The future of essential services

Briefing note on trends in Commonwealth spending

May 2019

acoss

About ACOSS

The Australian Council of Social Service (ACOSS) is a national advocate for action to reduce poverty and inequality and the peak body for the community services sector in Australia. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

We face a choice between essential services and tax cuts

One of the critical issues in the federal election is the choice between essential services and tax cuts, with the Government offering unprecedented tax cuts costing approximately $35 billion a year from 2024 while the Opposition offers more modest tax cuts costing approximately $10 billion in that year.

The Government claims it can do three things at once: offer $35 billion in annual tax cuts, 'guarantee essential services', and maintain a substantial budget surplus.

This claim should be tested, given the grave risk to funding of essential services if this balancing act proves to be an impossible feat.

Australia is already the eighth-lowest taxing country in the OECD. ACOSS has consistently raised concerns about the prospect of a 'tax cut auction' depriving future governments of the revenue they need to fund essential services and ease poverty.[1]

Public spending is growing at its slowest rate in 50 years

The 2019 Budget paints a picture of almost stagnant public spending.

- The rate of growth in Commonwealth government spending (after inflation) is estimated to fall by half over the next four years, from an average of 2.6% a year (from 2013 to 2018) to 1.3% (from 2019 to 2022), which the Government claims is '*the lowest average [real spending growth] of any government in 50 years'*. (Figure 1)[2]

- Australian Government spending is estimated to fall by a total of $28 billion over the next four years due to changed economic conditions *since the Mid-Year Economic and Fiscal Overview (MYEFO) statement just 4 months ago* (Figure 2). This is in addition to an $18 billion reduction over four years in the MYEFO, compared with spending estimates in the 2018 Budget.

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[1] ACOSS (2018), *Proposed tax cuts,* submission to the Senate Economics Committee.
ACOSS Media on Budget Night, responding to announcement of Coalition Tax Cut Package:
https://www.acoss.org.au/media-releases/?media_release=government-turns-its-back-on-people-who-have-the-least-and-guarantees-more-cuts-to-essential-services

[2] The 2.6% estimate for annual growth in payments over the last five years (two terms of Coalition government) is based on allocating 75% of spending decisions in 2013-14 to the Coalition, equal to the share of that year they were in office. This takes account of the Coalition's funding injection of $9 billion to the RBA in that year (Wood D, *This government is already on course back to deficit*, AFR 5/4/19).

- The stated reasons for this $28 billion decline are not policy decisions (explicit spending cuts). They include lower than expected wage growth and inflation, under-spends on the NDIS, lower GST payments to the States (which will affect State-funded services) and a change in methodology for calculating spending levels in 2022-23, the last year in the forward estimates (Figures 3-6).[3]

- The projected decline in public spending reflects economic weakness (lower wage growth and inflation), not the fruits of stronger economic growth. Future public spending is on a knife-edge: if wages and inflation continue to stagnate, spending will accelerate due to higher unemployment. If they increase strongly without a sharp fall in unemployment, this will feed into higher costs for programs such as social security and community services where costs are tied to wage and consumer price inflation.

- As a result of the projected slow-down in growth in outlays, Commonwealth spending per person living in Australia will effectively be frozen in real terms (after inflation) over the next four years (at around $16,400), despite growing demands for essential services such as health and aged care. (Figure 7)

- As a share of GDP, Commonwealth budget spending is projected to fall from 24.9% in 2018-19 to 23.6% a decade later. (Figure 8)

- The lowest rates of growth in public spending for 50 years are not only due to optimistic budget forecasts. They reflect years of cuts to essential services and payments that are now baked into future budgets.

- Spending on *health* is estimated to grow by just 0.7% per year (after inflation) over the next four years, compared with 3% per year over the previous four years. (Figure 9)[4]

  This slow-down is partly due to past decisions including a six-year Medicare rebate freeze, and cuts in residential aged care, dental care for people on low incomes, and community-based health services.

- Spending on *social security and welfare* (including the NDIS and social security payments) is estimated to grow by just 1.8% per year over the next four years, compared with 2% over the last four years, despite the rollout of the NDIS. (Figure 9)

  Contributing factors include 'underspending' of $1.6 billion on the NDIS in 2019, a two-year freeze on Family Tax Benefits (FTB) from 2014, a tightening of income tests that has reduced the share of families receiving FTB decline from one half to one third since 2011, the tightening of the pension assets test in 2017, and the tightening of eligibility for the Disability Support Pension in 2012.[5]

[3] Senate Finance and Public Administration Committee, *Estimates Hearings 4/4/19*, See also Richardson C, *The secret sauce that saved the budget,* AFR 4/4/19).
[4] Wood D, *Commonwealth Budget 2019-20: A decade of budget surpluses – game, set, match?* Presentation to WEN Treasury post-budget event, Grattan Institute 4/4/19.
[5] Budget Papers; Dunlevy S, *How families paid for own poll tax cuts,* Sunday Mail, Adelaide 28/4/19.

