STATEMENT 1: BUDGET OVERVIEW

Australia's journey to broader-based growth after the mining investment boom is now well advanced.

In its 26th year of consecutive growth, the nation is well placed to build on the hard-won growth secured in recent years and rising optimism about the global outlook.

Real GDP growth is expected to rebound to 2¾ per cent in 2017-18 after slowing in 2016-17 as a result of weather-related factors in early 2016-17 and Tropical Cyclone Debbie more recently. Growth is forecast to increase to 3 per cent in 2018-19.

This Budget seeks to build on that impressive growth story, ensuring that all Australians have the opportunity to enjoy the benefits of a prosperous economy. It seeks to make the right choices to secure better days ahead for Australians, and those right choices are clear.

The Government is focusing on growing the economy to secure more and better paying jobs, by:

- Increasing its total funding and financing commitments to transport infrastructure projects to over $70 billion from 2013-14 to 2020-21, including an equity investment of up to $5.3 billion in a new Commonwealth-owned company, WSA Co, to develop Western Sydney Airport and an additional $8.4 billion equity investment in the Australian Rail Track Corporation to deliver Melbourne to Brisbane Inland Rail;
- Committing more than $533 million in new funding to infrastructure and community projects to improve the resilience, connectedness and adaptability of our regions, including a $472 million Regional Growth Fund;
- Putting Australian jobs first by better targeting skilled visas and introducing a *Skilling Australians Fund* to ensure that employers of foreign workers are investing in training Australians to meet future skills needs, with a particular focus on apprenticeships and traineeships;
- Continuing to support small businesses by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018 at the higher $10 million annual turnover threshold, following the passage of legislation to lower small business taxes; and
- Encouraging States and Territories to remove unnecessary barriers to competition and regulations that hold back small businesses through targeted payments under a National Partnership on Regulatory Reform.

The Government is guaranteeing essential government services that Australians rely on, by:

- Establishing the Medicare Guarantee Fund so that all Australians can be certain they will continue to have access to timely and affordable health care;
- Fully funding the Commonwealth's contribution to the National Disability Insurance Scheme, through half a percentage point increase in the Medicare levy;
- Providing affordable medicines through new and amended listings on the Pharmaceutical Benefits Scheme; and
- Committing to needs-based schools funding that is fair, simple and transparent.

The Government is tackling cost of living pressures for Australians and their families, by:

- Committing to a comprehensive and targeted plan to reduce pressure on housing affordability. This includes assistance for first home buyers, new programs to increase the supply of affordable housing and the reform of housing-related payments to the States and Territories;
- Delivering more affordable, accessible and flexible childcare; and
- Improving affordability and reliability of energy through practical reforms designed to meet our immediate energy challenges and lay the foundations for a stronger energy system to underpin economic growth.

The Government is living within its means, bringing the budget back to balance, by:

- Pursuing a return to balance by 2020-21 and providing an improving fiscal outlook as the foundation for a growing, thriving economy;
- Strengthening requirements for welfare recipients;
- Reducing opportunities for multinational tax avoidance and addressing issues presented by the black economy to ensure all individuals and businesses who earn income in Australia pay their fair share of tax to help fund essential government services;
- Introducing a major bank levy on banks with liabilities greater than $100 billion to assist with budget repair; and
- Making careful and fair decisions and ensuring the Government delivers on its commitments.

The Government remains committed to budget repair with an improving fiscal trajectory over the forward estimates, building to a projected return to surplus in 2020-21. Although the payments-to-GDP ratio remains a little above its historical average of 24.8 per cent, the ratio is expected to fall to 25.0 per cent by the end of the forward estimates.

The Government's policy decisions since the 2016-17 Mid-Year Economic and Fiscal Outlook (MYEFO) have contributed $6.3 billion to the underlying cash balance over the forward estimates, even after taking into account the reversal of the significant budget savings measures opposed by the Parliament.

The Government is taking action to improve accountability and competition in the financial services sector by introducing a new accountability regime that will hold banks and their executives to account when they fail to meet expectations; and a one-stop shop for financial, credit and superannuation disputes. The Government is continuing to support financial innovation (FinTech) which will allow more choice and more cost-effective and targeted services for Australian individuals and businesses. A robust and innovative financial system underpins the economy more broadly and affects directly and indirectly all Australians and Australian businesses. Further, the Government continues to support innovation, enabling more alternatives to raise capital as part of the reforms to crowd-sourced equity funding.

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INTRODUCTION

Australia's transition towards broader-based growth is well advanced. The 2017-18 Budget aims to facilitate a smooth transition and ensure that all Australians have the opportunity to benefit from Australia's continued economic growth by guaranteeing essential government services, easing pressure on the cost of living and building on the Government's plan for economic growth and jobs.

Growth is expected to have slowed temporarily to 1¾ per cent in 2016-17 as a result of weather-related factors in early 2016-17 and the more recent impact of Tropical Cyclone Debbie. The economy is expected to rebound to grow at 2¾ per cent in 2017-18 and 3 per cent in 2018-19, supported by growth in household consumption, exports and non-mining business investment as the drag from falling mining investment wanes.

