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Nation Building and Jobs Plan Bills – Interim Bills Digest

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Nation Building and Jobs Plan Bills – Interim Bills Digest

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House: House of Representatives

Portfolios: Treasury, Finance and Deregulation, and Families, Housing, Community Services and Indigenous Affairs

Commencement: Various[1]

Links: The relevant links to the Bills, Explanatory Memorandums and second reading speeches can be accessed via BillsNet, which is at http://www.aph.gov.au/bills/. When Bills have been passed they can be found at ComLaw, which is at http://www.comlaw.gov.au/.

Purpose

The bills have three purposes all relating to National Building and Jobs Plan[2]:

- to appropriate funds for certain programs
- to establish entitlements for certain payments which will be paid through special appropriations, and
- to provide for the funding of the plan by increasing the borrowing limit governing the issue of Commonwealth Government Securities.

Background[3]

On 3 February 2009, the Prime Minister and Treasurer announced the National Building and Jobs Plan.[4] Details are contained in the *Updated Economic and Fiscal Outlook 2008–09* also released on 3 February 2009.[5]

1. This Interim Bills Digest covers the six bills introduced in support of the National Building and Jobs Plan. A separate Bills Digest will be prepared for each of the six bills. The commencement dates vary across these bills.
2. The Hon. Kevin Rudd (Prime Minister) and the Hon. Wayne Swan MP (Treasurer), '$42 billion nation building and jobs plan', *joint media release*, Canberra, 3 February 2009, at http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/008.htm&pageID=003&min=wms&Year=&DocType=0. Accessed 6 February 2009.
3. Author: Scott Kompo-Harms.
4. The Hon. Kevin Rudd (Prime Minister) and the Hon. Wayne Swan MP (Treasurer), '$42 billion nation building and jobs plan', *joint media release*, Canberra, 3 February 2009, at http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/008.htm&pageID=003&min=wms&Year=&DocType=0.

The Plan is the Government's response to the global financial/economic crisis that began in late 2007. Over 2008 and into 2009, what was a financial crisis is now progressing to a slump in the real economy, both in Australia and overseas.

Olivier Blanchard, chief economist at the IMF sums up the global position as follows:

> One way of summarizing our forecast is that we expect the global economy to come to a virtual standstill in 2009. There are important differences across countries. In the advanced economies, we basically forecast the sharpest contraction in the postwar period. To give you the basic numbers, we expect real activity to contract to about minus 1.5 percent for the U.S., 2 percent for the Eurozone, and 2-1/2 percent for Japan. If you look at the rest of the world, the numbers are better, but indeed the emerging and the developing economies are going to do better than in previous downturns, but relative to their underlying growth rate they are still going to do quite poorly. For example, we now forecast growth in China to be around 6.5 percent, and we forecast growth in India to be around 5 percent. You can aggregate these numbers using weights for national production. When you do this and you use what we call PPP weights, then you get global growth to basically be about half a percent in 2009, and this is the lowest rate since World War II.

In the context of these dire forecasts, many national governments are implementing fiscal stimulus packages, as is the Australian Government. There does not appear to be any 'standard' or 'normal' type of package emerging internationally. Most countries are opting for a diversified approach, utilising infrastructure spending, tax cuts and transfer payments to varying degrees.

An article in the *Economist* magazine summarises the dilemma confronting policy makers when making such a policy choice:

> Most economists agree that the red ink is both unavoidable and appropriate. To prevent a steep recession becoming a depression, governments must step in to forestall financial collapse and counter the slump in private demand. Financial markets seem to agree. Yields on government bonds in most rich countries are extremely low as shell-shocked investors clamour for the safety of public debt.
>
> Yet a few signs of skittishness are emerging. Prices of credit-default swaps on sovereign debt have risen sharply, suggesting that investors see growing risks of default. Within the rich world, risk premiums have risen dramatically for already-indebted governments such as those of Greece and Italy. Yields on America's 30-year bonds saw their biggest jump in two decades in mid-January, as investors fretted about Uncle Sam's demand for cash.

They go on to say:

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5. The Hon. Wayne Swan (Treasurer) and the Hon. Lindsay Tanner (Minister for Finance and Deregulation), *Updated Economic and Fiscal Outlook 2008–2009*, Canberra, 3 February 2009, at http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf.

> When firms and consumers are gripped with uncertainty, government spending is a surer way to boost demand. Consumers and firms might save the money. The empirical evidence, however, is less than conclusive. Economists' estimates for the "multiplier" effect of government spending and tax cuts vary widely, with equally reputable studies showing opposite results. More important, the scale of the global slump means that historical multipliers may not mean very much. That suggests a broad strategy—involving both tax cuts and spending—is prudent.[6]

There are a number of issues that will determine the success or failure of this Plan. There is considerable debate within the economics profession regarding the validity of using discretionary fiscal stimulus. Even if the case for using discretionary fiscal policy is made, there is still considerable disagreement as to the form fiscal stimulus should take. There are three broad options for policy makers. They can engage in tax cuts (either temporary or permanent), increase transfer payments (either temporarily or permanently) or they can spend directly on goods and services. Tax cuts are seen as a drop in revenues, whereas the other methods involve an increase in expenditure.

There are a couple of economic issues at play here.

Multiplier effects

The textbook Keynesian macroeconomic model predicts that the response of national income to an increase in government spending is greater than that of a comparable decrease in taxes. In technical terms, the 'multiplier effect' from government spending is predicted to be greater than the multiplier effect from tax cuts. The Keynesian model also predicts that fiscal policy changes can lead to 'crowding out' of private investment through the impact of fiscal policy on interest rates. On the other hand, 'supply-side' economists emphasise that cuts in taxes can induce other, non-Keynesian effects, namely, increases in investment and labour supply arising from other channels. Therefore, they believe that tax cuts could be just as effective at increasing economic growth (particularly over the medium to long term), possibly more so than government spending.

So what does recent evidence indicate? The academic evidence is not particularly clear or precise on this point, but there are some key conclusions from a number of different studies.

