

## COMMITTEE FOR MELBOURNE BRIEFING NOTE

### 2013-14 Federal Budget Overview

#### Finances

- For the 2013-14, Federal Budget, the Labor administration has forecast a budget deficit of \$18 billion, representing 1.1% of GDP. Despite the deficit, The Treasury is confident of bringing the Budget back to 'balance' by 2015-16. The government forecasts Real GDP growth to increase from 2.75% this year to 3% in 2014-15.
- Exports are expected to continue their strong growth (at 6.5% in 2013-14 and 7.0% in 2014-15), as the transition is made from the mining investment boom to the mining production boom.
- Imports are forecast to grow at 6% in 2013-14 and 3% in 2014-15. However, this will be very much influenced by whether the Australian dollar retains its value.

#### Budget at a glance

	Actual		Estimates		Projections	
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
<b>Underlying cash balance (\$b)(a)</b>	<b>-43.4</b>	<b>-19.4</b>	<b>-18.0</b>	<b>-10.9</b>	<b>0.8</b>	<b>6.6</b>
Per cent of GDP	-2.9	-1.3	-1.1	-0.6	0.0	0.4
<b>Fiscal balance (\$b)</b>	<b>-44.5</b>	<b>-20.3</b>	<b>-13.5</b>	<b>-6.3</b>	<b>6.0</b>	<b>10.8</b>
Per cent of GDP	-3.0	-1.3	-0.8	-0.4	0.3	0.6

(a) Excludes net Future Fund earnings

	Forecasts			Projections	
	2012-13	2013-14	2014-15	2015-16	2016-17
Real GDP	3	2 3/4	3	3	3
Employment	1 1/4	1 1/4	1 1/2	1 1/2	1 1/2
Unemployment rate	5 1/2	5 3/4	5 3/4	5	5
Consumer Price Index	2 1/2	2 1/4	2 1/4	2 1/2	2 1/2
Nominal GDP	3 1/4	5	5	5 1/4	5 1/4

Real and nominal GDP are year-average growth. Employment and CPI are through-the year growth to the June quarter. The unemployment rate is the rate for the June quarter.

#### Economy

- In his budget address, Treasurer, Wayne Swan predicted the economy will begin two big transitions in the near term. The resources sector will transition from unprecedented growth in investment to exceptional growth in exports, as big resource projects ramp up their production and more broadly, the economy will transition towards non-mining sources of growth.
- The Budget delivers \$43 billion in savings to return the budget to surplus in 2015-2016.
- The Government has chosen not to offset the hit to revenue in the near term, arguing it would come at significant cost to jobs and growth.
- Mr Swan said "Our nation faces an enviable outlook of solid growth, low unemployment, contained inflation and strong public finances, and is expected to outperform most advanced economies over the next two years".

- Of particular note, resources investment is expected to reach a record level of over 8 per cent of GDP in 2013-14, driving new business investment as a share of GDP to the highest level on record.
- The unusual combination of a sustained high Australian dollar and falling commodity prices is putting acute pressure on prices and corporate profitability across the economy.
- The high dollar in the face of declining terms of trade has contributed to broader weakness in prices and profit. Notwithstanding business investment reaching record highs as a share of GDP, growth in producer prices remains contained.
- Looking forward, our strong ties with Asia will open up new opportunities across all sectors of our economy, including resources, manufacturing, services and agriculture.
- Consistent with this outlook, employment is expected to grow 1¼ per cent through the year to the June quarter 2014 and the unemployment rate is expected to drift slightly higher to 5¾ per cent by the June quarter 2014.

### **Jobs and Growth**

- A tightening of the corporate tax system bringing the government extra revenue of about \$4.1 billion and \$219.20 million in savings.

#### ***'A Plan for Australian Jobs'***

- Confirmation of the previously announced \$1 billion investment in boosting Australian innovation, productivity and competitiveness under 'A Plan for Australian Jobs'.

*The investment, announced in February, includes;*

- A new \$350 million round of the Innovation Investment Fund.
- Changes to venture capital tax arrangements to improve clarity and certainty for investors and encourage participation by "angel" syndicates.
- A new Australian Industry Participation Authority to help businesses build the capabilities and connections to win work on major projects.

#### ***Industry Innovation Precincts***

- As expected, the federal budget allocated \$500 million to establish up to 10 Industry Innovation precincts around Australia, part of 'A Plan for Australian Jobs'.
- The first two Precincts will be a Manufacturing Precinct with locations in South East Melbourne and Adelaide and a Food Precinct headquartered in Melbourne
- Up to \$4.0 million per annum to be provided to each Industry Innovation Precinct and up to \$1.5 million per annum to each emerging Industry Innovation Precinct for operating and administration costs.
- The establishment of an Industry Collaboration Fund, with funding building to \$50.0 million per annum by 2016-17. Precincts will be able to bid, on a competitive basis, for funding from the fund for large-scale, high-impact industry collaboration projects; and
- The creation of an internet based Industry Innovation Network to connect geographically dispersed precinct members by providing a platform for sharing information, knowledge, support and services.

**A Plan for Australian Jobs — Industry Innovation Precincts — establishment**

Expense (\$m)

	2012-13	2013-14	2014-15	2015-16	2016-17
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education	2.9	35.4	58.6	63.3	78.3

***Assistance for Small business***

- Small and medium sized businesses and start up companies will be provided with expanded business assistance and better access to finance through the \$378 million Venture Australia package to stimulate Australia’s venture capital market.
- \$12.9 million to assist businesses in accessing the National Broadband Network.

