COMMITTEE FOR MELBOURNE BRIEFING NOTE

2014-15 Federal Budget Overview

Overview

Handing down his first budget as Federal Treasurer, Joe Hockey delivered relatively few surprises, setting the course for a balanced budget in five years. Commentary in the lead up to the budget focused on likely spending cuts and increased taxation levels with Joe Hockey himself commenting that *"we're all going to have to contribute".* Upon initial observations this certainly seems to be the case, with some groups, notably youth, families and those dependent upon healthcare, appearing to be more adversely affected than others.

This Committee for Melbourne brief provides a summary of key highlights from the *2014-15 Federal Budget*, addressing issues most relevant to the Committee's agenda.

Infrastructure

As expected, there were a number of major announcements made regarding infrastructure spend, which is good news from an economic stimulus and jobs creation perspective. Victoria scored:

- $1.5 billion for the East West Link – Western Section ($1 billion in new funding and $500 million from existing road funding), upon submission of a formal business case.
- $263 million for the Ballarat to Stawell Western Highway duplication.
- $186 million for the Princess Highway duplication between Winchelsea and Colac.
- $151 million for the removal of the level crossing at Main Road, St Albans, to be delivered under the Regional Rail Link project.
- $300 million for the Inland Rail Link (599 kilometres of new freight track between Melbourne and Brisbane).

Although these projects are welcome, there remains a concern around whether the right projects are being chosen for priority funding. While the economy will get a boost from seeing shovels in the ground, the Committee has long made the case for independent assessment and prioritisation of major infrastructure projects and we must be sure our dollars are going to the projects most needed.

<u>Asset Recycling Initiative</u>

The much talked about Asset Recycling Initiative (ARI) has been formally announced. Under the initiative, States and Territories can receive 15 per cent of the price of the public assets that are sold to fund new infrastructure. A figure of $5 billion, primarily from the monies previously set aside within the Building Australia Fund, has been made available. There is no time to waste however as the incentive payment is only available for transactions agreed with the Federal Government before 30 June 2016, with the fund closing at the end of 2018-19. As ARI funding will be made available on a 'first come, first served' basis, the key will be to act quickly – and we trust sensibly.

Jobs and Growth

<u>New Medical Research Future Fund</u>

One of the few surprises from the Budget was the creation of a new Medical Research Future Fund. Starting with a $1.1 billion funding instalment made in January 2015, growing to a $20 billion pot by 2020, the fund is anticipated to become the largest of its kind. However, with funding being sourced from a new $7 GP patient fee, there is a question as to whether it should be funded at the expense of affordable healthcare for all?

This announcement should also be viewed in the context of the $845.6 million removal of existing programmes, like the Industry Innovation Precincts scheme, which were designed to assist with the commercialisation of ideas. More generally, it remains the case that Australia lags behind other OECD countries with regards to collaboration between businesses and innovation. We are ranked 23rd out of 26 OECD countries in terms of proportion of businesses collaborating on innovation.[1]

<u>Entrepreneurs' Infrastructure Programme</u>

The Budget saw the establishment of a new $484.2 million Entrepreneurs' Infrastructure Programme, created to assist with the commercialisation of ideas for small businesses. For the SME sector however, this news was offset by the removal of a number of bodies and schemes pre-designed to assist start-ups in this area including Enterprise Connect, Industry Innovation Precincts scheme, Commercialisation Australia, Enterprise Solutions programme and Innovation Investment Funds. The closure of Holden and Ford has shown that when we cannot compete on cost, we must compete on intelligence and innovation. Our future focus needs to be specialised, high tech and international. We need to be wise in investing in our R&D future, and the new EIP program will hopefully stimulate more commercialisation of our innovative ideas.

<u>Aged Worker Incentive</u>

The Budget confirmed a financial incentive for employers who employ workers aged over 50.

- Employers to receive a $10,000 phased payment incentive over a two-year period when employing workers aged over 50 who have been out of work for six months or more.
- The incentive aims to ease fears following the confirmed rise in the pension age to 70 by 2035.

[1] http://www.innovation.gov.au/science/policy/AustralianInnovationSystemReport/AISR2012/chapter-5-links-and-collaboration/collaboration-performance/index.html

Taxation

- The Budget announced a reduction of 1.5 per cent in the R&D Tax Incentive, effective from 1 July 2014.
- A reduction in company tax, which will be brought down to 28.5 per cent, effective from 1 June 2015.
- For larger businesses, the reduction in corporation tax is offset by the introduction of a 1.5 per cent Paid Parental Leave Levy, due to commence 1 July 2015.

We expect further details on these tax reforms to be outlined in the Government's emerging Tax White Paper.

Health

The Federal Budget announced a new user-pays era, with a personal contribution of $7 per GP visit for bulk-billed payments, whilst patients not currently bulk-billed, will receive $5 less through their Medicare rebate.

Exactly how much extra will a visit to the GP cost as a result of this announcement? Various interpretations make that either $5, $7 or $12 depending on whether you conclude that bulk billed patients pay $7 and the doctor receives $5 less in rebates (costing the patient $7 more), non bulk billed patients pay $5 extra and receive the same Medicare rebate (costing the patient a further $5), or non bulk billed patients pay an additional $5 or $7 and also cop a decrease of $5 in the Medicare rebate, (costing the patient another $10 or $12). The only thing clear right now is that it will cost more.

Other select budget health announcements included:

- The removal of restrictions currently preventing public hospitals charging fees for treatment. If adopted at state level, this will allow for a $7 charge for outpatient and emergency services.
- An additional $5 payment for prescriptions.

Human Services

- Some Disability Support Pension (DSP) recipients aged under 35, who were granted DSP between 2008 and 2011, will now be assessed under the current DSP Impairment Tables. People with severe or manifest disabilities will not be reassessed.
- Eligibility for the Age Pension will increase to the age of 70 by 1 July 2035. This builds upon the commitment by the previous government to increase the Age Pension age to 67 by 1 July 2023.

One of the key issues that seems to have been overlooked in this space however, is jobs creation overall. While the announcements have some merit from both a workforce participation and financial point of view (with regard to benefits to government of delayed pension payments and more income tax as people work longer), we also have a very high youth unemployment rate. The question must be how do we create more jobs overall to ensure we are not simply exchanging pension payments for unemployment benefits.

Education

- University fees to become deregulated, allowing universities the freedom to set their own course fees from 2016.

In practice, we can expect fees to increase by at least 23 per cent in the first instance, to make up for the 20 per cent government cut and three per cent cut back in annual indexation. Given education is an internationally competitive space however, universities will have to remain price competitive if they want to attract domestic and international students. If fees in Australia rise too high, Australia's domestic students will look to other countries for education opportunities. In addition, with $4.1 billion of economic input coming into Victoria from international students each year, and the requirement for domestic fees to be held at a lower rate than international fees, education institutions must be careful not to price themselves out of this very lucrative market. International students provide 77 per cent of all fees collected in Victoria – not to mention the add-on economic stimulation provided through accommodation, rental, food, retail, travel and the like. In the end universities will need to be even more competitive in the higher education field and that means they will need to maintain fees at an attractive level for the market. Further budget announcements in the education space also saw:

- The repayment of the Higher Education Loan Program (HELP) will start earlier and will be reduced from a $53,345 threshold for the 2014-15 financial year to $50,638.
- The interest rate applied to the HELP debt will be linked to the 10-year Government Bond rate (it is currently linked to CPI), but will be capped at six per cent. In real terms, this change is likely to see a rise in interest rates paid on student loans.
- Expansion of federal support to students at TAFEs, private universities and in diploma programs from 2016.