STATEMENT 1: BUDGET OVERVIEW

The 2014-15 Budget marks a major step by the Government to transform the role of government in people's lives.

This Budget is about asking all Australians — from households to businesses and the public sector — to make a contribution today to repair the budget and build a stronger, more prosperous future for all.

The Budget will redirect taxpayers' dollars from spending that is consumed today to productive investment for tomorrow. It will do this while supporting the most vulnerable, and taking significant steps towards ensuring that government can live within its means. The decisions in this Budget will move Australia towards equality of opportunity for all.

The Budget has been set in the context of slightly below trend growth for the Australian economy and the expectation that unemployment will remain elevated. Investment in resources projects is still expected to fall and to detract significantly from growth. Resources exports will rise as completed projects come on line, while the household sector will strengthen as it responds to low interest rates.

Looking to the longer term, population ageing coupled with falling terms of trade from historic highs will make it difficult to maintain the growth in living standards to which Australians are accustomed.

Given this outlook, the Budget balances the need to build our growth potential, while not placing additional near term pressure on the economy. The Budget delivers an $11.6 billion Infrastructure Growth Package that will contribute to $125 billion of additional infrastructure, including incentives to encourage asset recycling as a catalyst for unlocking significant new infrastructure investment. When construction projects supported by the Government are completed, they will add around 1 percentage point to annual GDP.

The Budget also delivers a $20 billion Medical Research Future Fund that will ensure Australia can drive world leading medical research discoveries needed to underpin the health system of the future, fundamental reforms of the higher education sector, and measures to support workforce participation.

The underlying cash deficit is projected to be $60 billion over four years to 2017-18, compared to $123 billion over four years at the *2013-14 Mid-Year Economic and Fiscal Outlook* (MYEFO). This substantial improvement is built off a reduction in average annual real payments growth from 2.6 per cent to 0.8 per cent.

By 2017-18 the underlying cash deficit will have fallen to $2.8 billion (0.2 per cent of GDP), and the Government's finances are projected to be on a clear path to a credible surplus. Medium-term projections show a surplus of well over one per cent of GDP by 2024-25, even with future tax relief, and with average annual real payments growth of 2.7 per cent, compared to 3.7 per cent at MYEFO.

With the changes in this Budget debt would be $389 billion in a decade; $277 billion lower than the projection of $667 billion at MYEFO, and assuming future tax relief.

CONTENTS

STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

In 2014-15 the Australian economy is forecast to grow slightly below trend, with a large fall in resources investment partly offset by a boost from higher resources exports and the household sector's response to low interest rates. The unemployment rate is forecast to reach 6¼ per cent by the June quarter 2015 and remain at this rate to the end of 2015-16.

The underlying cash deficit in 2014-15 is expected to be $29.8 billion (1.8 per cent of GDP), falling to $2.8 billion in 2017-18 (Table 1).

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total(a)
Underlying cash balance ($b)(b)	**-18.8**	**-49.9**	**-29.8**	**-17.1**	**-10.6**	**-2.8**	**-110.1**
Per cent of GDP	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2	
Fiscal balance ($b)	**-23.5**	**-45.1**	**-25.9**	**-12.2**	**-6.6**	**1.0**	**-88.7**
Per cent of GDP	-1.5	-2.8	-1.6	-0.7	-0.4	0.1	

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Excludes net Future Fund earnings.

Without the consolidation outlined here, the budget would have remained in deficit for at least the next decade — a total of 16 years of deficits — leaving Australia vulnerable to external shocks, ill-equipped to cope with population ageing, and increasingly reliant on future generations to pay off our debt. This situation would have arisen even if Australia achieved a further 10 years of uninterrupted economic activity — resulting in an unprecedented 33 years of economic growth.

By redirecting spending to more productive ends this Budget has enabled significant reforms, such as the Asset Recycling Fund, Higher Education deregulation and the Medical Research Future Fund. Spending growth has been significantly reduced and the net impact of policy decisions has been to reduce the deficit by $36 billion over the forward estimates.

The budget is on a clear track to surplus, with a small deficit of $2.8 billion in 2017-18 and a surplus of well over 1 per cent of GDP by 2024-25. Commonwealth Government Securities on issue will fall from the MYEFO estimate of $667 billion in 2023-24 to $389 billion, assuming future tax relief. The size of Government is projected to fall with spending as a share of the economy expected to be 24.4 per cent in 2023-24, down from 26.5 per cent projected in the MYEFO.