Alesina *et al*. (1999) examine the effects of fiscal policy on profits and investment. They find evidence of non-Keynesian effects of fiscal policy and conclude:

> This paper shows that in OECD countries changes in fiscal policy have important effects on private business investment. Interestingly, the strongest effects arise from changes in primary government spending and, especially government wages. We

6. 'Big Government fights back', *The Economist*, January 31 2009, accessed here: http://www.economist.com/finance/displaystory.cfm?story_id=13035552 on 6 February 2009.

> provide evidence consistent with a labor market channel through which fiscal policy influences labor costs, profits, investment and as a consequence, growth. Increases in public wages and/or employment and transfers increase wage pressure in the private sector, both in unionized and competitive labor markets …
>
> The driving channel of our results is the effect of fiscal policy changes on current and expected profits.[7]

Blanchard and Perotti (2002) attempt to characterise the dynamic effects of changes in government spending and taxes on output. They conclude:

> Our main goal in this paper was to characterise as carefully as possible the response of output to the tax and spending shocks in the post-war period in the United States. From the several specifications we have estimated and the different exercises we have performed, we reach the following conclusions.
>
> - The first is consistent with standard wisdom: when government spending increases, output increases, when taxes increase, output falls.
> - In most cases the multipliers are small, often close to one. In the case of spending shocks, the proximate explanation is in the opposite effects they have on the different components of output: while private consumption increases following spending shocks, private investment is crowded out to a considerable extent. Both imports and exports also fall.
> - While the response of consumption is difficult to reconcile with the neoclassical approach to fiscal policy, the response of investment, which decreases in response to both increases in taxes and increases in spending, is hard to reconcile with the Keynesian approach. We believe that this result deserves further investigation.[8]

Mountford and Uhlig (2008) also examine the effects of fiscal policy changes. Their approach is considered 'agnostic' towards both the Keynesian and Neoclassical models. Previous approaches relied on assumptions about sluggish adjustment of some economic variables, most commonly wages and prices. As Blanchard and Perotti state:

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7. Alesina, A., Ardagna, S., Perotti, R. and Schiantarelli, F., (July 1999), 'Fiscal Policy, Profits and Investment', *National Bureau of Economic Research Working Paper no.7207* (p. 27).

8. Blanchard, O. and Perotti, R., (November 2002), 'An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output'. *Quarterly Journal of Economics*, vol. 117, no. 4. (p. 1364). Olivier Blanchard is currently the chief economist at the International Monetary Fund.

> …the evidence from large-scale econometric models has been largely dismissed on the grounds that, because of their Keynesian structure, these models assume rather than document a positive effect of fiscal expansions on output.[9]

Mountford and Uhlig find that the maximum expansionary effect of a deficit-financed increase in spending is much below that of a deficit-financed tax cut and conclude the following:

> An important lesson one can draw from the results is that while a deficit-financed expenditure stimulus is possible, the eventual costs are likely to be much higher than the immediate benefits. For suppose that government spending is increased by two percent, financed by increasing the deficit: this results … at maximum, in a less than 2 per cent increase in GDP. But the increased deficit needs to be repaid eventually with a hike in taxes. Even ignoring compounded interest rates, this would require a tax hike of over two per cent. This tax hike results in a greater than seven per cent drop in GDP. Thus, unless the policy maker's discount rate is very high the costs of the expansion will be much higher than the initial benefit …
>
> Although the best fiscal policy for stimulating the economy appears to be a deficit-financed tax cut, we wish to point out that this should not be read as endorsing them. This paper only points out that unanticipated deficit financed tax cuts work as a (short lived) stimulus to the economy, not that they are sensible. The resulting higher debt burdens may have long-term consequences which are far worse than the increase in GDP, and surprising the economy may not be good policy in any case.[10]

The main point to take from this is not that tax cuts are better than spending increases, but rather that estimates of multipliers are not precise, yet the studies above clearly provide evidence that fiscal policy does not act precisely in the way that Keynesian or Neoclassical models would predict. Definitions of what constitutes a spending shock versus a tax or revenue shock are not precise or consistent across studies and so direct comparison between estimates is problematic. This issue requires further research.

The second issue that arises is the extent to which the temporary payments component of the package will actually feed into real GDP growth. It depends on the propensities of each of the groups that are being targeted with the payments to consume their present income.

Targeted groups

Individual households all face different financial circumstances and so the impact on both immediate and long-term consumption from a *temporary* increase in income, as is being proposed here, is ambiguous.

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9. ibid., p. 1329.

10. Mountford, A. and Uhlig, H., (December 2008), 'What are the Effects of Fiscal Policy Shocks?', *National Bureau of Economic Research Working Paper no.14551,* pp. 20–21.

The key factors in determining the marginal propensities to consume out of *current income* are:

- whether a household is a net borrower or saver and their current levels of 'financial wealth'[11]
- access to credit markets
- percentage of income spent on essential items, like food, shelter, energy and transport, and
- the amount of debt/savings relative to present income.

If households are neither savers nor borrowers (nor have any significant holdings of assets) and are unable to borrow money at similar rates to the interest they would receive on highly liquid assets, such as savings deposits (i.e. they face 'liquidity constraints'), then it may be optimal for them to consume all of the windfall change to their current income and not 'smooth' their consumption over their lifetime. It is not very likely that a significant percentage of the groups that are targeted in this package would be liquidity-constrained, so to the extent that the targeted groups are less liquidity-constrained, these measures are less likely to induce additional consumption than the previous round of payments made under the Economic Security Strategy.

The percentage increase in current income for households will vary by their existing income levels. The payments are structured in a progressive manner (they decrease with income). Low-income households will see a larger percentage change to their income than high-income households. Given that low-income earners are more likely to spend the extra income on essentials, rather than on spend it on luxuries or save it, it is probable that low-income households will spend the bulk of their additional payments as a result of the package.

Households with large debts, all else being equal, are more likely to save, rather than consume their windfall gain. One would suspect that a significant number of eligible recipients of the family payments would be likely to be paying a mortgage and so it is likely that this group would, as a whole, have a low marginal propensity to consume.