- Spending on dental health (-0.7%), employment services (-2.5%), family payments (-0.7%), housing (-2.7%), and tertiary education (-0.6%) is estimated to *fall in real terms* over the next three years (Figure 10).

"As a result of decisions to control growth in government spending, average annual real growth in payments over the four years from 2019-20 is expected to be 1.3 per cent and 1.9 per cent over the period since the Government was elected in 2013 – the lowest of any Commonwealth government in 50 years."
Australian Government (2019), *Budget Paper No 1*, p3-9

'One of the most striking features is the decline in spending growth over the past five years. A key factor behind this has been policy restraint. This has occurred across a range of major payment programs including the Age Pension, Medicare, Family Tax Benefit, Disability Support Pension, pharmaceutical benefits and carer income support.
PBO (2018), *2018-19 Budget, medium term projections*. Paper 3/18

'The spending restraint seen over the past few years may be increasingly difficult to maintain with an improving budget outlook. In recent months, in particular, we note the public discussion that suggests spending pressures may arise in relation to programs such as the Newstart allowance and education. The NDIS is in the early stages of implementation and as with any program which is yet to mature there are risks that the longer-term costs associated with the NDIS may increase.'
PBO (2018), *2018-19 Budget, medium term projections*. Paper 3/18

Three questions that must be answered

The Budget's assumption of herculean spending restraint over the next four years raises three critical questions. These questions need to be answered so that voters can make an informed choice on taxes and spending priorities on 18 May.

1. Can we afford $35 billion a year in tax cuts ($300 billion over 10 years) from 2024?

The Government has given absolute priority to $300 billion in personal tax cuts, some of the largest of which ('Phase 3' commencing in 2024) were announced five years in advance:

- In 2022, when 'Phase 2' of these tax cuts kicks in, the cost of the proposed tax cuts increases by approximately $7 billion.
- The Budget estimates that due to changed economic conditions, spending will fall by $12 billion in that year alone, compared with estimates in the MYEFO statement four months ago.
- If this estimated spending reduction proves over-optimistic, the Phase 2 tax cuts cannot be paid without jeopardising the surplus, projected at $9 billion in that year.
- By 2024, when all of the Government's proposed tax cuts are in place, most of them would go to the top 20-25% of taxpayers on $90,000 and above, the group least likely to need them. This includes $224 a week in tax cuts for an individual on $200,000.

2. Will spending be cut further if these optimistic budget estimates prove wrong?

The 'lowest growth in public spending in 50 years' has come at a high cost.

- In recent years, public spending has already been cut by many billions of dollars per year, with harsh impacts on people who rely on essential services such as doctor's visits, dental care for people on low incomes, child care for families out of paid work, and housing for Aboriginal people in remote areas. Social security payments have been cut for unemployed people, parents, and students.
- It is not credible to suggest that public spending in fast-growing areas such as health, aged care and disability services can be held at historically low growth rates. Legitimate demand for these and other essential services is set to collide with years of budget spending constraint.
- In 2017, the Parliamentary Budget Office (PBO) estimated that, just to sustain existing health aged care and disability programs, an extra $21 billion a year would be needed by 2028, due to such factors as population growth, growth in the 'unit cost' of those services, and the ageing of the population.[6]
- Just days before this year's budget, the PBO estimated that population ageing alone would add around $16 billion in real terms to Commonwealth spending in 2028.[7]

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[6] PBO (2017), *2017-18 Budget, Medium term projections*.

[7] PBO (2019), *Australia's ageing population,* Report 2/09.

- If the optimistic spending estimates in the Budget prove to be wrong, and spending on areas such as health and NDIS rises faster than expected OR if the present downturn in economic growth becomes entrenched and unemployment begins to rise, *will a government committed to big tax cuts and a budget surplus cut services and social security payments once again?*

- If so, who would be affected? Those in the weakest position politically all too often bear the brunt of public spending cuts.

3. Can the next Government begin to close the worst gaps in services and payments if there is no real increase in public spending per person over the next 4 years?

Years of excessive spending restraint, and an arbitrary 23.9% cap on taxes as a share of Gross Domestic Product proposed by the Government, would make it virtually impossible to *improve* essential services and deal with unmet needs:

- People with low incomes are waiting a year or more for public dental services. This means they are more likely to have teeth removed than filled.

