STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This Budget is focused on building jobs, growth and opportunity, while making progress in restoring Australia to a sustainable fiscal position.

The Government is committed to its medium-term fiscal strategy of returning the budget to surplus, maintaining strong fiscal discipline, strengthening the Government's balance sheet and redirecting government spending to boost productivity and workforce participation.

Significant progress on the task of budget repair has already been made. The 2015 Intergenerational Report (IGR) shows that structural savings measures already implemented are projected to make a significant contribution towards achieving fiscal sustainability over the longer term.

Despite the iron ore price nearly halving and $52 billion in tax receipts write-downs to 2017-18 since the last Budget, the Government continues to progress budget repair in a way that is responsible, measured and fair.

The underlying cash balance is expected to improve in each and every year of the forward estimates, with a deficit of $35.1 billion (2.1 per cent of GDP) in 2015-16 improving to $6.9 billion (0.4 per cent of GDP) in 2018-19.

The average annual pace of fiscal consolidation until 2018-19 is a responsible 0.5 per cent of GDP. This is broadly consistent with the average pace of consolidation in the 2014-15 Budget.

The payments-to-GDP ratio is expected to fall from 25.9 per cent in 2015-16 to 25.3 per cent in 2018-19. Net debt as a share of GDP is expected to peak in 2016-17 and then decline over the remainder of the forward estimates.

The budget is projected to return to surplus in 2019-20 — the same year as projected in the 2014-15 MYEFO.

Analysis of the medium-term shows that while modest surpluses are anticipated over much of the projection period, there is more work to do in order to achieve the Government's target surplus of 1 per cent of GDP.

CONTENTS

OVERVIEW

The 2015-16 Budget focuses on building jobs, growth and opportunity. It carefully balances the need for investment to enhance Australia's prosperity, with the need to repair the budget in a responsible and fair way.

This Budget redirects spending towards investments that boost productivity and workforce participation. The 2015-16 Budget priorities, including the Jobs and Small Business Package, support for Australian families, promoting infrastructure investment, and unlocking the region's potential through free trade agreements, all contribute to building a stronger economy. The Budget also contains a number of measures that improve the fairness of the tax and benefits systems.

Downgrades in forecast tax receipts since the 2014-15 Budget are estimated to have totalled $52 billion over the four years to 2017-18 and over $90 billion across the forward years since the 2013 Pre-Election Economic and Fiscal Outlook. These write-downs have been driven by a rapid fall in some commodity prices, particularly iron ore, and lower-than-expected wages growth.

Despite these headwinds, the 2015-16 Budget maintains a steady and credible trajectory towards surplus. The underlying cash balance is expected to improve each and every year over the forward estimates. The deficit is expected to fall from $35.1 billion (2.1 per cent of GDP) in 2015-16 to $6.9 billion (0.4 per cent of GDP) in 2018-19, as shown in Table 1.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total(a)
Underlying cash balance ($b)(b)	**-48.5**	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**	**-82.3**
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4	
Fiscal balance ($b)	**-43.7**	**-39.4**	**-33.0**	**-23.4**	**-9.2**	**-3.2**	**-68.9**
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2	

(a) Total is equal to the sum of amounts from 2015-16 to 2018-19.
(b) Excludes net Future Fund earnings.

The average annual pace of fiscal consolidation across the forward estimates is a responsible 0.5 per cent of GDP. This is broadly consistent with the average pace of consolidation in the 2014-15 Budget.

The underlying cash balance is expected to continue to improve into the medium-term. Current projections indicate a surplus being reached by 2019-20, the same year as projected at the 2014-15 MYEFO. By the end of the medium-term, the underlying cash balance is projected to have been in a modest surplus for 6 years, even after assuming additional tax relief is provided to taxpayers from 2020-21.

FISCAL STRATEGY

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

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle.

Our 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.

Budget repair strategy

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.

Our 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 fiscal strategy aims to guide the budget back to a sustainable surplus at a responsible pace, while redirecting spending towards investment to promote jobs, growth and opportunity.

Budget surpluses over the course of the economic cycle

The Government remains strongly committed to returning the budget to surplus as soon as possible.

This Budget maintains a steady and credible trajectory towards surplus. The underlying cash deficit is expected to improve in each and every year over the forward estimates, from $35.1 billion in 2015-16 (2.1 per cent of GDP) to $6.9 billion in 2018-19 (0.4 per cent of GDP).

Compared with the 2014-15 MYEFO, the underlying cash balance has deteriorated by $3.9 billion in 2015-16 and $12.5 billion in the four years to 2017-18. However, the downgrade to total tax receipts is significantly larger than the size of this deterioration. Expected tax receipts have been written-down by around $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18 since the 2014-15 MYEFO. Since the 2014-15 Budget, this brings the total write-down in tax receipts over the four years to 2017-18 to $52 billion.

The rapid fall in the iron ore price has been the largest single contributor to write-downs to Government tax receipts over the past year, contributing around $20 billion of the total $52 billion. Weaker expected wage growth since the 2014-15 MYEFO has also significantly downgraded expected tax receipts.

This Budget does not seek to offset the deterioration in receipts by dramatically reducing Government spending or hiking taxes. Nevertheless, the average annual pace of consolidation until 2018-19 is 0.5 per cent of GDP, broadly consistent with the average pace of consolidation in the 2014-15 Budget.

