

Overview of 2008-09 Commonwealth Budget

This paper is an overview the 2008-09 Commonwealth Budget. It provides commentary on general budget priorities and specific initiatives that will affect the sector in 2008-09.

The Commonwealth Budget focussed on fulfilling the Government's election commitments, including significant income tax cuts as well as maintaining a budget surplus exceeding one per cent of GDP.

The major centre-piece of the budget is an expansion of support to households with children, including an increase in the childcare rebate from 30 per cent to 50 per cent; the introduction of a 50 per cent education tax refund; lifting the Medicare Surcharge Threshold to \$100,000; and a \$2.2 billion housing affordability package.

In addition, budget surpluses for 2008-09 and 2009-10 will be directed to three funds:

- The Building Australia Fund of \$20 billion for road, rail, broadband and port infrastructure
- The Education Investment Fund of \$11 billion for capital expenditure on Australia's higher education institutions
- The Health and Hospitals Fund of \$10 billion for capital expenditure on hospitals and health facilities and for major medical research

A COAG Reform Fund will be established through which funding from the above three infrastructure funds will be distributed to the states to help finance capital projects.

The states will receive \$78.6 billion in 2008-09 in total, and new National Partnership payments will in future budgets allow distribution of funding for recurrent expenditure in areas of COAG Reform.

Local Government Initiatives

Given the budget has focussed on major election commitments, it contained few surprises for local government. Initiatives of interest include the increased support for childcare, regional infrastructure, and congestion projects.

In addition, the Budget indicated the Government would review the operation of Commonwealth, state and local government taxes. This provides the ALGA and the MAV with opportunity to participate in discussions about the adequacy of the current distribution of taxation powers and grant funding between levels of government. A discussion paper for the review will be released in July 2008. The MAV will seek to be actively involved in this review.

in the following pages is a summary of specific initiatives of interest to local government.

Road Funding

The Government fulfilled its election commitments on the Roads to Recovery program for 2008-09, allocating \$74 million to local government.

For road funding in the 2009-10 year and beyond, the Minister for Infrastructure, Transport, Regional Development and Local Government, Anthony Albanese, stated: "*The Government will continue to implement its land transport infrastructure election commitments from 2009-10 to 2013-14 with timing and specific funding arrangements to be negotiated with states and territories during 2008.*"

This is a strong indication that the existing quantum of funding in Roads to Recovery will be retained, but also represent an opportunity for advocating expansion of the project's eligibility to include bike paths, footpaths and other associated road infrastructure. The MAV will liaise closely with the ALGA to determine the best approach to support this process for the benefit of local government.

Tackling Urban Congestion

The Government will allocate \$75 million in 2007-08 for the development of feasibility and planning studies for major infrastructure projects, with states committing a further \$57 million. In Victoria, \$12 million from the Federal Budget has been allocated to assess projects identified in the East-West transport corridor study, while a further \$9 million will assist the State with costs of planning, traffic modelling, scoping and pre-construction works for the Western Ring Road.

Better Regions

In line with the Government's election commitment, \$176 million over four years has been allocated for local regional infrastructure and other community projects. This initiative redirects funding previously allocated to Area Consultative Committees to Regional Development Australia.

Regional and Local Community Infrastructure Program

Budget papers indicate the Commonwealth intends to create a new Regional and Local Community Infrastructure Program from 2009-10 to invest in the future of regional communities. The budget has not indicated the quantum of funding for this program, its scope or duration.

The MAV will advocate, in partnership with the ALGA, to ensure the purpose and eligibility for this program fulfils the needs of local government and its communities. Further advice will be provided to councils on the infrastructure program as it becomes available.

National Urban Water and Desalination Plan

\$1 billion over six years has been allocated for desalination, water recycling and stormwater harvesting projects in cities with populations exceeding 50,000. Councils will be able to apply competitively for projects under this fund, along with the private sector, water utilities and state and territory governments.

National Water Security Plan for Cities and Towns

The Budget allocated \$254 million over five years to work with governments and water authorities to undertake water saving initiatives, including investment in water infrastructure and funding projects that generate water savings such as providing recycled water for use on sports grounds and community recreation reserves.

National Rainwater and Grey Water Initiative

The Budget allocated \$250 million over six years for installation of grey water systems in homes.

One Stop Green Shop

\$3 million over three years has been allocated to establish a portal for Commonwealth, state, territory and local government household energy, water and resource efficiency programs.

Farming Future

The Budget allocated \$130 million over four years to assist the agricultural sector adapt and respond to climate change. The program will develop practical demonstrations to improve the farming sector's response to climate change; undertake research to manage emissions; and provide adjustment assistance for farmers.

Caring for Our Country

\$2.25 billion over five years has been allocated to the Caring for Our Country program, replacing the National Heritage Trust, National Landcare, Environmental Stewardship and Working on Country programs. Funding is provided from the forward estimates of the abolished programs.

Housing Affordability Fund

As part of its election commitment, the Government has allocated \$512 million over five years to lower the regulatory and infrastructure costs incurred in the construction and sale of a new home. Grants will be provided to local, state and territory governments for proposals to reduce regulatory efforts and/or infrastructure costs. Within the fund, \$30 million has been allocated for national roll out of the Electronic Development Assessment (eDA) project.

