

## 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. In line with the 2016 PEFO, the underlying cash balance is projected to return to surplus in 2020-21.

The underlying cash deficit is expected to fall from \$36.5 billion (2.1 per cent of GDP) in 2016-17 to \$10.0 billion (0.5 per cent of GDP) in 2019-20. Likewise, the fiscal deficit is expected to improve from \$41.5 billion (2.4 per cent of GDP) in 2016-17 to \$6.4 billion (0.3 per cent of GDP) in 2019-20 (see Table 3.1).

**Table 3.1: Budget aggregates**

	Estimates					
	2016-17			2017-18		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
<b>Underlying cash balance(\$b)(a)</b>	<b>-37.1</b>	<b>-37.1</b>	<b>-36.5</b>	<b>-26.1</b>	<b>-26.1</b>	<b>-28.7</b>
Per cent of GDP	-2.2	-2.2	-2.1	-1.4	-1.4	-1.6
<b>Fiscal balance(\$b)</b>	<b>-37.1</b>	<b>-37.1</b>	<b>-41.5</b>	<b>-18.7</b>	<b>-18.7</b>	<b>-22.3</b>
Per cent of GDP	-2.2	-2.2	-2.4	-1.0	-1.0	-1.2
	Projections					
	2018-19			2019-20		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
<b>Underlying cash balance(\$b)(a)</b>	<b>-15.4</b>	<b>-15.4</b>	<b>-19.7</b>	<b>-6.0</b>	<b>-5.9</b>	<b>-10.0</b>
Per cent of GDP	-0.8	-0.8	-1.0	-0.3	-0.3	-0.5
<b>Fiscal balance(\$b)</b>	<b>-9.8</b>	<b>-9.8</b>	<b>-15.3</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-6.4</b>
Per cent of GDP	-0.5	-0.5	-0.8	-0.1	-0.1	-0.3

(a) Excludes expected net Future Fund earnings.

The Government remains committed to repairing the budget by controlling expenditure. Since the 2016 PEFO, payments have reduced from 25.8 per cent of GDP to 25.2 per cent of GDP in 2016-17 and are expected to remain steady at 25.2 per cent over the forward estimates.

Consistent with the Government's fiscal strategy, spending decisions taken since the 2016 PEFO have been more than offset by reductions in spending elsewhere in the budget. Decisions taken since the 2016 PEFO, including those taken to implement the Government's election commitments, improve the budget by \$2.5 billion over the forward estimates. The Government has also made significant progress in legislating over \$22 billion of budget repair measures since the election.

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Economic parameter and other variations since the 2016 PEFO have contributed to a \$30.5 billion downward revision to total receipts over the four years to 2019-20. Recent higher iron ore and coal prices are expected to improve corporate profitability in the mining sector in 2016-17, which is expected to provide some support to tax collections in 2017-18. However, this will be more than offset by the impact of weaker growth in aggregate wages and non-mining profits across the forward estimates, as well as weaker-than-expected tax collections since the 2016 PEFO. As a result of parameter and other variations, payments over the four years to 2019-20 are now expected to be \$16.5 billion lower than anticipated at the 2016 PEFO.

## **FISCAL STRATEGY**

The Government's fiscal strategy, consistent with the requirements of the *Charter of Budget Honesty Act 1998*, is outlined in Box A.

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

#### **Medium-term fiscal strategy**

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

The strategy is underpinned by the following four policy elements:

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

**Box A: The Government's fiscal strategy (continued)**

**Budget repair strategy**

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

The strategy sets out that:

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

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

**Supporting jobs and growth**

Australia's economic transition from the investment phase to the production phase of the mining boom is expected to continue.

The Government is carefully supporting Australia's transition by redirecting spending to boost productivity and workforce participation, while also continuing to control expenditure growth.

Across the country, spending has been redirected towards investments in productivity-enhancing infrastructure. These investments are improving Australians' quality of life by increasing road safety, relieving congestion and by providing better road and rail links between markets and domestic producers.

The Government is continuing its record \$50 billion investment in Australia's land transport infrastructure and is providing \$813 million from 2016-17 to 2019-20 for new projects across Australia under the Infrastructure Investment Programme. Major commitments in the Infrastructure Investment Programme include \$215 million for works on the Pacific Motorway in Queensland and \$60 million for the Outback Way.

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Initiatives to improve Australia's cities and urban areas, such as the Townsville Eastern Access Rail Corridor for which the Commonwealth is contributing \$150 million, are also included in City Deals. The first three city deals are being delivered in Townsville, Launceston and Western Sydney. City Deals will enhance productivity and liveability, support more integrated planning and improve the delivery of infrastructure.

The Government is working to further support jobs and growth in regional areas through the Regional Jobs and Investment Package which will provide funding of \$220 million over four years from 2016-17. This package will support regional communities to diversify their economies, stimulate long-term growth and deliver sustainable employment. Similarly, the Building Better Regions Fund will support infrastructure investment and employment-generating projects in regional communities.

To support NBN Co Limited (NBN Co) in completing the remaining rollout of critical national infrastructure, the Government is providing a loan of \$19.5 billion to NBN Co on terms consistent with NBN Co's indicative credit rating from ratings agencies, in the expectation that the loan will be privately refinanced in 2020-21.

The Government will also provide \$141 million over four years for new and amended listings on the Pharmaceutical Benefits Scheme and the Repatriation Pharmaceutical Benefits Scheme, as well as \$7.1 million over four years for new and amended items on the Medicare Benefits Schedule and Veterans' Benefits.

In addition, decisions since the 2016 PEFO to improve the integrity of the welfare and taxation systems will have a positive impact of \$2.2 billion over the forward estimates.

The purpose of strengthening the integrity of Australia's social welfare system is to ensure only people in genuine need receive support. Enhanced employment and non-employment income data matching, ensuring accurate disclosure of assets and investments, improved engagement with welfare recipients to better ensure they meet their obligations and improved identification and recovery of debts will improve the budget by \$2.1 billion over the forward estimates.

The Government will prevent the distribution of franking credits where a distribution to shareholders is funded by particular capital raising activities. This measure will address the issues raised by the Australian Taxation Office (ATO) in Taxpayer Alert TA 2015/2: *Franked distributions funded by raising capital to release credits to shareholders*.

The Government is also enhancing the integrity of the tax system by allowing the ATO to disclose to credit reporting bureaus the tax debt information of businesses who have not effectively engaged with the ATO to manage these debts. Businesses that do not pay their tax gain an unfair competitive and financial advantage over those that do.

The Government will also provide \$1.6 million to establish a Black Economy Taskforce to develop an innovative, whole-of-government policy response to this problem. Black economy activities disadvantage honest taxpayers, undermine the integrity of our tax and welfare systems and reduce the amount of revenue collected by governments.

Implementation of the Government's election commitments continue to build on the measures previously announced, including the *ten year enterprise tax plan*, supporting vulnerable people to find a pathway to work and additional funding to secure an advanced local defence manufacturing industry.

The Government also continues to support the culture of innovation and entrepreneurship, including through the National Innovation and Science Agenda, as well as trade agreements and competition reforms that will lift the level of private investment in our economy and improve standards of living.

The Government has announced a reform package that opens the door to competition in the provision of Australian cash equities clearing and settlement facilities. It has also introduced legislation facilitating crowd-source equity funding for small businesses and start-ups, and is creating opportunities for FinTech innovators in the Australian market.

### **Returning the budget to surplus**

The Government remains committed to returning the budget to a sustainable surplus as soon as possible. Sustained discipline to offset new expenditure and pass existing budget repair measures is needed to consolidate the budget and to lower government debt, particularly against the continuing backdrop of a challenging global economic outlook.

Government receipts, although growing, will be affected by softer domestic prices and wages growth. Expected tax receipts, excluding new policy, have been revised lower by around \$3.7 billion in 2016-17 and \$30.7 billion over the four years to 2019-20, relative to the levels expected at the time of the 2016 PEFO.

Government payments as a share of GDP have declined since the 2016 PEFO from 25.8 per cent of GDP to 25.2 per cent of GDP in 2016-17. Relative to the 2016 PEFO, payments as a share of GDP are lower in the years 2016-17 to 2018-19, remaining steady at 25.2 per cent over the forward estimates. Real growth in payments over the forward estimates is 1.9 per cent, consistent with the 2016-17 Budget. Nominal payments are lower in each year of the forward estimates and total payments are forecast to reduce by \$18.5 billion across the forward estimates compared to the 2016 PEFO. The reduction in payments is driven by program specific variations in child care related programs and the income support for seniors and carers programs. Further information on these variations is discussed in the Fiscal Outlook.

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Including parameter variations, the reduction in expected payments more than offsets the lower expected receipts in 2016-17. As a result, compared with the 2016 PEFO, the underlying cash balance has improved by \$569 million in 2016-17. Over the forward estimates, parameter and other variations have had an adverse underlying cash impact of \$12.8 billion, with positive payment outcomes offset by negative tax receipt impacts.

The size of the deficit is expected to decline from \$36.5 billion (2.1 per cent of GDP) in 2016-17 to \$10.0 billion (0.5 per cent of GDP) in 2019-20. While the underlying cash balance is expected to maintain an improving trajectory over the forward estimates, the level of the deficit has increased in the years 2017-18 to 2019-20 relative to the 2016 PEFO. Consistent with the 2016 PEFO, the underlying cash balance is projected to return to surplus in 2020-21.

