



Budget
2016-17

Ensuring that the
**Government lives
within its means**

balancing the budget and reducing
the burden of long term debt

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Living within our means

Like any Australian family or business, the Government is focused on keeping expenses down to balance the Budget and pay down debt

A stronger Budget supports jobs and growth and instils confidence as the economy transitions. Strengthening the nation's finances is key to the Government's economic plan. Working to balance the Budget will restore the buffers that protect Australia against the economic shocks and uncertainties that might otherwise threaten our future success. **Importantly, the Government remains committed to balancing the Budget.**

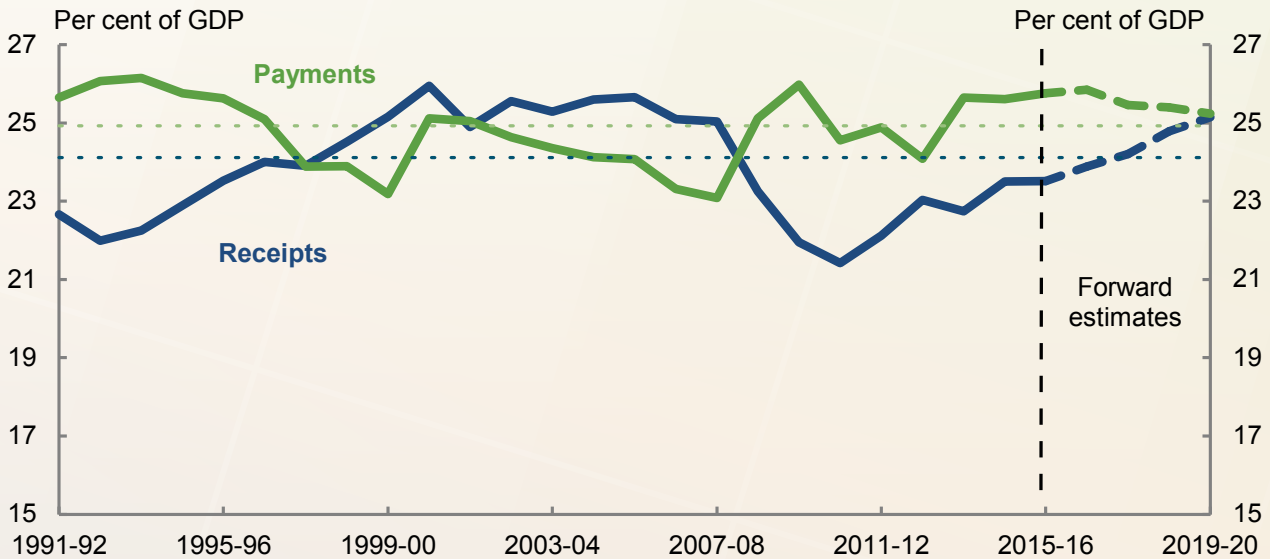
The Government's plan is to balance the Budget over time by keeping expenditure under control, while creating the conditions for a stronger economy that will allow revenue to grow. As the Budget is repaired, we will create headroom to further ease the tax burden and invest in new priorities, including much needed infrastructure.

Government spending is projected to continue to fall as a share of the economy, but remains above its historical average. In contrast, tax receipts are projected to return to their long run average by 2017-18. It is for this reason the Government is committed to getting expenditure under control and ensuring every taxpayer dollar is spent efficiently, while not adding to the tax burden in Australia. This will help boost productivity and investment, and drive jobs and growth.

In this Budget, all new Government spending has been offset by reductions in spending elsewhere and not paid for by increasing taxes on Australians. We are ensuring spending is fit for purpose by continuing to cut waste and unnecessary spending, and reprioritising funding towards growth-enhancing policies.



Payments remain at elevated levels



Note: dotted lines denote 30-year averages

At the same time we are implementing targeted revenue measures to help ensure everyone pays the right amount of tax, and the revenue required to fund essential services is raised in a more sustainable way.

We are cracking down on those that abuse or game the system, and also making sure welfare is directed to those that need it most, so that a strong safety net is there for those most in need.

We are continuing to invest in important infrastructure like roads, rail and airports to connect Australians to each other and world markets. We are providing record levels of financial support to States and Territories for hospitals and schools to improve health outcomes and productivity.

Repairing the Budget means we can begin paying down debt and reduce the fiscal burden on future generations.

