

SACOSS

2009-10 Federal Budget Snapshot

12 May 2009



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Overview

SACOSS has prepared this snapshot on the 2009-2010 Australian Federal Budget for the benefit of its members. This information paper has been divided into areas of interest to the SACOSS membership, and not into specific portfolios.

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Each of these areas is assigned a table that summarises the budget initiatives in the relevant area, providing SACOSS members with a quick reference with which to frame responses to the Federal Budget.

Cost figures are for four years unless otherwise referenced.

1. Introduction

The Australian Federal Budget 2009-2010 was a once in a generation opportunity to build true equity in Australia, a chance to redistribute wealth and provide opportunity for all. The policy and decision making of our federal politicians needs to recognise the needs of the economy and of society. The loss of the fiscal surplus and the rebirth of deficit spending need to be viewed in two different contexts. The economic context is one in which Australia finds itself in the unenviable position of having to spend in order to ride out the economic storm. The social context can be seen as one with opportunities for both social progress through fiscal measures, and greater fiscal responsibility through the decreased spending on concessions for the more well-off in our society. The 2009-2010 Budget, while delivering in some areas, has missed the opportunity to balance our distribution system.

Economic Context

There is no doubt that Australia is currently at a crossroads in terms of social and fiscal direction. The Global Financial Crisis (GFC) has resulted in a loss of federal revenue, as well as a loss of personal wealth (through investments and superannuation) and income (through job losses and shorter working hours). Due to the projected loss of around \$50 billion of government revenue per year over the next four years, there is little doubt that expenditure is in need of a shake-up, and the key for the Australian economy is how the government chooses to spend what it has and what it has borrowed. Despite lower revenue, the predicted rise in unemployment (predicted to reach 8.5% in 2010, from the current 5.4%) will represent a significant burden on government resources in the near future.

The effects of the GFC are already being felt. The loss in revenue, coupled with increased borrowing in order to fund economic stimulus measures, has led to a projected deficit of around \$57 billion, which represents a turnaround of around \$80 billion taking into account the previous budgeted surplus of around \$22 billion. This will require savings measures, and these savings will have to be borne by taxpayers in one way or another. While some of these savings will hurt low income and disadvantaged Australians, others can and most likely will be borne by higher income earners who have been receiving concessional treatment through a number of fiscal areas. By closing loopholes and concessional treatment regimes, greater equity can be achieved. An example of where government has reformed processes to close loopholes is in announced changes to tax concessions for superannuation. The cap for the tax concession has been reduced from \$50,000 to \$25,000 for those aged under 50 years, thereby reigning in tax concessions for superannuation contributions by wealthy Australians.

Social Context

One of the most important elements of the 2009-2010 Federal Budget is the announcement of means testing for the 30% Private Health Insurance Rebate Scheme. This change is welcomed as a means of ensuring that our collective tax dollars go to those who are most in need and not to those for whom it is welcome but unnecessary. Means testing is a vital element in a socially equitable system of wealth redistribution that must accompany welfare payments and concessions of all kinds.

Means Testing and Redistribution

Means testing refers to the use of criteria around income and assets in decision making around who is eligible for a range of government concessions and other transfers, including welfare payments. In essence, means testing is a way in which equity can be ensured through the tax and transfer system by providing only for those who are in need of the assistance. Thus income and assets tests are used by Centrelink to ascertain eligibility for a range of payments.

There are flaws in the government approach to many forms of assistance, however. Firstly, the eligibility values of assets and income differ between different payments within the Centrelink system (eg Age Pension vs Newstart Allowance) causing inequities in the system. Secondly, in some cases income is taken into account but assets are not, skewing the benefit. Most alarmingly, many benefits and concessions are not means tested at all, but are applied across the board, as is the case with the First Home Owners Grant. This leads to significant government spending on concessions and other benefits for those who do not need them, thus taking revenue away from more equitable expenditure areas or programs. This can be even worse when benefits are skewed towards high income earners, as is the case with superannuation tax treatment.