As for the infrastructure component of the package, this can be viewed as direct government spending in the economy. As mentioned above, it is by no means certain that direct government spending will provide the most effective stimulus to the economy. In addition to these concerns, there is uncertainty surrounding the extent to which public spending will displace private spending.

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11. Financial wealth refers to things like bank deposits and other highly liquid assets/investments.

Another key factor in determining the total effect of the package is the degree to which increases in consumption and government spending are directed to Australian-made goods and services, rather than imports. Whilst there will still be some stimulus to the domestic economy (for example, from retailers who sell imports), all else being equal, the greater the proportion spent on imports, the lower the stimulus to the domestic economy.

Bills

On 4 February 2009, the government introduced six bills to implement the Nation Building and Jobs package. The following summarises the purpose of each. The bills are:

- Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009
- Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009
- Household Stimulus Package Bill 2009
- Tax Bonus for Working Australians Bill 2009
- Tax Bonus for Working Australians (Consequential Amendments) Bill 2009, and
- Commonwealth Inscribed Stock Amendment Bill 2009.

The following summarises these bills.

Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009

This bill appropriates a total of $89 million comprising:

- $39 million to the Department of the Environment, Water, Heritage and the Arts under the Energy Efficient Homes Program, and
- $50 million to the Australian Taxation Office under the Tax Bonus for Working Australians component
  - of this, $38.5 million is for departmental expenses, that is, for the operational costs of the Australian Taxation Office to 'ensure that the one-off payment for working Australians is delivered expeditiously' (see the section on the tax bonus for working Australians).[12] The balance of the $50 million is for unspecified administered expenses.

Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009

This bill appropriates a total of about $1727 million comprising:

- $987.2 million in 2008-09 for the Department of Education, Employment and Workplace Relations under the Building the Education Revolution program

12. Second reading speech, Appropriation (National Building and Jobs) Bill (No. 1) 2008-09.

- $260 million for the Department of Families, Housing, Community Services and Indigenous Affairs for social housing, and
- $480 million to the Department of infrastructure, Transport, Regional Development and Local Government. The components are:
  - $230 million of which $150 million is for repairs to national highways, $50 million for boom gates for rail crossings, and an additional $30 million for the Black Spot program, and
  - an additional $250 million under the Regional and Local Community Infrastructure Program: Strategic Projects program.

All of the above amounts will be paid to the states, territories and local governments as specific purpose payments.

Household Stimulus Package Bill 2009

Unlike Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 and Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009, the Household Stimulus Package Bill 2009 does not appropriate funds. Rather, it amends various Acts to establish the circumstances under which a person is entitled to receive a 'bonus' of $950. The bonus payments are made under various special appropriations acts.

Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009

These bills authorise the payment of the 'Tax Bonus for Working Australians' program to eligible taxpayers. Eligible taxpayers are those who paid tax in 2007-08—after taking account of tax offsets and credits—and who have a taxable income of $100,000 or less.

Commonwealth Inscribed Stock Amendment Bill 2009

To help finance the Plan, the government will have to borrow by issuing Commonwealth Government Securities. The *Commonwealth Inscribed Stock Act 1911* provides a standing borrowing authority to the Treasurer of $75 billion. The Commonwealth Inscribed Stock Amendment Bill 2009 provides for an increase in the cap on the face value of Commonwealth Government Securities on issue by $125 billion in special circumstances.

Programs

The following examines each of the programs in the Plan in more detail.

Energy Efficient Homes Program[13]

There are three components under the Energy Efficient Homes Package.[14]

- Free ceiling insulation up to a value of $1600 to all Australian owner-occupiers of currently uninsulated homes. This component will operate from 1 July 2009 to 31 December 2011. Between 3 February and 30 June 2009, eligible owner-occupiers can have insulation installed and seek reimbursement after the program commences. The Government estimates that 2.2 million owner-occupied homes will be insulated under the program, at a total cost of $2.7 billion.
- A rebate for landlords of $1000 on the cost of installing ceiling insulation in their rental properties. This rebate will be available from 3 February 2009 to 30 June 2011, and is an increase on a $500 rebate that was previously available for landlords under the Low Emissions Plan for Renters. The Government estimates that 500 000 rented homes will be insulated under the new arrangement. Additional funding provided will amount to $612.5 million.
- A $1600 rebate on the cost of installing a solar hot water system where the existing system is electric. This component will operate from 3 February 2009 to 30 June 2012. The rebate is an increase from the $1000 Solar Hot Water Rebate that was previously available, and removes the previous means-testing requirement that limited eligibility to those with household incomes under $100 000. Additional funding for the rebate amounts to $507 million.

Only one component of the package can be claimed, i.e. either insulation or solar hot water, but not both. All state programs can still be accessed.

The Government estimates that the Energy Efficient Homes Package will:

- make almost all Australian homes reach a minimum two star energy rating by 2011
- cut greenhouse gas emissions by 49.4 million tonnes by 2020, equivalent to taking more than one million cars off the road, and
- reduce household energy bills by $200 per year.

The cash balance impact of the Energy Efficient Homes Package over the period of the Nation Building and Jobs Plan is given in the table below.

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13. Author: Julie Styles

14. Hon. Kevin Rudd (Prime Minister), 'Energy Efficient Homes – Ceiling Insulation in 2.7 Million Homes', *media release*, 3 February 2009, at http://www.pm.gov.au/media/Release/2009/media_release_0783.cfm ; Hon. Wayne Swan (Treasurer), 'The Energy Efficient Homes Program', *Fact Sheet: 2009 Updated economic and fiscal outlook*, Australian Government, at http://www.treasurer.gov.au/DisplayDocs.aspx?doc=factsheets/2009/010.htm&pageID=011&min=wms&Year=&DocType=3. Accessed 6 February 2009.