A sustainable path to budget balance

The Government is making careful and responsible choices to support jobs and growth, while also repairing the budget over time

Laying the foundations for a stronger economy

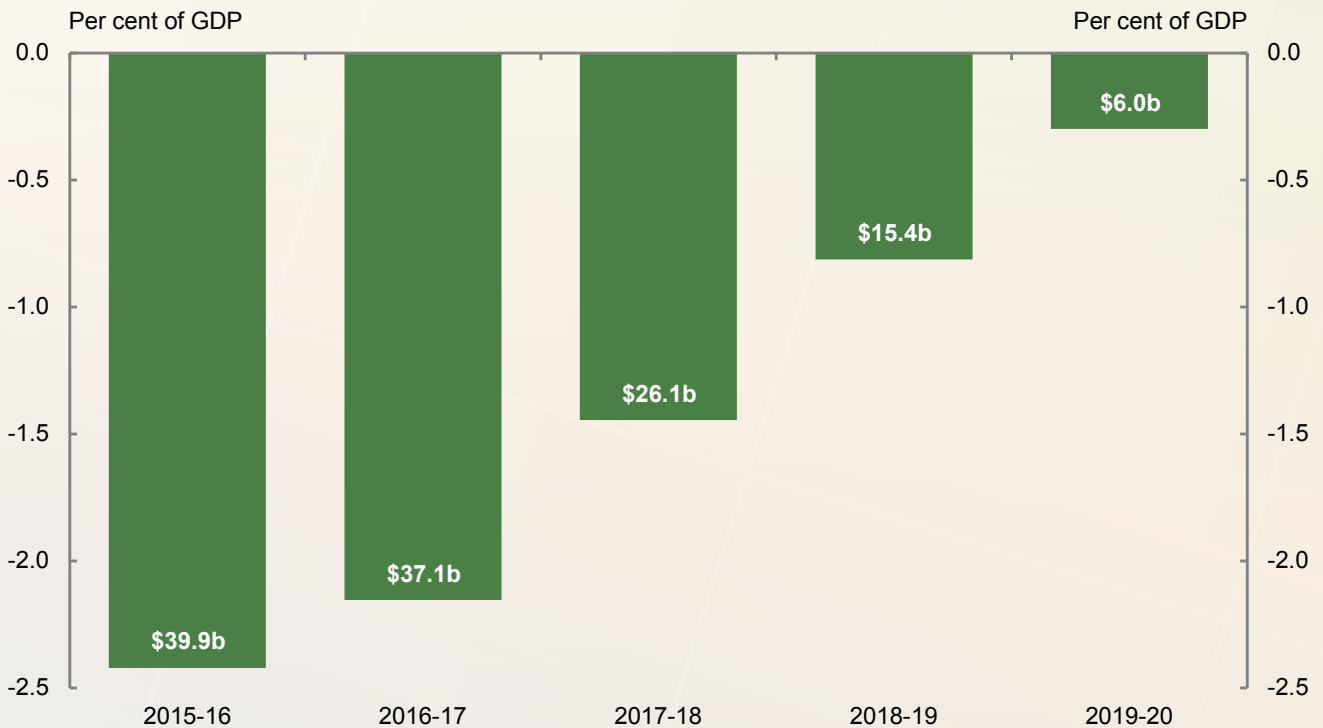
Since the 2013-14 mid-year budget review, the Government has announced overall savings of \$144 billion through sensible reductions in spending and targeted measures to make Australia's tax system more sustainable. **The underlying cash balance is projected to improve from a deficit of \$37.1 billion in 2016-17 to a deficit of \$6.0 billion by the end of the forward estimates.**

The Government has made careful and responsible choices in the 2016-17 Budget to ensure that the overall impact of new policy decisions is an improvement to the bottom line of \$1.7 billion over the four years from 2016-17 to 2019-20. All increases in spending have been offset by reductions in payments elsewhere – the Government is not relying on new or higher taxes to pay for new spending. **This is the responsible way to balance the Budget.**

Since the 2014-15 Budget, payments growth has been limited by controlling expenditure, reflecting the Government's strong commitment to fiscal restraint and budget repair. Getting expenditure under control and ensuring every dollar spent achieves its purpose will help boost productivity and drive jobs and growth.

New measures in this Budget are focused on supporting the transitioning economy to support jobs and growth.

