STATEMENT 1: BUDGET OVERVIEW

As Australia continues its transition to broader-based growth, the 2016-17 Budget remains focused on jobs and growth. This Budget also reinforces the ongoing commitment to control spending to put the Budget on a sustainable foundation for the future. Excluding tax integrity measures, the Government is reducing the tax burden by around $1.9 billion over the forward estimates.

The Australian economy is forecast to strengthen over the next few years — with historically low interest rates and a lower exchange rate supporting growth in household consumption and exports. However, expectations for global growth are lower than at the 2015-16 MYEFO and the global environment remains uncertain, providing risks to the forecasts of Australia's economic growth.

This Budget sets out the Government's economic plan to ensure Australia continues to successfully transition from the mining investment boom to a stronger, more diversified, new economy in three key ways.

First, by sticking to the Government's plan for jobs and growth through:

- a *ten year enterprise tax plan* that will boost new investment, create and support jobs and increase real wages, starting with tax cuts for small and medium-sized enterprises, that will permanently increase the size of the economy by just over one per cent in the long term;
- continued investment in the national innovation and science agenda, including support for new start-up businesses;
- securing an advanced local defence manufacturing industry through the twenty year defence industry plan, driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government's naval shipbuilding programme;
- opening up more export opportunities through trade agreements that are already delivering new jobs and markets for Australian producers, manufacturers and service providers; and
- working to get more than 100,000 vulnerable young people into jobs in the growing Australian economy by giving them real work experience with real employers that leads to real jobs.

Second, by fixing problems in the tax system to enable us to sustainably cover the Government's responsibilities for the next generation by:

- combatting tax avoidance, especially by multinational corporations, to ensure everyone pays the tax they should on what they earn in Australia;
- closing off generous superannuation tax concessions for Australia's most wealthy and better targeting superannuation tax concessions to support working Australians build independent wealth for their retirement; and
- giving hard working Australians and the Australian businesses that employ them greater tax cuts to earn more without being taxed more.

And third, ensuring that the Government lives within its means, to balance the budget and reduce the burden of long-term debt by:

- continuing to keep government spending growth under control and to ensure spending is as efficient, effective and well-targeted as possible;
- targeting welfare abuse to ensure the social safety net is there for Australia's most vulnerable, in particular those with disabilities; and
- responsibly investing in infrastructure like roads, rail, dams and public transport and guaranteeing real, affordable funding for health and education services that Australians rely on.

The underlying cash balance is expected to improve in each year over the forward estimates notwithstanding a softening in the fiscal outlook compared with the mid-year update. While revenue continues to increase, tax receipts are lower than expected. Despite this, the Government has maintained fiscal discipline. Policy decisions improve the underlying cash balance over the forward estimates, with the Government paying for all new spending with spending reductions in other parts of the Budget.

Although the payments-to-GDP ratio remains above its historical average, it has plateaued and will decrease across the forward estimates. The Government will continue to prioritise spending restraint, consistent with its strategy of returning to surplus as soon as possible and lowering the tax burden over time.

CONTENTS

STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The Australian economy is entering its 26th year of economic expansion and is forecast to strengthen over the next few years. Real GDP is forecast to grow by 2½ per cent in both 2015-16 and 2016-17, before strengthening to 3 per cent in 2017-18.

The transition from the mining investment boom to broader-based growth continues. Falling mining investment is being offset by solid growth in consumption, dwelling investment and exports. The transition is clearly evident in the labour market, with strong employment growth, particularly in the service sectors.

An uncertain global environment, however, continues to pose risks to the Australian economy. Most significantly for Australia, there are uncertainties around the transition facing the Chinese economy; the possibility of renewed volatility in financial markets; and risks that low inflation, wage growth and productivity growth being experienced in many advanced economies could become embedded in lower potential global growth over time.

The underlying cash deficit is expected to be $37.1 billion in 2016-17 and improve over the forward estimates. The average annual pace of fiscal consolidation is consistent with the 2015-16 MYEFO at 0.4 per cent of GDP.

Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates before rising slightly and remaining stable over the medium term.

