Australian Council
of Social Service








# A Budget that divides the nation

ACOSS 2014-15
Budget Analysis

May 2014

## Who we are

ACOSS is the peak body of the community services and welfare sector and the national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

## What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

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Locked Bag 4777
Strawberry Hills, NSW, 2012 Australia
Email: info@acoss.org.au
Website: www.acoss.org.au

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# Contents


| | | |
|---|---|---|
| List of tables and figures | | 4 |
| Table of Abbreviations | | 5 |
| Federal budget pain divides the nation | | 7 |
| 1 | Overview | 8 |
| 1.1 | Summary | 8 |
| 1.2 | Who pays? | 10 |
| 1.3 | Budget overview | 15 |
| 1.4 | State of the economy | 16 |
| 1.5 | State of the budget | 17 |
| 1.6 | Effects of Budget decisions on the bottom line | 20 |
| 1.6.1 | Profile of Government revenue and expenditure | 22 |
| 2 | Analysis | 24 |
| 2.1 | The revenue Governments need to meet the community's needs | 24 |
| 2.2 | Employment services and opportunities for people at risk of poverty | 25 |
| 2.3 | Income support for people at risk of poverty | 26 |
| 2.3.1 | Working-age payments | 26 |
| 2.3.2 | Family payments | 30 |
| 2.3.3 | Retirement incomes | 32 |
| 2.4 | Availability and affordability of essential services | 35 |
| 2.4.1 | Health | 35 |
| 2.4.2 | Education and early childhood services | 38 |
| 2.4.3 | Aboriginal and Torres Strait Islander Programs | 40 |
| 2.4.4 | Community services | 43 |
| 2.5 | Access to affordable housing | 45 |

# List of tables and figures


Table 1: Typical impacts of Budget decisions on people not in paid employment 12

Table 2: Typical impacts of Budget decisions on people on high incomes 14

Table 3: Who should pay? 15

Table 4: Domestic economy forecasts 16

Table 5: Australian Government Budget revenue, expenses and balances 17

Table 6: Expenditure reconciliation 18

Table 7: Reconciliation of underlying cash balance estimates: changes from 2013-14 MYEFO to 2014-15 Budget 20

Table 8: Savings measures 21

Table 9: Revenue Measures 25

Table 10: Employment measures 26

Table 11: Employment measures 28

Table 12: Measures affecting family payments 31

Table 13: Measures affecting retirement incomes 33

Table 14: Health measures 36

Table 15: Measures affecting education and early childhood services 39

Table 16: Measures affecting Aboriginal and Torres Strait Islander people 42

Table 17: Community Services Measures 44

Table 18: Housing Measures 47

Figure 1: Australian Government revenue and expenditure (% of GDP) 18

Figure 2: Contribution of major programs to all growth in spending, before 2014 Budget changes 19

Figure 3: Government Revenue 22

Figure 4: Government spending 23

# Table of abbreviations

| | |
|---|---|
| ACOSS | Australian Council of Social Service |
| CCB | Childcare Benefit |
| CCR | Childcare Rebate |
| CPI | Consumer Price Index |
| DHS | Department of Human Services |
| DSP | Disability Support Pension |
| FTB | Family Tax Benefit |
| FVPLS | Family Violence Prevention and Legal Services |
| GDP | Gross Domestic Product |
| GP | General Practitioners |
| JET | Jobs, Education and Training |
| NATSILS | National Aboriginal and Torres Strait Islander Legal Services |
| NDIS | National Disability Insurance Scheme |
| NPA | National Partnership Agreements |
| NPAH | National Partnership Agreement on Homelessness |
| NRAS | National Rental Affordability Scheme |
| NSA | Newstart Allowance |
| PBS | Pharmaceutical Benefits Scheme |
| PPL | Paid Parental Leave |
| SIHIP | Strategic Indigenous Housing and Infrastructure Program |


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# Federal budget pain divides the nation



Instead of repairing the national finances, the 2014-15 Budget divides our country. Rather than bringing us together in a truly fair, shared effort, this Budget entrenches divisions in our community: between young and old and people on high incomes and those struggling to make ends meet. It threatens to destroy the social safety net that has served our nation well - with severe cuts to essential areas such as health, disability support, income support, community services and housing programs. The budget will damage far more than it repairs.

Most of the pain will be felt by people on low incomes, young people, single parents, those with illness or disability, and those battling to keep a roof over their heads. These are the groups doing the 'heavy lifting' for the Budget repair job.

Analysis published this week by Peter Whiteford and Daniel Nethery shows that after the Budget, an unemployed 23-year-old stands to lose $50 per week or 18 per cent of their disposable income, while an unemployed lone parent with one 8-year-old child loses $60 per week or 12 per cent[1]. As a percentage of income, lone parents earning around two-thirds of the average wage lose between 5.7 to 7.1 per cent of their disposable income. A single-income couple with two school-age children and average earnings stand to lose nearly $90 per week or 6 per cent of their disposable income[2]. By comparison, an individual on three times the average wage will contribute just $29 or less than 1 per cent of disposable income through the Deficit Levy[3].

We were told on election night that the new government would not leave anyone behind, but the result of its first Budget will be to plunge many of the most vulnerable people in our community into deeper levels of poverty.

Ultimately the Federal Budget raises many important issues that will be hotly debated over the coming weeks and years. These include the state of the Budget itself and how it can best be restored through structural tax reform and reform of state and federal relations, as well as deeper questions relating to the role and responsibilities of Government.

To succeed in this task and put our national economy on an equitable and sustainable path, the Commonwealth Government will need to engage with the broader community. This important effort cannot be left solely in the hands of a handful of experts or the elected Government itself. It must be a joint effort with community voices at the heart of the process. To build trust, it must be done in an open, transparent and inclusive manner. In this way we will unite rather than divide our nation to build the shared future we all want.

**Dr Cassandra Goldie, ACOSS CEO**

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[1] Peter Whiteford and Daniel Nethery (2014) *Is the budget pain being shared fairly?* Available at https://crawford.anu.edu.au/news/4081/budget-pain-being-shared-fairly.

[1] *Ibid.*

[1] *Ibid.*

Bu

# 1 Overview

## 1.1 Summary

ACOSS recognises that Australia faces a budget challenge in meeting the growing gap between the community's reasonable expectations of government and available resources to meet those expectations. That is why we support a comprehensive review of revenue and expenditure to set the budget on a sustainable path for the future. However, we believe the priority should be to reign in wasteful expenditure, ensure spending is targeted to those who need assistance most and begin necessary reforms to create a sustainable and equitable tax system.

The 2014-15 Budget is a blueprint for a very different Australia, departing from our historical commitments to a strong social safety net and universal health and education. While a number of measures will impact households on high incomes, these are largely short term or marginal in impact. By contrast, the budget ushers in changes to social supports for those living on low incomes which will have long-term and severe impacts.

An OECD report published this month shows that over the last 15 years, Australia has become a less equal society, with the income share of those at the bottom and in the middle falling and those at the top rising.[4] This budget will accelerate that trend.

Lowering indexation for pensions and the freezing of family payments for two years will impact families living on low incomes. We estimate that, over a decade, changes to indexation will mean that people relying on pensions will be $80 a week worse off. Changes to the Disability Support Pension (DSP) scheme will result in more young people currently receiving this pension being moved to the much lower Newstart or Youth Allowance, a loss of up to $214 a week.

New rules will deny income support to young people aged up to 29 for six months of every year, unless exempted, and then force them into "work for the dole". The removal of any income support for a group of unemployed people fundamentally changes the Australian income support safety net. Traditionally, Australia has a safety

[4] Causa, O. et al. (2014), 'Economic growth from the household perspective: GDP and Income Distribution Developments Across OECD Countries', *OECD Economics Department Working Papers,* No 1111, OECD Publishing

net for all who need it, and requires participation in return. The budget turns this around by excluding an entire group of people from basic assistance, with exemptions only for select categories of people.

The budget sees changes to funding of employment assistance providers and removing crucial programs - such as Youth Connections and wage subsidies - that have been successful at making young people 'job ready' and providing real job opportunities.

There is some welcome action in the budget to remove or tighten access to a number of poorly-targeted entitlements: abolishing the Seniors Supplement, limiting access to the Seniors Cards for older couples with substantial financial assets or superannuation benefits, and capping Family Tax Benefit Part B payment at $100,000. The introduction of a temporary levy for people earning over $180,000, the move to take superannuation payments into account in assessing eligibility for the Seniors Health Card, and the reduction in corporate welfare are all directed at those with more capacity to pay. However, most of the measures affecting those on higher incomes will have minimal effect or be felt for only short a time.

The new deficit levy is a much fairer way to pay for essential services such as health care and the NDIS (National Disability Insurance Scheme) as the population ages than the harsh 'user pays' approach. However, it lacks a clear purpose: it is to be introduced when needed least, and withdrawn just when needed most. The levy will be withdrawn in 2017, exactly when more revenue is needed for essential programs like the NDIS. The levy should be made permanent and tied to necessary social investment like the NDIS. More importantly, it should be complemented by necessary structural reform to our tax system to enable us to meet the needs and reasonable expectations of an ageing community sustainably over the long term.

The 2014-15 Budget also signals a Federal Government retreat from its role in the provision of universal health and education services. The $7 co-payments for visits to the doctor and for other services will adversely impact low-income patients, particularly those with complex health conditions, and possibly deter them from seeking necessary health services, making poorer long-term health outcomes likely.

It is disappointing that, given Australia's worsening housing affordability crisis, the budget offers no long-term strategy for investment and reform, and instead offers reduced investment in existing initiatives. The budget reduces funding to incentives

for investment in low cost housing, and provides no guarantee of future funding for homelessness services beyond June 2015.

The 2014-15 Budget also sees a widespread reduction in Aboriginal and Torres Strait Islander services, with 150 programmes being consolidated into just five under the Government's new 'Indigenous Advancement Strategy'. This will result in $493.7 million in savings over four years, including a $169.2 million reduction in expenditure on health services for Aboriginal and Torres Strait Islander people. While ACOSS supports the reduction of red tape in order to ensure funds are most effectively invested in communities, we are deeply concerned by the lack of detail around these measures and the potential 'one-size fits all' approach. The 2014-15 Budget also includes a discontinuation of $15 million which had been set aside to provide funding for the National Congress of Australia's First Peoples, along with significant funding reductions to other Aboriginal organisations, including the National Aboriginal and Torres Strait Islander Legal Services (NATSILs) and the Aboriginal Family Violence Prevention and Legal Services (FVPLS).

