Budget Review 2014–15

Introduction

This year’s Budget is the first budget of the Coalition Government.

The measures the Government has announced in the Budget represent a significant reprioritisation of resources and tightening of fiscal policy over the medium term. Unsurprisingly, given the nature and breadth of the proposed changes, the Budget has sparked a vigorous public debate about the need for change, the distributional effects of the Budget proposals, and the appropriateness of individual measures.

The Parliament is rightly the focal point of this debate. It is through the parliamentary debate that many voices and views will be heard and considered. The Parliamentary Library is uniquely placed to help inform this debate, not only through the Budget Review but also through its ongoing role of supporting the work of Parliament by providing information, analysis and advice to senators and members and parliamentary committees.

The Parliamentary Library has produced its annual Budget Review to assist parliamentarians in considering the key issues posed by the 2014–15 Budget. The first section deals with the Budget as a whole: an overview provides a summary of the headline numbers, the economic context, the Government’s fiscal strategy and broader policy agenda, and how the fiscal outlook has changed since the Mid-Year Economic and Fiscal Outlook (MYEFO); the next two articles look at the total impact of the Budget and reactions to it. The Budget briefs section comprises articles which provide background information and analysis of the key measures proposed in this year’s Budget and cover a wide range of areas across all portfolios.

As with previous Budget Reviews, this year’s has been prepared under time pressures with a view to making it available to parliamentarians as soon as possible. While care has been taken to ensure that the articles are accurate and balanced, they are based on information that was publicly available at the time of preparation. The articles do not intend to make value judgements about the relative importance of different measures or provide a comprehensive assessment of the Budget.

Parliamentarians are invited to raise points requiring amplification or clarification directly with the research specialist concerned, and general comments on papers are welcome. Any other feedback should be forwarded to me.

Dr Dianne Heriot
Parliamentary Librarian
May 2014
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<tr>
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Overview
Robert Dolamore

Introduction
The 2014–15 Budget was introduced into Parliament on 13 May 2014. It is the first Budget of the Coalition Government. This overview provides a summary of the headline numbers, the economic context, the government’s fiscal strategy and broader policy agenda, and how the fiscal outlook has changed since the Mid-Year Economic and Fiscal Outlook (MYEFO).

The Budget is the government’s key economic and fiscal statement each year. The major influences on the content of the Budget include past revenue and expenditure decisions, the economic outlook, and the government’s fiscal strategy and broader policy agenda.

The Parliament plays a critical role in scrutinising and debating the content of the Budget. It has to consider questions such as:

• Will the decisions in the Budget improve the wellbeing of current and future generations?
• How well does the Budget manage the risks and opportunities Australia faces?
• What are the implications for economic growth and living standards?
• What are the distributional effects of the Budget?
• What is the quality of individual spending and revenue decisions?
• What trade-offs have been made?
• What has been left for another day?

The headline numbers

• The underlying cash deficit is estimated to be $49.9 billion (–3.1 per cent of GDP) in 2013–14, $29.8 billion (-1.8 per cent of GDP) in 2014–15 and $2.8 billion (-0.2 per cent of GDP) by 2017–18.
  – The Budget is forecast to be back in balance by 2018–19 with surpluses building to at least 1 per cent of GDP by 2023–24.

• Over the four years to 2017–18 accumulated deficits are estimated to total $60.2 billion.
  – At the time of MYEFO, deficits for the four years to 2017–18 were estimated to total $104.1 billion (using the medium–term projection for 2017–18 of a deficit of $28.4 billion).

• General government sector receipts are estimated to be $363.5 billion (23 per cent of GDP) in 2013-14, $385.8 billion (23.6 per cent of GDP) in 2014–15 and $468 billion (24.9 per cent of GDP) by 2017–18.

• Tax receipts are estimated to be $341.6 billion (21.6 per cent of GDP) in 2013–14, $360.3 billion (22.1 per cent of GDP) in 2014–15 and $437.6 billion (23.2 per cent of GDP) in 2017–18.

• General government sector payments are estimated to be $410.7 billion (25.9 per cent of GDP) in 2013–14, $412.5 billion (25.3 per cent of GDP) in 2014–15 and increase to $467.1 billion (24.8 per cent of GDP) by 2017–18.

• In terms of total general government receipts and payments (reflecting both the influence of existing policy settings and new measures in this Budget), the revenue side is forecast to make the biggest contribution as a share of GDP to bringing the Budget back into surplus.

• General government sector net debt is estimated to be $197.9 billion (12.5 per cent of GDP) in 2013-14, $226.4 billion (13.9 per cent of GDP) in 2014–15 and $264.2 billion (14 per cent of GDP) by 2017–18.

• The face value of Commonwealth Government Securities on issue is expected to fall from $667 billion in 2023–24, as estimated at the time of MYEFO, to $389 billion, assuming future tax relief.
The Budget deficit is forecast to gradually fall from $49.9 billion in 2013–14 to $2.8 billion in 2017–18.

### Underlying Cash Balance

<table>
<thead>
<tr>
<th>Year</th>
<th>$m</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012–13</td>
<td>-18,834</td>
<td>-1.2</td>
</tr>
<tr>
<td>2013–14</td>
<td>-49,855</td>
<td>-3.1</td>
</tr>
<tr>
<td>2014–15</td>
<td>-29,773</td>
<td>-1.8</td>
</tr>
<tr>
<td>2015–16</td>
<td>-17,084</td>
<td>-1.0</td>
</tr>
<tr>
<td>2016–17</td>
<td>-10,562</td>
<td>-0.6</td>
</tr>
<tr>
<td>2017–18</td>
<td>-2,825</td>
<td>-0.2</td>
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</table>


Achieving a surplus depends on closing the gap between payments and receipts.

- Payments peaked at 26 per cent of GDP in 2009–10 and are estimated to be 25.3 per cent of GDP in 2014–15 and decline to 24.8 per cent in 2017–18.
- Receipts bottomed at 21.5 per cent of GDP in 2010–11 and are forecast to be 23.6 per cent of GDP in 2014–15 and increase to 24.9 per cent of GDP in 2017-18.

### Net Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>$m</th>
<th>% GDP</th>
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</thead>
<tbody>
<tr>
<td>2012–13</td>
<td>152,982</td>
<td>10.0</td>
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<tr>
<td>2013–14</td>
<td>197,851</td>
<td>12.5</td>
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<tr>
<td>2014–15</td>
<td>226,388</td>
<td>13.9</td>
</tr>
<tr>
<td>2015–16</td>
<td>246,362</td>
<td>14.4</td>
</tr>
<tr>
<td>2016–17</td>
<td>261,280</td>
<td>14.6</td>
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<tr>
<td>2017–18</td>
<td>264,200</td>
<td>14.0</td>
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</tbody>
</table>

The Budget includes significant policy tightening that has its biggest impact from 2016–17.

Effect on the Underlying Cash Balance of changes since MYEFO

<table>
<thead>
<tr>
<th>Year</th>
<th>Policy measures $m</th>
<th>Parameter variations $m</th>
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<tbody>
<tr>
<td>2013–14</td>
<td>-514</td>
<td>-2,352</td>
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<tr>
<td>2014–15</td>
<td>1,718</td>
<td>2,416</td>
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<tr>
<td>2015–16</td>
<td>5,934</td>
<td>1,065</td>
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<tr>
<td>2016–17</td>
<td>10,414</td>
<td>-3,309</td>
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</table>

Effect of policy and parameter changes on the Underlying Cash Balance since MYEFO


Where does government spending go in 2014–15?

Estimates of expenses by function

<table>
<thead>
<tr>
<th>$b</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security &amp; welfare</td>
<td>145.8</td>
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<tr>
<td>Health</td>
<td>66.9</td>
</tr>
<tr>
<td>Education</td>
<td>29.6</td>
</tr>
<tr>
<td>Defence</td>
<td>24.2</td>
</tr>
<tr>
<td>General public services</td>
<td>23.2</td>
</tr>
<tr>
<td>All other functions</td>
<td>43.2</td>
</tr>
<tr>
<td>Other purposes</td>
<td>82.0</td>
</tr>
<tr>
<td>Total</td>
<td>414.9</td>
</tr>
</tbody>
</table>

Expenses by function in 2014–15


Where does the revenue come from in 2014–15?

<table>
<thead>
<tr>
<th>$b</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals income tax</td>
<td>183.6</td>
</tr>
<tr>
<td>Company &amp; resource rent taxes</td>
<td>75.3</td>
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<tr>
<td>Sales tax (incl. the GST)</td>
<td>58.1</td>
</tr>
<tr>
<td>Fuels excise</td>
<td>17.6</td>
</tr>
<tr>
<td>Other taxes</td>
<td>34.3</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>22.5</td>
</tr>
<tr>
<td>Total</td>
<td>391.3</td>
</tr>
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</table>

Revenue in 2014–15

The economic context

The domestic economic outlook

Over the last year the Australian economy has been growing at a solid rate but below its trend rate (estimated to be around 3 per cent per annum). During 2013, a decline in mining and non-mining investment, subdued growth in consumer spending and the high level of the exchange rate all weighed on activity. However, the Reserve Bank of Australia (RBA) reports in its latest Statement on Monetary Policy that growth looks to have strengthened a little over the past six months.1 This improvement has been underpinned by very strong growth in resource exports and slightly stronger consumption growth despite weak growth in household income.

Treasury is forecasting below trend growth of 2.5 per cent in 2014–15 firming to 3 per cent in 2015–16 (Table 1).2 The RBA is also forecasting below trend growth in 2014–15 but marginally stronger than Treasury at between 2.25 and 3.25 per cent. The RBA also appears marginally more optimistic about the outlook for 2015–16, forecasting growth of between 2.75 and 4.25 per cent.3

Table 1: Treasury and the Reserve Bank of Australia’s growth forecasts (real GDP, per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>2.75</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Reserve Bank of Australia</td>
<td>2.75</td>
<td>2.25-3.25</td>
<td>2.75-4.25</td>
</tr>
</tbody>
</table>


With growth running below trend, Treasury is forecasting the unemployment rate will drift higher, peaking at around 6.25 per cent in 2014–15 and 2015–16. Notwithstanding the recent improvement in the labour market, the RBA also considers it likely the unemployment rate will increase marginally over the next year. It is not forecasting the unemployment rate to decline on a sustained basis until after mid-2015 when GDP growth is expected to rise above trend. Even then, the fall in the unemployment rate is expected to be relatively modest by mid-2016.4 Both Treasury and the RBA expect inflation will remain well contained and consistent with the RBA’s inflation target. Treasury is forecasting the Consumer Price Index (CPI) will be 2.25 per cent in 2014–15 and 2.5 per cent in 2015–16.

