



Pre-election Economic and Fiscal Outlook 2016

**A report by
The Secretary to the Treasury
and
The Secretary of the Department of Finance**

May 2016

© Commonwealth of Australia 2016

ISBN 978-1-925220-87-2

This publication is available for your use under a Creative Commons BY Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, third party content and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Commonwealth of Australia material under a Creative Commons BY Attribution 3.0 Australia licence requires you to attribute the work (but not in any way that suggests that the Commonwealth of Australia endorses you or your use of the work).

Commonwealth of Australia material used 'as supplied'.

Provided you have not modified or transformed Commonwealth of Australia material in any way including, for example, by changing the Commonwealth of Australia text; calculating percentage changes; graphing or charting data; or deriving new statistics from published statistics — then the Commonwealth of Australia prefers the following attribution:

Source: The Commonwealth of Australia.

Derivative material

If you have modified or transformed Commonwealth of Australia material, or derived new material from those of the Commonwealth of Australia in any way, then the Commonwealth of Australia prefers the following attribution:

Based on Commonwealth of Australia data.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au).

Other uses

Enquiries regarding this licence and any other use of this document are welcome at:

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

Internet

A copy of this document is available at www.treasury.gov.au and www.finance.gov.au.

CONTENTS

PREFACE	5
STATEMENT BY THE TREASURER AND THE MINISTER FOR FINANCE.....	6
STATEMENT BY THE SECRETARY TO THE TREASURY AND THE SECRETARY OF THE DEPARTMENT OF FINANCE	7
PRE-ELECTION ECONOMIC AND FISCAL OUTLOOK	13
Overview	13
Economic outlook	13
Fiscal outlook	17
APPENDIX A: FINANCIAL STATEMENTS.....	25
APPENDIX B: POLICY DECISIONS SINCE THE 2016-17 BUDGET.....	35
APPENDIX C: STATEMENT OF RISKS.....	39

PREFACE

The *Charter of Budget Honesty Act 1998* (the Charter) provides for the Secretary to the Treasury and the Secretary of the Department of Finance (the Secretaries) to release publicly a Pre-election Economic and Fiscal Outlook report (PEFO) within 10 days of the issue of the writs for a general election. Such writs were issued on 16 May 2016.

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 writs for the election and all other circumstances that may have a material effect on the economic and fiscal outlook.

The Charter provides that where there is information unchanged from that set out in full in an earlier budget report, the PEFO may summarise and state this information is unchanged rather than repeat it. As the writs for the 2016 election were issued shortly after the release of the 2016-17 Budget, this PEFO provides reference to information published in the 2016-17 Budget where it is unchanged, rather than repeat it in full.

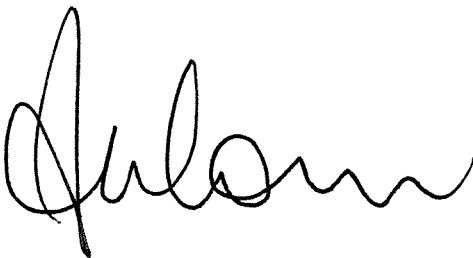
Consistent with the Charter, the PEFO includes:

- fiscal estimates and projections for the current financial year and the following four financial years 2016-17, 2017-18, 2018-19 and 2019-20;
- economic and other assumptions for the current financial year and the following four financial years used in preparing these updated fiscal estimates;
- discussion of the sensitivity of updated fiscal estimates to changes in those economic and other assumptions and references the detailed analysis in the 2016-17 Budget that remains unchanged;
- an updated set of financial statements and summary of the external reporting standards used in the preparation of the PEFO (**Appendix A**);
- a list of new policy decisions taken by the Government since the 2016-17 Budget, including decisions that were taken but not announced at that time (**Appendix B**). The PEFO does not include the impact of commitments made in the context of the current election campaign; and
- an updated statement of the risks that may have a material effect on the fiscal outlook (**Appendix C**).

STATEMENT BY THE TREASURER AND THE MINISTER FOR FINANCE

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 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 Hon. Scott Morrison MP
Treasurer

18

May 2016



Senator the Hon. Mathias Cormann
Minister for Finance

18

May 2016

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

Consistent with the *Charter of Budget Honesty Act 1998*, the 2016 PEFO provides updated fiscal and economic estimates and projections, based on the best professional judgment of the Treasury and the Department of Finance, reflecting all known information at the time of the issuance of the election writs.

In our best professional judgment, the economic and fiscal outlook for the Commonwealth has not materially changed since the publication of the 2016-17 Budget on 3 May 2016. While there has been recent movement in several economic indicators (including commodity prices, market interest rates and foreign exchange rates), these indicators can be volatile and our judgment is that these do not reflect a material change. As such, the fiscal projections published in the 2016-17 Budget provide a solid platform for decision making about the budget trajectory, including over the medium term.

The medium-term economic projections are based on the same set of underlying assumptions as the projections in the 2016-17 Budget. These assumptions are informed by past outcomes, economic theory and international practice. As the sensitivity analysis included in Statement 7 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17* shows, projections are very sensitive to the underlying assumptions.

Importantly, the medium-term projections continue established practice of assuming that, once the economy returns to potential, it remains growing at that rate. That assumption is consistent with international practice but it is benign. Should Australia experience a significant negative economic shock, the fiscal position would be expected to deteriorate rapidly and not be consistent with the projections.

The medium-term projections are also underpinned by an assumption of annual productivity growth equal to the average of recent decades. Continued economic reform would be required in order to achieve this growth. Even if this rate of productivity growth were attained, living standards will rise more slowly than over recent decades.

Australia's relatively rich endowment has led it to run current account deficits for much of its history. Australians benefit from the willingness of foreign savers to finance current account deficits and support higher levels of investment. This alone suggests that it is prudent for Australia to run a relatively conservative fiscal stance. Successive Australian governments have adopted such prudent fiscal strategies.

The PEFO projections also maintain the assumption that tax receipts as a proportion of GDP do not rise above 23.9 per cent over the medium term. This is the average after the introduction of the GST and before the Global Financial Crisis.

The medium-term projections show that, without considerable effort to reduce spending growth, it will not be possible to run underlying cash surpluses, say in the order of one per cent of GDP, without tax receipts rising above 23.9 per cent of GDP. Even if payments were reduced from the levels projected at the 2016-17 Budget to the long-term average of 24.9 per cent of GDP by the end of the medium term, tax receipts would still need to rise to around 24.2 per cent of GDP by 2026-27, well above the average of the past 30 years, to achieve a surplus of one per cent of GDP. Reducing spending growth has proved difficult in practice.

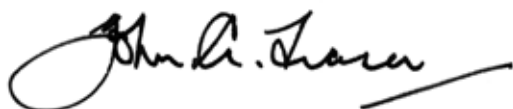
Consistent with normal practice, the estimates in the PEFO assume that unlegislated policy decisions will be legislated and take effect from the next possible commencement date. Where legislation is not passed in time to enable commencement at that date, is passed with amendments to the original decision, or is rejected there is a risk of a variation to the fiscal position outlined in the PEFO. The indicative net impact of all unlegislated policy decisions included in forward estimates in the PEFO is around \$18 billion in underlying cash terms and updated for parameter changes, over the five years to 2019-20.

