
Current transfers				
Grant expenses	87,464	93,128	97,005	100,636
Subsidy expenses	7,317	7,552	7,836	8,148
Personal benefit payments in cash	84,500	89,795	94,957	100,934
Other current transfers	0	0	0	0
<i>Total current transfers</i>	<i>179,280</i>	<i>190,475</i>	<i>199,799</i>	<i>209,718</i>
Capital transfers	7,035	7,793	7,496	7,350
Total GFS expenses	278,290	294,200	307,256	319,832
Net operating balance(a)	17,111	16,485	20,437	19,257
Net acquisition of non-financial assets				
Purchases of non-financial assets	3,720	4,333	3,670	3,449
<i>less</i> Sales of non-financial assets	<i>256</i>	<i>252</i>	<i>250</i>	<i>92</i>
<i>less</i> Depreciation	<i>2,483</i>	<i>2,651</i>	<i>2,762</i>	<i>2,767</i>
<i>plus</i> Change in inventories	<i>238</i>	<i>221</i>	<i>188</i>	<i>212</i>
<i>plus</i> Other movements in non-financial assets	<i>378</i>	<i>116</i>	<i>115</i>	<i>148</i>
Total net acquisition of non-financial assets	1,597	1,766	961	950
Net lending/fiscal balance(a)(b)	15,515	14,719	19,476	18,307

(a) The fiscal balance and net operating balance estimates in this table differ from those presented elsewhere in the PEFO reflecting the treatment of the GST as an Australian Government tax.

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

Table A2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
GFS assets				
Financial assets				
Cash and deposits	577	592	457	791
Advances paid	25,013	26,132	27,062	28,197
Investments, loans and placements	57,039	74,542	91,902	100,089
Other non-equity assets	30,646	30,578	31,363	32,756
Equity(a)	72,191	74,229	77,567	81,154
<i>Total financial assets</i>	<i>185,466</i>	<i>206,072</i>	<i>228,350</i>	<i>242,986</i>
Non-financial assets				
Land	6,940	6,972	6,900	7,016
Buildings	16,981	18,258	19,122	20,062
Plant, equipment and infrastructure	10,932	11,085	11,049	10,785
Inventories	3,486	3,610	3,788	3,971
Heritage and cultural assets	8,245	8,258	8,280	8,294
Other non-financial assets	3,094	3,213	3,256	3,311
<i>Total non-financial assets</i>	<i>49,678</i>	<i>51,395</i>	<i>52,395</i>	<i>53,438</i>
Total GFS assets	235,143	257,467	280,746	296,424
GFS liabilities				
Deposits held	263	263	263	263
Advances received	0	0	0	0
Government securities	59,288	59,469	58,917	50,947
Loans	7,085	6,801	6,556	6,610
Other borrowing	365	824	784	741
Superannuation liability	106,879	110,654	114,379	118,158
Other employee entitlements and provisions	8,479	8,829	9,204	9,645
Other non-equity liabilities	26,383	26,726	26,863	27,405
Total GFS liabilities	208,741	213,565	216,966	213,768
Net worth(b)(c)	26,402	43,902	63,780	82,656
Net financial worth(d)	-23,275	-7,493	11,385	29,218
Net debt(e)(f)	-15,628	-33,908	-52,901	-70,516

(a) Equity includes share holdings of the Future Fund.

(b) The net worth estimates in this table differ from those presented elsewhere in the PEFO reflecting the treatment of GST as an Australian Government tax.

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

(d) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.

(e) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

(f) Includes the impact of the sale of the Government's holding in Telstra. The net debt estimate in 2007-08 assumes that the Future Fund will be increasingly invested in equities, which are not included in the calculation of net debt.

