STATEMENT 1: BUDGET OVERVIEW

The 2015-16 Budget is focused on building jobs, growth and opportunity and providing a credible path back to surplus. It is about building on our strong foundations and taking the next steps to set Australia up for a more prosperous future.

The Australian economy is set to strengthen over coming years, as we transition from a mining investment led boom and non-mining sectors step up to drive growth. The global economic outlook is strengthening, and households and businesses are already benefiting from historically low interest rates, a lower exchange rate, and lower petrol and electricity prices.

The Government's historic free trade agreements will help unlock new trade opportunities throughout the region. Australia's biggest-ever infrastructure programme is also being rolled out across the country to improve connectivity and the productive capacity of the economy.

The $5.5 billion Jobs and Small Business Package will provide major incentives for businesses to invest, hire and grow. From Budget night until 30 June 2017, small businesses will be able to immediately deduct each and every asset valued under $20,000. In addition, from 1 July 2015, all small businesses – whether they are incorporated or not – will receive a tax cut. The package includes $375 million aimed particularly at improving opportunities for Australians to get a job and reaching out to disengaged youth.

The $4.4 billion Families Package delivers major structural reform of the child care system to make it simpler, more affordable, accessible and flexible. Better child care will make life easier for families and support parents to get jobs and stay in work.

The Budget also contains a number of measures that will improve the fairness of tax rules and benefit systems. Further strong action will be taken to ensure that companies who earn profits in Australia pay tax in Australia.

The Budget also includes $1.2 billion in new funding for defence, national security and law enforcement to keep Australians safe and secure.

The Government remains committed to returning the budget to surplus as soon as possible. Despite iron ore prices nearly halving since the last Budget and a write-down of $52 billion in tax receipts, the budget position is projected to improve each and every year over the forward estimates. The deficit will narrow from $35.1 billion (2.1 per cent of GDP) in 2015-16 to $6.9 billion in 2018-19 (0.4 per cent of GDP).

More work is required to improve the budget position over the medium term, but the 2015-16 Budget is responsible, measured and fair; and a budget for the current circumstances Australia faces.

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INTRODUCTION

The Australian economy is entering its 25th year of economic expansion and is forecast to strengthen over the next few years. Real GDP is forecast to grow by 2¾ per cent in 2015-16, before increasing to around trend growth of 3¼ per cent in 2016-17.

The transition from mining-led growth to broader-based growth is underway. While weaker commodity prices are having a significant impact on the nation's income and tax collections, historically low interest rates, lower oil and electricity prices and a lower exchange rate are providing support to households and businesses. The unemployment rate is forecast to peak in 2015-16 at around 6½ per cent and then decline.

The underlying cash deficit is expected to be $35.1 billion in 2015-16 (2.1 per cent of GDP), reducing to $6.9 billion (0.4 per cent of GDP) in 2018-19 (Table 1). Forecast tax receipts have been downgraded by $52 billion over the four years to 2017-18 since the 2014-15 Budget. This has been driven by a near halving of the iron ore price and persistently low wage growth. The fall in commodity prices has contributed to the largest fall in the terms of trade in over 50 years.

Table 1: Budget aggregates

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

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

This year's Budget focuses on building a stronger economy to create jobs, growth and opportunity, while making progress in restoring Australia's fiscal position.

At the core of the Budget are a $5.5 billion Jobs and Small Business Package and a $4.4 billion Families Package, designed to boost business investment, help more Australians participate in the workforce, and drive innovation and productivity. Other priorities include improving tax and benefit system integrity, harnessing future growth through infrastructure investment, unlocking new trade opportunities, strengthening the foreign investment framework, as well as delivering on new national security commitments.

A return to an underlying cash surplus is projected to occur in 2019-20, the same year as projected in the 2014-15 MYEFO, with surpluses over the medium-term projection period. Net debt is projected to peak at 18.0 per cent of GDP in 2016-17, and fall to 7.1 per cent of GDP by 2025-26. Gross debt is projected to reach $573 billion by 2025-26.