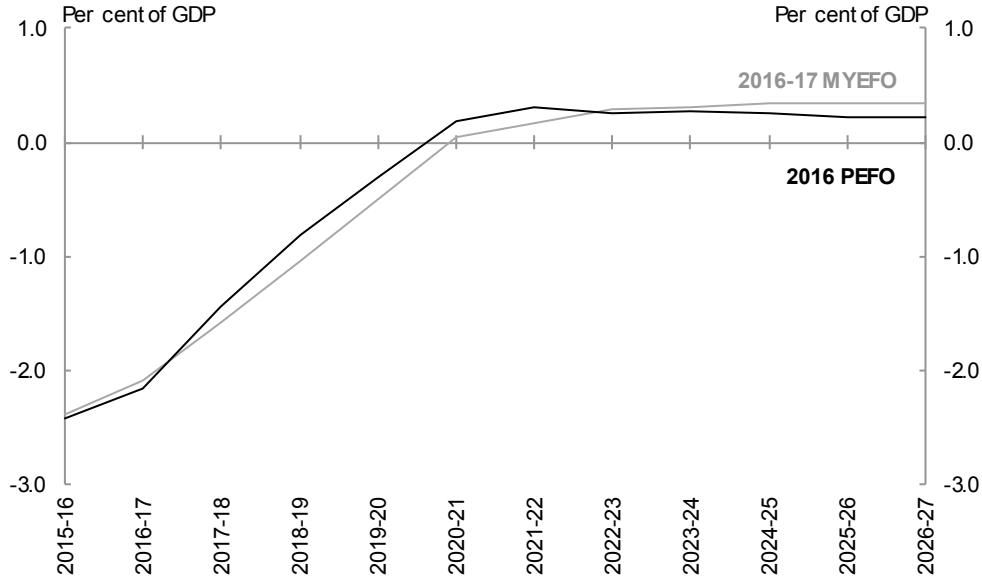
The Government remains committed to more than offsetting all new policy decisions and has made decisions improving the underlying cash balance over the forward estimates by \$2.5 billion since the 2016 PEFO. These include the Government's election commitments.

The average annual pace of fiscal consolidation across the forward estimates is 0.5 per cent of GDP.

The underlying cash balance is projected to return to surplus in 2020-21, in line with the 2016 PEFO (see Chart 3.1). Modest surpluses are projected over the remainder of the medium term. A surplus of 0.4 per cent of GDP is projected in 2026-27, up from 0.2 per cent at the 2016 PEFO. This incorporates tax receipts reaching the tax-to-GDP 'cap' of 23.9 per cent in 2022-23, beyond which tax receipts are assumed to remain at a constant share of GDP. In the 2016 PEFO, the 'cap' was reached in 2021-22.

The improvement over the medium term has been driven by lower projected payments, in particular payments related to childcare, which have more than offset the lower tax receipts and an increase in the Government's borrowing costs as a result of higher yields and larger deficits over the forward estimates (see Attachment E: Debt Statement).

**Chart 3.1: Underlying cash balance projected to 2026-27**



Note: A tax-to-GDP cap of 23.9 per cent is applied to the 2016-17 MYEFO projections from 2022-23. This tax cap applied to the 2016 PEFO projections from 2021-22. 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.

### 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.

Over the forward estimates, the structural budget balance is 0.4 percentage points lower, on average annually compared with the 2016 PEFO. This reflects a 0.7 percentage point average annual decrease in structural revenues and a 0.3 percentage point average annual fall in structural expenditures.

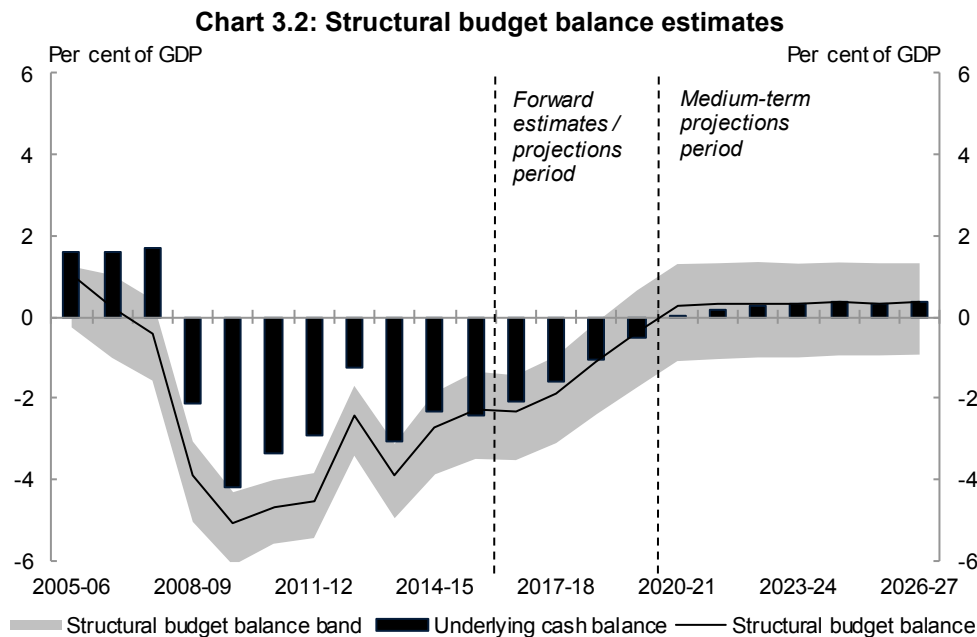
The structural budget balance is consistent with the 2016 PEFO in the medium term. Over the medium term, a slight decrease in structural revenues is offset by a decrease in average annual structural expenditures.

On average over the whole period, estimates of the structural budget balance have declined marginally since the 2016 PEFO. This reflects falls in structural revenues being slightly larger than falls in structural expenditures.

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The overall level of the structural budget balance is a deficit of around 2.3 per cent of GDP in 2016-17, and consistent with the 2016 PEFO, returns to surplus from 2020-21 onwards.

Cyclical factors, including the terms of trade and output gap, are expected to dissipate by the end of 2021-22. From there the structural budget balance converges to the underlying cash balance (see Chart 3.2).



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.

### Maintaining 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 and ensure that the budget is returned to surplus and debt is reduced.

### Payments-to-GDP

Compared with the 2016 PEFO, total payments are expected to be lower in each year of the forward estimates and lower by a total of \$18.5 billion over the forward estimates. Government payments as a share of GDP are lower than estimated at the 2016 PEFO over the years 2016-17 to 2018-19, remaining steady at 25.2 per cent of GDP over the forward estimates.

In the four years to 2019-20 real growth in payments averages 1.9 per cent per annum. This rate is projected to increase to 3.0 per cent on average over the medium-term period (2020-21 to 2026-27), indicating that further restraint in structural expenditures



is necessary if payments growth is to remain in line with the lower rates of the forward estimates period.

**Progress on budget repair measures**

Since the 2016 PEFO, the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO is over \$22 billion.

At this MYEFO, continued delays in passing legislation which implements remaining budget repair measures will negatively impact the bottom line over the forward estimates by \$1 billion. The revised estimate for the value of the remaining unlegislated budget repair measures announced prior to the 2016-17 MYEFO over the forward estimates on an underlying cash basis, taking account of parameter changes since the original announcement, is now a positive impact of \$13.2 billion. This comprises around \$0.7 billion of receipt increases and around \$12.5 billion of payments saves. The Government is committed to continuing to work with the Parliament to secure the successful passage of all remaining unlegislated measures that contribute to the task of budget repair.

## Strong balance sheet

### **Box B: Managing the Government's balance sheet**

A strong Government balance sheet means that there is greater flexibility to respond to any future economic shock by being better able to access debt markets. A number of recent decisions affect the Government's balance sheet.

The Government will not proceed with the Asset Recycling Fund (ARF) and will close the Building Australia Fund and Education Investment Fund. Infrastructure commitments that were to have been met from the ARF will continue to be funded through existing legislative and appropriation mechanisms.

This decision will provide the Government with more flexibility in managing its balance sheet and is projected to reduce gross debt by more than \$10 billion by 2019-20. Associated public debt interest savings are expected to exceed the net earnings that would have been returned by the ARF over this period.

Further, from 1 January 2017, the Government will introduce a new vocational education and training (VET) income contingent loans scheme, the VET Student Loans program to replace the old VET FEE-HELP scheme.

Under the old VET FEE-HELP scheme, providers were able to use unscrupulous marketing practices to target potential students into signing up for courses that they may not have been ready to undertake, or to request a loan for a course without the proper resources to make an informed decision. As a consequence, VET FEE-HELP loans increased from \$26 million in 2009 to over \$2.9 billion in 2015 with a large proportion of VET FEE-HELP loans not expected to be repaid.

The new VET Student Loans program will constrain the unsustainable growth in loans experienced under the VET FEE-HELP scheme by introducing tougher barriers to entry for providers, introducing loan caps on courses and having stronger course eligibility criteria. The program will reduce the total outstanding HELP debt by an estimated \$7 billion over the forward estimates and \$25 billion over 10 years.

On 18 November 2016, the Government announced that it would lend \$19.5 billion to NBN Co to complete its remaining rollout. The terms of this loan are consistent with the indicative credit ratings the NBN Co obtained from credit rating agencies. The loan is expected to be refinanced by NBN Co on external markets in 2020-21. This represents a prudent approach to managing the Government's balance sheet risk while at the same time allowing NBN Co to focus on the remaining rollout.

