# STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

The adjustment of the economy to the end of the mining investment boom is well underway. This Budget builds on measures the Government has already announced or put in place to support this successful transition as part of its national economic plan for jobs and growth. They include tax cuts to Australian businesses to promote business investment, securing export trade deals which open up new markets and opportunities, a comprehensive investment in our defence industry and infrastructure investments which improve long-run productivity and increase economic growth.

The Government is committed to investing in a stronger economy by redirecting spending to boost productivity and support growth and jobs. The Government is also taking action to tackle cost pressures faced by households and businesses and prioritising funding for the key government services on which Australians rely. This includes ensuring the benefits are felt across Australia and particularly in rural and regional areas.

The 2017-18 Budget charts a fair and responsible pathway back to balance. The underlying cash balance is expected to improve from a deficit of $29.4 billion (1.6 per cent of GDP) in 2017-18 to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

This Budget, once again, demonstrates the Government's fiscal discipline. The Government's continuing expenditure restraint and commitment to budget repair has resulted in a projected improvement to the bottom line of $11.4 billion over four years from 2017-18 to 2020-21 compared with the 2016-17 MYEFO. After adjusting for decisions taken in relation to Senate negotiations, all new spending decisions have been offset by reductions in expenditure.

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 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.

The underlying cash balance is projected to remain in surplus over the medium term, peaking at 0.5 per cent of GDP in 2024-25, before moderating to 0.4 per cent of GDP by 2027-28.

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

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## OVERVIEW

The 2017-18 Budget continues the Government's economic plan to boost growth to support more and better paying jobs and create more opportunities for small businesses. The Government is also taking action to tackle cost pressures facing households and businesses and to guarantee the provision of key government services that Australians rely on.

The 2017-18 Budget charts a fair and responsible pathway back to balance. The underlying cash balance is expected to improve across each year of the forward estimates. The underlying cash balance is expected to improve from a deficit of $29.4 billion (1.6 per cent of GDP) in 2017-18 to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

The net operating balance, which focuses on recurrent expenses and revenue, is presented alongside the underlying cash balance to emphasise the share of Government expenses that relate to operating activities, such as ongoing health, welfare and education programs.

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, as shown in Table 1.

**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.

The 2017-18 Budget forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, as a result of policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of GST on property transactions and introducing a *Skilling Australians Fund* levy.

Since the 2016 Pre-election Economic and Fiscal Outlook (PEFO), the Government has made significant progress in implementing unlegislated budget repair measures. The total impact over the forward estimates of budget repair measures implemented since the 2016 PEFO is more than $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 balance 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 Budget and later budget updates, they have been reversed. The impact of these reversals on the underlying cash balance is more than offset by budget repair and other policy measures included in this Budget.

The Government's commitment to returning the budget to balance remains. The average annual pace of fiscal consolidation across the forward estimates is a responsible 0.6 per cent of GDP, slightly higher than the average pace of consolidation in the 2016-17 MYEFO.

Over the medium term, the underlying cash balance is projected to peak at 0.5 per cent of GDP in 2024-25, before moderating to 0.4 per cent of GDP by 2027-28.

## 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. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

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

#### Budget repair strategy

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

The strategy sets out that:

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

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

## Delivering the Government's economic plan

This year's Budget continues the Government's focus on delivering its national economic plan for jobs and growth. The Government is committed to investing in a stronger economy by redirecting spending to boost productivity and support growth and jobs. This includes ensuring the benefits are felt across Australia and particularly in rural and regional areas. The Government is also taking action to tackle cost pressures faced by households and businesses and to guarantee the provision of key government services which Australians rely on.

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

The Government is establishing the Medicare Guarantee Fund (the 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 to ensure that the costs of essential health care provided under the MBS and PBS are covered.

### Box 2: Medicare Guarantee Fund

In 2017-18, an estimated $33.8 billion will be credited to the Fund. The Medicare levy will contribute about $12.1 billion, with the remainder drawn from personal income tax receipts. Table 2 shows estimates for the MBS and PBS, along with forecast credits to the Medicare Guarantee Fund over the forward estimates.

The forecast annual contributions to the Fund over the forward estimates will be adjusted at every budget update, in line with forecast MBS and PBS expenditure over the forward estimates.

#### Table 2: Estimated costs for the MBS and PBS and credits to the Medicare Guarantee Fund

| | Estimates | | Projections | |
|---|---|---|---|---|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | $m | $m | $m | $m |
| Medicare Benefits Schedule | 22,898 | 24,056 | 25,730 | 27,183 |
| Pharmaceutical Benefits Scheme | 10,951 | 10,795 | 10,813 | 10,688 |
| Total MBS and PBS | 33,849 | 34,851 | 36,543 | 37,871 |
| **Credits to the Medicare Guarantee Fund** | **33,849** | **34,851** | **36,543** | **37,871** |

See *Statement 5: Revenue* for further information on the allocation of Medicare levy revenue to fund the MBS, PBS and the NDIS.

An additional $1.0 billion will be provided to phase-in the reintroduction of indexation for certain items on the MBS, providing support to medical practitioners, allied health professionals and diagnostic imaging providers and encouraging even higher rates of bulk billing. The phase-in will commence with General Practitioner (GP) bulk billing incentives which will be indexed from 1 July 2017. From 1 July 2018, fees for GP and specialist consultation items will be indexed. 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, such as computed tomography scans, mammography, fluoroscopy and interventional radiology, will be indexed for the first time since 2004.

The Government is continuing to meet its commitment to list new medicines on the PBS. The Government will provide additional funding of $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 is committed to fully fund its share of the costs of the NDIS. From 1 July 2019, the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. One-fifth of the revenue raised by the Medicare levy will be directed to the NDIS Savings Fund to fill the gap left by previous governments in the Commonwealth's contribution to funding the NDIS.

**Box 3: National Disability Insurance Scheme**

The Government is committed to fully fund its share of the NDIS to ensure that Australians with permanent and significant disability can exercise choice and control in accessing vital care and support.

Spending on the NDIS increases over the next four years as the scheme expands across the country, including Western Australia. When the NDIS reaches full scheme in 2019-20, it is estimated that it will cost approximately $21.0 billion, or around 1.1 per cent of GDP. The Commonwealth's contribution will be approximately $10.8 billion.

Over the transition phase, the Commonwealth's contribution to the NDIS is covered by the Commonwealth's share of the DisabilityCare Australia Fund (DCAF) and repurposing existing Commonwealth disability-related funding. However, these sources of funding are not sufficient to cover the Commonwealth's NDIS contribution in full scheme, leading to a $3.8 billion shortfall in 2019-20, accumulating to $55.7 billion over the medium term.

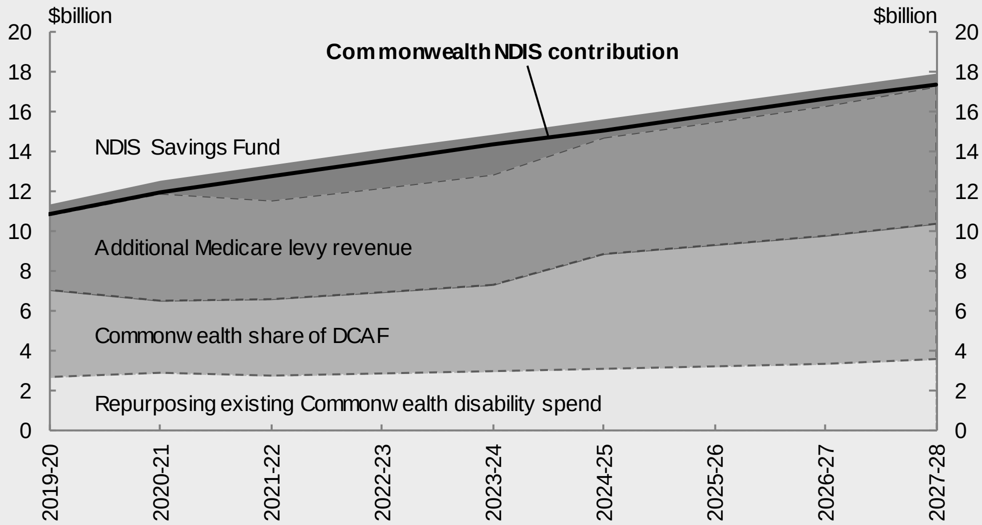
To meet this shortfall, from 1 July 2019 the Medicare levy will increase by half a percentage point from 2 to 2.5 per cent of taxable income. One-fifth of the revenue raised by the Medicare levy from 1 July 2019 will be credited to the NDIS Savings Fund.

**Box 3: National Disability Insurance Scheme (continued)**

Chart 1 demonstrates the Government's funding for the NDIS from 2019-20, when the NDIS will reach full scheme and the Medicare levy will increase. It includes:

- repurposed Commonwealth programs that have been redirected to the NDIS;
- the Commonwealth's share of debits from the DCAF; and
- debits from the NDIS Savings Fund, comprising:
  - one-fifth of the Medicare levy from 1 July 2019;
  - underspends and realised saves redirected to the NDIS Savings Fund; and
  - uncommitted funds from the Building Australia Fund and Education Investment Fund.

**Chart 1: Commonwealth's NDIS contribution and funding sources**




Note: This medium-term projection is based on current parameters, including the number of NDIS participants and package costs. The NDIS Savings Fund includes one-fifth of the Medicare levy from 1 July 2019, underspends and realised saves redirected to the NDIS Savings Fund, and uncommitted funds from the Building Australia Fund and Education Investment Fund.
Source: Treasury and Department of Social Services projections.