A challenging transition is underway

As the Australian economy continues to move into the production and export phase of the resources boom, a re-balancing of economic growth is under way.

Resources investment, the key driver of growth in recent years, is expected to fall sharply over the next few years, detracting from growth. At the same time fiscal consolidation at the federal and state levels means that the contribution to growth from government spending is likely to be low by historical standards. The exchange rate remains at a relatively high level, putting pressure on trade-exposed sectors. And, Australia’s terms of trade are forecast by Treasury to fall by 6.75 per cent in 2014–15 and 1.75 per cent in 2015–16, which will weigh on nominal income growth.

Given this outlook, other sources of growth will need to strengthen if the Australian economy is to make a smooth transition. Part of the slack will be taken up by stronger export growth as the massive expansion of production capacity in the resources sector continues to come online. However, it is generally felt that this will not be sufficient to fully offset the effects of the expected decline in resources investment.

There are encouraging signs that household consumption and dwelling investment are strengthening in response to the current low interest rate environment. The RBA reports that household consumption gradually strengthened over 2013 and forecasts it will continue to rise to a bit above the trend pace of GDP growth by mid–2016. Despite subdued labour market conditions households appear to be responding to low interest rates and rising household wealth (largely the result of rising house prices). Leading indicators suggest that a

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3. Ibid., p. 63.
4. Ibid., p. 64.
pronounced pick-up in dwelling investment is under way after a period of several years when it has been relatively weak, as both a share of GDP and relative to population growth.

However, the outlook for non-resources business investment remains subdued. The RBA reports firms continue to indicate through its liaison program that they are waiting to see a sustained pick-up in demand before committing to further investment. The RBA argues that such an improvement is in prospect. It considers non-resources business investment will pick up gradually, supported by low interest rates, increasing activity in the housing sector and a gradual increase in the growth of consumption. Treasury is also forecasting growth in non-resources business investment which will remain below trend in 2014–15 but will pick up in 2015–16 as firms begin to respond to improving demand, existing levels of spare capacity are absorbed and GDP growth returns towards trend.5

While things have gone pretty smoothly thus far it is important to recognise the Australian economy has yet to feel the full negative impact on economic activity from the fall in resources sector investment. It is not clear whether the pick-up in other sources of growth will be sufficiently strong to not only maintain current momentum but also to get back to trend growth on a sustained basis.

Risks

On the domestic front, Treasury argues the risks are evenly balanced. On the upside, business investment might be stronger than forecast in response to an improvement in domestic or external demand. Further, a depreciation of the Australian dollar associated with declining terms of trade would benefit trade-exposed sectors of the economy. The downside risks include uncertainty about the fall in resources investment and the timing of the rise in resources exports; the still high Australian dollar weighing on trade exposed sectors; a softening labour market weighing on household consumption; and further large increases in house prices prompting a policy response.

Much would appear to hinge on the timing and magnitude of the expected fall in resources sector investment relative to a further pick-up in other sources of growth. The RBA argues that:

For the domestic economy, the key uncertainties surrounding the outlook relate to the balance of two key forces: the decline in mining investment and the pick-up in activity in the non-mining economy (which is being helped in large part by stimulatory monetary policy). The timing and strength of these remain subject to considerable uncertainty.7

The Organisation for Economic Cooperation and Development (OECD) considers that Australia continues to face sizeable downside risks:

Domestically, the extent to which non-mining investment will increase and the degree to which households will dip further into their savings to sustain consumption are also uncertain as is the degree to which real-estate construction will pick up.8

The level of the Australian dollar may be crucial to how smoothly this plays out over the next few years. Professor Ross Garnaut in his book *Dog Days* cautioned that a large real depreciation in the Australian dollar would be required to bring forth investment in Australia’s non-resources trade-exposed sectors.9 Essentially, he argued that if the Australian dollar remains at relatively high levels, the demand for Australian goods and services will not be sufficiently strong to encourage increased investment in export and import competing industries.

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5. Ibid., p. 2.
The global economic outlook

The global economic recovery finally appears to be building some sustained momentum. Growth began to pick up in the second half of last year and it looks as if this has continued into 2014. The Treasury, International Monetary Fund (IMF) and OECD are all forecasting the recovery will continue at a moderate pace through 2014 and 2015 (Table 2).

The advanced economies have accounted for much of the recent pick-up in momentum. The recovery has been strongest in the United States but has also been marked in the United Kingdom and Germany. Private sector confidence appears to be strengthening, fiscal consolidation is easing and investment and trade have started to rebound. Nevertheless, the recovery remains uneven across these economies.

While emerging market economies continue to contribute more than two thirds of global growth, their momentum has slowed. As the OECD notes, part of this slowdown is benign, reflecting cyclical slowdowns from overheated starting positions. However, the slowdown also reflects a less favourable external financial environment and, in some cases, continued weak investment and other domestic structural constraints. Looking ahead, the growth momentum of emerging market economies should benefit from stronger exports to advanced economies.

- **United States**: The United States economy strengthened in the second half of last year. Although a harsher than usual winter slowed activity in early 2014, growth is forecast to rebound over the rest of the year. Growth should be supported by stronger final domestic demand and more moderate fiscal consolidation. Steady job creation and higher equity and home prices should continue to support household consumption and residential investment. Going forward business investment is expected to provide ongoing momentum reflecting stronger profit levels and easing credit conditions.

- **Euro area** – The Euro area is finally experiencing positive growth again with the core economies recording at least moderate growth and the periphery economies no longer contracting. The systemic risks that have weighed heavily on confidence in recent years have been reduced and large external and internal imbalances have receded. Economic activity is forecast to continue to recover, albeit at a relatively slow pace, as confidence improves, financial market fragmentation declines and fiscal consolidation eases.

- **China** – In China economic growth moderated in early 2014 as investment slowed in response to tighter credit conditions. Both Treasury and the OECD are forecasting growth will be marginally lower than the official target of 7.5 per cent in 2014. China faces the challenge of gradually reinining rapid credit growth, phasing out excess industrial capacity and rebalancing growth away from investment and toward consumption. While growth is forecast to slow marginally, China is expected to avoid a ‘hard landing’.

- **Japan** – In Japan economic growth is expected to slow moderately. Although the Japanese economy will receive a boost from private investment and stronger exports, this will be offset by fiscal consolidation. A number of structural constraints are also weighing on growth such as a declining working age population and relatively low female labour force participation. A stronger recovery will depend on the implementation of bold structural reforms and achieving the Bank of Japan’s inflation target of 2 per cent on a sustained basis.

- **India** – The Indian economy is expected to strengthen gradually, reflecting improved export competitiveness, a rebound in investment following the general elections and the implementation of a number of large investment projects recently approved by the Cabinet Committee on Investment. Nevertheless, structural impediments are likely to mean that growth will be below trend.

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12. Ibid., p. 94
13. Ibid., p. 203.
Table 2: Treasury, IMF and OECD international growth forecasts (per cent)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>United States</td>
<td></td>
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<td>1.9</td>
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<td>2.8</td>
<td>3.4</td>
<td>3.9</td>
</tr>
</tbody>
</table>


Other East Asian economies\(^{14}\) – Treasury reports that growth in the major ASEAN economies moderated in 2013 reflecting tighter financial conditions, lower commodity prices and structural impediments to growth. However, these economies are expected to grow solidly in the period ahead because domestic demand remains resilient; and for the trade exposed economies, an improving global outlook should translate into stronger external demand.

Treasury is forecasting that growth for Australia’s major trading partners will strengthen slightly to 4.75 per cent in 2014, 2015 and 2016. This is above its trend rate of 4 per cent. For its part, the RBA is forecasting growth of Australia’s major trading partners to be around trend in 2014 and 2015.

Both Treasury and the RBA note that since early 2014 iron ore and coal prices have fallen sharply.\(^{15}\) This reflects a weakening in Chinese steel demand, a period of negative sentiment around China’s economic growth and rising global supply of these commodities.

The outlook for commodity export prices is relatively weak. Treasury expects iron ore prices will fall further in 2014–15 and 2015–16, reflecting slower demand for steel and further growth in global supply. Metallurgical coal prices are expected to rise slightly over this period as global supply growth slows, while thermal coal prices are forecast to remain stable. LNG export prices are expected to increase over the forecast period as the contracts associated with projects that are starting up come into force.

Treasury is forecasting the terms of trade to fall by 6.75 per cent in 2014–15 and 1.75 per cent in 2015-16.

Risks

During the past year, downside risks have eased but remain significant. Reflecting this, Treasury’s assessment is that international risks are more balanced than previously but are still tilted on the downside.

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\(^{14}\) Other East Asia comprises the newly industrialised economies of Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nationals group of five (ASEAN-5) which comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Specific downside risks include:

- Among advanced economies there is a risk from very low inflation especially in the Euro area. Deflationary pressures could intensify in the event of a negative demand shock, further currency appreciation or a downward drift in inflation expectations. This would likely result in higher real interest rates, an increase in private and public debt and weaker demand and output.

- Emerging market economies could slow by more than currently forecast. Of particular concern are structural and financial vulnerabilities among some emerging market economies such as Turkey and the risk of bouts of renewed financial instability. This could be triggered by the United States’ continuing exit from its highly accommodative monetary policy or a reversal in capital flows as investors rebalance their portfolios in favour of advanced economies.
  - Among the emerging market economies, the risks emanating from China are of particular importance to Australia. The main downside risk in China is that credit tightening could result in lower than expected economic growth. Since the GFC, credit growth and off-budget borrowing by local governments have provided significant stimulus to the Chinese economy. There is a risk the unwinding of this stimulus could lower growth by more than currently forecast. There are also risks around the successful implementation of the reforms needed to rebalance growth and help the Chinese economy move up the value chain.

- Increased geopolitical tensions in recent months raise the possibility of disruptions to trade and financial flows and renewed risk aversion in global financial markets.

The IMF, OECD and other commentators are stressing the need for countries to pursue supply-side structural reforms to increase their potential growth if the global economic recovery is to be sustained. Such reforms include creating more competitive markets for goods and services and investing more effectively in infrastructure and human capital. The nature and extent of the suggested reforms vary depending on a country’s individual circumstances. In the short to medium term there is a risk not enough will be done to secure a sustained pick-up in the pace of global economic growth.

