

## Part 3: Fiscal strategy and outlook

### Overview

The budget remains on track to return to surplus in 2019-20 for the first time in 12 years, with strong fiscal discipline ensuring surpluses build over the medium term.

The underlying cash balance is expected to improve from a broad balance of -\$0.7 billion (0.0 per cent of GDP) in 2018-19 to a surplus of \$5.0 billion (0.3 per cent of GDP) in 2019-20. Looking ahead, the budget is expected to be in surplus across all years of the forward estimates and continue to build to over 1 per cent of GDP in the medium term. Over the four years from 2019-20, the cumulative underlying cash surplus is expected to be \$23.5 billion.

The net operating balance is expected to continue to be in surplus, with a surplus of \$8.0 billion (0.4 per cent of GDP) in 2019-20 and continued surpluses over the remainder of the forward estimates.

**Table 3.1: Budget aggregates**

	Estimates					
	2019-20			2020-21		
	Budget \$b	PEFO \$b	MYEFO \$b	Budget \$b	PEFO \$b	MYEFO \$b
<b>Underlying cash balance(a)</b>	<b>7.1</b>	<b>7.1</b>	<b>5.0</b>	<b>11.0</b>	<b>11.0</b>	<b>6.1</b>
Per cent of GDP	0.4	0.4	0.3	0.5	0.5	0.3
<b>Net operating balance(b)</b>	<b>12.9</b>	<b>12.9</b>	<b>8.0</b>	<b>18.2</b>	<b>18.2</b>	<b>12.1</b>
Per cent of GDP	0.6	0.6	0.4	0.9	0.9	0.6
	Projections					
	2021-22			2022-23		
	Budget \$b	PEFO \$b	MYEFO \$b	Budget \$b	PEFO \$b	MYEFO \$b
<b>Underlying cash balance(a)</b>	<b>17.8</b>	<b>17.8</b>	<b>8.4</b>	<b>9.2</b>	<b>9.2</b>	<b>4.0</b>
Per cent of GDP	0.8	0.8	0.4	0.4	0.4	0.2
<b>Net operating balance(b)</b>	<b>28.8</b>	<b>28.8</b>	<b>17.8</b>	<b>20.6</b>	<b>20.6</b>	<b>11.6</b>
Per cent of GDP	1.3	1.3	0.8	0.9	0.9	0.5

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

(b) The estimates and projections for MYEFO include impacts resulting from the implementation of AASB 16.

Net debt and gross debt are expected to decline as a share of the economy in each year of the forward estimates and the medium term.

The Government remains focused on supporting a stronger economy, through policies that drive earnings and economic growth. The Government's responsible budget management has ensured the budget has the capacity to deal with immediate challenges, including the ongoing drought, as well as supporting investments in infrastructure and continuing to guarantee essential services such as aged care.

### *Part 3: Fiscal strategy and outlook*

The Government has taken a disciplined approach to prioritising new spending. Real growth in spending is expected to average 1.3 per cent between 2019-20 and 2022-23. Spending on interest payments on government borrowing is expected to fall from \$19.0 billion in 2018-19 to \$14.5 billion by 2022-23.

Since the 2019 PEFO, expected total receipts have been revised down by \$3.0 billion in 2019-20 and \$32.6 billion over the four years to 2022-23. The downward revision in 2019-20 is mainly driven by downgrades to superannuation fund taxes and GST, as well as non-tax receipts. The downward revision from 2020-21 to 2022-23 is mainly driven by downgrades to the forecasts for individuals taxes, company tax and GST.

## **Fiscal strategy**

Consistent with the *Charter of Budget Honesty Act 1998*, the Government's fiscal policy is directed at maintaining the ongoing economic prosperity and welfare of the people of Australia and is therefore set in a sustainable medium-term framework.

The fiscal strategy provides the basis for sound fiscal management to ensure budget settings are sustainable over the longer term, and that the Government has capacity to respond to unanticipated events and risks that may eventuate.

Reflecting the delivery of a balanced budget in 2018-19 and the return to surplus in 2019-20, the Government has updated its fiscal strategy. It reaffirms the Government's commitment to budget discipline while allowing flexibility to respond to changing economic conditions.

The Government's fiscal strategy is set out in Box A.

**Box A: The Government's fiscal strategy**

The Government's 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 policy elements:

- investing in a stronger economy with Government spending focused on boosting productivity and workforce participation
- maintaining strong fiscal discipline by controlling expenditure in order to free up resources for private investment to create jobs and economic growth, including by pursuing budget savings to make room for new spending priorities
- supporting revenue growth through 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
- building sustainable budget surpluses of at least 1 per cent of GDP when economic circumstances permit to build resilience and support fiscal flexibility
- strengthening the Government's balance sheet by reducing government borrowing as a share of the economy over time, with the objectives of improving net financial worth, reducing gross debt and eliminating net debt.

### Returning the budget to surplus

Reflecting the Government's responsible budget management, the underlying cash balance is expected to be a surplus of \$5.0 billion (0.3 per cent of GDP) in 2019-20, with surpluses continuing across the forward estimates and the medium term. 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			
	2019-20		2020-21	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
<b>Receipts</b>	<b>505.5</b>	<b>502.5</b>	<b>522.3</b>	<b>516.6</b>
Per cent of GDP	25.2	25.0	25.1	25.1
<b>Payments(a)</b>	<b>493.3</b>	<b>492.0</b>	<b>511.3</b>	<b>510.5</b>
Per cent of GDP	24.6	24.5	24.6	24.8
Net Future Fund earnings(b)	5.1	5.5	na	na
<b>Underlying cash balance(c)</b>	<b>7.1</b>	<b>5.0</b>	<b>11.0</b>	<b>6.1</b>
Per cent of GDP	0.4	0.3	0.5	0.3
<b>Revenue</b>	<b>513.8</b>	<b>511.1</b>	<b>534.3</b>	<b>527.3</b>
Per cent of GDP	25.6	25.4	25.7	25.6
<b>Expenses(d)</b>	<b>500.9</b>	<b>503.2</b>	<b>516.1</b>	<b>515.1</b>
Per cent of GDP	25.0	25.0	24.8	25.0
<b>Net operating balance(d)</b>	<b>12.9</b>	<b>8.0</b>	<b>18.2</b>	<b>12.1</b>
Per cent of GDP	0.6	0.4	0.9	0.6
Net capital investment(d)	4.7	4.2	7.7	6.3
<b>Fiscal balance(d)</b>	<b>8.1</b>	<b>3.8</b>	<b>10.4</b>	<b>5.8</b>
Per cent of GDP	0.4	0.2	0.5	0.3
<i>Memorandum:</i>				
Net Future Fund earnings(b)	5.1	5.5	5.2	5.5
Headline cash balance	-4.4	-2.8	-0.5	-2.5

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

	Projections			
	2021-22		2022-23	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
<b>Receipts</b>	<b>551.0</b>	<b>539.2</b>	<b>566.9</b>	<b>554.8</b>
Per cent of GDP	25.4	25.0	25.0	24.6
<b>Payments(a)</b>	<b>533.2</b>	<b>530.9</b>	<b>557.7</b>	<b>550.8</b>
Per cent of GDP	24.5	24.6	24.5	24.4
Net Future Fund earnings(b)	na	na	na	na
<b>Underlying cash balance(c)</b>	<b>17.8</b>	<b>8.4</b>	<b>9.2</b>	<b>4.0</b>
Per cent of GDP	0.8	0.4	0.4	0.2
<b>Revenue</b>	<b>564.7</b>	<b>551.7</b>	<b>580.5</b>	<b>567.2</b>
Per cent of GDP	26.0	25.6	25.6	25.1
<b>Expenses(d)</b>	<b>535.9</b>	<b>533.8</b>	<b>559.9</b>	<b>555.6</b>
Per cent of GDP	24.7	24.8	24.6	24.6
<b>Net operating balance(d)</b>	<b>28.8</b>	<b>17.8</b>	<b>20.6</b>	<b>11.6</b>
Per cent of GDP	1.3	0.8	0.9	0.5
Net capital investment(d)	9.7	8.2	10.8	8.7
<b>Fiscal balance(d)</b>	<b>19.1</b>	<b>9.7</b>	<b>9.8</b>	<b>2.9</b>
Per cent of GDP	0.9	0.4	0.4	0.1
<i>Memorandum:</i>				
Net Future Fund earnings(b)	5.6	5.5	6.2	5.9
Headline cash balance	7.9	-1.4	2.5	-6.6

(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net cash flows from financing activities for leases.