Debits from the NDIS Savings Fund will be made from 2019-20, when required to meet the Commonwealth's contribution to the NDIS. Credits into the NDIS Savings Fund before 2019-20 will accumulate to meet the Commonwealth's future contribution. Chart 1 represents the expected timing of debits from the NDIS Savings Fund rather than credits into it, based on current estimates.

The total credits include a small provision in the NDIS Savings Fund that is in excess of the estimated Commonwealth contribution. This provision has been spread evenly across the period in Chart 1, but will be drawn upon as needed.

The Government's schools reforms will provide **fairer funding for students** through an additional $18.6 billion over the decade to 2027 to move to a schools funding model that is genuinely needs-based and transparent. Targeted transitional assistance will be made available to assist disadvantaged and vulnerable schools that need assistance to transition to the new model.

The Government will tie schools funding to reform priorities informed by a new Review to Achieve Educational Excellence in Australian Schools, to be chaired by Mr David Gonski AC. Commonwealth funding will also be dependent on the States and Territories maintaining the real value of their contribution to schools funding.

The Government will abolish the Temporary Work (Skilled) (subclass 457) visa for foreign workers and create a new temporary visa restricted to critical skill 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 contribute to a new *Skilling Australians Fund*. This Fund will ensure an ongoing source of revenue to support Australian skills development, with a focus on 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.

The Government is **supporting the workforce participation of the most disadvantaged** Australians. Indigenous and vulnerable new parents will receive tailored support services through ParentsNext to support them on the path to successful employment. The Government will also strengthen participation requirements for welfare recipients to better drive participation outcomes, as well as applying a new, targeted compliance framework.

The Government is investing in **building resilient and adaptive regions** that can share in the benefits of long-term growth. The Government will invest more than $533 million in new infrastructure and community projects for regional areas, focusing on initiatives that allow regions to absorb the benefits of economic growth and take control of their economic future.

The Government's plans for housing and energy affordability are **addressing cost of living pressures** faced by Australian households and businesses.

Securing fit-for-purpose housing improves health, education and workforce participation outcomes for Australians and their families. The Government's comprehensive and targeted plan to **reduce pressure on housing affordability** will deliver a range of measures that will help to ensure that all Australians have access to housing which is affordable and accessible to jobs and services. The Budget includes measures to assist first home buyers and to increase the supply of housing, particularly affordable housing.

**Box 4: Reducing pressure on housing affordability**

Housing affordability and security improves the stability of families and communities and promotes better health, education and workforce participation outcomes for Australians of all ages.

The Government's comprehensive housing plan will reduce pressure on housing affordability across the housing spectrum by:

- supporting first home buyers to save a deposit and through incentives to encourage more efficient use of Australia's housing stock;
- improving the supply of social and affordable housing, by requiring better outcomes for Commonwealth funding to State and Territory governments; encouraging increased private investment through the establishment of a bond aggregator in the National Housing Finance and Investment Corporation; and through new tax incentives for private investors in affordable housing;
- providing ongoing funding to address homelessness as part of the new National Housing and Homelessness Agreement with State and Territory governments ensuring a greater focus on concrete outcomes from payments to the States;
- working with State, Territory and local governments to improve security of tenure for renters; and
- building more homes through greater financial support for infrastructure that will speed up supply and making surplus Commonwealth land available for housing development.

The Government is **improving affordability and reliability of energy** through an initial phase of 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 committed to **improving accountability and competition in the banking system**. The Government will legislate for a new Banking Executive Accountability Regime to hold banks and their executives to account when they fail to meet expectations. It will also introduce a new framework for dispute resolution with a one-stop shop — the Australian Financial Complaints Authority — to consider all financial disputes. To enhance competition, the Government will reduce barriers for new banking entrants and introduce an open banking regime that will facilitate new products and services by giving customers control of data about them. The Government will also introduce a major bank levy on banks with liabilities greater than $100 billion to assist with budget repair. 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.

**Encouraging enterprise and a strong small business sector** means more jobs for Australians and more opportunities to build vibrant local communities across the country. The Government will continue to support small businesses to invest in the assets they need to grow their business by extending the $20,000 immediate deductibility threshold for a further 12 months to 30 June 2018. Reducing red tape and regulations will assist small businesses by helping to level the playing field in the market, decreasing business costs and giving businesses more time to run and grow their business. Through its National Partnership on Regulatory Reform, the Government will provide up to $300 million over two years to States and Territories that remove unnecessary regulatory barriers and other restrictions on competition as recommended in the 2015 Competition Policy Review.

The Government's $70 billion **investment in transport infrastructure** from 2013-14 to 2020-21, using a combination of grant funding, loans and equity investments, is a critical part of the Government's national economic plan. The right decisions on infrastructure investments will improve long-run productivity, increasing Australia's economic growth.

**Box 5: Infrastructure investment**

The Government's investment in infrastructure includes funding as well as equity and debt financing for transport, communications and water infrastructure.

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 transport infrastructure funding and financing from 2017-18 to 2026-27. There are currently more than 1,000 projects underway across Australia including roads, airports and rail. These projects will reduce congestion, improve the liveability of our cities, connect regional communities and create new jobs and opportunities.

The Government's historical approach to delivering infrastructure has been to simply provide grants to State and Territory governments, mostly for road and rail projects. However, the exclusive use of grants by the Government can reduce the incentives for State and Territory governments to innovate with infrastructure delivery, such as through the use of financing solutions and developing partnerships with the private sector. While grants will continue to be part of our approach, the Government is looking at more innovative ways to deliver infrastructure and, in particular, the use of equity and debt financing. This approach will deliver more impact from infrastructure spending, allowing more projects to get built.

The Government is currently using equity and debt financing for a number of major infrastructure projects. These include $370 million in equity funding (plus land) towards the Moorebank intermodal freight precinct in NSW, a $2 billion concessional loan for Stage 2 of the WestConnex project in Sydney and establishing the $5 billion Northern Australia Infrastructure Facility.

**Box 5: Infrastructure investment (continued)**

In this Budget, the Government is actively working to expand the use of financing to support broader infrastructure priorities. We have committed to fully finance 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.

The Government has also committed to establish a new Commonwealth-owned company, WSA Co, to deliver Western Sydney Airport. The Government is making an equity investment of up to $5.3 billion in WSA Co.

The Government is delivering fast and affordable broadband by providing $29.5 billion in equity and a loan on commercial terms of up to $19.5 billion to NBN Co Limited. The network is on target for completion by 2020 and it will reach over 12 million homes and businesses when it is complete.

To develop and advise on financing solutions to deliver key government projects the Government is establishing the Infrastructure and Project Financing Agency on 1 July 2017. The Agency will work with the private sector to identify, develop and assess innovative financing options for investment in major infrastructure projects prior to Government consideration.

Infrastructure investment is a large part of the Government's broader capital investment program of around $49 billion in 2017-18. This broader program includes direct investment in physical assets and investments in financial assets (such as loans and equity injections). It also includes the Government's grants to the States and Territories for their own capital investment. *Statement 4: Recurrent and Capital Budget* provides further details on the Government's broader capital investment program and how it is financed.

Together these packages deliver on the Government's fiscal strategy of investing in a stronger economy to support jobs and growth, while also supporting and strengthening the government services which Australians rely on.

## Returning the budget to balance

The 2017-18 Budget projects a return to balance in 2020-21. The underlying cash balance is expected to improve from a deficit of $29.4 billion in 2017-18 (1.6 per cent of GDP) to a projected surplus of $7.4 billion in 2020-21 (0.4 per cent of GDP), as shown in Table 3.

**Table 3: Australian Government general government sector budget aggregates**

| | Actual | Estimates | | | Projections | | |
|---|---|---|---|---|---|---|---|
| | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total(a) |
| | $b | $b | $b | $b | $b | $b | $b |
| **Receipts** | **386.9** | **405.7** | **433.5** | **462.5** | **496.9** | **526.3** | **1,919.2** |
| Per cent of GDP | 23.4 | 23.2 | 23.8 | 24.4 | 25.1 | 25.4 | |
| **Payments(b)** | **423.3** | **440.5** | **459.7** | **480.4** | **495.6** | **518.9** | **1,954.6** |
| Per cent of GDP | 25.6 | 25.1 | 25.2 | 25.4 | 25.0 | 25.0 | |
| Net Future Fund earnings(c) | 3.2 | 2.8 | 3.2 | 3.5 | 3.7 | na | 10.5 |
| **Underlying cash balance(d)** | **-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 | |
| **Revenue** | **395.1** | **412.1** | **444.4** | **476.1** | **510.8** | **540.4** | **1,971.7** |
| Per cent of GDP | 23.9 | 23.5 | 24.4 | 25.2 | 25.8 | 26.0 | |
| **Expenses** | **428.7** | **450.8** | **464.3** | **486.9** | **503.2** | **522.9** | **1,977.2** |
| Per cent of GDP | 25.9 | 25.7 | 25.5 | 25.7 | 25.4 | 25.2 | |
| **Net operating balance** | **-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 | |
| Net capital investment | 3.8 | 2.0 | 0.5 | 4.8 | 4.9 | 6.0 | 16.2 |
| **Fiscal balance** | **-37.5** | **-40.7** | **-20.3** | **-15.5** | **2.7** | **11.4** | **-21.7** |
| Per cent of GDP | -2.3 | -2.3 | -1.1 | -0.8 | 0.1 | 0.6 | |
| *Memorandum items:* | | | | | | | |
| Net Future Fund earnings(c) | 3.2 | 2.8 | 3.2 | 3.5 | 3.7 | 4.0 | 14.5 |
| Headline cash balance | -49.1 | -51.1 | -48.4 | -37.1 | -14.8 | 11.7 | -88.7 |

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(d) Excludes expected net Future Fund earnings before 2020-21.

