Parliament of Australia

Parliamentary Budget Office

June 2018

2018–19 Budget Chart Pack

A graphical summary of the 2018–19 Budget relative to the 2017–18 MYEFO

Foreword

These charts provide a visual summary of the key drivers of the changes between the 2017–18 Mid-Year Economic and Fiscal Outlook (MYEFO) and the 2018–19 Budget at an aggregate level and by major area of revenue and spending.

Each chart contains four elements for a given area of revenue or spending:

- the historical trend
- the estimates from the 2018–19 Budget
- the estimates from the 2017–18 MYEFO
- a decomposition of the change between MYEFO and the current Budget between policy changes and parameter variations.[1]

As with the PBO's 2018–19 Budget Snapshot, this chart pack aims to present key budget information in an accessible form with the goal of improving public understanding of budget issues.

This is a regular publication that the PBO issues as soon as possible after the release of the budget.

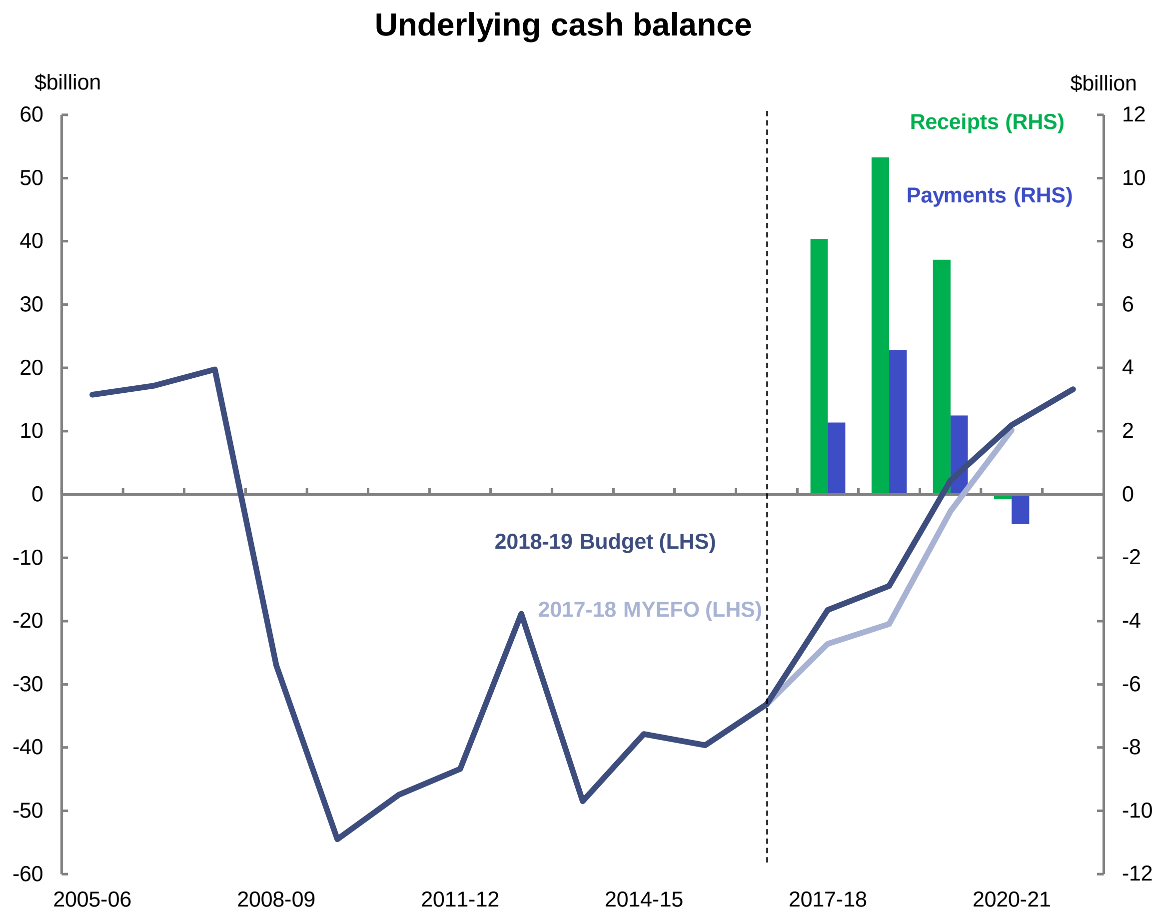
[1] This latter category (called 'parameter and other' variations in the budget papers) incorporates changes due to a broad range of reasons, including revised economic conditions, revisions to a program's estimated recipient numbers, re-profiling of expenditure and other revisions. Parameter and other variations are only shown to 2020–21 as this is the latest year for which estimates were provided in the 2017–18 MYEFO.

The underlying cash balance has improved significantly since the 2017–18 MYEFO driven by an upward revision to receipts

The underlying cash balance[2] has improved by $17.1 billion for the four years to 2020–21.

The overall improvement is driven by a $26.0 billion upward revision to receipts.

The upward revision to receipts is partially offset by a $8.4 billion upward revision to payments.