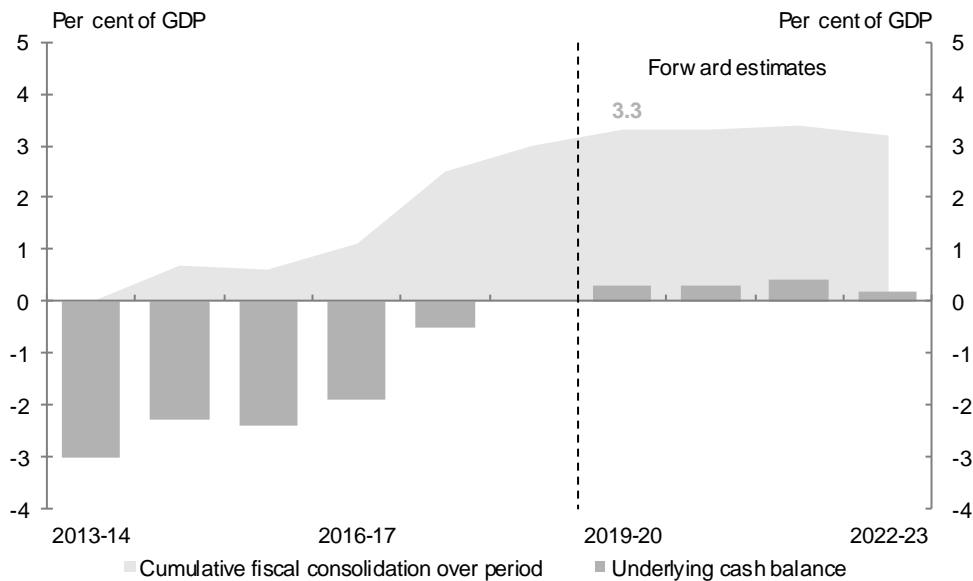
(b) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Australian Government's superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

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

(d) The estimates and projections for MYEFO include impacts resulting from the implementation of AASB 16.

The Government has charted a responsible path back to surplus with the total improvement in the underlying cash balance between 2013-14 and 2019-20 expected to be 3.3 percentage points of GDP, as shown in Chart 3.1.

**Chart 3.1: Underlying cash balance to GDP- pace of fiscal consolidation<sup>(a)</sup>**



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

Since the 2016 election, the Government has implemented around \$70 billion of budget repair measures that have strengthened the budget position. These structural savings continue to improve the spending growth trajectory over time, ensuring that the Budget has the capacity to deal with immediate challenges, including the effects of the ongoing drought, as well as supporting longer-term investment in infrastructure and continuing to guarantee essential services such as aged care.

In the 2019-20 MYEFO, the Government has continued to take a disciplined approach to managing the Budget by prioritising new spending which supports Australia's economy, addressing immediate priorities and implementing the Government's election commitments. Reflecting the Government's commitment to budget repair, the Budget remains on track to return to surplus in 2019-20, while supporting substantial additional funding to:

- accelerate transport infrastructure projects
- increase support for drought-affected communities
- ensure quality and safety in aged care while the Royal Commission continues its work.

After taking into account the Government's significant investment in these priority areas and the reductions in payments as result of non-economic parameter and other variations, the net impact of other new policy decisions in the 2019-20 MYEFO is a reduction of \$1.3 billion in payments over the four years to 2022-23.

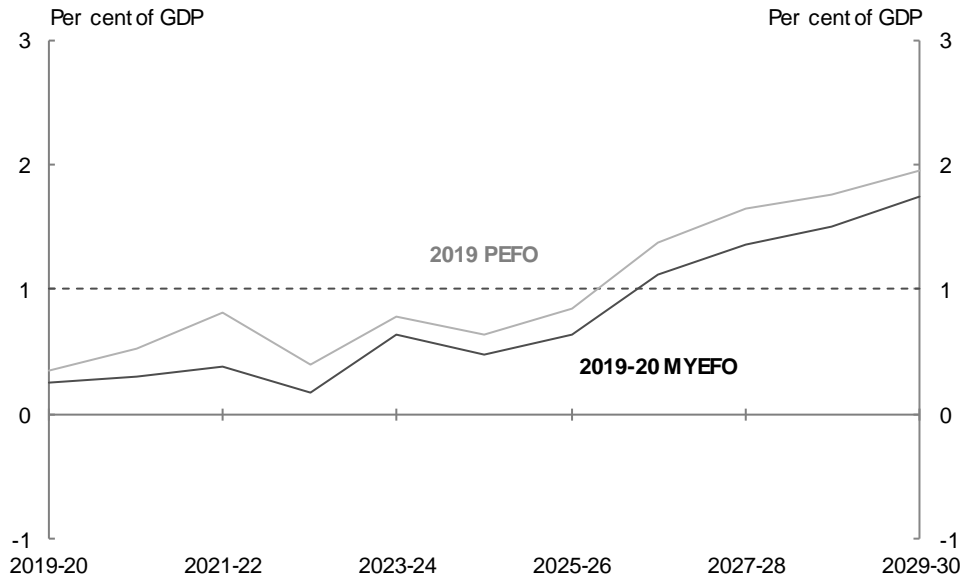
**Table 3.3: Reconciliation of key payment decisions in the 2019-20 MYEFO**

	Estimates		Projections		Total
	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	
<b>Total payment impact of policy decisions taken since the 2019 PEFO</b>	<b>-2,449</b>	<b>-2,955</b>	<b>-1,865</b>	<b>-1,000</b>	<b>-8,268</b>
Election Commitments	1	9	54	38	102
Increased Drought Support	-325	-234	-77	-129	-766
Aged Care Package	-173	-218	-171	-63	-625
Accelerated Infrastructure Spending	-750	-1,403	-1,239	-797	-4,189
<b>Other new policy decisions</b>	<b>-1,201</b>	<b>-1,108</b>	<b>-432</b>	<b>-49</b>	<b>-2,790</b>
add Payments impacts of non-economic parameter and other variations	465	754	501	2,377	4,097
<b>Net payment impact of policy decisions in the 2019-20 MYEFO</b>	<b>-736</b>	<b>-354</b>	<b>69</b>	<b>2,329</b>	<b>1,307</b>

The Government is committed to continuing to work with the Parliament to secure the successful passage of unlegislated measures to ensure the Budget remains on a sustainable trajectory for the future. The estimated impact over the forward estimates of remaining unlegislated budget repair measures, announced prior to the 2019-20 MYEFO and after taking account of parameter changes, is now positive \$4.9 billion. This comprises around \$2.3 billion of receipt increases and around \$2.5 billion of payment saves.

Chart 3.2 shows the projection of the underlying cash balance to 2029-30. The budget is projected to remain in surplus throughout the forward estimates and medium term, reaching 1 per cent of GDP from 2026-27.

**Chart 3.2: Underlying cash balance projected to 2029-30**



Note: Tax receipts are projected to remain below the Government's tax-to-GDP cap of 23.9 per cent over the medium term. Net Future Fund earnings are included in the projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund are available.

Source: Treasury projections.

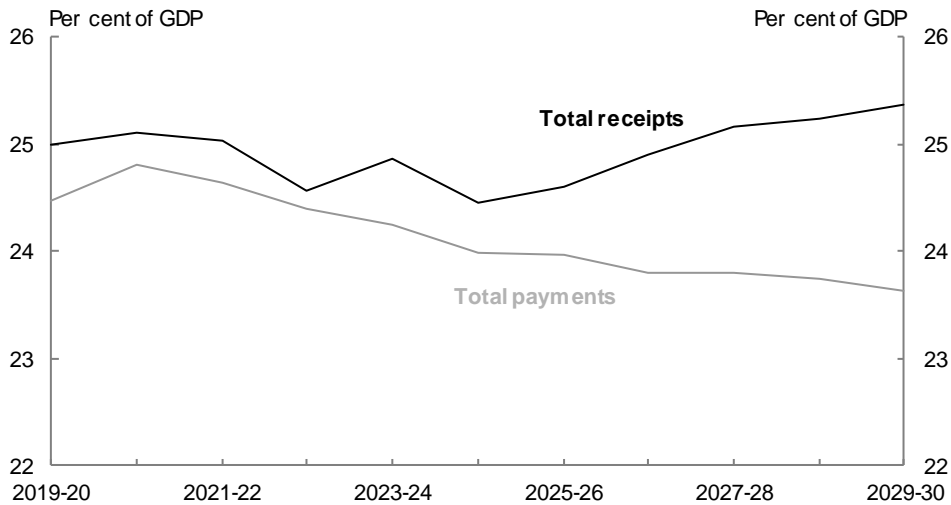
Projections of the underlying cash balance over the medium term incorporate the Government's legislated tax cuts. Taxes as a share of GDP remain below the cap of 23.9 per cent of GDP across the medium term.

The payments projections reflect falling payments as a share of GDP across a range of programs over the forward estimates flowing through to the medium term. Approximately one third of this decline is due to lower public debt interest costs. Continued strong labour market conditions have contributed to lower demand for a range of income support programs. Average annual real payments growth is projected to be 2.3 per cent over the medium term.

Chart 3.3 shows total payments and total receipts projected to 2029-30.



**Chart 3.3: Total payments and total receipts projected to 2029-30**



Note: Tax receipts are projected to remain below the Government's tax-to-GDP cap of 23.9 per cent over the medium term. Net Future Fund earnings are included in the projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund are available.

Source: Treasury projections.

The medium-term fiscal projections outline the broad trajectory of the fiscal position under current policy settings. They use the forward estimates as a base, and are subject to risks and uncertainties similar to those affecting the forward estimates. However, the longer timeframes across the medium term mean these risks and uncertainties can be amplified.

Beyond the forward estimates, a range of assumptions are used to project medium-term government receipts and payments. In particular, the projections assume no policy change and are based on economic projections underpinned by the medium-term methodology. Changes to underlying assumptions, for example, deviations of the economy from its assumed trend growth or future government policy changes can have large impacts on projections of the underlying cash balance. The sensitivity of projections to underlying assumptions is shown in Part 5: *Forecast uncertainties, sensitivities and scenarios*.

### **Strengthening the Government's balance sheet**

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. This places future generations in the best position to manage emerging fiscal pressures, including the ageing of the population.

