STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

This Budget seeks to strengthen Australia's finances as the economy continues its transition from the largest mining investment boom in our history to broader-based growth. It is an instalment in a longer term process where continued discipline will be required to continue to consolidate the budget and return to surplus.

While receipts continue to increase, tax receipts have been impacted by lower than expected nominal GDP which has been weighed down by weaker wages and inflation.

Notwithstanding these pressures, the Government remains fully committed to its fiscal strategy of returning the budget to a sustainable surplus by controlling expenditure growth and redirecting government spending to boost productivity and workforce participation.

The underlying cash balance is expected to improve over the forward estimates and into the medium term. The deficit is expected to fall from $37.1 billion (2.2 per cent of GDP) in 2016-17 to $6.0 billion (0.3 per cent of GDP) in 2019-20.

The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP by 2020-21, before peaking at around 0.3 per cent of GDP the following year. It is projected to fall gradually over the rest of the medium term.

The average annual pace of fiscal consolidation across the forward estimates is 0.4 per cent of GDP, consistent with the average pace of consolidation in the 2015-16 MYEFO.

This Budget demonstrates the Government's fiscal discipline. The overall impact of new policy decisions in this Budget is an improvement to the bottom line of $1.7 billion over four years from 2016-17 to 2019-20, with all increases in payments offset by savings in payments, rather than increased taxes or higher debt.

Real payments growth until 2019-20 is expected to be 1.9 per cent per annum on average, broadly consistent with the 2015-16 MYEFO.

Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates period.

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STATEMENT 3: FISCAL STRATEGY AND OUTLOOK

OVERVIEW

The 2016-17 Budget lays the path for a stronger economy with more jobs, growth and prosperity.

The 2016-17 Budget maintains a steady trajectory towards surplus. The underlying cash balance is expected to improve across the forward estimates period. The deficit is expected to fall from $37.1 billion (2.2 per cent of GDP) in 2016-17 to $6.0 billion (0.3 per cent of GDP) in 2019-20. Likewise, the fiscal balance is expected to improve from $37.1 billion (2.2 per cent of GDP) in 2016-17 to $2.1 billion (0.1 per cent of GDP) in 2019-20, as shown in Table 1.

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.

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, compared with the 2015-16 MYEFO the underlying cash balance has deteriorated by $3.4 billion in 2016-17.

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 weaker nominal GDP growth in 2015-16, the contribution to consolidation from revenue is less than previously expected.

Government payments as a share of GDP are forecast to decline from 25.8 per cent of GDP in 2016-17, consistent with the 2015-16 MYEFO, 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 will return to their 30-year average in 2017-18. 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.

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.

Fiscal strategy

The Government's fiscal strategy, consistent with the requirements of the *Charter of Budget Honesty Act 1998*, is outlined in Box 1.

Box 1: The Government's fiscal strategy

Medium-term fiscal strategy

The Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines the commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

The strategy is underpinned by the following four policy elements:

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

Budget repair strategy

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

The strategy sets out that:

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

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

The Government's fiscal strategy aims to guide the budget back to a sustainable surplus at a responsible pace, with a particular focus on bringing spending down as a proportion of GDP and redirecting spending towards investment to promote jobs, growth and opportunity.

The Government is working to achieve a budget surplus at a sustainable level of Government expenditure, rather than through an unsustainable increase in the tax burden on the Australian economy that would threaten jobs, growth and Australia's successful economic transition.

Redirecting Government spending towards jobs and growth

This year's Budget focuses on implementing the Government's economic plan for jobs and growth. As Australia transitions to broader-based growth the economy requires careful and considered economic management including continued fiscal restraint.

The Government's ***ten year enterprise tax plan*** will increase national and household incomes by providing incentives for businesses to invest, innovate and employ while also ensuring businesses pay the right amount of tax in Australia. Overall, the *ten year enterprise tax plan* is expected to deliver a permanent increase of GDP of just over one per cent in the long term. 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, with early cuts for smaller businesses. In addition, the Government will take a responsible first step towards personal income tax cuts by extending the 32.5 per cent tax threshold from $80,000 to $87,000.

The Government's changes to **superannuation** will improve the sustainability, flexibility and integrity of the superannuation system. The changes are anchored by the objective for superannuation, to provide income in retirement to substitute or supplement the Age Pension. They represent the second phase of the Government's reform to retirement incomes, building on fairer pension reforms in the 2015-16 Budget. The changes better target superannuation concessions by introducing or lowering transfer balance and contribution caps, while providing savings support to those who need it most. The Government is enabling greater flexibility and choice in how people save for their retirement by allowing catch-up contributions, allowing all individuals under the age of 75 to claim a tax deduction for personal contributions and extending eligibility for individuals to claim a tax offset for contributions made to their spouse's superannuation.

The Government is supporting labour force participation by all Australians, especially helping young Australians move into employment. The $840.3 million innovative **Youth Employment Package** will help young people become more competitive in the labour market by giving them the employability skills that employers want, opportunities for work experience and the support to move from welfare to work.

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 80 in the pre-construction stage involving detailed design and planning works, procurement, geotechnical assessments, environmental assessments and land clearing.

The Government remains committed to keeping Australia and Australians safe and secure. Through the 2016 Defence White Paper, the Government is providing an additional $29.9 billion in **defence investments** to boost Australia's defence capabilities over the period to 2025-26. Investing in defence capabilities will secure an advanced local defence manufacturing industry driving high tech jobs for decades.

The Government is providing record and affordable levels of financial assistance to support **hospitals and schools**, with funding linked to reforms which focus on improving quality and patient safety in hospitals and improved student outcomes in schools. These three-year funding arrangements provide an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

Together these packages deliver on the Government's fiscal strategy of redirecting spending to quality investment that will boost productivity and workforce participation.

Budget surpluses over the course of the economic cycle

The Government remains committed to returning the Budget to surplus as soon as possible. Sustained discipline and determination is needed to consolidate the Budget by bringing expenditure under control and boosting revenues by implementing policies that drive prosperity, investment, jobs and growth. This is why, at this Budget, the overall impact of policy decisions is an improvement of $1.7 billion over the four years from 2016-17 to 2019-20 in the underlying cash balance.

This 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 $6.0 billion in 2019-20 (0.3 per cent of GDP), as shown in Table 2.

Table 2: Australian Government general government sector budget aggregates

	Actual	Estimates			Projections		
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$b	$b	$b	$b	$b	$b	$b
Receipts	**378.3**	**388.0**	**411.3**	**437.4**	**469.9**	**500.7**	**1,819.3**
Per cent of GDP	23.5	23.5	23.9	24.2	24.8	25.1	
Payments(b)	**412.1**	**425.0**	**445.0**	**459.9**	**481.5**	**502.6**	**1,889.0**
Per cent of GDP	25.6	25.8	25.8	25.5	25.4	25.2	
Net Future Fund earnings	4.1	3.0	3.3	3.6	3.8	4.1	14.9
Underlying cash balance(c)	**-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	
Revenue	**380.7**	**396.4**	**416.9**	**449.5**	**484.4**	**515.1**	**1,865.8**
Per cent of GDP	23.7	24.0	24.2	24.9	25.5	25.9	
Expenses	**417.9**	**431.5**	**450.6**	**464.8**	**489.3**	**511.6**	**1,916.3**
Per cent of GDP	26.0	26.1	26.2	25.7	25.8	25.7	
Net operating balance	-37.2	-35.1	-33.7	-15.3	-5.0	3.5	-50.5
Net capital investment	2.7	4.4	3.4	3.4	4.9	5.5	17.2
Fiscal balance	**-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	
Memorandum item:							
Headline cash balance	-38.9	-51.5	-53.4	-34.2	-23.9	-14.4	-126.0

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes net Future Fund earnings.

