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Hawker Britton

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PUBLIC AFFAIRS SOLUTIONS

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5TH ANNUAL GOVERNMENT RELATIONS SUMMIT

Minority Government:

A stimulus package for democracy?

Presentation by Simon Banks

18 November 2010

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The state of the Budget

Budget aggregates

	Estimates					
	2010-11			2011-12		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance (\$b)(a)	-40.8	-40.7	-41.5	-13.0	-10.4	-12.3
Per cent of GDP	-2.9	-2.9	-3.0	-0.9	-0.7	-0.8
Fiscal balance (\$b)	-39.6	-39.4	-41.9	-12.1	-8.7	-10.9
Per cent of GDP	-2.8	-2.8	-3.0	-0.8	-0.6	-0.7
	Projections					
	2012-13			2013-14		
	Budget	PEFO	MYEFO	Budget	PEFO	MYEFO
Underlying cash balance (\$b)(a)	1.0	3.5	3.1	5.4	4.5	3.3
Per cent of GDP	0.1	0.2	0.2	0.3	0.3	0.2
Fiscal balance (\$b)	2.0	5.1	4.2	6.3	6.1	4.3
Per cent of GDP	0.1	0.3	0.3	0.4	0.4	0.3

a) Excludes expected Future Fund earnings.

Government's Fiscal Rules

- The medium-term fiscal strategy has remained unchanged since the Government's first budget in 2008-09.
- The key elements of the strategy are to:
 1. achieve **budget surpluses**, on average, over the medium term;
 2. keep **taxation as a share of GDP below the level for 2007-08**, on average; and
 3. improve the **Government's net financial worth** over the medium term.
- In order to return the budget to surplus as quickly as possible after the global financial crisis, the Government also committed to:
 - allow 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 2007-08 level on average; and
 - hold **real growth in spending to 2 per cent** a year until the budget returns to surplus.

Delivering the 2 per cent commitment

	2010-11	2011-12	2012-13	2013-14
Real payment growth	1.5	-1.1	1.0	1.6

- Since PEFO, the Government has offset all new spending decisions over the forward estimates, including those related to election commitments, by finding savings in other parts of the Budget.

Government's Economic Agenda – Infrastructure

[High Speed Rail Study](#)

East Coast of Australia. Next report July 2011
strategic route and station options, including high-level costing

[Health and Hospitals Fund](#)

\$1.8 billion for a new national round of funding from the remaining balance of the fund. The funding will be available for hospitals in regional Australia and in Tasmania only.

[Infrastructure Australia](#)

The Australian Government has announced a new, national approach to planning, funding and implementing the nation's future infrastructure needs.

[Major Cities Unit](#)

The Major Cities Unit provides advice to the Australian Government on issues of policy, planning and infrastructure that have an impact on our cities and suburbs.

[Major Infrastructure Projects](#)

This page provides links to information on major infrastructure projects announced in the 2009-10 Budget, Nation Building for the Future.

