

PART 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

In 2014, the Government has made significant progress in delivering on its fiscal strategy to repair the budget and return to a sustainable surplus, despite the economy and the Senate driving significant impacts on tax receipts and payments.

Notably, around 75 per cent of over 400 measures in the 2014-15 Budget have already been implemented. Despite expectations of the weakest nominal GDP growth in a financial year in over 50 years, deficits are still expected to decline each year of the forward estimates. And debt is now expected to reach \$499 billion by 2023-24 – a fall of nearly \$170 billion compared with the projection of \$667 billion in debt inherited a year ago.

However, since the Budget, the collapse in iron ore prices and lower than expected wage growth, have made the budget repair task more challenging, driving the write-down of \$31.6 billion in tax receipts over the forward estimates.

The impact of delays in passing legislation and negotiations with the Senate is also hampering budget repair, costing the Budget \$10.6 billion over the forward estimates, and keeping debt and interest payments higher for longer.

Setting aside the cost of Senate negotiations, all new policy decisions have been more than offset by responsible savings – demonstrating the Government's ongoing, strong commitment to fiscal discipline.

The underlying cash balance has deteriorated by \$10.6 billion in 2014-15 and by \$43.7 billion over the forward estimates. As a result, a deficit of \$40.4 billion is forecast in 2014-15, narrowing to \$11.5 billion in 2017-18. This highlights the size of the budget repair task and that there remains much work to do.

Table 3.1: Budget aggregates

	Estimates			
	2014-15		2015-16	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	-29.8	-40.4	-17.1	-31.2
Per cent of GDP	-1.8	-2.5	-1.0	-1.9
Fiscal balance(\$b)	-25.9	-39.8	-12.2	-27.2
Per cent of GDP	-1.6	-2.5	-0.7	-1.6
	Projections			
	2016-17		2017-18	
	Budget	MYEFO	Budget	MYEFO
Underlying cash balance(\$b)(a)	-10.6	-20.8	-2.8	-11.5
Per cent of GDP	-0.6	-1.2	-0.2	-0.6
Fiscal balance(\$b)	-6.6	-17.8	1.0	-5.0
Per cent of GDP	-0.4	-1.0	0.1	-0.3

(a) Excludes expected net Future Fund earnings.

CHANGE IN THE FISCAL POSITION SINCE THE BUDGET

There are two key drivers of the change in the fiscal position since the Budget: the impact of the economy on tax receipts and payments; and the impact of the negotiations and delays in the Senate.

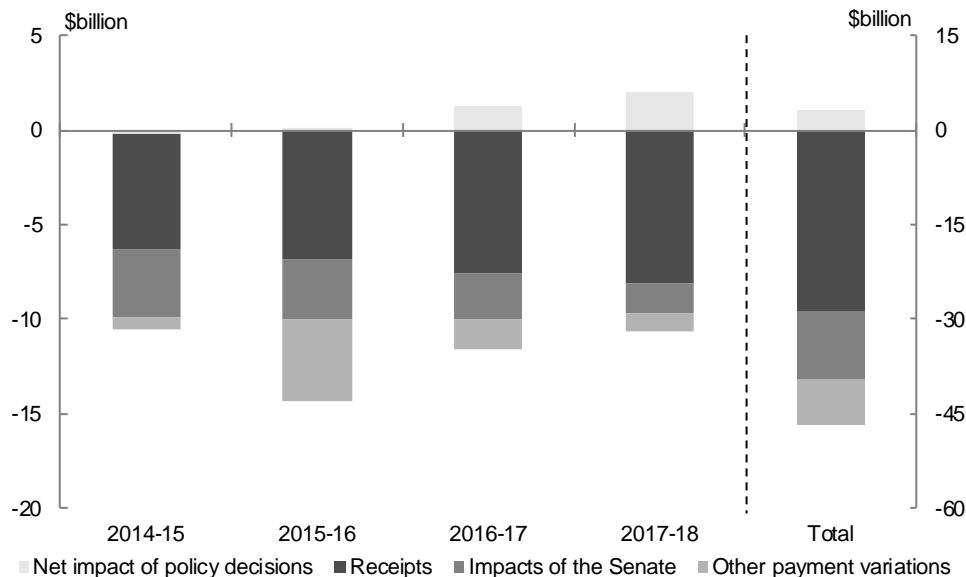
Changes in the economic outlook since the 2014-15 Budget, primarily relating to sharper than expected falls in iron ore prices and lower than forecast wage growth, have had a significant impact on the budget bottom line. Tax receipts have been revised down \$31.6 billion over the forward estimates (\$6.2 billion in 2014-15), and government payments have increased.

The \$10.6 billion impact on the Budget resulting from the Senate's decisions is comprised of two elements: a \$3.4 billion cost from delaying the passage of legislation; and \$7.2 billion in costs associated with negotiating the passage of key policies.

Setting aside the Senate negotiations, the net impact of Government decisions since Budget has improved the budget position over the forward estimates by \$3.2 billion.

The Government remains committed to improving the long-term sustainability of the budget position. The path of fiscal consolidation and policy settings will be considered comprehensively as part of the normal annual Budget process.

Chart 3.1: Changes to the Underlying Cash Balance since Budget



Impact of the economy on tax receipts and payments

The substantial fall in iron ore prices of more than 30 per cent since the Budget is weighing particularly on company profits and tax receipts, while weaker wage growth is lowering individuals' income tax receipts, driving an overall reduction of \$31.6 billion in tax receipts.

Of this reduction, company tax receipts have been revised down by \$2.3 billion in 2014-15 and \$14.4 billion over the forward estimates – around half of the total reduction in tax receipts since the Budget. In addition, the weaker outlook for wages growth is expected to lead to lower taxes on individuals of \$2.3 billion in 2014-15 and \$8.6 billion over the forward estimates. Economic effects such as this highlight the importance of improving the structural budget position over time.

Since the 2014-15 Budget, economic parameters have also resulted in increased payments over the forward estimates. In particular:

- payments related to Family Tax Benefits are expected to increase by \$3.2 billion over the forward estimates, largely reflecting the impact of lower than expected wage growth which is driving up average payment rates and recipient numbers;
- defence and other foreign spending is \$1.5 billion higher over the forward estimates reflecting the depreciation in the exchange rate; and
- increased income support payments (an increase of \$966 million over the forward estimates) reflecting updated benefit recipient numbers and average payments rates.

Payment levels for some government programs are also being driven higher as a result of other parameter variations. In particular:

- Child Care Rebate and Benefit payments, which are demand driven, are expected to increase by \$2.4 billion over the forward estimates, largely reflecting higher than expected utilisation of child care services, both in terms of the number of children in childcare and hours claimed, and higher than expected fees; and
- support for government and non-government schools has increased by \$878 million over the forward estimates as a result of higher than expected enrolments in 2013.

In MYEFO, the Government has allowed the variations arising from economic and other parameter variations to flow through to the budget bottom line, rather than take decisions to cut expenditure dramatically or increase taxes.

Were the Government to immediately react to offset these automatic variations in taxes and payments, largely arising from weaker national income growth, it would risk exacerbating the impact of these changes on the economy. The path of fiscal

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consolidation and policy settings will be considered comprehensively as part of the normal annual Budget process.

Impact of the Senate

In the 2014-15 Budget, the Government set out the savings required to reduce the spiralling growth in government payments inherited from the previous government.

The decisions announced in the 2014-15 Budget were estimated to improve the bottom line by \$36.0 billion over the four years to 2017-18. The impact of these savings decisions was designed to build over time, reducing payments growth and ensuring the sustainability of the budget position in the medium-term.

While considerable progress has been made in implementing the Budget, delays in passing legislation to allow Budget measures to commence has, to date, cost the budget \$3.4 billion. This primarily reflects the delay in passing legislation associated with the family payments reforms in the 2014-15 Budget, which improve the ongoing sustainability of the system and ensure that family payments are better targeted to those who need them the most.

Costs have also been incurred over the forward estimates as a result of completed and ongoing negotiations to pass legislation through the Senate. The cost of these negotiations to date totals \$7.2 billion over the forward estimates and includes changes required to repeal the Minerals Resource Rent Tax and associated spending, amendments to the higher education reforms, and restoring Temporary Protection Visas and introducing Safe Haven Enterprise Visas.

As part of negotiations in the Senate to pass legislation to abolish the Minerals Resource Rent Tax, the Government took decisions to temporarily maintain the Low Income Superannuation Contribution, Income Support Bonus and Schoolkids Bonus at a total cost of \$6.6 billion over the forward estimates. An income test will be applied to the Schoolkids Bonus from 1 January 2015. Notably, however the budget costs associated with the Minerals Resource Rent Tax repeal package are fully offset by the end of 2023 by the decision to delay the increase in the superannuation guarantee rate until 1 July 2021. The repeal of the Minerals Resource Rent Tax and other related measures will save the budget over \$10 billion over the forward estimates and around \$50 billion over the next decade.

The total impact of the Senate's decisions on the budget due to negotiations and legislative delays is \$10.6 billion over the forward estimates (\$13.1 billion in fiscal terms). These costs are detailed in Table 3.2 below. These delays come at a significant cost to the budget, but also result in debt and interest payments staying higher for longer.

Due to the legacy of the former Government, \$13.6 billion of taxpayers' money will be used to pay interest on government debt in 2014-15. This is more than the Government

will spend on carers, aged care or unemployment benefits in that year – underlining the importance of urgent budget repair. The projected improvement in the underlying cash balance, debt, and the reduction in interest payments is dependent on the Senate passing the Government’s responsible savings measures. If this does not occur, the budget and the economy will be substantially weakened.