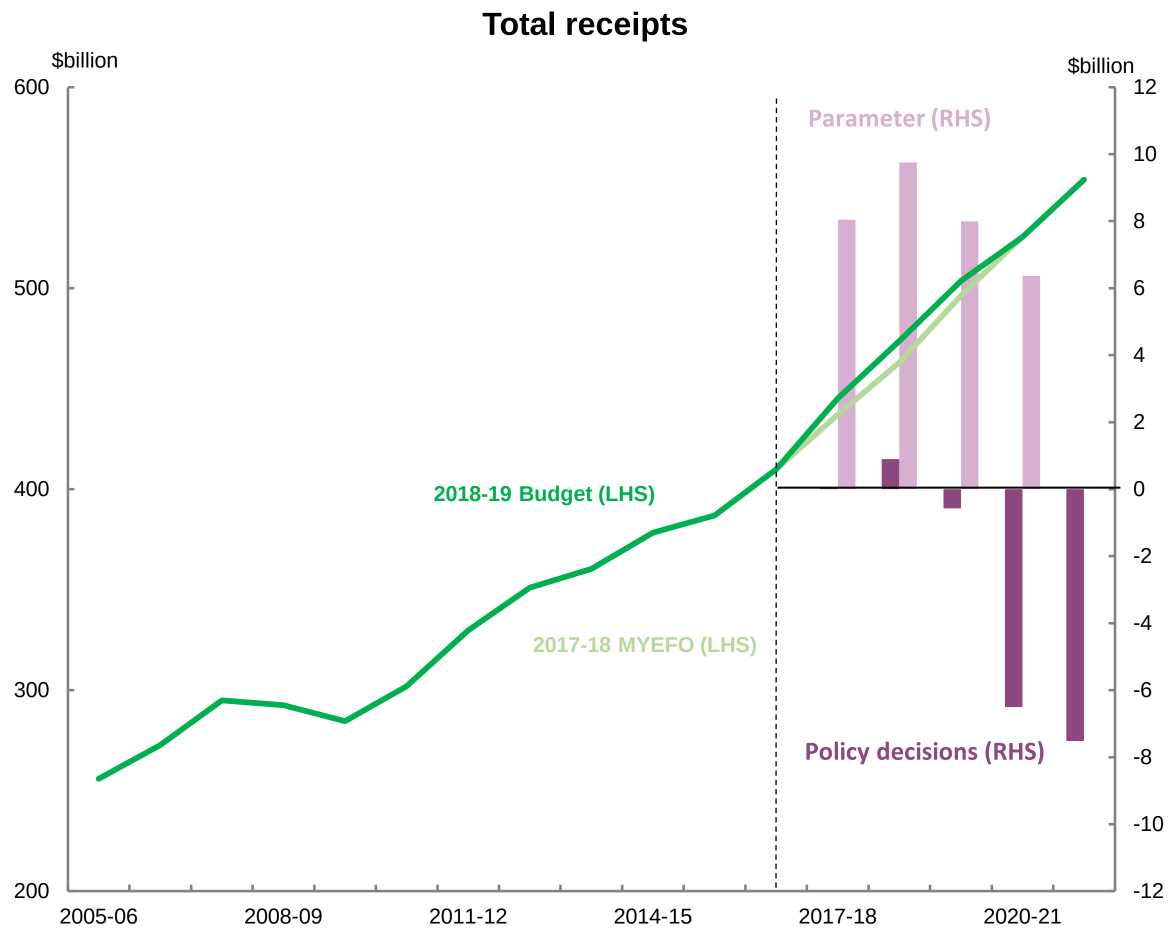


[2] Up to and including 2019–20 the underlying cash balance excludes Net Future Fund earnings which have been revised up by $0.5 billion over the three years to 2019–20.

The upward revision to receipts is driven by parameter variations across *all* key heads of revenue

Relative to the 2017–18 MYEFO, parameter variations are expected to increase receipts by $32.2 billion over the four years to 2020–21.

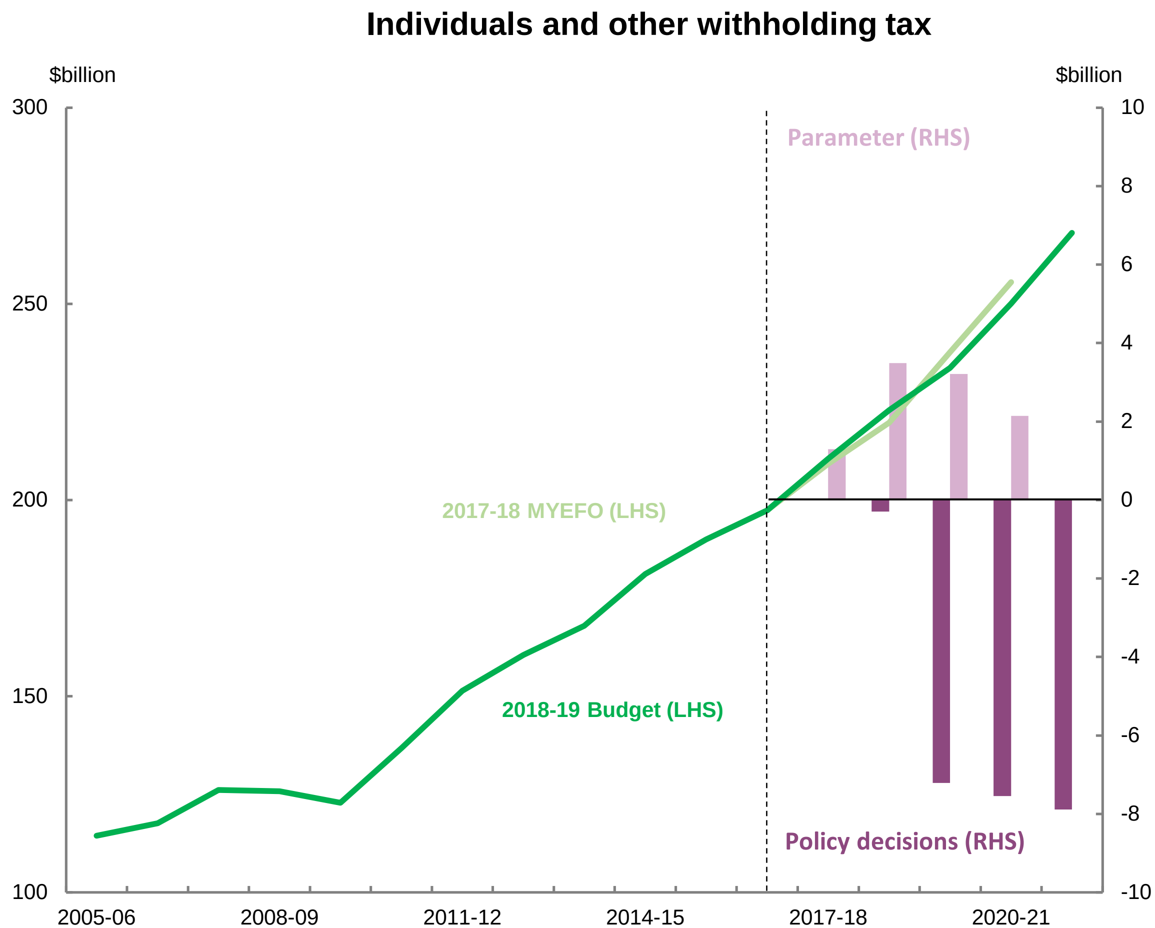
This is partially offset by policy decisions which are expected to decrease total receipts by $13.7 billion over the five years to 2021–22.