There are a range of measures of the Government's balance sheet. On all measures, the balance sheet is expected to strengthen over the forward estimates and medium term, as set out in Table 3.4.

**Table 3.4: Australian Government general government sector net worth, net financial worth, net debt and net interest payments<sup>(a)</sup>**

	Estimates			
	2019-20		2020-21	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Financial assets	456.3	482.8	477.6	497.7
Non-financial assets	154.7	172.8	161.5	178.7
<b>Total assets</b>	<b>610.9</b>	<b>655.6</b>	<b>639.1</b>	<b>676.5</b>
<b>Total liabilities</b>	<b>944.3</b>	<b>1,001.6</b>	<b>954.6</b>	<b>1,006.0</b>
<b>Net worth</b>	<b>-333.4</b>	<b>-346.0</b>	<b>-315.5</b>	<b>-329.6</b>
<b>Net financial worth(b)</b>	<b>-488.1</b>	<b>-518.8</b>	<b>-477.0</b>	<b>-508.3</b>
Per cent of GDP	-24.4	-25.8	-23.0	-24.7
<b>Net debt(c)</b>	<b>361.1</b>	<b>392.3</b>	<b>349.6</b>	<b>379.2</b>
Per cent of GDP	18.0	19.5	16.8	18.4
<b>Net interest payments</b>	<b>10.9</b>	<b>11.4</b>	<b>10.4</b>	<b>9.8</b>
Per cent of GDP	0.5	0.6	0.5	0.5
	Projections			
	2021-22		2022-23	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Financial assets	507.3	532.5	520.3	545.4
Non-financial assets	170.0	186.0	179.4	193.6
<b>Total assets</b>	<b>677.3</b>	<b>718.5</b>	<b>699.6</b>	<b>739.0</b>
<b>Total liabilities</b>	<b>964.6</b>	<b>1,026.9</b>	<b>967.2</b>	<b>1,033.2</b>
<b>Net worth</b>	<b>-287.3</b>	<b>-308.4</b>	<b>-267.6</b>	<b>-294.2</b>
<b>Net financial worth(b)</b>	<b>-457.3</b>	<b>-494.4</b>	<b>-446.9</b>	<b>-487.8</b>
Per cent of GDP	-21.1	-23.0	-19.7	-21.6
<b>Net debt(c)</b>	<b>333.3</b>	<b>364.5</b>	<b>326.2</b>	<b>360.8</b>
Per cent of GDP	15.3	16.9	14.4	16.0
<b>Net interest payments</b>	<b>9.4</b>	<b>9.0</b>	<b>8.7</b>	<b>7.9</b>
Per cent of GDP	0.4	0.4	0.4	0.3

(a) The estimates and projections for MYEFO include impacts resulting from the implementation of AASB 16.

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

(c) 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 to service that debt.

Net debt is estimated to be 19.5 per cent of GDP in 2019-20, falling as a share of GDP to 16.0 per cent by 2022-23. In the 2019 PEFO, net debt was projected to be 18.0 per cent of GDP in 2019-20, falling to 14.4 per cent of GDP in 2022-23. The change in the estimate of net debt primarily reflects a rise in the market value of Australian Government Securities (AGS) due to lower yields and lease liabilities recognised due to the

implementation of AASB 16 *Leases*. Refer to Part 7: *Australian Government Budget Financial Statements* for further information.

**Gross debt**, as measured by the face value of AGS on issue, is estimated to fall from 27.7 per cent of GDP in 2019-20 to 25.5 per cent of GDP by the end of the forward estimates.

**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.

Net financial worth is estimated to be -\$518.8 billion in 2019-20 (25.8 per cent of GDP), \$30.8 billion lower than estimated at the 2019 PEFO. This primarily reflects a rise in the market value of AGS due to lower yields and lease liabilities recognised due to the implementation of AASB 16.

**Net worth** is equal to total assets less total liabilities. Net worth is estimated to be -\$346.0 billion in 2019-20 (17.2 per cent of GDP), \$12.6 billion lower than estimated at the 2019 PEFO.

## Fiscal outlook

### Budget aggregates

An **underlying cash surplus** of \$5.0 billion (0.3 per cent of GDP) is expected in 2019-20, improving to a forecast surplus of \$6.1 billion (0.3 per cent of GDP) in 2020-21 and a larger projected surplus of \$8.4 billion (0.4 per cent of GDP) in 2021-22.

In accrual terms, a **net operating surplus** of \$8.0 billion (0.4 per cent of GDP) is expected in 2019-20, improving to a forecast surplus of \$12.1 billion (0.6 per cent of GDP) and a larger projected surplus of \$17.8 billion (0.8 per cent of GDP) by the end of the forward estimates.

A **headline cash deficit** of \$2.8 billion (0.1 per cent of GDP) is expected in 2019-20, improving to projected deficits of \$2.5 billion (0.1 per cent of GDP) in 2020-21 and \$1.4 billion (0.1 per cent of GDP) in 2021-22.

Table 3.5 provides a summary of the cash flows of the Australian Government general government sector.

**Table 3.5: Summary of Australian Government general government sector cash flows<sup>(a)</sup>**

	Estimates			
	2019-20		2020-21	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	503.9	500.8	522.0	516.1
Capital cash receipts(b)	1.6	1.7	0.3	0.5
Total cash receipts	505.5	502.5	522.3	516.6
Cash payments				
Operating cash payments(c)	479.1	475.3	494.6	491.6
Capital cash payments(d)	14.3	14.3	16.7	16.5
Total cash payments	493.3	489.6	511.3	508.1
<b>GFS cash surplus(+)/deficit(-)</b>	<b>12.2</b>	<b>12.8</b>	<b>11.0</b>	<b>8.5</b>
Per cent of GDP	0.6	0.6	0.5	0.4
<i>plus</i> Net cash flow s from financing activities for leases(e)	na	-2.3	na	-2.4
<i>less</i> Net Future Fund earnings(f)	5.1	5.5	na	na
<b>Underlying cash balance(g)</b>	<b>7.1</b>	<b>5.0</b>	<b>11.0</b>	<b>6.1</b>
Per cent of GDP	0.4	0.3	0.5	0.3
<i>Memorandum:</i>				
Net cash flow s from investments in financial assets for policy purposes	-16.6	-13.3	-11.5	-8.6
<i>plus</i> Net Future Fund earnings(f)	5.1	5.5	na	na
<b>Headline cash balance</b>	<b>-4.4</b>	<b>-2.8</b>	<b>-0.5</b>	<b>-2.5</b>
Net Future Fund earnings(f)	5.1	5.5	5.2	5.5

**Table 3.5: Summary of Australian Government general government sector cash flows<sup>(a)</sup> (continued)**

	Projections			
	2021-22		2022-23	
	PEFO	MYEFO	PEFO	MYEFO
	\$b	\$b	\$b	\$b
Cash receipts				
Operating cash receipts	550.8	539.0	566.7	554.7
Capital cash receipts(b)	0.2	0.2	0.2	0.1
Total cash receipts	551.0	539.2	566.9	554.8
Cash payments				
Operating cash payments(c)	514.7	510.8	537.8	530.6
Capital cash payments(d)	18.6	17.7	19.9	17.7
Total cash payments	533.2	528.4	557.7	548.3
<b>GFS cash surplus(+)/deficit(-)</b>	<b>17.8</b>	<b>10.8</b>	<b>9.2</b>	<b>6.6</b>
Per cent of GDP	0.8	0.5	0.4	0.3
<i>plus</i> Net cash flows from financing activities for leases(e)	na	-2.5	na	-2.5
<i>less</i> Net Future Fund earnings(f)	na	na	na	na
<b>Underlying cash balance(g)</b>	<b>17.8</b>	<b>8.4</b>	<b>9.2</b>	<b>4.0</b>
Per cent of GDP	0.8	0.4	0.4	0.2
<i>Memorandum:</i>				
Net cash flows from investments in financial assets for policy purposes	-9.9	-9.7	-6.6	-10.6
<i>plus</i> Net Future Fund earnings(f)	na	na	na	na
<b>Headline cash balance</b>	<b>7.9</b>	<b>-1.4</b>	<b>2.5</b>	<b>-6.6</b>
Net Future Fund earnings(f)	5.6	5.5	6.2	5.9

(a) The numbers in the PEFO column were not published in the 2019 PEFO.

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

(c) The estimates and projections for MYEFO include impacts resulting from the implementation of AASB 16.

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

(e) Principal payments on lease liabilities, which are cash flows from financing activities, are deducted in the calculation of the underlying cash balance to maintain consistency of measure following the implementation of AASB 16.

(f) 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.

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

### Underlying cash balance estimates

Table 3.6 provides a reconciliation of the variations in the underlying cash balance since the 2019 PEFO.

