

PART 1: AUSTRALIAN GOVERNMENT BUDGET OUTCOME

OVERVIEW

In 2015-16, the Australian Government general government sector recorded an underlying cash deficit of \$39.6 billion (2.4 per cent of gross domestic product (GDP)). The fiscal balance was in deficit by \$37.5 billion (2.3 per cent of GDP).

In cash terms, the Final Budget Outcome for 2015-16 was a \$340 million improvement compared with the underlying cash deficit estimated at the time of the 2016-17 Budget. Total payments were \$1.6 billion lower than expected and total receipts were \$1.1 billion lower than expected. Net Future Fund earnings were \$190 million higher than expected at the time of the 2016-17 Budget.

In fiscal balance terms, the Final Budget Outcome for 2015-16 improved by \$2.0 billion compared with the fiscal balance deficit estimated at the time of the 2016-17 Budget, with revenue \$1.3 billion lower, expenses \$2.8 billion lower and net capital investment \$526 million lower than expected at the time of the 2016-17 Budget.

Real GDP grew at a rate slightly above trend in 2015-16 at 2.9 per cent, a stronger outcome than the 2½ per cent growth forecast in the 2016-17 Budget. The stronger growth was the result of larger than expected contributions from net exports, public final demand and dwelling investment. These factors, together with steady growth in household consumption, more than offset the impact on the economy of declining mining investment. Nominal GDP grew at a subdued rate in 2015-16 at 2.4 per cent, in line with the 2016-17 Budget forecast. Output prices declined as the terms of trade fell sharply and domestic price and wage growth remained soft.

Tax receipts for 2015-16 were \$362.0 billion, \$2.5 billion (0.7 per cent) lower than forecast at the 2016-17 Budget. Non-tax receipts were \$1.4 billion higher than forecast at the 2016-17 Budget.

Australian Government general government sector net debt was \$296.4 billion (18.0 per cent of GDP), which is \$10.7 billion higher than estimated at the time of the 2016-17 Budget. The increase in net debt was primarily driven by an increase in the market value of the existing stock of Commonwealth Government Securities (CGS) on issue, owing to lower-than-expected yields. Australian Government general government sector net financial worth was negative \$542.9 billion and net worth was negative \$418.6 billion at the end of 2015-16.

Table 1: Australian Government general government sector budget aggregates

	2015-16		2015-16 Outcome \$b	Change on 2016-17 Budget \$b
	2014-15 Outcome \$b	Estimate at 2016-17 Budget \$b		
Receipts	378.3	388.0	386.9	-1.1
Per cent of GDP	23.5	23.5	23.5	
Payments(a)	412.1	425.0	423.3	-1.6
Per cent of GDP	25.6	25.8	25.7	
Net Future Fund earnings	4.1	3.0	3.2	0.2
Underlying cash balance(b)	-37.9	-39.9	-39.6	0.3
Per cent of GDP	-2.4	-2.4	-2.4	
Revenue	380.7	396.4	395.1	-1.3
Per cent of GDP	23.7	24.0	23.9	
Expenses	417.9	431.5	428.7	-2.8
Per cent of GDP	26.0	26.1	26.0	
Net operating balance	-37.2	-35.1	-33.6	1.4
Net capital investment	2.7	4.4	3.8	-0.5
Fiscal balance	-39.9	-39.4	-37.5	2.0
Per cent of GDP	-2.5	-2.4	-2.3	
<i>Memorandum item:</i>				
Headline cash balance	-38.9	-51.5	-49.1	2.4

(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

The 2015-16 underlying cash deficit was \$39.6 billion, an improvement of \$340 million compared with the estimate at the time of the 2016-17 Budget. This was the result of lower payments of \$1.6 billion, partly offset by lower receipts of \$1.1 billion and higher net Future Fund earnings of \$190 million.