Further, the IMF has highlighted the possibility that rising inequality may well become a constraint on growth. Olivier Blanchard, IMF Economic Counsellor and Director of the IMF’s Research Department, commented at the release of the latest World Economic Outlook:

> Until recently, it [inequality] was not seen as having major implications for macroeconomic developments. I think this belief is increasingly called into question. How inequality affects both the macro-economy and the design of macroeconomic policy will likely be increasingly important items on our agenda for a long time to come.17

The main channels through which a negative external shock could affect the Australian economy are via financial linkages, trade linkages and confidence and wealth effects. For example, increased resources exports make the Australian economy more sensitive to terms of trade shocks. While the IMF notes there are several factors that would help mitigate the direct effects of a sudden and sharp fall in the terms of trade (including Australia’s floating exchange rate), the indirect effects of such a shock would likely be significant.

The impact of a faster-than-anticipated decline in the terms of trade on nominal output would affect budget revenue more broadly. Income for sectors servicing the mining sector would also be reduced. The impact on domestic and foreign confidence, although difficult to predict, could be significant – consumer confidence would likely to be affected and falling profit margins in the economy’s most dynamic sector could lead financial markets to reassess more generally Australia’s prospects and increase the country’s borrowing costs. The Treasury’s sensitivity analysis suggests that absent a depreciation, a permanent fall in terms of trade around 4 per cent would cause a fall in nominal GDP of 0.75 to 1 per cent and decrease the underlying budget cash balance by around 0.25 per cent.18

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The medium to longer-term economic outlook

Longer-term economic, social and environmental challenges and opportunities are also important. Generally, these change little from year to year but nonetheless over time have the potential to have a large cumulative impact on economic prosperity and community wellbeing.

For Australia the list of things which are likely to shape the longer-term outlook include:

- an ageing population
- the economic rise of Asia
- technological change
- climate change
- natural resource depletion and
- long-term structural change.

Of a different nature but also important is the risk of external shocks to the Australian economy, which are hard to predict but nevertheless occur not infrequently.

The OECD’s wellbeing framework provides a useful frame of reference for thinking about the implications of such changes for individual and collective wellbeing from a broad perspective. The framework has three conceptual pillars: material conditions (reflecting people’s command over economic resources); quality of life (capturing the broader array of factors that shape people’s ability to pursue their goals, thrive and feel satisfied with their lives); and sustainability (encompassing the key economic, social, environmental and human assets transmitted from current to future generations and how these are affected by today’s actions).

This year’s Budget includes a narrative ‘Sustaining strong growth in living standards’ (Statement 4 of Budget Paper no. 1). It focuses on income as one of the most important determinants of living standards. The main drivers of income growth are productivity growth, changes in the terms of trade, changes in output from increased labour utilisation and growth in net foreign income. The statement discusses the challenges Australia faces in terms of its recent productivity performance, changes in the terms of trade and the changes in workforce participation associated with population ageing.

The statement outlines what the government is doing to support future growth in living standards, which is presented under two broad headings:

- improving the flexibility and competitiveness of the economy and
- budget prudence and government efficiency.

The need to improve Australia’s productivity performance to sustain future growth in living standards is well recognised. The Chairman of the Productivity Commission, Peter Harris, on releasing the Productivity Commission’s latest Productivity Update observed:

> It is evident from the Update that Australia’s productivity performance has fallen well behind that of most other developed economies for more than a decade. There are various reasons for this, including differences in the rate of investment growth. But the picture painted in the statistics calls for strong policy attention, particularly in the current era where the recent record terms of trade will no longer support continued income growth.

And the IMF in commenting on Australia’s long-run growth prospects stated that:

> Robust income growth over the past decade has been supported in large part by the unprecedented increase in the terms of trade, which as it unwinds, is likely to detract from income growth going forward. This implies that a significant pick-up in labour productivity will be needed to maintain growth in living standards over the coming decades. While productivity in the mining sector should improve as the investments begin yielding results, this will

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not be enough to maintain current levels of per capita growth, and productivity growth in other sectors also needs to rise.21

The implications of the economic outlook for the Budget
Generally, the economic context gets reflected in the budget in a number of ways including:

- the parameters that underpin Treasury’s estimates and projections of revenue and expenditure items
- the government’s fiscal strategy including judgements about what the appropriate ‘bottom line’ is given the economic outlook and other macroeconomic policy settings and
- the government’s decisions about individual budget measures including their nature, size and timing.

Treasury’s assessment of the economic outlook is reflected in the key parameters that are used to estimate and project revenue and expenditure items. The budget forward estimates contain economic forecasts for the budget year and the subsequent year and projections for the next two financial years. Treasury emphasises these projections are not forecasts, but rather are based on a set of medium-term assumptions.

It is worth noting that Treasury has reviewed and revised its methodology for coming up with its medium term projections. This process began in the 2013–14 MYEFO and the current Budget continues to build on these changes. Treasury’s explanation for adopting a new approach is summarised in Statement 2 of Budget Paper No. 1. Essentially, the old methodology assumed that the economy was growing at its long-term potential (that is, there was no significant output gap) and unemployment was forecast to immediately return to 5 per cent (Treasury’s estimate of the non-accelerating inflation rate of unemployment). Treasury argues that such an approach is less appropriate in the current circumstances where the economy has been growing below trend for seven of the last eight years and there is the largest output gap since the mid-1990s. The new methodology assumes that the spare capacity is absorbed over the five years following the two-year forecast period. Under this approach, real GDP returns to its trend level by 2020–21. Treasury notes that as this occurs, labour market variables, including employment and the participation rate, converge from their levels at the end of the forecast period to their long-run trend levels.

Table 3 shows how a number of the key parameters underpinning the Budget have changed over the last year, including at the time of the Pre-election Economic and Fiscal Outlook 2013 (PEFO) and MYEFO. There have been some significant revisions for 2013–14 and 2014–15 most notably in relation to the terms of trade and nominal GDP growth, which have important implications for revenue forecasts and, incidentally, for the 2013-14 deficit.

- Appendix A of Statement 2 of Budget Paper No. 1 provides an analysis of Treasury’s recent macroeconomic forecasting performance and Appendix B provides a comparison of the Budget forecasts and those of Consensus Economics (which collects forecasts on key macroeconomic variables from a number of prominent economists) and the IMF.

  - Treasury notes that its Budget forecast of economic growth for calendar year 2014 is lower than the Consensus Economics mean forecast and broadly in line with the IMF’s forecast. The Budget forecast for 2015 is broadly in line with the Consensus Economics mean forecast and higher than the IMF’s forecast.

- Appendix B of Statement 3 of Budget Paper No. 1 provides an analysis of the confidence intervals around the Budget’s economic and fiscal forecasts. These confidence intervals highlight there is a range of plausible alternative outcomes around any given point estimate and provide a guide to the degree of uncertainty around these forecasts, typically spanning a wide range of outcomes.

The outlook for nominal GDP growth is an example of how the current economic outlook is impacting on the budget bottom line. Treasury is expecting nominal GDP growth will remain relatively subdued in the short term growing by only 3 per cent in 2014–15 and 4.75 per cent in 2015–16, which is well below the twenty year average of just over 6 per cent. This largely reflects the expected further declines in the terms of trade and subdued domestic price growth. Weak nominal growth tends to correlate with lower growth in company profits, lower growth in wages and salaries, and hence lower growth in government revenues.

The economic outlook is also reflected in some of the key decisions taken in this year’s budget. For example, as outlined earlier the Australian economy is making a challenging transition as growth is rebalanced away from

resources sector investment and towards other sources of growth. While the economy is growing solidly at the moment, growth is nevertheless below trend and the economy is facing some significant headwinds. Accordingly, while the Government has decided to pursue significant fiscal tightening over the next decade, the timing and composition of these measures is intended to lessen the impact on growth in the short term. \(^{22}\) In net terms much of the tightening is ‘back loaded’ (that is, it occurs predominantly towards the end of the forward estimates period). This is consistent with IMF and OECD advice prior to the budget that Australia should avoid heavy front-loaded fiscal consolidation in the current economic environment. \(^{23}\) Further, the Government’s decision to boost infrastructure spending is intended to help pick up some of the slack as resources sector construction activity winds down, as well as improving the long-term productive capacity of the economy.

**Table 3: Treasury forecasts of major economic parameters (per cent)**

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<td>3.0</td>
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<td>2.5</td>
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<tr>
<td>PEFO 2013</td>
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<td>2.0</td>
<td>2.5</td>
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<tr>
<td>MYEFO 2013–14</td>
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<td>2.5</td>
<td>2.5</td>
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<td>2.5</td>
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<tr>
<td>Budget 2013–14</td>
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<td>5.0</td>
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<tr>
<td>PEFO 2013</td>
<td>3.75</td>
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<td>4.5</td>
<td>5.25</td>
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<tr>
<td>MYEFO 2013–14</td>
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<td>3.5</td>
<td>4.75</td>
<td>4.75</td>
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<tr>
<td><strong>Budget 2014–15</strong></td>
<td>2.5</td>
<td>4.0</td>
<td>3.0</td>
<td>4.75</td>
<td>5.0</td>
<td>5.0</td>
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<td><strong>Terms of trade</strong></td>
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<tr>
<td>Budget 2013–14</td>
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<td>-1.75</td>
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<tr>
<td>PEFO 2013</td>
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<td>-1.5</td>
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<tr>
<td>MYEFO 2013–14</td>
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<td>-5.0</td>
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<tr>
<td><strong>Budget 2014–15</strong></td>
<td>-9.8</td>
<td>-5.0</td>
<td>-6.75</td>
<td>-1.75</td>
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</table>


**The government’s fiscal strategy and broader policy agenda**

**The fiscal strategy**

Consistent with the requirements of the *Charter of Budget Honesty Act 1998*, the Government has set out in the Budget its medium-term fiscal strategy, which is to achieve budget surpluses, on average, over the course of the economic cycle.


This strategy will be underpinned by the following three policy elements:

- investing in a stronger economy by redirecting government spending to quality investment to boost productivity and workforce participation
- maintaining strong fiscal discipline to reduce the government’s share of the economy over time in order to free up resources for private investment to drive jobs and economic growth, with:
  - the payment-to-GDP ratio falling
  - paying down debt by stabilising and then reducing Commonwealth Government Securities on issue over time and
- strengthening the government’s balance sheet by improving net financial worth over time.²⁴

In addition, the Government has articulated a budget repair strategy, which is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023–24 consistent with the medium-term fiscal strategy. The Government’s budget repair strategy specifies that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive and
- a clear path back to surplus is underpinned by decisions that build over time.²⁵

The Government has indicated the budget repair strategy will stay in place until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.²⁶

The Government’s broader policy agenda

The Budget is also framed around the Government’s broader policy agenda.

