

PARLIAMENTARY
LIBRARY

INFORMATION ANALYSIS ADVICE

QUICK GUIDE

RESEARCH PAPER SERIES, 2015–16

4 MAY 2016

The 2016–17 Budget: a quick guide

Daniel Weight; Paul Davidson; Adrian Makeham-Kirchner; David Watt; Ilona Bartsch; Hannah Gobbett

Economics; Foreign Affairs; Defence and Security; Social Policy; and Politics and Public Administration Sections

Background

The 2016–17 Budget was unusual in that the Prime Minister had signalled an intention to call a double dissolution election soon after its delivery. With that in mind, the Government introduced Supply Bills into Parliament to ensure the continued funding of government programs and activities for approximately five months beyond 1 July. The Supply Bills were introduced as it was unlikely that there would be sufficient time to debate and pass the Budget (that is, the Appropriation Bills) before Parliament was prorogued with the calling of an election.

Between the finalisation of the Budget — but before its delivery — the Reserve Bank of Australia announced a 25 basis point reduction of the cash rate to 1.75 per cent. Overall, the Reserve Bank considered that ‘prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy.’¹

Economic overview

International

The International Monetary Fund (IMF) forecast global growth to be 3.5 per cent in 2015 and 3.2 per cent in 2016.² The IMF has downgraded Australia’s GDP for 2016 from 3.2 per cent in April 2015 to 2.5 per cent in 2016. Australia is not alone in having been downgraded by the IMF and GDP growth of 2.5 per cent compares favourably with other advanced economies. Both Treasury and the IMF are optimistic about future potential growth, with the IMF forecasting global growth at 3.5 per cent in 2017. Treasury forecasts are presented below in table 1.

Table 1: International GDP growth forecasts at 2015–16 Budget and 2016–17 Budget

	Forecasts at 2015–16 Budget			Forecasts at 2016–17 Budget		
	2015	2016	2017	2016	2017	2018
China	6 ¾	6 ½	6 ¼	6 ½	6 ¼	6
India	7 ½	7 ½	7 ½	7 ½	7 ½	7 ¾
Japan	1	1	3	½	¼	½
United States	3 ¼	3 ¼	3	2	2 ¼	2 ¼
Euro area	1 ¾	1 ¾	1 ¾	1 ½	1 ½	1 ½
Other East Asia ^(a)	4 ¾	4 ¾	5	4	4	4 ¼

(a) Other East Asia comprises Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

1. Reserve Bank of Australia, *Statement by Glenn Stevens, Governor: monetary policy decision*, no. 26-10, 3 May 2016, accessed 4 May 2016.
2. International Monetary Fund (IMF), *World economic outlook: uneven growth: short- and long-term factors*, World Economic and Financial Surveys, IMF, Washington, April 2015, p. xv; IMF, *World economic outlook: too slow for too long*, World Economic and Financial Surveys, IMF, Washington, April 2016, p. xv.

Major trading partners	4 ½	4 ½	4 ¼	4	4	4
World	3 ½	3 ¾	3 ¾	3 ¼	3 ½	3 ¾

Sources: Australian Government, [Budget strategy and outlook: budget paper no. 1: 2015–16](#), Statement 2, Table 2, p. 2-6; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 2, Table 2, p. 2-9.

Despite the forecast strong growth figures for China, concerns remain about the Chinese economy as it transitions towards a broad-based consumption economy. More generally though, there remains a significant level of uncertainty due to risks of low inflation, wages growth, and productivity in many advanced economies; as well as the possibility of renewed volatility in global financial markets.

The IMF expressed concerns that there are a number of geopolitical risks to global growth:

The incidence of armed conflicts and terrorist acts has increased in the last couple of years. Ongoing events in parts of Africa and the Middle East, as well as in Ukraine, could further heighten domestic and international tensions, with increased disruptions in trade, tourism, and financial flows. In Europe, the surge of refugees is presenting major challenges to the absorptive capacity of EU labour markets and testing political systems, fuelling scepticism about economic integration, as well as EU governance, and potentially hindering policymakers' ability to respond to both legacy and emergent economic challenges.³

Despite these concerns, the Australian economy is performing reasonably well. As noted by the Treasurer:

At three per cent, our economy has grown faster than the world's major advanced economies, faster than the United Kingdom, the United States, Japan and Germany. We are growing more than twice as fast as Canada, faster than New Zealand and Singapore, and matching it with economies like South Korea.

Given the international headwinds and fragility, this is an achievement of which we should all be proud.⁴

It is against this global backdrop that the 2016–17 Budget needs to be viewed.

Domestic

Since the 2015–16 Budget, forecasts for nominal GDP have been downgraded (table 2). Between the 2015–16 Budget and 2015–16 MYEFO, nominal GDP was forecast to fall in 2015–16 from 3.25 per cent to 2.75 per cent. The forecast for 2015–16 has been further downgraded in the 2016–17 Budget to 2.5 per cent. The forecast for 2016–17 nominal GDP, while more optimistic than the figures for 2015–16, have also been downgraded. Between the 2015–16 Budget and the 2015–16 MYEFO, nominal GDP was downgraded from 5.5 per cent to 4.5 per cent. The 2016–17 Budget has further downgraded the forecast for 2016–17 to 4.25 per cent.

