



AUSTRALIAN CHAMBER OF  
COMMERCE AND INDUSTRY

# Federal Budget 2013-14 CEO Update

A summary of major initiatives and  
updated budget parameters

14 May 2013





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# CHIEF EXECUTIVE MESSAGE

## Budget Ignores Small Business and Most Hard Savings Choices

I have just told the media that the 2013 federal budget is not likely to lift business confidence or economic activity. Small business have been ignored.

While there are some spending disciplines, the big repair job needed on the nation's finances is not found in this budget. It's still a budget big on deficits and weak on giving the economy the support needed to lift confidence and reduce the cost of doing business in Australia.

The government plans big spending in the out years of the decade, especially on the national disability scheme (DisabilityCare) and education (Gonski). The affordability of both is based on a new Medicare levy, estimates and projections about growth and some deferred future spending promises. This isn't a strong foundation given the vulnerability of the economy and poor forecasts in recent years.

There are some significant new spends on rail and major roads, which look sensible.

All of us at ACCI have a keen eye on the impact of this budget on small business, given our *Small Business Too Big to Ignore* campaign. Unfortunately, the cupboard is bare on that front. There's no company tax, personal tax or capital gains tax relief small business can draw on, nor any significant new measure to ease tax and superannuation compliance and paperwork.

The 1<sup>st</sup> July superannuation levy rise is still scheduled, with no offsetting saving to make it affordable to business.

Looking ahead, given the deficits and structural weaknesses in forecasts, a 'root and branch' review of government spending remains unfinished business that ACCI will need to advocate to the next Australian government beyond the September 2013 federal election.



One final suggestion; given our *Too Big to Ignore* campaign message, I strongly encourage media commentary by members centred around impacts on small and medium business.

This special budget night edition of the ACCI *CEO Update* is designed to put some flesh on key budget measures. It has been prepared by ACCI's Economics and policy teams in literally the minutes and hours around the budget lock-up, and without the benefit of a full analysis of the budget papers. On your behalf, I thank everyone for their work, well into this evening.

It will be supplemented in the coming days and weeks as the ACCI secretariat delves more deeply into policy announcements and departmental statements. I trust you find it a useful member service.

Our Chief Economist and Director of Economics and Industry Policy Greg Evans ([greg.evans@acci.asn.au](mailto:greg.evans@acci.asn.au)) is co-ordinating ACCI's budget activities and can point you in the right direction if further assistance is needed.

Kind regards,  
Peter Anderson  
Chief Executive



# NEW SPENDING AND REVENUE

## Spending Measures

MAJOR NEW SPENDING INITIATIVES, \$mn	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Infrastructure spending	-195.3	0.0	-517.7	-862.8	-1,510.5	-3,086.3
School funding package	-17.7	-532.0	-559.9	-754.5	-1,120.4	-2,984.5
DisabilityCare Australia	-11.0	-26.6	-44.4	-240.7	-1,563.1	-1,885.8
Boosting productivity through education	-16.2	-575.6	-481.0	-76.7	-78.3	-1,227.8
Helping the most vulnerable in our society	-66.8	-374.4	-260.6	-195.3	-81.7	-978.8
Investing in key health services	-34.3	-207.3	-192.6	-211.0	-231.3	-876.5
Defence operations and procurement	0.0	-555.4	-226.2	-32.6	-9.7	-823.9

## Revenue Measures

MAJOR NEW REVENUE MEASURES, \$mn	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Increase in Medicare Levy to 0.5 per cent	0.0	0.0	3,342.6	3,936.5	4,273.7	11,552.8
New corporate tax measures	0.0	108.4	895.3	1,499.3	1,693.5	4,196.5
Changes to Clean Energy Future package	109.8	191.8	256.6	1,542.3	1,326.7	3,427.2
Funding our National Plan for School Improvement	-1.0	117.9	459.8	966.6	1,060.1	2,603.4
Scrapping promised increase in FTB A	0.0	615.8	623.3	632.0	646.4	2,517.5
Family Payment Reform	-0.5	154.6	488.7	742.8	976.0	2,361.6
Deferring increase in foreign aid	0.0	0.0	326.5	688.2	906.5	1,921.2
Other	275.0	713.5	2,130.6	3,573.3	4,029.4	10,721.8



