

PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK 2010

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

JULY 2010

© Commonwealth of Australia 2010

ISBN 978-0-642-74628-3

Notwithstanding the general copyright licence provided for on www.budget.gov.au, and with the exception of the Commonwealth Coat of Arms, all material presented in this document is provided under a Creative Commons Attribution 2.5 Australia (<http://creativecommons.org/licenses/by/2.5/au/>) licence.

For the avoidance of doubt, this means this licence only applies to material as set out in this document.



The details of the relevant licence conditions are available on the Creative Commons website (accessible using the links provided) as is the full legal code for the CC BY 2.5 AU licence (<http://creativecommons.org/licenses/by/2.5/au/legalcode>).

The document should be attributed as the Pre-Election Economic and Fiscal Outlook 2010.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the It's an Honour (<http://www.itsanhonour.gov.au/coat-arms/>) website.

Contact us

Inquiries regarding the licence and any use of this document are welcome at:

The Manager
Communications Unit
Ministerial and Communications Division
The Treasury
Langton Crescent
Parkes ACT 2600
Email: medialiaison@treasury.gov.au

Internet

The *Pre-Election Economic and Fiscal Outlook 2010* is available on the Treasury website at: www.treasury.gov.au and on the Department of Finance and Deregulation website at: www.finance.gov.au

Purchasing copies

Over the counter at:
16 Nyrang Street, Fyshwick ACT

CanPrint Telesales:
Toll Free 1300 889 873
(Operator service available between 8 am and 5 pm AEST weekdays.
Message facility available for after hours calls.)

CanPrint Mail Order Sales:
PO Box 7456
Canberra MC ACT 2610

By email at:
sales@infoservices.com.au

Printed by CanPrint Communications Pty Ltd

FOREWORD

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretary to the Treasury and the Secretary to the Department of Finance and Deregulation (the Secretaries) to release publicly 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 19 July 2010.

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 2010 PEFO updates the estimates contained in the *2010-11 Budget* and the *Economic Statement*. Like the Economic Statement, the 2010 PEFO takes into account information contained in the March quarter national accounts. In addition, it includes all decisions taken by the Government since the 2010-11 Budget.

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 **Appendix A** a summary of the external reporting standards used in the preparation of the PEFO and updated financial statements;
- lists in **Appendix B** the policy decisions taken by the Government since the 2010-11 Budget;
- updates in **Appendix C** the general and specific risks to the budget forward estimates for material changes in these risks since the 2010-11 Budget; and
- discusses in **Appendix D** the sensitivity of the budget forward estimates to changes in major economic parameters.

STATEMENT BY THE DEPUTY PRIME MINISTER AND TREASURER AND THE MINISTER FOR FINANCE AND DEREGULATION

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 Deregulation 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.



Wayne Swan
Deputy Prime Minister and
Treasurer

19 July 2010



Lindsay Tanner
Minister for Finance and Deregulation

19 July 2010

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

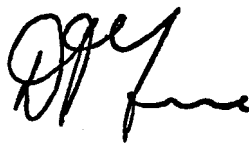
Consistent with the *Charter of Budget Honesty Act 1998*, we declare that, to the fullest extent possible, the information in the *Pre-Election Economic and Fiscal Outlook 2010* for which we are responsible:

- (i) reflects the best professional judgment of the officers of the Treasury and the Department of Finance and Deregulation;
- (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

23 July 2010



David Tune
Secretary of the Department of Finance
and Deregulation

23 July 2010

CONTENTS

Foreword	v
Pre-Election Economic and Fiscal Outlook.....	1
Overview	1
Economic outlook.....	1
Fiscal outlook	5
Appendix A: Financial Statements	11
Appendix B: Policy decisions since the 2010-11 Budget	19
Appendix C: Statement of Risks.....	31
Appendix D: Sensitivity of Receipt and Payment Estimates to Economic Developments	37

Notes

- (a) The following definitions are used in the PEFO:
- ‘real’ means adjusted for the effect of inflation;
 - real growth in expenses is measured by the Consumer Price Index (CPI) deflator;
 - one billion is equal to one thousand million; and
 - the Budget year refers to 2010-11, while the forward years refer to 2011-12, 2012-13 and 2013-14.
- (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 3 per cent in 2010-11 and 3¾ per cent in 2011-12, although there are substantial downside risks to the world economic outlook.

The underlying cash and fiscal balances are projected to remain in deficit in 2010-11 and 2011-12, returning to surplus from 2012-13. Table 1 provides revised estimates and projections of the underlying cash and fiscal balances for the period from 2010-11 to 2013-14.

Table 1: Summary of budget aggregates

	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14
Underlying cash balance (\$b)(a)	-40.7	-10.4	3.5	4.5
Per cent of GDP	-2.9	-0.7	0.2	0.3
Fiscal balance (\$b)	-39.4	-8.7	5.1	6.1
Per cent of GDP	-2.8	-0.6	0.3	0.4

(a) Excludes expected Future Fund earnings.

ECONOMIC OUTLOOK

The Australian economy is expected to grow by 3 per cent in 2010-11 and 3¾ per cent in 2011-12, returning to around full capacity over the next year. Fiscal and monetary stimulus is being withdrawn and there are early signs that private sector activity is picking up, although the transition to private sector led activity is proving to be a little slower than expected. Business investment – particularly mining investment – and exports are expected to strengthen over 2010-11 and 2011-12, driven by a substantial boost in the terms of trade and ongoing strong demand for Australian non-rural commodities.

The global economy is continuing to recover although the pace of growth remains uneven, with emerging economies, particularly in Asia, growing much more strongly than advanced economies. The world economy is expected to grow by 4½ per cent in 2010 and 4 per cent in 2011. There are substantial downside risks to the global outlook, including the European sovereign debt crisis, uncertainty over whether the US recovery will gain traction, the challenge in China of addressing overheating and the difficulty across the advanced economies in managing fiscal consolidation in a fragile global environment. The renewed global uncertainty is weighing on financial markets and business confidence.

Despite the heightened global uncertainty, robust growth in the Asian region is expected to continue to generate strong demand and high prices for non-rural commodities. The terms of trade are forecast to increase by 17 per cent in 2010-11, to around record levels, before declining in 2011-12. In line with this, nominal GDP is forecast to grow by 9¼ per cent in 2010-11 and 5¼ per cent in 2011-12, providing a substantial boost to incomes. There are substantial risks around the future profile of the terms of trade, with considerable short-term volatility in spot commodity prices and uncertainty about the timing, pace and extent of their decline as increased global supply capacity comes on line (Box 1).

Employment is expected to grow strongly, with the unemployment rate declining to 4¾ per cent in late 2011-12, around its full-employment level. Inflation is forecast to be 2¾ per cent through the year to the June quarter in both 2011 and 2012. Inflationary risks are on the upside, with the labour market reaching full capacity over the next year and the strong incomes boost from the terms of trade expected to see demand increasingly stretch the economy's supply capacity.

Table 2 presents the major economic parameters used in preparing the Pre-Election Economic and Fiscal Outlook 2010 (PEFO). The PEFO and the Economic Statement are based on the same forecast assumptions and projection methodology.

Table 2: Major economic parameters^{(a) (b)}

	Forecasts		Projections	
	2010-11	2011-12	2012-13	2013-14
Real GDP	3	3 3/4	3	3
Employment	2 1/4	2	1 1/2	1 1/2
Unemployment rate	5	4 3/4	5	5
Consumer Price Index	2 3/4	2 3/4	2 1/2	2 1/2
Nominal GDP	9 1/4	5 1/4	5 1/4	5 1/4

(a) Real and nominal GDP are year-average growth. Employment and the Consumer Price Index are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

(b) The parameters for 2010-11 and 2011-12 are forecasts and those for 2012-13 and 2013-14 are projections.

Source: ABS cat. nos. 5206.0, 6202.0, 6401.0 and 6345.0, Treasury.

Box 1: The terms of trade

As in the Economic Statement, the terms of trade are forecast to rise by 17 per cent in 2010-11, underpinned by substantial increases in the contract prices of Australia's commodity exports, including iron ore and coal. The terms of trade are forecast to fall by 4½ per cent in 2011-12, a little more than at Budget, as increased global supply capacity starts to weigh on prices of some commodities.

The 17 per cent rise in the terms of trade for 2010-11 is an upward revision from the 14¼ per cent rise forecast at Budget.

The Budget estimates for the terms of trade discounted the sharp and unsustainable run-up in spot prices of some commodities, particularly iron ore. A sharp fall in the iron ore spot price was anticipated and factored into the forecasts.