Deficits are diminishing



Keeping spending under control

Payments remain steady or less than 2015-16 mid-year budget review levels.

Government payments as a share of GDP are declining from historic highs but more work is required to ensure that we keep expenditure under control.

This is necessary because while payments fall to 25.2 per cent of GDP at the end of the forward estimates, demographic factors and other spending decisions by earlier governments are expected to place significant pressure on payments over the medium-term.

Legislative delays

A key constraint in repairing the Budget has been the difficulty in passing legislation to implement key savings measures. At present, \$13 billion worth of expenditure savings and \$1.5 billion worth of revenue increases have not yet passed the Senate. The Government remains committed to securing the passage of these or alternative measures.

Ensuring spending is fit for purpose

Continuing our efforts to cut waste and unnecessary spending

Smaller government

The Government has introduced a range of *Smaller Government* reforms designed to improve the efficiency and productivity of the Commonwealth public sector.

The Government continues to closely manage the size and shape of government.

Staffing levels in the General Government Sector (excluding military and reserves) are being maintained at around, or below 2006-07 levels.

A rolling programme of Portfolio Stocktakes, Contestability Reviews and Functional and Efficiency Reviews is underway to streamline agencies.

The goal is to deliver accessible services, affordably and efficiently. The public sector needs to be smaller, more digital and more flexible.

Measures in this Budget will continue to drive the transformation of the public service.

Cutting waste and unnecessary spending

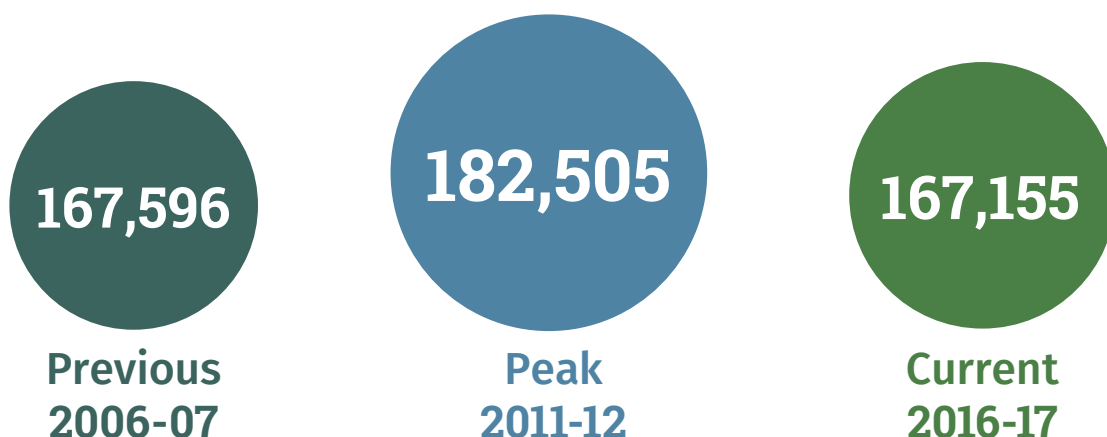
Maintaining a commitment to fiscal discipline requires difficult choices. In the context of the Government's scrapping of the carbon tax on 1 July 2014, the Government has reviewed the need to provide assistance for cost of living increases.

As a result, the Government will close carbon tax compensation to new benefit recipients from 20 September 2016. All existing recipients at this date will continue to receive the payment. Savings from this measure will be quarantined to offset new social services priorities and contribute to the National Disability Insurance Scheme (NDIS) Savings Fund to help pay for the NDIS.

Similarly, carbon tax compensation through the Single Income Family Supplement will also be closed to new recipients from 1 July 2017, with families who are eligible prior to this date continuing to receive the payment.

Steps such as these are designed to better target spending, without causing undue hardship, and ensuring that the welfare system is fit for purpose.

Average Government Staffing Levels



Spending only what taxpayers can afford

Making reforms affordable and sustainable



A stronger focus on youth

The Government is providing greater support for vulnerable young job seekers through the **\$840.3 million Youth Employment Package**, which will be funded through savings achieved from the wage subsidy pool and modification of the Work for the Dole phase.

From 1 October 2016, the most job-ready job seekers will commence the Work for the Dole phase after spending 12 months in *jobactive* services, instead of the current requirement of six months. This will better target the Work for the Dole programme, providing an opportunity for job seekers to focus on finding a job, for example through the new **Youth Jobs PaTH** programme, before moving to the Work for the Dole activity phase.