Individuals and other withholding tax had the largest upward revision due to parameter variations, which is more than offset by policy decisions

Parameter variations are expected to increase individuals and other withholding tax revenue by $10.1 billion over the four years to 2020–21, due to stronger employment growth.

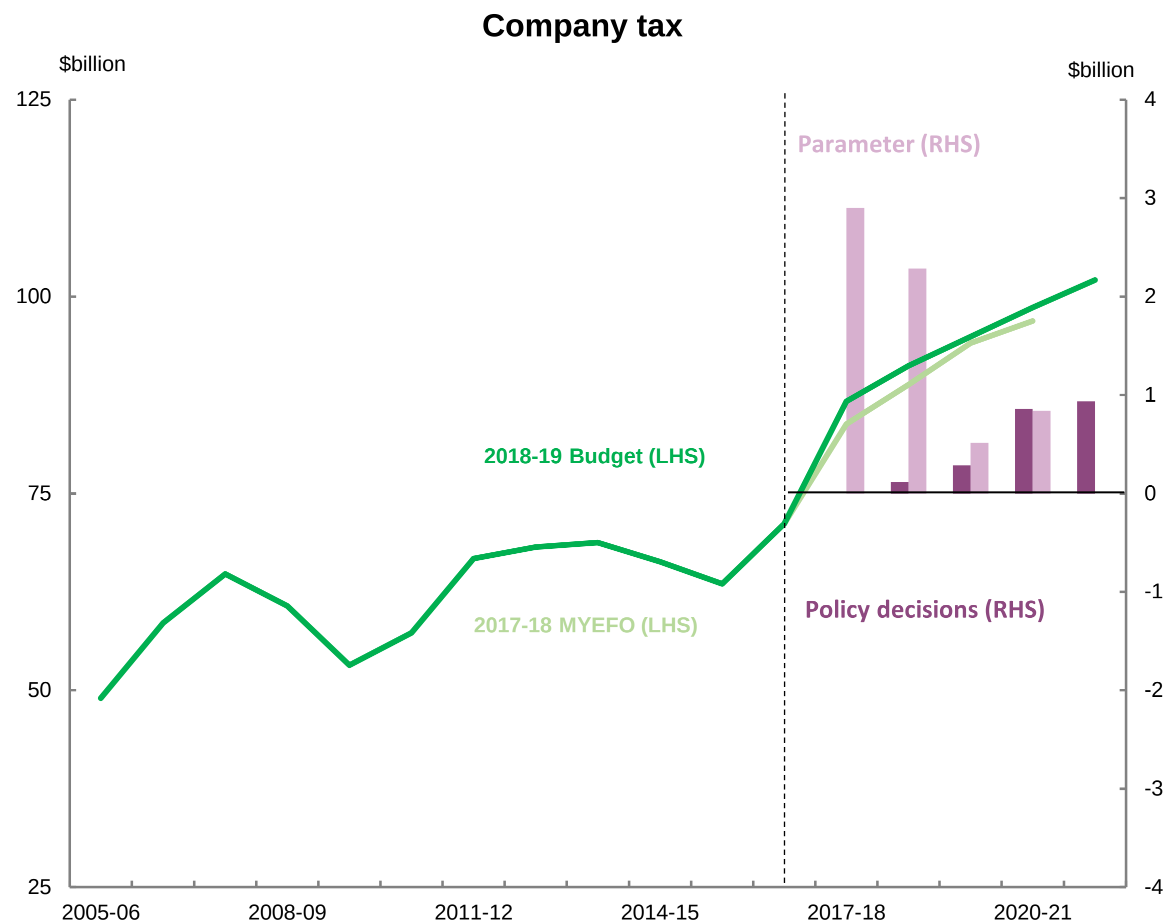
Policy decisions are expected to decrease individuals and other withholding tax revenue by $22.9 billion over the five years to 2021–22. This is due to personal income tax cuts and no longer proceeding with the increase in the Medicare levy from 2 to 2.5 per cent.



Company tax has also been revised upwards due to parameter variations…

Parameter variations are expected to increase company tax revenue by $6.5 billion over the four years to 2020–21, due to stronger collections in 2017–18 and continuing higher expected commodity prices flowing through to increased company profitability.

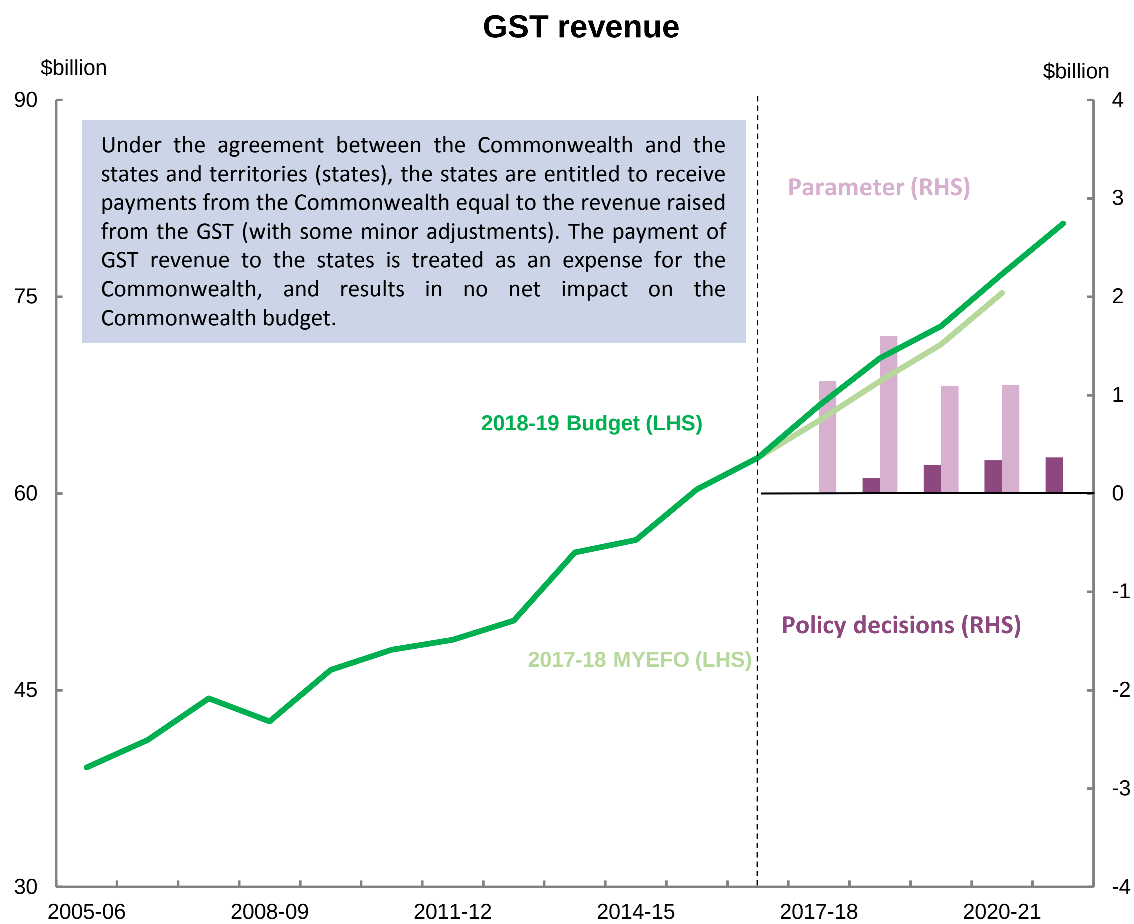
Policy decisions are expected to increase company tax revenue by $2.2 billion over the five years to 2021–22, largely due to reducing the benefit available under the Research and Development Tax Incentive.