Continued discipline will be required to maintain the current trajectory and to sustain surpluses beyond 2020-21, including by ensuring new policy decisions are more than offset by savings and through boosting revenues by implementing policies that grow the economy. This is why, in this budget, the Government has taken decisions which result in an improvement in the underlying cash balance of $6.3 billion over the four years from 2017-18 to 2020-21.

Since the 2016-17 MYEFO, forecasts for tax receipts have been revised up by $6.4 billion over the four years to 2019-20, partly due to policy decisions including increasing the Medicare levy, introducing a major bank levy, improving the integrity of 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.

Forecast tax receipts have been affected by downward revisions to the outlook for wages and upgrades to the outlook for profits, largely as a result of higher-than-expected commodity prices. While nominal GDP is slightly stronger over the forward estimates, the downward revisions to total tax receipts owing to parameter and other variations reflect the compositional changes between wages and profits.

The revenue outlook will face several challenges, partly from Black Economy issues which the Government is tackling in this Budget, but also from a number of other structural factors, including the ageing population and ongoing trends towards the digital economy, intangible income and highly mobile investment. These will put a strain on our tax system, which is particularly reliant on corporate and individuals' income tax.

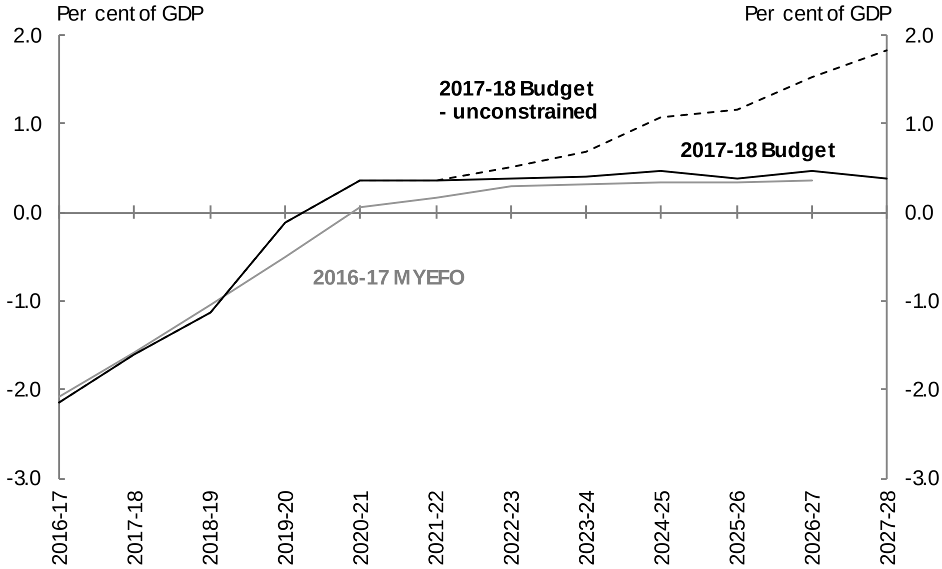
The underlying cash balance is projected to record modest surpluses over the medium term. These projections incorporate tax receipts reaching the tax-to-GDP 'cap' of 23.9 per cent of GDP in 2022-23, as was projected at the 2016-17 MYEFO. Beyond 2022-23, tax receipts are assumed to remain constant as a share of GDP. A tax-to-GDP 'cap' assumption is adopted for technical purposes and does not represent a Government policy or target. It is based on the average tax-to-GDP ratio over the period from the introduction of the GST and to just prior to the global financial crisis. It reflects that a strict no-policy change scenario would be unrealistic, as unconstrained revenue projections imply constantly increasing average tax rates on personal income. In the absence of this assumption, the underlying cash balance is projected to reach a surplus of 1.8 per cent of GDP in 2027-28.

The Government's budget repair strategy is designed to deliver sustainable budget surpluses building to at least one per cent of GDP as soon as possible, consistent with the objective of achieving surpluses on average over the course of the economic cycle.

The medium-term projections indicate that although progress has already been made on the budget repair task, there is more work required in the future, noting that projections over the next ten years are subject to considerable uncertainty.

Chart 2 shows the projection of the underlying cash balance to 2027-28 compared with projections at the 2016-17 MYEFO. The chart also illustrates the underlying cash balance projected to 2027-28 without the tax-to-GDP 'cap' assumption.

**Chart 2: Underlying cash balance projected to 2027-28**




Note: A tax-to-GDP 'cap' of 23.9 per cent is applied to these projections from 2022-23. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21.
Source: Treasury projections.

Compared with the 2016-17 MYEFO, projections of the underlying cash balance over the medium term have improved. This improvement is primarily driven by a reduction in payments projections once the tax-to-GDP 'cap' has been reached in 2022-23. These projections reflect lower total payments over the forward estimates flowing through to the medium term.

**Box 6: Impact of alternative yield assumptions**

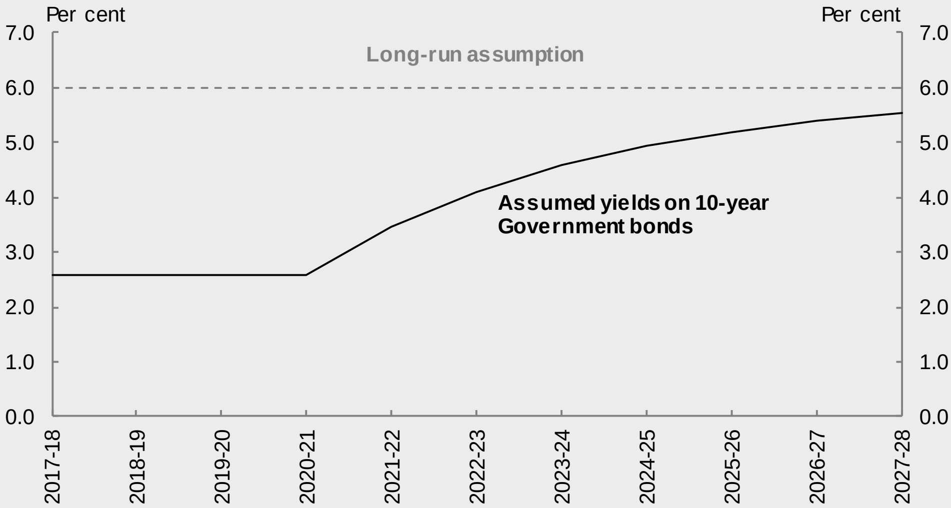
The medium-term fiscal projections are underpinned by a number of technical assumptions. Technical assumptions are generally employed where explicit policy guidance is not available or where replicating recent outcomes produces misleading results or results that are out of line with historical experience.

A technical assumption is made about the path of yields on Government debt over the forward estimates and the medium term. This assumption is required to produce projections of public debt interest (PDI) costs and therefore feeds into projections of the underlying cash balance and gross debt.

**Box 6: Impact of alternative yield assumptions (continued)**

Over the forward estimates period, yields are assumed to remain fixed at the level observed immediately prior to each economic and fiscal update. Yields are then assumed to converge from this level to an assumed long-run yield curve based on a ten-year yield of 6 per cent over the medium term. This long-run curve is consistent with the Long Term Cost Reports prepared by the Australian Government Actuary. The gap between the yield curve in each year and the long-term yield curve is closed by a quarter of a percentage point every year over the medium term. Chart 3 outlines the path of yields on ten-year bonds over the forward estimates and medium term.

**Chart 3: Convergence to the long-run yield curve**

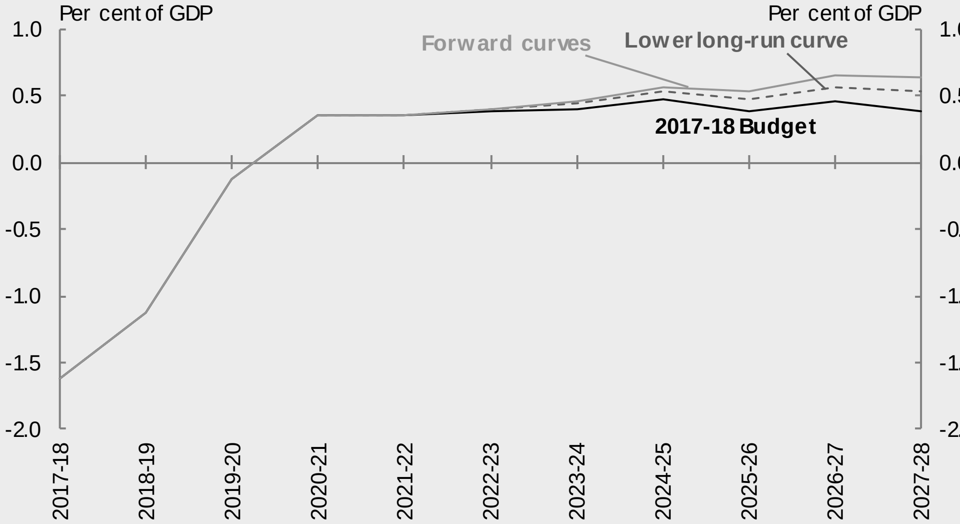



Note: The chart shows the assumed yield on 10-year Government bonds in each year through the forward estimates to the end of the medium term. These are technical assumptions intended for modelling purposes only. They are not forecasts of yields.
Source: Treasury.