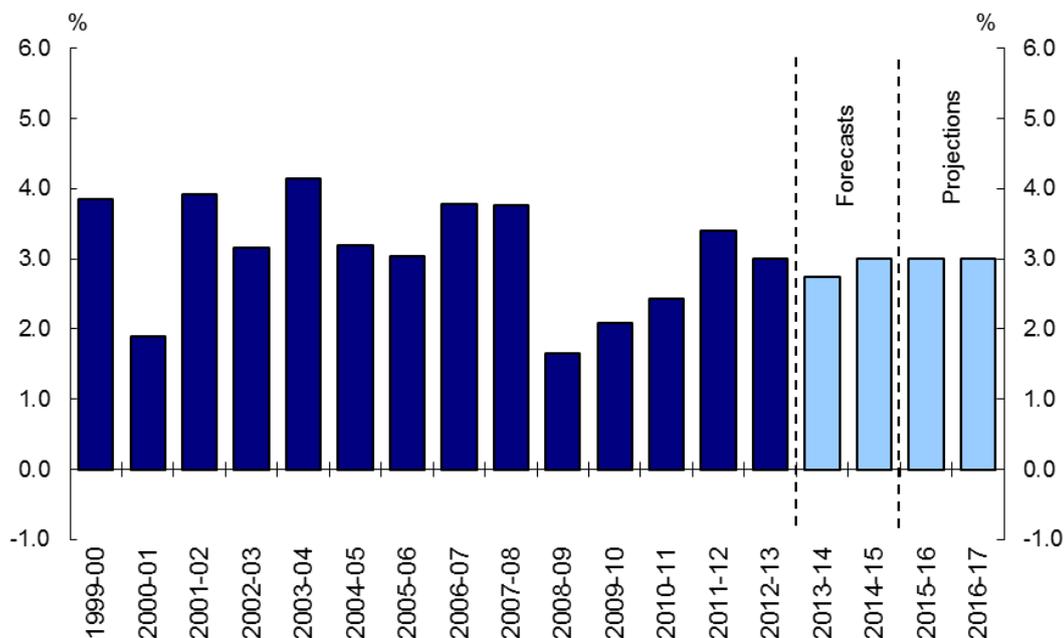
# ECONOMIC FORECASTS

## Slight Easing in Growth

The outlook for the economy remains broadly favourable. Economic growth is expected to ease slightly in 2013-14, slowing to 2¾ per cent having been downwardly revised by ¼ of a percentage point from MYEFO. A return to trend growth of 3 per cent is forecast in 2014-15. Treasury expect mining sector investment to peak in 2013-14, but to remain elevated well into the coming decade. However, the decline in resource sector investment after its peak will weigh on economic activity and growth in the economy will need to become more broadly-based if a trend pace of expansion is to be maintained.

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**Figure 1: Treasury Economic Growth Forecast**





