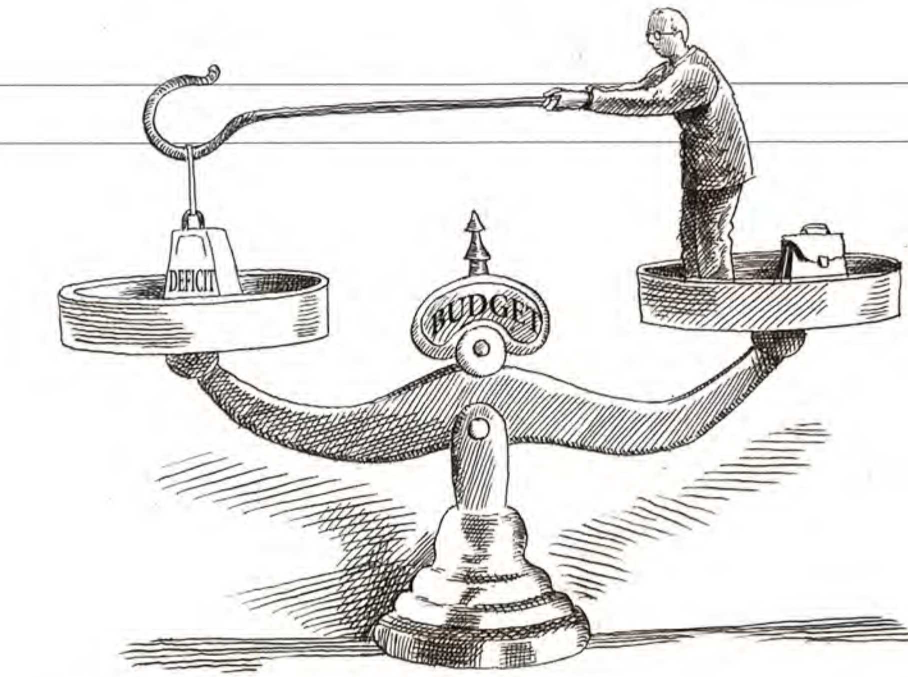
Q&A WITH OUR TREASURER, SCOTT MORRISON

Money experts ask the tough questions and give you their verdict on responses for future initiatives

ROCCO FAZZARI



SPENDING

Paul Clitheroe, AM

Money's chairman and chief commentator, chairman of the Australian government's Financial Literacy Board and a best-selling author.

Q *Money* magazine firmly believes in individuals and governments spending less than they earn. After a really impressive 25 years of economic growth that has made Australians among the richest people on the planet, with an impressive range of services and support, it is worrying that we continue to run budget deficits. Any proposed cut to services or increase in taxes is met with howls of dismay. How does any politician, who quite sensibly would like to keep his or her seat in parliament and their party in power, deal with this democratic dilemma?

A s treasurer you have to focus on the task and challenges as they present regardless of the political difficulties. With an inherited deficit, a growing debt and nominal growth over the past three years running at less than 3%, we have been disciplined on not spending more than we save. But there is much more to do.

Prior to 2013-14 there had been 14 consecutive budgets where the government made decisions to increase policy spending in net terms – policy decisions to increase spending on new programs and initiatives which were not offset or "paid for" by policy decisions to reduce spending.

Our task is to address expenditure measures, wherever possible, that can no longer be afforded, are no longer fit for purpose or can be better targeted, such as our reforms to retirement incomes and superannuation.

In September we made some important progress in passing $6.3 billion in expenditure reductions through the parliament. This will lower commonwealth debt by over $30 billion by 2026-27. But there is more to do – with another $20 billion in expenditure restraint measures yet to be passed by the parliament.

The federal budget delivered in May projects a return to balance in 2020-21, subject to parameter variations, with commonwealth expenditure to fall from 25.8% to 25.2%.

To get this expenditure under control requires us to address the cumulative impact of previous spending decisions and make them affordable in today's tough budget environment.

UNCERTAINTY

Annette Sampson

Money's senior writer has written extensively on personal finance. She was personal financial editor at *The Sydney Morning Herald*.

Q The government's plans to get the budget back in order assume no further shocks to the economy. But we live in an uncertain world with mounting political tensions in Asia, the threat of further terrorist attacks and, at the time of writing, the possibility of a Trump presidency in the US. Is the government being too optimistic in its projections? What concrete measures is the government taking to future-proof Australia's finances from these or other unforeseen shocks?

E conomic forecasting involves balancing risks and that is what Treasury has done in putting together its projections for the future of the Australian economy. The budget acknowledges that there are both positive and negative risks to the forecasts but presents the assessment of what the central scenario is. The budget forecasts for the economy are broadly in line with a range of other reputable forecasters including the Reserve Bank of Australia, the International Monetary Fund and the World Bank.

