2009-10 Budget In Brief

This Budget supports jobs now, and delivers the investments needed to strengthen the economy for the future.

The Budget:

- Invests in nation building infrastructure – road, metro rail, ports, clean energy and universities;
- Delivers a fair go for pensioners and a sustainable pensions system; and
- Makes the hard choices necessary to chart the course back to surplus.

ECONOMIC OUTLOOK

- **Deepest global recession** since the Great Depression.
  - World economy to contract by 1½ per cent in '09.
  - Major trading partners to contract by 2 per cent – a worse outcome than during the Asian Financial Crisis
  - 8 of top 10 trading partners expected to contract in '09.
  - Advanced economies in deep recession, to contract by 3¾ per cent in '09.
- **Australian GDP** to contract by ½ per cent in '09-10. Recovery is expected to gather pace from early 2010, with growth forecast to be 2¼ per cent in '10-11.
  - Contraction in '09-10, led by falls in exports (4 per cent) and business investment (18½ per cent). Consumption also expected to fall by ¼ per cent.
  - Public investment is helping to fill some of the gap, growing at 25 per cent in '09-10 – the fastest pace on record.
- **Unemployment rate** forecast to reach 6 per cent by June '09; 8¼ per cent by June '10; and peak at 8½ per cent during '10-11.
  - Implies around 980,000 Australians will be unemployed by June Q 11 – an increase of over 360,000. Past peak was 933,000 in Dec Q 92.
  - Made up of net job losses of around 170,000, with nearly 200,000 new entrants to the labour force who are unable to find work.
- **Terms of trade** to fall 13¼ per cent in '09-10, taking around $35 bn out of the economy.
- **Nominal GDP** to fall 1½ per cent in '09-10 – biggest fall in post-war era.
- **Inflation** to moderate to 1¾ per cent by June Q '09 and 1½ per cent by June Q '11

IMPACT OF STIMULUS

- Without Government action, the level of GDP would have been 2¾ per cent lower in '09-10 and 1½ per cent lower in '10-11.
- Government action expected to support up to 210,000 jobs, and without action the forecast for the unemployment rate would reach 10 per cent.

Table 1: Major economic parameters(a)

	Forecasts			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13
Real GDP	0	- 1/2	2 1/4	4 1/2	4 1/2
Employment	- 1/4	-1 1/2	1/2	2 1/2	2 1/2
Unemployment rate	6	8 1/4	8 1/2	7 1/2	6 1/2
CPI	1 3/4	1 3/4	1 1/2	2	2 1/2
Nominal GDP	5 3/4	-1 1/2	3 3/4	6 1/4	6 3/4

(a) Real and nominal GDP parameters are year average. CPI and employment are through the year growth to the June quarter. The unemployment rate is the rate in the June quarter.

TEMPORARY DEFICIT

- Budget deficit in 2009-10 of $57.6 bn (4.9 per cent of GDP)
- Deficits in 09-10 and 10-11 are the highest on record (exceeding 4.1 percent of GDP in 1992-93.)
- But less than half the collective deficit for the major advanced economies (10.4 per cent in '09) and much smaller than the 8.8 per cent of GDP collective deficit for all advanced economies.
- A natural recovery in revenues and spending restraint is expected to see the budget return to surplus by '15-16.

Table 2: Budget aggregates

	Actual	Estimates			Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Underlying cash balance ($b)(a)	**19.7**	**-32.1**	**-57.6**	**-57.1**	**-44.5**	**-28.2**
Per cent of GDP	1.7	-2.7	-4.9	-4.7	-3.4	-2.0
Fiscal balance ($b)	**21.0**	**-32.9**	**-53.1**	**-56.0**	**-41.8**	**-30.3**
Per cent of GDP	1.9	-2.7	-4.5	-4.6	-3.2	-2.2

(a) Excludes expected Future Fund earnings.

SPENDING GROWTH

- Real spending growth is 13.5 per cent in 2008-09 – reflecting temporary stimulus, this is the highest rate of spending growth since Whitlam.
- Spending as a share of GDP reaches 28.6 per cent of GDP in 2009-10 the highest share since 1970-71.

REVENUE DOWNGRADES

- The deficit is a direct consequence of the global recession, which has wiped around $210 bn from revenues since the last budget.
  - $23 bn in '08-09, $49 bn in '09-10, $55 bn in '10-11, $47 bn in '11-12.
  - Revisions in new estimates year 2012-13 are estimated to be around $40 bn below where they would have been at Budget '08-09.