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			
	2016-17		2017-18	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Financial assets	383.3	383.9	413.9	406.5
Non-financial assets	126.2	138.8	130.6	143.1
<b>Total assets</b>	<b>509.5</b>	<b>522.7</b>	<b>544.4</b>	<b>549.6</b>
<b>Total liabilities</b>	<b>810.5</b>	<b>803.4</b>	<b>859.1</b>	<b>850.6</b>
<b>Net worth</b>	<b>-301.0</b>	<b>-280.7</b>	<b>-314.7</b>	<b>-300.9</b>
<b>Net financial worth(a)</b>	<b>-427.2</b>	<b>-419.5</b>	<b>-445.3</b>	<b>-444.0</b>
Per cent of GDP	-24.8	-24.0	-24.6	-24.5
<b>Net debt(b)</b>	<b>326.1</b>	<b>317.2</b>	<b>347.1</b>	<b>343.0</b>
Per cent of GDP	18.9	18.1	19.2	18.9
<b>Net interest payments</b>	<b>12.6</b>	<b>12.4</b>	<b>13.4</b>	<b>13.4</b>
Per cent of GDP	0.7	0.7	0.7	0.7
	Projections			
	2018-19		2019-20	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Financial assets	432.1	431.6	453.3	456.6
Non-financial assets	134.9	147.6	139.7	152.2
<b>Total assets</b>	<b>567.1</b>	<b>579.1</b>	<b>593.0</b>	<b>608.9</b>
<b>Total liabilities</b>	<b>886.5</b>	<b>892.7</b>	<b>909.1</b>	<b>925.6</b>
<b>Net worth</b>	<b>-319.5</b>	<b>-313.6</b>	<b>-316.2</b>	<b>-316.7</b>
<b>Net financial worth(a)</b>	<b>-454.4</b>	<b>-461.1</b>	<b>-455.8</b>	<b>-468.9</b>
Per cent of GDP	-24.0	-24.4	-22.9	-23.8
<b>Net debt(b)</b>	<b>356.7</b>	<b>359.0</b>	<b>355.4</b>	<b>363.8</b>
Per cent of GDP	18.8	19.0	17.8	18.4
<b>Net interest payments</b>	<b>14.2</b>	<b>14.3</b>	<b>14.2</b>	<b>14.7</b>
Per cent of GDP	0.8	0.8	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 \$317.2 billion (18.1 per cent of GDP) in 2016-17, an improvement on the estimate at the 2016 PEFO owing to valuation effects associated with an increase in yields and an increase in investments, loans and placements. Net debt is forecast to peak as a proportion of GDP at 19.0 per cent in 2018-19, before falling to 18.4 per cent of GDP in 2019-20. The peak in net debt is both lower and one year later than was expected at the 2016 PEFO, when it was forecast to peak at 19.2 per cent of GDP in 2017-18.

**Net financial worth** is estimated to be -\$419.5 billion (-24.0 per cent of GDP) in 2016-17 and is expected to be -\$468.9 billion (-23.8 per cent of GDP) by the end of the forward estimates in 2019-20. Compared with the 2016 PEFO, net financial worth has improved in the first two years of the forward estimates. In the latter two years, the deterioration reflects higher Commonwealth Government Securities (CGS) on issue.

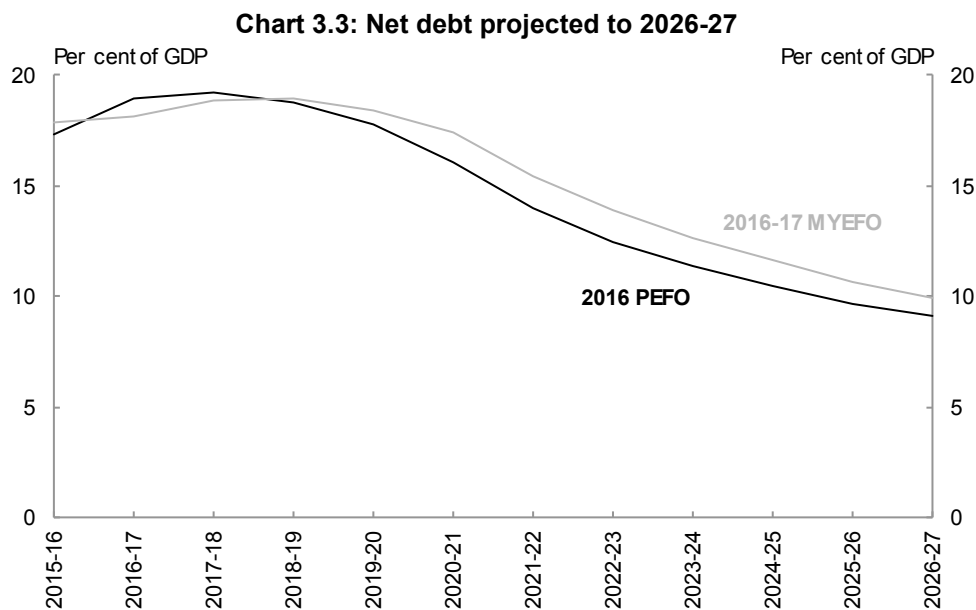
### Government debt

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 to deliver vital services and for use in priority areas.

Gross debt measures the face value of CGS on issue at a point in time. Net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements. As net debt incorporates both selected financial assets and liabilities 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 as a proportion of GDP at 19.0 per cent in 2018-19, before reducing to 18.4 per cent of GDP by the end of the forward estimates. Net debt is projected to continue to decline over the medium term, reaching 9.9 per cent of GDP by 2026-27.

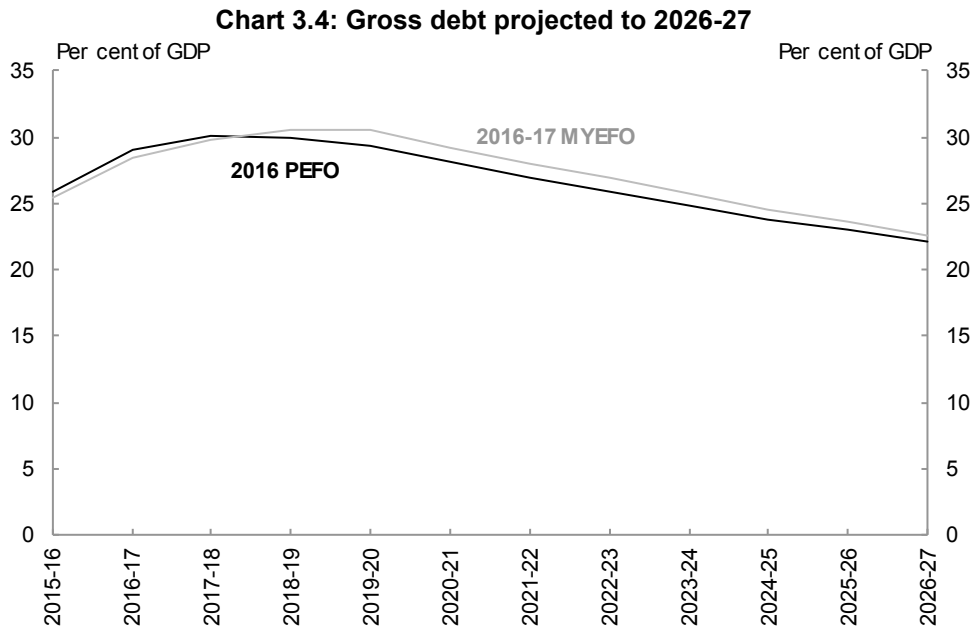
Over the medium term, net debt is higher than at the 2016 PEFO (Chart 3.3). This is primarily the result of lower underlying cash balances over the last three years of the forward estimates compared with PEFO, partly offset by a decrease in the market value of CGS on issue owing to higher average yields.



Note: A tax-to-GDP cap of 23.9 per cent is applied to MYEFO projections from 2022-23. This tax cap applied to the 2016 PEFO projections from 2021-22.  
Source: Treasury projections.

Gross debt, as measured by the face value of CGS on issue, is estimated to rise from \$498 billion in 2016-17 to \$604 billion by the end of the forward estimates period. Gross debt is projected to continue to rise over the medium term, reaching \$648 billion by 2026-27, broadly in line with the 2016 PEFO.

As a proportion of GDP, gross debt is expected to peak at 30.6 per cent in 2019-20 (Chart 3.4), later than the peak of 30.2 per cent of GDP in 2017-18 at the time of the 2016 PEFO. Over the remainder of the projection period, as a proportion of GDP, gross debt is expected to decline to 22.6 per cent by 2026-27, broadly in line with the 2016 PEFO.



Note: A tax-to-GDP cap of 23.9 per cent is applied to MYEFO projections from 2022-23. This tax cap applied to the 2016 PEFO projections from 2021-22.

Source: Australian Office of Financial Management and Treasury projections.

## FISCAL OUTLOOK

### Budget aggregates

An underlying cash deficit of \$36.5 billion (2.1 per cent of GDP) is expected in 2016-17, improving to a deficit of \$10.0 billion (0.5 per cent of GDP) in 2019-20.

A headline cash deficit of \$52.5 billion (3.0 per cent of GDP) is expected in 2016-17, improving to a deficit of \$17.9 billion (0.9 per cent of GDP) in 2019-20.

In accrual terms, a fiscal deficit of \$41.5 billion (2.4 per cent of GDP) is expected in 2016-17, improving to a deficit of \$6.4 billion (0.3 per cent of GDP) in 2019-20.