…so has the GST…

Parameter variations are expected to increase GST revenue by $4.9 billion over the four years to 2020–21, due to an upward revision to consumption.

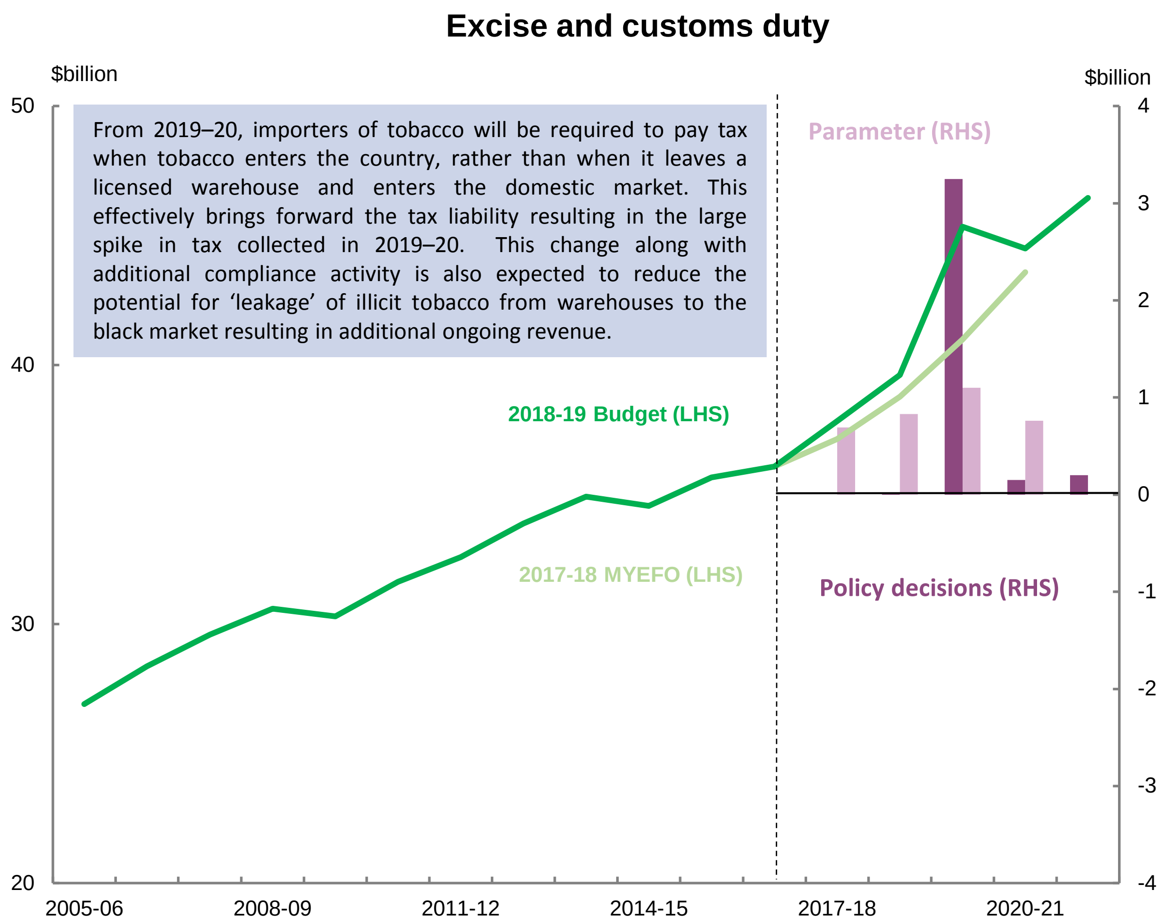
Policy decisions are expected to increase GST revenue by $1.2 billion over the five years to 2021–22, largely due to policy decisions to combat the black economy.



…so has excise and customs duty (with a large impact from policy decisions)

Parameter variations are expected to increase excise and customs duty by $3.4 billion over the four years to 2020–21, due to stronger collections for alcohol and tobacco in 2017–18 and their flow-on impacts to future years.