- The '08-09 revision is the biggest one-year downward revision since 1930-31.
- Combined with payment variations, downward revisions to tax receipts comprise about two-thirds of the change in the budget position (over four years) since the last budget, and more than three quarters of the decrease in '10-11 and '11-12.

RESPONSIBLE BORROWING

- Government's balance sheet will remain amongst the strongest in the world.
- Net debt expected to rise from to a peak of 13.8 per cent of GDP ($203 bn) in 2013-14, much lower than the 81 per cent of GDP projected for advanced economies.
  - Japan (136 per cent of GDP); US and UK (83 per cent of GDP); Euro area (75 per cent of GDP)
- Net interest costs are expected to rise from -$0.9 bn to $7.6 bn in 2012-13 (0.6 per cent of GDP).
- Gross debt (CGS) expected to reach $300.8 bn (21.7 per cent of GDP) in 2012-13.
- Falling tax revenues are responsible for more than two-thirds of this borrowing.

MEDIUM TERM FISCAL STRATEGY

- Achieve budget surpluses, on average, over the medium term;
- Keep taxes as a share of GDP on average below the level for '07-08;
- Improving the Government's net financial worth over the medium term.

DEFICIT EXIT STRATEGY

- As the economy recovers and grows above trend, the Government will take action to return the budget to surplus by:
  - allowing the level of tax receipts to recover naturally as the economy improves (while maintaining the Government's commitment to keep taxation as a share of GDP below the '07-08 level on average); and
  - holding real spending growth to 2 per cent a year until budget returns to surplus.
- This Budget delivers on that strategy and secures fiscal sustainability:
  - New spending is fully offset by the final year of the forward estimates.
  - Put in place structural saves that grow over time, to make room for spending commitments.
  - Keeping real growth in spending to under 2 per cent in the years the economy is projected to grow above trend ('11-12 and '12-13).
- The government's strategy is currently expected to see the budget return to surplus in 2015-16, with net debt falling to 3.7 per cent by 2019-20.
- Table 3 below demonstrates that the government has fully offset its spending in the final year of the forward estimates. It makes two adjustments:
  - Removes the impact of changes to CPRS implementation as this simply alters the timing of budgetary impacts across years;
  - Accounts for the fact that a large portion of the spending was already provisioned for in the expenditure estimates (contingency reserve), and so does not further add to the deficit.

Table 3: Delivering the fiscal strategy

	Estimates			Projections		
	2008-09 $m	2009-10 $m	2010-11 $m	2011-12 $m	2012-13 $m	Total $m
Effect of policy decisions since UEFO						
Spends	-4,343	-14,457	-11,623	-13,390	-8,369	-52,182
Saves	89	2,496	5,630	6,438	8,006	22,659
Total effect of policy decisions since UEFO	**-4,254**	**-11,961**	**-5,993**	**-6,952**	**-363**	**-29,523**
Less Carbon Pollution Reduction Scheme (CPRS)	-3	-2,800	-110	-915	3,655	-173
Add Contingency reserve offsets to policy decisions	10	3,223	3,740	4,726	4,308	16,007
Net Budget impact	**-4,242**	**-5,937**	**-2,143**	**-1,311**	**290**	**-13,344**

SUPPORTING THE ECONOMY

- The Government is supporting growth and jobs now, and delivering the investments needed to strengthen the economy for the future.
- Net measures in this Budget raise level of GDP by ¾ per cent in 2009-10 and ½ per cent in 2010-11.
- The Government has extended two measures in this Budget:
  - **First Home Owners Boost** extended for six months (at a cost of $539m). Will continue at current levels until 30 Sept, and then halve from October to December, providing $10,500 for established homes and $14,000 for new homes (when you included) the First Home Owners Grant).
  - **General and Small Business Tax Break** extended to 50 per cent for small businesses, for eligible assets costing $1,000 or more acquired during 2009 for use by end 2010 (at a cost of $141 m).

SUPPORTING JOBS

- $1.5 bn over five years in the **Jobs and Training Compact** to support young Australians, retrenched workers and local communities to get back to work, add to skills, or learn the skills required to obtain jobs.
- New training supplement of $41.60 per fortnight to eligible job seekers undertaking approved training. To cost $83m over four years.
- $277m Compact with Young Australians guarantees an education or training place for every person under 25 who wishes to up-skill; requires school participation under 17; and brings forward to 2015 the COAG goal of 90 per cent year 12 attainment.
- $438m Compact with Retrenched Workers will provide immediate assistance to those who have become unemployed, including:
  - $299m to give retrenched workers immediate access to intensive employment services;
  - Strengthens safety net by increasing the liquid assets test threshold
  - 10,000 training places through the productivity Places Program, taking the total to 711,000.
- $650m Jobs Fund to support local jobs in areas hardest hit by the downturn, including projects that help protect the environment and local infrastructure.