Climate Change

The Budget allocated \$2.3 billion over five years for climate change initiatives including: \$500 million over six years for the Renewable Energy Fund; \$500 over eight years for a National Clean Coal Fund; \$150 million over four years on the Energy Innovation Fund; \$500 million for the Green Car Innovation Fund; \$240 million over four years on the Clean Business Australia program; and \$300 million over five years for the Green Loan program. A further \$150 million over five years has been provided to install insulation in rental accommodation.

In addition \$200,000 has been allocated to Serpentine Jarrahdale Shire and the City of Mandurah in Western Australia to undertake pilots on councils' capacity to manage the implications of climate change.

Broadband Guarantee

The budget allocated \$270.7 million under the Australian Broadband Guarantee to ensure broadband access is available across Australia at metropolitan-comparable service levels. The program primarily aims to increase the standard of broadband services to people in rural and regional areas.

Childcare

The budget allocated \$1.6 billion to increase the childcare rebate from 30 to 50 per cent of the out-of-pocket expenses for childcare; increasing the cap on the total amount paid annually to \$7,500 and providing payments quarterly rather than annually.

The budget also allocates \$115 million to construct 38 new childcare facilities. A further 222 centres will be constructed through a national partnership agreement with the states.

Recurrent Measures Affecting Local Government

Victorian councils will receive approximately \$441 million in financial assistance grant (FAGs) payments in 2009-10.

Table 1 provides an overview of the breakdown in FAGs for the 2008-09 and the 2009-10 financial years.

Table 1: FAG Payments 2007-08 and 2008-09, including adjustments for 2007-08 financial year (\$m)

2007-08	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
General Purpose Grants	399	304	244	122	93	29	20	13	1,223
Untied Local Road Funding	157	112	102	83	30	29	17	13	543
Total Financial Assistance Grants	557	415	346	205	123	584	37	25	1,766
2008-09									
General Purpose Grants	425	322	259	131	98	30	21	13	1,299
Untied Local Road Funding	167	119	108	88	32	31	18	14	577
Total Financial Assistance Grants	592	441	367	219	129	61	39	27	1,876

Note that some figures do not total due to rounding

Although FAGs to local government continue to grow with the level of inflation and population, they are decreasing as a proportion of total Commonwealth expenditure. While in 1996-97, FAGs represented 0.97 per cent of total Commonwealth taxation revenue, in 2008-09 they only represented 0.62 per cent, which indicates that local government is not significantly benefiting from the revenues collected by the Commonwealth.

The MAV, along with the ALGA, will be working with councils to build a case for greater funding for councils.

In addition to the FAG payments, a number of specific purpose payment programs may be of interest for local government. These are outlined in Table 2.

Table 2: Specific Purpose Payments (\$m)

	2008-09	2009-10	2010-11	2011-12
HACC	1104.0	1013.8	1189.9	1287.2
AusLink Funding to Local Government	628.6	119.5	0	0
Children's Services	42.8	42.8	43.4	44.1

Fiscal Projections

The Commonwealth Budget projects an underlying cash surplus of \$23.6 billion and a fiscal balance of \$23.1 billion for 2008-09.

Table 3: Commonwealth Government General Public Sector Aggregates

	Actual	Forecast		Projection		
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue (\$b)	278.0	303.8	319.5	336.9	350.9	366.9
<i>Percent of GDP</i>	26.6	26.9	25.9	26.2	26.2	26.1
Expenses (\$b)	259.9	280.6	292.5	310.5	323.1	339.2
<i>Percent of GDP</i>	24.7	24.9	23.8	24.2	24.1	24.1
Net operating balance (\$b)	19.4	23.3	27.0	26.4	27.8	27.7
Net capital investment (\$b)	1.9	2.8	3.9	4.1	4.5	5.1
Fiscal balance (\$b)	17.2	20.4	23.1	22.4	23.3	22.6
<i>Percent of GDP</i>	1.6	1.5	1.8	1.5	1.4	1.3
Underlying cash balance (\$b)	26.7	25.4	23.6	20.9	20.5	20.5
<i>Percent of GDP</i>	1.6	1.3	1.0	1.1	1.2	1.0

(Source: Budget Paper 1, page 3-5)

The economy is expected to slow and inflation pressures are forecast to ease to 3.25 per cent in 2008-09 before returning to its long-term average of about 2.5 per cent. Growth is projected to return to three per cent over the next three years.

Levels of debt within the Commonwealth Government remain extremely low by international standards.

Table 4: Forecast and Projected Economic Parameters (Percentage increase)

	Forecasts		Projections		
	2007-08	2008-09	2009-10	2010-11	2011-12
Real GDP Growth	3.5	2.75	3	3	3
Employment	2.5	1.25	1.25	1.25	1.25
Wages	4.25	4.25	4	4	4
CPI	4.0	3.25	2.5	2.5	2.5

(Source: Budget Paper 1, page 1-5)

Note, however, that the projected level of wage growth still outstrips inflation, which will cause significant pressure on local government service provision as the cost of providing services continues to outstrip indexation in program funding.

Further Information

Website link: www.budget.gov.au

MAV contact person: Owen Harvey-Beavis

Phone Number: (03) 9667 5513

Email: oharvey-beavis@mav.asn.au