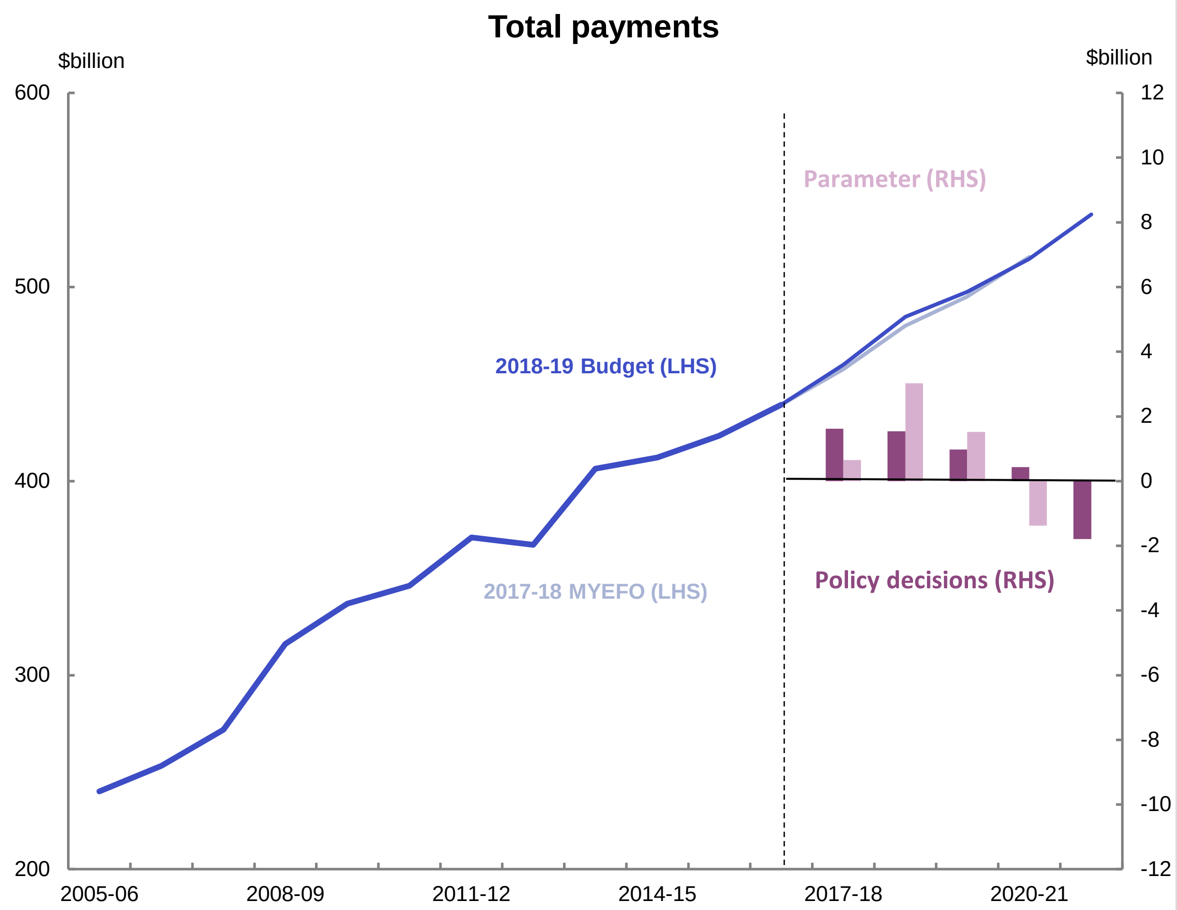
Policy decisions are expected to increase excise and customs duty by $3.6 billion over the five years to 2021–22, largely due to the policy decision to combat illicit tobacco (see Box).



The upward revision to payments is much smaller compared to the upward revision to receipts

Relative to the 2017–18 MYEFO, parameter variations are expected to increase total payments by $3.8 billion over the four years to 2020–21.

Policy decisions are expected to increase total payments by $2.8 billion over the five years to 2021–22.

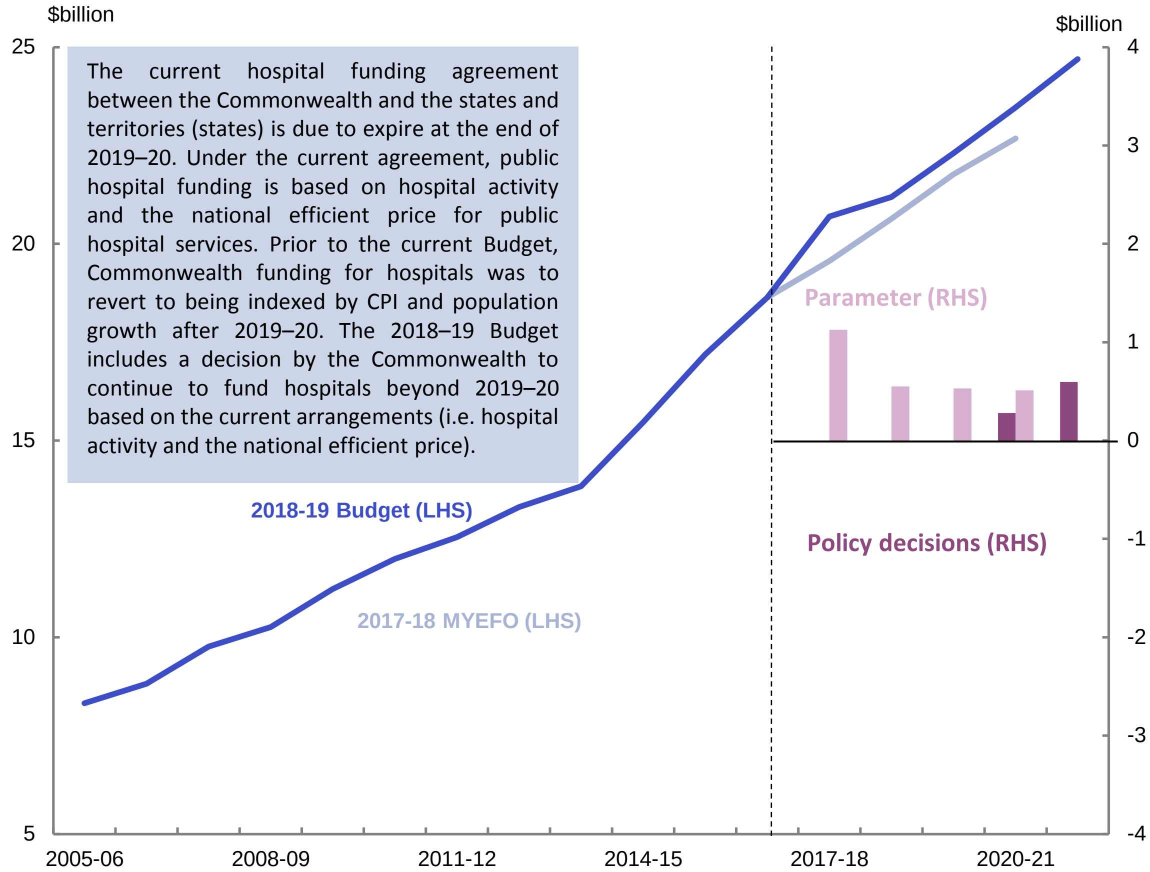


Along with the increase in GST payments to the states, Commonwealth funding for public hospitals has been revised up

Parameter variations are expected to increase Commonwealth assistance for public hospitals by $2.7 billion over the four years to 2020–21, reflecting increased hospital activity.