**Table 3.6: Reconciliation of general government sector underlying cash balance estimates**

	Estimates		Projections		Total
	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	
<b>2019-20 Budget underlying cash balance(a)</b>	<b>7,054</b>	<b>11,004</b>	<b>17,792</b>	<b>9,165</b>	<b>45,014</b>
Per cent of GDP	0.4	0.5	0.8	0.4	
<b>Changes from 2019-20 Budget to 2019 PEFO</b>					
Effect of policy decisions(b)	-2	-1	0	0	-3
Effect of parameter and other variations	0	0	0	0	0
<b>Total variations</b>	<b>-2</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-3</b>
<b>2019 PEFO underlying cash balance(a)</b>	<b>7,051</b>	<b>11,003</b>	<b>17,792</b>	<b>9,165</b>	<b>45,011</b>
Per cent of GDP	0.4	0.5	0.8	0.4	
<b>Changes from 2019 PEFO to 2019-20 MYEFO</b>					
Effect of policy decisions(b)(c)(d)					
<i>Receipts</i>	288	10	-103	19	215
<i>Payments</i>	2,449	2,955	1,865	1,000	8,268
Total policy decisions impact on underlying cash balance	-2,160	-2,945	-1,968	-981	-8,053
Effect of parameter and other variations(c)					
<i>Receipts</i>	-3,339	-5,754	-11,699	-12,091	-32,883
<i>Payments</i>	-3,804	-3,749	-4,225	-7,950	-19,728
less Net Future Fund earnings(e)	328	na	na	na	328
Total parameter and other variations impact on underlying cash balance	136	-2,005	-7,473	-4,140	-13,482
<b>2019-20 MYEFO underlying cash balance(a)</b>	<b>5,028</b>	<b>6,054</b>	<b>8,351</b>	<b>4,044</b>	<b>23,476</b>
Per cent of GDP	0.3	0.3	0.4	0.2	
<i>Memorandum:</i>					
<i>Net Future Fund earnings(e)</i>	5,468	5,542	5,527	5,857	22,393
Effect of revenue policy decisions on GST					
<i>Receipts</i>	3	13	25	40	81
<i>Payments</i>	3	13	25	40	81

(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 2019 PEFO, the effect of parameter and other variations has resulted in a \$32.9 billion decrease in forecast receipts and a \$19.7 billion decrease in payments over the forward estimates.

### **Delivering on the Government's Election Commitments**

Implementation of the Government's election commitments is fully reflected in the budget bottom line in the 2019-20 MYEFO. The overall impact of the election commitments on the budget is an improvement of \$102.0 million over the four years to 2022-23.

Further details on election commitments are provided in the policy document '*Our Plan to Deliver Budget Surpluses without Increasing Taxes*' and Appendix A.

### **Receipts estimates**

Total receipts are expected to be \$3.0 billion lower in 2019-20 than estimated at the 2019 PEFO. In 2019-20, tax receipts are \$2.6 billion lower and non-tax receipts are \$442 million lower compared with the 2019 PEFO.

Tables 3.7 and 3.8 provide a summary of changes in total receipts in 2019-20 and 2020-21.

**Table 3.7: Reconciliation of 2019-20 general government sector (cash) receipts<sup>(a)</sup>**

	Estimates		Change on PEFO	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other w ithholding taxes				
Gross income tax w ithholding	218,100	218,100	0	0.0
Gross other individuals	47,600	49,600	2,000	4.2
<i>less</i> : Refunds	36,900	36,800	-100	-0.3
Total individuals and other w ithholding tax	228,800	230,900	2,100	0.9
Fringe benefits tax	3,930	3,940	10	0.3
Company tax	98,900	98,200	-700	-0.7
Superannuation fund taxes	9,710	8,210	-1,500	-15.4
Petroleum resource rent tax <sup>(b)</sup>	1,400	1,150	-250	-17.9
<b>Income taxation receipts</b>	<b>342,740</b>	<b>342,400</b>	<b>-340</b>	<b>-0.1</b>
Goods and services tax	67,364	65,558	-1,807	-2.7
Wine equalisation tax	1,080	1,090	10	0.9
Luxury car tax	640	670	30	4.7
Excise and customs duty				
Petrol	6,350	6,200	-150	-2.4
Diesel	12,300	12,280	-20	-0.2
Other fuel products	2,280	2,200	-80	-3.5
Tobacco	17,410	17,210	-200	-1.1
Beer	2,530	2,520	-10	-0.4
Spirits	2,380	2,510	130	5.5
Other alcoholic beverages <sup>(c)</sup>	1,030	1,040	10	1.0
Other customs duty				
Textiles, clothing and footw ear	200	200	0	0.0
Passenger motor vehicles	420	400	-20	-4.8
Other imports	1,290	1,260	-30	-2.3
<i>less</i> : Refunds and draw backs	500	500	0	0.0
Total excise and customs duty	45,690	45,320	-370	-0.8
Major bank levy	1,600	1,600	0	0.0
Agricultural levies	520	520	0	0.1
Other taxes	6,763	6,633	-129	-1.9
<b>Indirect taxation receipts</b>	<b>123,657</b>	<b>121,391</b>	<b>-2,266</b>	<b>-1.8</b>
<b>Taxation receipts</b>	<b>466,397</b>	<b>463,791</b>	<b>-2,606</b>	<b>-0.6</b>
Sales of goods and services	15,747	15,142	-604	-3.8
Interest received	5,701	5,134	-567	-10.0
Dividends	6,165	6,792	627	10.2
Other non-taxation receipts	11,510	11,612	102	0.9
<b>Non-taxation receipts</b>	<b>39,123</b>	<b>38,680</b>	<b>-442</b>	<b>-1.1</b>
<b>Total receipts</b>	<b>505,520</b>	<b>502,472</b>	<b>-3,048</b>	<b>-0.6</b>
<i>Memorandum:</i>				
<i>Total excise</i>	24,540	24,290	-250	-1.0
<i>Total customs duty</i>	21,150	21,030	-120	-0.6
<i>Capital gains tax<sup>(d)</sup></i>	18,100	18,400	300	1.7

(a) The numbers in the PEFO column were not published in the 2019 PEFO.

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

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

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



**Table 3.8: Reconciliation of 2020-21 general government sector (cash) receipts<sup>(a)</sup>**

	Estimates		Change on PEFO	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	230,600	229,300	-1,300	-0.6
Gross other individuals	49,700	50,900	1,200	2.4
<i>less: Refunds</i>	38,100	38,400	300	0.8
Total individuals and other withholding tax	242,200	241,800	-400	-0.2
Fringe benefits tax	4,170	4,150	-20	-0.5
Company tax	99,500	96,700	-2,800	-2.8
Superannuation fund taxes	13,210	13,210	0	0.0
Petroleum resource rent tax	1,400	1,150	-250	-17.9
<b>Income taxation receipts</b>	<b>360,480</b>	<b>357,010</b>	<b>-3,470</b>	<b>-1.0</b>
Goods and services tax	70,153	67,734	-2,419	-3.4
Wine equalisation tax	1,110	1,130	20	1.8
Luxury car tax	650	680	30	4.6
Excise and customs duty				
Petrol	6,500	6,250	-250	-3.8
Diesel	12,750	12,620	-130	-1.0
Other fuel products	2,290	2,180	-110	-4.8
Tobacco	15,900	15,690	-210	-1.3
Beer	2,580	2,570	-10	-0.4
Spirits	2,440	2,580	140	5.7
Other alcoholic beverages <sup>(b)</sup>	1,040	1,050	10	1.0
Other customs duty				
Textiles, clothing and footwear	190	200	10	5.3
Passenger motor vehicles	350	330	-20	-5.7
Other imports	1,080	1,050	-30	-2.8
<i>less: Refunds and draw backs</i>	500	500	0	0.0
Total excise and customs duty	44,620	44,020	-600	-1.3
Major bank levy	1,700	1,650	-50	-2.9
Agricultural levies	564	539	-25	-4.4
Other taxes	7,096	7,034	-62	-0.9
<b>Indirect taxation receipts</b>	<b>125,893</b>	<b>122,787</b>	<b>-3,106</b>	<b>-2.5</b>
<b>Taxation receipts</b>	<b>486,372</b>	<b>479,797</b>	<b>-6,576</b>	<b>-1.4</b>
Sales of goods and services	16,997	16,526	-471	-2.8
Interest received	6,375	6,060	-315	-4.9
Dividends	5,683	5,777	94	1.7
Other non-taxation receipts	6,903	8,438	1,535	22.2
<b>Non-taxation receipts</b>	<b>35,957</b>	<b>36,801</b>	<b>844</b>	<b>2.3</b>
<b>Total receipts</b>	<b>522,329</b>	<b>516,598</b>	<b>-5,731</b>	<b>-1.1</b>
<i>Memorandum:</i>				
<i>Total excise</i>	25,200	24,720	-480	-1.9
<i>Total customs duty</i>	19,420	19,300	-120	-0.6
<i>Capital gains tax<sup>(c)</sup></i>	18,700	18,400	-300	-1.6

(a) The numbers in the PEFO column were not published in the 2019 PEFO.

(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 shows the Australian Government general government cash receipts from 2018-19 to 2022-23 by heads of revenue.

