Parker&Partners
An Ogilvy Public Relations Company

2013 FEDERAL BUDGET REPORT

CONTENTS

BUDGET HIGHLIGHTS

Revenue: $376 billion
Expenditure: $398.3 billion
Budget position: $18 billion deficit

GDP growth: 2.75 per cent
Unemployment forecast: 5.75 per cent
Employment growth: 1.25 per cent
Inflation: 2.25 per cent

Major spending initiatives:

- **$9.8 billion on school reforms**
- **$19.3 billion for DisabilityCare Australia (over seven years)**
- **$24 billion on infrastructure**

Tax changes:

- **0.5 per cent increase in the Medicare Levy**
- **Closing corporate tax loopholes**
- **Abolishing the baby bonus**

BUDGET OVERVIEW:

Swan spends to leave Labor legacy in school education and DisabilityCare – but cuts elsewhere to deliver surplus in four years

Budgets give governments the opportunity to re-launch themselves to the voting public. And if ever a government needed re-launching it's this one. Despite its many worthy and good policy triumphs, for reasons that are too well-traversed to reprise here voters appear ready to reject Labor on Saturday, 14 September. So this is the last big set piece opportunity the Gillard Government has to set out its claims on power before the election campaign proper kicks off in just over 11 weeks, and the last opportunity it largely controls.

Treasurer Wayne Swan's sixth and quite possibly last budget has been structured to protect as many of the Government's landmark policies as possible: by setting out the decade-long costs of some of the Government's initiatives he has made it that much harder for a likely Treasurer Joe Hockey to cut treasured reforms like DisabilityCare Australia and the education funding changes named for a prominent Sydney businessman; by attaching $24 billion in infrastructure investment to projects voters and Liberal premiers actually want Swan is building a legacy for himself and the PM that is unlikely to be dismantled in any substantial way.

After last year announcing four years of surpluses, a statement which he has since had to go back on, the Treasurer this year has charted a "a pathway to surplus" that will see a deficit in the current financial year, the budget year and the year after, a balanced budget in 2015-16, and a budget written in black ink only in 2016-17. Justifying this, he says the European way is "not the Australian way".

But despite that sentiment this is not the usual pre-election budget of tax cuts, assorted 'bonuses' and pension increases. There are tax increases – most notably the already announced ½ per cent increase to the Medicare levy to pay for DisabilityCare Australia, and a crackdown on corporate tax loopholes that not many voters will worry about – but only modest overall spending increases.

Peter Costello's baby bonus is to be abolished and replaced with a much smaller allowance under Family Tax Benefit A, which will provide a tax break of just $2,000 following the birth of a first child and $1,000 for any further children, which might be considered a brave decision in an election year. These "structural changes" as the Treasury calls them are part of a steady unwinding of the Howard-Costello era entitlements – some voters might be angry to see them go but Hockey will be secretly pleased, making his job on15 September that much easier.

But perhaps the bravest decision of this budget is that to introduce paid parking to all Australian Government owned car parks on National Land in the ACT suburbs of Parkes, Barton, Russell and Acton, which is estimated to bring in $73.3 million over three years. The outrage in Canberra has already begun.

Finance, Tax & Superannuation:

To help recoup the shortfall in revenue the government has targeted the big end of town and restructured superannuation, as well as leaning heavily on the increase in the Medicare Levy and reforms to family payments.

In a continuation of its battle with Big Business the Government has signalled a major crackdown on the corporate tax system to protect it from erosion and loopholes. This includes a package of measures to prevent multinational enterprises from shifting profits out of Australia by loading up their Australian operations with debt and, in a particularly barbed move, the removal of immediate deductibility for expenditure on resource exploration.

The changes to the superannuation system hinted at in April have been clarified, with over $800 million to be saved over the next four years. High income earners will have reduced tax concessions, the tax exemptions for retirement income streams will be better targeted to those above the $100,000 threshold, and a new $35,000 cap on higher concessional contribution caps will apply.

The $5000 baby bonus will be scrapped and replaced with an increase in benefits for those eligible for Family Tax Benefit (A). These 28,000 families will receive $2,000 for their first child and $1,000 for each additional child.

Also on the chopping block is the increase in family tax benefits which was due to commence in 2015-16. The benefits which would have been worth between $300 and $600 to families, now total savings of $1.8 billion.
$900 million will be saved over four years from changes to superannuation tax arrangements by taxing earnings of more than $100,000 on superannuation pensions and annuities at 15 per cent, instead of being tax-free.