The major policy themes in this year’s Budget include:

- All Australians making a contribution to fiscal repair – sitting beneath this theme are measures such as: the temporary budget repair levy; changes to the eligibility thresholds for a range of transfer payments; freezing the indexation of a large number of payments and programs for two to three years; reducing the size of the public sector; and reductions in the growth of Commonwealth payments to the states and territories for schools and public hospitals.

- Building Australia’s future – this thematic area includes: the infrastructure growth package; changes to the higher education system; changes to health care and the establishment of the Medical Research Future Fund; measures to support workforce participation; reshaping and reducing industry assistance programs into a new Entrepreneurs’ Infrastructure Programme; the bringing forward of $1.5 billion of defence spending from 2017–18 to earlier years; and consolidating border protection agencies into a single agency, the Australian Border Force.

The Parliamentary Library’s research specialists have prepared briefs on the major policy decisions taken in this year’s Budget. The briefs provide information and analysis of these measures.

The fiscal outlook

The Budget sets out a plan for substantially reducing the deficit over the four years to 2017–18. Over the next two years the decisions in the Budget can largely be characterised as a reprioritisation of resources. In net terms the budget measures do not have a particularly large impact on the bottom-line in 2014–15 and 2015–16. However, they have a large cumulative effect and involve significant fiscal tightening from 2016–17.

In the short term the decisions in the Budget are intended to stabilise the forecast deterioration in the Commonwealth’s balance sheet.

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²⁵. Ibid.
²⁶. Ibid.
The Budget includes medium-term projections that have the budget achieving a small surplus in 2019-20 that builds to a surplus of at least 1 per cent of GDP by 2023-24. The medium term projections also show the Commonwealth’s balance sheet improving over time. Recent experience suggests that accurately forecasting even one or two years out can be very difficult. However, if a surplus is achieved in 2019-20 it will be the first surplus since 2007-08.

Table 4: The underlying cash balance

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying cash balance ($m)</th>
<th>Per cent of GDP</th>
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</thead>
<tbody>
<tr>
<td>2012–13</td>
<td>-18,834</td>
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<tr>
<td>2013–14</td>
<td>-49,855</td>
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<td>2014–15</td>
<td>-29,773</td>
<td>-1.8</td>
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<td>2015–16</td>
<td>-17,084</td>
<td>-1.0</td>
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<td>2016–17</td>
<td>-10,562</td>
<td>-0.6</td>
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<tr>
<td>2017–18</td>
<td>-2,825</td>
<td>-0.2</td>
</tr>
</tbody>
</table>


There is a strong case for having in place a medium-term fiscal strategy for returning the budget to surplus on a sustainable basis and strengthening the Commonwealth’s balance sheet. The experience of the global financial crisis shows very clearly the advantages of the government being in a strong fiscal position when the economy is hit by a large negative shock. It also helps create space for fiscal policy to be used to focus on addressing medium to longer-term structural constraints on growth, thereby potentially improving the productive capacity of the economy and future living standards.

Of course, the aggregate numbers abstract from the appropriateness of individual budget measures intended to achieve the desired fiscal consolidation. Two potential budget measures may have the same financial impact on the Budget’s bottom line but may have different effects in terms of their impact on community wellbeing. Reflecting this, individual measures need to be assessed on their merits not only in terms of the budget bottom line but from a broader perspective that encompasses their likely impact on the wellbeing of current and future generations.

**How has the short-term fiscal outlook changed?**

Figure 1 provides a snapshot of how the outlook for the underlying cash balance has changed since the 2013–14 Budget. The short-term fiscal outlook over the four years to 2016–17 had deteriorated from the time of last year’s Budget through to MYEFO. Taking MYEFO as the starting point for this year’s budget, an improvement in the bottom-line out to 2016–17 was already in prospect. However, when 2017–18 is added into the picture it is notable that the deficit was forecast to increase again in 2017–18 as funding associated with some large policy commitments (such as additional school funding and the national disability insurance scheme) came online. The changes made in the 2014–15 Budget reduce the forecast deficits for 2014–15, 2015–16 and 2016–17 and significantly reduce the forecast deficit for 2017–18.

Not all the revisions to the budget’s bottom line are due to policy decisions by government. Parameter and other variations have had a significant effect on the underlying cash balance (Table 5). In this table a negative number represents a worsening of the bottom line and a positive number an improvement.
Figure 1: Revisions to the underlying cash balance ($m)


Table 5 shows that the policy decisions in the 2014–15 Budget are largely back loaded; that is, while a lot of policy measures were announced in the Budget in net terms, they improve the bottom line by only $1.7 billion in 2014–15 and $5.9 billion in 2015–16. However, the measures have a strong cumulative effect improving the bottom line by an estimated $10.4 billion in 2016–17.

- Policy decisions in this year’s Budget are expected to increase receipts by $673 million in 2014–15, $1,916 million in 2015–16 and $2,786 million in 2016–17.
- Policy decisions in this year’s Budget are expected to reduce payments by $1,045 million in 2014–15, $4,018 million in 2015–16 and $7,628 million in 2016–17.

Statement 3 of Budget Paper No. 1 includes a detailed reconciliation of the changes to the cash balance estimates since the 2013–14 Budget (see pages 3-20 to 3-27).

### Table 5: The effect of policy and parameter variations on the underlying cash balance

<table>
<thead>
<tr>
<th></th>
<th>Change from the 2013–14 Budget to the 2013 PEFO</th>
<th>Changes from the 2013 PEFO to the 2013–14 MYEFO</th>
<th>Changes from the 2013–14 MYEFO to Budget 2014–15</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Policy decisions changes</td>
<td>Policy decisions changes</td>
<td>Policy decisions changes</td>
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<tr>
<td>2013–14</td>
<td>-374</td>
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<tr>
<td>2014–15</td>
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<td>2015–16</td>
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<tr>
<td>2016–17</td>
<td>6915</td>
<td>-1,274</td>
<td>10,414</td>
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</table>


The structural budget balance

As noted above, in the medium term the fiscal outlook is forecast to improve. Statement 3 of Budget Paper No. 1 includes a discussion of the estimates of the structural budget balance (that is the budget bottom line that abstracts from the effects of the economic cycle and one-off factors) out to 2023–24. Reflecting the improvement in the outlook for the underlying cash balance since MYEFO the structural budget balance is forecast to improve significantly. In structural terms the budget is forecast to be around balance by 2018–19 and
is projected to be in surplus after that. At the time of MYEFO, the structural budget balance had been forecast to be in deficit throughout the medium-term projections period.

**The Commonwealth’s balance sheet**

The measures in the Budget help stabilise the forecast deterioration in the Commonwealth’s balance sheet (Table 6).

The primary indicator of fiscal sustainability articulated in the Government’s medium-term fiscal strategy is net financial worth (that is, total financial assets minus total liabilities). It provides a broad measure of the government’s assets and liabilities as it includes both the assets of the Future Fund and the superannuation liability the Future Fund is intended to offset.

In the medium term, net debt (which excludes superannuation liabilities and equity investments) is forecast to decline to 0.7 per cent of GDP in 2024–25, assuming that tax receipts are capped and do not increase above their long-term average of 23.9 per cent of GDP. With Commonwealth Government Securities on issue projected to fall over this period, the Commonwealth’s net financial worth is also projected to improve.

**Table 6: Net financial worth, net debt and net interest payments**

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<tr>
<td>Net financial worth ($b)</td>
<td>-299.6</td>
<td>-329.2</td>
<td>-342.4</td>
<td>-351.0</td>
<td>-352.7</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-18.9</td>
<td>-20.2</td>
<td>-20.0</td>
<td>-19.6</td>
<td>-18.7</td>
</tr>
<tr>
<td>Net debt ($b)</td>
<td>197.9</td>
<td>226.4</td>
<td>246.4</td>
<td>261.3</td>
<td>264.2</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>12.5</td>
<td>13.9</td>
<td>14.4</td>
<td>14.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Net interest payments ($b)</td>
<td>10.7</td>
<td>10.5</td>
<td>11.5</td>
<td>12.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>0.7</td>
<td>0.6</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
</tbody>
</table>


Over time the impact of servicing government debt is expected to decline. Assuming tax receipts are capped at their long term average, interest payments are expected to peak at $13.1 billion in 2018–19 and decline to $6.6 billion in 2024–25 (0.2 per cent of GDP).

Statement 3 of Budget Paper No. 1 includes a detailed reconciliation of the changes in the Commonwealth’s balance sheet since the time of MYEFO.
Is this a tough Budget?

Daniel Weight

In his Budget Speech, the Treasurer Mr Hockey declared that ‘[t]he days of borrow and spend must come to an end’.27 He went on to announce a range of expenditure cuts and new and increased taxes. On the Wednesday following the Treasurer Mr Hockey’s presentation of the 2014–15 Budget, Australia’s most widely read newspaper, the Melbourne Herald Sun, picked up on this theme. Its front page was adorned with a banner announcing ‘Tough love to slay the budget monster’, and its headline of the same day read ‘Tax! Axe! Fix!’28

This headline generally reflected the immediate reactions to the 2014–15 Budget. While there were differing views of the merits of the 2014–15 Budget overall, most observers considered the Budget to have represented a significant fiscal tightening relative to recent trends.

But was the 2014–15 Budget that tough?

The headline results

One measure of the extent of the fiscal consolidation is the relative contribution of the Government’s policy decisions to the forecast budget outcome when compared with the variations caused by factors outside the government’s control, known as parameter variations. Table 1 shows the net effect of policy decisions and parameter variations in the 2014–15 Budget.

Table 1: Movements in Underlying Cash Balance, 2013–14 to 2016–17

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>2013–14 MYEFO underlying cash balance</td>
<td>-46,989</td>
<td>-33,907</td>
<td>-24,083</td>
<td>-17,668</td>
<td>-122,647</td>
</tr>
<tr>
<td>Net effect of policy decisions</td>
<td>-514</td>
<td>1,718</td>
<td>5,934</td>
<td>10,414</td>
<td>17,552</td>
</tr>
<tr>
<td>Net effect of parameter variations</td>
<td>-2,352</td>
<td>2,416</td>
<td>1,065</td>
<td>-3,309</td>
<td>-2,180</td>
</tr>
<tr>
<td>Total movement in Underlying Cash Balance</td>
<td>-2,866</td>
<td>4,134</td>
<td>6,999</td>
<td>7,105</td>
<td>15,372</td>
</tr>
<tr>
<td>2014–15 Budget underlying cash balance</td>
<td>-49,855</td>
<td>-29,773</td>
<td>-17,084</td>
<td>-10,562</td>
<td>-107,275</td>
</tr>
</tbody>
</table>


The starting position as at 2013–14 MYEFO was for a $47.0 billion deficit in 2013–14, declining to a $17.7 billion deficit in 2016–17. This improvement mostly reflected forecasted increases in tax receipts.