In terms of future-proofing the budget, this government has always recognised the importance of budget repair and that must always start with getting your expenditure under control at sustainable levels and flattening the growth curve on costs. We are committed to working with the parliament to pass the necessary savings to return our budget to balance, as we did recently with the omnibus savings bill that resulted

PAUL'S FINAL WORD

Well, I am not going to disagree with the treasurer about "prior to 2013-14 there had been 14 consecutive budgets where the government made decisions to increase policy spending in net terms". Nor would I criticise the projections to return the budget to balance in 2020-21.

But the challenge is how to do this when decreases in spending or increases in tax are met with howls of outrage.

Getting the budget back into balance is very simple but politically painful. As we all have to do with our personal budgets, when things get out of control we spend less, earn more or turn to the credit card with disastrous long-term consequences. In a democracy, this is a real challenge for any government.

SAM'S FINAL WORD

The treasurer is committing to not making any further detrimental changes to superannuation this parliamentary term. Frankly, the government has turned the system upside down so I'd hope it wouldn't meddle any further.

The reality, however, is that the government's super proposals are yet to be floated in parliament and are still subject to debate in both houses of parliament before being enacted as law.

I must say that I am in favour of these changes as they stand today and many of the changes actually benefit lower-income workers.

The co-contribution, the low income super tax offset, the spouse contribution and the ability to split super with partners all assist lower-income workers and none of these have received nearly enough press, promotion and education.

> The government won't be making any further adverse changes to the tax treatment of super in this term
>
> **SCOTT MORRISON**

SUPER

Sam Henderson

Money's super expert, CEO of Henderson Maxwell and host of Sky News Business's Your Money Your Call – Super.

Given the significant drop of up to 40%[1] in super contributions since the May federal budget, how do you plan on rebuilding the confidence of Australians in the future of the superannuation system to keep them off the age pension or reduce their age pension reliance through empowering them to save for themselves? (This needs to be addressed more sensibly and sustainably than just cutting the age pension benefits from reducing the assets test, introducing deeming changes and clipping the wings of superannuants through more confusing changes and limitations.)

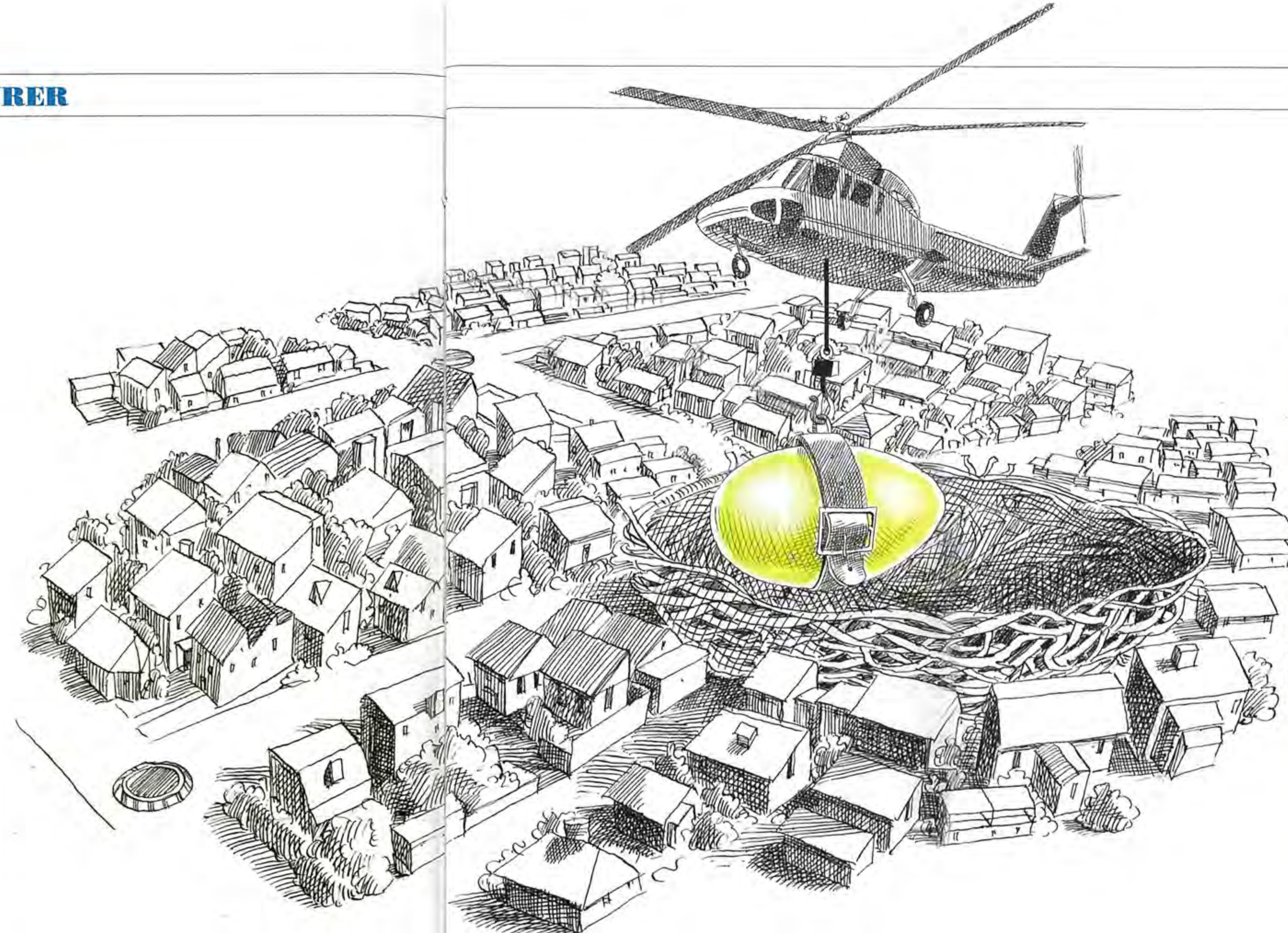
[1]as evidenced in the Super Concepts SMSF Survey August 2016