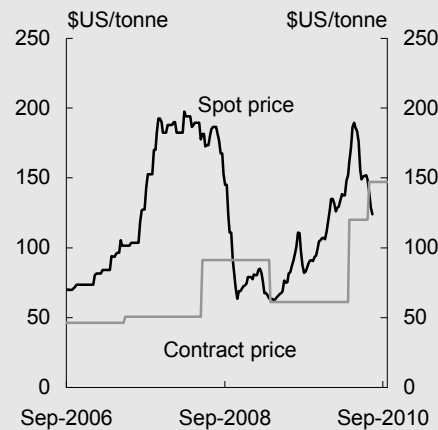
The Budget forecasts assumed that contract prices for bulk commodities would increase substantially – as they have done – but that the increases for iron ore prices would be substantially less than suggested by the prevailing spot prices.

Historically there have been wide divergences between spot prices of bulk commodities at any point in time and contract prices that are subsequently negotiated. These divergences will narrow under the new contracting arrangements for iron ore and metallurgical coal, but they can still be substantial (Chart A).

The Budget estimates were conservative, reflecting the volatility in prices and uncertainty about where they may settle. Subsequent information from industry sources suggested that the estimates for iron ore prices were too low, movements in spot prices notwithstanding, and the current forecasts have been revised accordingly.

The current forecasts are broadly consistent with current spot prices for the bulk commodities, although iron ore spot prices are lower than expected. However, market analysts suggest that part of the reason for this is the seasonal pattern of Chinese demand, which is expected to rebound later in the year when Chinese steel mills look to rebuild iron ore stocks.

Chart A: Iron ore (fines) spot and contract price



Note: The September quarter 2010 contract price estimate is based on estimates by market analysts. The iron ore spot price includes freight but the contract price does not.
Source: Bloomberg and ABARE.

Box 1: The terms of trade (continued)

Attempts by Indian authorities to limit the sale of iron ore to foreign markets may also provide support for iron ore prices.

Thermal coal and metallurgical coal contract price forecasts are consistent with current spot prices (Chart B).

Chart B: Thermal coal spot and contract price



Source: Global Coal and ABARE.

The medium-term outlook for the terms of trade, and for the commodity prices which underpin them, is uncertain. Empirical evidence produced by the International Monetary Fund suggests that commodity price shocks are typically persistent and that there are often no well-defined, time-invariant averages to which commodity prices return.

There is broad agreement that current high levels of prices are unsustainable and that a supply response will see commodity prices decline to more normal levels over the medium term, but the timing and extent of the expected decline is uncertain.

FISCAL OUTLOOK

An underlying cash deficit of \$40.7 billion (or 2.9 per cent of GDP) is estimated for 2010-11. A fiscal deficit of \$39.4 billion (or 2.8 per cent of GDP) is estimated for 2010-11. The fiscal outlook is for a continuing reduction of underlying cash and fiscal deficits until a forecast return to surplus from 2012-13. This is consistent with the outlook published in the 2010-11 Budget and the Economic Statement.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates		Projections	
	2010-11	2011-12	2012-13	2013-14
Revenue (\$b)	321.8	358.1	383.0	404.9
Per cent of GDP	22.7	24.0	24.4	24.4
Expenses (\$b)	354.1	362.7	378.8	395.7
Per cent of GDP	25.0	24.3	24.1	23.9
Net operating balance (\$b)	-32.3	-4.6	4.2	9.2
Net capital investment (\$b)	7.1	4.1	-0.9	3.1
Fiscal balance (\$b)	-39.4	-8.7	5.1	6.1
Per cent of GDP	-2.8	-0.6	0.3	0.4
Underlying cash balance (\$b)(a)	-40.7	-10.4	3.5	4.5
Per cent of GDP	-2.9	-0.7	0.2	0.3
<i>Memorandum item:</i>				
Headline cash balance (\$b)	-49.2	-12.6	0.1	3.3

(a) Excludes expected Future Fund earnings.

Underlying cash balance estimates

Policy decisions taken after the 2010-11 Budget and up to the Economic Statement reduced the underlying cash balance by \$132 million in 2010-11 and by \$5.6 billion over the forward estimates (including \$7.5 billion from changes to the resource tax arrangements).

Policy decisions reported in the PEFO have increased the underlying cash balance by \$24 million in 2010-11 and reduced the underlying cash balance by \$40 million over the forward estimates. This \$40 million reduction includes payments of \$51 million that relate to a decision taken by the Department of Health and Ageing (under delegation from the Minister of Health and Ageing) to list new, and extensions to, medicines on the Pharmaceutical Benefits Scheme (PBS) from 1 August 2010. This policy decision reduces the underlying cash balance by \$51 million over the forward estimates. This decision was taken early in July, and notified to the Department of Finance and Deregulation after the finalisation of the Economic Statement.

Between the 2010-11 Budget and the Economic Statement, parameter and other variations were expected to have a total positive impact on the underlying cash balance of \$10.5 billion over the four years to 2013-14, including \$538 million in

2010-11. Since the Economic Statement, parameter and other variations are expected to reduce the underlying cash balance by \$362 million in 2010-11 and by \$528 million over the four years to 2013-14. These variations are described in more detail below.

Table 4 provides a reconciliation of the underlying cash balance estimates between the 2010-11 Budget, the Economic Statement and the 2010 PEFO.

Table 4: Reconciliation of 2010-11 Budget, Economic Statement and 2010 PEFO underlying cash balance estimates

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
2010-11 Budget underlying cash balance(a)	-40,756	-13,045	1,016	5,432
Per cent of GDP	-2.9	-0.9	0.1	0.3
Changes from 2010-11 Budget to 2010 ES				
Effect of policy decisions(b)	-132	196	-310	-5,377
Effect of parameter and other variations(c)	538	2,808	2,428	4,748
Total variations	405	3,004	2,118	-629
2010 ES underlying cash balance(a)	-40,351	-10,041	3,134	4,803
Per cent of GDP	-2.8	-0.7	0.2	0.3
Changes from 2010 ES to 2010 PEFO				
Effect of policy decisions(b)	24	-61	1	-4
Effect of parameter and other variations(c)	-362	-282	368	-253
Total variations	-337	-343	369	-257
2010 PEFO underlying cash balance(a)	-40,689	-10,384	3,503	4,546
Per cent of GDP	-2.9	-0.7	0.2	0.3

(a) Excludes expected Future Fund earnings.

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

(c) Includes contingency reserve offsets to policy decisions.

Fiscal balance estimates

The impact of policy decisions on the fiscal balance is similar to that on the underlying cash balance. Further detail of all policy decisions taken since the 2010-11 Budget and up to the commencement of the caretaker period on 19 July 2010 is provided at Appendix B.

Between the 2010-11 Budget and the Economic Statement, parameter and other variations resulted in taxation revenue estimates being revised upwards by around \$150 million in 2010-11 and by around \$7.5 billion over the four years to 2013-14. A stronger outlook for commodity prices was reflected in expected stronger tax revenues on resource rents and company profits, offset in part by downward revisions in consumption taxes associated with the weaker consumption outlook.

Since the Economic Statement, updated information in regard to 2009-10 outcomes has led to taxation revenue estimates being revised downwards by around \$300 million in

each year of the forward estimates. The lower than previously anticipated collections relate to individuals' income taxes and GST.

Non-tax revenue estimates for 2010-11 were largely unchanged between the 2010-11 Budget and the Economic Statement. Since then non-tax revenue has been revised downward, largely reflecting an expected fall in fee revenue from the Guarantee Scheme for large Deposits and Wholesale Funding of \$120 million in 2010-11 (\$256 million over four years) owing to lower than anticipated outstanding guaranteed liabilities. For 2012-13 and 2013-14, the Reserve Bank of Australia (RBA) dividend estimates have increased by \$717 million. This primarily reflects the impact of a smaller anticipated valuation loss in 2009-10 stemming from exchange rate movements, which is expected to enable the RBA to resume dividend payments a year earlier than anticipated at the time of the 2010-11 Budget.

Between the 2010-11 Budget and the Economic Statement, parameter and other variations reduced the estimates of expenses for 2010-11 and across the forward estimates. In 2010-11, this primarily reflects:

- a reduction in GST payments to the States and Territories (consistent with the forecast reduction in GST collections) of \$1.0 billion (\$3.0 billion over four years to 2013-14); and
- a reduction in expected interest expenses of \$514 million (\$4.2 billion over four years).

These variations are partly offset by:

- an increase in a range of grant and other program expenses of \$857 million (previously included in the estimates for 2009-10); and
- increased costs flowing from revised economic parameters of \$61 million (\$651 million over four years).