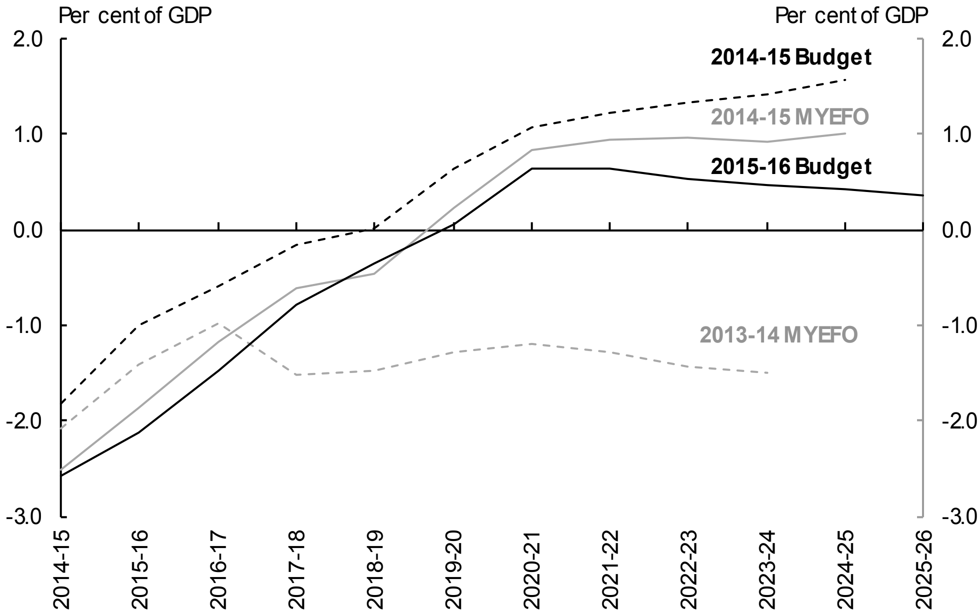
The Government has set itself a target of reaching a surplus of 1 per cent of GDP by 2023-24, consistent with the medium-term fiscal strategy of running surpluses on average over the course of the economic cycle.

The surpluses currently projected over the medium-term do not yet meet this target, which means that although significant progress has already been made, there is more work required in the future to deliver on the task of budget repair.

The underlying cash balance is projected to return to surplus in 2019-20, the same year as projected at the 2014-15 MYEFO. Modest surpluses, of up to 0.7 per cent of GDP, are expected over the remainder of the medium-term with a surplus of 0.4 per cent of GDP by the end of the projection period.

Chart 1 shows the projection of the underlying cash balance to 2025-26.

Chart 1: Underlying cash balance projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence. The projections of the underlying cash balance originally published in the 2013-14 MYEFO, the 2014-15 Budget, and the 2014-15 MYEFO did not include net Future Fund earnings.
Source: Treasury projections.

Investing in a stronger economy by redirecting government spending

The Australian economy is adjusting to the end of the resource investment boom and is currently going through a period of below-trend economic growth, which has affected fiscal settings. This Budget deliberately redirects spending towards areas that will build a stronger economy, recognising the importance of growth to fiscal sustainability.

The $5.5 billion **Jobs and Small Business Package** will make it easier for Australian small businesses to invest, hire and grow; and for Australia's unemployed, particularly young people, to move into long-term employment.

This Budget also includes a $4.5 billion **Families Package**. It recognises that workforce participation can be assisted if Australian families have simpler, more affordable, accessible and flexible child care arrangements.

The Budget responds to emerging **infrastructure** opportunities as the economy transitions away from resources-led growth. The Northern Australia Infrastructure

Facility will help promote private sector participation in major infrastructure necessary for economic development in the north. The National Stronger Regions Fund is also being targeted toward areas of particular economic stress and community need.

The **trade and investment** generated through Australia's recently completed free trade agreements with China, Japan and Korea will help to strengthen the overall economy. These agreements help shore up Australia's competitive position in these important markets and open up new opportunities for Australian exporters and investors.

The budget position is also being strengthened with a package of measures that improve the **fairness of the tax and benefits systems**.

Together these packages deliver on the Government's medium-term fiscal strategy of redirecting spending to quality investment that will boost productivity and workforce participation.

Maintaining strong fiscal discipline

Strong fiscal discipline will reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth.

The Government's fiscal strategy aims to have the payments-to-GDP ratio and Commonwealth Government Securities (CGS) on issue reducing over time.

The payments-to-GDP ratio falls from 25.9 per cent to 25.3 per cent over the forward estimates period. The ratio is projected to stabilise over the medium-term and be 25.4 per cent of GDP in 2025-26, highlighting the need to do more to bring spending down over the medium-term.

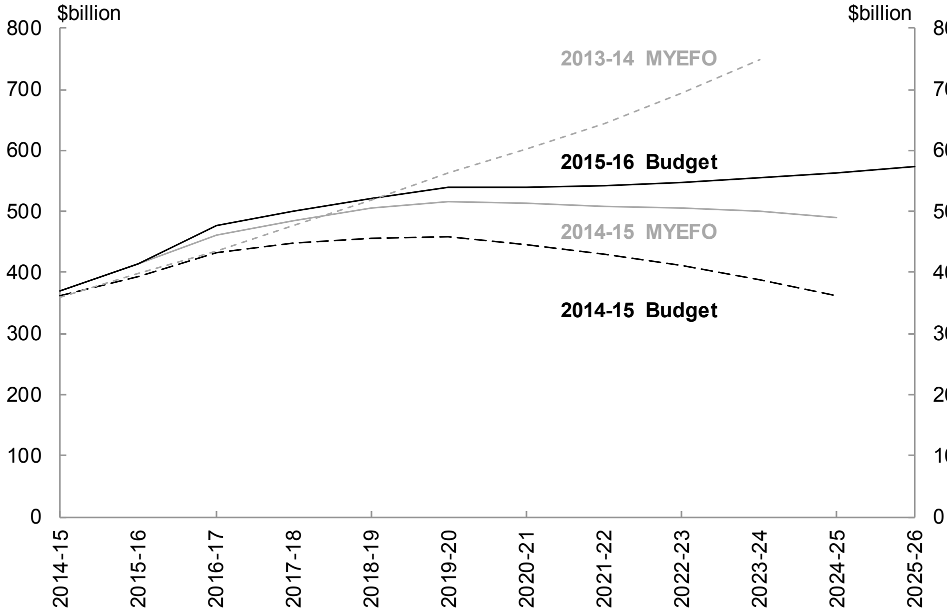
Since the 2014-15 MYEFO, the payments-to-GDP ratio has been affected by slower-than-anticipated nominal GDP growth over the forecast period. In the forward estimates the value of payments is forecast to be lower in each and every year compared with the 2014-15 MYEFO.