Overall this budget both hits the wrong targets, and misses real opportunities, focusing too much on spending and too little on where the bigger problem lies - falling revenue. To be fair and equitable this budget should have addressed our underlying revenue problem and begun the required process of major structural reform. Sadly, it has instead left generous tax concessions that mainly benefit people on higher incomes in the too-hard-basket: superannuation, the treatment of private trusts and companies and negative gearing. This missed opportunity will cost us all, with many billions of dollars in foregone revenue and a reduction in support and services to those already in a precarious financial position.

## 1.2 Who pays?

The Government argues that the burden of restoring the budget will be fairly shared. But the budget disproportionately affects people on low incomes. The few measures targeted towards people on high incomes have a much smaller impact, in proportion to their incomes, than those affecting people on low incomes.

Among the measures listed in this report, $19.2 billion out of $37.2 billion (52%) in budget savings over the next four years mainly affect low and middle income earners. Only $5.7 billion of the $37.2 billion (15%) billion are tax increases or savings in programs mainly affecting people on high incomes.

Modelling by NATSEM shows that couples with children on low incomes and sole parents will be disproportionately affected by the budget savings measures, losing up to 15% of their disposable income. NATSEM estimates that about 1.2 million families will be around $3000 worse off by 2017-18, while those on high incomes (in the top 20% of the income scale) will experience very little impact from budget changes – for example, a family on $200,000 per year is estimated to lose only $400 per year. Their analysis shows that disadvantaged groups stand to lose a significant proportion of their income as a result of the changes. For example, sole parent families with two children aged 8 and 12 years relying on income support will lose $4243 or 14.8% income.

These imbalances in the budget adversely affecting low and middle income earners partly reflects the fact that most social programs are progressive in their impact – they mainly benefit low and middle income earners. This is especially so for social security payments and health programs. It underscores the regressive effects of the budget's over-emphasis on reducing expenditure rather than raising taxes.

This bias in the budget also shows that groups on low incomes have been targeted for expenditure savings, such as young people out of paid work. The changes to unemployment payments for young people are the very first expenditure reduction identified in the Budget Papers as having a 'major impact beyond the next four years', even though spending on unemployment payments was projected by the Audit Commission to increase at a lower rate than most other programs over the next decade (see below).

The table below provides estimates of typical income losses sustained by people on lower and higher incomes as a result of some of the key budget measures. We focus on:

- Measures *disproportionately affecting people on maximum rate income support payments* (those generally in the bottom 20% of households by income); and
- Those *disproportionately affecting people on high incomes* (those generally in the top 20% of households by income);
- Which impact directly on spending power;
- Affect large numbers of people; and
- Are easy to quantify.
- To simplify, we mainly focus on the impacts on single people.

We have not attempted to add together the impact of those measures that affect the same groups, for example, reductions in income support payments and higher health costs.

This analysis suggests that the impact of expenditure savings will be disproportionately felt by young people, sole parents receiving family payments, people with disability, and some people on low or middle incomes receiving family payments, age pensioners and people on low incomes impacted though the Medicare co-payment and reduced access to education.

The analysis compares these effects with some of our own budget recommendations, which mainly impact people on higher incomes or with significant assets who are able to make the most of tax advantages skewed in favour of higher income earners to reduce taxable income, those with assets of over a million dollars besides the family home currently accessing a part-Age Pension, and people on higher incomes in receipt of rebates and concessions on health expenditure.

**Table 1: Typical impacts of Budget decisions on people not in paid employment**

| | Effect in first full year of measure^ | | | Effect in 10 years' time | | |
|---|---|---|---|---|---|---|
| **Budget policy** | **Current rate ($pw)** | **Proposed rate ($pw)** | **Reduction ($pw)** | **Rate in 2024 ($pw)** | **Proposed rate in 2024 ($pw)** | **Reduction in 2024 ($pw)** |
| **People who are unemployed** | | | | | | |
| Unemployment payments limited to 6 months each year for those under 30yrs | $207 (<21yrs) or $255 (>21yrs) | $0 | -$207 (<21yrs) or -$255 (>21yrs) | | | |
| Move young unemployed people (22-24yrs) from Newstart Allowance (NSA) to Youth Allowance | $255 | $207 (less if living with parents) | -$48 | | | |
| Potential move of more people with disabilities under 35yrs from DSP to NSA | $421 | $255 (>23yrs) $207 (<24yrs) | -$166 (>23yrs) -$214 (<24yrs) | | | |
| **Families** | | | | | | |
| Index Parenting | $367 | $365 | -$2 | $525 | $450 | -$75 |

| | Effect in first full year of measure^ | | | Effect in 10 years' time | | |
|---|---|---|---|---|---|---|
| **Budget policy** | **Current rate ($pw)** | **Proposed rate ($pw)** | **Reduction ($pw)** | **Rate in 2024 ($pw)** | **Proposed rate in 2024 ($pw)** | **Reduction in 2024 ($pw)** |
| Payment Single to Consumer Price Index (CPI) instead of wages | | | | | | |
| Abolish Pensioner Education Supplement | $31 | $0 | -$31 | | | |
| Remove Family Tax Benefit (B) for sole parents with a child over 5 years * | $58 | $14 | -$44 | | | |
| Freeze indexation of Family Tax Benefit (Part A) for 2 years and reduce supplement * | $104 | $98 | -$6 | | | |
| Remove Family Tax Benefit (B) for single income couples with a child over 5 years * | $58 | $0 | -$58 | | | |
| **Pensions** | | | | | | |
| Index Age, DSP, and Carer payment to CPI instead of wages | | | | $600 | $520 | -$80 |
| Defer eligibility for Age Pension to age 70 years # | | | | | | -$64 if unemployed <9mnths<br>-$166 if unemployed >9mnths |
| **Cost of doctor's visits and pharmaceuticals** | | | | | | |
| Medicare co-payments ^^ | $0 p.a. | $70 p.a. | -$70 p.a. | | | |
| Pharmaceutical benefit reductions ~ | $366 p.a. | $428 p.a. | -$62 p.a. | | | |

^ In most cases this is 2015-16 but amounts are expressed in 2014 values

* With one child 6-12 years, income loss is $58 if the child is over 12 years. Income loss is less with two or more children.

# effect when fully implemented. Amounts are expressed in 2014 values

^^ per annum estimates: 10 visits per year, bulk billing is currently available (see 'budget 2014-15-Health')

~ per annum estimates: pensioner concession card holder buying 80 medicines a year (see 'budget 2014-15-Health').

By contrast, Table 2 describes the impacts of budget decisions that mainly affect high-income earners.

**Table 2: Typical impacts of Budget decisions on people on high incomes**

| | Effect in first year | | | Effect in 10 years' time | | |
|---|---|---|---|---|---|---|
| **Budget policy** | **Current rate ($pw)** | **Proposed rate ($pw)** | **Reduced income ($pw)** | **Rate in 2024 ($pw)** | **Proposed rate in 2024($pw)** | **Reduction in 2024 ($pw)** |
| **High-income taxpayers** | | | | | | |
| Deficit levy of 2% on incomes above $180,000 * | | | -$27 | | | |
| **High-income families** | | | | | | |
| Tighten Family Tax Benefit Part A means test for families on >$95,000 ~ | $31 ($100K) $0 ($150K) | $9 ($100K) $0 ($150K) | -$22 ($100K) $0 ($150K) | | | |
| Tighten Family Tax Benefit Part B income test for families on >$100,000 ~ | $80 | $80 ($100K) $0 ($150K) | $0 -$80 | | | |
| **Seniors with substantial financial assets** | | | | | | |
| Abolish Seniors Supplement # | $17 | $0 | -$17 | | | |

*Individual earning $250,000

+ Family with two children under 5yrs on $100,000 or $150,000

~ Family with two children under 5 yrs, on $100,000 or $150,000

# singles earning up to $48,000 with over $750,000 in financial assets apart from the home.

Table 3 describes budget measures advocated in our annual budget submission[5], which mainly affect people on high incomes. These measures were not adopted in the 2014-15 Budget.

[5] ACOSS (2014) Budget Priorities Statement, 2014 Available at: http://acoss.org.au/images/uploads/2014_15_Budget_Priorities_Statement_ACOSS.pdf

**Table 3: Who should pay?**

| Proposal | Impact | Saving in 2015-16 ($m) |
|---|---|---|
| Strengthen taxation of super contributions and fund earnings for over 55s | Fund earnings are taxed at the same 15% rate throughout the life of a super account, reduces the tax benefit of tax avoidance strategies to churn wages through super accounts.<br>Mainly affects high-income earners over 55 years of age | 800 |
| Restore the $25,000 cap on super contributions attracting tax breaks | Currently those over 60 can contribute up to $30,000 and this higher cap is being gradually extended to all.<br>Mainly affects high-income earners over 60 years, few middle income earners can afford to contribute this much to super | 800 |
| Curb use of private trusts to avoid income tax | Income is taxed more consistently and fairly regardless of investment and business structures<br>Mainly affects high-income investors | 1,000 |
| Limit deductions for negatively geared investments | Expenses can still be claimed once the investment turns a profit. Existing investments grandfathered.<br>Mainly affects high-income investors | 1,000 |
| Remove 30% Private Health Insurance Rebate from 'extras' cover | The rebate would only be available for hospital cover.<br>Mainly affects the top 50% of households, who can best afford private health insurance | 1,000 |
| Tighten the pension assets test | Couples eligible for pensions who have financial assets (other than their primary residence*) worth over $1 million | 1,400 |
| **Total** | | **6,000** |

*We do not propose to apply the assets test to the primary residence, rather to reverse an excessively generous 'easing' of the assets test in 2007.

## 1.3 Budget overview

The Government aims to restore the Federal budget to a surplus of at least 1% of Gross Domestic Product (GDP) ($30 billion a year in current dollars) within a decade (by 2024). It regards this budget as the first step in that process. In addition to measures to be implemented this year, the budget foreshadows more substantial policy changes to be implemented after the next elections due in 2016.

## 1.4 State of the economy

Economic growth, measured by real GDP growth, is estimated to be 2.5% in 2014-15, rising to 3% in 2014. The unemployment rate is expected to increase to 6.25% by June 2015, and remain at this rate until the end of 2016. The inflation rate for 2014-15 is estimated to be 2.25%.

