AUSTRALIAN LOGISTICS COUNCIL

Members Brief – Commonwealth Budget 2011/12
10 May 2011

The Commonwealth Government has tonight delivered the 2011/12 Budget.

Political/economic Context

The minority Gillard Government has been under pressure with low polling figures and conflicting economic signals. It is also under pressure to rein in the budget deficit.

The carbon tax is also posing political problems for the Government – with the added issue that the impact of the carbon tax has not been included in the 11/12 Budget.

Australia is facing what economists refer to as "Norway disease" – an economy with a growing resource sector with higher wages and, as a result, employees drifting away from traditional sectors of the economy. Other traditional sectors of the economy are facing skills shortages, wages pressure and an economy still weakened by the global financial crisis.

A high $AUS from the resources sector is driving lower tax receipts from the non-resource sector and increased demand for cheaper imports, which is also impacting severely on manufacturers and other sectors of the economy.

The floods and cyclones in Australia, followed by the devastating New Zealand and Japanese earthquakes are expected to detract around ¾ of a percentage point from Australia's real GDP growth in 2010-11.

The Government is expecting 2¼ per cent growth in 2010-11, an increase to 4 per cent in 2011-12 and 3¾ per cent in 2012-13.

Budget Overview

The Government expects that Australia's medium-term prospects remain strong, with the economy expected to grow at an above-trend rate over the next two years, unemployment forecast to fall and the budget still on track to return to surplus in 2012-13.

The expected deficit for 2011-12 is $22.6 billion (1.5 per cent of GDP), with an expected surplus of $3.5 billion (0.2 per cent of GDP) in 2012-13.

The Government is achieving the return to surplus by:

- paying for new spending, including the cost of the recent natural disasters, by making $22 billion in savings;
- restraining real growth in spending to an average of around 1 per cent per year over the forward estimates, the lowest five year period of growth since the 1980s; and
- allowing the natural increase in tax receipts associated with a strengthening economy in future years to flow through to the budget.

Infrastructure Australia

The Government is enhancing Infrastructure Australia (IA), providing funding of $36 million over four years to allow it to focus on identifying nationally significant projects by undertaking a top-down strategic view of infrastructure needs in the Australian economy. IA will also be given the role to work closely with the States and Territories and the private sector to promote infrastructure development linked to the National Priority List.

This extra funding will allow IA to expand its work to include providing independent policy advice on national infrastructure reform such as the National Port and Freight Strategies, while working with governments and the private sector to develop a deeper 'pipeline' of priority infrastructure projects in the Australian market.

Reforms to promote private investment in infrastructure

- The Government will remove impediments to private sector investment in infrastructure by establishing tax provisions for infrastructure projects designated to be of national significance.
- New infrastructure investment incentive measures will encourage private and superannuation sector investment up to a cap of $25 billion by removing impediments in the tax system to invest in projects listed on IA's National Priority List.
- Losses generated by designated infrastructure projects will be exempt from the Continuity of Ownership Test and the Same Business Test, and uplifted at the government bond rate. Consultation will be undertaken regarding the implementation of this reform.
- IA will establish an Infrastructure Financing Group of private and public sector advisers to identify further areas for work around private financing of infrastructure.
- The Government will also continue to lengthen the Commonwealth Government Securities yield curve incrementally, when prudent to do so. This could help the financing of long term infrastructure projects.

Road and Rail Funding

In the coming financial year, work will start on the following projects re-railing and re-sleepering the 239 kilometres line between Albury, Melbourne and Geelong as well as upgrading the older bridges.

At the other end of the construction cycle, the following major upgrades are expected to be completed over the next 12 months:

- Reducing the severity of the curves at some 58 locations between Newcastle and the Queensland border by realigning the existing track, improvements which will allow trains to run at higher speeds – Federal contribution: $170 million;
- Replacing all the old timber and steel sleepers with one million new concrete sleepers along the 691 kilometre line between Broken Hill and Parkes – Federal contribution: $253 million;
- Extending seven existing passing loops on the line between Melbourne and Adelaide – Federal contribution: $76 million.

A renewed partnership between government and the private sector

The 2011-12 Budget puts in place new tax measures to attract up to $25.0 billion of additional private investment in nationally significant projects identified on *Infrastructure Australia's* National Priority List as 'Ready to Proceed' or 'Threshold' and likely to deliver the greatest economic benefits.

Funding for National Regulators

Australia's transport industry will benefit from major regulatory reforms, through a $25.3 million investment over two years in this Budget.

After more than a century of competing regulations and standards, this funding will move Australia closer to one set of modern, nation-wide laws covering maritime safety, rail safety and heavy vehicles.

Following their implementation in 2013, these reforms will improve safety, simplify the compliance task for transport operators and boost national income by up to $30 billion over the next 20 years. The number of regulators will be reduced from **23 to just three**.

The new funding in the 2011-12 Budget builds on the $8.3 million provided in 2010-11 and will be used to complete the:

- Establishment of a new Brisbane-based national heavy vehicle regulator with responsibility for registration and aligning regulations applying to trucks and buses over 4.5 tonnes;
- Establishment of a new national rail safety regulator in Adelaide with oversight of the country's urban passenger rail networks and interstate freight operations. The Australian Transport Safety Bureau (ATSB) will become the national investigator of rail accidents; and
- Extension of the Australian Maritime Safety Authority's (AMSA) regulatory responsibilities to cover all commercial vessels, not just those involved in interstate and international trade.

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