Table A3: Australian Government general government sector cash flow statement^(a)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Cash receipts from operating activities				
Taxes received(b)	274,113	287,563	303,088	312,665
Receipts from sales of goods and services(c)	5,188	5,338	5,448	5,560
Grants and subsidies received	0	0	0	0
Interest receipts	4,476	4,158	5,279	6,205
Dividends	2,692	4,017	3,983	4,434
GST input credits received by general government(c)	0	0	0	0
Other receipts	3,146	3,352	3,505	3,650
Total operating receipts	289,615	304,428	321,302	332,514
Cash payments for operating activities				
Payments for goods and services(c)	-58,032	-61,565	-64,702	-66,783
Grants and subsidies paid(d)	-99,202	-104,670	-109,621	-113,657
Interest paid	-3,646	-3,594	-3,472	-4,472
Personal benefit payments	-83,994	-89,530	-94,803	-100,636
Salaries, wages and other entitlements	-20,074	-20,222	-20,888	-21,663
GST payments by general government to taxation authority(c)	0	0	0	0
Other payments for operating activities	-3,272	-3,517	-3,577	-3,682
Total operating payments	-268,220	-283,097	-297,063	-310,892
Net cash flows from operating activities	21,395	21,331	24,239	21,622
Cash flows from investments in non-financial assets				
Sales of non-financial assets	301	258	254	88
Purchases of non-financial assets	-3,943	-3,702	-3,568	-3,371
Net cash flows from investments in non-financial assets	-3,642	-3,443	-3,313	-3,283
Net cash flows from investments in financial assets for policy purposes	4,550	891	-1,806	-2,008
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-24,884	-18,415	-18,010	-8,773
Net cash flows from investments in financial assets for liquidity purposes	-24,884	-18,415	-18,010	-8,773
Cash flows from financing activities				
Advances received (net)	0	0	0	0
Borrowing (net)	2,542	167	-699	-6,995
Deposits received (net)	0	0	0	0
Other financing (net)	-540	-516	-546	-229
Net cash flows from financing activities	2,002	-349	-1,245	-7,224
Net increase/decrease in cash held	-579	15	-135	334

Table A3: Australian Government general government sector cash flow statement^(a) (continued)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Net cash from operating activities and investments in non-financial assets	17,753	17,887	20,926	18,339
Finance leases and similar arrangements(e)	-4	-502	-6	0
Equals surplus(+)/deficit(-)	17,749	17,386	20,920	18,338

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

(b) Includes GST cash receipts on an Australian Government tax basis, which is \$47 million higher in 2007-08 than GST cash receipts measured on a State tax basis.

(c) GST flows are excluded from these categories.

(d) Includes GST cash payments on an Australian Government tax basis.

(e) The acquisition of assets under finance leases decreases the surplus or increases the deficit. The disposal of assets previously held under finance leases increases the surplus or decreases the deficit.

Table A4: Australian Government general government sector statement of other economic flows (reconciliation of net worth)

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Opening net worth	2,689	26,402	43,902	63,780
Opening net worth adjustments(a)	8,291	0	0	0
Adjusted opening net worth	10,980	26,402	43,902	63,780
Change in net worth from operating transactions	17,111	16,485	20,437	19,257
Change in net worth from other economic flows				
Revaluation of equity(b)	608	3,866	2,627	2,917
Net writedowns of assets (including bad and doubtful debts)	-2,229	-2,338	-2,595	-2,704
Assets recognised for the first time	7	4	19	12
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	0	0	0	0
Net swap interest received	-113	-127	-109	-99
Market valuation of debt	-381	152	117	125
Other economic revaluations(c)	419	-543	-619	-632
Total other economic flows	-1,689	1,014	-559	-381
Closing net worth	26,402	43,902	63,780	82,656

(a) Adjustment to net worth arising mainly from a change in accounting policy for education grants. For further details refer to the 2007-08 MYEFO.

(b) Revaluations of equity reflect changes in the market valuation of investments. This line also reflects any revaluations at the point of disposal or sale.

(c) Largely reflects revaluation of assets and liabilities.

Table A5: Reconciliation of GFS and AAS revenue and expenses

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
GFS revenue (Appendix A)	295,401	310,685	327,693	339,089
<i>less GST revenue for States and Territories</i>	43,530	46,650	48,990	51,620
GFS revenue (Attachment B)	251,871	264,035	278,703	287,469
<i>plus asset revenue recognised for the first time</i>	207	104	119	112
<i>plus foreign exchange gains</i>	0	0	0	0
<i>plus other economic revaluations</i>	451	2,938	3,686	3,948
<i>plus proceeds from the sale of assets</i>	36	1,529	5	7
<i>plus swap interest revenue</i>	1,620	1,275	1,029	785
AAS income (Appendix B)	254,186	269,881	283,542	292,322
GFS expenses (Appendix A)	278,290	294,200	307,256	319,832
<i>less GST grants to States and Territories</i>	42,250	45,270	47,670	50,130
<i>less GST mutually agreed write-downs</i>	200	215	230	240
GFS expenses (Attachment B)	235,840	248,715	259,356	269,462
<i>plus actuarial revaluations</i>	-1	-1	-1	0
<i>plus net write-down of assets/bad and doubtful debts</i>	2,250	1,963	2,190	2,274
<i>plus foreign exchange losses</i>	0	0	0	0
<i>plus other economic adjustments</i>	220	300	322	220
<i>plus value of assets sold</i>	0	0	0	0
<i>plus swap interest expense</i>	1,734	1,402	1,137	884
<i>plus defence weapons platforms depreciation</i>	2,738	2,740	2,597	2,476
<i>less defence weapons platforms investment</i>	4,217	5,787	6,581	6,441
AAS expenses (Appendix B)	238,563	249,332	259,021	268,874