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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			
	2016-17		2017-18	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
<b>Receipts</b>	<b>411.3</b>	<b>407.4</b>	<b>437.4</b>	<b>431.2</b>
Per cent of GDP	23.9	23.3	24.2	23.8
<b>Payments(a)</b>	<b>445.0</b>	<b>441.1</b>	<b>459.9</b>	<b>456.5</b>
Per cent of GDP	25.8	25.2	25.5	25.2
Net Future Fund earnings	3.3	2.8	3.6	3.4
<b>Underlying cash balance(b)</b>	<b>-37.1</b>	<b>-36.5</b>	<b>-26.1</b>	<b>-28.7</b>
Per cent of GDP	-2.2	-2.1	-1.4	-1.6
<b>Revenue</b>	<b>416.9</b>	<b>411.1</b>	<b>449.5</b>	<b>441.2</b>
Per cent of GDP	24.2	23.5	24.9	24.3
<b>Expenses</b>	<b>450.6</b>	<b>448.6</b>	<b>464.8</b>	<b>460.4</b>
Per cent of GDP	26.2	25.6	25.7	25.4
Net operating balance	-33.7	-37.5	-15.3	-19.2
Net capital investment	3.4	4.0	3.4	3.1
<b>Fiscal balance</b>	<b>-37.1</b>	<b>-41.5</b>	<b>-18.7</b>	<b>-22.3</b>
Per cent of GDP	-2.2	-2.4	-1.0	-1.2
<i>Memorandum item:</i>				
Headline cash balance	-53.5	-52.5	-34.3	-45.2
	Projections			
	2018-19		2019-20	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
<b>Receipts</b>	<b>469.9</b>	<b>460.7</b>	<b>500.7</b>	<b>490.0</b>
Per cent of GDP	24.8	24.4	25.1	24.8
<b>Payments(a)</b>	<b>481.5</b>	<b>476.8</b>	<b>502.6</b>	<b>496.2</b>
Per cent of GDP	25.4	25.2	25.2	25.2
Net Future Fund earnings	3.8	3.6	4.1	3.9
<b>Underlying cash balance(b)</b>	<b>-15.4</b>	<b>-19.7</b>	<b>-5.9</b>	<b>-10.0</b>
Per cent of GDP	-0.8	-1.0	-0.3	-0.5
<b>Revenue</b>	<b>484.4</b>	<b>473.1</b>	<b>515.1</b>	<b>502.7</b>
Per cent of GDP	25.5	25.0	25.9	25.5
<b>Expenses</b>	<b>489.3</b>	<b>483.6</b>	<b>511.6</b>	<b>504.0</b>
Per cent of GDP	25.8	25.6	25.7	25.6
Net operating balance	-5.0	-10.6	3.5	-1.3
Net capital investment	4.9	4.7	5.5	5.2
<b>Fiscal balance</b>	<b>-9.8</b>	<b>-15.3</b>	<b>-2.1</b>	<b>-6.4</b>
Per cent of GDP	-0.5	-0.8	-0.1	-0.3
<i>Memorandum item:</i>				
Headline cash balance	-24.0	-32.3	-14.4	-17.9

(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<sup>(a)</sup>**

	Estimates			
	2016-17		2017-18	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	408.9	405.0	436.8	430.7
Capital cash receipts(b)	2.4	2.3	0.6	0.6
Total cash receipts	411.3	407.4	437.4	431.2
Cash payments				
Operating cash payments	433.8	428.8	447.4	443.6
Capital cash payments(c)	11.2	12.3	12.6	12.9
Total cash payments	445.0	441.1	459.9	456.5
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>-33.8</b>	<b>-33.7</b>	<b>-22.5</b>	<b>-25.3</b>
Per cent of GDP	-2.0	-1.9	-1.2	-1.4
less Net Future Fund earnings	3.3	2.8	3.6	3.4
<b>Underlying cash balance(e)</b>	<b>-37.1</b>	<b>-36.5</b>	<b>-26.1</b>	<b>-28.7</b>
Per cent of GDP	-2.2	-2.1	-1.4	-1.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-19.8	-18.8	-11.8	-19.9
plus Net Future Fund earnings	3.3	2.8	3.6	3.4
<b>Headline cash balance</b>	<b>-53.5</b>	<b>-52.5</b>	<b>-34.3</b>	<b>-45.2</b>
	Projections			
	2018-19		2019-20	
	PEFO \$b	MYEFO \$b	PEFO \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	469.4	460.2	500.5	489.8
Capital cash receipts(b)	0.6	0.5	0.2	0.2
Total cash receipts	469.9	460.7	500.7	490.0
Cash payments				
Operating cash payments	468.5	463.1	488.8	481.6
Capital cash payments(c)	13.0	13.7	13.7	14.6
Total cash payments	481.5	476.8	502.6	496.2
Finance leases and similar arrangements(d)	0.0	0.0	0.0	0.0
<b>GFS cash surplus(+)/deficit(-)</b>	<b>-11.6</b>	<b>-16.1</b>	<b>-1.8</b>	<b>-6.1</b>
Per cent of GDP	-0.6	-0.9	-0.1	-0.3
less Net Future Fund earnings	3.8	3.6	4.1	3.9
<b>Underlying cash balance(e)</b>	<b>-15.4</b>	<b>-19.7</b>	<b>-5.9</b>	<b>-10.0</b>
Per cent of GDP	-0.8	-1.0	-0.3	-0.5
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-12.4	-16.2	-12.6	-11.8
plus Net Future Fund earnings	3.8	3.6	4.1	3.9
<b>Headline cash balance</b>	<b>-24.0</b>	<b>-32.3</b>	<b>-14.4</b>	<b>-17.9</b>

(a) The numbers in the PEFO column were not published in the 2016 PEFO.

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

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

(d) 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.

(e) Excludes expected net Future Fund earnings.

The 2016-17 underlying cash deficit has improved by \$569 million since the 2016 PEFO.

Part 3: Fiscal strategy and outlook

Since the 2016 PEFO, the effect of parameter and other variations has resulted in a \$30.5 billion reduction in receipts across the four years to 2019-20, partly offset by a \$16.5 billion reduction in payments.

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

	Estimates		Projections		Total
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	
<b>2016-17 Budget underlying cash balance(a)</b>	<b>-37,081</b>	<b>-26,123</b>	<b>-15,406</b>	<b>-5,955</b>	<b>-84,565</b>
Per cent of GDP	-2.2	-1.4	-0.8	-0.3	
<b>Changes from 2016-17 Budget to 2016 PEFO</b>					
Effect of policy decisions(b)	-2	0	3	6	7
Effect of parameter and other variations	0	0	0	0	0
<b>Total variations</b>	<b>-2</b>	<b>0</b>	<b>3</b>	<b>6</b>	<b>7</b>
<b>2016 PEFO underlying cash balance(a)</b>	<b>-37,083</b>	<b>-26,123</b>	<b>-15,403</b>	<b>-5,949</b>	<b>-84,558</b>
Per cent of GDP	-2.2	-1.4	-0.8	-0.3	
<b>Changes from 2016 PEFO to 2016-17 MYEFO</b>					
Effect of policy decisions(b)(c)					
<i>Receipts</i>	-325	-144	391	543	464
<i>Payments</i>	-366	-457	-516	-680	-2,019
Total policy decisions impact on underlying cash balance	40	313	907	1,223	2,483
Effect of parameter and other variations(c)					
<i>Receipts</i>	-3,609	-6,008	-9,643	-11,245	-30,505
<i>Payments</i>	-3,618	-2,971	-4,196	-5,713	-16,498
<i>less Net Future Fund earnings</i>	-520	-153	-231	-266	-1,170
Total parameter and other variations impact on underlying cash balance	529	-2,884	-5,216	-5,266	-12,837
<b>2016-17 MYEFO underlying cash balance(a)</b>	<b>-36,514</b>	<b>-28,694</b>	<b>-19,711</b>	<b>-9,992</b>	<b>-94,912</b>
Per cent of GDP	-2.1	-1.6	-1.0	-0.5	

(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.

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 \$3.9 billion lower in 2016-17 than estimated at the 2016 PEFO. Tax receipts are \$4.0 billion lower and non-tax receipts are \$80 million higher compared with the 2016 PEFO.

Table 3.6 and Table 3.7 provide a summary of changes in total receipts in 2016-17 and 2017-18.



**Table 3.6: Reconciliation of 2016-17 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	181,900	179,200	-2,700	-1.5
Gross other individuals	44,400	44,400	0	0.0
less: Refunds	29,350	28,900	-450	-1.5
Total individuals and other withholding tax	196,950	194,700	-2,250	-1.1
Fringe benefits tax	4,670	4,450	-220	-4.7
Company tax	69,000	67,800	-1,200	-1.7
Superannuation fund taxes	7,380	8,030	650	8.8
Petroleum resource rent tax(b)	800	950	150	18.8
<b>Income taxation receipts</b>	<b>278,800</b>	<b>275,930</b>	<b>-2,870</b>	<b>-1.0</b>
Goods and services tax	60,928	59,953	-974	-1.6
Wine equalisation tax	900	880	-20	-2.2
Luxury car tax	570	630	60	10.5
Excise and customs duty				
Petrol	6,450	6,200	-250	-3.9
Diesel	9,860	9,960	100	1.0
Other fuel products	2,230	1,940	-290	-13.0
Tobacco	10,160	10,670	510	5.0
Beer	2,390	2,400	10	0.4
Spirits	2,100	2,120	20	1.0
Other alcoholic beverages(c)	940	930	-10	-1.1
Other customs duty				
Textiles, clothing and footwear	310	300	-10	-3.2
Passenger motor vehicles	590	500	-90	-15.3
Other imports	1,170	1,050	-120	-10.3
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,780	35,650	-130	-0.4
Agricultural levies	494	519	26	5.2
Other taxes	5,298	5,193	-105	-2.0
<b>Indirect taxation receipts</b>	<b>103,969</b>	<b>102,826</b>	<b>-1,144</b>	<b>-1.1</b>
<b>Taxation receipts</b>	<b>382,769</b>	<b>378,756</b>	<b>-4,014</b>	<b>-1.0</b>
Sales of goods and services	9,176	8,766	-411	-4.5
Interest received	3,262	2,990	-271	-8.3
Dividends	5,833	5,828	-5	-0.1
Other non-taxation receipts	10,244	11,010	766	7.5
<b>Non-taxation receipts</b>	<b>28,515</b>	<b>28,594</b>	<b>80</b>	<b>0.3</b>
<b>Total receipts</b>	<b>411,284</b>	<b>407,350</b>	<b>-3,934</b>	<b>-1.0</b>
<i>Memorandum:</i>				
Total excise	21,770	21,390	-380	-1.7
Total customs duty	14,010	14,260	250	1.8
Capital gains tax(d)	12,300	12,000	-300	-2.4
Medicare and DisabilityCare Australia levy	15,440	15,140	-300	-1.9

(a) The numbers in the PEFO column were not published in the 2016 PEFO.