In another measure to offset the shortfall in revenue, Pay As You Go (PAYG) income tax instalments will shift from quarterly payments to monthly and will be extended to include all large entities in the PAYG system including trusts, superannuation funds, sole traders and large investors.

The income tax cut which was slated for 2015-16 will be deferred due to revenue shortfalls, though the government was sure to point out that most Australians are still paying less income tax than they would be under 2007-08 tax rates when they took charge.

Access to the research and development tax incentive will be limited to companies with an aggregate turnover of less than $20 billion. This is estimated to save $1.1 billion in revenue over the forward estimates.

Finance, Tax & Superannuation highlights:

- $11.6 billion in savings by way of a Medicare Levy increase to fund Disability Care Australia over the forward estimates
- $2.4 billion in savings through the reform of the family payment scheme, including the baby bonus scheme

	• $2.5 billion in savings over the four years to 2016-17 by not proceeding with the Family Tax Benefits Part A, scheduled to commence in 2015-16 • $4.2 billion in savings through a raft of measures to protect the corporate tax base over the four years to 2016-17 • $1.4 billion in savings over the forward estimates by requiring PAYG tax instalments to be paid monthly instead of quarterly • $821 million in savings from changes to superannuation tax arrangements, including higher concessional contribution caps and changes to retirement income streams
Health and Ageing:	Strategic 'leaks' over the past weeks have left next to no-one surprised by the spending commitments announced for the health portfolio. The central theme is bolstering the sustainability of the health budget through continued implementation of the on-going National Health reform process to improve access to high quality health care, medicines and support services, with a big push to improve cancer treatment and support services. Announced in the budget is funding for a package entitled *World Leading Cancer Care*. The $226.4 million package will fund cancer research, prevention and treatment and includes expansion of the BreastScreen Australia program to include mammograms for women aged up to 74 years, and a commitment to cancer research totalling $26.8 million. Despite decreasing payments under the Pharmaceutical Benefits Scheme from last year, the Government has invested $690.5 million over five years to fund new listings and amendments to current listings, including treatments for chronic nerve pain, chronic hepatitis C, Parkinson's disease, type 2 diabetes, high cholesterol and an oral contraceptive. The Government will also invest $1.3 billion over the next four years in additional funding for general practice services. The Budget also dedicates $16.4 billion in additional funding for public hospital services over the six years from 2014-15 to 2019-20. This is on top of an allocation of $14.9 million for public hospital funding in 2013-14, an increase of $871 million on last year. Importantly, 2014-15, funding to state and territory hospital services will be uncapped and based on activity: the greater the number of people cared for, the more funding services will receive. **Health and Ageing highlights:** • $14.9 billion in 2013-14 to fund public hospitals • $226.4 million over five years to improve cancer treatment and support services • $777 million over three years to improve Indigenous health • Access to the research and development tax incentives will be limited to companies with an aggregate turnover of less than $20 billion
Infrastructure, Transport & Tourism:	Infrastructure investment was a centrepiece of the budget, with $24 billion directed at critical infrastructure. The Treasurer was at pains to note that the Government had committed more to urban public transport infrastructure than all its predecessors since Federation combined. With an otherwise tight rein on the nation's purse, the expenditure on infrastructure is in line with the Government's efforts to portray itself as a responsible fiscal manager with 'nation building' at its heart. Investment in road and rail was a major part of the budget, with the Government committing funds to a number of key projects, such as the F2-M3 'missing link' and upgrade of the M4 in Sydney. Rail benefited too, with funds for public rail projects in Brisbane and Melbourne and in Tasmania's west coast.

This investment is unusually high, with the Government choosing to support a number of projects that it might otherwise have preferred to involve the states in. This is not surprising, given the political make-up of key states affected.

Aviation saw less attention, save for a $9.9 million extension of a remote airstrip upgrade program and some noise minimisation work on the Adelaide Airport flightpath.

Following the withdrawal of Queensland Government funding, the Cairns Entertainment Precinct project was cancelled, with savings of $38.1 million realised.

The Treasurer emphasised the importance of matching Federal funding with State funding, and particularly highlighted the role of public-private funding partnerships. This will present commercial opportunities for both the finance and construction sectors over coming years.

The National Critical Infrastructure Research Strategy was continued, with $185.9 million of funding over the next two years, following which there will be a ‘review and evaluation’.

The budget had continued funding of $180 million to support tourism, including $130 million for Tourism Australia as it attempts to meet the targets set in the Government’s *Tourism 2020* strategy. In line with Government strategy, this funding will be tied to increasing the numbers of Asian visitors to Australia.

