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10 February 2009, no. 95, 2008–09, ISSN 1328-8091

Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-09

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Date introduced: 4 February 2009

House: House of Representatives

Portfolio: Finance and Deregulation

Commencement: On Royal Assent

Links: The relevant links to the Bill, Explanatory Memorandum and second reading speech 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

To appropriate $89 million in 2008–2009 for the ordinary annual services of the Government as part of the Nation Building and Jobs Plan. The use of the funds is detailed on page 4 of this Digest.

Background

National Building and Jobs Plan

On 3 February 2009, the Rudd Government announced the National Building and Jobs Plan (the Plan).[1] The context is the deteriorating Australian and world economies. The Plan's purpose is to provide additional fiscal stimulus to counter the contraction in the economy. The Plan is the fourth fiscal stimulus package and follows the Economic Security Strategy,[2] the Nation Building Package,[3] and the Council of Australian Governments (COAG) funding package.[4]

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1. Hon. Kevin Rudd (Prime Minister), *$42 Billion Nation Building and Jobs Plan*, media release, 3 February 2009, at http://www.pm.gov.au/media/Release/2009/media_release_0784.cfm. Accessed 9 February 2009. A comprehensive document, *Updated Economic and Fiscal Outlook*, which deals with the Plan is on the Australian Government Budget website at http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf. Accessed 9 February 2009.

2. Hon. Kevin Rudd (Prime Minister), and Hon. Wayne Swan (Treasurer), *Economic Security Strategy*, joint press release, 14 October 2008, at http://www.pm.gov.au/media/Release/2008/media_release_0550.cfm. Accessed 9 February 2009.

The Plan has ten elements:

- Building the Education Revolution
- 20 000 social and defence homes
- energy efficient homes
- small business and general business tax breaks
- black spots, boom gates and community infrastructure
- tax bonus for working Australians
- single-income family bonus
- farmer's hardship bonus
- back to school bonus, and
- training and learning bonus.

Bills

To implement the Plan, the Government introduced six Bills:

- 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.

This Bills Digest deals with the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008-2009 (the Bill).

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3. Hon. Kevin Rudd (Prime Minister), *$4.7 billion Nation Building Package*, media release 12 December 2008, at http://www.pm.gov.au/media/Release/2008/media_release_0687.cfm. Accessed 9 February 2009.

4. Council of Australian Governments, *Intergovernmental Agreement on Federal Financial Relations*, Communiqué, 29 November 2008, at http://www.coag.gov.au/coag_meeting_outcomes/2008-11-29/. Accessed 9 February 2009.

Committee consideration

All six Bills were referred to the Finance and Public Administration Committee for inquiry and report by 10 February 2009. Details of the inquiry are at http://www.aph.gov.au/Senate/committee/fapa_ctte/stimulus_package/index.htm.

Financial implications

The Plan's cost is estimated at almost $42 billion over four years. Of this, almost $13 billion is in 2008–09, more than $17 billion in 2009–10, more than $1.5 billion in 2010–11, and more than $1.5 billion in 2011–12.[5]

The 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'.[6] The balance of $11.5 million is for unspecified administered expenses.

For information on the tax bonus for working Australians, see the Bills Digest for the Tax Bonus for Working Australians Bill 2009 and the Tax Bonus for Working Australians (Consequential Amendments) Bill 2009.[7]

Fiscal stimulus

Economists have debated the desirability and the efficacy of measures to revive the economy through fiscal stimulus. The following examines aspects of this debate.

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5. *Updated Economic and Fiscal Outlook February 2009*, Statement by the Hon. Wayne Swan (Treasurer) and the Hon. Lindsay Tanner (minister for Finance and Deregulation), 3 February 2009, at http://www.pm.gov.au/media/Release/2009/media_release_0784.cfm. Accessed 6 February 2009.