The fiscal position of the Commonwealth is forecast to improve by $15.3 billion over the four years from 2013–14 to 2016–17, when compared with the projections in MYEFO. This improvement is attributable to $17.6 billion of policy decisions of the government, the effect of which is reduced by $2.2 billion of parameter variations.

Table 2 shows the effect of policy decisions on payments and receipts. Of the policy decisions, a relatively small proportion, $5.4 billion, is attributable to decisions that increase receipts, while the remaining $12.2 billion is attributable to decisions that reduce payments.

Table 2: Effect of policy decisions on Underlying Cash Balance, 2013–14 to 2016–17

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Net effect of policy decisions</td>
<td>-514</td>
<td>1,718</td>
<td>5,934</td>
<td>10,414</td>
<td>17,552</td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes to receipts</td>
<td>-2</td>
<td>673</td>
<td>1,916</td>
<td>2,786</td>
<td>5,373</td>
</tr>
<tr>
<td>Changes to payments</td>
<td>512</td>
<td>-1,045</td>
<td>-4,018</td>
<td>-7,628</td>
<td>-12,180</td>
</tr>
</tbody>
</table>


This shows the Government’s expenditure reduction efforts are the dominant factor influencing the improvement in the Budget compared with the MYEFO forecasts.

Receipts and payments as a percentage of GDP

Another possible measure of the level of fiscal consolidation is movements in receipts and payments as a percentage of GDP. Table 3 shows the actual and forecast receipts, payments, and underlying cash balance for the Commonwealth as a percentage of GDP from 2010–11 to 2017–18.

Table 3: Payments, receipts and underlying cash balance as a percentage of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Receipts % GDP</th>
<th>Payments % GDP</th>
<th>Underlying cash Balance % GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010–11</td>
<td>21.5</td>
<td>24.6</td>
<td>-3.4</td>
</tr>
<tr>
<td>2011–12</td>
<td>22.2</td>
<td>25.0</td>
<td>-2.9</td>
</tr>
<tr>
<td>2012–13</td>
<td>23.1</td>
<td>24.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>2013–14</td>
<td>23.0</td>
<td>25.9</td>
<td>-3.1</td>
</tr>
<tr>
<td>2014–15</td>
<td>23.6</td>
<td>25.3</td>
<td>-1.8</td>
</tr>
<tr>
<td>2015–16</td>
<td>24.0</td>
<td>24.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>2016–17</td>
<td>24.4</td>
<td>24.7</td>
<td>-0.6</td>
</tr>
<tr>
<td>2017–18</td>
<td>24.9</td>
<td>24.8</td>
<td>-0.2</td>
</tr>
</tbody>
</table>

20 year average Receipts = 24.1
20 year average Payments = 24.6


Receipts are forecast to exceed their long-run average of 24.1 per cent of GDP only by 2016–17, while payments are forecast to exceed their long run average of 24.6 per cent of GDP over the forecast period until 2017–18. On this measure, the fiscal outlook in the 2014–15 Budget still shows high expenditures and low receipts, relative to long-run averages.

Rate of forecast consolidation

Another measure of the level of fiscal consolidation anticipated by the 2014–15 Budget is the contraction in the deficit as a percentage of GDP. The 2014–15 Budget forecasts that the underlying cash balance will improve over the four years from 2013–14 to 2016–17 by 2.5 per cent of GDP. This target compares relatively well with other fiscal consolidations, such as the four years to 1988–89 (3.5 per cent), the four years to 1999–2000 (3.1 per cent), and the four years to 2012–13 (3.0 per cent).

Chart 1: Periods of significant fiscal consolidation, underlying cash balance as a percentage of GDP


These previous consolidations are what was actually achieved. However, the 2014–15 Budget figure is only a target and may not be achieved especially if some of the Government’s policy measures are not adopted in full.
For example, the 2012–13 Budget forecast a consolidation in one year of 3.1 per cent but the actual outcome was 1.7 per cent which—while being significant—was well short of the target.29

**Specific areas of expenditure**

While there is a reasonable contraction in spending overall, the 2014–15 Budget shows an apparent reprioritisation in expenditure across functions, relative to the 2013–14 Budget. As table 3 shows, reductions in expenditure (relative to the 2013–14 Budget) are forecast over the four years to 2016–17 in areas including education, health, and housing and community amenities.

However, there are increases in social security and welfare, and transport and communications. General public services has increased, mostly due to the decision of the Government to make an $8.8 billion grant to the Reserve Bank of Australia.30 Other purposes, which include the contingency reserve, has also increased: that may be attributable to the Government’s Paid Parental Leave Scheme, which is currently provided for in the contingency reserve.31

**Table 4: Change in expenditures by function, 2013–14 Budget to 2014–15 Budget**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General public services</td>
<td>11,128</td>
<td>-52</td>
<td>-1,004</td>
<td>-2,180</td>
<td>7,892</td>
</tr>
<tr>
<td>Defence</td>
<td>795</td>
<td>852</td>
<td>155</td>
<td>-115</td>
<td>1,687</td>
</tr>
<tr>
<td>Public order and safety</td>
<td>174</td>
<td>257</td>
<td>11</td>
<td>6</td>
<td>448</td>
</tr>
<tr>
<td>Education</td>
<td>-35</td>
<td>-833</td>
<td>-1,584</td>
<td>-2,164</td>
<td>-4,616</td>
</tr>
<tr>
<td>Health</td>
<td>-125</td>
<td>-1,189</td>
<td>-3,394</td>
<td>-3,696</td>
<td>-8,404</td>
</tr>
<tr>
<td>Social security and welfare</td>
<td>2,424</td>
<td>1,752</td>
<td>-642</td>
<td>-109</td>
<td>3,425</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>-392</td>
<td>-4,095</td>
<td>-1,606</td>
<td>-2,568</td>
<td>-8,661</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>29</td>
<td>-39</td>
<td>-73</td>
<td>-83</td>
<td>-166</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>-539</td>
<td>-499</td>
<td>-529</td>
<td>-135</td>
<td>-1,702</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>-25</td>
<td>43</td>
<td>-179</td>
<td>-60</td>
<td>-221</td>
</tr>
<tr>
<td>Mining, manufacturing and construction</td>
<td>708</td>
<td>6</td>
<td>-12</td>
<td>267</td>
<td>969</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>2,042</td>
<td>731</td>
<td>3,692</td>
<td>5,548</td>
<td>12,013</td>
</tr>
<tr>
<td>Other economic affairs</td>
<td>-20</td>
<td>185</td>
<td>12</td>
<td>-253</td>
<td>-76</td>
</tr>
<tr>
<td>Other purposes</td>
<td>828</td>
<td>2,062</td>
<td>5,256</td>
<td>4,599</td>
<td>12,745</td>
</tr>
<tr>
<td>Total expenses</td>
<td>16,993</td>
<td>-818</td>
<td>103</td>
<td>-941</td>
<td>15,337</td>
</tr>
</tbody>
</table>

**Conclusions**

The 2014–15 Budget forecasts a modest improvement in the underlying cash balance over the forward estimates. The improvement is mostly attributable to a reduction in payments, rather than increases in receipts. However, expenses as a percentage of GDP will remain above their long run average for all years until 2017–18.

The forecast turnaround in the underlying cash balance of around 3 per cent of GDP is less ambitions than prior exercises in fiscal consolidation, and—as it is only a forecast—this fiscal consolidation may not actually be achieved.

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31. Ibid., p. 6–47.
Reactions from interest groups

Indra Kuruppu

Australian Chamber of Commerce and Industry

The Australian Chamber of Commerce and Industry (ACCI) has backed the federal Budget as ‘the budget we had to have’ as a nation. ACCI’s chief executive officer, Kate Carnell AO, stated that reining in spending and short-term pain will put the budget on a credible path to surplus in a sensible time frame, which should not put unreasonable pressure on the economy. She said the Budget will also go a long way to restoring business confidence that will drive investment and job creation, particularly for small businesses.

Ms Carnell welcomed what she saw as the genuine structural reform in the Budget, saying that it will help address the underlying structural deficits in recent budgets and begin to reduce the size and scope of government. While Ms Carnell stated that businesses are willing to do their part including accepting reductions in industry assistance and programs, they ask that government continue to work with business to ensure that productivity enhancing programs are as far as possible maintained.

However, ACCI says that business continues to oppose the debt tax on higher incomes and the proposed paid parental leave scheme. Business will also examine some cuts to important productivity enhancing measures in trade, vocational education and training and small business support, and express concerns to government.

Ms Carnell stated that once the budget position repairs, temporary revenue measures should be repealed as soon as possible, and the government should aim to reduce income taxes closer to the company tax rate, which will help get government spending under control and allow for a more productive and prosperous economy. 32

Australian Conservation Foundation

The Australian Conservation Foundation (ACF) says the budget takes money away from conservation, innovation and anti-pollution measures, while rejecting an opportunity to save at least $20 billion by reforming fossil fuel subsidies to big business, which will increase every year due to fuel excise increases.

Chief Executive Officer, Kelly O’Shanassy, said that with the abolition of clean energy measures, cuts to research programs including the Commonwealth Scientific and Industrial Research Organisation, the National Environmental Research Program, the Australian Climate Change Science Program, the establishment of the Emissions Reduction Fund, and Solar Towns, the Government had missed the chance to continue cutting pollution through an effective carbon price and risked keeping Australian workers and businesses using outdated technology to address modern challenges.

While the ACF is disappointed that the federal government broke its election promise to maintain full funding for Landcare and has abolished the National Water Commission without clarifying which agency will take on the Commission’s critically important functions, the ACF welcomes the Green Army initiative and funding for the Reef Trust. The ACF also welcomed funding for Indigenous Land Management and the Indigenous Advancement Strategy, and stated they will lead to lasting benefits for Indigenous people and the environment in the north of Australia. 33

Australian Council of Social Services

The Australian Council of Social Service has expressed deep concern that the spending cuts in the federal Budget will have the greatest impact on those who can least afford it, stating that the Budget entrenches divisions between those with decent incomes, housing and healthcare and those without.