Real payments growth until 2017-18 is expected to be 1.1 per cent per annum on average. Over the medium-term (the period from 2019-20 to 2025-26) it is projected to be 3.1 per cent per annum. This indicates that further budget repair is necessary over the medium-term.

The face value of CGS on issue is projected to rise to $573 billion by 2025-26, reflecting a modestly weaker underlying cash balance, and its associated higher public debt interest expense, accumulating over the medium-term. In 2023-24 the face value of CGS on issue is projected to reach $555 billion, some $112 billion less than the $667 billion projected at the 2013-14 MYEFO. This improvement would be even greater compared with the 2013-14 MYEFO, if the original scenario had assumed taxes were capped at 23.9 per cent of GDP (that is, assuming future tax relief).

The projected face value of Commonwealth Government Securities on issue is shown in Chart 2.

Chart 2: Face value of Commonwealth Government Securities on issue projected to 2025-26



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Australian Office of Financial Management and Treasury projections.

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

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government the flexibility to respond to unanticipated events during times of financial crises or economic shocks.

Key aggregates of fiscal sustainability are set out in Table 2.

Net financial worth is the primary indicator of fiscal sustainability articulated in the medium-term fiscal strategy. It provides a broader measure of the Government's assets and liabilities as it includes both the full assets of the Future Fund and the superannuation liability that the Future Fund is intended to offset.

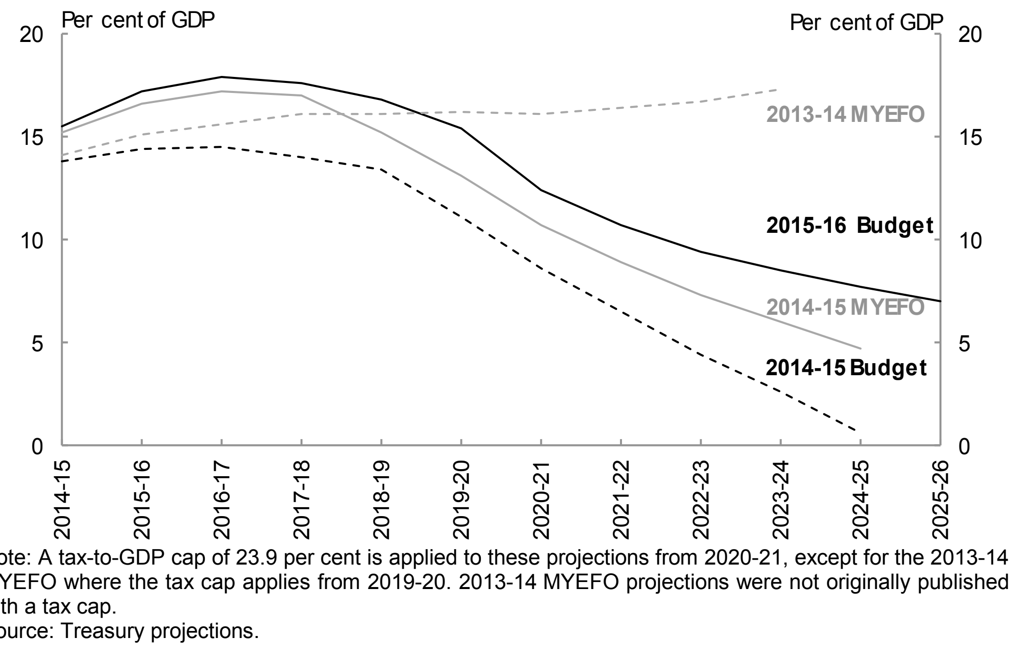
Table 2: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Financial assets	309.9	332.6	380.5	398.2	422.0
Non-financial assets	118.8	122.1	125.6	129.9	135.0
Total assets	**428.7**	**454.7**	**506.1**	**528.1**	**557.0**
Total liabilities	**660.0**	**716.1**	**786.5**	**813.4**	**839.8**
Net worth	**-231.3**	**-261.4**	**-280.4**	**-285.3**	**-282.8**
Net financial worth(a)	**-350.1**	**-383.5**	**-406.0**	**-415.2**	**-417.8**
Per cent of GDP	-21.8	-23.2	-23.3	-22.6	-21.6
Net debt(b)	**250.2**	**285.8**	**313.4**	**323.7**	**325.4**
Per cent of GDP	15.6	17.3	18.0	17.6	16.8
Net interest payments	**10.9**	**11.6**	**11.9**	**12.3**	**13.0**
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

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

Net debt is estimated to be $285.8 billion in 2015-16 (17.3 per cent of GDP) and to peak as a share of GDP at $313.4 billion (18.0 per cent of GDP) in 2016-17, slightly above the peak of $304.4 billion (17.2 per cent of GDP) expected at MYEFO. Net debt then declines as a share of GDP to 16.8 per cent by 2018-19. In the medium-term, there will be a substantial improvement in projected net debt with it falling to $201 billion (7.1 per cent of GDP) in 2025-26 (Chart 3).