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

7. Bills Digest No. 93, Parliamentary Library, 2008-09. See http://www.aph.gov.au/Library/pubs/bd/2008-09/09bd093.pdf

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.[8]

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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8. Transcript of a press briefing on the International Monetary Fund's World Economic Outlook and Global Financial Stability Report, 28 January 2009, at http://www.imf.org/external/np/tr/2009/tr012809.htm. Accessed 9 February 2009.

> 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.[9]

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

9. 'Big Government fights back' *The Economist*, 31 January 2009, at http://www.economist.com/finance/displaystory.cfm?story_id=13035552. Accessed 9 February 2009.

> changes in primary government spending and, especially government wages. We 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.[10]

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.[11]

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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10. A. Alesina, S. Ardagna, R. Perotti and F. Schiantarelli, 'Fiscal Policy, Profits and Investment', *National Bureau of Economic Research Working Paper No. 7027*, July 1999, p.27.

11. O. Blanchard and R. Perotti, 'An Empirical Characterization of the Dynamic Effects of Changes in Government Spending and Taxes on Output', *Quarterly Journal of Economics*, volume 117, no. 4, November 2002, p. 1364. Olivier Blanchard is currently the chief economist and 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.[12]

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.[13]

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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12 ibid., p. 1329.

13. A. Mountford and H. Uhlig, 'What are the Effects of Fiscal Policy Shocks?', *National Bureau of Economic Research Working Paper No.14551,* December 2008, 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'[14]
- 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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14. 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.

Energy Efficient Homes Package

Proposed measures under the package

There are three components under the Energy Efficient Homes Package.[15]

- 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.

15. 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.

The insulation must be installed by an installer who owns or is employed by a registered thermal insulation installation business. The insulation program applies only to ceiling insulation and only to homes that currently have no ceiling insulation. It is not available for new or rebuilt homes.

The solar hot water rebate is only available for replacing existing electric storage hot water systems, and is not available for new or rebuilt homes. Applicants can be either the owner or tenant of the dwelling where the system is to be installed. The dwelling must be a principal place of residence, but need not be the applicant's principal place of residence. Applicants can apply for rebates for systems at more than one dwelling, including investment properties.

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.

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*.[16]

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 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. In total, 61 per cent of homes were known to be insulated, up from 52 per cent in 1994. Of the different dwelling types, detached or separate houses were most likely to be insulated (70 per cent), compared to semi-detached or town houses (49 per cent) and apartments (22 per cent). The proportion of occupants who did not know whether their home was insulated was much higher in apartments (48 per cent) than semi-detached (31 per cent) or detached houses (13 per cent).

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.[17]

16. 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.

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

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). Eighty per cent of solar hot water systems use an electric booster.[18]

Environmental, economic and health benefits of insulation and solar hot water

The Government states that under the Energy Efficient Homes Package:[19]

- almost all Australian homes will achieve a minium two star energy rating by 2011;
- adding ceiling insulation to uninsulated homes will reduce heating and cooling bills by up to 40 per cent, or around $200 per year;
- households replacing electric hot water systems with solar hot water could save $300 to $700 on their annual energy bills;
- greenhouse gas emissions will be reduced by around 4.7 million tonnes of carbon dioxide equivalent ($MtCO_2e$) per year or a total of 49.4 $MtCO_2e$ by 2020. This is equivalent to taking more than one million cars off the road; and
- insulating homes will reduce condensation on walls and ceilings and lead to improved health outcomes including a reduction in respiratory illnesses.

The Clean Energy Council states that the proposed measures could cut electricity bills by at least 15-20 per cent.[20] It is estimated that roof and ceiling insulation can save up to 35 per cent on energy consumption for heating of homes (wall insulation can save an additional 20 per cent).[21] The energy savings depend on the climate zone of the dwelling, and may be lower in areas that experience lower extremes in temperature.