ECONOMIC OUTLOOK

The Australian economy is in the midst of a major transformation, moving from growth led by investment in resources projects to broader-based drivers of activity in non-resources sectors. This is occurring at a time when the economy has generally been growing below its trend rate and the unemployment rate has been rising.

Since MYEFO, the near-term outlook for the household sector has improved. Leading indicators of dwelling investment are consistent with rising activity, while household consumption and retail trade outcomes have improved recently, consistent with gains in household wealth. This is partly offset by weaker business investment intentions, particularly for non-resources sectors.

The outlook for the resources sector is largely unchanged from MYEFO. Resources investment is still expected to detract significantly from growth through until at least 2015-16, as reflected in the outlook for investment in engineering construction which is forecast to decline by 13 per cent in 2014-15 and 20½ per cent in 2015-16. Rising resources exports are expected to only partially offset the impact on growth. Overall, real GDP is forecast to continue growing below trend at 2½ per cent in 2014-15, before accelerating to near-trend growth of 3 per cent in 2015-16.

Nominal GDP growth is forecast to remain weak, growing by 3 per cent in 2014-15 and 4¾ per cent in 2015-16. The weakness of nominal GDP growth reflects the sharp fall in prices for Australia's key commodity exports since the start of the year and a further expected decline in Australia's terms of trade. Subdued domestic price growth, in the absence of wage pressures, is also weighing on nominal GDP growth.

The Australian economy is also facing considerable challenges over the medium- to- longer-term. The decline in Australia's terms of trade will likely extend beyond the forecast period, while the rising proportion of older Australians will lead to lower labour force participation, further constraining per capita income growth. Confronting these challenges will require faster productivity growth.

This Budget will support stronger and more sustainable economic growth in the medium term and does not place further pressure on the economy's transition to broader-based growth in the near term. Government expenditure is being redirected to more productive uses, such as expanding infrastructure investment, and the Government is introducing measures to encourage greater workforce participation. By getting government finances under control and laying out a credible plan for fiscal repair, the Government is providing businesses and households with the certainty they need to invest in their future. This Budget will also help to keep interest rates lower over time by reducing the public sector's call on resources, while rebuilding the Government's flexibility to respond to adverse shocks in the context of a volatile global economy.

The outlook for the global economy has improved gradually since the end of 2013, led by a pickup in activity in advanced economies, most notably the United States. While activity has moderated in emerging market economies, these economies are still expected to contribute nearly three quarters of global growth over the forecast period.

There are both upside and downside risks to the economic outlook. Most notably, non-resources business investment could pick up earlier and more rapidly than expected following a prolonged period of caution, while some trade-exposed sectors would benefit from a lower exchange rate, which is historically an outcome associated with a fall in the terms of trade. Conversely, the fall in resources investment is likely to be lumpy, while the associated rise in exports also has uncertain timing. International risks are more balanced than previously, although still to the downside as economies continue to deal with legacy issues from the financial crisis.

Table 2: Major economic parameters[(a)]

	Outcomes	Forecasts			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Real GDP	2.6	2 3/4	2 1/2	3	3 1/2	3 1/2
Employment	1.2	3/4	1 1/2	1 1/2	2 1/4	2
Unemployment rate	5.6	6	6 1/4	6 1/4	6	5 3/4
Consumer price index	2.4	3 1/4	2 1/4	2 1/2	2 1/2	2 1/2
Wage price index	2.9	2 3/4	3	3	2 3/4	3
Nominal GDP	2.5	4	3	4 3/4	5	5

(a) Year average unless otherwise stated. In 2013-14, 2014-15 and 2015-16 employment, wages and the consumer price index are through the year growth to the June quarter and 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 medium-term fiscal strategy of achieving budget surpluses, on average, over the course of the economic cycle is underpinned by the Government's objectives to:

- invest in a stronger economy by redirecting Government spending to quality investment to boost productivity and workforce participation;
- reduce the Government's share of the economy over time in order to free up resources for private investment, with payments to GDP falling and paying down debt; and
- strengthen the Government's balance sheet by improving net financial worth over time.

The 2014-15 Budget repair strategy is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24 with the Government more than offsetting all new spending measures with decisions to reduce spending elsewhere in the budget.

Any variations in the budget from higher revenue or lower expenses will be banked to the bottom line rather than spent. The Government's clear path back to surplus is underpinned by decisions, rather than an assumption about future policy.