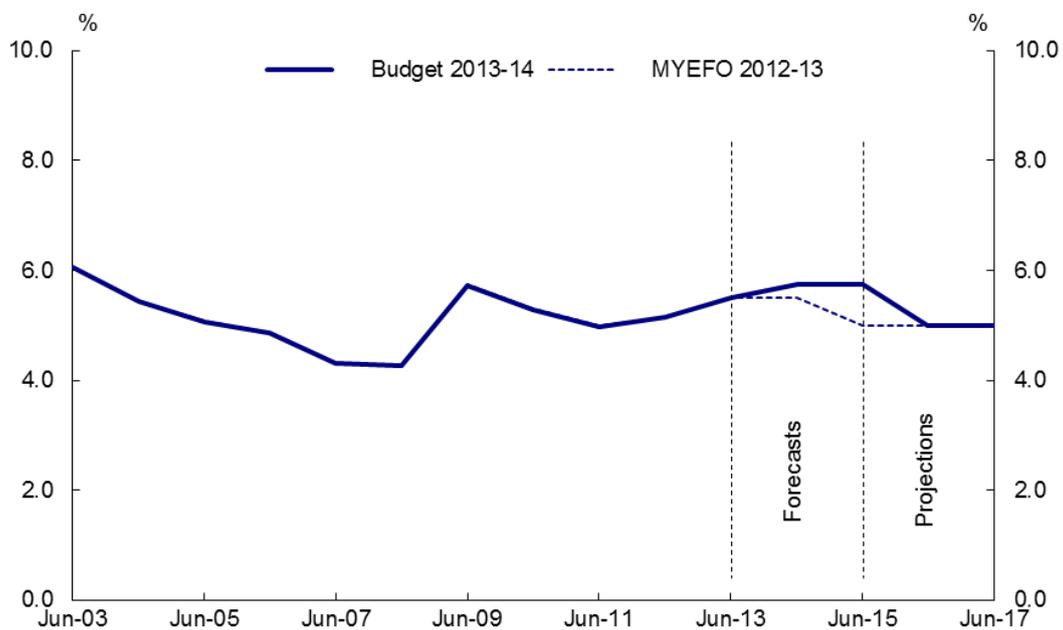
# LABOUR MARKET FORECAST

## Modest Jobs Growth

Labour market conditions are forecast to deteriorate further. Employment growth is expected to remain moderate at 1 ¼ per cent over the year to the June quarter in both 2013 and 2014. An improvement in the pace of job creation to 1 ½ per cent is forecast for the June quarter of 2015.

The moderate pace of employment growth is seen leading to a further softening in the labour market. Treasury forecast the unemployment rate to rise slightly from 5 ½ per cent in the June quarter of 2013 to 5 ¾ per cent by mid-2014. The unemployment rate is expected to remain at that level by the June quarter of 2015.

**Figure 2: Treasury Unemployment Rate Forecast**





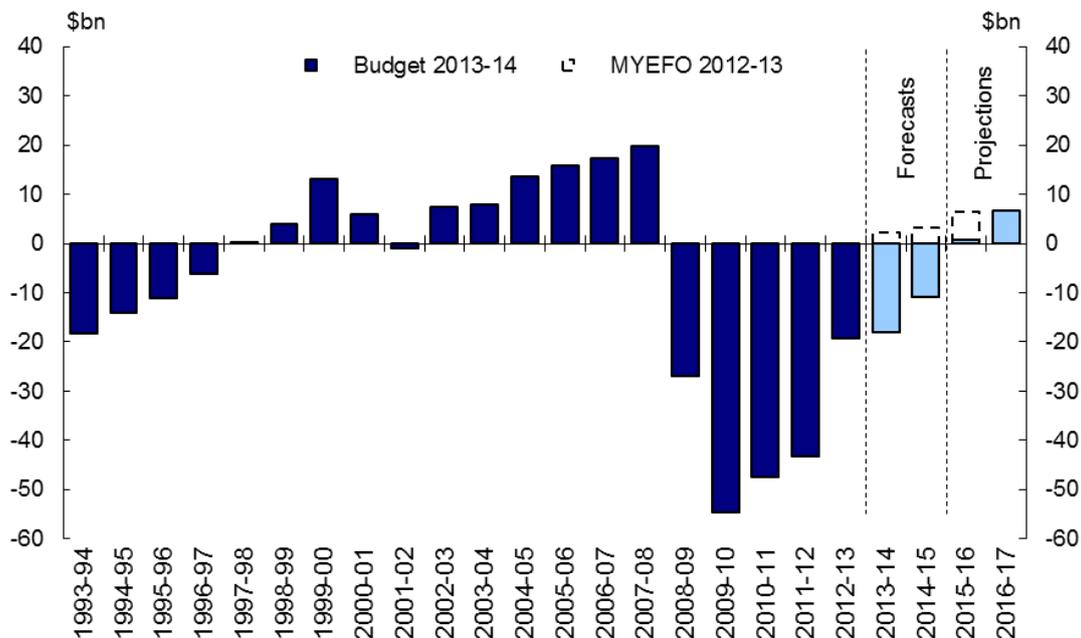
# FISCAL OUTLOOK

## Surplus Deferred to 2016-17

The budget remains deep in deficit. Treasury expect the government will record a fifth consecutive deficit of 19.4bn in 2012-13, a massive downward revision on forecasts at MYEFO that a small surplus of 1.1bn would be realised. The deficit narrows only marginally to -18.0bn in 2013-14 before improving to 10.9bn in 2014-15.