Chart 3: Net debt projected to 2025-26

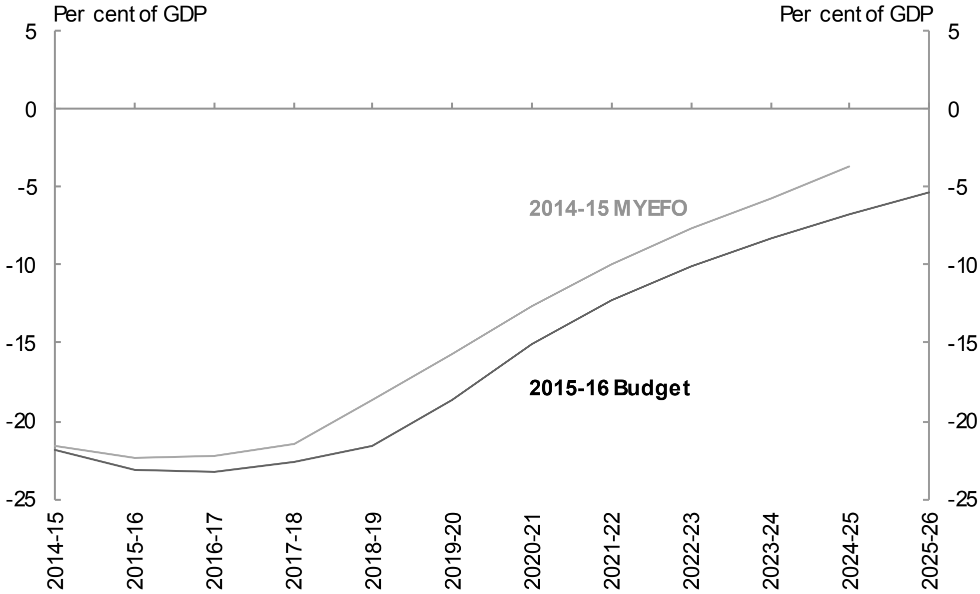


Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2020-21, except for the 2013-14 MYEFO where the tax cap applies from 2019-20. 2013-14 MYEFO projections were not originally published with a tax cap.
Source: Treasury projections.

Net worth is expected to be -$261.4 billion (-15.8 per cent of GDP) in 2015-16, $7.9 billion less than estimated at the 2014-15 MYEFO. Net worth is expected to be -$282.8 billion (-14.6 per cent of GDP) by the end of the forward estimates.

Net financial worth is estimated to be -$383.5 billion (-23.2 per cent of GDP) in 2015-16, $8.7 billion lower than estimated at the 2014-15 MYEFO. This reflects higher CGS issuance and growing superannuation liabilities, partially offset by the higher value of investments held by the Government, including the Future Fund. Net financial worth improves significantly as a share of GDP over the medium term, rising to -$150 billion (-5.3 per cent of GDP) by 2025-26 (Chart 4).

Chart 4: Net financial worth projected to 2025-26



Source: Treasury projections.

Delivering on the budget repair strategy

The 2015 IGR shows that structural savings measures already implemented by the Government are projected to make a significant contribution towards achieving fiscal sustainability over the longer term. More than 80 per cent of all the 2014-15 Budget measures have been implemented, enabling a $15.6 billion improvement in the budget bottom line in the five years to 2017-18 and growing beyond then.

While significant progress has been made, the task of budget repair remains ongoing and more work needs to be done to achieve a sustainable fiscal trajectory.

Offsetting our decisions

The Government remains committed to offsetting all new policy decisions. After taking into account the provisions the Government has previously made relating to the

Paid Parental Leave Scheme, as well as the associated Levy and Company Tax cut, the overall impact of policy decisions on the bottom line at this Budget is an improvement to the budget position of $1.6 billion over the five years to 2018-19 (Table 3).

Table 3: Offsetting new decisions

	Estimates		Projections			
	2014-15	2015-16	2016-17	2017-18	2018-19	Total
	$m	$m	$m	$m	$m	$m
Total effect of policy decisions since MYEFO	**-578**	**-4,525**	**-2,547**	**-1,665**	**494**	**-8,821**
Add: Provisions made for the Paid Parental Leave Scheme, Levy and Company Tax cut	*156*	*2,373*	*2,840*	*2,467*	*2,591*	*10,426*
Net budget impact of new policy decisions	**-422**	**-2,153**	**293**	**802**	**3,085**	**1,605**

The 2014-15 Budget included a number of savings measures that have been delayed by the actions of the Senate, causing a negative impact on the bottom line.

The Government has also taken decisions not to proceed with certain measures from the 2014-15 Budget where the prospect of legislation passing seemed remote. The total impact of not proceeding with, and delays in passing, measures associated with the 2014-15 Budget is $5.2 billion over the five years to 2018-19 (Table 4).

Table 4: Impact of non-passage of 2014-15 Budget savings measures

	Estimates		Projections			
	2014-15	2015-16	2016-17	2017-18	2018-19	Total
	$m	$m	$m	$m	$m	$m
Significant decisions not to proceed with prior Budget proposals						
Medicare Benefits Schedule - changes to GP rebates – reversal	-161	-628	-691	-716	-752	-2,948
Reversal of Stronger Participation Incentives for Job Seekers under 30	4	-461	-498	-507	-563	-2,025
Total impact of significant decisions not to proceed with prior Budget proposals	**-157**	**-1,089**	**-1,189**	**-1,223**	**-1,315**	**-4,973**
Impact of delays in passing legislation (a)						
Social Services	-62	0	0	0	na	-62
Employment	-9	0	0	0	na	-9
Health	-73	-80	5	0	na	-149
Industry and Science	-4	-9	0	0	na	-13
Impact of delays in passing legislation	**-148**	**-89**	**5**	**0**	**na**	**-233**
Total impact of not proceeding with, and delays in passing legislation for proposals	**-305**	**-1,178**	**-1,184**	**-1,223**	**-1,315**	**-5,205**

(a) Since 2014-15 MYEFO

Impact of the economy

The budget repair strategy commits the Government to bank any positive overall shift in receipts and payments due to changes in the economy. In this Budget, the net impact of parameter and other variations has reduced the underlying cash balance by $3.2 billion in the four years to 2017-18.

As economic recovery gathers momentum, improvements from favourable parameter variations will be allowed to flow through to the bottom line in future budgets.