There have been encouraging signs that the global economy will strengthen over the coming years. Economic activity appears to have firmed in a range of countries and there are tentative signs that global trade growth is strengthening from subdued rates. Still, important risks remain.

The underlying cash deficit is expected to be $29.4 billion in 2017–18 and improve over the forward estimates to a projected surplus of $7.4 billion in 2020-21. The average annual pace of fiscal consolidation of 0.6 per cent of GDP is a slight improvement over the 2016–17 MYEFO.

The net operating balance is also expected to improve from $19.8 billion (1.1 per cent of GDP) in 2017-18 to reach a projected surplus of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total(a)
Underlying cash balance ($b)(b)	**-39.6**	**-37.6**	**-29.4**	**-21.4**	**-2.5**	**7.4**	**-45.9**
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance($b)	**-33.6**	**-38.7**	**-19.8**	**-10.8**	**7.6**	**17.5**	**-5.5**
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Excludes expected net Future Fund earnings before 2020-21.

In this Budget the Government is reporting the net operating balance alongside the underlying cash balance to better reflect those Government payments which contribute to recurrent expenditure.

Payments as a proportion of GDP are forecast to fall to 25 per cent by the end of the forward estimates, slightly lower than forecast at the 2016-17 MYEFO, before rising over the medium term.

Receipts as a proportion of GDP are expected to increase across the forward estimates, broadly in line with forecasts at the 2016-17 MYEFO.

Net debt is estimated to be 19.5 per cent of GDP in 2017-18 and to peak as a share of GDP at 19.8 per cent in 2018-19. Net debt is then projected to decline as a share of GDP to 8.5 per cent by 2027-28. Refer to *Statement 7: Debt statement, assets and liabilities* for further information.

ECONOMIC OUTLOOK

Australia's transition to broader-based growth is well advanced despite a temporary slowing in growth in 2016-17. Growth is forecast to rebound to around the economy's potential growth rate in 2017-18 and 2018-19.

Confidence that global growth will strengthen as forecast has improved in recent months. There are encouraging signs of stronger growth in a range of countries and tentative signs that world trade is firming after unusually weak growth in recent years. Chinese GDP growth has ticked up in early 2017 and the United States economy is performing well. There have also been signs of improvement in other advanced economies and in some of the emerging economies that were affected by previous sharp falls in commodity prices. Despite generally sluggish growth in the past few years, some major advanced economies have been growing sufficiently strongly to push down their unemployment rates.

Domestically, it is anticipated that growth will lift following the effects of a number of weather-related events in 2016-17. Real GDP growth is expected to be 2¾ per cent in 2017-18 and 3 per cent in 2018-19. Australia's economic performance continues to compare favourably with most advanced economies, including other major commodity exporters. The lift in economic growth is expected to occur as the drag from falling mining investment diminishes and as growth in household consumption and non-mining business investment improves. Exports are also forecast to continue to grow, supporting greater economic activity and growth.

Nominal GDP growth is expected to increase strongly in 2016-17, driven by the large increase in coal and iron prices in the past year. Nominal GDP growth is forecast to slow to 4 per cent in 2017-18 and 2018-19 as commodity prices are expected to decline from their recent elevated levels. Growth in wages is expected to be subdued, albeit a little stronger than recent rates, over the forecast period. Inflation is forecast to increase moderately in that time. These factors are expected to constrain the pace of nominal GDP growth in 2017-18 and 2018-19.

Commodity prices have been highly volatile in 2016-17. They represent a key uncertainty for the terms of trade and nominal GDP outlook. Following the practice of the 2016-17 MYEFO, the forecasts are based on the judgment — supported by broad and deep market and industry consultation — that it is prudent to assume that prices for metallurgical coal and iron ore will not be sustained at recent levels.

In addition to the volatility of commodity prices, significant uncertainties surround the outlook. Globally, there is heightened policy uncertainty as reforms needed to strengthen productivity have proved difficult to achieve and there appears to be growing support in some countries for protectionist policies. High levels of debt, potential financial imbalances and overcapacity in some sectors remain risks to the Chinese economy, while Europe continues to face legacy issues following the global financial crisis. The recalibration of interest rates in the United States is also a risk. Domestically, there are risks around the momentum in household consumption as well as uncertainty around dwelling investment. The timing and pace of the recovery in non-mining business investment also remains a risk to the domestic outlook.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP	2.6	1 3/4	2 3/4	3	3	3
Employment	1.9	1	1 1/2	1 1/2	1 1/2	1 1/2
Unemployment rate	5.7	5 3/4	5 3/4	5 1/2	5 1/2	5 1/4
Consumer price index	1.0	2	2	2 1/4	2 1/2	2 1/2
Wage price index	2.1	2	2 1/2	3	3 1/2	3 3/4
Nominal GDP	2.3	6	4	4	4 1/2	4 3/4

(a) Year average growth unless otherwise stated. From 2015-16 to 2018-19, employment and the wage price index are through-the-year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through-the-year growth to the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

FISCAL STRATEGY AND OUTLOOK

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

The 2017-18 Budget charts a responsible pathway back to balance. The underlying cash balance is expected to improve across each year of the forward estimates. The deficit is expected to fall from $29.4 billion (1.6 per cent of GDP) in 2017-18 to $2.5 billion (0.1 per cent of GDP) in 2019-20, with the Budget returning to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21. The net operating balance is also expected to improve from a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18, returning to projected surpluses of $7.6 billion (0.4 per cent of GDP) in 2019-20 and $17.5 billion (0.8 per cent of GDP) in 2020-21.