Government receipts, although growing, continue to be impacted by weaker nominal GDP, weighed down by weaker wages and inflation. Expected tax receipts, excluding new policy, have lessened by around $4.6 billion in 2016-17 and $13.5 billion over the four years to 2018-19 since the 2015-16 MYEFO. As a result, compared with the 2015-16 MYEFO, the underlying cash balance has deteriorated by $3.4 billion in 2016-17.

Weaker-than-forecast total wages contribute to lower forecasts for taxes from individuals of $12 billion over the four years to 2018-19, excluding new policy. In addition, forecast superannuation fund tax, excluding new policy has been revised down by $5.5 billion. These downward revisions have been partly offset by upwards revisions to forecast indirect taxes. Lower-than-expected taxation receipts remains a major challenge for delivering fiscal consolidation and underlines the importance of continued spending restraint.

The underlying cash balance is projected to continue to improve over the medium term, reaching a surplus of around 0.2 per cent of GDP by 2020-21, before peaking at around 0.3 per cent of GDP the following year. It is projected to fall gradually over the rest of the medium term.

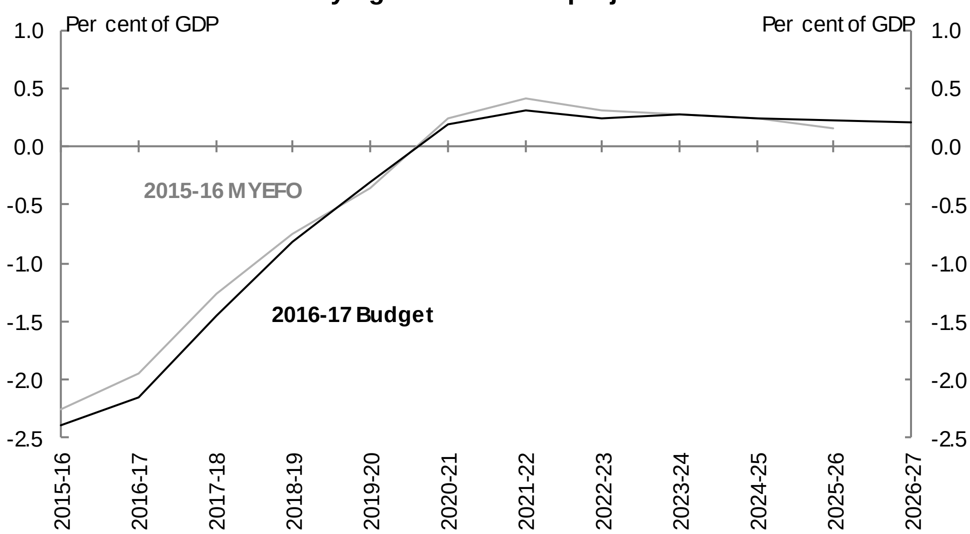
The Government has a target of reaching a surplus of 1 per cent of GDP as soon as possible, consistent with the objective of running surpluses on average over the course of the economic cycle.

The medium-term projections do not yet meet this target, indicating that although progress has already been made on the Budget repair task, there is much more work required in the future, noting that projections over the next ten years are subject to considerable uncertainty.

Medium-term projections outline the broad trajectory of the fiscal position under current policy settings. Small changes to underlying assumptions around the economy or future policy can have large impacts on projections of fiscal aggregates (see Box 3).

Chart 1 shows the projection of the underlying cash balance to 2026-27.

Chart 1: Underlying cash balance projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22. Net Future Fund earnings are included in projections of the underlying cash balance from 2020-21 when drawdowns from the Future Fund commence.
Source: Treasury projections.

Compared with the 2015-16 MYEFO, the revised medium-term projections reflect a number of broadly offsetting factors. Spending on schools, hospitals and defence is projected to be higher over the medium term. This is offset by lower projected public debt interest, as higher borrowing is more than offset by a decline in bond yields. There has also been a significant reduction in payments due to parameter revisions over the forward estimates and this effect carries through over the medium term. After 2021-22, receipts are projected to grow broadly in line with payments.

Structural budget balance estimates

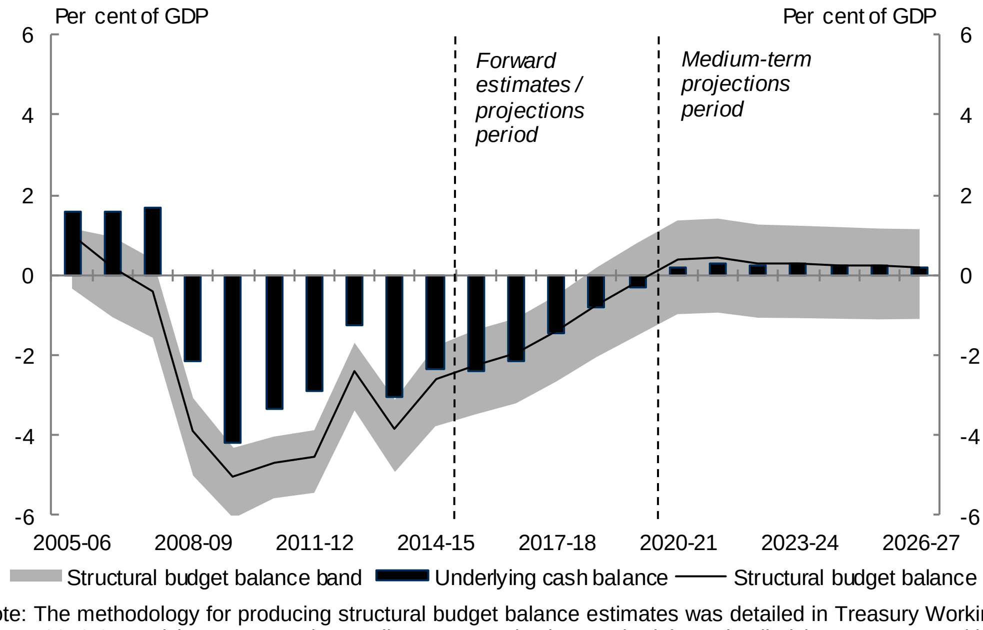
Restoring the structural integrity of the budget is crucial for achieving surpluses on average over the economic cycle and paying down government debt, consistent with the medium term fiscal strategy.

The structural budget balance estimates remove factors that have a temporary impact on revenues and expenditures, such as fluctuations in commodity prices and the extent to which economic output deviates from its potential level. Considered in conjunction with other measures, estimates of the structural budget balance can provide insight into the sustainability of current fiscal settings.

Treasury estimates of the terms of trade outlook over the medium term have been revised downward compared with the 2015-16 MYEFO. This has contributed to downward revisions to estimated structural revenues. In net terms the estimates of the structural budget balance have, on average, deteriorated by less than a quarter of a per cent of annual GDP in each year over the next decade.

