PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK 2013

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

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FOREWORD

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretary to the Treasury and the Secretary of the Department of Finance and Deregulation (the Secretaries) to release publicly a Pre-Election Economic and Fiscal Outlook report (PEFO) within 10 days of the issue of the writ for a general election. Such a writ was issued on 5 August 2013.

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 economic and fiscal 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 2013 PEFO updates the estimates contained in the 2013-14 Budget and the August 2013 Economic Statement. Like the Economic Statement, the economic forecasts underpinning the PEFO take into account information contained in the March quarter national accounts. Given differences in their date of release, the PEFO is able to reflect more updated information than the Economic Statement. The PEFO reflects economic indicators released up to and including Tuesday, 6 August 2013. The PEFO also includes all decisions taken by the Government since the Economic Statement.

Consistent with the Charter, the PEFO:

- provides updated fiscal estimates and projections for the current financial year and the following three financial years;
- presents the updated economic forecasts and assumptions that have been used in preparing the updated fiscal estimates and projections;
- 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 August 2013 Economic Statement and decisions not announced at the time of the Economic Statement;
- updates in **Appendix C** the general and specific risks to the budget forward estimates for material changes in these risks since the 2013-14 Budget;
- discusses in **Appendix D** the sensitivity of the fiscal estimates to changes in major economic parameters; and

- examines in **Appendix E** the sensitivity of estimates to changes in two major program parameters.

Pre-Election Economic and Fiscal Outlook reports have been published under the Charter since 1998 — the first general election after the *Charter of Budget Honesty Act 1998* commenced. Over that period, governments have changed their approach to publishing forecasts and projections across the forward estimates.

Since the 2009-10 Budget, the Government has published forecasts for the budget year and following financial year and projections for the following two years (the distinction between forecasts and projections is discussed in **Box 3**). Before 2009-10, the Government published forecasts for the budget year only and projections for each of the following three years.

Each PEFO has followed the practice adopted in the immediately preceding fiscal report published under the Charter. This PEFO follows that precedent. The updated fiscal estimates are based on economic forecasts for 2013-14 and 2014-15 and projections for 2015-16 and 2016-17. A future government could adopt a different practice (for example, to change the number of forecast and/or projection years) in a future fiscal report, a practice that could then be reflected in any subsequent PEFO.

Given the uncertainty around any economic or fiscal forecast or projection, the Charter requires the inclusion of sensitivity analysis. In addition, in this PEFO the robustness of the central forecasts of economic activity is examined by looking at past forecast errors and publishing confidence intervals (at **Box 2**) and by looking at an alternative economic scenario (at **Box 3**).

The PEFO includes medium-term projections of the underlying cash balance and net debt (at **Appendix F**). Two scenarios are modelled to illustrate the sustainability of fiscal settings. The PEFO also includes new structural budget balance estimates (**Appendix G**). The provision of structural balance estimates is intended to provide another insight into fiscal sustainability over time when considered in conjunction with other indicators.

This additional information on the risks and sensitivities around the two forecast years and the projection years is intended to aid the reader in gaining a more comprehensive appreciation of both the inherent uncertainties surrounding these processes and of the economic and fiscal implications of different events, in line with obligations set out in the Charter.

STATEMENT BY THE 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 of 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.

The Honourable Chris Bowen MP Treasurer	Senator the Honourable Penny Wong Minister For Finance And Deregulation
7 August 2013	7 August 2013

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 2013* 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.

Dr Martin Parkinson PSM
Secretary to the Treasury

13 August 2013

Mr David Tune PSM
Secretary of the Department of Finance and Deregulation

13 August 2013

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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 and payments is calculated using the Consumer Price Index (CPI) deflator;
- one billion is equal to one thousand million; and
- the Budget year refers to 2013-14, while the forward years refer to 2014-15, 2015-16 and 2016-17.

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

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

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

(d) The following notations are used:

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

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

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

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

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

PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK

OVERVIEW

The Australian economy is expected to grow by 2½ per cent in 2013-14 and 3 per cent in 2014-15. There is, however, uncertainty surrounding the global outlook, and the economy's transition to new sources of growth may not occur as smoothly as forecast.

The underlying cash balance is estimated to be in deficit in 2013-14 and 2014-15 and projected to remain in deficit in 2015-16 and to return to surplus in 2016-17.

Table 1 provides estimates and projections of the underlying cash and fiscal balances for the period from 2013-14 to 2016-17.

Table 1: Summary of budget aggregates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
Underlying cash balance ($b)(a)	**-30.1**	**-24.0**	**-4.7**	**4.2**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Fiscal balance ($b)	**-25.5**	**-22.1**	**1.8**	**7.8**
Per cent of GDP	-1.6	-1.3	0.1	0.4

(a) Excludes net Future Fund earnings.

ECONOMIC OUTLOOK

The Australian economy is forecast to grow by 2½ per cent in 2013-14 and 3 per cent in 2014-15. Against the backdrop of a still challenging global outlook, the Australian economy is expected to transition away from resource-investment led growth towards broader based growth, although this transition may not occur as smoothly as forecast.

Part of the transition is in the resources sector, with a shift from resources investment towards resources production and exports. This transition is proceeding broadly as expected, although the expected peak in investment is lower than at Budget, with the sector having become increasingly cautious in the allocation of capital. This follows increased uncertainty about global growth prospects, particularly in China and India, and rises in domestic costs.

While the shift towards higher exports will support growth, the net contribution of the resources sector to real GDP growth will fall. A rebalancing of growth towards the non-resource sectors is needed to deliver sustained economic growth. While this transition has commenced, it is now expected to take longer than at Budget. Still, sustained low interest rates and the lower Australian dollar are expected to underpin a return to around trend growth in 2014-15.

The outlook for the global economy remains challenging with growth expected to remain well below trend at 3 per cent in 2013. Strengthening activity in Japan and encouraging prospects for the United States are being offset by the ongoing recession and crisis in the euro area and moderating growth in emerging economies, including China and India. Nevertheless, global growth is expected to rise over the forecast period, underpinned by improving prospects in the advanced economies and solid growth in emerging Asia.

The terms of trade are expected to decline by 5¾ per cent in 2013-14 and 3¾ per cent in 2014-15, returning them to around their 2009-10 level (Box 1). The forecast decline in the terms of trade, alongside easing wage growth, is expected to lead to another two years of below average nominal GDP growth, of 3¾ per cent in 2013-14 and 4½ per cent in 2014-15.

Employment growth is expected to be below trend at 1 per cent through the year to the June quarter 2014, before rising to 1½ per cent through the year to the June quarter 2015 in line with gradually improving economic conditions. The unemployment rate is expected to increase from 5.6 per cent in the June quarter 2013 to 6¼ per cent in the June quarter 2014, and stabilise at that rate through to the June quarter 2015. Inflation is expected to ease and remain contained over the forecast period, reflecting ongoing spare capacity in the labour market and subdued wage growth.

There are both external and domestic risks to the outlook. The crisis in the euro area remains unresolved, and markets are anxious about how the eventual unwinding of US monetary policy will play out. There is also lingering uncertainty about the sustainability of Japan's recovery, while markets remain concerned about financial developments in China.

This uncertainty surrounding global growth prospects poses a risk to the terms of trade and nominal GDP forecasts. There is also a risk that the anticipated fall in resources investment following its peak could be sharper than expected, especially around the middle of the decade (Box 1). In addition, the transition to new sources of growth may not occur as smoothly as anticipated. Unexpected global or domestic developments could also generate further sharp movements in the exchange rate.

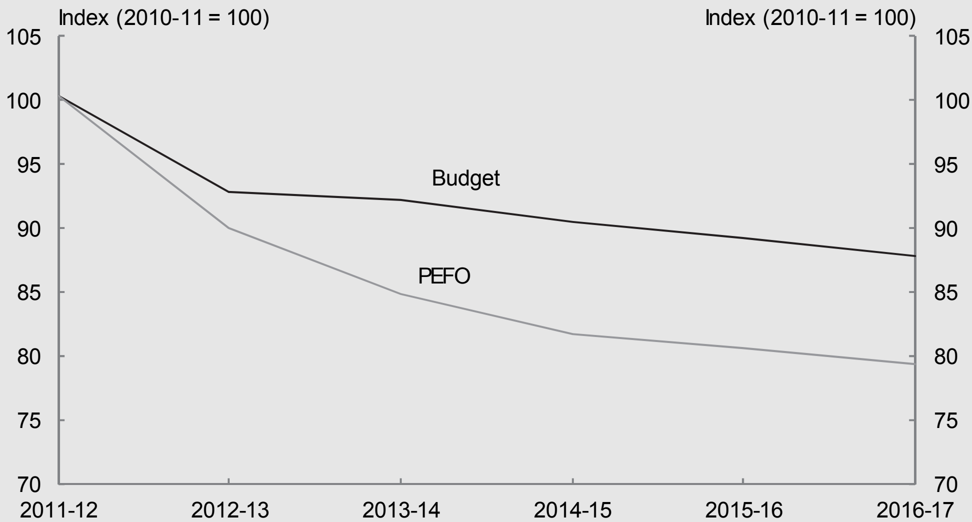
Box 1: Commodity prices, the terms of trade and resources investment

Over the past decade, strong growth in China and other emerging market economies generated a huge increase in the demand for energy and steel. Australia benefited from these developments, initially in the form of higher prices for resource exports, and later from the activity generated by the investment in new productive capacity. The next stage of the resources boom is upon us, as the construction of major projects is completed and the projects move into the production phase.

Forecasters, in both the public and private sectors, and both here and overseas, have found it difficult to consistently identify the timing and pace of these developments. As commodity prices were rising, forecasters were surprised on the upside, and as prices have fallen from their peak in 2011, the speed of the decline has been more rapid than many expected.

A combination of factors has driven a further downward revision to forecast commodity prices and the terms of trade since the 2013-14 Budget (Chart A). In particular, growth in China is expected to be more moderate and less commodity-intensive, in part due to a new policy approach adopted by Chinese authorities. The implications of these revisions for export earnings have, in part, been offset by the lower Australian dollar.

Chart A: Terms of trade



Source: ABS cat. no. 5206.0 and Treasury.

Box 1: Commodity prices, the terms of trade and resources investment (continued)

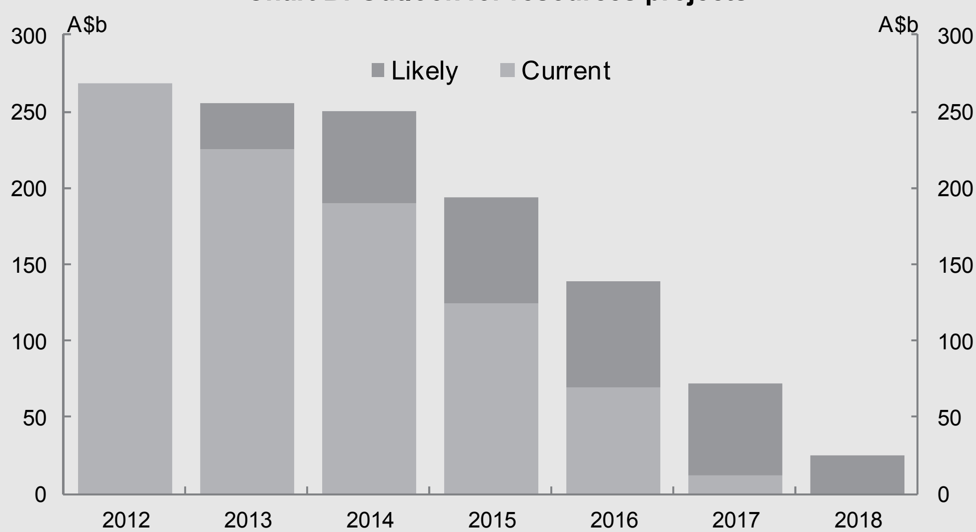
As always, there remains significant uncertainty around the profile of the terms of trade, in both the near and medium term. Commodity prices are inherently volatile and unexpected changes to the global demand or supply of commodities can have a significant impact on world commodity prices in either direction. What is important to recognise, though, is that while the terms of trade are in decline, the level at which they might settle, and at what point in the future, continues to be highly uncertain.

The volatility in commodity prices has also had a significant impact on the outlook for investment in the resources sector. Following the sharp falls in commodity prices in the middle of 2012, firms looked to reduce their capital spending, in some cases by delaying or cancelling decisions on projects under consideration and in other cases by containing costs and reducing investment in new capital.

There remains a sizeable amount of work in the pipeline yet to be done, in particular on LNG projects, although investment in iron ore and coal projects has passed its peak. While resources investment is expected to remain elevated over the next year, construction is expected to slow significantly as these projects move towards completion.

The latest update of the outlook for resource projects from the Bureau of Resource and Energy Economics (BREE) released in May demonstrates the magnitude of the transition likely to occur over the next half-decade, although the timing of this transition remains highly uncertain (Chart B). Investment could also fall more sharply than expected, particularly if future project commencements (those categorised by BREE as 'likely') fail to materialise.

Chart B: Outlook for resources projects



Source: Bureau of Resources and Energy Economics.

Table 2 presents the major economic parameters used in preparing the 2013 PEFO. Detailed forecasts of the economy are prepared for the budget year and the subsequent year. As always, there is a degree of uncertainty about the forecasts — this is discussed in Box 2.

Table 2: Major economic parameters(a)

	Forecasts		Projections	
	2013-14	2014-15	2015-16	2016-17
Real GDP	2 1/2	3	3	3
Employment	1	1 1/2	1 1/2	1 1/2
Unemployment rate	6 1/4	6 1/4	5	5
Consumer Price Index	2 1/2	2	2 1/2	2 1/2
Nominal GDP	3 3/4	4 1/2	5 1/4	5 1/4
Terms of trade	-5 3/4	-3 3/4	-1 1/2	-1 1/2

(a) Real GDP, nominal GDP and the terms of trade are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0 and Treasury.
Note: The PEFO and the Economic Statement are based on the same technical assumptions, other than for the exchange rate which has been updated in line with recent market movements — a trade weighted index of 70 and a United States dollar exchange rate of around 91 US cents.

Beyond the forecast period, there is less information on which to prepare detailed forecasts, so Australian budgets and other economic statements have tended to rely on projections of high-level economic aggregates to underpin budget estimates of receipts and payments. Since the introduction of the Charter in 1998, PEFO documents have used broadly similar projection methodologies (see Box 3).

Box 2: Uncertainty around the GDP forecasts

The degree of uncertainty around forecasts can be estimated based on past forecast errors and presented using confidence intervals. Similar approaches for estimating uncertainty have been adopted by a number of monetary and fiscal authorities.

For GDP forecasts, confidence intervals could be presented around forecasts of annual growth rates or average annualised growth rates. While both measures have merit, providing a reasonable forecast of the level of GDP is important for fiscal variables. The average annualised growth rate is a better summary statistic, as it reflects cumulative growth. For a hypothetical example, if GDP is forecast to grow by 2 per cent in one year and 5 per cent in the next, the level of GDP will be forecast to be roughly 7 per cent higher after two years. This is more effectively summarised by the 3½ per cent average annualised growth rate over the two years than by the two separate annual growth rates.