Since the Economic Statement, parameter and other variations have increased expenses by \$179 million in 2010-11 largely reflecting the recognition of \$243 million of expenses for road infrastructure that was previously expected in 2009-10 and a forecast increase in Child Care Rebate expenses of \$56 million (\$249 million over four years). These increases are partially offset by a forecast further reduction in GST payments to the States (consistent with GST revenue collections) of \$90 million in 2010-11 (\$440 million over four years).

The Contingency Reserve includes an allowance for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years (the conservative bias allowance). This allowance is unchanged from the 2010-11 Budget. The Contingency Reserve also contains provisions for future increases in Australia's Official Development Assistance yet to be allocated to specific aid

programs (\$2.8 billion over four years), the continuation of existing exceptional circumstances drought relief (\$145 million in 2010-11), the ICT Business as Usual Reinvestment Fund (\$447 million over four years) and for future equity investments in the National Broadband Network (\$13.6 billion over three years to 2013-14).¹ The Contingency Reserve also contains a number of items that cannot be disclosed for commercial-in-confidence or national security reasons.

Table 5 provides a reconciliation of the fiscal balance estimates.

Table 5: Reconciliation of 2010-11 Budget, Economic Statement and 2010 PEFO fiscal balance estimates

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
2010-11 Budget fiscal balance	-39,598	-12,093	1,960	6,325
Per cent of GDP	-2.8	-0.8	0.1	0.4
Changes from 2010-11 Budget to 2010 ES				
Effect of policy decisions(b)	-130	725	-247	-5,325
Effect of parameter and other variations(c)	773	2,973	3,022	5,344
Total variations	643	3,698	2,774	20
2010 ES fiscal balance	-38,955	-8,395	4,735	6,345
Per cent of GDP	-2.7	-0.6	0.3	0.4
Changes from 2010 ES to 2010 PEFO				
Effect of policy decisions(b)				
Revenue	0	0	0	0
Expenses	-24	61	-1	4
Net capital investment	0	0	0	0
Total policy decisions impact on fiscal balance	24	-61	1	-4
Effect of parameter and other variations(c)				
Revenue	-321	-242	361	-286
Expenses	179	47	5	-26
Net capital investment	-8	-8	-8	-8
Total parameter and other variations impact on fiscal balance	-491	-281	364	-252
2010 PEFO fiscal balance	-39,422	-8,738	5,101	6,088
Per cent of GDP	-2.8	-0.6	0.3	0.4

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

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

(c) Includes contingency reserve offsets to policy decisions.

¹ The profile of expenses in the contingency reserve for Official Development Assistance is \$155 million in 2010-11, \$233 million in 2011-12, \$668 million in 2012-13 and \$1,702 million in 2013-14. The profile for the ICT Business as Usual Reinvestment Fund is \$40 million in 2010-11, \$118 million in 2011-12, \$114 million in 2012-13 and \$177 million in 2013-14.

Net debt and net financial worth

Net debt for the Australian Government general government sector is estimated to be \$80.6 billion (or 5.7 per cent of GDP) in 2010-11, which is broadly consistent with the forecast in the 2010-11 Budget and the Economic Statement.

Net financial worth is estimated to be -\$166.8 billion (or -11.8 per cent of GDP) in 2010-11 in line with the Economic Statement. In the 2010-11 Budget net financial worth was estimated to be -\$160.6 billion (or -11.4 per cent of GDP).

APPENDIX A: FINANCIAL STATEMENTS

The financial statements consist of an operating statement, including other economic flows, a balance sheet, and a cash flow statement for the Australian Government general government sector (GGS).

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the Pre-Election Economic and Fiscal Outlook be based on external reporting standards. These 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's (IMF) accrual GFS framework; and
- Australian Accounting Standards (AAS), being *AASB 1049 Whole of Government and General Government Sector Financial Reporting* and other applicable Australian Equivalents to International Financial Reporting Standards.

The financial statements have been prepared on the same basis as the budget papers reflecting the Government's accounting policy that ABS GFS remains the basis of budget accounting policy, except where the Government applies the AAS because it provides a better conceptual basis for presenting information of relevance to users of public sector financial reports. This is consistent with the presentation adopted by the Government in the 2010-11 Budget and the Economic Statement.

Budget reporting focuses on the 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, user charging and external funding. 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.

Further information on the reporting frameworks is provided in Statement 9 of Budget Paper No. 1, *Budget Strategy and Outlook 2010-11*.

DEPARTURES FROM EXTERNAL REPORTING STANDARDS

The Charter requires that departures from applicable external reporting standards be identified. The financial statements depart from the external reporting standards as follows.

Departures from ABS GFS

ABS GFS requires that provisions for bad and doubtful debts be excluded from the balance sheet. This treatment has not been adopted in the financial statements or in any reconciliation notes because excluding such provisions would overstate the value of Australian Government assets in the balance sheet. The financial statements currently adopt the AAS treatment for provisions for bad and doubtful debts.

ABS GFS treats coins on issue as a liability and no revenue is recognised. The ABS GFS treatment of circulating coins as a liability has not been adopted in the financial statements or in any reconciliation notes. Instead, the financial statements adopt the AAS treatment for circulating coins. Under this treatment seigniorage revenue is recognised upon the issue of coins and no liability is recorded.

Under ABS GFS, prepayments are classified as financial assets. In accordance with AAS, prepayments have been classified as non-financial assets in the financial statements. This is a classification difference that impacts on net financial worth.

ABS GFS currently requires Special Drawing Rights (SDRs) liabilities to be recorded as a contingent liability. The treatment of SDRs as a contingent liability has not been adopted in the financial statements or any reconciliation notes. The financial statements currently record SDRs as a liability. This is consistent with AAS, and also represents an early adoption of the ABS' proposed revisions to GFS in line with revised international standards (refer ABS cat. no. 5310.0.55.001 *Information Paper: Introduction of revised international standards in ABS economic statistics in 2009* and ABS cat. no. 5310.0.55.002 *Information Paper: Implementation of new international statistical standards*). The ABS will be updating its ABS GFS Manual following the update of the IMF GFS Manual 2001.

ABS GFS records defence weapons platforms (DWP) as a non-financial asset on a market value basis (fair value), rather than expensing at time of acquisition. The value used by ABS GFS is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. The ABS GFS treatment of DWP is consistent with AAS, as non-financial assets can be valued at fair value as long as they can be reliably measured, otherwise cost is permissible. DWP will be valued at cost in the financial statements, as they have in previous budgets, while the Australian Government ascertains if a relevant and reliable fair value can be sourced.

Under ABS GFS, concessional loans are recognised at their nominal value, that is, they are not discounted to fair (market) value as there is not considered to be a secondary market. This treatment has not been adopted for the financial statements. Consistent with AAS, loans issued at below market interest rates or with long repayment periods are recorded at fair value (by discounting them by market interest rates). The difference between the nominal value and the fair value of the loan is recorded as an expense. Over the life of the loan the interest earned is recognised at market rates.

Departures from AASB 1049

AAS requires the advances paid to the International Development Association and Asian Development Fund to be recognised at fair value. Under ABS GFS these advances are recorded at nominal value. The ABS GFS treatment is adopted in the financial statements.

AASB 1049 requires the disclosure of the operating result and its derivation on the face of the operating statement. However, as this aggregate is not used by the Australian Government (and is not required by the Uniform Presentation Framework, agreed to by the Australian, State and Territory governments), it has not been disclosed on the face of the operating statement.

AASB 1049 requires disaggregated information, by ABS GFS function, for expenses and total assets to be disclosed where they are reliably attributable. ABS GFS does not require total assets attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets was disclosed in the 2010-11 Budget.

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 items, where different, in notes to the financial statements. Reconciliation notes have not been included as they would effectively create two measures of the same aggregate.