The underlying cash deficit is expected to be $29.8 billion in 2014-15 (1.8 per cent of GDP), compared to a deficit of $33.9 billion projected in MYEFO. The deficit is expected to fall to $2.8 billion (0.2 per cent of GDP) in 2017-18. The underlying cash balance is expected to reach surplus around the end of the decade, and by 2023-24 the surplus will reach more than 1 per cent of GDP.

Excluding GST, tax receipts are expected to be lower by $2.6 billion in 2013-14 and $2.4 billion over the four years to 2016-17. Policy decisions since the 2013-14 MYEFO are expected to increase total receipts by $0.7 billion in 2014-15 and $5.4 billion over the four years to 2016-17. Abstracting from policy decisions, there has been a small overall downward revision to total tax receipts (excluding GST) of $2.6 billion in 2013-14 and $7.4 billion over the four years to 2016-17.

Since the 2013-14 MYEFO, estimated cash payments for 2014-15 have decreased by $1.2 billion, reflecting decreased payments due to new policy decisions of $1.0 billion and decreased payments due to parameter and other variations of $0.2 billion.

In 2014-15, net debt for the Australian Government general government sector is estimated to be $226 billion (13.9 per cent of GDP), compared with the 2013-14 MYEFO estimate of $231 billion (14.2 per cent of GDP). By the end of the forward estimates, net debt as a percentage of GDP is expected to reach 14.0 per cent.

Commonwealth Government Securities on issue in 2023-24 are expected to reduce to $389 billion, even when future tax relief is assumed, compared to the projection of $667 billion in MYEFO before the Government's actions to repair the budget.

BUDGET STRATEGY AND PRIORITIES

The 2014-15 Budget takes a significant step in transforming the role of government. It is part of the evolution toward providing equality of opportunity for all Australians. The Budget redirects taxpayers' dollars from unaffordable consumption today to productive investment for the future. It will do this while supporting the most vulnerable, and beginning the task of ensuring the Government can live within its means.

The Budget delivers structural reforms that will facilitate growth in living standards while not placing additional near term pressure on the economy. It will deliver strong surpluses and lower government debt in the medium term. All Australians are being asked to contribute to this task — businesses, state and local governments, high income earners, families, individuals, seniors and workers.

While the Budget is an important step in reforming the size and role of government, it is not the end of the process. A White Paper on the Reform of Australia's Tax System will provide a longer-term considered approach to tax reform that is consistent with the Government's core principles of fairness and simplicity.

The Government has also committed to work with the States and Territories on the development of a White Paper on the Reform of the Federation. The next Intergenerational Report will examine the fiscal implications of Australia's longer-term challenges such as the ageing of the population.

All Australians making a contribution

In this Budget, all Australians have been asked to make a contribution to repairing the Budget and building a stronger, more prosperous future for everyone.

Temporary Budget Repair Levy

From 1 July 2014 until 30 June 2017, there will be a Temporary Budget Repair Levy of 2 per cent on individuals' taxable income above $180,000. This measure will raise an estimated $3.1 billion over the forward estimates period. An individual with taxable income of $300,000 a year will pay an additional $2,400 in tax for each of the next three years.

More targeted transfer payments

The Government's reforms to the transfer system are aimed at improving individuals' ability to participate in the economy. The Government will introduce a number of key reforms to ensure the long term sustainability of the transfer payments system, particularly for the aged and families.

The Government's targeted changes to the Age Pension will not take effect until 2017. The Government will ensure Age Pension incomes continue to rise through time, in line with inflation from September 2017.

Eligibility thresholds for the Commonwealth Seniors Health Card (CSHC) will be indexed from September 2014. However, to ensure the sustainability of the CSHC, the Government will no longer continue with the payment of the Senior Supplement for Commonwealth Seniors Health Card holders from 1 July 2014.

Australians are living longer, healthier lives, with the number of people aged 65 to 84 expected to more than double between 2010 and 2050. Building on the changes of the previous Government to increase the Age Pension age to 67 by 1 July 2023, the Government will continue gradually increasing the age pension age to 70 by 1 July 2035.

Family payments will also be reformed, including by tightening eligibility for Family Tax Benefit Part B (FTB-B). From 1 July 2015 families will no longer receive this payment when their youngest child turns six. In order to give existing recipients time to adjust the Government has introduced a two-year grandfathering to this change. Consistent with the Government's commitment to fairness and supporting the most vulnerable, a new Family Tax Benefit Part A allowance will be introduced for low-income sole parents to assist with this change.

The primary income threshold for eligibility for FTB-B will also be reduced from $150,000 to $100,000 per annum.