Australia has a relatively strong fiscal position by international standards. However, Commonwealth Government debt levels are projected to reach recent historical highs, both on a gross and net basis. These debt levels are not an immediate concern given historically low interest rates and a growing economy. But should Australia experience a significant negative economic shock or increased interest rates or debt levels rise above current projections over the medium term, the debt burden will impose an increasingly significant cost on the fiscal and economic outlook. It is crucial for Australia to maintain its top credit rating to ensure the Commonwealth's borrowing costs, and those across the economy more generally, are kept as low as possible.

More generally, the medium term outlook also shows the crucial importance of increasing productivity. This will require renewed vigour in encouraging and delivering structural reform across all parts of the economy.

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 2016* for which we are responsible:

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



Mr John A. Fraser
Secretary to the Treasury

19 May 2016



Ms Jane Halton, AO PSM
Secretary, Department of Finance

19 May 2016

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 2016-17, while the forward years refer to 2017-18, 2018-19 and 2019-20.
- (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 economic and fiscal outlook is broadly unchanged since the 2016-17 Budget. There remain, as outlined in the Budget, significant domestic and global downside risks that will need to be carefully managed.

An underlying cash deficit of \$37.1 billion (2.2 per cent of GDP) is expected in 2016-17, improving to a deficit of \$5.9 billion (0.3 per cent of GDP) in 2019-20. Table 1 provides estimates and projections of the underlying cash and fiscal balances for the period from 2015-16 to 2019-20.

Table 1: Budget aggregates

	Estimates			Projections		Total(a)
	2015-16	2016-17	2017-18	2018-19	2019-20	
Underlying cash balance (\$b)(b)	-40.0	-37.1	-26.1	-15.4	-5.9	-84.6
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Fiscal balance (\$b)	-39.5	-37.1	-18.7	-9.8	-2.1	-67.7
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes net Future Fund earnings.

ECONOMIC OUTLOOK

In real terms, the Australian economy is forecast to grow by 2½ per cent in both 2015-16 and 2016-17 – then to pick up to 3 per cent in 2017-18 as the detraction from falling mining investment eases.

The Australian economy is transitioning from a mining investment boom to broader-based drivers of growth. As mining projects are completed, mining investment is expected to fall steeply, with falls of 27½ per cent in 2015-16 and 25½ per cent in 2016-17, before easing to a fall of 14 per cent in 2017-18. At the same time as falling mining investment is detracting from growth there is a ramp up of mining export volumes, particularly from iron ore and LNG, helping to cushion the impact on GDP growth.

Historically low interest rates and a lower exchange rate since its peak in 2011 are helping to support growth. Consumption is forecast to grow steadily over the forecast period supported by a continuing decline in the savings rate. Investment in housing is expected to grow strongly in 2015-16 and then to remain at a high level, although the rate of growth is forecast to slow. Non-mining business investment is expected to pick up over the forecast period in line with a forecast increase in domestic demand.

The pick-up in non-mining investment has been slower to materialise than previously forecast and any further delays – or a more gradual pick-up – in non-mining investment continues to be a significant risk to forecast real GDP growth. Analysis presented in the 2016-17 Budget shows that if non-mining business investment were to be flat in 2016-17 and 2017-18, the level of real GDP would be $\frac{1}{2}$ per cent lower than the 2016-17 Budget forecasts after two years. Nominal GDP would be $\frac{3}{4}$ per cent lower by 2017-18, reducing the underlying cash balance by around \$1.5 billion in 2016-17 and around \$3.9 billion in 2017-18 (see Statement 7 of Budget Paper No.1, *Budget Strategy and Outlook 2016-17*).

Since the 2016-17 Budget, the exchange rate has fallen somewhat and market participants have lowered their expectations of the official cash rate. Should a weaker exchange rate persist or should the official cash rate fall further, this would be expected to provide further support to real GDP growth, other things being equal.

Employment growth is expected to remain solid across the forward estimates, *albeit* slightly slower than the strong pace seen last year, with the unemployment rate forecast to fall to $5\frac{1}{2}$ per cent in the June quarter of 2017 from $5\frac{3}{4}$ per cent in the June quarter of 2016.

Nominal GDP growth is forecast to be $2\frac{1}{2}$ per cent in 2015-16 before rising to $4\frac{1}{4}$ per cent in 2016-17 and 5 per cent in 2017-18.

Nominal GDP growth has been weighed down recently by weak inflation and wages growth. Inflation has been soft so far in 2015-16 – in the March quarter of 2016, the trimmed mean (a measure of underlying inflation) recorded its lowest through the year growth since 1999. Inflation is expected to remain at the lower end of the Reserve Bank of Australia's (RBA's) target band over the forecast period. Wage growth has also been subdued, with the most recent result indicating wage growth of 2.1 per cent through the year to the March quarter of 2016, the lowest it has been since the series began in 1997. The risks to inflation and wages remain on the downside and, if inflation and wages remain persistently weak, they would detract from nominal GDP growth with negative consequences for tax receipts, somewhat offset by a reduction in payments. For example, if inflation outcomes were consistent with the lower bound of the range presented in the RBA May 2016 Statement on Monetary Policy in the forecast period from 2015-16 to 2017-18, nominal GDP could be around $1\frac{1}{4}$ per cent lower by 2017-18.

Nominal GDP is also sensitive to movements in commodity prices and, hence, the terms of trade. The Budget forecasts reflect a technical assumption for commodity prices based on an average of the preceding weeks.

Clearly, commodity prices are volatile and the outcomes could vary from the prices assumed in the 2016-17 Budget. The recent averages for some commodity prices are slightly higher than at Budget. By contrast, the latest spot prices are lower. Given short term volatility in prices, these differences are considered not material and so the

technical assumptions have not been changed from Budget. Analysis reported in the 2016-17 Budget suggests that a ten per cent fall in non-rural commodity prices could reduce nominal GDP by 1 per cent by 2017-18 compared with levels forecast in the Budget. This, in turn, would be expected to affect tax receipts and payments worsening the underlying cash balance by around \$2.2 billion in 2016-17 and \$5.4 billion in 2017-18 (see Statement 7 of Budget Paper No.1, *Budget Strategy and Outlook 2016-17*).

The global economy continues to provide downside risks for domestic growth. While growth in excess of 3 per cent is expected in the global economy and 4 per cent in Australia's major trading partners, over the coming year, risks to the global outlook are high and are present in both advanced and emerging market economies.

Of particular significance for Australia are the implications of the transition of the Chinese economy towards a more balanced, consumer-driven growth model. The potential for this rebalancing to lead to a greater than expected slowdown in the Chinese economy remains a key risk to Australia and the region.

That said, there will also be opportunities for Australia in China's longer term transition. Our past trade has predominantly been focused on demand for our commodities; however, trade with China as it transitions will become more focused on demand for our services. Opportunities are also afforded by the China-Australia Free Trade Agreement.