(b) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be 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 3.7: Reconciliation of 2017-18 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	193,300	188,700	-4,600	-2.4
Gross other individuals	48,300	46,000	-2,300	-4.8
<i>less: Refunds</i>	31,250	29,550	-1,700	-5.4
Total individuals and other withholding tax	210,350	205,150	-5,200	-2.5
Fringe benefits tax	4,560	4,460	-100	-2.2
Company tax	76,700	77,200	500	0.7
Superannuation fund taxes	8,960	8,710	-250	-2.8
Petroleum resource rent tax	800	900	100	12.5
<b>Income taxation receipts</b>	<b>301,370</b>	<b>296,420</b>	<b>-4,950</b>	<b>-1.6</b>
Goods and services tax	64,220	62,960	-1,260	-2.0
Wine equalisation tax	990	930	-60	-6.1
Luxury car tax	570	640	70	12.3
Excise and customs duty				
Petrol	6,700	6,400	-300	-4.5
Diesel	10,260	10,360	100	1.0
Other fuel products	2,270	1,940	-330	-14.5
Tobacco	10,990	11,440	450	4.1
Beer	2,450	2,450	0	0.0
Spirits	2,130	2,180	50	2.3
Other alcoholic beverages(b)	960	960	0	0.0
Other customs duty				
Textiles, clothing and footwear	260	240	-20	-7.7
Passenger motor vehicles	630	500	-130	-20.6
Other imports	890	720	-170	-19.1
<i>less: Refunds and drawbacks</i>	420	420	0	0.0
Total excise and customs duty	37,120	36,770	-350	-0.9
Agricultural levies	495	518	23	4.7
Other taxes	5,400	5,363	-37	-0.7
<b>Indirect taxation receipts</b>	<b>108,795</b>	<b>107,181</b>	<b>-1,613</b>	<b>-1.5</b>
<b>Taxation receipts</b>	<b>410,165</b>	<b>403,601</b>	<b>-6,563</b>	<b>-1.6</b>
Sales of goods and services	11,954	11,698	-257	-2.1
Interest received	3,470	3,166	-304	-8.8
Dividends	3,462	3,370	-93	-2.7
Other non-taxation receipts	8,334	9,398	1,064	12.8
<b>Non-taxation receipts</b>	<b>27,221</b>	<b>27,632</b>	<b>411</b>	<b>1.5</b>
<b>Total receipts</b>	<b>437,385</b>	<b>431,233</b>	<b>-6,153</b>	<b>-1.4</b>
<i>Memorandum:</i>				
<i>Total excise</i>	22,530	22,070	-460	-2.0
<i>Total customs duty</i>	14,590	14,700	110	0.8
<i>Capital gains tax(c)</i>	13,900	14,100	200	1.4
<i>Medicare and DisabilityCare Australia levy</i>	16,100	15,820	-280	-1.7

(a) The numbers in the PEFO column were not published in the 2016 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 3.8 shows the Australian Government general government cash receipts from 2015-16 to 2019-20 by heads of revenue.

**Table 3.8: Australian Government general government sector (cash) receipts**

	Actual	Estimates		Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Individuals and other withholding taxes					
Gross income tax withholding	173,436	179,200	188,700	201,100	213,700
Gross other individuals	41,746	44,400	46,000	48,700	52,600
less: Refunds	28,081	28,900	29,550	31,250	32,000
Total individuals and other withholding tax	187,101	194,700	205,150	218,550	234,300
Fringe benefits tax	4,368	4,450	4,460	4,580	4,850
Company tax	62,897	67,800	77,200	82,500	87,400
Superannuation fund taxes	6,834	8,030	8,710	9,760	10,760
Petroleum resource rent tax(a)	741	950	900	900	900
<b>Income taxation receipts</b>	<b>261,941</b>	<b>275,930</b>	<b>296,420</b>	<b>316,290</b>	<b>338,210</b>
Goods and services tax	57,457	59,953	62,960	66,181	69,175
Wine equalisation tax	854	880	930	1,030	1,090
Luxury car tax	602	630	640	660	700
Excise and customs duty					
Petrol	6,150	6,200	6,400	6,700	7,150
Diesel	9,726	9,960	10,360	10,910	11,670
Other fuel products	2,115	1,940	1,940	1,970	2,060
Tobacco	9,816	10,670	11,440	12,680	13,810
Beer	2,373	2,400	2,450	2,510	2,630
Spirits	2,068	2,120	2,180	2,270	2,370
Other alcoholic beverages(b)	912	930	960	990	1,040
Other customs duty					
Textiles, clothing and footwear	498	300	240	260	290
Passenger motor vehicles	614	500	500	560	630
Other imports	1,589	1,050	720	750	820
less: Refunds and drawbacks	436	420	420	420	420
Total excise and customs duty	35,424	35,650	36,770	39,180	42,050
Agricultural levies	517	519	518	528	533
Other taxes	5,167	5,193	5,363	5,471	5,615
<b>Indirect taxation receipts</b>	<b>100,021</b>	<b>102,826</b>	<b>107,181</b>	<b>113,050</b>	<b>119,163</b>
<b>Taxation receipts</b>	<b>361,962</b>	<b>378,756</b>	<b>403,601</b>	<b>429,340</b>	<b>457,373</b>
Sales of goods and services	7,592	8,766	11,698	15,358	16,538
Interest received	2,936	2,990	3,166	3,521	4,046
Dividends	5,540	5,828	3,370	3,517	3,895
Other non-taxation receipts	8,895	11,010	9,398	8,933	8,188
<b>Non-taxation receipts</b>	<b>24,962</b>	<b>28,594</b>	<b>27,632</b>	<b>31,329</b>	<b>32,667</b>
<b>Total receipts</b>	<b>386,924</b>	<b>407,350</b>	<b>431,233</b>	<b>460,669</b>	<b>490,040</b>
<i>Memorandum:</i>					
<i>Total excise</i>	21,492	21,390	22,070	23,040	24,510
<i>Total customs duty</i>	13,932	14,260	14,700	16,140	17,540
<i>Capital gains tax(c)</i>	10,700	12,000	14,100	15,800	17,500
<i>Medicare and DisabilityCare   Australia levy</i>	15,030	15,140	15,820	16,430	17,210

(a) This item includes a small amount of MRRT receipts relating to a pre-2013-14 income year which cannot be 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 2015-16 reported figure is an estimate.

### Policy decisions

Policy decisions since the 2016 PEFO have reduced total receipts by \$325 million in 2016-17 and increased total receipts by \$464 million over the forward estimates period.

### Parameter and other variations

Parameter and other variations have reduced total receipts since the 2016 PEFO by \$3.6 billion in 2016-17 and \$30.5 billion over the forward estimates period.

Parameter and other variations have reduced tax receipts since the 2016 PEFO by \$3.7 billion in 2016-17 and \$30.7 billion over the forward estimates period.

The key economic parameters that influence tax receipts and tax revenue are shown in Table 3.9. The table shows effects on the Australian Government's main tax bases of the changed circumstances and outlook since the 2016 PEFO.

**Table 3.9: Key economic parameters<sup>(a)</sup>**

	Outcome	Estimates		Projections	
	2015-16 %	2016-17 %	2017-18 %	2018-19 %	2019-20 %
<b>Revenue parameters at 2016-17 MYEFO</b>					
Nominal gross domestic product	2.3	5 3/4	3 3/4	4 1/4	4 1/2
<i>Change since 2016 PEFO</i>	-0.2	1 1/2	-1 1/4	- 3/4	- 1/2
Compensation of employees(b)	3.1	3 1/4	4	5	5 1/4
<i>Change since 2016 PEFO</i>	0.0	- 3/4	- 1/2	1/2	1/4
Corporate gross operating surplus(c)	-1.9	12 3/4	2 1/2	1 3/4	2 3/4
<i>Change since 2016 PEFO</i>	-3.1	7 1/2	-3 1/4	-3 1/2	-2
Unincorporated business income	8.0	3 1/4	4 1/2	3	3
<i>Change since 2016 PEFO</i>	3.5	- 3/4	-1	-2 1/2	-1 3/4
Property income(d)	3.4	4 3/4	6 1/4	4 3/4	4 3/4
<i>Change since 2016 PEFO</i>	1.6	- 1/4	0	- 1/4	- 1/2
Consumption subject to GST	4.0	3 1/2	5	5 1/2	5 1/4
<i>Change since 2016 PEFO</i>	0.1	-1 1/4	- 1/4	0	0

(a) Current prices, per cent change on previous year. Changes since the 2016 PEFO 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 System of National Accounts measure of company profits, gross of depreciation.

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

Tax collections since the 2016 PEFO have been lower than expected, and this softness is expected to persist over the forward estimates. Recent higher commodity prices are expected to improve corporate profitability in the mining sector in 2016-17, and therefore provide some support to tax collections in 2017-18. However, this will be more than offset by the impact of weaker growth in aggregate wages and non-mining profits over the forward estimates, as well as weaker-than-expected tax collections since the 2016 PEFO.