While these delays are hampering progress towards budget repair in the short-term, the Government is committed to continuing to methodically work through negotiations with the Senate on Budget measures to ensure the long term sustainability of the budget position and build a stronger economy.

Around \$33.9 billion of measures that improve the budget position also remain subject to the passage of legislation. Over \$5 billion in measures that were policies of the former Government are yet to secure passage through the Parliament.

Table 3.2: Impact of Senate on the Budget (underlying cash balance)

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
Impact of decision taken as part of Senate negotiations(a)					
Repeal of the Minerals Resource Rent Tax and related measures	-1,684	-2,334	-1,670	-947	-6,634
Research and Development tax incentive – amending the start date of the targeting access measure	-350	-50	100	0	-300
Restoring Temporary Protection Visas and introducing Safe Haven Enterprise Visas	3	62	-239	-27	-201
Humanitarian Programme – additional places from 2017-18	0	0	0	-46	-46
Reintroduction of fuel excise indexation – change to the start date	-35	0	0	0	-35
Higher Education – reform amendments and Structural Adjustment Fund(b)	-3	0	-13	4	-12
Total impact of decisions taken as part of Senate negotiations	-2,069	-2,321	-1,822	-1,015	-7,227
Impact of delays in passing legislation(c)					
Social Services	-1,287	-547	-547	-526	-2,907
Education	-98	-229	-33	-38	-398
Health	-64	3	-3	-2	-67
Employment	-8	0	0	0	-8
Total impact of delays in passing legislation	-1,456	-773	-584	-566	-3,379
Total impact of Senate delays/negotiations on Budget	-3,525	-3,095	-2,405	-1,581	-10,606

(a) Impacts from decisions taken as part of Senate negotiations are reflected in the 2014-15 MYEFO as policy decisions.

(b) The fiscal balance impact of this measure is \$414.2 million in 2014-15 and \$3.3 billion over the four years to 2017-18.

(c) Impacts from delays in passing legislation are reflected in the 2014-15 MYEFO as estimates variations.

Strong fiscal discipline

The Government's fiscal strategy outlined in the 2014-15 Budget committed the Government to maintain strong fiscal discipline; to live within our means, pay down debt and reduce the Government's share of the economy, so as to free up resources for private investment to drive jobs and economic growth.

Consistent with its fiscal strategy, the Government has more than offset all of its new spending decisions, other than those decisions taken as part of negotiations with the Senate. This results in an improvement to the budget of \$3.2 billion over the forward estimates from 2014-15 (including \$2.0 billion in 2017-18).

Table 3.3: Impact of decisions in the 2014-15 MYEFO (underlying cash balance)

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
Total impact of decisions taken since the 2014-15 Budget	-2,314	-2,195	-501	950	-4,059
<i>Less decisions taken as part of negotiations with the Senate</i>	<i>-2,069</i>	<i>-2,321</i>	<i>-1,822</i>	<i>-1,015</i>	<i>-7,227</i>
Net budget impact of new policy decisions	-245	127	1,320	1,966	3,168

Since the 2014-15 Budget, the Government has made new decisions to respond to changes in the international security environment and to further drive growth and support a strong economy.

The Government has responded to a rapidly changing security environment, investing around \$1.3 billion to keep Australians safe and secure. To counter the threat of home-grown terrorism, security and law enforcement agencies have been given \$631.4 million in extra resources to track, disrupt and prosecute Australians involved in violent extremism, both at home and overseas. Operations in Iraq are addressing the enduring threat of terrorism at a cost of \$306.4 million to 30 June 2015.

The Government has also invested \$1.8 billion in measures since the Budget to further support growth, jobs and new market opportunities, including through the finalisation of the Japan-Australia Economic Partnership Agreement, the reinstatement of Employee Share Scheme arrangements and the establishment of the Global Infrastructure Hub in Sydney.

The Government has offset the impact of these decisions by taking a small number of responsible new decisions.

The Government will return the level of Official Development Assistance (ODA) spending in real terms to the levels that applied when ODA was last funded from budget surpluses rather than debt and then grow ODA in line with the

Consumer Price Index. This will improve the budget position by \$3.7 billion over the four years to 2017-18.

The Government has also preserved the policy intent of the 2014-15 Budget measures to maintain eligibility thresholds for allowances and Family Tax Benefit payment rates, by extending the end date to 1 July 2018 and 1 July 2017 respectively, as legislation was not passed in time for the start date outlined in the Budget. This will provide a saving of \$852 million.

The Government will increase the period over which capital expenditure on in-house computer software is depreciated from four years to five years. This is estimated to increase revenue by \$420 million over the four years to 2017-18.

The Government has continued to take action to reduce both the size of government and the regulatory burden government imposes on the community (see Boxes A and B).

Box A: Smaller Government

The Government continues to deliver a comprehensive package of Smaller Government reforms, designed to eliminate waste and duplication, improve the efficiency of the Commonwealth public service and enhance the delivery and focus of public services. These reforms are already contributing significantly to budget repair, while improving the responsiveness and effectiveness of government.

Key elements of the Government's ongoing Smaller Government reforms include:

- **Reducing the size of the Commonwealth public service.** In 2014-15, total staffing in the general government sector is expected to return to levels last recorded in 2007-08.
- **Public sector wage restraint.** Over the last decade, Commonwealth public servants received annual median wage increases totalling 42 per cent, well above CPI increases of 28 per cent over the same period. This included strong wage rises through the Global Financial Crisis, when private sector wages growth and employment were much lower. Given the position of the budget, the Government has indicated its intention to keep average annual wage rises across the public service to 1.5 per cent or less over the next three years. Wage rises will also have to be offset by productivity gains, to ensure that they are affordable, sustainable and in line with community expectations.
- **Streamlined and better targeted programme delivery.** The Government is eliminating wasteful fragmentation in service delivery and removing unnecessary bureaucratic demarcations, which undermine policy effectiveness. For example, in the 2014-15 Budget over 150 Indigenous programmes were streamlined into five broad program categories, to improve their focus and co-ordination and to reduce the red tape burden on service delivery organisations that partner with government. Similar reforms in the Social Services portfolio have streamlined 18 grants programs into seven, thereby reducing reporting burdens for providers. Additionally grants administration in the Department of Health has been consolidated into a single division, to promote the development of expertise and more efficient delivery across all stages of the grant life cycle.
- **Enhanced contestability of government service provision.** The Government recently completed the successful privatisation of Medibank Private. This sale removed the Commonwealth from the highly competitive private health insurance market, releasing \$5.7 billion in capital, now available for investment in productivity enhancing infrastructure through the government's asset recycling initiative.

Box A: Smaller Government (continued)

Complementing scoping studies into the potential sales of Defence Housing Australia, ASIC Registry Services, the Royal Australian Mint and Australian Hearing announced in the Budget, the 2014-15 MYEFO includes the commencement of a further scoping study exploring options for the operation or ownership of the Government's Canberra communications network.

In addition, the Government has established a Contestability Programme, to assess whether government functions should be open to competition and to encourage more entrepreneurial approaches to product or service delivery. To ensure services are delivered as efficiently and as effectively as possible, and by those who are best placed to provide them, alternative delivery approaches will continue to be explored.

- **Functional and efficiency reviews of major government bodies.** The Government will commence in-depth reviews of the functions and efficiency particularly of larger government agencies and departments. These reviews will determine whether the current resourcing and functions performed within an entity are aligned with the Government's policy priorities and that they are being undertaken as efficiently as possible. The Departments of Health and Education (other than higher education) will be the first bodies to be reviewed.
- **Streamlining of government bodies.** The 2014-15 MYEFO includes a further tranche of major rationalisation of government bodies, to ensure the public sector is as streamlined, effective and transparent as possible. Delivering a smaller and more rational government footprint is designed to clarify lines of accountability, to make the public sector more agile and better able to address changing pressures and Government priorities.

In the 2014-15 MYEFO the Government is reducing the total number of government bodies by a further 175. This third tranche of reductions in the number of Australian Government bodies builds on previous decisions announced in the 2013-14 MYEFO and the 2014-15 Budget, taking the total reduction in the number of government bodies since the election to 251.

This latest tranche includes the abolition of statutory bodies, advisory committees, councils and boards and merger of other government bodies.

Specifically, in the 2014-15 MYEFO the Government is:

- abolishing 138 government bodies;
- consolidating the functions of 15 government bodies into departments;
- transferring responsibility for two bodies outside the Commonwealth; and

Box A: Smaller Government (continued)

- merging 26 bodies (for a net reduction of 20 bodies) while five will consolidate their back office functions with shared service centres or supporting departments.

These measures will further reduce the overheads from an excessive number of stand-alone bodies, reducing inefficiencies and removing duplicated effort across the public sector.

Further details of these changes are available in the Finance Minister's Ministerial Paper and in the associated Ministerial Statement.

In addition, to ensure greater transparency around government bodies and greater discipline around their creation, the 2014-15 MYEFO includes two further initiatives, namely:

- the introduction of an Australian Government Governance Policy, to take effect from 15 December, to impose new constraints on the establishment and design of new government bodies; and
- the launch of an Australian Government Organisations Register, to create the first complete online listing of all government bodies.

Announcements in the 2014-15 MYEFO take total savings from the reduction in the number of government bodies to \$539.5 million so far.

Box B: Reducing the regulatory burden

Regulation has grown rapidly over recent decades, increasing costs for business and the community and leading to the sort of complexity and uncertainty that impede innovation and entrepreneurship.

