



Australian Government

Economic Action Strategy

Annual Report
2014





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The Hon J. B. Hockey MP
Treasurer of the
Commonwealth of Australia



**Senator The Hon
Mathias Cormann**
Minister for Finance and
Acting Assistant Treasurer



The Hon Bruce Billson MP
Minister for Small Business



The Hon Steven Ciobo MP
Parliamentary Secretary to
the Treasurer

Foreword

Since coming to Government one year ago, our Economic Action Strategy has provided the right conditions to drive growth and create jobs, and we are creating the right incentives for a more dynamic and competitive Australian economy.

We all understand that the Australian economy is in the midst of a major transformation. Growth led by investment in resources projects is moving to broader-based drivers of activity in the non-resources sectors. While this transition could well be a little turbulent, the fact is that, since coming to Government, we have so far seen economic growth proving not only resilient, but also strengthening from 2.2 per cent a year ago to 3.1 per cent in the June quarter of 2014. And it gives me immense pleasure to see that nearly a quarter of a million jobs have been created since coming to Government.

Our strategy is simple. We are restoring fiscal sustainability and confidence in our public finances. And we are promoting business confidence by creating the right environment to innovate, invest and thrive. It has given us a roadmap to achieving a great deal since being elected just twelve months ago.

We started off by making sure the frameworks and structures that underpin the Australian economy are right. We abolished the nation's debt limit to remove political uncertainty, and we dealt with nearly 100 announced but unlegislated tax measures dating back to 2001. We also moved small business to the Treasury portfolio so we can provide SMEs with the right frameworks to prosper. These initiatives are all providing greater certainty for business.

We are also taking steps to improve the business environment more generally. We abolished the carbon tax, as promised. We abolished the mining tax, also as promised. We have cut over \$700m of red tape for businesses, community organisations, and individuals – particularly for small business. And we have removed almost 10,000 redundant pieces of legislation this year alone.

We are building infrastructure for the twenty-first century. To increase the supply of infrastructure, the Australian Government is investing \$11.6 billion in a new Infrastructure Growth Package. This will bring the Government's investment to \$50 billion by 2019-20, and will lead to additional investment from state and



Almost
250,000

jobs created since
coming to Government

territory governments and the private sector. In total, it will deliver over \$125 billion of new additional infrastructure investment within six years, and is now the biggest Commonwealth infrastructure programme in Australia's history – raising the level of GDP in Australia by 1 percentage point.

We have deepened ties with our major trading partners, such as signing free-trade agreements with Korea and Japan. These agreements, along with Australia's existing free trade agreements, now cover over 40 per cent of our total trade.

This annual report tells the story of our achievements since being elected.

As crucial as those achievements are, above all else, we are getting the budget back on a sustainable path. Much has been achieved during our first year in office. This government is getting on with the job of building a strong and prosperous economy.

\$476m

Industry Skills Fund

Over
\$125b

in additional
infrastructure

Budget stability

The Government has taken action to repair the budget and build a strong and prosperous economy.

At the 2013-14 Mid-Year Economic and Fiscal Outlook (MYEFO), the Government provided a comprehensive and transparent picture of the Commonwealth's financial and economic position and took essential steps to address issues inherited from the former Government.

The 2014-15 Budget then placed Australia on a clear path to credible surpluses through the Economic Action Strategy to repair the budget and build a strong and prosperous economy.

The Budget included measures that rein in wasteful spending, improve the sustainability of the safety net and encourage greater personal responsibility.

Over 60 per cent of the 400 measures in the Budget have already been implemented with the passage of the annual Appropriation Acts.

