

Barton Deakin Brief: Commonwealth Budget 2014-15

13 May 2014

Today the Treasurer, the Hon Joe Hockey MP, delivered the 2014-15 Commonwealth Budget, revealing a \$29.8 billion deficit in 2014-15.

Net debt is estimated to be \$226 billion, or 13.9% of GDP.

Unemployment is projected to be 6.25% in 2014-15, and 6% by 2016-17.

Overall spending will be cut from 25.3% to 24.8% of GDP.

Real GDP is forecast to grow at 2.5% in 2014-15 and reach 3% in 2015-16.

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Infrastructure

The Government will allocate \$11.6 billion towards an Infrastructure Growth Package.

Commonwealth investment in infrastructure will reach \$50 billion by 2019-20, taking total infrastructure expenditure by all tiers of Australian governments to \$125 billion in that period.

Within this spending envelope, the Government will contribute \$40 billion towards an \$82 billion investment plan for Australia's road infrastructure. The remaining \$42 billion will be funded by the states and private sector.

The Commonwealth will make funding contributions to the following projects across Australia from 2014-15 to 2019-20:

- **New South Wales - \$14.9 billion**
 - \$2.9 billion from 2014-15 to 2023-24 to deliver a Western Sydney Infrastructure Plan focused on new road projects to support an airport at Badgery's Creek.
 - Sydney's West Connex Stage 2 – \$1.5 billion and a \$2 billion concessional loan.
 - \$405 million for the North Connex project to 2019.
 - A \$5.6 billion upgrade of the Pacific Highway to 2019-20.

- **Victoria - \$7.6 billion**
 - \$1.5 billion for Melbourne's East West Link Stage 2.
 - \$263.4 million for the Western Highway between Stawell and Ballarat.
 - \$185.5 million for the Princes Highway from Winchelsea to Colac.

- **Queensland - \$13.4 billion**
 - \$6.7 billion for the Bruce Highway over 10 years.
 - \$1.3 billion for the Toowoomba Second Range Crossing.
 - Up to \$1 billion for the Gateway Motorway North throughout construction.

- **Western Australia - \$4.7 billion**
 - The Perth Freight Link.
 - \$675 million for the Perth Airport Gateway Road.
 - \$615 million for the Swan Valley Bypass.

- **South Australia - \$2 billion**
 - \$994 million in total for Adelaide's North-South Road.

- **Tasmania - \$1 billion**
 - \$400 million over 10 years to upgrade the Midland Highway.

- **Northern Territory - \$594 million**
 - \$77 million for NT roads.

- **Australian Capital Territory - \$293 million**



National projects include:

- \$300 million for an Inland Rail Link for freight between Melbourne and Brisbane
- \$229 million for the National Highway Upgrade Programme
- An additional \$200 million for the Black Spot Programme
- \$300 million for a Bridge Renewal Programme
- \$350 million for the Roads to Recovery Programme

The Budget does not include direct funding for urban rail projects.

The Government's 'Building Australia's Infrastructure' document outlining new projects announced in the Budget is available [here](#).

Previous Barton Deakin briefs on Commonwealth funding for new infrastructure are available below:

- [Melbourne's East West Link](#)
- [Western Sydney Infrastructure Plan](#)
- [Western Sydney Airport](#)

Health

The Government will:

- Allow providers of medical services to collect a patient co-payment of \$7 for general practitioner consultations and out-of-hospital pathology, and reducing Medicare Benefits Schedule rebates by \$5 from 1 July 2015. For concession holders and children under 16, the MBS rebate will only be reduced for the first 10 services in each year. A new Low Gap Incentive will replace bulk billing incentives, which will be paid to providers who treat concession holders and children. The Government will also remove the restriction on State Governments from charging patients at hospital emergency departments for non-emergency treatments.
- Increase co-payments for medicines under the Pharmaceutical Benefits Scheme by \$5 per visit for general patients and by \$0.80 for concession holders from 1 January 2015. PBS safety net thresholds will increase each year, for four years, from 1 January 2014, by 10% per year for general patients and by the cost of two prescriptions each year for concession holders.
- Provide \$378.7 million over five years for a number of new and amended listings on the PBS and the Repatriation Pharmaceutical Benefits Scheme.
- Save \$1.8 billion over 4 years from 2014-15 by ceasing funding guarantees under the *National Health Reform Agreement 2011* and revising Commonwealth Public Hospital funding arrangements from 1 July 2017.
- Freeze the Private Health Insurance rebate.

