

PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

After a decade of deficits, the Budget is on track to return to surplus in 2019-20, with strong fiscal discipline ensuring these surpluses exceed 1 per cent of GDP in the medium term.

Reflecting a strong economy and the Government's responsible budget management, the underlying cash balance is expected to improve from a deficit of \$5.2 billion (0.3 per cent of GDP) in 2018-19 to a surplus of \$4.1 billion (0.2 per cent of GDP) in 2019-20. This is an improvement of 2.5 percentage points of GDP between 2013-14 and 2017-18.

Looking ahead, the budget position is expected to strengthen further, with an average annual pace of fiscal consolidation of 0.4 per cent of GDP expected over the forward estimates period. Over the four years from 2018-19, the cumulative underlying cash surplus is expected to be \$30.4 billion, nearly double the 2018-19 Budget estimate.

The net operating balance is expected to reach a surplus of \$4.9 billion (0.3 per cent of GDP) in 2018-19, increasing further to a projected surplus of \$29.8 billion (1.4 per cent of GDP) in 2021-22. This reflects that recurrent spending is more than fully funded by revenue in 2018-19 and over the forward estimates.

Table 3.1: Budget aggregates

	Estimates			
	2018-19		2019-20	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance(a)	-14.5	-5.2	2.2	4.1
Per cent of GDP	-0.8	-0.3	0.1	0.2
Net operating balance	-2.4	4.9	8.6	10.1
Per cent of GDP	-0.1	0.3	0.4	0.5
	Projections			
	2020-21		2021-22	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Underlying cash balance(a)	11.0	12.5	16.6	19.0
Per cent of GDP	0.5	0.6	0.8	0.9
Net operating balance	19.6	20.4	27.4	29.8
Per cent of GDP	0.9	1.0	1.3	1.4

(a) Excludes expected net Future Fund earnings before 2020-21.

Net debt is expected to decline in each year of the forward estimates and the medium term, falling from 18.2 per cent in 2018-19 to 1.5 per cent of GDP by 2028-29. Gross debt as a percentage of GDP is falling over the forward estimates and is expected to remain below the \$600 billion limit.

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Since the 2018-19 Budget, expected total receipts have been revised up by around \$8.3 billion in 2018-19 and \$12.4 billion over the four years to 2021-22. This is mainly driven by upward revisions to the forecasts for individuals and company taxes.

FISCAL STRATEGY

Returning the budget to surplus

Reflecting a strong economy and the Government's responsible budget management, the underlying cash balance is expected to improve from a deficit of \$5.2 billion (0.3 per cent of GDP) in 2018-19 to a surplus of \$4.1 billion (0.2 per cent of GDP) in 2019-20. Table 3.2 provides key budget aggregates for the Australian Government general government sector.

Table 3.2: Australian Government general government sector budget aggregates

	Estimates			
	2018-19		2019-20	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts	473.7	482.1	503.7	506.0
Per cent of GDP	24.9	24.9	25.3	25.2
Payments(a)	484.6	483.4	497.5	497.4
Per cent of GDP	25.4	24.9	25.0	24.8
Net Future Fund earnings(b)	3.6	3.9	3.9	4.6
Underlying cash balance(c)	-14.5	-5.2	2.2	4.1
Per cent of GDP	-0.8	-0.3	0.1	0.2
Revenue	486.1	493.3	512.8	514.5
Per cent of GDP	25.5	25.5	25.7	25.7
Expenses	488.6	488.4	504.2	504.4
Per cent of GDP	25.7	25.2	25.3	25.2
Net operating balance	-2.4	4.9	8.6	10.1
Per cent of GDP	-0.1	0.3	0.4	0.5
Net capital investment	5.0	6.8	4.9	5.8
Fiscal balance	-7.4	-1.9	3.7	4.3
Per cent of GDP	-0.4	-0.1	0.2	0.2
<i>Memorandum items:</i>				
Net Future Fund earnings(b)	3.6	3.9	3.9	4.6
Headline cash balance	-27.6	-18.3	-8.1	-7.2

Table 3.2: Australian Government general government sector budget aggregates (continued)

	Projections			
	2020-21		2021-22	
	Budget	MYEFO	Budget	MYEFO
	\$b	\$b	\$b	\$b
Receipts	525.5	526.4	554.0	554.8
Per cent of GDP	25.2	25.2	25.5	25.5
Payments(a)	514.5	513.9	537.3	535.8
Per cent of GDP	24.7	24.6	24.7	24.6
Net Future Fund earnings(b)	na	na	na	na
Underlying cash balance(c)	11.0	12.5	16.6	19.0
Per cent of GDP	0.5	0.6	0.8	0.9
Revenue	537.9	538.2	568.2	568.3
Per cent of GDP	25.8	25.8	26.1	26.1
Expenses	518.2	517.8	540.8	538.6
Per cent of GDP	24.9	24.8	24.9	24.7
Net operating balance	19.6	20.4	27.4	29.8
Per cent of GDP	0.9	1.0	1.3	1.4
Net capital investment	6.7	8.1	8.0	9.8
Fiscal balance	12.9	12.3	19.4	20.0
Per cent of GDP	0.6	0.6	0.9	0.9
<i>Memorandum:</i>				
Net Future Fund earnings(b)	4.2	4.7	4.5	5.0
Headline cash balance	21.0	2.0	7.8	9.8

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

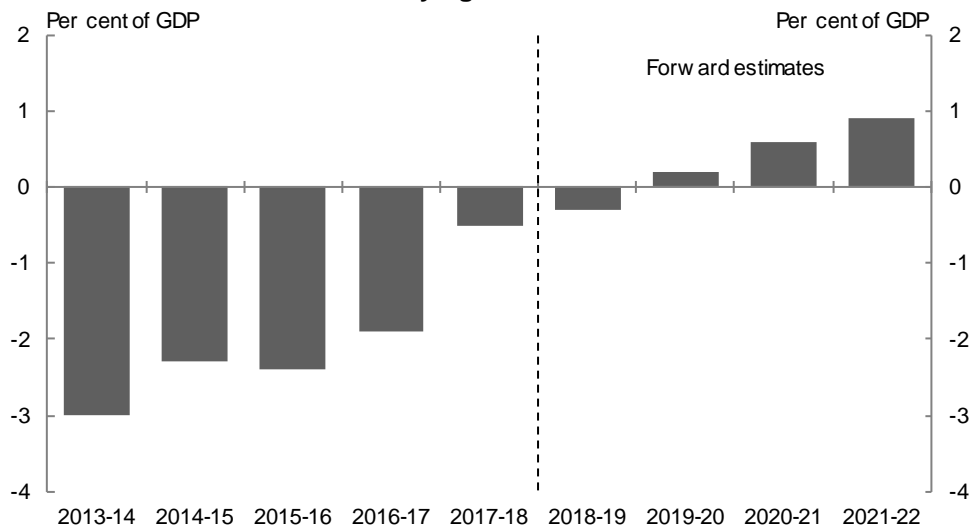
(b) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

(c) Excludes expected net Future Fund earnings before 2020-21.

Reflecting the Government's commitment to its fiscal strategy and budget repair, the expected 2018-19 underlying cash deficit is around half of the 2017-18 Final Budget Outcome (-\$10.1 billion) and around one-third of the deficit estimated at the 2018-19 Budget (-\$14.5 billion).

Between 2013-14 and 2017-18, the Government's fiscal and economic management has led to a 2.5 percentage point improvement in the underlying cash balance-to-GDP ratio. From 2018-19, additional fiscal consolidation of 1.4 percentage points is expected across the forward estimates, as shown in Chart 3.1.

Chart 3.1: Underlying cash balance to GDP^(a)



(a) Excludes expected net Future Fund earnings before 2020-21.

The Government has continued to focus on controlling expenditure to help return the budget to surplus and lower government debt. Compared with the 2018-19 Budget, total nominal payment estimates are lower in each year of the forward estimates and \$3.5 billion lower in total over the four years from 2018-19. The payments-to-GDP ratio is expected to be 24.9 per cent in 2018-19, falling to 24.6 per cent by 2020-21, below the 30 year average of 24.7 per cent. Average annual real growth in payments over the five years from 2017-18 is expected to be 1.9 per cent.

Since the 2016 election, the Government has legislated over \$56 billion of budget repair measures that have strengthened the budget position. These structural savings continue to improve the spending growth trajectory over time, including by ensuring payments are better targeted to those in genuine need, providing capacity to reinvest in the Government’s plan to build a stronger economy.