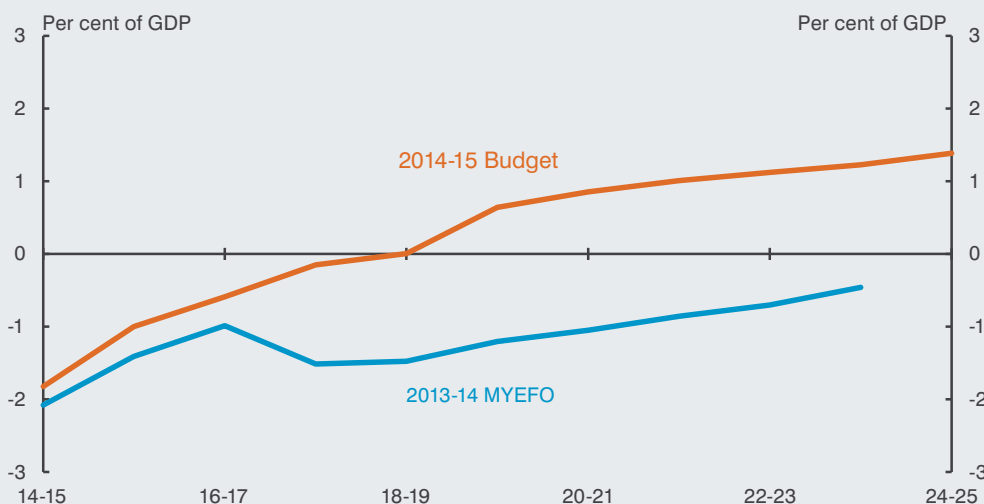
There are almost 100 measures currently before Parliament, which will result in an improvement to the budget bottom line of around \$17 billion over the forward estimates period.

These sustained savings mean that our budget position will strengthen over time to surpluses of well over one per cent of GDP by 2024-25, taking into account future tax relief.

This improvement in the budget position is projected to see debt decline to around \$390 billion by 2023-24. This means that debt will be lower by nearly \$300 billion in 2023-24 compared to the \$667 billion at the 2013-14 MYEFO.

These significant improvements in the medium-term outlook are built on structural savings, not an arbitrary rule to cap spending.

A clear path to surplus



Note: The chart above shows 2013-14 MYEFO projections as published.

Budget sustainability

The Government took decisive action in the 2014-15 Budget to ensure the sustainable provision of services into the future in the highest priority areas of welfare, health and education.

The Government's Budget welfare reforms are aimed at helping everyone reach their full potential. We will continue to provide assistance to those most in need, including families, seniors, people with a disability and carers. However, government assistance will be targeted towards the most vulnerable Australians, while encouraging those who are able to work or study.

The 2014-15 Budget took steps to put health spending growth on a more sustainable path, with all Australians making a greater contribution to the cost of their care while continuing to support the most vulnerable in the community.

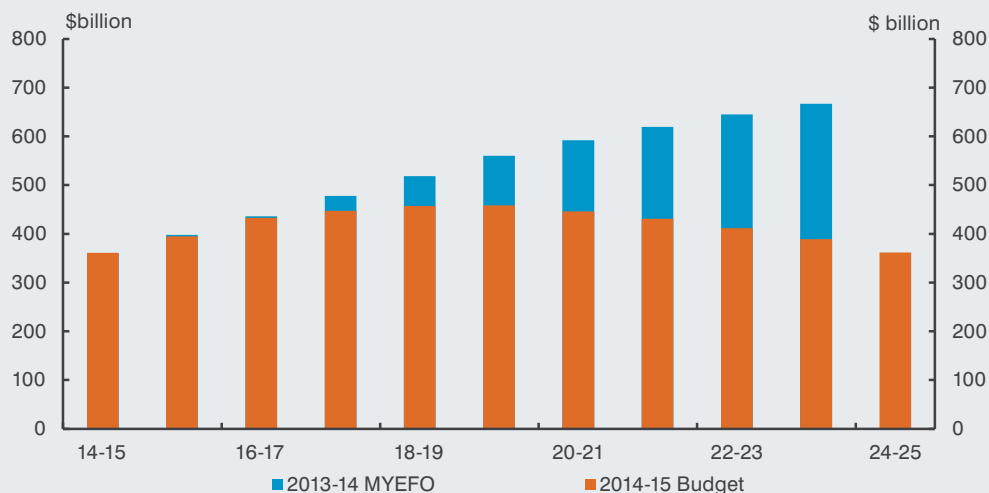
Savings achieved through these measures will be invested in a Medical Research Future Fund, helping to ensure Australia can continue to advance world-leading medical research projects, and deliver improved health and medical outcomes for all Australians.