With the savings achieved in the health portfolio, the Government will set up a Medical Research Futures Fund (**MRFF**), modelled on the Future Fund, which will reach around \$20 billion by 2020. The uncommitted funds in the existing Health and Hospitals Fund will be transferred into the MRFF. The dividends from this fund will be used for research into diseases such as cancer, diabetes and multiple sclerosis, including through the National Health and Medical Research Council. The Government will



provide \$2 million over three years in net earnings from the Medical Research Future Fund to fund medical research. Payments from the MRFF are expected to reach \$1 billion per year from 2022-23. The money will be sourced from closing the Health and Hospitals Fund set up under the Howard Government. The rules governing the MRFF ensure that it cannot be touched by future governments.

Barton Deakin's analysis of the Commission of Audit recommendations into Health is available [here](#).

Further information on the changes in the health portfolio can be found in the Health section of the budget papers [here](#).

Education

With respect to higher education, the Government plans to:

- Remove caps on student contributions charged by higher education providers from 1 January 2016 for students who accept an offer from 14 May 2014. Student contributions will remain capped until 2020 for students who commenced or deferred before 14 May 2014. The current borrowing limits on FEE-HELP and VET-FEE HELP loans will be removed.
- Access to subsidies through the Commonwealth Grant Scheme (**CGS**) will be extended to diplomas, advanced diplomas, associate degrees and bachelor degrees where the course is accredited. The funding arrangements under the CGS will be simplified by replacing the current 8 funding clusters with 5 funding tiers. The level of subsidy for courses at non-university providers and sub-bachelor courses will be lower by the subsidy for bachelor and postgraduate courses. Final arrangements will be determined in a review by the Minister for Education.
- Reduce the income threshold for repayment of HELP debts commencing in 2016, set at 90% of the current rate. A new repayment rate of 2% of the repayment income will be applied to incomes exceeding the threshold.
- Adjust the indexation of HELP debts from 1 June 2016 from the Consumer Price Index to a rate equivalent to the yields on 10 year bonds issued by the Australian Government, capped at 6% per annum.

Barton Deakin's analysis of the Commission of Audit recommendations into education is available [here](#).

Details of education measures in the Budget can be found in the budget papers [here](#).

Tax reform

The Government will reduce taxes in the following areas:

- The company tax rate will be reduced by 1.5% for around 800,000 Australian businesses to 28.5%, to begin in July 2015.
- The mining tax will be abolished.
- The carbon tax will be abolished.

The Government will raise revenue in the following areas:



- A *Temporary Budget Repair Levy* will be introduced, payable by individuals with taxable income above \$180,000 a year. The Levy is paid on 2% of any amount over \$180,000 and will raise an estimated \$3.1 billion over the forward estimates period.
- The fringe benefits tax (**FBT**) rate will be increased by 2% (from 47% to 49%) from 1 April 2014 until 31 March 2017.
- Fuel excise indexation will be reintroduced, adding between 2.5¢ and 3¢ per litre to the price of petrol, providing an extra \$2.2 billion in revenue over the forward estimates.
- A 1.5% levy will be introduced on the 3,000 largest businesses to fund the Government's paid parental leave scheme.

Privatisation and the Australian Public Service

The Government will scrap or merge 70 Commonwealth bodies, saving an estimated \$470 million over four years in a two-stage reform and restructuring process.

16,500 public servant jobs will be cut in these reforms.