**Table 4: Domestic economy forecasts**

| | Outcomes(b) | Forecasts | | |
|---|---|---|---|---|
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| **Panel A - Demand and output(c)** | | | | |
| Household consumption | 2.0 | 2 1/2 | 3 | 3 1/4 |
| Private investment | | | | |
| Dwellings | -0.1 | 3 1/2 | 7 1/2 | 5 1/2 |
| Total business investment(d) | 6.1 | -4 | -5 1/2 | -3 1/2 |
| Non-dwelling construction(d) | 13.9 | -2 1/2 | -9 1/2 | -12 1/2 |
| Machinery and equipment(d) | -4.3 | -9 1/2 | -2 | 7 |
| Private final demand(d) | 2.8 | 1 1/4 | 1 1/2 | 2 |
| Public final demand(d) | -1.3 | 1 3/4 | 1 1/2 | 1 |
| Total final demand | 1.9 | 1 1/2 | 1 1/2 | 1 3/4 |
| Change in inventories(e) | -0.3 | - 1/4 | 1/4 | 0 |
| Gross national expenditure | 1.6 | 1 1/4 | 1 3/4 | 1 3/4 |
| Exports of goods and services | 6.0 | 5 1/2 | 5 1/2 | 7 |
| Imports of goods and services | 0.5 | -3 | 2 | 2 1/2 |
| Net exports(e) | 1.2 | 1 3/4 | 1 | 1 1/4 |
| **Real gross domestic product** | 2.6 | 2 3/4 | 2 1/2 | 3 |
| Non-farm product | 2.8 | 2 3/4 | 2 3/4 | 3 |
| Farm product | -3.6 | 5 | -4 | 1 |
| Nominal gross domestic product | 2.5 | 4 | 3 | 4 3/4 |
| **Panel B - Other selected economic measures** | | | | |
| External accounts | | | | |
| Terms of trade | -9.8 | -5 | -6 3/4 | -1 3/4 |
| Current account balance (per cent of GDP) | -3.6 | -3 1/4 | -4 | -3 3/4 |
| Labour market | | | | |
| Employment(f) | 1.2 | 3/4 | 1 1/2 | 1 1/2 |
| Unemployment rate (per cent)(g) | 5.6 | 6 | 6 1/4 | 6 1/4 |
| Participation rate (per cent)(g) | 65.1 | 64 3/4 | 64 1/2 | 64 1/2 |
| Prices and wages | | | | |
| Consumer price index(h) | 2.4 | 3 1/4 | 2 1/4 | 2 1/2 |
| Gross non-farm product deflator | -0.3 | 1 1/4 | 1/2 | 1 3/4 |
| Wage price index(f) | 2.9 | 2 3/4 | 3 | 3 |

(a) Percentage change on preceding year unless otherwise indicated.
(b) Calculated using original data unless otherwise indicated.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales between the public and private sectors.
(e) Percentage point contribution to growth in GDP.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted rate for the June quarter.
(h) Through-the-year growth rate to the June quarter.
Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 71 and a United States dollar exchange rate of around 93 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$113 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions in 2014-15 and 2015-16.
Source: ABS cat. no. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

Source: Australian Treasury (2014): *Budget 2014-15, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia

## 1.5 State of the budget

The budget remains in deficit in 2014-15 by $29.8 billion or 1.8% of GDP. A deficit of $17.1 billion or 1.0% of GDP is budgeted for 2015-16.

**Table 5: Australian Government Budget revenue, expenses and balances**

| | Actual | | Estimates | | Projections | | |
|---|---|---|---|---|---|---|---|
| | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | Total(a) |
| | $b | $b | $b | $b | $b | $b | $ |
| Receipts | 351.1 | 363.5 | 385.8 | 410.4 | 436.8 | 468.0 | 2,064 |
| Per cent of GDP | 23.1 | 23.0 | 23.6 | 24.0 | 24.4 | 24.9 | |
| Payments (b) | 367.2 | 410.7 | 412.5 | 424.2 | 443.9 | 467.1 | 2,158 |
| Per cent of GDP | 24.1 | 25.9 | 25.3 | 24.8 | 24.7 | 24.8 | |
| Net Future Fund earnings | 2.7 | 2.7 | 3.1 | 3.3 | 3.5 | 3.8 | 16 |
| Underlying cash balance(c) | -18.8 | -49.9 | -29.8 | -17.1 | -10.6 | -2.8 | -110 |
| Per cent of GDP | -1.2 | -3.1 | -1.8 | -1.0 | -0.6 | -0.2 | |
| Revenue | 360.2 | 374.3 | 391.3 | 419.6 | 449.8 | 480.4 | 2,115 |
| Per cent of GDP | 23.6 | 23.6 | 24.0 | 24.5 | 25.1 | 25.5 | |
| Expenses | 382.6 | 415.3 | 414.8 | 431.1 | 453.8 | 475.4 | 2,190 |
| Per cent of GDP | 25.1 | 26.2 | 25.4 | 25.2 | 25.3 | 25.3 | |
| Net operating balance | -22.5 | -41.0 | -23.5 | -11.5 | -4.0 | 4.9 | -75 |
| Net capital investment | 1.0 | 4.0 | 2.4 | 0.7 | 2.6 | 4.0 | 13 |
| Fiscal balance | -23.5 | -45.1 | -25.9 | -12.2 | -6.6 | 1.0 | -88 |
| Per cent of GDP | -1.5 | -2.8 | -1.6 | -0.7 | -0.4 | 0.1 | |
| Memorandum item: | | | | | | | |
| Headline cash balance | -21.0 | -53.7 | -33.5 | -26.6 | -22.7 | -11.4 | -148 |

(a) Total is equal to the sum of amounts from 2013-14 to 2017-18.
(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.
(c) Excludes net Future Fund earnings.

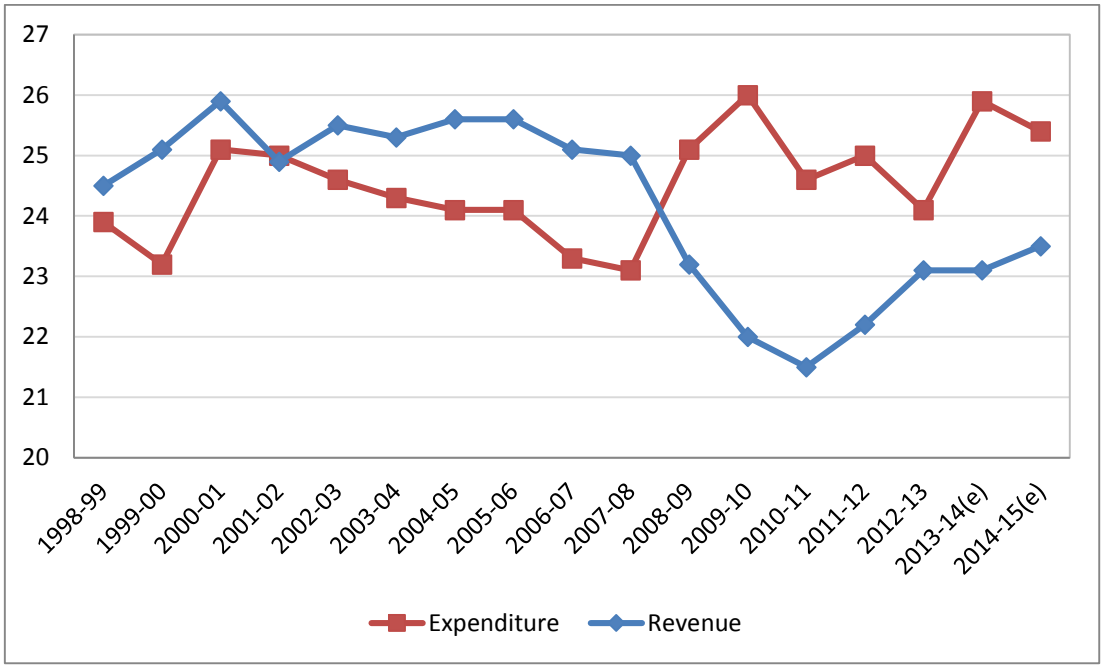
Source: Australian Treasury (2014): *Budget 2014-15, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia

The Government has set a target for a surplus of at least 1% of GDP by 2024-25. The budget outlines following fiscal strategy:

+ Redirecting government spending to investment;
+ Reducing the government's share of the economy over time;
+ Improving net financial worth over time.

The following figure shows trends of Government revenue and expenditure (in proportion to GDP) between 1998 and 2013, *before* the budget changes.

**Figure 1: Australian Government revenue and expenditure (% of GDP)**




Source: Australian Treasury (2013) *Mid-Year Economic and Fiscal Outlook 2013-14* Commonwealth of Australia

ACOSS estimates that three fifths of the deterioration in the budget from 1998 to 2013 was due to lower revenues (including eight successive income tax cuts) and two fifths was due to higher expenditures. This budget does little to restore public revenue. Revenue is estimated to rise to 24% of GDP in 2014-15, and to 25.5% in 2017-18.

The following table compares expenditures before and after the budget decisions. It shows that the budget's expenditure reductions reduce Federal Government spending to *below* their long-run average level after 2015-16. That is, the budget shrinks the size of Government.

**Table 6: Expenditure reconciliation**

| | MYEFO | Revised | Estimate | | Projections | |
|---|---|---|---|---|---|---|
| | 2013-14 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| **Total expenses ($b)** | **412.1** | **415.3** | **414.8** | **431.1** | **453.8** | **475.4** |
| Real growth on previous year (%)(a) | 5.0 | 5.6 | -2.3 | 1.4 | 2.7 | 2.2 |
| Per cent of GDP | 26.1 | 26.2 | 25.4 | 25.2 | 25.3 | 25.3 |

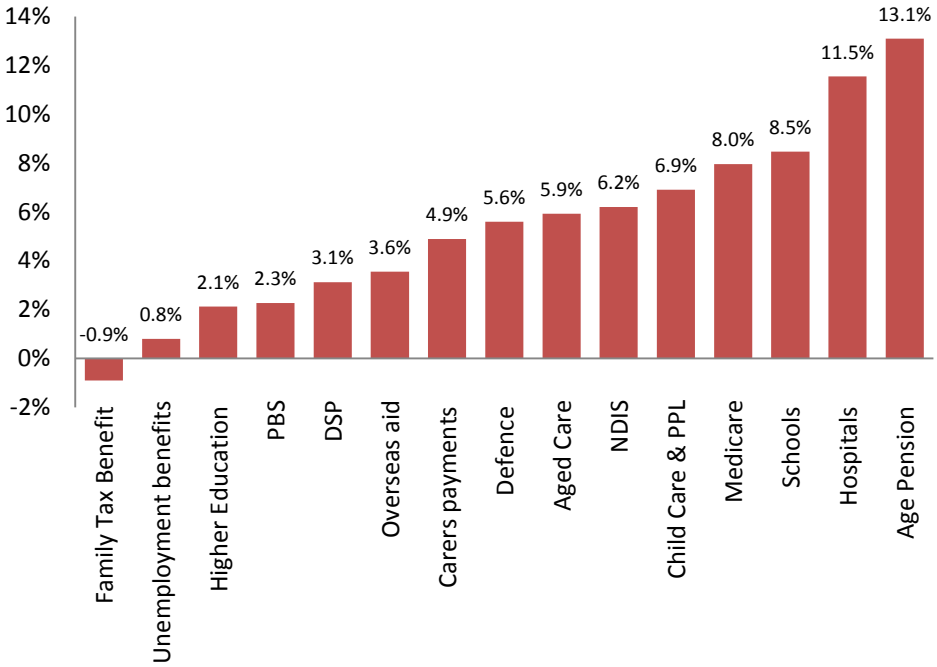
(a) Real growth is calculated using the consumer price index.