Although space cooling accounts for only a few per cent of total residential energy consumption, the high demand at peak periods on hot summer days across cities presented by use of air conditioning can create severe problems for electricity generation and transmission and distribution systems. The ABS reports that the number of households using air conditioning more than doubled from 1994 (2.1 million homes or 33 per cent) to

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

18. ibid., Table 3.11.

19. Hon. Wayne Swan (Treasurer), 'The Energy Efficient Homes Program', op. cit.

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

21. 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 5 February 2009.

2008 (5.5 million homes or 66 per cent),[22] while the Department of the Environment, Water, Heritage and the Arts (DEWHA) projects space cooling to grow at a rate of 16 per cent per annum from 1990 to 2020.[23] 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.

Energy used for residential space heating accounts for about 42 per cent of total residential energy use and is expected to amount to an average of about 184 petajoules (PJ) or 51 terawatt-hours (TWh, 10^{12} Wh) per year over the next decade.[24] Approximately 35 per cent of households use electric heating sources, while 31 per cent use gas and 10 per cent wood.[25] The International Energy Agency reports that in 2005, Australia's CO_2 emissions from electricity and heat production from coal-fired plants were 990 grams per kilowatt-hour (kWh); and from gas-fired plants were 627 grams per kWh.[26] Neglecting the transport contribution, emissions from wood-fired heaters can be considered to be near zero since they are offset by the carbon absorbed by the trees during their growth. If the addition of ceiling insulation in 2.7 million or 33 per cent of households reduces their energy consumption for heating by 35 per cent, then accounting for the relative proportion of electric and gas heat sources and their related emissions, this may therefore roughly translate to a total reduction in greenhouse gas emissions of about 3 million tonnes of CO_2 per year, or 30 million tonnes of CO_2 over a ten year timeframe.

Further emissions reductions may be achieved from use of solar energy for water heating. 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 electricity or gas booster. Greenhouse gas emissions from energy used in water heating depend on the climate zone as well as the energy source (even among electric systems, emissions vary between locations due to different primary energy sources used in electricity generation, such as coal, gas or hydro). For example, for electric hot water systems in medium-sized households, average emissions amount to about 4.1 tonnes per year in Brisbane, and 5.8 tonnes per year in Melbourne. In contrast, equivalent emissions from solar hot water systems with gas boosters are 0.2 tonnes per year in Brisbane and 0.5 tonnes per year in Melbourne. Emissions from solar systems with electric boosters range from 0.4 tonnes per year in

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

23. 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.

24. Department of the Environment, Water, Heritage and the Arts, op. cit.

25. Australian Bureau of Statistics, op. cit., Table 3.9.

26. International Energy Agency, *CO_2 emissions from fuel combustion 1971-2005*, IEA/OECD, 2007.

Brisbane to 1.4 tonnes per year in Melbourne. Solar hot water systems have a longer lifetime than electric systems and the payback period for the investment through energy savings ranges from 5 to 10 years.[27]

The Government has not provided an estimate of the expected rate of uptake of the solar hot water rebate; however, the additional funding allocated is sufficient for about 320 000 rebates from now until June 2012. Assuming replacement of an electric water heater with a solar water heater saves about 3 tonnes per solar system, this investment may result in a reduction in emissions of about 0.3 million tonnes per year, or 3 million tonnes over a ten-year period.

Insulation has been shown to reduce the incidence of respiratory illnesses. In a New Zealand study, households in which at least one person exhibited symptoms of respiratory illness were selected from low-income communities to be retrofitted with ceiling insulation to examine its effect on the incidence of respiratory illness and comfort level during winter.[28] The results demonstrated significant health benefits from insulation:

> The study found insulation resulted in a 30% reduction in the frequency with which occupants were exposed to temperatures below 10 degrees C; mean relative humidity causing dampness, down by 3.8%, and decreased energy consumption with insulated houses used 81% of energy of non-insulated. The last factor may also result in greater disposable income, which can be spent on food and clothes.
>
> These results show significant improvements (10 - 11%) in the health and quality of life of the occupants. Importantly it was reported that adults and children have reduced wheezing, colds and respiratory problems (40 - 50% reduction). People living in insulated houses are also less likely to take days off work and school (40 - 50% reduction) than people in houses without insulation. There were also fewer visits to GPs and fewer hospital admissions for respiratory conditions.[29]