Freezing indexation

Indexation of all payment eligibility thresholds will be paused including for family payments, allowances such as Newstart and parenting payment single, and the Private Health Insurance Rebate. Payment rates for family payments will also be paused, as will the indexation of Local Government Financial Assistance Grants and Official Development Assistance (ODA) and 112 government programmes.

The Government will no longer target an increase of ODA to 0.5 per cent of Gross National Income, with this position to be reconsidered when the budget is in a stronger position.

Reducing the footprint of government

The public sector will be streamlined to focus on the areas where Commonwealth Government involvement is necessary.

The Government has an ongoing process that, including Budget measures, has made decisions to abolish 70 bodies, boards, committees and councils, which will create greater efficiencies within the public sector and streamline accountabilities. Rigorous scrutiny of government programmes has seen a reduction in red tape, with 50,000 pages of regulations abolished and more to come.

The Government has previously announced that it will proceed with the sale of Medibank Private. The Government will conduct reviews into future ownership options for Australian Hearing, the Defence Housing Authority, the Australian Securities and Investments Commission Registry function and the Royal Australian Mint.

Reforming agreements with the States

The Commonwealth does not run schools and public hospital systems and is not therefore best placed to drive efficiency in these areas. Commonwealth funding arrangements in these areas have reduced the incentive for States to be more efficient and accountable for their spending and delivery of services, and were unaffordable. This Budget reduces growth in Commonwealth funding of these sectors over the medium-term, generating momentum for longer-term reforms to be considered in the White Paper on the Reform of the Federation and the White Paper on the Reform of Australia's Tax System.

The Budget also ceases some ineffective or duplicative Commonwealth payments to the States. These include National Partnership Agreements for Preventive Health, Improving Public Hospital Services and Certain Concessions for Pensioners and Seniors Card Holders.

Building Australia's future

Infrastructure growth package

The Government is delivering a substantial infrastructure package to support economic growth and improve the long-term productive capacity of the economy.

The Infrastructure Growth Package will take the Government's total investment in transport infrastructure to $50 billion by 2019-20. Total infrastructure investment from Commonwealth, State and local Governments, as well as the private sector, will build to over $125 billion of additional infrastructure.

The package includes an Asset Recycling Initiative that will provide financial incentives to State and Territory Governments to sell existing assets and reinvest the sale proceeds into additional productive economic infrastructure. This initiative has the potential to catalyse close to $40 billion of additional investment and contribute to the creation of a strong pipeline of projects.

In the short- to- medium-term, funding for roads and highways under the Western Sydney Infrastructure Plan, and new investments under the Infrastructure Investment Programme, will support the economy as it transitions away from resources led growth towards broader-based growth in the non-resource sectors.

Additional funds will also be directed to the Black Spots and the Roads to Recovery Programmes. The National Stronger Regions Fund will allow councils and community groups to apply for a share of $200 million each year, over five years, towards the cost of local capital works projects in areas of particular economic stress and community need.

When the $125 billion of total infrastructure investment is completed, it will add around 1 percentage point to annual GDP. This includes over $58 billion of additional infrastructure investment arising from new spending decisions taken in this Budget.

In order to provide a secure and growing source of revenue for Government investment in road funding, biannual indexation of fuel excise will be re-introduced from 1 August 2014. This will raise an additional $2.2 billion over the forward estimates. The additional net revenue will be spent on roads.

Reform of higher education

Higher education has been one of the most successful new export industries to emerge in the last generation, with education now our fourth largest export earner. However, the sector operates in a highly competitive and globalised market, where overseas universities are rapidly building their quality and global reputation.

Full deregulation of the higher education sector will be achieved by removing fee caps and expanding the demand-driven system to bachelor and sub-bachelor courses at all higher education providers. Higher education institutions will be responsible for the setting of course fees.

This change will allow Australian universities to continue to compete with the best in the world by giving them the freedom to innovate, a greater ability to invest in world class research, and the capacity to respond to the needs of students and businesses in terms of choice and quality.

Students will benefit through more accessible higher education supported by the continuation of the Higher Education Loan Programme (HELP) and more courses and institutions receiving Commonwealth support. Higher education providers will be required to direct 20 per cent of additional revenue from increases in new student contributions to a scholarship scheme which will support access for disadvantaged students. To support the sustainability of higher education funding, the Commonwealth's contribution towards a new student's course fees will be reduced by 20 per cent on average and indexed at CPI. For students enrolled on or before 13 May 2014, existing arrangements will be grandfathered and remain in place until the end of 2020.