Despite the downward revisions since MYEFO, the overall level of the structural budget balance improves from a deficit of around 2 per cent of GDP in 2015-16, to a series of small surpluses from 2020-21 onwards, converging to the underlying cash balance (Chart 2).

Chart 2: Structural budget balance estimates



Note: The methodology for producing structural budget balance estimates was detailed in Treasury Working Paper 2013-01 and incorporates the medium term projection methodology detailed in Treasury Working Paper 2014-02.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6401.0 and Treasury.

Maintaining strong fiscal discipline

Continued strong fiscal discipline will reduce the Government's share of the economy over time in order to free up resources for private investment to drive jobs and economic growth.

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

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 but are projected to rise slightly and remain stable over the medium term. Due to demographic and other pressures, payments are projected to increase gradually as a share of GDP to around 25.4 per cent in 2026-27.

Since the 2015-16 MYEFO, the payments-to-GDP ratio has been affected by weaker nominal GDP levels over the forecast period. However, annual nominal payment levels remain consistent with those published at the 2015-16 MYEFO.

Real payments growth from 2015-16 until 2019-20 is expected to be 1.9 per cent per annum on average, broadly consistent with the 2015-16 MYEFO.

Over the period from 2020-21 to 2026-27, average real growth in payments is projected to be around 2.9 per cent per annum, around one percentage point higher than estimated average real growth in payments over the forward estimates.

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

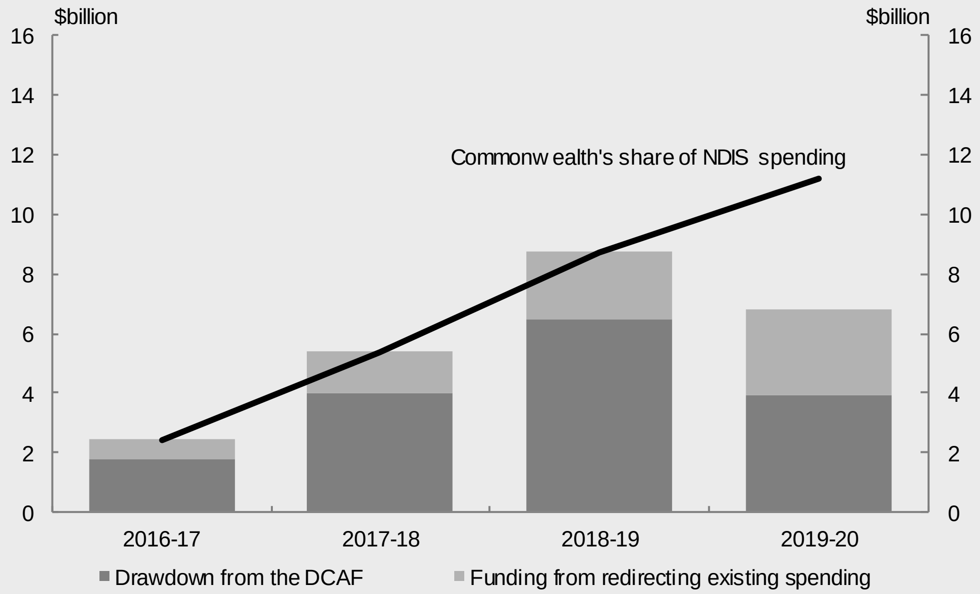
Box 2: National Disability Insurance Scheme

Spending on the National Disability Insurance Scheme (NDIS) increases substantially over the next four years as the scheme expands to full coverage in 2019-20 (see chart 3). When the NDIS reaches full scheme in 2019-20, it is estimated that it will cost $21.6 billion, or around 1.1 per cent of GDP. The Commonwealth's contribution will be around $11.2 billion. The Government is committed to fully funding this vital scheme.

The costs of the NDIS are offset to 2018-19 through redirecting existing disability funding and accumulated funds from the 0.5 percentage point increase in the Medicare Levy invested in the DisabilityCare Australia Fund (DCAF).

By 2019-20 the accumulated DCAF funds will be fully drawn down, so only the $3.9 billion of the Commonwealth's share of the Medicare Levy will be available from the DCAF. This combined with the increase of $2.4 billion in NDIS spending in this year mean that there will be a $4.4 billion shortfall to be funded from general budget revenue or borrowings. This shortfall continues in each year beyond 2019-20.

Chart 3: Commonwealth NDIS expenditure



The Government is establishing the NDIS Savings Fund to help the Commonwealth to meet these future costs of the NDIS. This fund will hold NDIS underspends, and selected saves from across the Government, and will be drawn down to fund the NDIS from 2019-20.

In addition to the $162.4 million already set aside in the Savings Fund in the 2015-16 MYEFO, as announced on 16 March 2016, in this Budget the Government will credit an additional $2.1 billion to the fund. This includes $711.2 million over five years from reduced net costs in NDIS transition agreements, and $1.3 billion of savings achieved over five years through more efficiently targeting social welfare expenditure. Additional savings will be added in the coming years.

Strengthening the Government's balance sheet over time

A strong balance sheet provides the Government the flexibility to respond to unanticipated events during times of financial crises or economic shocks.

Key aggregates of fiscal sustainability are set out in Table 3.

Net financial worth is the broadest indicator of fiscal sustainability articulated in the medium term fiscal strategy. It provides a summary measure of the Government's assets and liabilities as it includes both the full assets of the Future Fund and the superannuation liability that the Future Fund is intended to offset.

Table 3: Net worth, net financial worth, net debt and net interest payments

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b	$b
Financial assets	342.6	383.4	414.0	432.2	453.4
Non-financial assets	122.9	126.2	130.6	134.9	139.7
Total assets	**465.4**	**509.6**	**544.6**	**567.2**	**593.1**
Total liabilities	**730.4**	**810.6**	**859.2**	**886.6**	**909.2**
Net worth	**-265.0**	**-300.9**	**-314.6**	**-319.4**	**-316.1**
Net financial worth(a)	**-387.9**	**-427.2**	**-445.2**	**-454.3**	**-455.8**
Per cent of GDP	-23.5	-24.8	-24.6	-24.0	-22.9
Net debt(b)	**285.7**	**326.0**	**346.8**	**356.4**	**355.1**
Per cent of GDP	17.3	18.9	19.2	18.8	17.8
Net interest payments	**12.0**	**12.6**	**13.4**	**14.2**	**14.2**
Per cent of GDP	0.7	0.7	0.7	0.8	0.7

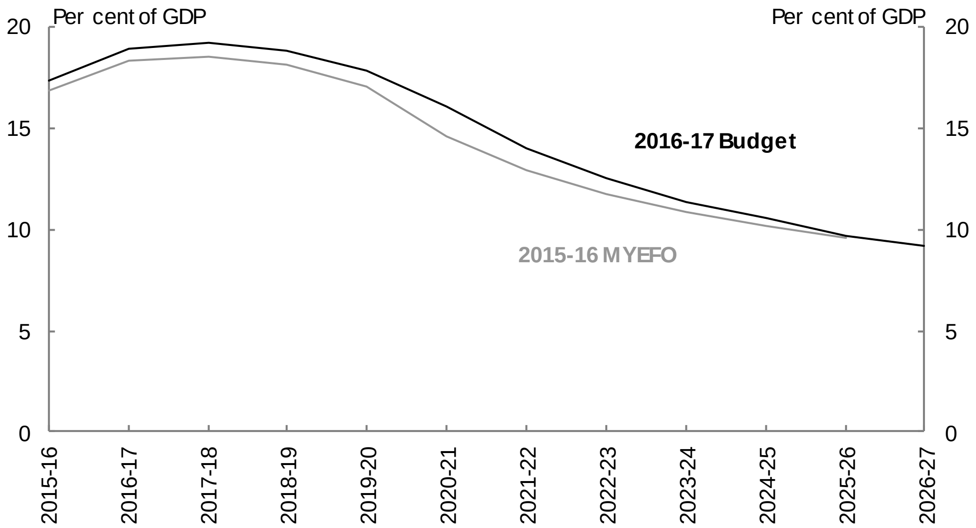
(a) Net financial worth equals total financial assets minus total liabilities.
(b) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

Net debt incorporates both selected financial assets and liabilities mostly at their fair value and provides a broader measure of the financial position of the Commonwealth than gross debt.