A clear path back to surplus

The underlying cash balance is projected to return to surplus in 2019-20, the same year as projected at the 2014-15 MYEFO. Modest surpluses, of up to 0.7 per cent of GDP, are expected over the remainder of the medium term with a surplus of 0.4 per cent of GDP by the end of the projection period.

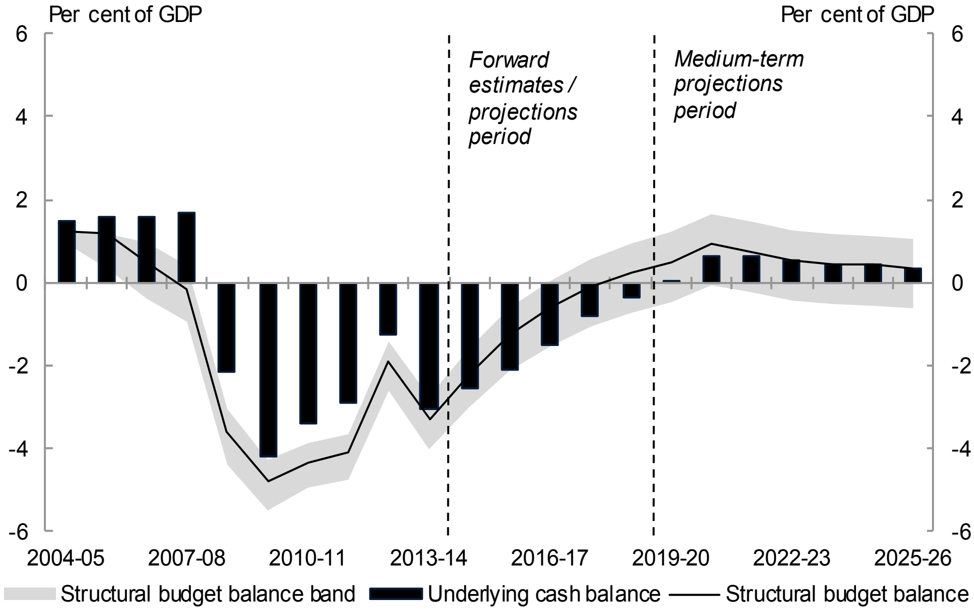
Structural budget balance estimates

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.

The structural budget balance is estimated to improve from a deficit of around 1¼ per cent of GDP in 2015-16 to modest surpluses from 2018-19 through to the end of the projections period (Chart 5), largely unchanged from the 2014−15 MYEFO.

The structural budget balance estimates remove factors that have a temporary impact on revenues and expenditures, such as fluctuations in commodity prices and the extent to which economic output deviates from its potential level. Considered in conjunction with other measures, estimates of the structural budget balance can provide insight into the sustainability of current fiscal settings.

Chart 5: Structural budget balance estimates



Note: The methodology for producing structural budget balance estimates was detailed in Treasury Working Paper 2013-01 and incorporates the medium-term projection methodology detailed in Treasury Working Paper 2014-02.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6401.0 and Treasury.

FISCAL OUTLOOK

Budget aggregates

An **underlying cash deficit** of $35.1 billion (2.1 per cent of GDP) is expected in 2015-16, improving to a deficit of $6.9 billion (0.4 per cent of GDP) in 2018-19.

In accrual terms, a **fiscal deficit** of $33.0 billion (2.0 per cent of GDP) is expected for 2015-16, improving to a deficit of $3.2 billion (0.2 per cent of GDP) in 2018-19.

A **headline cash deficit** of $44.8 billion is expected in 2015-16, improving to a deficit of $17.3 billion in 2018-19.

Table 5 provides key budget aggregates for the Australian Government general government sector.

Table 5: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**360.3**	**377.3**	**398.0**	**422.5**	**453.6**	**488.2**	**2,139.6**
Per cent of GDP	22.8	23.5	24.0	24.2	24.7	25.2	
Payments(b)	**406.4**	**415.0**	**429.8**	**444.9**	**464.3**	**491.1**	**2,245.2**
Per cent of GDP	25.7	25.9	25.9	25.5	25.3	25.3	
Net Future Fund earnings	2.3	3.4	3.3	3.4	3.7	4.0	17.8
Underlying cash balance(c)	**-48.5**	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**	**-123.4**
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4	
Revenue	**373.9**	**384.1**	**405.4**	**433.4**	**466.2**	**501.3**	**2,190.3**
Per cent of GDP	23.6	23.9	24.5	24.8	25.4	25.9	
Expenses	**413.8**	**420.3**	**434.5**	**452.7**	**471.8**	**499.4**	**2,278.7**
Per cent of GDP	26.2	26.2	26.2	25.9	25.7	25.8	
Net operating balance	-39.9	-36.2	-29.1	-19.2	-5.6	1.9	-88.4
Net capital investment	3.8	3.1	3.9	4.2	3.6	5.1	19.9
Fiscal balance	**-43.7**	**-39.4**	**-33.0**	**-23.4**	**-9.2**	**-3.2**	**-108.2**
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2	
Memorandum item:							
Headline cash balance	-52.5	-43.2	-44.8	-43.9	-24.7	-17.3	-173.8

(a) Total is equal to the sum of amounts from 2014-15 to 2018-19.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes net Future Fund earnings.

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

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

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	375.1	396.1	422.2	453.3	487.4
Capital cash receipts(a)	2.2	1.9	0.3	0.3	0.8
Total cash receipts	377.3	398.0	422.5	453.6	488.2
Cash payments					
Operating cash payments	403.2	418.7	433.4	451.7	477.3
Capital cash payments(b)	11.8	11.2	11.5	12.6	13.8
Total cash payments	415.0	429.8	444.9	464.3	491.1
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**-37.7**	**-31.9**	**-22.5**	**-10.7**	**-2.9**
Per cent of GDP	-2.3	-1.9	-1.3	-0.6	-0.1
less Net Future Fund earnings	3.4	3.3	3.4	3.7	4.0
Underlying cash balance(d)	**-41.1**	**-35.1**	**-25.8**	**-14.4**	**-6.9**
Per cent of GDP	-2.6	-2.1	-1.5	-0.8	-0.4
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-5.5	-12.9	-21.4	-14.0	-14.5
plus Net Future Fund earnings	3.4	3.3	3.4	3.7	4.0
Headline cash balance	**-43.2**	**-44.8**	**-43.9**	**-24.7**	**-17.3**

(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.