The Government will also support those learning a trade by providing concessional Trade Support Loans of up to $20,000 over a four year apprenticeship, from 1 July 2014. These loans will assist with the cost of undertaking an apprenticeship, and help them focus on completing a formal trade qualification.

Sustainable and improved health care

The Government is introducing a number of measures which ensure that health spending growth is on a sustainable path.

Savings from health expenditure in this Budget will be redirected towards the establishment of a new capital protected Medical Research Future Fund (the Fund) (see Box 1). Savings will accumulate through time until the balance of the fund reaches $20 billion, which is projected to be in 2019-20, and will make this fund the largest of its kind in the world.

When mature, the Fund will provide a flow of income to double current medical research funding, with an additional $1 billion a year available by 2022-23 to find the discoveries and cures necessary to underpin the health system of the future.

The Fund will help ensure Australia can continue to advance world leading medical research projects, attract and retain first class researchers and deliver improved health outcomes for all Australians. It will also ensure that the Government can maintain its existing level of health investment, while delivering a sustainable health system into the future.

Government savings initiatives in this Budget include the introduction of patient contributions towards the costs of standard GP visits and for imaging and pathology services and a new Medicare Safety Net. The Government is also increasing co-payments for Pharmaceutical Benefits Scheme (PBS) medicines to ensure the scheme remains sustainable into the future. The PBS safety net will protect those most in need and those who need numerous medicines. The Government will also gradually increase eligibility thresholds for the PBS safety net over the next four years for all patients.

Box 1: Medical Research Future Fund

The Government is meeting its commitment on health by investing every dollar from health savings in this Budget into the Medical Research Future Fund (the Fund), until the Fund reaches $20 billion. To achieve this, without delaying prudent changes to improve the sustainability of the health system, the Government is establishing the Fund from 1 January 2015, subject to the passage of health savings legislation. The uncommitted funds in the existing Health and Hospitals Fund will be transferred into the Fund at its inception. The Fund's capital is set to be preserved in perpetuity, while net earnings from the Fund will be distributed to support medical research, including through the National Health and Medical Research Council.

Supporting workforce participation

The Government is encouraging young Australians to either learn or earn by requiring jobseekers up to 30 years of age applying for Newstart or Youth Allowance (Other) to participate in job search and employment service activities for up to an additional six months before receiving any payment. The six-month waiting period will be reduced for those who have already been working for significant periods. At any time while unemployed, jobseekers are able to choose to undertake further study and are able to apply for Youth Allowance (Student) or AUSTUDY.

Building on our election commitment, the Government is also providing scope for around 32,000 mature-aged job seekers each year to re-enter the work force through the Restart programme. This programme provides a wage subsidy of up to $10,000 to employers who hire an eligible mature-aged job seeker on a full-time basis, with this payment being pro-rated for those who are employed on a part-time basis.

The Government will also proceed with a comprehensive Paid Parental Leave scheme — this scheme will encourage and assist women to be able to have a family and remain connected to the workforce.

Facilitating innovation and competitiveness

Business welfare stifles innovation and competitiveness. The Budget continues the evolution towards programmes that facilitate innovation and self-reliance, by reducing and reshaping existing industry assistance programmes into a new Entrepreneurs' Infrastructure Programme that will focus on supporting commercialisation of good ideas, job creation and lifting the capability of small business.

New free trade agreements with Korea and Japan will provide new opportunities for both Australian exporters and consumers. The Korea-Australia Free Trade Agreement gives Australian exporters significantly improved market access, including to the Korean beef market and to legal, accounting, telecommunications, education and financial services.

The Japan-Australia Economic Partnership Agreement also provides improved market access, with more than 97 per cent of Australia's exports to receive preferential access.

Protecting Australia

Protecting the nation is the first responsibility of government. The Government is taking decisive steps to recapitalise Defence after a number of years of underinvestment and deferred funding for major capability projects. In this Budget the Government will bring forward $1.5 billion in spending from 2017-18 to earlier years, and re-invest any efficiencies back into Defence capability.

By implementing Operation Sovereign Borders, the Government has taken strong and immediate action to restore integrity to Australia's borders and stop the boats. This is in contrast to a peak of over 4,000 arrivals in July 2013.

Investment in efficient and effective border management will continue to underpin Australia's national security and future economic prosperity. Australia's border protection services will also be consolidated into a single frontline border agency — the *Australian Border Force* — to enforce our customs and immigration laws and protect our borders.