Infrastructure, Transport & Tourism highlights:

- $24 billion in new infrastructure investment
- $3 billion towards the Melbourne Metro and $715 million towards Brisbane’s Cross River Rail project, both matched dollar for dollar by the state governments
- Up to $2.2 billion for roads in NSW, covering both the M4 and M5 extension and F3-M2 missing link
- No significant measures for aviation, with no increase to the Passenger Movement Charge signalled
- $180 million for continued tourism initiatives, including $130 million for Tourism Australia

Education:

Education is at the centre of this year’s Budget with the Government providing $9.8 billion over six years to fund its National Plan for School Improvement.

In addition there will be:

- $64.7 million allocated over five years to support implementation of the National Plan for School Improvement to agencies including the Australian Curriculum, Assessment and Reporting Authority, the Australian Institute for Teaching and School Leadership and Education Services Australia
- $114.4 million over four years to support students with a disability
- A $1.1 billion investment in early childhood education

Higher education has benefited through the allocation of $186 million over two years to extend the funding of a number of national research facilities, and $135 million for a further round of the Future Fellowships program. $97 million has also been provided over five years to support extra Commonwealth Supported Places postgraduate and diploma places.

While welcomed, these funding injections will be bittersweet for the sector as the Budget affirms the already-announced $2.3 billion cuts, including the $900 million efficiency dividend, $276 million removal of upfront HELP payment discounts and around $1.2 billion gained from converting the Student Start-up Scholarships into an income contingent loan program.

Some reassurance will be felt however as the Government has announced that it will consult further before introducing a proposed $2,000 cap on tax-deductions for self-education expenses.

Education highlights:

- $9.8 billion over six years for the National Plan for School Improvement
- Cuts of $2.3 billion to higher education
- $97 million over five years for extra Commonwealth Supported Places

Industry & Innovation:

Significant measures aimed at encouraging domestic growth across Australian industry have been included in the 2013 budget. The measures fall under the Government's *Plan for Australian Jobs*. The plan details new and existing instruments designed to assist Australian industry to greater innovation, the provision of high skill jobs and increasing access to Asian markets.

The *Australian Jobs Bill 2013*, scheduled to be introduced in the coming sitting of Parliament implements an Australian Industry Participation Plan. The AIPA, which all projects with capital expenditure over $500 million will be required to develop, is designed to give domestic small to medium sized enterprises the ability to access contracts on larger projects. It is to be administered by a new body, the Australian Industry Participation Authority, whose role extends to supporting Australian SME's who wish to access large projects in Australia, and overseas.

Interestingly, the Government has also announced the development of a two stage process for Industry Innovation Zones. Previous announcements of three Industry Innovation Zones – two manufacturing zones in Victoria and South Australia, and a food zone in Melbourne – have been followed by the announcement of a competitive tender process to nominate the regional location, and industry specification of a further seven zones. $500 million has been set aside for the development of all ten zones.

Similarly, the $378 million Venture Australia package provides assistance to small and medium sized Australian enterprises to get new products and services off the ground, create new highly skilled jobs and compete in tenders for larger private and public projects. The package will be matched by at least $350 million of private sector funds aimed at investment in early stage Australian companies.

Industry & Innovation highlights:

- The *Australian Jobs Bill 2013* will require all projects of $500 million or more to have an Australian Industry Participation Plan
- The Bill will establish the Australian Industry Participation Authority, to administer Australian Industry Participation Plans and support Australian businesses to win work in large projects
- Up to $500 million invested in the development of 10 Industry Innovation Precincts, with the Manufacturing Precinct in South East Melbourne, a Defence Manufacturing Precinct in Adelaide, and a Food Precinct in Melbourne operational from mid-2013
- Venture Australia package provides $378 million for small to medium enterprises to assist new and growing companies

Communications:

The National Broadband Network, one of the centrepieces of the Government's two terms in power, is going to prove a centrepiece of the advertising industry with the allocation of a further $4.9 million to continue to improve public understanding and provide updated information about the NBN rollout in the five major metropolitan areas. The money is part of a raft of increases to NBN funding, with an additional $7.2 million being provided over three years to improve the capacity of small businesses and not for profit organisations to engage in the digital economy and take advantage of the NBN – expanding the current Digital Enterprise program from the existing 40 locations to an additional 20 regional rollout sites. It will also establish a virtual digital enterprise service to support businesses and not for profit organisations operating in remote Australia, particularly organisations in remote Indigenous communities, to harness the opportunities of the digital economy.