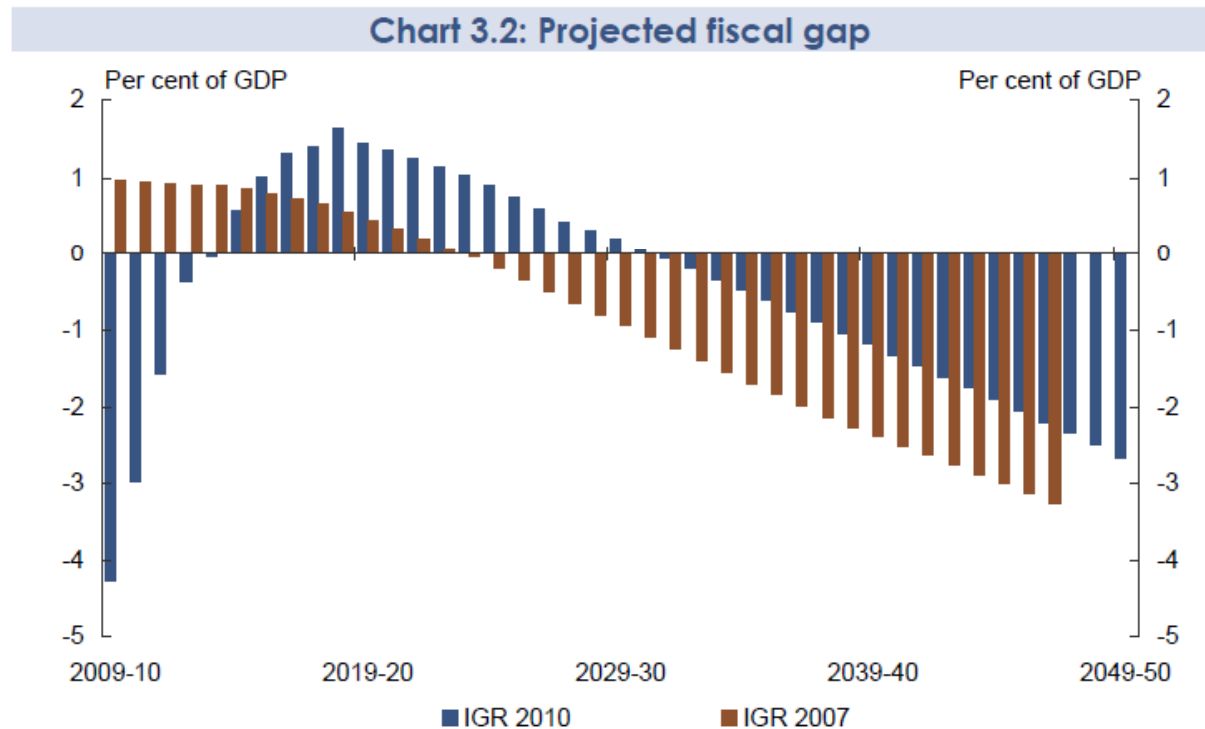
[Nation Building - Economic Stimulus Plan](#)

Many of the programs funded by the Nation Building - Economic Stimulus Plan are being administered by the Department of Infrastructure and Transport.

[National Broadband Network](#)

Government's Human Capital Agenda – Health

Projected fiscal gap



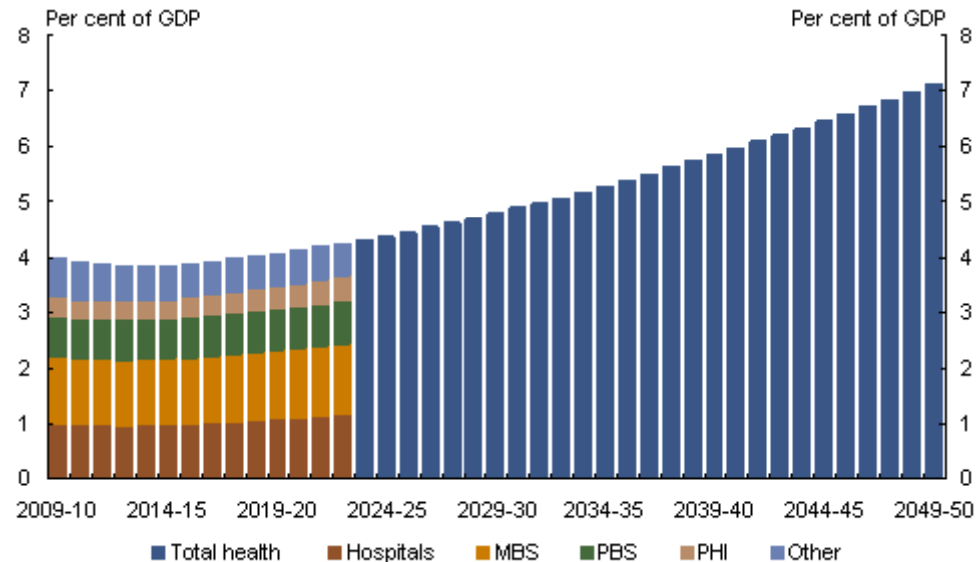
Note: Fiscal gap is the gap between government receipts and payments, excluding interest receipts and payments. It is equivalent to the primary balance.
Source: Treasury projections.

Source: *The 2010 Intergenerational Report*, p. 40, available online at http://www.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf.