In this year's Budget, the Government is increasing the emphasis and transparency of recurrent and capital spending by reporting, alongside the underlying cash balance, the net operating balance in place of the fiscal balance. The net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment). It does not include net new capital investment (such as spending on infrastructure or defence assets) as does the underlying cash balance and fiscal balance. As such, it provides information as to how the government is meeting its recurrent obligations from its annual revenues. *Statement 4: Recurrent and Capital Budget* provides further information on the net operating balance.

The payments to GDP ratio in 2017-18 is 25.2 per cent, falling to 25.0 per cent in 2020-21 at the end of the forward estimates period, slightly above the long-run average level of 24.8 per cent. Tax receipts as a share of GDP are forecast to return to the 30-year average in 2017-18. Net debt as a share of GDP is expected to peak in 2018-19 and then decline over the remainder of the forward estimates and the medium term.

The 2017-18 Budget forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of goods and services tax (GST) on property transactions and introducing a *Skilling Australians Fund* levy. Policy decisions are expected to increase forecast tax receipts by $11.9 billion over the four years to 2019-20, which is partially offset by $5.5 billion of downward revisions owing to parameter and other variations.

Excluding policy decisions, tax receipts have been affected by downwards revisions to the outlook for total wages and upgrades to the outlook for profits, including mining profits. These revisions are reflected in higher taxes from companies, more than offset by lower forecast individuals and other withholding tax, superannuation fund tax and GST.

Since the 2016-17 MYEFO, the underlying cash balance has improved by $11.4 billion over the forward estimates.

The Government remains focused on restraining growth in government spending and aims to achieve a steady trajectory towards a balanced budget and lower government debt. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of $6.3 billion over the four years to 2020-21, including the impact of reversing unlegislated savings of over $13 billion.

The average annual pace of fiscal consolidation across the forward estimates is 0.6 per cent of GDP.

BUDGET PRIORITIES

Jobs and growth

National Infrastructure Plan — Building Australia

The Government is committing over $70 billion from 2013-14 to 2020-21 to transport infrastructure across Australia, using a combination of grant funding, loans and equity investments. The Government is establishing a 10-year allocation for funding road and rail investments, recognising that many transformational projects are planned and built over many years. This will deliver $75 billion in infrastructure funding and financing from 2017-18 to 2016-27.

Well-selected infrastructure investment improves long-run productivity, increasing and spreading Australia's economic growth and delivering higher incomes for Australians.

The Government is expanding the use of equity and debt financing where appropriate to augment our infrastructure spending. The Government is making an equity investment of up to $5.3 billion in WSA Co, a new Commonwealth-owned company, to fund the first stage of development of Western Sydney Airport. Works will commence by late 2018 and airport operations will begin by 2026. The terminal will have capacity for 10 million passengers each year — about the current size of Adelaide Airport. The Airport is expected to generate around 20,000 direct and indirect jobs in Western Sydney by the early 2030s.

The Government will deliver the Melbourne to Brisbane Inland Rail project by a combination of an additional $8.4 billion equity investment in the Australian Rail Track Corporation and a public private partnership for the most complex elements of the project. Work on this 1,700 km nation building rail investment will commence in 2017-18 and will support 16,000 direct and indirect full-time equivalent jobs at the peak of construction.

The Government is establishing a $10 billion National Rail Program to fund priority regional and urban rail investments, with funding to be provided over 10 years. The Government stands willing to deliver ready and proven rail projects across the nation that better connect our cities and grow the economy. The Budget will also contribute $20 million to the development of up to three business cases for infrastructure projects that will deliver faster rail connections between major cities and major regional centres.

The Government will provide $1 billion in additional infrastructure funding for Victoria, including $500 million to upgrade regional rail and $30 million to support planning for a rail link from the Melbourne CBD to Tullamarine Airport. The funding to upgrade regional rail will include $100 million for the Geelong Rail Line and $100 million for the North East Rail Line. The Government will also provide a further $20.2 million for Murray Basin Rail. The infrastructure funding for Victoria includes funding it would have received had the Victorian Government reached an agreement with the Government under the Asset Recycling Initiative by the 30 June 2016 deadline.

In Queensland, the Government is providing $844 million from 2017-18 for new Bruce Highway priority projects, including for the Pine River to Caloundra upgrade and Deception Bay interchange upgrade.

In Western Australia, the Government is providing $1.6 billion for new projects, including for better road access to the Fiona Stanley Hospital precinct and $700 million towards the METRONET rail project.

Since last year's Budget, the Government has increased the number of major projects under construction and in the pre-construction stage. There are currently around 120 major projects under construction and approximately another 160 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing. Under this Government, around 180 major projects have been completed.