The following bodies will be privatised:

- The Royal Australian Mint
- Defence Housing Australia
- Australian Hearing
- The file registry of the Australian Securities and Investments Commission (**ASIC**)

In the coming weeks, scoping studies into these privatisations will be conducted. The Australian Rail Track Corporation is likely to be subject to a privatisation scoping study in the future. The Commonwealth will not consider selling its 13% stake in the Snowy-Hydro Scheme.

The following agencies will be abolished:

- The National Water Commission
- The Australian Renewable Energy Agency
- COAG Reform Council
- Prime Minister's Indigenous Business Policy Advisory Group
- Australian River Company Limited
- Albury-Wodonga Development Corporation
- Corporations and Markets Advisory Committee
- Independent National Security Legislation Monitor

The Coalition Government has already abolished 23 advisory bodies since coming to office in September 2013.

The following agencies will be merged:

- ComSuper and the Commonwealth Super Corporation.
- Australian Appeals Tribunal and the Classification Review Board. The four main merits review tribunals will also be merged into a single civilian merits review tribunal.



- National Blood Authority with the Australian Organ and Tissue Donation and Transplantation Authority.
- The functions of the Private Health Insurance Administration Council will be divided between the Australian Consumer and Competition Commission (**ACCC**) and the Australian Prudential Regulation Authority.
- The National Competition Council will be folded into the ACCC.
- The following agencies will be combined into a new Health Productivity and Performance Authority:
 - Australian Commission on Safety and Quality in Health Care;
 - Independent Hospitals Pricing Authority;
 - National Health Funding Body;
 - National Health Performance Authority; and
 - Australian Institute of Health and Welfare.
- Office of Australian Information Commissioner to be divided between the Attorney General's Department, Human Rights Commission, Administrative Appeals Tribunal and the Commonwealth Ombudsman.
- The office functions of the National Archives, National Film and Sound Archive, National Gallery, National Library, National Museum, National Portrait Gallery and Old Parliament House will be combined.

The following agencies will be folded into Commonwealth Departments:

- Australian Customs and Border Protection Service
- Health Workforce Australia
- General Practice Education and Training Limited
- Australian National Health Agency
- Telecommunications Universal Service Management Agency

The Government also plans to cut 3000 staff at the Australian Taxation Office (**ATO**).

Communication and Technology

Communications and technology related measures include:

- \$100 million over four years to address mobile phone black spots in regional areas.
- \$10 million over four years to improve the protection of children online through school safety programmes, research, campaigns, and the establishment of the Office of the Children's e-Safety Commissioner.
- Coordinating spatial data management within the Department of Communications.
- \$84.9 million funding will be maintained for National ICT Australia Ltd (**NICTA**) in the next two years as the organisation moves to a self-sustaining funding model.
- The functions of the Telecommunications Universal Service Management Agency (**TUSMA**) will be transferred to the Department of Communications. Transitional arrangements will be in place for 2014-15, prior to the passage of legislation.

Barton Deakin's analysis of the Commission of Audit recommendations into ICT and Corporate Services is available [here](#).



Social Security

Social security benefits and payments will change in the following ways:

- Young people will be required to be earning, learning or participating in Work for the Dole.
- The eligibility for Family Tax Benefit Part B (**FTB-B**) will be tightened. Low income single parents will be assisted with a new allowance of \$750 per annum for each child aged 6 to 12.
- Pensions such as the Age Pension and Disability Support Pension will be indexed to the CPI, rather than wages, from September 2017.
- The age pension eligibility age will increase to 67 by 1 July 2023, and further increase to 70 by 1 July 2035.
- Indexation of Family Tax Benefit and Newstart will be paused.
- The Commonwealth Seniors Health Card income thresholds will be indexed from September 2014. Untaxed superannuation income will be included in the test for new recipients.

Defence

The Commonwealth will purchase 58 F-35 Joint Strike Fighters at a cost of \$12.4 billion. A further \$1.6 billion will be spent on associated support infrastructure in NSW and the Northern Territory.

