STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

After more than a decade of budget deficits, the Government is delivering a surplus in 2019-20, reflecting a sound economy and the Government's prudent fiscal management. The budget position will continue to improve with sustained surpluses projected to exceed 1 per cent of GDP in the medium term.

The Government's continued focus on spending restraint has ensured that surpluses are being delivered while at the same time providing lower taxes for hard-working Australians, and guaranteeing the essential services Australians rely on.

The Government will bring the payments-to-GDP ratio down to below historical averages from 2019-20 onwards. Tax receipts as a share of GDP are expected to be 23.3 per cent in 2019-20 and remain below the Government's 23.9 per cent tax-to-GDP cap until 2029-30.

As the budget returns to surplus, the Government will focus on strengthening the balance sheet through public debt reduction to ensure the longer-term sustainability of the budget. Paying down public debt ensures that the Government is better equipped to deal with future challenges and reduces the burden of debt on future generations.

Net debt is expected to decline in each year of the forward estimates and the medium term and is projected to be eliminated by 2029-30.

Gross debt is expected to be 27.9 per cent of GDP in 2019-20 and is projected to fall below its 30 year average to 12.8 per cent of GDP by the end of the medium term.

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STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

After a decade of deficits, the budget is returning to surplus in 2019-20 with an underlying cash surplus of $7.1 billion, equal to 0.4 per cent of GDP. Surpluses are expected to build across the forward estimates period, with cumulative surpluses of $45 billion expected over this period.

The net operating balance is expected to be in surplus for a second consecutive year, with a surplus of $12.9 billion expected in 2019-20 and sustainable surpluses expected across the forward estimates. Budget aggregates are shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
Underlying cash balance ($b)(b)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Net operating balance ($b)	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	

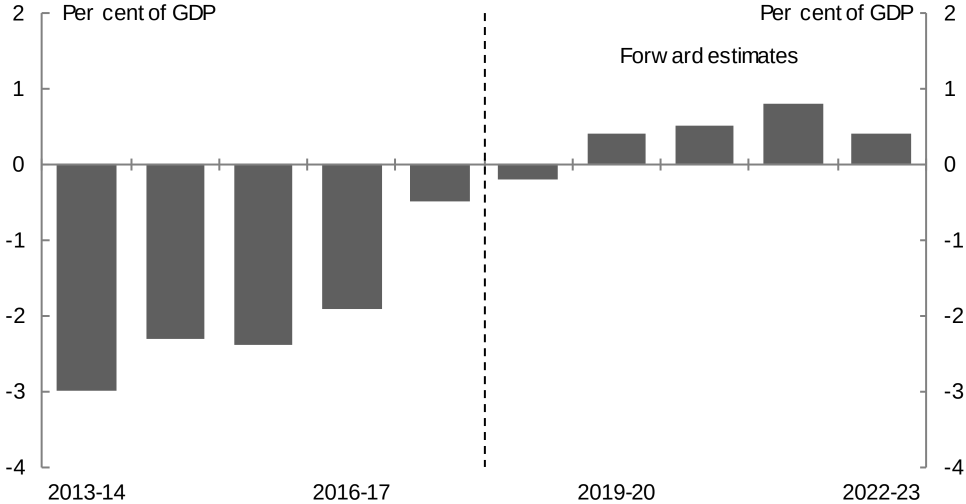
(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.

The Government remains focused on controlling growth in government spending. As a proportion of GDP, payments are forecast to fall below the historical average of 24.7 per cent from 2019-20. Real growth in spending is expected to average 1.9 per cent between 2013-14 and 2022-23, the lowest of any government in 50 years.

The Government has continued to pursue savings to make room for new spending priorities. Since 2013-14, the Government has implemented savings measures with a combined effect of more than $200 billion through to 2022-23.

The Government has charted a responsible path back to surplus with the total turnaround in the underlying cash balance between 2013-14 and 2019-20 expected to be $55.5 billion, or 3.4 per cent of GDP, as shown in Chart 1.

Chart 1: Underlying cash balance to GDP since 2013-14



(a) The underlying cash balance includes expected net Future Fund earnings from 2020-21.

As the budget returns to surplus, the Government will focus on strengthening the balance sheet and public debt reduction to ensure the sustainability of the budget. Paying down debt ensures the Government is better equipped to deal with future challenges and reduces the burden of debt on future generations.

Net debt is expected to decline in each year of the forward estimates and the medium term, falling from 18 per cent of GDP in 2019-20 to a projected zero per cent by 2029-30. Net financial worth is expected to improve from –24.3 per cent of GDP in 2019-20 to -19.7 per cent of GDP in 2022-23, before improving further to -3.3 per cent of GDP in 2029-30.

Gross debt as a percentage of GDP is expected to decline in each year of the forward estimates and the medium term, falling from 27.9 per cent in 2019-20 to a projected 12.8 per cent of GDP by 2029-30, below the 30 year average of around 15 per cent.

FISCAL STRATEGY

The fiscal strategy underlies the Government's commitment to investing in Australia's future by strengthening the economy while keeping taxes low and guaranteeing essential services.

The Government's fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. Reaching surplus in 2019-20 after a decade of deficits has required strong fiscal discipline and consistently pursuing a strategy of budget repair.

As the budget returns to surplus in 2019-20, and with surpluses projected over the medium term, the Government will focus on strengthening the balance sheet and reducing debt.

Maintaining debt at prudent levels is an important element of improving the strength and sustainability of the Government's financial position. It provides the Government with flexibility to respond to changing economic conditions and also ensures that future generations are not burdened by excessive debt from past government spending.

The Government is continuing to reduce government borrowing as a share of the economy over time. Both net debt and gross debt are falling as a share of the economy across the forward estimates and medium term. The Government is on track to eliminate net debt by 2029-30. *Statement 6: Debt Statement, Assets and Liabilities* provides further information on the Government's debt, assets and liabilities**.**

The Government remains focused on managing the budget responsibly and supporting a stronger economy, through policies that drive earnings and economic growth. Consistent with the fiscal strategy, the Government is continuing to invest in quality infrastructure to boost growth and productivity. The Government will continue to control growth in government spending and offset new measures with reductions in spending from elsewhere in the budget.

The Government's tax-to-GDP cap of 23.9 per cent is a key part of its plan to support stronger economic growth. The cap ensures the Government lives within its means by not imposing an increasing tax burden on Australians over time, which would adversely affect growth, costing jobs and investment. The 23.9 per cent cap represents the average level of tax receipts following the introduction of the GST and prior to the onset of the Global Financial Crisis.