The Government's major projects include $2.9 billion for the Western Sydney Infrastructure Plan; $1.5 billion of funding and a $2.0 billion concessional loan for the WestConnex project in Sydney; $500 million for Stage 2 of the Monash Freeway upgrade and $500 million for the M80 Ring Road in Melbourne; $1.14 billion for the Toowoomba Second Range Crossing and $914 million for the Gateway Upgrade North in Queensland; $833 million for NorthLink in Western Australia; $1.6 billion for three projects to upgrade the North-South Corridor in Adelaide; $400 million for the Midland Highway in Tasmania; and in the Northern Territory $90 million for the Regional Roads Productivity Package and $77 million for the Northern Territory Roads Package. The Government is also providing funding of $600 million for the Northern Australia Roads Programme and $100 million for the Northern Australia Beef Roads Programme.

The Government is also providing $2.3 billion to New South Wales, the Northern Territory and the Australian Capital Territory under Asset Recycling Initiative agreements. The Government is also offering a bilateral Asset Recycling agreement to South Australia. The Asset Recycling Initiative is expected to facilitate over $15 billion in State and Territory asset sales and unlock over $17 billion in State and Territory infrastructure spending, including for the Sydney Metro and Canberra's Capital Metro projects.

The Government is establishing the Infrastructure and Project Financing Agency on 1 July 2017 to assist in the identification, development and assessment of equity and debt financing options for investment in major infrastructure projects.

Extending the immediate tax deductibility threshold for small businesses

Australian small businesses are the engine room of our economy, making up 99 per cent of all businesses. Around 3.2 million small businesses employ 5.6 million Australians and contribute $380 billion to the economy. It is important to support this vibrant part of our economy so small businesses can continue to grow, invest and flourish.

The $20,000 immediate deductibility threshold has been well received by small business and claims of depreciation deductions have increased. Small businesses across Australia are investing in assets that will help them grow and prosper.

The Government is continuing to support small businesses by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018, improving their cash flow and encouraging them to invest in the assets they need to grow. The concession is available to all small businesses with aggregate annual turnover less than $10 million (five times higher than the previous turnover threshold).

Ten Year Enterprise Tax Plan

The Government is supporting economic growth by cutting the company tax rate for all companies to 25 per cent by 2026-27. A lower corporate tax rate promotes business investment by raising the return from investing in Australia. Increased business capital is expected to raise productivity and real wages and permanently expand the economy by just over one per cent in the long term.

While the Government has successfully delivered lower tax rates for small and medium businesses, legislating the tax cut for companies with an annual turnover above $50 million will allow the economic benefits to be realised in full and let firms take account of the lower tax rate in planning new investment.

An internationally competitive company tax rate is essential to attract more investment. The consequences of not reducing the company tax rate are becoming more severe as other countries announce plans to lower their own corporate tax rates. When Australia previously cut the company tax rate in 2001 there were 19 countries in the Organisation for Economic Cooperation and Development (OECD) with a higher tax rate. In 2017 only four OECD countries have a corporate tax rate higher than 30 per cent, and two of these, France and the USA, have implemented or announced lower tax rates in the future.

Investing in regional growth

Supporting regional growth is critical to the Australian economy with one third of our population living in regional communities.

The Government is committed to ensuring our regions grow and prosper with economic growth occurring broadly across the country. Building resilient and adaptive regions that are economically diverse, supported by modern infrastructure and services and populated by people with a range of skills, is critical to this goal.

Investment in infrastructure is key to unlocking the potential of our regions. This Budget commits more than $8.9 billion in new funding and financing to infrastructure and community projects to improve the resilience, connectedness and adaptability of our regions.

In one of the largest regional investments ever seen in regional Australia, work will commence on the Melbourne-to-Brisbane Inland Rail in 2017-18. The Government will provide an additional $8.4 billion equity investment in the Australian Rail Track Corporation to deliver it. Inland Rail will provide improved access to markets and greater export opportunities for manufactured products, agricultural commodities and mineral resources. During construction and operation Inland Rail will provide significant employment in regional Australia.

The Government will provide $28.5 million to establish the Regional Investment Corporation (RIC) to streamline the delivery of $4 billion in concessional loans, including the $2 billion National Water Infrastructure Loan Facility and the $2 billion Farm Business Concessional Loan Scheme. These loans will help secure growth, investment and resilience in rural and regional communities.

The Regional Growth Fund (RGF) will invest $472 million in regional infrastructure projects that back-in our regions' plans to adapt and harness the opportunities of globalisation and technological change. The RGF will ensure that all levels of government collaborate to create jobs and ensure communities have a say in how their regions are shaped.

The RGF will include $272 million to provide grants of $10 million or more for major transformational projects which support long-term economic growth and create jobs in regions, including those undergoing structural adjustment.

In addition, $200 million will be provided to the Building Better Regions Fund (BBRF) to support the construction of community infrastructure and build the capacity of regional areas. This investment increases the Government's commitment to BBRF to $498 million.

The Stronger Communities Program will invest a further $28 million in small capital projects to deliver social benefits to local communities across Australia. This will make funding more accessible to small organisations with limited capacity to implement necessary upgrades to local infrastructure and facilities or purchase much needed equipment to support community activities.