A number of major economies continue to face financial challenges, particularly the euro area, Japan and a range of emerging market economies. Significant debt has been raised in recent years, particularly in emerging markets, which could also create challenges for both borrowers and lenders in a continued low global growth environment. In this environment, risks of renewed volatility in financial markets persist.

Inflation remains low globally reflecting, in part, the impact of low energy costs. Inflation in major advanced economies is expected to remain below policy targets for at least the near term and monetary policy in major advanced economies is expected to remain accommodative. Market expectations for further US Federal Reserve rate rises had also been scaled back, but the most recent inflation data may ameliorate this somewhat.

There has been recent strength in some key commodities but prices remain well below the peaks seen around 2011. Prices will continue to be weighed on by ample supply and uncertainty regarding demand prospects, especially from China. There is also uncertainty around the effect of oil prices on global growth due to the weaker than expected response of consumers and businesses to lower oil and energy prices in 2015 compared with historical experience.

All that said, the business cycle is unlikely to have been consigned to history. Europe, for example, could surprise on the upside and we are expecting the United States to pick up over the forecast period. But relying on a rebound in world growth in the medium term would be a dangerous strategy.

Table 2 presents the major economic parameters used in preparing the 2016 PEFO. These parameters are unchanged from those presented in the 2016-17 Budget.

Table 2: Major economic parameters^(a)

	Outcomes	Forecasts			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.5	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

(a) Year average growth unless otherwise stated. From 2014-15 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.

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

Detailed forecasts of the economy are prepared for the forecast period — that is, the current year, the Budget year and the subsequent year. Beyond the forecast period, there is less information on which to prepare detailed forecasts, so Australian budgets and other economic statements rely on projections of economic aggregates such as real GDP, nominal GDP and employment growth to underpin budget estimates of receipts and payments. The 2016 PEFO uses the same projection methodology that has been used in budgets and budget updates since the 2014-15 Budget.

Treasury’s medium-term economic projection methodology assumes that any estimated gap between forecast real GDP and potential GDP closes over the first five projection years (2018-19 to 2022-23) as spare capacity in the labour market is absorbed. Beyond that point, real GDP and other economic variables are assumed to grow in line with their estimated long-run trend rates.

The medium-term economic and fiscal projections are sensitive to the assumptions that underpin Treasury’s estimate of potential GDP — that is, assumptions about population, productivity and participation. They are also sensitive to the assumed pace of the economy’s return to potential — that is, the assumption that the adjustment period lasts five years.

Analysis reported in the 2016-17 Budget shows that a faster (two year) adjustment to potential requires comparatively faster growth in real GDP and employment as the output gap closes and spare labour is put to use. This leads to lower unemployment and faster growth in wages and domestic prices, increasing nominal GDP and improving the projected underlying cash balance over the medium term even as

long-run real GDP is unchanged from the Budget projections. A more gradual adjustment period (eight years) is estimated to have broadly opposite effects on the projections.

Analysis in the 2016-17 Budget also shows that lower trend productivity growth than assumed in the Budget projections would directly reduce potential growth – leading to permanently lower real GDP and wages with only a small impact on prices. In this scenario, lower nominal GDP leads to lower projected tax receipts which weakens the projected underlying cash balance over the medium term. By contrast, assuming faster trend productivity growth than assumed in the Budget projections results in higher nominal GDP and tax receipts, strengthening the underlying cash balance.

FISCAL OUTLOOK

The underlying cash balance is estimated to be a deficit of \$37.1 billion (2.2 per cent of GDP) in 2016-17, improving to a deficit of \$5.9 billion (0.3 per cent of GDP) in 2019-20.

Table 3 provides a summary of the major budget aggregates.

Table 3: Australian Government general government sector budget aggregates

	Estimates			Projections		Total(a)
	2015-16	2016-17	2017-18	2018-19	2019-20	
	\$b	\$b	\$b	\$b	\$b	\$b
Receipts	387.9	411.3	437.4	469.9	500.7	1,819.3
Per cent of GDP	23.5	23.9	24.2	24.8	25.1	
Payments(b)	425.0	445.0	459.9	481.5	502.6	1,889.0
Per cent of GDP	25.8	25.8	25.5	25.4	25.2	
Net Future Fund earnings	3.0	3.3	3.6	3.8	4.1	14.9
Underlying cash balance(c)	-40.0	-37.1	-26.1	-15.4	-5.9	-84.6
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Revenue	396.3	416.9	449.5	484.4	515.1	1,865.8
Per cent of GDP	24.0	24.2	24.9	25.5	25.9	
Expenses	431.5	450.6	464.8	489.3	511.6	1,916.3
Per cent of GDP	26.1	26.2	25.7	25.8	25.7	
Net operating balance	-35.1	-33.7	-15.3	-5.0	3.5	-50.5
Net capital investment	4.4	3.4	3.4	4.9	5.5	17.2
Fiscal balance	-39.5	-37.1	-18.7	-9.8	-2.1	-67.7
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	
<i>Memorandum item:</i>						
Headline cash balance	-51.6	-53.5	-34.3	-24.0	-14.4	-126.2

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

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

(c) Excludes net Future Fund earnings.

Underlying cash balance estimates

Table 4 provides a reconciliation of the underlying cash balance estimates from the 2016-17 Budget to the 2016 PEFO.

Table 4: Reconciliation of underlying cash balance estimates

	Estimates			Projections		Total(a)
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	
2016-17 Budget underlying cash balance(b)	-39,946	-37,081	-26,123	-15,406	-5,955	-84,565
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	
Changes from 2016-17 Budget to 2016 PEFO						
Effect of policy decisions(c)(d)						
<i>Receipts</i>	0	0	0	0	0	0
<i>Payments</i>	0	2	0	-3	-6	-7
Total policy decisions impact on underlying cash balance	0	-2	0	3	6	7
Effect of parameter and other variations(d)						
<i>Receipts</i>	-103	0	0	0	0	0
<i>Payments</i>	0	0	0	0	0	0
<i>less Net Future Fund earnings</i>	0	0	0	0	0	0
Total parameter and other variations impact on underlying cash balance	-103	0	0	0	0	0
2016 PEFO underlying cash balance(b)	-40,049	-37,083	-26,123	-15,403	-5,949	-84,558
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Excludes expected net Future Fund earnings.

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

(d) 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.

Consistent with the Charter of Budget Honesty, the PEFO takes into account to the fullest extent possible, all Government decisions and other circumstances that may have a material effect on the fiscal and economic outlook and were made, or were in existence, before the issue of the writs for the general election on Monday 16 May 2016. The PEFO does not include the impact of election commitments that do not constitute decisions of government and that are costed separately during the election campaign.

Since the 2016-17 Budget, parameter and other variations have resulted in a negative impact on the underlying cash balance of \$103 million in 2015-16, reflecting a reduction in expected receipts from Unclaimed Superannuation Monies. This change primarily reflects lower than expected unclaimed superannuation amounts for former temporary residents and small lost member accounts reported by superannuation funds after the finalisation of the 2016-17 Budget.