A sound budget has allowed the Government to deliver record spending on essential services without increasing taxes, while still providing the flexibility to respond to challenges as they arise.

The Government's fiscal strategy is consistent with the requirements of the *Charter of Budget Honesty Act 1998* and is set out in Box 1.

Box 1: 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.

Returning the budget to surplus

An underlying cash surplus of $7.1 billion (0.4 per cent of GDP) is forecast in 2019-20. Sustainable surpluses are expected to continue across the forward estimates as shown in Table 2.

Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**446.9**	**485.2**	**505.5**	**522.3**	**551.0**	**566.9**	**2,145.7**
Per cent of GDP	24.2	25.0	25.2	25.1	25.4	25.0	
Payments(b)	**452.7**	**482.7**	**493.3**	**511.3**	**533.2**	**557.7**	**2,095.6**
Per cent of GDP	24.5	24.9	24.6	24.6	24.5	24.5	
Net Future Fund earnings(c)	4.3	6.6	5.1	na	na	na	5.1
Underlying cash balance(d)	**-10.1**	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**	**45.0**
Per cent of GDP	-0.5	-0.2	0.4	0.5	0.8	0.4	
Revenue	**456.3**	**495.8**	**513.8**	**534.3**	**564.7**	**580.5**	**2,193.2**
Per cent of GDP	24.7	25.6	25.6	25.7	26.0	25.6	
Expenses	**460.3**	**487.3**	**500.9**	**516.1**	**535.9**	**559.9**	**2,112.8**
Per cent of GDP	24.9	25.1	25.0	24.8	24.7	24.6	
Net operating balance	**-4.0**	**8.5**	**12.9**	**18.2**	**28.8**	**20.6**	**80.4**
Per cent of GDP	-0.2	0.4	0.6	0.9	1.3	0.9	
Net capital investment	1.3	6.5	4.7	7.7	9.7	10.8	33.0
Fiscal balance	**-5.3**	**2.0**	**8.1**	**10.4**	**19.1**	**9.8**	**47.5**
Per cent of GDP	-0.3	0.1	0.4	0.5	0.9	0.4	
Memorandum items:							
Net Future Fund earnings(c)	4.3	6.6	5.1	5.2	5.6	6.2	22.2
Headline cash balance	-25.9	-12.7	-4.4	-0.5	7.9	2.5	5.6

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(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.
(d) Excludes expected net Future Fund earnings before 2020-21.

The Government's continued focus on spending restraint has contributed to the budget returning to surplus. Compared with the 2018-19 Budget, total nominal payments estimates are lower in each year of the forward estimates and $21.2 billion lower in total over the four years from 2019-20. The payments-to-GDP ratio is expected to be 24.6 per cent in 2019-20, falling to 24.5 per cent from 2021-22, below the 30 year average of 24.7 per cent. As a result of decisions to control growth in government spending, average annual real growth in payments over the four years from 2019-20 is expected to be 1.3 per cent and 1.9 per cent over the period since the Government was elected in 2013 – the lowest of any Commonwealth government in 50 years.

Since the 2016 election, the Government has implemented around $62 billion of budget repair measures that have strengthened the budget position. These structural savings continue to improve the spending growth trajectory over time, which is making room for new spending priorities and is keeping taxes to the minimum necessary to deliver essential government services while maintaining surpluses.

The Government is continuing to pursue savings to ensure the Budget remains on a sustainable trajectory for the future. Taking into account reductions in payments as a result of non-economic parameters and other variations, the net impact of decisions in the 2019-20 Budget on payments is a reduction of $982 million over the four years from 2019-20. This is consistent with the Government's fiscal strategy that new spending measures will be more than offset by reductions in spending elsewhere within the budget.

Table 3: Impact of Government decisions on payments in the 2019-20 Budget

	Estimates		Projections		
	2019-20	2020-21	2021-22	2022-23	Total
	$m	$m	$m	$m	$m
Total payments impact of policy decisions taken since the 2018-19 MYEFO	**-1,617**	**-2,699**	**-3,117**	**-842**	**-8,275**
Add Payments impacts of non-economic parameter and other variations	3,285	1,483	1,562	2,926	9,257
Net payments impact of policy decisions in the 2019-20 Budget	**1,668**	**-1,215**	**-1,554**	**2,083**	**982**

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 measures, announced prior to the 2019-20 Budget and after taking account of parameter changes, is now positive $5.7 billion. This comprises around $5 billion of receipt increases and around $0.7 billion of payment saves.

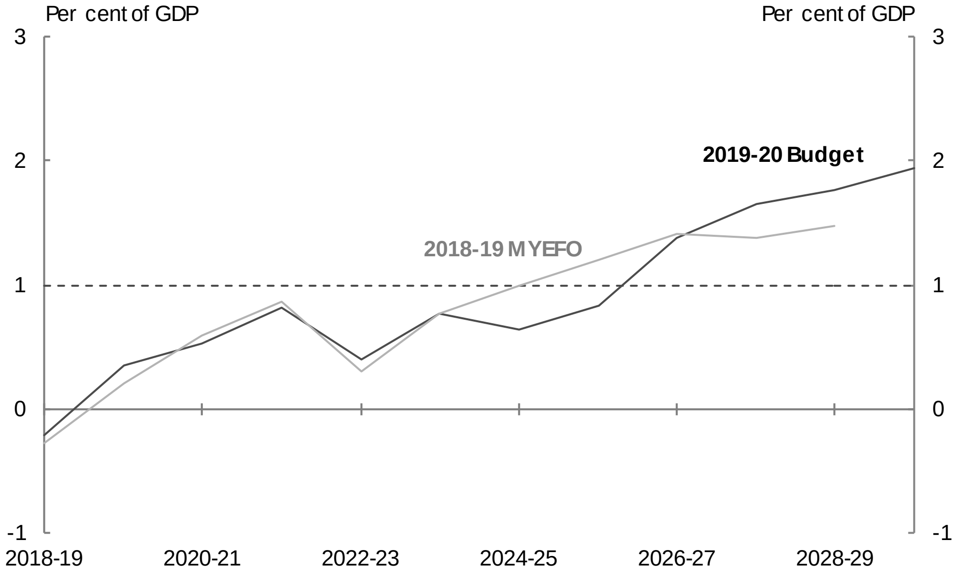
Forecast tax receipts have been revised down by $18.2 billion over the four years to 2022-23. The revisions have been driven by parameter and other variations and policy decisions, including the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*.