Net debt is estimated to be 18.9 per cent of GDP in 2016-17 and to peak as a share of GDP at 19.2 per cent in 2017-18, slightly above the peak of 18.5 per cent of GDP expected at the 2015-16 MYEFO. Net debt then declines as a share of GDP to 17.8 per cent by 2019-20.

Net debt is projected to continue to improve over the medium term, falling to around 9.1 per cent of GDP by 2026-27 (Chart 4). In 2025-26, net debt is projected to be around 9.7 per cent of GDP, this is around 0.1 per cent of GDP higher than projected at the 2015-16 MYEFO.

Chart 4: Net debt projected to 2026-27



Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Treasury projections.

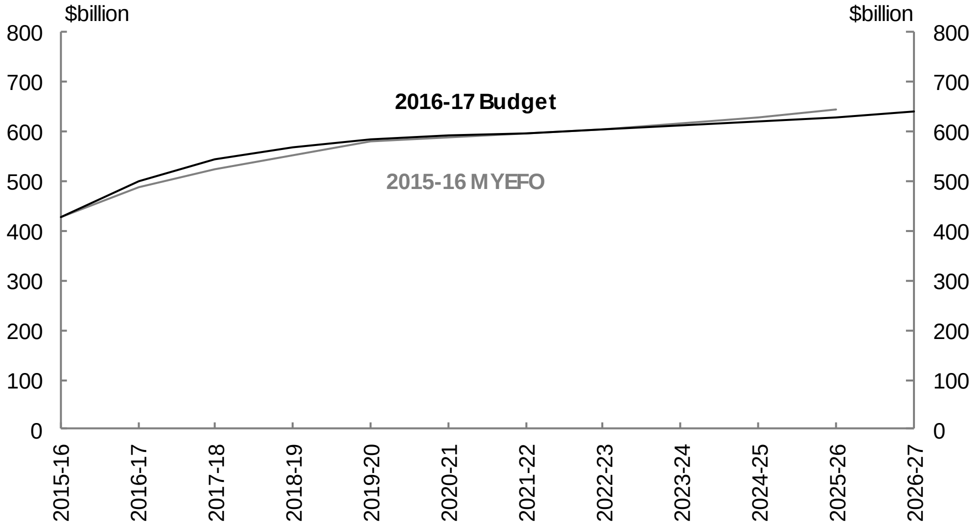
The face value of CGS on issue (gross debt) is projected to rise from $499 billion in 2016-17 to $584 billion by the end of the forward estimates. Gross debt is projected to continue to rise to around $640 billion by 2026-27. At the 2015-16 MYEFO, gross debt was projected to be $647 billion in 2025-26. The reduction in CGS on issue at the end of the medium term is driven by lower assumed yields across the medium term.

The current projections indicate the maximum face value of CGS on issue, subject to the Treasurer's Direction, of $500 billion will be approached in the latter part of 2016-17. A new Treasurer's Direction would need to be issued before this time.

Further details on debt and the Government's balance sheet can be found in *Statement 6: Debt Statement, Assets and Liabilities.*

The projected face value of Commonwealth Government Securities on issue is shown in Chart 5.

Chart 5: Face value of Commonwealth Government Securities on issue projected to 2026-27



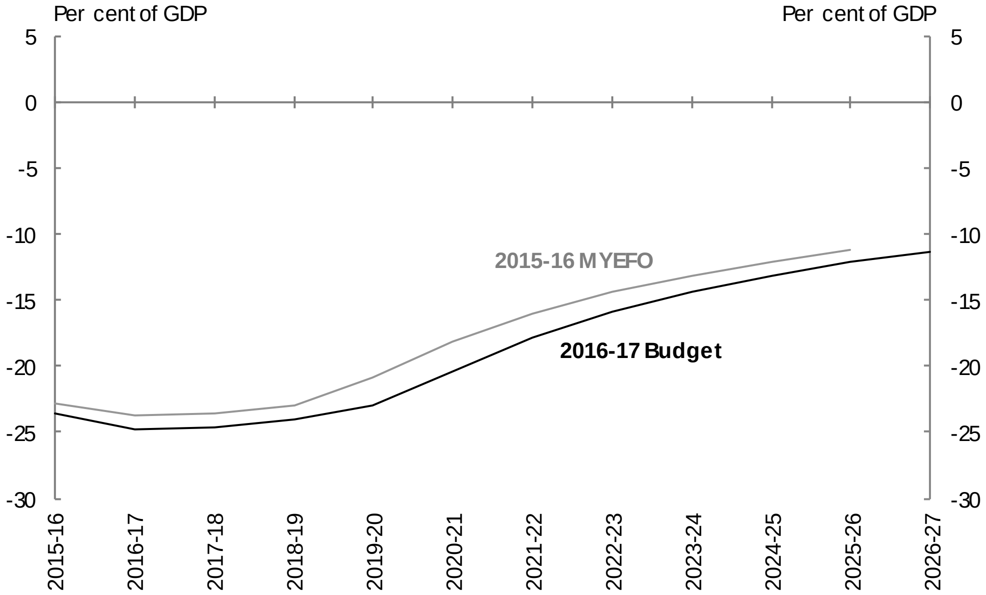
Note: A tax-to-GDP cap of 23.9 per cent is applied to these projections from 2021-22.
Source: Australian Office of Financial Management and Treasury projections.

Net worth is expected to be -$300.9 billion in 2016-17, $18.0 billion lower than estimated at the 2015-16 MYEFO. Net worth is expected to be -$316.1 billion by the end of the forward estimates.

Net financial worth is estimated to be -$427.2 billion (-24.8 per cent of GDP) in 2016-17, $17.5 billion lower than estimated at the 2015-16 MYEFO. Compared with the 2015-16 MYEFO, net financial worth has deteriorated over the forward estimates. This reflects higher CGS issuance and a lower value of investments held by the Government, including the Future Fund. In part, this has been offset by an increase in deposits held by the Government from 2016-17 onwards and a decrease in superannuation liabilities.

Net financial worth improves as a share of GDP over the medium term, rising to -$326 billion (-11.3 per cent of GDP) by 2026-27 (Chart 6).

Chart 6: Net financial worth projected to 2026-27



Source: Treasury projections.