Underlying cash balance estimates

The estimated underlying cash deficit in 2015-16 has deteriorated by $3.9 billion when compared to the 2014-15 MYEFO. Table 7 provides a reconciliation of the variations in the underlying cash balance since the 2014-15 Budget.

Since the 2014-15 MYEFO, the effect of parameter and other variations has resulted in a $21.3 billion reduction in receipts across the four years to 2017-18, partly offset by a $17.4 billion reduction in payments.

Since the 2014-15 MYEFO, policy decisions have resulted in a $9.3 billion reduction in the underlying cash balance in the four years to 2017-18. After taking into account the provisions the Government has previously made relating to the Paid Parental Leave Scheme, as well as the revenue costs associated with the Levy and Company Tax cut, the overall impact of policy decisions on the bottom line has been more than fully offset (refer Table 3).

Table 7: Reconciliation of underlying cash balance estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$m
2014-15 Budget underlying cash balance(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)	-2,314	-2,195	-501	950	-4,059
Effect of parameter and other variations	-8,275	-11,960	-9,781	-9,606	-39,622
Total variations	**-10,589**	**-14,155**	**-10,282**	**-8,656**	**-43,681**
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	
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(b)(c)					
Receipts	*40*	*-432*	*396*	*783*	*787*
Payments	*618*	*4,093*	*2,943*	*2,448*	*10,102*
Total policy decisions impact on underlying cash balance	-578	-4,525	-2,547	-1,665	-9,315
Effect of parameter and other variations(c)					
Receipts	*-2,214*	*-4,950*	*-7,163*	*-6,993*	*-21,321*
Payments	*-2,143*	*-5,335*	*-4,440*	*-5,517*	*-17,435*
less Net Future Fund earnings	*110*	*-265*	*-279*	*-225*	*-658*
Total parameter and other variations impact on underlying cash balance	-181	650	-2,445	-1,251	-3,227
2015-16 Budget underlying cash balance(a)	**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-116,468**
Per cent of GDP	-2.6	-2.1	-1.5	-0.8	

(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.

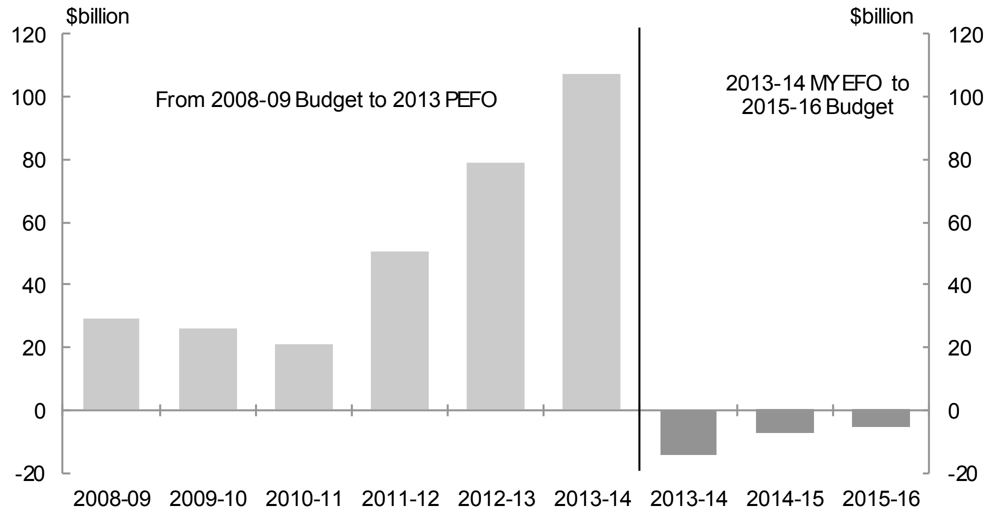
Receipts estimates

Total receipts are expected to be $5.4 billion lower in 2015-16 than estimated at the 2014-15 MYEFO, with tax receipts $6.5 billion lower and non-taxation receipts $1.1 billion higher.

Non-taxation receipts have been revised up by $1.1 billion in 2015-16 and $258 million over the four years to 2017-18. This primarily reflects lower than expected forecasts of royalties offset by increases in other non-taxation receipts, including the $1.5 billion of unspent funding from the Victorian Government in relation to the East West Link project required to be returned consistent with the obligations under relevant agreements with the Commonwealth.

Revenue decisions taken by this Government, up to and including the 2015-16 Budget, have reduced revenue by $5.4 billion in accrual terms compared with decisions taken by the former Government.