The Government's changes to Defence include:

- Establishing a new accumulation superannuation scheme for new members of the Australian Defence Force, starting from 1 July 2016. The new arrangements will reduce the Commonwealth's unfunded superannuation liability by an estimated \$126 billion to 2050.
- Bringing forward \$1.5 billion of spending from 2017-18 to earlier years.
- Reducing civilian staff by 1200 and service provider staff to 300 by 2017-18, saving \$606 million over 4 years.
- Procurement agency Defence Material Australia will be merged into the Department of Defence, consistent with a recommendation in the Commission of Audit Report.
- Spending \$191.8 million by 2017-18 to re-establish the Australian Defence Force Gap Year Programme.
- Allocating \$8 million to assist the Australian Defence Force in providing security for the 2014 G20 Leaders Summit in Brisbane.

Barton Deakin's brief on the RAAF aircraft acquisition is available [here](#).

Environment

The Government will provide \$2.55 billion to establish the Emissions Reduction Fund from 1 July 2014 to contribute to Australia meeting its target of reducing emissions to 5% below year 2000 levels by the year 2020. The cost of administering the Fund will be met from within the existing resources of the Department of the Environment and the Clean Energy Regulator. Barton Deakin's analysis of on the Emissions Reduction Fund is available [here](#).

The Government will also:



- Abolish the Australian Renewable Energy Agency, saving \$338.5 million over the forward estimates, and \$1.3 billion over the 5 years starting in 2017-18.
- Reduce funding to the CSIRO, saving \$111.4 million over the forward estimates.
- Reduce funding to the Carbon Capture and Storage Flagships Program, saving \$162.9 million in the forward estimates, and a total of \$459.3 million to 2019-20.

Immigration and Border Protection

The Government will provide \$480.5 million over 4 years to strengthen border protection services. From 1 July 2015 it will merge the Australian Customs and Border Protection Service and the Department of Immigration and Border Protection to create a new 'super agency', the Australian Border Force (**ABF**). The ABF will be led by a Commissioner who reports directly to the Minister for Immigration, and will be based in Canberra.

The ABF will focus on:

- Improved trade and passenger facilitation by implementing more efficient processes;
- Better targeting and interception of illegal trade and travellers through enhanced ICT systems, intelligence and enforcement capability; and
- Strengthened integrity and capability of the border workforce.

The Government will also buy 6 new boats to patrol inaccessible territories including rivers, estuaries and reefs, 3 of which will be deployed in the Torres Strait. A new intelligence agency and training college will also come under the auspices of the ABF.

The Government will also provide \$574.1 million over 5 years to support Illegal Maritime Arrivals found to be owed protection through Torture and Trauma Support and employment services. In return for receiving this support temporary visa holders will be subject to mutual obligation requirements such as Job Search and Work for the Dole.

Support for Business and Other Organisations

Businesses that employ new workers aged over 50 will be given \$10,000 in order to promote workforce participation amongst older Australians. In order to qualify, workers must have been receiving income support for 6 months or more.

Subsidies will be awarded to businesses that employ job seekers that have spent over 6 months on the Work for the Dole programme.

Changes to public broadcasting include:

- Cutting the Australia Network, saving \$196 million over 9 years.
- Reducing funding to the ABC and SBS by 1 per cent over the next 4 years.

Other impacts on business and industry outlined in the Budget include:

- Existing industry assistance programmes will be significantly reduced and reshaped.
- \$50 million extra to the Export Market Development Grants programme, to assist more small and medium-sized businesses to access export markets.



- \$50 million for the Manufacturing Transition Grants Programme.
- \$155 million growth fund to support regions affected by the announced closures of motor vehicle manufacturers.
- Development of a National Industry Investment and Competitiveness Agenda, to be released later in 2014, to facilitate improvements in business competitiveness.
- Continuance of an aggressive red tape and green tape reduction programme, with a target of reducing regulatory compliance costs on businesses and the community by \$1 billion per year.

Further information

Detailed information on the 2014-15 Budget can be found online:

- The [full transcript](#) of the Treasurer's Budget speech
- [Budget overview](#): key economic figures and information on Government initiatives
- [Budget Papers](#)
- The Treasurer's [media release](#)

Barton Deakin's summary of the Commission of Audit Report is available [here](#).

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