The Government is committed to reducing regulatory burdens in order to improve Australia's productivity. It is doing this in three main ways: by reducing the stock of existing regulations, managing the flow of new regulations, and reviewing the performance of regulators so that they minimise the compliance costs arising from their work.

To reduce the stock of existing regulation, the Government established a red and green tape reduction target of \$1 billion per year and has set aside two parliamentary sitting days each year to repeal counterproductive, unnecessary or redundant legislation. During the 2014 Repeal Days, the Government announced more than \$2 billion in compliance cost savings for businesses and the community and introduced legislation to repeal more than 11,000 pieces of regulation.

To manage the flow of new regulation, the Government has reinvigorated the Regulatory Impact Assessment process and requires compliance costs to be calculated and offset for all new proposals.

Finally, to help shape regulator behaviour, the Government has established a new Regulator Performance Framework. The aim of this Framework is to ensure that regulators minimise the burden that arises as they discharge their responsibilities. Regulators will assess themselves against six key performance indicators each year. The Government has also issued Statements of Expectations to regulators, setting out the importance of administering regulation in a way that reduces compliance costs wherever possible.

FISCAL STRATEGY

As outlined in the 2014-15 Budget, 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 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;
 - paying down debt by stabilising and then reducing Commonwealth Government Securities on issue 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 by 2023-24 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.

Delivering on the medium-term fiscal strategy

The Government set out a comprehensive path towards achieving its medium-term fiscal objectives in the 2014-15 Budget and, while the changes in the economic outlook and the Senate have had an impact, considerable progress has been made to return to a sustainable trajectory over the medium-term. The budget position is now fundamentally stronger than it was under the unsustainable trajectory of the former Government.

Despite expectations of the weakest nominal GDP growth in a financial year in over 50 years, the average annual pace of consolidation in the 2014-15 MYEFO forward estimates remains at the 2014-15 Budget level of 0.6 per cent of GDP.

Consistent with the fiscal strategy, the payments-to-GDP ratio falls from 25.9 per cent of GDP in 2014-15 to 25.2 per cent of GDP in 2017-18. By 2024-25, the payments-to-GDP ratio is projected to reduce to 24.7 per cent of GDP. This is below the long term average of 24.9 per cent of GDP.

Continued effort to reduce the payments-to-GDP ratio through a disciplined approach to spending will be necessary to return the Budget to a credible path to surplus. A falling payments-to-GDP ratio will mean that the Government will be better placed to lower taxes and respond to changing economic conditions.

Budget surpluses over the course of the economic cycle

The Government's fiscal strategy provides necessary flexibility for the budget position to vary in line with economic conditions. This allows the 'automatic stabilisers' – the tendency for both receipts and spending to vary in line with economic conditions – to contribute to stability in aggregate demand.

Responsible fiscal policy must also look beyond the forward estimates period – promoting fiscal sustainability over a longer time horizon.

The fiscal position inherited by the Government was unsustainable. The 2013-14 MYEFO showed that, without action, the budget would not return to surplus for at least a decade and debt would reach over \$667 billion, even without any allowance for future tax relief from bracket creep.

The 2014-15 Budget delivered medium-term structural budget reform by placing government spending on a more affordable trajectory while allowing for future tax relief once the tax-to-GDP ratio reaches 23.9 per cent in 2020-21.

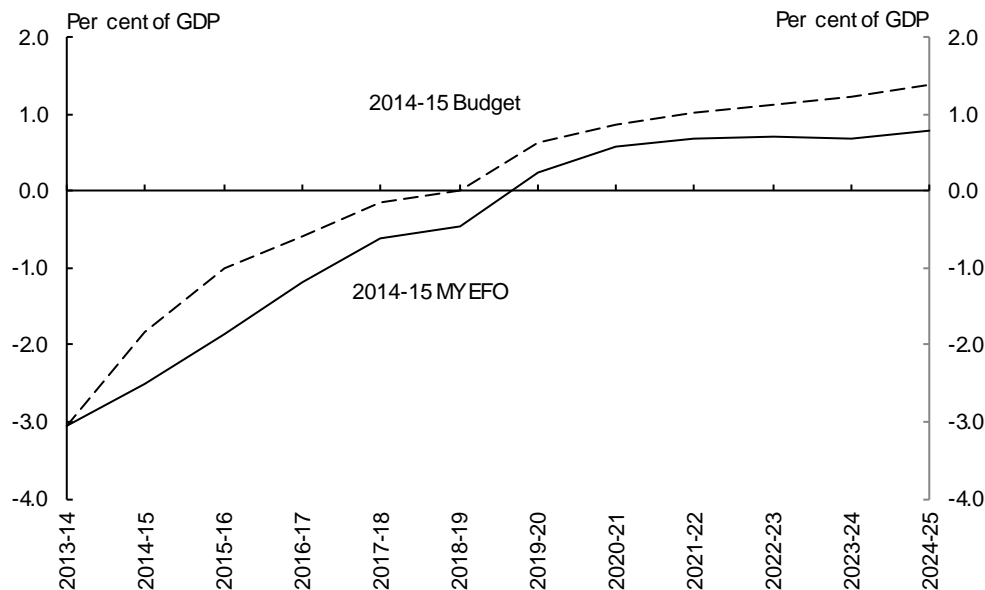
Since the 2014-15 Budget, the budget deterioration in the forward estimates has also impacted on the medium-term outlook. The underlying cash balance is still projected to reach surplus in 2019-20, with the surplus reaching 0.8 per cent of GDP by 2024-25.

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This remains a major improvement from the 2013-14 MYEFO projections of at least a decade without surplus.

The Government remains committed to its objective of building a stronger economy and achieving surpluses, which build to at least 1 per cent of GDP by 2023-24. While budget repair is underway, there is more work to do to deliver on this commitment.

Chart 3.2: Underlying cash balance projected to 2024-25



Note: The underlying cash balance excludes Future Fund earnings and payments. A tax-to-GDP cap of 23.9 per cent is applied on 2014-15 Budget and 2014-15 MYEFO projections.
Source: Treasury projections.

Real payments growth over the medium-term (the period from 2018-19 to 2024-25) is projected to be 2.7 per cent per annum, unchanged since the 2.7 per cent per annum at Budget and well below the 3.7 per cent per annum projected under the previous Government’s policy settings, as outlined in the 2013-14 MYEFO.

The payments-to-GDP ratio is projected to decline from 25.9 per cent in 2014-15 to 24.7 per cent in 2024-25, below the long-term average of 24.9 per cent.

Tax receipts are projected to reach the tax cap of 23.9 per cent of GDP in 2020-21, the same year as projected at Budget.

Once the Budget returns to a surplus of 1 per cent of GDP, there will be more capacity to revisit the level of government support provided to groups such as age pensioners, while having regard to other factors such as the ageing population and a maturing superannuation system.

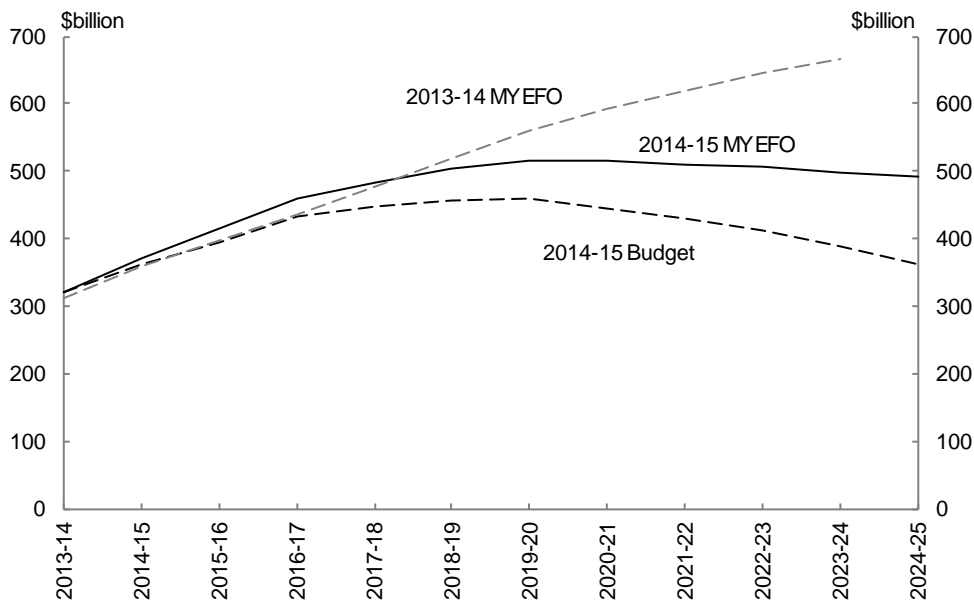
Strengthening the Government’s balance sheet

The Government remains committed to paying down debt by stabilising and then reducing Commonwealth Government Securities on issue over time, returning the budget to a strong surplus of at least one per cent of GDP and strengthening the Government’s balance sheet by improving net financial worth over time.

Paying down debt is important as it strengthens Australia’s balance sheet which provides the Government with the flexibility to respond to unanticipated events during times of financial crisis or economic shock.

Commonwealth Government Securities (CGS) on issue are expected to reach \$499 billion in 2023-24, a fall of nearly \$170 billion compared to \$667 billion at the 2013-14 MYEFO. This improvement is achieved despite allowance being included for future tax relief for which allowance was not included in the 2013-14 MYEFO figures showing the fiscal position inherited from the previous Government. CGS on issue was projected to reach \$389 billion in 2023-24 at the time of the 2014-15 Budget. The increase in CGS on issue since then is a result of the deterioration in the underlying cash balance across the forward estimates and the medium-term.