ECONOMIC OUTLOOK

The outlook for the Australian economy remains positive. Historically low interest rates, a lower oil price and a lower exchange rate are all working together to support strengthening economic growth.

Global economic conditions are also supporting growth in the Australian economy. The recovery in the US is becoming increasingly broad-based, while lower currencies and commodity prices are supporting growth in the euro area and Japan. China will continue to make a strong contribution to global growth as authorities look to rebalance the economy towards consumption-led growth and away from investment.

The transition to broader growth in the Australian economy is underway. Exports are expanding as resource investment projects reach completion and the lower exchange rate is supporting a pick-up in services exports. Housing construction is responding positively to lower interest rates. While still constrained, household consumption growth is solid, underpinned by rising household wealth and lower petrol prices.

Non-mining business investment grew in 2014, particularly in the services sector. Despite this momentum, and supportive fundamentals, more recent data show firms are not yet committing to significant additional investment in 2015-16. A sustained recovery is now expected to occur a little later than expected in the 2014-15 Budget.

Even in the face of the adjustment underway as the resource investment boom unwinds, real GDP growth is forecast to increase from 2½ per cent in 2014-15 to 2¾ per cent in 2015-16, before increasing further to 3¼ per cent in 2016-17. The unemployment rate is still expected to peak at 6½ per cent in 2015-16 with lower forecast wage growth moderating the impact of lower forecast real GDP growth.

The most significant development since the 2014-15 Budget has been the sharp reduction in the iron ore price, with a substantial increase in global supply coinciding with an easing in steel demand from China.

The forecasts are underpinned by an iron ore price of US$48 per tonne FOB (free on board). By comparison, the spot price forecast in the 2014-15 Budget averaged US$96 per tonne FOB, which itself was well below the peak price of US$185 per tonne FOB in 2011. Inherent uncertainty around both demand and supply factors means that the price outlook is subject to considerable risk.

Lower commodity prices are flowing through to lower income growth throughout the economy, including wages. Lower wage growth is allowing firms to retain staff at a time when profit growth is modest. Lower wage growth is also helping to keep inflation contained despite the fall in the exchange rate.

As a result of the fall in commodity prices as well as subdued growth in wages, nominal GDP is expected to grow by 3¼ per cent in 2015-16 before increasing to 5½ per cent in 2016-17.

As always, forecasts are subject to uncertainty. Sustained momentum in the recoveries in the US and euro area economies could translate into stronger-than-expected growth for major trading partners, which will be a positive for Australia. But there is also the possibility that China's transition to a more sustainable growth model may not be smooth.

Table 2: Major economic parameters(a)

	Outcomes	Forecasts			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP	2.5	2 1/2	2 3/4	3 1/4	3 1/2	3 1/2
Employment	0.7	1 1/2	1 1/2	2	2	2
Unemployment rate	5.9	6 1/4	6 1/2	6 1/4	6	5 3/4
Consumer price index	3.0	1 3/4	2 1/2	2 1/2	2 1/2	2 1/2
Wage price index	2.5	2 1/2	2 1/2	2 3/4	2 3/4	3 1/4
Nominal GDP	4.0	1 1/2	3 1/4	5 1/2	5 1/4	5 1/2

(a) Year average unless otherwise stated. In 2013-14 to 2016-17, employment, the wage price index and the consumer price index are through the year growth to the June quarter. The unemployment rate is the rate for 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 the medium-term fiscal strategy of achieving budget surpluses, on average, over the course of the economic cycle — and aims to return the budget to surplus as soon as possible. This Budget continues the deliberate effort to prioritise spending towards areas that will build a stronger economy, recognising the importance of growth in contributing to fiscal sustainability.

Since the 2014-15 Budget, expected total tax receipts have been downgraded by around $14 billion in 2015-16 and $52 billion over the four years to 2017-18. That brings the downgrades in forecast tax receipts since the Pre-Election Economic and Fiscal Outlook 2013 to over $90 billion across the forward years. The rapid fall in the iron ore price has been the largest single contributor to write-downs to Government tax receipts over the past year. Lower forecasts for wage growth have also led to lower income tax collections.