Chart A presents PEFO forecasts and confidence intervals for average annualised real GDP growth. For example, average annualised real GDP growth over the two years 2011-12 to 2013-14 is expected to be 2¾ per cent, with the 70 per cent confidence interval over the two years from 2 to 3½ per cent. In other words, if forecast errors are similar to those in the past, there is a 70 per cent probability that the average annualised growth rate will lie in this range.[1]

The uncertainty around nominal GDP growth forecasts is larger, reflecting the compounding nature of two sources of uncertainty; the outlook for real GDP and the outlook for prices or the GDP deflator. The average annualised nominal GDP growth over the two years 2011-12 to 2013-14 is expected to be a little over 3 per cent, with the 70 per cent confidence interval over the two years from 1¾ to 4½ per cent (Chart B).

Table 3.5 of the Review of Treasury Macroeconomic and Revenue Forecasting suggests that the Reserve Bank of Australia's forecast accuracy for real GDP is similar to that of Treasury, implying that the uncertainty around its forecasts is similar to Treasury's. Also the UK Office of Budget Responsibility estimates of uncertainty for real GDP growth, as reported in its March 2013 Economic and Fiscal Outlook, seem no smaller than those of the Treasury.

The Review of Treasury Macroeconomic and Revenue Forecasting found that Treasury's forecasts of GDP deflator growth are less accurate than those for real GDP growth. A major contributor to this is the difficulty in forecasting commodity prices and the terms of trade. The sensitivity of key components of receipts and payments to a 1 per cent fall in nominal GDP owing to a fall in the terms of trade is presented in Appendix D.

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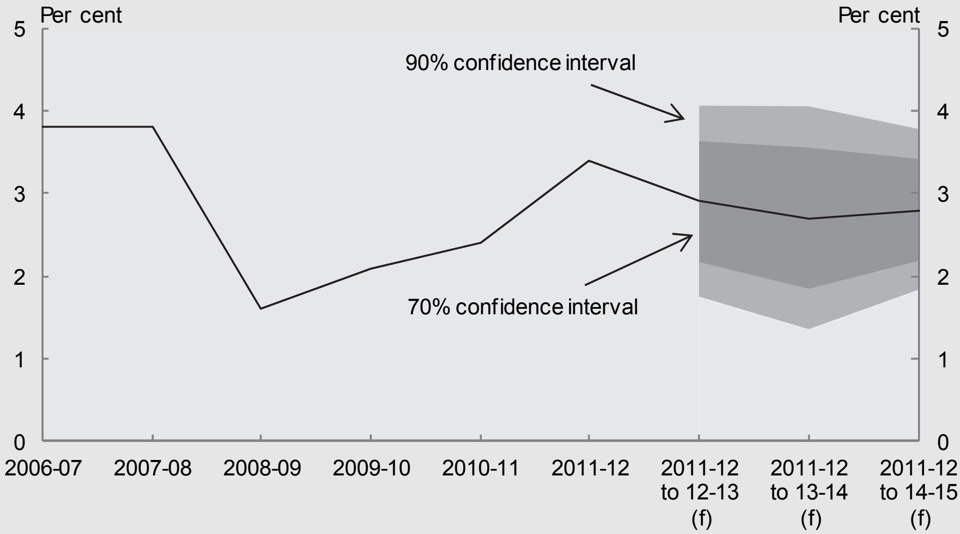
1 The confidence intervals in this box are derived from forecast errors based on budget forecasts from the 1998-99 Budget onwards, with outcomes based on March 2013 National Accounts data. The results presented assume that budget forecast errors are normally distributed with an average of zero. As the PEFO is based on more up to date information than the 2013-14 Budget, the confidence intervals shown likely overstate the degree of uncertainty, particularly for 2012-13.

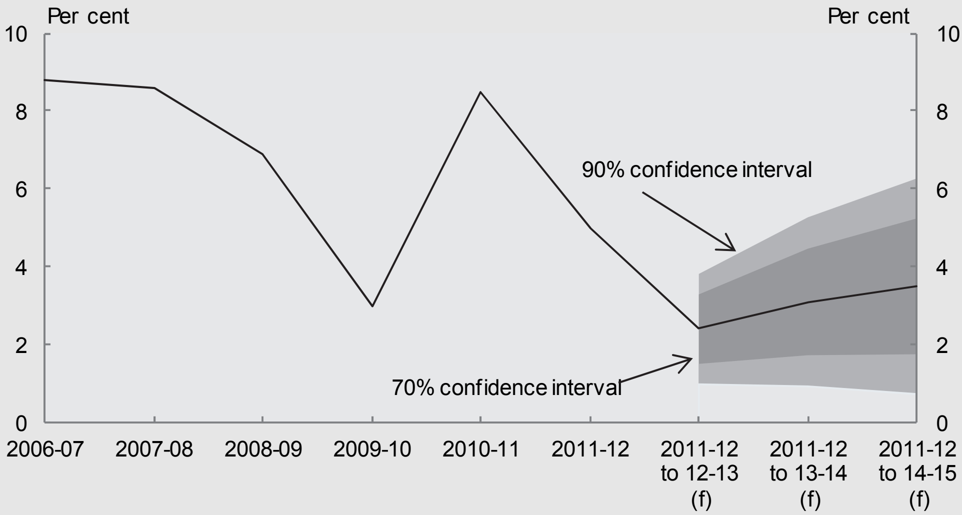
Box 2: Uncertainty around the GDP forecasts (continued)

Chart A: Real GDP growth rate



Note: The central line shows the outcomes and PEFO forecasts. Annual growth is reported for the outcomes. Annualised average growth rates from 2011-12 are reported from 2012-13 onwards. Confidence intervals are based on the root mean square error of budget percentage growth rate forecasts. (f) are forecasts. Before the 2009-10 Budget, a projection rather than a forecast was made for the year after the budget year. Reporting the average annualised growth rate moderates the impact of errors over longer horizons.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Chart B: Nominal GDP growth rate



Note: See note to Chart A.
Source: ABS cat. no. 5206.0, Budget papers and Treasury.

Box 3: Economic forecasts and projections

The Charter of Budget Honesty requires that the PEFO contains information on the economic and other assumptions that have been used to prepare the fiscal estimates for the current year and the following three financial years.

The economic assumptions presented in this PEFO consist of economic forecasts for 2013-14 and 2014-15 (the forecast period) and economic projections for 2015-16 and 2016-17 (the projection period).

The economic projections are based on medium-term assumptions for growth that are consistent with underlying historical trends in the economy and long-term factors such as demographic change. As a result, the methodology used to prepare the projections has changed a little over time.

Since the introduction of the Charter in 1998, the practice of presenting economic forecasts and projections has evolved. In the period 1998-2008, governments published forecasts for the Budget year and projections for the following three years. From the 2009-10 Budget, the Government has published forecasts for the Budget year and the following year, and projections for the last two years of the forward estimates.

Each PEFO has followed the practice adopted by government in its most recent fiscal report. Similarly, the economic projections in each PEFO have been prepared using the same methodology as in the most recent fiscal report tabled by government.

In 1998, projected GDP growth was 3½ per cent. This was revised down to 3¼ per cent in 2005 and to 3 per cent in 2006. These downward revisions were driven by the effect of population ageing on the aggregate participation rate, and lower projected productivity growth. Projected GDP growth has remained at 3 per cent since then, apart from a temporary change in 2009.[2]

On the labour market, unemployment rate projections were not published until the 2002-03 Budget. In that budget, the economic forecasts and projections were described as being consistent with the unemployment rate gradually falling from its then current level of 6.3 per cent to 5 per cent by 2006-07 — one year beyond the projection period — and remaining at that level thereafter (Budget Paper No. 5, *Intergenerational Report 2002-03*, p. 28). Since then, the assumption that the unemployment rate would settle at around 5 per cent in the projection period has been maintained, with the exception of the 2009-10 Budget (see footnote).

2 The 2009-10 Budget was prepared during the global financial crisis. Projected GDP growth was temporarily lifted to 4½ per cent to reflect the economy's recovery from the expected impact of the crisis. At the time, the unemployment rate was expected to reach 8½ per cent by the end of the forecast period and remain elevated throughout the projection period. These forecasts and projections of the unemployment rate were subsequently shown to be too high.

Box 3: Economic forecasts and projections (continued)

This has been the case whether the unemployment rate has been above, or below, 5 per cent in the forecast period. For example, in the 2007-08 Mid-Year Economic and Fiscal Outlook (which underpinned the 2007 PEFO) the unemployment rate at the end of the forecast period was 4½ per cent, with the projection year assuming an unemployment rate of 5 per cent. In this PEFO, the unemployment rate is forecast to be 6¼ per cent in the last forecast year, with the first projection year assuming an unemployment rate of 5 per cent.

An alternative projection assumption would recognise that, with unemployment at 6¼ per cent, the economy is operating with an output gap. Gradually narrowing this output gap over the projection period generates above-trend real GDP growth and a gradually falling unemployment rate (Table A). This would be similar to the budget projection methodology used in the early 2000s, when the unemployment rate was considered to be above its longer-term sustainable level.

Table A: Alternative projection assumption[(a)]

	Forecasts		Projections			
			PEFO		Alternative	
	2013-14	2014-15	2015-16	2016-17	2015-16	2016-17
Real GDP	2 1/2	3	3	3	3 1/4	3 1/4
Nominal GDP	3 3/4	4 1/2	5 1/4	5 1/4	5 1/2	5 1/2
Unemployment rate	6 1/4	6 1/4	5	5	6	5 3/4

(a) Real and nominal GDP are year-average growth. The unemployment rate is the rate for the June quarter.
Source: ABS cat. no. 5206.0, 6202.0 and Treasury.

Under this alternative projection assumption, the unemployment rate is assumed to fall gradually from 6¼ per cent at the end of the forecast period to 5¾ per cent at the end of the two-year projection period, adding around $1.5 billion to estimated payments in 2015-16 and $1.7 billion in 2016-17, overwhelmingly from higher benefits paid to unemployed persons.[3] In contrast, the stronger GDP and employment growth adds around $0.7 billion to expected tax receipts net of GST in 2015-16 and $2.1 billion in 2016-17.

FISCAL OUTLOOK

An underlying cash deficit of $30.1 billion (1.9 per cent of GDP) is estimated for 2013-14. The fiscal outlook is for a return to budget surplus in 2016-17.

3 There are lags between changes in the unemployment rate and the number of unemployment benefit recipients. The higher cost in 2016-17 is a consequence of these lags.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Receipts	**369.5**	**390.3**	**423.4**	**450.8**
Per cent of GDP	23.6	23.9	24.6	24.8
Payments(a)	**396.6**	**411.3**	**424.9**	**443.2**
Per cent of GDP	25.3	25.1	24.6	24.4
Net Future Fund earnings	2.9	3.0	3.2	3.4
Underlying cash balance(b)	**-30.1**	**-24.0**	**-4.7**	**4.2**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Revenue	**379.9**	**397.7**	**433.3**	**464.6**
Per cent of GDP	24.2	24.3	25.1	25.6
Expenses	**401.5**	**416.0**	**430.9**	**454.5**
Per cent of GDP	25.6	25.4	25.0	25.0
Net operating balance	-21.5	-18.2	2.4	10.1
Net capital investment	4.0	3.8	0.5	2.3
Fiscal balance	**-25.5**	**-22.1**	**1.8**	**7.8**
Per cent of GDP	-1.6	-1.3	0.1	0.4
Memorandum item:				
Headline cash balance	-37.2	-33.6	-14.0	-5.9

(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(b) Excludes net Future Fund earnings.

Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the 2013-14 Budget to the 2013 Economic Statement and the 2013 PEFO.

Table 4: Reconciliation of 2013-14 Budget, 2013 Economic Statement and 2013 PEFO underlying cash balance estimates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
2013-14 Budget underlying cash balance(a)	**-18,043**	**-10,888**	**849**	**6,591**
Per cent of GDP	-1.1	-0.6	0.0	0.4
Changes from 2013-14 Budget to 2013 ES				
Effect of policy decisions(b)	-373	-1,607	3,364	6,811
Effect of parameter and other variations	-11,727	-11,477	-8,921	-9,374
Total variations	**-12,099**	**-13,084**	**-5,557**	**-2,563**
2013 ES underlying cash balance(a)	**-30,142**	**-23,972**	**-4,708**	**4,027**
Per cent of GDP	-1.9	-1.5	-0.3	0.2
Changes from 2013 ES to 2013 PEFO				
Effect of policy decisions(b)(c)				
Receipts	*0*	*0*	*0*	*0*
Payments	*1*	*56*	*49*	*-104*
Total policy decisions impact on underlying cash balance	-1	-56	-49	104
Effect of parameter and other variations(c)				
Receipts	*87*	*145*	*131*	*66*
Payments	*85*	*98*	*37*	*-1*
Total parameter and other variations impact on underlying cash balance	2	47	94	67
2013 PEFO underlying cash balance(a)	**-30,142**	**-23,981**	**-4,662**	**4,199**
Per cent of GDP	-1.9	-1.5	-0.3	0.2

(a) Excludes net Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Between the 2013-14 Budget and the 2013 Economic Statement, the change in parameter and other variations resulted in a negative impact on the underlying cash balance of $41.5 billion over the four years to 2016-17, including $11.7 billion in 2013-14. This was largely as a result of write-downs in tax receipts.

Between the 2013-14 Budget and the 2013 Economic Statement, tax receipts were revised down due to lower nominal GDP expectations, including lower forecasts of commodity prices, wages and unincorporated business income. Estimated tax receipts were revised down by $7.8 billion in 2013-14 and $8.7 billion in 2014-15. Projected tax receipts in 2015-16 and 2016-17 were revised down by $8.5 billion and $8.3 billion, respectively.

Since the 2013 Economic Statement, parameter and other variations have resulted in an increase to the underlying cash balance of $2 million in 2013-14 and of $210 million over the four years to 2016-17.

Changes to the underlying cash balance as a result of parameter and other variations since the 2013 Economic Statement primarily reflect updated assumptions of a slightly lower exchange rate, which has an impact on both payments and receipts; a higher European carbon price, which has resulted in minor revisions to tax receipts; and revised dividend estimates for government business enterprises based on updated corporate plans, which have resulted in minor adjustments to non-tax receipts.

The exchange rate revision affects payments (primarily related to defence procurement), as well as receipts relating to resource rent taxes, company tax and excise and customs duty. Both the exchange rate and European carbon price revisions affect receipts from the carbon pricing mechanism. In total, tax receipts have been revised up by $70 million in 2013-14, $155 million in 2014-15, $190 million in 2015-16 and $175 million in 2016-17.

Policy decisions taken after the 2013-14 Budget and up to the 2013 Economic Statement had a negative impact of $373 million on the underlying cash balance in 2013-14, but a positive impact of $8.2 billion over the four years to 2016-17.