Chart 3.3: Face value of Commonwealth Government Securities projected to 2024-25



Note: A tax-to-GDP cap of 23.9 per cent is applied on 2014-15 Budget and 2014-15 MYEFO projections. No tax cap has been applied on 2013-14 MYEFO projections.

Source: Australian Office of Financial Management and Treasury projections.

The primary indicator of the fiscal sustainability of the Government’s longer term financial position and ability to withstand adverse economic shocks is net financial worth. It provides a broader measure of the Government’s assets and liabilities as it

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includes both the full assets of the Future Fund and the superannuation liability that the Future Fund is intended to offset.

To promote balance sheet sustainability, the fiscal strategy includes a commitment to improving the Government's net financial worth over the medium-term. The Government's commitment to improving net financial worth puts the focus on sustainability, thereby encouraging policies which boost productivity and participation for the long-term benefit of the economy.

Table 3.4 provides a summary of Australian Government general government sector net financial worth, net worth, net debt and net interest payments.

Table 3.4: Australian Government general government sector net worth, net financial worth, net debt and net interest payments

	Estimates			
	2014-15		2015-16	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	297.4	303.8	322.6	328.7
Non-financial assets	117.2	118.5	119.9	121.3
Total assets	414.6	422.2	442.5	450.0
Total liabilities	626.6	651.7	665.0	703.5
Net worth	-212.0	-229.5	-222.5	-253.5
Net financial worth(a)	-329.2	-347.9	-342.4	-374.8
Per cent of GDP	-20.2	-21.6	-20.0	-22.3
Net debt(b)	226.4	244.8	246.4	279.6
Per cent of GDP	13.9	15.2	14.4	16.7
Net interest payments	10.5	10.8	11.5	11.3
Per cent of GDP	0.6	0.7	0.7	0.7
	Projections			
	2016-17		2017-18	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Financial assets	361.1	365.7	380.8	387.3
Non-financial assets	122.0	123.4	125.3	126.9
Total assets	483.2	489.0	506.1	514.3
Total liabilities	712.2	758.4	733.4	786.0
Net worth	-229.0	-269.3	-227.4	-271.8
Net financial worth(a)	-351.0	-392.7	-352.7	-398.7
Per cent of GDP	-19.6	-22.2	-18.7	-21.5
Net debt(b)	261.3	304.4	264.2	315.8
Per cent of GDP	14.6	17.2	14.0	17.0
Net interest payments	12.2	12.1	12.9	12.7
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 financial worth is estimated to be -\$347.9 billion (-21.6 per cent of GDP) in 2014-15 and is expected to peak in 2015-16 at -22.3 per cent of GDP before declining to -21.5 per cent of GDP in 2017-18.

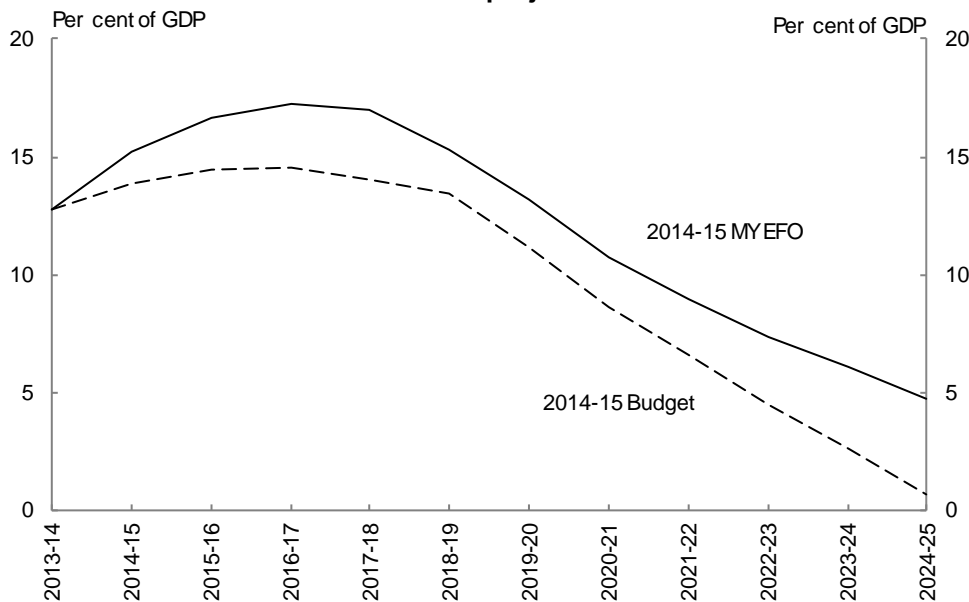
The deterioration in net financial worth since the 2014-15 Budget reflects an increase in the issuance of Government securities. The increase in CGS is driven by an increase in the financing requirement relative to Budget and the impact of lower average yields, which increases the market value of CGS on issue.

The impact of the increase in CGS on issue has been partially offset by an increase in financial assets. The increase in financial assets is driven by small increases in the value of advances paid, investments, loans and placements, and equity investments.

The factors driving the change in net financial worth have also affected net worth and net debt. Net worth is expected to be -\$229.5 billion in 2014-15, \$17.5 billion worse than estimated at the 2014-15 Budget. Net worth is expected to be -\$271.8 billion by the end of the forward estimates.

Net debt is estimated to be \$244.8 billion in 2014-15 (15.2 per cent of GDP) and \$315.8 billion by the end of the forward estimates. Net debt is expected to stabilise in the forward estimates and then improve over the medium-term as a share of GDP, although the improvement is smaller than at Budget. Over the next decade, the Government's action will see a substantial improvement in projected net debt from a peak in 2016-17 of 17.2 per cent of GDP to 4.7 per cent of GDP in 2024-25 (Chart 3.4).

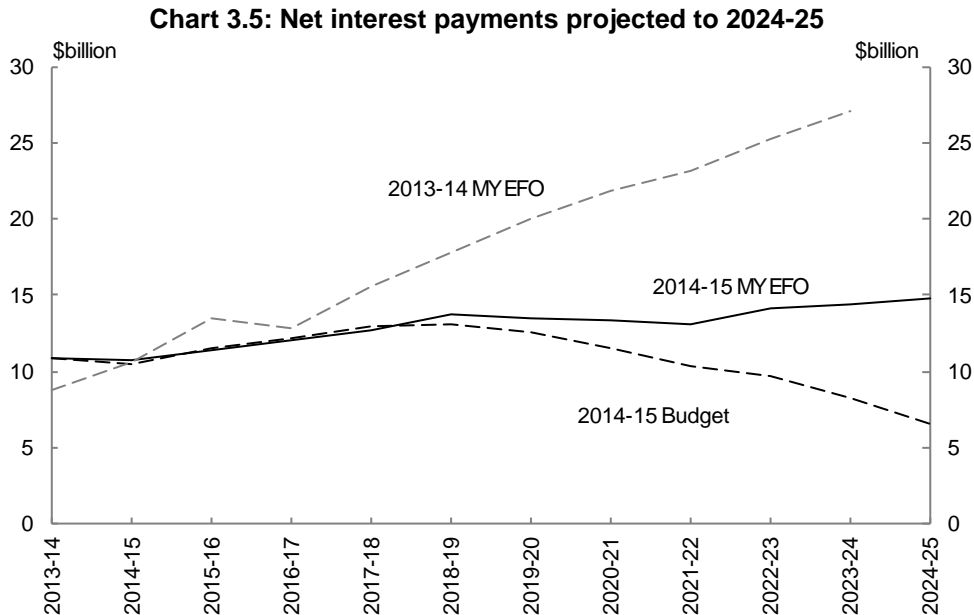
Chart 3.4: Net debt projected to 2024-25



Note: A tax-to-GDP cap of 23.9 per cent is applied on 2014-15 Budget and 2014-15 MYEFO projections.
Source: Treasury projections.

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Net interest payments are projected to rise from \$10.8 billion in 2014-15 (0.7 per cent of GDP) to \$14 billion per annum in 2023-24, still well below the projection of \$27 billion per annum in the 2013-14 MYEFO, based on the policy settings of the previous Government (Chart 3.5).



Note: Net interest payments are total interest receipts minus total interest payments. A tax-to-GDP cap of 23.9 per cent is applied on 2014-15 Budget and 2014-15 MYEFO projections. No tax cap has been applied on 2013-14 MYEFO projections.

Source: Treasury projections.

FISCAL OUTLOOK

Budget aggregates

An underlying cash deficit of \$40.4 billion (2.5 per cent of GDP) is expected in 2014-15, improving to a deficit of \$11.5 billion (0.6 per cent of GDP) in 2017-18.

A headline cash deficit of \$43.9 billion (2.7 per cent of GDP) is expected in 2014-15, improving to a deficit of \$21.7 billion (1.2 per cent of GDP) in 2017-18.

In accrual terms, a fiscal deficit of \$39.8 billion (2.5 per cent of GDP) is expected in 2014-15, improving to a deficit of \$5.0 billion (0.3 per cent of GDP) in 2017-18.

Table 3.5 provides key budget aggregates for the Australian Government general government sector.