Table A1: Australian Government general government sector operating statement

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Revenue				
Taxation revenue	302,313	338,146	362,454	384,243
Sales of goods and services	7,913	8,179	8,103	8,030
Interest income	5,302	5,192	5,001	4,947
Dividend income	1,322	1,351	1,997	2,063
Other	4,914	5,226	5,453	5,579
Total revenue	321,765	358,094	383,009	404,862
Expenses				
Gross operating expenses				
Wages and salaries(a)	18,207	18,201	18,402	18,834
Superannuation	3,741	3,779	3,825	3,942
Depreciation and amortisation	5,503	5,566	5,733	5,863
Supply of goods and services	66,409	67,918	70,650	75,885
Other operating expenses(a)	4,369	4,428	4,587	4,740
<i>Total gross operating expenses</i>	<i>98,229</i>	<i>99,892</i>	<i>103,198</i>	<i>109,264</i>
Superannuation interest expense	7,065	7,301	7,552	7,818
Interest expenses	10,872	12,261	12,419	12,401
Current transfers				
Current grants	109,945	115,232	120,699	124,695
Subsidy expenses	8,743	9,140	9,442	9,574
Personal benefits	104,610	108,673	115,015	122,641
<i>Total current transfers</i>	<i>223,298</i>	<i>233,045</i>	<i>245,156</i>	<i>256,910</i>
Capital transfers				
Mutually agreed write-downs	1,888	2,081	2,267	2,413
Other capital grants	12,698	8,158	8,171	6,884
<i>Total capital transfers</i>	<i>14,586</i>	<i>10,240</i>	<i>10,438</i>	<i>9,297</i>
Total expenses	354,051	362,739	378,763	395,690
Net operating balance	-32,286	-4,645	4,246	9,172
Other economic flows				
Gain/loss on equity and on sale of assets(b)	2,262	3,513	7,669	3,583
Net write-downs of assets (including bad and doubtful debts)	-5,216	-5,369	-5,494	-5,785
Assets recognised for the first time	626	658	692	727
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	-6	0	0	0
Net swap interest received	0	0	0	0
Market valuation of debt	755	90	118	122
Other economic revaluations(c)	-601	-151	-174	-82
Total other economic flows	-2,180	-1,259	2,809	-1,435
Comprehensive result -				
Total change in net worth	-34,466	-5,904	7,055	7,737
Net operating balance	-32,286	-4,645	4,246	9,172
Net acquisition of non-financial assets				
Purchases of non-financial assets	11,949	10,213	9,284	8,919
less Sales of non-financial assets	379	1,048	4,705	453
less Depreciation	5,503	5,566	5,733	5,863
plus Change in inventories	725	441	517	497
plus Other movements in non-financial assets	344	52	-218	-16
Total net acquisition of non-financial assets	7,136	4,093	-855	3,084
Fiscal balance (Net lending/borrowing)(d)	-39,422	-8,738	5,101	6,088

(a) Consistent with 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) Reflects changes in the market valuation of investments and any revaluations at the point of disposal or sale.

(c) Largely reflects other revaluation of assets and liabilities.

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

Table A2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Assets				
Financial assets				
Cash and deposits	2,022	1,893	1,739	1,816
Advances paid	25,438	26,327	27,225	27,945
Investments, loans and placements	101,079	102,463	101,429	96,690
Other receivables	35,492	36,980	38,753	40,920
Equity investments				
Investments in other public sector entities	28,146	33,054	39,686	44,411
Equity accounted investments	260	259	258	257
Investments - shares	26,822	23,500	24,160	25,326
<i>Total financial assets</i>	<i>219,260</i>	<i>224,475</i>	<i>233,250</i>	<i>237,365</i>
Non-financial assets				
Land	8,326	8,225	8,204	8,111
Buildings	21,903	22,672	23,367	23,829
Plant, equipment and infrastructure	50,176	53,250	55,232	57,407
Inventories	7,015	7,079	7,338	7,533
Intangibles	5,068	5,323	5,678	5,528
Investment property	182	182	182	182
Biological assets	33	34	34	34
Heritage and cultural assets	9,269	9,276	9,281	9,288
Assets held for sale	106	88	102	85
Other non-financial assets	2,917	2,993	2,940	3,083
<i>Total non-financial assets</i>	<i>104,994</i>	<i>109,122</i>	<i>112,358</i>	<i>115,080</i>
Total assets	324,254	333,598	345,608	352,445
Liabilities				
Interest bearing liabilities				
Deposits held	230	230	230	230
Government securities	198,142	209,435	209,452	203,254
Loans	9,878	9,611	9,504	9,414
Other borrowing	919	819	717	623
<i>Total interest bearing liabilities</i>	<i>209,169</i>	<i>220,095</i>	<i>219,902</i>	<i>213,520</i>
Provisions and payables				
Superannuation liability	127,116	131,419	135,755	140,113
Other employee liabilities	10,203	10,481	10,766	11,060
Suppliers payable	5,062	5,109	5,135	5,231
Personal benefits payable	12,541	12,813	13,381	13,851
Subsidies payable	2,231	2,368	2,517	2,662
Grants payable	7,853	7,851	8,035	8,282
Other provisions and payables	11,870	11,155	10,755	10,628
<i>Total provisions and payables</i>	<i>176,875</i>	<i>181,196</i>	<i>186,344</i>	<i>191,826</i>
Total liabilities	386,043	401,291	406,247	405,346
Net worth(a)	-61,790	-67,694	-60,638	-52,901
<i>Net financial worth(b)</i>	<i>-166,784</i>	<i>-176,816</i>	<i>-172,997</i>	<i>-167,981</i>
<i>Net financial liabilities(c)</i>	<i>194,929</i>	<i>209,871</i>	<i>212,682</i>	<i>212,392</i>
<i>Net debt(d)</i>	<i>80,630</i>	<i>89,413</i>	<i>89,510</i>	<i>87,069</i>

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

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

(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 deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.

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

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Cash receipts from operating activities				
Taxes received	294,355	330,153	354,112	375,739
Receipts from sales of goods and services	7,848	8,131	8,031	7,996
Interest receipts	5,073	4,979	4,834	4,847
Dividends and income tax equivalents	2,164	1,444	2,095	2,103
Other receipts	4,628	4,835	5,147	5,238
Total operating receipts	314,068	349,542	374,219	395,923
Cash payments for operating activities				
Payments for employees	-24,791	-24,995	-25,476	-26,256
Payments for goods and services	-66,718	-67,949	-70,839	-76,104
Grants and subsidies paid	-130,122	-132,111	-138,009	-140,856
Interest paid	-9,240	-10,209	-10,366	-10,055
Personal benefit payments	-104,912	-108,392	-114,451	-122,196
Other payments	-3,954	-4,036	-4,159	-4,303
Total operating payments	-339,737	-347,693	-363,300	-379,770
Net cash flows from operating activities	-25,669	1,849	10,919	16,153
Cash flows from investments in non-financial assets				
Sales of non-financial assets	379	1,048	4,705	453
Purchases of non-financial assets	-12,314	-10,389	-9,196	-9,038
Net cash flows from investments in non-financial assets	-11,935	-9,342	-4,492	-8,585
Net cash flows from investments in financial assets for policy purposes	-11,407	-5,059	-6,376	-4,312
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	8,310	2,143	690	4,119
Net cash flows from investments in financial assets for liquidity purposes	8,310	2,143	690	4,119
Cash receipts from financing activities				
Borrowing	41,495	11,206	2	0
Other financing	0	0	0	0
Total cash receipts from financing activities	41,495	11,206	2	0
Cash payments for financing activities				
Borrowing	0	0	0	-6,610
Other financing	-725	-927	-898	-688
Total cash payments for financing activities	-725	-927	-898	-7,297
Net cash flows from financing activities	40,770	10,279	-896	-7,297
Net increase/(decrease) in cash held	69	-130	-154	78

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

	Estimates		Projections	
	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-)	-37,604	-7,492	6,428	7,568
Finance leases and similar arrangements(b)	-163	0	0	0
GFS cash surplus(+)/deficit(-)	-37,768	-7,492	6,428	7,568
less Future Fund earnings	2,921	2,892	2,925	3,022
Equals underlying cash balance(c)	-40,689	-10,384	3,503	4,546
plus Net cash flows from investments in financial assets for policy purposes	-11,407	-5,059	-6,376	-4,312
plus Future Fund earnings	2,921	2,892	2,925	3,022
Equals headline cash balance	-49,175	-12,552	52	3,256

(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.