Table 2: Major economic parameters

	Forecasts for 2015–16 at:			Forecasts for 2016–17 at:		
	2015–16 Budget	2015–16 MYEFO	2016–17 Budget	2015–16 Budget	2015–16 MYEFO	2016–17 Budget
Real GDP	2 ¾	2 ½	2 ½	3 ¼	2 ¾	2 ½
Employment	1 ½	2	2	2	1 ¾	1 ¾
Unemployment rate	6 ½	6	5 ¾	6 ¼	6	5 ½
Consumer price index	2 ½	2	1 ¼	2 ½	2 ¼	2
Wage price index	2 ½	2 ½	2 ¼	2 ¾	2 ¾	2 ½
Nominal GDP	3 ¼	2 ¾	2 ½	5 ½	4 ½	4 ¼

Sources: Australian Government, [Budget strategy and outlook: budget paper no. 1: 2015–16](#), Statement 1, Table 2, p. 1-7; Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 1.2, p. 3; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 1, Table 2, p. 1-8.

In its latest statement on monetary policy, the Reserve Bank of Australia considered 'that headline inflation rates will remain below central bank targets for some time yet'.⁵ The latest Australian Bureau of Statistics inflation

3. IMF, [World economic outlook: too slow for too long](#), op. cit., p. 26.

4. S Morrison (Treasurer), [Budget speech 2016–17](#), p. 12.

5. Reserve Bank of Australia (RBA), [Statement on monetary policy](#), RBA, Sydney, February 2016, p. 59.

figures released on 27 April reported that headline inflation was -0.2 per cent for the March quarter, and 1.3 per cent for the year to March 2016.⁶

Nominal GDP is the product of real GDP (that is, the level of economic activity in the economy) at current prices. A lower inflation rate feeds into nominal GDP, and may also have implications for revenue forecasts. In particular, the Government's estimates for nominal GDP, which transition between 2.5 per cent in 2015–16 to 5 per cent in just the two years to 2017–18 appear to be particularly optimistic, especially given the weak forecast for price inflation, as measured by the CPI. An additional factor is the overall level of economic activity as given by real GDP. The forecasts for real GDP growth have been gradually downgraded over the past year, yet the 2016–17 Budget forecasts 3 per cent annual growth in real GDP from 2017–18 to 2019–20. A failure to achieve either the intimated growth in the price level, or the forecast growth in real GDP — and its anticipated flow through to revenue receipts — would be likely to cause a material deterioration the Commonwealth's fiscal position.

The exchange rate, the terms of trade (that is, the price of exports divided by the price of imports) and commodity prices are all important factors in determining the level of overall economic activity. They are therefore important factors in determining forecast revenues for the Commonwealth. If the assumptions underpinning the forecast fiscal position are overly optimistic/pessimistic and those assumptions do/do not materialise, then the overall fiscal position will improve/deteriorate accordingly.

In February this year, the Reserve Bank had forecast an exchange rate of US\$0.72,⁷ which was the same as estimated at the 2015–16 MYEFO.⁸ At the 2016–17 Budget, the exchange rate was forecast at US\$0.77 cents.⁹ At the end of April 2016, the exchange rate was US\$0.7655.¹⁰

The terms of trade forecasts at the 2016–17 Budget have been revised upwards since 2015–16 MYEFO. At 2015–16 MYEFO, the terms of trade was forecast to fall by 10.5 per cent in 2015–16, and a further 2.25 per cent in 2016–17.¹¹ The terms of trade are now forecast to fall by 8.75 per cent in 2015–16, and to increase by 1.25 per cent in 2016–17.¹² Australia's terms of trade are forecast to remain at its 2005 level from 2019–20 onwards.¹³

The Reserve Bank of Australia noted that oil prices had sharply fallen over recent months, and that other commodity prices, including the prices for coal and iron ore, have also declined.¹⁴ The Reserve Bank noted that the 'outlook for China continues to be a key source of uncertainty' and warned that any sharp slowing in economic activity would have implications for commodity prices, including those that are important for Australia.¹⁵

One important commodity for Australia is the price of iron ore. Iron ore was forecast to be US\$48 per tonne FOB (free on board) at the 2015–16 Budget, which was reduced to US\$39 per tonne FOB at the 2015–16 MYEFO, and was subsequently increased to US\$55 per tonne FOB at the 2016–17 Budget.¹⁶ Recent reports indicated that McKinsey & Co forecast that iron ore would trade between US\$45 and US\$50 per tonne this year. Goldman Sachs forecast that at the end of this year iron ore would be about US\$35 per tonne. Citi forecast an average price of US\$38 per tonne for 2016 and US\$35 per tonne for 2017 and 2018.¹⁷ The Government estimates a

6. Australian Bureau of Statistics, [Consumer price index, Australia, March 2016](#), cat. no. 6401.0, ABS, Canberra, 27 April 2016.

7. RBA, [Statement on monetary policy](#), op. cit., p. 60.

8. Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 2.2, p. 9.

9. Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 2, Table 1, p. 2-6.

10. RBA, [Historical data: exchange rates](#), RBA website.

11. Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 2.2, p. 9.

12. Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 2, Table 1, p. 2-6.

13. Ibid, p. 2-30.

14. RBA, [Statement on monetary policy](#), op. cit.

15. Ibid, p. 2.

16. Australian Government, [Budget strategy and outlook: budget paper no. 1: 2015–16](#), Statement 1, p. 1-6; Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 2.2, p. 9; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 2, Table 1, p. 2-6.