Government's Human Capital Agenda – Health

2010 Intergenerational Report

Australian government spending on health is projected to increase as a proportion of GDP from 4.0 per cent in 2009-10 to 7.1 per cent in 2049-50.



Source: *The 2010 Intergenerational Report*, available online at http://www.treasury.gov.au/igr/igr2010/report/html/05_C_hapter_4_Ageing_pressures_and_spending.asp.

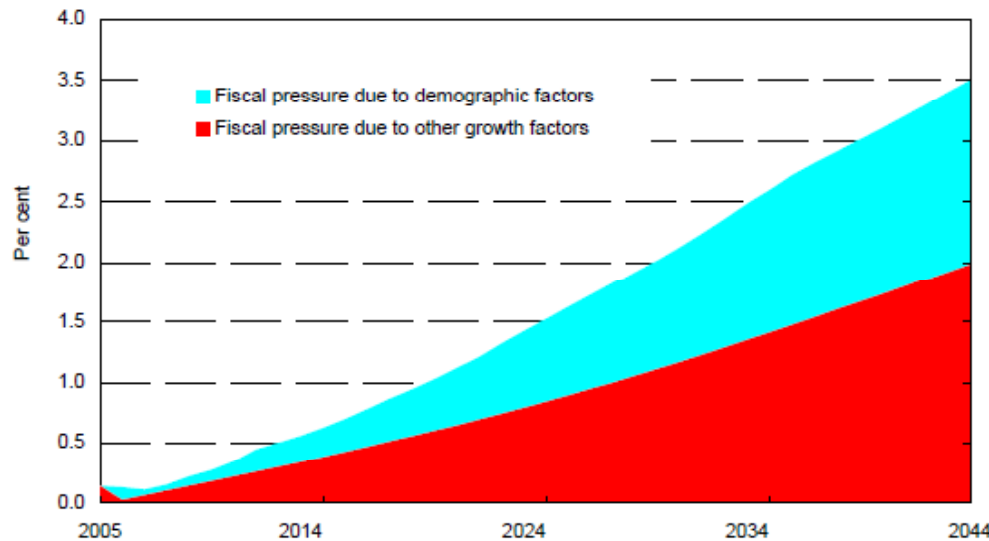
- The private health insurance rebate is the fastest growing component of Australian government health expenditure, projected to grow from \$192 real per capita in 2012-13 to \$319 real per capita in 2022-23, an increase of over 50 per cent in real spending per person. This is notwithstanding recent changes to the private health insurance rebate that, if enacted, are expected to deliver net savings of \$2.0 billion over five years.
- Hospital expenditure also is growing quickly, increasing from \$594 real per capita in 2012-13 to \$803 real per capita in 2022-23.
- Pharmaceutical spending remains a significant share of the health budget throughout the projection period, growing from \$443 real per capita in 2012-13 to \$534 real per capita in 2022-23.

NSW Long Term Fiscal Pressures Report 2006-07

“The fiscal projections show that a build up in expenditure pressures will occur over the next 40 years, causing a significant fiscal gap to open up in the State’s finances. With expenses growth exceeding revenue growth, this fiscal gap (the difference between expenses and revenue excluding interest transactions but including net capital expenditure) will grow to 3.4 per cent of GSP by 2044” (see chart below).

“Growth in Health expenses is projected to be the most significant, accounting for around 75 per cent of the projected expenses gap. Health expenses as a share of Gross State Product (GSP) is projected to increase by 2.6 percentage points from 3.4 per cent of GSP to 6.0 per cent of GSP. By 2044, Health expenses would be larger than total NSW taxation revenues.”

Chart 4.1: Projected NSW Fiscal Gap 2005 to 2044



Source: NSW Long Term Fiscal Pressures Report 2006-07, pp. 4-1 and 4-2, available online at http://www.treasury.nsw.gov.au/Budget_Papes_2006-07/bp6/bp6.

Human Capital Agenda – investment is the key

“Human capital (the stock of skills, knowledge and health that individuals possess) is a function of the level of education, employment, and health services in a society, and the freedom and opportunity of individuals to access those services.”

- 2010 Intergenerational Report, p. 93

“Human capital within and between generations is increased through investments in education and health.”