Box 3: Medium-term projections

The 2016-17 Budget projections indicate that the underlying cash balance will reach a surplus in 2020-21, consistent with the projections in the 2015-16 MYEFO. By 2026-27, it is projected to be 0.2 per cent of GDP.

The medium-term projections indicate that there is much more work to do to deliver surpluses building to at least 1 per cent of GDP, consistent with the Government's medium-term fiscal strategy and Budget repair strategy. To achieve surpluses of this magnitude, it will be critical to constrain growth in Government payments over a sustained period. Payments as a proportion of GDP are forecast to fall to 25.2 per cent by the end of the forward estimates but rise and then stabilise over the medium term.

The medium-term fiscal projections bring together projections of receipts, payments (including interest payments) and the Government's assets and liabilities for the seven years beyond the forward estimates period. They outline how the fiscal position may change over time under current policy settings and prevailing economic assumptions and are not equivalent to forecasts.

Medium-term projections are a product of the assumptions that underpin them and are therefore subject to considerable uncertainty. Small changes in assumptions can have large impacts on the fiscal aggregates over the projection period. Two critical assumptions relate to the level of tax receipts and the rate of payments growth.

The medium-term projections in the Budget assume that tax receipts do not increase above 23.9 per cent of GDP. This is an assumption adopted for technical purposes and does not represent a Government policy or target. This is based on the average tax-to-GDP ratio from the introduction of the GST and prior to the Global Financial Crisis. It reflects that a strict no-policy change scenario would be unrealistic, as unconstrained revenue projections imply constantly increasing average tax rates on personal income. In the 2016-17 Budget, tax receipts are projected to reach 23.9 per cent of GDP in 2021-22.

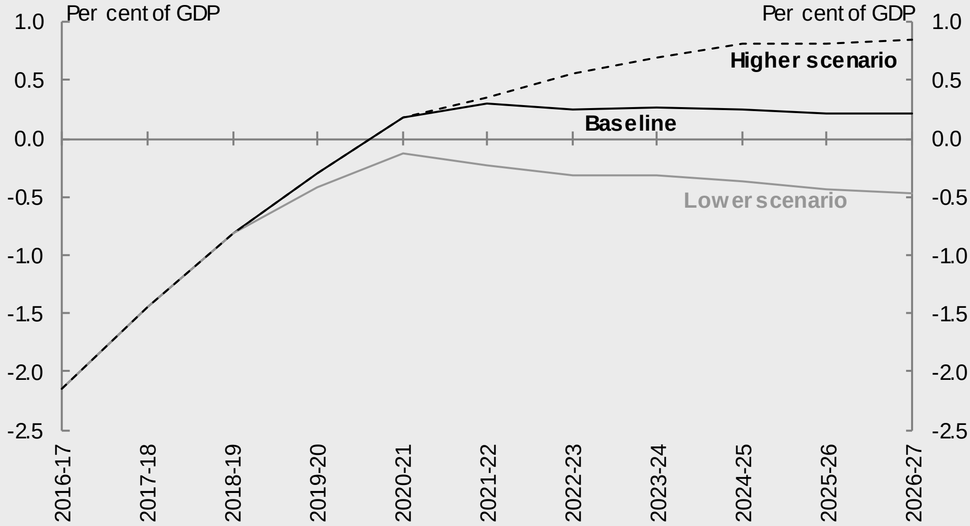
In contrast, payments are assumed to grow in line with current policy settings over the medium term. Under current settings, this is real growth of around 2.9 per cent per year. All else remaining equal, future changes to policy that increase payments, particularly in key expenditure areas, would increase this projected growth rate.

Charts 7 and 8 demonstrate the impact of changes to these assumptions.

Box 3: Medium-term projections (continued)

The Budget projection is for a surplus of around 0.2 per cent of GDP in 2026-27 with an assumed tax-to-GDP level of 23.9 per cent. An assumption of 23.4 per cent would mean a projected underlying cash deficit in 2026-27 of 0.5 per cent of GDP (Chart 7). An assumption of 24.4 per cent would mean a projected surplus of 0.8 per cent of GDP in 2026-27.

Chart 7: Underlying cash balance impact of alternative tax receipts level assumptions

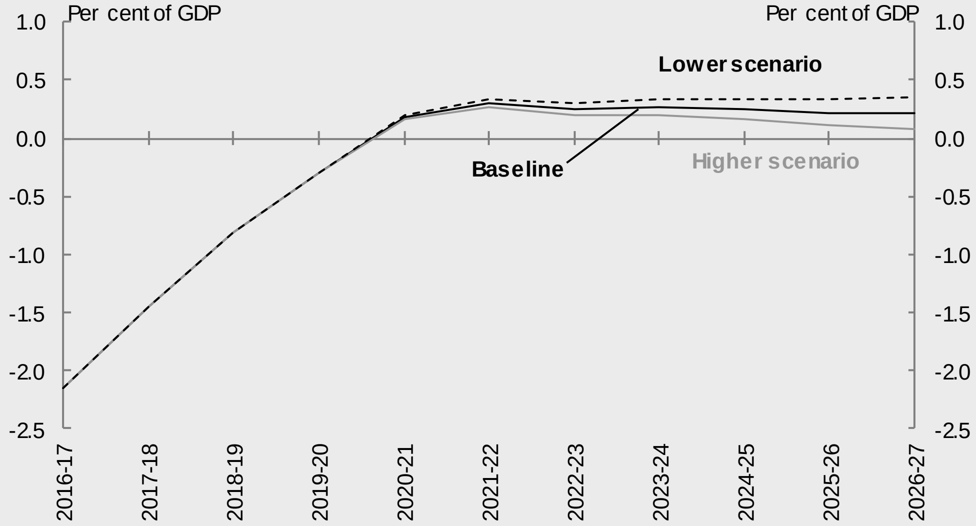


Note: A tax-to-GDP cap of 23.9 per cent of GDP is applied to the baseline projections from 2021-22.
Source: Treasury projections.

Payments growth assumed to be 0.1 percentage points higher in each year of the medium term would mean a lower projected underlying cash result than in the Budget (Chart 8). An equivalent reduction in the assumed rate of payments growth would improve the underlying cash balance.

Box 3: Medium-term projections (continued)

Chart 8: Underlying cash balance impact of alternative payments growth assumptions



Note: A tax-to-GDP cap of 23.9 per cent of GDP is applied to the baseline projections from 2021-22.
Source: Treasury projections.

Fiscal outlook

Budget aggregates

An underlying cash deficit of $37.1 billion (2.2 per cent of GDP) is expected in 2016-17, improving to a deficit of $6.0 billion (0.3 per cent of GDP) in 2019-20.

In accrual terms, a fiscal deficit of $37.1 billion (2.2 per cent of GDP) is expected for 2016-17, improving to a deficit of $2.1 billion (0.1 per cent of GDP) in 2019-20.

A headline cash deficit of $53.4 billion is expected in 2016-17, improving to a deficit of $14.4 billion in 2019-20.

Table 2 provides key budget aggregates for the Australian Government general government sector.

Table 4 provides a summary of the cash flows of the Australian Government general government sector.