17. A Saunders and J Thomson, ['China's sudden steel boom could be bad news for miners'](#), *The Sydney Morning Herald*, (online edition), 17 April 2016.

US\$10 per tonne reduction/increase in the iron ore price results in just over a \$6 billion reduction/increase in nominal GDP in 2016–17.¹⁸

Fiscal outlook

The 2016–17 Budget was somewhat unusual as it was delivered on the cusp of an anticipated double dissolution election. Given the anticipated call of an election, the Government introduced a series of Supply Bills into Parliament so as to ensure that the funding of government programs and activities would continue beyond 1 July.¹⁹

Fiscal strategy

In the 2016–17 Budget, the Government announced a change to its stated fiscal strategy, relative to the 2015–16 Budget. While the strategy largely stayed the same, the Government’s 2016–17 fiscal strategy suggested that it was prepared to be more flexible and interventionist in using fiscal policy to manage the economy. The Government stated that the fiscal strategy ‘will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.’²⁰ Moreover, the fiscal strategy included a further element of ‘supporting revenue growth by supporting policies that drive earnings and economic growth.’²¹ Further, the Government has also abandoned the target of surpluses of one per cent of GDP by 2023–24, and altered the target for debt from Commonwealth Government Securities on issue (synonymous with gross debt) to net debt. These changes to the fiscal strategy suggest that the Government may be more inclined than it was previously to be flexible with fiscal policy and taking on additional debt where that will, in the Government’s view, contribute to economic growth.

Key fiscal aggregates

The key fiscal aggregates as forecast by the Government are set out in table 3.

Table 3: Budget aggregates

	Actual		Estimates		Projections	
	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Underlying cash balance (\$b)	-37.4	-39.9	-37.1	-26.1	-15.4	-6.0
<i>Per cent of GDP</i>	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3
Fiscal balance (\$b)	-39.9	-39.4	-37.1	-18.7	-9.9	-2.1
<i>Per cent of GDP</i>	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1

Source: Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 3, Table 2, p. 3-10.

The underlying cash deficit is expected to be \$37.1 billion in 2016–17, compared to a deficit of \$33.7 billion projected in MYEFO. The underlying cash deficit is expected to be to \$15.4 billion in 2018-19, compared to a deficit of \$14.2 billion for 2018–19 published in the 2015–16 MYEFO.

The movement in the Commonwealth’s fiscal stance, relative to the 2015–16 MYEFO, is set out in table 4.

Table 4: Australian Government general Government sector budget aggregates at 2015–16 MYEFO compared to 2016–17 Budget

	2015–16		2016–17		2017–18		2018–19		2019–20	
	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget	MYEFO	Budget
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Receipts	394.9	388.0	415.3	411.3	440.9	437.4	473.5	469.9	n.a.	500.7
<i>Per cent of GDP</i>	23.9	23.5	24.1	23.9	24.3	24.2	24.8	28.8	n.a.	25.1
Payments	428.3	425.0	445.3	445.0	459.9	459.9	483.3	481.5	n.a.	502.6
<i>Per cent of</i>	25.9	25.8	25.8	25.8	25.3	25.5	25.3	25.4	n.a.	25.2

18. Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 2, p. 2-28.

19. [Supply Bill \(No. 1\) 2016–2017](#), [Supply Bill \(No. 2\) 2016–2017](#), [Supply \(Parliamentary Departments\) Bill \(No. 1\) 2016–2017](#).

20. Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 3, p. 3-7.

21. Ibid.

<i>GDP</i>										
Net Future Fund earnings	4.0	3.0	3.7	3.3	4.0	3.6	4.5	3.8	n.a.	4.1
Underlying cash balance	-37.4	-39.9	-33.7	-37.1	-23.0	-26.1	-14.2	-15.4	n.a.	-6.0
<i>Per cent of GDP</i>	-2.3	-2.4	-2.0	-2.2	-1.3	-1.4	-0.7	-0.8	n.a.	-0.3
Revenue	401.0	396.4	423.2	416.9	452.6	449.5	487.1	484.4	n.a.	515.1
<i>Per cent of GDP</i>	24.3	24.0	24.5	24.2	24.9	24.9	25.5	25.5	n.a.	25.9
Expenses	432.2	431.5	451.2	450.6	465.9	464.8	491.4	489.3	n.a.	25.9
<i>Per cent of GDP</i>	26.2	26.1	26.1	26.2	25.7	25.7	25.7	25.8	n.a.	25.7
Net operating balance	-31.3	-35.1	-28.0	-33.7	-13.3	-15.4	-4.3	-5.0	n.a.	3.5
Net capital investment	4.5	4.4	4.7	3.4	4.1	3.4	5.9	4.9	n.a.	5.5
Fiscal balance	-35.8	-39.4	-32.8	-37.1	-17.4	-18.7	-10.2	-9.8	n.a.	-2.1
<i>Per cent of GDP</i>	-2.2	-2.4	-1.9	-2.2	-1.0	-1.0	-0.5	-0.5	n.a.	-0.1
Memorandum item:										
Headline cash balance	-48.2	-51.5	-48.9	-53.4	-32.3	-34.2	-23.8	-23.9	n.a.	-14.4

Sources: Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 3.3, p. 29; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 3, Table 2, p. 3–10.