Economic parameters are unchanged from those presented in the 2016-17 Budget. More detail is provided in the Economic Outlook.

Forecasts for tax receipts are unchanged since the 2016-17 Budget, consistent with the unchanged economic projections. As reflected in the 2016-17 Budget, tax collections in 2015-16 have been weaker than expected at the time of the 2015-16 Budget and the 2015-16 MYEFO. There is a risk that tax collections will again be lower than expected in the coming months, with implications for the 2015-16 receipts estimates.

Policy decisions taken since the 2016-17 Budget have worsened the underlying cash balance by around \$1.8 million in 2016-17. Over the four years to 2019-20, policy decisions have improved the underlying cash balance by around \$7 million.

Details of all policy decisions not previously published in the 2016-17 Budget are provided at Appendix B.

In line with normal practice, the forward estimates in the PEFO do not incorporate funding beyond 2016-17 for some items that are considered on a year by year basis, including defence operations 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.

Contingency Reserve

The Contingency Reserve provision in the 2016 PEFO is unchanged since the 2016-17 Budget except for the inclusion of new policy decisions taken since the 2016-17 Budget.

The Contingency Reserve provision reduces expenses by \$1.1 billion in 2016-17 and increases expenses by \$412 million in 2017-18, \$1.9 billion in 2018-19 and \$6.2 billion in 2019-20. As noted in the 2016-17 Budget, the largest components of this are:

- 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 (\$2.0 billion in 2017-18, \$4.2 billion in 2018-19 and \$8.7 billion in 2019-20);
- a provision of \$729 million over four years to 2019-20 for a number of items, including continuation of some expiring National Partnerships and possible by-election and redistribution costs for the Australian Electoral Commission;
- a provision to reflect the effects of economic parameter revisions received too late in the 2016-17 Budget process for inclusion in entity estimates;
- an underspend provision in 2015-16 that reflects the tendency for budgeted expenses for some entities or functions not to be met; and

- estimates for measures where the measures have been announced but they cannot yet be included in entity estimates, usually because they are subject to negotiations or there is some uncertainty as to their final cost and/or outcome.

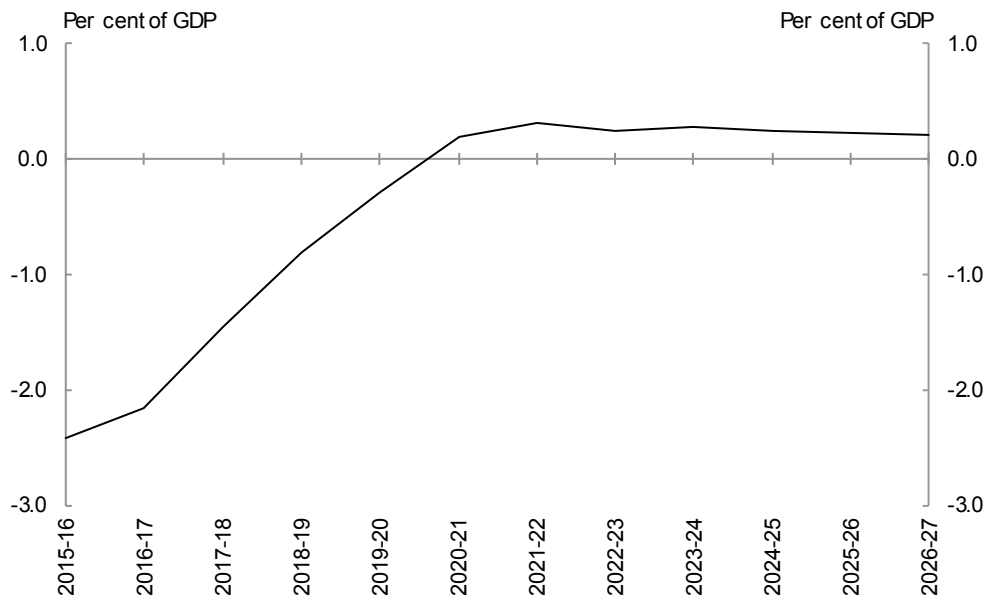
The Contingency Reserve also includes decisions taken but not yet announced (DTBNYA) reported in the 2016-17 Budget. Significant DTBNYA items in the 2016-17 Budget included the *Same Sex Marriage Plebiscite* and *Indigenous Recognition Referendum* decisions.

Further information about DTBNYA items included in the 2016-17 Budget and in prior rounds is available at Appendix B. Consistent with past practice, the DTBNYA lines in Budget Paper No. 2, *Budget Measures 2016-17* included the reversal of some DTBNYA items from previous Budget rounds. As such, these items were removed from the Contingency Reserve at the time of the 2016-17 Budget.

The remaining items in the Contingency Reserve cannot be disclosed for commercial-in-confidence or national security reasons.

Medium-term fiscal outlook

The medium-term outlook is unchanged since the 2016-17 Budget and outlines the broad trajectory of the fiscal position under current policy settings. The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP in 2020-21, before peaking at around 0.3 per cent of GDP the following year (Chart 1). It is projected to fall slightly over the rest of the medium term, to be around 0.2 per cent of GDP by 2026-27. These are unchanged from the projections at the 2016-17 Budget. From 2021-22, payments are projected to grow broadly in line with receipts.

Chart 1: Underlying cash balance projected to 2026-27

Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence.

Source: Treasury projections.

Medium-term projections outline the broad trajectory of the fiscal position under current policy settings. Changes to underlying assumptions, for example, around the economy or future government policy can have large impacts on projections of the underlying cash balance.

In particular, the projections assume no policy change and are based on economic projections underpinned by a medium-term methodology and some key assumptions such as productivity growing in line with average rates over recent decades. The modest projected surpluses beyond 2020-21 are subject to considerable uncertainty. Decisions that increase payments or reduce receipts as a proportion of GDP would detract from the medium-term fiscal position. Equally, revisions to economic parameters which affect projected receipts or payments could compromise the return to an underlying cash surplus over the medium-term projection period.

The impact on the projected medium-term underlying cash balance of alternative economic scenarios was presented in Statement 7 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*. The impact on the projected underlying cash balance of alternative assumptions relating to taxation receipts and payments growth in the medium term was presented in Box 3 of Statement 3 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*.

These scenarios underline the uncertainties in the medium term and the need for action to ensure Australia's fiscal position is as strong as possible so that any challenges can be better managed.

Fiscal balance estimates

The fiscal balance deficit is expected to be \$37.1 billion (2.2 per cent of GDP) in 2016-17, improving to a deficit of \$2.1 billion (0.1 per cent of GDP) in 2019-20.

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

Table 5 provides a reconciliation of the fiscal balance estimates.