Consistent with the Government's fiscal strategy, these variations in tax receipts have been allowed to flow through to the bottom line. This Budget does not seek to offset the deterioration in receipts by dramatically reducing Government spending or hiking taxes.

While the overall fiscal position is somewhat weaker than expected in last year's Budget, the underlying cash balance is projected to strengthen over the forward estimates period. In addition, the pace of consolidation averages around 0.5 per cent of GDP per annum over the forward estimates – the same pace as forecast in the Budget last year. A return to surplus is projected in 2019-20, the same year as projected in the 2014-15 MYEFO, with surpluses projected over the remainder of the medium term.

Consistent with the Government's fiscal strategy, the size of government (measured by the payments-to-GDP ratio) is set to fall over the forward estimates period from 25.9 per cent to 25.3 per cent. The average annual real growth in payments is expected to be 1.1 per cent in the four years to 2017-18, slightly higher than the comparative rate at the 2014-15 MYEFO (1.0 per cent).

The Government is maintaining a disciplined approach to its decision making. The decision not to proceed with the Paid Parental Leave Scheme, which was fully funded in the budget, has provided room for other priorities. The net impact of not proceeding with the scheme, together with all decisions in the Budget, results in a $1.6 billion improvement to the budget bottom line over the forward estimates.

Commonwealth Government Securities on issue are expected to rise to $573 billion by 2025-26 as a result of the weaker underlying cash balance and associated higher public debt interest expense accumulating over the medium term. Gross debt in 2023-24 is expected to be around $112 billion lower than the $667 billion inherited from the former Government.

Over the next decade, net debt is projected to peak at 18.0 per cent of GDP in 2016-17 before falling to 7.1 per cent of GDP by 2025-26.

The 2015 Intergenerational Report showed that structural savings measures already implemented by the Government are making a significant contribution towards achieving fiscal sustainability over the longer term.

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

Table 3: Real growth in portfolio expenses

	Nominal expenses 2015-16 Estimates ($m)	Percentage of total expenses (%)	Real growth 2014-15 to 2018-19 (%)(c)
Agriculture	1,710	0.4	-11.7
Attorney-General's	4,298	1.0	-13.6
Communications	2,164	0.5	-14.1
Defence (a)	32,779	7.5	1.7
Education and Training	28,892	6.6	6.0
Employment	2,916	0.7	5.1
Environment	2,327	0.5	14.8
Finance	10,167	2.3	-6.8
Foreign Affairs and Trade	6,001	1.4	-15.2
Health	48,034	11.1	5.9
Immigration and Border Protection	4,784	1.1	-39.9
Industry and Science	3,473	0.8	-30.5
Infrastructure and Regional Development	4,960	1.1	-11.2
Parliament	232	0.1	-2.3
Prime Minister and Cabinet	2,380	0.5	-13.4
Social Services	144,151	33.2	15.2
Treasury (b)	49,343	11.4	-4.2
Veterans' Affairs	12,178	2.8	-12.0

(a) Excludes Department of Veterans' Affairs.
(b) Excludes General Revenue Assistance to the States and Territories and Commonwealth Debt Management interest payments.
(c) Expense Estimates for some portfolios adjusted for effects of machinery of government changes in 2014-15.

Consistent with the medium-term fiscal strategy, the Government remains fully committed to achieving a return to surplus as soon as possible.

The medium-term projections of the underlying cash balance show that while budget surpluses are anticipated from 2019-20 to 2025-26, additional policy effort will be required to achieve the Government's target surplus of 1 per cent of GDP.

BUDGET PRIORITIES

Building a Stronger Economy: Jobs, Growth and Opportunity

Jobs and Small Business Package

Small businesses are the engine room of the Australian economy, employing over 4.5 million people and accounting for approximately one-third of Australia's economic output.