Insulation has also been shown to reduce the health and mortality risks that extreme warm temperatures or heat waves present to the elderly or people with pre-existing medical conditions. A study of risk factors for death of elderly people during the August 2003 heat wave in Europe found that:

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

28. 'Housing, insulation and health study', School of Medicine and Health Science, University of Otago, at http://www.wnmeds.ac.nz/academic/dph/research/housing/insulation.html. Accessed 9 February 2009.

29. 'NZ Research Shows Insulating Houses Results in Better Health', *News at Otago*, 5 March 2007, at http://www.otago.ac.nz/news/news/2007/05-03-07_press_release.html. Accessed 9 February 2009.

> Housing characteristics associated with death were lack of thermal insulation and sleeping on the top floor, right under the roof… In the long term, building insulation and urban planning must be adapted to provide protection from possible heat waves.[30]

Implementation issues and position of interest groups

The Government estimates the cost of installing ceiling insulation in an average-sized house to be around $1200.[31] Insulation Council of Australia and New Zealand (ICANZ) agrees that $1600 should be sufficient to cover the costs of installing ceiling insulation in all but the largest of homes.[32] ICANZ President Dennis D'Arcy welcomed the plan, saying it could create 4000 new jobs in the insulation and manufacturing industries. He said:

> We see it as a great stimulus in an industry that is suffering a bit at the moment as people aren't building the same number of new houses as they were 12 months ago.[33]

Concern has been expressed about the capacity of the industry to meet the expected increase in demand for insulation with the package. However, Mr D'Arcy has said that training for installers requires only a six hour course, and business groups expect that the industry will expand accordingly. For example, Bradford Insulation group have a newly commissioned plant in Brisbane, and marketing manager Ray Thompson said this plant would immediately move to 24/7 production, with new jobs being created.[34]

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30. S. Vandentorren, et al., 'August 2003 Heat Wave in France: Risk Factors for Death of Elderly People Living at Home', *European Journal of Public Health*, vol. 16, pp. 583-591, abstract at: http://eurpub.oxfordjournals.org/cgi/content/abstract/16/6/583. Accessed 9 February 2009.

31. 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 5 February 2009.

32. '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.

33. H. Westerman, 'Stimulus plan: insulation plan to create 4000 jobs', *My Small Business*, theage.com.au, 4 February 2009, at http://smallbusiness.theage.com.au/growing/finance/stimulus-plan:-insulation-plan-to-create-4000-jobs-907016909.html. Accessed 6 February 2009.

34. J. Stapleton, 'Insulation industry hopes trade goes through the roof', *The Australian*, 5 February 2009, at http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/0BPS6/upload_binary/0bps60.pdf;fileType%3Dapplication%2Fpdf. Accessed 6 February 2009.

Peter Ruz, the national marketing manager for Australia's biggest insulation service, Fletcher Insulation, said that until now, fewer than 50 000 old homes were being fitted with insulation per year. He said that Fletcher Insulation had laid off 20 workers at its Melbourne plant last December, but it hopes to reverse that decision in the light of the insulation package.[35] Plans to cut jobs at its Sydney facility would also be dropped. Mr Ruz also suggested that the company may need to build another manufacturing plant to meet demand.[36]

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. It endorsed the plan as a smart energy solution that would help to protect thousands of Australian manufacturing jobs while saving energy and benefiting the environment. Chief executive officer Matthew Warren said:

> The government is to be congratulated for taking a big first step towards delivering energy savings across Australian households. Insulation saves energy, money, jobs and the environment – so it's a win-win-win-win.[37]

Green groups welcome the energy efficiency measures, but say they are insufficient to effectively address climate change and reduce greenhouse gas emissions. Australian Conservation Foundation executive director Don Henry noted:

> Insulation is a good step for household energy efficiency but it should be part of a broader package that includes massive investment in public transport and tax reform to encourage greener commercial buildings.[38]

Greenpeace head of campaigns Steve Campbell also expressed reservations, saying:

> Whilst it is a good baby step, it is still tinkering around the edges and it's not enough to deal with the climate crisis.[39]

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35. ibid.