Excluding policy decisions, individuals and other withholding tax has been revised down by \$2.1 billion (-1.1 per cent) in 2016-17 and \$18.3 billion over the forward estimates. This reflects a weaker outlook for aggregate wages, as well as weaker-than-expected collections since the 2016 PEFO.

Excluding policy decisions, company tax receipts have been revised down by \$1.0 billion (-1.4 per cent) in 2016-17 and \$5.9 billion over the forward estimates. This largely reflects weaker non-mining corporate profits, partly offset by higher mining profits from stronger commodity prices over 2016-17 flowing through to higher receipts in 2017-18 (see Box C).

Excluding policy decisions, goods and services tax receipts have been revised down by \$5.3 billion over the forward estimates. This is consistent with lower forecasts for domestic prices, as well as weaker-than-expected collections.

Excluding policy decisions, excise and excise-equivalent customs duty has been revised down by \$0.5 billion over the forward estimates, largely owing to lower receipts from fuel products, partially offset by stronger tobacco receipts.

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

**Box C: Illustrative example of the company tax payments system**

The design of the company tax payments system means that there may be significant delays between accruing profit and paying the associated tax liability.

Large companies pay their tax in twelve monthly instalments during the year and a balancing payment after the end of the year. For a large company reporting on a year ending on 30 June 2017, the balancing payment is due on 1 December 2017. The tax return is lodged around a month later, in early 2018.

The instalment payments are calculated as a share of the company's ordinary business income ('turnover'), with the rate determined from the company's last assessed tax return.

Consider a company with usual turnover of \$600 million and expenses of \$500 million, resulting in taxable income of \$100 million and a tax liability of \$30 million (30 per cent). The tax is therefore 5 per cent of turnover. This company would be required to pay monthly tax instalments of \$2.5 million.

If the company's turnover suddenly doubles from 1 July 2016, to \$1,200 million for the year with no change to expenses – a windfall gain – then its taxable income for this year will be \$700 million and its associated tax liability will be \$210 million.

The company's instalments will continue to be paid as 5 per cent of turnover, which amounts to only \$60 million in twelve payments of \$5 million. These are paid with a one month delay, so only \$55 million of the \$210 million liability will be paid during 2016-17.

**Box C: Illustrative example of the company tax payments system (continued)**

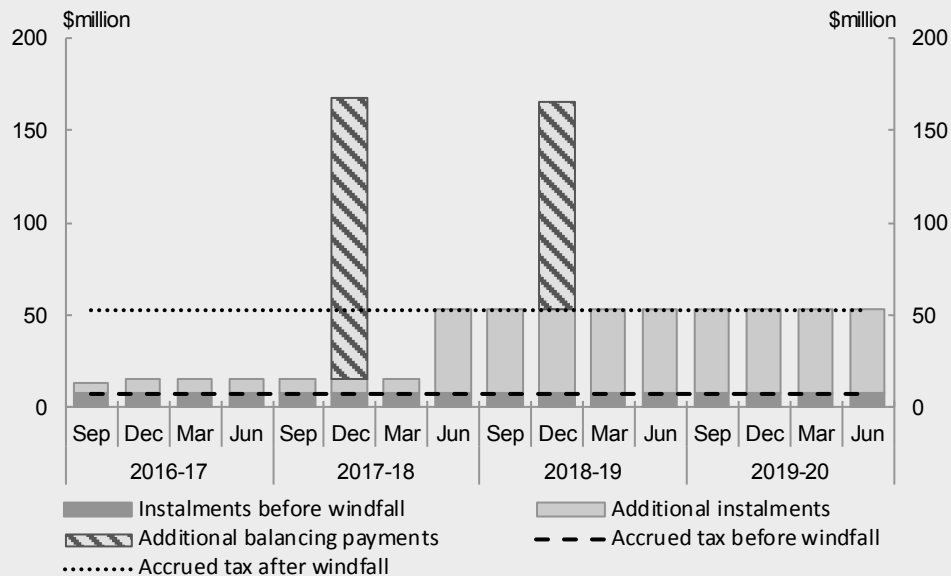
Most of the tax liability – the remaining \$155 million – will be paid as a balancing payment on 1 December 2017 (during the 2017-18 year).

The company’s 2016-17 tax return, lodged in early 2018, will show that it was liable for \$210 million of tax on a turnover of \$1,200 million. From the following payment period (assumed here to be during the June quarter 2018), the company will pay its instalments at a rate of 17.5 per cent of its turnover.

This means that, in this example, the full impact of the increase in income will only be seen in tax collections from the June quarter 2018 (that is, at least 18 months after the initial increase in turnover in mid-2016). The impact will be seen for an entire year only from 2018-19.

Chart 3.5 illustrates the above scenario on a quarterly basis. Tax receipts only increase by around \$30 million in the first year – through higher instalments – even though the accrued tax liability has increased by \$180 million. In the second year the difference between accrued tax and instalments from the previous year is paid as a balancing payment, but the instalment rates do not increase to reflect the increased profitability of the company until the final quarter. This means that an additional balancing payment falls in the third year, which is the first full year that the increased instalments reflect the increased profitability of the company.

**Chart 3.5: An illustrative example of the company tax payments system**



The 2016-17 MYEFO continues to include a provision for the Environmental Goods Agreement as this agreement has still not been finalised.

The 2016-17 MYEFO also includes new provisions for a number of Free Trade Agreements (FTAs) for which negotiating mandates are in place being:

- FTA with the Gulf Cooperation Council (GCC).
- India FTA – Comprehensive Economic Cooperation Agreement (CECA).
- Pacific Agreement on closer economic relations (PACER) plus.
- Regional Comprehensive Economic Partnership (RCEP).
- Australia’s accession to the World Trade Organisation (WTO) Government Procurement Agreement (GPA).
- Indonesia Australia Comprehensive Economic Partnership Agreement.

As is standard practice, measures will be published once the agreements have been formally signed.

### **Payments estimates**

Since the 2016 PEFO, estimated cash payments for 2016-17 have decreased by \$4.0 billion. The overall net impact of payment related decisions has decreased total cash payments by \$2.0 billion over the four years to 2019-20, with parameter and other variations decreasing payments by a further \$16.5 billion.

### **Policy decisions**

Major policy decisions since the 2016 PEFO that increase payments include:

- providing additional funding for the *Infrastructure Investment Programme* for 75 infrastructure projects across Australia, which is expected to increase payments by \$42 million in 2016-17 (\$813 million over four years to 2019-20). This measure delivers on the Government’s election commitment;
- providing funding to deliver important community infrastructure projects across Australia, which is expected to increase payments by \$62 million in 2016-17 (\$541 million over four years to 2019-20). This measure delivers on the Government’s election commitment with the majority of the projects delivered through the *Community Development Grants Programme*;
- establishing the Building Better Regions Fund, which is expected to increase payments by \$298 million over three years to 2019-20. This measure delivers on the Government’s election commitment;
- continuing funding for Commonwealth water functions, which is expected to increase payments by \$398 million over three years to 2019-20;

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- restoring funding for the Australian Renewable Energy Agency, which is expected to increase payments by \$553 million over three years from 2017-18 (\$800 million over five years to 2021-22). This was part of a range of policy amendments that secured the passage of the Budget Savings (Omnibus) Bill 2016; and
- delaying commencement of the 2015-16 MYEFO measure *Medicare Benefits Schedule – changes to diagnostic imaging and pathology services bulk billing incentives* until 1 July 2017 to allow for further consultation. This measure is expected to increase payments by \$198 million in 2016-17 (\$200 million over four years to 2019-20).

Major policy decisions since the 2016 PEFO that decrease cash payments, include:

- redirecting uncommitted infrastructure funding consistent with the Government's election policy statement *The Coalition's Policy for a Stronger Economy and Balanced Budget*, which is expected to decrease payments by \$864 million in 2016-17 and \$2.2 billion over four years to 2019-20. This measure delivers on the Government's election commitment;
- expanding the Department of Human Services' fraud prevention and debt recovery capability, which is expected to achieve savings of \$2.1 billion over four years to 2019-20. This measure delivers on the Government's election commitment;
- not proceeding with the 2014-15 Budget measure to establish the ARF, which is expected to decrease public debt interest payments by \$701 million over three years from 2017-18, more than offsetting the reduction in expected earnings from the ARF. Infrastructure commitments that were to have been paid from the ARF will continue to be funded through existing mechanisms;
- ceasing the Family Tax Benefit (FTB) Part A end-of-year supplement for families with a household income in excess of \$80,000 per year from 1 July 2016, which is expected to decrease payments by \$644 million over four years to 2019-20. This was part of a range of policy amendments that secured the passage of the Budget Savings (Omnibus) Bill 2016; and
- capping the amount of funding available in the wage subsidy pool of the *jobactive* program for those aged 25 years and over, which is expected to decrease payments by \$329 million over four years to 2019-20.

#### Parameter and other variations

Parameter and other variations since the 2016 PEFO have decreased payments by \$3.6 billion in 2016-17 and \$16.5 billion over the four years to 2019-20.

Major increases in cash payments in 2016-17 and over the four years to 2019-20 as a result of parameter and other variations since the 2016 PEFO include:



- payments related to the Pharmaceutical Benefits Scheme (PBS), which are expected to increase by \$972 million in 2016-17 (\$745 million over the four years to 2019-20), largely reflecting a higher than anticipated uptake by patients of five Hepatitis C medicines listed on the PBS. This impact is partially offset by an increase in receipts resulting from Special Pricing Arrangements and Risk Share Arrangements with a range of PBS providers;
- payments to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program, which are expected to increase by \$544 million in 2016-17 (\$157 million over the four years to 2019-20), largely reflecting the bring-forward of payments previously expected to be made in 2017-18 following the completion of audits allowing claims to be paid;
- payments relating to the Australian Renewable Energy Agency, which are expected to increase by \$118 million in 2016-17 (\$159 million over the four years to 2019-20), largely reflecting delayed grant payments for projects previously expected to be made in 2015-16 and additional grants provided as part of the Large Scale Solar competitive funding round; and
- payments relating to the Asset Recycling Initiative, which are expected to increase by \$279 million over the four years to 2019-20 (although a reduction in payments of \$154 million is expected in 2016-17), largely reflecting delays in payments to the States and Territories as a result of 2015-16 project milestones not being completed when expected. Funding of \$877 million has also been set aside for future Victorian infrastructure projects.