**Table 3.9: Australian Government general government sector (cash) receipts**

	Actual	Estimates		Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Individuals and other w ithholding taxes					
Gross income tax w ithholding	204,764	218,100	229,300	241,900	242,800
Gross other individuals	48,423	49,600	50,900	54,900	57,500
less: Refunds	29,514	36,800	38,400	40,100	41,500
Total individuals and other w ithholding tax	223,673	230,900	241,800	256,700	258,800
Fringe benefits tax	3,794	3,940	4,150	4,330	4,530
Company tax	93,660	98,200	96,700	98,600	103,400
Superannuation fund taxes	11,269	8,210	13,210	14,660	16,110
Petroleum resource rent tax (a)	1,053	1,150	1,150	1,150	1,150
<b>Income taxation receipts</b>	<b>333,449</b>	<b>342,400</b>	<b>357,010</b>	<b>375,440</b>	<b>383,990</b>
Goods and services tax	65,204	65,558	67,734	70,970	74,622
Wine equalisation tax	982	1,090	1,130	1,170	1,210
Luxury car tax	675	670	680	710	750
Excise and customs duty					
Petrol	6,028	6,200	6,250	6,500	6,900
Diesel	11,584	12,280	12,620	13,270	14,020
Other fuel products	2,174	2,200	2,180	2,250	2,300
Tobacco	12,130	17,210	15,690	16,430	16,860
Beer	2,478	2,520	2,570	2,650	2,750
Spirits	2,392	2,510	2,580	2,660	2,760
Other alcoholic beverages (b)	993	1,040	1,050	1,090	1,130
Other customs duty					
Textiles, clothing and footwear	208	200	200	200	200
Passenger motor vehicles	449	400	330	160	30
Other imports	1,313	1,260	1,050	920	850
less: Refunds and draw backs	523	500	500	500	500
Total excise and customs duty	39,226	45,320	44,020	45,630	47,300
Major bank levy	1,560	1,600	1,650	1,700	1,800
Agricultural levies	556	520	539	557	577
Other taxes	6,926	6,633	7,034	7,250	7,456
<b>Indirect taxation receipts</b>	<b>115,130</b>	<b>121,391</b>	<b>122,787</b>	<b>127,987</b>	<b>133,715</b>
<b>Taxation receipts</b>	<b>448,579</b>	<b>463,791</b>	<b>479,797</b>	<b>503,427</b>	<b>517,705</b>
Sales of goods and services	12,863	15,142	16,526	17,763	18,064
Interest received	3,803	5,134	6,060	6,376	6,632
Dividends	8,943	6,792	5,777	5,430	6,018
Other non-taxation receipts	11,099	11,612	8,438	6,249	6,426
<b>Non-taxation receipts</b>	<b>36,707</b>	<b>38,680</b>	<b>36,801</b>	<b>35,818</b>	<b>37,139</b>
<b>Total receipts</b>	<b>485,286</b>	<b>502,472</b>	<b>516,598</b>	<b>539,245</b>	<b>554,843</b>
<i>Memorandum:</i>					
Total excise	23,300	24,290	24,720	25,820	27,170
Total customs duty	15,926	21,030	19,300	19,810	20,130
Capital gains tax (c)	17,400	18,400	18,400	19,200	20,300

(a) This item includes an 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 2018-19 reported figure is an estimate.

### **Policy decisions**

Policy decisions since the 2019 PEFO have increased total receipts by \$291 million in 2019-20 and total receipts by \$295 million over the forward estimates period. Key measures include:

- Combatting illegal phoenixing to reduce its impact on businesses, employees and government, which is estimated to increase receipts by \$165 million over the forward estimates period.
- Expanding the Working Holiday Maker program which is estimated to increase receipts by \$101 million over the forward estimates period.
- Increasing cost recovery and not proceeding with the original biosecurity imports levy which is estimated to decrease receipts by \$344 million over the forward estimates period. The Government will work with industry on the design of an alternative biosecurity levy.
- Refinements to the research and development tax incentive, which is estimated to decrease receipts by \$235 million over the forward estimates period.

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

### **Parameter and other variations**

Parameter and other variations have decreased total receipts (including Future Fund earnings) since the 2019 PEFO by \$3.3 billion in 2019-20 and \$32.9 billion over the forward estimates period.

Since the 2019 PEFO, parameter and other variations have reduced tax receipts by \$2.2 billion in 2019-20 and \$30.7 billion over the four years to 2022-23. The downward revision in 2019-20 is largely driven by lower forecasts for superannuation fund taxes and GST, reflecting foreign exchange losses and downgrades to growth in consumption subject to GST, respectively. Partially offsetting these factors in 2019-20 is an upgrade to gross other individuals tax, largely reflecting stronger-than-expected collections relating to previous income years. Over the four years to 2022-23, lower forecasts for average wage growth and downgrades to corporate profits weigh on the forecasts for tax receipts.

Parameter and other variations have decreased non-taxation receipts, including Future Fund earnings, since the 2019 PEFO by \$1.1 billion in 2019-20 and \$2.1 billion over the four years to 2022-23. This revision reflects fewer than expected unclaimed superannuation fund balances transferring to the Australian Taxation Office in 2019-20, fewer property sales planned by Defence Housing Australia and lower dividends from the Reserve Bank of Australia.

Part 3: Fiscal strategy and outlook

The key economic parameters that influence tax receipts and tax revenue are shown in Table 3.10. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in Part 5.

**Table 3.10: Key economic parameters for revenue<sup>(a)</sup>**

	Outcomes	Estimates		Projections	
	2018-19	2019-20	2020-21	2021-22	2022-23
Nominal gross domestic product	5.3	3 1/4	2 1/4	4 3/4	4 3/4
Change since 2019 PEFO	1/4	0	-1 1/2	1/4	1/4
Compensation of employees(b)	4.5	4 3/4	4 1/4	4 1/4	4 1/2
Change since 2019 PEFO	1/4	1/2	- 1/2	- 3/4	- 1/2
Corporate gross operating surplus(c)	9.7	1 1/2	-2 1/4	4 3/4	5
Change since 2019 PEFO	1/2	0	-3	1 3/4	1 3/4
Non-farm gross mixed income	2.7	1 1/2	5 1/2	7 1/2	7
Change since 2019 PEFO	- 1/4	- 3/4	- 1/2	1 1/4	1 1/2
Property income(d)	6.3	3 1/4	5 3/4	4 3/4	5
Change since 2019 PEFO	2 1/4	-1	3/4	0	1/4
Consumption subject to GST	3.2	3 1/4	4 3/4	5 1/4	5 1/4
Change since 2019 PEFO	0	-1 1/2	- 1/2	0	0

(a) Current prices, per cent change on previous year. Changes since the 2019 PEFO 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 rent, dividends and interest.

Excluding policy decisions, individuals taxes have been revised up by \$2.1 billion (0.9 per cent) in 2019-20 but down by \$7.4 billion over the four years to 2022-23. The increase in 2019-20 is driven by an upward revision to gross other individuals tax, largely due to higher-than-expected capital gains and dividend income relating to previous income years. Some of this strength is sustained beyond 2019-20, reflecting upward revisions to property income (which includes interest, rent and dividends). However, over the four years to 2022-23, lower forecasts for average wage growth are expected to weigh on gross income tax withholding.

Excluding policy decisions, company tax receipts have been revised down by \$525 million (0.5 per cent) in 2019-20 and \$7.9 billion over the four years to 2022-23. The downward revision in 2019-20 reflects weaker-than-expected collections since 2019 PEFO, partly offset by recent higher-than-expected mining profits. Downwards revisions to growth in corporate profits in 2020-21, largely reflecting the downgrades to the forecast for the terms of trade, weigh further on the forecasts.

Excluding policy decisions, GST receipts have been revised down by \$1.8 billion in 2019-20 and \$9.9 billion over the four years to 2022-23. This reflects a weaker-than-expected outcome for 2018-19, and downgrades to consumption subject to GST and dwelling investment.

Excluding policy decisions, superannuation fund taxes have been revised down by \$1.4 billion in 2019-20 and \$1.6 billion over the four years to 2022-23. The downward

revision in 2019-20 largely reflects decreases in superannuation fund earnings due to foreign exchange and capital gains losses, and stronger-than-expected franked dividend growth in 2018-19. The downgrade is mostly due to one-off factors that are not expected to impact the forecasts from 2020-21.

Excluding policy decisions, excise and customs duties have been revised down by \$371 million in 2019-20 and \$2.1 billion over the four years to 2022-23, largely driven by downgrades to fuel excise.

The 2019-20 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 Free Trade Agreement
- Australia-India Comprehensive Economic Cooperation Agreement
- Regional Comprehensive Economic Partnership
- Pacific Alliance Free Trade Agreement
- Australia-European Union Free Trade Agreement
- Australia-United Kingdom Free Trade Agreement.

### **Payments estimates**

Since the 2019 PEFO, total cash payments have decreased by \$1.4 billion in 2019-20 and decreased by \$11.5 billion over the four years to 2022-23.

### **Policy decisions**

The net impact of payment-related policy decisions since the 2019 PEFO has increased total cash payments by \$2.4 billion in 2019-20 and by \$8.3 billion over the four years to 2022-23.

Significant measures include:

- funding for a package of measures for the Infrastructure Investment Program to accelerate critical infrastructure projects across Australia to drive jobs, strengthen the economy and get people home sooner and safer, which is expected to increase payments by \$750 million in 2019-20 (\$4.2 billion over four years to 2022-23). The Government's significant additional investment will accelerate existing transport infrastructure projects and provide additional funding for priority regional and urban transport across all states and territories

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- funding for a package of measures to support farmers and communities in drought, which is expected to increase payments by \$325 million in 2019-20 (\$766 million over four years to 2022-23). These measures provide immediate support for farmers and communities affected by drought and further enhances long term preparedness and resilience. These measures build on existing programs and drought support announced by the Government since the 2018-19 Budget, which will exceed \$8 billion over the medium term
- funding for a package of Aged Care measures to primarily respond to the priorities identified in the interim report of the Aged Care Royal Commission by increasing the number of home care packages, reducing the use of medication as a chemical restraint and providing a stronger evidence base to support new targets to reduce the number of younger people in residential aged care, which is expected to increase payments by \$173 million in 2019-20, and by \$625 million over four years to 2022-23. This funding is in addition to the Government's record funding for older Australians of \$21.4 billion in 2019-20, growing to an estimated \$25.4 billion in 2022-23, up from \$13.3 billion in 2012-13
- maintaining the Efficiency Dividend at the 2018-19 level of 2.0 per cent for a further two years before stepping down to 1.5 per cent in 2021-22 and returning to the base rate of 1.0 per cent from 1 July 2022, which is expected to decrease payments by \$1.5 billion over four years to 2022-23.