The economic impacts of structural change can be concentrated for some regional communities. The Government has tasked the Productivity Commission to investigate the factors that drive a region's ability to adapt to structural change. The Transitioning Regional Economies report will help the Government understand factors that help those affected transition as smoothly as possible.

The Government can play a role in bringing diverse skills and job opportunities to those regional economies and is exploring the potential decentralisation of some Commonwealth agencies to regional centres. Through this Budget, the Government will invest in a range of measures to help develop resilient and skilled regional workers.

A skilled workforce

The Government will abolish the Temporary Work (Skilled) (subclass 457) visa for foreign workers and create a new temporary visa restricted to critical skills shortages. This will ensure Australian workers are given first priority for jobs, while still enabling businesses to temporarily meet critical skills needs where Australian workers are not available.

Employers who nominate workers for the new Temporary Skill Shortage visa, and certain permanent skilled visas, will pay a levy that will go into a new *Skilling Australians Fund*. This Fund will ensure an ongoing source of revenue to support Australian skills development and the take-up of apprenticeships and traineeships. The new Fund will replace the existing training benchmarks, which have not been successful in generating training opportunities to allow Australians to fill skill gaps.

Employment

The Government will deliver a suite of reforms to ensure that the most disadvantaged Australians receive the support they require to prepare for work and contribute to our economy. Indigenous and vulnerable new parents will receive tailored support services through ParentsNext to support them on the path to successful employment. This includes working with parents to help them develop pathways to their employment and educational goals, and linking them with services available in their communities to help them reach these goals. These services could include childcare, pre-employment training, financial management and literacy and numeracy classes. These reforms build on the Government's support for young Australians under the Youth Jobs PaTH program, which will help equip up to 120,000 young Australians with the skills and experience they need to get a job.

The Government is also strengthening participation requirements for welfare recipients to better drive participation outcomes. These will be coupled with a new targeted Job Seeker Compliance Framework that will apply stronger financial penalties to persistently non-compliant job seekers, whilst ensuring genuinely disadvantaged and vulnerable job seekers are supported. This includes refocusing Work for the Dole activities towards disadvantaged job seekers, and ensuring job-ready job seekers engage in more cost effective Work for the Dole activities. The changes will encourage and support those who have the capacity to work to do so, while ensuring disadvantaged job seekers have the opportunity to develop the characteristics employers look for, such as strong communication skills, the ability to work effectively with others, and reliability.

Cutting small business red tape

The Government's National Partnership on Regulatory Reform will reward States and Territories (States) that reduce regulatory restrictions on competition, particularly those on small businesses. This will help small businesses to grow and create jobs.

Small businesses are disproportionately affected by red tape and regulations and so disproportionately benefit from the removal of unnecessary restrictions. Reducing red tape and regulations help small businesses by levelling the playing field in the market, decreasing business costs and giving businesses more time to run and grow their business. In 2013, the Government committed to cutting red tape costs by $1 billion every year. Since then, the Government has reduced the annual regulatory burden on businesses and the community by more than $5.8 billion, exceeding its target every year.

However, feedback from small businesses is that States continue to impose a wide range of regulations that unnecessarily prevent them from growing and creating jobs. These regulations impede innovation and entrepreneurship. They can also restrict small businesses' ability to take on foreign competitors, reducing the products and services they can provide or limiting where and when their businesses can operate.

The Government will provide $300 million over two years under the new National Partnership on Regulatory Reform to incentivise the States and local governments to lessen the regulatory burden on small businesses and remove other restrictions that hinder economic growth and competition.

Effective competition encourages businesses to pursue efficiencies and take advantage of new opportunities, leading to faster innovation and deployment of new technology. It rewards the most dynamic and innovative businesses that provide the best services at the lowest cost. It raises productivity and grows our economy, resulting in more and better jobs and higher living standards.

Government services

Medicare

The Government is guaranteeing the funding of Medicare to ensure that all Australians have timely and affordable access to health care.

To do this, the Government is establishing the Medicare Guarantee Fund from 1 July 2017 to provide ongoing funding for the Medicare Benefits Schedule (MBS) and the Pharmaceutical Benefits Scheme (PBS). The Fund will be credited with revenue generated from the Medicare levy (excluding amounts to fund the National Disability Insurance Scheme (NDIS)), as well as a portion of personal income tax receipts sufficient to cover the costs of essential health care provided under the MBS and PBS. Credits to the Fund will be adjusted at every Budget update in line with forecast future growth in MBS and PBS expenditure over the forward estimates.

The Government will provide $1.0 billion to phase in the reintroduction of indexation for certain items on the MBS. The phase-in will commence with General Practitioner (GP) bulk billing incentives which will be indexed from 1 July 2017, to ensure that GPs are encouraged to bulk bill children under the age of 16 and concession card holders. From 1 July 2018, fees for GP and specialist consultation items will be indexed, increasing the Government's contribution to the cost of important health care services. From 1 July 2019, fees for procedures performed by specialists and allied health items will be indexed. On 1 July 2020, targeted diagnostic imaging items will be indexed for the first time since 2004.