While CEO Dr Cassandra Goldie welcomed some measures as targeting those for whom the age of entitlement should be coming to an end, including abolishing the Seniors Supplement, capping the Family Tax Benefit Part B, introducing a levy for people earning over $180,000, cutting corporate welfare, and taking superannuation payments into account when assessing eligibility for the Senior’s Health Card, she said these will inflict little pain or will be felt for only a short time.

32. K Carnell (Chief Executive Officer, Australia Chamber of Commerce and Industry), Business backs the budget that we had to have, media release, 13 May 2014, accessed 20 May 2014.
33. K O’Shanassy (Chief Executive Officer, Australian Conservation Foundation), Anti-environment federal Budget hands out billions in corporate subsidies, media release, 13 May 2014, accessed 21 May 2014.
Dr Goldie said ‘permanent and crushing effects’ will be felt by people on low incomes, young people, single parents, those with illness or disability, and those struggling to keep a roof over their heads. The Budget denies support to young people up to 29 years, for six months of every year, unless exempted, and then forces them into work for the dole. Changes to Newstart, Disability Support Pension and Youth Allowance will also disadvantage young people. Poorer families will be affected by the freezing of family payments for two years, the $7 co-payment for doctor’s visits and other services, the fuel excise, and the increasing costs of Pharmaceutical Benefits Scheme medicines. Lack of guarantee of future funding for homelessness services and cuts to National Rental Affordability Scheme funding will affect the ability of people on low incomes to manage the cost of living. 34

Australian Council of Trade Unions

ACTU President Ged Kearney has called the federal budget ‘a savage attack’ on the standard of living that Australians have worked hard for, and labelled the Coalition Government’s vision of Australia as a harsher, less equal Australia. Ms Kearney said the budget will make life harder for Australian workers and their families, with the Government’s assault on welfare, Medicare, education and the public sector representing the end of the fair go and the biggest attack on the social wage Australia had ever seen.

Ms Kearney said that the introduction of the Medicare co-payment would put pressure on low income families, while the value of all pensions including age and disability support pensions, and single parents payment would affect those who could least afford it. Changes to Newstart and youth allowance would leave young job seekers in poverty, and young people training to learn a trade lose direct financial support, instead incurring significant debt. University students will be affected by skyrocketing fees, paying real interest on their debts and paying them back from lower incomes.

Freezing the increase to the Superannuation Guarantee as well as lifting the retirement age will make it harder for Australians to save for retirement.

Ms Kearney said the Government has failed to invest in industry or innovation or outline a plan for the jobs of the future. She said that the Budget puts the interest of big business first, in the form of the company tax cut and $4 billion worth of subsidies to the big miners. 35

Australian Industry Group

Australian Industry Group (AIG) Chief Executive Innes Willox has welcomed the ‘big fiscal ambitions’ in the federal Budget and the decisive steps taken to put the budget on a firm long-term footing, but noted that there are risks for short-term economic health.

While Mr Willox identified the budget repair levy as an inefficient way to raise additional revenue, which also dampens incentives to invest in Australian businesses at a time when investment is needed, he stated that the cuts to the company tax rate from 1 July 2015 will boost business investment and assist in much-needed recapitalisation of non-mining sectors of economy.

Mr Willox called for close consultation with businesses on the proposed radical overhaul to business innovation and business capability development programmes in the new Entrepreneurs’ Infrastructure Programme, in conjunction with strong initiatives in the National Industry Investment and Competitiveness Agenda.

Mr Willox said many businesses would be concerned by the cuts to research funding to Commonwealth Scientific and Industrial Research Organisation and Defence Science and Technology Organisation, which he thought should be matched by refocusing public sector research with a clear orientation on building successful links with business.

The AIG welcomed additional funding for the Export Market Development Grant scheme and the Export Finance and Insurance Corporation, the development of the Industry Skills Fund, the proposal to provide loans for students undertaking diploma and associate degree courses, the net migration target for 2014–15 with a continued emphasis on skilled migration, and capping the Fair Entitlements Guarantee at 16 weeks. The AIG also

34. C Goldie (Chief Executive Officer, Australian Council of Social Service), Budget divides the nation, young and old, rich and poor, media release, 13 May 2014, accessed 20 May 2014.
welcomed the Trade Support Loans initiative, but believed the axing of Tools for Your Trade allowance would detract from the benefits.

The commitment to new infrastructure projects addresses a deficit of spending, and the clear role for private sector financing of infrastructure through the asset recycling initiative was particularly welcomed. 36

**Business Council of Australia**

The Business Council of Australia says the Budget is a solid start to putting the fiscal strategy back on track, but that there is much more work to do to support growth and deliver a sustainable budget position for the long term.

Chief Executive Jennifer Westacott expressed disappointment in ad hoc measures such as the deficit levy and said that changes to health and social security arrangements needed to be implemented carefully and sensitively to avoid unfair burdens being placed on particular groups in the community, such as some families and young people trying to find work.

Ms Westacott called for improvements in skills development, job services programs and more flexible workforce arrangements, and said that as an ageing population and globalisation places the Australian economy under greater competitive pressure, this Budget was the start of a strategic change agenda that must include fixing roles and responsibilities in the federation, improving the workplace relations system, removing barriers to competition, tax reform, and locking in the quality and affordability of the safety net. 37

**National Farmers’ Federation**

The National Farmers’ Federation (NFF) has recognised the Australian Government’s commitment to bring the budget back into surplus and welcomed the federal Budget as largely delivering on the government’s election commitments to the agriculture sector, including increased funding to critical infrastructure projects, and commitments to retain the fuel rebate for farmers and stop water buybacks. While pleased with ongoing support for rural research and development corporation model, the NFF is disappointed with major cuts to the Cooperative Research Centre Programme and the Rural Industries Research and Development Corporation. The NFF recognises that reductions in government investment in natural resource management, funding for the International Agricultural Cooperation Programme and abolishing Australia’s Brand for Food Programme were difficult decisions. President Brent Finlay also expressed disappointment in the abolition of the Environmental Stewardship Programme, and stated that the cuts to and realignment of the National Landcare Programme will impact farmers and the expectations of the broader community. While disappointed with the abolition of the National Water Commission, the NFF looks forward to working with the Government to ensure that oversight of national water reform is delivered by an appropriate and independent body. 38

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38. B Finlay (President, National Farmers’ Federation), [Agriculture survives tough budget](http://example.com), media release, 13 May 2014, accessed 20 May 2014.
Rural research and development

Rob Dossor

From 2014–15 to 2017–18 rural research and development corporations (RDCs), such as Dairy Australia, the Cotton Research and Development Corporation, and the Sugar Research and Development Corporation, will receive an additional $100 million. The Rural Industries Research and Development Corporation (RIRDC), however, is set to have its funding reduced by $11 million over four years. The RIRDC represents a number of rural industries like the olive, goat and rice industries, which are not represented by an individual RDC.

RDCs (including RIRDC) are a partnership between the government and industry created to share the funding and strategic direction setting for primary industry (R&D) [Research and Development], investment in R&D and the subsequent adoption of R&D outputs. The RDCs commission and manage targeted investment in research, innovation, knowledge creation and extension.

Election commitment

Before the 2013 election the Coalition committed to provide an additional $100 million in funding to RDCs so ‘they have greater capacity to deliver cutting edge technology, continue applied research and focus on collaborative innovation.’ While $100 million has been allocated to RDCs, this has been offset in part by reduced funding for the RIRDC. On aggregate, an additional $89 million has been allocated to RDCs in this Budget.

Commission of Audit

The measures in the 2014–15 Budget differ from Recommendation 34 of the Commission of the Audit which recommended, among other things, that the Australian Government:

- abolish sector-specific R&D programmes
- reduce government support for RDCs to better reflect the mix of private and public benefits and
- consolidate existing research programmes aimed at fostering collaboration.

Rural Industries Research and Development Corporation

In 2013 total receipts for the RIRDC were $25.7 million. Of this, revenue from the Australian Government was $14.2 million – over 50 per cent of all RIRDC receipts. The 2014–15 Budget reduces this by $2 million in 2014–15 and a further $3 million for each year of the forward estimates. In doing so the Australian Government will reduce the RIRDC’s operating funds (relative to 2013) by 7.2 per cent in 2014–15 and 11.6 per cent each year over the forward estimates.

Funding arrangements

The Australian Government’s financial contribution to RDCs is legislated under the Primary Industries Research and Development Act 1989 (the Act). The Act specifies the formula that determines the amount the Australian Government will contribute to each RDC for R&D activities. Specifically the Act states that the Australian Government will match the RDC’s yearly planned R&D expenditure, capped at 0.5 per cent of gross value of production of the specific industry.

As these funding arrangements are legislated, it is likely that to reduce funding to the RIRDC, the Australian Government will have to introduce amendments the Act, in order to decrease the matching contribution cap. No
changes to the Act are required for additional funds to be provided through RDCs as section 33 of the Act provides that an RDC may be paid by the Commonwealth under a written funding agreement.48

Budget Measures: Budget Paper No. 2: 2014–15 states that this additional funding will be provided through, grants for research projects that focus on delivering cutting edge technologies and applied research, with an emphasis on how the research outcomes would be used by farmers. The programme will require research to be done collaboratively between RDCs and one or more research providers with a financial contribution from one or more of the parties required.49

48. Ibid., Section 33.
Cessation of animal welfare assistance in destination countries and Australian Animal Welfare Strategy

Rob Dossor

Cessation of the Improved Animal Welfare Programme

The 2014–15 Budget achieves a saving of $2.3 million over 2014–15 by ceasing the Live Animal Exports – Business Assistance – Improved Supply Chains and Official Development Assistance (Improved Animal Welfare Programme) one year early on 30 June 2014.50 This program was introduced in the 2011–12 Mid-Year Economic and Fiscal Outlook in conjunction with support to eligible businesses which were affected by the temporary suspension of live cattle exports to Indonesia.51

The Improved Animal Welfare Programme offered aid funding to support improved animal welfare outcomes in countries which are eligible for Official Development Assistance and which import live animals from Australia.52 Under this programme the World Organisation for Animal Health (OIE) has been engaged to develop and deliver training on OIE animal welfare standards.53 The funding for the Improved Animal Welfare Programme was initially drawn from the Official Development Assistance budget.

Response to the ceasing of the Improved Animal Welfare Programme

The RSPCA in April called on the Minister for Agriculture to abandon plans to scrap or change the Export Supply Chain Assurance System (ESCAS).54 While the Budget does not scrap or change the ESCAS framework, it does cease aid designed to improve destination countries ability to meet ESCAS standards.