Australia's net debt position is forecast to deteriorate across the forward estimates since the 2015–16 MYEFO. As a proportion of GDP, net debt is also forecast to deteriorate (table 5).

Table 5: Net debt at 2015–16 MYEFO compared to 2016–17 Budget

	2015–16		2016–17		2017–18		2018–19	
	MYEFO \$b	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b	Budget \$b	MYEFO \$b	Budget \$b
Net debt	278.8	285.7	316.5	326.0	323.7	346.8	325.4	356.4
<i>Per cent of GDP</i>	16.9	17.3	18.3	18.9	17.6	19.2	16.8	18.8

Sources: Australian Government, [Mid-year economic and fiscal outlook 2015–16](#), Table 3.2, p. 26; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 3, Table 3, p. 3–15.

The 2016–17 Budget has marginally downgraded most key economic parameters since 2015–16 MYEFO (Table 6). There have been slightly larger downward revisions for corporate gross operating surplus and unincorporated business income.

Table 6: Key economic parameters

	Estimates		Projections		
	2015–16 %	2016–17 %	2017–18 %	2018–19 %	2019–20 %
Revenue parameters at 2016–17 Budget					
Nominal GDP	2 ½	4 ¼	5	5	5
<i>Change since 2015–16 MYEFO</i>	-¼	-¼	0	-¼	n.a.
Compensation of employees	3	4	4 ½	4 ½	5

<i>Change since 2015–16 MYEFO</i>	- $\frac{3}{4}$	0	$\frac{1}{4}$	0	<i>n.a.</i>
Corporate gross operating surplus	1 $\frac{1}{4}$	5 $\frac{1}{4}$	5 $\frac{3}{4}$	5 $\frac{1}{4}$	4 $\frac{3}{4}$
<i>Change since 2015–16 MYEFO</i>	1 $\frac{1}{4}$	0	-1	-1	<i>n.a.</i>
Unincorporated business income	4 $\frac{1}{2}$	4	5 $\frac{1}{2}$	5 $\frac{1}{2}$	4 $\frac{3}{4}$
<i>Change since 2015–16 MYEFO</i>	$\frac{1}{2}$	-1 $\frac{1}{4}$	-1 $\frac{1}{4}$	-1 $\frac{1}{4}$	<i>n.a.</i>
Property income	1 $\frac{3}{4}$	5	6 $\frac{1}{4}$	5	5 $\frac{1}{4}$
<i>Change since 2015–16 MYEFO</i>	1 $\frac{3}{4}$	-1 $\frac{1}{4}$	1 $\frac{3}{4}$	$\frac{1}{4}$	<i>n.a.</i>
Consumption subject to GST	4	4 $\frac{3}{4}$	5 $\frac{1}{4}$	5 $\frac{1}{2}$	5 $\frac{1}{4}$
<i>Change since 2015–16 MYEFO</i>	- $\frac{1}{4}$	- $\frac{3}{4}$	$\frac{1}{2}$	$\frac{1}{2}$	<i>n.a.</i>

In current prices, per cent change on previous years.

Source: Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 4, Table 4, p. 4-9.

Table 7: Estimated expenses by function, 2015–16 Budget, 2016–17 Budget and percentage change

	2015–16 Budget				2016–17 Budget				Per cent differences			
	2015-16	2016-17	2017-18	2018-19	2015-16	2016-17	2017-18	2018-19	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
General public services	22,162	22,936	22,224	22,543	23,967	22,659	21,790	22,345	8.14	-1.21	-1.95	-0.88
Defence	26,348	26,106	27,631	28,783	25,986	27,155	27,937	29,384	-1.37	4.02	1.11	2.09
Public order and safety	4,885	4,851	4,735	4,806	4,958	4,915	4,766	4,719	1.49	1.32	0.65	-1.81
Education	31,854	33,133	34,055	35,115	32,515	33,669	33,815	34,494	2.08	1.62	-0.70	-1.77
Health	69,381	71,634	74,076	76,987	69,172	71,413	73,425	76,239	-0.30	-0.31	-0.88	-0.97
Social security and welfare	154,000	159,654	170,719	186,869	152,838	158,612	166,518	184,260	-0.75	-0.65	-2.46	-1.40
Housing and community amenities	5,329	5,242	5,041	4,553	4,865	5,282	5,051	4,455	-8.71	0.76	0.20	-2.15
Recreation and culture	3,530	3,350	3,294	3,287	3,512	3,401	3,337	3,249	-0.51	1.52	1.31	-1.16
Fuel and energy	6,706	6,705	6,895	7,237	6,528	6,687	6,782	7,028	-2.65	-0.27	-1.64	-2.89
Agriculture, forestry and fishing	3,063	2,930	2,780	2,408	2,768	3,122	3,084	2,626	-9.63	6.55	10.94	9.05
Mining, manufacturing and construction	3,142	3,129	3,082	3,092	3,650	3,545	3,792	3,999	16.17	13.29	23.04	29.33
Transport and communication	8,575	11,198	9,304	6,315	8,647	11,131	10,606	6,599	0.84	-0.60	13.99	4.50
Other economic affairs	9,792	8,918	8,850	8,950	9,626	9,832	8,620	8,600	-1.70	10.25	-2.60	-3.91
Other purposes	85,701	92,869	99,131	108,483	82,437	89,129	95,291	101,326	-3.81	-4.03	-3.87	-6.60
Total expenses	434,469	452,654	471,816	499,428	431,470	450,553	464,812	489,324	-0.69	-0.46	-1.48	-2.02

Sources: Adapted from Australian Government, [Budget strategy and outlook: budget paper no. 1: 2015–16](#), Statement 5, Table 3, p. 5-8; Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](#), Statement 5, Table 2, p. 5-6.