Table A6: Reconciliation of AAS net operating result and fiscal balance

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
AAS operating result (Appendix B)	15,623	20,549	24,522	23,448
Net differences from revenue and expense definitions	1,488	-4,064	-4,084	-4,190
GFS net operating balance (Appendix A)	17,111	16,485	20,437	19,257
<i>less</i> purchase of property, plant and equipment and intangibles	7,933	9,617	10,245	9,890
<i>less</i> assets acquired under finance leases	4	502	6	0
<i>less</i> other non-financial assets	423	121	120	143
<i>less</i> increase in inventories	238	221	188	212
<i>plus</i> defence weapons platforms investment	4,217	5,787	6,581	6,441
<i>plus</i> proceeds from sales of property, plant and equipment and intangibles	301	257	254	88
<i>plus</i> depreciation and amortisation	5,221	5,391	5,359	5,242
<i>less</i> weapons depreciation	2,738	2,740	2,597	2,476
Fiscal balance (GFS net lending) (Appendix A)(a)	15,515	14,719	19,476	18,307
<i>Impact of GST</i>	-1,080	-1,165	-1,090	-1,250
Fiscal balance (GFS net lending) (Attachment B)(a)	14,435	13,554	18,386	17,057

(a) The fiscal balance estimates in Appendix A are higher than those presented elsewhere in this document, as explained in the introduction to this Appendix.

APPENDIX B: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL STATEMENTS

This Appendix presents financial statements that have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments*, except where departures from the standards are identified in Note 1.

A reconciliation between the Australian Government's general government sector AAS financial statements and Government Finance Statistics (GFS) revenue, expenses and operating results is provided in Appendix A.

Table B1: Australian Government general government sector income statement

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Revenues				
Taxation				
Income tax	203,058	213,214	226,279	233,039
Indirect tax	30,411	31,071	31,391	31,761
Other taxes	2,199	2,322	2,219	2,283
Total taxation revenue	235,668	246,607	259,890	267,083
Non-taxation				
Sales of goods and services	5,191	5,322	5,452	5,567
Interest and dividends	8,663	9,306	10,142	11,180
Other sources of non-tax revenue	3,670	3,671	3,810	3,955
Total non-tax revenue	17,524	18,299	19,404	20,702
Total revenue	253,192	264,906	279,294	287,784
Gains				
Net foreign exchange gains	0	0	0	0
Net gains from sale of assets	18	1,523	0	4
Other gains	976	3,452	4,248	4,534
Total gains	994	4,975	4,248	4,538
Income	254,186	269,881	283,542	292,322
Expenses				
Goods and services				
Employees	27,387	27,584	28,382	29,379
Suppliers	23,402	23,353	23,139	23,069
Depreciation and amortisation	5,221	5,391	5,359	5,242
Net write-down and impairment of assets and fair value losses	3,692	3,752	3,865	3,968
Net foreign exchange losses	0	0	0	0
Net losses from sale of assets	0	0	0	0
Other goods and services expenses	8,333	8,788	9,584	10,289
Total goods and services	68,036	68,868	70,329	71,947
Subsidies benefits and grants				
Personal benefits	102,908	109,653	116,258	123,742
Subsidies	12,900	13,622	14,373	14,769
Grants	48,739	51,570	52,713	53,572
Total subsidies benefits and grants	164,547	174,845	183,345	192,083
Borrowing costs				
Interest	5,677	5,261	4,964	4,562
Other borrowing costs	303	357	382	282
Total interest and other borrowing costs	5,980	5,619	5,347	4,844
Total expenses	238,563	249,332	259,021	268,874
Operating result	15,623	20,549	24,522	23,448

