

PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The fiscal position is forecast to maintain an improving trajectory over the forward estimates period, consistent with the Government's commitment to returning the budget to a sustainable position and reducing debt over the medium term. This is despite changes in economic parameters detracting from the fiscal outlook since the 2015-16 Budget.

The underlying cash deficit is expected to narrow from \$37.4 billion (2.3 per cent of GDP) in 2015-16 to \$14.2 billion (0.7 per cent of GDP) in 2018-19. Likewise, the fiscal balance is expected to improve from \$35.8 billion (2.2 per cent of GDP) in 2015-16 to \$10.2 billion (0.5 per cent of GDP) in 2018-19 (see Table 3.1).

Table 3.1: Budget aggregates

	Estimates			
	2015-16		2016-17	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	-35.1	-37.4	-25.8	-33.7
Per cent of GDP	-2.1	-2.3	-1.5	-2.0
Fiscal balance(\$b)	-33.0	-35.8	-23.4	-32.8
Per cent of GDP	-2.0	-2.2	-1.3	-1.9
	Projections			
	2017-18		2018-19	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	-14.4	-23.0	-6.9	-14.2
Per cent of GDP	-0.8	-1.3	-0.4	-0.7
Fiscal balance(\$b)	-9.2	-17.4	-3.2	-10.2
Per cent of GDP	-0.5	-1.0	-0.2	-0.5

(a) Excludes expected net Future Fund earnings.

The Government remains committed to repairing the budget by controlling expenditure. Government payments as a share of GDP are forecast to decline from 25.9 per cent in 2015-16 to 25.3 per cent in 2018-19.

Consistent with the Government's fiscal strategy, spending decisions taken since the 2015-16 Budget, including those arising from Senate negotiations, have been more than offset by reductions in spending elsewhere in the budget. After taking into account the provision the Government has previously made for the China-Australia Free Trade Agreement, policy decisions taken since the 2015-16 Budget have been more than offset over the forward estimates (see Table 3.6).

Part 3: Fiscal Strategy and Outlook

Economic parameter and other variations since the 2015-16 Budget have contributed to a \$33.8 billion downward revision to total receipts over the four years to 2018-19. Declines in commodity prices have resulted in lower forecast company tax receipts, while weaker wages growth is weighing on income tax receipts. In addition, weaker equity markets have resulted in downward revisions to capital gains tax receipts.

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 three 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; and
- strengthening the Government's balance sheet by improving net financial worth over time.

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

This 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 surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

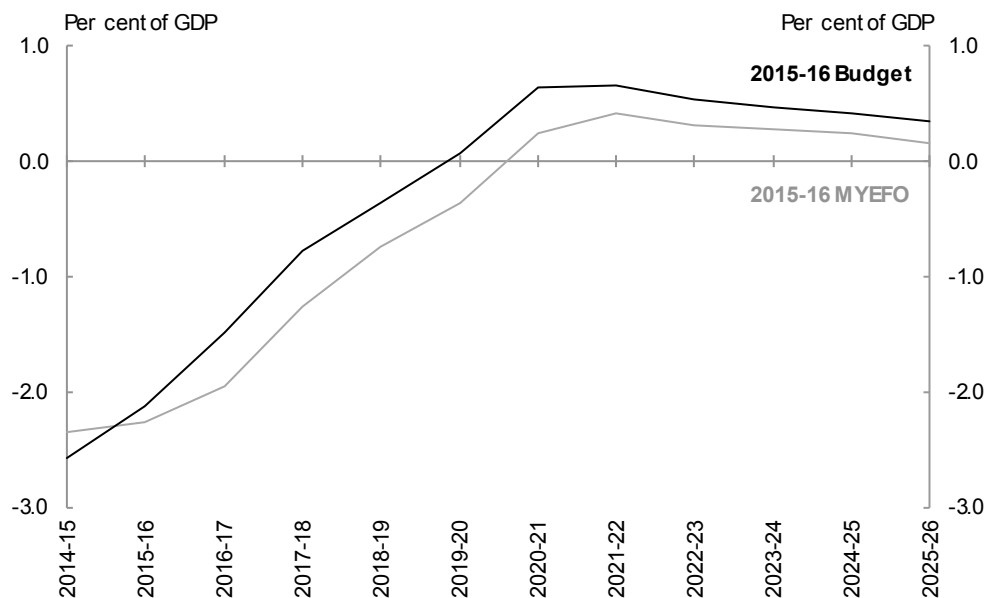
Medium-term fiscal strategy

The underlying cash balance is expected to improve over the forward estimates. This is notwithstanding a deterioration since the 2015-16 Budget that is largely attributable to considerably weaker tax receipts. Weaker commodity prices, low wages growth and equity markets have all contributed to the write-down. Revised assumptions around the working-age population have also impacted the underlying cash balance (see Box A).

The underlying cash balance is projected to return to surplus in 2020-21, one year later than projected at the 2015-16 Budget (see Chart 3.1). Modest surpluses, of up to 0.4 per cent of GDP, are projected over the remainder of the medium term, down from the 2015-16 Budget. A surplus of 0.2 per cent of GDP is projected by the end of the projection period, down from 0.4 per cent at Budget.

Along with lower-than-expected tax receipts, an increase in the Government's borrowing costs as a result of higher yields has contributed to the weaker medium-term fiscal outlook (see Attachment E: Debt Statement). The write-down in tax receipts has also meant the tax-to-GDP cap of 23.9 per cent is projected to be reached one year later than Budget, in 2021-22. These impacts are partially offset by the effects of lower population growth on projections of some Government expenditure programs.

Chart 3.1: Underlying cash balance projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections. The tax cap applies from 2021-22 at the 2015-16 MYEFO and from 2020-21 at the 2015-16 Budget. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence. Source: Treasury projections.

Box A: Impact of revised assumptions on the underlying cash balance

As outlined in Box A in Part 2, the Australian Bureau of Statistics has revised down estimates of the working-age population in recent years as a result of lower net overseas migration (NOM) outcomes than initially estimated.

Taking account of these historical revisions and lower NOM projections by the Department of Immigration and Border Protection, the working-age population is now projected to grow at around 1½ per cent over the next three years, significantly lower than the 1¾ per cent factored into the 2015-16 Budget. By June 2019, this will result in a working age population around 150,000 less than that projected at the 2015-16 Budget.

Along with lower estimates of trend average hours worked, the downward revision to the working-age population has led Treasury to reduce its estimates of the economy's potential output over coming years.

Lower estimates of trend average hours worked and the downward revision to the working-age population results in lower expected nominal GDP and therefore tax receipts. Around \$13 billion of the reduction in tax receipts (including GST) over the forward estimates reported in this MYEFO is a result of these changes in assumptions.

A smaller population also affects total payments. It results in lower expenditure on Medicare, and a smaller labour force reduces the number of unemployment benefit recipients. There is also a small impact on other payments, as in most cases population growth is only a minor driver and in other cases the revision to the relevant population cohort is relatively small (for instance, the cohort eligible for the Age Pension). In aggregate, the revision to projected population lowers expected payments by around \$4 billion (including GST payments to the States) over the four years to 2018-19.

In aggregate, the net impact of the revised assumptions on the underlying cash balance is in the order of \$9 billion over the four years to 2018-19. The change to the assumptions contributes around two thirds of the total reduction in projected tax receipts to 2021-22 compared with the 2015-16 Budget.

Investing in a stronger economy

Continued investment in Australia's productive capacity is important for building a stronger, dynamic and competitive economy that rewards effort, incentivises innovation and sets Australia up to capitalise on the abundant opportunities in the fast-growing Asian region.

The Government is investing in a stronger economy by redirecting spending to quality investment to boost productivity and workforce participation. This includes the Government's National Innovation and Science Agenda (see Box B).

The Government is supporting record levels of infrastructure investment through its \$50 billion infrastructure package announced in the 2014-15 Budget, increasing the economy's productive capacity, generating jobs and expanding business and labour market opportunities. As part of this, the Government is partnering with the States and Territories to release capital to fund productive infrastructure through the Asset Recycling Initiative.

The economic strength of Asia and ever-growing integration of the global economy present exciting opportunities for Australian businesses. These future growth opportunities are boosted by our recent historic Free Trade Agreements with Japan, Korea and China, all creating new markets for Australian businesses. The trade and investment generated through the China-Australia Free Trade Agreement will help drive growth, increase productive capacity and create jobs. The China-Australia Free Trade Agreement will help attract investment to Australia, make key industries more competitive and increase opportunities for Australian businesses.

Delivering a better tax system will help grow the economy and create jobs, while ensuring that the burden of taxation is fair. The Government has initiated an open and constructive conversation with the community on how we can achieve this.