Further information on variations and decisions taken after the 2013-14 Budget and up to the 2013 Economic Statement can be found in the 2013 Economic Statement.

Policy decisions taken since the 2013 Economic Statement have decreased the underlying cash balance by around $1 million in 2013-14 and are broadly offset over the forward estimates.

Changes to the underlying cash balance as a result of policy decisions since the 2013 Economic Statement include funding for Priority Health Initiatives ($266 million over the four years to 2016-17) and a contribution to the redevelopment of the Royal Victorian Eye and Ear Hospital ($50 million in each of 2014-15 and 2015-16). These policy decisions have been offset over the four years to 2016-17, primarily reflecting the reversal of a number of decisions previously taken but not yet announced ($331 million over the four years to 2016-17), and the lower than estimated costs of finalising negotiations on the *Better Schools Plan* ($156 million over the four years to 2016-17).

Detail of all policy decisions not previously published up to the commencement of the caretaker period on 5 August 2013 is provided at Appendix B.

In line with normal practice, the forward estimates in the PEFO do not incorporate funding beyond 2013-14 for some items that are considered on a year-by-year basis, including defence operations overseas and any potential listings of new drugs recommended by the Pharmaceutical Benefits Advisory Committee. Payments to partly reimburse States and Territories for any future natural disasters under the Natural Disaster Relief and Recovery Arrangements are also not included in the forward estimates until any such disasters occur.

Table 5 shows cash receipts by type of revenue.

Table 5: Australian Government general government (cash) receipts

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Individuals' and other withholding taxes				
Gross income tax withholding	160,600	174,000	188,300	201,100
Gross other individuals	33,700	37,000	41,400	45,750
less: Refunds	27,500	28,300	30,100	31,400
Total individuals' and other withholding tax	166,800	182,700	199,600	215,450
Fringe benefits tax	4,160	4,580	4,840	5,120
Company tax	69,200	70,100	75,850	80,050
Superannuation fund taxes	7,620	9,090	11,600	13,090
Minerals resource rent tax(a)	850	1,100	1,550	2,450
Petroleum resource rent tax	2,410	2,470	2,580	2,700
Income taxation receipts	**251,040**	**270,040**	**296,020**	**318,860**
Goods and services tax	50,633	53,559	56,739	59,909
Wine equalisation tax	760	810	850	900
Luxury car tax	380	350	380	400
Excise and customs duty				
Petrol	5,850	5,750	5,850	5,950
Diesel	8,980	9,180	9,370	9,680
Other fuel products	3,800	3,620	3,690	3,750
Tobacco	8,320	9,110	10,050	10,930
Beer	2,390	2,420	2,560	2,720
Spirits	2,030	2,160	2,300	2,420
Other alcoholic beverages(b)	1,010	1,060	1,120	1,180
Other customs duty				
Textiles, clothing and footwear	730	580	420	450
Passenger motor vehicles	930	990	1,070	1,150
Other imports	1,610	1,680	1,800	1,940
less: Refunds and drawbacks	260	260	260	260
Total excise and customs duty receipts	35,390	36,290	37,970	39,910
Carbon pricing mechanism	6,475	2,870	2,745	4,050
Agricultural levies	461	451	458	464
Other taxes	2,971	3,135	3,500	3,618
Indirect taxation receipts	**97,070**	**97,466**	**102,641**	**109,251**
Taxation receipts	**348,110**	**367,506**	**398,661**	**428,111**
Sales of goods and services	8,686	8,519	8,691	8,852
Interest received	3,744	3,646	4,075	4,262
Dividends	2,748	2,463	2,679	2,695
Other non-taxation receipts	6,164	8,170	9,312	6,882
Non-taxation receipts	**21,342**	**22,799**	**24,758**	**22,691**
Total receipts	**369,452**	**390,305**	**423,419**	**450,802**
Memorandum:				
Total excise receipts	*26,520*	*27,040*	*28,250*	*29,480*
Total customs duty receipts	*8,870*	*9,250*	*9,720*	*10,430*
Capital gains tax(c)	*7,900*	*10,700*	*13,200*	*15,400*
Medicare and DisabilityCare Australia levy receipts	*9,960*	*10,470*	*14,480*	*15,190*

(a) Net receipts from the MRRT are expected to be $0.7 billion in 2013-14, $0.8 billion in 2014-15, $1.1 billion in 2015-16 and $1.8 billion in 2016-17 which represent the net receipt impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.

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

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

Contingency Reserve

The Contingency Reserve provision in the PEFO is $477 million in 2013-14, $2.9 billion in 2014-15, $2.3 billion in 2015-16 and $8.2 billion in 2016-17.

The largest component of this is the 'conservative bias allowance', which makes provision for the tendency for estimates of expenses for existing Government policy to be revised upwards in the forward years. This allowance is unchanged from the 2013-14 Budget and is set at zero in 2013-14, ½ of a percentage point of total general government sector expenses (excluding GST payments to the States) in 2014-15 ($1.8 billion), 1 per cent of expenses in 2015-16 ($3.7 billion) and 2 per cent of expenses in 2016-17 ($7.8 billion).

The Contingency Reserve also includes provisions of $2.0 billion over four years to 2016-17 for a number of items including assumed continuation of some expiring National Partnerships; the effect of economic parameter revisions received late in the process; higher than estimated DisabilityCare Australia costs; negotiations with some State and Territory Governments regarding more efficient funding arrangements for veterans in public hospitals; and possible by-election and redistribution costs for the Australian Electoral Commission. These items remain in the Contingency Reserve as they remain under negotiation and/or there is some uncertainty as to their final cost and outcome.

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

Fiscal balance estimates

The fiscal balance deficit is expected to be $25.5 billion (1.6 per cent of GDP) in 2013-14.

The fiscal balance is projected to return to surplus in 2015-16, which is a year earlier than the underlying cash balance. This results from the timing difference between when revenues and expenses are recognised on an accrual basis, and when cash receipts and payments are recognised.

Movements in accrual revenue and expenses over the forward estimates are broadly consistent with the movements in cash receipts and payments.

Table 6 provides a reconciliation of the fiscal balance estimates.

Table 6: Reconciliation of 2013-14 Budget, 2013 Economic Statement and 2013 PEFO fiscal balance estimates

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
2013-14 Budget fiscal balance	**-13,497**	**-6,255**	**5,955**	**10,819**
Per cent of GDP	-0.8	-0.4	0.3	0.6
Changes from 2013-14 Budget to 2013 ES				
Effect of policy decisions(a)	-747	-3,779	4,761	6,411
Effect of parameter and other variations	-11,308	-12,186	-8,936	-9,666
Total variations	**-12,055**	**-15,965**	**-4,175**	**-3,255**
2013 ES fiscal balance	**-25,553**	**-22,220**	**1,780**	**7,564**
Per cent of GDP	-1.6	-1.4	0.1	0.4
Changes from 2013 ES to 2013 PEFO				
Effect of policy decisions(a)(b)				
Revenue	0	0	0	0
Expenses	4	60	51	-102
Net capital investment	-3	-4	-2	-2
Total policy decisions impact on fiscal balance	-1	-56	-49	104
Effect of parameter and other variations(b)				
Revenue	46	219	171	100
Expenses	-30	-17	22	-57
Net capital investment	30	37	34	34
Total parameter and other variations impact on fiscal balance	46	198	116	123
2013 PEFO fiscal balance	**-25,508**	**-22,078**	**1,847**	**7,792**
Per cent of GDP	-1.6	-1.3	0.1	0.4

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

Net debt, net financial worth, net worth and net interest payments

In 2013-14, net debt for the Australian Government general government sector is estimated to be $184.0 billion (11.7 per cent of GDP). Net financial worth is estimated to be –$295.5 billion, and net worth is estimated to be –$181.9 billion.

Net interest payments are estimated to be $8.4 billion in 2013-14 (0.5 per cent of GDP). Interest payments largely relate to the public debt interest on government securities, based on the interest rates on the existing stock of Commonwealth Government Securities (CGS) and the prevailing market interest rates across the yield curve for future issuance of CGS. Assuming prevailing market yields, results in a weighted average yield of around 3.5 per cent for future issuance of Treasury Bonds in the forward estimates period.

Table 7 provides a summary of the Australian Government general government sector net worth, net financial worth, net debt and net interest payments.

Table 7: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
Financial assets	260.8	279.2	305.1	341.1
Non-financial assets	113.6	116.8	119.0	120.5
Total assets	**374.4**	**396.0**	**424.1**	**461.6**
Total liabilities	**556.3**	**596.9**	**622.2**	**652.5**
Net worth	**-181.9**	**-200.9**	**-198.1**	**-190.9**
Net financial worth(a)	**-295.5**	**-317.7**	**-317.1**	**-311.4**
Per cent of GDP	-18.9	-19.4	-18.4	-17.1
Net debt(b)	**184.0**	**212.1**	**219.0**	**217.3**
Per cent of GDP	11.7	13.0	12.7	12.0
Net interest payments	**8.4**	**9.5**	**11.5**	**10.0**
Per cent of GDP	0.5	0.6	0.7	0.6

(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Commonwealth Government Securities

The Australian Government issues debt securities to the public in the form of Treasury Bonds, Treasury Indexed Bonds (TIBs) and Treasury Notes, collectively known as CGS. CGS are reported on the balance sheet in market value terms, consistent with the relevant accounting standards. The market value of CGS reflects prices in the secondary market, which are constantly changing with market conditions.

The face value of CGS on issue is the amount that the Government owes to investors, and is independent of fluctuations in market prices.[4] The face value of CGS on issue fluctuates depending on the issuance of new securities and maturities of securities outstanding. The 'peak' amount of CGS on issue in any given year will depend on the timing of receipts, payments and CGS maturities.

The *Commonwealth Inscribed Stock Act 1911* places a limit of $300 billion on the face value of CGS outstanding. Based on current estimates, CGS outstanding is expected to reach the limit within the 2013-14 financial year (around December 2013) and will remain around that level from December 2013 onwards. CGS on issue is expected to increase over the forward estimates.

Table 8 contains projections of the face value of CGS on issue subject to the legislative limit. It is important to note that there is a debt issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary significantly with changes to budget estimates and projections.

4 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security.

Table 8: Projected face value of Commonwealth Government Securities[(a)(b)]

	2013-14	2014-15	2015-16	2016-17
	$b	$b	$b	$b
End-of-year amount	290	330	350	370
Within-year peak(c)	300	350	370	Not available
Month of peak	*Dec-13*	*Apr-15*	*Apr-16*	*Not available*

(a) Data in this table are rounded to the nearest $10 billion.
(b) These figures exclude TIBs issued before July 2008 which are not subject to the legislative limit. $4.6 billion of TIBs are not subject to the legislative limit in 2013-14 and 2014-15, and following a maturity in August 2015, $2.5 billion of TIBs will not be subject to the limit in 2015-16 and 2016-17.
(c) The precise within-year timing of cash outlays and receipts are not known. Estimates of projected peaks of CGS on issue are therefore subject to considerable uncertainty.
Source: Australian Office of Financial Management.

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 requires that the PEFO be based on external reporting standards and that departures from applicable external reporting standards be identified.

The external standards used for 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's (IMF) accrual GFS framework; and

- the Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which includes International Financial Reporting Standards (IFRS) as adopted in Australia and the public sector specific standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

The financial statements have been prepared on the same basis as the budget papers. The statements reflect 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.

Fiscal 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.

Authoritative guidance has not been issued under the AAS for the measurement of accrual revenue and expenses under the carbon pricing mechanism. An interpretation of the AAS for the carbon pricing mechanism is provided in this appendix. Current estimates measure revenue and expenses at the expected market price for carbon in the year in which emissions occur. The Department of Finance and Deregulation and the Department of the Treasury will continue to review this treatment in consultation with the ABS and the Australian National Audit Office (ANAO).

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 because excluding such provisions would overstate the value of Australian Government assets in the balance sheet. The financial statements currently adopt 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. Instead, the financial statements adopt AAS treatment for circulating coins (seigniorage). Under this treatment, seigniorage revenue is recognised upon the issue of coins and no liability is recorded.

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 is consistent with the National Accounts statistical methodology, and represents an early adoption of changes to the *System of National Accounts 2008*. 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 which is written back over the life of the loan.

ABS GFS requires investments in unlisted public sector entities to be valued based on their net assets. Under AAS, investments in public sector entities can be valued at fair value as long as a fair value can be reliably measured, otherwise net assets is permissible. The AAS treatment has been adopted in the financial statements.

Movements in the provision for restoration, decommissioning and make-good of assets have been included in the calculation of the fiscal balance capital adjustment because in many cases they involve legal obligations to expend resources. ABS GFS does not recognise adjustments for such provisions because they are considered a constructive obligation that may not materialise for many years.

ABS GFS treats the issuance and registration of Renewable Energy Certificates (RECs) under the Renewable Energy Target and Australian Carbon Credit Units (ACCUs) under the Carbon Farming Initiative as government financial transactions resulting in the recognition of assets, liabilities, tax revenue and expenses.

Under the interpretation of the AAS, the issuance and registration of such certificates is considered to be an administrative function and does not result in the recognition of an asset or liability and therefore no tax revenue or expense is recognised. The AAS treatment has been adopted in the financial statements.

Departures from AAS

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.

Under AAS, prepayments are classified as non-financial assets. In accordance with ABS GFS, prepayments have been classified as financial assets in the financial statements. This treatment is consistent with the exclusion of prepayments from net acquisition of non-financial assets in the calculation of the fiscal balance.

The interpretation of the AAS indicates that transactions under the carbon pricing mechanism are recognised in the financial statements where they are expected to result in a receipt or payment of cash by the government at the amount of the expected cash settlement. The issuance and surrender of free carbon units and ACCUs used in the settlement of emissions liabilities do not qualify for recognition by the government as assets, liabilities, revenues or expenses.

- Revenues are recognised for the amount of cash received and receivable by the government for carbon units at the time when emissions occur, if able to be reliably measured.

- Expenses are recognised on issue of a free carbon unit, based on the number of free permits that are expected to be cashed in by the permit holders under the buy-back arrangements.

- Receivables/payables are recognised at the amount of cash expected to be received/paid by the government.

Transactions under the carbon pricing mechanism are recognised under ABS GFS at their expected market value at the time of the transaction.

- Revenues are recognised at the expected market value of carbon units at the time when emissions occur.
- Expenses are recognised for ACCUs issued in the fixed price period and all free carbon units at the expected market value at the time of issue.
- Receivables/payables are recognised at the carbon units' expected future market value for the reporting period.

In the fixed price period from 1 July 2012 to 30 June 2014, the price of carbon units that the government will pay under the buy-back arrangements and sell to liable emitters to settle their obligations is set by the government. This set price, which is the prevailing fixed price, has been taken to be the market value for the relevant year. Materially, the ABS GFS treatment has been adopted in the financial statements.