Policy decisions are expected to reduce tax receipts by $3.2 billion over the four years to 2022-23. This includes the impact of the Government's decision to provide additional tax relief, partly offset by the decision to extend and expand the Australian Taxation Office's Tax Avoidance Taskforce.

Excluding policy decisions, tax receipts have been revised down by $15 billion over the four years to 2022-23, as revisions to the outlook for household consumption, dwelling investment and average wages weigh on the forecasts. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

The underlying cash balance is projected to record surpluses through to the end of the forward estimates and build steadily to 1 per cent of GDP by 2026-27 as shown in Chart 2.

Chart 2: Underlying cash balance projected to 2029-30



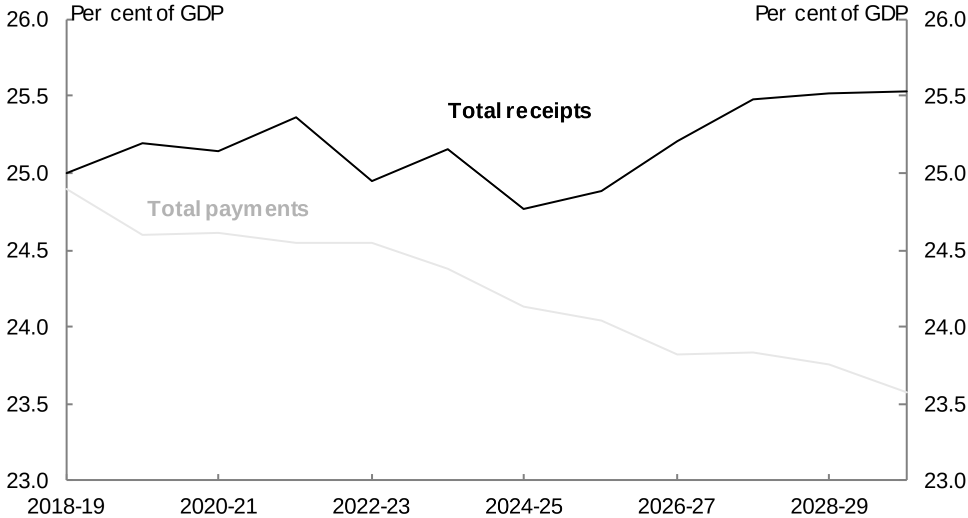
Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

The temporary fall in the underlying cash surplus in 2022-23 reflects timing impacts associated with the legislated Personal Income Tax Plan and additional tax relief in this Budget. In 2022-23, the Government is increasing the top threshold of the 19 per cent tax bracket and the maximum amount of the low income tax offset (LITO) to lock in the benefit provided through the low and middle income tax offset (LMITO) from the year it is removed. The benefit of the threshold change will be received by taxpayers throughout the 2022-23 income year (and later years). In addition, low- and middle-income taxpayers will receive their final LMITO in 2022-23 after they lodge their tax returns for the 2021-22 income year. This results in a larger cash impact in 2022-23.

Projections of the underlying cash balance over the medium term reflect additional personal income tax relief in the Budget, including the reduction in the 32.5 per cent rate to 30 per cent for incomes between $45,000 and $200,000 in 2024-25 (as shown in Table 4). This is partially offset by lower payments, which drive an improvement in the underlying cash balance by the end of the medium term. Lower payment projections have been driven by lower than expected payments across a range of programs in the forward estimates flowing through to the medium term. These include lower income support payments as recipients take advantage of stronger labour market conditions, reducing their dependence on government programs. It also includes the benefits from lower public debt interest costs arising from lower assumed bond yields across the forward estimates.

Chart 3 shows total payments and total receipts projected to 2029-30.

Chart 3: Total payments and total receipts projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30. Total receipts includes taxation and non-taxation receipts. Net Future Fund earnings are included in projections from 2020-21.
Source: Treasury projections.

Box 2: Impact of lower personal income taxes in the medium term

The Government will lower taxes for hard-working Australians by building on its legislated Personal Income Tax Plan.

The legislated Personal Income Tax Plan and these changes are fiscally affordable over the forward estimates and medium-term, with the underlying cash balance returning to surplus in 2019-20 and sustained surpluses projected over the medium term.

The projections for the medium-term tax receipts take into account all Government policy, including the additional personal income tax relief in this year's Budget. The Government is to deliver additional personal income tax relief, which is expected to reduce tax receipts by $158 billion over the medium term.

Table 4: Projected receipts impact of *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* by component – 2018-19 to 2029-30

	Total to 2022-23 $b	Total to 2029-30 $b
From 2018-19 to 2021-22, increase low and middle income tax offset	-15	-15
From 2022-23, increase low income tax offset and threshold from $41,000 to $45,000	-5	-48
From 2024-25, reduce marginal tax rate from 32.5 to 30 per cent	-	-95
Total	**-20**	**-158**

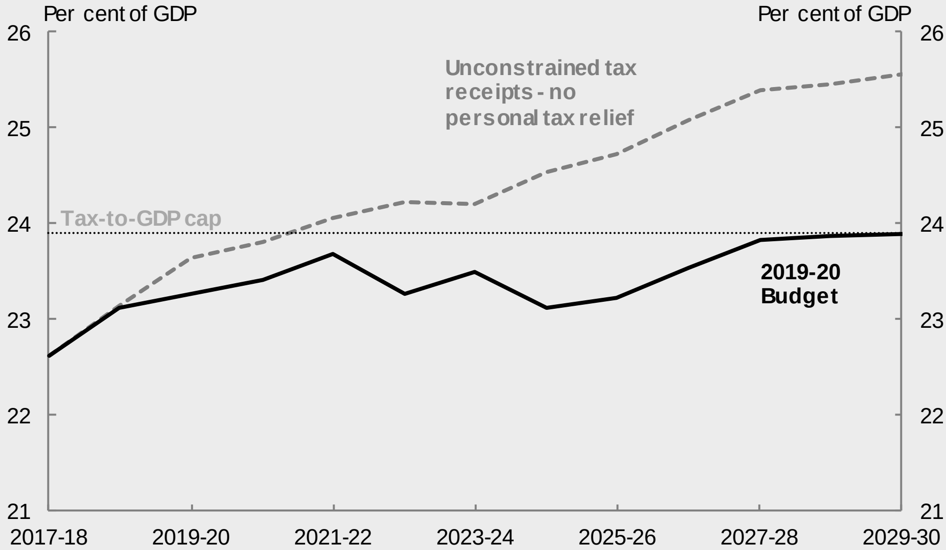
After accounting for policy, including the additional personal income tax relief, tax receipts are projected to remain below the Government's 23.9 per cent tax-to-GDP cap until 2029-30.