Table 5: Reconciliation of fiscal balance estimates

	Estimates			Projections		Total(a)
	2015-16	2016-17	2017-18	2018-19	2019-20	
	\$m	\$m	\$m	\$m	\$m	\$m
2016-17 Budget fiscal balance	-39,429	-37,129	-18,675	-9,839	-2,059	-67,701
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	
Changes from 2016-17 Budget to 2016 PEFO						
Effect of policy decisions(b)(c)						
Revenue	0	0	0	0	0	0
Expenses	0	1	-1	-3	-6	-9
Net capital investment	0	1	1	0	0	2
Total policy decisions impact on fiscal balance	0	-2	0	3	6	7
Effect of parameter and other variations(c)						
Revenue	-69	0	0	0	0	0
Expenses	-3	0	0	0	0	0
Net capital investment	0	0	0	0	0	0
Total parameter and other variations impact on fiscal balance	-66	0	0	0	0	0
2016 PEFO fiscal balance	-39,495	-37,130	-18,675	-9,836	-2,053	-67,694
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

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

(c) A positive number for revenue 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

Net debt, net financial worth, net worth and net interest payments are essentially the same as published at the 2016-17 Budget. In 2016-17, net debt for the Australian Government general government sector is expected to be \$326.1 billion (18.9 per cent of GDP). Net financial worth is estimated to be -\$427.2 billion and net worth is estimated to be -\$301.0 billion.

Net interest payments are estimated to be \$12.6 billion in 2016-17 (0.7 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. This PEFO assumes a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, the same as the assumed market yields used in the 2016-17 Budget. Yields are volatile and could vary from those assumed in the Budget. Recent movements in interest rates, if maintained, would lower the government cost of borrowing, reducing interest payments and expenses over the forward estimates. It would also reduce interest receipts earned on assets.

Table 6 provides a summary of the Australian Government general government sector net worth, net financial worth, net debt and net interest payments.

Table 6: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$b	\$b	\$b	\$b	\$b
Financial assets	342.4	383.3	413.9	432.1	453.3
Non-financial assets	122.9	126.2	130.6	134.9	139.7
Total assets	465.3	509.5	544.4	567.1	593.0
Total liabilities	730.4	810.5	859.1	886.5	909.1
Net worth	-265.1	-301.0	-314.7	-319.5	-316.2
Net financial worth(a)	-388.0	-427.2	-445.3	-454.4	-455.8
Per cent of GDP	-23.5	-24.8	-24.6	-24.0	-22.9
Net debt(b)	285.8	326.1	347.1	356.7	355.4
Per cent of GDP	17.3	18.9	19.2	18.8	17.8
Net interest payments	12.0	12.6	13.4	14.2	14.2
Per cent of GDP	0.7	0.7	0.7	0.8	0.7

(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.

APPENDIX A: FINANCIAL STATEMENTS

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

The *Charter of Budget Honesty Act 1998* (the Charter) requires that the 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 2005*, (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.

The Government's key fiscal aggregates are based on ABS GFS concepts and definitions, including the ABS GFS cash surplus/deficit and the derivation of the underlying cash balance and net financial worth. AASB 1049 requires the disclosure of other ABS GFS fiscal aggregates, including net operating balance, net lending/borrowing (fiscal balance) and net worth. In addition to these ABS GFS aggregates, the Uniform Presentation Framework (UPF) requires disclosure of net debt, net financial worth and net financial liabilities.

AASB 1049 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 to be attributed to functions. In accordance with ABS GFS, disaggregated information for expenses and net acquisition of non-financial assets by function was disclosed in the 2016-17 Budget.

DEPARTURES FROM EXTERNAL REPORTING STANDARDS

The Charter requires that departures from applicable external reporting standards be identified. The major differences between AAS and the ABS GFS treatments of transactions are outlined in the below table.

AASB 1049 requires AAS measurement of items to be disclosed on the face of the financial statements with reconciliation to ABS GFS measurement of key fiscal aggregates, where different, in notes to the financial statements. Differences from the AAS measurement of items outlined above and reconciliation have not been included as they would effectively create different measures of the same aggregate.

Further information on the differences between the two systems is provided in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, 2005 (cat. no. 5514.0).

Major differences between AAS and ABS GFS

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Acquisition of defence weapons platforms (DWP)	AASB 1049 allows cost to be used where fair value of assets cannot be reliably measured.	ABS record DWP on a market value basis using the perpetual inventory method.	AAS cost method until fair value can be measured reliably
Circulating coins — seigniorage	The profit between the cost and sale of circulating coins (seigniorage) is treated as revenue.	Circulating coins is treated as a liability, and the cost of producing the coins is treated as an expense.	AAS
Provisions for bad and doubtful debts	Reported in the balance sheet as an offset to assets. Under AASB 1049, it is included in the operating statement as other economic flows.	Creating provisions for bad and doubtful debts is not considered an economic event and is therefore not considered to be an expense or reflected in the balance sheet.	AAS
Concessional loans	Discounts concessional loans by a market rate of a similar instrument.	Does not discount concessional loans as no secondary market is considered to exist.	AAS
Investment in other public sector entities	Valued at fair value in the balance sheet as long as it can be reliably measured, otherwise net assets is permissible.	Unlisted entities valued based on their net assets in the balance sheet.	AAS

Major differences between AAS and ABS GFS (continued)

Issue	AAS treatment	ABS GFS treatment	Treatment adopted
Advances to the International Development Association and Asian Development Fund	Recorded at fair value in the balance sheet.	Recorded at nominal value in the balance sheet.	ABS GFS
Provision for restoration, decommissioning and make-good	Included in the fiscal balance capital adjustment.	Excluded from the calculation of net lending capital adjustment.	AAS
Renewable Energy Certificates (RECs)	The issuance and registration of RECs is considered to be an administrative function and does not result in the recognition of assets or liabilities and, consequently, no revenues or expenses are recognised.	The issuance and registration of RECs is considered to be government financial transactions resulting in the recognition of assets, liabilities, revenue and expenses.	AAS
Dividends paid by the Reserve Bank of Australia	Dividends are recognised in the year profit was earned.	Dividends are recognised when the Treasurer makes a determination.	AAS
Fiscal aggregates differences			
Finance leases	Does not deduct finance leases in the derivation of the cash surplus/deficit.	Deducts finance leases in the derivation of the cash surplus/deficit.	Both are disclosed
Classification difference			
Prepayments	Treated as a non-financial asset.	Treated as a financial asset.	ABS GFS
Spectrum sales	Recognise non-financial asset sales for fiscal balance when payment is made and the licences take effect, which may be after the auction of licences, as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	Recognise non-financial asset sales for fiscal balance at time of auction as this is regarded as the point control is transferred. Recognise cash at the time of receipt.	AAS