The Government will continue to pursue savings where it can, in addition to keeping a tight rein on spending, to ensure the Budget remains on a sustainable trajectory for the future. Taking account of Senate positions and reductions in payments as result of non-economic parameter and other variations, the net impact of decisions in the 2018-19 MYEFO is a reduction in payments of \$423 million over the four years from 2018-19.

Table 3.3: Impact of Government decisions on payments in the 2018-19 MYEFO

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
Total payments impact of policy decisions taken since the 2018-19 Budget	-2,515	-3,561	-3,288	-2,877	-12,240
<i>Add</i> Payments impact of non-economic parameter and other variations	2,895	2,552	2,615	3,332	11,393
Equals total payment impact of policy decisions	379	-1,009	-673	455	-847
<i>Less</i> Payments impact of decisions taken as a result of Senate positions	-9	-186	-396	-679	-1,271
Net payments impact of policy decisions in the 2018-19 MYEFO	389	-823	-277	1,134	423

Passage of some budget repair measures has been delayed in the Senate, causing a negative impact on the bottom line. The Government has taken steps to mitigate this impact and continues to work with the Parliament to secure the successful passage of unlegislated budget repair measures, including passing legislation to improve the Australian welfare payment system, ensuring it is fair, targeted and sustainable.

Table 3.4: Impacts and adjustments due to the Senate (underlying cash balance)

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
Decisions taken as a result of Senate positions					
Social Services and Other Legislation					
Amendment (Promoting Sustainable Welfare) Bill					
<i>Receipts</i>	0	0	0	0	0
<i>Payments</i>	-9	-186	-396	-679	-1,271
Total impact of decisions taken as a result of Senate positions	-9	-186	-396	-679	-1,271
Impact of delays in passing legislation					
<i>Receipts</i>	-57	-20	-12	-5	-94
<i>Payments</i>	-382	-182	-202	-216	-983
Total impact of delays in passing legislation	-439	-202	-214	-221	-1,076
Total impacts and adjustments due to the Senate	-448	-388	-611	-900	-2,347

The net impact of decisions taken as a result of Senate positions has a net negative impact on the underlying cash balance of \$1.3 billion over the forward estimates. The net impact of delays in the passage of legislation has a net negative impact on the underlying cash balance of \$1.1 billion over the forward estimates.

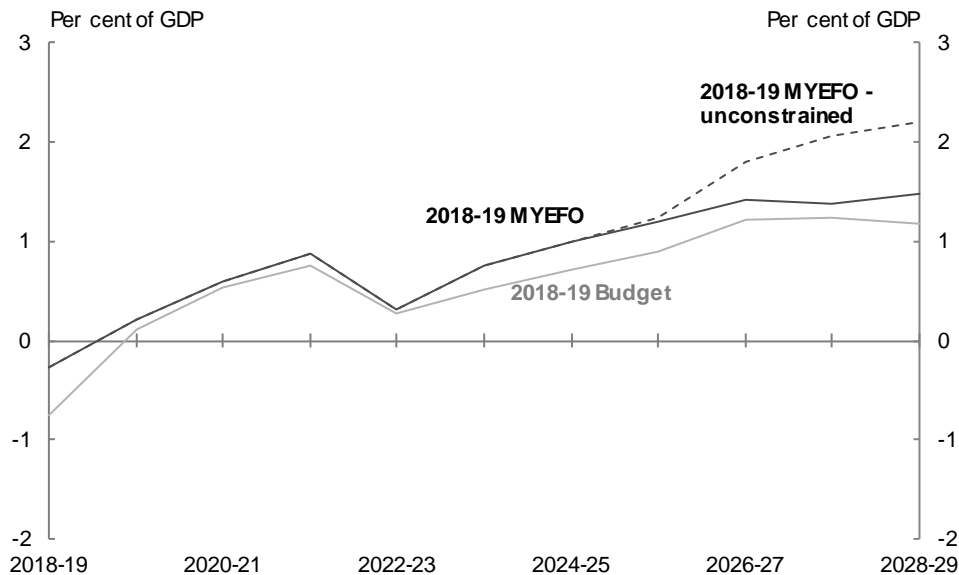
The Government is committed to continuing to work with the Parliament to secure the successful passage of unlegislated measures that contribute to the task of budget repair. The estimated impact over the forward estimates of remaining budget repair

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measures, announced prior to the 2018-19 MYEFO, and after taking account of parameter changes is a positive \$5.4 billion. This comprises around \$4.9 billion of receipt increases and around \$0.5 billion of payment saves. The net impact of the remaining unlegislated budget repair measures announced prior to the 2018-19 Budget is now around \$0.6 billion.

Chart 3.2 shows the projection of the underlying cash balance to 2028-29. The budget is projected to remain in surplus throughout the medium term, with surpluses of more than 1 per cent of GDP from 2025-26. By 2028-29, the underlying cash balance is projected to be 1.5 per cent of GDP, an improvement on the 2018-19 Budget projection. The chart also illustrates the underlying cash balance projected to 2028-29 without the tax-to-GDP cap adopted by the Government's fiscal strategy. In the absence of this policy, the underlying cash balance would be projected to reach a surplus of 2.2 per cent of GDP in 2028-29.

Chart 3.2: Underlying cash balance projected to 2028-29



Note: The tax-to-GDP cap of 23.9 per cent is reached from 2025-26, a year earlier than at the 2018-19 Budget. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund are available.

Source: Treasury projections.

Strengthening the Government's balance sheet

A strong balance sheet provides the Government the flexibility to respond to unanticipated events during times of financial crises or economic shocks. Key aggregates relating to the balance sheet are set out in Table 3.5.

Table 3.5: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			
	2018-19		2019-20	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	422.6	430.4	450.5	460.1
Non-financial assets	145.3	150.2	150.5	156.1
Total assets	568.0	580.6	601.1	616.2
Total liabilities	905.6	901.3	932.6	927.2
Net worth	-337.6	-320.8	-331.6	-311.0
Net financial worth(a)	-482.9	-470.9	-482.1	-467.1
Per cent of GDP	-25.4	-24.3	-24.2	-23.3
Net debt(b)	349.9	351.9	344.0	343.4
Per cent of GDP	18.4	18.2	17.3	17.1
Net interest payments	14.5	14.0	12.2	11.5
Per cent of GDP	0.8	0.7	0.6	0.6
	Projections			
	2020-21		2021-22	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	450.6	480.9	485.1	511.1
Non-financial assets	156.6	163.3	163.9	171.8
Total assets	607.2	644.2	649.0	682.9
Total liabilities	921.9	935.1	939.0	945.0
Net worth	-314.7	-291.0	-290.0	-262.0
Net financial worth(a)	-471.3	-454.3	-453.9	-433.9
Per cent of GDP	-22.6	-21.7	-20.9	-19.9
Net debt(b)	334.3	329.9	319.3	312.6
Per cent of GDP	16.1	15.8	14.7	14.3
Net interest payments	12.4	11.3	12.2	10.4
Per cent of GDP	0.6	0.5	0.6	0.5

(a) Net financial worth equals total financial assets minus total liabilities.

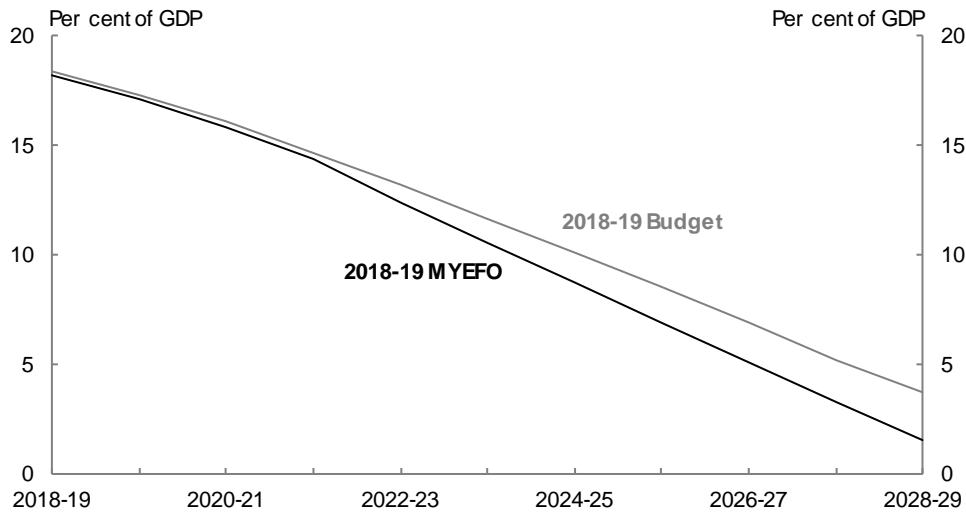
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Net debt is the sum of selected financial liabilities less the sum of selected financial assets and is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

Net debt is estimated to be 18.2 per cent of GDP in 2018-19, lower than the estimate of 18.4 per cent of GDP at the 2018-19 Budget. Net debt is then projected to decline as a share of GDP to 14.3 per cent by 2021-22. This primarily reflects changes in the financing requirement as a result of improvements in the underlying cash balance, partly offset by a rise in the market value of Commonwealth Government Securities (CGS) due to lower yields. Refer to Attachment E for further information.