Source: Australian Treasury (2014): *Budget 2014-15, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia

By contrast, the budget makes little difference to public revenues. What increase to revenue that there is due mainly to economic recovery and the effects of income tax 'bracket creep'. Budget figures imply that tax revenue would be capped at 24% of GDP by 2019. This suggests that the Government intends to reduce personal income tax between now and 2019.

The figure below, based on Audit Commission estimates, shows the extent to which major expenditure programs contribute to increased overall expenditure in the decade from 2013 to 2023. This does not take account of decisions in the 2014 budget, which greatly reduce expenditures in most of these areas.

**Figure 2: Contribution of major programs to all growth in spending, before 2014 Budget changes**




Source: National Commission of Audit (2014) *Report of the Commission of Audit, Phase one*
ACOSS calculations

ACOSS believes that Australian Governments *should* be spending more on programs such as health, income support payments and child care, provided they are well targeted to need.[6] Much more emphasis should be placed on restoring public revenue and targeting programs to those who need them than we have seen in this budget.

It is clear that some of the largest expenditure reductions in the budget are in programs that were not going to contribute much to future growth in expenditures in the first place, such as unemployment payments, family payments, and the Disability Support Pension.

## 1.6 Effects of Budget decisions on the bottom line

The $33.9 billion deficit for 2014-15 that was estimated in March this year is reduced by a combination of:

- Expenditure savings measures ($ -1.0 billion)
- Revenue raising measures ($0.7 billion)

Sixty-one per cent of the reduction in the 2014-15 deficit since MYEFO occurs on the expenditure side (reduction in spending). Only 39% of the deficit reductions over the next four years occur on the revenue side (tax increases) and the proposed deficit levy is temporary, cutting out in 2018, just as expenditures were previously set to rise with full implementation of the NDIS and the new schools funding system.

**Table 7: Reconciliation of underlying cash balance estimates: changes from 2013-14 MYEFO to 2014-15 Budget**

| | Estimates | | | Projections | |
|---|---|---|---|---|---|
| | 2013-14 $m | 2014-15 $m | 2015-16 $m | 2016-17 $m | Total $m |
| Effect of policy decisions | | | | | |
| Receipts | -2 | 673 | 1,916 | 2,786 | 5,373 |
| Payments | 512 | 1,045 | 4,018 | 7,628 | 12,180 |
| 2014-15 Budget underlying cash balance (a) | -49,855 | -29,773 | -17,084 | -10,562 | -107,275 |

Source: Australian Treasury (2014): *Budget 2014-15, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia

[6] Note that the Audit Commission added together child care and paid parental leave expenditures and separate estimates for each were not provided.

The following table lists the main savings measures over the next four years.

**Table 8: Savings measures**

| | 2013-14 $m | 2014-15 $m | 2015-16 $m | 2016-17 $m | 2017-18 $m |
|---|---|---|---|---|---|
| Official Development Assistance – reprioritised funding | 612 | 601 | 1,222 | 1,689 | 3,521 |
| Medicare Benefits Schedule – introducing co-payments for general practitioner, pathology and diagnostic imaging services | 0 | -14 | 1,128 | 1,153 | 1,201 |
| Higher Education Reform – Expanding Opportunity – Higher Education Loan Program – repayment thresholds and indexation | 0 | 334 | 720 | 906 | 1,194 |
| Family Payment Reform – maintain Family Tax Benefit payment rates for two years | -1 | 397 | 720 | 736 | 747 |
| Family Payment Reform – limit Family Tax Benefit Part B to families with children under six years of age | -1 | -17 | 70 | 236 | 1,601 |
| Commonwealth Public Hospitals – change to funding arrangements | 0 | 217 | 260 | 133 | 1,163 |
| Pausing indexation of some Medicare Benefits Schedule fees and the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds | 0 | 142 | 394 | 504 | 635 |
| Maintain eligibility thresholds for Australian Government payments for three years | -2 | 161 | 295 | 445 | 579 |
| Certain concessions for Pensioners and Seniors Card Holders | 0 | 304 | 314 | 327 | 338 |
| Pharmaceutical Benefits Scheme – increase in co-payments and safety net thresholds | 0 | 145 | 307 | 367 | 449 |
| Stronger participation incentives for job seekers under 30 | 0 | 221 | 345 | 353 | 329 |
| Family Payment Reform – better targeting of Family Tax Benefit Part B | 0 | -4 | 379 | 430 | 440 |
| Family Payment Reform – revise Family Tax Benefit end-of-year supplements | -1 | -2 | 395 | 392 | 426 |
| Higher Education Reform – Expanding opportunity – Expansion of the demand driven system and sharing the cost fairly | 0 | 0 | 164 | 412 | 551 |
| Commonwealth Seniors Health Card holders – cessation of the Seniors Supplement | 0 | 241 | 260 | 276 | 282 |
| Local Government Financial Assistance Grants – pause indexation for three years | 0 | 96 | 200 | 308 | 321 |
| Australian Apprenticeships Incentives Programme – Tools For Your Trade – cessation | 0 | 142 | 255 | 257 | 260 |
| Aged Care Payroll Tax Supplement – cessation | 0 | 86 | 181 | 188 | 198 |
| Efficiency Dividend – a further temporary increase of 0.25 per cent | 0 | 63 | 124 | 189 | 193 |
| Indigenous Affairs Programmes – rationalisation | 41 | 163 | 146 | 118 | 67 |

Source: Budget Paper No 1

The picture is different beyond the next four years. The Budget Papers note that the following changes make the largest contribution to budget savings in the medium to long term:

+ Changes to welfare for young people (other than changes impacting those not fully able to work);
+ Changes to the funding of the Official Development Assistance programme (foreign aid);

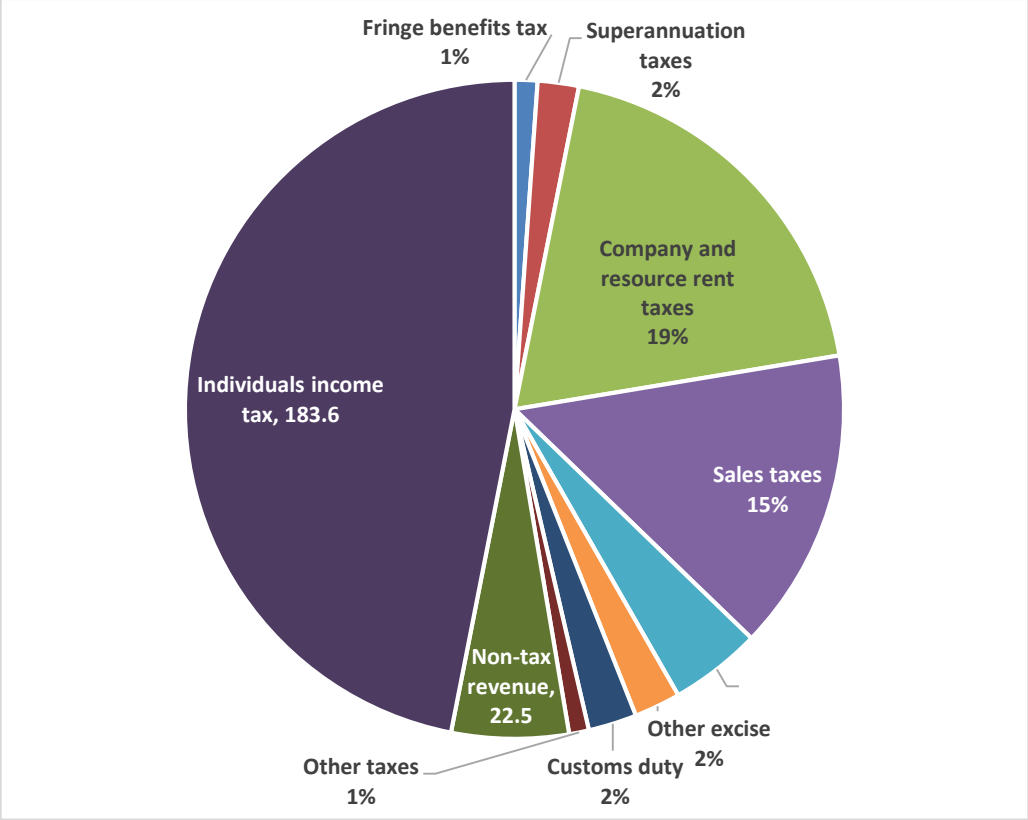
- Reforms to hospital funding and health expenditure, including new patient contributions to the costs of medical services;
- Reforms to schools funding;
- Changes to family tax benefits;
- Changes to the method of indexation of age and disability pensions; and
- Reforms to higher education funding and student contributions.

It is clear that these spending reductions, if legislated, will mainly affect low and middle income households as our analysis above shows.

## 1.6.1 Profile of Government revenue and expenditure

The majority of revenue (45%) comes from individuals' income tax.