The response to the Financial System Inquiry will further strengthen Australia's already robust financial system and ensure that it continues to meet the needs of Australians and support sustainable growth in the economy. The Government's financial system program will be implemented in stages over the coming years, ensuring Australia's financial system is equipped to respond to future challenges and embrace technology-driven innovation.

The Government is also strengthening Australia's competition frameworks to support a more dynamic, agile and innovative economy. This includes working with the State and Territory governments to unlock the benefits of choice and diversity in areas such as health and aged care.

Box B: National Innovation and Science Agenda

The Government announced its \$1.1 billion National Innovation and Science Agenda on 7 December 2015.

Building on existing policy settings, the Agenda plays a key role in supporting innovation by setting out an ambitious vision and putting in place a strategy and the architecture to deliver it. The measures in the Agenda demonstrate the Government's focus on enabling an environment that incentivises and rewards innovation, science and taking risks to succeed.

The Agenda builds on the Government's responses to the Harper Competition Policy Review and the Murray Financial System Inquiry and is the next step in building a more innovative and agile economy. This is a dynamic process and the Government will seek to model and encourage innovation in everything it does, including focusing on innovation and productivity in its forthcoming reform processes such as the Defence White Paper and the Tax White Paper.

To encourage innovation and risk taking and build an entrepreneurial culture in Australia, as part of the National Innovation and Science Agenda the Government is:

- increasing access to equity capital for innovative new businesses by providing attractive tax incentives to Australian angel investors and venture capital funds;
- removing features of our tax system that can impose extra costs on innovative businesses, including allowing greater access to tax losses and improving the tax treatment of intangible assets, such as patents, which are increasingly important in our knowledge-based economy; and
- improving our insolvency laws to facilitate the restructure of financially stressed companies and reducing the stigma of business failure.

The Agenda also includes measures to help increase the level of collaboration between industry and research to drive world-first innovation, such as a new \$200 million CSIRO Innovation Fund to co-invest in new spin-off companies and existing start-ups that will develop technology from CSIRO and other publicly funded research agencies and universities.

In addition, the Government is continuing efforts to develop and attract the best talent to create a 21st Century workforce. This includes \$84 million to ensure Australians have the digital and STEM skills needed for the future, and making it easier for Australian business to attract and retain the global skills and talents they need by making visas for entrepreneurs and high quality talent more readily available.

Box B: National Innovation and Science Agenda (continued)

The Government will also improve its own data analytic capability and skills by providing \$75 million of extra funding for Data61.

A new independent statutory board, Innovation and Science Australia, will be responsible for researching, planning and advising government on the long term strategic vision for innovation and science. One of its first responsibilities will be to review the current R&D Tax Incentive to improve its effectiveness and integrity, including by sharpening its focus on encouraging additional R&D spending, drawing on the detailed departmental review currently underway.

Fiscal discipline

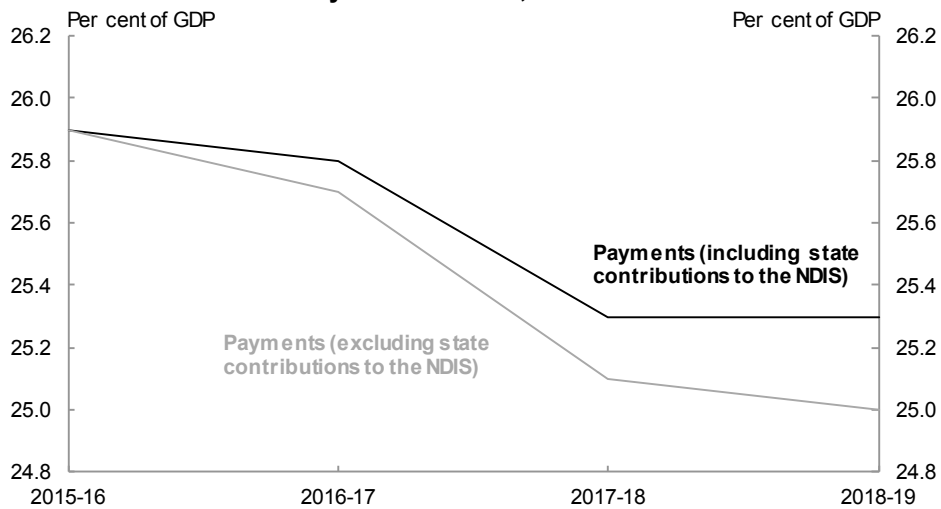
The Government remains committed to fiscal discipline by controlling expenditure. Strong fiscal discipline will reduce the Government’s share of the economy over time in order to free up resources for private investment to drive jobs and economic growth.

Payments-to-GDP

Government payments as a share of GDP are forecast to decline from 25.9 per cent in 2015-16 to 25.3 per cent in 2018-19. This decline is consistent with that reported in the 2015-16 Budget despite total nominal payments being lower across the forward estimates and a fall in expected nominal GDP.

The current payments-to-GDP ratio includes the contributions of State and Territory governments towards the National Disability Insurance Scheme. As shown in Chart 3.2, if State and Territory contributions to the NDIS were excluded the Commonwealth’s payments-to-GDP ratio would decline to 25.0 per cent of GDP by 2018-19.

Chart 3.2: Payments to GDP, 2015-16 to 2018-19



Source: Treasury.

Part 3: Fiscal Strategy and Outlook

Based on the 2014-15 Budget outcome, real growth in payments over the forward estimates has fallen since the 2015-16 Budget from 2.0 per cent to 1.8 per cent per annum, due to a lower spending profile. This rate is currently projected to increase to 3.0 per cent on average over the medium-term (2019-20 to 2025-26), indicating that further restraint in expenditure is necessary if payments growth is to remain in line with the lower rates of the forward estimates period.

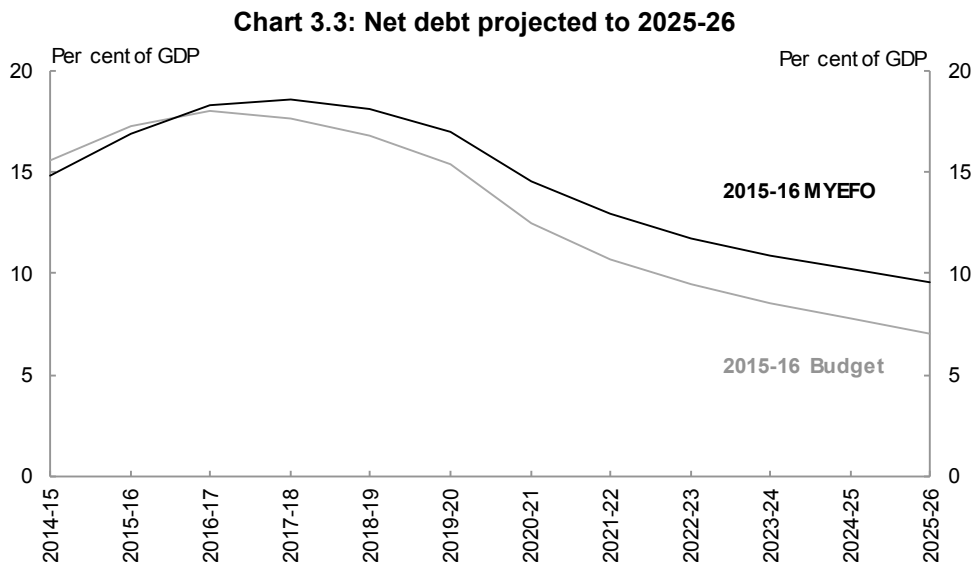
Government debt

The Government is focused on stabilising and then reducing net debt over time. Paying down debt is important as it enhances flexibility to respond to unanticipated events and reduces the Government's interest payments, freeing up resources for use in priority areas.

Gross debt measures the face value of Commonwealth Government Securities (CGS) on issue at a point in time. As net debt incorporates both selected financial assets and liabilities mostly at their fair value, it provides a broader measure of the financial position of the Commonwealth than gross debt.

Net debt is estimated to peak at 18.5 per cent of GDP in 2017-18, before declining to 18.2 per cent of GDP by the end of the forward estimates. Net debt is projected to continue to decline over the medium-term, reaching 9.6 per cent of GDP by 2025-26.