Year	2008-2009	2009-2010	2010-2011	2011-2012	Total
Impact $ m	-39	-1 540	-1 544	-736	-3 859

Source: *Updated economic and fiscal outlook*.[15]

Current status of insulation and solar hot water in Australian homes

According to the Australian Bureau of Statistics (ABS), out of a total of 8.2 million homes in Australia in 2008, 5.1 million or 61 per cent had some form of insulation installed, 1.6 million were entirely without insulation, and occupants of the remainder (1.6 million) did not know whether their home was insulated.

Of the insulated homes, 98 per cent had roof or ceiling insulation. In households without insulation, the main reason given for not installing insulation (accounting for 34 per cent of respondents) was that the occupier was not the owner or not responsible for the home. A further 17 per cent identified cost as the main barrier to installation.[16]

The ABS reports that 46 per cent of Australian households have electric hot water systems, while 37 per cent are gas and 7 per cent solar (11 per cent were unaware of their hot water energy source).[17]

Energy efficiency and environmental benefits of insulation and solar hot water

Roof and ceiling insulation can save up to 35 per cent on energy consumption for heating of homes, and wall insulation can save an additional 20 per cent.[18] The energy savings depend on the climate zone of the dwelling, and may be lower in areas that experience lower extremes in temperature.

Air conditioning creates high demand at peak periods on hot summer days across cities presented that can create severe problems for electricity generation and transmission and distribution systems. The number of households using air conditioning more than doubled

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15. Hon. Wayne Swan (Treasurer) and the Hon. Lindsay Tanner (Minister for Finance and Deregulation), *Updated Economic and Fiscal Outlook 2008–2009*, Canberra, 3 February 2009, at http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf. Accessed 6 February 2009.

16. Australian Bureau of Statistics, *Environmental Issues: Energy Use and Conservation*, Catalogue No. 4602.0.55.001, March 2008, at

    http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4602.0.55.001Main+Features1Mar%202008?OpenDocument. Accessed 6 February 2009.

17. ibid., Table 3.11.

18. Department of the Environment, Water, Heritage and the Arts, 'Home heating and cooling', Australian Government, at http://www.environment.gov.au/settlements/gwci/heat.html. Accessed on 5 February 2009.

from 1994 to 2008,[19] and is projected to grow at a rate of 16 per cent per annum to 2020.[20] The addition of adequate insulation in uninsulated homes is expected to reduce summer peak electricity demand by mitigating the need for and use of air conditioners.

Water heating represents about 23 per cent of household energy consumption. Solar systems provide between 50 per cent and 90 per cent of hot water through solar energy, with the remainder requiring use of an electric or gas booster. Greenhouse gas emissions from electric hot water systems range from about 3 to 6 tonnes per year depending on the climate zone. For solar hot water systems with gas booster, emissions are much less at 0.1 to 0.5 tonnes per year.[21]

Implementation issues

The Government estimates the cost of installing ceiling insulation in an average-sized house to be around $1200.[22] The Insulation Council of Australia and New Zealand (ICANZ) agrees that the $1600 should be sufficient to cover the costs of installing ceiling insulation in all but the largest of homes.[23]

Concern has been expressed about the capacity of the industry to meet the expected increase in demand for insulation with the package. However, ICANZ President, Dennis D'Arcy, has said that training for installers requires only a six hour course, and business groups expect that the industry will expand accordingly. A newly commissioned Bradford Insulation plant in Brisbane is expected to increase production around the clock, and Fletcher Insulation expect to reinstate jobs that had been shed in December, and may consider building another manufacturing plant.[24]

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19. Australian Bureau of Statistics, op. cit., Table 4.11.

20. Department of the Environment, Water, Heritage and the Arts, *Energy use in the Australian residential sector 1986-2020*, Australian Government, 2008, at http://www.environment.gov.au/settlements/energyefficiency/buildings/publications/energyuse.html. Accessed 6 February 2009.

21. *Your Home: Technical Manual*, Fourth edition, Australian Government, 2008, at http://www.yourhome.gov.au/technical/index.html. Accessed 6 February 2009.

22. Department of the Environment, Water, Heritage and the Arts, 'Energy Efficient Homes Package: Insulating Australian Households', Australian Government, at http://www.environment.gov.au/energyefficiency/insulation.html. Accessed on 5 February 2009.

23. 'Free ceiling insulation for all homes', *Trading Room*, Fairfax Digital, 3 February 2009, at http://www.tradingroom.com.au/apps/view_breaking_news_article.ac?page=/data/news_research/published/2009/2/34/catf_090203_193400_8450.html. Accessed 6 February 2009.

24. J. Stapleton, 'Insulation industry hopes trade goes through the roof', *The Australian*, 5 February 2009, at

The insulation and manufacturing industries are supportive of the plan and believe it could create 4000 new jobs.[25]

The Clean Energy Council has noted that most insulation and solar hot water systems sold in Australia are also manufactured in Australia, which means that the proposed investment would stay in Australia.[26]

It says the plan represents a smart energy solution that would help to protect thousands of Australian manufacturing jobs while saving energy and benefiting the environment.

Green groups welcome the energy efficiency measures, but say it is insufficient to effectively address climate change and reduce greenhouse gas emissions and there should be greater investment in public transport and sustainability in the commercial building sector.[27]

Building the Education Revolution[28]

The Appropriation (Nation Building and Jobs) Bill (No. 2) 2008–2009 appropriates funding of $987.2 million in the 2008–09 financial year as part of the government's $14.7 billion Building the Education Revolution initiative. Subsequent funding of $8.5 billion for school infrastructure is proposed in 2009-10, and a further $5.26 billion is proposed in

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http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/0BPS6/upload_binary/0bps60.pdf;fileType%3Dapplication%2Fpdf; J. Breusch, 'Factories flat out', *Australian Financial Review*, 5 February 2009, at

http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/TCPS6/upload_binary/tcps60.pdf;fileType=application/pdf#search=%22insulation%22. Accessed 6 February 2009.

25. H. Westerman, 'Stimulus plan: insulation plan to create 4000 jobs', *My Small Business*, theage.com.au, 4 February 2009.