In light of conditions observed in bond markets in recent years, alternative approaches to the current technical assumption could include: maintaining the current approach, but converging to a lower long-run yield curve based on a ten-year yield of 5 per cent; or the use of forward yield curves over both the forward estimates and the medium term. Forward yield curves provide an indication of the markets' expectations of future yields as indicated by the current yield curve. Chart 4 shows the impact on the underlying cash balance projections of these alternatives.

**Box 6: Impact of alternative yield assumptions (continued)**

**Chart 4: Impact of alternative yield curve assumptions on underlying cash balance projections**




Note: A tax-to-GDP 'cap' is applied to these projections from 2022-23. Net Future Fund earnings are included in these projections from 2020-21.
Source: Treasury projections.

Using a lower assumed long-run curve, the underlying cash balance is projected to improve by around 0.1 per cent of GDP by 2027-28, reflecting lower projected PDI costs as a result of lower assumed yields over the medium term. Improvements in the underlying cash balance would also drive improvements in gross debt projections.

Using implied forward curves, the underlying cash balance is projected to improve relative to Budget projections by around 0.3 per cent of GDP in 2027-28. Moderately higher yields over the forward estimates period increase PDI estimates, driving a small deterioration in underlying cash balance projections. However, the yields implied by forward curves are currently much lower than the assumed yields over the medium term. This generates improvements in PDI projections and thus underlying cash balance projections. These improvements also lead to lower gross debt projections.

See *Statement 8: Forecasting Performance and Scenario Analysis* for information on the sensitivity of fiscal projections to changes in assumptions underpinning the economic forecasts and projections.

## Structural budget balance estimates

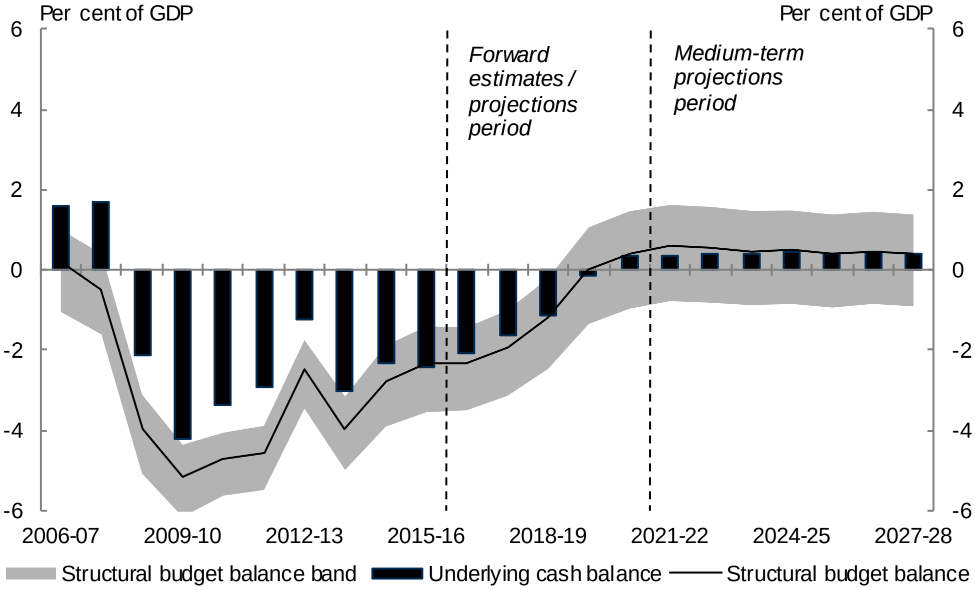
Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium-term fiscal strategy.

The structural budget balance estimates seek to 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.

Improvements in the terms of trade since the 2016-17 MYEFO are cyclical. As such, Treasury estimates of the structural budget balance over the forward estimates are largely unchanged since MYEFO.

The overall level of the structural budget balance improves from a deficit of around 2 per cent of GDP in 2017-18, to a series of small surpluses from 2020-21 onwards, converging to the underlying cash balance (Chart 5).

**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.

## Maintaining strong fiscal discipline

Strong fiscal discipline will continue 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.

The Government's fiscal strategy aims to have the payments-to-GDP ratio and net debt reducing over time.

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.

Since the 2016-17 MYEFO, the payments-to-GDP ratio has been affected by the reversal of unlegislated savings measures. While the Government's preference for achieving a path to balance was predominantly through expenditure restraint, the Parliament has been unwilling to pass all the legislation required and, as a result, significant government savings measures from the 2014-15 Budget and later budget updates have been reversed.

Nonetheless, the Government's commitment to expenditure restraint will ensure that the Government's share of the economy continues to decline over the forward estimates period. By 2020-21, the ratio is expected to be only slightly higher than the 30 year historical average ratio of 24.8 per cent.

Real payments growth over the forward estimates from 2017-18 is expected to be 1.9 per cent per annum on average, the same as at the 2016-17 MYEFO and the 2016-17 Budget. Over the period from 2021-22 to 2027-28, average real growth in payments is projected to be around 2.9 per cent per annum, around one percentage point higher than the estimated average real growth in payments over the forward estimates.

The medium-term projections reflect the assumption that current policy settings do not change over the medium term. A continued focus on ongoing expenditure restraint will be required if the Government is to deliver on its medium-term fiscal strategy and budget repair strategy.

## 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 4.

Net debt is the sum of selected financial liabilities less the sum of selected financial assets and is a common measure of the strength of a government's financial position. High levels of net debt impose a call on future revenue flows to service that debt.

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, slightly above the peak of 19.0 per cent of GDP expected at the 2016-17 MYEFO due to a range of factors, including changes in the classification of Australia's subscriptions to international financial institutions and an increase in the market value of gross debt due to lower average yields. Net debt is then projected to decline as a share of GDP to 17.6 per cent by 2020-21. Refer to *Statement 7: Debt Statement, Assets and Liabilities* for further information.

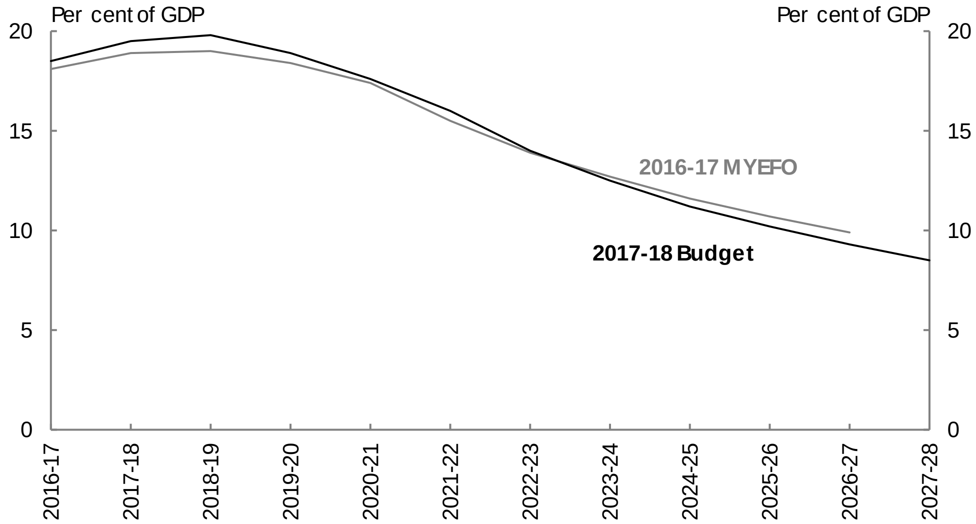
Net debt is projected to continue to improve over the medium term, falling to around 8.5 per cent of GDP by 2027-28 (Chart 6). This is around 1.4 per cent of GDP lower than projected at the 2016-17 MYEFO.

**Table 4: Net worth, net financial worth, net debt and net interest payments**

| | Estimates | | | Projections | |
|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | $b | $b | $b | $b | $b |
| Financial assets | 381.0 | 393.5 | 422.6 | 453.9 | 465.4 |
| Non-financial assets | 136.5 | 139.7 | 143.9 | 148.3 | 153.8 |
| **Total assets** | **517.5** | **533.2** | **566.5** | **602.2** | **619.2** |
| **Total liabilities** | **809.2** | **851.3** | **898.4** | **929.0** | **930.6** |
| **Net worth** | **-291.7** | **-318.1** | **-331.9** | **-326.8** | **-311.4** |
| **Net financial worth(a)** | **-428.2** | **-457.8** | **-475.8** | **-475.0** | **-465.3** |
| Per cent of GDP | -24.4 | -25.1 | -25.1 | -24.0 | -22.4 |
| **Net debt(b)** | **325.1** | **354.9** | **375.1** | **374.7** | **366.2** |
| Per cent of GDP | 18.6 | 19.5 | 19.8 | 18.9 | 17.6 |
| **Net interest payments** | **12.2** | **13.4** | **13.7** | **13.7** | **15.5** |
| 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.