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 2013-14 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 key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items are outlined above and a reconciliation has not been included as they would effectively create different measures of the same aggregate.

Table A1: Australian Government general government sector operating statement

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Revenue				
Taxation revenue	358,928	376,488	410,733	441,306
Sales of goods and services	8,638	8,569	8,750	8,903
Interest income	3,965	3,994	4,389	4,848
Dividend income	2,293	2,428	2,646	2,737
Other	6,123	6,260	6,746	6,856
Total revenue	**379,947**	**397,739**	**433,265**	**464,650**
Expenses				
Gross operating expenses				
Wages and salaries(a)	19,537	19,499	20,086	21,092
Superannuation	4,095	4,120	4,229	4,211
Depreciation and amortisation	5,840	6,117	6,405	6,600
Supply of goods and services	76,428	78,073	81,762	84,565
Other operating expenses(a)	5,706	5,953	6,201	6,266
Total gross operating expenses	*111,607*	*113,761*	*118,682*	*122,735*
Superannuation interest expense	8,462	8,839	9,160	9,496
Interest expenses	14,174	15,161	16,009	16,128
Current transfers				
Current grants	118,999	125,436	130,658	139,494
Subsidy expenses	15,206	13,068	13,500	14,857
Personal benefits	122,731	129,215	134,370	143,849
Total current transfers	*256,937*	*267,718*	*278,527*	*298,200*
Capital transfers				
Mutually agreed write-downs	2,277	2,457	2,648	2,823
Other capital grants	8,029	8,047	5,885	5,154
Total capital transfers	*10,306*	*10,505*	*8,533*	*7,977*
Total expenses	**401,485**	**415,985**	**430,911**	**454,536**
Net operating balance	**-21,538**	**-18,245**	**2,354**	**10,114**
Other economic flows - included in operating result				
Net write-downs of assets (including bad and doubtful debts)	-7,565	-6,632	-7,607	-8,590
Assets recognised for the first time	560	587	613	640
Liabilities recognised for the first time	0	0	0	0
Actuarial revaluations	0	0	0	0
Net foreign exchange gains	132	106	65	11
Net swap interest received	0	0	0	0
Market valuation of debt	357	946	500	302
Other gains/(losses)	3,672	3,794	6,510	3,412
Total other economic flows - included in operating result	**-2,844**	**-1,198**	**81**	**-4,224**
Operating result(b)	**-24,382**	**-19,444**	**2,435**	**5,890**
Non-owner movements in equity				
Revaluation of equity investments	-2,223	0	0	0
Actuarial revaluations	-936	181	218	252
Other economic revaluations	568	258	91	1,124
Total other economic flows - included in equity	**-2,591**	**440**	**309**	**1,376**
Comprehensive result - Total change in net worth	**-26,974**	**-19,004**	**2,744**	**7,267**

Table A1: Australian Government general government sector operating statement (continued)

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Net operating balance	**-21,538**	**-18,245**	**2,354**	**10,114**
Net acquisition of non-financial assets				
Purchases of non-financial assets	10,278	9,762	9,511	8,912
less Sales of non-financial assets	357	264	2,626	227
less Depreciation	5,840	6,117	6,405	6,600
plus Change in inventories	274	236	323	369
plus Other movements in non-financial assets	-386	216	-297	-131
Total net acquisition of non-financial assets	**3,970**	**3,833**	**507**	**2,322**
Fiscal balance (Net lending/borrowing)(c)	**-25,508**	**-22,078**	**1,847**	**7,792**

(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) Operating result under AAS.
(c) The term fiscal balance is not used by the ABS.

Table A2: Australian Government general government sector balance sheet

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Assets				
Financial assets				
Cash and deposits	2,776	2,657	2,591	2,874
Advances paid	40,698	46,621	52,936	61,188
Investments, loans and placements	112,292	115,086	120,611	132,970
Other receivables	44,866	45,186	50,652	57,232
Equity investments				
Investments in other public sector entities	24,769	31,407	37,115	42,171
Equity accounted investments	331	334	337	340
Investments - shares	35,105	37,932	40,888	44,348
Total financial assets	*260,837*	*279,222*	*305,130*	*341,123*
Non-financial assets				
Land	8,719	8,663	8,634	8,603
Buildings	25,160	25,731	25,920	26,232
Plant, equipment and infrastructure	55,914	58,483	60,848	62,115
Inventories	7,210	7,045	6,975	6,931
Intangibles	5,426	5,422	5,472	5,612
Investment property	182	182	182	182
Biological assets	37	37	37	37
Heritage and cultural assets	10,463	10,474	10,486	10,499
Assets held for sale	83	121	83	83
Other non-financial assets	409	624	327	197
Total non-financial assets	*113,603*	*116,784*	*118,964*	*120,490*
Total assets	**374,440**	**396,006**	**424,094**	**461,613**
Liabilities				
Interest bearing liabilities				
Deposits held	192	192	192	192
Government securities	325,513	362,888	381,781	401,224
Loans	12,581	12,001	11,786	11,672
Other borrowing	1,529	1,412	1,361	1,282
Total interest bearing liabilities	*339,814*	*376,493*	*395,121*	*414,370*
Provisions and payables				
Superannuation liability	149,786	155,143	160,562	166,077
Other employee liabilities	14,891	15,080	15,104	15,556
Suppliers payable	4,266	4,316	4,365	4,394
Personal benefits provisions and payable	13,879	14,142	14,392	14,848
Subsidies provisions and payable	3,614	3,632	4,266	5,279
Grants provisions and payable	15,592	13,105	11,640	12,275
Other provisions and payables	14,476	14,976	16,782	19,687
Total provisions and payables	*216,503*	*220,394*	*227,111*	*238,115*
Total liabilities	**556,318**	**596,887**	**622,232**	**652,485**
Net worth(a)	**-181,878**	**-200,882**	**-198,138**	**-190,872**
Net financial worth(b)	*-295,480*	*-317,665*	*-317,102*	*-311,362*
Net financial liabilities(c)	*320,250*	*349,072*	*354,217*	*353,533*
Net debt(d)	*184,048*	*212,130*	*218,983*	*217,338*

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net financial liabilities equals total liabilities less financial assets other than investments in other public sector entities.
(d) Net debt equals the sum of 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	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Cash receipts from operating activities				
Taxes received	348,110	367,506	398,661	428,111
Receipts from sales of goods and services	8,686	8,519	8,691	8,852
Interest receipts	3,744	3,646	4,075	4,262
Dividends and income tax equivalents	2,748	2,463	2,679	2,695
Other receipts	5,748	5,941	6,686	6,654
Total operating receipts	**369,035**	**388,076**	**420,793**	**450,574**
Cash payments for operating activities				
Payments for employees	-26,729	-26,897	-28,029	-29,004
Payments for goods and services	-76,903	-78,034	-81,877	-84,808
Grants and subsidies paid	-142,112	-148,205	-149,742	-157,040
Interest paid	-12,119	-13,173	-15,592	-14,262
Personal benefit payments	-123,459	-129,264	-134,459	-143,544
Other payments	-5,458	-5,791	-6,002	-5,793
Total operating payments	**-386,782**	**-401,363**	**-415,701**	**-434,450**
Net cash flows from operating activities	**-17,746**	**-13,287**	**5,092**	**16,124**
Cash flows from investments in non-financial assets				
Sales of non-financial assets	416	2,229	2,626	227
Purchases of non-financial assets	-9,396	-9,961	-9,191	-8,760
Net cash flows from investments in non-financial assets	**-8,980**	**-7,732**	**-6,565**	**-8,532**
Net cash flows from investments in financial assets for policy purposes	**-9,966**	**-12,575**	**-12,491**	**-13,541**
Cash flows from investments in financial assets for liquidity purposes				
Increase in investments	-1,742	-3,532	-5,650	-12,113
Net cash flows from investments in financial assets for liquidity purposes	**-1,742**	**-3,532**	**-5,650**	**-12,113**
Cash receipts from financing activities				
Borrowing	40,650	39,419	22,059	21,521
Other financing	0	0	0	0
Total cash receipts from financing activities	**40,650**	**39,419**	**22,059**	**21,521**
Cash payments for financing activities				
Borrowing	0	0	0	0
Other financing	-2,015	-2,413	-2,510	-3,176
Total cash payments for financing activities	**-2,015**	**-2,413**	**-2,510**	**-3,176**
Net cash flows from financing activities	**38,634**	**37,006**	**19,548**	**18,345**
Net increase/(decrease) in cash held	**199**	**-120**	**-65**	**283**

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

	Estimates		Projections	
	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m
Net cash flows from operating activities and investments in non-financial assets (Surplus(+)/deficit(-))	**-26,727**	**-21,019**	**-1,473**	**7,592**
Finance leases and similar arrangements(b)	-469	0	0	0
GFS cash surplus(+)/deficit(-)	**-27,195**	**-21,019**	**-1,473**	**7,592**
less Net Future Fund earnings	2,946	2,962	3,189	3,393
Equals underlying cash balance(c)	**-30,142**	**-23,981**	**-4,662**	**4,199**
plus Net cash flows from investments in financial assets for policy purposes	-9,966	-12,575	-12,491	-13,541
plus Net Future Fund earnings	2,946	2,962	3,189	3,393
Equals headline cash balance	**-37,162**	**-33,593**	**-13,964**	**-5,949**

(a) A positive number denotes a cash inflow; a negative number 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 2013 ECONOMIC STATEMENT

Table B1: Revenue measures since the Economic Statement(a)

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
TREASURY					
Australian Taxation Office					
International tax — tax information exchange agreement with Brunei	-	-	*	*	*
Middle East Area of Operations — special forces training component of Australia's military contribution in Afghanistan(b)	-	-	-	-	-
New tax system for managed investment trusts — further changes(c)	-	-	-	-	-
Philanthropy — updating the list of specifically listed deductible gift recipients(d)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
Total impact of revenue measures(e)	**-**	**-**	**-**	**-**	**-**

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

(c) Provision for this measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget which includes an unquantifiable but small cost to revenue over the forward estimates period.

(d) The following organisations were approved as DGRs prior to the 2013-14 Budget: National Arboretum Canberra and Tasmanian Centre for Global Learning. Provision for these DGRs was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget which includes a cost to revenue of $0.1 million over the forward estimates period.

(e) Measures may not add due to rounding.

Table B2: Expense measures since the Economic Statement[(a)]

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
ATTORNEY-GENERAL'S					
Attorney-General's Department					
Better Schools — secure schools(b)	-	-	-	-	-
Legal assistance in Queensland to people at risk of homelessness(c)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY					
Department of Broadband, Communications and the Digital Economy					
New NBN-enabled business models and applications(d)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
CROSS PORTFOLIO					
Various Agencies					
Reversal of measures reported as a ‘decision taken but not yet announced’ in prior rounds	-	-49.6	-124.9	-88.4	-56.8
Portfolio total	**-**	**-49.6**	**-124.9**	**-88.4**	**-56.8**
DEFENCE					
Department of Defence					
Middle East Area of Operations — special forces training component of Australia's military contribution in Afghanistan(e)(kk)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
EDUCATION, EMPLOYMENT AND WORKPLACE RELATIONS					
Department of Education, Employment and Workplace Relations					
Additional funding for Parliament and Civics Education Rebate (PACER)(f)	-	-	-	-	-
Better Schools					
– National Plan for School Improvement — finalisation of negotiations	-	-6.0	-5.0	-34.0	-111.0
– National Plan for School Improvement — funding for Catholic schools(g)	-	-	-	-	-
Building Stronger Communities(h)	-	29.5	7.9	7.9	7.9
Improving educational outcomes — additional funding	-	5.7	9.8	7.1	7.2
InSITE grants — Initiatives Supporting Innovation in Teacher Education(i)	-	-	-	-	-
InSITE grants offset					
– National Trade Cadetship(j)	-	-	-	-	-
– Quality Teacher Program(j)	-	-	-	-	-
– TeachNext(j)	-	-	-	-	-
Safe Schools Expansion(k)	-	-	-	-	-
Tasmanian forestry workers assistance project — extension	-	-	1.2	1.2	-
Teach for Australia Grants — Initiatives Supporting Innovation in Teacher Education(l)	-	-	0.9	1.0	1.1

Table B2: Expense measures since the Economic Statement[(a)] (continued)

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Transition to Independent Living Allowance(m)	-	-	-	-	-
Portfolio total	**-**	**29.2**	**14.8**	**-16.8**	**-94.8**
FAMILIES, HOUSING, COMMUNITY SERVICES AND INDIGENOUS AFFAIRS					
Department of Families, Housing, Community Services and Indigenous Affairs					
Establishment of an Australian Chapter of the Women in the Public Service Project(n)	-	-	-	-	-
Extending the SACS supplementation to employees covered by the Australian Services Union's application to the Western Australian Industrial Relations Commission(o)	nfp	nfp	nfp	nfp	nfp
Extension of the Prime Minister's Council on Homelessness to 30 June 2020(p)	-	-	-	-	-
Improved operating environment for small and medium enterprises(x)	-	-	-	-	-
Legal assistance in Queensland to people at risk of homelessness(c)	-	-	-	-	-
National Disability Insurance Scheme — Western Australian Government Launch Site	-	-6.5	-11.7	-13.4	-7.3
Transition to Independent Living Allowance(m)	-	-	-	-	-
Portfolio total	**-**	**-6.5**	**-11.7**	**-13.4**	**-7.3**
FINANCE AND DEREGULATION					
Australian Electoral Commission					
Referendum on the financial recognition of local government — not proceeding	-	-34.0	-	-	-
Department of Finance and Deregulation					
Australia-Antarctica shipping capability — development of final detailed proposal	-	0.1	0.1	0.1	0.1
Portfolio total	**-**	**-33.9**	**0.1**	**0.1**	**0.1**
HEALTH AND AGEING					
Department of Health and Ageing					
Aged Care — support for culturally and linguistically diverse communities(r)	-	-	-	-	-
Blood Borne Viruses and Sexually Transmissible Infections Prevention program(s)	-	-	-	-	-
Epworth HealthCare Geelong Hospital — complex care unit(t)	-	-	-	-	-
Fetal Alcohol Spectrum Disorders(u)	-	-	-	-	-
Healthier Communities — Priority Infrastructure program(v)	-	-	-	-	-
Priority Health Initiatives	-	23.8	106.8	83.3	51.6
Royal Victorian Eye and Ear Hospital — redevelopment(w)	-	-	-	-	-
Portfolio total	**-**	**23.8**	**106.8**	**83.3**	**51.6**
HUMAN SERVICES					
Department of Human Services					
Improved operating environment for small and medium enterprises(x)(ll)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**

Table B2: Expense measures since the Economic Statement[(a)] (continued)