- Older people with medical conditions are waiting a year or more for in-home care. The Government announced an extra $280 million over five years for 10,000 home care packages in the Budget, but this only covers about one-tenth of unmet need.

- The aged care royal commission is exposing appalling neglect and abuse in some residential care services, a problem caused in part by chronic under-funding.

- Spending on NDIS in 2019-20 is $1.6 billion below last year's estimate because it is taking too long to expand it and service offers are becoming more stringent.[8] Many people with disabilities are missing out on the supports they need and expect.

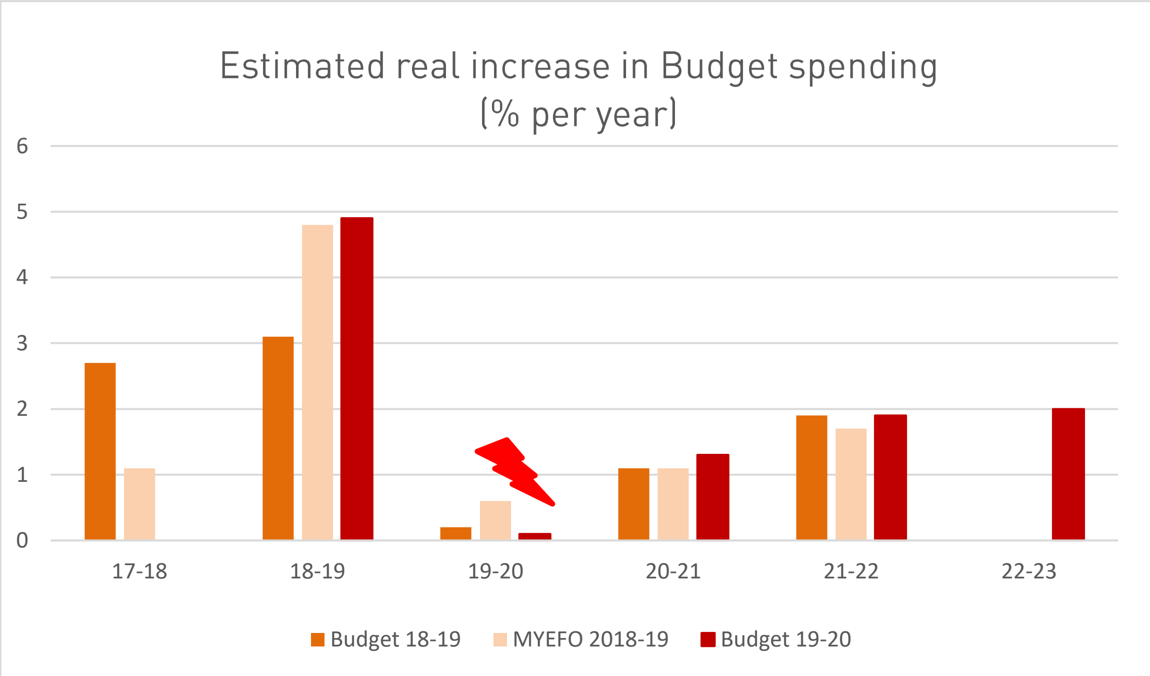
- The lowest social security payments, especially the $282 per week Newstart Allowance, have entrenched poverty. Unemployed people and students struggle to keep a roof over their heads and their families fed.

- Failure to properly index the lowest social security payments, including Newstart, Youth Allowance and Family Tax Benefit, guarantees that more people – including children - will fall behind community living standards and be consigned to poverty.[9]

[8] The NDIAs decision to increase payments, as announced in the 2019 budget, is welcome but spending in 2019-20 will still be lower than was estimated last year.
[9] Both payments are only indexed to movements in the CPI, not wages. Newstart has not increased above inflation for 25 years, and FTB for families with low incomes has not increased above inflation for 10 years.