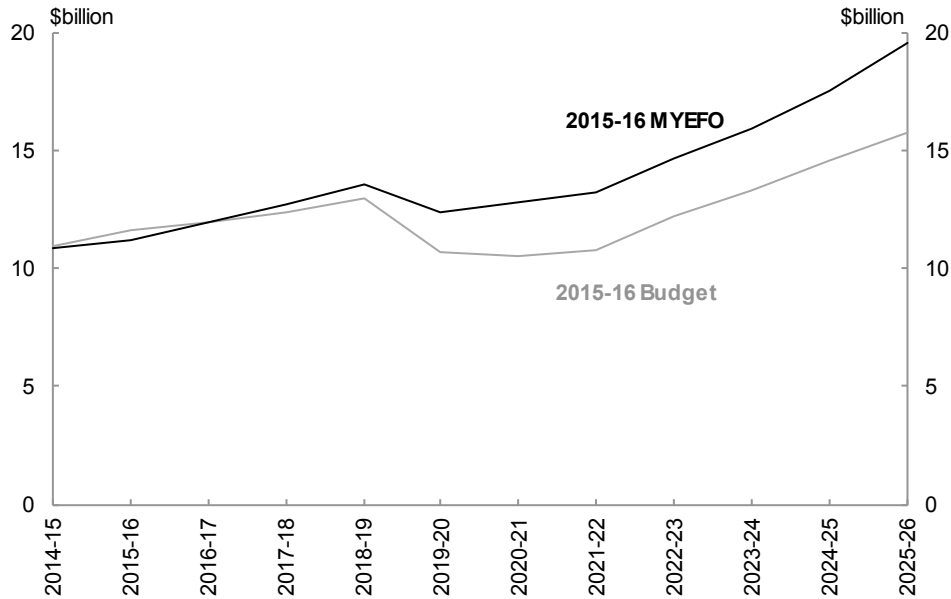
The trajectory for net debt involves a higher peak and a smaller improvement than that projected at Budget (Chart 3.3). This reflects an increase in projected CGS on issue, although this impact is partially offset by higher yields which lower the market value of CGS on issue.



Note: A tax-to-GDP cap of 23.9 per cent is applied to MYEFO projections from 2021-22. This tax cap is applied to 2015-16 Budget projections from 2020-21.
Source: Treasury projections.

Net interest payments are projected to increase over the medium term, reaching \$19.5 billion in 2025-26 (0.7 per cent of GDP) (Chart 3.4). This is \$3.8 billion higher than projected at the 2015-16 Budget, reflecting the increase in projections of CGS on issue and higher yields.

Chart 3.4: Net interest payments projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to MYEFO projections from 2021-22. The tax cap applies to 2015-16 Budget projections from 2020-21.

Source: Australian Office of Financial Management and Treasury projections.

The face value of CGS on issue (gross debt) is estimated to rise from \$429 billion in 2015-16 to \$552 billion by the end of the forward estimates period. Gross debt is projected to continue to rise over the medium term, reaching \$647 billion by 2025-26, up from \$573 billion at the 2015-16 Budget. The increase in projected CGS on issue since the 2015-16 Budget is a result of the weaker underlying cash balance and the associated higher public debt interest expense, accumulating over the medium term.

Balance sheet aggregates

Table 3.2 provides a summary of Australian Government general government sector net worth, net financial worth, net debt and net interest payments over the forward estimates.

Table 3.2: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			
	2015-16		2016-17	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	332.6	352.6	380.5	388.4
Non-financial assets	122.1	122.8	125.6	126.8
Total assets	454.7	475.3	506.1	515.1
Total liabilities	716.1	730.1	786.5	798.1
Net worth	-261.4	-254.8	-280.4	-282.9
Net financial worth(a)	-383.5	-377.5	-406.0	-409.7
Per cent of GDP	-23.2	-22.9	-23.3	-23.7
Net debt(b)	285.8	278.8	313.4	316.5
Per cent of GDP	17.3	16.9	18.0	18.3
Net interest payments	11.6	11.2	11.9	11.9
Per cent of GDP	0.7	0.7	0.7	0.7
	Projections			
	2017-18		2018-19	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	398.2	411.1	422.0	432.5
Non-financial assets	129.9	131.6	135.0	137.5
Total assets	528.1	542.7	557.0	570.0
Total liabilities	813.4	838.5	839.8	870.7
Net worth	-285.3	-295.8	-282.8	-300.7
Net financial worth(a)	-415.2	-427.3	-417.8	-438.2
Per cent of GDP	-22.6	-23.6	-21.6	-23.0
Net debt(b)	323.7	336.4	325.4	346.6
Per cent of GDP	17.6	18.5	16.8	18.2
Net interest payments	12.3	12.7	13.0	13.5
Per cent of GDP	0.7	0.7	0.7	0.7

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

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

Net debt is expected to be \$278.8 billion (16.9 per cent of GDP) in 2015-16, a slight improvement on the estimate at Budget due to valuation effects associated with an increase in yields. Net debt peaks in 2017-18 at 18.5 per cent of GDP, before falling to 18.2 per cent of GDP in 2018-19.

Net financial worth is estimated to be -\$377.5 billion (-22.9 per cent of GDP) in 2015-16 and is expected to be -\$438.2 billion (-23.0 per cent of GDP) by the end of the forward estimates in 2018-19. Compared with Budget, net financial worth has improved in 2015-16 (from -\$383.5 billion or -23.2 per cent of GDP) but has deteriorated in the other years of the forward estimates.

The deterioration in net financial worth over the forward estimates reflects increased issuance of Government securities. In part, this has been offset by the higher value of certain financial investments held by the Government, including at the Future Fund.

The budget repair strategy

The fiscal strategy explicitly recognises that the current fiscal position is in need of repair. As such, the impact of all policy decisions taken since the 2015-16 Budget (including the cost of Senate negotiations) has been offset, after taking into account the provision the Government has previously made relating to the China-Australia Free Trade Agreement. The net budget impact of new policy decisions over the forward estimates are detailed in Table 3.6.

The budget repair strategy commits the Government to bank any positive overall shift in receipts and payments due to changes in the economy. In this update, the net impact of parameter and other variations has reduced the underlying cash balance.

The net impact of the economy on the budget has been negative at each government update since the 2010-11 MYEFO. As the economy improves, net improvements from favourable parameter variations will be allowed to flow through to the bottom line.

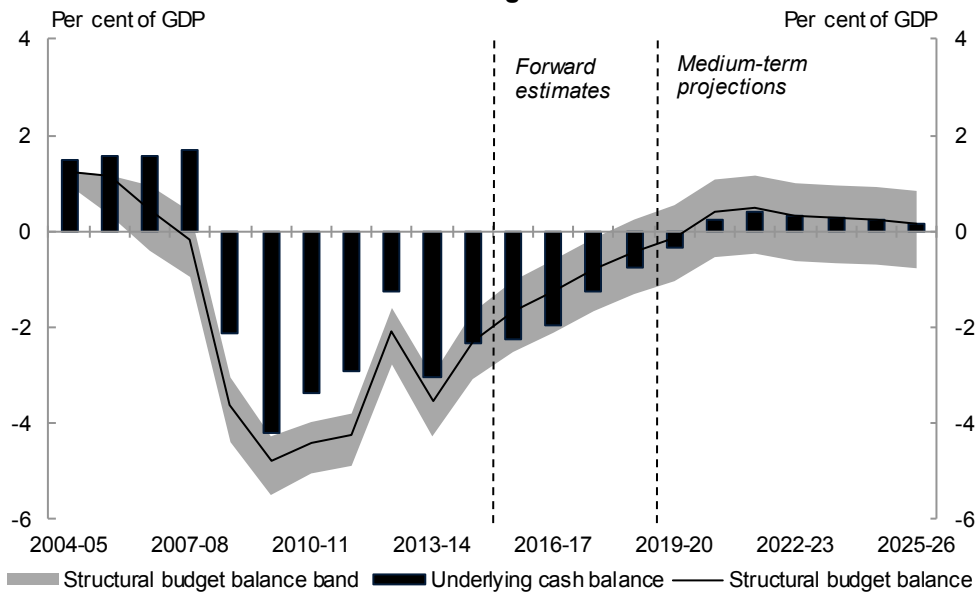
Structural budget balance

Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium-term fiscal strategy. Considered in conjunction with other measures, estimates of the structural budget balance can provide insight into the sustainability of current fiscal settings.

The structural budget balance removes factors that have a temporary effect on revenues and expenditures, such as fluctuations in commodity prices and the extent of spare capacity in the economy. Treasury estimates of spare capacity (the output gap) have narrowed since Budget, in line with slower potential economic growth. This has led to downward revisions to cyclical revenues and expenditures. In net terms the estimates of the structural budget balance have, on average, deteriorated by around ½ per cent of annual GDP in each year over the next decade.

Despite the downward revisions since Budget, the overall level of the structural budget balance improves from a deficit of around 1¼ per cent of GDP in 2015-16, to a series of small surpluses from 2021-22 onwards, converging to the underlying cash balance (see Chart 3.5).

Chart 3.5: 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.

FISCAL OUTLOOK

Budget aggregates

An underlying cash deficit of \$37.4 billion (2.3 per cent of GDP) is expected in 2015-16, improving to a deficit of \$14.2 billion (0.7 per cent of GDP) in 2018-19.