In the 2018-19 Budget, net debt was projected to be 3.8 per cent of GDP by 2028-29. Net debt is now projected to improve to 1.5 per cent of GDP by 2028-29 (Chart 3.3).

Chart 3.3: Net debt projected to 2028-29



Note: The tax-to-GDP cap of 23.9 per cent is reached from 2025-26, a year earlier than at the 2018-19 Budget.

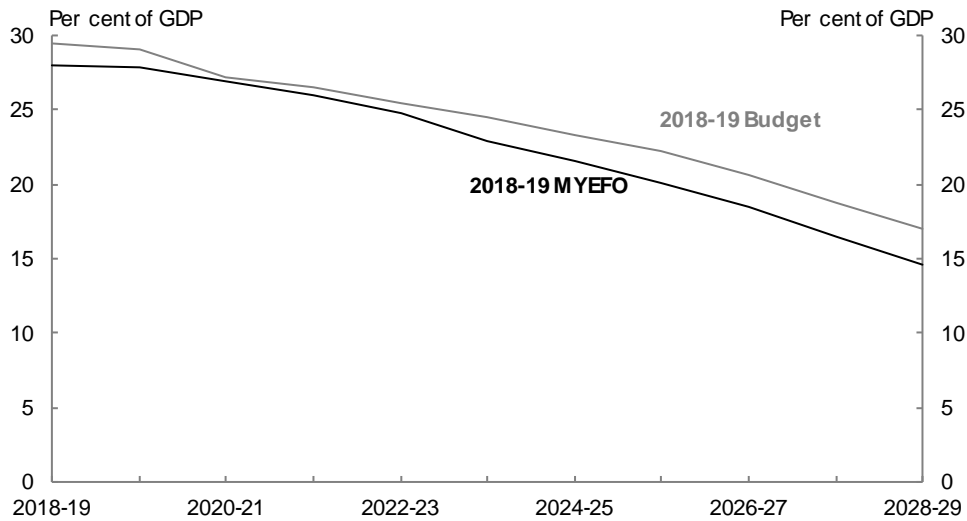
Source: Treasury projections.

Gross debt, as measured by the face value of CGS on issue, is estimated to fall from 28.0 per cent of GDP in 2018-19 (\$542 billion) to 26.0 per cent of GDP by the end of the forward estimates period (\$567 billion, which is \$11 billion lower than projected at the 2018-19 Budget).

At the 2018-19 Budget, gross debt was projected to be \$532 billion (17.0 per cent of GDP) in 2028-29. Gross debt is now projected to reach around \$455 billion (14.6 per cent of GDP) by 2028-29 – a fall of around \$77 billion (Chart 3.4).

The projected fall in the level of gross debt over the medium term reflects the improvement to the underlying cash balance.

Chart 3.4: Gross debt projected to 2028-29



Note: The tax-to-GDP cap of 23.9 per cent is reached from 2025-26, a year earlier than at the 2018-19 Budget.

Source: Australian Office of Financial Management and Treasury projections.

Net financial worth is an indicator of fiscal sustainability in the medium-term fiscal strategy. It measures the Government’s financial assets and liabilities, including both the assets of the Future Fund and the public superannuation liability that the Future Fund seeks to finance.

Compared with the 2018-19 Budget, net financial worth has improved over the forward estimates. Net financial worth is estimated to be -\$470.9 billion in 2018-19 (24.3 per cent of GDP), \$12.0 billion better than estimated at the 2018-19 Budget. This primarily reflects increases in the Government’s Future Fund and Reserve Bank of Australia equity investments, as well as changes in the financing requirement reflecting improvements in the underlying cash balance and lower yields for CGS.

Net financial worth also improves over the medium term, rising to -\$161.8 billion (5.2 per cent of GDP) by 2028-29.

Net worth is equal to total assets less total liabilities. It reflects the contribution of the Australian Government to the wealth of Australia. Compared with the 2018-19 Budget, net worth has improved over the forward estimates. Net worth is estimated to be -\$320.8 billion in 2018-19 (16.6 per cent of GDP), \$16.9 billion higher than estimated at the 2018-19 Budget.

The Government’s fiscal strategy is outlined in Box A.

Box A: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

- investing in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- maintaining strong fiscal discipline by controlling expenditure to reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
 - the payments-to-GDP ratio falling;
 - stabilising and then reducing net debt over time;
- supporting revenue growth by supporting policies that drive earnings and economic growth, while:
 - maintaining a sustainable tax burden consistent with the economic growth objective, including through maintaining the tax-to-GDP ratio at or below 23.9 per cent of GDP; and
- strengthening the Government's balance sheet by improving net financial worth over time.

Budget repair strategy

The budget repair strategy is designed to deliver sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy.

The strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and
- a clear path back to surplus is underpinned by decisions that build over time.

The budget repair strategy will stay in place until a strong and sustainable surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

FISCAL OUTLOOK

Budget aggregates

An **underlying cash deficit** of \$5.2 billion (0.3 per cent of GDP) is expected in 2018-19, improving to a forecast surplus of \$4.1 billion (0.2 per cent of GDP) in 2019-20 and a larger projected surplus of \$19.0 billion (0.9 per cent of GDP) in 2021-22.

In accrual terms, a **net operating surplus** of \$4.9 billion (0.3 per cent of GDP) is expected in 2018-19, improving to a larger projected surplus of \$29.8 billion (1.4 per cent of GDP) by the end of the forward estimates.

A **headline cash deficit** of \$18.3 billion (0.9 per cent of GDP) is expected in 2018-19, improving to a projected surplus of \$9.8 billion (0.5 per cent of GDP) in 2021-22.

Table 3.6 provides a summary of the cash flows of the Australian Government general government sector.

Table 3.6: Summary of Australian Government general government sector cash flows

	Estimates			
	2018-19		2019-20	
	Budget	MYEFO	Budget	MYEFO
	\$b	\$b	\$b	\$b
Cash receipts				
Operating cash receipts	473.0	481.4	502.0	504.5
Capital cash receipts(a)	0.7	0.7	1.6	1.5
Total cash receipts	473.7	482.1	503.7	506.0
Cash payments				
Operating cash payments	470.7	468.3	483.0	482.9
Capital cash payments(b)	14.0	15.1	14.5	14.4
Total cash payments	484.6	483.4	497.5	497.4
GFS cash surplus(+)/deficit(-)	-10.9	-1.3	6.2	8.7
Per cent of GDP	-0.6	-0.1	0.3	0.4
<i>less</i> Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
<i>less</i> Net Future Fund earnings(d)	3.6	3.9	3.9	4.6
Underlying cash balance(e)	-14.5	-5.2	2.2	4.1
Per cent of GDP	-0.8	-0.3	0.1	0.2
<i>Memorandum:</i>				
Net cash flows from investments in financial assets for policy purposes	-16.7	-17.0	-14.2	-15.8
<i>plus</i> Net Future Fund earnings(d)	3.6	3.9	3.9	4.6
Headline cash balance	-27.6	-18.3	-8.1	-7.2
Net Future Fund earnings(d)	3.6	3.9	3.9	4.6

Table 3.6: Summary of Australian Government general government sector cash flows (continued)

	Projections			
	2020-21		2021-22	
	Budget	MYEFO	Budget	MYEFO
	\$b	\$b	\$b	\$b
Cash receipts				
Operating cash receipts	525.2	526.2	553.8	554.6
Capital cash receipts(a)	0.2	0.2	0.2	0.2
Total cash receipts	525.5	526.4	554.0	554.8
Cash payments				
Operating cash payments	498.6	497.5	520.1	517.9
Capital cash payments(b)	15.9	16.4	17.2	18.0
Total cash payments	514.5	513.9	537.3	535.8
GFS cash surplus(+)/deficit(-)	11.0	12.5	16.6	19.0
Per cent of GDP	0.5	0.6	0.8	0.9
<i>less</i> Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
<i>less</i> Net Future Fund earnings(d)	na	na	na	na
Underlying cash balance(e)	11.0	12.5	16.6	19.0
Per cent of GDP	0.5	0.6	0.8	0.9
<i>Memorandum:</i>				
Net cash flows from investments in financial assets for policy purposes	10.0	-10.5	-8.8	-9.1
<i>plus</i> Net Future Fund earnings(d)	na	na	na	na
Headline cash balance	21.0	2.0	7.8	9.8
Net Future Fund earnings(d)	4.2	4.7	4.5	5.0

- (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 worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(d) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(e) Excludes expected net Future Fund earnings before 2020-21.