Policy decisions are expected to increase Commonwealth assistance for public hospitals by $0.9 billion over the five years to 2021–22, reflecting the revised funding arrangements with the states (see Box).

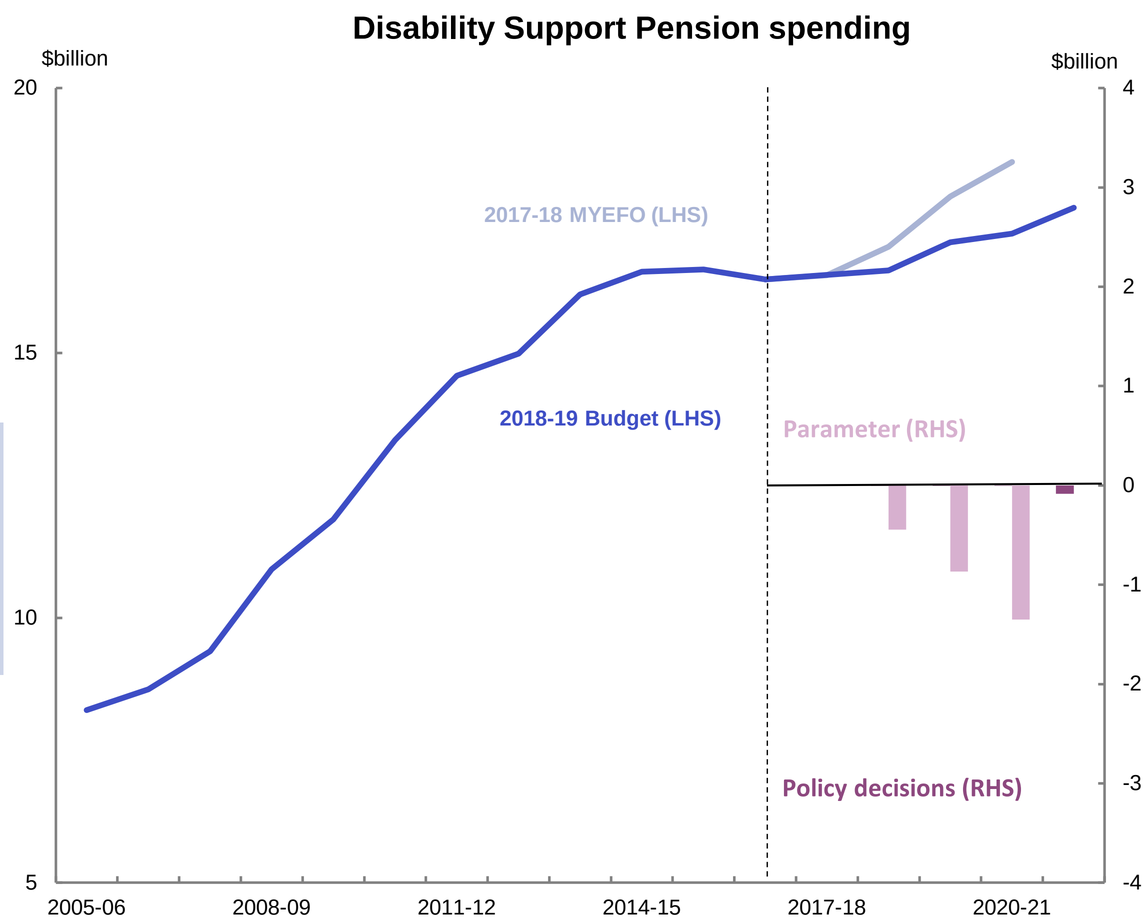
Commonwealth assistance for public hospitals



Disability Support Pension expenditure has been revised down significantly…

Parameter variations are expected to decrease Disability Support Pension spending by $2.7 billion over the four years to 2020–21, reflecting lower growth in expected recipient numbers.

The main driver of the slowdown in Disability Support Pension expenditure has been past policies which have focussed on stemming the flow of people onto the payment. In particular, compliance and assessment measures which applied from 1 January 2012, have had an ongoing impact in reducing the growth in the number of people being assessed as eligible for the payment.[3]



[3] For further details see PBO report no. 01/2018 *Disability Support Pension – Historical and projected trends.*