Treasury forecast the budget will return to balance in 2015-16 (just 0.8bn in the black in that financial year) before finally recording a surplus of 6.6bn in 2016-17. If those forecasts are realised the budget will have been in deficit for seven consecutive years.

**Figure 3: Budget Underlying Cash Balance**





# FISCAL STRATEGY

## Spending Cap Breached

The government's medium-term fiscal strategy remains unchanged, as does the deficit exit strategy. However, the credibility of both these strategies is now diminished in light of their poor execution and given the results they have yield. The government is now forecasting a return to budget balance in 2015-16 and surplus in 2016-17.

The Government's medium-term fiscal strategy remains to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.7 per cent); and
- improve the Government's net financial worth over the medium term.

The details of the deficit exit strategy also remain unchanged. The government plans to:

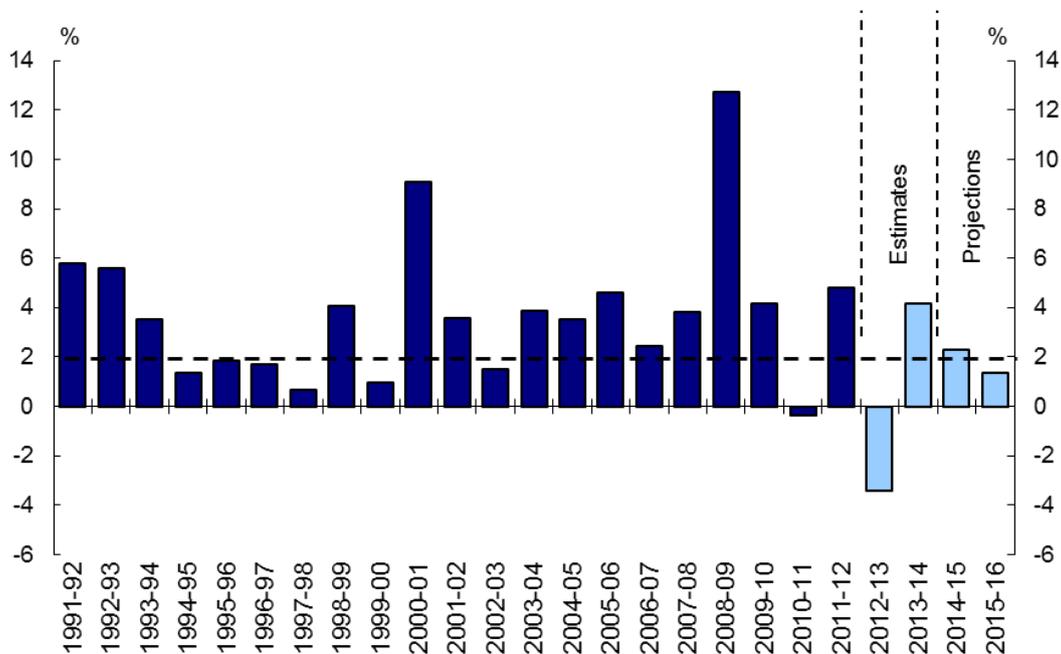
- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- build growing surpluses by holding real growth in spending to 2 per cent a year, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.



The 2 per cent cap on real spending was breached in 2011-12 and is forecast to be breached again in 2013-14 and 2014-15. However, “on average” growth in real spending has been around 2 per cent from 2011-12 to 2014-15 and is forecast at 1.3 per cent over the five years to 2016-17.

New spending initiatives in the budget of \$15.6bn over the forward estimates have been funded largely through tax increases, \$25.7bn, and savings measures, \$17.3bn.

**Figure 4: Real Government Spending**





# PERSONAL TAXATION

## Medicare Levy Increased

From 1 July 2014, the Medicare levy will increase by 0.5 percentage point from the current 1.5 per cent to 2 per cent to fund the DisabilityCare Australia. This is estimated to raise \$11.4 billion over the forward estimates period and \$20.4 billion to 2018-19.