36. 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.

37. Clean Energy Council, op. cit.

38. 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. Accessed 6 February 2009.

39. '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.

Consumer organisation Choice said the package did not go far enough in promoting energy conservation:

> It is a positive start in assisting households with energy efficiency, but we'd like to see the government commit to a much broader package that helps consumers reduce their energy consumption, that works with industry to improve the energy performance of our homes and the products we buy.[40]

In the context of emission trading, the Australia Institute has criticised the emissions reduction value of household energy conservation measures, saying that the design of the Carbon Pollution Reduction Scheme merely shifts the emissions elsewhere.[41] Executive director of the Australia Institute Richard Denniss said:

> The way the Emissions Trading Scheme is designed, every kilogram of emissions saved by a household frees up an extra permit for a big polluter. So while it's true this scheme will help reduce households' use of energy, it won't reduce Australia's emissions at all. What they do is take those permits freed up by what the individuals have done and sell those permits to the aluminium industry or the steel industry or anyone else who wants them.[42]

Party/political positions

On 4 February 2009, in a speech to the House of Representatives, the Leader of the Opposition, the Hon. Malcolm Turnbull, set out the Coalition's position on the Plan in general and the insulation element in particular. The following are excerpts from that speech.

> Our judgement is that a more appropriate level of stimulus is in the order of 1½ to two per cent of GDP, or between $15 billion and $20 billion … We do not support a further round of cash handouts… The incentives to save rather than to spend are therefore a lot greater. So we would support as an alternative the bringing forward of the 1 July 2010 tax cuts to 1 January this year … We would welcome a renewal, indeed acceleration, of the Investing in Our Schools Program. However, we have to ask this question: is the most urgent infrastructure deficiency requirement in Australia primary school assembly halls and libraries? What about hospitals? What about

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40. V. Coleman (Choice policy officer), 'Energy efficient homes package a good start', *Media Release*, Choice, 5 February 2009, at http://choice.com.au/viewArticle.aspx?id=106717&catId=100570&tid=100028&p=1&title=Energy+efficient+homes+package+a+good+start. Accessed 9 February 2009.

41. R. Denniss, 'Household emissions reduction pointless under emissions trading scheme', *Media Release*, 25 November 2008, at https://www.tai.org.au/file.php?file=mr_ets_floor.pdf. Accessed 6 February 2009.

42. 'Insulation scheme won't reduce emissions: Australia Institute', *ABC News*, 5 February 2009, at http://www.abc.net.au/news/stories/2009/02/05/2483104.htm. Accessed 6 February 2009.

> nursing homes and aged care? What indeed about the National Broadband Network? What about water infrastructure, and what about expanding, and above all maintaining, our National Transmission Network? … In an indication of the specific responses we would bring to this plan, we would support a renewed Investing in Our Schools Program. Based on our experience, we believe that $3 billion over three years could be, and would be, well spent and, depending on demand, and of course on the economic conditions, consideration can always be given to allocating more funding …We believe an element of a stimulus package should be that it lowers the cost of employing Australians. A key focus should be making it easier to keep Australians in their jobs, especially for small business. The proposed accelerated investment allowance has some merit, but a small business which is struggling with declining revenues would be better off with additional cash flow that it can deploy as it sees fit. We want to discuss practical measures with the government that will put cash into the hands of small businesses. One proposal which we have seen and which has considerable merit would be for the Commonwealth to cover, for a period, a portion of the superannuation guarantee levy. Appropriately costed within the framework of a more prudent stimulus, this would provide support for small business, lower the cost of employment and provide an incentive across the board to every small business.
>
> Insulation, however, is an energy efficiency measure that pays for itself, and government subsidies for insulation should recognise that. The $1,600 subsidy will, according to Mr Peter Ruz of Fletcher Insulation, who is quoted in the newspapers today, mean that over 90 per cent of jobs would be completed at no cost to the owner. The subsidy is not means tested. We would support an insulation subsidy of a lower amount, and I would suggest for the government's consideration one that is, for example, $500 for all houses, increasing to $1,000 subject to a means test. That would reduce the cost of the measure considerably but remain a very significant incentive to the insulation industry. A similar approach could be taken to solar hot water ... [43]