**Chart 6: Net debt projected to 2027-28**

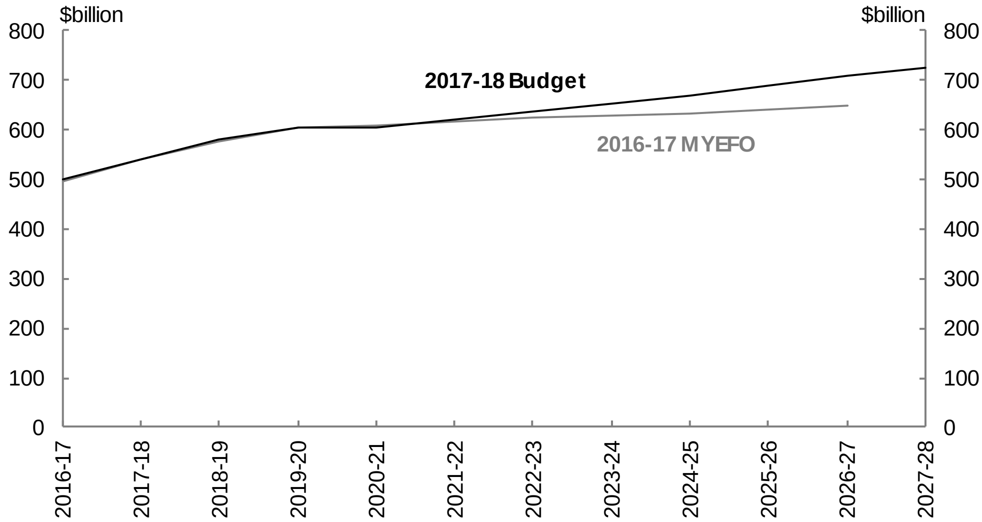



Note: A tax-to-GDP 'cap' of 23.9 per cent is applied to these projections from 2022-23.
Source: Treasury projections.

The face value of Commonwealth Government Securities (CGS) on issue (gross debt) is projected to rise from $540 billion in 2017-18 to $606 billion by the end of the forward estimates. Gross debt is projected to continue to rise to around $725 billion by 2027-28. At the 2016-17 MYEFO, gross debt was projected to be $648 billion in 2026-27. This change reflects an assumption of continuing to build the assets of the Future Fund.

The projected face value of CGS on issue is shown in Chart 7.

**Chart 7: Face value of CGS on issue projected to 2027-28**



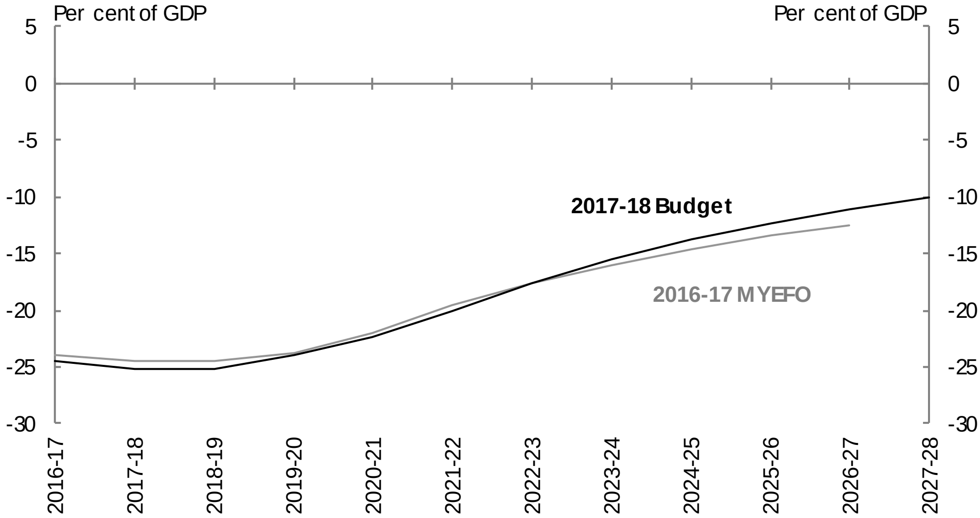

Note: A tax-to-GDP 'cap' of 23.9 per cent is applied to these projections from 2022-23.
Source: Australian Office of Financial Management and Treasury projections.

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

Net financial worth is estimated to be -$457.8 billion (-25.1 per cent of GDP) in 2017-18, $13.8 billion worse than estimated at the 2016-17 MYEFO. Compared with the 2016-17 MYEFO, net financial worth has deteriorated over the forward estimates. This reflects an increase in the market value of CGS on issue due to a lower weighted average cost of borrowing and a decrease in advances paid and the value of investments held by the Government.

Net financial worth improves as a share of GDP over the medium term, rising to -$301.8 billion (-10.1 per cent of GDP) by 2027-28 (Chart 8).

**Chart 8: Net financial worth projected to 2027-28**




Source: Treasury projections.

Net worth is expected to be -$318.1 billion in 2017-18, $17.2 billion lower than estimated at the 2016-17 MYEFO. Net worth is expected to be -$311.4 billion by the end of the forward estimates.

Further details on debt and the Government's balance sheet can be found in *Statement 7: Debt statement, assets and liabilities*.

## FISCAL OUTLOOK

### Budget aggregates

An **underlying cash deficit** of $29.4 billion (1.6 per cent of GDP) is expected in 2017-18, improving to a projected surplus of $7.4 billion (0.4 per cent of GDP) in 2020-21.

In accrual terms, a **net operating deficit** of $19.8 billion (1.1 per cent of GDP) is expected for 2017-18, improving to a projected surplus of $7.6 billion (0.4 per cent of GDP) in 2019-20 and a larger projected surplus of $17.5 billion (0.8 per cent of GDP) in 2020-21.

A **headline cash deficit** of $48.4 billion is expected in 2017-18, improving to a projected surplus of $11.7 billion in 2020-21.

Table 5 provides a summary of the cash flows of the Australian Government general government sector.

**Table 5: Summary of Australian Government general government sector cash flows**

| | Estimates | | | Projections | |
|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| | $b | $b | $b | $b | $b |
| Cash receipts | | | | | |
| Operating cash receipts | 403.5 | 432.1 | 461.8 | 496.1 | 526.3 |
| Capital cash receipts(a) | 2.2 | 1.4 | 0.7 | 0.8 | 0.1 |
| Total cash receipts | 405.7 | 433.5 | 462.5 | 496.9 | 526.3 |
| Cash payments | | | | | |
| Operating cash payments | 428.6 | 446.2 | 466.6 | 480.9 | 503.1 |
| Capital cash payments(b) | 12.0 | 13.5 | 13.8 | 14.7 | 15.8 |
| Total cash payments | 440.5 | 459.7 | 480.4 | 495.6 | 518.9 |
| **GFS cash surplus(+)/deficit(-)(c)** | **-34.8** | **-26.2** | **-17.9** | **1.3** | **7.4** |
| Per cent of GDP | -2.0 | -1.4 | -0.9 | 0.1 | 0.4 |
| less Finance leases and similar arrangements(c)(d) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *less* Net Future Fund earnings(e) | 2.8 | 3.2 | 3.5 | 3.7 | na |
| **Underlying cash balance(f)** | **-37.6** | **-29.4** | **-21.4** | **-2.5** | **7.4** |
| Per cent of GDP | -2.1 | -1.6 | -1.1 | -0.1 | 0.4 |
| *Memorandum items:* | | | | | |
| Net cash flows from investments in financial assets for policy purposes | -16.2 | -22.2 | -19.2 | -16.1 | 4.3 |
| *plus* Net Future Fund earnings(e) | 2.8 | 3.2 | 3.5 | 3.7 | na |
| **Headline cash balance** | **-51.1** | **-48.4** | **-37.1** | **-14.8** | **11.7** |
| Net Future Fund earnings(e) | 2.8 | 3.2 | 3.5 | 3.7 | 4.0 |

(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) Due to the implementation of the 2015 ABS GFS Manual, from the 2017-18 Budget, finance leases are not deducted in the derivation of the GFS cash surplus/deficit.
(d) The acquisition of assets under finance leases worsens the underlying cash balance. The disposal of assets previously held under finance leases improves the underlying cash balance.
(e) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.
(f) Excludes expected net Future Fund earnings before 2020-21.

## Underlying cash balance estimates

The estimated underlying cash deficit in 2017-18 has deteriorated by $701 million compared to the 2016-17 MYEFO. Table 6 provides a reconciliation of the variations in the underlying cash balance since the 2016-17 Budget.

Since the 2016-17 MYEFO, policy decisions have resulted in a $6.3 billion improvement in the underlying cash balance in the four years from 2017-18 to 2020-21. The overall impact of policy decisions on the bottom line has been more than fully offset.

Since the 2016-17 MYEFO, the effect of parameter and other variations has resulted in a $7.3 billion reduction in forecast receipts across the four years to 2020-21, more than offset by a $12.0 billion reduction in payments across the four years to 2020-21.

From 2020-21 onwards, net Future Fund earnings are included in the calculation of the underlying cash balance because the Future Fund becomes available to meet the Government's superannuation liabilities from that year. The earnings do not include unrealised gains from the Future Fund that are the basis of the investment mandate provided to the Future Fund by the Government. Net Future Fund earnings are excluded from the calculation of the underlying cash balance between 2005-06 and 2019-20 as, under the *Future Fund Act 2006*, earnings are required to be reinvested to meet the future public sector superannuation liabilities in these years.