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

**Parameter and other variations**

Parameter and other variations since the 2019 PEFO have decreased total cash payments by \$3.8 billion in 2019-20 and decreased total cash payments by \$19.7 billion over the four years to 2022-23.

Major decreases in cash payments as a result of parameter and other variations since the 2019 PEFO 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 (\$9.9 billion over the four years to 2022-23), consistent with a reduction in GST receipts
- payments relating to Commonwealth Debt Management, which are expected to decrease by \$446 million in 2019-20 (\$3.9 billion over the four years to 2022-23), largely reflecting the lower-than-expected cost of servicing Australian Government Securities on issue and repayment of debt as the Budget returns to surplus. These decreases are expected to continue as the Budget returns to surplus and the Government pays down debt
- payments relating to Defence Housing Australia, which are expected to decrease by \$216 million in 2019-20 (\$1.3 billion over the four years to 2022-23), largely reflecting

lower forecast capital expenditure consistent with fewer property sales planned by Defence Housing Australia

- payments relating to the Family Tax Benefit program, which are expected to decrease by \$323 million in 2019-20 (\$1.2 billion over the four years to 2022-23), largely reflecting lower-than-expected recipient numbers as a result of improving employment conditions, including rising workforce participation and more people choosing to work part-time
- payments relating to the Student Payments program, which are expected to decrease by \$181 million in 2019-20 (\$662 million over the four years to 2022-23), largely reflecting lower-than-expected recipient numbers and higher recipient earnings reducing average student support payment rates, resulting from more students moving into work.

Major increases in cash payments as a result of parameter and other variations since the 2019 PEFO include:

- payments relating to the Military Rehabilitation Compensation Acts – Income Support and Compensation program, which are expected to increase by \$340 million in 2019-20 (\$1.3 billion over the four years to 2022-23), largely reflecting an increase in the number of rehabilitation and compensation payments, and higher growth in the average payment amount
- payments relating to the DisabilityCare Australia Fund, which are expected to decrease by \$123 million in 2019-20 (overall increase by \$870 million over the four years to 2022-23), largely reflecting the impact of updated payment schedules now that all states and territories have agreed to full scheme arrangements, which will result in more Australians benefiting from the NDIS
- payments to the states and territories for non-government schools, which are expected to increase by \$197 million in 2019-20 (\$724 million over the four years to 2022-23), largely reflecting a further increase in Commonwealth funding to support higher student enrolments and new school openings.

Consistent with previous budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Detail of this draw down are provided in Appendix B: *Supplementary expense table and the Contingency Reserve*.

Analysis of the sensitivity of the payments estimates to change in the economic outlook is provided in Part 5: *Forecast uncertainties, sensitivities and scenarios*.

## Net operating balance estimates

Table 3.11 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 2019 PEFO.

The net operating balance is expected to reach a surplus of \$8.0 billion (0.4 per cent of GDP) in 2019-20, increasing further to a projected surplus of \$11.6 billion (0.5 per cent of GDP) in 2022-23. Recurrent expenditure is fully funded by revenue in 2019-20 and over the forward estimates, with surpluses available to fund capital spending that strengthens the productive capacity of the economy and to pay down debt.

**Table 3.11: Reconciliation of general government sector net operating balance estimates**

	Estimates		Projections		Total
	2019-20	2020-21	2021-22	2022-23	
	\$m	\$m	\$m	\$m	\$m
<b>2019-20 Budget net operating balance</b>	<b>12,891</b>	<b>18,155</b>	<b>28,791</b>	<b>20,606</b>	<b>80,443</b>
Per cent of GDP	0.6	0.9	1.3	0.9	
<b>Changes from 2019-20 Budget to 2019 PEFO</b>					
Effect of policy decisions(a)	-2	0	1	1	-1
Effect of parameter and other variations	0	9	0	0	9
<b>Total variations</b>	<b>-2</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>8</b>
<b>2019 PEFO net operating balance</b>	<b>12,889</b>	<b>18,164</b>	<b>28,792</b>	<b>20,607</b>	<b>80,452</b>
Per cent of GDP	0.6	0.9	1.3	0.9	
<b>Changes from 2019 PEFO to 2019-20 MYEFO</b>					
Effect of policy decisions(a)(b)					
<i>Revenue</i>	-56	28	209	177	358
<i>Expenses</i>	2417	2906	1851	992	8165
Total policy decisions impact on net operating balance	-2,473	-2,878	-1,641	-815	-7,808
Effect of parameter and other variations(b)					
<i>Revenue</i>	-2,558	-7,033	-13,255	-13,463	-36,310
<i>Expenses</i>	-110	-3,891	-3,933	-5,277	-13,212
Total parameter and other variations impact on net operating balance	-2,448	-3,142	-9,322	-8,186	-23,098
<b>2019-20 MYEFO net operating balance</b>	<b>7,968</b>	<b>12,144</b>	<b>17,828</b>	<b>11,606</b>	<b>49,546</b>
Per cent of GDP	0.4	0.6	0.8	0.5	
<i>Net capital investment</i>					
Effect of net capital investment(c)	4,161	6,309	8,168	8,695	27,333
<b>2019-20 MYEFO fiscal balance</b>	<b>3,807</b>	<b>5,835</b>	<b>9,660</b>	<b>2,911</b>	<b>22,213</b>
Per cent of GDP	0.2	0.3	0.4	0.1	

(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 down by \$2.6 billion in 2019-20 since the 2019 PEFO.

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.

Tables 3.12 and 3.13 provide a summary of changes in total revenue in 2019-20 and 2020-21. Table 3.14 shows the Australian Government general government revenue from 2018-19 to 2022-23 by heads of revenue.

**Table 3.12: Reconciliation of 2019-20 general government sector (accrual) revenue<sup>(a)</sup>**

	Estimates		Change on Budget	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other w ithholding taxes				
Gross income tax w ithholding	219,800	220,300	500	0.2
Gross other individuals	51,200	52,900	1,700	3.3
/ess: Refunds	36,900	36,800	-100	-0.3
Total individuals and other w ithholding tax	234,100	236,400	2,300	1.0
Fringe benefits tax	4,040	4,040	0	0.0
Company tax	100,600	99,800	-800	-0.8
Superannuation fund taxes	9,750	8,460	-1,290	-13.2
Petroleum resource rent tax(b)	1,290	1,130	-160	-12.4
<b>Income taxation revenue</b>	<b>349,780</b>	<b>349,830</b>	<b>50</b>	<b>0.0</b>
Goods and services tax	69,630	67,230	-2,400	-3.4
Wine equalisation tax	1,100	1,110	10	0.9
Luxury car tax	640	670	30	4.7
Excise and customs duty				
Petrol	6,240	6,100	-140	-2.2
Diesel	12,100	12,080	-20	-0.2
Other fuel products	2,250	2,170	-80	-3.6
Tobacco	17,380	16,980	-400	-2.3
Beer	2,470	2,460	-10	-0.4
Spirits	2,380	2,510	130	5.5
Other alcoholic beverages(c)	1,030	1,040	10	1.0
Other customs duty				
Textiles, clothing and footw ear	200	200	0	0.0
Passenger motor vehicles	420	400	-20	-4.8
Other imports	1,290	1,260	-30	-2.3
/ess: Refunds and draw backs	500	500	0	0.0
Total excise and customs duty	45,260	44,700	-560	-1.2
Major bank levy	1,610	1,610	0	0.0
Agricultural levies	551	521	-30	-5.4
Other taxes	8,025	7,144	-881	-11.0
<b>Indirect taxation revenue</b>	<b>126,815</b>	<b>122,985</b>	<b>-3,831</b>	<b>-3.0</b>
<b>Taxation revenue</b>	<b>476,596</b>	<b>472,815</b>	<b>-3,781</b>	<b>-0.8</b>
Sales of goods and services	15,758	14,980	-778	-4.9
Interest	6,009	5,247	-761	-12.7
Dividends	6,112	6,383	271	4.4
Other non-taxation revenue	9,288	11,723	2,435	26.2
<b>Non-taxation revenue</b>	<b>37,167</b>	<b>38,333</b>	<b>1,167</b>	<b>3.1</b>
<b>Total revenue</b>	<b>513,762</b>	<b>511,148</b>	<b>-2,614</b>	<b>-0.5</b>
<i>Memorandum:</i>				
<i>Total excise</i>	24,140	23,900	-240	-1.0
<i>Total customs duty</i>	21,120	20,800	-320	-1.5
<i>Capital gains tax(d)</i>	18,100	18,400	300	1.7

(a) The numbers in the PEFO column were not published in the 2019 PEFO.