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
INDUSTRY, INNOVATION, CLIMATE CHANGE, SCIENCE, RESEARCH AND TERTIARY EDUCATION					
Commonwealth Scientific and Industrial Research Organisation					
New NBN-enabled business models and applications(d)	-	-	-	-	-
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education					
Development of an e-Business Platform for Integration of Information and Payments for the Australian Apprenticeships System(y)	-	-	-	-	-
National Workforce Development Fund					
– community services workforce assistance(z)	-	-	-	-	-
– enhancing high-technology manufacturing(aa)	-	-	-	-	-
Step into Skills Program(bb)	-	-	-	-	-
Supporting automotive sector jobs(cc)	-	-	-	-	-
Toyota major facelift vehicle and supplier grant(dd)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
INFRASTRUCTURE AND TRANSPORT					
Australian Maritime Safety Authority					
Saving Lives — Sustaining Australia's Search and Rescue Service(ee)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
PRIME MINISTER AND CABINET					
Department of the Prime Minister and Cabinet					
Economic Competitiveness Fund(ff)	-	26.6	5.0	5.0	5.0
Portfolio total	**-**	**26.6**	**5.0**	**5.0**	**5.0**
REGIONAL AUSTRALIA, LOCAL GOVERNMENT, ARTS AND SPORT					
Department of Regional Australia, Local Government, Arts and Sport					
Adelaide Festival Centre — support for Asian cultural activities(gg)	-	-	-	-	-
Brisbane Norths Sports Complex — upgrades	-	0.7	0.1	-	-
Brookvale Park upgrades and Centre of Excellence Initiative	-	5.0	5.0	-	-
Heffron Park upgrade — contribution	-	11.2	4.8	-	-
Karratha Country Club — Grassing the Greens — contribution	-	0.4	..	-	-
Meakin Park Junior Sporting Association — facilities upgrade	-	0.5	0.1	-	-
Northern Territory Thunder program	-	0.3	0.6	-	-
Peninsula Strikers Football Club — facilities upgrade	-	0.1	..	-	-
Referendum on the financial recognition of local government — not proceeding	-	-9.1	-	-	-
Sporting Communities initiative(hh)	-	-	-	-	-
St Helens Sport and Recreation Ground upgrades — contribution	-	0.5	0.1	-	-

Table B2: Expense measures since the Economic Statement[(a)] (continued)

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
Thebarton Oval Redevelopment Project — contribution	-	4.6	2.0	-	-
Portfolio total	**-**	**14.1**	**12.6**	**-**	**-**
SUSTAINABILITY, ENVIRONMENT, WATER, POPULATION AND COMMUNITIES					
Department of Sustainability, Environment, Water, Population and Communities					
Australia-Antarctica shipping capability — development of final detailed proposal(q)	-	-0.1	-0.1	-0.1	-0.1
Portfolio total	**-**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
TREASURY					
Department of the Treasury					
Better Schools — secure schools(b)	-	-	-	-	-
Healthier Communities — Priority Infrastructure program(v)(w)	-	-	-	-	-
National Disability Insurance Scheme — Western Australian Government Launch Site(w)	-	-	7.8	31.2	-
Priority consumer focused superannuation activities	-	1.0	-	-	-
Royal Victorian Eye and Ear Hospital — redevelopment(w)	-	-	50.0	50.0	-
Superannuation Consumer Centre — savings(ii)	-	-	-	-	-
Portfolio total	**-**	**1.0**	**57.8**	**81.2**	**-**
Total impact of expense measures(jj)	**-**	**4.5**	**60.4**	**50.9**	**-102.4**

* 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) This measure includes funding of $10.0 million over one year. This measure was funded from a 'decision taken but not yet announced' in the 2013 Economic Statement.

(c) This measure includes funding of $3.7 million to be met from within the existing resources of the Department of Families, Housing, Community Services and Indigenous Affairs.

(d) This measure includes funding of $2.0 million over two years for the Department of Broadband Communications and the Digital Economy and $2.5 million over two years for the Commonwealth Scientific and Industrial Research Organisation. This measure was included as a 'decision taken but not yet announced' in the 2013-14 Budget.

(e) The associated costs will be met from within funding already agreed for Operation Slipper.

(f) This measure includes funding of $6.5 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2013-14 Budget.

(g) This measure includes funding of $82.0 million over six years. This measure was included as a 'decision taken but not yet announced' in the 2013 Economic Statement.

(h) In addition, this measure includes funding of $475.0 million over four years, included as a 'decision taken but not yet announced' in the 2013 Economic Statement. This measure includes funding for Better Schools: before and after school, which was announced on 5 August 2013.

(i) This measure includes funding of $8.1 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2013-14 Budget.

(j) These measures provide savings of $14.9 million over four years. These measures were included as 'decisions taken but not yet announced' in the 2013-14 Budget.

(k) This measure includes funding of $8.0 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2013-14 Budget.

(l) This measure includes funding of $19.8 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2013-14 Budget.

(m) This measure involves the transfer of $14.0 million over four years from the Department of Education, Employment and Workplace Relations to the Department of Families, Housing, Community Services and Indigenous Affairs. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(n) This measure includes funding of $1.6 million over four years. This measure was included as a ‘decision taken but not yet announced in the 2013-14 Budget.

(o) The funding for this measure is not for publication due to its commercial nature.

(p) This measure includes funding of up to $0.2 million in 2014-15 to be met within the existing resources of the Department of Families, Housing, Community Services and Indigenous Affairs. This measure was a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(q) This measure includes funding of $3.3 million in 2013-14. This component of the measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(r) This measure includes funding of $32.5 million over four years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(s) This measure includes funding of $25.0 million over four years. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(t) This measure includes funding of $12.0 million and was met from within the existing resources of the Department of Health and Ageing.

(u) This measure includes funding of $9.2 million over four years. This measure will be funded from within the existing resources of the Department of Health and Ageing. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(v) This measure includes funding of $27.0 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(w) Funding is provided to the Treasury as payment to states and territories.

(x) This measure includes funding of $15.3 million over four years. Provision for this funding was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(y) This measure includes funding of $9.8 million in 2013-14 and $9.9 million in 2014-15 and savings of $46.7 million in both 2015-16 and 2016-17. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget and is subject to the successful completion of the ICT two pass process.

(z) This measure includes funding of $30.6 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(aa) This measure includes funding of $35.6 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(bb) This measure includes funding of $35.0 million over three years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(cc) This measure includes funding of $200.0 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(dd) This measure includes funding of $28.6 million over five years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(ee) This measure includes funding of $19.0 million over four years. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(ff) This measure also includes additional funding of $100.0 million over four years. Provision for this additional funding was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(gg) This measure includes funding of $1.8 million over four years. This measure was funded from a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(hh) This measure includes funding of $17.2 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013-14 Budget.

(ii) This measure includes savings of $9.0 million over two years. This measure was included as a ‘decision taken but not yet announced’ in the 2013 Economic Statement.

(jj) Measures may not add due to rounding.

(kk) These measures can also be found in the revenue measures summary table.

(ll) These measures can also be found in the capital measures summary table.

Table B3: Capital measures since the Economic Statement[(a)]

	2012-13	2013-14	2014-15	2015-16	2016-17
	$m	$m	$m	$m	$m
CROSS PORTFOLIO					
Various Agencies					
Reversal of measures reported as a 'decision taken but not yet announced' in prior rounds(b)	-	-3.0	-4.3	-2.0	-2.1
Portfolio total	**-**	**-3.0**	**-4.3**	**-2.0**	**-2.1**
HUMAN SERVICES					
Department of Human Services					
Improved operating environment for small and medium enterprises(b)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
IMMIGRATION AND CITIZENSHIP					
Department of Immigration and Citizenship					
Nauru Correctional Facility(e)	-	-	-	-	-
Nauru regional processing facility — rebuild and repair(c)	-	nfp	nfp	nfp	nfp
Nauru Regional Resettlement Arrangement — temporary accommodation(d)	-	-	-	-	-
Portfolio total	**-**	**-**	**-**	**-**	**-**
Total capital measures(f)	**-**	**-3.0**	**-4.3**	**-2.0**	**-2.1**

* 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 capital, no sign before an estimate indicates increased capital.

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

(c) The funding for this measure is not for publication due to its commercial nature.

(d) This measure will be funded from within the existing resources of the Department of Immigration and Citizenship.

(e) This measure includes funding of $17.0 million in 2013-14. This measure was included as a 'decision taken but not yet announced' in the 2013 Economic Statement.

(f) Measures may not add due to rounding.

Measures published in the 2013 Economic Statement

Measures published in the 2013 Economic Statement can be found on pages 53-67 of that document which is available at www.budget.gov.au.

The *Better Schools — treatment of payments for non-participating States and Territories* measure was published in the Economic Statement with the funding not for publication (nfp) as negotiations were continuing at the time of publication. The funding profile for this measure is $118.2 million in 2013-14, $222.9 million in 2014-15, $352.0 in 2015-16 and $510.2 million in 2016-17.

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 2013-14*. The following Statement of Risks updates, where necessary, those fiscal risks and contingent liabilities and assets that have arisen or materially changed since the 2013-14 Budget.

The forward estimates of revenue and expenses in the PEFO incorporate assumptions and judgments based on information available at the time of publication.

DETAILS OF FISCAL RISKS AND CONTINGENCIES

New or revised fiscal risks and contingent liabilities and assets with a possible impact on the forward estimates greater than $20 million in any one year, or $50 million over the forward estimates period, that have arisen or changed since the 2013-14 Budget are listed below.

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

FISCAL RISKS

Fiscal risks comprise general developments or specific events that may affect the fiscal outlook. Some developments or events raise the possibility of a fiscal impact. In other cases, the likelihood of a fiscal impact may be reasonably certain, but will not be included in the forward estimates because the timing or magnitude is not known.

Major taxes such as company and individuals' income taxes 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. Similarly, superannuation fund income tax is affected by investment market returns. Resource rent taxes may vary quite significantly, particularly with movements in commodity prices and the level of the Australian dollar. Revenue from carbon permit sales related to the flexible price period from 2014-15 onwards may also vary owing to changes in the international price of carbon permits.

Revenue forecasting also relies heavily on the historical relationships between the economy, tax bases and tax revenues. Such relationships may continue to shift as economic conditions change, requiring a greater degree of caution in their use in predicting future revenues. For example, the real and financial dimensions of the recent global financial crisis have posed particular challenges in estimating both the quantum and timing of loss utilisation. Any losses incurred during the downturn can be carried forward to offset gains or profits as the economy recovers, such that to the extent tax revenue improves it does so with some lag. Given the uncertainty about the quantum of losses in the tax system, this carry forward results in additional uncertainty around revenue estimates in any given year.

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, Australian Taxation Office rulings and the outcome of compliance programs. 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 estimates also include provision for a number of announced but as yet un-legislated tax policies which impact on the budget estimates. The total value of these policies is around $12 billion in underlying cash terms over the forward estimates period.

The vast majority of the value of these policies relates to measures announced by the Government in the 2013-14 Budget and the 2013 Economic Statement including: increases to the tobacco excise, the *Protecting the corporate tax base from erosion and loopholes* package, changes to the fringe benefits tax on cars, the deferral of the 2015-16 personal income tax cuts from the *Clean Energy Future* package and bringing forward the emissions trading scheme to 1 July 2014.

The estimates assume that legislation is passed in time for these measures to take effect from the commencement date announced by the Government. Where legislation is not passed in time to take effect from the announced date, or is not passed at all, then there would be a risk — potentially significant — to revenue and hence to the overall fiscal position.

In addition to recently announced measures, there are a number of older policies valued at around $100 million over the forward estimates that have not been legislated since the announced commencement date and a number of minor technical amendments to the tax laws that have not been legislated but which have been determined to be of nil impact over the forward estimates.

On 7 August 2013, the High Court of Australia rejected the challenge by Fortescue Metals Group Ltd and related companies regarding the constitutional validity of the minerals resource rent tax. As a consequence, that risk outlined in the 2013-14 Budget no longer exists and has been removed.

Effective 19 July 2013, Australia has made up to A$1.0 billion available to the Government of Indonesia in the form of a standby loan facility, to be drawn down should Indonesia be unable to raise sufficient funds at reasonable interest rates on global capital markets due to the impact of global financial market volatility. Other contributions to the standby loan facility were agreed by the World Bank, the Asian Development Bank and the Government of Japan. This facility is available to Indonesia up to 30 June 2014. A drawdown from the facility will be dependent on a request from the Indonesian Government and subject to certain criteria being met. Any funds provided will be repaid in full with interest.

From 19 July 2013, the Government introduced a Regional Resettlement Arrangement for Unauthorised Maritime Arrivals (UMAs). Under the arrangement, any UMAs who arrive after 19 July 2013 will be resettled in Papua New Guinea (PNG) or Nauru. A provision has been made for immigration processing facilities in PNG and Nauru. However, further facilities could be required should arrivals persist at higher rates.

There are also a number of expense measures which impact on the aggregates that still remain subject to the legislative process. If legislation is not passed by Parliament as proposed, this may affect the estimates and projections.

The *Commonwealth Inscribed Stock Act 1911* limits the face value of relevant Commonwealth Government Securities on issue to $300 billion. Current estimates indicate that the limit will be reached in the 2013-14 financial year (around December 2013).

CONTINGENT LIABILITIES — QUANTIFIABLE

Broadband, Communications and the Digital Economy

NBN Co Limited — Equity Agreement

The Australian Government has entered into an Equity Funding Agreement with NBN Co. The Agreement formalises the Commonwealth's intention to provide equity to fund the roll out of the National Broadband Network, with such funding being conditional on the annual appropriation processes. In addition, it commits the Commonwealth, in the event of a termination of the national broadband network roll out, to provide sufficient funds to NBN Co to meet its direct costs arising from that termination. The NBN Co Equity Agreement terminates in 2021. As at 31 July 2013, NBN Co's termination liabilities were estimated at $4.8 billion.

Telstra Financial Guarantee

The Australian Government has provided a guarantee to Telstra in respect of NBN Co's financial obligations to Telstra under the Definitive Agreements. The Definitive Agreements are long-term contracts and, in the case of the infrastructure component, involve terms of at least 35 years. The liabilities under the Definitive Agreements arise progressively during the roll out of the network as infrastructure is accessed and subscribers to Telstra's existing network are disconnected. As at 31 July 2013, NBN Co had generated liabilities covered by the Guarantee estimated at $1.8 billion. The Guarantee will terminate when NBN Co achieves specified credit ratings for a period of two continuous years and either:

- the company is fully capitalised; or

- the Communications Minister declares, under the *National Broadband Network Companies Act 2011*, that, in his or her opinion, the national broadband network should be treated as built and fully operational.

Optus Financial Agreement

The Commonwealth has provided a guarantee to Optus for NBN Co's financial obligations to Optus under the Optus HFC Subscriber Agreement. That Agreement extends for the period of the national broadband network roll out in Optus Hybrid Fibre Coaxial (HFC) areas. The incurred quantifiable liabilities under the Optus Agreement as at 30 June 2013 were estimated at $200 million.

Defence

Indemnities and remote contingencies

As at 23 July 2013, the Defence Materiel Organisation carried 78 contingencies that are quantifiable significant remote contingent liabilities, to the value of $2.8 billion. These liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security. While these contingencies are considered remote, they have been reported in aggregate for completeness.