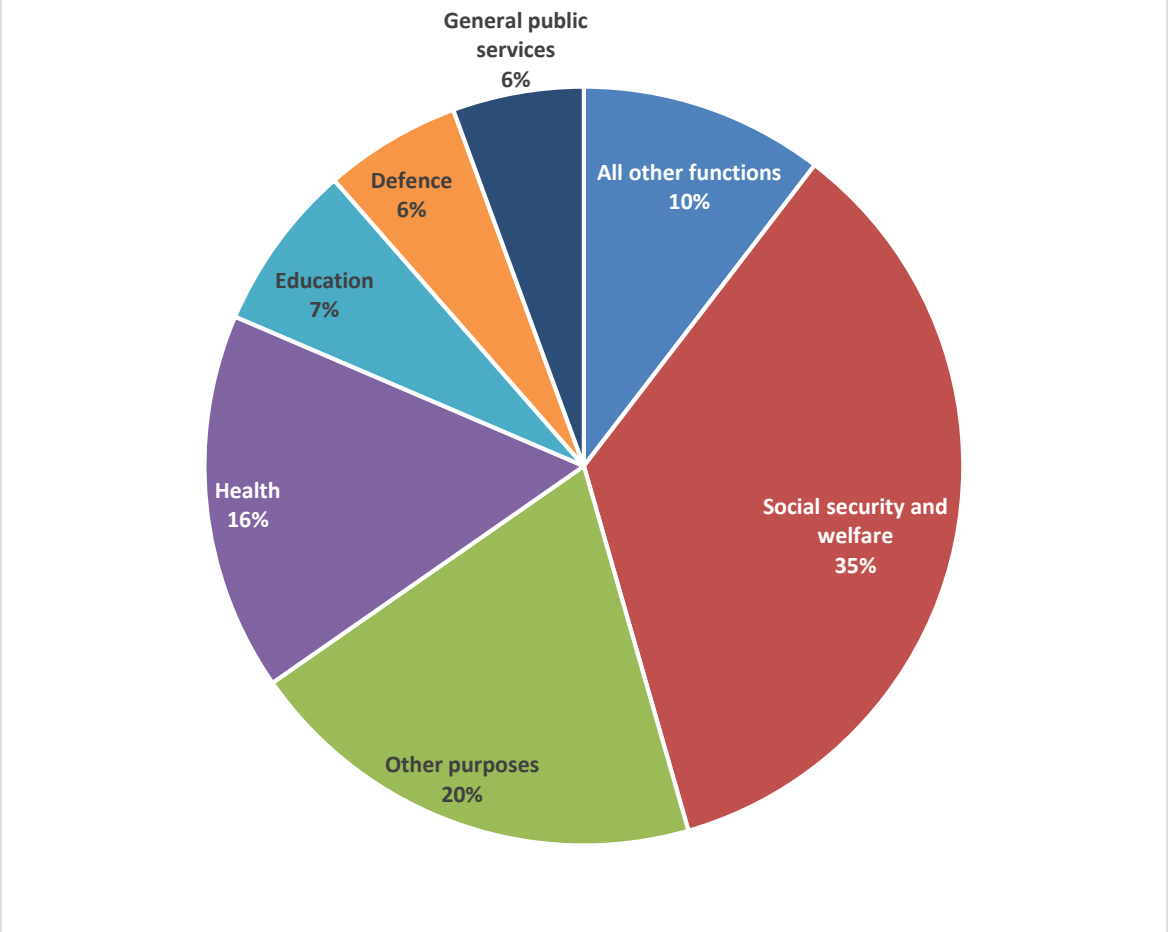
**Figure 3: Government Revenue**




Source: Australian Treasury *Budget 2014-15: Budget Overview* Commonwealth of Australia

Social security and welfare (including retirement incomes, working-age payments and family assistance payments), other purposes, and health are the largest expenditure items.

**Figure 4: Government spending**




Source: Australian Treasury *Budget 2014-15: Budget Overview* Commonwealth of Australia

# 2 Analysis

## 2.1 The revenue Governments need to meet the community's needs

### Key findings

- The budget is a missed opportunity to begin the task of restoring budget revenue
- The budget repair levy affects higher income households but is temporary and lacks clarity of purpose
- There are no measures in the budget to address major tax concessions or remove loopholes such as superannuation and housing tax concessions

The temporary budget repair levy, one of the most widely discussed measures of the budget, is one of the few measures impacting those on higher incomes. However, the levy differs from other expenditure-based measures in that is temporary, expiring in 2017. This is the point at which key expenditure measures, such as the NDIS, become fully funded with increased impact on the budget.

Measures to restore budget revenue in a more sustainable way, by improving or reducing tax concessions, or removing tax loopholes (which tend to disproportionately benefit higher income earners) are not significantly addressed in this budget.

The other major measure revenue measure – restoring indexation for the fuel excise - will increase petrol prices by approximately 1% per year, and is therefore likely to be regressive in its impact on consumers.

The Coalition's pre-election commitment to reduce the company tax rate by 1.5% has been costed in to the budget parameters but is not included as a separate revenue measure.

More options to restore revenue will be considered as part of the federal government's white paper on tax reform – it is appropriate that this occur as part of a dialogue with the community. However, it is also appropriate that major changes to revenue and

expenditure be considered together, whereas this budget seeks to restore a budget surplus with a primary focus on expenditure.

**Table 9: Revenue Measures**

| Revenue Measure | Impact | Increase in revenue ($m in 2014-15) | Increase in revenue ($m in 2014-15) | Increase in revenue over next 4 years ($m) |
|---|---|---|---|---|
| Temporary debt levy on high-income earners | Increase in tax of 2% for individuals earning over $180,000 (top 3% of taxpayers); an individual on $250,000 pays $27pw more tax until 2017. Main problem is that the levy expires just as Government needs more revenue to fund NDIS and health care. | 600 | 1,150 | 3,100 |
| Restore indexation of fuel excise to movements in CPI | This was abolished 15 years ago so that the excise is now about a quarter of cost of fuel compared with one third previously. Will increase petrol process by approx. 1c per litre per year, but should not flow on to other prices (e.g. food) due to petrol excise rebates for business | 270 | 730 | 4,040 |
| Abolish Dependent Spouse Tax Offset and Mature Age Worker tax Offset | These poorly-targeted rebates were already being phased out. Those affected are single income couples without children and older workers. | | 420 | 1,070 |

## 2.2 Employment services and opportunities for people at risk of poverty

### Key messages

+ There are few changes to employment services in the budget, with reforms deferred until after the review of Jobs Services Australia and Disability Management services programs
+ The budget includes a modest wage subsidy for older workers but this does not extend to others who are unemployed long term
+ Funding for Youth Connections and related youth employment programs is not continued

The budget makes few changes to employment services for people out of paid work. Announcements about the future of the Job Services Australia and the Disability Management Services program have been deferred until after the budget. There is a modest wage subsidy for mature age workers who are unemployed, but this increased investment does not extend to others who are unemployed long term. The Youth Connections program offering career advice and support to young people who leave school early is to be discontinued.

**Table 10: Employment measures**

| Employment Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Discontinue Youth Connections program | Young early school leavers miss out on career guidance and support services to help them pursue further education | * | * | * |
| 'Restart' Wage subsidies for mature age unemployed 50 and those unemployed for over 6 months | Wage subsidies of up to $10,000 if person is employed for 2 years. (ACOSS argues for wage subsidies targeted to long term unemployed regardless of age) | 17 | 79 | 303 |

* no funding in forward estimates, and existing program funding to expire

## 2.3 Income support for people at risk of poverty

This budget seriously weakens Australia's income support safety net by denying income support for six months of each year to at least 100,000 young people who are without paid employment; reducing payments for young people and parents on low incomes; and freezing pension levels by removing indexation to wage movements.

### 2.3.1 Working-age payments

#### Key findings

+ The budget effects fundamental reform to working-age payments without any public consultations
+ Young people under 30 will be denied access to income support for six months of every year, losing up to $255 per week

- Young people aged 22-23 will be transferred from the Newstart Allowance to the lower Youth Allowance
- Young people with disability will be reassessed for the DSP, which could result in income reductions of up to $214 per week
- Indexation changes will erode the real value of payments over the long term, with an estimated loss of $80 per week in a decade

Working-age payments are fundamentally reformed in this budget, with the safety net for young people significantly undermined.

Young people under 30 will be denied access to income support for 6 months of every year (a loss of $255 a week, or $207 for those aged under 22). Young people aged 22-23 years will receive the Newstart Allowance instead of Youth Allowance, and penalties for not meeting certain requirements are no longer able to be 'waived' in cases of financial hardship.

The reassessment of DSP recipients under 35 who have been granted the payment in recent years, against new impairment tables, may result in a reduction in income of $166 per week or $214 per week for those under 25. The freezing of payments in real terms (by reducing indexation to CPI) means that people who remain on DSP will be $80 a week worse off within a decade, along with those on the Parenting Payment Single and Carer Payment.

Abolishing the Pensioner Education Supplement, which is mainly paid to sole parents, and removing federal funding of state pensioner concessions (such as energy concessions to assist with the costs of electricity) will also reduce disposable incomes. Eligibility thresholds for non-pension payments will be frozen for three years, reducing incomes and work incentives for those working part time as they seek to transition in to the work force.

## Table 11: Income support measures

| Income Support Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Young unemployed people up to 29 years lose income support for the first 6 months after a claim and 6 months of each subsequent year, unless exempted. | Young people up to 29 years will not receive income support for 6 months after claiming unemployment payments, and for half of each year of unemployment thereafter; unless they have an employment history (1 year's post education employment = 1 month of extra payments each year) or are exempt (partial work capacity, disadvantaged jobseeker in 'Streams 3 or 4', apprentices, main carer of a child, in fulltime education or training, or disability employment services.)<br>Those aged 22-29 will lose $255pw for 6 months of each year of unemployment. Those aged under 22 living independently of their parents lose $207pw and those living with low-income parents lose up to $137pw. | -226<br>(-293 off income support) | -345<br>(-582 off income support) | -1,253<br>(-2,125 off income support, partly offset by Work for the Dole and other programs – see below) |
| Young unemployed people aged up to 29 years must undertake 25 hours pw of Work for the Dole or similar programs (mutual obligation) for the 6 months of each year they receive payments. During the 6 months they do not receive payments they must still search for jobs and participate in employment services as usual. | This is the extra funding for Mutual Obligation programs, it is not clear what the 'menu' of programs will be. | 19 | 152 | 570<br>(costs included in the measure above) |
| Young unemployed people aged 22-23 years to receive Youth Allowance instead of Newstart Allowance | Their payments are reduced by $48pw ($118pw if aged 18 and over and living with their parents, more if their parents earn more than approx. $50,000) | -9 | -144 | --508 |
| 8 week non-payment penalty to apply to more unemployed people | Those who refuse a job without 'good reason' to lose payment for 8 weeks and no longer be permitted to waive penalty though participation in activities such as Work for the Dole, or in cases of financial hardship.<br>8 week penalty for three 'failures' to attend interviews or programs, with only one opportunity to waive penalty through participation in activities such as | -3 | -6 | -21 |

| Income Support Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| | Work for the Dole, or in cases of financial hardship and no hardship exemptions. | | | |
| People with disability up to 35 years old and granted DSP from 2008-2011 to be reassessed under stricter rules | Reassessments of DSP recipients under 35 granted DSP from 1/1/08 to 31/12/11, undertaken by Govt. appointed doctors using the new impairment tables introduced by previous Govt. Approx. 35,000 people with disabilities lose up to $166pw if they are transferred to Newstart Allowance or $214pw if they go to Youth Allowance (up to age 24). Those unable to work 8 hours pw are exempted. | 15 | 12 | 46 |
| New activity requirements for DSP recipients under 35 | They will be required to undertake work preparation activities as part of a participation plan, which may include job search, training and work for the dole – those unable to work 8 hours pw exempted. | 12.8 | 9.9 | 28.9 |
| Extension of Income Management | Extended to Ceduna (SA), retained in the NT other trial sites, and Cape York. Many people (mostly Aboriginal and Torres Strait Islander people) will continue to have half their income support compulsorily managed by Centrelink, at more than half the cost of the payments themselves. | 101 | | |
| Measures also affecting retirement incomes[7]: | | | | |
| Freezing of Parenting Payment Single, DSP, and Carer Payment maximum payments in real terms from 1/7/14 for single parents and from 1/9/17 for other payments | If this continues for 10 years, payments for single parents would fall by approx. $75pw and for other pensioners by $80pw, compared with the status quo (indexation to wage movements as well as CPI) | - | -16 | -449 |
| Pensioner Education Supplement abolished | Pension recipients, mainly sole parents, in fulltime education lose approx. $40pw | -42 | -83 | -280 |
| Income test-free areas for Allowance payments to be frozen from 2014-2017, and those for pensions from 2017-2020 | Lower incomes and work incentives for those working part time | -160 | -295 | -1,480 |
| Remove federal funding of state pensioner concessions | States may reduce or remove concessions for public transport, etc. | -304 | -314 | -1,283 |

[7] Note that these items are also included in the 'Retirement Incomes' section.