Table 3.5: Australian Government general government sector budget aggregates

	Estimates			
	2014-15		2015-16	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts	385.8	379.5	410.4	403.4
Per cent of GDP	23.6	23.6	24.0	24.0
Payments(a)	412.5	416.5	424.2	431.1
Per cent of GDP	25.3	25.9	24.8	25.7
Net Future Fund earnings	3.1	3.3	3.3	3.5
Underlying cash balance(b)	-29.8	-40.4	-17.1	-31.2
Per cent of GDP	-1.8	-2.5	-1.0	-1.9
Revenue	391.3	385.9	419.6	411.7
Per cent of GDP	24.0	24.0	24.5	24.5
Expenses	414.8	422.9	431.1	436.5
Per cent of GDP	25.4	26.3	25.2	26.0
Net operating balance	-23.5	-37.0	-11.5	-24.8
Net capital investment	2.4	2.8	0.7	2.4
Fiscal balance	-25.9	-39.8	-12.2	-27.2
Per cent of GDP	-1.6	-2.5	-0.7	-1.6
<i>Memorandum item:</i>				
Headline cash balance	-33.5	-43.9	-26.6	-41.9
	Projections			
	2016-17		2017-18	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Receipts	436.8	429.2	468.0	459.8
Per cent of GDP	24.4	24.3	24.9	24.8
Payments(a)	443.9	446.4	467.1	467.4
Per cent of GDP	24.7	25.3	24.8	25.2
Net Future Fund earnings	3.5	3.7	3.8	3.9
Underlying cash balance(b)	-10.6	-20.8	-2.8	-11.5
Per cent of GDP	-0.6	-1.2	-0.2	-0.6
Revenue	449.8	441.0	480.4	473.2
Per cent of GDP	25.1	25.0	25.5	25.5
Expenses	453.8	456.1	475.4	475.3
Per cent of GDP	25.3	25.8	25.3	25.6
Net operating balance	-4.0	-15.1	4.9	-2.1
Net capital investment	2.6	2.7	4.0	2.9
Fiscal balance	-6.6	-17.8	1.0	-5.0
Per cent of GDP	-0.4	-1.0	0.1	-0.3
<i>Memorandum item:</i>				
Headline cash balance	-22.7	-34.2	-11.4	-21.7

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

(b) Excludes expected net Future Fund earnings.

Underlying cash balance estimates

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

	Estimates			
	2014-15		2015-16	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	383.5	377.3	407.7	400.7
Capital cash receipts(a)	2.2	2.2	2.7	2.7
Total cash receipts	385.8	379.5	410.4	403.4
Cash payments				
Operating cash payments	401.7	405.1	414.4	420.7
Capital cash payments(b)	10.8	11.4	9.8	10.3
Total cash payments	412.5	416.5	424.2	431.1
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	-26.7	-37.0	-13.8	-27.7
Per cent of GDP	-1.6	-2.3	-0.8	-1.7
less Net Future Fund earnings	3.1	3.3	3.3	3.5
Underlying cash balance(d)	-29.8	-40.4	-17.1	-31.2
Per cent of GDP	-1.8	-2.5	-1.0	-1.9
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-6.8	-6.8	-12.8	-14.2
plus Net Future Fund earnings	3.1	3.3	3.3	3.5
Headline cash balance	-33.5	-43.9	-26.6	-41.9
	Projections			
	2016-17		2017-18	
	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b
Cash receipts				
Operating cash receipts	436.6	429.0	467.8	459.6
Capital cash receipts(a)	0.2	0.2	0.2	0.2
Total cash receipts	436.8	429.2	468.0	459.8
Cash payments				
Operating cash payments	434.5	436.6	456.1	455.8
Capital cash payments(b)	9.4	9.8	11.0	11.6
Total cash payments	443.9	446.4	467.1	467.4
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	-7.1	-17.2	0.9	-7.6
Per cent of GDP	-0.4	-1.0	0.0	-0.4
less Net Future Fund earnings	3.5	3.7	3.8	3.9
Underlying cash balance(d)	-10.6	-20.8	-2.8	-11.5
Per cent of GDP	-0.6	-1.2	-0.2	-0.6
<i>Memorandum items:</i>				
Net cash flows from investments in financial assets for policy purposes	-15.6	-17.1	-12.4	-14.1
plus Net Future Fund earnings	3.5	3.7	3.8	3.9
Headline cash balance	-22.7	-34.2	-11.4	-21.7

(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 2014-15 underlying cash deficit is expected to be \$10.6 billion larger than forecast in the 2014-15 Budget, but \$8.1 billion lower than the deficit of \$48.5 billion reported for 2013-14.

Since the 2014-15 Budget, total policy decisions have had a negative impact on the underlying cash position of \$2.3 billion in 2014-15 and \$4.1 billion over the forward estimates. Setting aside the impact of Senate negotiations, policy decisions have improved the underlying cash balance by \$3.2 billion over the forward estimates.

Since the 2014-15 Budget, total parameter and other variations have had a negative impact on the underlying cash position of \$8.3 billion in 2014-15 and \$39.6 billion over the forward estimates.

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

	Estimates		Projections		Total
	2014-15	2015-16	2016-17	2017-18	
	\$m	\$m	\$m	\$m	\$m
2014-15 Budget underlying cash balances(a)	-29,773	-17,084	-10,562	-2,825	-60,244
Per cent of GDP	-1.8	-1.0	-0.6	-0.2	
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(b)(c)					
Receipts	-486	-350	-105	-140	-1,082
Payments	1,827	1,844	396	-1,090	2,977
Total policy decisions impact on underlying cash balance	-2,314	-2,195	-501	950	-4,059
Effect of parameter and other variations(c)					
Receipts	-5,809	-6,714	-7,515	-8,040	-28,078
Payments	2,215	4,985	2,111	1,392	10,703
less Net Future Fund earnings	252	261	154	174	841
Total parameter and other variations impact on underlying cash balance	-8,275	-11,960	-9,781	-9,606	-39,622
2014-15 MYEFO underlying cash balance(a)	-40,362	-31,239	-20,844	-11,480	-103,925
Per cent of GDP	-2.5	-1.9	-1.2	-0.6	

(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 \$6.3 billion lower in 2014-15 than estimated at the 2014-15 Budget. Tax receipts are \$6.8 billion lower and non-tax receipts are \$482 million higher.

Since the 2014-15 Budget, total receipts have been revised down by \$1.1 billion over the forward estimates as a result of new policy decisions, and revised down by \$28.1 billion over the forward estimates due to parameter and other variations.

Table 3.8: Australian Government general government sector cash receipts — 2014-15

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	169,400	166,700	-2,700	-1.6
Gross other individuals	37,100	37,300	200	0.5
less: Refunds	27,700	27,500	-200	-0.7
Total individuals and other withholding tax	178,800	176,500	-2,300	-1.3
Fringe benefits tax	4,360	4,350	-10	-0.2
Company tax	71,600	68,960	-2,640	-3.7
Superannuation fund taxes	7,680	7,040	-640	-8.3
Minerals resource rent tax(a)	0	60	60	-
Petroleum resource rent tax	1,950	1,890	-60	-3.1
Income taxation receipts	264,390	258,800	-5,590	-2.1
Goods and services tax	53,978	53,982	4	0.0
Wine equalisation tax	780	800	20	2.6
Luxury car tax	360	400	40	11.1
Excise and customs duty				
Petrol	5,950	5,950	0	0.0
Diesel	9,250	8,930	-320	-3.5
Other fuel products	3,710	3,260	-450	-12.1
Tobacco	8,710	8,310	-400	-4.6
Beer	2,400	2,410	10	0.4
Spirits	1,930	1,970	40	2.1
Other alcoholic beverages(b)	980	950	-30	-3.1
Other customs duty				
Textiles, clothing and footwear	600	590	-10	-1.7
Passenger motor vehicles	820	800	-20	-2.4
Other imports	1,650	1,570	-80	-4.8
less: Refunds and drawbacks	360	420	60	16.7
Total excise and customs duty	35,640	34,320	-1,320	-3.7
Carbon pricing mechanism	1,695	1,800	105	6.2
Agricultural levies	469	454	-15	-3.2
Other taxes	3,059	3,038	-21	-0.7
Indirect taxation receipts	95,982	94,794	-1,187	-1.2
Taxation receipts	360,372	353,594	-6,777	-1.9

Table 3.8: Australian Government general government sector cash receipts — 2014-15 (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Sales of goods and services	8,910	9,114	204	2.3
Interest received	3,657	3,469	-188	-5.1
Dividends	4,257	3,831	-426	-10.0
Other non-taxation receipts	8,583	9,475	892	10.4
Non-taxation receipts	25,407	25,889	482	1.9
Total receipts	385,778	379,483	-6,295	-1.6
<i>Memorandum:</i>				
<i>Total excise</i>	26,370	25,260	-1,110	-4.2
<i>Total customs duty</i>	9,270	9,060	-210	-2.3
<i>Capital gains tax(c)</i>	9,000	8,900	-100	-1.1
<i>Medicare and DisabilityCare Australia levy</i>	14,160	14,130	-30	-0.2