In this Budget the Government is providing $16.4 million for new and amended listings on the MBS, to provide subsidised access for patients to new health services. These will include new treatments for stroke and epilepsy related conditions. The Government is meeting its commitment to list new, cost-effective medicines on the PBS. This Budget provides $1.2 billion for new and amended listings on the PBS, including access to Sacubitril with valsartan (Entresto®) to help patients with chronic heart failure.

The Government will provide one-off funding of $730.4 million in 2016-17 to the Tasmanian Government as part of an agreement to transfer the ownership of the Mersey Community Hospital from the Commonwealth to Tasmania on 1 July 2017 and fund the operations of the hospital for ten years to 2026-27. Beyond 2026-27, the Mersey Community Hospital will be operated by the Tasmanian Government with a funding contribution from the Commonwealth, in the same way as other public hospitals are funded. This funding will provide long-term certainty to the hospital's 470 staff and patients, and delivers on the Government's determination to ensure all Australians have access to high quality, well-funded healthcare.

National Disability Insurance Scheme

The Government is committed to a sustainable NDIS to ensure that Australians with permanent and significant disability can access lifetime care and support. From 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. This means that one-fifth of the revenue raised by the Medicare levy will be directed to the NDIS Savings Fund to fill the current funding gap for the Commonwealth's contribution to funding the NDIS.

In February 2017 the Commonwealth and Western Australian governments finalised negotiations on a nationally consistent, state-delivered NDIS. This agreement provides complete national consistency around key elements such as eligibility and access to support, providing people with disability access to the support they need no matter where they live.

This Budget also provides funding to establish an independent NDIS Quality and Safeguards Commission to oversee the delivery of quality and safe services for all participants in the NDIS. The Commission will support NDIS participants to exercise choice and control, ensure appropriate safeguards are in place and establish expectations for providers and their staff to deliver quality support. The Commission will perform three core functions: regulation and registration of providers; complaints handling; and reviewing and reporting on restrictive practices.

Schools funding

The Government is committing to a schools funding model that is genuinely needs-based, simple and transparent. Ensuring schools funding continues to increase, the Government will provide an additional $18.6 billion over the period to 2027 for government and non-government schools, building on the $1.2 billion provided in the 2016-17 Budget.

To ensure a smooth transition, the schools reform package will make targeted transitional assistance available over a 10 year period for disadvantaged or vulnerable schools that are above the Schooling Resourcing Standard.

Commonwealth funding will be tied to the reform and accountability efforts made across both the government and non-government sectors to improve educational outcomes. Commonwealth funding will also be dependent on the States and Territories maintaining the real value of their contribution to schools funding. This package is providing genuine needs-based funding for students. The new model will provide schools and States and Territories with certainty around long-term funding arrangements.

Higher Education

In this Budget, students, universities and the Government will all contribute to a fair and sustainable higher education system. From 2018, the Government is rebalancing the student and Commonwealth share of university fees, with increases to student contributions of 7.5 per cent to be phased in over four years. A new set of Higher Education Loan Program (HELP) repayment thresholds will also be introduced from 1 July 2018.

Universities will play their part in building a sustainable system with an efficiency dividend of 2.5 per cent in 2018 and 2019. Universities will also be subject to measures to ensure greater transparency and accountability. This package will deliver a higher education system that will be more responsive to the aspirations of students by creating six new community-owned regional study hubs for regional students, creating more opportunities with sub-bachelor courses and a scholarship system for postgraduate coursework places. Reforms to the Higher Education Participation and Partnerships Program will ensure students from disadvantaged backgrounds have the support they need to participate in higher education.

Community safety

The Government is investing an additional $321.4 million to ensure the Australian Federal Police (AFP) has the specialist capabilities it needs to address criminal and terrorist threats into the future.

This is the largest funding boost to the AFP's domestic policing capabilities in more than a decade.

Cost of living

Affordable Housing for Australians

The Government is committed to reducing pressure on housing affordability across the housing spectrum.

The Government will support Australian households by:

- assisting first home buyers to build a deposit inside superannuation. Voluntary contributions of up to $15,000 per year and $30,000 in total will attract concessional tax treatment under the scheme. The scheme commences on 1 July 2017, and contributions and deemed earnings, net of tax, can be withdrawn from 1 July 2018;

- allowing older Australians to contribute downsizing proceeds into superannuation. From 1 July 2018, individuals aged 65 and older will be able to make a non-concessional contribution of up to $300,000 using proceeds from the sale of a principal residence held for at least 10 years into their superannuation. These downsizing contributions will not be subject to the existing contribution caps;

- working with State and Territory governments to reform Commonwealth funding arrangements under a new National Housing and Homelessness Agreement, retaining current funding and indexation arrangements but requiring concrete outcomes;

- providing additional funding of $375 million over three years from 2018-19 as part of the new National Housing and Homelessness Agreement to fund front line services to address homelessness;

- incentivising increased private investment in affordable housing through tax incentives and by establishing the National Housing Finance and Investment Corporation to operate an affordable housing bond aggregator to provide cheaper and longer-term finance for the community housing sector; and

- providing more security for renters by working with State and Territory governments to standardise use of long-term leases.