## 2.3.2 Family payments

### Key findings

- The budget tightens access to family payments but major changes will impact on low-income families with children, particularly sole parents
- The freezing of maximum rates will erode the value of payments over the next few years
- Major changes to eligibility for Family Tax Benefit (FTB) Part B will mean that families with children over 6 years of age will lose income
- A new allowance for sole parents will not compensate families for the losses, with sole parents with youngest child between 6-12 years to lose $37 per week and those with youngest child over 12 years to lose $58 per week

While some changes to family payments in the 2014-15 Budget will tighten eligibility at the upper end of the income scale, two major changes will impact on low-income families, particularly sole parent households. The freezing of maximum rates until 2017 will erode the value of the payments over the next few years and the changes to eligibility for FTB Part B will leave single income families, including sole parents, worse off, especially those with older children.

Changes affecting those on higher incomes include the tightening of income eligibility for Part A and B payments. The tightening of income eligibility for FTB Part A is not as significant as media reports prior to the budget suggested. Rather than reducing the income limits, the budget removes the extra child add-on from the free area for those on high incomes, meaning that that families on more than $94,316 with more than one child will receive lower payments. For example, a family on $100,000 with two children would lose $33 per week under the changes. Income eligibility for FTB Part B has also been tightened, with the income test reduced from $150,000 to $100,000. Single income and couple households earning more than $100,000 stand to lose $58 per week as a result of this change.

A number of other changes will affect low-income families, including the restriction of eligibility for FTB Part B to families whose youngest child is 6 years of age or younger (previously 15 years). Single income families with older children stand to lose $58 per week as a result of this change. Sole parent families with a youngest child between 6-12 years will be partly compensated through the introduction of a new Family Tax Benefit allowance for sole parents ($14 a week), but will still be $37 per week worse

off. Sole parent families with older children (over 12 years) will be $58 per week worse off.

Annual supplements have also been reduced, and families with three children, previously eligible for a Large Family Supplement, will no longer be eligible, with the supplement limited to families with at least four children.

**Table 12: Measures affecting family payments**

| Measure affecting family payments | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Remove the extra child add-on from the free area for the FTB Part A income test for high-income families | Families on $94,316 plus will receive lower family payments (for example, a family on $100,000 with two children would lose $1705 pa or $33pw) | 1.0 | -76.4 | -211 |
| Tighten Family Tax Benefit Part B income test (reduced from $150,000 to $100,000) from 1 July 2015 | Single income couples and sole parents earning >$100,000 receive no FTB B payment (losing $58pw) | 4 | -379 | -1,229 |
| Limit Family Tax Benefit Part B to families whose youngest child is <6 from July 2015 and introduction of new Family Tax Benefit allowance for sole parents | Single income couples with older children lose the payment ($58pw), sole parents with older children up to 12 receive a smaller supplement of $14pw per child (*Family Tax Benefit allowance)*. A sole parent with one child aged 6-12 years stands to lose $37pw. Those with children 12 and over lose the full amount ($51 pw). | 29 | -55 | -1,888 |
| Freeze Family Tax Benefits from 2014-16 (including max and base rates of Part A and rate of Part B) | Lower family payments, especially for low-income families. | -397 | -720 | -2,600 |
| Reduce FTB Part A supplements (annual payments) | Payments reduced from max of $726 to $600 p.a. per FTB Part A child and $354 down to $300 per family per annum for each FTB Part B family. | - | -0.8 | -1,200 |
| Limit Large Family Supplement to families with four or more children | Families with three children, previously eligible, will miss out with measure to only be paid to 4$^{th}$ and subsequent children. | 1.9 | -123.1 | -378 |

## 2.3.4 Retirement incomes

### Key findings

- Changes to payment indexation will erode their value over time, with an estimated loss of income of $80 per week over the next decade
- Extending the Age Pension without any increase in the Newstart payment would reduce income for those unable to work up to 70 by between $64 and $166 per week (based on today's payment rates)
- A number of budget changes tighten access to support for those on higher incomes or with significant assets: the abolition of the Seniors Supplement, including superannuation income in the eligibility test for the Seniors Health Care Card and lowering the deeming threshold for the Age Pension income test (above which assets are deemed to earn a higher rate of interest income).

The ageing of the population creates a challenge for governments in sustaining an adequate retirement income system and funding appropriate health and aged care for an older population. In facing this challenge the community has a choice – it can reduce services and supports for older people or target them effectively in order to contain costs while raising the revenue necessary to meet the community's reasonable expectations.

The pension is a vital shield against poverty for many older people and is frugal by international standards. However, in recent years access to the pension has been extended to people who arguably do not need it. In 2006 the means test for access to the pension was eased to such an extent that people owning over a million dollars in assets apart from the family home could access the part pension.

Two of the most significant measures affecting the retirement incomes of seniors in this budget are the indexation of pensions to CPI instead of wages, and the extension of the pension access age to 70 years by 2035. Changes to the indexation of pensions will reduce retirement incomes by $80 per week in a decade. Extending the pension age to 70, if implemented today, would reduce income for those who are unable to work up to that age by between $64 per week and $166 per week as they will be forced onto the lower Newstart Allowance. These measures will primarily impact those on the lowest incomes.

The decision to abolish the Seniors Supplement will mean seniors with significant assets besides the family home who do not qualify for the Age Pension (the pension

allows assets of up to $1.1 million besides the family home), will no longer receive the $17 per week supplement. This is a sensible change to better target retirement income support.

Other measures such as including untaxed superannuation income in the Seniors Health Card income test, and lowering the deeming threshold for the Age Pension (above which assets are deemed to earn a higher rate of interest income) better account for the actual income an individual receives, which improves the capacity of the system to target payments.

Tax concessions for superannuation, which cost the same as the Age Pension (around $40 billion per annum) and are growing more rapidly have not been addressed in the budget. Currently tax concessions on superannuation contributions are heavily skewed in favour of higher incomes earners, with a third of the value of such concessions going to the top 10% of income earners, and males in the top 10% of income earners receiving more from tax concessions over their life than they would if they received the full rate of the Age Pension in retirement. It is appropriate these be addressed as part of the Government's white paper on tax reform, however their exclusion from this budget undermines the capacity of the budget to restore a surplus by addressing declining revenue.

The budget also freezes increases in the Superannuation Guarantee until between 2014 and 2018. ACOSS believes that increases in the Superannuation Guarantee should be linked to fundamental reform of tax concessions.

**Table 13: Measures affecting retirement incomes**

| Measure affecting retirement incomes | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Pensions indexed to CPI instead of wage from 2017 | This would mean pensioners living standards would fall behind community living standards as these rise with wages.<br><br>After 10 years pensioners will be $80pw worse off.<br><br>This change affects all pensions including Disability Support Pension (DSP), Carer Payment and Veterans' Affairs pensions. | 0.5 | -16.2 | -450.7 |
| Extend pension age to 70 years by 2035 for people born after 1958 | Those who cannot maintain employment to 70 or who are not self-funded retirees would rely on the lower Newstart | - | - | - |

| Measure affecting retirement incomes | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| | payment.<br><br>If this was implemented now, many people aged 67-69 would need to rely on Newstart, which would involve a payment reduction of between $64pw and $166pw (depending on their length of time on the Newstart payment, which increases for those aged over 60 and unemployed more than 9 months).<br><br>Those currently aged over 56 are not affected.<br><br>Before this is implemented, the Newstart Allowance and preservation age for superannuation should be increased. | | | |
| Abolish Seniors Supplement | Seniors with significant assets that disqualify them from the receiving the part Age Pension (e.g. for couples, assets over $1.1 million besides the family home) would not receive the $17pw (paid annually) Supplement. The abolition does not impact those entitled to the Age Pension who receive the similar Pension Supplement. | -241.4 | -259.7 | -1059.4 |
| Include untaxed superannuation in the Seniors Health Card income test. | Will improve targeting to those on lower incomes. | 2.3 | -3.6 | -21.5 |
| Income and asset test-free areas (i.e., income and asset eligibility limits for receiving the full payment) for pensions and allowances to be frozen from July 2014 to July 2017. | The asset test for the Age Pension is overly generous, so freezing this would better target the payment. However the income test is reasonable and freezing the eligibility limit may make those already on low incomes ineligible.<br><br>Also impacts DSP, Carer Payment and Veterans' Affairs pensions. | -160.9 | -294.7 | -1,479.2 |
| Tighten pension income test from 2017 by lowering the threshold at which assets (besides the family home) are deemed to earn income – to $30,000 for singles and $50,000 for couples. | Improves means testing by deeming income from assets besides the family home from a lower asset value (down from 46,000 for singles). | | | -34.7 |
| Superannuation Guarantee to increase from 9.25% to | Superannuation contributions are taxed at a flat 15% which is a regressive tax that | 0 | 170 | -90 |

| Measure affecting retirement incomes | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| 9.5% in July 2014 as legislated, but is then frozen until July 2018. | disproportionately benefits those on higher incomes (the top 10% receive a third of the value of concessions). ACOSS considers this needs to be amended before the Superannuation Guarantee is further lifted so that low-income earners receive a greater proportion of tax concessions and are encouraged to contribute more to superannuation. | | | |
| Remove federal funding of state pensioner concessions. | States may reduce or remove concessions for public transport, etc. | -304 | -314 | -1,283 |

## 2.4 Availability and affordability of essential services

### 2.4.1 Health

#### Key findings

- The budget creates damaging barriers to the primary health system with the introduction of a $7 co-payment for General Practitioners (GP) visits and other health services, and the abolition of Medicare Locals.
- Hospitals funding is reduced with changes to indexation arrangements
- The National Partnership on adult dental services is deferred for one year
- The costs of Pharmaceutical Benefits Scheme (PBS) prescriptions is set to increase by up to $5.