- (a) Net receipts from the MRRT are expected to be around \$40 million in 2014-15 which represents the net receipts impact across different revenue heads. These include the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the MRRT will not apply beyond 30 September 2014.
- (b) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
- (c) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Table 3.9: 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	181,500	178,800	-2,700	-1.5
Gross other individuals	40,700	41,100	400	1.0
less: Refunds	28,600	28,100	-500	-1.7
Total individuals and other withholding tax	193,600	191,800	-1,800	-0.9
Fringe benefits tax	4,930	4,890	-40	-0.8
Company tax	75,400	70,800	-4,600	-6.1
Superannuation fund taxes	10,380	9,630	-750	-7.2
Minerals resource rent tax	0	0	0	-
Petroleum resource rent tax	1,900	1,700	-200	-10.5
Income taxation receipts	286,210	278,820	-7,390	-2.6
Goods and services tax	57,290	57,468	178	0.3
Wine equalisation tax	810	830	20	2.5
Luxury car tax	310	360	50	16.1
Excise and customs duty				
Petrol	6,150	6,150	0	0.0
Diesel	9,610	9,340	-270	-2.8
Other fuel products	3,510	3,150	-360	-10.3
Tobacco	9,640	9,560	-80	-0.8
Beer	2,470	2,470	0	0.0
Spirits	1,980	2,030	50	2.5
Other alcoholic beverages(a)	1,010	990	-20	-2.0
Other customs duty				
Textiles, clothing and footwear	430	310	-120	-27.9
Passenger motor vehicles	610	520	-90	-14.8
Other imports	1,680	1,070	-610	-36.3
less: Refunds and drawbacks	360	420	60	16.7
Total excise and customs duty	36,730	35,170	-1,560	-4.2
Carbon pricing mechanism	0	0	0	-
Agricultural levies	474	478	4	0.8
Other taxes	3,462	3,477	15	0.4
Indirect taxation receipts	99,076	97,784	-1,293	-1.3
Taxation receipts	385,286	376,604	-8,683	-2.3

Table 3.9: Australian Government general government sector cash receipts — 2015-16 (continued)

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Sales of goods and services	9,121	9,202	81	0.9
Interest received	3,893	4,022	129	3.3
Dividends	2,461	3,407	946	38.4
Other non-taxation receipts	9,665	10,128	463	4.8
Non-taxation receipts	25,141	26,759	1,618	6.4
Total receipts	410,427	403,362	-7,065	-1.7
<i>Memorandum:</i>				
<i>Total excise</i>	27,300	26,860	-440	-1.6
<i>Total customs duty</i>	9,430	8,310	-1,120	-11.9
<i>Capital gains tax(b)</i>	12,000	11,300	-700	-5.8
<i>Medicare and DisabilityCare Australia levy</i>	15,160	15,040	-120	-0.8

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

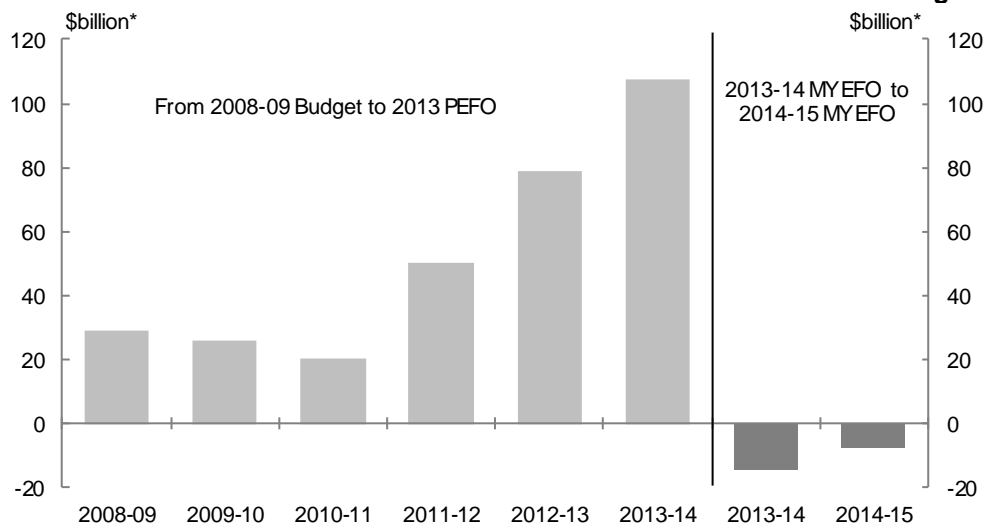
(b) Capital gains tax is part of gross other individuals, company tax and superannuation fund taxes.

Policy decisions

Policy decisions since the 2014-15 Budget have reduced total receipts by \$486 million in 2014-15 and reduced total receipts by \$1.1 billion over the forward estimates period, driven by the reduction in revenue associated with the Japan-Australia Economic Partnership Agreement signed on 8 July 2014.

The Government is committed to simplifying the tax system and lowering the tax burden on individuals and business. Revenue decisions taken by this Government, up to and including the 2014-15 MYEFO, have reduced revenue by \$7.4 billion in accrual terms compared with decisions taken by the former Government.

Chart 3.6: Cumulative effect of revenue measures since the 2008-09 Budget



*Cumulative value of revenue measures taken each budget year.

Parameter and other variations

Parameter and other variations have reduced total receipts since the 2014-15 Budget by \$5.8 billion in 2014-15 and \$28.1 billion over the forward estimates period.

Parameter and other variations have reduced tax receipts since the 2014-15 Budget by \$6.2 billion in 2014-15 and \$31.6 billion over the forward estimates period.

The 2014-15 Budget made provisions for a number of measures that were still subject to finalisation at the time. The provision for the Japan-Australia Economic Partnership Agreement has now been removed as this measure is included in the 2014-15 MYEFO.

The 2014-15 MYEFO includes a new provision for the China-Australia Free Trade Agreement. As is standard practice, a measure will be published once the agreement has been formally signed.

The key economic parameters that influence tax receipts and tax revenue are shown in Table 3.10. The table shows effects on the Australian Government's main tax bases of the changed circumstances and outlook since the 2014-15 Budget.

Table 3.10: Key economic parameters^(a)

	Outcome	Estimates		Projections	
	2013-14 %	2014-15 %	2015-16 %	2016-17 %	2017-18 %
Revenue parameters at 2014-15 MYEFO					
Nominal gross domestic product	4.0	1 1/2	4 1/2	5 1/4	5 1/4
<i>Change since 2014-15 Budget</i>	0.1	-1 1/2	- 1/4	1/4	1/4
Compensation of employees(b)	2.9	3 1/2	4 1/4	4 3/4	5 1/4
<i>Change since 2014-15 Budget</i>	-0.4	- 3/4	0	- 1/2	0
Corporate gross operating surplus(c)	5.9	-3 1/4	4 1/4	6	5 1/2
<i>Change since 2014-15 Budget</i>	0.7	-3 3/4	- 3/4	2	1 1/4
Unincorporated business income	1.4	3 1/2	2 3/4	3	3 1/2
<i>Change since 2014-15 Budget</i>	0.1	2 1/4	0	-2	-1 1/2
Property income(d)	2.9	5 1/2	9 1/4	5 1/4	5 1/4
<i>Change since 2014-15 Budget</i>	-7.6	-3 1/4	-3	1/4	1/4
Consumption subject to GST	4.0	4	5 3/4	5 1/4	5 1/2
<i>Change since 2014-15 Budget</i>	-0.5	- 3/4	1/2	- 1/4	- 1/4

(a) Current prices, per cent change on previous year. Changes since the 2014-15 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 rent, dividends and interest.

Tax receipts have been affected by the weaker outlook for nominal GDP. In particular, the downward revisions to forecasts of commodity prices have resulted in downward revisions to mining profits which have been partly offset by an improved outlook for the non-mining economy.

Excluding policy decisions, company tax has been revised down by \$2.3 billion (3.2 per cent) in 2014-15, \$4.6 billion (6.0 per cent) in 2015-16 and \$14.4 billion over the forward estimates. Of this write-down, the impact of the sharper-than-anticipated fall in commodity prices, particularly the iron ore price, is around \$18 billion, partly offset by the improved outlook for the non-mining economy which has increased expected company tax by around \$4 billion over the four years to 2017-18. In addition, the lower forecast for oil prices is consistent with petroleum resource rent tax being revised down by \$760 million over the four years to 2017-18.

Further, revisions to employment and wage growth have resulted in taxes from individuals being revised down by \$2.3 billion (1.3 per cent) in 2014-15 and \$8.6 billion over the four years to 2017-18.

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Excise and excise equivalent customs duty has been revised down by \$1.1 billion in 2014-15 and \$3.3 billion over the forward estimates, mostly as a result of lower expected fuel excise collections.

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 2014-15 Budget, estimated cash payments for 2014-15 have increased by \$4.0 billion, reflecting increased payments due to new policy decisions of \$1.8 billion, and increased payments due to parameter and other variations of \$2.2 billion.

Policy decisions

The net impact of policy decisions since the 2014-15 Budget is expected to increase payments by \$1.8 billion in 2014-15, \$1.8 billion in 2015-16, \$0.4 billion in 2016-17 and decrease payments by \$1.1 billion in 2017-18. These decisions include:

- a range of measures associated with securing the passage of legislation to repeal the Minerals Resource Rent Tax, which is expected to increase cash payments by \$1.7 billion in 2014-15 (\$6.6 billion over four years). Measures include continuing the Income Support Bonus and the Schoolkids Bonus until 31 December 2016 and delaying the repeal date of the Low Income Super Contributions scheme from 1 July 2013 to 1 July 2017;
- commencing Operation Okra, which is expected to increase cash payments by \$261 million in 2014-15 (\$298 million over four years). Operation Okra is the Australian Defence Force's contribution to the international effort to disrupt and degrade the Islamic State in Iraq and the Levant threat in Iraq;
- additional funding to agencies involved in counter-terrorism activity by providing resources and legislative powers to combat the terrorism threat, which is expected to increase cash payments by \$142 million in 2014-15 (\$650 million over four years); and
- enhanced security at the Australian Parliament House, which is expected to increase cash payments by \$131 million in 2014-15 (\$199 million over four years).