Table 2: Summary of Australian Government general government sector cash flows

	2015-16 Estimate at 2016-17 Budget \$b	2015-16 Outcome \$b	Change on 2016-17 Budget \$b
Cash receipts			
Operating cash receipts	387.7	386.5	-1.2
Capital cash receipts(a)	0.3	0.4	0.1
Total cash receipts	388.0	386.9	-1.1
Cash payments			
Operating cash payments	413.4	412.8	-0.6
Capital cash payments(b)	11.6	10.3	-1.2
Total cash payments	425.0	423.2	-1.8
Finance leases and similar arrangements(c)	0.0	0.2	0.2
GFS cash surplus(+)/deficit(-)	-36.9	-36.4	0.5
Per cent of GDP	-2.2	-2.2	
<i>less</i> Net Future Fund earnings	3.0	3.2	0.2
Underlying cash balance(d)	-39.9	-39.6	0.3
Per cent of GDP	-2.4	-2.4	
<i>Memorandum items:</i>			
Net cash flows from investments in financial assets for policy purposes	-14.6	-12.7	1.9
<i>plus</i> Net Future Fund earnings	3.0	3.2	0.2
Headline cash balance	-51.5	-49.1	2.4

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.

(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.

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

(d) Excludes net Future Fund earnings.

Receipts

Total receipts for 2015-16 were \$386.9 billion, \$1.1 billion lower than forecast in the 2016-17 Budget.

Tax receipts were \$362.0 billion, \$2.5 billion lower than in the Budget. Compared with the 2016-17 Budget, lower-than-expected company tax, individuals and other withholding tax, GST receipts and fringe benefits tax were partially offset by higher-than-expected excise and customs duty and superannuation fund tax receipts.

- Company tax receipts were \$1.8 billion (2.8 per cent) below the 2016-17 Budget estimate, consistent with continued subdued growth in company profits. In particular, receipts relating to the 2015 income year, mainly from the mining industry, were lower than expected.
- Receipts from total individuals and other withholding taxes were \$1.3 billion (0.7 per cent) below the 2016-17 Budget estimate. This primarily reflected weaker-than-expected tax withheld for employees of large companies late in the year. Lower-than-expected payments on assessment and higher-than-expected refunds related to 2014-15 income year returns also contributed to the outcome.
- Receipts from the GST were \$351 million (0.6 per cent) below the 2016-17 Budget estimate. Lower-than-expected GST receipts will be reflected in lower payments to the states.
- Fringe benefits tax receipts were \$132 million (2.9 per cent) below the 2016-17 Budget estimate, reflecting lower-than-expected on-assessment collections.
- Total excise and customs duty receipts were \$634 million (1.8 per cent) above the 2016-17 Budget estimate. This primarily reflected higher-than-anticipated receipts for tobacco excise and customs duty and diesel.
- Receipts from superannuation fund taxes were \$204 million (3.1 per cent) above the 2016-17 Budget estimate.

Non-tax receipts (excluding Future Fund receipts) were \$21.3 billion in 2015-16, \$1.2 billion higher than estimated at the time of the 2016-17 Budget. This increase largely relates to health programs, in particular greater-than-expected recoveries from the States and Territories in relation to aged care.

Table 3: Australian Government general government sector (cash) receipts

	2015-16 Estimate at 2016-17 Budget \$m	2015-16 Outcome \$m	Change on 2016-17 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	174,200	173,436	-764
Gross other individuals	42,000	41,746	-254
less: Refunds	27,800	28,081	281
Total individuals and other withholding tax	188,400	187,101	-1,299
Fringe benefits tax	4,500	4,368	-132
Company tax	64,700	62,897	-1,803
Superannuation fund taxes	6,630	6,834	204
Petroleum resource rent tax	800	741	-59
Income taxation receipts	265,030	261,941	-3,089
Goods and services tax	57,808	57,457	-351
Wine equalisation tax	860	854	-6
Luxury car tax	580	602	22
Excise and customs duty			
Petrol	6,200	6,150	-50
Diesel	9,460	9,726	266
Other fuel products	2,240	2,115	-125
Tobacco	9,410	9,816	406
Beer	2,360	2,373	13
Spirits	2,040	2,068	28
Other alcoholic beverages(a)	910	912	2
Other customs duty			
Textiles, clothing and footwear	470	498	28
Passenger motor vehicles	570	614	44
Other imports	1,550	1,589	39
less: Refunds and drawbacks	420	436	16
Total excise and customs duty	34,790	35,424	634
Agricultural levies	514	517	3
Other taxes(b)	4,925	5,167	243
Indirect taxation receipts	99,477	100,021	544
Taxation receipts	364,507	361,962	-2,545