As at 30 June 2013, the Department of Defence carried 1,643 instances of quantifiable significant remote contingent liabilities with a nominal value of $2.9 billion. These significant remote contingent liabilities are restricted in nature and details are not given due to reasons of commercial in confidence and/or national security. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Foreign Affairs and Trade

Export Finance and Insurance Corporation

The Australian Government guarantees the due payment of money that is, or may at any time become, payable by the Export Finance and Insurance Corporation (EFIC) to anybody other than the Government. The Government also has in place a $200 million callable capital facility available to EFIC on request to cover liabilities, losses and claims. As at 30 June 2013, the Government's total contingent liability was $3.3 billion, up from $3.2 billion at the 2013-14 Budget. The $3.3 billion contingent liability comprises EFIC's liabilities to third parties ($2.4 billion) and EFIC's overseas investment insurance, contracts of insurance and guarantees ($880 million). Of the total contingent liability, $2.6 billion relates to EFIC's Commercial Account and $719 million relates to the National Interest Account.

Health and Ageing

Accommodation Bond Guarantee Scheme

The Accommodation Bond Guarantee Scheme (the Guarantee Scheme) guarantees the repayment of residential accommodation bonds and entry contribution balances if a resident's approved residential aged care provider becomes insolvent or bankrupt and defaults on its refund obligations. In return for the payment, the rights that the resident had to recover the amount from their approved provider are transferred to the Commonwealth so it can pursue the approved aged care provider for the funds. In cases where the funds are unable to be recovered, the Australian Government may levy all approved providers holding bonds to meet any shortfall. On 30 June 2012, the maximum contingent liability, in the unlikely event that all providers defaulted, was approximately $13.1 billion.

Amendments were recently made to the Guarantee Scheme through *the Aged Care (Bond Security) Amendment Act 2013* and the *Aged Care (Bond Security) Levy Amendment Act 2013*. These amendments extend the current guarantee for bonds paid by aged care residents (outlined above), to also cover future lump sum accommodation payments paid by aged care residents. The passage of this legislation means that both bonds paid by aged care residents (before 1 July 2014) and refundable accommodation deposits made by aged care residents (after 1 July 2014) are guaranteed by the Government if an aged care provider becomes insolvent or bankrupt.

Industry, Innovation, Climate Change, Science, Research and Tertiary Education

Low Carbon Australia Limited — Board of Directors' and senior management indemnities

The Australian Government has provided indemnities to directors and company officers of Low Carbon Australia Limited (LCAL). A total of seven indemnity deeds have been executed. Each indemnity covers liability incurred by a director or officer arising from the implementation of the merger of LCAL with the Clean Energy Finance Corporation. An aggregate cap of $100 million to cover all claims has been established, and the indemnities will operate for seven years from execution.

Treasury

Contingent liability for the payment of unclaimed monies under the *Banking Act 1959*, *Life Insurance Act 1995* and the *Corporations Act 2001*

The Australian Securities and Investments Commission (ASIC) is responsible for the administration of unclaimed monies under the *Banking Act 1959*, *Life Insurance Act 1995* and the *Corporations Act 2001*. Based on historical data it is not probable that all unclaimed monies will be refunded to claimants. ASIC has recognised a provision for likely future claims and estimates the residual contingent liability for unclaimed monies administered by ASIC at 30 June 2013 to be $753 million which includes contingent liabilities considered remote.

Guarantees under the *Commonwealth Bank Sale Act 1995*

Under the terms of the *Commonwealth Bank Sale Act 1995*, the Australian Government has guaranteed various superannuation and other liabilities; $751 million is attributable to liabilities of the Commonwealth Bank of Australia, as at 30 June 2013, and $4.2 billion is attributable to liabilities of the Commonwealth Bank Officers' Superannuation Corporation, as at 30 June 2013.

International financial institutions — uncalled capital subscriptions

The Australian Government has held uncalled capital subscriptions in the International Bank for Reconstruction and Development (IBRD) since 1947. The Government is contributing additional resources to the IBRD as part of the general capital increase agreed in 2010. The paid-in component of Australia's contribution was a measure in the 2010-11 Budget. As part of this process, Australia will increase its uncalled capital subscription so that it totals US$3.6 billion (estimated value A$3.9 billion as at 17 July 2013).

Australia has also held uncalled capital subscriptions in the European Bank for Reconstruction and Development (EBRD) since 1991. The Government increased its uncalled capital subscription (effective 20 April 2011) to the EBRD as part of its 2010 general capital increase so that it totals EUR238 million (estimated value A$338 million as at 17 July 2013). The financial implications of the paid-in component were reported as a measure in the 2010-11 Mid-Year Economic and Fiscal Outlook.

The Australian Government also holds uncalled capital subscriptions in the Asian Development Bank of US$7.0 billion (estimated value A$7.6 billion as at 17 July 2013), and the Multilateral Investment Guarantee Agency of US$27 million (estimated value A$29 million as at 17 July 2013).

None of these international financial institutions has ever drawn on Australia's uncalled capital subscriptions.

International Monetary Fund

Australia has made a line of credit available to the International Monetary Fund (IMF) under its New Arrangements to Borrow (NAB) since 1998. In line with G20 Leaders' commitments, Australia has joined with other countries to increase its credit line under an expanded NAB. When the expanded NAB came into effect on 11 March 2011, Australia's NAB credit arrangement increased from Special Drawing Rights (SDR, the IMF's unit of account) 801 million (estimated value A$1.4 billion as at 7 August 2013) to SDR 4.4 billion (estimated value A$7.4 billion). This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. As agreed by G20 Finance Ministers and IMF Governors in late 2010, the credit arrangements of all NAB participants, including Australia, will be reduced when the increase in IMF quotas comes into effect. This was anticipated to occur in 2012-13; however, due to a delay in the implementation of the above agreement by the United States it is now anticipated to occur in 2013-14.

On 20 April 2012, as part of a broad international effort to increase the resources available to the IMF, Australia committed to provide a US$7.0 billion (calculated as SDR 4.61 billion, approximately A$7.8 billion at 7 August 2013) contingent bilateral loan to the IMF, soon to enter into force following recent passage of enabling legislation. The contingent loan is on terms consistent with separate bilateral loan and note purchase agreements to be concluded between the IMF and all contributing countries. It will be drawn upon by the IMF only if needed to supplement the IMF's quota and NAB resources and any loans would be repaid in full with interest. The increase in the IMF's resources will help ensure that it has the capability to address any potential vulnerability facing the global economy.

Reserve Bank of Australia — guarantee

The Australian Government guarantees the liabilities of the Reserve Bank of Australia. It is measured as the Bank's total liabilities excluding capital, reserves, and Australian Government deposits. The major component of the Bank's liabilities is notes (that is, currency) on issue. Notes on issue amount to $57.0 billion, as at 30 June 2013, and the total guarantee is $67.0 billion, up from $65.0 billion reported in the 2013-14 Budget.

CONTINGENT LIABILITIES — UNQUANTIFIABLE

Attorney-General's

Australian Victims of Terrorism Overseas Payment

The *Social Security Amendment (Supporting Australian Victims of Terrorism Overseas) Act 2012* inserted Part 2.24AA into the *Social Security Act 1991* (the Act) to create a scheme for providing financial assistance to Australians who are victims of an overseas terrorist act that has been declared by the Prime Minister. The scheme commenced on 22 January 2013. Under the scheme, Australians harmed (primary victims) and Australians who are close family members of a person who dies as a direct result of a declared terrorist act (secondary victims) will be able to claim payments of up to $75,000. As acts of terrorism are unpredictable, the cost of the scheme is unquantifiable.

Native Title costs

The Australian Government has previously offered to assist State and Territory governments in meeting certain Native Title costs pursuant to the *Native Title Act 1993* (the NTA), including compensation costs. Consistent with the policy of considering this issue on a case by case basis subject to available funding, a National Partnership Agreement was executed in 2010 between the Commonwealth and Victoria, under which the Commonwealth provided a contribution towards the settlement of two native title claims. No other agreement under this offer has been entered into to date.

The Australian Government will also be liable for any compensation found to be payable under the NTA (and potentially also the Constitution) in respect of compensable acts for which the Commonwealth is responsible.

The Australian Government's liability in both scenarios cannot be quantified owing to uncertainty about the number and effect of compensable acts and the value of Native Title affected by those acts.

Defence

Indemnities and remote contingencies

The Defence Materiel Organisation carries 451 instances of contingencies (including Foreign Military Sales) that are unquantifiable. While these contingencies are considered remote, they have been reported in aggregate for completeness.

Litigation cases

The Department of Defence is involved in a wide range of litigation and other claims for compensation and/or damages that may result in litigation where the matters are not able to be finalised by use of negotiation. The litigation includes common law liability claims, including injury from alleged exposure to hazardous substances in the workplace. A number of claims have also been received for damage caused by the use of a Defence Practice Area. There is also the potential for a number of claims to arise out of reviews into Australian Defence Force and Defence culture.

Families, Housing, Community Services and Indigenous Affairs

Business Services Wage Assessment Tool (BSWAT)

The Australian Government may potentially become liable for compensation following a Full Federal Court ruling (21 December 2012) that the use of the Business Services Wage Assessment Tool (BSWAT) to assess the wages of two intellectually disabled employees constituted unlawful discrimination under the *Disability Discrimination Act 1992*.

There are currently three further cases in the Federal Court. In each of these matters, the applicants allege that the use of the BSWAT to assess their wages constituted unlawful discrimination under the *Disability Discrimination Act 1992*. Additionally, there may be a number of current and former employees who share similar circumstances. The Australian Government's potential liability cannot be quantified at this time.

DisabilityCare Australia

In bilateral negotiations, the Australian Government has committed to provide temporary, untied financial assistance to some jurisdictions that expect to have their GST entitlements adversely affected during the transition to DisabilityCare Australia, the national disability insurance scheme (NDIS).

Under this commitment, the expected liability will depend on a range of factors including when all jurisdictions reach full scheme and any impact resulting from the Commonwealth Grants Commission's 2015 Methodology Review, scheduled to be completed in February 2015. The Review will consider the most appropriate treatment of disability services for GST distribution purposes, both during the transition to the NDIS and once the full scheme is operating nationally. Any impact on the Government's budget is not expected to occur before 2016-17.

Finance and Deregulation

Litigation — Davis Samuel case

The Australian Government was subject to a counter-claim for damages in legal action before the Australian Capital Territory Supreme Court. The Australian Government is seeking to recover funds which were misappropriated from the Department of Finance and Deregulation during 1998. The judgment, handed down on 1 August 2013, dismissed the counter claim against the Australian Government and found in favour of the Australian Government in its claims against the defendants. Final orders are yet to be made. The Court extended the time for appeals to 28 days after final orders are made.

Immigration and Citizenship

Immigration detention services by State and Territory governments — liability limit

DIAC is negotiating arrangements with a number of State and Territory governments for the provision of various services (including health, education, corrections and policing services) to immigration detention facilities and people in immigration detention. Some jurisdictions are seeking indemnification by the Commonwealth for the provision of those services.

In June 2012, the then Minister for Immigration and Citizenship wrote to the Minister for Finance and Deregulation seeking agreement under regulation 10 of the Financial Management and Accountability Regulations 1997 (FMA Regulations) for expenditure that may become payable under those arrangements.

In September 2012, the Minister for Finance and Deregulation agreed that DIAC may consider entering arrangements which include the relevant indemnities, based on the framework parameters:

Service stream	NSW	VIC	SA	WA
Health	NA	Uncapped liability	$5 million per claim or event	Uncapped liability
Education	NA	Uncapped liability	$5 million per claim or event	Uncapped liability
Corrections	Uncapped liability	NA	NA	NA
Police	NA	$5 million per claim	$5 million per claim	$5 million per claim

Infrastructure and Transport

Moorebank Intermodal Company Limited (MIC) — Board Members' Indemnity

The Australian Government has provided certain indemnities for the board members of the Moorebank Intermodal Company Limited (MIC) to protect them against civil claims relating to their employment and conduct as directors. The indemnities apply to the period of appointment as board members of the company. Until the indemnity agreements are varied or brought to an end, they will remain as contingent and unquantifiable liabilities.

Regional Australia, Local Government, Arts and Sport

Indemnity provided to the New South Wales Rural Fire Fighting Service in relation to the Jervis Bay Territory

The Department of Regional Australia, Local Government, the Arts and Sport is required to engage the NSW Rural Fire Service (NSW RFS) to provide fire management support for the volunteer brigade located in the Jervis Bay Territory (JBT). To provide this service, the NSW RFS requires the Commonwealth to provide an uncapped indemnity whereby the Commonwealth would be liable for any damage caused as a result of the actions of the NSW RFS in the JBT while fighting a fire. The likelihood of an event occurring that may result in a liability for the Commonwealth has been assessed as very remote and the risks are currently mitigated through the training and professional qualifications of the NSW RFS staff.

Sustainability, Environment, Water, Population and Communities

Murray-Darling Basin Reform — additional net costs

Under the 2013 *Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin*, signatory Basin States have agreed that the capped financial support provided through the associated National Partnership for state implementation payments replaces the 'No Net Additional Costs' provision under the 2008 *Intergovernmental Agreement on Murray-Darling Basin Reform*.

As at 15 July 2013, Victoria, South Australia and the ACT had signed the 2013 Intergovernmental Agreement, whilst NSW and Queensland were considering the matter further and are thus still covered under the provisions of the 2008 Intergovernmental Agreement. The 2008 Intergovernmental Agreement specified that the Basin States will not bear additional net costs as a consequence of the reforms agreed between the parties and implementation of the *Water Act 2007*. This undertaking ceases on 30 June 2015.

Treasury

Financial Claims Scheme

The Financial Claims Scheme provides depositors of authorised deposit taking institutions (ADIs) and policyholders of general insurers (GIs) with timely access to their funds in the 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 policyholders will be made out of APRA'S Financial Claims Scheme Special Account.

The Financial Claims Scheme established under the *Banking Act 1959* provides a mechanism for making payments to depositors under the Government's guarantee of deposits in ADIs. Payments are capped at $250,000 per account holder per ADI. As at 31 March 2013, deposits eligible for coverage under the Financial Claims Scheme were estimated to be approximately $688.2 billion, compared to $696.9 billion at 28 February 2013, reflecting better information provided by ADIs.

The Financial Claims Scheme established under the *Insurance Act 1973* provides a mechanism for making payments to eligible beneficiaries with a valid claim against a failed general insurer.

In the very unlikely event of an ADI failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. From 2016, the payments would initially be met from the Financial Stability Fund announced in the 2013 Economic Statement. In the even more unlikely event that there was a shortfall in the amount recovered through the liquidation of the failed institution and available to be drawn from the Financial Stability Fund, a levy could be applied to ADIs to recover the difference between the amount expended and the amount recovered in the liquidation and from the Financial Stability Fund.