Without the legislated Personal Income Tax Plan and the Government's measure *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*, receipts would exceed the Government's 23.9 per cent tax-to-GDP cap from 2021-22, as shown in Chart 4.

Projections of the receipts impact of lower personal income taxes over the medium term are subject to higher levels of uncertainty and are sensitive to changes in economic conditions, underlying assumptions and forecasts.

Box 2: Impact of lower personal income taxes in the medium term (continued)

Chart 4: Impact of the 2018-19 Personal Income Tax Plan and the 2019-20 *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan* measure on the tax-to-GDP ratio



Note: For the 2019-20 Budget, a tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.

The medium-term projections reflect the assumption that current policy settings do not change over the medium term. The Government will remain focused on ongoing expenditure restraint in order to deliver on its fiscal strategy to continue improving the strength and sustainability of the budget.

See *Statement 7: Forecasting Performance and Scenario Analysis* for information on the sensitivity of fiscal projections to changes in assumptions underpinning the economic forecasts and projections.

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government with flexibility to respond to unanticipated events, such as financial crises or economic shocks. There are a range of measures of the Government's financial position. All are expected to improve over the forward estimates period and medium term, as set out in Table 5.

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. Net debt imposes a call on future revenue flows to service that debt.

Net debt is estimated to be 18 per cent of GDP in 2019-20, higher than the estimate of 17.1 per cent of GDP at the 2018-19 MYEFO, as shown in Table 5. The revised levels of net debt primarily reflect an increase in the market value of AGS due to lower yields than were assumed at the time of the 2018-19 MYEFO. Net debt is projected to decline as a share of GDP to 14.4 per cent by 2022-23. Refer to *Statement 6: Debt Statement, Assets and Liabilities* for further information.

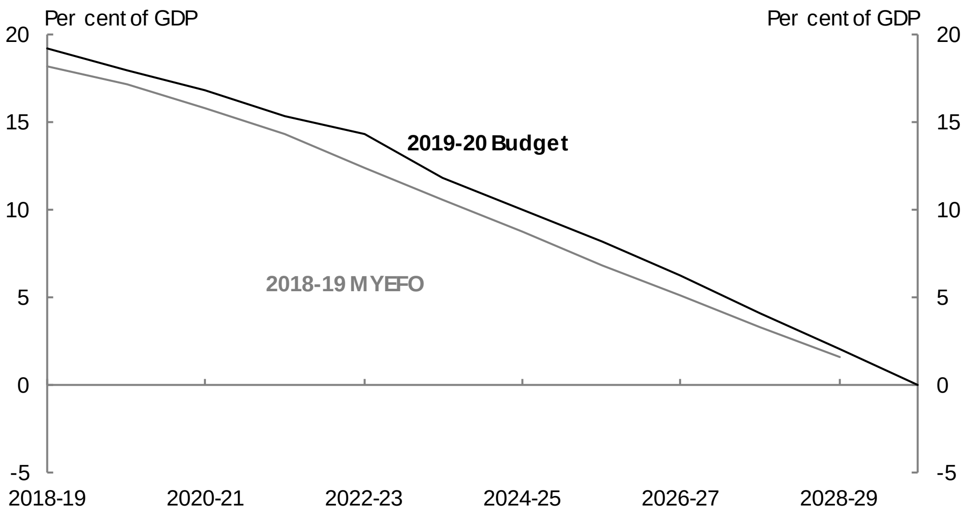
Net debt is projected to be eliminated by 2029-30, as shown in Chart 5.

Table 5: Australian Government general government sector net financial worth, net debt and net interest payments

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Financial assets	431.8	456.4	477.7	507.4	520.4
Non-financial assets	149.9	154.7	161.5	170.0	179.4
Total assets	**581.7**	**611.0**	**639.2**	**677.4**	**699.7**
Total liabilities	**922.6**	**944.3**	**954.6**	**964.6**	**967.2**
Net worth	**-340.9**	**-333.3**	**-315.4**	**-287.2**	**-267.5**
Net financial worth(a)	**-490.8**	**-488.0**	**-476.9**	**-457.2**	**-446.8**
Per cent of GDP	-25.3	-24.3	-23.0	-21.0	-19.7
Net debt(b)	**373.5**	**361.0**	**349.5**	**333.2**	**326.1**
Per cent of GDP	19.2	18.0	16.8	15.3	14.4
Net interest payments	**14.1**	**10.9**	**10.4**	**9.4**	**8.7**
Per cent of GDP	0.7	0.5	0.5	0.4	0.4

(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.

Chart 5: Net debt projected to 2029-30



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.
Source: Treasury projections.

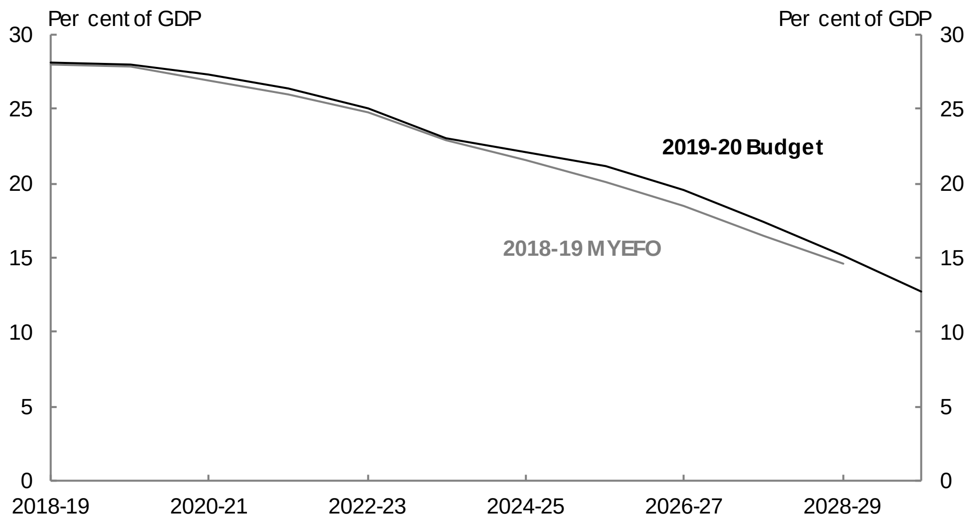
The face value of AGS on issue (gross debt) is projected to rise from $560 billion in 2019-20 to $569 billion by the end of the forward estimates. As a percentage of the economy, gross debt peaked at 28.8 per cent of GDP ($531.9 billion) in 2017-18 and is expected to fall in 2019-20 to 27.9 per cent ($560 billion) and continue falling across every year of the forward estimates to 25 per cent ($569 billion) in 2022-23. Gross debt is then projected to continue to fall to around 12.8 per cent of GDP ($416.8 billion) by 2029-30, below the 30 year average.