Table 4: Summary of Australian Government general government sector cash flows

	Estimates			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20
	$b	$b	$b	$b	$b
Cash receipts					
Operating cash receipts	387.7	408.9	436.8	469.4	500.5
Capital cash receipts(a)	0.3	2.4	0.6	0.6	0.2
Total cash receipts	388.0	411.3	437.4	469.9	500.7
Cash payments					
Operating cash payments	413.4	433.8	447.4	468.5	488.8
Capital cash payments(b)	11.6	11.2	12.6	13.0	13.7
Total cash payments	425.0	445.0	459.9	481.5	502.6
Finance leases and similar arrangements(c)	0.0	0.0	0.0	0.0	0.0
GFS cash surplus(+)/deficit(-)	**-36.9**	**-33.8**	**-22.5**	**-11.6**	**-1.8**
Per cent of GDP	-2.2	-2.0	-1.2	-0.6	-0.1
less Net Future Fund earnings	3.0	3.3	3.6	3.8	4.1
Underlying cash balance(d)	**-39.9**	**-37.1**	**-26.1**	**-15.4**	**-6.0**
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3
Memorandum items:					
Net cash flows from investments in financial assets for policy purposes	-14.6	-19.7	-11.7	-12.4	-12.6
plus Net Future Fund earnings	3.0	3.3	3.6	3.8	4.1
Headline cash balance	**-51.5**	**-53.4**	**-34.2**	**-23.9**	**-14.4**

(a) Equivalent to cash receipts from the sale of non-financial assets in the cash flow statement.
(b) Equivalent to cash payments for purchases of non-financial assets in the cash flow statement.
(c) The acquisition of assets under finance leases decreases the underlying cash balance. The disposal of assets previously held under finance leases increases the underlying cash balance.
(d) Excludes expected net Future Fund earnings.

Underlying cash balance estimates

The estimated underlying cash deficit in 2016-17 has deteriorated by $3.4 billion when compared with the 2015-16 MYEFO. Table 5 provides a reconciliation of the variations in the underlying cash balance since the 2015-16 Budget.

Since the 2015-16 MYEFO, the effect of parameter and other variations has resulted in a $23.3 billion reduction in forecast receipts across the five years to 2019-20, partly offset by a $8.9 billion reduction in payments across the five years to 2019-20.

Since the 2015-16 MYEFO, policy decisions have resulted in a $1.7 billion improvement in the underlying cash balance in the four years from 2016-17 to 2019-20. The overall impact of policy decisions on the bottom line has been more than fully offset.

Table 5: Reconciliation of underlying cash balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
2015-16 Budget underlying cash balance(b)(c)	**-35,115**	**-25,836**	**-14,396**	**-6,905**	**1,300**	**-45,837**
Per cent of GDP	-2.1	-1.5	-0.8	-0.4	0.1	
Changes from 2015-16 Budget to 2015-16 MYEFO						
Effect of policy decisions(d)	-2,516	-2,427	302	921	*	*
Effect of parameter and other variations	231	-5,404	-8,927	-8,246	*	*
Total variations(e)	**-2,285**	**-7,831**	**-8,625**	**-7,325**	**-8,600**	**-32,381**
2015-16 MYEFO underlying cash balance(b)(f)	**-37,399**	**-33,667**	**-23,021**	**-14,229**	**-7,300**	**-78,218**
Per cent of GDP	-2.3	-2.0	-1.3	-0.7	-0.3	
Changes from 2015-16 MYEFO to 2016-17 Budget						
Effect of policy decisions(d)(g)						
Receipts	*417*	*-1,670*	*225*	*-209*	*317*	*-1,338*
Payments	*611*	*1,400*	*-158*	*1,285*	*-5,578*	*-3,052*
Total policy decisions impact on underlying cash balance	-195	-3,070	384	-1,494	5,894	1,714
Effect of parameter and other variations(g)						
Receipts	*-7,280*	*-2,373*	*-3,723*	*-3,401*	*-6,475*	*-15,971*
Payments	*-3,985*	*-1,633*	*194*	*-3,098*	*-366*	*-4,904*
less Net Future Fund earnings	*-943*	*-396*	*-433*	*-622*	*-1,560*	*-3,010*
Total parameter and other variations impact on underlying cash balance	-2,352	-343	-3,484	319	-4,549	-8,058
2016-17 Budget underlying cash balance(b)	**-39,946**	**-37,081**	**-26,123**	**-15,406**	**-5,955**	**-84,565**
Per cent of GDP	-2.4	-2.2	-1.4	-0.8	-0.3	

**Data is not available.*

(a) Total is equal to the sum of amounts from 2016-17.

(b) Excludes expected net Future Fund earnings.

(c) 2019-20 underlying cash balance as published in the medium term projections, page 3-6 of *Budget Paper No. 1: Budget Strategy and Outlook 2015-16.*

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

(e) 2019-20 shows the total variation between medium term projections of the underlying cash balance published in the 2015-16 Budget and *Mid-Year Economic and Fiscal Outlook 2015-16*, excluding the variation in net Future Fund earnings.

(f) 2019-20 underlying cash balance as published in the medium term projections, page 19 of the 2015-16 MYEFO.

(g) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.

Offsetting new decisions

The Government remains committed to offsetting all new policy decisions. At this Budget, the overall impact of policy decisions on the bottom line is an improvement of $1.7 billion over the four years from 2016-17 to 2019-20. All new spending measures have been offset by savings in payments, not by policy increases to tax revenue.

The Government remains committed to implementing reforms, which continue to be delayed in the Senate. At this Budget, the impact of delays in passing these reforms has deteriorated the bottom line by $2.2 billion over the five years to 2019-20. Prior to the 2016-17 Budget, $13 billion worth of expenditure savings and $1.5 billion worth of revenue increases have not yet passed the Parliament.

Receipts estimates

Total receipts are expected to be $4.0 billion lower in 2016-17 than estimated at the 2015-16 MYEFO, with tax receipts $6.4 billion lower and non-taxation receipts $2.3 billion higher.

Since the 2015-16 MYEFO, non-taxation receipts have been revised down by $3.1 billion in 2015-16, primarily due to the agreement with the Victorian Government to reinvest the $1.5 billion provided for the East West Link project to fund other mutually agreed projects, and a delay in the expected receipt of proceeds from the reissue of spectrum licences previously expected in 2015-16. Non-taxation receipts have been revised up by $2.3 billion in 2016-17, largely reflecting higher than expected dividend receipts from the Reserve Bank of Australia and the delayed spectrum licence receipts.

Policy decisions

Policy decisions since the 2015-16 MYEFO are expected to reduce receipts by $1.7 billion in 2016-17 and decrease receipts by $921 million over the five years to 2019-20. Significant measures include:

- increasing tobacco excise and equivalent customs duties and reducing the duty free tobacco allowance. Tobacco excise and excise equivalent customs duties will be increased by four annual increases of 12.5 per cent per year from 2017 until 2020. In addition, from 1 July 2017 the duty free tobacco allowance will be reduced to 25 cigarettes or equivalent from the current allowance of 50 cigarettes. This is expected to increase receipts by $5.1 billion over the forward estimates period, including a GST component of $445 million that will be paid to States and Territories;

- reforming the taxation of concessional superannuation contributions. From 1 July 2017 the Division 293 tax income threshold will be reduced to $250,000 (from $300,000) and the annual cap on contributions will be reduced to $25,000 (currently $30,000 under 50; $35,000 for 50 and over). This is estimated to increase receipts by $2.4 billion over the forward estimates period;

- providing targeted personal income tax relief by increasing the 32.5 per cent personal income threshold from $80,000 to $87,000 from 1 July 2016. This measure will lower taxes for around 3 million individuals and is expected to reduce receipts by $4.0 billion over the forward estimates period; and

- backing small businesses by reducing their tax rate to 27.5 per cent, starting with businesses with a turnover of up to $10 million on 1 July this year. Encouraging investment and jobs over 10 years by reducing the company tax rate to 25 per cent by 2026-27. These changes are expected to reduce receipts by $2.7 billion over the forward estimates period.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2016-17.*

Parameter and other variations

Since the 2015-16 MYEFO, forecasts for total wages and non-mining profits have been revised down, partly offset by higher forecasts for mining profitability owing to recent strength in commodity prices. As a result, the forecast for nominal GDP has been revised down by $27.5 billion over the four years to 2018-19. These revisions, the compositional change to nominal GDP and weaker tax collections in the current year have combined to weaken the outlook for tax receipts.