For over 30 years, Australia has been committed to a health system which provides universal access to essential health services, particularly in relation to acute and primary health care. This budget includes a measure that introduces co-payments in primary healthcare for visits to GPs and for tests such as pathology tests and diagnostic imaging. Payments will be capped at ten visits a year for pensioners and children under 16, and it has been reported that people on chronic health plans will be exempted from the payment. The budget also raises the cost of medicines covered by the PBS.

While co-payments have been part of the Australian healthcare system for some time (indeed, we have one of the highest co-payment rates in the OECD[8]), universal access has generally been maintained for primary and acute care. While $7 may not seem like a great cost to many, it is a significant amount for people on low incomes and will act as a barrier to accessing decent healthcare. Due to the interaction between poverty, disadvantage and health, this will have a disproportional impact on lower income households.

**Table 14: Health measures**

| Health Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Combined Medicare safety net which sees lower thresholds for most people | This system will be simpler however safety nets are inflationary and mainly benefit high-income earners purchasing relatively expensive health services. | 3.4 | - 44.7 | -266.7 |
| Abolition of full bulk billing under Medicare; From July 15 a $7 co-payment to see a doctor and for tests – pathology and diagnostic imaging (for concessions and capped to the first ten visits) | People on low incomes may avoid visiting the doctor, resulting in more illness and higher health costs. Alternatively, low-income families may need to choose between going to the GP or other essential items such as food. People may decide not to get the tests that GPs believe are important to diagnose illness and conditions. | 14 | -1,128 | -3,468 |
| States and Territories will be able to introduce patient contributions for GP equity to emergency departments | This could see emergency department staff needing to make assessments as to whether a condition could have been treated by a GP. It may see low-income people fearful of being charged to go the emergency department of a hospital and avoiding treatment. | Cost neutral for the Cth | Cost neutral for the Cth | Cost neutral for the Cth |
| Changed indexation arrangements for hospitals from 2017-18 and removal of funding guarantees for public hospitals. Also, no new reward funding under the National Partnership Agreement on Improving public hospital services. From 2017-18 funding for public hospitals will be indexed to a | This means States and Territories will be required to find additional funding through their budgets. It could result in a loss in funding for public hospitals. | -217.3 | -260.5 | -1800 |

[8] Australians spend an average of more than $1000 per annum in co-payments. Cited in Duckett (2014 ) *Empty Pockets: Why co-payments are not the solution*

| Health Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| combination of growth in CPI and population | | | | |
| Increase in the costs of PBS prescriptions of $5. For concessional patients, this will be an increase of $0.80 | This will raise the cost of prescriptions for most people to over $40 and for concessional patients to $6.80. This comes on top of a GP co-payment to makes health care more unaffordable. | -145.2 | -306.7 | -1300 |
| Deferring the commencement of the National Partnership for adult dental services from 2014-15 to 2015-16 | Costs of dental care impact significantly on accessibility. This will mean that many low-income adults unable to pay for private dental services continue to live with untreated dental issues | -200 | -95 | -390 |
| Ceasing of Medicare Locals Program. This will be replaced by Primary Health Networks | Medicare Locals were introduced to promote more holistic healthcare responses for local communities. There were many initiatives that saw Medicare Locals facilitating links with local health services and community services. This may not continue in new arrangements. | Cost neutral for the Cth | Cost neutral for the Cth | Cost neutral for the Cth |
| Increase of the PBS Safety Net from 1 Jan 2015 – generally, $145.30 and $61.80 more in order to reach the safety net and not pay for medicines | Safety nets to provide some protection for people accessing a high level of healthcare. This will see more out-of-pocket costs for people who use a high volume of medicines. | -145.2 | -306.7 | -1300 |
| Pausing indexation of some Medicare Benefits Schedule fees and the Medicare Levy Surcharge and Private Health Insurance Rebate thresholds | Freezing of Rebate thresholds will impact on anyone who has private health insurance, but generally people on higher incomes will be affected. | -142 | -394 | -1700 |
| Commonwealth Seniors Health Card — annual indexation of income thresholds | The Government will provide $95.8 million over five years from 2013-14 to index current income limits for the Commonwealth Seniors Health Card by the Consumer price Index from September 2014. This will allow more retirees access to medicines listed on the pharmaceuticals Benefits Scheme at a concessional rate. This measure delivers on the Government's election commitment. | 8.8 | 18.2 | 95.7 |

## 2.4.2 Education and early childhood services

### Key measures

- Funding for the continuation of the National Partnership Agreement on universal access to pre-schools is contained in the Contingency Reserve, but this is subject to review and agreement by the states
- Changes to the Jobs, Education and Training Child Care Assistance (JETCCFA) scheme. These are likely to affect low-income households, especially sole parent households, with an increase in parent co-contributions to the cost of child care.
- A reduction to needs based schools funding through indexation changes which could result in a reduction in funding of $30 billion over the decade.

The 2014-15 Budget includes funding in the Contingency Reserve for an extension to the National Partnership Agreement on Universal Access to Preschool, which is due to expire in December 2014, but this is pending review and agreement with the states. The budget provides no certainty about ongoing funding beyond the next financial year.

The budget introduces changes to JETCCFA which are likely to particularly affect low-income households, especially sole parent households, where a parent is engaged in work, training or study. Under the current system parents are required to pay only $1 per hour, with the Government covering the gap between Childcare Benefit (CCB) - and any Childcare Tax Rebate (CCR) - and fees. Under the changes introduced in this budget, parents will be required to pay most of the gap between CCB (and any CCR) and fees, with the Government Jobs, Education and Training (JET) contribution capped at $8 per hour. The budget also introduces a weekly cap (36 hours per week, down from 50 hours a week for those engaged in approved activities).

The income eligibility threshold for the Child Care Benefit and Rebate will be frozen for three years from July 1 2014. The current threshold for the maximum rate of CCB is $41,902 which tapers out to zero for those households with two children on $150,914 per annum. This measure will affect some low to moderate income families currently eligible for the maximum rate.

The budget also effects significant changes to family day care services, removing $65.2 million from the sector over the next 4 years. Concerns have been raised that this could result in higher fees for families if providers pass on the burden of cuts to parents.

Additional funding of $12.6 million/4 years is provided for Occasional Care, reflecting an election commitment. This restores funding cut by the previous Labor Government.

Provision for the Government's Paid Parental Leave scheme was included in the Contingency Reserve, but specific funds have not been allocated in the 2014-15 financial year unlike other election commitments. The Paid Parental Leave levy and company tax reduction were included in the budget parameters but are not separate line items in the 2014-15 Budget. This has raised questions about the timeframe for implementation of the scheme. The Budget Papers state that the Government has adjusted the projected cost of the PPL scheme in the Contingency Reserve, reflecting the reduction of the payment threshold from $150,000 to $100,000 per annum.

There are a savings measures in the education sector, including primary and higher education. Of major concern is the retreat from the Government's commitment to the needs based funding model, with a change to indexation of funding to CPI only in 2017, which is estimated to result in a reduction of $30 billion over the decade. Despite the overall reduction in funding, additional funding of $245 million/ 4 years has been allocated to the National School Chaplaincy Program. In the higher education sector, caps on fees that universities are able to charge would be removed which will inevitably reduce access to higher education to those living on low incomes.

**Table 15: Measures affecting education and early childhood services**

| Measure affecting education and early childhood services | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Introduction of cap on Jobs, Education and Training Child Care Assistance (JETCCFA) hourly rate and number of hours claimable | Introduction of $8 per hour cap on funding per child and weekly cap of 36 hours per child for parents undertaking study. Savings of $22.8/ 2 years offset by increased investment to Department of Human Services (DHS) to implement changes, including increased compliance costs, and increased funding to meet anticipated demand. | 7.4 | -22.4 | 3.6 |
| Tighter eligibility for Childcare Community Support Program (family day care) | Additional funding to meet existing commitments more than offset by savings from tighter eligibility. Eligibility to be restricted to family day care services which are the only providers in an area, weighted towards regional, remote and disadvantaged communities. | 91.9 | -51.6 | -65.2 |

| Measure affecting education and early childhood services | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Cuts to range of child care system staff development programs | Cuts to range of professional development programs in the child care sector will adversely impact providers and staff and potential long-term impacts on workforce and quality. | -5.7 | -4.9 | -39.3 |
| Reducing indexation for schools from 2018 | Schools funding to be indexed to CPI from 2018, effectively freezing funding at 2017 levels. This is estimated to leave a gap of $30 billion over the decade. | - | - | 54.1 |
| Reinstatement of Neighbourhood Model Occasional Care | Funding to support non-CCB approved child care service providers, including those providing emergency or late-notice childcare. Reflects election commitment. | 3.1 | 3.1 | 12.6 |

## 2.4.3 Aboriginal and Torres Strait Islander Programs

### Key measures

+ Widespread reduction in Aboriginal and Torres Strait Islander programs and services with 150 programs consolidated into four resulting in $493.7 million in savings
+ Discontinuation of funding to key peak and representative bodies including the National Congress and essential services, with significant funding cuts to the NATSILs and the Aboriginal FVPLS
+ Aboriginal and Torres Strait Islander people and services will also be adversely impact by changes to income support and health co-payments with higher rates of poverty and disadvantage

The 2014-15 Budget sees a widespread reduction in Aboriginal and Torres Strait Islander services, with 150 programmes consolidated into just five under the Government's new 'Indigenous Advancement Strategy'. This will result in $493.7m in savings over four years, including a $169.2m reduction in expenditure on Aboriginal and Torres Strait Islander Health Services. While ACOSS supports the reduction of red tape in order to ensure funds are most effectively invested in communities, we are deeply concerned by the lack of detail around these measures and the potential 'one-size fits all' approach.

The 2014-15 Budget also includes the discontinuation of $15m previously set aside to provide funding for the National Congress of Australia's First Peoples. Significant funding reductions have been made to other Aboriginal and Torres Strait Islander

organisations, including NATSILs and the Aboriginal FVPLS. These organisations play a vital role in representing the views and interests of Aboriginal and Torres Strait Islander peoples.