A further $5.7 million has been allocated over two years to expand the support available to local government organisations to develop online services to improve the efficiency and effectiveness of their service delivery through the NBN, expanding the Digital Local Government program from the existing 40 councils to an additional 15 local councils consistent with the NBN rollout plan.

The ABC has been given $69.4 million over four years to enable it to place more journalists outside metropolitan cities, introduce youth focussed current affairs programming and expand regional participation in its programming, and $30 million over three years to maintain and expand its online services.

The Government will provide an additional $20 million over three years to SBS, which it says will allow SBS to maintain the quality and delivery of its television, radio and online services. A further $10 million over five years will go to SBS to meet increased costs of acquiring local content and to further support the local television production industry.

Communications highlights:

- $4.9 million for advertising the NBN rollout in the five major metropolitan areas
- $7.2 million over three years help small businesses and not for profits take advantage of the digital economy
- $5.7 million over two years to help local government adapt to the NBN
- $69.4 million over four years to the ABC for more journalists outside metropolitan areas and for youth focussed current affairs
- $30 million over three years to the ABC to maintain and expand online services
- An unspecified amount to the ABC and SBS to provide full digital coverage to 39 regional areas

Environment:

Unsurprisingly, the environment did not escape the Treasurer's axe. While support for some high profile environmental icons was boosted, less well-known programs did not fare as well.

The Government revised its estimated carbon price down from $29 to around $12 per tonne in 2015-16, leaving a $6 billion hole in revenues. One ostensible victim of this is the Biodiversity Fund, which lost $32.3 million of funding and had a further $225.4 million deferred.

Clean energy took a hit, with investment of $370 million in the Australian Renewable Energy Agency deferred, and around $600 million of cuts made to the Low Carbon Communities and carbon capture and storage programs. The Government also terminated its funding agreement with the Global Carbon Capture and Storage Institute (this was at the Institute's request). Given the unpopularity of 'clean coal' among some environmentalists, it was not surprising to see the Australian Conservation Foundation tweeting that this was "pretty sweet". The Non-Kyoto Carbon Fund was closed, with the Government intending to use land sector credits towards its second Kyoto Protocol commitment, saving $389.4 million.

Balancing the bad news on clean tech, the Government brought forward $160 million of expenditure under its Clean Technology Investment Program (some was also deferred).

There were some winners, including Tasmanian forests ($95 million for implementation of the new agreement) and the Great Barrier Reef, whose World Heritage status has recently been brought in question by the UN ($200 million over five years). The Government also confirmed $3.5 billion over 12 years to support implementation of the Murray Darling Basin Plan.

A solitary new revenue stream was announced: the Bureau of Meteorology's website will now be opened to advertising, bringing a whole new approach to making money from cloud computing.

Environment highlights:

- Confirmation of the already agreed $3.5 billion over 12 years to support the Murray Darling Implementation Plan
- Additional funding for the Great Barrier Reef and Tasmanian forests
- Cuts of $600 million to carbon capture and storage and climate change community programs
- A deferral of $225.4 million, and $32.3 million in cuts for the Biodiversity Fund.

Agriculture:

The good news for Australian agriculture is that it has been spared from any significant cuts in the Federal Budget. The bad news is that the sector has little else to crow about.

As the centrepiece of its National Drought Program Reform the Government has announced a $99.4 million investment in the Farm Household Allowance over four years. The allowance will commence from 1 July 2014, replacing the Transitional Farm Family Payment and the Exceptional Circumstances Relief Payment.

However, this is not new money, and is rather a redirection of funds that were previously earmarked for the 'Caring for our Country' program – a Government initiative aimed at encouraging responsible natural resource management.

The National Drought Program Reform is designed to assist farmers during difficult times, while also helping them to drought-proof their businesses.

The reform includes:

- Continuation of Farm Management Deposits and taxation measures such as current primary producer taxation concessions that support and assist farmer risk management
- A national approach to the provision of farm business training
- A coordinated, collaborative approach to the provision of social support services
- Tools and technologies to inform farmer's risk-management decision-making, including examining ways to improve the provision of information

Agriculture highlights:

- $99.4 million Farm Household Allowance , a core component of the National Drought Program Reform
- Increasing the non-primary production income threshold for Farm Management Deposits (FMD) from $65,000 to $100,000
- A further $200 million will be invested over five years in the next phase of the Reef Rescue program under Caring for our Country
- $25.4 million over five years to establish a national monitoring system for agricultural chemicals residues in food, including $5 million in 2013-14

Contact:

For further information about Parker & Partners or to speak with one of our consultants, please contact us on 02 8281 3282 or parker@p-p.com.au.