Indeed, 96 per cent of Australia's businesses are small businesses. This puts small businesses at the forefront of the transition from resource-led growth toward new and emerging markets.

The Government's Economic Action Plan has focused on delivering the conditions that will support employers to create jobs and ensure that job seekers have access to the opportunities they need. This agenda includes abolishing harmful taxes, cutting red tape and boosting access to markets through free trade agreements.

Cutting red tape is particularly important for small businesses because they experience a proportionately larger regulatory burden than larger businesses. As of March 2015, the Government had announced reforms to generate more than $2.45 billion in red tape savings for businesses, individuals and community organisations.

A $5.5 billion Jobs and Small Business Package will make it easier for Australian small businesses to flourish, and for Australia's unemployed, particularly young people, to move into long term employment. Over 90 per cent or $5.0 billion of the Jobs and Small Business Package is dedicated to tax relief measures, which will encourage small businesses to invest, take on new staff and grow (Box1).

The package will also provide a further series of targeted measures to cut red tape for small businesses, and to encourage start-ups and entrepreneurship. Together, they will support higher levels of investment and employment.

The package also includes $375 million in new measures to help Australia's unemployed find jobs. There will be measures to: help employers take on unemployed job seekers; build employability, particularly for young people transitioning to work; and strengthen job seeker obligations.

Box 1: Relief for small business to drive investment

The centrepiece of the Jobs and Small Business package is a three-part tax relief package, to ensure that all Australian small businesses will be better off.

- All small businesses will receive an immediate deduction on each and every asset costing less than $20,000 bought between Budget night and 30 June 2017 ($1.75 billion).
- Small corporations will benefit from a 1.5 percentage point cut in their company tax rate ($1.45 billion).
- Unincorporated small businesses will receive a 5 per cent tax discount of up to $1,000 per annum ($1.8 billion).

The Government is working with the states and territories to consider ways to reduce the waste, duplication and second guessing between the different levels of government. A green paper with options for reform of the Federation is due to be released in the second half of 2015, ahead of a white paper in 2016.

The Tax White Paper process is also considering opportunities to deliver lower, simpler and fairer taxes and to reduce red tape associated with the tax system with a focus on small businesses.

Expanding our horizons and connectivity

The Government's record level of investment in infrastructure is supporting economic growth and prosperity by increasing productive capacity, generating jobs, and expanding business and labour market opportunities.

The Commonwealth's Infrastructure Growth Package announced in the 2014-15 Budget is rolling out to connect more people to jobs and consumers to businesses, as well as reducing travel times and improving people's quality of life. As part of this, the Government is partnering with the states and territories to unlock major increases in capital to fund infrastructure through the Asset Recycling Initiative. The first agreement under the Initiative was signed with the Australian Capital Territory in February 2015 and the second with New South Wales in March 2015.

Northern Australia is an exciting frontier of economic development and potential. The Government is establishing a new $5 billion Northern Australia Infrastructure Facility to provide concessional loans to catalyse the development of major projects in the North.

The Government is investing $255 million in a digital transformation agenda, to be led by the Digital Transformation Office, to transform the way public services are designed and delivered, making them simpler and easier to use. The *myGov* platform will be expanded to host more online services for individuals and a new online business account will be created for businesses transacting with government.

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

These countries represent Australia's three largest export markets – accounting for 55 per cent of total goods and services exports in 2013-14. Collectively, the agreements will provide a significant boost to our competitiveness, and drive a new phase in ever-closer economic linkages within our region.

To build on this significant momentum, the Government is also working to conclude other key trade negotiations, such as the Trans-Pacific Partnership and a Comprehensive Economic Cooperation Agreement with India.

Supporting our farmers

The Budget will help farmers in drought by extending the Government's drought relief loan schemes and social and community support measures. It will also help farmers to improve their land by allowing from 1 July 2016 an immediate tax deduction for water facilities and fencing, and three-year depreciation for all capital expenditure on fodder storage assets.