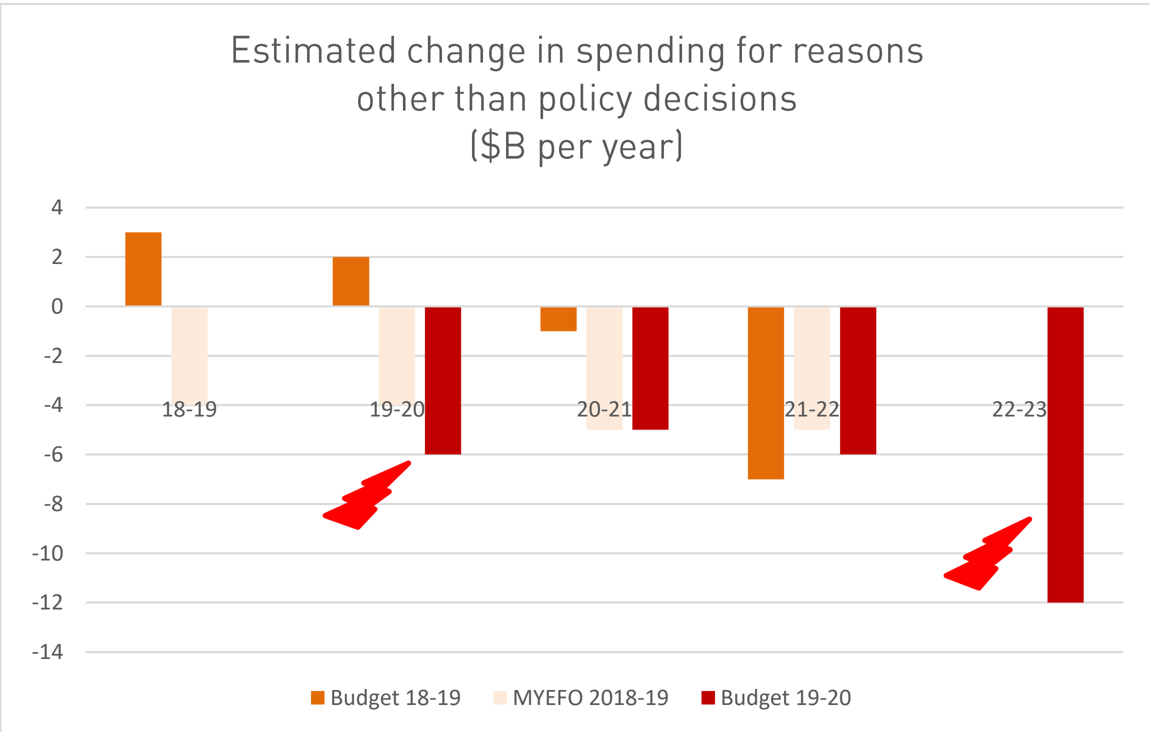
Attachment: Trends in Commonwealth budget spending

Figure 1:



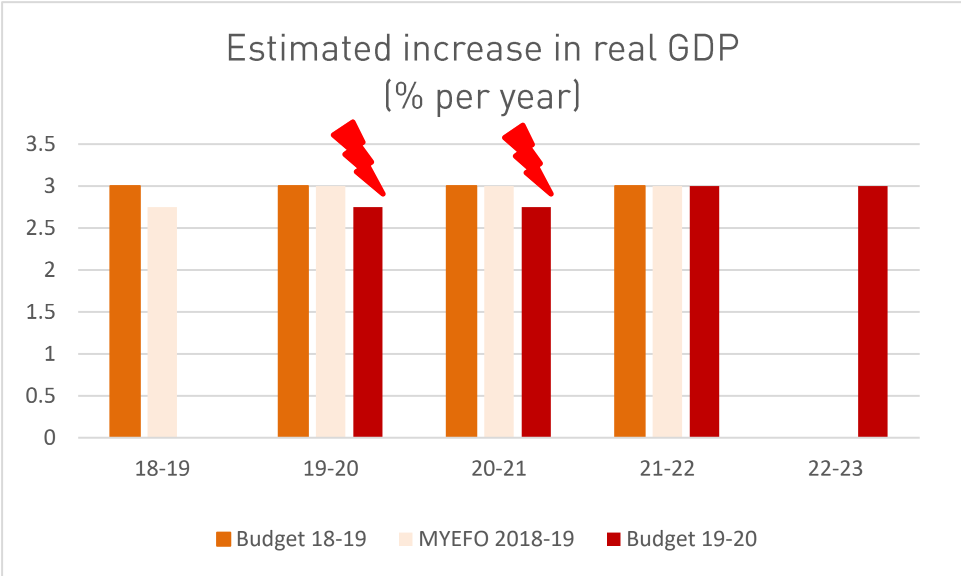
Source: Federal Budget Papers

Figure 2:



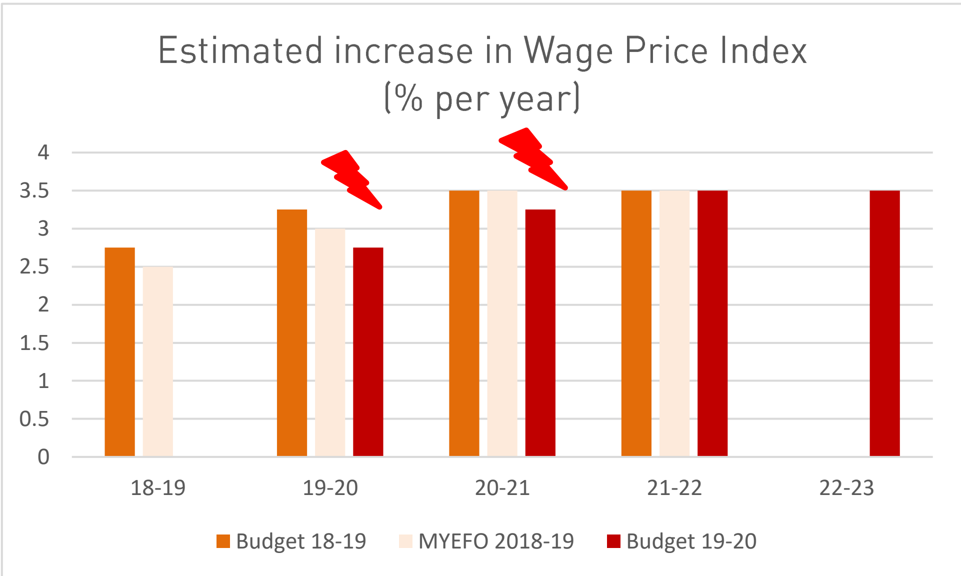
Source: Federal Budget Papers

Figure 3:



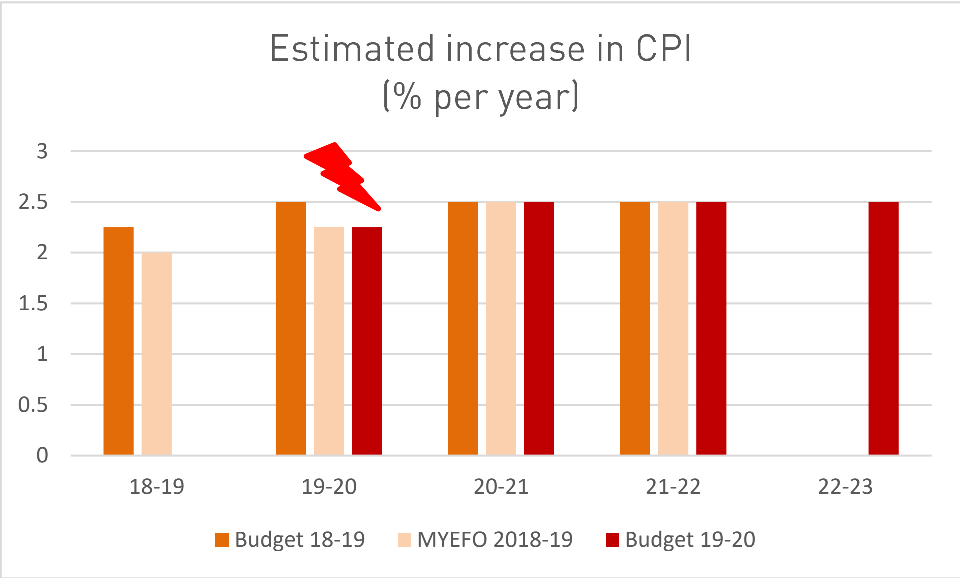
Source: Federal Budget Papers

Figure 4:



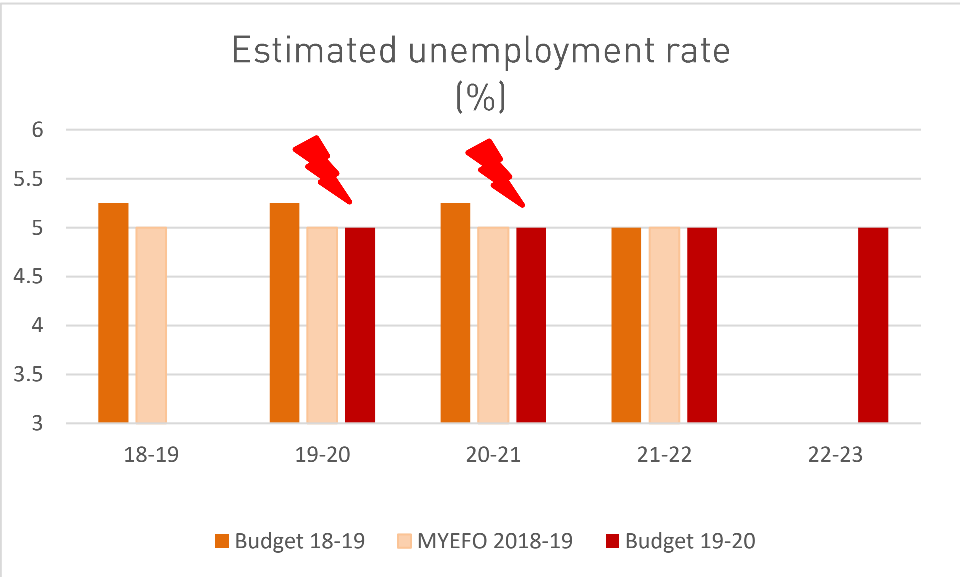
Source: Federal Budget Papers

Figure 5:



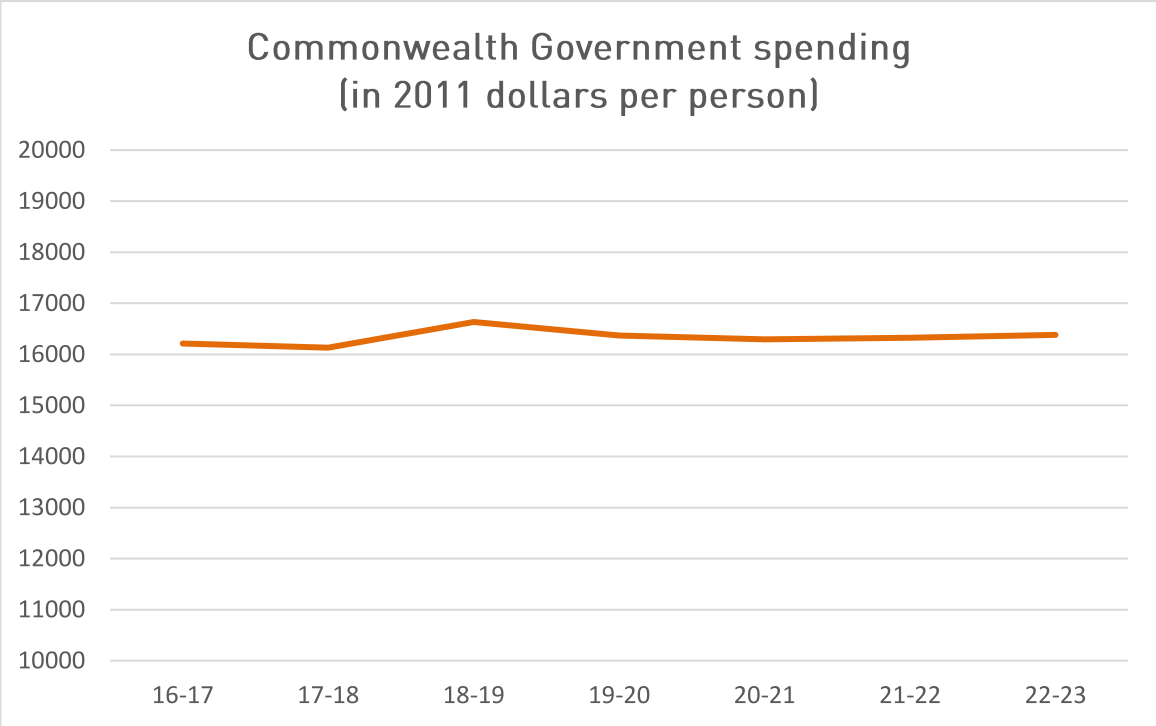
Source: Federal Budget Papers

Figure 6:



Source: Federal Budget Papers

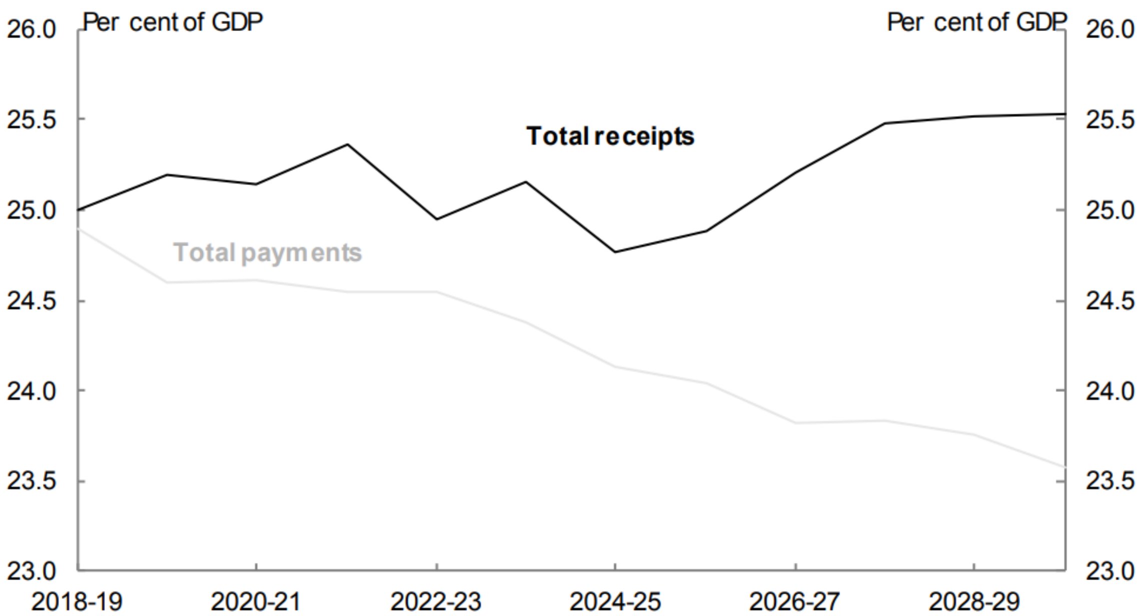
Figure 7



Source: Australian Government (2019) Budget Paper No 1.

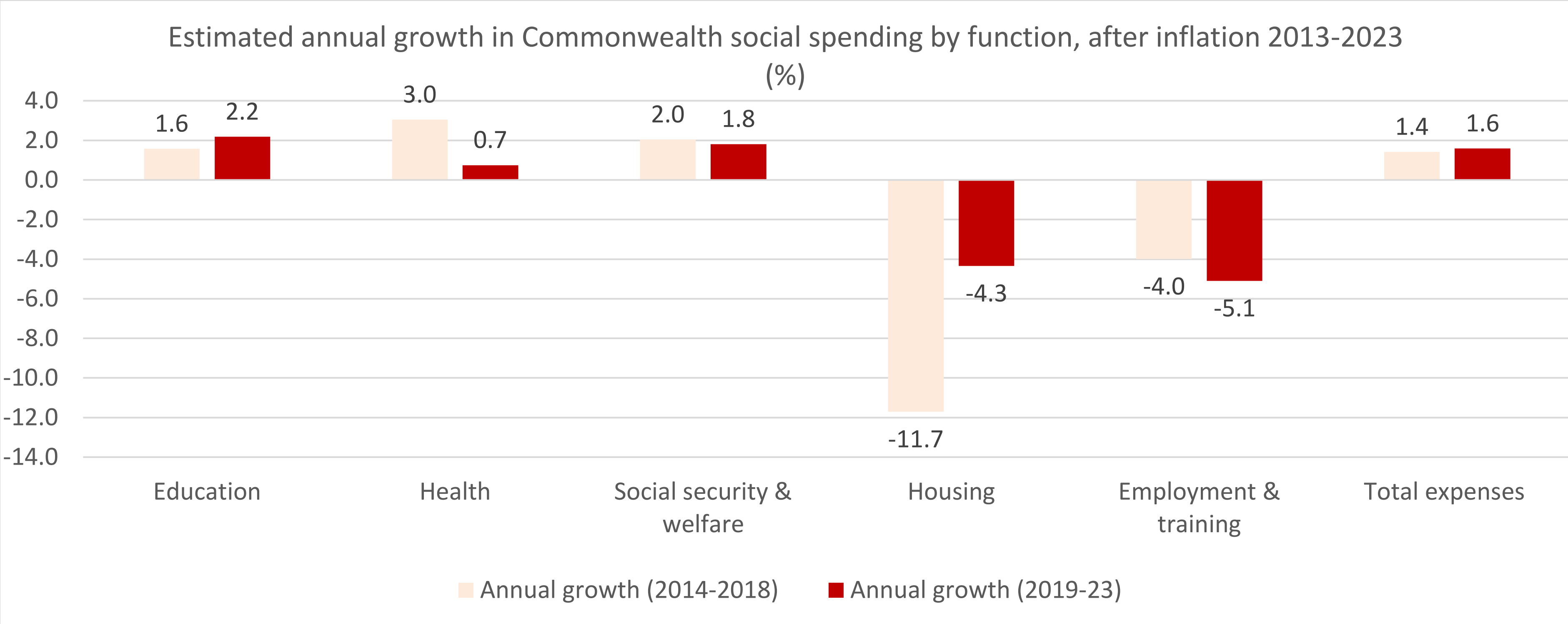
Note: Dollars per person, after inflation (cash underlying basis)

Figure 8: Commonwealth government receipts and payments (% of GDP)



Source: Australian Government (2019) Budget Paper No 1.