Major reductions in cash payments in 2016-17 and over the four years to 2019-20 as a result of parameter and other variations since the 2016 PEFO include:

- after overall upward estimates variations over the past six Budget updates since the 2013 PEFO of \$7.8 billion over the relevant forward estimates period, payments related to the Child Care Benefit, Child Care Rebate and Child Care Subsidy, are expected to decrease by \$724 million in 2016-17 (\$7.6 billion over the four years to 2019-20). The number of children accessing subsidised child care is anticipated to grow by almost 300,000 over the forward estimates, from 1.7 million in 2016-17 to 2.0 million in 2019-20;
- payments related to the Income Support for Seniors program, which are expected to decrease by \$656 million in 2016-17 (\$2.7 billion over the four years to 2019-20), largely reflecting slower than expected growth in the number of Age Pension recipients and lower than expected average Age Pension payment rates;
- payments related to the Research and Development Tax Incentive, which are expected to decrease by \$151 million in 2016-17 (\$580 million over the four years to 2019-20), largely reflecting a lower than expected growth in demand for the program following lower take up in 2015-16;

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- payments related to the Income Support for Carers program, which are expected to decrease by \$127 million in 2016-17 (\$1.9 billion over the four years to 2019-20), largely reflecting lower than expected growth in the number of Carer Payment recipients.

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 2016 PEFO, the fiscal balance is expected to deteriorate by \$4.4 billion for 2016-17.

Table 3.10 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 3.10: Reconciliation of general government sector fiscal balance estimates**

	Estimates		Projections		Total
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	
<b>2016-17 Budget fiscal balance</b>	<b>-37,129</b>	<b>-18,675</b>	<b>-9,839</b>	<b>-2,059</b>	<b>-67,701</b>
Per cent of GDP	-2.2	-1.0	-0.5	-0.1	
<b>Changes from 2016-17 Budget to 2016 PEFO</b>					
Effect of policy decisions(a)	-2	0	3	6	7
Effect of parameter and other variations	0	0	0	0	0
<b>Total variations</b>	<b>-2</b>	<b>0</b>	<b>3</b>	<b>6</b>	<b>7</b>
<b>2016 PEFO fiscal balance</b>	<b>-37,130</b>	<b>-18,675</b>	<b>-9,836</b>	<b>-2,053</b>	<b>-67,694</b>
Per cent of GDP	-2.2	-1.0	-0.5	-0.1	
<b>Changes from 2016 PEFO to 2016-17 MYEFO</b>					
Effect of policy decisions(a)(b)					
Revenue	-406	130	866	1,104	1,694
Expenses	-927	-1,138	-367	-270	-2,703
Net capital investment	62	64	8	-10	125
Total policy decisions impact on fiscal balance	459	1,204	1,225	1,383	4,272
Effect of parameter and other variations(b)					
Revenue	-5,343	-8,431	-12,174	-13,467	-39,416
Expenses	-985	-3,291	-5,321	-7,353	-16,949
Net capital investment	453	-334	-166	-347	-394
Total parameter and other variations impact on fiscal balance	-4,811	-4,807	-6,687	-5,767	-22,072
<b>2016-17 MYEFO fiscal balance</b>	<b>-41,482</b>	<b>-22,278</b>	<b>-15,298</b>	<b>-6,437</b>	<b>-85,495</b>
Per cent of GDP	-2.4	-1.2	-0.8	-0.3	

(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 \$5.7 billion in 2016-17 since the 2016 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.

Detailed Australian Government general government sector revenue estimates for 2016-17 and 2017-18, compared with estimates from the 2016 PEFO, are provided in Tables 3.11 and 3.12 respectively.

**Table 3.11: Reconciliation of 2016-17 general government sector (accrual) revenue<sup>(a)</sup>**

	Estimates		Change on PEFO	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	183,380	180,680	-2,700	-1.5
Gross other individuals	47,300	46,700	-600	-1.3
less: Refunds	29,350	28,900	-450	-1.5
Total individuals and other withholding tax	201,330	198,480	-2,850	-1.4
Fringe benefits tax	4,760	4,540	-220	-4.6
Company tax	70,100	68,700	-1,400	-2.0
Superannuation fund taxes	7,510	8,080	570	7.6
Petroleum resource rent tax(b)	850	920	70	8.2
<b>Income taxation revenue</b>	<b>284,550</b>	<b>280,720</b>	<b>-3,830</b>	<b>-1.3</b>
Goods and services tax	63,340	62,410	-930	-1.5
Wine equalisation tax	910	910	0	0.0
Luxury car tax	570	640	70	12.3
Excise and customs duty				
Petrol	6,450	6,210	-240	-3.7
Diesel	9,870	9,970	100	1.0
Other fuel products	2,235	1,940	-295	-13.2
Tobacco	10,160	10,670	510	5.0
Beer	2,390	2,400	10	0.4
Spirits	2,100	2,120	20	1.0
Other alcoholic beverages(c)	940	930	-10	-1.1
Other customs duty				
Textiles, clothing and footwear	310	300	-10	-3.2
Passenger motor vehicles	590	500	-90	-15.3
Other imports	1,170	1,050	-120	-10.3
less: Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	35,795	35,670	-125	-0.3
Agricultural levies	494	519	26	5.2
Other taxes	5,625	5,476	-149	-2.6
<b>Indirect taxation revenue</b>	<b>106,733</b>	<b>105,625</b>	<b>-1,108</b>	<b>-1.0</b>
<b>Taxation revenue</b>	<b>391,283</b>	<b>386,345</b>	<b>-4,938</b>	<b>-1.3</b>
Sales of goods and services	9,249	8,905	-345	-3.7
Interest	4,280	3,771	-509	-11.9
Dividends	3,242	2,687	-555	-17.1
Other non-taxation revenue	8,807	9,404	597	6.8
<b>Non-taxation revenue</b>	<b>25,579</b>	<b>24,767</b>	<b>-811</b>	<b>-3.2</b>
<b>Total revenue</b>	<b>416,862</b>	<b>411,112</b>	<b>-5,749</b>	<b>-1.4</b>
<i>Memorandum:</i>				
Total excise	21,785	21,410	-375	-1.7
Total customs duty	14,010	14,260	250	1.8
Capital gains tax(d)	12,300	12,000	-300	-2.4
Medicare and DisabilityCare Australia levy	15,440	15,140	-300	-1.9

(a) The numbers in the PEFO column were not published in the 2016 PEFO.

(b) This item includes a small amount of MRRT revenue relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.

(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 3.12: Reconciliation of 2017-18 general government sector (accrual) revenue<sup>(a)</sup>**

	Estimates		Change on PEFO	
	PEFO \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	194,920	190,320	-4,600	-2.4
Gross other individuals	51,530	48,560	-2,970	-5.8
<i>less:</i> Refunds	31,250	29,550	-1,700	-5.4
Total individuals and other withholding tax	215,200	209,330	-5,870	-2.7
Fringe benefits tax	4,650	4,550	-100	-2.2
Company tax	78,300	78,600	300	0.4
Superannuation fund taxes	9,140	8,790	-350	-3.8
Petroleum resource rent tax	780	890	110	14.1
<b>Income taxation revenue</b>	<b>308,070</b>	<b>302,160</b>	<b>-5,910</b>	<b>-1.9</b>
Goods and services tax	66,910	65,680	-1,230	-1.8
Wine equalisation tax	1,000	940	-60	-6.0
Luxury car tax	570	640	70	12.3
Excise and customs duty				
Petrol	6,710	6,410	-300	-4.5
Diesel	10,270	10,370	100	1.0
Other fuel products	2,270	1,940	-330	-14.5
Tobacco	10,990	11,440	450	4.1
Beer	2,450	2,450	0	0.0
Spirits	2,130	2,180	50	2.3
Other alcoholic beverages(b)	960	960	0	0.0
Other customs duty				
Textiles, clothing and footwear	260	240	-20	-7.7
Passenger motor vehicles	650	520	-130	-20.0
Other imports	900	730	-170	-18.9
<i>less:</i> Refunds and drawbacks	420	420	0	0.0
Total excise and customs duty	37,170	36,820	-350	-0.9
Agricultural levies	495	518	23	4.7
Other taxes	5,728	6,083	355	6.2
<b>Indirect taxation revenue</b>	<b>111,873</b>	<b>110,682</b>	<b>-1,192</b>	<b>-1.1</b>
<b>Taxation revenue</b>	<b>419,944</b>	<b>412,842</b>	<b>-7,102</b>	<b>-1.7</b>
Sales of goods and services	12,011	11,737	-274	-2.3
Interest	4,841	4,322	-519	-10.7
Dividends	3,666	3,294	-372	-10.1
Other non-taxation revenue	9,063	9,028	-34	-0.4
<b>Non-taxation revenue</b>	<b>29,581</b>	<b>28,381</b>	<b>-1,200</b>	<b>-4.1</b>
<b>Total revenue</b>	<b>449,524</b>	<b>441,223</b>	<b>-8,301</b>	<b>-1.8</b>
<i>Memorandum:</i>				
<i>Total excise</i>	22,550	22,090	-460	-2.0
<i>Total customs duty</i>	14,620	14,730	110	0.8
<i>Capital gains tax(c)</i>	13,900	14,100	200	1.4
<i>Medicare and DisabilityCare Australia levy</i>	16,100	15,820	-280	-1.7

(a) The numbers in the PEFO column were not published in the 2016 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 3.13 shows the changes to individual heads of revenue over the forward estimates.