By implementing a more equitable means testing regime (actual *means* testing rather than *income* testing), not only can money be saved in a time of national need, but more can be spent on providing for those who are genuinely in need of assistance. When this is accompanied by realistic and equitable taper rates, a more targeted approach to redistribution will evolve.

SACOSS broadly welcomes a more equitable system of means testing and a taper rate regime that is more cognisant of the realities of the costs of living and the disproportionate burdens faced by low income Australians. Some of the Budget announcements regarding means testing and taper rates hit the target in terms of redistribution of wealth, but some areas have been overlooked.

2. Families & Community Services

Low income and disadvantaged families in Australia have struggled to exist throughout Australia's so called 'prosperous times'. The global financial crisis will impact further on how disadvantaged Australians live and the opportunities and challenges that await them.

Further, with a lack of appropriate paid parental leave, working families have struggled to balance work and the care for newborns and young children.

| Item | Description | SACOSS Comments |
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| <p>Paid Parental Leave</p> <p>COST: \$731m over five years</p> | <ul style="list-style-type: none"> The government will commit paid parental leave from January 2011 for those people who earn less than \$150,000 a year. The government will fund the scheme and it will pay the federal minimum wage (\$543.78 pw) for 18 weeks. | <p>Up until this Federal Budget, Australia was one of only two OECD nations that didn't have some form of parental leave.</p> <p>SACOSS welcomes the move by government to pay parental leave but this commitment has resulted in a reduction in the Family Tax Benefit A indexation, which will disproportionately affect thousands of low income families across the country.</p> |

3. Health

Over the recent years our public hospital and health care systems have been straining under increasing demand and reduced resources. Our public health system needs increased funding and significant reform if it is to address the escalating needs of our ageing population.

| Item | Description | SACOSS Comments |
|---|--|--|
| <p>Means testing of Private Health Insurance Rebate</p> <p>SAVING: \$1.9 billion over 3 years</p> | <ul style="list-style-type: none"> Current private health insurance rebates will remain unchanged for individuals earning less than \$75,000 and families less than \$150,000. Taper rates will come into effect above these amounts phasing out for people on high incomes. The amounts are \$120,000 for singles and \$240,000 for couples. | <p>SACOSS supports the reduction in rebates for private health insurance for high income earners. The rebate has unfairly benefited high income earners while making no appreciable dent in reducing the strain on the public health system. In fact the rebate has reduced the available funds to the ailing public health system in Australia.</p> |
| <p>Funding boost to public hospitals</p> <p>COST: \$64 billion over five years</p> | <ul style="list-style-type: none"> The government is pledging \$64 billion over five years to rebuild Australia's public hospitals. This includes \$2.5 billion over five years to drive hospital and health reform with the states and territories. | <p>SACOSS supports the extra funding to Australia's public hospitals and the increase in funding to implement much needed health care reform.</p> |
| <p>Enhancing rural health</p> <p>COST: \$134 million</p> | <ul style="list-style-type: none"> A rural health workforce strategy to attract medical practitioners to areas of need. | <p>SACOSS supports the government implementing strategies to attract medical practitioners to rural and remote areas. There is a dearth of appropriate medical care in these areas which is impacting negatively on the health of Australians.</p> |
| <p>Infrastructure boost</p> <p>COST: \$3.2 billion</p> | <ul style="list-style-type: none"> Government is investing \$3.2 billion in hospital infrastructure, translational medical research infrastructure and a national cancer statement. | <p>SACOSS supports increased funding for public hospital infrastructure to enable our ailing public hospitals to modernise equipment and facilities.</p> |

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| Increase in the Medicare Levy | <ul style="list-style-type: none">• The Government will increase the Medicare levy for low-income thresholds to \$17,794 for individuals and \$30,025 for individuals in families, with effect from 1 July 2008.• The Medicare Levy surcharge will increase for singles earning above \$90,000 and families above \$180,000 to continue to provide incentive for higher income Australians to take out private health insurance. | |
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4. Infrastructure / Nation Building