Table B2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Assets				
Financial assets				
Cash	577	592	457	791
Receivables	35,326	36,968	38,717	41,013
Investments	129,418	148,892	169,534	181,243
Equity accounted investments	185	185	185	185
Accrued revenue	2,956	3,167	3,220	3,154
Other financial assets	38	39	41	21
Total financial assets	168,500	189,843	212,153	226,407
Non-financial assets				
Land and buildings	23,921	25,229	26,022	27,078
Infrastructure	43,925	47,052	50,917	54,510
Heritage and cultural assets	8,245	8,258	8,280	8,294
Intangibles	2,427	2,527	2,448	2,353
Investment property	110	104	100	98
Biological assets	3	4	5	6
Assets held for sale	159	164	169	177
Inventories	6,100	6,224	6,402	6,585
Other non-financial assets	3,661	2,233	1,748	1,684
Total non-financial assets	88,552	91,796	96,090	100,783
Total assets	257,052	281,638	308,244	327,191
Liabilities				
Debt				
Government securities	59,288	59,469	58,917	50,947
Loans	6,080	5,803	5,573	5,628
Leases	283	747	712	672
Deposits	263	263	263	263
Overdrafts	0	0	0	0
Other debt	1,065	1,055	1,035	1,032
Total debt	66,979	67,336	66,500	58,542
Provisions and payables				
Employees	115,357	119,483	123,583	127,803
Suppliers	3,390	3,479	3,530	3,589
Personal benefits payable	7,489	7,684	7,798	8,098
Subsidies payable	1,317	1,264	1,227	1,304
Grants payable	1,020	1,080	1,019	1,077
Other provisions and payables	12,734	12,784	12,854	12,899
Total provisions and payables	141,307	145,774	150,011	154,771
Liabilities associated with assets held for sale	0	0	0	0
Total liabilities	208,286	213,110	216,510	213,313
Net assets	48,767	68,529	91,733	113,878
Equity				
Accumulated results	-13,262	7,502	32,438	56,354
Reserves	62,029	61,027	59,295	57,524
Capital	0	0	0	0
Total equity	48,767	68,529	91,733	113,878

Table B3: Australian Government general government sector statement of changes in equity

	Accumulated results		Asset revaluation reserve		Other reserves		Contributed equity/capital		Total equity	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening balance										
Balance carried forward from previous period	5,079	-13,262	19,325	19,415	8,612	42,613	0	0	33,016	48,767
Adjustment for errors/entity adjustments	-34,014	-17	-42	0	34,022	0	0	0	-34	-17
Adjustment for changes in accounting policy	0	0	0	0	0	0	0	0	0	0
Adjusted opening balance	-28,935	-13,279	19,283	19,415	42,634	42,614	0	0	32,982	48,750
Income and expense										
Revenues and expenses recognised directly in equity	na	na	na	na	0	0	na	na	0	0
Currency translation gain (loss)	na	na	113	30	0	0	na	na	113	30
Financial asset revaluations	na	na	32	35	na	na	na	na	32	35
Non-financial asset revaluations	na	na	na	na	na	na	na	na	na	na
Total revenues and expenses recognised directly in equity	0	0	145	65	0	0	0	0	145	65
Net operating result	15,623	20,549	na	na	na	na	na	na	15,623	20,549
Total income and expenses										
Transfers between reserves	23	-8	-16	2	-7	6	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0	0
Other movements	27	240	3	5	-13	-1,081	0	0	17	-836
Closing balance	-13,262	7,502	19,415	19,487	42,613	41,539	0	0	48,767	68,529

Table B3: Australian Government general government sector statement of changes in equity (continued)

	Accumulated results		Asset revaluation reserve		Other reserves		Contributed equity/capital		Total equity	
	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening balance										
Balance carried forward from previous period	7,502	32,438	19,487	19,567	41,539	39,728	0	0	68,529	91,733
Adjustment for errors/entity adjustments	-20	-76	0	-1	0	1	0	0	-20	-76
Adjustment for changes in accounting policy	0	0	0	0	0	0	0	0	0	0
Adjusted opening balance	7,482	32,363	19,487	19,566	41,540	39,728	0	0	68,509	91,657
Income and expense										
Revenues and expenses recognised directly in equity	na	na	na	na	0	0	na	na	0	0
Currency translation gain (loss)	na	na	30	37	0	0	na	na	30	37
Financial asset revaluations	na	na	43	34	na	na	na	na	43	34
Non-financial asset revaluations										
Total revenues and expenses recognised directly in equity	0	0	73	72	0	0	0	0	73	72
Net operating result	24,522	23,448	na	na	na	na	na	na	24,522	23,448
Total income and expenses										
Transfers between reserves	-7	-5	1	0	6	5	0	0	0	0
Dividends	0	0	0	0	0	0	0	0	0	0
Other movements	442	548	6	6	-1,818	-1,853	0	0	-1,370	-1,299
Closing balance	32,438	56,354	19,567	19,644	39,728	37,880	0	0	91,733	113,878