A headline cash deficit of \$48.2 billion (2.9 per cent of GDP) is expected in 2015-16, improving to a deficit of \$23.8 billion (1.2 per cent of GDP) in 2018-19.

In accrual terms, a fiscal deficit of \$35.8 billion (2.2 per cent of GDP) is expected in 2015-16, improving to a deficit of \$10.2 billion (0.5 per cent of GDP) in 2018-19.

Table 3.3 provides key budget aggregates for the Australian Government general government sector.

Table 3.3: Australian Government general government sector budget aggregates

	Estimates			
	2015-16		2016-17	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts	398.0	394.9	422.5	415.3
Per cent of GDP	24.0	23.9	24.2	24.1
Payments(a)	429.8	428.3	444.9	445.3
Per cent of GDP	25.9	25.9	25.5	25.8
Net Future Fund earnings	3.3	4.0	3.4	3.7
Underlying cash balance(b)	-35.1	-37.4	-25.8	-33.7
Per cent of GDP	-2.1	-2.3	-1.5	-2.0
Revenue	405.4	401.0	433.4	423.2
Per cent of GDP	24.5	24.3	24.8	24.5
Expenses	434.5	432.2	452.7	451.2
Per cent of GDP	26.2	26.2	25.9	26.1
Net operating balance	-29.1	-31.3	-19.2	-28.0
Net capital investment	3.9	4.5	4.2	4.7
Fiscal balance	-33.0	-35.8	-23.4	-32.8
Per cent of GDP	-2.0	-2.2	-1.3	-1.9
<i>Memorandum item:</i>				
Headline cash balance	-44.8	-48.2	-43.9	-48.9
	Projections			
	2017-18		2018-19	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts	453.6	440.9	488.2	473.5
Per cent of GDP	24.7	24.3	25.2	24.8
Payments(a)	464.3	459.9	491.1	483.3
Per cent of GDP	25.3	25.3	25.3	25.3
Net Future Fund earnings	3.7	4.0	4.0	4.5
Underlying cash balance(b)	-14.4	-23.0	-6.9	-14.2
Per cent of GDP	-0.8	-1.3	-0.4	-0.7
Revenue	466.2	452.6	501.3	487.1
Per cent of GDP	25.4	24.9	25.9	25.5
Expenses	471.8	465.9	499.4	491.4
Per cent of GDP	25.7	25.7	25.8	25.7
Net operating balance	-5.6	-13.3	1.9	-4.3
Net capital investment	3.6	4.1	5.1	5.9
Fiscal balance	-9.2	-17.4	-3.2	-10.2
Per cent of GDP	-0.5	-1.0	-0.2	-0.5
<i>Memorandum item:</i>				
Headline cash balance	-24.7	-32.3	-17.3	-23.8

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

(b) Excludes expected net Future Fund earnings.

Underlying cash balance estimates

Table 3.4: Summary of Australian Government general government sector cash flows

	Estimates			
	2015-16		2016-17	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	396.1	393.0	422.2	415.0
Capital cash receipts(a)	1.9	1.9	0.3	0.3
Total cash receipts	398.0	394.9	422.5	415.3
Cash payments				
Operating cash payments	418.7	416.5	433.4	433.2
Capital cash payments(b)	11.2	11.8	11.5	12.1
Total cash payments	429.8	428.3	444.9	445.3
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	-31.9	-33.4	-22.5	-29.9
Per cent of GDP	-1.9	-2.0	-1.3	-1.7
less Net Future Fund earnings	3.3	4.0	3.4	3.7
Underlying cash balance(d)	-35.1	-37.4	-25.8	-33.7
Per cent of GDP	-2.1	-2.3	-1.5	-2.0
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-12.9	-14.7	-21.4	-18.9
plus Net Future Fund earnings	3.3	4.0	3.4	3.7
Headline cash balance	-44.8	-48.2	-43.9	-48.9
	Projections			
	2017-18		2018-19	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	453.3	440.6	487.4	472.7
Capital cash receipts(a)	0.3	0.3	0.8	0.9
Total cash receipts	453.6	440.9	488.2	473.5
Cash payments				
Operating cash payments	451.7	446.8	477.3	469.0
Capital cash payments(b)	12.6	13.1	13.8	14.3
Total cash payments	464.3	459.9	491.1	483.3
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	-10.7	-19.0	-2.9	-9.8
Per cent of GDP	-0.6	-1.0	-0.1	-0.5
less Net Future Fund earnings	3.7	4.0	4.0	4.5
Underlying cash balance(d)	-14.4	-23.0	-6.9	-14.2
Per cent of GDP	-0.8	-1.3	-0.4	-0.7
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-14.0	-13.3	-14.5	-14.0
plus Net Future Fund earnings	3.7	4.0	4.0	4.5
Headline cash balance	-24.7	-32.3	-17.3	-23.8

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

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

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

(d) Excludes expected net Future Fund earnings.

The 2015-16 underlying cash deficit has deteriorated by \$2.3 billion since the 2015-16 Budget but has improved by around \$500 million compared with the 2014-15 Final Budget Outcome.

Since the 2015-16 Budget, the effect of parameter and other variations has resulted in a \$33.8 billion reduction in receipts across the four years to 2018-19, partly offset by a \$13.2 billion reduction in payments.

Table 3.5: Reconciliation of general government sector underlying cash balance estimates

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
2015-16 Budget underlying cash balances(a)	-35,115	-25,836	-14,396	-6,905	-82,252
Per cent of GDP	-2.1	-1.5	-0.8	-0.4	
Changes from 2015-16 Budget to 2015-16 MYEFO					
Effect of policy decisions(b)(c)					
<i>Receipts</i>	-1,345	-917	-907	-668	-3,837
<i>Payments</i>	1,171	1,510	-1,209	-1,589	-117
Total policy decisions impact on underlying cash balance	-2,516	-2,427	302	921	-3,720
Effect of parameter and other variations(c)					
<i>Receipts</i>	-1,744	-6,216	-11,805	-14,034	-33,800
<i>Payments</i>	-2,672	-1,155	-3,187	-6,217	-13,231
<i>less Net Future Fund earnings</i>	697	343	308	429	1,777
Total parameter and other variations impact on underlying cash balance	231	-5,404	-8,927	-8,246	-22,345
2015-16 MYEFO underlying cash balance(a)	-37,399	-33,667	-23,021	-14,229	-108,317
Per cent of GDP	-2.3	-2.0	-1.3	-0.7	

(a) Excludes expected net Future Fund earnings.

(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 indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

The Government remains committed to offsetting all new policy decisions. After taking into account the provision the Government previously made relating to the China-Australia Free Trade Agreement, the overall impact of policy decisions since the 2015-16 Budget is an improvement of almost \$400 million over the four years to 2018-19 (Table 3.6).

Table 3.6: Impact of decisions in the 2015-16 MYEFO (underlying cash balance)

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
Total impact of policy decisions since the 2015-16 Budget	-2,516	-2,427	302	921	-3,720
<i>Add: Provision made for the China Free Trade Agreement</i>	655	1,005	1,160	1,295	4,115
Equals total impact of policy decisions	-1,861	-1,422	1,462	2,216	395
<i>Less: Decisions taken as part of negotiations with the Senate</i>	-539	-968	199	-169	-1,476
Net budget impact of new policy decisions	-1,322	-454	1,263	2,385	1,871

Passage of a number of savings measures has been delayed in the Senate, causing a negative impact on the bottom line. The Government has taken steps to mitigate this impact where the prospect of legislation passing seemed remote.

The Government has revised its package of changes to family payments by not proceeding with measures blocked by the Senate and introducing new family payments measures and changes to the child care system that achieve similar savings.

In addition, the Government has delayed the implementation of reforms to higher education that have failed to pass the Senate, while the Government consults further on reforms for the future.

Negotiations in the Senate have also led to several additional spending measures to help secure the passage of legislation.

The net impact of decisions taken as part of negotiations with the Senate since the 2015-16 Budget has been a cost to the underlying cash balance of \$1.5 billion over the four years to 2018-19.

Adjusting for the provision previously made for the China Free Trade Agreement and Senate negotiations, the net impact of policy decisions taken since the 2015-16 Budget is a \$1.9 billion improvement in the underlying cash balance over the forward estimates.