Weaker forecast total wages contribute to lower forecasts for taxes from individuals of $12 billion over the four years to 2018-19, excluding new policy. In addition, forecast superannuation fund tax has been revised down by $5.5 billion. These downward revisions have been partly offset by upward revisions to forecast indirect taxes.

Further information on expected tax receipts is provided in Statement 4: Revenue. Analysis of the sensitivity of the receipts estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis.*

Payment estimates

The overall impact of new policy decisions on payments in this Budget is an improvement to the bottom line of $2.4 billion over the five years to 2019-20, with all increases in expenditure offset by savings in payments. Since the 2015-16 MYEFO, total payments for 2016-17 have decreased by $233 million.

Policy decisions

Major policy decisions since the 2015-16 MYEFO that increase payments include:

- providing additional funding to the State and Territory Governments for public hospitals by retaining key features of Activity Based Funding, including the National Efficient Price, which is expected to increase payments by up to $2.9 billion over the three years to 2019-20. Growth in the Government's contribution will be capped at 6.5 per cent a year over this period;

- funding support for government and non-government schools for the 2018 to 2020 school years, which is expected to increase payments by $928 million over the three years to 2019-20. Total school funding will be indexed by an education sector specific index of 3.56 per cent, with an allowance for changes in enrolments;

- establishing a new Tax Avoidance Taskforce as part of the *ten year enterprise tax plan,* which is expected to increase cash payments by $49 million in 2016-17 and $679 million over the four years to 2019-20. This measure will enhance the Australian Taxation Office's audit and compliance activities targeting multinationals, large corporations and high wealth individuals. These changes are expected to increase receipts by $2.2 billion over the forward estimates period;

- continuing Australia's military contribution to the international effort to disrupt and degrade Daesh (or ISIL) in Iraq and Syria, which is expected to increase payments by $345 million in 2016-17 and $373 million over the three years to 2018-19;

- delaying the implementation of the higher education reforms announced in the 2014-15 Budget and the 2014-15 MYEFO by an additional year to undertake further consultation, which is expected to increase payments by $327 million in 2016-17 and $573 million over five years to 2019-20;

- improving youth employment outcomes through the establishment of a Youth Jobs PaTH program for young job seekers aged under 25 years, which is expected to increase payments by $12 million in 2016-17 and $249 million over the five years to 2019-20; and

- continuing Australia's military contribution to international stabilisation and counter-terrorism efforts in the Middle East Region, which is expected to increase payments by $183 million in 2016-17 and $189 million over the three years to 2018-19.

Major policy decisions that decrease payments include:

- achieving efficiencies in the operation of the Australian Public Service by maintaining the annual efficiency dividend at 2.5 per cent for an additional year before stepping down to 1 per cent by 2019-20, and reinvesting in specific initiatives to assist agencies to manage their transformation to a more modern public sector, which is expected to decrease payments by $1.4 billion over the three years to 2019-20;

- revising the Aged Care Funding Instrument, through changes to the criteria that determine the funding paid to aged care providers, which is expected to decrease payments by $119 million in 2016-17 and $1.2 billion over the five years to 2019-20, noting that there is a separate upward estimates variation to the Residential and Flexible Care program reflecting higher than anticipated growth;

- deferring implementation of the *Child Care Subsidy, Additional Child Care Subsidy* and *Community Child Care Fund* by one year to 1 July 2018, due to the Family Tax Benefit reforms required to fund the child care package not being passed by the Senate, which is expected to decrease payments by $43 million in 2016-17 and $1.2 billion over the five years to 2019-20;

- returning unallocated funds from the Asset Recycling Initiative, following negotiation with State and Territory Governments, which is expected to decrease payments by $453 million in 2016-17 and $854 million over three years to 2018-19; and

- reforming Work for the Dole to be better targeted and more cost effective, by changing the Stream A job seekers entry into the Work for the Dole phase after twelve months of participation in *jobactive*, instead of the current six months, which is expected to decrease payments by $128 million in 2016-17 and $494 million over four years to 2019-20.

Further details of Government policy decisions are provided in Budget Paper No. 2, *Budget Measures 2016-17.* The expense estimates provided in Budget Paper No. 2 are in accrual terms and may not align with the payment figures provided in this statement.

Parameter and other variations

This Budget also incorporates some major changes in expected payments in 2016-17 as a result of parameter and other variations since the 2015-16 MYEFO. Major increases include:

- payments related to a number of savings measures that have been delayed in the Senate, which are expected to increase by $1.0 billion in 2016-17 ($2.2 billion over the five years to 2019-20);

- payments to the States and Territories under the Natural Disaster Relief and Recovery Arrangements program, which are expected to increase by $653 million in 2016-17 (although a reduction in payments of $119 million is expected over the five years to 2019-20), largely reflecting a deferral of payments previously expected to be made in 2015-16;

- payments to the States and Territories for public hospitals, which are expected to increase by $518 million in 2016-17 ($1.8 billion over the five years to 2019-20), largely reflecting revised activity estimates from the States and Territories and the release of the final 2016-17 National Efficient Price and National Efficient Cost determinations;

- payments related to the Residential and Flexible Care program, which are expected to increase by $454 million in 2016-17 ($2.5 billion over the five years to 2019-20), largely reflecting higher than expected growth in care subsidies provided to residential aged care facilities;

- payments related to the Child Care Subsidy, Child Care Benefit and Child Care Rebate, which together are expected to increase by $384 million in 2016-17 ($2.9 billion over the five years to 2019-20), largely reflecting an increase in the forecast number of hours of child care used and average child care fees charged;

- payments related to the Australian Renewable Energy Agency's grant activities, which are expected to increase by $110 million in 2016-17 ($155 million over the five years to 2019-20), largely reflecting additional grants provided as part of the Large Scale Solar Competitive funding round and Research and Development funding round; and

- payments related to the public sector defined benefit superannuation schemes, which are expected to increase by $87 million in 2016-17 ($312 million over the five years to 2019-20), largely reflecting a reduction in forecast exits from the schemes.