**Table 3.13: Australian Government general government sector (accrual) revenue**

	Actual	Estimates		Projections	
	2015-16 \$m	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m
Individuals and other withholding taxes					
Gross income tax withholding	174,815	180,680	190,320	202,850	215,550
Gross other individuals	43,261	46,700	48,560	51,560	55,450
less: Refunds	28,081	28,900	29,550	31,250	32,000
Total individuals and other withholding tax	189,996	198,480	209,330	223,160	239,000
Fringe benefits tax	4,453	4,540	4,550	4,670	4,940
Company tax	63,529	68,700	78,600	84,100	88,800
Superannuation fund taxes	6,830	8,080	8,790	9,810	10,820
Petroleum resource rent tax(a)	876	920	890	890	900
<b>Income taxation revenue</b>	<b>265,684</b>	<b>280,720</b>	<b>302,160</b>	<b>322,630</b>	<b>344,460</b>
Goods and services tax	60,312	62,410	65,680	69,270	72,040
Wine equalisation tax	883	910	940	1,040	1,100
Luxury car tax	620	640	640	660	700
Excise and customs duty					
Petrol	6,189	6,210	6,410	6,710	7,030
Diesel	9,788	9,970	10,370	10,920	11,480
Other fuel products	2,125	1,940	1,940	1,970	2,030
Tobacco	9,928	10,670	11,440	12,680	13,810
Beer	2,386	2,400	2,450	2,510	2,570
Spirits	2,071	2,120	2,180	2,270	2,370
Other alcoholic beverages(b)	917	930	960	990	1,040
Other customs duty					
Textiles, clothing and footwear	498	300	240	260	290
Passenger motor vehicles	614	500	520	580	640
Other imports	1,591	1,050	730	760	830
less: Refunds and drawbacks	436	420	420	420	420
Total excise and customs duty	35,671	35,670	36,820	39,230	41,670
Agricultural levies	522	519	518	528	533
Other taxes	5,246	5,476	6,083	6,423	6,703
<b>Indirect taxation revenue</b>	<b>103,255</b>	<b>105,625</b>	<b>110,682</b>	<b>117,150</b>	<b>122,747</b>
<b>Taxation revenue</b>	<b>368,939</b>	<b>386,345</b>	<b>412,842</b>	<b>439,780</b>	<b>467,206</b>
Sales of goods and services	7,619	8,905	11,737	15,434	16,614
Interest	2,930	3,771	4,322	5,142	6,168
Dividends	6,240	2,687	3,294	3,662	4,016
Other non-taxation revenue	9,326	9,404	9,028	9,043	8,695
<b>Non-taxation revenue</b>	<b>26,116</b>	<b>24,767</b>	<b>28,381</b>	<b>33,281</b>	<b>35,492</b>
<b>Total revenue</b>	<b>395,055</b>	<b>411,112</b>	<b>441,223</b>	<b>473,062</b>	<b>502,699</b>
<i>Memorandum:</i>					
Total excise	21,625	21,410	22,090	23,060	24,110
Total customs duty	14,046	14,260	14,730	16,170	17,560
Capital gains tax(c)	10,700	12,000	14,100	15,800	17,500
Medicare and DisabilityCare Australia levy	15,000	15,140	15,820	16,430	17,210

(a) This item includes a small amount of MRRT revenue relating to a pre-2013-14 income year which cannot be separately disclosed owing to taxpayer confidentiality.

(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 2015-16 reported 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:

- superannuation expenses for defined benefit superannuation in 2016-17 are discounted based on the 1 July 2016 bond rate of 2.7 per cent, in accordance with the requirements of Australian Accounting Standards, rather than the actuarially determined discount rate of 6 per cent used for budget reporting purposes. The net increase in expenses in 2016-17 is \$3.6 billion, but with no impact on cash payments; and
- the Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, rather than when cash payments are made.

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

Table 3.14 provides a reconciliation of expense estimates.

**Table 3.14: Reconciliation of general government sector expense estimates**

	Estimates		Projections		Total
	2016-17	2017-18	2018-19	2019-20	
	\$m	\$m	\$m	\$m	\$m
<b>2016-17 Budget expenses</b>	<b>450,553</b>	<b>464,812</b>	<b>489,324</b>	<b>511,604</b>	<b>1,916,292</b>
<b>Changes from 2016-17 Budget to 2016 PEFO</b>					
Effect of policy decisions(a)	1	-1	-3	-6	-9
Effect of parameter and other variations	0	0	0	0	0
<b>Total variations</b>	<b>1</b>	<b>-1</b>	<b>-3</b>	<b>-6</b>	<b>-9</b>
<b>2016 PEFO expenses</b>	<b>450,554</b>	<b>464,811</b>	<b>489,320</b>	<b>511,598</b>	<b>1,916,283</b>
<b>Changes from 2016 PEFO to 2016-17 MYEFO</b>					
Effect of policy decisions(a)	-927	-1,138	-367	-270	-2,703
Effect of economic parameter variations					
Total economic parameter variations	-708	-1,242	-1,707	-2,009	-5,665
<i>Unemployment benefits</i>	135	62	-59	-195	-57
<i>Prices and wages</i>	143	-24	-151	-257	-289
<i>Interest and exchange rates</i>	-66	-80	-87	-107	-340
<i>GST payments to the States</i>	-920	-1,200	-1,410	-1,450	-4,980
Public debt interest	-661	-406	-88	462	-692
Program specific parameter variations	595	-1,589	-3,324	-3,481	-7,800
Other variations	-211	-54	-202	-2,325	-2,792
<b>Total variations</b>	<b>-1,912</b>	<b>-4,429</b>	<b>-5,688</b>	<b>-7,623</b>	<b>-19,652</b>
<b>2016-17 MYEFO expenses</b>	<b>448,642</b>	<b>460,382</b>	<b>483,632</b>	<b>503,975</b>	<b>1,896,631</b>

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

Table 3.15 provides a reconciliation of the net capital investment estimates.

**Table 3.15: Reconciliation of general government sector net capital investment estimates**

	Estimates		Projections		Total
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	
<b>2016-17 Budget net capital investment</b>	<b>3,437</b>	<b>3,388</b>	<b>4,885</b>	<b>5,517</b>	<b>17,227</b>
<b>Changes from 2016-17 Budget to 2016 PEFO</b>					
Effect of policy decisions(a)	1	1	0	0	2
Effect of parameter and other variations	0	0	0	0	0
<b>Total variations</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>2</b>
<b>2016 PEFO net capital investment</b>	<b>3,438</b>	<b>3,389</b>	<b>4,885</b>	<b>5,517</b>	<b>17,229</b>
<b>Changes from 2016 PEFO to 2016-17 MYEFO</b>					
Effect of policy decisions(a)	62	64	8	-10	125
Effect of parameter and other variations	453	-334	-166	-347	-394
<b>Total variations</b>	<b>515</b>	<b>-270</b>	<b>-158</b>	<b>-357</b>	<b>-269</b>
<b>2016-17 MYEFO net capital investment</b>	<b>3,953</b>	<b>3,119</b>	<b>4,727</b>	<b>5,161</b>	<b>16,960</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) and net Future Fund earnings.

Table 3.16 provides further detail between the underlying and headline cash balance estimates of the Australian Government general government sector.



**Table 3.16: Reconciliation of general government sector underlying and headline cash balance estimates**

	Estimates		Projections		Total
	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	
<b>2016-17 MYEFO underlying cash balance(a)</b>	<b>-36,514</b>	<b>-28,694</b>	<b>-19,711</b>	<b>-9,992</b>	<b>-94,912</b>
<b>plus Net cash flows from investments in financial assets for policy purposes</b>					
Student loans	-7,270	-7,391	-7,267	-7,222	-29,151
NBN investment	-9,225	0	0	0	-9,225
NBN loan	0	-10,287	-6,529	-2,246	-19,062
Residential mortgage backed securities	837	581	731	347	2,496
WestConnex	-617	-722	-576	-85	-2,000
Trade support loans	-232	-235	-237	-239	-943
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	0	50	50	50	150
Northern Australia Infrastructure Facility	-935	-870	-805	-740	-3,349
Drought and rural assistance loans	-211	-250	-250	-154	-865
National water infrastructure loan facility	-50	-50	-200	-500	-800
Net other	-1,088	-773	-1,085	-998	-3,944
<b>Total net cash flows from investments in financial assets for policy purposes</b>	<b>-18,792</b>	<b>-19,947</b>	<b>-16,168</b>	<b>-11,787</b>	<b>-66,694</b>
plus Net Future Fund earnings	2,801	3,422	3,612	3,874	13,709
<b>2016-17 MYEFO headline cash balance</b>	<b>-52,505</b>	<b>-45,220</b>	<b>-32,267</b>	<b>-17,905</b>	<b>-147,897</b>

(a) Excludes expected net Future Fund earnings.

The headline cash balance for 2016-17 is estimated to be a deficit of \$52.5 billion (-3.0 per cent of GDP), compared with a deficit of \$53.5 billion at the 2016 PEFO. Over the four years to 2019-20, the headline cash deficit is projected to decline to \$17.9 billion in 2019-20. The deterioration in the headline cash balance since the 2016 PEFO has been primarily driven by the deterioration of the underlying cash balance and the Government's loan to NBN Co.