Investment in strategic infrastructure is one of the most important ways in which governments can both stimulate the economy and realise economic potential when the upswing arrives. Throughout Australia, critical infrastructure such as roads, rail, ports and energy infrastructure have deteriorated or never eventuated, and this has held back the economy and society as a whole. More importantly, there is a unique opportunity during the economic downturn to invest in sustainable energy and efficient public transport systems that would reduce Australia's carbon footprint and allow for further work in the area of green infrastructure into the future. The Budget measures go some way towards addressing this, although some expenditure items show an alarming trend towards climate change responses that are not based on solid scientific evidence.

| Item | Description | SACOSS Comments |
|---|--|---|
| <p>Nation Building Plan for the Future</p> <p>Cost: \$22billion</p> | <p>Major benefits for SA include:</p> <ul style="list-style-type: none"> • \$294 million for the re-sleepering and electrification of the Gawler rail line • \$291 million to extend the Noarlunga rail line south to Seaford shopping centre • \$61 million for the extension of the O-Bahn through the CBD to West Terrace. | <p>Investment in key public transport infrastructure is welcome in order to improve the overall metropolitan system in Adelaide.</p> <p>There is nothing for regional infrastructure in SA in the budget, while many areas are in desperate need of better transport systems and other major projects.</p> |
| <p>Clean Energy Initiative</p> <p>Cost: Additional \$3.5billion</p> | <ul style="list-style-type: none"> • \$2 billion over 9 years for the Carbon Pollution Capture and Storage Flagships program • \$465 million over 4 years to establish 'Renewables Australia' to assist in the research, creation and rollout of renewable technologies • \$1.5 billion for the rollout of the Solar Flagships program to generate 1,000 mega watts of solar energy across Australia • \$100million for the National Energy Efficiency Initiative to integrate 'smart grid' and 'smart meter' technologies | <p>SACOSS welcomes solar and renewable energy initiatives, as clean energy becomes increasingly important for Australia as the implementation of the Carbon Pollution Reduction Scheme (CPRS) nears, and climate change requires greater attention. While the additional spending is welcomed, the capture and storage of carbon pollution is a poorly targeted use of public money and should be jettisoned in favour of further advances in renewable energy and green jobs creation.</p> |

5. Social Security

Unemployed people and sole parents face a much greater risk of hardship than most other Centrelink benefit recipients in the community. These groups have been overlooked in this Budget, further entrenching the economic disadvantage they face. This is of even greater concern when we acknowledge that the unemployment rate in Australia is tipped to hit 8.5% by June 2010.

Further, in a move that is unprecedented in Australia, the government has raised the Aged Pension age to 67 years of age, at a rate of 6 months every two years, beginning in 2017. This change is reflective of the changing demographic and will eventually apply to all aged pensioners.

| Item | Description | SACOSS Comments |
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| <p>Single Aged Pension will rise by \$32.49 a week</p> <p>COST: \$14.2b</p> | <ul style="list-style-type: none"> • The single aged pension will rise by \$32.49 a week, which will see the weekly pension rate rise from \$284.90 to \$317.39 a week. • Single people in receipt of Disability Support Pension will also benefit from the \$32.49 weekly rise. • Carers will benefit from the \$32.49 a week pension rise. • Carers will receive an extra \$600 a year for every person in their care. | <p>Newstart Allowance and Youth Allowance recipients do not receive a rate rise despite being increasingly disadvantaged by weekly payments that are well below the median income.</p> <p>Newstart Allowance recipients (single, no children) receive \$226.65 pw, while Youth Allowance Recipients (over 18 and living away from home) receive \$185.70 pw. Sole Parents payments remain at \$284.90 pw.</p> <p>Newstart Allowance and sole parent recipients face the risk of sustained disadvantage by their benefit rates being ignored in this Budget.</p> |
| <p>Couple Aged Pensioners will receive an extra \$10.14 pw</p> | <ul style="list-style-type: none"> • The Couple Aged Pension will rise by \$10.14 per week. | |