Supporting Australian Families

More affordable, accessible and flexible childcare

The 2015 Budget delivers on the Government's commitment to support families through simpler, more affordable, accessible and flexible child care arrangements. Supporting workforce participation by parents who work, or want to work, complements efforts to improve the nation's productivity and create an even stronger economy.

The Government is responding to long-standing community frustration and simplifying child care assistance. The Government will invest an additional $3.5 billion over five years on child care assistance, including a new Child Care Subsidy (CCS) to be introduced from 1 July 2017 and a nannies trial from 1 January 2016.

Under the CCS, most of the increased fee assistance is provided to low-to-middle income families. There will be no annual cap for families with income below approximately $185,000.

The new CCS will be means-tested and based on actual fees paid. Assistance will be capped per hour to ensure the new system remains affordable and to put downward pressure on fee growth. Eligibility for assistance will be strengthened to more closely align with work, training or study undertaken.

The CCS will be complemented by the Child Care Safety Net. The safety net will provide $869 million over the next four years to better support education and development outcomes for genuinely disadvantaged families and children.

Commencing 1 January 2016, a two-year pilot programme will provide around $250 million for in-home care by approximately 4,000 nannies including for families that find it difficult to access mainstream child care services due to the nature and hours of their work.

Funding certainty for preschool

As part of its commitment to support high-quality early childhood education and care and ensure universal access for all children in the year before school, the Government will provide $843 million to extend payments to the states and territories through the National Partnership for preschool funding for a further two years until December 2017.

'No Jab, No Pay' – Vaccinating our children

From 1 January 2016, a 'No Jab, No Pay' rule will remove all immunisation exemptions, except those for medical reasons, for access to child care payments and Family Tax Benefit Part A end of year supplement. To support the new arrangements, the Government is providing a $26 million boost to the Immunise Australia programme, to encourage doctors and immunisation providers to identify and vaccinate children in their practice who are overdue.

Strengthening the health system

The Government is committed to a strong health system that provides high-quality care and treatment for all Australians.

The Government is committed to maintaining affordable, sustainable access to medicines through the Pharmaceutical Benefits Scheme (PBS) and is in the final stages of negotiations with industry on reforms to pricing and remuneration across the supply chain to underpin the future sustainability of the PBS. This Budget also provides $1.6 billion for new and amended listings on the PBS, including more effective treatments for cancer.

The Government is building on Australia's great research strengths by providing an ongoing and sustainable boost to funding for vital medical research. This Budget delivers the first distributions from the Medical Research Future Fund, with more than $400 million expected to be provided to researchers over the forward estimates, including $10 million in 2015-16.

The Medical Research Future Fund is expected to reach the target capital level of $20 billion in 2019-20.

Improving aged care

The Government is significantly reforming home care services delivered to older Australians. From 1 February 2017, funding will be allocated to the consumer based on their care needs. This will allow consumers greater choice in deciding who provides their care and increase competition among providers.

A Fairer Australia

Strengthening the integrity of the taxation system

The Government recognises the need to take decisive action to protect the fairness and integrity of the Australian tax system and ensure individuals and Australian businesses do not carry the tax burden unfairly.

Australia is continuing its international leadership in tackling multinational tax avoidance by actioning key elements of the G20/OECD Base Erosion and Profit Shifting (BEPS) recommendations: country-by-country reporting by large companies to the ATO, hybrid mismatch arrangements, treaty abuse and compulsory exchange of rulings related to preferential regimes.

In addition, a range of domestic measures will be implemented to further strengthen our defences against multinational tax avoidance. A new Multinational Anti-Avoidance Law will target multinationals that artificially structure to avoid a taxable presence in Australia. This will mean that tax will now be paid on profits from economic activities undertaken in Australia. Approximately 30 large multinational companies are suspected of diverting profits using artificial structures to avoid a taxable presence in Australia and pay little or no tax worldwide.

The Government will also apply the GST to cross-border supplies of digital products and services imported by consumers from 1 July 2017. This will help correct an anomaly in the current system and level the playing field between domestic and international businesses.