26. Clean Energy Council, 'Insulation package: finally some green jobs for Australia', *News article*, 3 February 2009, at http://cleanenergycouncil.org.au/news/showarticle.php?id=176. Accessed 6 February 2009.

27. S. Peatling, 'Government plans insulation blitz', *Sydney Morning Herald*, 4 February 2009, at http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/OVOS6/upload_binary/ovos60.pdf;fileType=application/pdf#search=%22insulation%22; 'Free ceiling insulation for all homes', *Trading Room*, Fairfax Digital, 3 February 2009, at http://www.tradingroom.com.au/apps/view_breaking_news_article.ac?page=/data/news_research/published/2009/2/34/catf_090203_193400_8450.html. Accessed 6 February 2009.

28. Authors: Coral Dow and Anne-marie Boxall.

2010-11.[29] The $987.2 million will be additional to the Commonwealth's expenditure on schools which was estimated in the May Budget to be $9.6 billion in 2008–09.[30]

Building the Education Revolution has three key programs:

1. *Primary Schools for the 21st Century*

- Provides $12.4 billion over 3 years for government and non-government primary schools to build or upgrade major infrastructure, such as multi-purpose halls and libraries
- Facilities must be made available to the community for low or no cost
- Projects must be completed by June 30 2011
- Priorities will be given to schools applying to build new facilities, but schools with a recently completed library or hall are still entitled to apply
- Funding caps apply and will be determined by the school size. Schools with up to 50 students, for example, can apply for up to $250,000. Schools with over 400 students can apply for up to $3 million in funding.[31]

2. *Science and Language Centres for 21st Century Secondary Schools*

- Provides $1 billion over 3 years to build approximately 500 new science laboratories or language learning centres in government and non-government secondary schools
- Funding will only be made available to schools with a demonstrated need and the capacity to complete construction by June 30 2010.[32]

3. *Renewing Australian Schools*

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29. Cited in Building the Education Revolution Facts Sheets, Department of Education, Employment and Workplace Relations,

    http://www.deewr.gov.au/Schooling/BuildingTheEducationRevolution/Pages/default.aspx, accessed on 05 February 2009.

30. *Budget Paper No. 1: Budget Strategy and Outlook 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 6–43, at http://www.budget.gov.au/2008-09/content/bp1/downloads/bp1.pdf. Accessed 6 February 2009.

31. Department of Education, Employment and Workplace Relations, *Building the education revolution: primary schools,*

    http://www.deewr.gov.au/Schooling/BuildingTheEducationRevolution/Documents/BERFactSheet_PrimarySchools.pdf, accessed on 5 February 2009.

32. Department of Education, Employment and Workplace Relations, *Building the education revolution: secondary schools,*

    http://www.deewr.gov.au/Schooling/BuildingTheEducationRevolution/Documents/BERFactsheet_SecondarySchools.pdf, accessed on 5 February 2009.

- Provides a total of $1.3 billion for all Australian schools to undertake maintenance and minor building work
- Funding caps apply and will be determined by the school size. Schools with over 400 students will be able to apply for a maximum of $200,000.[33]

Funding arrangements

The government proposes to make funding for the Building Education Revolution available from February 2009 through state and territory governments for government schools and through Block Grant Authorities (BGAs) for non-government schools. It will be a condition of funding, however, that the state and territory governments and BGAs prioritise projects so they can be completed on time. Schools receiving funding under any of the three new programs will be required to report on projects' progress using an online reporting portal.[34]

Of the $987.2 million, $386 million will be spent on the *Renewing Australian Schools* program and $600 million on the *Primary Schools for the 21st Century* program.[35]

The *Renewing Australian Schools* program proposes funding of $1.3 billion over 3 years. The program is similar to the Investing in Our Schools Programme (ISOP) that operated under the Coalition Government between 2005 and 2008 in that it will fund maintenance and minor building work with a cap of $200,000.[36] However, unlike ISOP, the government expects that all schools will receive funding (with 60 per cent of schools receiving funding in 2009 and 40 per cent in 2009–2010), proposal assessments will be through the states and funding caps are tied to school size.[37]

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33. Department of Education, Employment and Workplace Relations, *Building the education revolution: K-12 schools,*

    http://www.deewr.gov.au/Schooling/BuildingTheEducationRevolution/Documents/BERFactSheet_K12_Schools.pdf, accessed on 5 February 2009.

34. Hon. W. Swan (Treasurer), 'Fact Sheet: 2009 Updated economic and fiscal outlook', http://www.treasurer.gov.au/DisplayDocs.aspx?doc=factsheets/2009/002.htm&pageID=011&min=wms&Year=&DocType=3, accessed on 5 February 2009.

35. Personal communication DEEWR official, 5 February 2009

36. ISOP provided initial funding of $1 billion over 4 years for small scale capital projects costing no more than $175,000. ISOP ceased operating in 2008. For more information see the IOSP website, http://www.investinginourschools.dest.gov.au/, accessed on 5 February 2009.

37. Council of Australian Governments Meeting, Communiqué, 5 February 2009, at http://www.coag.gov.au/. Accessed 6 February 2009.

Social housing[38]

As a part of the $42 billion economic stimulus package, up to $6 billion is to be provided under the Commonwealth Social Housing Initiative to fund the construction of around 20 000 public and community housing dwellings. It is envisaged that the new houses should be largely completed by December 2010.[39] The Commonwealth Social Housing Initiative will also allocate around $400 million to the states and territories over two years for the repair of around 2 500 public housing dwellings that are currently uninhabitable.[40]

Background[41]

Until recently, the main vehicle through which the Australian Government, along with the state and territory governments, has provided funding for public housing was the Commonwealth-State Housing Agreement (CSHA). This joint agreement helped to provide public and community housing to individuals and families in need since the late 1940s. The last CSHA commenced in 2003 and was effective until 30 June 2008.