Table 3.7: Impacts and adjustments due to the Senate (underlying cash balance)

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
Decisions where likelihood of passing legislation seemed remote					
Family Payment Reform - a new families package	26	-118	-330	-917	-1,340
Family Day Care - improving integrity	18	127	311	474	931
Child Care System - changes	15	29	191	205	441
Higher Education Reform - delay	-282	-196	32	75	-371
Impact of decisions where likelihood of passing legislation seemed remote	-222	-158	204	-162	-339
Concessions to secure passage of legislation					
Infrastructure Investment Programme - new investments	-316	-807	0	0	-1,123
National Wind Farm Commissioner and Independent Scientific Committee on Wind Turbines - establishment	-1
Taxation treatment of biodiesel - extension of phase-in for new arrangements	0	-3	-5	-7	-14
Impact of concessions to secure passage of legislation	-316	-809	-5	-7	-1,138
Delays in passing legislation (a)					
Attorney-General's	-15	-16	-16	-17	-64
Employment	-10	0	0	0	-10
Health	-210	-36	-23	-24	-293
Industry and Science	-24	0	0	0	-24
Social Services	-956	-881	-1,417	-697	-3,952
Veterans' Affairs	-11	0	0	0	-11
Impact of delays in passing legislation	-1,226	-933	-1,456	-738	-4,354
Total impacts and adjustments due to the Senate	-1,765	-1,901	-1,257	-907	-5,830

(a) Since the 2015-16 Budget

Further details of the impact of policy decisions and major variations arising from parameter and other variations on the fiscal outlook are provided in the receipt estimates and payment estimates sections below.

Receipts estimates

Total receipts are expected to be \$3.1 billion lower in 2015-16 than estimated at the 2015-16 Budget. Tax receipts are \$1.9 billion lower and non-tax receipts are \$1.2 billion lower.

Table 3.8 and Table 3.9 provide a summary of changes in total receipts in 2015-16 and 2016-17.

Table 3.8: Australian Government general government sector cash receipts — 2015-16

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	176,800	175,200	-1,600	-0.9
Gross other individuals	40,800	41,600	800	2.0
less: Refunds	28,000	27,500	-500	-1.8
Total individuals and other withholding tax	189,600	189,300	-300	-0.2
Fringe benefits tax	4,880	4,530	-350	-7.2
Company tax	68,200	67,100	-1,100	-1.6
Superannuation fund taxes	9,080	7,730	-1,350	-14.9
Minerals resource rent tax(a)	0	0	0	-
Petroleum resource rent tax	1,450	1,000	-450	-31.0
Income taxation receipts	273,210	269,660	-3,550	-1.3
Goods and services tax	57,316	57,614	298	0.5
Wine equalisation tax	820	840	20	2.4
Luxury car tax	450	520	70	15.6
Excise and customs duty				
Petrol	6,100	6,200	100	1.6
Diesel	9,110	9,320	210	2.3
Other fuel products	2,840	2,420	-420	-14.8
Tobacco	9,370	9,150	-220	-2.3
Beer	2,390	2,330	-60	-2.5
Spirits	2,030	1,970	-60	-3.0
Other alcoholic beverages(b)	960	910	-50	-5.2
Other customs duty				
Textiles, clothing and footwear	380	440	60	15.8
Passenger motor vehicles	420	550	130	31.0
Other imports	1,120	1,370	250	22.3
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	34,300	34,240	-60	-0.2
Carbon pricing mechanism	0	0	0	-
Agricultural levies	472	475	3	0.6
Other taxes(c)	3,573	4,881	1,308	36.6
Indirect taxation receipts	96,930	98,570	1,639	1.7
Taxation receipts	370,140	368,230	-1,911	-0.5

Table 3.8: Australian Government general government sector cash receipts — 2015-16 (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Sales of goods and services(c)	9,475	7,870	-1,605	-16.9
Interest received	3,334	3,874	539	16.2
Dividends	4,623	4,516	-107	-2.3
Other non-taxation receipts	10,407	10,401	-6	-0.1
Non-taxation receipts	27,840	26,661	-1,179	-4.2
Total receipts	397,980	394,891	-3,089	-0.8
<i>Memorandum:</i>				
<i>Total excise(d)</i>	<i>24,820</i>	<i>21,330</i>	<i>-3,490</i>	<i>-14.1</i>
<i>Total customs duty(d)</i>	<i>9,480</i>	<i>12,910</i>	<i>3,430</i>	<i>36.2</i>
<i>Capital gains tax(e)</i>	<i>11,500</i>	<i>10,600</i>	<i>-900</i>	<i>-7.8</i>
<i>Medicare and DisabilityCare Australia levy</i>	<i>14,870</i>	<i>15,014</i>	<i>144</i>	<i>1.0</i>

(a) The MRRT applied until 30 September 2014.

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

(c) Visa application charges have been reclassified from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The reclassification is reflected from 2015-16 MYEFO and back casting occurs in Appendix D Historical Series from 2003-04.

(d) The variation from Budget largely reflects a shift towards tobacco products being cleared through the customs system rather than the ATO.

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

Table 3.9: Australian Government general government sector cash receipts — 2016-17

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	187,600	184,500	-3,100	-1.7
Gross other individuals	43,900	44,900	1,000	2.3
less: Refunds	28,400	28,900	500	1.8
Total individuals and other withholding tax	203,100	200,500	-2,600	-1.3
Fringe benefits tax	5,090	4,700	-390	-7.7
Company tax	73,800	70,700	-3,100	-4.2
Superannuation fund taxes	10,530	9,080	-1,450	-13.8
Minerals resource rent tax(a)	0	0	0	-
Petroleum resource rent tax	1,450	1,050	-400	-27.6
Income taxation receipts	293,970	286,030	-7,940	-2.7
Goods and services tax	61,231	60,991	-239	-0.4
Wine equalisation tax	850	860	10	1.2
Luxury car tax	400	510	110	27.5
Excise and customs duty				
Petrol	6,250	6,400	150	2.4
Diesel	9,520	9,630	110	1.2
Other fuel products	2,840	2,430	-410	-14.4
Tobacco	10,180	9,700	-480	-4.7
Beer	2,500	2,330	-170	-6.8
Spirits	2,140	2,010	-130	-6.1
Other alcoholic beverages(b)	1,000	920	-80	-8.0
Other customs duty				
Textiles, clothing and footwear	290	300	10	3.4
Passenger motor vehicles	400	590	190	47.5
Other imports	1,010	1,140	130	12.9
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,710	35,030	-680	-1.9
Carbon pricing mechanism	0	0	0	-
Agricultural levies	480	485	5	1.0
Other taxes(c)	3,781	5,219	1,438	38.0
Indirect taxation receipts	102,452	103,095	644	0.6
Taxation receipts	396,422	389,125	-7,296	-1.8

Table 3.9: Australian Government general government sector cash receipts — 2016-17 (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Sales of goods and services(c)	11,735	9,580	-2,154	-18.4
Interest received	3,537	4,007	470	13.3
Dividends	3,305	4,542	1,237	37.4
Other non-taxation receipts	7,463	8,074	611	8.2
Non-taxation receipts	26,040	26,202	163	0.6
Total receipts	422,461	415,327	-7,134	-1.7
<i>Memorandum:</i>				
<i>Total excise(d)</i>	25,880	21,530	-4,350	-16.8
<i>Total customs duty(d)</i>	9,830	13,500	3,670	37.3
<i>Capital gains tax(e)</i>	13,900	12,300	-1,600	-11.5
<i>Medicare and DisabilityCare Australia levy</i>	15,570	15,592	22	0.1

(a) The MRRT applied until 30 September 2014.

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

(c) Visa application charges have been reclassified from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The reclassification is reflected from 2015-16 MYEFO and back casting occurs in Appendix D Historical Series from 2003-04.

(d) The variation from Budget largely reflects a shift towards tobacco products being cleared through the customs system rather than the ATO.

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

Table 3.10 shows the Australian Government general government cash receipts from 2014-15 to 2018-19 by heads of revenue.