What we have done is set out an objective for the superannuation system and ensured that the tax concessions are specifically designed to meet that purpose – that is, to get people off the age pension, not provide a vehicle for tax minimisation and estate planning.

Yet the tax concessions that were in place went well beyond what was needed to do so and in a budgetary sense were completely unsustainable. The 4% of Australians adversely affected by the reforms are unlikely to ever be on a full or part pension, so these changes aren't pushing people onto it.

The reforms complement the amendments we made to the pension assets test in 2015 to make our pension system more sustainable – taken together, they ensure our retirement income system is set up for the long term.

Once the legislation passes the senate, Australians can have confidence that the Turnbull government won't be making further changes to the tax arrangements on super. The government will not be making any further adverse changes to the tax treatment of super in this parliamentary term following the adoption of our fairer and more sustainable superannuation legislation.



HOUSING

Bryce Holdaway

Money's property expert and host of Relocation Relocation Australia and Location Location Location Australia.

The Turnbull government has been steadfast in its decision to not change the current tax legislation around negative gearing and capital gains tax exemptions with respect to residential property. I think this is a wise decision to further encourage future property supply. However, that being said, with continued growth in population and record low interest rates there is currently continued pressure on housing supply and therefore housing affordability. What are the government's forward plans to help keep housing affordable for all Australians?

It is often overlooked how integral affordable housing is to the well-being of Australians. This relates not just to much-discussed affordability for first-home buyers but also rental affordability and access to services such as social housing and homelessness services for disadvantaged Australians. Access to housing provides stability that helps Australians get and stay in jobs, stay healthy, look after their families and be a part of their community.

On many indicators our housing market has performed well recently – dwelling approvals are at high levels and commencements are at record levels. With a strong pipeline of investment coming forward, dwelling price growth has moderated since its peak in July last year. Measures of housing affordability have improved since 2011, largely due to lower interest rates making it easier to service mortgages.

However, I believe we are still not getting the best outcomes for Australians seeking to enter the housing market, despite commonwealth and state and territory governments investing $10 billion this year in housing programs (with close to $7 billion coming from the commonwealth).

This investment should be resulting in better outcomes for these Australians, whether they are saving for their first deposit or among the more than almost 200,000 Australians on social housing waiting lists across the country. There are multiple reasons for this, ranging from planning and zoning processes to different approaches by states to managing their social housing stock.

Most policy levers when it comes to local housing policy rest with the states and territories but given the national importance of this issue and the importance of housing to Australians' employment and well-being, I intend to work closely with the states and territories on ways to improve housing policy and access to affordable housing.

The government is already working on its first three City Deals as part of the Smart Cities Plan, led by Assistant Minister Angus Taylor, in western Sydney, Townsville and Launceston. As part of the government's response to the Harper Competition Policy Review, the commonwealth will also seek to work with the states and territories to increase the supply of housing by streamlining planning and zoning regulation, and thereby improve affordability.

BRYCE'S FINAL WORD

What would have been refreshing from the treasurer is to acknowledge the key part that the federal government could play in providing the "political will" to approve a fast rail network between Melbourne and Sydney as a serious solution to the affordability/supply housing issue.

While he points out that supply is largely the responsibility of the states and territories, the glue that binds such a forward-thinking proposal together is well and truly in his court and despite numerous failed attempts to get such a project off the ground in the past, it would seem like a perfect time to seriously revisit this as a genuine solution to our population growth and affordability concerns in the two major capitals. There is perhaps a real opportunity missed here to offer meaningful hope to a lot of would-be homeowners.