Major decreases in expected payments in 2016-17 as a result of parameter and other variations since the 2015-16 MYEFO include:

- payments related to the Medical Benefits program, which are expected to decrease by $190 million in 2016-17 ($454 million over the five years to 2019-20), largely reflecting recent changes in utilisation trends;

- payments under the Fuel Tax Credits Scheme, which are expected to decrease by $162 million in 2016-17 ($953 million over the five years to 2019-20), reflecting lower than expected usage of fuels that are eligible for Fuel Tax Credits;

- royalty payments to Western Australia, which are expected to decrease by $148 million in 2016-17 ($407 million over the five years to 2019-20), largely reflecting a drop in forecast commodity prices along with a projected reduction in the volume of production across the forward years. This decrease in payments is offset by a corresponding decrease in royalty receipts;

- payments related to the National Blood Agreement for the National Blood Authority (NBA), which are expected to decrease by $115 million in 2016-17 ($436 million over the five years to 2019-20), largely reflecting lower than expected demand for blood and blood products;

- payments related to the Jobs, Education & Training Child Care Fee Assistance program, which are expected to decrease by $94 million in 2016-17 ($167 million over the five years to 2019-20), largely reflecting decreases in the number of families or children accessing assistance and the total hours of approved care accessed under the program; and

- payments related to the Non-Government Schools National Support program, which are expected to decrease by $87 million in 2016-17 ($740 million over the five years to 2019-20), largely reflecting a downward revision to enrolment projections and changes to school structures (opening and closing of schools).

Consistent with previous Budgets, the underlying cash balance has been improved by the regular draw down of the conservative bias allowance. Details of this draw down are provided in the Other Purposes section of *Statement 5: Expenses and Net Capital Investment.*

Analysis of the sensitivity of payments estimates to changes in the economic outlook is provided in *Statement 7: Forecasting Performance and Scenario Analysis*.

Fiscal balance estimates

The fiscal deficit is expected to be $37.1 billion (2.2 per cent of GDP) in 2016-17, which reflects a deterioration of $4.4 billion (0.3 per cent of GDP) compared with the 2015-16 MYEFO. Table 6 provides a reconciliation of the variations in the fiscal balance since the 2015-16 Budget.

Table 6: Reconciliation of fiscal balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
2015-16 Budget fiscal balance(b)	**-32,972**	**-23,425**	**-9,236**	**-3,230**	**1,300**	**-34,591**
Per cent of GDP	-2.0	-1.3	-0.5	-0.2	0.1	
Changes from 2015-16 Budget to 2015-16 MYEFO						
Effect of policy decisions(d)	-1,948	-1,552	1,552	1,494	*	*
Effect of parameter and other variations	-845	-7,773	-9,731	-8,473	*	*
Total variations(c)	**-2,793**	**-9,326**	**-8,179**	**-6,979**	**-8,600**	**-33,083**
2015-16 MYEFO fiscal balance(e)	**-35,765**	**-32,751**	**-17,415**	**-10,209**	**-7,300**	**-67,675**
Per cent of GDP	-2.2	-1.9	-1.0	-0.5	-0.3	
Changes from 2015-16 MYEFO to 2016-17 Budget						
Effect of policy decisions(d)(f)						
Revenue	419	-1,251	1,038	160	533	481
Expenses	590	1,097	-721	733	-6,547	-5,438
Net capital investment	7	216	12	-116	-81	31
Total policy decisions impact on fiscal balance	-178	-2,564	1,746	-456	7,161	5,888
Effect of parameter and other variations(f)						
Revenue	-4,977	-5,088	-4,094	-2,884	-4,521	-16,588
Expenses	-1,355	-1,750	-360	-2,779	-1,800	-6,688
Net capital investment	-136	-1,524	-728	-932	-801	-3,985
Total parameter and other variations impact on fiscal balance	-3,486	-1,814	-3,007	826	-1,920	-5,914
2016-17 Budget fiscal balance	**-39,429**	**-37,129**	**-18,675**	**-9,839**	**-2,059**	**-67,701**
Per cent of GDP	-2.4	-2.2	-1.0	-0.5	-0.1	

**Data is not available.*

(a) Total is equal to the sum of amounts from 2016-17.

(b) 2019-20 fiscal balance is assumed to be consistent with the underlying cash balance as published in the medium term projections, page 3-6 of *Budget Paper No. 1: Budget Strategy and Outlook 2015-16.*

(c) 2019-20 shows the total variation between medium term projections of the assumed fiscal balance published in the 2015-16 Budget and *Mid-Year Economic and Fiscal Outlook 2015-16*.

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

(e) 2019-20 fiscal balance is assumed to be consistent with the underlying cash balance as published in the medium term projections, page 19 of the 2015-16 MYEFO.

(f) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.

Revenue estimates

Changes in accrual revenue are generally driven by the same factors as cash receipts, though differences arise where revenue raised in a given year is not received in that year.

Expense and net capital investment estimates

Movements in accrual estimates and net capital investment over the forward estimates are broadly similar to the movements in cash payments. The key exceptions include:

- superannuation benefits, where there are differences between the timing of cash payments and accrued expenses as a result of revaluations recommended by the actuary; and
- the Natural Disaster Relief and Recovery Arrangements, where expenses are recognised in the financial year in which the disaster occurs, rather than when cash payments are made.

Detailed information on expenses and net capital investment can be found in *Statement 5: Expenses and Net Capital Investment.*

Headline cash balance estimates

The headline cash balance consists of the underlying cash balance, net cash flows from investments in financial assets for policy purposes (for example, the equity funding of NBN Co) and net Future Fund earnings. Table 7 provides further detail of differences between the underlying and headline cash balance estimates of the Australian Government general government sector.

The headline cash balance for 2016-17 is estimated to be a deficit of $53.4 billion, compared with a deficit of $48.9 billion at the 2015-16 MYEFO. Over the four years from 2016-17 to 2019-20, the headline cash deficit is projected to decline by $39.1 billion to $14.4 billion in 2019-20.

Table 7: Details of the Australian Government general government sector items between the underlying and headline cash balance estimates

	Estimates			Projections		
	2015-16	2016-17	2017-18	2018-19	2019-20	Total(a)
	$m	$m	$m	$m	$m	$m
2016-17 Budget underlying cash balance(b)	**-39,946**	**-37,081**	**-26,123**	**-15,406**	**-5,955**	**-84,565**
plus Net cash flows from investments in financial assets for policy purposes						
Student loans	-7,622	-8,309	-9,325	-9,902	-10,190	-37,725
NBN investment	-7,488	-8,825	0	0	0	-8,825
Residential mortgage backed securities	1,471	839	649	661	398	2,548
WestConnex	-38	-645	-724	-546	-47	-1,962
Trade support loans	-372	-511	-563	-569	-574	-2,217
Asbestos removal in the ACT - Mr Fluffy loose fill asbestos remediation	-250	0	50	50	50	150
Northern Australia Infrastructure Facility	0	-935	-870	-805	-740	-3,349
Drought and rural assistance loans	-63	-250	-250	-250	-140	-890
National water infrastructure loan facility	0	-50	-50	-200	-500	-800
Net other	-190	-993	-615	-814	-820	-3,241
Total net cash flows from investments in financial assets for policy purposes	**-14,553**	**-19,678**	**-11,698**	**-12,373**	**-12,562**	**-56,310**
plus Net Future Fund earnings	3,012	3,321	3,574	3,843	4,140	14,879
2016-17 Budget headline cash balance	**-51,487**	**-53,438**	**-34,246**	**-23,936**	**-14,376**	**-125,996**

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