Wage subsidy arrangements will also be simplified and made more flexible for employers. Enhanced wage subsidy arrangements will benefit job seekers including young people, the mature-aged, indigenous people, parents and long-term unemployed.

Affordable reform

The Government remains committed to providing parents with more choice and opportunity to work through the *Jobs for Families* Child Care package announced at the 2015-16 Budget. This package will create a simpler, more affordable, accessible and flexible child care system and will see the Government invest more than \$40 billion in child care support over the next four years.

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

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

More targeted spending

The Government will direct spending to where it is most needed and most effective

More effective health spending

The Government will establish a **\$1.7 billion Child and Adult Public Dental Scheme** to ensure that dental spending is prioritised to those most in need. To fund this new Scheme, savings have been redirected from existing dental programmes that are either underutilised or inefficient.

As agreed at the April 2016 Council of Australian Governments meeting, the Commonwealth will provide an estimated additional **\$2.9 billion over three years from 1 July 2017 to the States and Territories for public hospitals**. This is on top of more than \$18 billion per annum already budgeted for over that period, with a focus on improving quality and patient safety.

In addition, the Government will provide **\$21.3 million to trial 'Health Care Homes'** to improve health care for Australians with chronic diseases and complex conditions – aiming to keep them out of hospital and living healthier lives at home.

The Government will also raise the **Medicare Levy low-income thresholds** for the 2015-16 financial year to keep up with inflation. This will ensure that low income households will continue to be exempt from the Medicare Levy.

To help fund these health care improvements the Government will **maintain the current level of Medicare Benefits Schedule fees** for all services provided by GPs, specialists, allied health and other health practitioners until June 2020.

In addition, the Government will **maintain the current income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate** for a further three years until 1 July 2021.



Sustainable aged care funding

The Government will refine the complex health component of the aged care funding formula to address unsustainable spending, which is growing two and a half times faster than the other funding components. Savings arising from better targeting of the funding that aged care providers receive will provide the ability to introduce new aged care initiatives and help meet the continued growth in aged care funding overall.

Consistent with the Aged Care Roadmap, the Government will reinvest \$249 million to improve aged care, including **\$102.3 million on the Aged Care Viability Supplement**, to help aged care providers in rural and remote areas better manage the cost pressures they face due to their isolation and small size. \$136.6 million will also be directed to the **My Aged Care contact centre** to meet increasing demand for information on aged care.

A strong safety net for Australia's most vulnerable

Improving the integrity of the welfare system

Better targeting and strengthened integrity

The welfare system must be well-targeted to those who need help the most, and continue to provide a safety net for Australia's most vulnerable people and families. Protecting the integrity of the welfare system helps ensure that the underlying principle of equity is maintained, whilst supporting people to work where they can. The best form of welfare remains a job, and helping people avoid the need for support and assistance remains a core objective for the Government.

In the 2015-16 Budget, the Government announced it will progressively replace Centrelink's ageing technology platform with a new welfare payment information and communications technology system. This is a vital step towards a newer, simpler and more efficient system to support the timely implementation of policy changes.

These system improvements will integrate with real time reporting of fortnightly income and sharing of data between Centrelink and the ATO. The Single Touch Payroll innovation will assist Centrelink to ensure that welfare recipients do not unintentionally incur debts to the Commonwealth by under-estimating their income. It will also identify people who make false declarations and ensure that Commonwealth debt held by individuals is more effectively recovered.

In November 2015, the Government announced the establishment of *Taskforce Integrity*, a Department of Human Services led initiative aimed at targeting welfare fraud. This Taskforce identifies people who deliberately withhold or provide false information to claim welfare payments.

A sustainable welfare system

In the 2016-17 Budget, the Government is committed to a sustainable welfare system by ensuring that those who are able to work are supported and encouraged to do so. Over the next three years, up to 90,000 current Disability Support Pension (DSP) recipients will have their **DSP eligibility reviewed to assess their capacity to work**. There will also be up to 30,000 Disability Medical Assessments for current DSP recipients considered to be a high risk of not being eligible for the payment.

These measures will enhance the integrity of Australia's social safety net by making sure that the only people who receive DSP are those who have significant physical, intellectual or psychiatric impairments.