In the very unlikely event of a GI failure, any payments made under the Financial Claims Scheme would be recovered through the liquidation of the failed institution. In the event that there was a shortfall in the amount recovered, a levy would be applied to GIs to recover the difference between the amount expended and the amount recovered in the liquidation.

Initial amounts available to meet payments and administer the Financial Claims Scheme, in the event of activation, are $20.1 billion per institution, under the legislation.

Guarantee of State and Territory Borrowing

The Australian Government announced on 25 March 2009 that a voluntary, temporary guarantee would be put in place over state and territory borrowing. The Guarantee of State and Territory Borrowing commenced on 24 July 2009 and closed on 31 December 2010.

Securities covered by the guarantee will continue to be guaranteed until these securities either mature or are bought back and extinguished by the issuer.

The expected liability under the guarantee is remote and unquantifiable. Australian Government expenditure would arise under the guarantee only in the unlikely event that a State 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 2013, the face value of State and Territory borrowings covered by the guarantee was $25.4 billion, down from $27.3 billion at 31 March 2013.

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 that the Guarantee Scheme would close to new liabilities 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 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 30 June 2013, total liabilities covered by the Guarantee Scheme were estimated at $48.3 billion, down from $55.2 billion at 31 March 2013. This is made up of $2.3 billion (down from $2.8 billion) of large deposits and $46.0 billion (down from $52.4 billion) of long term wholesale funding. All guaranteed short-term wholesale funding matured in March 2011.

As at 30 June 2013, institutions participating in the Guarantee Scheme had paid fees of $4.2 billion since its inception.

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

The estimates contained in the PEFO are based on forecasts and projections 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. 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 increase in labour productivity and labour force participation, with each contributing equally.

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 policy over the forecast period. 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 in 2013-14 consistent with a fall in the terms of trade of around 4 per cent, which causes a 1 per cent fall in nominal GDP by 2014-15. The sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table D1 are 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 by 2014-15 (per cent deviation from the baseline level)

	2013-14 per cent	2014-15 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 lead to a fall in the exchange rate, although the magnitude is particularly uncertain in the short term. In the event of a fall 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 $3.1 billion in 2013-14 and around $6.0 billion in 2014-15 (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

	2013-14 $b	2014-15 $b
Receipts		
Individuals and other withholding taxes	-0.5	-1.6
Superannuation fund taxes	-0.1	-0.3
Company tax	-1.9	-3.1
Resource rent taxes	-0.3	-0.5
Goods and services tax	-0.1	-0.3
Excise and customs duty	-0.1	-0.1
Other taxes	0.0	0.0
Total receipts	**-3.0**	**-5.9**
Payments		
Income support	-0.1	-0.2
Other payments	0.0	0.1
Goods and services tax	0.1	0.2
Total payments	**0.0**	**0.1**
Public debt interest	-0.1	-0.2
Underlying cash balance impact	**-3.1**	**-6.0**

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 is on company tax receipts as the fall in export income decreases company profits. Owing to lags in the tax system, the effect on company tax is larger in 2014-15. 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, reducing individuals' income tax receipts. 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 taxes.

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 because of a higher number of unemployment benefit recipients. The increase in unemployment benefits in 2014-15 is partly offset by reduced expenditure on pensions and allowances reflecting lower growth in benefit rates resulting from lower wages growth and lower inflation. 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.

As noted above, under a floating exchange rate, the fall in 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 permanent 0.5 per cent increase in both the participation rate and labour productivity, resulting in a 1 per cent increase in the level of real GDP from 2013-14. Once again, the sensitivity analysis evaluates the flow-on effects on the economy, the labour market and prices. The impacts in Table D3 are 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 different parts of the economy are affected 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 from 2013-14 (per cent deviation from the baseline level)

	2013-14 per cent	2014-15 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 increases in labour force participation and labour productivity 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 lower domestic prices make 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 unchanged.

The overall impact of the increase in labour productivity and participation is an increase in the underlying cash balance of around $2.9 billion in 2013-14 and around $3.7 billion in 2014-15 (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

	2013-14 $b	2014-15 $b
Receipts		
Individuals and other withholding taxation	1.6	1.4
Superannuation taxation	0.1	0.3
Company tax	1.0	1.5
Goods and services tax	0.5	0.5
Excise and customs duty	0.3	0.3
Other taxation	0.0	0.0
Total receipts	**3.5**	**4.0**
Payments		
Income support	-0.1	-0.1
Other payments	0.0	0.1
Goods and services tax	-0.5	-0.5
Total payments	**-0.6**	**-0.5**
Public debt interest	0.0	0.2
Underlying cash balance impact	**2.9**	**3.7**

On the receipts side, individuals' income tax collections increase because of the rise in the number of wage earners and, additionally, higher real wages. The stronger labour market also increases tax collections from superannuation funds because contributions (including compulsory contributions) are higher. 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). In addition, the stronger economy results in higher levels of corporate profitability, increasing company taxes.

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

On balance, the rise in estimated tax collections is only partially offset by increased payments. This improves the underlying cash position, which results in 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.

Appendix E: Sensitivity of Estimates to Major Program Parameters

This appendix examines the sensitivity of estimates to changes in two program parameters which are particularly volatile and uncertain. The two parameters considered are the Carbon Pricing Mechanism (CPM) and the number of Unauthorised Maritime Arrivals (UMAs).

Carbon Pricing Mechanism

The PEFO estimates are based on commencement of an emissions trading scheme with a flexible price on 1 July 2014. With the start of this flexible price period, the Australian carbon price is expected to be set by the international price of carbon permits, because of the one-way link to the European Union Emissions Trading Scheme (EU ETS). In underlying cash terms, movements in the international carbon price affect receipts from the CPM and receipts from equivalent carbon price arrangements on fuel excise and synthetic greenhouse gases, as well as payments such as fuel tax credits.

The PEFO incorporates the carbon price methodology introduced in the 2013-14 Budget. This methodology uses a three-month average of futures market prices in the forecast years, including the start of emissions trading in 2014-15. Carbon prices in the projection years of 2015-16 and 2016-17 are estimated using a linear transition from market prices to the longer-term modelled price of $38 in 2019-20 from the Strong Growth, Low Pollution Report. Based on this methodology, the carbon price is estimated to be $6.20 in 2014-15, $12.50 in 2015-16 and $18.90 in 2016-17.

The longer-term modelled price is based on analysis contained in the Strong Growth, Low Pollution (SGLP) Report released in 2011. This modelling provides the latest available comprehensive assessment of the impact of global emissions reduction pledges for 2020 and the prices required to achieve the global environmental goals over time.

While the modelling provides a longer-term estimate for prices in 2020, the carbon price path to 2020 is subject to considerable uncertainty. This price path will continue to be significantly affected by changes in the economic outlook in Europe following a period of profound economic weakness, as well as uncertainty associated with the impacts of short-term and structural reform proposals in the EU ETS. In light of these uncertainties, the use of a linear interpolation to derive carbon prices in the projection years is a simple, transparent approach.

Futures contracts in the projection years are thinly traded, and market analyst views of the carbon price outlook to 2020 vary widely. Estimates will also vary in line with the Australian dollar carbon price and the emissions cap.

To illustrate the sensitivity of the estimates to changes in the Australian dollar carbon price, in the absence of policy change, a simple rule of thumb for a $1 change in the carbon price in any given year would be a change in the underlying cash balance of around $160 million in 2014-15 or around $220 million in either 2015-16 or 2016-17.

This simple rule of thumb will become less reliable for more significant deviations in the carbon price. Estimates of CPM receipts are net of freely-allocated carbon permits under the Jobs and Competitiveness Program and the Energy Security Fund. Accrual estimates of CPM revenue include the value of these free-allocated permits. The rule of thumb does not take into account the impact of changes in the carbon price on CPI-indexed payments and receipts across the Budget.

Unauthorised Maritime Arrivals

Short-term estimates for Unauthorised Maritime Arrival (UMA) costs are heavily influenced by the occupancy level across the immigration processing network, including offshore processing in Papua New Guinea (PNG) and Nauru. Longer-term estimates are driven by UMA arrival rates, through increases in the number of people in the immigration processing network.

Forecasting arrival rates is inherently difficult and imprecise. Arrival forecasts are built on advice from the National Security community, actual arrival rate trends and judgements about the impact of policy change. A summary of the current methodology for estimating UMA costs over the forward estimates is included in Statement 6 of Budget Paper 1 (page 6-50) in the 2013-14 Budget.

The average and variance of arrivals have been changing over time, with changes both up and down over the past five years. While recent arrivals have been around 3,000 a month, there have been major changes to Australia's UMA policy in recent weeks, including the announcement of regional processing and resettlement (in PNG and Nauru) for UMAs arriving after 19 July 2013, which is expected to provide a material deterrent on future arrivals over time.

The 2013 Economic Statement included an estimates variation that accounted for the additional costs of UMAs who arrived since Budget.

The PEFO retains the arrival assumption and methodology from Budget (1,100 per month in 2013-14), updated for: the revision to the 10-year rolling average to include the impact of arrivals since the Budget; and revised estimates of the number of UMAs being placed on bridging visas reflecting the faster release into the community of pre-19 July arrivals (Table E1).

Table E1: Arrival rate assumptions (persons)

	2013-14	2014-15	2015-16	2016-17
2013-14 Budget	13,200	8,160	3,120	3,120
PEFO (Economic Statement)	15600(a)	8,826	4,452	4,452

(a) Includes an additional provision for actual arrivals in 2013 at the time of preparation.
Source: Department of Finance and Deregulation.

Retaining the arrival assumption at 1,100 per month for 2013-14 at this time is prudent. It reflects an on-balance judgement that incorporates recent arrival rates on the one hand and the likely impact, over time, of recent policy announcements on arrival numbers on the other hand.

In recognition of the inherent uncertainty of arrival estimates, Table E2 provides the underlying cash impact over the forward estimates of two further scenarios:

- Scenario 1 assumes a drop in arrivals to the long-term average of 370 per month for 2013-14, sooner than would occur under the PEFO approach.
- Scenario 2 assumes an increase in arrivals to the recent average (March to July 2013) of 3,000 per month for 2013-14, with a transition to the long term average by 2015-16.

Table E2: Financial implications of alternative arrival scenarios

	2013-14	2014-15	2015-16	2016-17	Total
	$m	$m	$m	$m	$m
Scenario 1	322.2	315.6	203.7	200.8	1,042.3
Scenario 2	-1,102.5	-1,127.2	-656.3	-640.9	-3,526.8

Source: Department of Finance and Deregulation.

The cost estimates will continue to be reviewed and revised through budget updates.

APPENDIX F: MEDIUM-TERM PROJECTIONS

The Charter requires that the PEFO identify 'all other circumstances that may have a material effect on the fiscal and economic outlook'[1].

This appendix contains projections of the underlying cash balance and net debt for the ten years beyond the budget year. Beyond the forward estimates, these projections are underpinned by a suite of models, using a similar approach to the modelling used for the Intergenerational Report[2]. This differs to the approach used for the forward estimates period, where fiscal estimates are based on detailed program level information.

Projections of economic parameters in the medium term are produced to underpin projections of receipts and payments. The projection methodology is based on medium-term assumptions of growth consistent with historical experience adjusted, where appropriate, for long-term factors such as demographic change. For example, Australia's long-run potential real GDP growth rate is used to underpin economic parameters — this is assumed to decrease from 3 per cent to 2¾ per cent early next decade due to the impact on participation of an ageing population. As discussed in Appendix D, changes to economic parameters, such as the terms of trade, can also have significant implications for the fiscal projections. A more rapid decline in the terms of trade than currently incorporated into the projections would weaken the fiscal position, while a slower decline would have the opposite effect, all other things held constant.

Medium-term tax receipts are projected by head of revenue using parameters for wages, profits and consumption linked to nominal GDP growth — similar to the revenue projections for the last two years of the forward estimates period.

Spending is projected using a suite of models, including models that project spending on health, income support payments, education and training, aged care, major superannuation defined benefit schemes, and defence. While the details of the various spending models differ, they are mainly driven by expected changes in demand (in most cases driven by demographic change) and prices. The demographic factors are modelled using population and labour force models.

Specific program estimates are included across the ten years for DisabilityCare Australia, the National Plan for School Improvement, and the Nation Building 2 and Nation Building 3 programs. Other spending, for example on housing programs, is assumed to grow in line with prices and incomes.

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1 *Charter of Budget Honesty Act 1998*, 24(2)(a).

2 For more information on the medium-term methodology see: Woods, D, Farrugia, M and Pirie, M, 'The Australian Treasury's fiscal aggregate projection model', *Economic Roundup*, Issue 3 2009, Treasury.

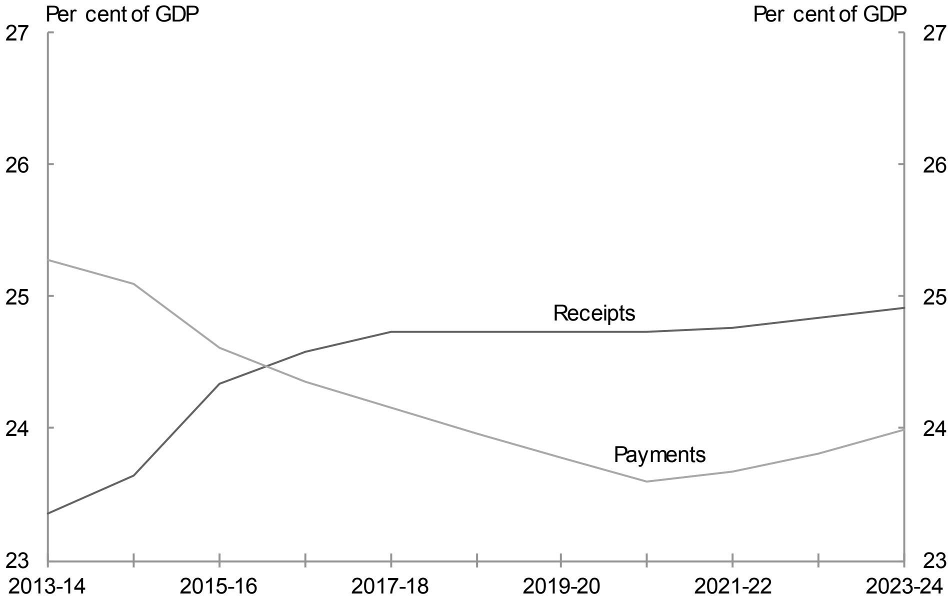
To produce balance sheet aggregates, a number of significant components of the balance sheet are modelled. These include the Commonwealth's superannuation liability, the Higher Education Loan Program, the Future Fund, the DisabilityCare Australia Fund and other Commonwealth funds, and Commonwealth Government Securities on issue. Some of these components also contribute to receipts or payments, for example through non-tax receipts and interest payments.

The aggregate projections are modelled using an internally consistent cash and accrual framework, with interconnected operating and cash flow statements and balance sheet.