The Government is pursuing reforms in higher education to ensure that Australia has one of the world's best higher education systems. At the same time, the Government will place the sector on a strong financial footing by sharing the cost fairly between students – who benefit from having tertiary qualifications – and taxpayers.

The Government's higher education reforms will help build a sector that is more responsive, diverse and innovative in meeting the needs of both students and the job market. They will also ensure Australia remains an attractive destination for international education and is not left behind by global competition.

For more information on these reforms see the Social Services, Health and Higher Education Overviews at www.budget.gov.au.

Slashing projected debt



Note: The chart above shows 2013-14 MYEFO projections as published.

A resilient economy

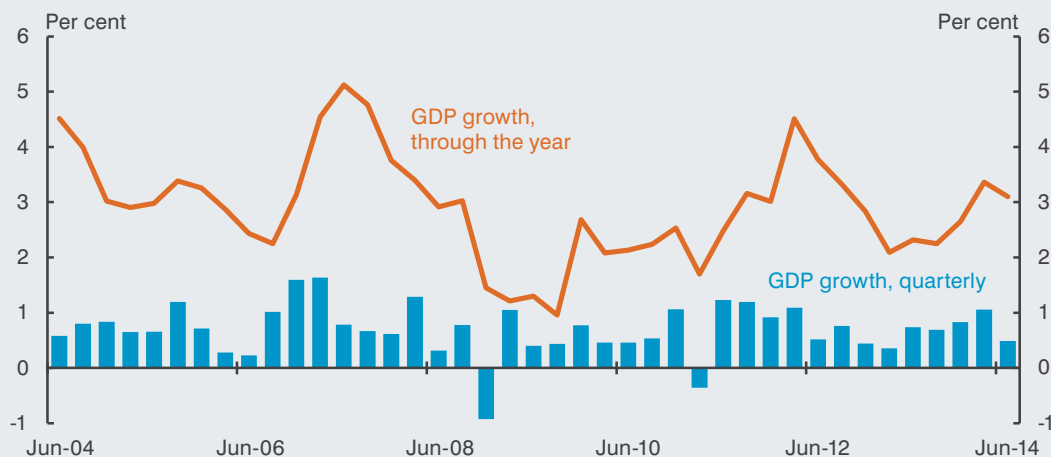
In the midst of a major transformation, the economy continues to expand, supported by rising productivity.

The Australian economy is in the midst of a major transformation, moving from growth led by investment in resources projects to broader-based drivers of activity in the non-resources sectors. While there is likely to be some turbulence in this transition, economic growth has so far been resilient, strengthening from 2.2 per cent through the year to the September quarter of 2013 to 3.1 per cent through the year to the June quarter of 2014. Over the past year, almost 250,000 jobs have been created.

Productivity growth has risen over the past year, from 1.3 per cent through the year to the September quarter of 2013 to 2.8 per cent through the year to the June quarter of 2014. As the prices Australia receives for its non-rural commodities continue their decline, productivity will play a crucial role in determining future growth in our living standards.

While these signs are encouraging, there is more to do. Stronger economic growth is needed if we are to see a sustained fall in the unemployment rate. Further sustained increases in productivity are needed if we are to maintain growth in our living standards. That is why the Government is pursuing structural reform and focusing on getting the economic and policy fundamentals right.

Economic growth



Source: ABS Cat. No. 5206.0

Taxation reform

The Government has delivered on its commitments to remove taxes and address business uncertainty.

We are collecting less tax than would otherwise have been collected by abolishing the carbon tax and mining tax.