Table 1: Budget aggregates

	Actual	Estimates			Projections		
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
Underlying cash balance ($b)(b)	**-37.9**	**-39.9**	**-37.1**	**-26.1**	**-15.4**	**-6.0**	**-84.6**
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3	
Fiscal balance ($b)	**-39.9**	**-39.4**	**-37.1**	**-18.7**	**-9.8**	**-2.1**	**-67.7**
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1	

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.
(b) Excludes net Future Fund earnings.

Net debt as a share of GDP is expected to peak in 2017-18 before declining over the remainder of the forward estimates. By 2026-27, net debt is projected to fall to 9.1 per cent of GDP.

The Government remains committed to its medium-term fiscal strategy of achieving a sustainable surplus, building to at least one per cent of GDP as soon as possible by continuing to keep downward pressure on payments growth, consistent with budget repair. The overall tax burden in this Budget is not being increased as a result of policy changes taken by the Government. Excluding tax integrity measures, the Government is reducing the tax burden by around $1.9 billion over the forward estimates.

This year's Budget focuses on building a stronger economy to create jobs and growth in a transitioning economy.

Together the changes to superannuation and the *ten year enterprise tax plan* will boost the economy whilst improving sustainability and integrity.

The superannuation changes will improve the sustainability, flexibility and integrity of the superannuation system. Superannuation tax concessions will be better targeted to those who need incentives to save. The flexibility of the superannuation system will be improved, recognising that individuals have different working patterns across their lives. Confidence in the superannuation system will be increased by reducing the extent that superannuation is used for tax minimisation and estate planning purposes.

The *ten year enterprise tax plan* will support growth, higher wages and jobs by lowering the company tax rate over time to an internationally competitive level. This will come with early cuts for smaller and medium-sized businesses and measures that expand the coverage of small business concessions.

At the same time, all businesses must pay their fair share of tax. Multinational corporations that attempt to avoid tax by shifting profits offshore will be subject to targeted anti-avoidance measures and high penalties. The Government will also protect wage earners who would otherwise move into the second top tax bracket by increasing the 32.5 per cent tax threshold from $80,000 to $87,000.

While youth unemployment has fallen to its long-term average, the Government is implementing measures to achieve a sustained reduction. The Government is committed to ensuring young working-age Australians have the skills and opportunities to be more competitive in the labour market. The Youth Jobs PaTH Programme will target job seekers under 25 years of age and comprises three stages that focus on increasing skills that improve employability, internships to deliver practical experience and financial incentives to both employers and job seekers.

Other budget priorities include investing record amounts in productivity-enhancing infrastructure, keeping Australians safe by providing over $30 billion in new funding for national security and supporting hospitals and schools. The defence industry transformation plan will create opportunities for Australian defence manufacturing industries for the next 20 years; while Australia's export trade agreements will contribute to delivering jobs and growth in the expanding export sector.

ECONOMIC OUTLOOK

Despite global headwinds, the Australian economy is expected to continue its transition to broader-based growth. Household consumption, dwelling investment and exports are expected to support near-term economic activity, and there has been strong employment growth particularly in the service sectors.

Expectations for global economic conditions have moderated since the 2015-16 MYEFO, as the world economy continues to struggle to regain sustained momentum. Lower growth is forecast for the United States and economic difficulties in a number of commodity exporting countries have weighed on the outlook. China is expected to support near-term growth but faces a major rebalancing task towards more consumption-led growth. The outlook for the United States is more promising but a return to stronger growth is not assured in Europe and Japan. Importantly, in some countries, including the United States and the United Kingdom, wage growth has been relatively low despite robust employment growth.

Domestically, the transition of the Australian economy to broader-based growth is well underway. Household consumption is expected to grow steadily, underpinned by strong employment growth. Historically low interest rates are supporting growth by lowering borrowing costs for both business and households, although the recovery in non-mining investment has been slower than expected. Real GDP is expected to grow at 2½ per cent in both 2015-16 and 2016-17 before picking up to 3 per cent in 2017-18, little changed from the outlook at the 2015-16 MYEFO.

The transition in the Australian economy towards broader-based growth has been most evident in the labour market where the shift towards the more labour intensive service sectors is underpinning strong employment growth, supported by modest wage growth. Similar to many developed economies, moderate wage growth in Australia is expected to continue to keep inflation contained.