APPENDIX B: POLICY DECISIONS SINCE THE 2010-11 BUDGET

Table B1: Revenue measures: 2010-11 Budget to Economic Statement^(a)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
AGRICULTURE, FISHERIES AND FORESTRY					
<i>Department of Agriculture, Fisheries and Forestry</i>					
Passionfruit marketing levy	-	0.1	0.1	0.1	0.1
Portfolio total	-	0.1	0.1	0.1	0.1
ATTORNEY-GENERAL'S					
<i>Australian Customs Service</i>					
Stronger, fairer, simpler – revised growth dividend	-	-	-	-1.0	-3.0
Portfolio total	-	-	-	-1.0	-3.0
TREASURY					
<i>Australian Taxation Office</i>					
Corporations law amendments – consequential amendment to the tax law	-	*	*	*	*
Exempting from taxation laws certain transactions involving security agencies	*	*	*	*	*
International tax					
– additional benefits agreement between Australia and the Marshall Islands	-
– amending the withholding tax definition of a managed investment trust	-	*	*	*	*
– tax information exchange agreement with the Marshall Islands	-	*	*	*	*
Minor amendments to the GST Regulations	-	-	-	-	-
Minor refinements to taxation of financial arrangements provisions	*	*	*	*	*
Personal income tax – exemption of pay and allowances for Operation RIVERBANK personnel	-	-
Philanthropy – updating the list of specifically listed deductible gift recipients	-	..	-1.3	-1.3	-0.1
Reportable employer superannuation contributions – clarification of the 2008-09 Budget measure	-	-	-	-	-

Table B1: Revenue measures: 2010-11 Budget to Economic Statement ^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
TREASURY (continued)					
Stronger, fairer, simpler					
– improved resource taxation arrangements(b)	-	-	-	-1,000.0	-6,500.0
– early cut to the company tax rate for small business companies	-	-	-	200.0	150.0
– revised company tax cut	-	-	-	-	600.0
– revised growth dividend	-	-	-	-99.0	-197.0
Superannuation					
– account based pensions – extension of drawdown relief for retirees	-	-3.0	-9.0	-	-
– enabling the confiscation of the proceeds of crime from superannuation	-	*	*	*	*
Taxation laws – minor amendments	-	*	*	*	*
<i>Department of the Treasury</i>					
European Bank for Reconstruction and Development – increased capital	14.1	-	-	-	-
Portfolio total	14.1	-3.0	-10.3	-900.3	-5,947.1
Total impact of revenue measures(c)	14.1	-3.0	-10.2	-901.2	-5,950.0

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

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain in revenue.

(b) The improved resource taxation arrangements measure does not take account of parameter changes that are expected to increase revenue by \$2.0 billion in 2012-13 and \$4.0 billion in 2013-14 relative to the fiscal projections published in the 2010-11 Budget.

(c) Measures may not add due to rounding.

Table B2: Expense measures: 2010-11 Budget to Economic Statement^(a)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
AGRICULTURE, FISHERIES AND FORESTRY					
<i>Department of Agriculture, Fisheries and Forestry</i>					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	0.3	4.5	1.1	-	-
– Exceptional Circumstances assistance for small businesses	..	0.4	0.2	-	-
Illegal Logging Policy Implementation	-	-	-	-	-
Portfolio total	0.3	4.8	1.3	-	-
ATTORNEY-GENERAL'S					
<i>Attorney-General's Department</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
<i>Australian Federal Police</i>					
Increasing operational activity to combat people smuggling	-	22.3	-	-	-
Portfolio total	-	22.3	-	-	-
BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY					
<i>Department of Broadband, Communications and the Digital Economy</i>					
National Broadband Network					
– Telstra negotiations – Establishment of USO Co to take responsibility for the delivery of the Universal Service Obligation(c)	-	-	-	-	-
– Telstra negotiations – Retraining(d)	-	-	-	-	-
Portfolio total	-	-	-	-	-
CLIMATE CHANGE AND ENERGY EFFICIENCY					
<i>Department of Climate Change and Energy Efficiency</i>					
National Solar Schools Program – refinements	-	3.3	3.6	7.9	-5.1
Portfolio total	-	3.3	3.6	7.9	-5.1
EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS					
<i>Department of Education, Employment and Workplace Relations</i>					
Child Care Rebate – fortnightly payment(e)	-	4.6	4.9	4.0	0.6

Table B2: Expense measures: 2010-11 Budget to Economic Statement^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS (continued)					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	..	0.4	0.1	-	-
– Exceptional Circumstances assistance for small businesses	-	-
Job seeker engagement – increased support(f)	-	-	-	-	-
Portfolio total	..	5.1	5.0	4.0	0.6
ENVIRONMENT, WATER, HERITAGE AND THE ARTS					
<i>Department of the Environment, Water, Heritage and the Arts</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
Portfolio total	-	-	-	-	-
FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS					
<i>Department of Families, Housing, Community Services and Indigenous Affairs</i>					
Superannuation – account based pensions – extension of drawdown relief for retirees(g)	-	15.0	-	-	-
Universal design for housing – voluntary guidelines	-	0.3	0.3	0.3	0.3
Portfolio total	-	15.3	0.3	0.3	0.3
FINANCE AND DEREGULATION					
<i>Department of Finance and Deregulation</i>					
Funding for expansion of detention centres(h)	-	0.2	0.2	-	-
Portfolio total	-	0.2	0.2	-	-
FOREIGN AFFAIRS AND TRADE					
<i>AusAID</i>					
Overseas development assistance(i)					
– contribution to the Global Agriculture and Food Security Program	10.0	25.0	-	-	-
– contribution to the International Rice Research Institute	12.2	-	-	-	-
– contribution to the World Bank Palestinian Reform and Development Plan Trust Fund	10.0	-	-	-	-
– fifth replenishment of the Global Environment Facility	-	-	-	-	-
<i>Department of Foreign Affairs and Trade</i>					
Anti-whaling Strategy: International Legal Action(b)	-	-	-	-	-
Portfolio total	32.2	25.0	-	-	-

Table B2: Expense measures: 2010-11 Budget to Economic Statement ^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
HEALTH AND AGEING					
<i>Cancer Australia</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
<i>Department of Health and Ageing</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	-	0.1	..	-	-
– Exceptional Circumstances assistance for small businesses	-	-	-
Juvenile Diabetes Research Foundation – contribution	-	-	-	-	-
National Diabetes Services Scheme – extend access to insulin pump consumables	-
National Health and Hospitals Network – lead clinicians groups(b)	-	-	-	-	-
<i>National Breast and Ovarian Cancer Centre</i>					
Cancer Australia and the National Breast and Ovarian Cancer Centre – creating a single national cancer control agency(b)	-	-	-	-	-
Portfolio total	-	0.1
HUMAN SERVICES					
<i>Centrelink</i>					
Child Care Rebate – fortnightly payment(e)	-	-	-	-	-
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	-	0.4	0.1	-	-
– Exceptional Circumstances assistance for small businesses	-	-	-
Job seeker engagement – increased support(f)	-	-	-	-	-
Portfolio total	-	0.4	0.1	-	-
IMMIGRATION AND CITIZENSHIP					
<i>Department of Immigration and Citizenship</i>					
Working Holiday Visa (Subclass 417) – reversal(j)	-	-	-	-	-
Portfolio total	-	-	-	-	-

Table B2: Expense measures: 2010-11 Budget to Economic Statement ^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT					
<i>Department of Infrastructure, Transport, Regional Development and Local Government</i>					
Regional and Local Community Infrastructure Program – additional funding(k)	-	100.0	-	-	-
Thornton Park commuter car park – additional funding(k)	-	1.8	-	-	-
Portfolio total	-	101.8	-	-	-
TREASURY					
<i>Australian Taxation Office</i>					
Education Tax Refund – extension(l)	-	-	110.0	110.0	120.0
Minor amendments to the GST Regulations(g)	-	-	-	-	-
Stronger, fairer, simpler – resource exploration refundable tax offset – reversal	-	-0.5	-521.6	-601.2	-681.2
<i>Department of the Treasury</i>					
Drought Assistance					
– Exceptional Circumstances assistance for primary producers	0.2	4.2	2.1	-	-
– Exceptional Circumstances assistance for small businesses	..	0.3	0.3	-	-
Exempting from taxation laws certain transactions involving security agencies(g)	*	*	*	*	*
Financial Reporting Panel – termination	-	-0.1	-0.4	-0.4	-0.4
National Solar Schools Program – refinements	-	9.0	9.6	-17.5	-10.7
Regional Infrastructure Fund – additional funding(k)	-	100.0	100.0	100.0	100.0
Stronger, fairer, simpler – revised growth dividend(g)	-	-	-	-16.0	-31.0
Tax Reform Communications campaign advertising funding reduction	-2.1	-20.3	-	-	-
Portfolio total	-1.9	92.4	-299.9	-425.1	-503.3
Decisions taken but not yet announced(m)	-	-243.6	-445.4	-241.4	-117.7
Total impact of expense measures(n)	30.7	27.1	-734.9	-654.4	-625.1

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

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses.

(b) Provision for this funding has already been included in the forward estimates.

(c) The National Broadband Network - Telstra negotiations - Establishment of USO Co to take responsibility for the delivery of the Universal Service Obligation includes funding of \$50.0 million in each of 2012-13 and 2013-14 and \$100.0 million per annum ongoing from 2014-15. Provision for this funding was included in the Contingency Reserve at the 2010-11 Budget. The establishment of USO Co and the provision of Government funding are contingent on Definitive Agreements being reached between NBN Co and Telstra.