Table 3.10: Australian Government general government sector cash receipts

	Actual	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Individuals and other withholding taxes					
Gross income tax withholding	166,352	175,200	184,500	195,300	207,700
Gross other individuals	38,541	41,600	44,900	49,500	54,600
<i>less: Refunds</i>	27,033	27,500	28,900	30,700	32,650
Total individuals and other withholding tax	177,860	189,300	200,500	214,100	229,650
Fringe benefits tax	4,347	4,530	4,700	4,590	4,790
Company tax	66,174	67,100	70,700	76,600	82,700
Superannuation fund taxes	5,873	7,730	9,080	9,810	10,510
Minerals resource rent tax(a)	60	0	0	0	0
Petroleum resource rent tax	1,810	1,000	1,050	1,000	1,000
Income taxation receipts	256,125	269,660	286,030	306,100	328,650
Goods and services tax	54,542	57,614	60,991	63,970	66,961
Wine equalisation tax	792	840	860	890	920
Luxury car tax	520	520	510	520	530
Excise and customs duty					
Petrol	6,035	6,200	6,400	6,700	7,050
Diesel	8,908	9,320	9,630	9,980	10,480
Other fuel products	2,885	2,420	2,430	2,530	2,640
Tobacco	8,848	9,150	9,700	9,990	10,280
Beer	2,310	2,330	2,330	2,410	2,500
Spirits	1,996	1,970	2,010	2,070	2,140
Other alcoholic beverages(b)	899	910	920	950	980
Other customs duty					
Textiles, clothing and footwear	645	440	300	250	270
Passenger motor vehicles	732	550	590	540	600
Other imports	1,664	1,370	1,140	890	990
<i>less: Refunds and drawbacks</i>	356	420	420	420	420
Total excise and customs duty	34,568	34,240	35,030	35,890	37,510
Carbon pricing mechanism	1,627	0	0	0	0
Agricultural levies	515	475	485	493	498
Other taxes(c)	4,805	4,881	5,219	5,309	5,341
Indirect taxation receipts	97,369	98,570	103,095	107,072	111,760
Taxation receipts	353,494	368,230	389,125	413,172	440,410
Sales of goods and services(c)	7,103	7,870	9,580	12,471	16,248
Interest received	3,056	3,874	4,007	4,050	4,642
Dividends	4,745	4,516	4,542	3,232	3,859
Other non-taxation receipts	9,904	10,401	8,074	7,958	8,372
Non-taxation receipts	24,807	26,661	26,202	27,711	33,121
Total receipts	378,301	394,891	415,327	440,883	473,531
<i>Memorandum:</i>					
Total excise	23,663	21,330	21,530	22,380	23,450
Total customs duty	10,905	12,910	13,500	13,510	14,060
Capital gains tax(d)	8,400	10,600	12,300	14,300	16,100
Medicare and DisabilityCare					
Australia levy	14,640	15,014	15,592	16,260	17,038

(a) The MRRT applied until 30 September 2014.

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

(c) Visa application charges have been reclassified from non-taxation receipts to taxation receipts to reflect a sustained change in the nature of receipts. The reclassification is reflected from 2015-16 MYEFO, 2014-15 Outcome and back casting occurs in Appendix D Historical Series from 2003-04.

(d) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes. The 2014-15 figure is an estimate.

Policy decisions

Policy decisions since the 2015-16 Budget have reduced total receipts by \$1.3 billion in 2015-16 and reduced total receipts by \$3.8 billion over the forward estimates period.

The reduction as a result of policy decisions primarily reflects reduced tariff receipts associated with the China-Australia Free Trade Agreement. In the absence of this, total receipts would have increased by less than \$300 million over the four years to 2018-19 as a result of policy decisions.

Parameter and other variations

Parameter and other variations have reduced total receipts since the 2015-16 Budget by \$1.7 billion in 2015-16 and \$33.8 billion over the forward estimates period.

The 2015-16 Budget made provisions for a number of measures that were still subject to finalisation at the time. Consistent with usual practice, the provision for the China-Australia Free Trade Agreement, which was included in the 2014-15 MYEFO and 2015-16 Budget, has now been removed as this measure is included in the 2015-16 MYEFO.

The 2015-16 MYEFO includes new provisions for the Trans-Pacific Partnership Agreement and the Environmental Goods Agreement. As is standard practice, measures will be published once the agreements have been formally signed.

The key economic parameters that influence tax receipts and tax revenue are shown in Table 3.11. The table shows effects on the Australian Government's main tax bases of the changed circumstances and outlook since the 2015-16 Budget.

Table 3.11: Key economic parameters^(a)

	Outcome	Estimates		Projections	
	2014-15 %	2015-16 %	2016-17 %	2017-18 %	2018-19 %
Revenue parameters at 2015-16 MYEFO					
Nominal gross domestic product	1.6	2 3/4	4 1/2	5	5 1/4
<i>Change since 2015-16 Budget</i>	0	- 1/2	-1	- 1/4	- 1/4
Compensation of employees(b)	2.4	4	3 3/4	4 1/4	4 1/2
<i>Change since 2015-16 Budget</i>	- 1/2	1/4	- 3/4	- 1/2	- 3/4
Corporate gross operating surplus(c)	-2.7	0	5	6 3/4	6 1/4
<i>Change since 2015-16 Budget</i>	0	- 1/4	-2 1/2	1/4	1/2
Unincorporated business income	8.5	4 1/2	5 1/2	6 1/2	6 3/4
<i>Change since 2015-16 Budget</i>	8 1/4	2 1/4	1 1/2	1 1/2	1
Property income(d)	5.4	0	6 1/4	4 1/2	4 3/4
<i>Change since 2015-16 Budget</i>	1 1/4	-6	- 3/4	- 3/4	- 3/4
Consumption subject to GST	3.3	4 1/4	5 1/2	4 3/4	5
<i>Change since 2015-16 Budget</i>	0	-1	0	- 3/4	- 1/2

(a) Current prices, per cent change on previous years. Changes since the 2015-16 Budget are percentage points and may not reconcile due to rounding.

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

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

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

Tax receipts have been revised down, consistent with downgrades to expected nominal GDP growth and softer equity markets since Budget. Further falls in commodity prices have led to downward revisions to company tax, while a weaker outlook for wages growth, stemming partly from lower projected population growth, has resulted in lower expected income tax from individuals. Weaker equity markets have resulted in downward revisions to capital gains, reducing expected tax receipts from superannuation, companies and individuals.

Excluding policy decisions, individuals and other withholding tax has been written down by \$300 million (0.2 per cent) in 2015-16 and \$11.8 billion across the forward estimates, reflecting ongoing weakness in collections, a weaker outlook for wages growth and lower population growth.

Company tax receipts have been written down by \$1.1 billion (1.6 per cent) in 2015-16 and \$12.1 billion over the forward estimates, mainly owing to weaker expected mining profitability associated with lower commodity prices. Superannuation fund taxes have been written down \$1.4 billion (14.9 per cent) in 2015-16 and \$5.5 billion across the forward estimates, largely owing to weaker forecast capital gains tax and higher than expected losses relating to foreign exchange movements. Petroleum resource rent tax has also been written down by \$1.7 billion over the forward estimates, consistent with a lower oil price assumption.

Excise and excise equivalent customs duty has been written down by \$4.1 billion over the forward estimates, mainly reflecting lower tobacco and alcohol excise collections and weaker forecast consumption of these goods.

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

Payment estimates

Since the 2015-16 Budget, total cash payments for 2015-16 have decreased by \$1.5 billion. The overall net impact of payment related decisions (including the impact of Senate negotiations) have decreased total cash payments by \$117 million over the four years to 2018-19, with parameter and other variations decreasing payments by a further \$13.2 billion.

Policy decisions

The impact of major policy decisions since the 2015-16 Budget which increase payments include:

- additional funding of \$300 million in 2015-16 (\$1.1 billion over two years to 2016-17) for the Roads to Recovery programme, which supports local governments across Australia to deliver vital services;
- increasing Australia's existing humanitarian program to permanently resettle an additional 12,000 refugees who are fleeing the conflict in Syria and Iraq, which is expected to increase cash payments by \$158 million in 2015-16 (\$909 million over four years to 2018-19);
- funding a number of new and amended listings on the Pharmaceutical Benefits Scheme and Repatriation Pharmaceutical Benefits Scheme, which is expected to increase cash payments by \$112 million in 2015-16 (\$621 million over four years to 2018-19);
- continuing to manage Illegal Maritime Arrivals, who are in Australia, while their immigration status is resolved, which is expected to increase cash payments by \$403 million in 2016-17 (\$500 million over two years to 2017-18); and
- as part of the Government's National Innovation and Science Agenda, establishing an ongoing research infrastructure funding program to provide long-term, sustainable funding for the National Collaborative Research Infrastructure Strategy, the Square Kilometre Array (SKA) Project and the Australian Synchrotron, which is expected to increase cash payments by \$15 million in 2016-17 (\$459 million over three years to 2018-19).

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The impact of these policy decisions is broadly offset over the four years to 2018-19 by a number of decisions that have reduced cash payments, including:

- recovering money from a greater number of people where discrepancies have been identified between employment income declared to Centrelink and Pay As You Go (PAYG) information provided by employers to the Australian Taxation Office. This measure is expected to reduce cash payments by \$152 million in 2016-17 (\$704 million over three years to 2018-19);
- removing bulk-billing incentives for pathology services, aligning bulk-billing incentives for diagnostic imaging services with those that apply to GP services and reducing the bulk-billing incentive for magnetic resonance imaging (MRI) services. This measure is expected to reduce cash payments by \$197 million in 2016-17 (\$639 million over four years to 2018-19);
- streamlining funding across a range of health workforce programs, which is expected to reduce cash payments by \$178 million in 2015-16 (\$595 million over four years to 2018-19);
- refining the Aged Care Funding Instrument to better align the funding claimed by providers to the level of care provided, through changes to the scoring matrix. This measure is expected to reduce cash payments by \$104 million in 2016-17 (\$472 million over three years to 2018-19); and
- changes to the child care system, including reducing the Child Care Subsidy for families who earn more than \$250,000 per year, capping the number of places in the Interim Home Based Carer Subsidy programme and removing the Access to Affordability Support element under the Community Child Care Fund. This measure is expected to reduce cash payments by \$15 million in 2015-16 (\$441 million over the four years to 2018-19).