Chart 6: Cumulative effect of revenue measures since the 2008-09 Budget (a)



(a) Cumulative value of revenue measures taken in each budget year

Policy decisions

Policy decisions since the 2014-15 MYEFO are expected to reduce receipts by $432 million in 2015-16, but increase receipts by $396 million in 2016-17, $783 million in 2017-18 and $1,886 million in 2018-19. Significant measures include:

- continuing the GST compliance program. This is expected to increase receipts by $3.6 billion over the forward estimates period, including a GST component of $1.8 billion that will be paid to states and territories. Arrangements for funding these activities will be settled with the states and territories in accordance with the *GST Administration Performance Agreement*;

- a tax cut to all small businesses through a 1.5 per cent point tax cut for small companies and a 5 per cent tax discount on income from unincorporated small business activity. These tax cuts will be available from the 2015-16 income year, and are estimated to decrease receipts by $3.3 billion over the forward estimates period. This measure will deliver lower taxes to both incorporated and unincorporated small businesses, improving their cash flow and assisting them to grow;

- expanding accelerated depreciation for all small businesses. From Budget night until 30 June 2017, small businesses with a turnover of less than $2 million will be able to deduct immediately assets they acquire and install ready for use, provided the asset costs less than $20,000. This will provide additional support and a boost to small business activity and investment. This measure is expected to decrease receipts by $1.8 billion over the forward estimates period; and

- modernising the methods available to calculate work-related car expense deductions. From the 2015-16 income tax year, the '12 per cent of original value' and the 'one-third of actual expenses' methods for calculating work-related car expense deductions will be removed. In addition, the three rates which currently apply to the 'cents per kilometre' calculation method will be replaced by one rate of 66 cents. This will apply to all motor vehicles and will be updated by the Commissioner of Taxation. These amendments are expected to increase receipts by $845.0 million over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2015-16*.

Parameter and other variations

Since the 2014-15 Budget, forecast nominal GDP has been revised down substantially over the forward estimates, resulting in weaker expected tax receipts. More than half of this write down in nominal GDP has been a result of weaker than previously expected iron ore values. These revisions to iron ore values have resulted in lower expected taxes from companies. In addition, weaker expected wage growth has led to lower expectations for taxes from individuals and superannuation funds.

These changes have resulted in a downgrade to total tax receipts since the 2014-15 Budget of $14.0 billion in 2015-16 and $51.7 billion over the four years to 2017-18. Excluding GST, tax receipts are expected to be $14.1 billion lower in 2015-16 and $51.9 billion lower over the four years to 2017-18.

Relative to the 2014-15 MYEFO, downgrades to forecast nominal GDP totalling $63 billion over the four years to 2017-18 have contributed to a write down in tax receipts of $5.9 billion in 2015-16 and $20.1 billion over the four years to 2017-18.

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

Payment estimates

Since the 2014-15 MYEFO, excluding Senate negotiations, total cash payments for 2015-16 have decreased by $2.3 billion. The overall impact of spending related decisions (excluding Senate negotiations) have decreased total cash payments by $3.6 billion over the five years to 2018-19.

Policy decisions

The impact of major policy decisions since the 2014-15 MYEFO which increase payments include:

- reversing components of the 2014-15 MYEFO measure *A Strong and Sustainable Medicare,* which is expected to increase cash payments by $628 million in 2015-16 and $2.9 billion over the five years to 2018-19. The Government will not proceed with changes to GP consultation items announced in the 2014-15 MYEFO;
- reversing the 2014-15 Budget measure *Stronger Participation Incentives for Job Seekers under 30* and instead, requiring young people under 25 years of age without significant barriers to employment to actively seek work for a four-week waiting period before receiving income support, with a net increase in cash payments of $464 million in 2015-16 ($1.8 billion over the five years to 2018-19);
- funding to support families to access affordable child care services, under the *Families Package — Child Care — Workforce Participation Stream*, which is expected to increase cash payments by $140 million in 2015-16 ($3.3 billion over the five years to 2018-19), largely due to a new Child Care Subsidy that will be introduced on 1 July 2017. This will provide a subsidy of up to 85 per cent of the actual fee paid, up to an hourly fee cap, depending on the level of parental income; and
- funding to support the *Families Package — National Partnership Agreement on Universal Access to Early Childhood Education — extension*, which is expected to increase cash payments by $125 million in 2015-16 ($843 million over the three years to 2017-18). This measure will give a further two cohorts of pre-school children the opportunity to participate in early childhood education and care through accredited pre-school programmes.

The impact of major policy decisions which decrease payments include:

- removing funding for the Victorian East-West Link from the forward estimates, which is expected to decrease cash payments by $300 million in 2015-16 ($1.5 billion over the five years to 2018-19). The Australian Government will provide $3 billion for the East-West Link to any Victorian Government that proceeds with the project, with this commitment detailed as a Contingent Liability in *Statement 8*: *Statement of Risks*;

- rationalising and streamlining Health programmes, which is expected to decrease cash payments by $121 million in 2015-16 ($963 million over the five years to 2018-19), largely by reducing funding for the Health Portfolio Flexible Funds, consolidating and streamlining dental workforce programmes and rationalising other health programmes;

- consolidating the immigration detention network, which is expected to decrease cash payments by $111 million in 2015-16 ($555 million over the five years to 2018-19), due to the planned closure of a number of facilities and a reduction in logistics and service requirements across the detention network; and

- improving the targeting of Australian Government payments by increasing the assets test thresholds and the withdrawal rate at which pensions are reduced once the threshold is exceeded, which is expected to decrease cash payments by $2.4 billion over the five years to 2018-19.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2015-16*. The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align with the payment figures provided in this statement.

Parameter and other variations

This Budget also incorporates some major changes in payments in 2015-16 as a result of parameter and other variations since the 2014-15 MYEFO. Major increases include:

- payments related to the Research and Development Tax Incentive, which are expected to increase by $352 million in 2015-16 ($1.5 billion over the four years to 2017-18), largely reflecting a higher than expected number and size of claims for the Research and Development refundable tax offset;

- payments related to Illegal Maritime Arrival (IMA) management costs, which are expected to increase by $286 million in 2015-16 ($244 million over the four years to 2017-18, including an estimated reduction in payments over the two years to 2017-18), largely reflecting the impact of slower than forecast processing of refugee claims in offshore facilities;

- payments related to Family Tax Benefit, which are expected to increase by $214 million in 2015-16 ($824 million over the four years to 2017-18), largely reflecting the impact of lower than expected wage growth on average payment rates and recipient numbers;

- payments related to the public sector defined benefit superannuation schemes which are expected to increase by $185 million in 2015-16 (although a reduction in payments of $153 million is expected over the four years to 2017-18), largely reflecting an increase in estimated benefit payments offset by higher returns of the funded components from superannuation schemes to the Commonwealth when employees retire; and

- payments related to Parents Income Support, which are expected to increase by $184 million in 2015-16 ($925 million over the four years to 2017-18), largely reflecting revised projected customer numbers based on observed population trends.