We have also introduced a Temporary Budget Repair Levy, which will only apply to three income years and will end on 30 June 2017.

Repealing the carbon tax

The Government has delivered on its commitment to abolish the carbon tax, with effect from 1 July 2014. Repealing the carbon tax will directly benefit households and businesses by placing downward pressure on prices, particularly electricity and gas prices. Treasury has estimated that retail electricity prices should be around nine per cent lower in 2014-15 than they would have been under the carbon tax. Similarly, retail gas prices should be around seven per cent lower in 2014-15 than they would have been under the carbon tax.

Repealing the mining tax

The Government has repealed the MRRT and associated measures effective from 30 September 2014.

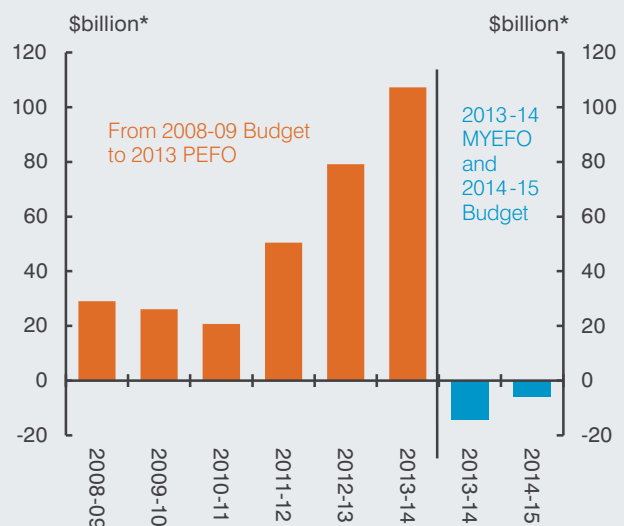
The MRRT was a complex tax with many design flaws, which precluded raising meaningful revenue.

Contrary to the predictions of the former Government that \$10.5 billion would be raised in the two years to July 2014, only \$340 million was raised in net terms. The latest estimate of what the MRRT would have raised over the forward estimates to 2017-18 has shrunk to just \$669 million in net terms.

Ending tax uncertainty

The Government has delivered on its commitment to deal with the backlog of announced but unenacted tax and superannuation measures. Following consultation with tax experts, the Government announced it would proceed with 37 of the 92 tax and superannuation measures that were announced but not legislated by former governments. The Government has also legislated a protection for taxpayers who had, in good faith, anticipated an unenacted measure.

Government decisions have lowered the overall impact of revenue measures



*Cumulative value of revenue measures taken in each budget year.
Note: The chart above shows estimates as published in the 2014-15 Budget.

Helping small business

The Government is encouraging Australian small businesses to grow and thrive.

Small businesses are a critical part of the Australian economy.

Reducing red tape

An estimated 372,500 small businesses will have reduced compliance burdens as a result of changes to PAYG instalment thresholds.

Parliament's first ever Repeal Day in March 2014 was highly successful, with almost 10,000 pieces of redundant regulation and legislation repealed and more than \$700m in compliance savings announced.

Improving the operating environment

The Board of Taxation has reviewed issues in the tax system that might hinder small businesses from reaching their commercial goals. The Government is currently considering this review's recommendations.

The Harper review of competition policy is an important step towards ensuring that the competition framework is effective for all businesses, big and small.

The Government has committed \$8 million over four years to establish the Small Business and Family Enterprise Ombudsman.

There is now a Small Business Minister in Cabinet, to ensure that policy decisions made by the Government take into account this important sector for our economy. We have also moved small business policy to the Treasury portfolio, so that important policy-making decisions affecting small business can be designed with economic and tax experts at the Treasury.

Building small business capability

The Your First Employee Guide provides small businesses with information on hiring and recruiting the right workers.