Underlying cash balance estimates

The estimated underlying cash deficit in 2018-19 has improved by \$9.3 billion compared with the 2018-19 Budget. Table 3.7 provides a reconciliation of the variations in the underlying cash balance since the 2018-19 Budget.

Table 3.7: Reconciliation of general government sector underlying cash balance estimates

	Estimates		Projections		Total
	2018-19	2019-20	2020-21	2021-22	
	\$m	\$m	\$m	\$m	\$m
2018-19 Budget underlying cash balance(a)	-14,462	2,234	10,957	16,619	15,348
Per cent of GDP	-0.8	0.1	0.5	0.8	
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(b)(c)(d)					
Receipts	611	-411	-2,366	-1,902	-4,068
Payments	2,515	3,561	3,288	2,877	12,240
Total policy decisions impact on underlying cash balance	-1,905	-3,971	-5,654	-4,778	-16,309
Effect of parameter and other variations(c)					
Receipts	7,742	2,109	2,509	1,829	14,189
Payments	-3,779	-4,372	-4,652	-5,285	-18,089
less Net Future Fund earnings(e)	327	633	na	na	961
Total parameter and other variations impact on underlying cash balance	11,194	5,848	7,161	7,114	31,317
2018-19 MYEFO underlying cash balance(a)	-5,172	4,110	12,464	18,954	30,357
Per cent of GDP	-0.3	0.2	0.6	0.9	
<i>Memorandum:</i>					
Net Future Fund earnings(e)	3,886	4,551	4,690	5,006	18,133
Effect of revenue policy decisions on GST					
Receipts	-15	653	786	896	2,320
Payments	-15	653	786	896	2,320

(a) Excludes expected net Future Fund earnings before 2020-21.

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

(c) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

(d) Excludes the impact of revenue policy decisions on GST.

(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Since the 2018-19 Budget, the effect of parameter and other variations has resulted in a \$14.2 billion increase in forecast receipts and an \$18.1 billion decrease in payments over the forward estimates.

Receipts estimates

Total receipts are expected to be \$8.3 billion higher in 2018-19 than estimated at the 2018-19 Budget. In 2018-19, tax receipts are \$7.2 billion higher and non-tax receipts are \$1.2 billion higher compared with the 2018-19 Budget.

Tables 3.8 and 3.9 provide a summary of changes in total receipts in 2018-19 and 2019-20.

Table 3.8: Reconciliation of 2018-19 general government sector (cash) receipts

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	201,800	205,800	4,000	2.0
Gross other individuals	46,700	46,300	-400	-0.9
<i>less: Refunds</i>	30,500	30,000	-500	-1.6
Total individuals and other withholding tax	218,000	222,100	4,100	1.9
Fringe benefits tax	4,220	3,820	-400	-9.5
Company tax	89,100	92,500	3,400	3.8
Superannuation fund taxes	10,310	10,710	400	3.9
Petroleum resource rent tax(a)	1,350	1,350	0	0.0
Income taxation receipts	322,980	330,480	7,500	2.3
Goods and services tax	67,527	66,789	-738	-1.1
Wine equalisation tax	990	1,030	40	4.0
Luxury car tax	740	700	-40	-5.4
Excise and customs duty				
Petrol	6,200	6,000	-200	-3.2
Diesel	11,330	11,550	220	1.9
Other fuel products	2,040	2,280	240	11.8
Tobacco	12,530	12,950	420	3.4
Beer	2,440	2,490	50	2.0
Spirits	2,290	2,350	60	2.6
Other alcoholic beverages(b)	1,000	1,000	0	0.0
Other customs duty				
Textiles, clothing and footwear	190	200	10	5.3
Passenger motor vehicles	530	450	-80	-15.1
Other imports	1,260	1,330	70	5.6
<i>less: Refunds and drawbacks</i>	420	500	80	19.0
Total excise and customs duty	39,390	40,100	710	1.8
Major bank levy	1,600	1,550	-50	-3.1
Agricultural levies	576	560	-16	-2.8
Other taxes	6,677	6,436	-241	-3.6
Indirect taxation receipts	117,500	117,165	-335	-0.3
Taxation receipts	440,480	447,645	7,165	1.6
Sales of goods and services	14,551	14,180	-371	-2.5
Interest received	4,257	4,397	140	3.3
Dividends	3,970	4,390	420	10.6
Other non-taxation receipts	10,487	11,471	984	9.4
Non-taxation receipts	33,265	34,438	1,173	3.5
Total receipts	473,745	482,084	8,338	1.8
<i>Memorandum:</i>				
<i>Total excise</i>	23,090	23,350	260	1.1
<i>Total customs duty</i>	16,300	16,750	450	2.8
<i>Capital gains tax(c)</i>	16,700	16,600	-100	-0.6

(a) This item includes a small amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

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

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

Table 3.9: Reconciliation of 2019-20 general government sector (cash) receipts

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	214,500	216,200	1,700	0.8
Gross other individuals	49,000	48,900	-100	-0.2
<i>less: Refunds</i>	34,900	34,600	-300	-0.9
Total individuals and other withholding tax	228,600	230,500	1,900	0.8
Fringe benefits tax	4,400	4,000	-400	-9.1
Company tax	93,000	95,500	2,500	2.7
Superannuation fund taxes	11,710	8,910	-2,800	-23.9
Petroleum resource rent tax	1,350	1,500	150	11.1
Income taxation receipts	339,060	340,410	1,350	0.4
Goods and services tax	69,995	69,195	-800	-1.1
Wine equalisation tax	950	1,100	150	15.8
Luxury car tax	760	720	-40	-5.3
Excise and customs duty				
Petrol	6,500	6,300	-200	-3.1
Diesel	12,130	12,350	220	1.8
Other fuel products	2,130	2,440	310	14.6
Tobacco	17,000	17,530	530	3.1
Beer	2,530	2,590	60	2.4
Spirits	2,370	2,410	40	1.7
Other alcoholic beverages(a)	1,250	1,050	-200	-16.0
Other customs duty				
Textiles, clothing and footwear	190	200	10	5.3
Passenger motor vehicles	540	440	-100	-18.5
Other imports	1,240	1,300	60	4.8
<i>less: Refunds and drawbacks</i>	420	500	80	19.0
Total excise and customs duty	45,460	46,110	650	1.4
Major bank levy	1,700	1,650	-50	-2.9
Agricultural levies	619	547	-72	-11.6
Other taxes	6,960	6,913	-46	-0.7
Indirect taxation receipts	126,444	126,236	-208	-0.2
Taxation receipts	465,504	466,646	1,142	0.2
Sales of goods and services	15,914	15,957	43	0.3
Interest received	5,290	5,413	123	2.3
Dividends	4,284	5,230	947	22.1
Other non-taxation receipts	12,674	12,771	97	0.8
Non-taxation receipts	38,162	39,371	1,209	3.2
Total receipts	503,666	506,018	2,351	0.5
<i>Memorandum:</i>				
<i>Total excise</i>	24,610	24,780	170	0.7
<i>Total customs duty</i>	20,850	21,330	480	2.3
<i>Capital gains tax(b)</i>	18,000	17,000	-1,000	-5.6

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

(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 3.10 shows the Australian Government general government cash receipts from 2017-18 to 2021-22 by heads of revenue.