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| <p>Youth Allowance Reforms</p> <p>SAVING: \$66 million in 2009-10</p> | <ul style="list-style-type: none">• Parental income test to be aligned with Family Tax Benefit Part A: cost of \$67 million in 2009-10• Personal income test to be increased from \$236 to \$400 per week: cost of \$56 million in 2010-11• Change of age of independence from 25 to 22 by 2012, accompanied by other more stringent criteria: saving of \$133 million in 2009-10. | <p>While the relaxation of parental and personal income tests is welcomed, the timing of implementation appears to mask the true nature of the changes.</p> <p>The changes to independence criteria based on working mean that the government will actually save \$66 million in 2009-10, representing a general tightening of the system rather than beneficial loosening.</p> |
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6. Employment Education and Training

Education and training are two of the most important elements of a well-functioning economy and vibrant society. Education is arguably the most important determinant of an individual's health and wellbeing throughout the lifecycle, as it leads to productive employment, better health outcomes and social participation. As increasing numbers of Australians become unemployed, the opportunity to increase support for long-term unemployed has been ignored in this Budget in favour of assistance to the recently retrenched.

| Item | Description | SACOSS Comments |
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| <p>Schools - National Partnerships</p> <p>Cost: \$2.59 billion</p> | <ul style="list-style-type: none"> • \$1.5 billion for disadvantaged schools – facilitation of innovative approaches to running schools • \$550 million to improve teacher and principal performance through training and rewards • \$540 million for numeracy and literacy outcomes through incentive payments to states and territories | <p>Extra funding for disadvantaged schools is welcomed; it needs to be adequately targeted and monitored to ensure outcomes are met.</p> <p>Improving the performance of teachers and principals is vital, although it should be done through education and training rather than a rewards system.</p> <p>Literacy and numeracy incentive payments may skew results at the state and territory level and are to be used with caution.</p> |
| <p>Higher Education - Increased funding to Universities</p> <p>Cost: \$1.3 billion in 2009-10</p> | <p>Part of the Education Investment Fund program, which includes:</p> <ul style="list-style-type: none"> • Uncapping of funded university places • Quality improvement funding • Increased indexation • Additional funding for enrolling students from low income backgrounds | <p>These measures claim to be in part a recognition of the findings of the Bradley Review, and may result in greater access to higher education.</p> <p>Additional funding for the enrolment of students from disadvantaged backgrounds needs to be better partnered with bridging programs to ensure greater ease of access.</p> |
| <p>Compact with Retrenched Workers</p> <p>Cost: \$438 million</p> | <ul style="list-style-type: none"> • Increase in the number of Productivity Places Program by 10,000 at Certificate III level in 2009-10 • \$299 million to give retrenched workers immediate access to intensive employment | <p>This is a welcome measure, particularly given that number of unemployed are expected to rise in the short term.</p> <p>It is disappointing that no measures have been taken for the long-term unemployed, whose prospects are worsening given ongoing</p> |

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| | <p>services</p> <ul style="list-style-type: none"> Loosening of liquid assets tests. | retrenchments. |
| <p>Temporary Training Supplement</p> <p>Cost: \$52million in 2009-10</p> | <ul style="list-style-type: none"> Temporary Training Supplement for Newstart Allowance and Parenting Payment recipients who have not achieved year 12 completion of \$41.60 per fortnight. | <p>This supplement needs to be accompanied by further measures to ensure places are available for potential recipients. The supplement should also be kept to align more closely with the Pensioner Education Supplement.</p> |
| <p>Compact with Young Australians</p> <p>Cost: \$277million</p> | <ul style="list-style-type: none"> Guaranteed training place for every person under 25 Requirement for all young people under 17 to be in school, working or in training ('learn or earn'). | <p>This measure is designed to increase Year 12 attainment rates to 90% by 2015 and to improve training and employment outcomes for young Australians.</p> <p>The 'learn or earn' approach, accompanied by the threat of withdrawal of benefits, requires flexibility in application in order to provide real opportunities for young people and their families.</p> |