Estimated expenses have fallen across the forward estimates from the 2015–16 Budget to the 2016–17 Budget (see Table 7). Expenses associated with agriculture, forestry and fishing are forecast to substantively fall in 2015–16 before increasing at an average of nearly nine per cent for the remainder of the forward estimates. Expenses associated with mining, manufacturing and construction are forecast to grow at an average of 20 per cent over the forward estimates. General public services expenses are forecast to increase eight per cent in 2015–16 before slight expense reductions over the remainder of the forward estimates. Housing and community amenities expenses are forecast to fall by nearly nine per cent in 2015–16, before slight increases to 2017–18 before falling again in 2018–19.

Significant Government priorities and actions

The 2016–17 Budget announced various measures in areas including:

- welfare reform and further employment participation initiatives
- taxation relief for selected households and firms, coupled with extensions to the tax base and additional tax integrity measures
- restructuring of the incentives attached to, and seemingly the role of, superannuation
- defence procurement and associated related defence industry development and
- further commitments in relation to infrastructure.

There are some announced measures which, if ultimately enacted, may constitute longer-term reforms with enduring benefits. Overall, however, the Government's announced budget measures suggest a desire to stabilise the fiscal position of the Commonwealth, balanced with a willingness to be more engaged in promoting specific types of economic activity, whilst encouraging economic growth generally.

Welfare and employment participation

The Government's approach in this Budget appears to be mostly on measures that it considers will stimulate employment and economic growth. The approach to welfare in the Budget is less punitive than in previous years, with a much greater focus on supporting people—especially young people—into work rather than restricting access to welfare benefits. There is, however, still a focus on compliance and the affordability of the welfare system.

The National Disability Insurance Scheme

In March 2016, the Government announced the establishment of the National Disability Insurance Scheme (NDIS) Savings Fund to help meet the future funding needs of the NDIS.²² The Budget allocates \$1.3 billion in net savings from social welfare payment expenditure towards the NDIS Savings Fund.²³ A further \$711.2 million in savings from within the NDIS (from reduced net costs in transition agreements signed with the states and territories) will be credited to the NDIS Savings Fund. This will result in an estimated \$2.1 billion being credited to the Fund over five years, on top of the Fund's opening balance of \$164.2 million which was set aside in the Mid-Year Economic and Fiscal Outlook.²⁴

Reforms to welfare and encouraging employment participation

Welfare savings will be drawn in part from a reassessment of the work capacity of 90,000 Disability Support Pension recipients over the next 3 years — this is expected to provide savings of \$62.1 million over five years. There has been an additional \$96.1 million announced to the Try, Test and Learn Fund. This Fund will finance innovative policies based on an actuarial analysis to identify groups at risk of long term welfare dependency and assist them into employment.²⁵ In addition, the Government will close carbon tax compensation to new benefit recipients from 20 September 2016, saving approximately \$1.4 billion over five years.²⁶

In the employment area there is a focus on youth employment, with the announcement of an \$840 million youth employment package. This consists chiefly of a new Youth Jobs PaTH (Prepare – Trial – Hire) program and the extension of the New Enterprise Incentive Scheme (NEIS).

The Youth Jobs PaTH Program will provide assistance to up to 120,000 young job seekers over four years. The Program consists of three stages: intensive pre-employment training; a workplace internship during which job seekers will be paid \$200 a fortnight on top of their regular Centrelink payments and the sponsoring employer

22. M Cormann (Minister for Finance) and C Porter (Minister for Social Services), [New NDIS account to lock in funding](#), media release, 16 March 2016.

23. Australian Government, [Budget measures: budget paper no. 2: 2016–17](#), p. 143.

24. Ibid.

25. Australian Government, [Budget 2016–17 overview](#), 3 May 2016, p. 10.

26. Ibid., p. 6.

will receive a payment of \$1,000; and, a wage subsidy of up to \$10,000 for employers who hire an eligible job seeker on an on-going basis.²⁷

In this Budget the Government has allocated \$100.0 million over three years for *Domestic and Family Violence: New Initiatives To Break the Cycle of Violence*. This builds on the \$101.2 million provided for a Women's Safety Package announced by the Government in September 2015 (detailed in the *Mid-Year Economic and Fiscal Year Outlook 2015–16*). This measure will draw on the recommendations of the Third Action Plan (part of the *National Plan to Reduce Violence against Women and their Children 2010–22*), due for release in mid-2016.²⁸

Healthcare and aged care

In health, the Government is continuing with the Aged Care Road Map with the introduction of \$249 million to aged care. This includes \$102.3 million on the aged care viability supplement to improve services in regional and remote areas, and \$136.6 million towards the Aged Care Contact Centre to meet increasing demand. A revision of the Aged Care Funding Instrument is slated to deliver efficiencies of \$1.2 billion over the forward estimates.²⁹