Table 3: Australian Government general government sector (cash) receipts (continued)

	2015-16 Estimate at 2016-17 Budget \$m	2015-16 Outcome \$m	Change on 2016-17 Budget \$m
Sales of goods and services(b)	7,686	7,592	-94
Interest received	2,842	2,936	94
Dividends	5,332	5,540	207
Other non-taxation receipts	7,660	8,895	1,234
Non-taxation receipts	23,520	24,962	1,442
Total receipts	388,027	386,924	-1,103
<i>Memorandum:</i>			
<i>Total excise</i>	<i>21,360</i>	<i>21,492</i>	<i>132</i>
<i>Total customs duty</i>	<i>13,430</i>	<i>13,932</i>	<i>502</i>
<i>Medicare and DisabilityCare Australia levy</i>	<i>14,970</i>	<i>15,000</i>	<i>30</i>

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

(b) Visa application charges were reclassified in 2015-16 MYEFO from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The back-casting relating to the reclassification is reflected in Appendix B — Historical Series from 2003-04.

Payments

Total cash payments were \$423.3 billion in 2015-16, \$1.6 billion lower than estimated at the time of the 2016-17 Budget. Total payments excluding Future Fund payments were \$422.9 billion, \$1.7 billion lower than estimated at the time of the 2016-17 Budget. The outcome reflects decreases in:

- payments to the states due to delays in the achievement of project milestones under a range of national partnership agreements, including the Asset Recycling Initiative (\$1.3 billion), the Sustainable Rural Water Use and Infrastructure program (\$285 million) and the Investment Road component of the Infrastructure Investment Programme (\$172 million);
- payments under the Building Skills and Capability program, largely reflecting lower than expected take-up of training across a range of sub-programs (\$353 million);
- payments made by the Department of Defence, largely reflecting lower than expected spending on major operations (\$165 million) and payments on capital purchases, resulting from fluctuations in the exchange rate (\$161 million);
- payments under the Child Care Benefit program, largely reflecting a reduction in child care usage following the introduction of measures to improve the integrity of the family day care sector (\$234 million);
- payments due to delays in the achievement of project milestones for the Residential and Flexible Care program (\$185 million), largely relating to flexible care — multipurpose services and the rural and remote building fund; and

- payments across a range of employment services programs (\$138 million), largely reflecting lower than expected demand for wage subsidies, employment outcome payments, Work for the Dole payments, the Employment Fund and Job Commitment Bonus.

The decreases were partially offset by the provision for underspends in the Contingency Reserve and higher than expected payments under Pharmaceuticals and Pharmaceutical Services (\$824 million), primarily as a result of greater than forecast demand for the newly listed Hepatitis C drugs.

Net Future Fund Earnings

The underlying cash balance excludes net Future Fund earnings. Net Future Fund earnings were \$3.2 billion in 2015-16, \$190 million higher than estimated at the time of the 2016-17 Budget, largely reflecting higher than estimated dividends received.

FISCAL BALANCE

The 2015-16 fiscal balance deficit was \$37.5 billion, a \$2.0 billion improvement on the deficit of \$39.4 billion estimated at the time of the 2016-17 Budget. The cash receipt and payment variations outlined previously have a similar impact on revenue and expenses since fiscal and cash variances are typically driven by the same factors. However, the improvement in the fiscal balance of \$2.0 billion, compared with the improvement in the underlying cash balance of \$340 million, is the result of additional factors, as outlined below.