Improved Animal Welfare Programme background

The Improved Animal Welfare Programme was established by the Australian Government to assist eligible countries which imported livestock from Australia in their implementation of the ESCAS.55 The ESCAS was introduced in response to an ABC Four Corners program on 30 May 2011 which exposed horrific scenes of cruelty to Australian cattle while being slaughtered in Indonesian abattoirs, resulting in a vociferous response from the public.56

According to the Department of Agriculture, the ESCAS is based on four principles:

- animal welfare: animal handling and slaughter in the importing country conform to OIE animal welfare recommendations57
- control through the supply chain: the exporter has control of all supply chain arrangements for livestock transport, management and slaughter. All livestock remain in the supply chain
- traceability through the supply chain: the exporter can race all livestock through the supply chain and
- independent audit: the supply chain in the importing country is independently audited.58

The Improved Animal Welfare Programme was designed to achieve these principles. Countries which were eligible for assistance were: Indonesia, Vietnam, the Philippines, Jordan, Turkey, Egypt and Mauritius.59

Cessation of Australian Animal Welfare Strategy

The Budget will also achieve a saving of $3.3 million over three years by ceasing the Australian Animal Welfare Strategy (AAWS) from 1 July 2014.60 In November 2013 the Government froze new programmes under the

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54. RSPCA, ‘RSPCA urges Joyce not to turn his back on animal welfare’, RSPCA website, accessed 20 May 2014.
AAWS and announced its intention of disbanding the Australian Animal Welfare Advisory Committee (AusAWAC – an advisory group comprising representatives of the livestock industries, researchers, veterinarians and animal welfare advocates who provided consensus advice to Government on welfare policy). The Government also announced that the responsibility for the AAWS (which formerly resided with AusAWAC) would be taken up by the Department of Agriculture. The Budget formally ceases the AAWS.

Response from animal welfare groups

The Animal Welfare League Australia (AWLA) was disappointed by the decision to end the AAWS. They claimed ‘the loss of the AAWS is a backward step which will affect animals’ lives. The strategy was a well-structured, long term approach to having a balanced debate on animal welfare issues and delivering practical improvements to the care and management of animals.’ They also claimed that ‘the cost of AAWS was 1.1 million dollars but its real worth was more like tens of millions, given the huge amount of pro bono and in-kind support the working groups provided to their projects.’

AAWC background

The AAWS was intended to provide a national framework to identify priorities, coordinate stakeholder action and improve consistency across all animal use sectors. The AAWS seeks to build on Australia’s current arrangements, including state and territory legislation, standards, guidelines, codes of practice, industry quality assurance programs, education and training, and research and development.

The goals of the AAWS are:

- Animals – The welfare needs of animals are understood and met
- National Systems – National systems deliver consistent animal welfare outcomes and give priority to ongoing improvements
- People – People make ethical decisions regarding animal welfare, supported by knowledge and skills, and
- International – Australia is actively engaged in international partnerships and developments to improve animal welfare.

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60. Budget measures: budget paper no. 2, op. cit., p. 51
62. Ibid.
64. Ibid.
65. Ibid.
66. Ibid.
67. Ibid.
Drought package
Rob Dossor

The 2014–15 Budget includes measures designed to support drought-affected farm businesses.68 This package was first announced in February 2014.69 These measures include:

- a more generous criterion for income support under the Interim Farm Household Allowance (IFHA)
- an amended more generous assets test for the Farm Household Allowance (FHA)
- $280 million over the 2013–14 and 2014–15 financial years for concessional loans to eligible farm businesses affected by drought
- up to $12 million in 2014–15 for drought-affected farm businesses with water-related infrastructure
- up to $10 million over two years in 2013–14 and 2014–15 to assist farm businesses to manage the impacts of pest animals in drought-affected areas and
- up to $10.7 million over two years from 2013–14 to enhance access to social and mental health services in communities affected by drought.70

Farm Household Allowance

Many of the measures were introduced by the former Government. The IFHA, for example, replaces the Transitional Farm Family Payment (TFFP). The main difference between the two is the assets threshold, which was $1.5 million for the TFFP and is now $2.55 million net farm assets for the IFHA.71 In addition, the maximum length of payment was lifted from 12 months to extend to 30 June 2014; the off-farm income that is used to pay interest on a commercial loan is not included in the income test in certain circumstances (capped at $80 000); and recipients are given automatic access to a Health Care Card.72 The IFHA is due to cease on 30 June 2014.

The FHA measure is essentially the ongoing version of the IFHA. The major differences between the two allowances are the maximum period of support (three cumulative years under FHA) and the provision of case management support by the Department of Human Services. Neither allowance requires drought circumstances for eligibility for payment and both pay at the fortnightly Newstart Allowance rate (or Youth Allowance for those under 22 years of age).73 The FHA was legislated through the Farm Household Support Act 2014 in March 2014.74

Concessional loans

The package includes a concessional loan measure for drought-affected farm businesses. Both loans will operate concurrently.

The existing Farm Finance Concessional Loans Scheme is available for drought and other circumstances. In contrast the assistance available under the Drought Concessional Loans Scheme is targeted to those farm businesses that have a financial need as a direct result of drought conditions.

Under the Farm Finance Concessional Loans Scheme, loans are available to farms businesses for debt restructuring or productivity enhancement projects.75 The Farm Finance loans are capped at different amounts depending on the jurisdiction (for instance in South Australia the maximum loan amount is $650,000, in Western Australia $400 000 and $1 million for Queensland and the Northern Territory). The concessional interest rate at the start of the loan scheme will be 4.5 per cent. This rate will be reviewed on a six monthly-basis and may be adjusted to be in line with prevailing economic conditions.

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70. Budget paper no. 2, op. cit., p. 53.
Under the Drought Concessional Loans Scheme, loans will be available to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. Loans will be up to $1 million or 50 per cent of the business’s debt, whichever is lower. These loans will have a variable interest rate of 4 per cent set at the commencement of the scheme, which will be revised in accordance with changes to the Farm Finance Concessional Loans. The Drought Concessional Loan interest rate will be maintained at 0.5 per cent below that rate.

Other measures
Other measures were announced in February 2014 to assist farmers with the effects of drought. These were:

- additional funding ($10 million over two years) for water-related infrastructure rebates
- up to $10.7 million to provide additional social support services in drought-affected areas and
- $10 million to assist in the management of pest animals in drought-affected areas.

These measures, with the exception of the social support services are primarily available in New South Wales and Queensland, with the potential for expansion into other states.

Drought declarations
In April 2011 the Standing Council on Primary Industries agreed to principles to reform the Exceptional Circumstances system of drought relief. The first is that there should no longer be Exceptional Circumstances declarations or ‘lines on maps’. Following this, state ‘drought declarations’ have become less common, often being replaced by state governments with advisory councils which are better at advising the state/territory governments on the basis of local conditions. As a result of this, for any of these targeted measures to be extended to states or territories other than New South Wales or Queensland, no declaration of drought would necessarily be required.

Commission of Audit and Productivity Commission
The Commission of Audit found that ‘continuation of drought assistance can discourage drought preparedness and self-reliance’ and recommended that the Farm Finance concessional loans scheme be abolished.

This view is shared by the Productivity Commission which in its submission to the Agricultural Competitiveness Taskforce stated, ‘policies that … impede efficient risk management and structural adjustment (such as concessional loans for drought or impediments to farm aggregation) … might help some producers, but at the expense of the competitiveness of the sector overall.’

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77. Advice provided by the Department of Agriculture.
78. DA, Drought support for farmers, op. cit., p. 1.
79. Ibid.
Arts and culture
Dr John Gardiner-Garden

The 2014–15 Budget included significant funding reductions to arts, screen and cultural bodies.

The Budget anticipated savings of $87.1 million over four years by reducing uncommitted funding to arts programs administered by the Attorney-General’s Department ($33.8 million), the Australia Council ($28.2 million) and Screen Australia ($25.1 million). The reduction in the Attorney-General’s Department’s funding could affect many, as yet unspecified, programs administered by the Ministry for the Arts. The reduction in the Australia Council’s funding was explained by the body’s chief executive, Tony Grybowski, as leaving the body ‘still ahead’ after a funding boost it received under the former government’s 2013 Creative Australia cultural policy. However the reduction to uncommitted funding will disproportionately affect individual artists and smaller arts organisations that are not in triennial or annual funding agreements that lock in funding to major companies such as Opera Australia, the Australian Ballet, and the major state theatre companies and orchestras. The reduction of funding to Screen Australia will impact significantly on its capacity to support Australian film and television production, but the taxation incentives for Australian film production remain unaffected by budget measures.

• The Budget also provided for a reduction of $9.5 million over the next three years in the allocation for Indigenous languages support (Attorney-General’s Department). This measure comes in the context of a 2012 Parliamentary Inquiry calling on the government to respond to an urgent need in this area with a significant increase in funding, and of the former government including $14.0 million in its 2013 Creative Australia package to expand the Indigenous Languages Support Program.

• In 2014–15 funding will cease for the Australian Interactive Games Fund (saving $10.0 million in 2014–15) and Get Reading! Program (saving $1.6 million each of the next four financial years).

Savings of $2.4 million over four years are to be achieved by consolidating the back office functions of National Portrait Gallery, National Gallery of Australia, National Library of Australia, Old Parliament House, National Film and Sound Archive, National Museum of Australia and the National Archives of Australia. These are some of the country’s most important cultural institution and collecting agencies, and many concerns have been raised about this measure. Mr Craddock Morton, former director of the National Museum, has suggested the idea has inherent difficulties that would prevent it from succeeding and that ‘the efficiencies are just not there’. Ms Churcher, former director of the National Art Gallery was reported as saying ‘It’s the sort of thing they’ll do and then about 12 months later they’ll have to undo’. Joanna Mendelssohn, Associate Professor, College of Fine Arts, University of New South Wales, suggested:

if “back-office” means marketing and publishing, it could be all well and good...There will be real problems if security is centralised...Good security depends on staff being familiar with their colleagues as well as systems. Any attempt to rationalise and homogenise collections management will further endanger the national collections. ... there is no such thing as too much research prior to acquiring works for public collections. Cuts will be made here at our peril.

Museums Australia national director Bernice Murphy warned that ‘if you merge functions and erode individual identities you in fact threaten those institutions [sic] ability to entrepreneur their cultural abilities to the highest standard’. Steven Schwartz, the executive director of the Council for Humanities, Arts and Social Sciences, was...
reported as saying a similar idea was tried in Queensland ‘to save money and see those savings redirected’ but ‘[N]either of those two things occurred.’\textsuperscript{92}

Two budget measures involve new arts-related expenditure.