Table A1: Australian Government general government sector operating statement

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Revenue					
Taxation revenue	371,923	391,283	419,944	449,793	478,563
Sales of goods and services	7,697	9,249	12,011	15,558	16,763
Interest income	3,506	4,280	4,841	5,775	6,825
Dividend income	5,564	3,242	3,666	4,045	3,845
Other	7,637	8,807	9,063	9,198	9,066
Total revenue	396,327	416,862	449,524	484,370	515,062
Expenses					
Gross operating expenses					
Wages and salaries(a)	19,767	20,074	19,866	20,017	20,418
Superannuation	7,052	4,618	4,693	4,783	4,828
Depreciation and amortisation	7,165	7,522	7,660	8,061	8,640
Supply of goods and services	81,411	86,745	87,558	97,400	101,857
Other operating expenses(a)	5,483	5,452	5,418	5,445	5,504
<i>Total gross operating expenses</i>	<i>120,878</i>	<i>124,410</i>	<i>125,195</i>	<i>135,707</i>	<i>141,248</i>
Superannuation interest expense	9,167	9,959	10,330	10,706	11,085
Interest expenses	16,774	18,725	19,764	20,539	20,818
Current transfers					
Current grants	128,393	138,965	148,478	162,167	168,781
Subsidy expenses	12,763	13,425	14,102	14,918	16,024
Personal benefits	133,416	132,562	134,844	137,165	146,374
<i>Total current transfers</i>	<i>274,572</i>	<i>284,952</i>	<i>297,424</i>	<i>314,250</i>	<i>331,179</i>
Capital transfers					
Mutually agreed write-downs	1,722	1,845	1,959	2,102	2,246
Other capital grants	8,354	10,663	10,138	6,017	5,022
<i>Total capital transfers</i>	<i>10,076</i>	<i>12,508</i>	<i>12,098</i>	<i>8,119</i>	<i>7,268</i>
Total expenses	431,467	450,554	464,811	489,320	511,598
Net operating balance	-35,140	-33,693	-15,287	-4,951	3,464
Other economic flows - included in operating result					
Net write-downs of assets					
(including bad and doubtful debts)	-7,106	-8,077	-8,602	-8,977	-9,350
Assets recognised for the first time	296	348	317	330	343
Liabilities recognised for the first time	0	0	0	0	0
Actuarial revaluations	0	0	0	0	0
Net foreign exchange gains	-9	8	119	150	33
Net swap interest received	-437	0	0	0	0
Market valuation of debt	-4,673	3,156	2,547	2,350	1,960
Other gains/(losses)	713	4,705	7,205	6,305	6,298
Total other economic flows - included in operating result	-11,215	140	1,586	157	-715
Operating result(b)	-46,355	-33,553	-13,700	-4,793	2,749

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

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Non-owner movements in equity					
Revaluation of equity investments	-3,026	-2,880	31	49	0
Actuarial revaluations	1,032	-6	-16	-3	9
Other economic revaluations	371	536	7	-30	509
Total other economic flows - included in equity	-1,623	-2,350	21	16	518
Comprehensive result -					
Total change in net worth	-47,978	-35,903	-13,679	-4,777	3,267
Net operating balance	-35,140	-33,693	-15,287	-4,951	3,464
Net acquisition of non-financial assets					
Purchases of non-financial assets	11,559	11,417	12,994	13,255	14,046
<i>less</i> Sales of non-financial assets	404	932	2,030	562	233
<i>less</i> Depreciation	7,165	7,522	7,660	8,061	8,640
<i>plus</i> Change in inventories	310	449	239	260	346
<i>plus</i> Other movements in non-financial assets	56	26	-154	-7	-2
Total net acquisition of non-financial assets	4,355	3,438	3,389	4,885	5,517
Fiscal balance (Net lending/borrowing)(c)	-39,495	-37,130	-18,675	-9,836	-2,053

(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	
	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
Assets					
Financial assets					
Cash and deposits	3,409	4,688	3,153	2,806	2,340
Advances paid	52,782	62,637	72,852	83,557	95,356
Investments, loans and placements	153,233	173,479	188,611	189,073	192,823
Other receivables	48,487	48,641	51,992	55,555	57,399
Equity investments					
Investment in other public sector entities	44,798	50,927	51,141	51,522	51,870
Equity accounted investments	344	354	364	374	384
Investments - shares	39,394	42,558	45,746	49,253	53,116
<i>Total financial assets</i>	<i>342,447</i>	<i>383,285</i>	<i>413,860</i>	<i>432,141</i>	<i>453,288</i>
Non-financial assets					
Land	9,729	9,674	9,610	9,604	9,617
Buildings	25,992	26,391	26,676	26,926	27,532
Plant, equipment and infrastructure	59,692	62,239	66,468	70,661	74,835
Inventories	8,195	8,184	7,933	7,691	7,513
Intangibles	6,881	7,414	7,822	8,019	8,175
Investment properties	200	200	200	200	200
Biological assets	44	44	44	44	44
Heritage and cultural assets	11,697	11,658	11,620	11,582	11,543
Assets held for sale	174	147	80	80	80
Other non-financial assets	262	288	134	127	125
<i>Total non-financial assets</i>	<i>122,866</i>	<i>126,239</i>	<i>130,585</i>	<i>134,932</i>	<i>139,663</i>
Total assets	465,313	509,523	544,446	567,073	592,952
Liabilities					
Interest bearing liabilities					
Deposits held	218	218	218	218	218
Government securities	476,999	549,537	594,439	614,904	628,828
Loans	16,425	15,739	15,732	15,731	15,643
Other borrowing	1,569	1,458	1,356	1,310	1,244
<i>Total interest bearing liabilities</i>	<i>495,211</i>	<i>566,952</i>	<i>611,745</i>	<i>632,163</i>	<i>645,933</i>

Table A2: Australian Government general government sector balance sheet (continued)

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Provisions and payables					
Superannuation liability	169,308	175,661	182,026	188,394	194,739
Other employee liabilities	17,004	17,332	17,671	18,046	18,445
Suppliers payable	5,868	6,092	6,188	6,307	6,319
Personal benefits provisions and payables	14,446	13,542	12,294	11,883	12,086
Subsidies provisions and payables	4,908	5,216	5,489	5,816	6,211
Grants provisions and payables	10,466	10,876	10,246	10,386	11,714
Other provisions and payables	13,195	14,849	13,461	13,531	13,689
<i>Total provisions and payables</i>	<i>235,195</i>	<i>243,568</i>	<i>247,375</i>	<i>254,362</i>	<i>263,204</i>
Total liabilities	730,406	810,519	859,121	886,525	909,136
Net worth(a)	-265,093	-300,996	-314,675	-319,452	-316,185
<i>Net financial worth(b)</i>	<i>-387,959</i>	<i>-427,235</i>	<i>-445,260</i>	<i>-454,384</i>	<i>-455,848</i>
<i>Net financial liabilities(c)</i>	<i>432,757</i>	<i>478,162</i>	<i>496,402</i>	<i>505,906</i>	<i>507,718</i>
<i>Net debt(d)</i>	<i>285,787</i>	<i>326,148</i>	<i>347,129</i>	<i>356,727</i>	<i>355,414</i>