The impact of these policy decisions is largely offset over the four years to 2017-18 by a number of decisions that have reduced cash payments, including:

- returning the level of Official Development Assistance (ODA) spending in real terms to the levels that applied when ODA was last funded from budget surpluses rather than debt, and then growing ODA in line with the Consumer Price Index. This measure is expected to reduce cash payments by \$3.7 billion over four years;
- preserving the policy intent of the 2014-15 Budget measure to maintain eligibility thresholds for allowances and Family Tax Benefit payment rates, by extending the end date to 1 July 2018 and 1 July 2017 respectively, as legislation was not passed in time for the start date outlined in the Budget. This measure is expected to reduce cash payments by \$852 million over four years; and
- accommodating the legacy caseload of Illegal Maritime Arrivals (IMAs) in Australia in the community rather than in detention centres, where possible, while an individual's protection status is being resolved. This measure is expected to reduce cash payments by \$384 million in 2014-15 (\$412 million over four years).

Parameter and other variations

Parameter and other variations since the 2014-15 Budget have increased payments by \$2.2 billion in 2014-15 and \$10.7 billion over the four years to 2017-18.

Major increases in cash payments in 2014-15 and over the four years to 2017-18 as a result of parameter and other variations since the 2014-15 Budget include:

- payments related to Family Tax Benefit, which are expected to increase by \$404 million in 2014-15 (\$3.2 billion over four years), largely reflecting the impact of lower than expected wage growth driving up average payment rates and recipient numbers;
- child care rebate and benefit payments, which are expected to increase by \$219 million in 2014-15 (\$2.4 billion over four years), largely reflecting higher than expected utilisation of demand driven child care services, both in terms of number of children in childcare and hours claimed, and higher than expected fees;
- payments related to Illegal Maritime Arrival (IMA) management costs, which are expected to increase by \$376 million in 2014-15 (although a reduction in payments of \$209 million is expected over the three years to 2017-18), largely reflecting the impact of slower than forecast processing of refugee claims in offshore facilities and updated estimates of the distribution of IMAs across the detention network;
- payments relating to the provision of Goods and Services Tax (GST) to the States and Territories, which are expected to increase by \$370 million in 2014-15, reflecting expenses accrued in 2013-14 and paid in the 2014-15 financial year;

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- payments for government and non-government schools, which are expected to increase by \$313 million in 2014-15 (\$878 million over four years), largely reflecting higher than expected enrolment data and consequential changes in the Commonwealth share of base funding;
- Private Health Insurance rebates, which are expected to increase by \$129 million in 2014-15 (\$606 million over four years), reflecting higher than expected growth in the number of people with subsidised health cover and a greater proportion of policy holders over 65 who attract a higher rebate;
- payments to hospitals in respect of veterans' services, which are expected to increase by \$85 million in 2014-15 (\$253 million over four years), reflecting higher than expected costs for hospital services provided to veterans and the timing of cash payments; and
- payments for employment services, which are expected to increase by \$74 million in 2014-15, largely reflecting higher than expected payments from the Employment Pathway Fund and outcome payments to employment service providers.

Major reductions in cash payments in 2014-15 and over the four years to 2017-18 as a result of parameter and other variations since the 2014-15 Budget, include:

- payments related to Natural Disaster Relief and Recovery Arrangements, which are expected to decrease by \$1.8 billion in 2014-15 and increase by \$1.2 billion in 2015-16, largely reflecting updated advice from Queensland that delays the timing of payments and includes an overall reduction of around \$600 million in Commonwealth payments. Updated estimates also include counter-disaster measures associated with the January 2014 bushfires in Victoria and higher than expected reconstruction costs relating to natural disasters in New South Wales;
- payments under the Low Income Superannuation Contribution (LISC) scheme, which are expected to decrease by \$162 million in 2014-15 (\$629 million over four years), reflecting lower than expected LISC scheme recipients;
- payments under the Job Seeker Income Support programme, which are expected to decrease by \$131 million in 2014-15 (\$517 million over four years), reflecting lower than expected customer numbers and average payment rates;
- payments under the Residential and Flexible Care programme, which are expected to decrease by \$79 million in 2014-15 (\$184 million over four years), reflecting lower than expected operational residential aged care places for approved care recipients;
- payments under the Commonwealth Grants Scheme, which are expected to decrease by \$78 million in 2014-15 (\$495 million over four years), reflecting a moderation in the rate of enrolments after a period of rapid growth following the introduction of the demand driven system in 2012;

- payments to permit holders for the redemption of free carbon permits under the Carbon Price Mechanism buy-back facility, which are expected to decrease by \$75 million in 2014-15, reflecting lower than expected utilisation of the buy-back facility;
- payments to public hospitals, which are expected to decrease by \$941 million over four years to 2017-18 (although an increase in payments of \$224 million is expected in 2014-15), reflecting lower than expected National Efficient Price projections partly ameliorated by higher activity estimates; and
- royalty payments relating to general revenue assistance, which are expected to decrease by \$161 million over four years (although an increase in payments of \$10 million is expected in 2014-15), reflecting reduced pricing assumptions for commodities.

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 D.

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 2014-15 Budget, the fiscal balance is expected to be \$14.0 billion lower for 2014-15, and \$46.2 billion lower over the forward estimates period.

Table 3.11 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 3.11: Reconciliation of Australian Government general government sector fiscal balance estimates

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
2014-15 Budget fiscal balance	-25,855	-12,214	-6,596	984	-43,681
Per cent of GDP	-1.6	-0.7	-0.4	0.1	
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)(b)					
Revenue	-458	-545	-312	-447	-1,762
Expenses	2,802	2,288	253	-1,418	3,925
Net capital investment	135	81	53	24	294
Total policy decisions impact on fiscal balance	-3,395	-2,914	-618	946	-5,981
Effect of parameter and other variations(b)					
Revenue	-5,014	-7,385	-8,492	-6,772	-27,663
Expenses	5,251	3,078	2,038	1,281	11,647
Net capital investment	290	1,633	35	-1,087	871
Total parameter and other variations impact on fiscal balance	-10,555	-12,095	-10,565	-6,966	-40,181
2014-15 MYEFO fiscal balance	-39,806	-27,223	-17,778	-5,035	-89,842
Per cent of GDP	-2.5	-1.6	-1.0	-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 \$5.5 billion in 2014-15 since the 2014-15 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 2014-15 and 2015-16, compared with estimates from the 2014-15 Budget, are provided in Tables 3.12 and 3.13 respectively.

Table 3.12: Reconciliation of the 2014-15 general government sector (accrual) revenue

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Individuals and other withholding taxes				
Gross income tax withholding	171,170	168,430	-2,740	-1.6
Gross other individuals	40,120	40,470	350	0.9
less: Refunds	27,700	27,500	-200	-0.7
Total individuals and other withholding tax	183,590	181,400	-2,190	-1.2
Fringe benefits tax	4,440	4,480	40	0.9
Company tax	73,230	70,930	-2,300	-3.1
Superannuation fund taxes	7,870	7,130	-740	-9.4
Minerals resource rent tax(a)	0	60	60	-
Petroleum resource rent tax	2,060	1,770	-290	-14.1
Income taxation revenue	271,190	265,770	-5,420	-2.0
Goods and services tax	56,970	56,820	-150	-0.3
Wine equalisation tax	790	810	20	2.5
Luxury car tax	360	400	40	11.1
Excise and customs duty				
Petrol	5,970	5,970	0	0.0
Diesel	9,280	8,960	-320	-3.4
Other fuel products	3,730	3,280	-450	-12.1
Tobacco	8,730	8,320	-410	-4.7
Beer	2,410	2,430	20	0.8
Spirits	1,930	1,970	40	2.1
Other alcoholic beverages(b)	980	950	-30	-3.1
Other customs duty				
Textiles, clothing and footwear	600	590	-10	-1.7
Passenger motor vehicles	820	800	-20	-2.4
Other imports	1,650	1,570	-80	-4.8
less: Refunds and drawbacks	360	420	60	16.7
Total excise and customs duty	35,740	34,420	-1,320	-3.7
Carbon pricing mechanism	0	0	0	-
Agricultural levies	469	454	-15	-3.2
Other taxes	3,295	3,285	-10	-0.3
Indirect taxation revenue	97,624	96,190	-1,435	-1.5
Taxation revenue	368,814	361,959	-6,855	-1.9

Table 3.12: Reconciliation of the 2014-15 general government sector (accrual) revenue (continued)

	Estimates		Change on Budget	
	Budget	MYEFO	\$m	%
	\$m	\$m		
Sales of goods and services	8,928	9,190	262	2.9
Interest	4,229	3,987	-242	-5.7
Dividends	2,570	3,396	826	32.1
Other non-taxation revenue	6,807	7,344	537	7.9
Non-taxation revenue	22,534	23,917	1,383	6.1
Total revenue	391,348	385,876	-5,472	-1.4
<i>Memorandum:</i>				
<i>Total excise</i>	26,470	25,360	-1,110	-4.2
<i>Total customs duty</i>	9,270	9,060	-210	-2.3
<i>Capital gains tax(c)</i>	9,000	8,900	-100	-1.1
<i>Medicare and DisabilityCare Australia levy</i>	14,160	14,130	-30	-0.2

(a) Net revenue from the MRRT is expected to be around \$40 million in 2014-15 which represents the net revenue impact across different revenue heads. These include the offsetting reductions in company tax (through deductibility) and interactions with other taxes. The Government has announced the MRRT will not apply beyond 30 September 2014.