The Government is taking steps to enhance public confidence in the integrity and fairness of the domestic tax system. The Government will extend the GST Compliance Programme to support targeted and integrated compliance strategies to detect, deter and deal with unintended errors or deliberate GST fraud and evasion.

Serious financial crimes pose significant risks to Australia's financial markets, regulatory frameworks and our tax revenue base. The Government will respond to this national problem with a coordinated national solution. Relevant law enforcement and regulatory agencies will work together to tackle serious financial crime in a whole-of-Government Serious Financial Crime Taskforce.

The Government is also addressing excessive use of salary packaged 'meal entertainment' benefits in the not-for-profit sector, by introducing a new grossed-up cap of $5,000 to apply from 1 April 2016. Capping these benefits will improve the integrity of this concession for the not-for-profit sector with an estimated revenue gain of $295 million over the forward estimates. Workers in these sectors will still be eligible for generous FBT concessions.

Better targeting of the Zone Tax Offset to exclude 'fly-in-fly-out' and 'drive-in-drive-out' workers will take effect from 1 July 2015 and is estimated to have a gain to revenue of $325 million over the forward estimates period. It is estimated that around 20 per cent of all claimants do not actually live full-time in the zones and do not face the same challenges of remote living that the offset was designed to address.

Strengthening the integrity and sustainability of the welfare system

The Government is also taking steps to strengthen the integrity of the welfare system. These measures will help ensure the welfare system remains sustainable, and enable the Government to continue to provide support to vulnerable Australians.

The Government is taking action to target assistance to those most in need, improve compliance and ensure that social obligations are met. This includes an initial $60.5 million to commence upgrading the Department of Human Services' information and communications technology. The Government will also increase its capability to detect, investigate and deter suspected welfare fraud and non-compliance which will return around $1.5 billion to the budget.

The Government will also remove double dipping in the Parental Leave Pay (PLP) scheme from 1 July 2016.

To ensure a fair pension system, where assistance is directed to those most in need, the Government will increase the assets test thresholds and taper rate for pensions from 1 January 2017. The Government will not proceed with the 2014-15 Budget measure to index pensions by consumer price index only.

Strengthening Australia's foreign investment framework

Foreign investment is integral to Australia's economy and the Government welcomes all investment that is not contrary to our national interest. Following extensive public consultation, on 2 May 2015, the Government announced a package of measures to strengthen the foreign investment framework to make sure the rules are enforced.

The reform package will ensure stronger compliance with the longstanding foreign investment rules and impose stricter penalties on those breaking the rules. There will be increased scrutiny around foreign investment in agriculture and increased transparency on the levels of foreign ownership through a comprehensive land register. The enhanced system will be funded by application fees on all foreign investment applications.

In total, these measures constitute the most significant reform to the framework in 40 years. The bulk of the reforms will commence on 1 December 2015.

Higher Education Loan Programme (HELP) debts from Australians residing overseas

The Government is making the HELP scheme fairer by recovering HELP debts from Australians residing overseas. The new arrangements will impose an obligation on Australians residing overseas to repay their HELP debt on an income-contingent basis on the same terms that apply to those residing in Australia.

Protecting Australia

The Government is investing $1.2 billion in new funding for national security in this Budget. This funding will aid our multi-pronged strategy to counter threats to Australia and Australians.

Australian military personnel are part of the international coalition leading the fight against terrorism overseas. $750 million of the new funding in the Budget is for operations in Afghanistan, Iraq and the Middle East to combat terrorism at its source and contribute to global security.

The Budget will continue to strengthen Australia's border protection. The implementation of initiatives to streamline border protection activities will be accompanied by the establishment of the Australian Border Force to keep Australians safe from terrorism and transnational organised crime.

In this Budget, there will be additional investment in information technology to enhance our intelligence agencies' capabilities and we will act to reduce the impact of extremist narratives on Australians.

The Government's improvements to Australia's national security legislation give our law enforcement and security agencies the tools they need to more effectively deter and disrupt those who wish to participate in terrorist activity.