These measures demonstrate the Government's ongoing commitment to ensure that those who need assistance receive that assistance, with savings from increased integrity contributing to the sustainability of important welfare programmes such as the National Disability Insurance Scheme (NDIS).

NDIS Savings Fund

To that end, the Government is **establishing the NDIS Savings Fund** to ensure the Commonwealth is able to meet future NDIS costs. In the 2016-17 Budget, savings totalling \$2.1 billion will be credited to the Fund. This is real money for a real commitment to the NDIS.

Fixing problems in our tax system

Targeting revenue measures to pay for essential services in a more sustainable way

This Budget includes targeted revenue measures to help ensure multinationals pay the right amount of tax to support the services Australians need.

Targeting tax avoidance

The Government is committed to ensuring that all businesses pay the right amount of tax and is introducing tougher rules to target multinational corporations who avoid paying tax in Australia.

The Government is introducing a **new Diverted Profits Tax** that will complement and further strengthen Australia's Multinational Anti-Avoidance Law (MAAL) passed by Parliament in December 2015. The new Diverted Profits Tax will increase Government revenue by an estimated \$100 million per year from 2018-19.

The Diverted Profits Tax will help ensure that the right amount of tax is paid on profits made in Australia by multinationals and is aimed at encouraging greater compliance with Australia's tax laws.

A newly established **Tax Avoidance Taskforce** will give the ATO more resources to crack down on tax avoidance by multinationals and high wealth individuals. The Government will invest an additional \$679 million in funding and over 1,000 experts in the Taskforce.

This increased funding for ATO compliance programmes will improve tax compliance in high risk sectors, resulting in better targeted audits and an expected \$3.7 billion of additional Government revenue over the next four years, \$450 million of which is generated from the MAAL.

Making the superannuation system more sustainable

Reforms to the taxation of superannuation, together with the Government's broader superannuation reform agenda, will support our world class superannuation system becoming more sustainable and flexible, with greater integrity.

This will enable current and future generations of Australians to continue to enjoy higher standards of living in retirement.

The Government will better target superannuation tax concessions to those who need them most and where they will be most effective in increasing self-sufficiency in retirement.



Targeting tax avoidance



A more sustainable superannuation system

Responsibly investing in health and education

Hospitals

The Government is continuing to invest in hospitals to support essential services provided by the States and Territories.

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

The Commonwealth will provide an estimated **additional \$2.9 billion between 2017-18 and 2019-20** with growth in Commonwealth funding capped at 6.5 per cent a year. This additional funding links to reforms which focus on improving patient safety, boosting the quality of services and reducing avoidable hospital admissions.

This investment is on top of the more than \$18 billion a year already budgeted for public hospitals over 2017-18 and 2019-20.

Schools

The Government is continuing to provide record levels of financial assistance to State and Territory governments and the non-government schools sector to support all Australian students.

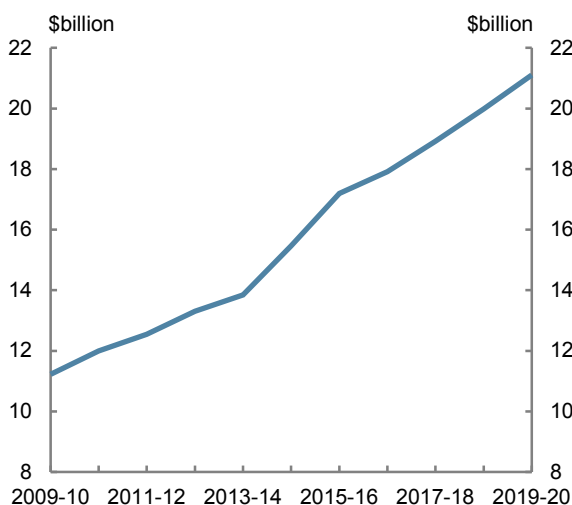
The Government will provide an **additional \$1.2 billion between 2018 and 2020** for schools, contingent upon reform efforts by the States and Territories and the non-government schools sector to improve education outcomes.

This investment is on top of the more than \$17 billion a year already budgeted for schools over 2018 to 2020.