Major decreases in payments in 2015-16 as a result of parameter and other variations since the 2014-15 MYEFO include:

- not proceeding with the Paid Parental Leave Scheme, resulting in decreased cash payments of $10.1 billion over the five years to 2018-19, provisioned for in the Contingency Reserve;
- payments relating to public debt interest expenses, which are expected to decrease by $247 million in 2015-16 and by $1.2 billion over the four years to 2017-18, largely reflecting a reduction in the weighted average cost of borrowing. This is partially offset by a decrease in interest receipts ($167 million over the four years to 2017-18);
- payments related to the Income Support for Seniors programme, which are expected to decrease by $177 million in 2015-16 ($654 million over the four years to 2017-18), largely reflecting lower than expected average payment rates;
- payments related to the Income Support for People with a Disability programme, which are expected to decrease by $164 million in 2015-16 ($660 million over the four years to 2017-18), largely reflecting lower than expected customer numbers and average payment rates;
- payments related to the Interest on Overpayment and Early Payment of Tax programme, which are expected to decrease by $150 million in 2015-16 ($580 million over the four years to 2017-18), largely reflecting early settlements of disputed tax revenue cases;
- Child Care Rebate and Child Care Benefit payments, which are expected to decrease by $135 million in 2015-16 ($552 million over the four years to 2017-18), largely reflecting lower than expected utilisation of demand driven child care services, both in terms of number of children in child care and hours claimed, following a period of several years of continual upwards variations due to higher than expected growth. From 1 July 2017, the Child Care Rebate and Child Care Benefit will be replaced by the new Child Care Subsidy; and
- payments related to the Income Support for Carers programme, which are expected to decrease by $129 million in 2015-16 ($519 million over the four years to 2017-18), largely reflecting lower than expected recipient numbers.

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 in the Other Purposes section of *Statement 5: Expenses and Net Capital Investment.*

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

Fiscal balance estimates

The fiscal deficit is expected to be $33.0 billion (2.0 per cent of GDP) in 2015-16, which reflects a deterioration of $5.7 billion compared with the 2014-15 MYEFO. Table 8 provides a reconciliation of the variations in the fiscal balance since the 2014-15 Budget.

Table 8: Reconciliation of fiscal balance estimates

	Estimates			Projections	
	2014-15	2015-16	2016-17	2017-18	Total
	$m	$m	$m	$m	$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)	-3,395	-2,914	-618	946	-5,981
Effect of parameter and other variations	-10,555	-12,095	-10,565	-6,966	-40,181
Total variations	**-13,950**	**-15,009**	**-11,182**	**-6,020**	**-46,162**
2014-2015 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	
Changes from 2014-15 MYEFO to 2015-16 Budget					
Effect of policy decisions(a)(b)					
Revenue	45	-162	39	463	385
Expenses	669	3,887	1,912	2,276	8,743
Net capital investment	-31	-98	914	132	917
Total policy decisions impact on fiscal balance	-592	-3,951	-2,786	-1,945	-9,275
Effect of parameter and other variations(b)					
Revenue	-1,823	-6,170	-7,649	-7,459	-23,101
Expenses	-3,232	-5,901	-5,355	-5,771	-20,259
Net capital investment	386	1,529	567	567	3,048
Total parameter and other variations impact on fiscal balance	1,023	-1,798	-2,861	-2,255	-5,891
2015-16 Budget fiscal balance	**-39,375**	**-32,972**	**-23,425**	**-9,236**	**-105,008**
Per cent of GDP	-2.5	-2.0	-1.3	-0.5	

(a) Excludes secondary impacts on public debt interest of policy decisions and offsets from the Contingency Reserve for decisions taken.
(b) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

Revenue estimates

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

Expense and net capital investment estimates

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

- superannuation benefits, where there are differences between the timing of cash payments and accrued expenses as a result of revaluations recommended by the actuary; 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.

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

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co), and net Future Fund earnings. Table 9 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2015-16 is estimated to be a deficit of $44.8 billion, compared with a deficit of $41.9 billion at 2014-15 MYEFO. Over the four years to 2018-19, the headline cash deficit is projected to decline by $27.4 billion to $17.3 billion in 2018-19.

Table 9: Details of the Australian Government general government sector items between the underlying and headline cash balance estimates

	Estimates			Projections		
	2014-15 $m	2015-16 $m	2016-17 $m	2017-18 $m	2018-19 $m	Total $m
2015-16 Budget underlying cash balance(a)	**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-6,905**	**-123,372**
plus Net cash flows from investments in financial assets for policy purposes						
Student loans	-6,381	-7,926	-10,174	-11,676	-12,988	-49,144
NBN investment	-4,917	-7,839	-8,326	0	0	-21,082
Sale of Medibank Private	5,679	0	0	0	0	5,679
Residential mortgage backed securities	1,980	4,036	0	0	0	6,017
WestConnex	0	-226	-854	-831	-88	-2,000
Trade support loans	-72	-460	-511	-563	-569	-2,174
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-750	-250	0	50	50	-900
Northern Australia Infrastructure Facility	0	0	-935	-870	-805	-2,610
Net other	-1,039	-243	-598	-94	-53	-2,027
Total net cash flows from investments in financial assets for policy purposes	**-5,500**	**-12,908**	**-21,397**	**-13,983**	**-14,452**	**-68,240**
plus Net Future Fund earnings	3,429	3,258	3,375	3,699	4,037	17,798
2015-16 Budget headline cash balance	**-43,191**	**-44,764**	**-43,859**	**-24,681**	**-17,320**	**-173,815**

(a) Excludes expected net Future Fund earnings.