The moderate outlook for wages and weaker forecast prices are weighing on forecast nominal GDP growth of 2½ per cent in 2015-16, 4¼ per cent in 2016-17 and 5 per cent in 2017-18.

There has been some renewed strength over the past quarter in some key commodity export prices, particularly in iron ore. Commodity prices, however, are weaker than those seen over recent years, leading to weaker terms of trade and there is a risk that recent increases in commodity prices will not be sustained. Nevertheless, current prices are closer to longer-term averages than the extraordinary peaks experienced during the mining boom.

As always, forecasts are subject to uncertainty. A lower exchange rate than that which underpins the forecasts would generate stronger economic growth and provide further impetus to broad-based growth. Alternatively, uncertainty around the global economic outlook could result in households becoming more cautious, leading to more saving and less consumption than expected.

Table 2: Major economic parameters(a)

	Outcomes	Forecasts			Projections	
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Real GDP	2.2	2 1/2	2 1/2	3	3	3
Employment	1.6	2	1 3/4	1 3/4	1 1/4	1 1/2
Unemployment rate	6.1	5 3/4	5 1/2	5 1/2	5 1/2	5 1/2
Consumer price index	1.5	1 1/4	2	2 1/4	2 1/2	2 1/2
Wage price index	2.3	2 1/4	2 1/2	2 3/4	3 1/4	3 1/2
Nominal GDP	1.6	2 1/2	4 1/4	5	5	5

(a) Year average growth unless otherwise stated. From 2014-15 to 2017-18, employment and the wage price index are through the year growth to the June quarter. The unemployment rate is the rate for the June quarter. The consumer price index is through the year growth to the June quarter.
Source: ABS cat. no. 5206.0, 6202.0, 6345.0, 6401.0 and Treasury.

FISCAL STRATEGY AND OUTLOOK

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

The 2016-17 Budget maintains a steady trajectory towards surplus. The deficit is expected to fall from $37.1 billion in 2016-17 (2.2 per cent of GDP) to $6 billion in 2019-20 (0.3 per cent of GDP).

Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17 to 25.2 per cent of GDP in 2019-20, above their long-run average level of 24.9 per cent. Tax receipts as a share of GDP are forecast to return to the long-term average in 2017-18. Net debt as a share of GDP is expected to peak in 2017-18 and then decline over the remainder of the forward estimates and the medium term.

Government receipts continue to be impacted by weaker nominal GDP, weighed down by weaker wages and inflation. Downwards revisions to forecast tax receipts since the 2015-16 MYEFO are $13.5 billion over the four years to 2018-19, excluding new policy. These revisions have been primarily driven by lower taxes from individuals and superannuation funds, partly offset by upward revisions to indirect taxes such as the GST. As a result, the underlying cash balance has deteriorated by $3.4 billion in 2016-17 compared with the 2015-16 MYEFO.

The Government remains focused on restraining growth in government spending and aims to achieve a steady trajectory towards a balanced budget and lower government debt. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of $1.7 billion over the four years to 2019-20. Despite slower than expected growth in nominal GDP and weaker tax receipts since the last Budget, the Government has limited new spending and delivered net savings.

The Government's strategy of maintaining fiscal discipline has helped constrain spending growth across portfolios. As shown in Table 3, expenses are estimated to decline in real terms across the majority of portfolios over the four years to 2019-20. The strong growth in the Social Services, Health and Education and Training portfolios reflects increasing income support recipient numbers and demand for services — noting that the growth in Health and Education and Training expenses is partly due to growth in the programmes transferred to those portfolios from the Social Services portfolio, such as child care and aged care related programmes (under the machinery of government changes).