Recognising that the key to easing housing affordability now and into the future is building more homes, the Government will boost the supply of housing by:

- working with State and Territory governments to set housing supply targets and facilitate planning and zoning reform under the new National Housing and Homelessness Agreement;

- establishing a $1 billion National Housing Infrastructure Facility to address infrastructure chokepoints that are impeding housing development in critical areas of undersupply;

- establishing an open data Commonwealth land registry that will provide more detailed information about Commonwealth land to external parties, allowing and encouraging proposals for higher-value land use, including housing development proposals;

- releasing suitable surplus Commonwealth land including 127 hectares of Defence land in Maribyrnong, which is less than 10 kilometres from the Melbourne CBD and could support up to 6,000 new residential dwellings; and

- kick-starting planning and zoning reform across eight local government areas facing above-average population growth and affordability pressures in Western Sydney.

Australia's foreign investment policy allows investment in residential real estate in order to increase the total housing stock. This creates more homes for Australians to live in, generates additional jobs in the construction industry and supports economic growth. To build on this policy and ensure that new housing supply is available for the use of Australians, the Government will:

- safeguard the opportunity for Australian buyers to purchase in new developments by introducing a 50 per cent cap on foreign investment approvals for new developments; and

- encourage foreign owners of residential real estate to rent their properties by applying an annual charge to foreign owners who leave their properties unoccupied or not available for rent for six months or more each year.

The Government will make further tax changes to ensure residential property deductions are better targeted by:

- disallowing travel deductions for residential investment property. This will address concerns that some taxpayers have been claiming travel deductions without correctly apportioning costs, or have claimed travel costs that were for private purposes; and

- implementing an integrity measure that will limit deductions for plant and equipment forming part of residential property investments to expenses investors have directly incurred themselves. All plant and equipment forming part of residential investment properties prior to 9 May 2017 (including contracts already entered into at Budget night) will continue to be deductible until either the property is sold or the item reaches the end of its effective life.

Energy reliability and affordability

Australia's energy system is facing change on a scale not seen since its first construction due to changing technology, consumer behaviour and emission reduction targets. The current system was designed for a different time, when demand for electricity was growing; and its supply was predictable, coming almost entirely from large coal fired generators. State government renewable energy targets and gas supply moratoriums are also creating additional uncertainty in the energy market.

The Australian Government is committed to maintaining the reliability, affordability and sustainability of our energy system, and is providing national leadership through the initial phase of an energy security plan. This plan comprises practical reforms designed to meet immediate challenges and lay the foundations for our future energy needs, together with strong economic growth. The Government's plan includes:

- A plan for the Snowy Mountains Scheme 2.0: Through the Snowy Mountains Scheme 2.0, a 50 per cent increase in its generation capacity could deliver 2000 megawatts of additional reliable renewable energy to power 500,000 homes. In order to facilitate the expansion the Australian Government has informed the New South Wales and Victorian State Governments that the Commonwealth is open to acquiring a larger share or outright ownership of Snowy Hydro. Further discussions with New South Wales and Victoria will occur to progress this exciting idea with the following key guiding principles.

  First, all funds received by the States would need to be reinvested in priority infrastructure projects.

  Second, Snowy Hydro's obligations under its water licence would be reaffirmed and the parties would commit to work together to expedite and streamline environmental and planning processes associated with Snowy 2.0, without compromising any standards or controls.

  Third, Snowy Hydro would have to remain in public hands;

- Tackling the current gas crisis: State and Territory governments have imposed restrictions and moratoriums on onshore gas development, which are hindering new supply. The Australian Government is spending around $90 million to address short-term supply issues. The Government has also secured a commitment from the gas industry to guarantee supply during critical peak electricity demand periods and make more gas available for domestic users. The requirement that more gas be available for domestic users is backed up by the potential for export controls. The Government is working with State and Territory governments through the Coalition of Australian Governments (COAG) Energy Council to improve the workings of domestic gas markets. These measures are designed to help deliver cheaper and more reliable energy to households and increase gas supplies for businesses;

- Ensuring consumers and industry get a fair deal: The Government has asked the Australian Competition and Consumer Commission (ACCC) to undertake inquiries into competition in the retail electricity market and begin ongoing monitoring of the gas market; and

- Investing in new technology: The Government is taking a technology neutral approach to improving the security and reliability of the energy system and delivering emissions reductions. The Government has already provided around $1.2 billion in grant funding for renewable technologies through the Australian Renewable Energy Agency (ARENA) and over $3 billion of debt and equity to support low emissions projects through the Clean Energy Finance Corporation (CEFC).

The Government's long-term plan will be informed by independent and expert advice. Australia's Chief Scientist, Dr Alan Finkel AO, has been commissioned to develop a blueprint for the future security and reliability of the national energy market.

Through these actions, the Australian Government is carefully and responsibly leading the energy system through a period of unprecedented change. In doing so, we are ensuring that Australians will have reliable, affordable and sustainable energy, both now and into the future.

Tax integrity

By paying their fair share of tax, all individuals and businesses who earn income in Australia help fund the vital services and infrastructure needed to support the Australian community. The Government is committed to maintaining the integrity of our tax system and levelling the tax playing field by addressing any gaps in our rules and ensuring that the Australian Taxation Office (ATO) has all the tools it requires to enforce those rules. The Government will build on its recent reforms targeting multinational tax avoidance, including the Multinational Anti-Avoidance Law, Country-by-Country Reporting, the Tax Avoidance Taskforce and the Diverted Profits Tax. This work is producing results. To date in 2016-17 the ATO has raised $2.9 billion in tax liabilities from several large multinational companies.