Table 3.10: Australian Government general government sector (cash) receipts

	Actual	Estimates		Projections	
	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Individuals and other withholding taxes					
Gross income tax withholding	192,229	205,800	216,200	229,100	243,500
Gross other individuals	43,866	46,300	48,900	52,100	56,200
less: Refunds	29,102	30,000	34,600	35,600	37,300
Total individuals and other withholding tax	206,993	222,100	230,500	245,600	262,400
Fringe benefits tax	3,911	3,820	4,000	4,240	4,460
Company tax	84,591	92,500	95,500	97,700	100,700
Superannuation fund taxes	10,804	10,710	8,910	12,860	14,360
Petroleum resource rent tax(a)	1,116	1,350	1,500	1,500	1,500
Income taxation receipts	307,415	330,480	340,410	361,900	383,420
Goods and services tax	63,235	66,789	69,195	72,763	76,590
Wine equalisation tax	894	1,030	1,100	1,130	1,180
Luxury car tax	695	700	720	740	770
Excise and customs duty					
Petrol	6,098	6,000	6,300	6,500	6,800
Diesel	11,127	11,550	12,350	12,800	13,500
Other fuel products	2,109	2,280	2,440	2,460	2,530
Tobacco	11,879	12,950	17,530	16,020	16,660
Beer	2,451	2,490	2,590	2,640	2,720
Spirits	2,207	2,350	2,410	2,480	2,560
Other alcoholic beverages(b)	962	1,000	1,050	1,060	1,100
Other customs duty					
Textiles, clothing and footwear	200	200	200	210	220
Passenger motor vehicles	504	450	440	410	300
Other imports	1,211	1,330	1,300	1,150	1,090
less: Refunds and drawbacks	390	500	500	500	500
Total excise and customs duty	38,357	40,100	46,110	45,230	46,980
Major bank levy	1,139	1,550	1,650	1,750	1,850
Agricultural levies	555	560	547	588	593
Other taxes	5,764	6,436	6,913	7,134	7,455
Indirect taxation receipts	110,638	117,165	126,236	129,335	135,419
Taxation receipts	418,053	447,645	466,646	491,235	518,839
Sales of goods and services	9,941	14,180	15,957	16,174	16,760
Interest received	3,433	4,397	5,413	6,004	6,302
Dividends	5,407	4,390	5,230	5,055	5,632
Other non-taxation receipts	10,072	11,471	12,771	7,919	7,256
Non-taxation receipts	28,853	34,438	39,371	35,153	35,950
Total receipts	446,905	482,084	506,018	526,387	554,788
<i>Memorandum:</i>					
Total excise	22,703	23,350	24,780	25,500	26,700
Total customs duty	15,654	16,750	21,330	19,730	20,280
Capital gains tax(c)	15,600	16,600	17,000	18,000	19,100

(a) This item includes a small amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

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

(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2017-18 reported figure is an estimate.

Policy decisions

Policy decisions since the 2018-19 Budget have increased total receipts by \$0.6 billion in 2018-19 and reduced total receipts by \$1.7 billion over the forward estimates period. Key measures include:

- Extending the GST compliance program for a further four years. The activities undertaken as part of this program are estimated to increase GST receipts by \$2.3 billion over the forward estimates; and
- The Government is bringing forward tax relief for small and medium business, with an estimated reduction in receipts of \$3.2 billion over the forward estimates period, while not proceeding with tax relief for large companies is estimated to increase receipts by \$2.1 billion over the forward estimates.

Further details of Government policy decisions are provided in Appendix A.

Parameter and other variations

Parameter and other variations have increased total receipts since the 2018-19 Budget by \$7.7 billion in 2018-19 and \$14.2 billion over the forward estimates period.

Since the 2018-19 Budget, parameter and other variations have increased tax receipts by \$7.2 billion in 2018-19 and \$12.7 billion over the four years to 2021-22. Excluding GST, parameter and other variations have increased tax receipts by \$7.8 billion in 2018-19 and by \$18.3 billion over the four years to 2021-22. This revision reflects stronger-than-expected collections from individuals taxes and company tax, stronger employment growth projections and higher growth in corporate profits in 2018-19, particularly mining company profits.

Parameter and other variations have increased non-taxation receipts since the 2018-19 Budget by \$573 million in 2018-19 and \$1.5 billion over the forward estimates period, largely reflecting increases in resource royalties, dividends from the Reserve Bank of Australia, and 3.6 GHz spectrum sales.

The key economic parameters that influence tax receipts and tax revenue are shown in Table 3.11. The table shows effects of the changed circumstances and outlook since the 2018-19 Budget on the Australian Government's main tax bases.

Table 3.11: Key economic parameters for revenue^(a)

	Outcome	Estimates		Projections	
	2017-18	2018-19	2019-20	2020-21	2021-22
Nominal gross domestic product	4.7	4 3/4	3 1/2	4 1/4	4 1/4
Change since 2018-19 Budget	0.3	1	-1 1/4	- 1/4	- 1/4
Compensation of employees(b)	4.5	4	4 1/2	5	5 1/4
Change since 2018-19 Budget	0.1	- 1/2	0	1/4	1/4
Corporate gross operating surplus(c)	7.4	7 1/2	0	2 3/4	2
Change since 2018-19 Budget	0.3	4 1/4	-4 1/2	- 1/4	-1 1/4
Non-farm gross mixed income	1.7	6	4 3/4	4 3/4	4 1/4
Change since 2018-19 Budget	-2.4	3	-2 1/2	- 3/4	0
Property income(d)	2.6	5 1/4	7 3/4	4 1/2	4 1/2
Change since 2018-19 Budget	-1.4	-2	1/4	- 1/4	- 1/4
Consumption subject to GST	4.0	4 1/4	5 1/4	5 1/4	5 1/4
Change since 2018-19 Budget	0.0	- 1/2	- 1/4	0	0

(a) Current prices, per cent change on previous year. Changes since the 2018-19 Budget are percentage points.

(b) Compensation of employees measures total remuneration earned by employees.

(c) Corporate gross operating surplus is an Australian System of National Accounts measure of company profits, gross of depreciation.

(d) Property income measures income derived from interest, rent and dividends.

Excluding policy decisions, individuals taxes have been revised up by \$4.1 billion (1.9 per cent) in 2018-19 and \$13.8 billion over the four years to 2021-22. This largely reflects upward revisions to gross income tax withholding. Stronger-than-expected collections since Budget and higher employment growth in the projection years drive the upward revision to individuals tax receipts.

Excluding policy decisions, company tax receipts have been revised up by \$3.4 billion (3.8 per cent) in 2018-19 and \$6.3 billion over the four years to 2021-22, reflecting stronger-than-expected collections since the Budget and higher forecast growth in corporate profits in 2018-19, particularly mining company profits. This strength moderates over the four years to 2021-22, in line with an assumed decline in commodity prices. While not proceeding with tax reductions for large companies contributes to higher receipts in 2019-20, the acceleration of tax relief for small and medium businesses provides some offset from 2020-21.

Excluding policy decisions, goods and services tax receipts have been revised down by \$0.7 billion in 2018-19 and \$5.8 billion over the four years to 2021-22. This largely reflects weaker-than-expected collections since Budget, and lower forecasts for growth of consumption subject to GST and dwelling investment. The higher revenue associated with the decisions to extend GST compliance activities provides some offset to the downward revisions to goods and services tax receipts.

Excluding policy decisions, superannuation fund taxes have been revised up by \$0.4 billion in 2018-19 and revised down \$2.4 billion over the four years to 2021-22.

Excluding policy decisions, excise and customs duties have been revised up by \$0.7 billion in 2018-19 and \$3.1 billion over the four years to 2021-22, largely driven by tobacco, diesel and other fuels excise.

Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in Attachment A to this part.

The 2018-19 MYEFO continues to include provisions for a number of Free Trade Agreements (FTAs) which have not been finalised:

- Environmental Goods Agreement;
- Australia-Gulf Cooperation Council FTA;
- Australia-India Comprehensive Economic Cooperation Agreement;
- Regional Comprehensive Economic Partnership;
- Australia's accession to the World Trade Organisation Government Procurement Agreement;
- Indonesia-Australia Comprehensive Economic Partnership Agreement;
- Australia-Hong Kong Free Trade Agreement;
- Pacific Alliance Free Trade Agreement; and
- Australia-European Union Free Trade Agreement.

Payments estimates

Since the 2018-19 Budget, total cash payments have decreased by \$1.3 billion in 2018-19 and by \$3.5 billion over the four years to 2021-22.

Policy decisions

The overall net impact of payment-related decisions (excluding the impact of Senate positions and reductions as a result of non-economic parameter and other variations) has decreased total cash payments by \$423 million over the four years to 2021-22.