Table 3: Real growth in portfolio expenses

	Nominal expenses 2016-17 Estimates ($m)	Percentage of total expenses (%)	Real growth 2016-17 to 2019-20 (%)(c)
Agriculture and Water Resources	2,472	0.5	-6.8
Attorney-General's	3,577	0.8	-18.7
Communications and the Arts	2,791	0.6	-12.1
Defence (a)	33,931	7.5	6.4
Education and Training	38,939	8.6	13.7
Employment	2,990	0.7	4.2
Environment	1,982	0.4	-17.1
Finance	9,934	2.2	-9.5
Foreign Affairs and Trade	6,702	1.5	9.0
Health	64,349	14.3	9.7
Immigration and Border Protection	4,698	1.0	-37.5
Industry, Innovation and Science	3,223	0.7	-11.8
Infrastructure and Regional Development	5,053	1.1	4.6
Parliament	235	0.1	-2.7
Prime Minister and Cabinet	2,530	0.6	-8.6
Social Services	124,509	27.6	15.6
Treasury (b)	53,490	11.9	-9.8
Veterans' Affairs	11,683	2.6	-15.1

(a) Excludes Department of Veterans' Affairs.
(b) Excludes General Revenue Assistance to the States and Territories and Australian Government interest payments.
(c) Expense estimates for some portfolios are adjusted to include estimated effects of machinery of government changes in 2015-16. Growth rates are calculated with 2015-16 as the base year.

The average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP. This is consistent with the average pace of consolidation in the 2015-16 MYEFO. Given the absence of stronger nominal GDP growth, the contribution to consolidation from revenue is less than previously expected.

The Government retains the target of reaching a surplus of one per cent of GDP as soon as possible. This will be achieved by reducing payments to a lower and more sustainable share of the economy at around a quarter of GDP, while boosting revenues by supporting growth through economic policies that drive jobs and growth.

BUDGET PRIORITIES

Jobs, growth and productivity

Productivity has always been an important driver of Australia's economic growth and standards of living. In recent years however, Australia's standard of living has been boosted by an increase in the terms of trade which peaked in 2011.

With the decline in the terms of trade from its 2011 peak and downward pressure on workforce participation due to the ageing of the population, Australia must significantly improve its productivity performance if it is to match the growth in living standards Australians have enjoyed over the past 30 years.

This would require a sustained lift in annual labour productivity growth from 1.6 per cent to 2.4 per cent. Such an improvement would be greater than Australia's productivity performance achieved following the major economic reforms of the 1980s and 1990s.

Policies that encourage firms to innovate or adopt world leading processes or practices will allow them to produce more with the same amount of effort. As a net importer of technology and innovations, the pace of global innovation and Australia's ability to absorb technological advances from abroad will be important to future productivity performance.

The Government's national innovation and science agenda supports science and research, incentivises investment in innovation and encourages collaboration between researchers and businesses.

Trade agreements and competition reforms facilitate the movement of existing resources across the economy from lower value activities to higher value activities, helping prepare Australians for the high-wage jobs of tomorrow.

The Government is building on its national plan for economic growth and jobs through a range of policies such as:

- a *ten year enterprise tax plan* that is expected to boost investment, making Australia more competitive and supporting more jobs, higher wages and improved living standards, permanently expanding the economy by just over one per cent over the long term, with the long-term benefits accruing to Australian workers;
- superannuation changes that better target tax concessions to encourage people to save for retirement and that increase the focus on helping the people who need them the most;
- investing in young working-age people by helping more than 100,000 vulnerable young people into jobs in the growing Australian economy by giving them real work experience with real employers that leads to real jobs;
- investing in quality infrastructure to drive greater private investment by providing businesses with the necessary platform to grow;
- securing an advanced local defence manufacturing industry through the twenty year defence industry plan; driving new high-tech jobs in Australia, including 3,600 direct jobs as part of the Government's naval shipbuilding programme and making significant investments in Defence capability and cyber security; and
- supporting hospitals and schools with affordable funding increases to continue delivering important services to the community, increasing the investment in human capital.

A ten year enterprise tax plan to support growth and jobs

The Government is introducing a $9.2 billion package of reforms across company tax and small business, personal income tax and indirect tax.

The Government's *ten year enterprise tax plan* will promote growth and employment outcomes by:

- Delivering tax cuts for companies that will boost investment, make Australia more competitive and are expected to permanently expand the economy by just over one per cent over the long term, leading to more job opportunities, more secure jobs and higher real wages.
- Ensuring the first benefits of the tax cuts flow to small businesses when the company tax rate applicable to companies with annual turnover less than $2 million is lowered from 28.5 per cent to 27.5 per cent in the 2016-17 income year. So that small businesses are encouraged to grow, this lower rate will apply to businesses with turnover between $2 million and $10 million from 2016-17 and the threshold

will then be progressively extended to all companies by 2023-24. These tax cuts will continue to drive growth and improved international competiveness through further annual reductions until the tax rate for all companies reaches 25 per cent by 2026-27.