- 2010 Intergenerational Report, p. 93

“Higher levels of human capital support workforce participation and increased productivity. This is an increasingly important consideration as the working age population declines as a proportion of total population.”

- 2010 Intergenerational Report, p. 93

“The Government has introduced a number of initiatives to support the development of human capital and boost labour force participation. These have included increasing incentives to work through personal income tax cuts, increases in the Child Care Rebate and the introduction of Paid Parental Leave. In addition, Government reforms in the areas of education, employment services and health are designed to lift participation in the workforce.”

- 2010 Intergenerational Report, p. 27

Government's Human Capital Agenda – Education & Skills

Education Investment Fund: \$500 million dedicated to regional universities and TAFEs.

Critical Skills Investment Fund: \$66 million will be dedicated to regional businesses and workers.

Teaching and Learning Capital Fund

The Government announced the Teaching and Learning Capital Fund for Vocational Education and Training in December 2008. This fund is investing \$500 million into the vocational sector for capital infrastructure works and purchases. All projects that received funding will be completed by June 2011.

Productivity Places Program

The Government has funded the Productivity Places Program (PPP) which will deliver 711,000 qualification commencements over 5 years. These qualifications are being delivered in an industry-driven system, ensuring that training is more responsive to the needs of businesses and participants.

Trades Training Centres

\$2.5 billion over 10 years to enable all secondary students to access vocational education through Trade Training Centres.

Higher Education Base Funding Review

The Australian Government has appointed an expert panel to conduct a review into higher education base funding. The panel will report back to the Government in October 2011. Demand driven funding for teaching and learning will commence in 2012.

Government's Climate Change Agenda: a price on carbon

The Greens-Labor Agreement included a commitment to establish a Climate Change Committee by September 2010, composed of relevant experts and representative parliamentarians from all sides who are committed to tackling climate change and who acknowledge that reducing carbon emissions by 2020 will require a price on carbon. The Leader of the Opposition Tony Abbott has indicated that Coalition members would not sit on such a Committee.

Labor also made a number of election commitments related to climate change throughout the election including:

- Cleaner Car Rebate: \$2,000 rebate for replacing pre-1995 vehicles (from 1 January 2011- 2014).
- Carbon Farming Initiative: \$45.6 million investment through the Renewable Energy Fund to help farmers and landowners participate in international markets for carbon credits.
- Power stations: introducing new emissions standards for all new coal-fired power stations.
- Emerging Renewables Initiative: \$40 million program to support new emerging renewable energy technologies.
- Connecting Renewables Initiative: \$1 billion investment over ten years in electricity networks to connect remote renewable energy sources to the national grid.
- Establishing the \$100 million Renewable Energy Venture Capital Fund.
- National Green Corridors Plan: investment of \$10 million to establish green corridors to prepare native plants and animals and agricultural landscapes for climate change.
- Low Carbon Communities initiative: \$80 million investment provide funds to councils and local organisations to assist with energy efficiency upgrades at local facilities to provide funds to councils and local organisations to assist with energy efficiency upgrades at local facilities.
- Tax breaks for green buildings: \$180 million investment over the forward estimates so that from 1 July 2011 until 30 June 2015 businesses that undertake capital works to improve the energy efficiency of existing buildings will be able to apply for a one-off tax deduction

Government's Climate Change Agenda: a price on water

COAG Water Reform – National Water Initiative

COAG discussed water reform at its December 2009 meeting and agreed to redouble its efforts to accelerate the pace of reform under the National Water Initiative, including:

- [completing National Water Initiative consistent water-sharing plans](#)
- [a National Framework for Non-urban Water Metering](#)
- [a National Water Skills Strategy](#)
- in-principle endorsement of a National Framework for Water Compliance and Enforcement.

Water for the Future program

- The Australian Government's *Water for the Future* priorities will be delivered through a ten-year investment in strategic programs, improved water management arrangements, and a renewed commitment to deliver a range of water policy reforms in both rural and urban areas.

Murray-Darling Basin Plan:

- New Parliamentary committee for Regional Australia to conduct an inquiry into the impact of the Murray-Darling Basin Plan, reporting April 2011.
- Guide to the Murray-Darling Basin Plan released for discussion, due to be finalised at the end of 2011.

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