## Table 6: Reconciliation of underlying cash balance estimates

| | Estimates | | | Projections | | |
|---|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total(a) |
| | $m | $m | $m | $m | $m | $m |
| **2016-17 Budget underlying cash balance(b)(c)** | **-37,081** | **-26,123** | **-15,406** | **-5,955** | **3,897** | **-43,586** |
| Per cent of GDP | -2.2 | -1.4 | -0.8 | -0.3 | 0.2 | |
| **Changes from 2016-17 Budget to 2016 PEFO** | | | | | | |
| Effect of policy decisions(d) | -2 | 0 | 3 | 6 | 0 | 9 |
| Effect of parameter and other variations | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total variations(e)** | **-2** | **0** | **3** | **6** | **0** | **9** |
| **2016 PEFO underlying cash balance(b)** | **-37,083** | **-26,123** | **-15,403** | **-5,949** | **3,897** | **-43,578** |
| Per cent of GDP | -2.2 | -1.4 | -0.8 | -0.3 | 0.2 | |
| **Changes from 2016 PEFO to 2016-17 MYEFO** | | | | | | |
| Effect of policy decisions(d) | 40 | 313 | 907 | 1,223 | * | * |
| Effect of parameter and other variations | 529 | -2,884 | -5,216 | -5,266 | * | * |
| **Total variations(f)** | **569** | **-2,571** | **-4,309** | **-4,043** | **-2,814** | **-13,737** |
| **2016-17 MYEFO underlying cash balance(b)(g)** | **-36,514** | **-28,694** | **-19,711** | **-9,992** | **1,083** | **-57,315** |
| Per cent of GDP | -2.1 | -1.6 | -1.0 | -0.5 | 0.1 | |
| **Changes from 2016-17 MYEFO to 2017-18 Budget** | | | | | | |
| Effect of policy decisions(d)(h) | | | | | | |
| *Receipts* | *73* | *1,892* | *3,316* | *7,038* | *8,527* | *20,773* |
| *Payments* | *1,502* | *4,191* | *4,620* | *3,910* | *1,802* | *14,523* |
| Total policy decisions impact on underlying cash balance | -1,429 | -2,299 | -1,303 | 3,128 | 6,724 | 6,250 |
| Effect of parameter and other variations(h) | | | | | | |
| *Receipts* | *-1,699* | *369* | *-1,486* | *-170* | *-5,992* | *-7,279* |
| *Payments* | *-2,025* | *-1,012* | *-979* | *-4,435* | *-5,601* | *-12,028* |
| *less Net Future Fund earnings(i)* | *-17* | *-217* | *-99* | *-129* | *na* | *-445* |
| Total parameter and other variations impact on underlying cash balance | 343 | 1,599 | -407 | 4,394 | -390 | 5,195 |
| **2017-18 Budget underlying cash cash balance(b)** | **-37,600** | **-29,396** | **-21,422** | **-2,470** | **7,417** | **-45,870** |
| Per cent of GDP | -2.1 | -1.6 | -1.1 | -0.1 | 0.4 | |
| *Memorandum:* | | | | | | |
| *Net Future Fund earnings(i)* | *2,784* | *3,205* | *3,513* | *3,745* | *4,001* | *14,463* |

*Data is not available.

(a) Total is equal to the sum of amounts from 2017-18.

(b) Excludes expected net Future Fund earnings before 2020-21.

(c) 2020-21 underlying cash balance as published in the medium-term projections, page 3-11 of Budget Paper No. 1: Budget Strategy and Outlook 2016-17.

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

(e) The medium-term fiscal projections published in the Pre-Election Economic and Fiscal Outlook 2016 did not materially change from those published in the 2016-17 Budget.

(f) 2020-21 shows the total variation between medium-term projections of the underlying cash balance published in the 2016-17 Budget and Mid-Year Economic and Fiscal Outlook 2016-17.

(g) 2020-21 underlying cash balance as published in the medium-term projections, page 27 of the Mid-Year Economic and Fiscal Outlook 2016-17.

(h) A positive number for receipts improves the underlying cash balance, while a positive number for payments worsens the underlying cash balance.

(i) Under the *Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

## Offsetting new decisions

The Government remains committed to offsetting all new policy decisions. At this Budget, the overall impact of policy decisions on the bottom line is an improvement of $6.3 billion over the four years from 2017-18 to 2020-21.

## Progress on budget repair measures

Since the 2016 PEFO, the Government has made significant progress in implementing unlegislated budget repair measures, including through appropriations and regulations. The total impact of budget repair measures implemented since the 2016 PEFO is over $25 billion.

The Government will no longer proceed with a number of unlegislated measures reported from the 2014-15 Budget and later budget updates. This will cost taxpayers more than $13 billion. A detailed breakdown of decisions taken as a result of Senate positions is provided at *Appendix A: Decisions taken as a result of Senate positions*. The Government is committed to continuing to work with the Parliament to secure the successful passage of all remaining unlegislated measures that contribute to the task of budget repair. The estimated impact over the forward estimates of remaining measures, announced prior to the 2017-18 Budget, and after taking account of parameter changes is a positive $4.4 billion. This comprises around $1.0 billion of receipt increases and around $3.3 billion of payments saves. These measures remain Government policy and will continue to be pursued for passage through the Parliament.

**Table 7: Reconciliation of decisions in the 2017-18 Budget for Senate positions (underlying cash balance)**

| | Estimates | | Projections | | |
|---|---|---|---|---|---|
| | 2017-18 $m | 2018-19 $m | 2019-20 $m | 2020-21 $m | Total $m |
| **Total impact of policy decisions since the 2016-17 MYEFO** | | | | | |
| *Receipts* | 1,892 | 3,316 | 7,038 | 8,527 | 20,773 |
| *Payments* | -4,191 | -4,620 | -3,910 | -1,802 | -14,523 |
| ***Total impact of policy decisions prior to Senate positions*** | **-2,299** | **-1,303** | **3,128** | **6,724** | **6,250** |
| ***Less: Decisions taken as a result of Senate positions*** | | | | | |
| *Receipts* | 194 | 272 | 298 | 392 | 1,155 |
| *Payments* | -2,260 | -3,424 | -4,384 | -4,662 | -14,729 |
| ***Total Decisions taken as a result of Senate positions*** | **-2,067** | **-3,152** | **-4,086** | **-4,270** | **-13,575** |
| **Net Budget impact of new policy decisions in the 2017-18 Budget** | | | | | |
| *Receipts* | 1,698 | 3,045 | 6,740 | 8,135 | 19,618 |
| *Payments* | -1,931 | -1,196 | 474 | 2,860 | 206 |
| **Net Budget impact of new policy decisions in the 2017-18 Budget** | **-233** | **1,849** | **7,214** | **10,995** | **19,825** |

### Receipts estimates

Total receipts are expected to be $2.3 billion higher in 2017-18 than estimated at the 2016-17 MYEFO, with tax receipts $700 million higher and non-taxation receipts $1.6 billion higher.

Since the 2016-17 MYEFO, non-taxation receipts have remained broadly unchanged in 2016-17. Non-taxation receipts have been revised up by $1.6 billion in 2017-18, largely reflecting an upwards revision to projected dividend receipts from the Reserve Bank of Australia.

### Policy decisions

Policy decisions since the 2016-17 MYEFO are expected to increase receipts by $1.9 billion in 2017-18, $3.3 billion in 2018-19, $7.0 billion in 2019-20 and $8.5 billion in 2020-21. Significant measures include:

- increasing the Medicare levy by half a percentage point from 2 to 2.5 per cent of taxable income from 1 July 2019 to ensure the Commonwealth's share of the NDIS is fully funded. This is estimated to increase tax receipts by $8.2 billion over the forward estimates period. Revenue raised by the increase in the Medicare levy will be credited to the NDIS Savings Fund Special Account when it is established;

- a major bank levy will be introduced for Authorised Deposit-taking Institutions (ADIs) with licensed entity liabilities of at least $100 billion from 1 July 2017. The $100 billion threshold will be indexed to grow in line with nominal GDP. This is estimated to increase tax receipts by $5.5 billion over the forward estimates period; and

- from March 2018, businesses that employ foreign workers on certain skilled visas will be required to pay a levy that will provide revenue for a new *Skilling Australians Fund*. This is estimated to increase tax receipts by $1.2 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2017-18*.

### Parameter and other variations

The revisions to total tax receipts reflect a shift in the composition of growth between wages and profits. Given that wages account for the majority of income taxes paid, this results in overall taxes growing more slowly than previously expected.

Improved corporate profitability has contributed to higher forecasts for company tax of $6.9 billion over the four years to 2019-20, excluding new policy. However, aggregate wage growth is expected to be weaker, resulting in downward revisions to forecast individuals and other withholding tax of $6.3 billion, excluding new policy. In addition, the GST has been revised down by $3.9 billion, excluding the impact of new policy decisions.

Further information on expected tax receipts is provided in *Statement 5: Revenue*. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 8: Forecasting performance and scenario analysis*.

## Payment estimates

Since the 2016-17 MYEFO, total cash payments for 2017-18 have increased by $3.2 billion and increased by $2.5 billion over the four years to 2020-21. The overall net impact of payment related decisions (excluding the impact of Senate negotiations) has decreased total cash payments by $206 million over the four years to 2020-21.

### Policy decisions

Major decreases in payments as a result of policy decisions since the 2016-17 MYEFO include:

- providing an affordable higher education system through a range of initiatives to place the higher education sector on a more sustainable footing, which is expected to decrease payments by $180 million in 2017-18 ($2.5 billion over four years to 2020-21);
- maintaining the current Family Tax Benefit payment rates for two years at their current levels from 1 July 2017, which is expected to decrease payments by $229 million in 2017-18 ($1.9 billion over four years to 2020-21);
- no increase to the maximum rate of Family Tax Benefit Part A, which was announced as part of the 2015-16 MYEFO measure titled *Family Payment Reform – a new families package*. This is expected to decrease payments by $1 million in 2017-18 ($1.9 billion over four years to 2020-21);
- supporting the delivery of the Western Australian NDIS under a nationally consistent, locally administered model. This is expected to decrease payments by $167 million in 2017-18 ($1.3 billion over four years to 2020-21);
- building on existing statutory price reductions for medicines listed on the PBS through a five year agreement with Medicines Australia. This is expected to decrease payments by $25 million in 2017-18 ($1.3 billion over four years to 2020-21); and
- refocusing Work for the Dole and introducing a new Job Seeker Compliance Framework that strengthens penalties for deliberate non-compliance while providing additional help for genuine job seekers to meet their requirements. This is expected to decrease payments by $4 million in 2017-18 ($637 million over four years to 2020-21).