- Further supporting small businesses to expand and create jobs by increasing the small business turnover threshold from $2 million to less than $10 million per annum, enabling them to gain access to a number of the small business concessions such as accelerated depreciation provisions and simplified trading stock rules. Over 90,000 businesses will gain access to the concessions from this change.

- Making sure assistance is available for all small businesses by increasing the unincorporated tax discount in the 2016-17 income year from 5 per cent to 8 per cent for unincorporated businesses with annual turnover less than $5 million, capped at $1,000. The tax discount will be further increased to 16 per cent in stages by 2026-27.

Improving tax system integrity

The Government will strengthen the integrity of the tax system and target tax avoidance by multinational corporations, including by:

- introducing a new Diverted Profits Tax to prevent multinationals shifting profits made in Australia offshore to avoid paying tax;

- preventing multinational corporations from exploiting differences in the tax laws of two or more jurisdictions to defer or avoid paying tax;

- updating Australia's transfer pricing rules to align with the latest international guidelines;

- establishing a new Tax Avoidance Taskforce that will strengthen the ATO's audit and compliance activities targeting corporates and high wealth individuals;

- improving protections for whistleblowers that provide information on tax avoidance to the ATO; and

- progressing mandatory disclosure rules to uncover aggressive tax planning schemes.

In addition, the *ten year enterprise tax plan* is a responsible first step in alleviating the tax burden on average full-time income earners. It will extend the 32.5 per cent marginal tax rate to individuals with taxable income up to $87,000. Increasing this threshold from $80,000 will help prevent taxpayers on average full-time earnings from moving into the second highest tax bracket until 2019-20. This will stop around 500,000 taxpayers facing the 37 per cent marginal tax rate. This is expected to benefit

3.1 million taxpayers and represents a down payment on future tax cuts to be delivered as the budget position allows.

A superannuation system that is sustainable, flexible and has integrity

The objective for superannuation, which will be enshrined in legislation as recommended by the Murray Financial System Inquiry, is to provide income in retirement to substitute or supplement the Age Pension.

With this objective in mind, the Government is improving the sustainability, flexibility and integrity of the superannuation system while ensuring that 96 per cent of Australians with superannuation are not adversely affected.

The Government is better targeting tax concessions to ensure that the superannuation system is sustainable and equitable by:

- introducing a $1.6 million cap on the total amount of superannuation that can be transferred into retirement phase accounts;
- requiring those with incomes (including superannuation) greater than $250,000 to pay 30 per cent tax on their concessional contributions, up from 15 per cent, consistent with current treatment for people with incomes over $300,000;
- lowering the concessional contribution caps so that individuals can contribute up to $25,000 per annum pre-tax to superannuation;
- introducing a lifetime cap of $500,000 on the non-concessional contributions that can be made to superannuation; and
- introducing a Low Income Superannuation Tax Offset to replace the Low Income Superannuation Contribution when it ends on 30 June 2017, to effectively reduce the tax rate on superannuation contributions to zero for low income earners.

Recognising that individuals have different work patterns across their lives, the Government will also improve the flexibility of the superannuation system by:

- allowing all Australians (under age 75) to claim a tax deduction for personal superannuation contributions made to an eligible fund, irrespective of their employment arrangements;
- allowing the rollover of unused concessional caps, for individuals with superannuation balances less than $500,000, to allow those with interrupted work arrangements to make 'catch-up' superannuation contributions;

- encouraging partners to make contributions to their low-income spouses' superannuation by extending the eligibility for individuals to claim a tax offset for these contributions; and
- removing the current regulations that restrict people aged 65 to 74 from making contributions to their superannuation. This will assist those who are no longer working to top up their retirement savings from sources not necessarily available to them before retirement.