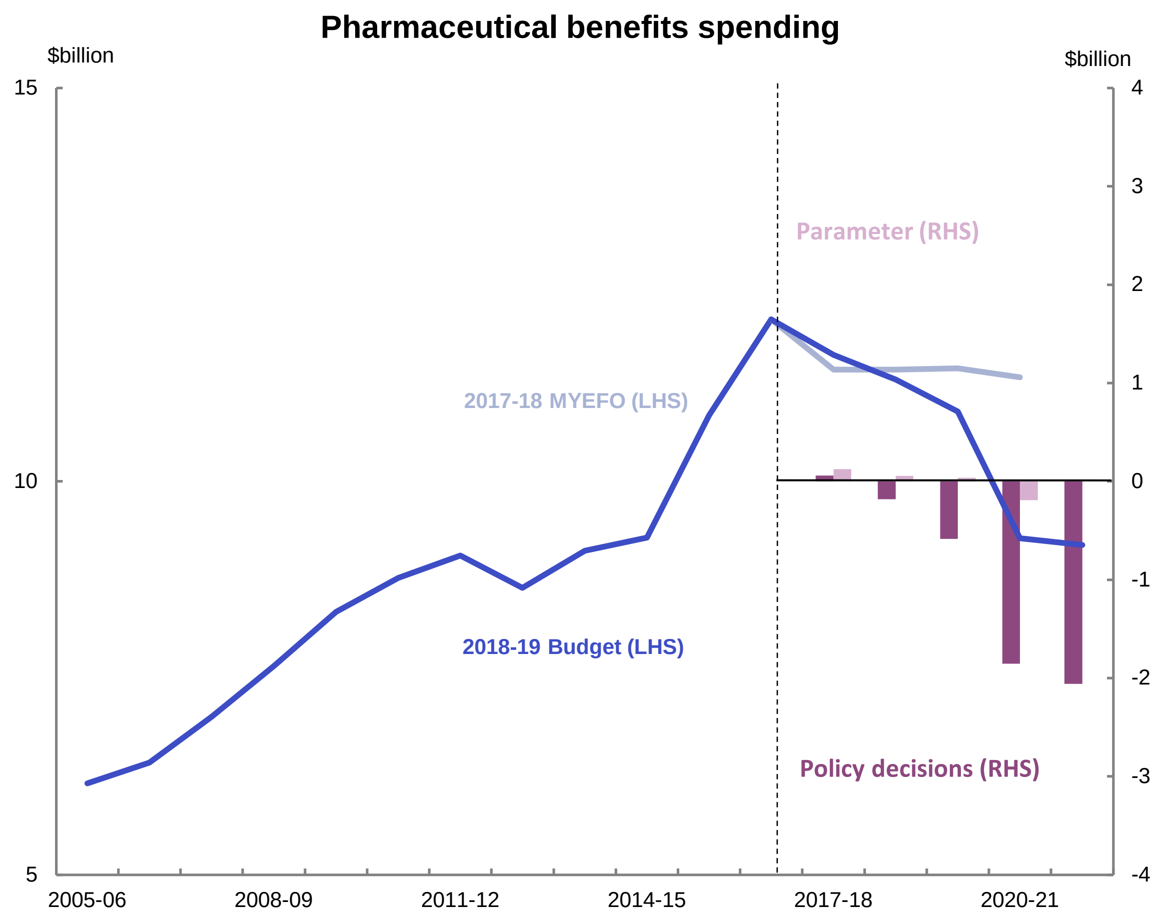
…as has spending on pharmaceutical benefits…

Policy decisions are expected to decrease pharmaceutical benefits spending by $4.6 billion over the five years to 2021–22.[4] This largely reflects revised administration arrangements which decrease spending on pharmaceutical benefits by $5.4 billion (see Box).

New and amended listings increase spending on pharmaceutical benefits by $1.4 billion.

Under current administrative arrangements, the government negotiates agreements with drug manufacturers to contain the cost to the budget of subsidising pharmaceutical benefits. One type of agreement involves the manufacturer repaying the difference between the higher publicly published price of a drug and a confidential price negotiated between the manufacturer and government. This repayment, or rebate, from the manufacturer lowers the effective price faced by the government and is recognised as non-tax revenue. The agreements allow Australia to access drugs at a lower cost-effective price without affecting the price for the drug in other markets.

Under the new administrative arrangements, rather than paying the higher published price and receiving a rebate, the government will pay the lower negotiated price. This has the effect of reducing both PBS expenditure and non-tax revenue, with no net impact on the budget.



[4] The Government has also included a $1.0 billion provision in the Contingency Reserve for future increases in new medicine listings. This is not included in the estimates shown and will be progressively recognised when new listings are announced.

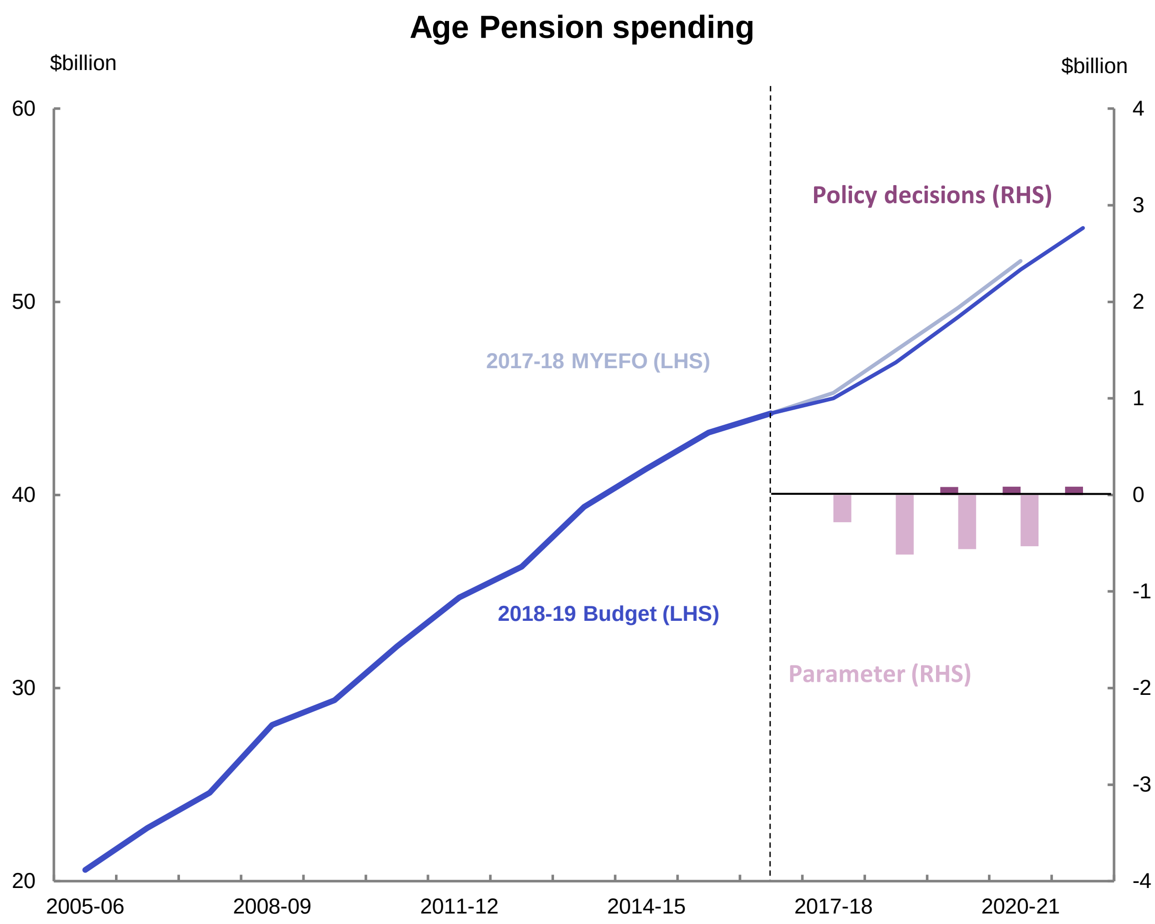
…and to a lesser extent so has spending on the Age Pension

Parameter variations are expected to decrease Age Pension spending by $2.0 billion over the four years to 2020–21, reflecting lower growth in expected recipient numbers.