Part 3: Fiscal strategy and outlook

Major increases in payments as a result of policy decisions since the 2018-19 Budget include:

- providing additional payments to the states and territories as part of reforms aimed at strengthening the GST distribution system against economic shocks and reducing volatility in GST relativities and through a continuation of GST compliance activities to ensure businesses meet their tax obligations, which is expected to increase payments to the states by \$4.7 billion over the four years to 2021-22;
- establishing a Community Health and Hospitals Program, which will fund projects and services in every state and territory, supporting patient care while reducing pressure on community and hospital services, which is expected to increase payments by \$1.3 billion over the four years to 2021-22; and
- implementing the recommendations of the National School Resourcing Boards' *Review of the socio-economic status score methodology* to ensure funding to non-government schools flows to students who need it most, which is expected to increase payments by \$1.2 billion over the four years to 2021-22.

Major decreases in payments as a result of policy decisions since the 2018-19 Budget include:

- adjusting the growth in funding available under the Research Block Grants scheme, which is expected to decrease payments by \$197 million over the four years to 2021-22;
- requiring pension recipients living permanently overseas to verify every two years they remain eligible to continue to receive their payment, which is expected to decrease payments by \$154 million over the four years to 2021-22; and
- improving the integrity of payments to family day care services through further compliance efforts aimed at improving the integrity of the Child Care Subsidy, which is expected to decrease payments by \$130 million over the four years to 2021-22.

Parameter and other variations

Parameter and other variations have decreased cash payments since the 2018-19 Budget by \$3.8 billion in 2018-19 and \$18.1 billion over the four years to 2021-22.

Major decreases in cash payments as a result of parameter and other variations since the 2018-19 Budget include:

- payments relating to provision of GST to the states and territories, which are expected to decrease by \$992 million in 2018-19 (\$5.9 billion over the four years to 2021-22), consistent with a decrease in GST receipts;
- payments related to the Family Tax Benefit program, which are expected to decrease by \$611 million in 2018-19 (\$1.7 billion over the four years to 2021-22), largely reflecting lower-than-expected recipient numbers as a result of a strong labour market, previously announced Government measures and lower average payment rates due to higher-than-projected income growth as a result of improved economic conditions;
- payments related to the Income Support for Seniors program, which are expected to decrease by \$458 million in 2018-19 (\$3.5 billion over the four years to 2021-22), largely reflecting lower-than-expected recipient numbers as a result of previously announced Government measures aimed at improving the targeting of payments to those most in need, including the ongoing impact of the previously implemented measure to increase the Age Pension qualifying age to 67 years of age;
- payments related to Commonwealth Debt Management, which are expected to decrease by \$324 million in 2018-19 (\$2.4 billion over the four years to 2021-22), largely reflecting the lower-than-expected issuance across the four years to 2021-22 as a result of the improved underlying cash balance together with lower-than-expected cost of servicing Commonwealth Government Securities on issue; and
- payments related to the Job Seeker Income Support program, which are expected to decrease by \$283 million in 2018-19 (\$1.1 billion over the four years to 2021-22), largely reflecting a decrease in the estimated number of unemployment benefit recipients as a result of a stronger labour market and Government policies aimed at ensuring fewer Australians move onto welfare and more move from welfare to work.

Part 3: Fiscal strategy and outlook

Major increases in cash payments as a result of parameter and other variations since the 2018-19 Budget include:

- payments related to the Military Rehabilitation and Compensation Act — Income Support and Compensation program, which are expected to increase by \$569 million in 2018-19 (\$1.6 billion over the four years to 2021-22), largely reflecting an increase in the number of permanent impairment claims and higher-than-forecast growth in average payments;
- payments to the states and territories for remote housing, which are expected to increase by \$389 million in 2018-19, largely reflecting updated expenses which were incurred in the 2017-18 financial year but are being paid in the 2018-19 financial year;
- payments to the Western Australian Government under the Royalty Payments — Offshore Petroleum and Greenhouse Gas program, which are expected to increase by \$176 million in 2018-19 (\$717 million over the four years to 2021-22), largely reflecting increased royalties as a result of revised price assumptions;
- payments related to the Fuel Tax Credits Scheme, which are expected to increase by \$83 million in 2018-19 (\$570 million over the four years to 2021-22), largely reflecting higher-than-expected usage of fuels that are eligible for the Fuel Tax Credits Scheme; and
- payments related to the Income Support for Carers program, which are expected to increase by \$58 million in 2018-19 (\$363 million over the four years to 2021-22), largely reflecting higher-than-expected average payment rates.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided at Attachment C to this part.

Analysis of the sensitivity of the payments estimates to changes in the economic outlook is provided in Attachment A to this part.

Net operating balance estimates

Table 3.12 provides a reconciliation of net operating balance estimates, including the impact of policy decisions and parameter and other variations on revenue and expenses since the 2018-19 Budget.

The net operating balance is expected to reach to a surplus of \$4.9 billion (0.3 per cent of GDP) in 2018-19, increasing further to a projected surplus of \$29.8 billion (1.4 per cent of GDP) in 2021-22. This reflects that recurrent spending is more than fully funded by revenue in 2018-19 and over the forward estimates.

Table 3.12: Reconciliation of general government sector net operating balance estimates

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
2018-19 Budget net operating balance	-2,443	8,623	19,633	27,383	53,196
Per cent of GDP	-0.1	0.4	0.9	1.3	
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)(b)					
<i>Revenue</i>	60	302	-2,006	-1,474	-3,118
<i>Expenses</i>	1867	4,695	4,559	4,018	15,140
Total policy decisions impact on net operating balance	-1,807	-4,393	-6,565	-5,492	-18,258
Effect of parameter and other variations(b)					
<i>Revenue</i>	7,087	1,408	2,312	1,602	12,409
<i>Expenses</i>	-2,089	-4,475	-5,021	-6,296	-17,881
Total parameter and other variations impact on net operating balance	9,176	5,883	7,333	7,897	30,290
2018-19 MYEFO net operating balance	4,926	10,113	20,401	29,788	65,228
Per cent of GDP	0.3	0.5	1.0	1.4	
<i>Net capital investment</i>					
Effect of net capital investment(c)	6,826	5,776	8,071	9,798	30,471
2018-19 MYEFO fiscal balance	-1,901	4,337	12,330	19,990	34,757
Per cent of GDP	-0.1	0.2	0.6	0.9	

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

(b) A positive number for revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.

(c) A positive number for net capital investment worsens the fiscal balance.

Revenue estimates

Total revenue has been revised up by \$7.1 billion in 2018-19 since the 2018-19 Budget.

While changes in tax revenue (measured when the obligation to pay tax is incurred) are generally driven by the same factors as tax receipts (measured when the tax is collected), there are differences as not all revenue raised in a given year is actually paid in that year. These differences exist for most revenue heads and vary across years.

Detailed Australian Government general government sector revenue estimates for 2018-19 and 2019-20, compared with estimates from the 2018-19 Budget, are provided in Tables 3.13 and 3.14 respectively. Table 3.15 shows the Australian Government general government revenue from 2017-18 to 2021-22 by heads of revenue.

Table 3.13: Reconciliation of 2018-19 general government sector (accrual) revenue

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	203,800	207,600	3,800	1.9
Gross other individuals	49,600	49,500	-100	-0.2
less: Refunds	30,500	30,000	-500	-1.6
Total individuals and other withholding tax	222,900	227,100	4,200	1.9
Fringe benefits tax	4,310	3,930	-380	-8.8
Company tax	91,200	94,500	3,300	3.6
Superannuation fund taxes	10,360	10,670	310	3.0
Petroleum resource rent tax(a)	1,420	1,480	60	4.2
Income taxation revenue	330,190	337,680	7,490	2.3
Goods and services tax	70,310	69,180	-1,130	-1.6
Wine equalisation tax	1,010	1,050	40	4.0
Luxury car tax	740	700	-40	-5.4
Excise and customs duty				
Petrol	6,210	6,010	-200	-3.2
Diesel	11,350	11,570	220	1.9
Other fuel products	2,040	2,280	240	11.8
Tobacco	12,720	12,950	230	1.8
Beer	2,440	2,495	55	2.3
Spirits	2,290	2,350	60	2.6
Other alcoholic beverages(b)	1,000	1,000	0	0.0
Other customs duty				
Textiles, clothing and footwear	190	200	10	5.3
Passenger motor vehicles	530	450	-80	-15.1
Other imports	1,270	1,330	60	4.7
less: Refunds and drawbacks	420	500	80	19.0
Total excise and customs duty	39,620	40,135	515	1.3
Major bank levy	1,700	1,650	-50	-2.9
Agricultural levies	575	561	-15	-2.5
Other taxes	7,856	7,041	-815	-10.4
Indirect taxation revenue	121,811	120,317	-1,494	-1.2
Taxation revenue	452,001	457,997	5,996	1.3
Sales of goods and services	14,490	14,024	-466	-3.2
Interest	4,442	4,810	368	8.3
Dividends	4,126	4,648	523	12.7
Other non-taxation revenue	11,082	11,809	727	6.6
Non-taxation revenue	34,140	35,292	1,151	3.4
Total revenue	486,141	493,288	7,147	1.5
<i>Memorandum:</i>				
Total excise	23,120	23,385	265	1.1
Total customs duty	16,500	16,750	250	1.5
Capital gains tax(c)	16,700	16,600	-100	-0.6