***Enterprise Solutions Programme***

- Highlighted as part of the ‘A Plan for Australian Jobs’ investment, the \$29.4 million enterprise solutions programme offers assistance for small and medium businesses vying for government services and tender.
- The cash is targeted at helping SMEs overcome barriers and become more competitive in bids for government contracts.
- Grants of up to \$100,000 for feasibility studies and up to \$1.0 million for proof of concept will be provided to enterprises to develop innovative solutions for the future needs of government entities.

**A Plan for Australian Jobs — Enterprise Solutions Program — establishment**

Expense (\$m)

	2012-13	2013-14	2014-15	2015-16	2016-17
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education	-	2.3	7.7	10.2	7.5

**Research and Development**

- Funding of \$185.9 million over two years to fund the operation of research infrastructure constructed under the National Collaborative Research Infrastructure Scheme and the Super Science Initiative. This infrastructure includes marine research vessels, biotechnology, supercomputing facilities and telescopes.

**Removal of the R&D tax incentive for larger businesses**

- As expected, the budget has introduced legislation to prevent companies and their groups with assessable incomes of over \$20 billion from claiming the 40% R&D tax offset - this is estimated to increase tax receipts by \$1.1 billion.
- From 1 January 2014, smaller eligible companies (with turnover under \$20 million) will be able to claim the refundable R&D tax offset quarterly.

**Higher Education**

- A total of \$51 billion in university funding over five years.
- \$135 million to extend the future fellowships program for the rising stars of research.
- \$97 million from 2014 to 2017 for additional Commonwealth supported places for sub-bachelor and postgraduate courses. This represents a 75 per cent increase in funding for university places and increased funding for universities in real terms.
- From 1 January 2014, the Government will offer Student Start-up Scholarships as income contingent loans to new full time higher education students.
- Responding to the announcements, Universities Australia welcomed the “positive new higher education initiatives”, however they said these announcements were insufficient to offset the impact of the \$3.8 billion worth of cuts to higher education announced over the last six months.

**Australia in the Asian Century — Asian Century Awards**

The Government will offer up to 12,000 Asian Century Awards over five years from 2012-13. The Awards will be for Australians to study in the region and students from regional countries to undertake study or professional development in Australia. This measure will also establish an Australia Awards Office within AusAID to strengthen and maintain links with alumni.

The cost of this measure will be met from within the existing resourcing of AusAID and the Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education.

This measure was included as a ‘decision taken but not yet announced’ in the *Mid-Year Economic and Fiscal Outlook 2012-13*.

**Australia in the Asian Century — Business Engagement Program**

The Government will provide \$7.8 million over five years from 2012-13 to establish an Asian Century Business Engagement Grants program. This program will include projects to broaden the reach of Australian business into emerging business centres or deepen bilateral engagement in particular sectors of commercial promise.

**The next wave of Nation Building**

In 2013-14, the Government is committing \$24 billion to infrastructure, bringing the total investment to around \$60 billion from 2008-09 to 2018-19.

**The Commonwealth Government's infrastructure agenda for Victoria**

- \$3 billion contribution to Melbourne Metro
- \$525 million to complete 38 kilometres of improvements on the M80 Ring Road
- \$69 million to improve traffic management on the Monash Freeway
- \$258 million contribution to continue duplicating the Princes Highway between Winchelsea and Colac (previously announced)

***East West Link***

No Commonwealth funding.

***Melbourne Metro***

The Commonwealth Government has pledged \$3 billion (of the estimated \$9 billion required) for the Melbourne Metro rail tunnel – involving a nine-kilometre rail tunnel from South Kensington to South Yarra with five new stations – committing to fund one third of the project if it holds office after the September election.

- \$1 billion will be made available between 2014-15 and 2018-19; and
- \$2 billion between 2019-20 and 2022-23.

The Commonwealth funding is contingent on the State Government also contributing \$3 billion - in the State Budget last week the Napthine government committed only \$10 million to progress planning over 2013-14.

This places the Commonwealth at odds with the State and Federal Coalition who are prioritising the East West Link, with funding commitments of \$294 million and \$1.5 billion respectively.

The remaining \$3 billion would need to be raised from the private sector and today's Age has reported that a public-private partnership has been sketched out by federal Infrastructure Minister Anthony Albanese and state Transport Minister Terry Mulder.

**Building with the private sector**

The Government is also looking at how to encourage greater private sector involvement in infrastructure.

In line with the Government's Infrastructure Finance Working Group Report, a new advisory function will be established within the Treasury to provide guidance on the most appropriate financing structures to bring large, complex infrastructure projects to market.

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**Melbourne Metro (and Brisbane Cross River Rail) Project — Advisory Board**

**Expense (\$m)**

	2012-13	2012-13	2012-13	2012-13	2012-13
Department of the Treasury	-	1.6	1.6	-	-

The Government will provide \$3.2 million over two years to engage specialist external expertise required to advise the Government on funding agreements for the Brisbane Cross River Rail and Melbourne Metro infrastructure projects. This includes the establishment of a private and public sector advisory body to assist Treasury in providing advice to Government on the appropriate financial structures for these projects.

The funding and financing of these projects could also involve support other than the traditional Commonwealth grant funding, such as limited project/debt guarantees or post construction payments.