This is largely due to the progressive increase in the Age Pension eligibility age and the increase in the assets taper rate having a larger impact in reducing recipient numbers than previously projected.

The Age Pension eligibility age is legislated to increase from 65 to 67 by six months every two years from 1 July 2017. It is Government policy to further increase the eligibility age to 70 by 2035.

From 1 January 2017 the asset taper rate for pensions was doubled so that the payment is reduced by $3.00 (instead of $1.50) for every $1,000 above the asset test threshold. This is partly offset by one-off increases to the asset test thresholds from $209,000 to $250,000 for single homeowners and $296,500 to $375,000 for couples.

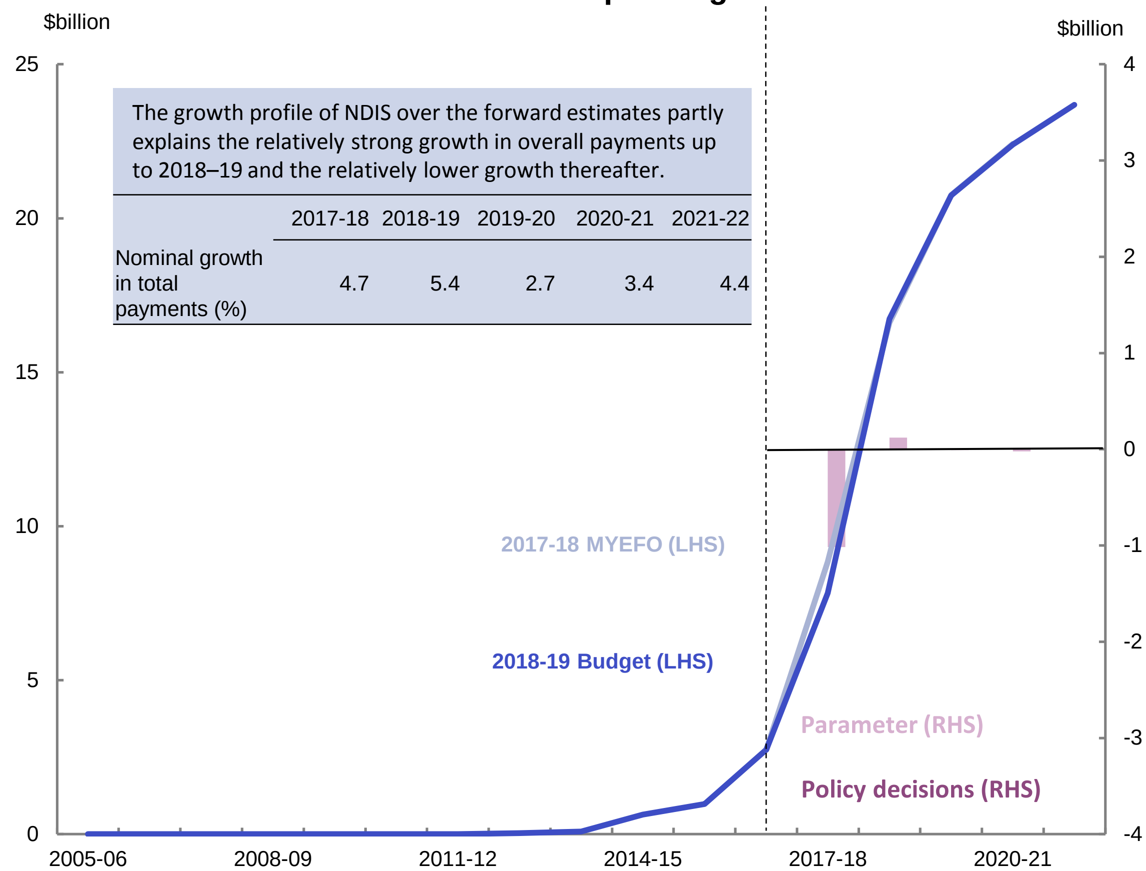


Spending on the National Disability Insurance Scheme (NDIS) is expected to double from 2017–18 to 2018–19

Although the change in NDIS spending between MYEFO and Budget is relatively small, it is a key driver of the spending growth *across* the Budget forward estimates.

Growth in NDIS spending is expected to increase significantly up to 2018–19. From 2019–20 spending growth is expected to stabilise as the scheme achieves national coverage.

NDIS spending



The growth profile of NDIS over the forward estimates partly explains the relatively strong growth in overall payments up to 2018–19 and the relatively lower growth thereafter.

	2017-18	2018-19	2019-20	2020-21	2021-22
Nominal growth in total payments (%)	4.7	5.4	2.7	3.4	4.4

Notes

Data contained in these charts are based on information published in the 2018–19 Budget, the 2017–18 MYEFO and government agency annual reports. Where applicable, additional information provided by agencies has supplemented the publicly available information.

Consistent with Budget Paper No. 2, the charts show the financial impact of policy decisions from 2017–18 to 2021–22. The charts show movements due to parameter and other variations which are only available for 2017–18 to 2020–21. This is because the last year of the forward estimates at MYEFO was 2020–21, with the 2021–22 projection being published for the first time at Budget.

This differs from the reconciliation of the underlying cash balance table in Statement 3 of Budget Paper No. 1, in which the totals exclude the 2017–18 estimate and include the 2021–22 estimate.

At the aggregate level, the *underlying cash balance*, *total receipts*, and *total payments* charts have been prepared on a cash basis, as the Government's key fiscal aggregates are cash based. Charts on individual elements of revenue and expenditure have been prepared on an accruals basis, consistent with the presentation of decisions in the Budget papers.

The PBO does not have access to the details of provisions for individual items in the Contingency Reserve. Accordingly, the charts in this report are subject to the qualification that they are prepared in the absence of information on the possible impact of any provisions in the Contingency Reserve.