Parameter and other variations

Parameter and other variations since the 2015-16 Budget have decreased payments by \$2.7 billion in 2015-16 and \$13.2 billion over the four years to 2018-19.

Major increases in cash payments in 2015-16 and over the four years to 2018-19 as a result of parameter and other variations since the 2015-16 Budget include:

- payments relating to public debt interest expenses, which are expected to increase by \$168 million in 2015-16 and by \$2.7 billion over the four years to 2018-19, reflecting increases in the financing requirement and an increase in the weighted average cost of borrowing. This is partially offset by an increase in interest receipts (\$707 million over the four years to 2018-19);

- payments related to the Research and Development Tax Incentive, which are expected to increase by \$206 million in 2015-16 (\$1.8 billion over the four years to 2018-19), largely reflecting a higher than expected number and size of claims for the Research and Development refundable tax offset;
- payments related to the Residential and Flexible Care programme, which are expected to increase by \$162 million in 2015-16 (\$943 million over the four years to 2018-19), largely reflecting a higher than expected growth in care subsidies provided to residential aged care facilities;
- National Partnership Payments for housing services, which are expected to increase by \$103 million in 2015-16, largely reflecting early commencement and completion of new houses and refurbishments in Queensland and Western Australia; and
- payments related to Illegal Maritime Arrivals (IMAs) management, which are expected to increase by \$44 million in 2015-16 (\$588 million over the four years to 2018-19), largely reflecting slower than forecast processing of onshore and offshore IMAs and updated estimates of the distribution of IMAs across the onshore detention network.

Major reductions in cash payments in 2015-16 and over the four years to 2018-19 as a result of parameter and other variations since the 2015-16 Budget include:

- payments related to the Financial Assistance Grants programme, which are expected to decrease by \$1.1 billion in 2015-16, as a result of payments being made earlier in 2014-15 to help fund the additional expenditure associated with the Government's commitment of a further \$1.1 billion over the next two years for the Roads to Recovery programme;
- payments related to the Pharmaceuticals Benefit Scheme, which are expected to decrease by \$549 million in 2015-16 (\$1.6 billion over four years to 2018-19), largely reflecting higher than expected savings from existing pricing policies;
- payments related to the Child Care Benefit, Child Care Rebate and Child Care Subsidy, which are expected to decrease by \$235 million in 2015-16 (\$591 million over four years to 2018-19), largely reflecting a higher than expected proportion of child care fee assistance payments being made in arrears;
- payments related to Income Support for People with Disability, which are expected to decrease by \$201 million in 2015-16 (\$756 million over four years to 2018-19), largely reflecting slower than expected growth in the number of recipients and changes in the medium-term population projections (refer to Box A for further information); and

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- payments related to the Income Support for Carers programme, which are expected to decrease by \$192 million in 2015-16 (\$1.2 billion over the four years to 2018-19), largely due to slower than expected growth in the number of Carer Payment recipients and changes in the medium-term population projections (refer to Box A for further information).

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

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

Fiscal balance estimates

Compared with the 2015-16 Budget, the fiscal balance is expected to be \$2.8 billion lower for 2015-16.

Table 3.12 provides a reconciliation of fiscal balance estimates, including the impact of policy decisions and parameter and other variations on revenue, expense and net capital investment.

Table 3.12: Reconciliation of general government sector fiscal balance estimates

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
2015-16 Budget fiscal balance	-32,972	-23,425	-9,236	-3,230	-68,863
Per cent of GDP	-2.0	-1.3	-0.5	-0.2	
Changes from 2015-16 Budget to 2015-16 MYEFO					
Effect of policy decisions(a)(b)					
Revenue	-991	-492	-860	-696	-3,038
Expenses	829	1,015	-2,356	-2,114	-2,627
Net capital investment	128	46	-56	-75	43
Total policy decisions impact on fiscal balance	-1,948	-1,552	1,552	1,494	-454
Effect of parameter and other variations(b)					
Revenue	-3,407	-9,735	-12,737	-13,499	-39,377
Expenses	-3,064	-2,462	-3,567	-5,944	-15,037
Net capital investment	502	501	560	918	2,482
Total parameter and other variations impact on fiscal balance	-845	-7,773	-9,731	-8,473	-26,822
2015-16 MYEFO fiscal balance	-35,765	-32,751	-17,415	-10,209	-96,139
Per cent of GDP	-2.2	-1.9	-1.0	-0.5	

(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 indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

Revenue estimates

Total revenue has been revised down by \$4.4 billion in 2015-16 since the 2015-16 Budget.

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

Detailed Australian Government general government sector revenue estimates for 2015-16 and 2016-17, compared with estimates from the 2015-16 Budget, are provided in Tables 3.13 and 3.14 respectively.

Table 3.13: Reconciliation of the 2015-16 general government sector (accrual) revenue

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	178,460	176,550	-1,910	-1.1
Gross other individuals	43,800	44,310	510	1.2
/less: Refunds	28,000	27,500	-500	-1.8
Total individuals and other withholding tax	194,260	193,360	-900	-0.5
Fringe benefits tax	5,020	4,610	-410	-8.2
Company tax	69,800	67,996	-1,804	-2.6
Superannuation fund taxes	9,180	7,780	-1,400	-15.3
Minerals resource rent tax(a)	0	0	0	0.0
Petroleum resource rent tax	1,420	960	-460	-32.4
Income taxation revenue	279,680	274,706	-4,974	-1.8
Goods and services tax	60,330	59,790	-540	-0.9
Wine equalisation tax	840	850	10	1.2
Luxury car tax	450	520	70	15.6
Excise and customs duty				
Petrol	6,130	6,220	90	1.5
Diesel	9,140	9,350	210	2.3
Other fuel products	2,850	2,423	-427	-15.0
Tobacco	9,390	9,150	-240	-2.6
Beer	2,400	2,340	-60	-2.5
Spirits	2,030	1,970	-60	-3.0
Other alcoholic beverages(b)	960	910	-50	-5.2
Other customs duty				
Textiles, clothing and footwear	380	440	60	15.8
Passenger motor vehicles	420	550	130	31.0
Other imports	1,120	1,370	250	22.3
/less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	34,400	34,303	-97	-0.3
Carbon pricing mechanism	0	0	0	0.0
Agricultural levies	472	475	3	0.6
Other taxes(c)	3,902	5,279	1,377	35.3
Indirect taxation revenue	100,394	101,217	823	0.8
Taxation revenue	380,074	375,923	-4,151	-1.1
Sales of goods and services(c)	9,542	7,956	-1,586	-16.6
Interest	4,083	4,519	436	10.7
Dividends	3,143	3,841	698	22.2
Other non-taxation revenue	8,508	8,714	206	2.4
Non-taxation revenue	25,276	25,030	-246	-1.0
Total revenue	405,350	400,953	-4,397	-1.1

Table 3.13: Reconciliation of the 2015-16 general government sector (accrual) revenue (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
<i>Memorandum:</i>				
<i>Total excise(d)</i>	24,920	21,393	-3,527	-14.2
<i>Total customs duty(d)</i>	9,480	12,910	3,430	36.2
<i>Capital gains tax(e)</i>	11,500	10,600	-900	-7.8
<i>Medicare and DisabilityCare Australia levy</i>	14,870	15,014	144	1.0

(a) The MRRT applied until 30 September 2014.

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

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

(d) The variation from Budget largely reflects a shift towards tobacco products being cleared through the customs system rather than the ATO.