There will be \$21.3 million provided over the four years from 2015–19 to trial the health care homes model of primary health care. This trial will support primary care providers to provide coordinated care and case management to approximately 65,000 patients with complex conditions.³⁰

There are a number of measures under the title of Healthier Medicare including enhanced compliance programmes and removing obsolete services. The Government has also proposed to extend the pause in indexation of the Medicare Benefits Schedule until 2020, as well as instituting a pause to the indexation of the Medicare Levy Surcharge and the Private Health Insurance Rebate for a further three years.³¹

The Government has announced a reform of public dental services with the Child and Adult Public Dental Scheme to be delivered under a National Partnership Agreement. All children, and adult concession card holders will be eligible for the scheme and states will have discretion to provide services for other groups. Under the agreement, the Commonwealth Government will provide 40 per cent of the national efficient price for all dental services under the scheme. The cost of this scheme will be funded from the termination of the Child Dental Benefits Schedule and the National Partnership Agreement for Adult Dental Services.³²

In addition, the new funding arrangements for public hospitals are included in the 2016–17 Budget, with a further \$2.9 billion being provided over the forward estimates. This announcement includes the states and territories working to improve services and reduce unnecessary hospitalisation. The Government will also provide \$8.5 million over three years to continue the operation of the Administrator of the National Health Funding Pool and the National Health Funding Body.³³

The Government is seeking savings in residential aged care subsidies of \$1.2 billion over the forward estimates through changes to the Aged Care Funding Instrument. There is some new spending for aged care, including \$102.3 million on better targeting of the viability supplement to support services in regional and remote areas, and \$136.6 million for the My Aged Care Contact Centre to meet increasing demand.

Education

An increased indexation rate of 3.56% accounts for the Budget's additional school funding—\$1.2 billion over four years from 2017–18. This funding was previously announced by the Government and is contingent on state and territory governments maintaining their funding effort and undertaking specific education reforms to improve student outcomes.

The key measure in tertiary education is the further delay in reforms that originated in the 2014–15 Budget. Fee deregulation for undergraduate students has been ruled out, with cuts in government subsidies to proceed from

27. Australian Government, [Budget measures: budget paper no. 2: 2016–17](#), p. 85.

28. *Ibid.*, p. 141.

29. *Ibid.*, pp. 101, 102, 109.

30. *Ibid.*, p. 105.

31. *Ibid.*, pp. 103, 104, 113.

32. *Ibid.*, p. 102.

33. *Ibid.*, p. 117.

2018. The government released a [discussion paper](#) in conjunction with the budget, to frame final decisions on the shape of Australia's higher education sector.³⁴

Communications

The Government has announced that it will be reducing broadcast license fees by 25 per cent as a result of the Government's review of fee arrangements. There will also be \$3.1 billion in base operational funding over three years for the Australian Broadcasting Corporation and \$814.2 million for the Special Broadcasting Service Corporation.³⁵

Taxation

The 2016–17 Budget relieves the tax burden for selected households and firms, while introducing additional tax integrity measures and expanding the tax base in some minor ways.

Reductions in the tax burden

The 'Ten Year Enterprise Tax Plan' consists of 11 measures that target middle income wage earners, small businesses and changes to specific behavioural taxes, as well as a range of technical amendments.

The key individual and specific taxation reforms include personal income tax relief with a change in the marginal tax rates for income earners around \$80,000, and wine equalisation tax rebate integrity and wine tourism funding.

Small business adjustments include a progressive increase in the small business entity turnover threshold, increases to the unincorporated small business tax discount, business simplification—taxation of financial arrangements—regulation reform, and progressively reducing the company tax rate to 25 per cent.

Increased integrity measures

The 'Tax Integrity Package' consists of eight measures that signal an intention of the Government to enforce more stringent conditions on taxpayers generally. The measures include major reforms to the collection of taxation and technical amendments to meet internationally determined standards for tax system integrity.

The collection of initiatives include a new diverted profits tax, better protecting tax whistle-blowers, broadening a 'securitised asset' measure, deferred tax liabilities and establishing the Tax Avoidance Taskforce. The technical amendments include implementing the OECD hybrid mismatch arrangement rules, increasing administrative penalties for significant global entities and strengthening transfer pricing rules. These changes are characterised by the Government as 'tougher laws' and 'stronger compliance' in order to increase receipts from existing economic activity.

Tax base expansion

Several measures propose minor increased to the tax base. The most notable of these is the proposal to extend the base of the Goods and Services Tax to cover goods imported by consumers from overseas.³⁶

Superannuation

The 'Superannuation Reform Package' appears to be mostly aimed at reframing the intent of the superannuation system as a vehicle for the self-funding of retirement income by employees, up to a reasonable amount.

Reflective of this apparent intention, the Government stated that these changes will:

... for the first time, enshrine in law that the objective for superannuation is to provide income in retirement to substitute or supplement the Age Pension.³⁷

The Budget provided for 10 measures which are:

- allowing 'catch-up' concessional superannuation contributions for those who have potentially underfunded their superannuation with interrupted work patterns to move towards a cap

34. Department of Education and Training, [Driving innovation, fairness and excellence in Australian higher education](#), Discussion paper, May 2016.

