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Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator David Leyonhjelm
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *General spending cuts* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Andrew Watterson on (02) 6277 9543 or Gareth Tunks on (02) 6277 9550.

Yours sincerely

Phil Bowen

10 November 2016

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Policy costing—outside the caretaker period

Name of proposal:	General spending cuts
<p>Summary of proposal:</p>	<p>This proposal would cut Government spending as follows:</p> <ul style="list-style-type: none"> • General public services <ul style="list-style-type: none"> – Abolish spending under the ‘general research’ category (excluding the impact of cutting medical, higher education and vocational education and training (VET) research that are to be included in a separate costing). • Housing and community amenities <ul style="list-style-type: none"> – Abolish spending other than for hazardous materials regulation. • Recreation and culture <ul style="list-style-type: none"> – Abolish spending other than for the continued occupation, research and exploitation of Antarctica. • Fuel and energy <ul style="list-style-type: none"> – Abolish spending other than for the fuel tax credit scheme. • Agriculture, forestry and fishing <ul style="list-style-type: none"> – Abolish all spending including funding that matches agricultural levy revenue (except the levies and the departmental costs associated with the management of levies). • Mining, manufacturing and construction <ul style="list-style-type: none"> – Abolish all spending other than for the research and development tax incentive. • Transport and communication <ul style="list-style-type: none"> – Abolish all spending except for the management of radiofrequency spectrum under the ‘communications’ category, and the regulation of air and sea transport under the ‘air transport’ and ‘sea transport’ categories. • Other economic affairs <ul style="list-style-type: none"> – Abolish all spending except for ‘immigration’ and ‘industrial relations’ (which are included in a separate costing) and ‘other economic affairs not elsewhere classified’ which includes the Bureau of Meteorology.

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	<ul style="list-style-type: none"> • Other purposes <ul style="list-style-type: none"> – Abolish all ‘general purpose’ payments (including grants from the pool of Goods and Services Tax (GST) revenues) and natural disaster relief. • Across categories <ul style="list-style-type: none"> – Abolish all ‘payments for specific purposes’ to state and local governments not already mentioned in this and other costing requests. <p>The proposal would have effect from 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	10 November 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

The proposal is estimated to increase both the fiscal and underlying cash balances by \$303,709 million over the 2016-17 Budget and forward estimates period. This impact is due to a decrease in administered expenditure of \$289,100 million, and a decrease in departmental expenditure of \$14,609 million.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	102,239	101,551	99,919	303,709
Underlying cash balance	-	102,239	101,551	99,919	303,709

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

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This proposal would be expected to have an ongoing impact beyond the 2016-17 Budget forward estimates period. As requested, impacts from 2016-17 to 2026-27 are provided at [Attachment A](#).

The financial implications of this proposal are considered to be of low reliability due to the uncertainties surrounding the practicalities associated with achieving the savings in the timeframe proposed.

No assessment of the feasibility of the proposal has been undertaken, including whether the proposal could be implemented from the specified commencement date of 1 July 2017. The costing does not include any allowance for the wider economic impacts of the proposal, which are uncertain in relation to their magnitude, direction and timing.

Key assumptions

The Parliamentary Budget Office has made assumptions about the magnitude of funding and staffing level reductions under the proposal including that:

- all spending would be returned to the Budget within the year that it is scheduled to be expensed
- departmental expenses include an allowance for redundancies based on estimated reduction in average staffing costs by the estimated average service length of staff.

It is assumed that the cost of dissolving agencies as a result of this proposal would be met from within the existing departmental resources of those agencies.

Methodology

The impact of the proposal was derived by estimating administered and departmental expenditure savings for the specified programs, less expected staff redundancy payments incorporating the assumptions noted above.

Administered and departmental expenditure estimates for the specified programs were obtained from the 2016-17 Budget papers and unpublished 2016-17 budget data provided by the Department of Finance.

Estimates have been projected over the medium term to 2026-27 using trend analysis derived from expense profiles over the 2016-17 Budget forward estimates period.

Administered expenses have been rounded to the nearest \$10 million. Departmental expenses have been rounded to the nearest \$1 million.

Data sources

Commonwealth of Australia, 2016. 2016-17 Budget Paper No. 1, Canberra: Department of Finance

Commonwealth of Australia, 2016. 2016-17 Budget Paper No. 3, Canberra: Department of Finance

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Commonwealth of Australia, 2016. Indexation and efficiency dividend parameters, Canberra: Department of Finance

Commonwealth of Australia, 2016. 2016-17 departmental costing template, Canberra: Department of Finance

Commonwealth of Australia, 2016. 2016-17 Budget – total expense x functions x programs report, Canberra: Department of Finance

Attachment A – General spending cuts—financial implications

Table A1: General spending cuts—Financial implications (outturn prices)^{(a)(b)}

(\$ million)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Impact on fiscal and underlying cash balances													
Administered	-	96,690	96,980	95,430	289,100	99,070	102,570	106,040	109,600	113,090	116,610	120,130	1,056,220
Departmental	-	5,549	4,571	4,489	14,609	4,470	4,448	4,426	4,404	4,382	4,360	4,338	45,437
Total	-	102,239	101,551	99,919	303,709	103,540	107,018	110,466	114,004	117,472	120,970	124,468	1,101,657

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: General spending cuts by component—Administered and departmental financial implications (outturn prices)^{(a)(b)}

(\$ million)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Impact on fiscal and underlying cash balances													
General public services	-	2,670	2,787	2,877	8,324	2,977	3,087	3,187	3,297	3,407	3,508	3,608	31,415
Housing and community amenities	-	5,120	4,443	4,403	13,967	4,343	4,347	4,351	4,364	4,368	4,371	4,375	44,486
Recreation and culture	-	3,448	3,081	3,117	9,646	3,105	3,124	3,132	3,151	3,169	3,178	3,196	31,702
Fuel and energy	-	369	301	236	906	243	259	266	272	288	295	311	2,830
Agriculture, forestry and fishing	-	3,374	2,602	2,240	8,215	2,273	2,206	2,150	2,093	2,036	1,979	1,922	22,864
Mining, manufacture and construction	-	547	432	407	1,386	411	412	414	416	418	419	421	4,276
Transport and communication	-	10,191	5,972	4,775	20,938	4,769	4,751	4,743	4,724	4,716	4,698	4,690	54,029
Other economic affairs	-	3,350	3,473	3,485	10,317	3,538	3,561	3,594	3,627	3,659	3,692	3,725	35,724
Other purposes	-	66,920	70,370	73,500	210,790	76,900	80,200	83,470	86,820	90,100	93,410	96,720	818,410
Across categories	-	6,250	8,080	4,900	19,230	4,970	5,070	5,160	5,240	5,330	5,420	5,510	55,920
Total	-	102,239	101,551	99,919	303,709	103,540	107,018	110,466	114,004	117,472	120,970	124,468	1,101,657

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

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