In recent years it has been Australian Government policy to place a greater emphasis on Commonwealth Rent Assistance (CRA)—a payment to support eligible renters in the private rental market—than on the CSHA. As a result, Australian Government outlays on the CSHA declined in nominal and real terms since 1991–92, while CRA funding was increased. For example, in 1994–95, government expenditure for the CSHA was four per cent higher than for CRA. Between 1994–95 and 2003–04, an increase of nine per cent in CRA expenditure combined with a 31 per cent decrease for CSHA resulted in CRA expenditure surpassing CSHA expenditure.[42] In 2006–07, the Howard Government provided $2.2 billion in CRA funding, as opposed to $970.6 million in CSHA funding.

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38. Author: Matthew Thomas.

39. According to the COAG National Partnership Agreement, 75 per cent of the new dwellings should be completed by December 2010. Council of Australian Governments, National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now, http://www.coag.gov.au/coag_meeting_outcomes/2009-02-05/docs/20090205_nation_building_jobs.pdf, accessed 6 February 2009.

40. Australian Government, Budget 2008-09 Appendix B: Nation Building and Jobs Plan, http://www.budget.gov.au/2008-09/content/uefo/html/appendix_b.htm, accessed 5 February 2009.

41. This section is largely based on the Public housing and rental assistance chapter of the Parliamentary Library Budget Review 2008–09,

    http://www.aph.gov.au/library/pubs/RP/2007-08/08rp31.pdf.

42. The Australian Institute of Health and Welfare (AIHW) does, however, caution that the shift in expenditure should be interpreted with caution due to the differing nature of the programs. For further detail see Australian Institute of Health and Welfare, *Australia's Welfare 2007*, AIHW, Canberra, 2007, p. 222,

In terms of public housing, this shift in funding emphasis has meant that public housing stock has decreased as state and territory public housing authorities have been squeezed for funds. Through the CSHA, in 1996–97 the stock of public housing was around 375 000 dwellings, which was then about five per cent of Australia's total housing stock. In subsequent years, however, there was little or no growth in public housing stock and, as at 30 June 2008, the total number of public rental dwellings managed by state and territory housing authorities had fallen to 337 866.[43]

A reduction in the amount of public housing stock has resulted in a reduced capacity on the part of governments to provide affordable housing to those most in need. Waiting lists for public housing are increasing. As at 30 June 2008, 177 652 households were on waiting lists for public rental housing. Of these households, 14 638 were classified as being in 'greatest need'. This number represented eight per cent of all households on waiting lists.[44]

Increasingly, the public housing that is available is being used for emergency housing needs – to assist those estimated 100 000 Australians who are homeless on any given night and those individuals and households that are at risk of becoming homeless. In effect, public housing is becoming welfare housing.

At the same time, rents in the private market are increasing apace. Rents increased by an average of 12 per cent during 2006–07 and a recent major report has predicted rent rises of 50 per cent in major cities over the next four years.[45] Because there has been an upward shift in the distribution of private rental stock towards higher-rent properties, higher-income households have displaced lower-income households from more affordable housing in the private rental market.[46] While these lower-income households may receive Commonwealth Rent Assistance, this assistance is capped and, once the maximum rate (which is indexed twice each year to reflect changes in the consumer price index) is reached, any rent increases are borne by CRA recipients. It should also be noted that CRA

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http://www.aihw.gov.au/publications/index.cfm/title/10527, accessed on 16 May 2008.

43. Australian Institute of Health and Welfare, *Public rental housing 2007-08: Commonwealth State Housing Agreement national data report*, AIHW, Canberra, January 2009, http://www.aihw.gov.au/publications/hou/prh07-08/prh07-08.pdf, accessed on 6 February 2009.

44. ibid.

45. Australian Property Monitors, *Quarterly APM–Domain Rental Series–March*, media release, APM, 3 April 2008.

46. J. Yates et al., *Housing Affordability: a 21st century problem. National Research Venture 3: Housing affordability for lower income Australians*, Final Report no. 105, Australian Housing and Urban Research Institute (AHURI), September 2007, http://www.ahuri.edu.au/downloads/NRV3/AHURI_Final_Report_No105_Housing_affordability_a_21st_century_problem.pdf, accessed on 16 May 2008.

is paid at a universal rate across the country. This renders it a 'blunt instrument' in so far as it cannot take into account variations in rental prices across jurisdictions.

Rudd Government measures

As a part of the 2008-09 Budget, the Government signalled that it would be reforming the framework for federal financial arrangements. This involved a rationalisation of existing Commonwealth housing and homelessness assistance programs under the new National Affordable Housing Agreement, which was introduced from 1 January 2009. This Agreement is to provide funding of $6.2 billion over five years from 2008-09.

Under the National Affordable Housing Agreement, the states and territories are to pursue reforms in three areas of National Partnership, one of which is social housing. Under the social housing national partnership, $400 million is to be provided over the next two financial years for capital investment for social housing and homelessness, with approximately 1 600 to 2 100 additional dwellings to be built by 2009–10. While this investment will—along with the National Rental Affordability Scheme and A Place to Call Home strategy—improve housing affordability to some degree, it will not add substantially to the public housing supply. And without a significant increase in Australia's public housing sector, some commentators argue that the nation will fail to meet future demand for secure, low-cost housing.[47]

Greens Senator Scott Ludlam recently proposed that the Government invest an initial $2 billion in public and not-for-profit housing to enable the construction of more than 6 000 homes for low-income families. Ludlum went on to argue that "the Government needs to pump sufficient funds into public housing, to bring down waiting lists and provide relief to these families".[48]

Comment on the Commonwealth Social Housing Initiative has been almost universally positive, with community groups, the housing industry and state governments all expressing their support for the package.

While community groups have noted that there is still more work to be done in improving housing affordability in Australia, and thereby assisting the most disadvantaged in the

47. See, for example, S. Schrapel, 'Boost public housing to halt homes crisis', *Sunday Mail Adelaide*, 13 April 2008, p. 75,

    http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:YQ5Q6%3B, accessed on 16 May 2008; and Australian Council of Social Service, *Towards a Fairer Australia, ACOSS 2007 Election Statement*, Paper 151, October 2007,
    http://www.acoss.org.au/upload/news/3391__Paper%20151%20Towards%20a%20fairer%20Australia.pdf, accessed on 16 May 2008.