Revenue

Total revenue was \$395.1 billion in 2015-16, \$1.3 billion lower than estimated at the time of the 2016-17 Budget. In comparison, total cash receipts were \$386.9 billion in 2015-16, \$1.1 billion lower than estimated at the time of the 2016-17 Budget.

Taxation revenue was \$368.9 billion in 2015-16, \$3.0 billion lower than the estimate at the 2016-17 Budget.

The shortfall in taxation revenue was mostly driven by lower-than-expected individuals and company tax revenue. Lower-than-expected revenue (of \$2.6 billion) for individuals and other withholding taxes reflect weaker-than-expected cash receipts, as well as significantly lower receivables. The company tax revenue shortfall totalled \$1.5 billion, consistent with continued subdued growth in company profits.

Total non-tax revenue was \$26.1 billion in 2015-16, \$1.6 billion higher than estimated at the 2016-17 Budget. Non-tax receipts were \$25.0 billion, \$1.4 billion higher than estimated at Budget.

The \$202 million difference in outcomes for non-tax revenue and non-tax receipts largely reflects increases in non-tax revenue, which did not have a corresponding non-tax receipt impact in 2015-16. This includes higher than expected dividend revenue compared to dividend receipts from the Reserve Bank of Australia.

Table 4: Australian Government general government sector (accrual) revenue

	2015-16 Estimate at 2016-17 Budget \$m	2015-16 Outcome \$m	Change on 2016-17 Budget \$m
Individuals and other withholding taxes			
Gross income tax withholding	175,510	174,815	-695
Gross other individuals	44,850	43,261	-1,589
<i>less: Refunds</i>	27,800	28,081	281
Total individuals and other withholding tax	192,560	189,996	-2,564
Fringe benefits tax	4,590	4,453	-137
Company tax	65,000	63,529	-1,471
Superannuation fund taxes	6,710	6,830	120
Petroleum resource rent tax(a)	840	876	36
Income taxation revenue	269,700	265,684	-4,016
Goods and services tax	60,040	60,312	272
Wine equalisation tax	880	883	3
Luxury car tax	590	620	30
Excise and customs duty			
Petrol	6,220	6,189	-31
Diesel	9,490	9,788	298
Other fuel products	2,243	2,125	-117
Tobacco	9,410	9,928	518
Beer	2,370	2,386	16
Spirits	2,040	2,071	31
Other alcoholic beverages(b)	910	917	7
Other customs duty			
Textiles, clothing and footwear	470	498	28
Passenger motor vehicles	570	614	44
Other imports	1,550	1,591	41
<i>less: Refunds and drawbacks</i>	420	436	16
Total excise and customs duty	34,853	35,671	818
Agricultural levies	514	522	8
Other taxes(c)	5,346	5,246	-100
Indirect taxation revenue	102,223	103,255	1,031
Taxation revenue	371,923	368,939	-2,984
Sales of goods and services(c)	7,697	7,619	-78
Interest	3,506	2,930	-575
Dividends	5,564	6,240	677
Other non-taxation revenue	7,706	9,326	1,620
Non-taxation revenue	24,472	26,116	1,644
Total revenue	396,396	395,055	-1,341
<i>Memorandum:</i>			
<i>Total excise</i>	21,423	21,625	202
<i>Total customs duty</i>	13,430	14,046	616
<i>Medicare and DisabilityCare Australia levy</i>	14,970	15,000	30

(a) This item includes a small amount of MRRT revenue relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality. There is no corresponding cash impact for 2015-16.

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

(c) Visa application charges were reclassified in the 2015-16 MYEFO from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The back-casting relating to the reclassification is reflected in Appendix B — Historical Series from 2003-04.

Expenses and net capital investment

Total expenses were \$428.7 billion in 2015-16, \$2.8 billion lower than estimated at the time of the 2016-17 Budget. Total net capital investment for 2015-16 was \$3.8 billion, \$526 million lower than the estimate of \$4.4 billion. This results in a lower than estimated net outcome for expenses and net capital investment of \$3.3 billion.