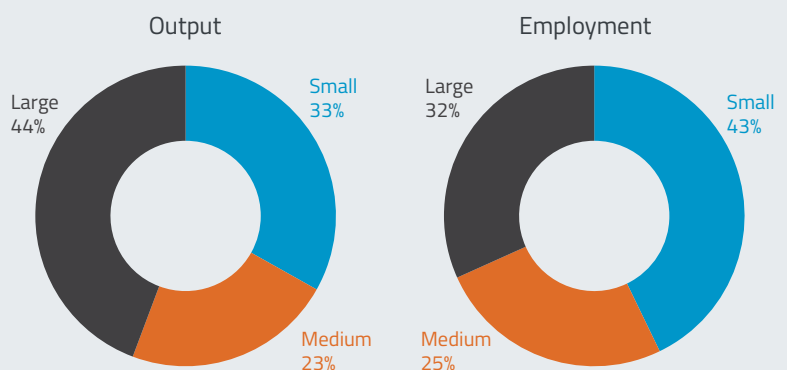
The \$484.2 million Entrepreneurs' Infrastructure Programme provides practical support around business management, research connections and commercialising ideas.

The Single Business Service streamlines business access to expert operators, information and referral services.

The \$476 million Industry Skills Fund will support small and medium-sized businesses to meet their training needs.

The Government is also providing \$524.8 million for a wage subsidy programme, *Restart*, designed to encourage businesses to employ Australians aged 50 and over and on income support for six months or more.

Small businesses are critical to the Australian economy



Source: ABS 8155.0 – Australian Industry. Note: Measures non-financial private sector output (industry value added) and employment (number of individuals employed). This data excludes general government, and the financial and insurance industries.

Recycling assets

The Government is transforming its role to be smaller and as efficient and well-targeted as possible.

Sale of Medibank Private

The Government has decided to proceed with the sale of Medibank Private by way of an Initial Public Offering in 2014.

The Coalition has long been committed to the sale of Medibank Private.

Medibank Private is a commercial business operating in a well-functioning and competitive private health insurance market. As such, there is no compelling policy reason for the Government to continue owning Medibank Private.

The sale will contribute to an efficient, competitive and viable private health insurance industry. It will also remove the current conflict where the Government is both the regulator of the private health insurance

market and a large market participant in a competitive market. This will allow Medibank Private to better compete, leading to higher service and quality levels for Medibank Private customers.

Scoping studies into future privatisations

The Government will continue to consider selling assets where no compelling reason for government ownership exists. Scoping studies are underway to examine options for the future ownership of Australian Hearing, Defence Housing Australia, the Australian Securities and Investment Commission Registry function and the Royal Australian Mint.

These studies will identify the most effective and efficient way of delivering those services to the public.

Proceeds from the sale of Medibank Private and any future privatisations will be re-invested into productivity-enhancing infrastructure through the Government's Asset Recycling Fund.

Current and Future Privatisations

Current privatisations

Medibank Private

Potential future privatisations

Australian Hearing
Defence Housing Australia
Royal Australian Mint
ASIC Registry

Delivering infrastructure

The Government is getting on with the job of delivering the infrastructure Australia needs.

The Government has committed a record level of funding for transport infrastructure. The 2014-15 Budget provided \$11.6 billion for an Infrastructure Growth Package, bringing the Government's total investment in infrastructure to \$50 billion through to 2019-20.

The Government is making substantial progress in delivering this infrastructure. Key achievements include:

- Tenders advertised for a significant road upgrade to support an airport at Badgerys Creek.
- Pre-construction work starting on Stage 2 of WestConnex in Sydney, fast-tracked by the Government's concessional loan.
- Contract signed for building the eastern section of the East West Link in Melbourne.