The projected fall in gross debt is largely driven by the improvement in the underlying cash balance.

Gross debt levels over the medium term also reflect the Government's decision not to draw down on the Future Fund's earnings to meet unfunded superannuation liabilities.

The projected face value of AGS on issue is shown in Chart 6.

Chart 6: Face value of AGS on issue projected to 2029-30



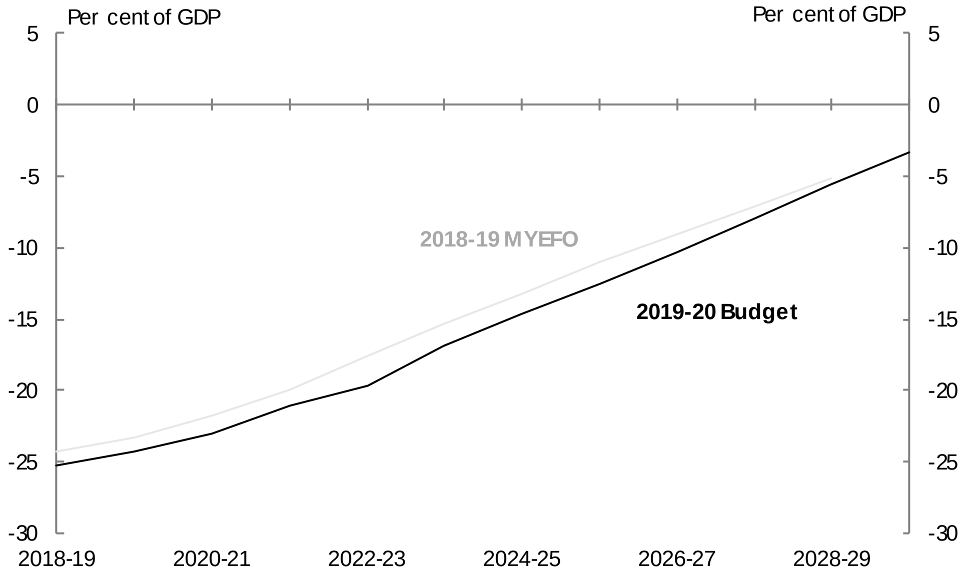
Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections in 2029-30.
Source: Australian Office of Financial Management and Treasury projections.

Net financial worth is an indicator of fiscal sustainability. It provides a broader measure of the Government's assets and liabilities as it includes both the assets of the Future Fund and the public sector superannuation liability that the Future Fund seeks to finance.

Net financial worth is expected to improve in every year over the forward estimates. Net financial worth is estimated to be -$488 billion (-24.3 per cent of GDP) in 2019-20, $20.9 billion lower than estimated at the 2018-19 MYEFO. Compared with the 2018-19 MYEFO, net financial worth has decreased over the forward estimates to 2022-23. This primarily reflects a rise in the market value of AGS due to lower yields.

Net financial worth improves as a share of GDP over the medium term, reaching -3.3 per cent of GDP by 2029-30, as shown in Chart 7.

Chart 7: Net financial worth projected to 2029-30



Source: Treasury projections.

A further measure of the Government's financial position is net worth, which includes non-financial assets such as buildings and plant, equipment and infrastructure. Net worth is expected to be -$333.3 billion in 2019-20, $22.3 billion lower than estimated at the 2018-19 MYEFO. Net worth is expected to be -$267.5 billion by the end of the forward estimates.

Further details on debt and the Government's balance sheet can be found in *Statement 6: Debt Statement, Assets and Liabilities*.

FISCAL OUTLOOK

Budget aggregates

An **underlying cash surplus** of $7.1 billion (0.4 per cent of GDP) is expected in 2019-20, improving to a projected surplus of $9.2 billion (0.4 per cent of GDP) in 2022-23.

In accrual terms, a **net operating surplus** of $12.9 billion (0.6 per cent of GDP) is expected for 2019-20, further improving to a projected surplus of $20.6 billion (0.9 per cent of GDP) by 2022-23.

A **headline cash deficit** of $4.4 billion is expected in 2019-20, improving to a projected surplus of $2.5 billion in 2022-23.

Table 6 provides a summary of the cash flows of the Australian Government general government sector.

Table 6: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	484.5	503.9	522.0	550.8	566.7
Capital cash receipts(a)	0.6	1.6	0.3	0.2	0.2
Total cash receipts	485.2	505.5	522.3	551.0	566.9
Cash payments					
Operating cash payments	467.9	479.1	494.6	514.7	537.8
Capital cash payments(b)	14.9	14.3	16.7	18.6	19.9
Total cash payments	482.7	493.3	511.3	533.2	557.7
GFS cash surplus(+)/deficit(-)	**2.4**	**12.2**	**11.0**	**17.8**	**9.2**
Per cent of GDP	0.1	0.6	0.5	0.8	0.4
less Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
less Net Future Fund earnings(d)	6.6	5.1	na	na	na
Underlying cash balance(e)	**-4.2**	**7.1**	**11.0**	**17.8**	**9.2**
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4
Memorandum:					
Net cash flows from investments in financial assets for policy purposes	-15.1	-16.6	-11.5	-9.9	-6.6
plus Net Future Fund earnings(d)	6.6	5.1	na	na	na
Headline cash balance	**-12.7**	**-4.4**	**-0.5**	**7.9**	**2.5**
Net Future Fund earnings(d)	6.6	5.1	5.2	5.6	6.2

(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 surplus in 2019-20 has improved by $2.9 billion compared with the 2018-19 MYEFO. Table 7 provides a reconciliation of the variations in the underlying cash balance since the 2018-19 MYEFO and the 2018-19 Budget. Since the 2018-19 Budget, the underlying cash balance has improved in every year in the forward estimates and medium term.

Since the 2018-19 MYEFO, policy decisions have reduced the underlying cash balance by $10.4 billion in the four years from 2019-20 to 2022-23.

Since the 2018-19 MYEFO, the effect of parameter and other variations has resulted in a $12.7 billion improvement in the underlying cash balance in the four years from 2019-20 to 2022-23.