There is also a $9.5 million reduction in funding over four years for the Indigenous Languages Support Programme, and no additional funding allocated to the National Partnership Agreement on Indigenous Early Childhood Development, which is due to expire on 30th June 2014. The budget does allocate $25.9 million to fund teenage sexual and reproductive health and young parent programmes for Aboriginal and Torres Strait Islander people – programmes currently funded under the Partnership Agreement – but the future of the 38 child and family centres funded by the Agreement is uncertain. All of these measures will negatively impact some of Australia's most disadvantaged people, Aboriginal and Torres Strait Islander communities.

Aboriginal and Torres Strait Islander people and services are also likely to be disproportionately affected by the some of the broader budget measures already discussed, including the $7 medical co-payments, reduced funding to preventative health services, the increased pension age and changes to income assistance for job seekers aged under 30. Concerns have been raised about the viability of Aboriginal and Torres Strait Islander Health Services if they are adversely impacted by the introduction of the co-payment where patients cannot afford to contribute to the cost of care.

Key areas of expenditure on Aboriginal and Torres Strait Islander programs in the 2014-15 Budget include $54.1 million to increase police presence in remote communities, $13.4 million to expand the Clontarf Academy program, $18.1 million to extend the Remote School Attendance Strategy and $25.9 million to continue funding for a teenage and reproductive health and young parent support program. The 2014-15 Budget also includes $110.1 million to continue and expand Income Management programmes. There is limited evidence compulsory Income Management is effective in achieving its aims. This money could be better invested in financial counselling and other services that provide cost effective, non-discriminatory and community-based alternatives to support people experiencing financial difficulties.

## Table 16: Measures affecting Aboriginal and Torres Strait Islander people

| Measure affecting Aboriginal and Torres Strait Islander people | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Aboriginal and Torres Strait Islander Services – rationalisation | 150 programs to be consolidated into five at a total saving of $493.7m. More than $160m of these savings will come from a reduction of expenditure on health programmes. This measure will impact negatively on the variety of services available to Aboriginal and Torres Strait Islander communities | -163.0 | -145.6 | -493.7 |
| National Congress of Australia's First Peoples - cessation | Defunding of the National Congress of Australia's First Peoples. This organisation is the peak, representative voice of Aboriginal and Torres Strait Islander peoples in Australia. This measure will negatively impact upon Aboriginal and Torres Strait Islander people's ability to engage in decision-making processes. | -5.0 | -5. | -15.0 |
| Indigenous Languages Support Programme - reduced funding | Cuts to Indigenous Languages Support Programmes will impact negatively on an already under-funded service. | -2.3 | -2.3 | -9.5 |
| Income Management - one year extension and expansion to Ceduna, South Australia | This will extend Income Management for another year in the NT and other trial cites and expand the scheme to Ceduna in South Australia | 110.1 | - | 110.1 |
| Clontarf Foundation Academy - expansion | An additional $13.4 million will be spent in expanding the Clontarf Foundation Academy. This will enable the funding of an additional 3,000 places for Aboriginal and Torres Strait Islander boys to participate in this program which seeks to improve the health, education, training and employment outcomes. | 1.1 | 2.8 | 13.4 |
| Remote Schools Attendance Strategy - extension | The Government will provide $18.1 million over two years to extend the Remote School Attendance Strategy to a further 30 remote communities. This program has had mixed results. | | | (funds for this program come from a reallocation of other program funds within PM&C) |

| Measure affecting Aboriginal and Torres Strait Islander people | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Permanent Police Presence in Remote Indigenous Communities | $54.1 million will be spent over the next four years to construct police infrastructure in up to seven remote Aboriginal communities in QLD, WA and SA. An additional six police complexes will be constructed in the NT using existing funding allocated under the Stronger Futures Agreement. | 6.9 | 13.2 | 54.1 |
| Indigenous teenage sexual and reproductive health and young parents support – continuation. - | $25.9 million of funding in 2014-15 to continue to support programmes focused on teenage sexual and reproductive health. | 25.9 | | 25.9 |

## 2.4.4 Community services

### Key findings

- Community grants funding is to undergo a major restructure with programs severely reduced, the full implications of which are not yet clear
- Indexation of grants funding is to be paused for 112 grants programs, reducing real funding over time to community services
- The budget includes a welcome re-commitment to the NDIS, with funding maintained in the forward estimates

There will be some major restructuring of grants provided through the Department of Social Services, with all grants moving into seven streams. This process will generate significant savings which may result in reduced service levels for community organisations.

Of particular concern is the pausing of indexation for 112 grants which will result in the loss of funding for organisations providing services to vulnerable and disadvantaged people.

## Table 17: Community Services Measures

| Community Service Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Re-establishment of Community Business Partnership | The Partnership would advise the Government on philanthropy in Australia, which was one component of the previous Community Business Partnership that also considered broader corporate and community investment programs. Previous research has looked at volunteering and donations trends. | 1.5 | 1.5 | 6 |
| NDIS | Government has indicated it is committed to a full, nationwide rollout and implementation of the NDIS, with disability advocates interpreting this as a rollout according to the timetable originally agreed. | 408 | 614 | 8400 |
| Communities for Children funding for five years, in addition to Family and Relationship Services and Family Law Services | New five-year funding agreements for Families and Children's services including Family and Relationship Services, Communities for Children Facilitating Partners and Family Law Services.<br>18 existing grant programmes consolidated into seven streamlined grant programmes - funding has been committed across these programmes for new and existing services. | | | *$1.5b over 5 years.*<br><br>*Annual costings year by year have not been identified.* |
| Refunding of Headspace | Funding to establish ten new headspace sites and conduct a two year evaluation of the Headspace program, which provides community-based services for young people age 12-15 who have or are at risk of mental illness. | 4.5 | 1.4 | 15 |
| Reform of discretionary Grants Programs administered by DSS:<br><br>Consolidation of Grant programs into seven grant programs | Consolidated grant programs include: Families and Communities, Disability, Mental Health and Carers, Housing and Homelessness Support, Residential and Flexible Car Program, Workforce and Quality, Ageing and Service improvement | -51.9 | -$57.1 | -$240 |
| Indexation of 112 administered programs will be paused for three years, commencing July 2014 or July 2015, depending on individual program circumstances | It is currently unclear which programs will be impacted by this initiative (noted as a cross portfolio initiative). Will erode the value of grants programs delivered to the community, as the growing cost of programs due to increase in prices is not reflected in grant funding. | -15 | -34.1 | -165 |
| Discontinuation of the | Carers, and the people they care for will | | - | -7.7 |

| Community Service Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| National Respite for Carers Program grants round | be impacted. The Program provides support for relatives and friends caring at home for people who are unable to care for themselves because of disability or frailty. | | | |
| Discontinuing the Community Innovation through Collaboration Program | Program funded place based innovative community programs. Contracts for projects in 2014-15 will be honoured | -7.2 | - | - |
| Legal Aid - withdrawal of additional funding | Reduction in funding to legal aid commissioners by $15 million in 2014-15 | -15 | - | -15 |
| Australian human rights commission - reduction in appointments | Likely to result in the abolition of the role of dedicated Disability Discrimination Commission, with the role to be performed by another commissioner. | -0.4 | -0.4 | -1.7 |

## 2.5 Access to affordable housing

### Key findings

+ Reduced funding to the National Rental Affordability Scheme with the loss of round 5 incentives and 12,000 dwellings and no commitment to the future of the program
+ Funding for homelessness services continued for 12 months, but no certainty of future funding certainty
+ Defunding of the Housing Help for Seniors and the First Home Saver Accounts Scheme

The 2014-15 Budget has reduced overall investment in affordable housing and homelessness programs and has failed to provide long term funding security for key programs beyond the next financial year.

Incentives under round 5 of the National Rental Affordability Scheme will not proceed, which will result in a loss of at least 12,000 affordable housing dwellings which were to be constructed under the scheme. This will have an adverse impact on low to moderate income tenants and on community housing sector providers who had planned around future incentives to increase affordable community housing stock.

The Government has announced a review of its role in housing and homelessness funding and programs nationally, although it appears that the review of National Rental Affordability Scheme (NRAS) will be limited to ensuring remaining incentives 'meet the Scheme's objectives' rather than considering the future role of the scheme as part of a broader housing affordability strategy.

While the budget does contain a welcome extension of funding to homelessness services of $115 million in 2014-15, reflecting the pre-budget announcement, it does not contain any funding in the forward estimates leaving uncertainty about the future of the National Partnership Agreement on Homelessness (NPAH). The funding extension also excluded funding for the non-service delivery components of the NPAH, including the research component.

Funding is also withdrawn from two other housing programs: the Housing Help for Seniors pilot and the First Home Saver Accounts scheme. Further, there is no ongoing funding commitment to the strategic Indigenous Housing and Infrastructure Program (SIHIP) or a replacement program. The five-year scheme funded renovations and rebuild housing in remote Aboriginal communities, and was due to end in 2013.

## Table 18: Housing Measures

| Housing Measure | Impact | Annual cost ($m in 2014-15) | Annual cost ($m in 2015-16) | Cost over four years ($m) |
|---|---|---|---|---|
| Reduced funding for the National Homelessness Research Strategy for activities in 2014-15 | This was announced pre-budget, and ceases the research component of the National Partnership Agreement (NPA) on Homelessness, which was excluded from the 12 month funding extension. | -3.1 | - | - |
| 12 month extension to the National Partnership Agreement on Homelessness but no future funding committed | Positive to see funds for 2014-15 as announced pre-budget but no future funding provided. | 115.0 | - | - |
| NRAS – discontinuation of incentive allocations and no proceeding of Round 5 | Affects low-income families struggling to find affordable rents | - | -36 | -235.2 |
| Abolish 'Housing Help for Seniors Pilot', due to commence July 2014 | Defunding of pilot due to commence 1 July 2014 which would enable older people to downsize without affecting their pension eligibility, by being able to keep 80 per cent of the excess sale proceeds (to a cap of $200,000) from the sale of their former home into a special account be exempt from the pension income and assets tests for up to 10 years, or until a withdrawal is made from the account, whichever occurs first. | -12.8 | -33.9 | -173.1 |
| Cessation of First Home Saver Accounts scheme | This will impact adversely on first home buyers saving for a deposit. The scheme offered $18 million last year in tax concessions and Government contributions and high interest rates for account holders that were only accessible after four years on the purchase of a first home. Any accounts opened after the budget will no longer be able to gain concessions. | -18 | -36.1 | -134.3 |