(a) This item includes a small amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

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

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

Table 3.14: Reconciliation of 2019-20 general government sector (accrual) revenue

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	216,600	217,900	1,300	0.6
Gross other individuals	52,000	51,900	-100	-0.2
less: Refunds	34,900	34,600	-300	-0.9
Total individuals and other withholding tax	233,700	235,200	1,500	0.6
Fringe benefits tax	4,490	4,110	-380	-8.5
Company tax	94,900	97,300	2,400	2.5
Superannuation fund taxes	11,770	8,960	-2,810	-23.9
Petroleum resource rent tax	1,330	1,520	190	14.3
Income taxation revenue	346,190	347,090	900	0.3
Goods and services tax	72,750	71,650	-1,100	-1.5
Wine equalisation tax	970	1,120	150	15.5
Luxury car tax	760	720	-40	-5.3
Excise and customs duty				
Petrol	6,390	6,190	-200	-3.1
Diesel	11,930	12,150	220	1.8
Other fuel products	2,100	2,410	310	14.8
Tobacco	17,270	17,500	230	1.3
Beer	2,470	2,525	55	2.2
Spirits	2,370	2,410	40	1.7
Other alcoholic beverages(a)	1,250	1,050	-200	-16.0
Other customs duty				
Textiles, clothing and footwear	190	200	10	5.3
Passenger motor vehicles	540	440	-100	-18.5
Other imports	1,250	1,300	50	4.0
less: Refunds and drawbacks	420	500	80	19.0
Total excise and customs duty	45,340	45,675	335	0.7
Major bank levy	1,800	1,750	-50	-2.8
Agricultural levies	589	578	-11	-1.8
Other taxes	8,243	8,182	-60	-0.7
Indirect taxation revenue	130,451	129,675	-776	-0.6
Taxation revenue	476,641	476,765	124	0.0
Sales of goods and services	15,802	15,833	32	0.2
Interest	5,521	5,785	264	4.8
Dividends	4,604	5,420	816	17.7
Other non-taxation revenue	10,227	10,701	474	4.6
Non-taxation revenue	36,154	37,739	1,586	4.4
Total revenue	512,795	514,505	1,710	0.3
<i>Memorandum:</i>				
<i>Total excise</i>	24,210	24,375	165	0.7
<i>Total customs duty</i>	21,130	21,300	170	0.8
<i>Capital gains tax(b)</i>	18,000	17,000	-1,000	-5.6

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

(b) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes.

Table 3.15: Australian Government general government sector (accrual) revenue

	Actual	Estimates		Projections	
	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m
Individuals and other withholding taxes					
Gross income tax withholding	193,809	207,600	217,900	230,700	245,300
Gross other individuals	46,768	49,500	51,900	55,100	59,500
less: Refunds	29,102	30,000	34,600	35,600	37,300
Total individuals and other withholding tax	211,475	227,100	235,200	250,200	267,500
Fringe benefits tax	3,813	3,930	4,110	4,350	4,570
Company tax	85,770	94,500	97,300	98,700	101,900
Superannuation fund taxes	10,927	10,670	8,960	12,910	14,410
Petroleum resource rent tax(a)	993	1,480	1,520	1,510	1,520
Income taxation revenue	312,978	337,680	347,090	367,670	389,900
Goods and services tax	65,282	69,180	71,650	75,437	79,425
Wine equalisation tax	903	1,050	1,120	1,150	1,200
Luxury car tax	735	700	720	740	770
Excise and customs duty					
Petrol	6,114	6,010	6,190	6,500	6,800
Diesel	11,157	11,570	12,150	12,810	13,510
Other fuel products	2,113	2,280	2,410	2,460	2,530
Tobacco	11,914	12,950	17,500	15,750	16,660
Beer	2,456	2,495	2,525	2,640	2,720
Spirits	2,209	2,350	2,410	2,480	2,560
Other alcoholic beverages(b)	964	1,000	1,050	1,060	1,100
Other customs duty					
Textiles, clothing and footwear	200	200	200	210	220
Passenger motor vehicles	504	450	440	410	300
Other imports	1,211	1,330	1,300	1,150	1,090
less: Refunds and drawbacks	390	500	500	500	500
Total excise and customs duty	38,453	40,135	45,675	44,970	46,990
Major bank levy	1,527	1,650	1,750	1,850	1,950
Agricultural levies	564	561	578	588	598
Other taxes	6,961	7,041	8,182	8,458	8,786
Indirect taxation revenue	114,425	120,317	129,675	133,193	139,719
Taxation revenue	427,403	457,997	476,765	500,863	529,619
Sales of goods and services	9,770	14,024	15,833	16,076	16,658
Interest	3,317	4,810	5,785	6,489	6,842
Dividends	5,086	4,648	5,420	5,354	6,155
Other non-taxation revenue	10,704	11,809	10,701	9,404	9,067
Non-taxation revenue	28,878	35,292	37,739	37,323	38,721
Total revenue	456,280	493,288	514,505	538,186	568,341
<i>Memorandum:</i>					
<i>Total excise</i>	22,763	23,385	24,375	25,510	26,710
<i>Total customs duty</i>	15,690	16,750	21,300	19,460	20,280
<i>Capital gains tax(c)</i>	15,600	16,600	17,000	18,000	19,100

(a) This item includes a small amount of MRRT receipts which has not been separately disclosed owing to taxpayer confidentiality.

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

(c) 'Capital gains tax' is part of gross other individuals, company tax and superannuation fund taxes. The 2017-18 reported figure is an estimate.

Expense estimates

Movements in accrual expenses over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement; and
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Estimates of Australian Government general government sector expenses by function can be found in Attachment C to this part.

Table 3.16 provides a reconciliation of expense estimates.

Table 3.16 Reconciliation of general government sector expense estimates

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
2018-19 Budget expenses	488,584	504,171	518,247	540,830	2,051,833
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	1,867	4,695	4,559	4,018	15,140
Effect of economic parameter variations					
Total economic parameter variations	-1,144	-1,674	-1,949	-1,364	-6,131
<i>Unemployment benefits</i>	-545	-566	-568	-550	-2,229
<i>Prices and wages</i>	-42	-456	-681	-819	-1,999
<i>Interest and exchange rates</i>	134	128	211	255	728
<i>GST payments to the states</i>	-690	-780	-910	-250	-2,630
Public debt interest	-576	-851	-790	-764	-2,981
Program specific parameter variations	-390	-1,068	-1,620	-2,618	-5,697
Other variations	21	-882	-662	-1,549	-3,072
Total variations	-221	220	-462	-2,278	-2,741
2018-19 MYEFO expenses	488,363	504,392	517,785	538,552	2,049,092

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

Net capital investment estimates

Table 3.17 provides a reconciliation of the net capital investment estimates.

Table 3.17: Reconciliation of general government sector net capital investment estimates

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
2018-19 Budget net capital investment	4,989	4,923	6,720	8,000	24,632
Changes from 2018-19 Budget to 2018-19 MYEFO					
Effect of policy decisions(a)	118	105	132	118	473
Effect of parameter and other variations	1,720	748	1,219	1,680	5,366
Total variations	1,838	853	1,351	1,798	5,839
2018-19 MYEFO net capital investment	6,826	5,776	8,071	9,798	30,471

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

Headline cash balance

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 Limited) and net Future Fund earnings. Table 3.18 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2018-19 is estimated to have improved by around \$9.2 billion to a deficit of \$18.3 billion, compared with a deficit of \$27.6 billion at the 2018-19 Budget. Over the four years to 2021-22, the headline cash deficit has increased by around \$6.8 billion. The increase in the headline cash deficit since the 2018-19 Budget has been primarily driven by the Government's decision to extend the term of the existing Commonwealth Loan Agreement with NBN Co Limited to 30 June 2024, partially offset by the improvement in the underlying cash balance.