The superannuation changes will improve the integrity of the superannuation system by reducing the extent to which it is used for tax minimisation and estate planning purposes. The introduction of the $1.6 million limit on the amount that can be transferred into retirement phase accounts and the $500,000 lifetime non-concessional cap are key elements in improving confidence that the system is being used for its core purpose.

The Government will further improve the integrity of the superannuation system by:

- ensuring that the transition to retirement income stream scheme is fit-for-purpose, is not accessed primarily for its tax benefits, and still meets the objective of supporting people who want to remain in the workforce; and
- removing the out-dated anti-detriment provision.

Youth Jobs PaTH Programme

Ensuring young people are maximising their potential and taking advantage of employment opportunities as the economy diversifies is key to supporting strong economic growth in the future. Welfare costs can be reduced by helping people transition from welfare to work as early as possible. Supporting more young people into work will improve their wellbeing while also helping to reduce the social costs of long-term welfare dependency. For example, if a person stays on a Newstart or Youth Allowance (Other) payment for two years, on average they will remain on a working-age payment for another five to six years.

The Budget will introduce a new, innovative Youth Employment Package to put more than 100,000 vulnerable young people on a pathway to work.

The new package responds directly to business feedback that more needs to be done to increase young people's employability and to provide them with real work experience.

This major investment will help young people become more competitive in the labour market by giving them the skills that employers want, opportunities for work experience and the support to move from welfare to work.

The key component of the package is the $752 million Youth Jobs PaTH (Prepare-Trial-Hire) Programme for job seekers under 25 years of age.

The first stage of the pathway is intensive pre-employment skills training, which will be co-designed with a range of employers to help prepare young job seekers for the workplace by providing them with the basic employability skills they need.

Stage two is an internship placement that links young people with businesses, providing valuable work experience and allowing them to trial the job seeker's fit in the workplace. This stage will provide more than 100,000 job seekers over four years a four to twelve week placement in an industry of their choosing. Both businesses and job seekers will receive a financial incentive to participate. Job seekers will receive an additional $200 per fortnight on top of their regular income support payment while they complete the internship, and businesses that host a placement will receive a one-off payment of $1,000.

At stage three of the pathway, employers who hire a young job seeker in an ongoing job will receive a wage subsidy of up to $10,000, paid over six months rather than the current twelve months.

In addition, existing wage subsidies (including those for youth, parents, indigenous and mature age workers and the long-term unemployed) will be streamlined, making them easier for employers to access, and will be paid sooner, over six months.

The Government will also provide a further $89 million to encourage young people to start their own businesses, including by expanding the successful New Enterprise Incentive Scheme (NEIS). This will assist more job seekers, including youth, by connecting them with business training, finance and networks they need to develop their innovative ideas into successful businesses.

The Government remains committed to providing more than $40 billion in child care support over the next four years to support Australian families through the *Jobs for Families* Child Care package announced at the 2015-16 Budget.

To fund this child care package, the Government is restructuring Family Tax Benefit (FTB) payments to give more targeted assistance to families and encourage workforce participation. Given the uncertainty regarding the passage of the legislation enabling the FTB changes, the new Child Care Subsidy, Community Child Care Fund and the Additional Child Care Subsidy will now commence on 1 July 2018.

The Government is implementing the rest of the child care package. This includes extending the Nanny Pilot Programme to 30 June 2018 to provide assistance to more families who are having difficulty accessing mainstream child care, and allowing more time to refine the programme based on experience. The Government is also implementing the Inclusion Support Programme to provide additional care for vulnerable children commencing on 1 July 2016.

National infrastructure plan

The Government is investing a record $50 billion in infrastructure from 2013-14 to 2019-20. There are currently around 100 major projects under construction and approximately another 80 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing.

The Government is committing to the Melbourne to Brisbane Inland Rail and, in this Budget, is providing $594 million in additional equity funding to the Australian Rail Track Corporation to acquire land for the Inland Rail corridor and continue pre-construction and due diligence activities.

The Government is also committing $115 million for further preparatory activities to support the development of a Western Sydney airport at Badgerys Creek. Construction of the airport would contribute to economic development in Western Sydney.

In Western Australia, $490 million is being provided for the Forrestfield-Airport Link and $261 million for Section 2 of the Perth Freight Link.