Two scenarios are modelled below. The first limits real growth in payments to 2 per cent a year, on average, until the surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend (that is, from 2017-18 to 2020-21). It also places a ceiling on taxation revenue as a share of GDP of 23.7 per cent, which occurs from 2017-18 in the scenario.

This no policy change scenario is consistent with the assumptions underpinning the medium-term projection published in the 2013-14 Budget (Chart F1).

Chart F1: Payments and receipts projected to 2023-24, no policy change

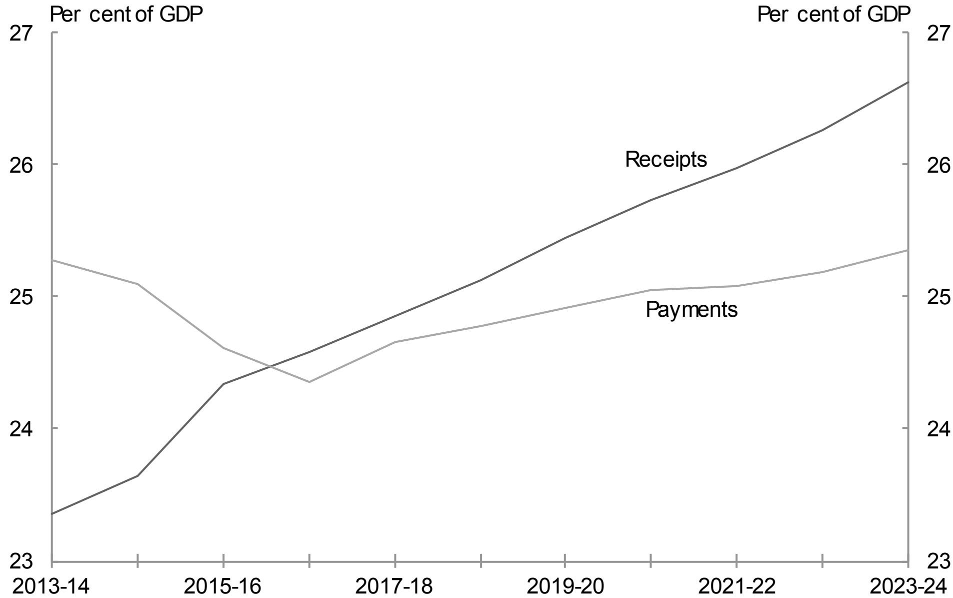


Source: Treasury
Note: Payments and receipts (including non-tax receipts) are net of Future Fund payments and receipts.

This no policy change medium-term projection shows the underlying cash surplus growing after the forward estimates and reaching 1 per cent of GDP in 2020-21. Net debt is projected to return to zero in 2023-24.

An alternative scenario is presented which removes the constraints on spending growth and the tax to GDP ratio. This 'underlying trend' scenario illustrates the medium-term fiscal outlook if spending grows in line with the demand for existing functions and if the taxation system is unchanged, so that receipts are boosted by fiscal drag (Chart F2).

Chart F2: Payments and receipts projected to 2023-24, underlying trend

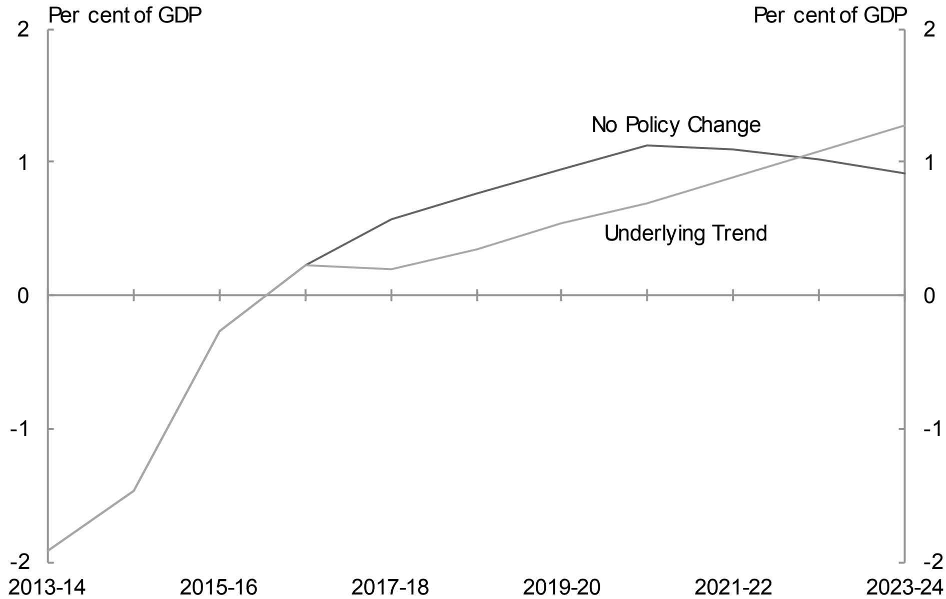


Source: Treasury
Note: Payments and receipts (including non-tax receipts) are net of Future Fund payments and receipts.

The underlying trend medium-term projections show that the underlying cash balance would initially be lower, reflecting higher payments, but that by the end of the decade higher taxes lead to a higher underlying cash balance than in the no policy change projections. Net debt would be slightly above zero in 2023-24. Real payments growth would average 3½ per cent per annum from 2017-18 to 2020-21, compared to 2 per cent per annum under the no policy change projections. Tax receipts would reach around 25½ per cent of GDP in 2023-24.

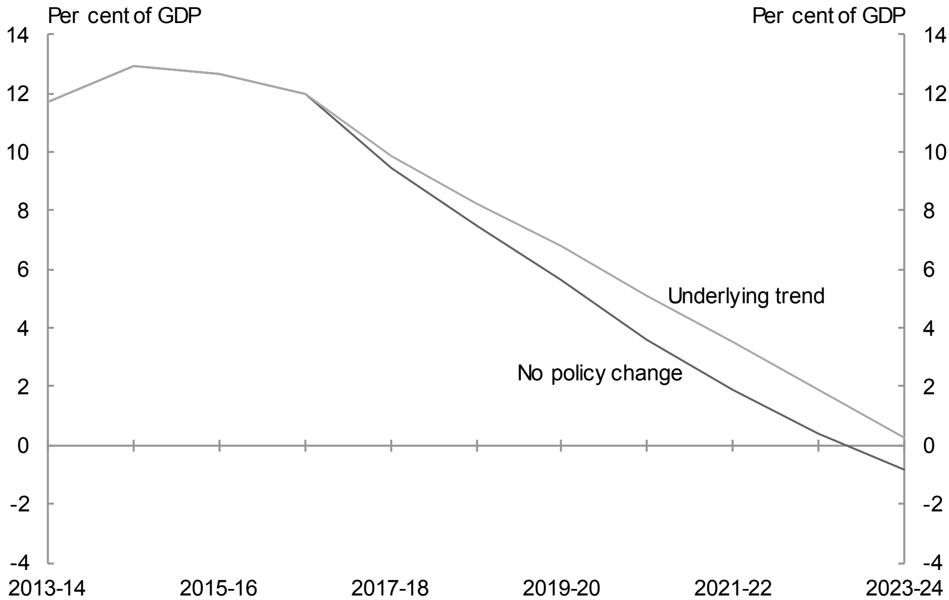
Charts F3 and F4 show the underlying cash balance and net debt profiles associated with the two scenarios.

Chart F3: Underlying cash balances projected to 2023-24



Source: Treasury projections.

Chart F4: Government net debt projected to 2023-24



Source: Treasury projections.

APPENDIX G: STRUCTURAL BUDGET BALANCE

This appendix presents updated estimates of the structural budget balance based on the methodology in Treasury Working Paper 2013-01[1].

Estimates of the structural budget balance adjust for temporary factors that have a significant impact on the budget balance. For the Australian Government, these factors include cycles in the real economy, and deviations in the terms of trade and capital gains tax (CGT) receipts from their estimated long-run, or 'structural', levels. Considered alongside underlying cash balance estimates and balance sheet indicators, structural budget balance estimates can provide broad guidance on whether current fiscal policy settings are sustainable over the medium term.

While structural budget balance measures are conceptually appealing, they are sensitive to the assumptions and parameters underpinning the estimates. Following a decade in which Australia's terms of trade doubled, to reach the highest level in at least 150 years, identifying the structural or long-run level is conceptually challenging—using different assumptions for the terms of trade leads to substantial differences in structural balance estimates. In addition, the relationship between tax receipts and economic activity is complex and varies through time as the structure of the economy changes. Finally, international experience has demonstrated the difficulties in disentangling temporary from permanent economic factors, especially in real time.

For these reasons, it is best to consider a range of structural budget balance estimates based on plausible assumptions for the underlying parameters as one element of a broader assessment of fiscal sustainability. Chart G1 presents a range of estimates of the structural budget balance for the Australian Government.

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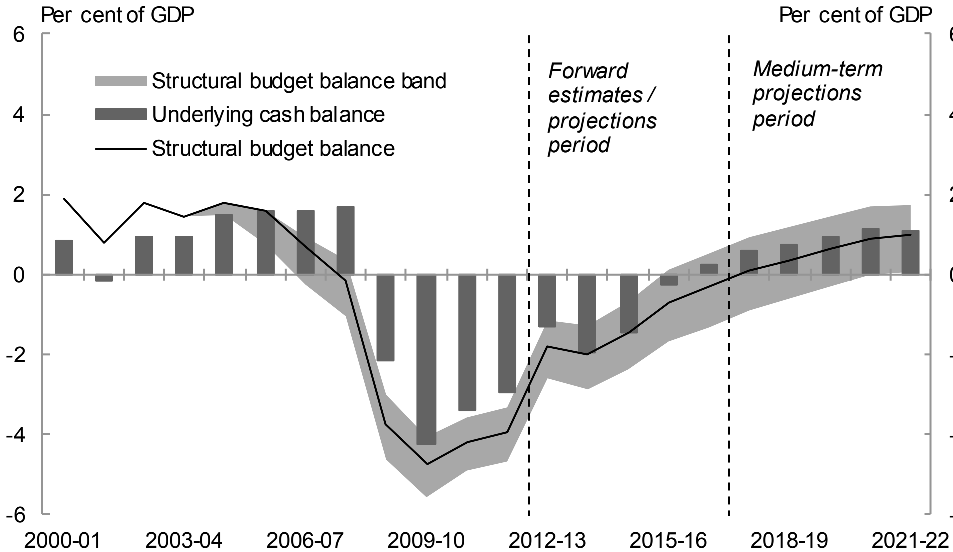
1 Win, N, Duggan, S, Garton, P, Premetis, S and Li, B, 'Estimating the Structural Budget Balance of The Australian Government: An Update', Treasury Working Paper, May 2013.

Chart G1: Structural budget balance estimates



Note: The grey range represents the range of structural budget estimates using the OECD's assumption for the structural level of the terms of trade (average between 1986-87 and 2010-11), and using the average from 2003-04 to 2015-16 consistent with the 2013-14 Budget. The OECD assumption generates the lower bound of the shaded region, while the 2003-04 to 2015-16 average assumption generates the upper bound.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0 and 6401.0 and Treasury.

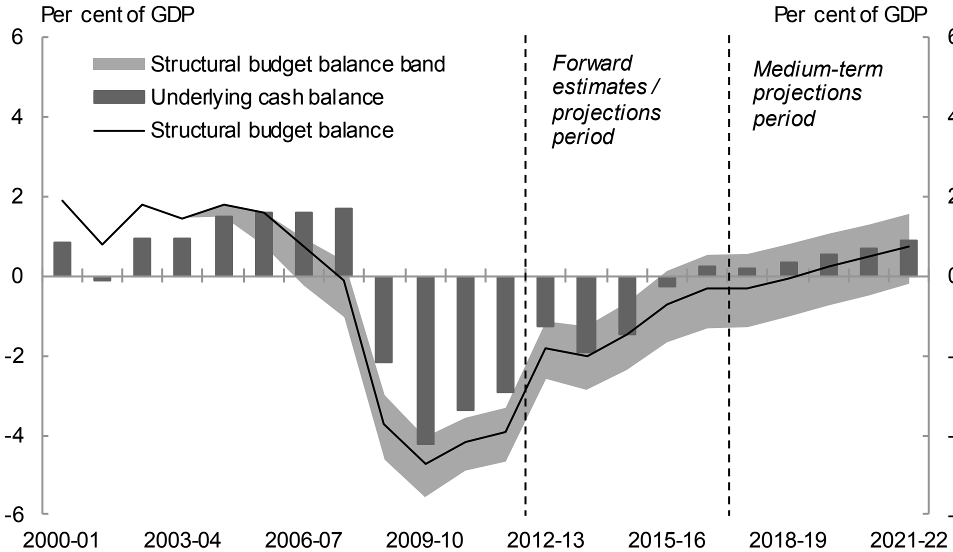
The range of estimates shown in Chart G1 suggests that the structural budget balance deteriorated from a surplus of around 1-2 per cent of GDP in the mid-2000s to a broadly balanced position by around 2007-08. The structural balance deteriorated around 4-5 percentage points with the onset of the Global Financial Crisis, but has since improved, with a structural deficit of around 1-3 per cent of GDP estimated in 2012-13. The range of estimates shown in Chart G1 suggests that the structural position of the budget will improve gradually over the forward estimates and return to a broadly balanced position over the medium term.

The estimated improvement in the structural budget balance over the forward estimates period shown in Chart G1 reflects announced policies as at the August Economic Statement. Beyond the forward estimates, the improvement in the structural budget balance is assumption-driven and reflects the 'no policy change' scenario outlined in Appendix F.

Since the 2013-14 Budget, the range of estimates for the structural budget balance has deteriorated slightly from 2012-13 to 2013-14, but has improved around ¼ of a percentage point in 2015-16 and 2016-17. The modest improvement in the estimated structural balance at the end of the forward estimates period reflects the Government's decision to offset the sharper decline in the terms of trade forecast at the Economic Statement through measures to keep the underlying cash balance on track to return to surplus in 2016-17.

Chart G2 shows the implications for the range of structural budget balance estimates of relaxing the medium-term assumptions, which are broadly consistent with the implications for the underlying cash balance projections shown in the 'underlying trend' scenario in Appendix F. The projected pace of improvement in the structural budget balance over the medium term projection period is slower initially relative to Chart G1 due to the relaxation of the constraint on real spending growth. The projected pace of improvement of the structural budget balance then accelerates due to the impact of relaxing the constraint on tax receipts as a share of GDP, leaving the estimated structural balance broadly the same at the end of the period as in Chart G1.

Chart G2: Structural budget balance estimates — without constraint on growth in spending and tax receipts



Note: The grey range represents the range of structural budget estimates using the OECD's assumption for the structural level of the terms of trade (average between 1986-87 and 2010-11), and using the average from 2003-04 to 2015-16 consistent with the 2013-14 Budget. The OECD assumption generates the lower bound of the shaded region, while the 2003-04 to 2015-16 average assumption generates the upper bound.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0 and 6401.0 and Treasury.