SUPPORT FOR SMALL BUSINESS

- $141m to expand the Small Business and General Tax Break for small businesses to 50 per cent of eligible assets costing $1,000 or more acquired during 2009 for use by end 2010.
- Establishing new Small Business Support Line and referral service to assist small businesses affected by the GFC (to cost $10m over two years).

- Cash flow relief to small businesses by announcing reduced PAYG instalments in 2008-09 and 2009-10.

NATION BUILDING INFRASTRUCTURE

- Supporting jobs today, by building the infrastructure we need for tomorrow
- $22 bn investment in **nation building** infrastructure – in our roads, rail, ports, clean energy and universities.

Transport

- $8.5 bn investment in our **road, rail and ports**
  - $4.6 bn to improve nine metro **rail** networks in six of Australia's major cities: Sydney, Melbourne, Brisbane, Adelaide, Perth and the Gold Coast.
  - $3.4 bn investment in Australia's **road** infrastructure (including Network 1 – Melbourne to Cairns), taking the Government's total investment in roads to $27.7 bn over including the Nation Building program (previously Auslink).
  - $389m towards developing, constructing and expanding critical **port** infrastructure in Western Australia (Oakajee) and Darwin.

Clean Energy

- $4.5 bn investment ($3.5 bn new funds) in the **Clean Energy Initiative** to assist Australia's transition to a low pollution economy and help us build the jobs of the future. This includes:
  - $2.0 bn (over nine years) in carbon capture and storage demonstration projects;
  - $1.5 bn (over six years) for up to four large-scale solar electricity generation projects; and
  - $465m investment to establish Renewables Australia, an independent body set up to support leading edge renewable technology research and development.

NBN

- Partnering with the private sector to build the National Broadband Network, which will support an average of 25,000 jobs a year over the life of the project.

Education, Research and Innovation

- $2.6 billion over six years in infrastructure projects, including:
  - $613m to fund 11 higher education and 12 vocational education and training projects as part of the second Education Investment Fund funding round. (A further $750m provided from EIF future rounds.)
  - $1.2 bn from the EIF for 30 priority research infrastructure projects, including $901m for the Super Science Initiative, to build Australia's capacity in areas such as astronomy, marine and climate science and future industries.

- $1.5 billion in recurrent funding for universities and students:
  - $491m over four years to uncap the number of public university places (from 2012) – so that anyone who is eligible for a place of their choice can secure one.
  - $394m of new funding over four years to encourage greater participation of low income students in higher education.
  - Increased on-going funding for teaching and learning, as well as research.
  - $578m over three years to increase the rate of indexation for higher education funding (phased in from 2011).

  - Greater support for lower income students, funded by savings from tightening the definition of independence for purposes of Youth Allowance.

- $1.0 billion in recurrent funding for research and innovation, including:
  - $512m (over four years) to support research in universities;
  - $500m over four years to encourage commercialisation of ideas and collaboration, including the establishment of the Commonwealth Commercialisation Institute.

Hospitals

- $3.2 bn from the Health and Hospitals Fund to invest in **hospitals** infrastructure and medical research infrastructure
  - $1.5 bn over seven years to expand and modernise key public hospital infrastructure, eg. $250m for Townsville Hospital, $200m for the Royal Adelaide Hospital, $28m for the NT Medical Program.
  - $1.3 bn over six years to modernise cancer services including in regional, rural and remote areas.
  - $430m over six years in supporting cooperative research practices.

Table 4: Summary of nation building infrastructure projects

	New investment $million
Roads, rail and ports	**8,453**
Regional Rail Express	3,225
East West Rail Tunnel - preconstruction work	40
Gold Coast light rail	365
Gawler rail line modernisation	294
Noarlunga to Seaford rail extension	291
Northbridge rail link (the Hub)	236
West Metro - preconstruction work	91
Brisbane Inner City Rail feasibility study	20
O-Bahn track extension	61
Hunter Expressway	1,451
Pacific Highway - Kempsey Bypass	618
Ipswich Motorway - additional works	884
Bruce Highway - Cooroy to Curra (section B) duplication	488
Oakajee Port common user facilities	339
Darwin Port expansion	50
National Broadband Network	**Up to 43,000**
Initial Government investment	4,700
Clean energy infrastructure	**3,565**
Clean Energy Initiative	3,465
National Energy Efficiency Initiative	100
Education infrastructure	**2,585**
Education infrastructure	2,585
Health and hospital infrastructure	**3,172**
Hospital infrastructure	1,465
Better cancer care	1,276
Translational health research	430

PAID PARENTAL LEAVE

- Investing $731m (over 5 years) to implement a **Paid Parental Leave** scheme from 1 Jan 2011.
- Eligible primary carers earning less than $150,000 will receive payments through their employer at the weekly rate of the prevailing Federal Minimum Wage (currently $543.78) for continuous period of up to 18 weeks.