The $1.5 billion in funding that was previously paid to Victoria for construction of the East West Link road project will be reallocated to essential Victorian infrastructure, including:

- $500 million to upgrade the Monash Freeway;
- a further $350 million to upgrade the M80 Ring Road;
- $220 million to upgrade the Murray Basin Freight Rail network;
- $345 million to upgrade rural and regional roads; and
- $75 million for projects to relieve congestion in urban areas.

This funding is conditional on matched funding by the Victorian Government, projects with a Commonwealth contribution of more than $100 million being assessed by Infrastructure Australia and projects demonstrating positive economic benefits.

The Government is also extending the successful Roads to Recovery, Black Spot, Heavy Vehicle Safety and Productivity, Bridges Renewal and National Network Maintenance and Research and Evaluation programmes from 2019-20 at an annual cost of $920 million.

These measures build on the Government's existing investments in major infrastructure projects, including $5.6 billion for a Pacific Highway upgrade in NSW; $6.7 billion for a Bruce Highway upgrade in Queensland; $1.7 billion for the

Adelaide North South Road Corridor; $925 million for Section 1 of the Perth Freight Link; and $400 million for a Midland Highway upgrade in Tasmania.

The Government has finalised or is close to finalising agreements under the Asset Recycling Initiative with four States and Territories worth $3.3 billion. These agreements will unlock over $23 billion in State and Territory infrastructure spending, including for the Sydney and Melbourne Metro projects.

Carefully chosen infrastructure projects enhance economic productivity and improve Australians' quality of life. Selecting the best projects is critical to ensuring the Government's investment in infrastructure delivers projects where the benefits outweigh the costs. The Government has strengthened the role of Infrastructure Australia as an advisory body to provide independent, evidence-based advice on Australia's future infrastructure needs.

The Government has also released a set of funding and financing principles to guide the Commonwealth's approach to major infrastructure transport projects to ensure that future investment decisions are prudent and consistent with its fiscal objectives.

Defence industry

The Government remains committed to keeping Australia and Australians safe and secure and supporting Australia's defence manufacturing capability. Through the 2016 Defence White Paper, the Government is providing an additional $29.9 billion for Defence over the period to 2025-26. This funding will allow for an unprecedented investment in Australia's defence capability of approximately $195 billion over the next decade. This includes 12 new regionally-superior submarines, 9 future frigates and 12 offshore patrol vessels.

Increasing Defence's capability supports the Government's efforts to respond to challenges to global security and secure Australia's advanced defence manufacturing industry here in Australia, driving new high-tech jobs for decades. This Budget provides $686 million for continued operations in Afghanistan, Iraq and the Middle East to help preserve a stable global rules-based order.

The increased investment in defence capability will also enable us to strengthen Australia's engagement in the region, including to help combat terrorism. Australia's current National Terrorism Threat Level is probable. In light of this environment, the Government is investing $154 million over five years domestically to enhance protection for the personnel and facilities of our law enforcement agencies.

The security of Australia's interests extends to cyberspace. In line with the Government's Cyber Security Strategy, this Budget provides $195 million over four years in Australia's cyber security capability, including through partnerships between the public and private sectors, as well as helping Australian businesses develop and promote their cyber security capabilities globally.

Supporting hospitals and schools

The Government will continue to provide record levels of affordable financial assistance to State governments to support health care and schools for all Australians.

At the April 2016 Council of Australian Governments' meeting, the Commonwealth and the States signed a three year Heads of Agreement for public hospitals ahead of consideration of longer-term arrangements. This agreement preserves important parts of the existing system, including activity-based funding and the national efficient price.

The Commonwealth will provide an estimated additional $2.9 billion over three years for public hospital services with growth capped at 6.5 per cent a year. This additional funding links to reforms which focus on improving patient safety and the quality of services and reducing avoidable hospitalisations.

Between 2018 and 2020, the Commonwealth will also provide $1.2 billion in additional funding for government and non-government schools. Funding will grow by 3.56 per cent each year with an allowance for changes in enrolments and will be contingent on reform efforts by the States and non-government school sector.

These funding arrangements for hospitals and schools provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.