Major increases in payments as a result of policy decisions since the 2016-17 MYEFO include:

- not proceeding with those unlegislated budget repair measures included in the measure, *Unlegislated Budget Repair Measures – not proceeding*, which is expected to increase payments by $2.3 billion in 2017-18 ($15.5 billion over four years to 2020-21, with an associated increase in receipts of $962 million over the same period);
- implementing a new needs-based funding model for schools which delivers a consistent Commonwealth approach for all schools in all States and Territories. This is expected to increase payments by $106 million in 2017-18 ($1.8 billion over four years to 2020-21);
- strengthening compliance with GST law by requiring purchasers of newly constructed residential properties or new subdivisions to remit GST directly to the Australian Taxation Office as part of settlement, which is expected to increase payments by $3 million in 2017-18 ($1.6 billion over four years to 2020-21);
- establishing a permanent *Skilling Australians Fund* to support the skilling of Australians. From 2018-19, funding will be determined by the revenue generated from the *Skilling Australia Fund* levy to be applied under the temporary and permanent employer sponsored migration programs. The *Skilling Australia Fund* is expected to increase payments by $350 million in 2017-18 ($1.5 billion over four years to 2020-21);
- introducing new and amended listings on the PBS and the Repatriation Pharmaceutical Benefits Scheme, which is expected to increase payments by $206 million in 2017-18 ($1.1 billion over four years to 2020-21); and
- re-introducing indexation in phases for certain items on the MBS, which is expected to increase payments by $9 million in 2017-18 ($1.0 billion over four years to 2020-21).

### Parameter and other variations

Parameter and other variations since the 2016-17 MYEFO have decreased total cash payments by $1.0 billion in 2017-18 and $12.0 billion over the four years to 2020-21.

Major decreases in payments as a result of parameter and other variations since the 2016-17 MYEFO include:

- payments related to the Infrastructure Investment Programme, largely reflecting a re-profile of the Programme funding to align with the delivery of project milestones. These are expected to decrease payments by $692 million in 2017-18 (although an increase in payments of $1.3 billion is expected over the four years to 2020-21);

- payments relating to the provision of GST to the States and Territories, which are expected to decrease by $460 million in 2017-18 ($3.9 billion over the four years to 2019-20), consistent with a reduction in GST receipts;
- payments relating to the NDIS, which are expected to decrease by $319 million in 2017-18 ($2.7 billion over the four years to 2020-21), largely reflecting the agreement with Western Australia that a State run NDIS will be implemented from 1 July 2017. This decrease in payments made by the National Disability Insurance Agency is offset by a corresponding decrease in receipts in relation to State and Territory contributions;
- payments related to the Income Support for People with Disability program, which are expected to decrease by $314 million in 2017-18 ($1.4 billion over the four years to 2020-21), largely reflecting lower than expected growth in the number of Disability Support Pension recipients; and
- payments related to the Private Health Insurance Rebate, which are expected to decrease by $254 million in 2017-18 ($1.1 billion over the four years to 2020-21), largely reflecting a reduction in the growth in private health insurance participation.

Major increases in payments as a result of parameter and other variations since the 2016-17 MYEFO include:

- payments related to Defence operations, which are expected to increase by $817 million in 2017-18 ($936 million over the four years to 2020-21), largely reflecting continued funding for Australia's military contribution overseas and the protection of Australia's borders and offshore maritime interests;
- payments to the States and Territories for public hospitals, which are expected to increase by $599 million in 2017-18 ($2.2 billion over the four years to 2020-21), largely reflecting revised activity estimates from the States and Territories and the release of the final 2017-18 National Efficient Price and National Efficient Cost determinations;
- payments related to the Job Seeker Income Support program, which are expected to increase by $407 million in 2017-18 ($2.0 billion over the four years to 2020-21), largely reflecting an increase in estimated unemployment benefit recipients; and
- payments related to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program, which are expected to increase by $254 million in 2017-18 ($285 million over the four years to 2020-21), largely reflecting a deferral of payments previously expected to be made in 2016-17.

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 6: Expenses and Net Capital Investment*.

Analysis of the sensitivity of payments estimates to changes in the economic outlook is provided in *Statement 8: Forecasting Performance and Scenario Analysis*.

## Net operating balance estimates

The net operating balance is expected to be a deficit of $19.8 billion (1.1 per cent of GDP) in 2017-18, which reflects a deterioration of $0.7 billion compared with the 2016-17 MYEFO. Table 8 provides a reconciliation of the variations in the net operating balance since the 2016-17 Budget. Further information on the net operating balance is provided at Box 7.

### Box 7: Net operating balance

This Budget increases prominence of the net operating balance to provide better information as to how closely the government is meeting its recurrent obligations from its annual revenues.

The underlying cash balance will continue to be the main fiscal aggregate reported in the budget papers and remains the key aggregate for the Government's fiscal strategy of achieving a balanced budget over the course of the economic cycle.

If government cannot meet recurrent spending from today's taxes then this spending must be funded by taking on public debt which will have to be funded by higher taxes in the future. For this reason, it is important to pay attention to recurrent expenses and revenues as recognised in the net operating balance.

The net operating balance complements the underlying cash balance by focusing on the management of recurrent obligations. Leaving aside distinctions between cash and accrual, the key difference between the underlying cash balance and the net operating balance is the treatment of capital investment (such as spending on infrastructure). The net operating balance is an accrual measure of revenue less expenses (including the depreciation of prior capital investment). While the underlying cash balance includes net new capital investment, the net operating balance does not. In this way, the net operating balance provides a basis for distinguishing between most recurrent expenditure and capital investment.

Further detailed information on the net operating balance can be found in *Statement 4: Recurrent and Capital Budget*.

## Table 8: Reconciliation of net operating balance estimates

| | Estimates | | | Projections | | |
|---|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total(a) |
| | $m | $m | $m | $m | $m | $m |
| **2016-17 Budget net operating balance** | **-33,691** | **-15,287** | **-4,954** | **3,458** | * | * |
| Per cent of GDP | -2.0 | -0.8 | -0.3 | 0.2 | | |
| **Changes from 2016-17 Budget to 2016 PEFO** | | | | | | |
| Effect of policy decisions(b) | -1 | 1 | 3 | 6 | * | * |
| Effect of parameter and other variations | 0 | 0 | 0 | 0 | * | * |
| **Total variations** | **-1** | **1** | **3** | **6** | * | * |
| **2016 PEFO net operating balance** | **-33,693** | **-15,287** | **-4,951** | **3,464** | * | * |
| Per cent of GDP | -2.0 | -0.8 | -0.3 | 0.2 | | |
| **Changes from 2016 PEFO to 2016-17 MYEFO** | | | | | | |
| Effect of policy decisions(b) | 521 | 1,268 | 1,233 | 1,374 | * | * |
| Effect of parameter and other variations | -4,359 | -5,141 | -6,853 | -6,114 | * | * |
| **Total variations** | **-3,837** | **-3,873** | **-5,620** | **-4,741** | * | * |
| **2016-17 MYEFO net operating balance** | **-37,530** | **-19,159** | **-10,571** | **-1,276** | * | * |
| Per cent of GDP | -2.1 | -1.1 | -0.6 | -0.1 | | |
| **Changes from 2016-17 MYEFO to 2017-18 Budget** | | | | | | |
| Effect of policy decisions(b)(c) | | | | | | |
| Revenue | 0 | 2,840 | 3,238 | 7,680 | 9,279 | 23,037 |
| Expenses | 1,775 | 5,004 | 5,155 | 3,754 | 1,783 | 15,696 |
| Total policy decisions impact on net operating balance | -1,775 | -2,163 | -1,918 | 3,926 | 7,496 | 7,341 |
| Effect of parameter and other variations(c) | | | | | | |
| Revenue | 979 | 351 | -201 | 440 | * | * |
| Expenses | 340 | -1,124 | -1,924 | -4,531 | * | * |
| Total parameter and other variations impact on net operating balance | 639 | 1,475 | 1,724 | 4,972 | * | * |
| **2017-18 Budget net operating balance** | **-38,666** | **-19,848** | **-10,765** | **7,622** | **17,471** | **-5,520** |
| Per cent of GDP | -2.2 | -1.1 | -0.6 | 0.4 | 0.8 | |
| *Net capital Investment* | | | | | | |
| Effect of net capital investment(d) | 2,047 | 484 | 4,770 | 4,892 | 6,037 | 16,183 |
| **2017-18 Budget fiscal balance** | **-40,713** | **-20,331** | **-15,535** | **2,729** | **11,434** | **-21,703** |
| Per cent of GDP | -2.3 | -1.1 | -0.8 | 0.1 | 0.6 | |

*Data is not available.*
(a) Total is equal to the sum of amounts from 2017-18.
(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 revenue improves the net operating balance, while a positive number for expenses worsens the net operating balance.
(d) A positive number for net capital investment worsens 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 estimates

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

- superannuation benefits, where there is a timing difference with the expense accruing during employment and cash payments occurring during retirement;
- 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; and
- purchases of non-financial assets, which are included in cash payments but not in accrual expenses. The expense estimates include depreciation of non-financial assets rather than recognising the impact at the time of purchase.