## Tax Free Threshold Increase Deferred

The proposed increase in the tax free threshold from \$18,200 to \$19,400 from 1 July 2015 is deferred until the carbon price is projected to be above \$25.40 in the Budget. This measure is estimated to save \$1.5 billion over the forward estimates period. The revised carbon price is currently projected to be around \$12.10 in 2015-16 and is forecast to reach \$25.40 in 2018-19.

## Deductions for Work-Related Self-Education Expenses Capped

From 1 July 2014, work-related self-education expense deductions will be capped at \$2000. This measure is estimated to save \$514.3 million over the forward estimates period.



# Net Medical Expenses Tax Offset Phased Out

The Government will phase out the net medical expenses tax offset (NMETO) with transitional arrangements for those currently claiming the offset. This measure is estimated to save \$963.5 million over the forward estimates period.



# FAMILY PAYMENT

## Additional Increase in FTB-A Shelved

The Government will not proceed with the additional increase to FTB Part A announced in the 2012-13 Budget. This measure is estimated to save \$2.5 billion over the forward estimates period.

## Family Payment Reform

The following family payment reform measures will save \$2.4 billion over the forward estimates period:

### FTB-A Increase to Replace Baby Bonus

From 1 March 2014, the Baby Bonus will be replaced with an increase in FTB Part A. For those families not claiming Paid Parental Leave (PPL), FTB-A will be increased by \$2,000 following the birth or adoption of a first child and by \$1,000 following the birth or adoption of a second and subsequent child.

### Indexation Pauses on Upper Income Limits and Supplements

This measure will maintain the current upper income test limit of \$150,000 for FTB-B, the dependency tax offsets, the PPL and Dad and Partner Pay. The FTB-A upper income free area will remain at \$94,316, plus an additional \$3,796 for each child after the first. FTB supplement amounts will also be maintained at current level of \$726.35 per child per annum for FTB-A and \$354.05 per family per annum for FTB-A.



# BUSINESS TAXATION

## Protecting the Corporate Tax Base

The Government will introduce measures to close loopholes and protect corporate tax base through:

- Tightening the rules to prevent profit shifting – will raise \$1.5 billion over the forward estimates period;
- Removing immediate deductibility for expenditure on exploration rights and information – will raise \$1.1 billion over the forward estimates period;
- Closing loopholes in the consolidated regime – will raise \$540 million over the forward estimates period;
- Targeting offshore marketing hubs and business restructures – will raise \$576.5 million over the forward estimates period;
- Closing loopholes in the Offshore Banking Unit regime – will raise \$320 million over the forward estimates period;
- Improving the integrity of foreign resident CGT regime – will save \$219.2 million over the forward estimates period; and
- Preventing ‘dividend washing’ – will raise \$60 million.

## Monthly PAYG Instalments Extended

The Government will extend the requirement to make monthly PAYG income tax instalments to include all large entities in the PAYG instalment system, including trusts, superannuation funds, sole traders and large investors. All other entities, except corporate tax entities, in the PAYG instalments system with turnover of \$20



million or more will move to monthly PAYG instalments from 1 January 2017. This measure will raise \$1.4 billion over the forward estimates period.

## R&D Tax Incentive Further Targeted

The Government will limit the access to the R&D Tax incentive so that it only applies to companies with annual aggregate Australian turnover of less than \$20 billion. This measure will apply to income years starting on or after 1 July 2013. This measure is estimated to save \$1.1 billion over the forward estimates period.



# INFRASTRUCTURE

## Increase in Spending

The Government will invest a further \$24 billion on roads, rail and ports from 2014-15 to 2018-19. However, just \$3.1 billion will be spent in the forward estimates period.

The Budget provides funding for two key urban public rail projects-- \$715 million for the Brisbane Cross River Rail and \$3 billion for Melbourne Metro. Funding will also be provided for road infrastructure, including \$4.1 billion on the Bruce Highway over the ten years from 2012-13, \$1.8 billion for Sydney Motorways (M4 extension and M5 duplication), \$400 million for the F3 to M2 missing link in Sydney, \$500 million for Midland Highway in Tasmania, \$448 million for South Road Upgrade in Adelaide and \$418 million for Swan Valley Bypass in WA.