To ensure the integrity of our tax system across a range of areas, the Government is:

- taking action to clamp down on aggressive tax structuring using hybrid instruments to exploit the tax difference between countries, including where they feature as part of capital raising arrangements of banks and insurance companies;
- strengthening the integrity of the Multinational Anti-Avoidance Law by ensuring corporate structures involving foreign partnerships or foreign trusts are subject to the law;
- pursuing and confronting those individuals and businesses participating in serious and organised crime to remove any wealth generated by their criminal activities, and return vital funding to the Australian community;
- expanding the taxable payments reporting system to ensure payments made to contractors in the courier and cleaning industries are reported to the ATO;
- amending the small business capital gains tax concessions to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business;
- introducing legislation as soon as possible to combat GST fraud in the precious metals industry, where some gold traders are exploiting GST loopholes or committing fraud by receiving GST and not paying it, or claiming GST refunds when no GST is paid;
- strengthening GST law to stop some property developers from avoiding GST obligations by making purchasers of newly constructed residential properties or new subdivisions pay the GST directly to the ATO as part of settlement;
- banning technology that modifies or deletes sales records for the purposes of understating business income to avoid paying the correct amount of tax; and
- bolstering the integrity of the capital gains tax rules by:
  - denying foreign and temporary residents access to the main residence exemption when they sell property in Australia; and
  - expanding the foreign resident capital gains tax withholding regime by increasing the withholding rate from 10 per cent to 12.5 per cent and reducing the threshold from $2 million to $750,000.

A more accountable and competitive banking system

The Government is committed to reforming the financial services sector. The financial sector affects all Australians, it enables us to save, make payments, grow our businesses, control for risk and build our wealth. The financial sector plays a critical role in efficiently allocating capital that underpins the economy and supports innovation.

Too often the sector has not met community expectations, so the Government is taking further action to improve accountability in the sector. The Government will legislate for a new Banking Executive Accountability regime with enhanced powers and functions for the Australian Prudential Regulation Authority (APRA) to increase consequences for banks and their senior executives when they fail to meet expectations. The Government will also take action to protect consumers from poor practices in the credit card market.

The Government will create a new framework for dispute resolution with a one-stop shop, the Australian Financial Complaints Authority, to consider all financial disputes to ensure that consumers and small businesses have access to free, fast and binding dispute resolution. To enhance accountability for how complaints are managed, the Australian Securities and Investments Commission will be provided with stronger powers to oversee this new body and to require financial service providers to report on their internal dispute resolution activity.

The Government will also introduce a number of reforms to boost competition in financial services. This includes a new open banking regime to give customers control of data about them and facilitate choice between products and providers; taking action to encourage new entrants to the banking sector; and providing the ACCC with funding to undertake regular in-depth inquiries into financial sector competition issues.

These measures complement reforms the Government is pursuing to facilitate financial innovation (FinTech) to foster greater competition and choice for consumers. This includes enhancements to the financial services regulatory sandbox to enable testing of new financial products and services without having to comply with all of the usual licensing requirements, removing the double taxation of digital currency and extending the legislative framework for crowd-sourced equity funding to include proprietary companies.

The Government will introduce a major bank levy on banks with liabilities greater than $100 billion, raising at least $1.5 billion per year to assist with budget repair. Additional Tier 1 capital and deposits protected by the Financial Claims Scheme will be excluded from the levy. This represents a fair additional contribution from our major banks. It will complement prudential reforms being implemented by the Government and APRA and provide a more level playing field for smaller banks and non-bank competitors.

Productive government spending

The Government is committed to ensuring that spending is directed to generating the strongest public benefits. While some day-to-day spending can generate longer-term benefits, it is useful to broadly distinguish between recurrent spending and capital investment to provide a sense of the sustainability of debt raised to finance that spending.

The Commonwealth has a large capital program, totalling an estimated $50.6 billion in 2017-18. This investment activity takes various forms with different accounting treatments. Taking into account these different forms of capital investment reveals the progress the Government has made in reducing the need to finance recurrent spending by borrowing. It is estimated that — for the first time since the global financial crisis — in 2018-19 the Government will not need to borrow to fund recurrent cash spending. In 2018-19 and the remainder of the forward estimates, cash flow from recurrent activities is expected to be in surplus and so effectively make a contribution to funding capital spending. Further details appear in *Statement 4: Recurrent and Capital Budget*.

Reversing unlegislated measures

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO is over $25 billion. Since the 2013 election, the Government has implemented more than $100 billion in budget repair measures.

While the Government's preference for achieving a path to surplus was predominantly through expenditure restraint, the Parliament has been unwilling to pass all the legislation required. Given the continuing rejection by the Parliament of significant government savings measures from the 2014-15 and 2015-16 Budgets, they have been reversed. The impact of these reversals on the underlying cash balance is more than offset by budget repair measures included in this Budget.