Table 7: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2018-19 Budget underlying cash balance(b)(c)	**-14,462**	**2,234**	**10,957**	**16,619**	**6,114**	**35,924**
Per cent of GDP	-0.8	0.1	0.5	0.8	0.3	
Changes from 2018-19 Budget to 2018-19 MYEFO						
Effect of policy decisions(d)	-1,905	-3,971	-5,654	-4,778	*	*
Effect of parameter and other variations	11,194	5,848	7,161	7,114	*	*
Total variations(e)	**9,289**	**1,876**	**1,507**	**2,336**	**1,017**	**6,736**
2018-19 MYEFO underlying cash balance(b)(f)	**-5,172**	**4,110**	**12,464**	**18,954**	**7,131**	**42,660**
Per cent of GDP	-0.3	0.2	0.6	0.9	0.3	
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions(d)(g)(h)						
Receipts	*52*	*-1,128*	*-139*	*1,717*	*-2,527*	*-2,077*
Payments	*3,018*	*1,617*	*2,699*	*3,117*	*842*	*8,275*
Total policy decisions impact on underlying cash balance	-2,965	-2,745	-2,837	-1,400	-3,370	-10,352
Effect of parameter and other variations(g)						
Receipts	*3,031*	*622*	*-3,944*	*-5,498*	*-6,263*	*-15,082*
Payments	*-3,651*	*-5,655*	*-5,320*	*-5,735*	*-11,667*	*-28,377*
less Net Future Fund earnings(i)	*2,706*	*588*	*na*	*na*	*na*	*588*
Total parameter and other variations impact on underlying cash balance	3,976	5,689	1,377	237	5,404	12,707
2019-20 Budget underlying cash balance(b)	**-4,162**	**7,054**	**11,004**	**17,792**	**9,165**	**45,014**
Per cent of GDP	-0.2	0.4	0.5	0.8	0.4	
Memorandum:						
Net Future Fund earnings(i)	*6,592*	*5,140*	*5,207*	*5,563*	*6,249*	*22,159*
Effect of policy decisions on GST						
Receipts	*-2*	*9*	*13*	*14*	*17*	*53*
Payments	*-2*	*9*	*13*	*14*	*17*	*53*

* Data is not available.

(a) Total is equal to the sum of amounts from 2019-20.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) 2022-23 underlying cash balance as published in the medium term projections, page 3-13 of Budget Paper No. 1: Budget Strategy and Outlook 2018-19.
(d) Excludes secondary impacts on public debt interest of policy decisions, offsets from the Contingency Reserve for decisions taken.
(e) 2022-23 shows the total variation between medium term projections of the underlying cash balance published in the 2018-19 Budget and 2018-19 MYEFO, excluding the variation in net Future Fund earnings.
(f) 2022-23 underlying cash balance as published in the medium term projections, page 34 of the 2018-19 MYEFO.
(g) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.
(h) Excludes the impact of policy decisions on GST.
(i) 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.

Receipts estimates

Total receipts are expected to be $497 million lower in 2019-20 than estimated at the 2018-19 MYEFO, with tax receipts $250 million lower and non-taxation receipts $248 million lower.

Policy decisions

Policy decisions since the 2018-19 MYEFO are expected to reduce tax receipts by $1 billion in 2019-20 and $3.2 billion over the four years to 2022-23. Significant measures include:

- *Lower taxes for hard-working Australians: Building on the Personal Income Tax Plan*. This measure, which will provide additional tax relief of $19.5 billion over the four years to 2022-23, reduces tax receipts by $5.7 billion, owing to the inclusion of a provision in the 2018-19 MYEFO.

- ATO Tax Avoidance Taskforce – funding of $1 billion will extend the Taskforce's operation until 30 June 2023 and expand its activities. The Taskforce will target the tax affairs of multinationals, large public and private groups, trusts, high wealth individuals and other high tax risk sectors. This measure is estimated to increase tax receipts by $3.1 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2019-20*.

Parameter and other variations

Parameter and other variations are expected to reduce tax receipts by $15 billion over the four years to 2022-23. Expected GST receipts have been revised down since the 2018-19 MYEFO in line with downward revisions to the forecasts for growth in consumption and dwelling investment. The revisions to the outlook for average wages and non-farm gross mixed income have also weighed on forecast receipts for individuals and other withholding taxes. In the near term, however, this impact will be more than offset by an increase in company tax collections in 2018-19 and 2019-20, reflecting the recent observed strength in commodity prices.

Further information on expected tax receipts is provided in *Statement 4: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Payment estimates

Since the 2018-19 MYEFO, total cash payments have decreased by $4 billion in 2019-20 and decreased by $20 billion over the four years to 2022-23.

Policy decisions

The overall net impact of payment related decisions (after taking account of reductions as a result of non-economic parameter and other variations) has decreased total cash payments by $982 million over the four years to 2022-23.

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

- funding to strengthen primary care and improve frontline health services for Australians, including the reintroduction of indexation to all remaining General Practitioner services on the Medicare Benefits Schedule, which is expected to increase payments by $146 million in 2019-20 ($995 million over the four years to 2022-23);

- funding to support the work of the *Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability*, which is expected to increase payments by $191 million in 2019-20 ($521 million over the four years to 2022-23);

- funding to take action on all 76 recommendations of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* to strengthen oversight of financial institutions, which is expected to increase payments by $54 million in 2019-20 ($488 million over the four years to 2022-23); and

- extending the National Partnership Agreement on Universal Access to Early Childhood Education for the 2020 calendar year to support 15 hours of preschool each week for children attending preschool in 2020, which is expected to increase payments by $136 million in 2019-20 ($454 million over the two years to 2020-21).

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

- applying a received model of income assessment for employment income for Social Security income support payments, which will also facilitate the automated reporting of employment income through Single Touch Payroll, which is expected to decrease payments by $2.1 billion over the four years to 2022-23.

Parameter and other variations

Parameter and other variations since the 2018-19 MYEFO have decreased cash payments by $5.7 billion in 2019-20 and decreased total cash payments by $28.4 billion over the four years to 2022-23.