# WORKPLACE RELATIONS

## Fair Entitlements Guarantee - Outworkers in the TCF Industry

Outworkers in the textile, clothing and footwear (TCF) industry will have their unpaid entitlements protected if their employer goes into bankruptcy or liquidation under the federal Fair Entitlements Guarantee Scheme. The Fair Entitlements Guarantee scheme provides financial assistance for workers when an employer goes into liquidation and is unable to pay employee entitlements.

Protected unpaid entitlements include:

- up to 13 weeks of unpaid wages;
- annual leave;
- long service leave;
- payment in lieu of notice – maximum of five weeks; and
- redundancy – maximum of four weeks per full year of service.

The extension of the Fair Entitlement Guarantee to TCF contract outworkers will cost \$1.2 million over five years.

## Additional Funding for Queensland Working Women's Service

Additional funding for the Queensland Working Women's Service (QWWS). QWWS is a not-for-profit community organisation with specialist workplace relations expertise providing free and confidential services for female workers. Government will provide \$776,000 over three years from 1 July 2013. The QWWS is one of five Community Based Employment Services (CBEAS) currently funded by the Australian Government.



## Asbestos-related Diseases

The Government will invest more than \$10.5 million over four years to deliver a national approach to protect Australians from asbestos-related diseases. This funding follows the Government's introduction of legislation to establish the Asbestos Safety and Eradication Agency which will work with and have representatives from all levels of government, as well as unions, industry and support groups to implement a national plan of action to protect Australians from asbestos. The Government established the Office of Asbestos Safety in August 2012 to commence work with states, territories and other stakeholders to develop the new national strategic plan by 1 July 2013. The Bill to establish the agency is currently before the House of Representatives. It is the Government's intention that the agency will commence operations from 1 July 2013.

## Fair Work Commission and Workplace Bullying

The Government will provide an additional \$21.4 million to the Fair Work Commission as a result of the Fair Work Amendment Bill 2013 and the creation of a new workplace bullying jurisdiction to commence from 1 July 2013 (subject to the passage of legislation which is currently before the Parliament).

## Fair Work Commission and Pay Equity Unit

The budget papers indicate that in 2013 the Fair Work Commission will establish a Pay Equity Unit to undertake research and data collection to inform matters related to pay equity under the *Fair Work Act 2009*.

## Fair Work Ombudsman

The Government will provide an additional \$25.7 million to the Fair Work Ombudsman to ensure Australian employers and employees have access to information about their rights and obligations.



# INTERNATIONAL TRADE

## Export Market Development Grants

Export market development grants have been reduced to \$125.4 million as anticipated.

## Overseas Aid Budget

AusAID will receive an increase in aid spending of \$756.1 million

The Government has announced \$390.9 million to support the Millennium Development Goals (MDGs) in our region.

Australian Government will make a payment of \$50.6 million to the International Monetary Fund (IMF) Poverty Reduction and Growth Trust.

Australian Federal Police will receive \$2.1 million over two years from 2013-14 to continue its participation in the United Nations Mission in South Sudan.

The Government will commit \$14.1 million over four years to continue DFAT's coordination role for the Regional Assistance Mission to the Solomon Islands (RAMSI).

## Australia in the Asian Century

Austrade will continue to administer the new Asian Century Business Engagement (ACBE) Plan. Budget allocated is \$1.5 million. ACCI does not consider this to be adequate.



## Australia's Overseas Diplomatic Network

The Government will invest \$52.6 million over three years to construct secure, purpose-built residential accommodation in Kabul to provide a more manageable security environment for Australian staff working in Afghanistan.

The Government will also allocate \$50.6 million over seven years to construct a new, more secure High Commission in Kenya.

## International Engagement

The Budget outlines the Government's commitment to support the G20 work, including outreach to non G20 countries in our region.

There is no apparent recognition of Australia becoming the chair of the Indian Ocean Rim Association for Regional Cooperation in November this year.

The Government will provide \$215.9 million over seven years to upgrade and replace the government's secure international communications network.

## Food Security

A new initiative has been announced for the Australian Centre for International Agricultural Research (ACIAR) and AusAID in Myanmar which will focus on improving food security and rural livelihoods in the central dry zone and the Ayeyarwaddy Delta.