Table 3.18: Reconciliation of general government sector underlying and headline cash balance estimates

	Estimates		Projections		Total
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	
2018-19 MYEFO underlying cash balance(a)	-5,172	4,110	12,464	18,954	30,357
plus Net cash flows from investments in financial assets for policy purposes					
Student loans	-4,686	-4,371	-4,264	-4,149	-17,470
NBN loan	-7,904	-5,790	-275	0	-13,969
WestConnex	-576	-85	0	0	-661
Trade support loans	-139	-117	-90	-62	-408
CEFC loans and investments	-1,029	-760	-554	96	-2,247
Northern Australia Infrastructure Facility	-238	-1,238	-1,891	-1,458	-4,825
Drought and rural assistance loans	-355	-373	-401	-435	-1,564
Water infrastructure and regional development loans	-356	-565	-500	-200	-1,621
Official Development Assistance - Multilateral Replenishment	-207	-210	-174	-158	-749
National Housing Finance and Investment Corporation	-351	-406	-331	-246	-1,334
Net other(b)	-1,201	-1,923	-2,029	-2,497	-7,650
Total net cash flows from investments in financial assets for policy purposes	-17,042	-15,837	-10,508	-9,109	-52,497
plus Net Future Fund earnings(c)	3,886	4,551	na	na	8,438
2018-19 MYEFO headline cash balance	-18,329	-7,175	1,956	9,845	-13,703
<i>Memorandum:</i>					
<i>Net Future Fund earnings(c)</i>	3,886	4,551	4,690	5,006	18,133

(a) Excludes expected net Future Fund earnings before 2020-21.

(b) Net other includes proposed equity payments for infrastructure projects. The amounts have not been itemised for commercial-in-confidence reasons.

(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

Recurrent and capital spending

Table 3.19 outlines estimates of the Government's recurrent and capital spending from 2018-19 to 2021-22.

Table 3.19: The Government's recurrent and capital spending^{(a)(b)}

	Estimates		Projections	
	2018-19 \$b	2019-20 \$b	2020-21 \$b	2021-22 \$b
Recurrent spending				
Operating payments	309.9	322.5	331.9	346.5
Recurrent grants	82.6	83.3	85.7	87.2
Total recurrent spending	392.5	405.8	417.5	433.7
Capital spending				
Direct capital investment(c)	15.1	14.4	16.4	18.0
Capital grants	9.5	8.1	7.4	7.1
Financial asset investments(d)	20.8	19.9	15.5	14.9
Total capital spending	45.4	42.5	39.3	39.9

(a) Data has been revised in the 2018-19 Mid-Year Economic and Fiscal Outlook to improve accuracy and comparability through time.

(b) General Revenue Assistance is excluded from this analysis.

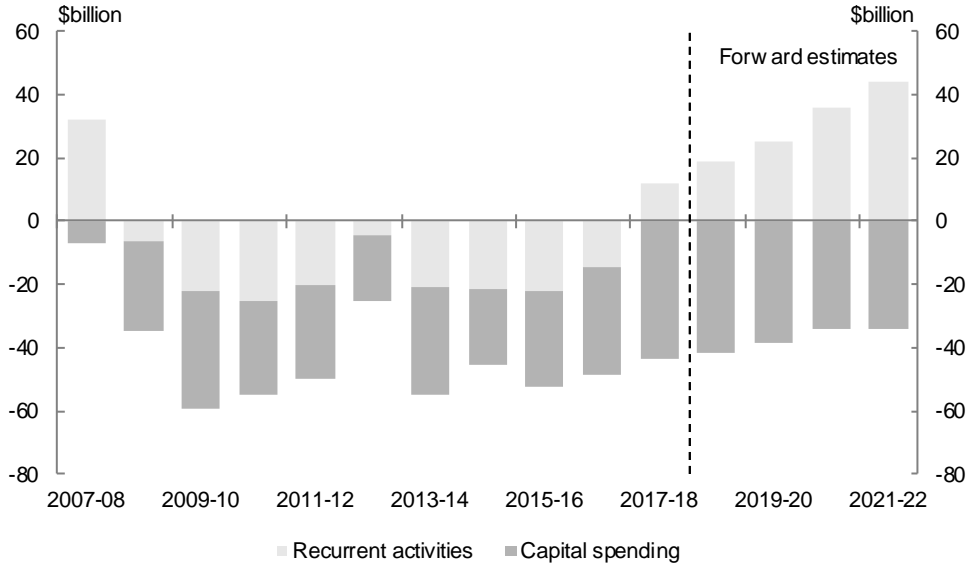
(c) Non-financial asset purchases and net acquisition of assets under finance leases.

(d) Investments in financial assets for policy purposes is presented on a gross basis.

Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes. Capital spending includes the purchase of land and buildings, software and other facilities, grants made for capital purposes and specific purpose payments to states for capital purposes.

Chart 3.5 sets out estimates of the Government's annual borrowing for capital spending and recurrent cash spending. It does this by analysing the net cash flows from recurrent activities (i.e. receipts less recurrent spending) and the cash flows for capital investment.

Chart 3.5: Contributions of recurrent and capital spending to the Government's borrowing requirement



Note: Net capital spending includes spending to acquire physical assets, net spending to acquire financial assets and capital grants to the states and other entities.

In 2017-18, net cash flows from recurrent activities were in surplus for the first time since the Global Financial Crisis, and are expected to further improve over every year of the forward estimates. This means that in 2017-18 and over the forward estimates, recurrent spending is expected to be fully funded by receipts and will not need to be funded by new Commonwealth borrowing. Instead, the Government's borrowing is funding capital spending that strengthens the productive capacity of the economy.

As the budget returns to surplus in 2019-20, the positive cash flow from recurrent activities will increasingly contribute to funding capital spending, reducing the Government's borrowing requirement. From 2020-21 onwards, the surplus from recurrent activities is expected to not only fully fund capital spending, but also to pay down gross debt. Gross debt is projected to decline over the medium term.

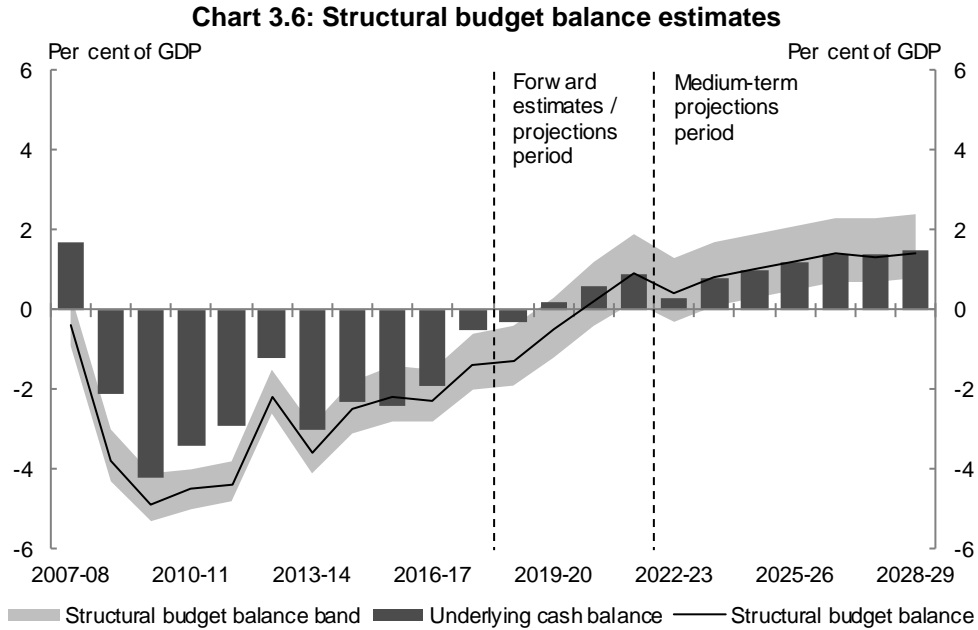
Structural budget balance

Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium-term fiscal strategy.

The structural budget balance estimates seek to remove factors that have a temporary impact on revenues and expenses, such as fluctuations in commodity prices and the extent to which economic output deviates from its potential level. Considered in conjunction with other measures, estimates of the structural budget balance can provide insight into the sustainability of current fiscal settings.

Part 3: Fiscal strategy and outlook

Consistent with the 2018-19 Budget, the overall level of the structural budget balance improves from a deficit of around 1.3 per cent of GDP in 2018-19 to a series of surpluses from 2020-21 onwards, before converging with the underlying cash balance at the end of the medium term (see Chart 3.6).



Note: The methodology for producing structural budget balance estimates was detailed in Treasury Working Paper 2013-01 and incorporates the medium-term projection methodology detailed in Treasury Working Paper 2014-02.