35. Ibid., p. 70.

36. Ibid., p. 19.

37. Australian Government, [Budget 2016–17 overview](#), op. cit., p. 20.

- harmonising contribution rules for persons aged 65 to 74 providing an option for people working beyond traditional retirement age to participate in the superannuation system
- increasing the 'low income' threshold for the low income spouse superannuation tax offset potentially increasing the balances of low income spouses
- reducing the tax-free benefits of higher income individuals by introducing a \$1.6 million superannuation transfer balance cap
- introducing a lifetime cap for non-concessional superannuation contributions of \$500,000
- introducing a Low Income Superannuation Tax Offset (LISTO) to improve lower income superannuation balances
- reforming the taxation of concessional superannuation contributions by lowering the threshold for additional contributions tax and lowering concessional contributions to \$25,000
- removing the anti-detriment provision for death benefits from superannuation, which currently allow a member's lifetime contributions tax payments to be paid into an estate
- removing a tax exemption on earnings from assets supporting transition to retirement incomes streams in order to strengthen the integrity of income streams and
- increased tax deduction options for personal superannuation contributions from individuals in less usual employment situations, to enable consistency with usual employment situations.

Combined, the proposed changes suggest a shift in the nature of superannuation towards a vehicle for accumulating more modest retirement savings, and an intention for superannuation to be used primarily as a substitute for Government-funded retirement income support.

Defence and national security

There are fewer mentions of national security issues in the Government's budget documents than has been the case in recent years. Instead, emphasis is placed on what the Treasurer's budget speech describes as:

A defence plan for local hi-tech manufacturing and technology.³⁸

This draws out two of the Budget's major themes: support for industry and investing in regional growth.

The Budget repeats the recently released Defence White Paper's promise of an additional \$29.9 billion in funding for Defence across 10 years to 2025 and links this to expenditure of \$195 billion in defence capability across the same period. The Budget Overview document states that this will aid in the creation of 3,600 Australian jobs as well as thousands more in the supply chain.³⁹

In addition, the Government has provided:

- \$1.6 billion for industry competitiveness and skills
- \$686 million for continued military operations.⁴⁰

The budget documents set out defence capability already announced such as the future submarines, offshore patrol vessels and future frigates. However, since each of these projects is relatively new they make little impact on the 2016–17 Budget.

Unsurprisingly, the Budget provides funding for Defence that is very much in line with the funding model set out in the *2016 Defence White Paper* (2016 DWP) and accompanying Defence Integrated Investment Program (DIIP). Both documents set out funding which aims to reach \$42.4 billion by 2020–21 or 2 per cent of GDP based on current Treasury predictions.⁴¹ Total Defence funding for 2016–17 of \$32.8 billion is close to the 2016 DWP's forecast of \$32.3 billion and the forward estimates are also aligned.⁴²

38. S Morrison (Treasurer), [Budget speech 2016–17](#), p. 13.

39. Australian Government, [Budget 2016–17 overview](#), op. cit., p. 13.

40. Ibid, p. 13.

41. Department of Defence, [2016 Defence white paper](#), Department of Defence, Canberra, 2016, pp. 177–180.

42. Australian Government, [Portfolio budget statements 2016–17: budget related paper no. 1.4A: Defence Portfolio](#), p. 17.

Defence also enjoys a prominent presence in the Government's statement *Investing in Regional Growth 2016–17*.⁴³ This includes:

- defence assistance to the civil community in dealing with bushfires and cyclones
- defence industry's role in regional Australia
- the Centre for Industry Capability headquartered in Adelaide but with services to be provided 'across the country'
- Defence Logistics Transformation Program which aims to modernise storage and transport facilities around the country
- Explosive Ordnance Logistics Reform Programs which seeks to do the same for ordinance storage infrastructure
- Defence housing upgrades
- United States Force Posture initiative.

Not all of these measures include additional funding—indeed, some of these measures do not have any funding identified—but they are presented in a way that reinforces Defence's contribution to regional Australia.

Public administration

The Government's focus has moved from reducing Commonwealth Public Service employee numbers to modernising the public sector. Full time staff levels are expected to remain at current levels (167,340). The efficiency dividend will remain at 2.5 per cent for an additional year before slightly increasing through to 2019–20.⁴⁴ As a result of these efficiencies, \$500 million will be reinvested into specific agencies (not named) to automate public services and business reengineering.⁴⁵ In total, the *Public Sector Transformation and the Efficiency Dividend* will achieve \$1.4 billion net savings over three years.⁴⁶

Operation Tetrus will also achieve savings of \$200 million over the next 10 years by requiring agencies to fill vacant leased office space in the ACT rather than entering into new leases or renewing expiring leases. This initiative will then be rolled out nationally.⁴⁷

In line with an expected 2016 Federal Election and recent amendments to *The Commonwealth Electoral Act 1918*, the Australian Electoral Commission has received a significant increase in their *Special Appropriations Budget* in 2015–16, from \$9.6 million to \$83 million in 2016–17.⁴⁸

Commonwealth-State relations

The Government appears to have solidified its position in relation to the supporting the states' and territories' delivery of services, with further suggestions that the states and territories should seek to take a greater role in funding and delivering services within their core areas of responsibility. As an example, the Government stated:

Commonwealth payments to the States are continuing to grow at a time when State budgets are in a strong position.