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

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

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

**Table 3.13: Reconciliation of 2020-21 general government sector (accrual) revenue<sup>(a)</sup>**

	Estimates		Change on Budget	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other w ithholding taxes				
Gross income tax w ithholding	232,200	231,500	-700	-0.3
Gross other individuals	53,500	54,600	1,100	2.1
/ess: Refunds	38,100	38,400	300	0.8
Total individuals and other w ithholding tax	247,600	247,700	100	0.0
Fringe benefits tax	4,280	4,250	-30	-0.7
Company tax	100,800	97,700	-3,100	-3.1
Superannuation fund taxes	13,270	13,210	-60	-0.5
Petroleum resource rent tax	1,380	1,160	-220	-15.9
<b>Income taxation revenue</b>	<b>367,330</b>	<b>364,020</b>	<b>-3,310</b>	<b>-0.9</b>
Goods and services tax	72,620	69,790	-2,830	-3.9
Wine equalisation tax	1,130	1,150	20	1.8
Luxury car tax	650	680	30	4.6
Excise and customs duty				
Petrol	6,500	6,250	-250	-3.8
Diesel	12,760	12,630	-130	-1.0
Other fuel products	2,290	2,180	-110	-4.8
Tobacco	15,630	15,610	-20	-0.1
Beer	2,580	2,570	-10	-0.4
Spirits	2,440	2,580	140	5.7
Other alcoholic beverages(b)	1,040	1,050	10	1.0
Other customs duty				
Textiles, clothing and footw ear	190	200	10	5.3
Passenger motor vehicles	350	330	-20	-5.7
Other imports	1,080	1,050	-30	-2.8
/ess: Refunds and draw backs	500	500	0	0.0
Total excise and customs duty	44,360	43,950	-410	-0.9
Major bank levy	1,710	1,660	-50	-2.9
Agricultural levies	565	540	-25	-4.4
Other taxes	8,370	8,246	-124	-1.5
<b>Indirect taxation revenue</b>	<b>129,404</b>	<b>126,016</b>	<b>-3,388</b>	<b>-2.6</b>
<b>Taxation revenue</b>	<b>496,734</b>	<b>490,036</b>	<b>-6,698</b>	<b>-1.3</b>
Sales of goods and services	16,921	16,291	-630	-3.7
Interest	6,796	6,240	-557	-8.2
Dividends	5,815	5,521	-295	-5.1
Other non-taxation revenue	8,005	9,180	1,174	14.7
<b>Non-taxation revenue</b>	<b>37,538</b>	<b>37,231</b>	<b>-307</b>	<b>-0.8</b>
<b>Total revenue</b>	<b>534,272</b>	<b>527,267</b>	<b>-7,005</b>	<b>-1.3</b>
<i>Memorandum:</i>				
<i>Total excise</i>	25,210	24,730	-480	-1.9
<i>Total customs duty</i>	19,150	19,220	70	0.4
<i>Capital gains tax(c)</i>	18,700	18,400	-300	-1.6

(a) The numbers in the PEFO column were not published in the 2019 PEFO.

(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: Australian Government general government sector (accrual) revenue**

	Actual	Estimates		Projections	
	2018-19 \$m	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m
Individuals and other withholding taxes					
Gross income tax withholding	206,405	220,300	231,500	244,200	245,100
Gross other individuals	51,555	52,900	54,600	58,800	61,600
less: Refunds	29,514	36,800	38,400	40,100	41,500
Total individuals and other withholding tax	228,445	236,400	247,700	262,900	265,200
Fringe benefits tax	3,893	4,040	4,250	4,430	4,630
Company tax	94,713	99,800	97,700	99,700	104,400
Superannuation fund taxes	10,910	8,460	13,210	14,660	16,110
Petroleum resource rent tax(a)	1,202	1,130	1,160	1,160	1,160
<b>Income taxation revenue</b>	<b>339,163</b>	<b>349,830</b>	<b>364,020</b>	<b>382,850</b>	<b>391,500</b>
Goods and services tax	66,385	67,230	69,790	73,240	76,960
Wine equalisation tax	995	1,110	1,150	1,190	1,230
Luxury car tax	688	670	680	710	750
Excise and customs duty					
Petrol	6,078	6,100	6,250	6,500	6,900
Diesel	11,679	12,080	12,630	13,280	14,030
Other fuel products	2,188	2,170	2,180	2,250	2,300
Tobacco	12,147	16,980	15,610	16,430	16,860
Beer	2,495	2,460	2,570	2,650	2,750
Spirits	2,397	2,510	2,580	2,660	2,760
Other alcoholic beverages(b)	1,001	1,040	1,050	1,090	1,130
Other customs duty					
Textiles, clothing and footwear	208	200	200	200	200
Passenger motor vehicles	449	400	330	160	30
Other imports	1,313	1,260	1,050	920	850
less: Refunds and draw backs	523	500	500	500	500
Total excise and customs duty	39,432	44,700	43,950	45,640	47,310
Major bank levy	1,566	1,610	1,660	1,710	1,810
Agricultural levies	563	521	540	557	572
Other taxes	7,280	7,144	8,246	8,495	8,800
<b>Indirect taxation revenue</b>	<b>116,908</b>	<b>122,985</b>	<b>126,016</b>	<b>131,542</b>	<b>137,432</b>
<b>Taxation revenue</b>	<b>456,072</b>	<b>472,815</b>	<b>490,036</b>	<b>514,392</b>	<b>528,932</b>
Sales of goods and services	12,488	14,980	16,291	17,512	18,047
Interest	4,477	5,247	6,240	6,557	6,993
Dividends	9,587	6,383	5,521	5,697	5,738
Other non-taxation revenue	10,722	11,723	9,180	7,503	7,485
<b>Non-taxation revenue</b>	<b>37,274</b>	<b>38,333</b>	<b>37,231</b>	<b>37,270</b>	<b>38,263</b>
<b>Total revenue</b>	<b>493,346</b>	<b>511,148</b>	<b>527,267</b>	<b>551,662</b>	<b>567,195</b>
<i>Memorandum:</i>					
Total excise	23,488	23,900	24,730	25,830	27,180
Total customs duty	15,944	20,800	19,220	19,810	20,130
Capital gains tax(c)	17,400	18,400	18,400	19,200	20,300

(a) This item includes an 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 2018-19 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 programs (civilian and military), where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement, and the application of the *AASB Employee Benefits* whereby the current financial year interest expenses are recalculated using the long-term government bond rate as at 1 July 2019.
- 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 Appendix B: *Supplementary Expense table and the Contingency Reserve*.

Table 3.15 provides a reconciliation of expense estimates.

**Table 3.15 Reconciliation of general government sector expense estimates**

	Estimates		Projections		Total
	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	
<b>2019-20 Budget expenses</b>	<b>500,872</b>	<b>516,105</b>	<b>535,915</b>	<b>559,874</b>	<b>2,112,766</b>
<b>Changes from 2019-20 Budget to 2019 PEFO</b>					
Effect of policy decisions(a)	0	1	1	1	2
Effect of parameter and other variations	2	2	0	0	4
<b>Total variations</b>	<b>1</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>6</b>
<b>2019 PEFO expenses</b>	<b>500,874</b>	<b>516,108</b>	<b>535,916</b>	<b>559,875</b>	<b>2,112,773</b>
<b>Changes from 2019 PEFO to 2019-20 MYEFO</b>					
Effect of policy decisions(a)	2,417	2,906	1,851	992	8,165
Effect of economic parameter variations					
Total economic parameter variations	-1,564	-2,071	-2,587	-2,930	-9,152
<i>Unemployment benefits</i>	-266	182	118	12	46
<i>Prices and wages</i>	372	4	-195	-292	-111
<i>Interest and exchange rates</i>	122	156	205	301	784
<i>GST payments to the states</i>	-1,793	-2,413	-2,715	-2,951	-9,871
Public debt interest	-449	-796	-1,183	-1,583	-4,010
Program specific parameter variations	-395	-854	-216	432	-1,033
Other variations	2,299	-171	52	-1,197	984
<b>Total variations</b>	<b>2,307</b>	<b>-986</b>	<b>-2,082</b>	<b>-4,286</b>	<b>-5,047</b>
<b>2019-20 MYEFO expenses</b>	<b>503,180</b>	<b>515,123</b>	<b>533,833</b>	<b>555,589</b>	<b>2,107,726</b>

(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 3.16 provides a reconciliation of the net capital investment estimates.

**Table 3.16: Reconciliation of general government sector net capital investment estimates**

	Estimates		Projections		Total
	2019-20 \$m	2020-21 \$m	2021-22 \$m	2022-23 \$m	
<b>2019-20 Budget net capital investment</b>	<b>4,749</b>	<b>7,717</b>	<b>9,715</b>	<b>10,780</b>	<b>32,961</b>
<b>Changes from 2019-20 Budget to 2019 PEFO</b>					
Effect of policy decisions(a)	0	0	0	0	0
Effect of parameter and other variations	0	9	0	0	9
<b>Total variations</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>9</b>
<b>2019 PEFO net capital investment</b>	<b>4,749</b>	<b>7,727</b>	<b>9,715</b>	<b>10,780</b>	<b>32,970</b>
<b>Changes from 2019 PEFO to 2019-20 MYEFO</b>					
Effect of policy decisions(a)	93	110	48	97	349
Effect of parameter and other variations	-681	-1,528	-1,595	-2,182	-5,985
<b>Total variations</b>	<b>-588</b>	<b>-1,417</b>	<b>-1,546</b>	<b>-2,085</b>	<b>-5,637</b>
<b>2019-20 MYEFO net capital investment</b>	<b>4,161</b>	<b>6,309</b>	<b>8,168</b>	<b>8,695</b>	<b>27,333</b>

(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 3.17 provides further detail 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 have improved by \$1.6 billion to a deficit of \$2.8 billion, compared with a deficit of \$4.4 billion at the 2019 PEFO. Over the four years to 2022-23, the headline cash balance has declined by \$18.8 billion. The decrease in the headline cash balance since the 2019 PEFO is primarily driven by lower underlying cash surpluses across the forward estimates.