(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: 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	183,390	180,660	-2,730	-1.5
Gross other individuals	43,980	44,550	570	1.3
<i>less: Refunds</i>	28,600	28,100	-500	-1.7
Total individuals and other withholding tax	198,770	197,110	-1,660	-0.8
Fringe benefits tax	5,010	5,030	20	0.4
Company tax	77,170	72,500	-4,670	-6.1
Superannuation fund taxes	10,610	9,760	-850	-8.0
Minerals resource rent tax	0	0	0	-
Petroleum resource rent tax	1,910	1,700	-210	-11.0
Income taxation revenue	293,470	286,100	-7,370	-2.5
Goods and services tax	60,370	60,390	20	0.0
Wine equalisation tax	820	840	20	2.4
Luxury car tax	310	360	50	16.1
Excise and customs duty				
Petrol	6,170	6,200	30	0.5
Diesel	9,640	9,370	-270	-2.8
Other fuel products	3,530	3,170	-360	-10.2
Tobacco	9,660	9,580	-80	-0.8
Beer	2,480	2,480	0	0.0
Spirits	1,980	2,030	50	2.5
Other alcoholic beverages(a)	1,010	990	-20	-2.0
Other customs duty				
Textiles, clothing and footwear	430	310	-120	-27.9
Passenger motor vehicles	610	520	-90	-14.8
Other imports	1,680	1,070	-610	-36.3
<i>less: Refunds and drawbacks</i>	360	420	60	16.7
Total excise and customs duty	36,830	35,300	-1,530	-4.2
Carbon pricing mechanism	0	0	0	-
Agricultural levies	474	478	4	0.8
Other taxes	3,781	3,781	0	0.0
Indirect taxation revenue	102,585	101,149	-1,436	-1.4
Taxation revenue	396,055	387,249	-8,806	-2.2

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

	Estimates		Change on Budget	
	Budget \$m	MYEFO \$m	\$m	%
Sales of goods and services	9,170	9,258	88	1.0
Interest	4,731	4,672	-59	-1.3
Dividends	2,520	3,170	650	25.8
Other non-taxation revenue	7,135	7,333	198	2.8
Non-taxation revenue	23,557	24,433	876	3.7
Total revenue	419,612	411,682	-7,930	-1.9
<i>Memorandum:</i>				
<i>Total excise</i>	27,400	26,990	-410	-1.5
<i>Total customs duty</i>	9,430	8,310	-1,120	-11.9
<i>Capital gains tax(b)</i>	12,000	11,300	-700	-5.8
<i>Medicare and DisabilityCare Australia levy</i>	15,160	15,040	-120	-0.8

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

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

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 2014-15 of \$2.2 billion. For budget reporting purposes, a discount rate applied by actuaries in preparing long term cost reports is used (6 per cent). At MYEFO a discount rate based on the long term government bonds at the commencement of the financial year is applied (4.1 per cent) in accordance with accounting standards. This movement has no impact on cash payments;
- cash payments of \$1.8 billion under Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, not when cash is paid; and
- the provision of Goods and Services Tax (GST) to the States and Territories, reflecting higher than estimated GST entitlements of \$370 million for the 2013-14 financial year. This amount was accrued in 2013-14 and will be paid in 2014-15.

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 Australian Government general government sector expense estimates

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
2014-15 Budget expenses	414,845	431,118	453,806	475,447	1,775,216
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	2,802	2,288	253	-1,418	3,925
Effect of economic parameter variations					
Total economic parameter variations	449	657	64	-189	982
<i>Unemployment benefits</i>	280	270	184	232	966
<i>Prices and wages</i>	158	174	-86	-243	2
<i>Interest and exchange rates</i>	11	33	16	3	63
<i>GST payments to the States</i>	0	180	-50	-180	-50
Public debt interest	25	-118	-212	-436	-742
Program specific parameter variations	4,802	3,106	2,621	3,133	13,662
Other variations	-25	-567	-435	-1,227	-2,254
Total variations	8,053	5,366	2,291	-137	15,572
2014-15 MYEFO expenses	422,898	436,484	456,097	475,310	1,790,788

(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 Australian Government general government sector net capital investment estimates

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
2014-15 Budget net capital investment	2,359	708	2,630	3,962	9,658
Changes from 2014-15 Budget to 2014-15 MYEFO					
Effect of policy decisions(a)	135	81	53	24	294
Effect of parameter and other variations	290	1,633	35	-1,087	871
Total variations	425	1,714	88	-1,063	1,165
2014-15 MYEFO net capital investment	2,784	2,422	2,718	2,899	10,823

(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 Australian Government general government sector underlying and headline cash balance estimates

	Estimates		Projections		Total
	2014-15 \$m	2015-16 \$m	2016-17 \$m	2017-18 \$m	
2014-15 MYEFO underlying cash balance(a)	-40,362	-31,239	-20,844	-11,480	-103,925
plus Net cash flows from investments in financial assets for policy purposes					
Student loans	-6,822	-7,978	-9,615	-10,907	-35,322
NBN investment	-5,200	-6,420	-6,865	-2,597	-21,082
Sale of Medibank Private	5,679	0	0	0	5,679
Residential mortgage backed securities	1,599	1,431	885	572	4,487
WestConnex	0	-226	-854	-831	-1,912
Trade support loans	-144	-460	-511	-563	-1,677
Asbestos removal in the ACT – Mr Fluffy loose fill asbestos remediation(b)	-750	-250	125	125	-750
Net other	-1,182	-313	-218	100	-1,614
Total net cash flows from investments in financial assets for policy purposes	-6,821	-14,217	-17,053	-14,101	-52,191
plus Net Future Fund earnings	3,319	3,523	3,653	3,924	14,419
2014-15 MYEFO headline cash balance	-43,863	-41,933	-34,244	-21,657	-141,697

(a) Excludes expected net Future Fund earnings.

(b) The final terms of the loan are currently being settled and repayment and interest arrangements are subject to change.

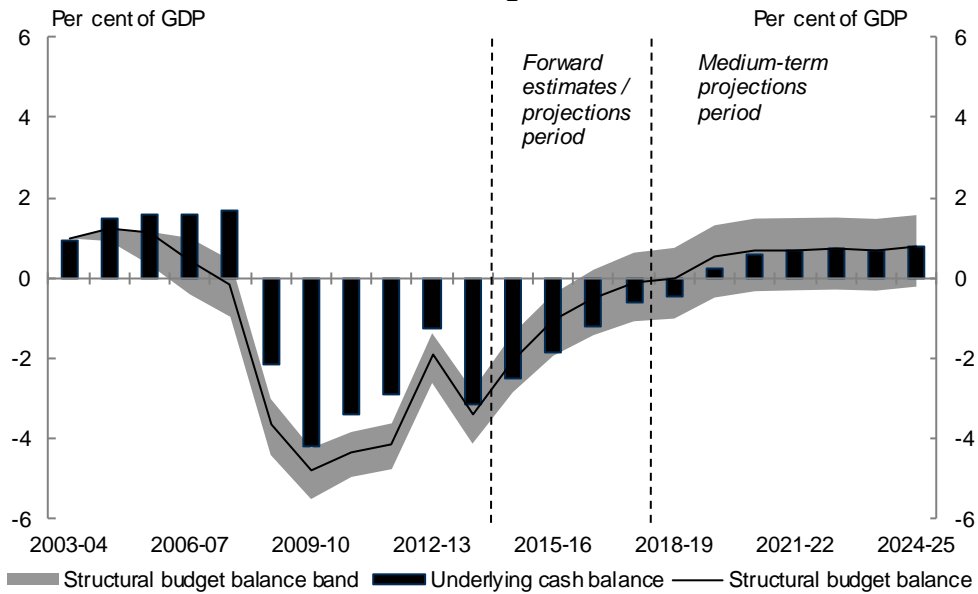
The headline cash balance for 2014-15 is estimated to be a deficit of \$43.9 billion (2.7 per cent of GDP), compared with a deficit of \$33.5 billion at Budget.

The deterioration in the headline cash balance has been primarily driven by the downgrades to commodity prices, lower than expected wage growth, negotiations with the Senate and parameter and other variations that have affected the underlying cash balance. Further adding to the deterioration in the headline cash balance is increased demand for student loans.

Structural budget balance estimates

The outlook for the structural budget balance is largely unchanged from the 2014-15 Budget, consistent with economic parameter revisions being the primary driver of the deterioration in the underlying cash balance over the forward estimates period. The structural position of the budget is forecast to improve to a surplus by 2019-20, consistent with the underlying cash balance. Following a prolonged period of significant structural deficits, the projected improvement in the structural budget balance reflects the Government's commitment to restore the budget to a structurally sustainable position and the savings measures that build over time to achieve this.

Chart 3.7: Structural budget balance estimates



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

Note: The grey range spans structural budget estimates using the average terms of trade between 1986-87 and 2010-11 (lower bound), which is the OECD's assumption for Australia's structural level of the terms of trade, and using the forecast average from 2003-04 to 2016-17 (upper bound). The central estimate is based on the structural level of the terms of trade in the Government's medium-term economic projections. The methodology for producing the structural budget balance estimates was detailed in Treasury Working Paper 2013-01.

Structural budget balance measures are sensitive to the assumptions and parameters underpinning the estimates, including identifying the structural level of the terms of trade and the relationship between tax receipts and economic activity. Due to the sensitivity of estimates to assumptions, it is best to consider a range of structural budget balance estimates based on plausible assumptions for the underlying parameters as one element of a broader assessment of fiscal sustainability.