Sustainable funding

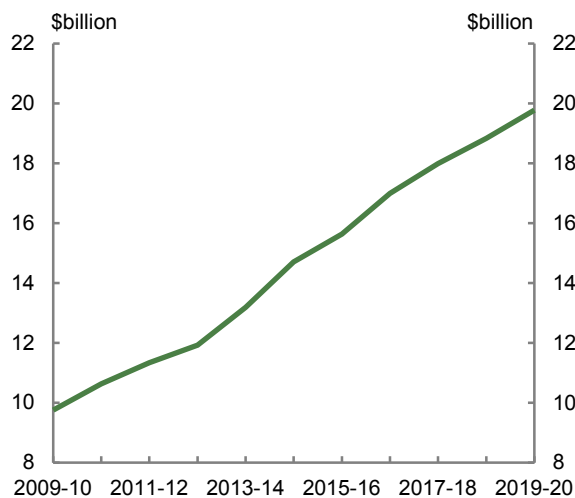
This funding for hospitals and schools provides an opportunity to develop longer-term funding arrangements and further reforms that focus on quality and sustainability into the future.

Commonwealth public hospital funding*



* National Healthcare Specific Purpose Payments and National Health Reform Funding.

Commonwealth schools funding*



* National Specific Purpose Payments for schools.

Responsibly investing in social services

Providing a platform to improve our quality of life

Priority investment approach to welfare (Try, Test and Learn Fund)

The Government's new \$96.1 million 'Try, Test and Learn Fund' (the Fund) will finance innovative policies to help the Government identify groups at risk of long term welfare dependency and assist them to move off welfare to employment. This approach aims to ensure that the Government funds programmes that actually deliver outcomes and cease or reform programmes that are shown to be ineffective.

The policies will be aimed at addressing barriers to participation and supporting people with the capacity to work to do so.

The Fund will be based on actuarial and other analysis that supports an investment approach to welfare. It builds on an initial \$33.7 million provided in the 2015-16 Budget to develop a detailed annual actuarial valuation of the lifetime liability of Australia's welfare system and maintain key longitudinal surveys.

ICT projects

The Government understands that effective digital infrastructure and systems are critical to reaping the benefits from today's digital economy. The Government continues to deliver the **National Broadband Network faster and at less cost**, to enable all Australians to connect to transformative services online.

The government has established a **Digital Transformation Agenda**, investing \$254.7 million from 2015-16, to put people and business first in digital service delivery. The Government is investing in the digital capabilities of those agencies and systems that touch on all Australians. Investments in the Welfare Payment Infrastructure Transformation programme, Australia's e-health record system, and the data and analytics capability of the Australian Taxation Office represent the Government's commitment to front and back-end changes that will improve Australians' engagement with government on a daily basis.



Priority Investment Approach to Welfare



Try, Test and Learn Fund



Helping people into work

A stronger financial system

Regulatory costs to strengthen the Australian Securities and Investments Commission will be paid by those in the industry

Strengthening the Australian Securities and Investments Commission

The Government has announced a \$127 million package of reforms to strengthen the Australian Securities and Investments Commission (ASIC), providing new powers and surveillance capabilities to combat misconduct in Australia's financial services industry and bolster consumer confidence in the sector.

The Government will cost recover through a new industry funding model for ASIC, to commence in the second half of 2017. Industry funding ensures that the costs of regulation are paid by those entities rather than ordinary Australians who tend to bear the brunt of financial sector misconduct. Banks will be the largest contributors reflecting their large market share of the financial system.

The package includes: \$61.1 million to enhance ASIC's data analytics and surveillance

capabilities; \$57 million to boost ASIC's surveillance and enforcement; and \$9.2 million to accelerate the implementation of measures recommended by the Financial System Inquiry.

An improved financial system

A resilient and innovative financial system is an essential part of our dynamic, modern economy. The strength of our financial sector underpinned Australia's relatively smooth passage through the global financial crisis. The Government's October 2015 response to the Financial System Inquiry further strengthens Australia's financial system.

The Government endorsed the Inquiry's recommendations that the Australian Prudential Regulation Authority set capital levels such that our banks are unquestionably strong. Higher levels of capital strengthen investor confidence and reduce the cost to taxpayers in the event of a financial institution's failure.

An additional \$127 million to protect consumers

\$61.1 million



Enhancing ASIC's data analytics and surveillance capabilities

\$57 million



Boosting ASIC's surveillance and enforcement on an ongoing basis

\$9.2 million



Accelerating implementation of measures recommended by the Financial System Inquiry