(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	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Cash receipts from operating activities					
Taxes received	364,507	382,769	410,165	438,821	468,278
Receipts from sales of goods and services	7,686	9,176	11,954	15,499	16,709
Interest receipts	2,842	3,262	3,470	3,829	4,248
Dividends and income tax equivalents	5,332	5,833	3,462	3,886	4,304
Other receipts	7,218	7,879	7,737	7,324	6,970
Total operating receipts	387,585	408,919	436,788	469,358	500,509
Cash payments for operating activities					
Payments for employees	-27,893	-28,261	-28,533	-29,130	-29,939
Payments for goods and services	-80,834	-87,036	-87,498	-97,188	-101,994
Grants and subsidies paid	-149,656	-161,852	-171,128	-180,042	-186,183
Interest paid	-14,822	-15,903	-16,826	-18,054	-18,463
Personal benefit payments	-134,887	-135,637	-138,318	-139,049	-147,135
Other payments	-5,308	-5,141	-5,049	-5,060	-5,118
Total operating payments	-413,400	-433,830	-447,352	-468,522	-488,831
Net cash flows from operating activities	-25,815	-24,911	-10,564	836	11,678
Cash flows from investments in non-financial assets					
Sales of non-financial assets	339	2,365	597	562	233
Purchases of non-financial assets	-11,559	-11,216	-12,582	-12,958	-13,719
Net cash flows from investments in non-financial assets	-11,221	-8,852	-11,985	-12,396	-13,487
Net cash flows from investments in financial assets for policy purposes	-14,553	-19,759	-11,799	-12,443	-12,562
Cash flows from investments in financial assets for liquidity purposes					
Increase in investments	-9,396	-19,579	-13,223	1,719	-1,162
Net cash flows from investments in financial assets for liquidity purposes	-9,396	-19,579	-13,223	1,719	-1,162
Cash receipts from financing activities					
Borrowing	63,753	77,572	49,696	25,470	17,927
Other financing	6	34	0	0	0
Total cash receipts from financing activities	63,759	77,606	49,696	25,470	17,927
Cash payments for financing activities					
Borrowing	0	0	0	0	0
Other financing	-2,522	-3,227	-3,661	-3,533	-2,862
Total cash payments for financing activities	-2,522	-3,227	-3,661	-3,533	-2,862
Net cash flows from financing activities	61,238	74,379	46,035	21,937	15,065
Net increase/(decrease) in cash held	253	1,279	-1,535	-346	-466

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

	Estimates			Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Net cash flows from operating activities and investments in non-financial assets (Surplus+)/deficit(-)	-37,036	-33,762	-22,549	-11,560	-1,808
Finance leases and similar arrangements(b)	-2	0	0	0	0
GFS cash surplus(+)/deficit(-)	-37,037	-33,762	-22,549	-11,560	-1,808
<i>less</i> Net Future Fund earnings	3,012	3,321	3,574	3,843	4,140
Equals underlying cash balance(c)	-40,049	-37,083	-26,123	-15,403	-5,949
<i>plus</i> Net cash flows from investments in financial assets for policy purposes	-14,553	-19,759	-11,799	-12,443	-12,562
<i>plus</i> Net Future Fund earnings	3,012	3,321	3,574	3,843	4,140
Equals headline cash balance	-51,590	-53,521	-34,348	-24,002	-14,370

(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 2016-17 BUDGET

Table B1: Revenue measures since the 2016-17 Budget

	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
AGRICULTURE AND WATER RESOURCES					
<i>Department of Agriculture and Water Resources</i>					
Additional support for the containment of Panama TR4 disease(a)	-	nfp	nfp	nfp	nfp
Portfolio total	-	-	-	-	-
Total impact of revenue measures	-	-	-	-	-

(a) The revenue impact of this measure is not for publication due to commercial sensitivities, and is not expected to have a material impact on the estimates. A related measure can also be found in the expense measures summary table.

Table B2: Expense measures since the 2016-17 Budget^(a)

	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
AGRICULTURE AND WATER RESOURCES					
<i>Department of Agriculture and Water Resources</i>					
Additional support for the containment of Panama TR4 disease(b)	nfp	-	-	-	-
Portfolio total	-	-	-	-	-
ATTORNEY-GENERAL'S					
<i>Australian Crime Commission</i>					
Confiscated Assets Account - additional crime prevention activities(c)	-	1.5	1.3	1.3	-
<i>Australian Federal Police</i>					
Confiscated Assets Account - additional crime prevention activities(c)	-	0.1	0.4	-	-
Portfolio total	-	1.6	1.7	1.3	-
ENVIRONMENT					
<i>Department of the Environment</i>					
Antarctic Corporate Partnership(d)	-	-	-	-	-
Portfolio total	-	-	-	-	-
FINANCE					
<i>Australian Electoral Commission</i>					
Indigenous Recognition Referendum(e)	-	-	-	-	-
Same Sex Marriage Plebiscite(f)	-	-	-	-	-
<i>Department of Finance</i>					
Opposition Personal Employees - Additional Positions	-	0.8	0.8	0.8	0.8
Portfolio total	-	0.8	0.8	0.8	0.8
FOREIGN AFFAIRS AND TRADE					
<i>Department of Foreign Affairs and Trade</i>					
Foreign Policy Initiatives (c)(g)	-	-	-	-	-
Official development assistance - Asian Development Fund replenishment(h)	-	-	-	-	-
Portfolio total	-	-	-	-	-
IMMIGRATION AND BORDER PROTECTION					
<i>Department of Immigration and Border Protection</i>					
Visa Risk Assessment Capability(c)	-	-	-	-	-
Portfolio total	-	-	-	-	-

Table B2: Expense measures since the 2016-17 Budget^(a) (continued)

	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
SOCIAL SERVICES					
<i>Department of Human Services</i>					
Welfare Payment Infrastructure continuation(i)	-	-	-	-	-
Portfolio total	-	-	-	-	-
TREASURY					
<i>Australian Taxation Office</i>					
Tax Integrity Package – establishing the Tax Avoidance Taskforce(j)	-	-	-	-	-
<i>Department of the Treasury</i>					
Additional support for the containment of Panama TR4 disease(b)	nfp	-	-	-	-
Australian Rail Track Corporation - accelerate network upgrades(c)(k)	-	-1.0	-3.2	-5.4	-6.5
Portfolio total	-	-1.0	-3.2	-5.4	-6.5
Total impact of expense measures(l)	-	1.3	-0.8	-3.4	-5.8

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

(b) The expense impact of this measure is not for publication due to commercial sensitivities and will be met from existing resources. This measure can also be found in the revenue measures summary table.

(c) This measure can also be found in the capital measures summary table.

(d) The funding for this measure is not for publication due to commercial sensitivities. This measure was included as a 'decision taken but not yet announced' in the 2015-16 Budget.

(e) This measure includes funding of \$160.0 million over one year. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(f) This measure includes funding of \$160.0 million over one year. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(g) This measure includes funding of \$66.0 million over four years for the Global Watch Office and Expanding Australia's overseas representation. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(h) This measure will be funded from within the existing resources of the Department of Foreign Affairs and Trade. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(i) The funding for this measure is not for publication due to commercial sensitivities. This measure was included as a 'decision taken but not yet announced' in the 2015-16 Budget.