In comparison, cash payments were \$423.3 billion in 2015-16, \$1.6 billion lower than estimated at the 2016-17 Budget.

The difference of \$1.7 billion between the lower than estimated net outcome for expenses and net capital investment of \$3.3 billion and the lower than estimated outcome for cash payments of \$1.6 billion includes: timing differences between when GST payments to the States and Territories are made and expenses accrued and a change in the discount rate used to calculate Defence superannuation.

Further information on expenses by function and sub-function are provided in Appendix A.

Table 5: Australian Government general government sector expenses by function

	2015-16 Estimate at 2016-17 Budget \$m	2015-16 Outcome \$m	Change on 2016-17 Budget \$m
General public services			
Legislative and executive affairs	1,229	1,239	9
Financial and fiscal affairs	6,895	6,598	-297
Foreign affairs and economic aid	5,470	5,484	15
General research	2,866	2,711	-155
General services	977	731	-246
Government superannuation benefits	6,530	7,447	916
Defence	25,986	26,013	27
Public order and safety	4,958	4,823	-135
Education	32,515	32,121	-394
Health	69,172	69,301	129
Social security and welfare	152,838	152,124	-713
Housing and community amenities	4,865	4,742	-123
Recreation and culture	3,512	3,462	-50
Fuel and energy	6,528	6,423	-106
Agriculture, forestry and fishing	2,768	2,259	-509
Mining, manufacturing and construction	3,650	3,103	-547
Transport and communication	8,647	7,083	-1,564
Other economic affairs			
Tourism and area promotion	186	199	13
Total labour and employment affairs	3,528	3,078	-450
Immigration	3,792	3,741	-51
Other economic affairs nec	2,119	2,180	60
Other purposes			
Public debt interest	15,376	15,339	-37
Nominal superannuation interest	9,167	9,106	-62
General purpose inter-governmental transactions	59,380	59,160	-220
Natural disaster relief	49	224	175
Contingency reserve	-1,536	0	1,536
Total expenses	431,470	428,691	-2,779

Table 6: Australian Government general government sector net capital investment by function

	2015-16	2015-16	Change on
	Estimate at		2016-17
	2016-17	2015-16	2016-17
	Budget	Outcome	Budget
	\$m	\$m	\$m
General public services	458	210	-248
Defence	3,597	3,680	82
Public order and safety	101	-3	-104
Education	20	3	-17
Health	35	19	-17
Social security and welfare	65	18	-47
Housing and community amenities	1	-116	-117
Recreation and culture	87	-40	-127
Fuel and energy	-3	0	3
Agriculture, forestry and fishing	84	109	26
Mining, manufacturing and construction	-2	-4	-2
Transport and communication	-158	-176	-19
Other economic affairs	148	128	-20
Other purposes	-78	0	78
Total net capital investment	4,355	3,829	-526

Table 7: Australian Government general government sector purchases of non-financial assets by function

	2015-16	2015-16	Change on
	Estimate at		2016-17
	2016-17	2015-16	2016-17
	Budget	Outcome	Budget
	\$m	\$m	\$m
General public services	1,318	972	-347
Defence	7,969	7,797	-172
Public order and safety	536	435	-100
Education	47	30	-17
Health	125	117	-8
Social security and welfare	404	419	16
Housing and community amenities	56	75	19
Recreation and culture	379	416	37
Fuel and energy	2	4	1
Agriculture, forestry and fishing	131	167	35
Mining, manufacturing and construction	6	5	-2
Transport and communication	50	42	-7
Other economic affairs	612	621	9
Other purposes	-78	0	78
Total Government purchases of non-financial assets	11,559	11,100	-458

HEADLINE CASH BALANCE ESTIMATES

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co), and net Future Fund earnings.

Table 8 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector in 2015-16.