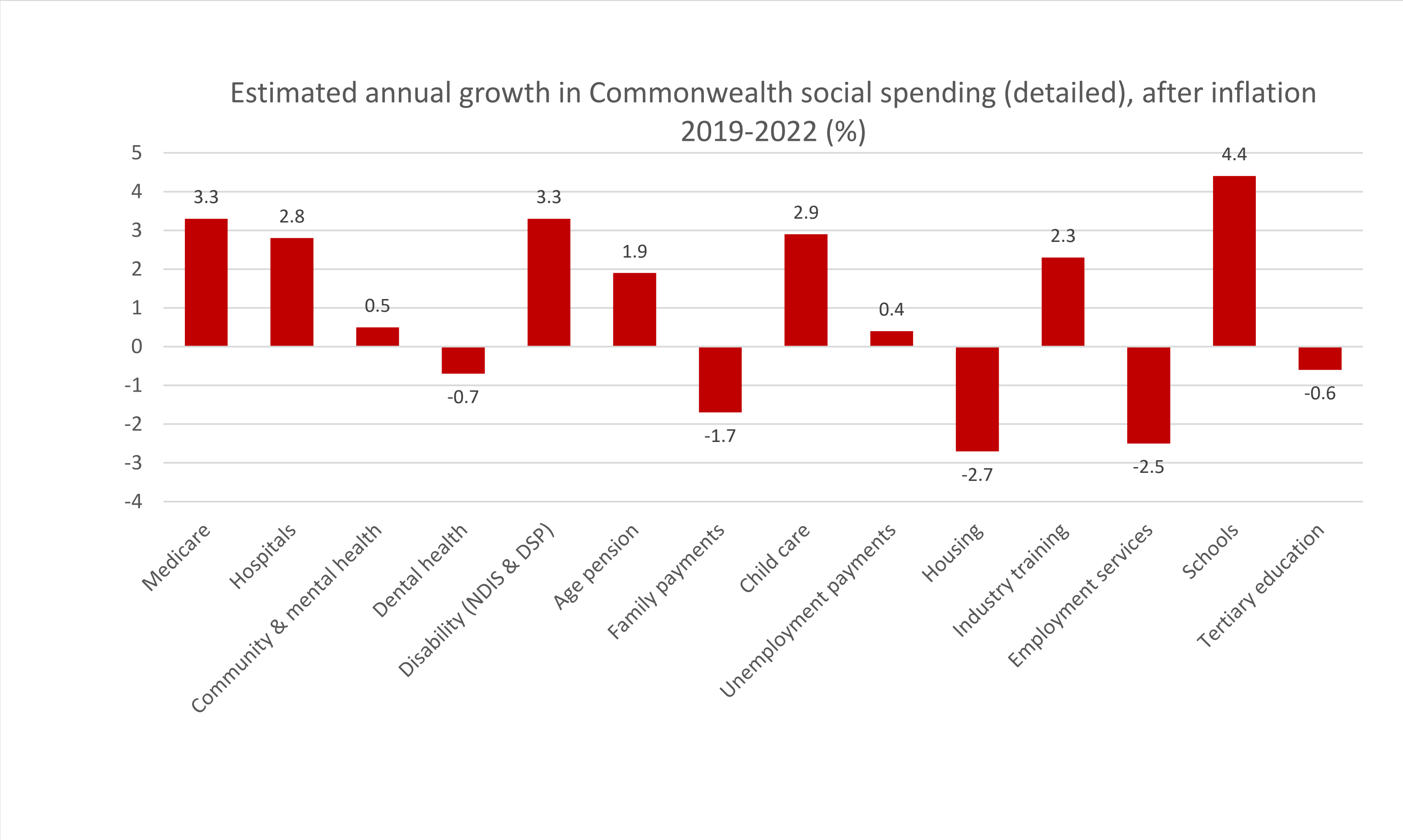
Figure 9



Source: Grattan Institute

Note: Each bar represents average annual growth (after inflation) over a *four year* period. 'Spending' refers to expenses, measured on an accruals basis (as distinct from the cash underlying basis used elsewhere in this brief). 'Housing' includes 'community amenities'.

Figure 10



Source: Australian Government (2019) Budget Paper No 1.

Note: Each bar represents average annual growth (after inflation) over a *three year* period. 'Spending' refers to expenses, measured on an accruals basis (as distinct from the cash underlying basis used elsewhere in this brief).