Detailed information on expenses can be found in *Statement 6: 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 2017-18 is estimated to be a deficit of $48.4 billion, compared with a deficit of $45.2 billion at the 2016-17 MYEFO. The deterioration in the headline cash balance since the 2016-17 MYEFO has been primarily driven by the Government's equity financing of the Melbourne to Brisbane Inland Rail and Western Sydney Airport.

## Table 9: Reconciliation of general government underlying and headline cash balance estimates

| | Estimates | | | Projections | | |
|---|---|---|---|---|---|---|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total(a) |
| | $m | $m | $m | $m | $m | $m |
| **2017-18 Budget underlying cash balance(b)** | **-37,600** | **-29,396** | **-21,422** | **-2,470** | **7,417** | **-45,870** |
| ***plus* Net cash flows from investments in financial assets for policy purposes** | | | | | | |
| Student loans | -7,204 | -7,944 | -8,230 | -8,487 | -8,974 | -33,636 |
| NBN investment | -7,700 | -1,525 | 0 | 0 | 0 | -1,525 |
| NBN loan | 0 | -9,286 | -6,815 | -2,679 | 18,780 | 0 |
| Residential mortgage backed securities | 881 | 697 | 599 | 337 | 280 | 1,913 |
| WestConnex | -617 | -722 | -576 | -85 | 0 | -1,383 |
| Trade support loans | -158 | -159 | -161 | -163 | -148 | -631 |
| CEFC loans and investments | -914 | -596 | -580 | -689 | -750 | -2,616 |
| Northern Australia Infrastructure Facility | 0 | -516 | -1,124 | -1,166 | -958 | -3,764 |
| Drought and rural assistance loans | -197 | -229 | -349 | -194 | -249 | -1,021 |
| National water infrastructure loan facility | 0 | -100 | -200 | -500 | -500 | -1,300 |
| Net other(c) | -337 | -1,840 | -1,777 | -2,451 | -3,229 | -9,296 |
| **Total net cash flows from investment in financial assets for policy purposes** | **-16,246** | **-22,221** | **-19,212** | **-16,077** | **4,252** | **-53,258** |
| *plus* Net Future Fund earnings(d) | 2,784 | 3,205 | 3,513 | 3,745 | na | 10,463 |
| **2017-18 Budget headline cash balance** | **-51,061** | **-48,411** | **-37,121** | **-14,802** | **11,669** | **-88,666** |
| *Memorandum:* | | | | | | |
| *Net Future Fund earnings(d)* | *2,784* | *3,205* | *3,513* | *3,745* | *4,001* | *14,463* |

(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.
(c) Net other includes proposed equity payments for infrastructure projects. The amounts have not been itemised for commercial-in-confidence reasons.
(d) Under *the Future Fund Act 2006*, net Future Fund earnings will be available to meet the Government superannuation liability in 2020-21. From this time, the underlying cash balance includes expected net Future Fund earnings.

## APPENDIX A: DECISIONS TAKEN AS A RESULT OF SENATE POSITIONS

### Table A1: Decisions taken as a result of Senate positions (underlying cash balance)

| | Estimates | | Projections | | |
|---|---|---|---|---|---|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total |
| | $m | $m | $m | $m | $m |
| **Reversal of 2013-14 Budget measure 'Department of Human Services — efficiencies'** | | | | | |
| Payments | -3 | -3 | -3 | -3 | -10 |
| **Reversal of 2014-15 Budget measure 'Abolish the Seafarer Tax Offset'** | | | | | |
| Payments | 0 | -7 | -7 | -7 | -21 |
| **Reversal of 2014-15 Budget measure 'Education Entry Payment — cessation'** | | | | | |
| Payments | -14 | -15 | -15 | -15 | -58 |
| **Net Impact from reversal of 2014-15 Budget measures 'Expanding Opportunity — expansion of the demand driven system and sharing the cost fairly', 'Expanding Opportunity — FEE-HELP and VET FEE-HELP loan fee — cessation' and 'A Sustainable Higher Education System — Research Training Scheme — student contributions', 2014-15 MYEFO measures 'Higher Education Reforms — amendments' and 'Higher Education — Structural Adjustment Fund — establishment' and revised 2017-18 Budget measures 'Higher Education Reform — a more sustainable higher education sector' and 'Higher Education Reform — a fairer and student-focused higher education system'** | | | | | |
| Payments | -225 | -355 | -296 | -121 | -997 |
| Receipts | -6 | 72 | 98 | 142 | 305 |
| **Reversal of 2014-15 Budget measure 'Increasing the age of eligibility for Newstart Allowance and Sickness Allowance' and 2015-16 Budget measure 'Growing Jobs and Small Business — increasing the age of eligibility for Newstart Allowance and Sickness Allowance — delay'** | | | | | |
| Payments | -123 | -144 | -168 | -199 | -633 |
| **Reversal of 2014-15 Budget measure 'Payments of memberships to international commodity organisations — changed arrangements'** | | | | | |
| Payments | -2 | -2 | -2 | -2 | -7 |

**Table A1: Decisions taken as a result of Senate positions (underlying cash balance) (continued)**

| | Estimates | | Projections | | |
|---|---|---|---|---|---|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total |
| | $m | $m | $m | $m | $m |
| **Reversal of 2014-15 Budget measure 'Pensioner Education Supplement — cessation'** | | | | | |
| Payments | -67 | -67 | -68 | -69 | -272 |
| **Reversal of 2014-15 Budget measure 'Pharmaceutical Benefits Scheme — increase in co-payments and safety net thresholds' and 2015-16 Budget measure 'Pharmaceutical Benefits Scheme — increase in the safety net thresholds on 1 January 2019'** | | | | | |
| Payments | -171 | -215 | -257 | -294 | -938 |
| **Reversal of 2014-15 Budget measure 'Simplifying Medicare safety net arrangements'** | | | | | |
| Payments | -65 | -74 | -83 | -92 | -314 |
| **Reversal of 2014-15 Budget measure 'Stronger Compliance Arrangements for Job Seekers Who Refuse or Persistently Fail to Meet Requirements' and 2015-16 Budget measure 'Growing Jobs and Small Business — further strengthening the job seeker compliance arrangements'** | | | | | |
| Payments | 2 | -8 | -9 | -9 | -24 |
| **Reversal of 2015-16 Budget measure 'Australian Working Life Residence — tightening proportionality requirements'** | | | | | |
| Payments | -64 | -68 | -71 | -75 | -278 |
| **Reversal of 2015-16 Budget measure 'Growing Jobs and Small Business — Youth Employment Strategy — revised waiting period for youth income support'** | | | | | |
| Payments | -51 | -60 | -63 | -65 | -238 |
| **Reversal of 2015-16 MYEFO measure 'Addressing Welfare Reliance in Remote Communities'** | | | | | |
| Payments | 0 | 0 | 0 | 0 | 0 |
| **Reversal of 2015-16 MYEFO measure 'Family payment reform — a new families package' — phasing out end of year supplements and limiting FTB Part B to single families with youngest child aged under 17 years** | | | | | |
| Payments | -398 | -1,121 | -1,816 | -1,823 | -5,158 |

**Table A1: Decisions taken as a result of Senate positions (underlying cash balance) (continued)**

| | Estimates | | Projections | | |
|---|---|---|---|---|---|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | Total |
| | $m | $m | $m | $m | $m |
| **Reversal of 2015-16 MYEFO measure 'Family payment reform — a new families package' — reducing FTB Part B for single parents with youngest child aged 13-16** | | | | | |
| Payments | -183 | -199 | -200 | -200 | -781 |
| **Reversal of 2015-16 MYEFO measure 'Medicare Benefits Schedule — changes to diagnostic imaging and pathology services bulk billing incentives'** | | | | | |
| Payments | -217 | -227 | -241 | -250 | -935 |
| **Reversal of 2015-16 MYEFO measure 'Parental Leave Pay — revised arrangements' and 2013-14 MYEFO measure 'Paid Parental Leave — removing the mandatory obligation for employers to administer payments'** | | | | | |
| Payments | -535 | -557 | -577 | -602 | -2,272 |
| Receipts | 200 | 200 | 200 | 250 | 850 |
| **Reversal of 2015-16 MYEFO measure 'Smaller Government — Attorney-General's Portfolio'** | | | | | |
| Payments | 0 | 0 | 0 | 0 | 0 |
| **Net impact from reversal of 2014-15 Budget measure 'Students First — indexation of School funding from 2018' and 2016-17 Budget measure 'School Funding — additional funding from 2018', and 2017-18 Budget measure 'Schools Funding from 2018'** | | | | | |
| Payments | -106 | -296 | -511 | -840 | -1,753 |
| **Amendment to 2016-17 MYEFO measure 'Revised Arrangements for Commonwealth Dental Funding'** | | | | | |
| Payments | -38 | -45 | -47 | -49 | -179 |
| **Amendment to 2015-16 Budget measure 'Families Package — child care — Workforce Participation Stream'** | | | | | |
| Payments | 0 | 39 | 49 | 51 | 139 |
| **Total Payments adjustments and reversals** | **-2,260** | **-3,424** | **-4,384** | **-4,662** | **-14,729** |
| **Total Receipts adjustments and reversals** | **194** | **272** | **298** | **392** | **1,155** |
| **Total impact of Senate positions** | **-2,067** | **-3,152** | **-4,086** | **-4,270** | **-13,575** |