- (d) The National Broadband Network — Telstra negotiations — Retraining includes funding of up to \$100.0 million in 2011-12. Provision of this funding was included in the Contingency Reserve at the 2010-11 Budget. The provision of this funding is contingent on Definitive Agreements being reached between NBN Co and Telstra.
- (e) The impact of this measure is a cost of \$99.3 million in underlying cash terms over the forward estimates.
- (f) The cost of this measure will be met through a reduction in the number of Centrelink reviews of selected job seekers.
- (g) These measures can also be found in the revenue measures summary table.
- (h) These measures can also be found in the capital measures summary table.
- (i) These measures will be fully offset from the provision for expanded aid funding held in the Contingency Reserve.
- (j) This measure is a reversal of a previous decision, where DIAC absorbed the cost.
- (k) This measure has been funded by the removal of a previous decision taken but not yet announced.
- (l) The impact of this measure is a cost of \$220.0 million in underlying cash terms over the forward estimates. This measure has been funded by the removal of a previous decision taken but not yet announced.
- (m) Decisions taken but not yet announced includes the removal of some DTBNYA in previous budget cycles, which have been allocated to announced measures.
- (n) Measures may not add due to rounding.

Table B3: Capital measures: 2010-11 Budget to Economic Statement^(a)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S					
<i>Australian Federal Police</i>					
Increasing operational activity to combat people smuggling(b)	-	2.5	-	-	-
Portfolio total	-	2.5	-	-	-
IMMIGRATION AND CITIZENSHIP					
<i>Department of Immigration and Citizenship</i>					
Funding for expansion of detention centres(b)	-	97.8	-	-	-
Portfolio total	-	97.8	-	-	-
Total capital measures(c)	-	100.3	-	-	-

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

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in capital, no sign before an estimate indicates increased capital.

(b) These measures can also be found in the expense measures summary table.

(c) Measures may not add due to rounding.

Table B4: Revenue measures since the Economic Statement^(a)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
TREASURY					
<i>Australian Taxation Office</i>					
Consolidation – operation of the rules following a demerger	-	-	-	-	-
Portfolio total	-	-	-	-	-
Total impact of revenue measures(b)	-	-	-	-	-

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

.. Not zero, but rounded to zero.

- Nil.

nfp not for publication.

(a) A minus sign before an estimate indicates a reduction in revenue, no sign before an estimate indicates a gain in revenue.

(b) Measures may not add due to rounding.

Table B5: Expense measures since the Economic Statement^(a)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S					
<i>Australian Commission for Law Enforcement Integrity</i>					
Australian Commission for Law Enforcement Integrity – resource transfer	-	0.4	0.7	0.8	0.8
<i>Australian Customs and Border Protection Service</i>					
Australian Commission for Law Enforcement Integrity – resource transfer	-	-0.4	-0.7	-0.8	-0.8
Portfolio total	-	-	-	-	-
CLIMATE CHANGE AND ENERGY EFFICIENCY					
<i>Department of Climate Change and Energy Efficiency</i>					
Green Loans Program – cessation	-	-76.4	-3.6	-2.8	-
Green Start Program – expansion	-	74.4	9.1	-1.4	-
Portfolio total	-	-2.0	5.5	-4.1	-
CROSS PORTFOLIO					
<i>Various Agencies</i>					
National Rental Affordability Scheme – deferral(b)	-	-	-	-	-
Reversal of a measure reported as a 'decision taken but not yet announced' in the 2010-11 Budget	-	-1.1	-8.6	-46.2	-90.2
Portfolio total	-	-1.1	-8.6	-46.2	-90.2
EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS					
<i>Department of Education, Employment and Workplace Relations</i>					
Enhanced scrutiny of the financial viability of the largest long-day care providers – future administration costs(c)	-	-	-	-	-
Green Loans Program – cessation	-	0.3	0.2	-	-
Portfolio total	-	0.3	0.2	-	-
FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS					
<i>Department of Families, Housing, Community Services and Indigenous Affairs</i>					
Building Better Regional Cities program – establishment	-	0.2	60.9	70.9	70.9
Cinema modifications for people with a vision or hearing impairment	-	0.1	0.1	0.1	0.1
Community Investment Program – reduction in funding	-	-	-0.9	-0.9	-0.9
Disability community website – creation	-	0.3	0.3	-	-

Table B5: Expense measures since the Economic Statement^(a) (continued)

	2009-10 \$m	2010-11 \$m	2011-12 \$m	2012-13 \$m	2013-14 \$m
FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS (continued)					
Housing Affordability Fund – reduction in funding	-	-	-11.1	-40.8	-
Leadership development for people with disability	-	0.8	0.8	0.8	0.8
Local community accessibility program – additional funding	-	6.0	-	-	-
Services for people with disability – reduction in funding	-	-9.0	-	-	-
Portfolio total	-	-1.7	50.1	30.2	71.0
HEALTH AND AGEING					
<i>Department of Health and Ageing</i>					
COAG National food standards – improving consistency(d)	-	-	-	-	-
Emergency department medical workforce – additional resources(e)	-	-	-	-	-
Life Saving Drugs Program – changes to listing for Fabrazyme ^(f)	-	-	-	-	-
Pharmaceutical Benefits Scheme – minor new listings(g)	-	7.0	11.6	15.0	18.0
Surfing Australia – high performance training facility – contribution(h)	-	-	-	-	-
Portfolio total	-	7.0	11.6	15.0	18.0
HUMAN SERVICES					
<i>Medicare Australia</i>					
Pharmaceutical Benefits Scheme – minor new listings(g)	-	..	0.1	0.1	0.1
Portfolio total	-	..	0.1	0.1	0.1
INNOVATION, INDUSTRY, SCIENCE AND RESEARCH					
<i>Department of Innovation, Industry, Science and Research</i>					
Commonwealth Serum Laboratories (CSL) – Commonwealth assistance(i)	-	-	-	-	-
Establishment of an ICT-enabled research laboratory – Commonwealth assistance(j)	-	0.7	2.3	4.1	5.6
Green Car Innovation Fund – reduction in funding	-	-25.0	-	-	-
Portfolio total	-	-24.3	2.3	4.1	5.6

Table B5: Expense measures since the Economic Statement^(a) (continued)

	2009-10	2010-11	2011-12	2012-13	2013-14
	\$m	\$m	\$m	\$m	\$m
TREASURY					
<i>Department of the Treasury</i>					
Local Government Reform Fund – reduction in funding	-	-2.0	-	-	-
Portfolio total	-	-2.0	-	-	-
Total expense measures(k)	-	-23.8	61.3	-1.1	4.4

- (a) A minus sign before an estimate indicates a reduction in expenses, no sign before an estimate indicates increased expenses. This table includes some earlier decisions taken by officials under ministerial delegation that were not reported to the Department of Finance and Deregulation until after the finalisation of the Economic Statement (see note (g)).
- (b) The *National Rental Affordability Scheme — deferral* measure provides savings of \$2.2 million in 2010-11, \$28.7 million in 2011-12, \$97.0 million in 2012-13 and \$70.1 million in 2013-14 across the Families, Housing, Community Services and Indigenous Affairs and Treasury portfolios. This measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget.
- (c) The *Enhanced scrutiny of the financial viability of the largest long-day care providers — future administration costs* measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget and includes \$0.5 million in 2011-12, \$0.4 million 2012-13 and \$0.3 million in 2013-14. This funding is contingent on the Government's endorsement of the framework following consultation with industry.
- (d) The *COAG National food standards — improving consistency* measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget. The financial impacts of the measure are subject to inter-governmental negotiations.
- (e) The *Emergency department medical workforce — additional resources* measure includes funding of \$13.3 million in 2010-11, \$23.9 million in 2011-12, \$27.5 million in 2012-13 and \$31.1 million in 2013-14. This measure was included as a 'decision taken but not yet announced' in the 2010 Economic Statement.
- (f) The *Life Saving Drugs Program — changes to listing for Fabrazyme[®]* measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget. The financial impacts of this measure are commercial-in-confidence.
- (g) In early July 2010, the Department of Health and Ageing exercised a delegation provided by the Minister for Health and Ageing to list new, and extensions to, medicines on the Pharmaceutical Benefits Scheme from 1 August 2010. Each new medicine listed is estimated to cost less than \$10.0 million per annum.
- (h) The *Surfing Australia — high performance training facility — contribution* measure includes funding of \$2.0 million in 2010-11. This measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget.
- (i) The *Commonwealth Serum Laboratories (CSL) — Commonwealth assistance* measure includes funding of \$9.3 million in 2010-11, \$10.6 million in 2011-12, \$8.0 million in 2012-13 and \$2.1 million in 2013-14. This measure was included as a 'decision taken but not yet announced' in the 2010-11 Budget.
- (j) The *Establishment of an ICT-enabled research laboratory — Commonwealth assistance* measure also includes funding of \$6.7 million in 2014-15 and \$2.7 million in 2015-16.
- (k) Measures may not add due to rounding.

APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details and explanations of fiscal risks and contingent liabilities and assets are provided in Statement 8 of Budget Paper No. 1, *Budget Strategy and Outlook 2010-11*. The following statement updates, where necessary, those fiscal risks and contingent liabilities and assets that have arisen or materially changed since the 2010-11 Budget.

The forward estimates of revenue and expenses in the Pre-Election Economic and Fiscal Outlook 2010 (PEFO) incorporate assumptions and judgments based on information available at the time of publication.

DETAILS OF FISCAL RISKS AND CONTINGENT LIABILITIES

New or revised fiscal risks and contingent liabilities or assets with a possible impact on the forward estimates greater than \$20 million in any one year, or \$40 million over the forward estimates period, that have arisen or changed since the 2010-11 Budget are listed below. Any revisions that have arisen as a result of exchange rate movements have been excluded from this update.

Information on contingent liabilities is also provided in the annual financial statements of departments and non-budget entities.

Since the 2010-11 Budget the risks relating to the OzCar Special Purpose Vehicle and the activation of the financial claims scheme compensation facility for a small general insurer, have been removed as they no longer exist.

FISCAL RISKS

Expenses

The Australian Government has established NBN Co to build and operate the National Broadband Network (NBN).

The Government made provision in the 2010-11 Budget of \$18.3 billion over the forward estimates (including \$18.1 billion in equity) for the roll-out of the NBN, based on the recommendations of the NBN Implementation Study. The NBN Co and Telstra announced on 20 June 2010 that they had entered into a Financial Heads of Agreement and that they would enter into negotiations on the Definitive Agreements.

The exact timing and quantum of Government funding for the NBN, including payments by the Government and NBN Co in relation to the agreement with Telstra

on the rollout of the NBN, will be determined in the Government's response to the Implementation Study and costs could arise as part of settlement of the Definitive Agreements between NBN Co and Telstra.

The Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

Revenue

The estimates and projections of revenue are subject to a number of general risks that can affect taxation collections. These general pressures include tax avoidance, court decisions and Australian Taxation Office rulings. These pressures may result in a shift in the composition of taxation collected from the various tax bases and/or a change in the size of the tax base.

The revenue forecasts reflect the latest economic outlook. To the extent that the outlook changes over time so too will the revenue forecasts. Accordingly, risks identified in the economic outlook will translate though to risks to the revenue forecasts. The current uncertainty in global financial markets means that the risks to the fiscal outlook remain elevated.

Major taxes such as company and personal tax fluctuate significantly with economic activity. Capital gains tax is particularly volatile and is affected by both the level of gains in asset markets and the timing of when those gains are realised. The existing Petroleum Resource Rent Tax and the recently announced Minerals Resource Rent Tax can be expected to vary with commodity prices.

There have been no other significant changes to the fiscal risks disclosed in the 2010-11 Budget.

CONTINGENT LIABILITIES — QUANTIFIABLE

Defence and Defence Materiel Organisation

Indemnities and remote contingencies

Defence carries 8,775 instances of unquantifiable remote contingent liabilities and 131 instances of quantifiable remote contingent liabilities, the value of which has remained steady at \$2.9 billion since the 2010-11 Budget. The Defence Materiel Organisation carries 573 instances of contingencies (including Foreign Military Sales) that are unquantifiable and 113 contingencies that are quantifiable, to the value of \$5.0 billion. This figure has declined from \$5.9 billion at the 2010-11 Budget. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Education, Employment and Workplace Relations

Comcare liability for additional workers' compensation payments

Comcare has a quantifiable contingency in respect of future statutory workers' compensation claims for asbestos related diseases amounting to \$45.6 million. This contingency relates to a decision in the Federal Court, *Comcare v Etheridge* [2006] Federal Court of Australia Full Court (FCAFC) decision number 27.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment by the Export Finance and Insurance Corporation (EFIC) of money that is, or may at any time become, payable by EFIC to any body 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. As at 30 June 2010, the Government's total contingent liability was \$2.6 billion, up from \$2.3 billion at the 2010-11 Budget. This comprises EFIC's liabilities to third parties (\$2.1 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees (\$0.5 billion). Of the total contingent liability \$0.8 billion is held on the National Interest Account.

Finance and Deregulation

Australian Industry Development Corporation

Under the Australian Industry Development Corporation Act 1970, certain obligations of the Australian Industry Development Corporation (AIDC) are guaranteed by the Australian Government. As at 30 June 2010 (the latest available estimate), the AIDC's contingent liabilities, subject to Australian Government guarantee, were approximately \$47.6 million in respect of the Fairfax Paper Bond Guarantee and credit risk facilities. AIDC has been advised that the Fairfax Paper Bond will be redeemed on 30 September 2010, removing the contingent guarantee liability from that date.

Treasury

International financial institutions

Australia has had uncalled capital subscriptions in the European Bank for Reconstruction and Development (EBRD) since 1991. The Government will increase its uncalled capital subscription to the EBRD towards its recently announced general capital increase so that it totals EUR237.5 million (estimated value A\$340.4 million). Paid-in shares received free of charge from this general capital increase were reported as a measure in the Government's Economic Statement in July 2010.

Reserve Bank of Australia

This contingent liability relates to the Australian Government's guarantee of the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities

excluding capital, reserves, the Bank's distribution to the Commonwealth and Australian Government deposits. The major component of the Bank's liabilities is notes (that is, currency) on issue. Notes on issue amount to \$48.8 billion as at 7 July 2010, and the total guarantee is \$59.4 billion, up from \$57.9 billion at 2010-11 Budget.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Broadband and the Digital Economy

NBN Co Limited — board members indemnity

The Australian Government has indemnified the directors of NBN Co Limited in relation to claims arising out of the directors' involvement in the negotiation and entry by NBN Co into the Financial Heads of Agreement with Telstra.

Treasury

Financial Claims Scheme

The Australian Government has established a Financial Claims Scheme to provide depositors of authorised deposit-taking institutions and general insurance policyholders with timely access to their funds in the unlikely event of a financial institution failure.

The Australian Prudential Regulation Authority (APRA) is responsible for the administration of the Financial Claims Scheme. Under the Financial Claims Scheme any payments to eligible depositors or general insurance policyholders will be made out of APRA's Financial Claims Scheme Special Account.

The Early Access Facility for Depositors established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in authorised deposit-taking institutions.

The Government announced that, from 12 October 2008, deposits up to \$1 million at eligible authorised deposit-taking institutions would be eligible for coverage under the Financial Claims Scheme. This \$1 million cap will continue until at least October 2011, when it will be reviewed.

As at 30 June 2010, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately \$690 billion, compared to \$670 billion at 31 March 2010.

The Policyholder Compensation Facility established under the *Insurance Act 1973* provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer. Amounts available to meet payments and administer

this facility, in the event of activation, are capped initially at \$20.1 billion under the legislation.

Any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. If there were a shortfall, a levy would be applied to industry to recover the difference between the amount expended and the amount recovered in the liquidation.

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.

The guarantee will close to new issuance of guaranteed liabilities on 31 December 2010. 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. Government expenditure would arise under the guarantee only in the unlikely event that a State or Territory 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 or Territory at a future date. The impact on the Government's budget would depend upon the extent of the default and the State or Territory's ability to meet the Government's claim.

As at 30 June 2010, the face value of state and territory borrowings covered by the guarantee was \$69.1 billion, down from \$72.6 billion at 31 March 2010.

Guarantee Scheme for Large Deposits and Wholesale Funding

The Australian Government announced the guarantee of eligible deposits and wholesale funding for authorised deposit-taking institutions from 12 October 2008 under the Guarantee Scheme for Large Deposits and Wholesale Funding.

On 7 February 2010, the Government announced the closure of the Guarantee Scheme on 31 March 2010. Since 31 March 2010, Australian authorised deposit-taking institutions have been prohibited from issuing any new guaranteed wholesale funding or accepting new guaranteed deposits above \$1 million. Existing guaranteed wholesale funding is guaranteed to maturity. Depositors who covered their balances above \$1 million under the Guarantee Scheme can have those funds covered to maturity for term deposits up to five years, or until October 2015 for at call deposits.

The expected liability for deposits under the Guarantee Scheme is remote and unquantifiable. Government expenditure would arise under the guarantee only in the unlikely event that an institution 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 institution. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim.