(j) This measure includes funding of \$24.9 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(k) This impact reflects an offset for the cost of borrowing for the equity injection, which will be met from the Infrastructure Investment Programme within the Infrastructure and Regional Development portfolio. The costs of borrowing are reflected in the estimates at the aggregate level and are not reported on an individual measure basis.

(l) Measures may not add due to rounding.

Table B3: Capital measures since the 2016-17 Budget^(a)

	2015-16	2016-17	2017-18	2018-19	2019-20
	\$m	\$m	\$m	\$m	\$m
ATTORNEY-GENERAL'S					
<i>Australian Crime Commission</i>					
Confiscated Assets Account - additional crime prevention activities(b)	-	0.5	-	-	-
<i>Australian Federal Police</i>					
Confiscated Assets Account - additional crime prevention activities(b)	-	-	1.1	-	-
Portfolio total	-	0.5	1.1	-	-
FOREIGN AFFAIRS AND TRADE					
<i>Department of Foreign Affairs and Trade</i>					
Foreign Policy Initiatives(b)	-	-	-	-	-
Portfolio total	-	-	-	-	-
IMMIGRATION AND BORDER PROTECTION					
<i>Department of Immigration and Border Protection</i>					
Visa Risk Assessment Capability(b)(c)	-	-	-	-	-
Portfolio total	-	-	-	-	-
INFRASTRUCTURE AND REGIONAL DEVELOPMENT					
<i>Department of Infrastructure and Regional Development</i>					
Australian Rail Track Corporation - accelerate network upgrades(b)(d)	-	-	-	-	-
Portfolio total	-	-	-	-	-
Total impact of capital measures	-	0.5	1.1	-	-

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

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

(c) This measure includes funding of \$99.2 million over four years. This measure was included as a 'decision taken but not yet announced' in the 2016-17 Budget.

(d) An equity injection of \$252 million is provided for network upgrades.

APPENDIX C: STATEMENT OF RISKS

OVERVIEW

Full details and explanations of fiscal risks, contingent liabilities and assets, and Government loans are provided in Statement 8 of Budget Paper No. 1, *Budget Strategy and Outlook 2016-17*. This section updates (where necessary) those fiscal risks, contingent liabilities and assets, and Government loans that have arisen or materially changed since the 2016-17 Budget, and other risks that may have an effect on the fiscal outlook.

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 changed since the 2016-17 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.

A number of Commonwealth payments to the States and Territories, such as certain National Partnership Agreements and payments related to natural disasters, may be triggered by the achievement of milestones and receipt of claims, including audited claims. Depending on when milestones are achieved and claims submitted and assessed, the profiles of payments across the forward estimates may need to be varied. The profiles of payments reflected in the forward estimates reflect milestones and estimates current at the time of issuance of the writs for the general election.

The planned growth in the number of clients of the National Disability Insurance Scheme, from around 30,000 to around 460,000 over the forward estimates, introduces a number of risks that could result in the costs of the scheme varying from existing estimates. In the short term, the pace of the rollout, the characteristics of cohorts that transition into the scheme and the development of the market to provide key services could all impact on costs. Over the longer term, key cost risks relate to the number of clients accessing the scheme and average package costs. The Productivity Commission will conduct a review of costs in 2017 that may provide further information to inform forecast scheme expenses.

Unlegislated measures

As reported in the 2016-17 Budget, \$13 billion worth of expenditure savings and \$1.5 billion worth of revenue increases announced prior to the 2016-17 Budget, expressed in fiscal balance terms and as originally reported in the relevant budget update, have not yet been passed by Parliament.

In line with normal practice, the forward estimates in the PEFO, as was the case at the 2016-17 Budget, include the impact of all policy decisions, including those that remain unlegislated. The indicative net impact of all unlegislated policy decisions included in forward estimates in the PEFO is around \$18.0 billion in underlying cash terms over the five years to 2019-20 and taking account of parameter changes since the original announcement. This comprises:

- policy decisions made prior to the 2016-17 Budget, which have a net positive impact on the underlying cash balance of around \$15.8 billion over the five years to 2019-20; and
- new policy decisions announced in the 2016-17 Budget, which have a net positive impact on the underlying cash balance of around \$2.2 billion over the five years to 2019-20. This includes an estimated net positive impact of \$1.2 billion that will only require the annual appropriations bills to be implemented.

Consistent with normal practice, the estimates in the PEFO assume that unlegislated policy decisions will be legislated and take effect from the next possible commencement date. Where legislation is not passed in time to enable commencement at that date, is passed with amendments to the original decision, or is rejected, there is a risk of a variation to the fiscal position outlined in the PEFO.

There are a number of tax measures included in the 2016-17 Budget that take effect on or before 1 July 2016. Many of these measures can be legislated at a later time within 2016-17 without materially affecting the estimates. However, the Commissioner has indicated that the *Ten Year Enterprise Tax Plan – targeted personal income tax relief* measure requires the relevant legislation to be passed before the change will be incorporated into the income tax withholding schedules. As the timing of this is uncertain, there is a risk that some of the revenue cost of this measure will slip from 2016-17 into 2017-18 (improving the 2016-17 bottom line with a commensurate worsening in 2017-18).

CONTINGENT LIABILITIES — UNQUANTIFIABLE

A revised contingent liability 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 has changed since the 2016-17 Budget is listed below.

Industry, Innovation and Science

Australian Nuclear Science and Technology Organisation — Indemnity

On 21 April 2016, the Minister for Industry, Innovation and Science signed a Deed of Indemnity between the Commonwealth Government, Australian Nuclear Science and Technology Organisation (ANSTO) and ANSTO Nuclear Medicine Pty Ltd (ANM), under which the government has formally agreed to indemnify ANSTO and ANSTO Officers, and ANM and ANM Officers, from any loss or liability arising from claims caused by ionising radiation. This Deed will remain in place until April 2026.

GOVERNMENT LOANS

A revised Government loan that is estimated to exceed \$200 million at 30 June 2016 and that has changed since the 2016-17 Budget is listed below.

Department of Agriculture and Water Resources

Drought Concessional Loans

The Drought Concessional Loans Scheme provides loans to drought affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. The scheme commenced in June 2014, and in 2014-15, operated in all States and Territories except Tasmania and the ACT. The Government is providing up to \$150 million for Drought Concessional Loans until 31 October 2016, covering all States and Territories except the ACT. All eligible jurisdictions have opened the scheme for 2015-16. Loans have a maximum loan term of five years with interest only payments required during the loan term.

To give effect to the scheme, loans from the Commonwealth are made to the State and Northern Territory governments that on-lend to eligible farm businesses through state delivery agencies.

The variable concessional interest rate on loans to eligible businesses will remain 0.5 per cent below the Farm Finance Concessional Loan concessional interest rate. Since 1 August 2015, the interest rate has been 3.05 per cent. The interest rate will continue to be reviewed on a six-monthly basis and revised in accordance with changes to the Farm Finance Concessional Loans interest rate. Loans have a maximum term of five years, with an extenuating circumstances clause in some jurisdictions, which allows a maximum two year extension to the loan at commercial rates.