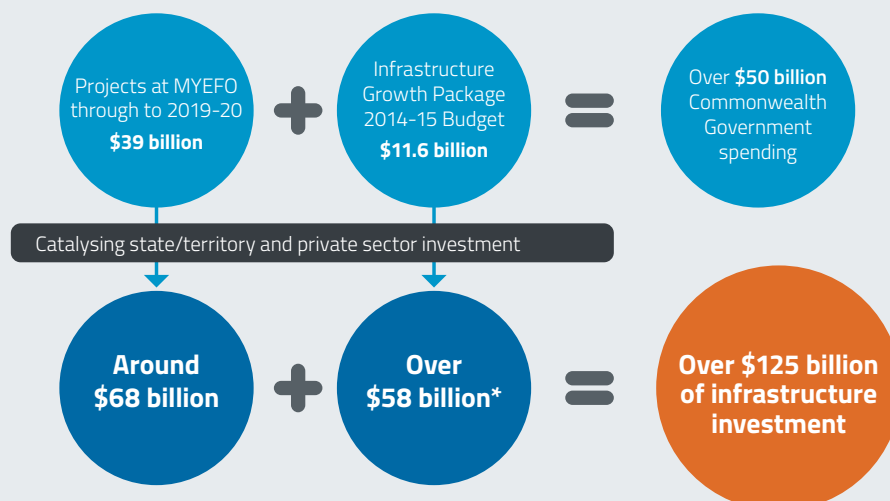
- Contractors shortlisted for the construction of the Toowoomba Second Range Crossing in Queensland.

All states and territories have signed up to the Government's \$5 billion Asset Recycling Initiative and a number have announced significant asset recycling programmes. Negotiations on agreeing the additional infrastructure supported under the initiative have begun.

The Government has also introduced legislation to establish the Asset Recycling Fund and is reintroducing fuel tax indexation to secure future funding for infrastructure.

The Infrastructure Growth Package will generate significant additional investment by the states and territories, as well as the private sector. All up, the Government's investment will generate over \$125 billion in additional infrastructure, which, once completed, will add around 1 percentage point to Australia's GDP.

Australian Government Investment in Transport Infrastructure



*This figure does not include potential additional private sector funding stimulated by the Asset Recycling Initiative.

Trade and investment

The Government is ensuring Australia remains a preferred destination for trade and investment.

In the nine months to 30 June 2014, the Government approved around 770 proposals valued at around \$110 billion in (non-residential real estate) foreign investment projects.

The Government has provided environmental approvals for over \$800 billion in new projects.

The Government has delivered on its commitment to conclude long-running free trade agreements, signing agreements with Korea on 8 April 2014 and Japan on 8 July 2014. The Government is also working with China to conclude negotiations by the end of the year.

The Korea-Australia Free Trade Agreement and Japan Australia Economic Partnership Agreement are world-class, comprehensive agreements that substantially liberalise our trade with major markets.

They will deliver significant benefits to Australian farmers, exporters, manufacturers and consumers.

The Government has delivered on its commitment to expand the agricultural expertise of the Foreign Investment Review Board, with the appointment of Mr Patrick Secker bringing extensive agriculture experience. The Government has also delivered on its commitment to provide an annual statement to Parliament on new investment.

The Government is working to introduce a register of foreign ownership of agricultural land and to lower agricultural screening thresholds.

The Government is helping small to medium-sized firms expand into new export markets. A \$200 million capital injection was provided to the Export Finance and Insurance Corporation to help firms overcome financial barriers to exporting. And an additional \$12.5 million each year has been provided for Export Market Development Grants, which will help firms promote their goods and services to international buyers.

Boosting trade and investment with major regional trading partners

AUSTRALIA-KOREA TRADE (2013-14)

Exports A\$20.9 billion
Imports A\$11.4 billion
Total: A\$32.3 billion

AUSTRALIA-JAPAN TRADE (2013-14)

Exports A\$49.1 billion
Imports A\$18.4 billion
Total: A\$67.5 billion

AUSTRALIA-KOREA INVESTMENT (2013)

Investment into
Australia A\$15.1 billion
Investment into
Korea \$A12.5 billion
Total two-way
investment A\$27.6 billion

AUSTRALIA-JAPAN INVESTMENT (2013)

Investment into
Australia A\$131.0 billion
Investment into
Japan \$A50.2 billion
Total two-way
investment A\$181.2 billion

Financial services

The Government has delivered more affordable access to high-quality financial advice. The Financial System Inquiry will lay a blueprint for the future of the financial system.