As at 9 July 2010, total liabilities covered by the Guarantee Scheme were estimated at \$161.7 billion, down from \$169.6 billion at 5 April 2010. This is made up of \$6.6 billion (down from \$14.1 billion) of large deposits and \$155.1 billion (down from \$155.5 billion) of wholesale funding.

APPENDIX D: SENSITIVITY OF RECEIPT AND PAYMENT ESTIMATES TO ECONOMIC DEVELOPMENTS

The estimates contained in the Pre-Election Economic and Fiscal Outlook 2010 (PEFO) are based on forecasts of the economic outlook. Changes to the economic assumptions underlying the estimates will impact on receipts and payments, and hence the size of the underlying cash balance.

This appendix examines the effects on receipts and payments of altering some of the key economic assumptions underlying the estimates. Tables D2 and D4 illustrate the sensitivity of key components of receipts and payments to possible variations in the economic outlook. The two scenarios considered are:

- Scenario 1: a 1 per cent reduction in nominal GDP owing to a fall in the terms of trade.
- Scenario 2: a 1 per cent increase in real GDP driven by an equal increase in labour productivity and labour force participation.

The economic scenarios provide a rule of thumb indication of the impact on receipts, payments and the underlying cash balance of changes in the economic outlook. They represent a partial economic analysis only and do not attempt to capture all the economic feedback and other policy responses related to changed economic conditions. In particular, the analysis assumes no change in the exchange rate, interest rates or discretionary policy. The impact of the two scenarios on the economic parameters would be different if the full feedback response on economic variables and likely policy actions were taken into account. The analysis does not aim to provide an alternative picture of the economic forecasts under these scenarios, but instead gives an indication of the sensitivity associated with different components of receipts and payments to changes in the economy. As such, the changes in the economic variables and their impact on the fiscal outlook are merely illustrative.

The impacts shown in the tables below are broadly symmetrical. That is, impacts of around the same magnitude, but in the opposite direction, would apply if the terms of trade were to increase or if real GDP were to decrease.

Scenario 1

The first scenario involves a permanent fall in world prices of non-rural commodity exports, which causes a fall in the terms of trade, consistent with a 1 per cent fall in nominal GDP by 2011-12. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table D1 are highly stylised and refer to per cent deviations from the baseline levels of the economic parameters.

Table D1: Illustrative impact of a permanent non-rural commodity price fall consistent with a 1 per cent fall in nominal GDP in 2011-12 (per cent deviation from the baseline level)

	2010-11 per cent	2011-12 per cent
Real GDP	0	- 1/4
Non-farm GDP deflator	- 3/4	- 3/4
Employment	- 1/4	- 1/2
Wages	0	- 1/4
CPI	0	- 1/4
Company profits	-3	-3
Consumption	- 1/4	- 1/2

Assuming no change in exchange rates or interest rates, the fall in export prices leads directly to a lower non-farm GDP deflator (from the export component of GDP) and lower domestic incomes. Lower domestic incomes cause both consumption and investment to fall, resulting in lower real GDP, employment and wages. The fall in aggregate demand puts downward pressure on domestic prices.

In reality, a fall in the terms of trade would be expected to put downward pressure on the exchange rate, although the magnitude is particularly difficult to model. In the event of a depreciation in the exchange rate, the impacts on the external sector would dampen the real GDP effects, and there would be some offsetting upward pressure on domestic prices.

Given these assumptions, the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around \$2.0 billion in 2010-11 and around \$5.0 billion in 2011-12 (see Table D2).

Table D2: Illustrative sensitivity of the budget balance to a 1 per cent decrease in nominal GDP due to a fall in the terms of trade

	2010-11 \$b	2011-12 \$b
Receipts		
Individuals and other withholding taxation	-0.6	-1.5
Superannuation taxation	-0.1	-0.1
Company tax	-1.2	-3.1
Goods and services tax	-0.1	-0.2
Excise and customs duty	-0.1	-0.1
Other taxation	0.0	0.0
Total receipts	-2.0	-5.0
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.1
GST	0.1	0.2
Total payments	0.0	0.2
PDI	0.0	-0.2
Underlying cash balance impact	-2.0	-5.0

On the receipts side, a fall in the terms of trade results in a fall in nominal GDP which reduces tax collections. The largest impact falls on company tax receipts as the fall in export income decreases company profits. Lower company profits are assumed to flow through to lower Australian equity prices, therefore reducing capital gains tax from individuals, companies and superannuation funds.

The weaker economy results in lower aggregate demand which flows through to lower employment and wages. For this reason, individuals' income tax collections fall and the decrease in disposable incomes leads to lower consumption, which in turn results in a decrease in GST receipts (decreasing GST payments to the States by the same amount) and other indirect tax collections.

On the payments side, a significant proportion of government expenditure is partially indexed to movements in costs (as reflected in various price and wage measures). Some 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 and allowances) increases in both years due to a higher number of unemployment benefit recipients. The increase in unemployment benefits in 2011-12 is partly offset by reduced expenditure on pensions and allowances reflecting lower growth in benefit rates resulting from lower wages growth. At the same time other payments linked to inflation fall in line with the reduced growth in prices.

The reduction in the underlying cash balance results in a higher borrowing requirement and a higher public debt interest cost in 2011-12.

As noted above, under a floating exchange rate, the depreciation of the exchange rate would dampen the effects of the fall in the terms of trade on real GDP, meaning the impact on the fiscal position could be substantially more subdued. Also, to the extent that the fall in the terms of trade is temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

Scenario 2

The second scenario involves a combination of an equal 0.5 per cent increase in the participation rate and in labour productivity, resulting in a 1 per cent increase in real GDP by 2011-12. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table D3 are highly stylised and refer to per cent deviations from the baseline levels of the parameters.

The 1 per cent increase in real GDP increases nominal GDP by slightly less but the magnitude of the effects on receipts, payments and the underlying cash balance differ from the first scenario because this variation in the outlook affects different parts of the economy in different ways.

Table D3: Illustrative impact of an ongoing equal increase in both labour productivity and participation consistent with a 1 per cent increase in real GDP in 2011-12 (per cent deviation from the baseline level)

	2010-11 per cent	2011-12 per cent
Nominal GDP	3/4	3/4
Non-farm GDP deflator	- 1/4	- 1/4
Employment	1/2	1/2
Wages	1/4	1/4
CPI	- 1/4	- 1/4
Company profits	1 3/4	1 3/4
Consumption	1	1

The increase in labour force participation and labour productivity both have the same impact on output, but different impacts on the labour market. Higher productivity leads to higher real GDP and higher real wages, while an increase in the participation rate increases employment and real GDP. Imports are higher in this scenario, reflecting higher domestic incomes.

Since the supply side of the economy expands, inflation falls relative to the baseline. The fall in domestic prices makes exports more attractive to foreigners, with the resulting increase in exports offsetting higher imports, leaving the trade balance unchanged. The exchange rate is assumed to be constant.

The overall impact of the increase in labour productivity and participation is an increase in the underlying cash balance of around \$2.5 billion in 2010-11 and around \$3.6 billion in 2011-12 (see Table D4).

Table D4: Illustrative sensitivity of the budget balance to a 1 per cent increase in real GDP due to an equal increase in both productivity and participation

	2010-11 \$b	2011-12 \$b
Receipts		
Individuals and other withholding taxation	1.6	1.3
Superannuation taxation	0.0	0.1
Company tax	0.7	1.8
Goods and services tax	0.4	0.4
Excise and customs duty	0.2	0.4
Other taxation	0.0	0.0
Total receipts	2.9	3.9
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.0
GST	-0.4	-0.4
Total payments	-0.5	-0.5
PDI	0.1	0.2
Underlying cash balance impact	2.5	3.6

On the receipts side, individuals' income tax collections increase because of the rise in the number of wage earners and, additionally, higher real wages. This in turn increases individuals' refunds in the following year when tax returns are lodged, reducing total individuals' income tax. The stronger labour market also increases superannuation fund taxes through higher contributions (including compulsory contributions) to superannuation funds. The increase in personal incomes leads to higher consumption which results in an increase in GST receipts (with the corresponding receipts passed on in higher GST payments to the States) and other indirect tax collections.

In addition, the stronger economy results in higher levels of corporate profitability, increasing company taxes. Higher profits are assumed to increase Australian equity prices, generating higher capital gains tax from individuals, companies and superannuation funds.

On the payments side, overall estimated expenditure on income support payments (including pensions and allowances) is slightly higher primarily reflecting growth in benefit rates flowing from higher wages growth. Lower inflation has a partially offsetting effect.

The higher underlying cash balance also has a positive interest impact in both years, owing to a lower borrowing requirement and lower public debt interest cost.

To the extent that the increases in productivity and participation are temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

