Impacts of the 2014-15 Federal Budget measures on South Australia

The report identifies a range of socio-economic impacts at the state, institutional, families and individual level. It was commissioned by the South Australian Government and has been informed by a range of methods including economic modelling, micro-simulation (undertaken by NATSEM) and interviews with key stakeholders.

Families

More than 265,000 (29.4%) South Australian families* will be worse off in 2017-18 as a result of the 2014-15 Federal Budget.

In most cases the budget impact will be felt most profoundly by those on low incomes. By 2017-18, single parents in all but the highest income bracket will lose around \$3,700 of their annual disposable income under the proposed changes. This will impact on those on the lowest income most, with those in income quintile 1 set to lose 10.8% of their annual income.

Couples with children will also be negatively impacted with those in the lowest income quintile experiencing the largest negative impact from the budget measures - around \$2,780 and a reduction in disposable income of 6.6%.



Economy and jobs

The proposed health and education spending reductions result in losses of Gross State

Product ranging as high as \$1.6 billion. The jobs impact of these reductions combined with cancellation of Round 5 of NRAS** are estimated to range as high as 17,800 person years of employment.*** Up to 7,000 fewer jobs are forecast for 2017-18.

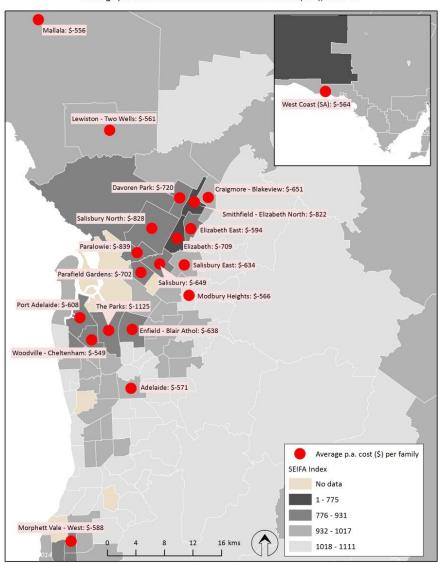
Over the period 2014-15 to 2017-18 Commonwealth health funding measures will result in reductions in GSP in South Australia. Three scenarios were modelled - low, medium and high. The most significant decline will occur in 2017-18 ranging from \$285.1 million (low) to \$449.0 million (high) loss to Gross State Product (GSP) in that year. Over the forward estimates the impact to GSP due to health funding measures ranges up to a loss of \$1068.8 million. Correspondingly, the decline (related to health funding reductions) in expected jobs growth over the post four

Correspondingly, the decline (related to health funding reductions) in expected jobs growth over the next four years is estimated at up to 10,000 fewer person years of employment.

Direct and flow-on GSP impacts in South Australia of the school education measures are expected to reduce GSP by

2014-15 Federal Budget - Top 20 impacted areas

Average per annum cost to families in South Australia (SA2), 2017-18



between \$98.0 million (low) and \$155.1 million (high) in 2018 with a further decline of between \$247.1 million (low) and \$391.0 million (high) in 2019. Over the two year period, this equates to up to \$546.1 million (high) in reduced GSP than otherwise would have been the case, with employment losses between 2,782 FTE (low) and 5,017 FTE (high) across the two year period.

Industry

The demand-dampening impacts of decisions contained in the 2014-15 Federal Budget are likely to adversely affect the Nation's growth potential and, in so doing could in fact delay achievement of fiscal consolidation (the stated goal of the Budget's measures) with total Commonwealth expenses for 'mining, manufacturing and construction' industries expected to decline by 16.1% over 2013-14 and 2014-15.

There will be devastating impacts upon South Australia from the closure of the automotive industry (which coincides more or less with the winding down of the Air Warfare Destroyer build program), and of the increasingly likely decision to abandon the promise of Australian engineered and manufactured Future Submarines at Osborne in favour of imported vessels. The response required to such a challenge is to work with urgency to diversify the economy.

Health

South Australia is directly impacted by proposed reductions in Australian government funding of hospitals via the National Health Reform Agreement and health-related National Partnership Agreements to the tune of \$655 million in the four years from 2014-15 to 2017-18. Although not impacting directly on revenue received, proposed changes to a range of public health, general and specialist medical services, pharmaceuticals, diagnostic and pathology services, aged care and social services also contribute significantly to the costs borne by the South Australian hospital system. Combined, these measures are expected to discourage access to basic primary health care

Any co-payment imposed on people in financial stress will impact on their decision making about accessing primary health care.

short-term and a rise in avoidable chronic conditions over

services leading to worsening health conditions in the

Schools

the longer term.

Needs-based schools funding under the Gonski Better Schools Plan has been renounced and replaced with CPI indexing after 2017 (noting it was the post-2017 period that was to have seen the major expenditures in reducing disparities in school student funding). In South Australia, the funding reduction amounts to \$335 million across the two years (assuming a CPI of 2.5%).

This will have direct impacts on the capacity of schools to provide appropriate specialist assistance to the substantial number of students who would benefit from more intensive support to improve outcomes in line with the objectives of the Gonski reforms. At a State level this is expected to lead to inferior schooling outcomes than would have otherwise been the case.

Moreover, these changes pose particular problems for South Australia which has a higher-than-national average proportion of disadvantaged and vulnerable students.

Vocational Education and Training

Federal Budget measures affecting vocational education and training funding and program offerings take place in a context where South Australia is experiencing stubbornly high unemployment and the prospect of significant adjustment pressures arising from the closure of the automotive industry over the next few years. The Budget measures include the cessation of 10 skills and training programs with a total expected saving to the Commonwealth of \$1 billion over five years from 2013-14.

This includes cessation of the Tools for the Trade Program, National Workforce Development Program and the Workplace English Language and Literacy Program (WELL). Along with reduced funding for training, the Commonwealth also substantially reduced employer incentives including wage subsidies.

Higher education

Estimates of the increase in average student loan amount due to funding changes range from a low of \$30,000 to a high of \$200,000.

Proposed budget measures include reductions in per student funding accompanied by fee deregulation, leading to increased course fees to make up the institutions' shortfalls. These are combined with changes to the costs of HECS/HELP borrowings (rate of interest charged, and lowering of income levels at which repayments are triggered), which will further lift the cost of undertaking a course.

Currently, the amount of funding for higher education courses is determined by the Commonwealth, with the cost divided between the government and student. Under the proposed changes the additional cost to an individual student could be as high as 59% for social sciences and communications. In addition, plans to change CPI indexation to the 10-year bond yields (capped 6%) impose a real interest rate which will compound over time.

Housing

The cancellation of Round 5 of the National Rental Affordability Scheme (NRAS) will have significant social and economic impacts. Based on seven jobs per NRAS incentive, Round 5 would have generated around 2,800 direct and indirect jobs, providing a much needed boost to the South Australian property and construction sectors over the next few years.

In addition, the absence of NRAS will have a dampening impact on industry and employment growth in the property and construction industries with flow-on impacts to the household goods and services sector.

The Federal Budget will have a number of detrimental impacts for both residents and the public housing system in South Australia. The latter is expected to face losses of around \$131 million over ten years due to Budget changes to income. The spectre of increased homelessness was a major concern for all stakeholders as demand for public housing already far outweighs supply.

Roads

South Australian roads funding will be affected by the 'pausing' of indexation funding under the roads Financial Assistive Grants (FAGs); and by removal of the Local Roads Supplementary Funding Program, which addressed a clear inequity in payments to South Australian local governments compared to those in other states. The combined impact of these reductions is \$132.6 million to 2017-18.