At the end of 2015-16, the headline cash deficit was \$49.1 billion, a \$2.4 billion improvement from the estimate at the time of the 2016-17 Budget. The improvement in the headline cash balance was primarily driven by lower than expected number of students accessing income contingent student loans and a revised payment schedule for a number of NBN contracts that have no impact on the rollout schedule.

Table 8: Details of the Australian Government general government sector items between the underlying and headline cash balance

	2015-16 Estimate at 2016-17 Budget \$m	2015-16 Outcome \$m	Change on 2016-17 Budget \$m
2015-16 Outcome underlying cash balance(a)	-39,946	-39,606	340
plus Net cash flows from investments in financial assets for policy purpose			
Student loans	-7,622	-6,612	1,010
NBN investment	-7,488	-7,096	392
Residential mortgage backed securities	1,471	1,448	-23
WestConnex	-38	0	38
Trade support loans	-372	-143	229
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-250	-250	0
Drought and rural assistance loans	-63	-13	50
Net other	-190	-17	172
Total net cash flows from investments in financial assets for policy purposes	-14,553	-12,684	1,869
plus Net Future Fund earnings	3,012	3,202	190
2015-16 Outcome headline cash balance	-51,487	-49,088	2,399

(a) Excludes net Future Fund earnings.

NET DEBT, NET FINANCIAL WORTH AND NET WORTH

At the end of 2015-16, the level of Australian Government net debt was \$296.4 billion (18.0 per cent of GDP), \$10.7 billion higher than estimated at the time of the 2016-17 Budget.

The increase in net debt compared with the level expected at the 2016-17 Budget was primarily driven by an increase in the market value of the existing stock of Commonwealth Government Securities (CGS) on issue, owing to lower-than-expected yields. CGS are reported in the general government sector balance sheet in market value terms, consistent with the Australian Accounting Standards.

Net financial worth was negative \$542.9 billion at the end of 2015-16, compared with negative \$387.9 billion estimated at the 2016-17 Budget.

Net worth was negative \$418.6 billion at the end of 2015-16, compared with negative \$265.0 billion estimated at the 2016-17 Budget.

The change in the market value of CGS described above impacts net financial worth and net worth. In addition to this, changes in net financial worth and net worth since the Budget report a significant increase in the Government's superannuation liability. This reported increase is the result of a large difference between the discount rates used to value the Government's defined benefit superannuation liability at Budget and at the Final Budget Outcome (FBO). The approach to valuing the superannuation liability has not changed from previous Budgets or FBOs.

At Budget time the actuaries determined the long-term discount rate to be 6.0 per cent per annum. This rate reflects the average annual rate estimated by the actuaries to apply over the remainder of the term to maturity of the liability, and the actuaries' view that short term deviations are expected to be smoothed out in the longer term. This approach also reduces the volatility in reported liabilities in the Budget that would occur from year to year if the long-term government bond rate were used.

For FBO, the Australian Accounting Standards require the long term government bond rate as at 30 June 2016 to be used, which was 2.7 per cent per annum. This requirement of the standards results in differences in superannuation liability between one FBO and another, and between Budget and FBO, that are due to the discount rate applied, not to changes in the accrued benefits of the defined benefit schemes. In particular, at the 2014-15 FBO, the long-term bond rate used was 3.7 per cent per annum.

Table 9: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	2015-16 Estimate at 2016-17 Budget \$b	2015-16 Outcome \$b	Change on 2016-17 Budget \$b
Financial assets	342.6	342.1	-0.4
Non-financial assets	122.9	124.4	1.5
Total assets	465.4	466.5	1.1
Total liabilities	730.4	885.0	154.6
Net worth	-265.0	-418.6	-153.5
Net financial worth(a)	-387.9	-542.9	-155.0
Per cent of GDP	-23.5	-32.9	
Net debt(b)	285.7	296.4	10.7
Per cent of GDP	17.3	18.0	
Net interest payments	12.0	12.0	0.1
Per cent of GDP	0.7	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.