# EMPLOYMENT, EDUCATION & TRAINING

## Skills & Vocational Training

In summary, the good news is no significant cuts to vocational training budget measures, some reallocations within budget, and one new funding measure. Budget items are consolidated into four funding streams:

- Enterprise base funding (including NWDF and WELL)
- Skills (including AACs, Accelerated Apprenticeships)
- Improving Access to Training
- Support for the National Training System

The new funding measure is for Alternative pathways for Trades Apprenticeships to fund industry led pilot programs in high-demand trades: \$68 m over four years. This is additional to the accelerated apprenticeship funds.

“New” Skills Connect Fund of \$45 m from 1 July 2013 to provide a single point of access. This funding is a reallocation from existing funds such as NWDF, but will allow for enterprises to access funds which would otherwise require a mix of funding support from NWDF, WELL etc. This concept is a specific allocation to fund the concept that was announced in September 2011.

Australian Skills Quality Authority (ASQA) - Government to redirect \$15.0 million over two years from the National Training System Commonwealth Own Purpose Expenditure to ASQA to offset a projected shortfall in cost recovery revenue in 2012/13 and 2013/14. This will allow ASQA to maintain existing activities to regulate the vocational education and training sector and to gradually transition to full cost recovery

Australian Skills Centres of Excellence — program cancelled saving from 1 July 2013 of \$18.0 million over three years.



# Higher Education

Major cuts already announced prior to budget, including the 2% efficiency dividend, removal of early discount to students for fee payment up front, \$1.2 b change to start up scholarships and the capping of the self-education expenses tax deduction. Additional measures announced tonight:

- \$135.3 m over five years to extend the Future Fellowships scheme for mid-career researchers from Australia and overseas providing 150 more fellowships
- \$185.9 m over two years from 1 Jul 13 to support the continued operation and maintenance of research facilities
- \$84.6 m over four years to fund sub-bachelor and masters-level places – likely to be 1650 additional places. Post-graduate places particularly relevant for higher standards for teacher training, and sub-bachelor targeted (but not exclusively) at Asian languages.

# Education

- School transitions: \$127.7 million to extend the Youth Connections program, School Business Community Partnership Brokers program and the myfuture career website. The funding includes:
  - \$77.1 million to the Youth Connections program
  - \$46.9 million to the School Business Community Partnership Brokers program to support community partnerships; and
  - \$3.7 million for national career development initiatives including the highly valued *myfuture* career website and Job Guide.
- Gonski: \$9.8 billion commitment to increase school funding over six years, along with indexation and reforms to lift student achievement under the National Plan for School Improvement. No new commitment.
- Indigenous Education: \$659 million to support Aboriginal and Torres Strait Islander students over the next five years.
- Disability Access to education: extra \$100 million under the More Support for Students with Disabilities program



- Childcare: continuation of the indexation pause of the child care rebate cap for a further three years from 2014-15: saving of \$105.8 million over the forward estimates.
- After Hours Childcare: \$1.3 million to provide more flexible child care.

## Employment

- Increased Earning threshold: Those on income support to earn up to \$38 more per fortnight before their payments are affected. The increased threshold will affect around 800,000 to a cost of \$258 million. Under this change, Australians on Parenting Payment Partnered, Newstart Allowance, and Widow, Sickness or Partner Allowance will be able to earn \$100 per fortnight, up from \$62, before their income support is reduced.
- Pensioner education Supplement: \$39.7 million investment over four years to extend the Pensioner Education Supplement (PES) to all single principal carer parents receiving Newstart Allowance. From 1 January 2014, single principal carer parents receiving Newstart Allowance who take up approved study will be entitled to PES. The supplement is paid at a rate of \$62.40 per fortnight or \$31.20 per fortnight for a concessional study load.
- Employment Services/Participation: \$15.7 million to deliver 10 more Jobs and Skills Expos ongoing funding for 20 Local Employment Coordinators (LECS) in Priority Employment Areas until 30 June 2014.
- Relocation Support for Jobseekers and Apprentices: \$3.5 million to maintain the relocation allowance to assist job seekers to relocate to take up employment and apprenticeships before 30 June 2014.

## Immigration

Australia's migration program will be maintained at 190 000 places in 2013-14; 128 550 places for skilled migrants, 60 885 places for family migration and 565 places for migration under special eligibility.