48. S. Ludlum, 'Boost public housing and jobs: Greens', *Media Release*, 28 January 2009.

community, they hailed the package as a significant contribution towards the realisation of these goals.

Michael Perusco, Chief Executive of the Sacred Heart Mission, has commended the government for its actions in assisting the disadvantaged through the public housing stimulus package. He has argued that the package has "returned public housing to its rightful places as a key part of social policy, sending the powerful message to policymakers, advocates and the community that public housing must be a priority".[49]

Executive director of Catholic Social Services, Frank Quinlan, stated that he was "delighted" with the package, and urged state governments to "get behind it quickly".[50]

Julian Disney, chairman of the National Affordable Housing Summit, has noted that the initiative represents the biggest expenditure on public housing "for at least a quarter of a century", and a "quantum leap in commitment to resources badly needed and much overdue for many years".[51]

NSW Master Builders Association's executive director Brian Seidler welcomed the package, and is reported as having stated that anything that gives the building industry a kick along is good news.[52] Managing director of the Housing Industry Association, Ron Silberberg is supportive of the package on the grounds that it will provide a "much needed boost" for construction work, with the 20 000 new dwellings creating as many as 35 000 new jobs in the building and related industries.[53]

The states, too, have welcomed the package.[54] West Australian Treasurer Troy Buswell has noted that it complements a $316 million Western Australian stimulus package to build 1 000 new homes for low-income families and government workers.[55] NSW Housing Minister David Borger and Victorian State Housing Minister Richard Wynne

49. M. Perusco, 'Help on the home front', *The Age*, 5 February 2009.

50. J Massola, 'Building support: halfway to housing the homeless', *Canberra Times*, 4 February 2009.

51. T. Colebatch and D. Cooke, 'Surprise $6.6bn to create 20,000 houses', *The Age*, 4 February 2009.

52. J. Dillon, 'Builders, tradies harder to nail down', *The Daily Telegraph*, 4 February 2009.

53. J. Massola, op cit.

54. Council of Australian Governments, Special Council of Australian Governments Meeting, Nation Building and Jobs Plan Communique, Canberra, 5 February 2009.

55. I. Salusinszki and M. Denholm, 'Thumbs up from all the premiers – Rudd's $42 billion rescue', *The Australian*, 4 February 2009.

have both expressed their strong support for the package, indicating that the investment would help create around 9 000 and 5 000 homes, respectively.[56]

Various concerns have been raised in relation to the Commonwealth Social Housing Initiative. For one thing, initially it was not clear precisely on what basis funding for the initiative was to be distributed to the states. This led NSW Housing Minister David Borger to observe that “if the funding is distributed to the states on a per capita basis then NSW would be entitled to receive approximately one third of the $6.4 billion”.[57] Victorian Council of Social Service policy spokesman David Imber is reported as having stated that Victoria should benefit from at least a quarter of the spending, but gave no indication as to how this figure was arrived at.[58] The West Australian Government is reported as viewing the package as good news for Western Australia, so long as the money is shared between the states on a per-capita basis.

According to the recently-released Council of Australian Governments National Partnership Agreement on the Nation Building and Jobs Plan, funding is to be allocated to the states “generally on a per capital basis, subject to jurisdictions submitting suitable proposals that meet the requirements of the initiative”.[59]

The success or otherwise of the package—should the Bill be passed—is very much dependent upon the cooperation of the states, and on their capacity to deliver on the package. Some commentators have argued that the states have a poor record in delivering on infrastructure development commitments, and are ill-equipped to promptly execute such commitments.[60] However, it should be noted that the appointment of national coordinators at Commonwealth and state levels to maximise the timely and effective delivery of the package should go some way towards addressing such concerns. The fact that the Australian Government drew on data from the states—including data on the number of housing projects that were already in their development pipelines—in developing the package, further enhances the likelihood of its success.[61] That said, it is to

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56. M. Farr, ‘Rudd chalks up survival plan’, *Daily Telegraph*, 4 February 2009 and T. Colebatch and D. Cooke, ‘Surprise $6.6bn to create 20,000 houses’, *The Age*, 4 February 2009.

57. M. Farr, op cit.

58. T. Colebatch and D. Cooke, op cit.

59. Council of Australian Governments, National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now, p. 13, http://www.coag.gov.au/coag_meeting_outcomes/2009-02-05/docs/20090205_nation_building_jobs.pdf, accessed 6 February 2009.

60. See, for example, Editorial, ‘Perhaps the politics are right’, *The Canberra Times*, 4 February 2009.

61. See L. Taylor, ‘PM warns states on funding ‘rules’ – Rudd’s $42 billion rescue’, *The Australian*, 4 February 2009.

be expected that some states will be in a better position to commence construction projects than others.

Much will depend on the capacity of the building and construction industry to cater to the substantial boost in building activity entailed by the economic stimulus package as a whole.

It is generally agreed that supply-side responses to the current housing affordability crisis are essential, the reason being that focusing primarily on providing Commonwealth Rent Assistance to supplement private rental merely stimulates demand and increases housing rental costs. It has done nothing to increase the supply of affordable, public housing.

Many commentators argue that without a sustainable public housing sector, the nation will fail to meet future demand for secure, low-cost housing.[62] Should the Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009 be passed, and the Commonwealth Social Housing Initiative implemented, this would help to reduce public housing waiting lists and assist in reducing the number of homeless Australians.

Land transport[63]

Appropriation (Nation Building and Jobs) Bill (No. 2) 2008-2009 appropriates $230 million for land transport. $150 million is for repairs to national highways, $50 million is for boom gates for rail crossings, and an additional $30 million is for the Black Spot program.