The Australian Greens welcomed the planned investment in education, community and defence housing and energy efficiency programs, and claimed that the Rudd Government had adopted part of the Greens' plan to retrofit homes to reduce energy consumption. Senator Bob Brown pledged that the Greens would ensure that school buildings and community housing are designed to be energy efficient. Senator Brown also said that the package should also include a permanent $30 a week increase to people on income support, including aged pensioners and the unemployed. Senator Brown also pledged that the Greens would move to ensure the needs of people who have missed out in this package are addressed in the May budget.[44]

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43. Malcolm Turnbull, House of Representatives, 'Second Reading Speech', *Debates*, 4 February 2009, p. 12, at http://parlinfo.aph.gov.au/parlInfo/genpdf/chamber/hansardr/2009-02-04/0037/hansard_frag.pdf;fileType=application%2Fpdf. Accessed 9 February 2009.

44. Australian Greens website, 'Greens welcome money for insulation and schools', 3 February 2009, at http://greens.org.au/node/4985. Accessed 9 February 2009.

Family First Senator, Steve Fielding, reportedly backs the Plan but wants $4 billion set aside to create 100,000 jobs in local communities.[45] Senator Fielding has called for more money for the unemployed.[46]

Independent Senator, Nick Xenophon, has questioned how the money would be spent. He is quoted as saying:

> When you have a number of leading commentators saying that we should be looking at fixing at the Murray Darling Basin for instance, spending the money on fundamental infrastructure that will improve productive capacity in the economy. That's the sort of thing that needs to be considered.

Senator Xenophon has also questioned why rich private schools are getting millions of dollars:

> The need can't be shown on any objective basis.[47]

Constitutional aspects

Section 83 of the Constitution provides that no monies may be withdrawn from the Consolidated Revenue Fund except 'under an appropriation made by law'. Laws authorising spending are either:

- special appropriations, or
- one of (usually) six annual appropriation Acts.

The Bill is an annual appropriation Bill for ordinary services (see below).

Special appropriations—which account for about three quarters of spending—are spending authorised by Acts for particular purposes. An example is age pensions, carer payments, and the seniors concession allowance paid under the *Social Security (Administration) Act 1999*. The remaining quarter of spending is funded by annual appropriations.

Section 54 of the Constitution requires that there be a separate law appropriating funds for the ordinary annual services of the government. That is why there are separate Bills for ordinary annual services and for other annual services. The distinction between ordinary

45. Special Broadcasting Service, *World News Australia*, 9 February 2009, at http://www.sbs.com.au/news/article/1008116/Stimulus-package-needs-votes. Accessed 9 February 2009.

46. Australian Broadcasting Corporation, 'Xenophon questions stimulus focus', at http://www.abc.net.au/news/stories/2009/02/07/2484930.htm. Accessed 9 February 2009.

47. Australian Broadcasting Corporation, 'Xenophon questions stimulus focus', at http://www.abc.net.au/news/stories/2009/02/07/2484930.htm. Accessed 9 February 2009.

and other annual services was set out in a 'Compact' between the Senate and the Government in 1965 (the Compact was updated to take account of the adoption of accrual budgeting). Appropriation Bill (No. 1) is introduced with the Budget and appropriates funds for the 'ordinary annual services of the Government'. Appropriation Bill (No. 2)—which is also introduced with the Budget—appropriates funds for other annual services. A third Appropriation Bill—Appropriation (Parliamentary Departments) Bill No. 1—funds the parliamentary departments.