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

Table 3.14: Reconciliation of the 2016-17 general government sector (accrual) revenue

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	189,130	185,950	-3,180	-1.7
Gross other individuals	47,230	47,740	510	1.1
/less: Refunds	28,400	28,900	500	1.8
Total individuals and other withholding tax	207,960	204,790	-3,170	-1.5
Fringe benefits tax	5,230	4,780	-450	-8.6
Company tax	75,500	71,600	-3,900	-5.2
Superannuation fund taxes	10,670	9,150	-1,520	-14.2
Minerals resource rent tax(a)	0	0	0	0.0
Petroleum resource rent tax	1,450	1,070	-380	-26.2
Income taxation revenue	300,810	291,390	-9,420	-3.1
Goods and services tax	64,130	63,700	-430	-0.7
Wine equalisation tax	870	860	-10	-1.1
Luxury car tax	410	510	100	24.4
Excise and customs duty				
Petrol	6,250	6,400	150	2.4
Diesel	9,530	9,640	110	1.2
Other fuel products	2,890	2,440	-450	-15.6
Tobacco	10,180	9,700	-480	-4.7
Beer	2,500	2,330	-170	-6.8
Spirits	2,140	2,010	-130	-6.1
Other alcoholic beverages(b)	1,000	920	-80	-8.0
Other customs duty				
Textiles, clothing and footwear	290	300	10	3.4
Passenger motor vehicles	400	590	190	47.5
Other imports	1,010	1,140	130	12.9
/less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,770	35,050	-720	-2.0
Carbon pricing mechanism	0	0	0	0
Agricultural levies	480	485	5	1.0
Other taxes(c)	4,148	5,547	1,399	33.7
Indirect taxation revenue	105,807	106,151	344	0.3
Taxation revenue	406,617	397,541	-9,076	-2.2
Sales of goods and services(c)	11,791	9,641	-2,151	-18.2
Interest	4,680	4,938	258	5.5
Dividends	3,561	3,050	-511	-14.4
Other non-taxation revenue	6,777	8,030	1,253	18.5
Non-taxation revenue	26,810	25,659	-1,151	-4.3
Total revenue	433,427	423,200	-10,226	-2.4

Table 3.14: Reconciliation of the 2016-17 general government sector (accrual) revenue (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
<i>Memorandum:</i>				
<i>Total excise(d)</i>	25,940	21,550	-4,390	-16.9
<i>Total customs duty(d)</i>	9,830	13,500	3,670	37.3
<i>Capital gains tax(e)</i>	13,900	12,300	-1,600	-11.5
<i>Medicare and DisabilityCare Australia levy</i>	15,570	15,592	22	0.1

(a) The MRRT applied until 30 September 2014.

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

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

(d) The variation from Budget largely reflects a shift towards tobacco products being cleared through the customs system rather than the ATO.

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

Table 3.15 shows the Australian Government general government (accrual) revenue from 2014-15 to 2018-19 by heads of revenue.

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

	Actual	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
Individuals and other withholding taxes					
Gross income tax withholding	167,645	176,550	185,950	196,870	209,390
Gross other individuals	40,565	44,310	47,740	52,580	58,010
less: Refunds	27,033	27,500	28,900	30,700	32,650
Total individuals and other withholding tax	181,177	193,360	204,790	218,750	234,750
Fringe benefits tax	4,393	4,610	4,780	4,670	4,870
Company tax	66,311	67,996	71,600	77,700	83,900
Superannuation fund taxes	5,890	7,780	9,150	9,880	10,580
Minerals resource rent tax(a)	63	0	0	0	0
Petroleum resource rent tax	1,319	960	1,070	960	990
Income taxation revenue	259,151	274,706	291,390	311,960	335,090
Goods and services tax	56,462	59,790	63,700	67,010	70,480
Wine equalisation tax	828	850	860	890	920
Luxury car tax	540	520	510	520	530
Excise and customs duty					
Petrol	6,042	6,220	6,400	6,710	7,060
Diesel	8,918	9,350	9,640	9,990	10,490
Other fuel products	2,887	2,423	2,440	2,560	2,670
Tobacco	8,826	9,150	9,700	9,990	10,280
Beer	2,312	2,340	2,330	2,410	2,500
Spirits	1,997	1,970	2,010	2,070	2,140
Other alcoholic beverages(b)	900	910	920	950	980
Other customs duty					
Textiles, clothing and footwear	645	440	300	260	270
Passenger motor vehicles	732	550	590	560	600
Other imports	1,665	1,370	1,140	930	990
less: Refunds and drawbacks	356	420	420	420	420
Total excise and customs duty	34,570	34,303	35,050	36,010	37,560
Carbon pricing mechanism	0	0	0	0	0
Agricultural levies	509	475	485	493	498
Other taxes(c)	5,114	5,279	5,547	5,638	5,725
Indirect taxation revenue	98,024	101,217	106,151	110,562	115,712
Taxation revenue	357,175	375,923	397,541	422,522	450,802
Sales of goods and services(c)	7,239	7,956	9,641	12,527	16,307
Interest	3,147	4,519	4,938	5,361	6,566
Dividends	6,178	3,841	3,050	3,702	4,030
Other non-taxation revenue	7,006	8,714	8,030	8,468	9,388
Non-taxation revenue	23,571	25,030	25,659	30,059	36,291
Total revenue	380,746	400,953	423,200	452,581	487,094

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

	Actual	Estimates		Projections	
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m
<i>Memorandum:</i>					
<i>Total excise</i>	23,687	21,393	21,550	22,430	23,500
<i>Total customs duty</i>	10,884	12,910	13,500	13,580	14,060
<i>Capital gains tax(d)</i>	8,400	10,600	12,300	14,300	16,100
<i>Medicare and DisabilityCare Australia levy</i>	14,640	15,014	15,592	16,260	17,038

(a) The MRRT applied until 30 September 2014.

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

(c) Visa application charges have been reclassified from non-taxation revenue to taxation revenue to reflect a sustained change in the nature of revenue. The reclassification is reflected from 2015-16 MYEFO, 2014-15 Outcome and back casting occurs in Appendix D Historical Series from 2003-04.

(d) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes. The 2014-15 figure is an estimate.

Expense and net capital investment estimates

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

- an increase in the accrued superannuation expenses for 2015-16 of \$531 million for civilian superannuation schemes, mainly reflecting a change from budget for the actuarial discount rate. This movement has no impact on cash payments; and
- the provision of Goods and Services Tax (GST) to the States and Territories, reflecting higher than estimated GST entitlements of \$342 million for the 2014-15 financial year. This amount was accrued in 2014-15 and will be paid in 2015-16.

Estimates of Australian Government general government sector expenses by function can be found in Attachment D.

Table 3.16 provides a reconciliation of expense estimates.

Table 3.16: Reconciliation of general government sector expense estimates

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
2015-16 Budget expenses	434,469	452,654	471,816	499,428	1,858,366
Changes from 2015-16 Budget to 2015-16 MYEFO					
Effect of policy decisions(a)	829	1,015	-2,356	-2,114	-2,627
Effect of economic parameter variations					
Total economic parameter variations	-372	-1,741	-2,484	-3,541	-8,137
<i>Unemployment benefits</i>	-337	-647	-565	-705	-2,254
<i>Prices and wages</i>	-348	-985	-1,243	-1,479	-4,055
<i>Interest and exchange rates</i>	112	121	135	174	542
<i>GST payments to the States</i>	200	-230	-810	-1,530	-2,370
Public debt interest	119	620	874	1,356	2,969
Program specific parameter variations	392	-445	296	-2,262	-2,018
Other variations	-3,204	-896	-2,254	-1,498	-7,851
Total variations	-2,235	-1,448	-5,923	-8,059	-17,664
2015-16 MYEFO expenses	432,234	451,206	465,892	491,370	1,840,702

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

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

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

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
2015-16 Budget net capital investment	3,854	4,198	3,598	5,090	16,740
Changes from 2015-16 Budget to 2015-16 MYEFO					
Effect of policy decisions(a)	128	46	-56	-75	43
Effect of parameter and other variations	502	501	560	918	2,482
Total variations	630	547	505	843	2,525
2015-16 MYEFO net capital investment	4,484	4,745	4,103	5,933	19,265

(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) and net Future Fund earnings.

Table 3.18 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector.

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

	Estimates		Projections		Total
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	
2015-16 MYEFO underlying cash balance(a)	-37,399	-33,667	-23,021	-14,229	-108,317
plus Net cash flows from investments in financial assets for policy purposes					
Student loans	-7,926	-9,382	-11,100	-12,115	-40,524
NBN investment	-7,838	-8,475	0	0	-16,313
Residential mortgage backed securities	2,195	1,919	147	0	4,261
WestConnex	-28	-647	-732	-546	-1,954
Trade support loans	-460	-511	-563	-569	-2,102
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-250	0	50	50	-150
Northern Australia Infrastructure Facility	0	-935	-870	-805	-2,610
Drought and rural assistance loans	-63	-250	-250	-250	-813
Net other	-356	-641	56	191	-751
Total net cash flows from investments in financial assets for policy purposes	-14,727	-18,922	-13,262	-14,044	-60,955
plus Net Future Fund earnings	3,955	3,717	4,007	4,465	16,145
2015-16 MYEFO headline cash balance	-48,171	-48,872	-32,276	-23,808	-153,127

(a) Excludes expected net Future Fund earnings.

The headline cash balance for 2015-16 is estimated to be a deficit of \$48.2 billion (2.9 per cent of GDP), compared with a deficit of \$44.8 billion at 2015-16 Budget. Over the four years to 2018-19, the headline cash deficit is projected to decline to \$23.8 billion in 2018-19. The deterioration in the headline cash balance has been primarily driven by the deterioration of the underlying cash balance.