Repairing regional links on the national highway network

The government will provide $150.0 million in 2008-09 to repair regional links on the national highway network. In addition to preventing the deterioration of national highways, this initiative will create jobs in regional Australia, including areas where jobs are being lost due to a contraction of activity in the mining sector.[64]

62. See, for example, S. Schrapel, 'Boost public housing to halt homes crisis', *Sunday Mail Adelaide*, 13 April 2008, p. 75,

    http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:YQ5Q6%3B, accessed on 16 May 2008; and Australian Council of Social Service, *Towards a Fairer Australia, ACOSS 2007 Election Statement*, Paper 151, October 2007, http://www.acoss.org.au/upload/news/3391__Paper%20151%20Towards%20a%20fairer%20Australia.pdf, accessed on 16 May 2008.

63. Author: Richard Webb.

64. *Updated Economic and Fiscal Outlook*, February 2009, p. 70, at

Boom gates for rail crossings

The government proposes to provide $150.0 million over two years—$50 million in 2008–09 and $100 million in 2009–10—to improve road and rail safety by funding the construction of boom gates at rail crossings. There are around 9400 rail crossings. The vast majority do not have active protection. Projects will be prioritised using the Australian Level Crossing Assessment Model, a safety risk assessment tool used across Australia.[65]

Black Spot program

The government will provide additional funding of $90 million over two years—$30 million in 2008–09 and $60 million in 2009–10—for the road safety Black Spot Program. The program reduces the social and economic costs of road accidents through the identification and cost effective treatment of dangerous locations on Australian roads. This measure is in addition to the $60 million increase in funding in 2008-09 for this program announced as part of the Government's Nation Building Package on 12 December 2008.[66]

Regional and Local Community Infrastructure Program: Strategic Projects[67]

The Government will provide an additional $500 million over two years—$250 million in each of 2008–09 and 2009–10—to support large strategic projects being undertaken by local governments including the construction of community infrastructure such as town halls, community centres and sport and recreation facilities.

This measure will allow a greater number of projects to be funded from the current applications for the Local Community Infrastructure Program. This measure is in addition to the $300 million in 2008-09 for the Regional and Local Community Infrastructure Program announced at the Inaugural meeting Australian Council of Local Governments on the 18 November 2008.[68]

The Household Stimulus Package Bill 2009[69]

The Household Stimulus Package Bill 2009 provides for a series of one-off cash payments to people who are receiving a range of payments under the *Social Security Act 1991* and

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http://www.budget.gov.au/2008-09/content/uefo/download/UEFO_06_Appendix_B.pdf, accessed on 6 February 2009.

65. ibid.
66. ibid.
67. Author: Richard Webb.
68. Updated Economic and Fiscal Outlook, op. cit.
69. Author: Dale Daniels.

the *Family Assistance Act 1999* on 3 February 2009.[70] All of the payments are of $950 and will be paid in most cases in March 2009 at a cost of $4.584 billion. The payments are:

- Training and Learning Bonus - This bonus is for senior secondary or tertiary students receiving a range of education assistance payments or Family Tax Benefit part A (aged 21 to 24 years) plus recipients of Sickness Allowance and Special Benefit.
- Farmers Hardship Bonus - This bonus is for people receiving Exceptional Circumstances Relief Payment, Farm Help Income Support, Transitional Income Support or Interim Income Support. It will be paid in the fortnight commencing 24 March 2009
- Education Entry Supplement - This payment will go to people receiving Education Entry Payment between 1 January 2009 and 30 June 2010. The qualification period for receipt of Education Entry Payment will be reduced from 12 months to 4 weeks of continuous receipt of an income support payment during the period 1 January 2009 until 30 June 2010. Eligibility for the Education Entry Payment will also be extended during this period to Youth Allowance recipients who are not full–time students.
- Back to School Bonus - This Bonus is for each child aged 4 to 18 years who qualifies for Family Tax Benefit part A on 3 February 2009. It will also be paid to recipients of Disability Support Pension and Carer Payment who are aged under 19 years on 3 February 2009. It will be paid in March.
- Single Income Family Bonus - This Bonus will be paid in the fortnight commencing 11 March to families qualifying for Family Tax Benefit part B on 3 February 2009.

Numbers assisted

Payment	Numbers assisted
Training and Learning Bonus and the Education Entry Supplement	440,000 students
Farmers Hardship Bonus	21,500 people
Back to School Bonus	2.76 million children
Single Income Family Bonus	1.5 million families

70. This summary draws on the bill, its Explanatory Memorandum, and Hon. Wayne Swan (Treasurer), '$950 One-off Cash bonus to Support Jobs', media release, 3 February 2009 at http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/010.htm&pageID=003&min=wms&Year=&DocType=0.

Tax Bonus for Working Australians[71]

The purpose of the Tax Bonus for Working Australians Bill 2009 (Bonus Bill) is to enable the payment of one-off amounts to those who lodged a tax return for the 2007–08 financial year, had an adjusted tax liability greater than nil and whose taxable income was $100 000 or less in that year.

The purpose of the Tax Bonus for Working Australians (Consequential Amendments) Bill 2009 (Consequential Bill) is to amend the:

- *Income Tax Assessment Act 1936* (ITAA 1936)
- *Income Tax Assessment Act 1997* (ITAA 1997)
- *Taxation Administration Act 1953* (TAA 1953)
- *Social Security Act 1991*(SSA 1991), and
- *Veteran's Entitlement Act 1986* (VEA 1986).

These amendments are to be made as a consequence of the Bonus Bill's provisions to mainly ensure that the proposed tax bonus payments are not themselves taxable income and are not income for either social security or veteran's affairs purposes.

The payments proposed in the package are a one off 'bonus payment.' For more information regarding the forthcoming cuts in personal income tax and associated changes from July 2009 see generally, Bernard Pulle, Adrian Makeham-Kirchner and Paige Darby, Tax Laws Amendment (Personal income Tax Reduction) Bill 2008, *Bills Digest*, no. 60, Parliamentary Library, Canberra, 2007–08.

For additional information see the Bills Digests for the Tax Bonus for Working Australians Bill 2009 and Tax Bonus for Working Australians (Consequential Amendments) Bill 2009, *Bills Digest*, No. 93, 2008-09.

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71. Author: Les Nielson.

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