Section 53 of the Constitution provides that the Senate may not amend proposed laws appropriating revenue or moneys for the ordinary annual services of the government. The Senate may, however, return to the House of Representatives any such proposed laws requesting, by message, the omission or amendment of any items or provisions therein.

Budget terminology

Departmental and administered expenses

Departmental expenses (outputs) are costs incurred in running agencies, for example, salaries, depreciation and other day-to-day operating expenses. Administered expenses (items) are the costs of providing the programs that agencies administer. While most administered expenses are funded through special appropriations, some are funded through the Appropriation Bills. The Bass Strait Passenger Vehicle Equalisation Scheme is an example of an administered expense funded as an ordinary annual service.

Outcomes

Departmental outputs and administered expenses contribute to outcomes. Outcomes are the results or consequences for the community that the government wishes to achieve. An example, in the Attorney-General's portfolio, is:

> An equitable and accessible system of federal civil justice.[48]

Reduction processes

It is sometimes the case that an appropriation for a departmental expense exceeds what is needed. However, departmental items do not automatically lapse if they are not spent. In these circumstances, a 'reduction process' to extinguish the unspent amount is available. Under this process, on request in writing from a minister, the Finance Minister may issue a determination to reduce the agency's departmental expenses appropriation. In short, the excess of the amount allocated over the amount expended can be extinguished.

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48. Attorney-General's Portfolio, Portfolio Additional Estimates Statements 2008-09, p. 10.

Appropriations for administered expenses are also subject to an annual process to extinguish amounts that are not required. The amount identified as spending on administered expenses in agencies' financial statements—as published in their annual reports—is the basis for this process. In short, the amount of the reduction is the difference between the amount appropriated and the amount spent as shown in the agency's financial statements.

Main provisions

Most of the provisions in the Bill are virtually identical to those in the Appropriation Bill (No. 3) 2008-09.[49] The main difference between the Bill and Appropriation Bill (No. 3) 2008-09 is that the Bill does not contain the provisions dealing with the Advance to the Finance Minister.

Part 1—Preliminary

Clause 3 contains definitions. It defines Portfolio Supplementary Additional Estimates Statements to mean the Portfolio Supplementary Estimates Statements that were tabled in the Senate or the House of Representatives in relation to the bill for this Act and the Bill for the Appropriation (Nation Building and Jobs) Act (No. 2) 2008-09.

Clause 4 provides that the Portfolio Budget Statements, Portfolio Supplementary Estimates Statements, Portfolio Additional Estimates Statements, and Portfolio Supplementary Additional Estimates Statements are relevant documents for the purposes of section 15AB of the *Acts Interpretation Act 1901*.[50]

Part 2—Appropriation items

Clause 6—Summary of appropriations states the total of the items specified in **Schedule 1** is $89 000 000. **Schedule 1** lists the agencies that are to be funded, the amount of funding, and whether the item is departmental or administered.

Clause 8 deals with 'administered items'. **Subclause 8(1)** confirms that if an amount is specified as an administered item for an outcome, then money can be expended to achieve that outcome. **Subclause 8(2)** provides that where the Portfolio Budget Statements, Portfolio Supplementary Estimates Statements, Portfolio Additional Estimates Statements or Portfolio Supplementary Additional Estimates Statements Portfolio Statements indicate that an activity is for a particular outcome, the amount in the administered item is taken to contribute towards the achievement of that outcome.

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49. The Bills Digest for Appropriations Bill (No. 3) 2008–09 is at http://www.aph.gov.au/library/pubs/bd/2008-09/09bd071.pdf. Accessed 9 February 2009.