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

- payments relating to the provision of GST to the States and Territories, which are expected to decrease by $1.8 billion in 2019-20 ($7.3 billion over the three years to 2021-22), consistent with a reduction in GST receipts;
- payments related to the National Disability Insurance Scheme (NDIS), which are expected to decrease in net terms by $1.6 billion in 2019-20 ($1.6 billion over the four years to 2022-23), largely reflecting the slower than expected transition of participants into the NDIS. This includes a decrease in receipts in relation to State and Territory contributions to the NDIS and increases in other Australian Government disability programs, as the Australian Government ensures clients yet to transition into the NDIS continue to receive support;
- payments related to the Income Support for Seniors program, which are expected to decrease by $311 million in 2019-20 ($1.4 billion over the four years to 2022-23), largely reflecting continued reductions in recipient numbers as a result of previously announced Government policies 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 relating to Commonwealth Debt Management, which are expected to decrease by $241 million in 2019-20 ($2.7 billion over the four years to 2022-23), largely reflecting the lower-than-expected cost of servicing Australian Government Securities on issue; and
- payments related to the Student Payments program, which are expected to decrease by $193 million in 2019-20 ($890 million over the four years to 2022-23), largely reflecting lower-than-expected recipient numbers and higher recipient earnings reducing average payment rates, resulting from more students moving into work.

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

- payments relating to Defence operations, which are expected to increase by $635 million in 2019-20 ($707 million over the four years to 2022-23), reflecting continued funding for Australia's military contribution overseas and the protection of Australia's borders and offshore maritime interests;
- payments to the States and Territories for public hospitals, which are expected to increase by $472 million in 2019-20 ($1.9 billion over the four years to 2022-23), largely reflecting revised activity growth estimates based on recent historical growth and revised activity estimates from the States and Territories for 2018-19 and 2019-20;

- payments relating to the Military Rehabilitation Compensation Acts – Income Support and Compensation program, which are expected to increase by $296 million in 2019-20 ($840 million over the four years to 2022-23), largely reflecting an increase in the number of permanent impairment claims and higher growth in the average payment amount;
- payments relating to the Fuel Tax Credits Scheme, which are expected to increase by $74 million in 2019-20 ($605 million over the four years to 2022-23), largely reflecting higher-than-expected usage of fuels that are eligible for the Fuel Tax Credits Scheme; and
- payments related to the Aged Care Services program, which are expected to decrease by $115 million in 2019-20 (and increase by $647 million over the four years to 2022-23), largely reflecting an increase in estimated expenditure for residential care.

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 is provided in the other purposes section of *Statement 5: Expenses and Net Capital Investment*.

Analysis of the sensitivity of the payments estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Net operating balance estimates

The net operating balance is expected to be a surplus of $12.9 billion (0.6 per cent of GDP) in 2019-20, which reflects an improvement of $2.8 billion compared with the 2018-19 MYEFO. Table 8 provides a reconciliation of the variations in the net operating balance since the 2018-19 Budget.

Table 8: Reconciliation of net operating balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2018-19 Budget net operating balance	**-2,443**	**8,623**	**19,633**	**27,383**	*****	*****
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(b)	-1,807	-4,393	-6,565	-5,492	*	*
Effect of parameter and other variations	9,176	5,883	7,333	7,897	*	*
Total variations	**7,368**	**1,490**	**768**	**2,406**	*****	*****
2018-19 MYEFO net operating balance	**4,926**	**10,113**	**20,401**	**29,788**	*****	*****
Per cent of GDP	0.3	0.5	1.0	1.4		
Changes from 2018-19 MYEFO to 2019-20 Budget						
Effect of policy decisions(b)(c)						
Revenue	*51*	*-819*	*378*	*2,243*	*-2,252*	*-450*
Expenses	*2,808*	*1506*	*2,688*	*3,020*	*843*	*8,058*
Total policy decisions impact on net operating balance	-2,758	-2,325	-2,310	-777	-3,095	-8,508
Effect of parameter and other variations(c)						
Revenue	*2,457*	*78*	*-4,304*	*-5,877*	*	*
Expenses	*-3,828*	*-5,025*	*-4,368*	*-5,658*	*	*
Total parameter and other variations impact on net operating balance	6,284	5,103	64	-220	*	*
2019-20 Budget net operating balance	**8,452**	**12,891**	**18,155**	**28,791**	**20,606**	**80,443**
Per cent of GDP	0.4	0.6	0.9	1.3	0.9	
Net capital investment						
Effect of net capital investment(d)	6,490	4,749	7,717	9,715	10,780	32,961
2019-20 Budget fiscal balance	**1,962**	**8,142**	**10,438**	**19,077**	**9,826**	**47,483**
Per cent of GDP	0.1	0.4	0.5	0.9	0.4	

*Data is not available.
(a) Total is equal to the sum of amounts from 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 improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens the fiscal balance.

Revenue estimates

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Expense estimates

Movements in 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.

Detailed information on expenses can be found in *Statement 5: Expenses and Net Capital Investment*.

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 the Australian Rail Track Corporation) and net Future Fund earnings. Table 9 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2019-20 is estimated to be a deficit of $4.4 billion, compared with a deficit of $7.2 billion at the 2018-19 MYEFO. The improvement in the headline cash balance since the 2018-19 MYEFO is primarily driven by the improvement in the underlying cash balance.

Table 9: Reconciliation of general government underlying and headline cash balance estimates

	Estimates			Projections		
	2018-19	2019-20	2020-21	2021-22	2022-23	Total(a)
	$m	$m	$m	$m	$m	$m
2019-20 Budget underlying cash balance(b)	**-4,162**	**7,054**	**11,004**	**17,792**	**9,165**	**45,014**
***plus* Net cash flows from investments in financial assets for policy purposes**						
Student loans	-4,476	-4,035	-3,918	-3,771	-3,641	-15,365
NBN loan	-6,954	-5,740	-1,275	0	0	-7,015
WestConnex	-576	-85	0	0	0	-85
Trade support loans	-194	-117	-90	-52	-38	-297
CEFC loans and investments	-872	-769	-401	-92	-373	-1,635
Northern Australia Infrastructure Facility	-69	-1,283	-2,023	-1,394	-228	-4,928
Australian Business Securitisation Fund	0	-200	-200	-400	-402	-1,202
Drought and rural assistance loans	-362	-376	-402	-437	20	-1,195
Water infrastructure and regional development loans	-356	-565	-500	-200	0	-1,265
Official Development Assistance - Multilateral Replenishment	-288	-120	-162	-130	-126	-538
National Housing Finance and Investment Corporation	-50	-225	-175	-175	-175	-750
Net other(c)	-952	-3,067	-2,391	-3,210	-1,657	-10,325
Total net cash flows from investments in financial assets for policy purposes	**-15,149**	**-16,581**	**-11,537**	**-9,861**	**-6,619**	**-44,599**
plus Net Future Fund earnings(d)	6,592	5,140	na	na	na	5,140
2019-20 Budget headline cash balance	**-12,719**	**-4,388**	**-533**	**7,931**	**2,546**	**5,555**
Memorandum:						
Net Future Fund earnings(d)	*6,592*	*5,140*	*5,207*	*5,563*	*6,249*	*22,159*

(a) Total is equal to the sum of amounts from 2019-20 to 2022-23.
(b) Excludes expected net Future Fund earnings before 2020-21.
(c) Net other includes proposed equity payments for infrastructure projects and North Queensland flood interest reduction loans. The amounts have not been itemised for commercial-in-confidence reasons.
(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.