- PPL payments treated as taxable income and will affect entitlement to family assistance payments, but not to income support payments. Families are not eligible for Baby Bonus (except for second and further multiple births) or FTB-B whilst in receipt of PPL.

SUSTAINABLE PENSIONS REFORM

- Increase of $32.49 per week to full rate single pensioners, and $10.14 per week to couples pensioners, from 20 Sept 2009.
  - Brings total value of pension payments for singles to around two-thirds of that for couples.
  - Establishes new pension benchmark of 27.7 per cent of male total average weekly earnings – increase of more than 10 per cent from the current 25 per cent.
- Work Bonus will ensure 50 per cent of the first $500 of fortnightly employment income which will not count as part of the income test in determining pension entitlements
- Carer Supplement of $600 per annum for Carer Payment recipients and additional $600 per annum for Carer Allowance recipients for each eligible person in their care, at a cost of $1.8 bn over five years. Bringing the 2009-10 payments for both supplements forward to 2008-09.
- Government has taken tough decisions to support its pension reform, ensuring spending is focused where it's most needed, and that increased cost is fully offset over the long term.

FISCAL SUSTAINABILITY MEASURES

For the significant long-term spending pressures of pensions, health, families and super, the Government has made structural savings necessary to ensure fiscal sustainability over the long-term.

- Better targeting pensions ($1.2 bn over forwards) and increasing the Age Pension age.
- Super changes ($4.2 bn over forwards)
- Private Health Insurance ($1.9 bn over five years)
- Family payment reforms ($2.4 bn over forwards)
- Tax Reform ($1.8 bn over forwards)

Pensions

- Increase age Pension qualifying age to 67 years, at a rate of six months every two years beginning in 2017.
- Increase rate at which pension is withdrawn from 40 cents to 50 cents for each additional dollar of private income (all existing pensioners will have their entitlements protected).
- Closure of the Pension Bonus Scheme, in preference for direct incentives for paid work.

Reform of retirement income

- Reducing cap on concessional superannuation contributions from $50,000 to $25,000 (indexed), and the transitional cap for the over 50s from $100,000 to $50,000. From 2012-13 those aged 50 years and over will be subject to the lower $25,000 (indexed) cap. This results in savings of $2.8 bn over four years.
- Temporarily reduce the superannuation co-contributions matching rate from 150 per cent to 100 per cent for contributions made in 2009-10 to 2011-12 and to 125 per cent for 2012-13 to 2013-14. Results in savings of $1.4 bn over four years.

Private health insurance (PHI)

- Rebalancing the PHI so that people with a greater capacity to provide for their own PHI will do so, delivering savings of $1.9 bn over five years.

- Sliding scale to reduce available PHI rebate depending on recipient's income, removing it entirely for incomes above $120,000 for singles and $240,000 for couples (both indexed and adjusted in the same manner as the Medicare Levy Surcharge).

- Increase in the rate of Medicare Levy Surcharge to maintain the incentive for higher income earners for whom the rebate is being reduced or removed.
- Treasury modelling estimates that under these reforms, more than 99 per cent of people are expected to remain in private health insurance. This is because those high incomes earners who receive a lower rebate will face a higher tax penalty for avoiding private health insurance.

Family payment reforms

- Maintain higher income thresholds for certain family payments at current levels for three years (to prevent family payments going to increasingly higher income families) savings $1.4 billion over four years.
- FTB-A to be indexed by the CPI only, expected to save $1.0 bn over four years.

Tax reform

- A range of **tax reform** measures to improve fairness and integrity in the tax system, and raise a further $1.8 bn over the forward estimates, including:
  - Tightening rules applying to use of non-commercial business losses;
  - Limiting the scope of tax exemption for foreign employment income;
  - Better targeting concessions for employee share schemes;
  - Non-commercial loans from private companies to other shareholders;
  - TFN withholding for closely held trusts.