However, all levels of government must live within their means and ensure services are based on what taxpayers can afford and the economy can support.⁴⁹

However, despite this statement, there were no significant announcements in relation to Commonwealth funding of the states and territories.

43. F Nash (Minister for Regional Development), [Budget 2016–17: investing in regional growth 2016–17](#), ministerial budget statement, 3 May 2016, pp. 34–43.

44. Australian Government, [Agency resourcing: budget paper no. 4: 2016–17](#), p. 2.

45. Australian Government, [Budget measures: budget paper no. 2: 2016–17](#), p. 71.

46. Ibid.

47. Australian Government, [Agency resourcing: budget paper no. 4: 2016–17](#), p. 5.

48. Ibid., p. 93.

49. Australian Government, [Budget 2016–17 overview](#), 3 May 2016, p. 23.

Table 8 shows the payments the Commonwealth anticipates making to the states and territories in 2016–17 by function.

Table 8: Payments to the states and territories by function 2016–17

2016-17	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
General public services	-	-	-	-	-	-	-	-	8,000
Public order and safety	86,417	66,271	54,281	32,203	21,330	7,957	11,369	76,574	356,402
Education	6,033,238	4,858,024	4,162,301	1,945,132	1,373,147	451,362	320,513	383,634	19,528,870
Health	5,786,259	4,431,558	3,683,800	2,058,486	1,280,270	418,636	343,822	304,801	18,723,248
Social security and welfare	771,464	543,070	417,922	459,554	175,357	52,329	70,815	34,949	2,525,460
Housing and community amenities	488,098	374,337	464,910	297,840	124,457	34,090	26,157	228,780	2,058,168
Recreation and culture	5,000	-	-	-	-	1,780	-	-	6,780
Fuel and energy	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	149,610	201,299	60,879	1,472	129,466	22,105	27,348	2,876	600,198
Mining, manufacturing and construction	-	-	-	-	-	-	-	-	-
Transport and communication	3,197,863	739,841	2,170,333	841,846	668,314	172,440	24,137	124,134	9,141,895
Other economic affairs	4,831	2,779	2,920	1,388	989	775	775	775	15,232
Other purposes	18,396,806	14,453,744	14,771,169	2,321,279	6,252,093	2,378,426	1,242,062	3,296,306	63,580,617
Total payments to the states	34,919,586	25,670,923	25,788,515	7,959,200	10,025,423	3,539,900	2,066,998	4,452,829	116,544,870
<i>less payments 'through' the states</i>	3,443,507	2,920,480	2,381,161	1,181,902	836,685	238,308	220,186	182,737	11,406,485
<i>less financial assistance grants for local government</i>	712,232	541,819	450,095	280,220	151,505	71,546	48,611	32,649	2,288,677
<i>less payments direct 'to' local government</i>	234,809	163,763	174,982	117,836	57,676	26,226	-	12,931	788,223
<i>equals total payments 'to' the states for own-purpose expenses</i>	30,529,038	22,044,861	22,782,277	6,379,242	8,979,557	3,203,820	1,798,201	4,224,512	102,061,485

The largest category, 'other purposes,' mostly comprises the revenue from the GST.

Additional information about proposed payments in the years from 2017–18 to 2019–20 are available in Appendix B of *Federal financial relations: budget paper no. 3: 2016–17*, which is available online only.⁵⁰

50. Australian Government, [Federal financial relations: budget paper no. 3: 2016–17](#), Appendix B, Budget website.

Goods and Services Tax revenue and its distribution

The Government is forecasting a 6.8 per cent increase in the Goods and Services Tax (GST) revenue pool between 2015–16 and 2016–17; from \$57.1 billion to \$61.0 billion respectively.⁵¹ A perennial issue in relation to the GST is the manner in which it is distributed amongst the states and territories, in the process known as horizontal fiscal equalisation. Of particular contention is the low ‘GST relativity’ currently enjoyed by Western Australia, which means that Western Australia receives only about 30 per cent of the GST revenue it would receive were the GST distributed on an equal, per capita basis. The reason for the low share of the GST pool received by Western Australia is mostly related to the high price of iron ore which has, over the last decade or so, increased Western Australia’s assessed ‘revenue raising capacity’ in the horizontal fiscal equalisation process.

In the 2015–16 Budget, the Government provided two sets of forecasts for states’ and territories’ GST relativities: one being a ‘technical extrapolation’ based on certain assumptions but excluding forecast iron ore prices, and another which incorporated market estimates of iron ore prices as they were at the time of the 2015–16 Budget.⁵² In the 2016–17 Budget, however, the Government has not provided any forecasts of the states’ and territories’ GST relativities beyond 2016–17. The lack of a clear statement by the Commonwealth regarding the expected distribution of the GST may make the task of states and territories devising their own budgets more difficult.

© Commonwealth of Australia



Creative Commons

With the exception of the Commonwealth Coat of Arms, and to the extent that copyright subsists in a third party, this publication, its logo and front page design are licensed under a [Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia](https://creativecommons.org/licenses/by-nc-nd/3.0/au/) licence.

51. Australian Government, [Federal financial relations: budget paper no. 3: 2016–17](#), Table 3.4, p. 77.

52. Australian Government, [Federal financial relations: budget paper no. 3: 2015–16](#), pp. 80-82.