Future of Financial Advice

The Government has delivered on its election commitment to deliver more affordable access to high-quality financial advice by removing unnecessary and costly red tape, while maintaining all the important consumer protections that matter.

The Government believes high-quality, affordable financial advice should be within reach of all Australians. A strong financial services industry, unburdened by excessive and inefficient regulation, is essential to ensuring that Australians can get that access.

Treasury has estimated that the amendments would result in ongoing compliance cost savings of approximately \$190 million per year, with additional first-year compliance cost savings of around \$90 million.

Strengthening the Reserve Bank

The Government increased the Reserve Bank of Australia's capital by \$8.8 billion, taking its reserves to a level considered prudent by the RBA.

In doing so, the Government strengthened the RBA's ability to deal with risks in a volatile global economy and improved confidence in its monetary policy operations.

Financial System Inquiry

The Government has established an independent Financial System Inquiry to undertake a 'root and branch' examination of the nation's financial system.

The Inquiry is an important step towards ensuring that the system continues to meet Australia's evolving needs over the decades ahead.

The Inquiry's final report will map the future direction of the financial system, enabling increased efficiency in the system and ensuring that funds are allocated to the most productive uses.

It will ensure that funds flow through the economy to support jobs, help businesses and individuals meet their investment needs, and support individuals' ability to fund their retirement.

The Inquiry will deliver its final report to the Government in November 2014.

Australia's Financial System Inquiries

Campbell (1981)

The Campbell report laid the foundations for what would be key bipartisan reforms, such as the floating of the dollar, which have been pivotal to Australia's prolonged economic strength.

Wallis (1997)

The Wallis report established the regulatory framework that is internationally regarded for protecting Australia from the worst of the global financial crisis.

Murray (2014)

The Murray inquiry will ensure the financial system supports Australia's investment needs and efficiently allocates funds to support a more productive and competitive economy.

The G20



The Government is reinvigorating the G20 by focusing on lifting global economic growth.

As the world's premier economic forum, the G20's work is directly relevant to Australia's prosperity. Many of the issues Australia is grappling with are common across G20 members.

The Government has reinvigorated the G20 by setting an ambitious global economic growth target of 2 per cent additional growth in order to spur investment and create employment.

This target was set at the meeting of G20 Finance Ministers and Central Bank Governors in Sydney in February.

At September's Cairns meeting, this economic growth target was substantially met by delivering ambitious strategies that will lift global GDP by 1.8 per cent, but there is more work to be done.

Over 900 policy initiatives committed to by the G20 will help make the global economy around US\$2 trillion larger within four years, representing millions of jobs.

The G20 has put infrastructure investment at the centre of its agenda. At the Cairns meeting, we secured the agreement of members to a multi-year Global Infrastructure Initiative to work with business and remove key barriers to more investment in infrastructure.

The Government has pushed to finalise the G20 financial regulation agenda to foster global stability and provide business with confidence. We have secured agreement to complete most of the core reforms that respond to the causes of the global financial crisis.

Focus will now shift towards implementation of the reforms, identifying any unintended impacts and monitoring for new risks.

The G20 tax agenda has focused on modernising the international tax system for the twenty-first century. The G20 is on track to deliver on a two-year work plan by 2015 to address tax base erosion and profit-shifting, designed to ensure multinational businesses pay their fair share of tax.

The Government has also secured agreement to a G20 Implementation Plan for the automatic exchange of information using the Common Reporting Standard. This initiative will provide tax authorities with information to identify and catch tax evaders.

The joint G20/B20 SME conference hosted by Minister Billson in June was an important input into discussions regarding how to achieve the 2 per cent growth target.

The Government looks forward to the G20 Leaders' Summit in November, where we will be asking Leaders to take practical actions on things that make a real difference to citizens around the world.

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