Table B4: Australian Government general government sector cash flow statement

	Estimates		Projections	
	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m
Operating activities				
Cash received				
Taxation	231,727	242,208	255,341	262,457
Sales of goods and services	5,446	5,593	5,701	5,813
Interest	6,168	5,518	6,355	7,036
Dividends	2,692	4,017	3,983	4,434
GST input credit receipts	3,957	3,926	3,889	3,882
Other	3,235	3,431	3,582	3,729
Total operating cash received	253,225	264,693	278,850	287,350
Cash used				
Payments to employees	23,147	23,429	24,252	25,129
Payments to suppliers	27,786	27,571	27,297	27,328
Subsidies paid	12,324	13,041	13,847	14,229
Personal benefits	102,402	109,388	116,104	123,444
Grant payments	48,344	50,351	52,427	53,569
Interest and other financing costs	5,753	5,427	4,956	5,404
GST payments to taxation authority	74	73	73	73
Other	8,171	8,664	9,483	10,213
Total operating cash used	228,001	237,944	248,438	259,389
Net cash from operating activities	25,225	26,749	30,412	27,961
Investing activities				
Cash received				
Proceeds from asset sales program	6,602	2,815	0	0
Proceeds from sales of property, plant and equipment and intangibles	301	258	254	88
Other net investing cash received	288	313	331	346
Total investing cash received	7,191	3,387	585	434
Cash used				
Purchase of property, plant and equipment and intangibles	8,159	9,488	10,148	9,812
Net loans, advances and HELP	2,052	1,924	1,806	2,008
Other net investing cash paid	25,200	18,731	18,341	9,119
Total investing cash used	35,410	30,143	30,296	20,939
Net cash from investing activities	-28,220	-26,756	-29,710	-20,505
Financing activities				
Cash received				
Net cash received from currency issues	0	0	0	0
Other	0	0	0	0
Total financing cash received	0	0	0	0
Cash used				
Net repayments of borrowings	-2,542	-167	699	6,995
Other	126	145	138	127
Total financing cash used	-2,416	-22	837	7,122
Net cash from financing activities	2,416	22	-837	-7,122
Net increase/decrease in cash held	-579	15	-135	334

NOTES TO THE AAS FINANCIAL STATEMENTS

Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* requires that the Pre-Election Economic and Fiscal Outlook (PEFO) be based on external reporting standards and that departures from applicable external reporting standards be identified.

The financial statements included in this Appendix have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), being the Australian Equivalents to International Financial Reporting Standards (AEIFRS) and AAS 31 *Financial Reporting by Governments* (AAS 31).

AAS requires governments to prepare accrual based general purpose financial reports. This means that assets, liabilities, income and expenses are recorded in financial statements when transactions have an economic impact on the government, rather than when the cash flow associated with these transactions occurs. Consistent with AAS, an income statement, a balance sheet, a statement of changes in equity, and a cash flow statement have been prepared for the current financial year and the three forward years.

The accounting policies in this Appendix are generally consistent with the accounting policies in AAS. While the scope for financial reporting recommended in AAS 31 is the whole of government (that is, the Australian Government public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the PEFO presentation covers the general government sector only. This publication does not include full note disclosures.

AAS would suggest the gross amount of goods and services tax (GST) be included in the Australian Government's financial statements. However, consistent with the presentation adopted by the Government in the 2007-08 MYEFO, the PEFO AAS tables do not include GST cash flows and any accrued GST revenues and associated payments to the States and Territories (the States), which is a departure from AAS. Estimates of GST receipts are provided in Table A5 of Appendix A.

The new AEIFRS standard relating to superannuation is AASB 119 Employee Benefits. The standard requires the government bond rate at balance date to be referenced when valuing the superannuation liability, with the relevant bond yield to match the term of the liability. However, the longest maturing government bond is only 10 years, significantly shorter than the term of the superannuation liability. Therefore, in applying this standard, a longer term rate of 6 per cent as determined by actuaries is adopted to discount the liability for budget reporting. Guidance has been sought from the Australian Accounting Standards Board to clarify the differing interpretations in applying AASB 119 for outcomes.