50. The Explanatory Memorandum explains the significance of section 15AB at page 3.

A CAC Act Body is a Commonwealth authority or company within the meaning of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act) [51]. **Clause 9** deals with a 'CAC Act body payment item'. This is the total amount set out in **Schedule 1** of the Bill in relation to a CAC Act Body. The Bill does not, however, appropriate any new money for a CAC Act Body.

Part 3—Adjusting appropriation items

As noted, a process exists whereby appropriations for departmental expenses that are not needed can be abolished. **Clause 10—Reducing departmental items** contains this process. **Subclause 10(1)** specifies who can request reductions in departmental expenses. **Paragraph 10(1)(a)** empowers the Minister for an agency to ask the Finance Minister to reduce a departmental item for that agency, while **paragraph 10(1)(b)** enables the Chief Executive of an agency, for which the Finance Minister is responsible, to ask the Finance Minister to reduce a departmental item for that agency. **Subclause 10(2)** specifies that the Finance Minister may make a determination reducing a departmental item by the amount in the request. **Subclause 10(3)** provides that the determination will have no effect to the extent that it would reduce the departmental item below nil.

Clause 11—Reducing administered items contains the process for extinguishing appropriations for administered items that are not needed. **Subclause 11(1)** provides that if the amount shown in the financial statements of an agency's annual report shows that the expensed amount of an administered item is less than the amount appropriated for that item, then the amount of the reduction is the difference between the appropriated amount and the amount in the annual report. **Subclause 11(2)** enables the Finance Minister to determine that an amount, published in the financial statements of an agency, is taken to be the amount specified in his or her determination, while **paragraph 11(2)(b)** ensures that the amount published in the annual report can be corrected. **Subclause 11(3)** provides that the Finance Minister's determination, made under **subclause 11(2)**, is a legislative instrument, that section 42 (relating to disallowance) of the *Legislative Instruments Act 2003*[52] applies to the determination, but that Part 6 (relating to sunsetting provisions) of the *Legislative Instruments Act 2003* does not apply to the determination. In short, this means that the Finance Minister's determinations are disallowable by Parliament, but once made, will not expire.

51. Available at http://www.comlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/current/bytitle/7117415663243706CA2574730019A325?OpenDocument&mostrecent=1. Accessed 9 February 2009.

52. Available at http://www.comlaw.gov.au/ComLaw/Management.nsf/lookupindexpagesbyid/IP200402738?OpenDocument. Accessed 9 February 2009.

Clause 12 contains the process for reducing CAC Act body payments. This is almost identical to that for departmental items (**clause 10**). One difference is that whereas **paragraph 10(1)(b)** enables the Chief Executive of an agency, for which the Finance Minister is responsible, to ask the Finance Minister to reduce a departmental item for that agency, **paragraph 12(1)(b)** enables the Secretary of the Department for which the Finance Minister is responsible to request a reduction for a CAC Act body. The reason for this difference is that payments to CAC Act bodies are channelled through the relevant portfolio departments. **Subclause 12(2)** empowers the Finance Minister to make a determination reducing a CAC Act body payment by the amount requested. **Subclause 12(5)** provides that **subclause 9(2)** does not limit the reduction of a CAC Act body payment under this section.

Concluding comments

It is uncertain to what extent the Plan will stimulate the economy because there are so many unknowns. For example, we do not know how much of the Tax Bonus for Working Australians will be saved as distinct from spent on consumption. At a time when households are generally limiting borrowings or even reducing debt levels, some (unknown) portion of the tax cuts will be saved. The higher the proportion of the tax cuts saved, the smaller the multiplier effects discussed above. Even where the tax cuts are spent on consumption, some will 'leak' into imports depending on the (unknown) proportion of consumption that is spent on tradeable—as distinct from non-tradeable—goods and services. Timing will also be crucial in that the effects of the Plan on the economy will depend on how soon the measures can be implemented.