Structural budget balance estimates

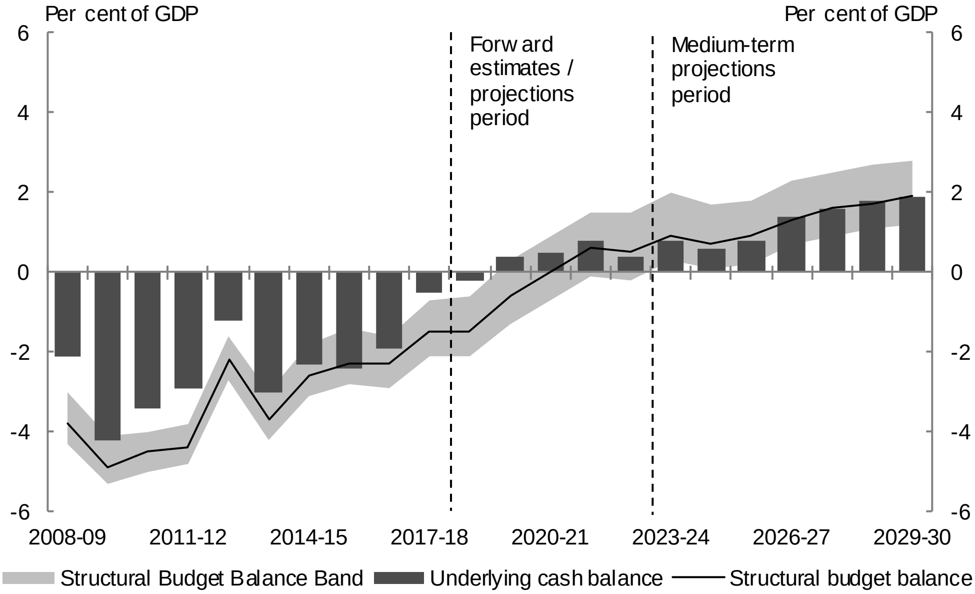
The structural budget balance estimates seek to remove cyclical economic factors that can have a temporary impact on revenues and expenditures, such as the extent to which economic output deviates from its potential level and fluctuations in commodity prices, asset prices and the rate of unemployment.

Considered in conjunction with other measures, estimates of the structural budget balance can provide broad insights into the sustainability of current fiscal settings.

Over the last decade and within the forward estimates period, estimates of the structural budget balance are generally lower than the underlying cash balance. This is because commodity prices have generally been higher than their estimated long-run levels and have outweighed the measured effect of other cyclical factors.

The structural budget balance improves over the forward estimates and medium term, as shown in Chart 8.

Chart 8: Structural budget balance estimates



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.
Source: ABS cat. no. 5206, 5302.0, 6202.0, 6401.0 and Treasury.

Recurrent and capital spending

Table 10 outlines estimates of the Government's recurrent and capital spending from 2018-19 to 2022-23.

Table 10: The Government's recurrent and capital spending[(a)]

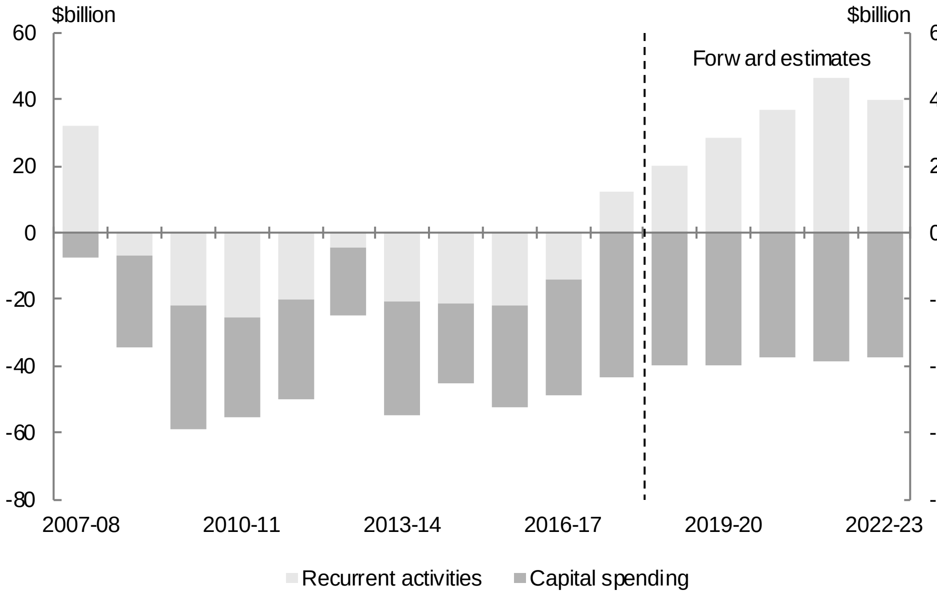
	Estimates			Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
	$b	$b	$b	$b	$b
Recurrent spending					
Operating payments	308.6	320.0	330.2	343.1	359.1
Recurrent grants	84.1	83.0	85.2	87.4	89.8
Total recurrent spending	**392.7**	**403.0**	**415.4**	**430.5**	**448.9**
Capital spending					
Direct capital investment(b)	14.9	14.3	16.7	18.6	19.9
Capital grants	9.9	8.9	9.2	10.0	11.0
Financial asset investments(c)	19.6	21.3	17.0	16.0	15.1
Total capital spending	**44.3**	**44.5**	**42.9**	**44.6**	**45.9**
Total spending	**437.0**	**447.4**	**458.3**	**475.1**	**494.8**

(a) General Revenue Assistance is excluded from this analysis.
(b) Non-financial asset purchases and net acquisition of assets under finance leases.
(c) 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.

Impact of capital and recurrent spending on the borrowing requirement

Chart 9 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. current revenue less recurrent spending) and the cash flows for capital investment.

Chart 9: 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 remain positive over the forward estimates. 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.