**Table 3.17: Reconciliation of general government sector underlying and headline cash balance estimates**

	Estimates		Projections		Total
	2019-20	2020-21	2021-22	2022-23	
	\$m	\$m	\$m	\$m	\$m
<b>2019-20 MYEFO underlying cash balance(a)</b>	<b>5,028</b>	<b>6,054</b>	<b>8,351</b>	<b>4,044</b>	<b>23,476</b>
<b>plus Net cash flows from investments in financial assets for policy purposes</b>					
Student loans	-3,901	-3,742	-3,591	-3,471	-14,705
NBN loan	-6,143	-304	0	0	-6,447
WestConnex	-85	0	0	0	-85
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	900	0	0	0	900
Trade support loans	-147	-121	-88	-68	-424
CEFC loans and investments	-769	-552	-306	-559	-2,186
Northern Australia Infrastructure Facility	-288	-778	-902	-1,155	-3,123
Australian Business Securitisation Fund	-200	-200	-400	-402	-1,202
Drought and rural assistance loans	-330	-405	-441	-451	-1,627
Water infrastructure and regional development loans	-190	-200	-200	-400	-990
Official Development Assistance - Multilateral Replenishment	-120	-125	-125	-126	-496
National Housing Finance and Investment Corporation	-125	-175	-175	-175	-650
Net other(b)	-1,938	-1,953	-3,505	-3,815	-11,211
<b>Total net cash flows from investments in financial assets for policy purposes</b>	<b>-13,336</b>	<b>-8,555</b>	<b>-9,733</b>	<b>-10,622</b>	<b>-42,246</b>
plus Net Future Fund earnings(c)	5,468	na	na	na	5,468
<b>2019-20 MYEFO headline cash balance</b>	<b>-2,841</b>	<b>-2,501</b>	<b>-1,383</b>	<b>-6,578</b>	<b>-13,302</b>
<i>Memorandum:</i>					
<i>Net Future Fund earnings(c)</i>	<i>5,468</i>	<i>5,542</i>	<i>5,527</i>	<i>5,857</i>	<i>22,393</i>

(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 3.18 outlines estimates of the Government's recurrent and capital spending from 2019-20 to 2022-23.

**Table 3.18: The Government's recurrent and capital spending<sup>(a)(b)</sup>**

	Estimates		Projections	
	2019-20	2020-21	2021-22	2022-23
	\$b	\$b	\$b	\$b
<b>Recurrent spending</b>				
Operating payments	316.8	324.6	338.7	352.9
Recurrent grants	83.7	88.3	88.4	90.6
<b>Total recurrent spending</b>	<b>400.5</b>	<b>412.8</b>	<b>427.2</b>	<b>443.5</b>
<b>Capital spending</b>				
Direct capital investment <sup>(b)</sup>	16.9	19.2	20.4	20.5
Capital grants	9.2	10.9	11.9	11.7
Financial asset investments <sup>(c)</sup>	19.1	14.3	15.7	17.1
<b>Total capital spending</b>	<b>45.3</b>	<b>44.4</b>	<b>48.0</b>	<b>49.3</b>
<b>Total spending</b>	<b>445.7</b>	<b>457.3</b>	<b>475.1</b>	<b>492.8</b>

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

(b) Includes impacts from the implementation of AASB 16. Direct capital investment includes net cash flows from investments in non-financial assets, financing activities for leases and lease liability interest payments.

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

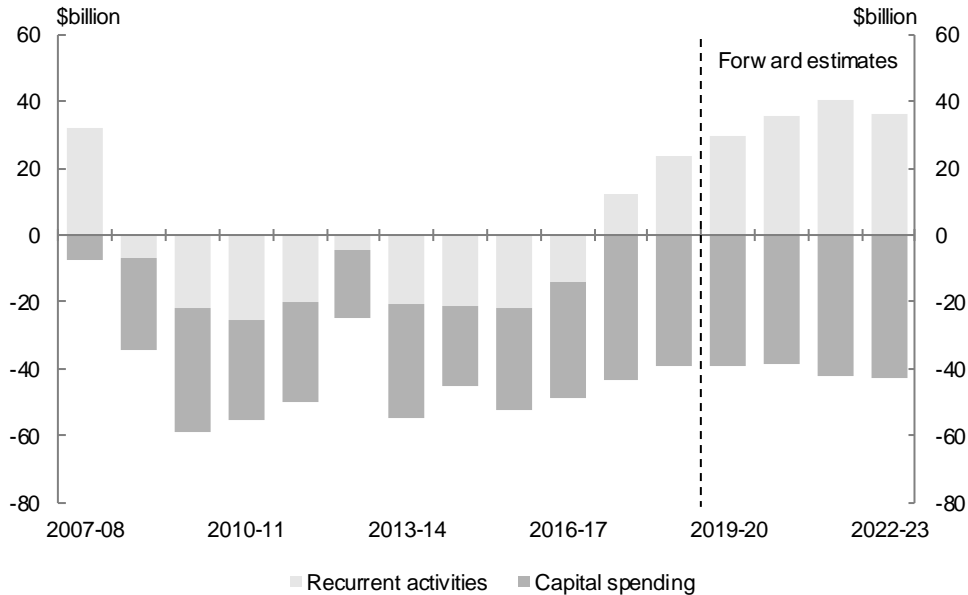
Note: Recurrent spending includes pension and income support payments, payments to government employees, payments for goods and services, subsidies, grants not made for capital purposes and specific purpose payments to states for recurrent purposes.

## Impact of capital and recurrent spending on the borrowing requirement

Chart 3.4 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 (that is, current revenue less recurrent spending) and the cash flows for capital investment.



**Chart 3.4: Contributions of recurrent and capital spending to the Government's borrowing requirement**



Note: Net capital spending includes spending on physical assets, net spending to acquire financial assets and capital grants to the states and other entities. From 2019-20 onwards, capital spending includes impacts from the implementation of AASB 16.  
Source: Treasury projections

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. With the budget projected to remain in surplus across the forward estimates, the positive cash flow from recurrent activities will increasingly contribute to funding capital spending, reducing the Government's borrowing requirement.

**Structural budget balance**

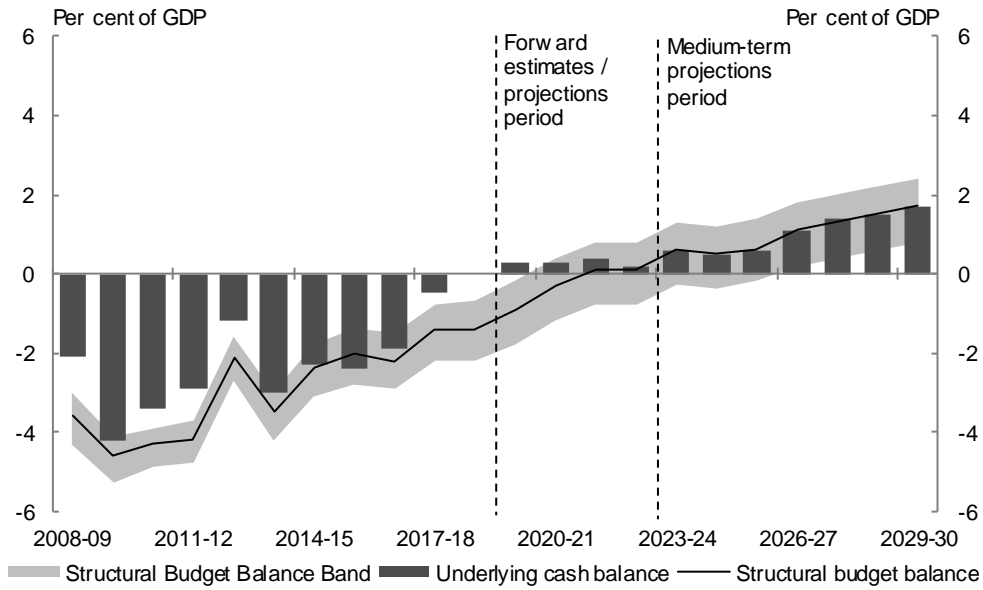
Estimates of the structural budget balance attempt to remove the impact of temporary economic factors on revenues and expenditures. These factors include deviations in real GDP, commodity prices, asset prices and the rate of unemployment from their long-run trends.

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

Over the past decade, estimates of the structural budget balance have generally been lower than the underlying cash balance. This is because commodity prices have generally been higher than their estimated long-run levels, which has outweighed the estimated effect of other cyclical factors.

The estimated structural budget balance improves over the forward estimates and medium term, as shown in Chart 3.5.

**Chart 3.5: Structural budget balance estimates**



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

Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6401.0 and Treasury.