Creative Partnerships Australia will receive $5.4 million over four years to continue to build private sector support for the arts through philanthropy, sponsorship and corporate volunteering. The funding is no doubt intended to help leverage more private sector support for the arts through philanthropy, sponsorship and in-kind support.\textsuperscript{93} Such support disproportionately flows to larger arts organisations, so the small organisations and individuals, who are most impacted by the ‘uncommitted funding’ reduction, may benefit least from any support leveraged by this new funding.

The Australian Ballet School will receive a one-off grant of $1.0 million to help the school raise private sector funding to purchase a student residence near its premises in Melbourne. The measure will help the School address a problem that it has had in meeting the needs of all qualifying young people (especially those 14 to 15 years of age), and that has been resulting in a large percentage of acceptance offers being declined.\textsuperscript{94}


\textsuperscript{93} G Brandis (Attorney-General and Minister for the Arts), Encouraging private sector support for the arts, media release, 13 May 2014, accessed 16 May 2014.

Public service broadcasting
Dr Rhonda Jolly

ABC and SBS

As has been widely predicted this Budget involves funding cuts for the national public service broadcasters, the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS). The extent of the Budget pain for the broadcasters is considerably less than it may have been had the recommendations of the National Commission of Audit (NCoA) to subject the broadcasters to efficiency dividends been imposed.95 The NCoA’s approach would have meant losses of $204.0 million from the broadcasters’ budgets over the next four years.96 Instead, a one per cent efficiency saving for each broadcaster means that base funding will be reduced by $43.5 million over the same period. This will amount to approximately $35.5 million for the ABC and $8.0 million for SBS.97

Both the ABC and SBS have warned that if they receive less government funding they will have no choice but to reduce the services they provide.98 In response to the Budget announcement, ABC Managing Director, Mark Scott, iterated the caution. Scott was adamant that while the ABC would be able to achieve some efficiency gains, the present ‘cuts would regrettably and inevitably result in redundancies and a reduction in services’.99 On the other hand, while SBS’s Michael Ebeid acknowledged that the Budget cuts would be felt across his organisation, the major concern for SBS’s managing director was for the future.100 Ebeid noted that despite the fact that the broadcaster was ‘highly-skilled at delivering more with less’, the probability was that there would be further reductions in funding. SBS would not be able to absorb these, and as a result, content production and the broadcaster’s ability to attract commercial revenue would be affected.101

Ebeid’s concern is likely to be justified, given that the Budget papers describe the savings measure for the broadcasters as a ‘down payment’ on greater efficiencies. These are likely to be required as a result of the findings of a study by Peter Lewis (the Lewis inquiry), commissioned by Minister Malcolm Turnbull in January 2014.102 It has been reported that the findings of the inquiry are currently under consideration by the ABC and SBS Boards and that the inquiry is confident the broadcasters should be able to deliver what has been labelled ‘back office’ savings in the operations of the broadcasters without interfering with programming quality or quantity.103

Moreover, reports indicate that the broadcasters will be required to consider six categories under which they will be expected to produce the administrative savings: working together, harnessing technology, modernising business, revenue opportunities, better resource allocation and financial management and governance. It is also expected that the broadcasters will better match supply and demand for services and cease producing low-rating programs in order to achieve ongoing efficiencies.104

It is interesting that there has been a more lenient than anticipated approach taken by the Government to funding public service broadcasters in this Budget given the Prime Minister’s strident criticism of the ABC with regards to the reporting of allegations by former United States’ National Security Agency contractor, Edward Snowden.105 In addition, the broadcaster has been subject to recent criticism regarding editorial policies, an embarrassing apology following the telecast of an offensive Chaser skit and the court case which followed, as

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98.  M Scott (Managing Director Australian Broadcasting Corporation (ABC)) and M Ebeid (Managing Director Special Broadcasting Service(SBS)), Evidence to Environment and Communications Legislation Committee Senate Committee, Additional Estimates, 25 February 2014, accessed 14 May 2014.
99.  Ibid.
101.  Ibid.
102.  ABC and SBS efficiency study information page, Department of Communications website, accessed 14 May 2014.
well as allegations of entrenched ‘left’ bias have resurfaced. Some commentators therefore saw this Budget as an opportunity either to privatise the ABC or to introduce aspects of commercialisation in the form of limited advertising and to curb what they saw as its excessive digital presence. The NCoA’s assessment also concluded there is a legitimate case for reconsidering the level of support for the ABC and SBS as a result of advances in technology and commercial imperatives and that there is no ‘right’ level of government funding for, or services that should be provided by public broadcasters.

Denis Muller notes that ‘Government displeasure with the ABC and budgetary pain for the national broadcaster are almost clichés of Australian politics’. Before the 1980s, eminent media academic Henry Mayer described government funding as ‘a permanent problem’ for the broadcaster. This is because it raised questions of, and called for decisions about how much money the ABC needs to fulfil its Charter obligations, and to what extent there is waste or inefficiency by the Corporation in the use of public funding.

Writing in 1988, academic Glyn Davis concluded that the ABC had ‘swung through several cycles of expansion and contraction; it ‘prospered’ under the Whitlam Government, but ‘fared less well under Fraser’. The Hawke Government increased funding initially, but curbed its financial largesse later in its term, with Treasurer Paul Keating arguing that the Corporation was self-indulgent and self- interested and that it would not get ‘one more zac out of us’.

With reference specifically to the Howard Government, journalist Shaun Carney argued in 2000:

... under the Fraser, Hawke and Keating governments budget cuts both real and threatened were used by incumbent ministers and prime ministers to put the screws on the ABC. With the [Howard] government, it is just a little more obvious ...To the government, the ABC is a plaything. Having attempted to tame it, the new direction seems to be to run it down at every opportunity, rhetorically and financially.

It appears, however, that in this case demands for harsher treatment of the broadcaster have been tempered with regard for the views of supporters of public service broadcasting. Supporters argue that the modern media environment is more concentrated and less diverse as a result of the same advances in technology and commercial imperatives advanced by the NCoA as a reason to rethink Government support. For this reason it is critical that public service broadcasters continue to deliver services which inform, educate and entertain. As one assessment has noted: the ABC operated more television and radio networks and one of the largest suites of online services in Australia’s media on an annual budget less than that available to any of the commercial free to air television broadcasters with whom it competes for audiences. The Friends of the ABC (Victoria) have also argued the national public broadcaster ‘has been built and paid for through taxes by three generations of Australians. It is not meant to be a business. The ABC was conceived as a service to the public— an independent institution of ideas, information, education and culture that enriches the nation and the lives of its citizens’.

To what extent a relatively balanced approach to public service broadcasting continues, is likely to be dependent on two further measures of efficiency: first, how the Lewis inquiry recommendations are implemented by the broadcasters; second, how the Government deals with the NCoA’s recommendation that the broadcasters should be benchmarked against each other and the commercial broadcasters.

The NCoA considered benchmarking ‘should provide a sense of the efficiency of operations and the potential savings that could be achieved without compromising the capacity of the public [service] broadcasters to deliver services including to remote and regional Australia’. Whether this would be the case is debateable. Many

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110. G Davis, Breaking up the ABC, Allen and Unwin, North Sydney, 1988, p. 60.
111. S Carney, “They just can’t keep their hands off the ABC”, The Age, 9 November 2000, accessed 14 May 2014.
112. Submission by Media, Entertainment and Arts Alliance Submission to Department of Broadband, Communications and the Digital Economy regarding ABC and SBS: towards a digital future, December 2008 (no longer online).
114. NCoA, Towards responsible government, op. cit.
would question what benchmarking will actually mean, and many would argue that it is an impossible task given that the ‘great virtue’ of public service broadcasters is that they are not commercial.  

Australia Network

In addition to the efficiency savings imposed on the ABC, this budget has also removed control of the Australia Network Asian broadcasting service—the so called ‘soft diplomacy’ service—from the national broadcaster. The Government will pay $10.6 million in compensation to the ABC in 2014–15 for breaking the Australia Network contract, which gave the running of the Network to the ABC for an initial ten-year period, but will save $196.8 million over the nine years that the contract will be void.

The Government has criticised the Network for what it has seen as overly negative representation of Australia. It has also expressed concern that the ABC broadcaster was not fulfilling the terms of its contract and that it was using some of the Australia Network funding to ‘cross-subsidise’ other activities. The NCoA was also disparaging of the Network, labelling it expensive, ‘given its limited outreach’, for meeting the diplomatic objectives of promoting Australia and building regional and cultural understanding.

Mark Scott commented in his response to the Budget that the Government’s decision ‘runs counter to the approach adopted by the vast majority of G-20 countries who are putting media at the centre of public diplomacy strategies to engage citizens in other countries’.

Prior to the Budget announcement veteran media buyer Harold Mitchell, a long-time supporter of the Australia Network, also expressed concern that without the Network, Australia would not be properly represented in the booming Asian economy. A Lowry report in 2010 also noted the value of the Australia Network to international diplomacy. The report made the points: Australian Governments of both sides ‘have failed to grasp the importance of either public diplomacy or international broadcasting’ and despite impressive international achievement ‘the budgets of Australia’s international broadcasting services’ have been periodically affected by threatened closure and slashed budgets.

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117. NCoA, Towards responsible government, op. cit.
118. ABC, media release, op. cit.
The Emissions Reduction Fund
Alex St John and Kai Swoboda

A core election commitment of the Coalition Government was to repeal the carbon pricing mechanism (CPM) and replace it with a multi-faceted Direct Action Plan (DAP). The CPM imposed a liability on large emitters of greenhouse gases to pay for (or offset) their emissions; under the DAP the Government will pay for emissions reductions and offsets, through an Emissions Reduction Fund (ERF).

As part of Australia’s commitment to the second period of the Kyoto Protocol, Australia must reduce its greenhouse gas emissions by 5 per cent compared to 2000 levels, by the end of 2020. According to the Government’s latest estimates, this means that the emission of 421 million tonnes of carbon dioxide-equivalent (t CO₂–e) must be abated (avoided or offset) by the 31 December 2020.

ERF design
To achieve this target, the Government will purchase Australian Carbon Credit Units (ACCUs), generated by emissions avoidance and offset projects, in a reverse-auction process or through alternative arrangements such as a tender. Project proponents will be able to submit confidential bids to the Clean Energy Regulator (CER), offering to supply a quantity of ACCUs, for a nominated price, with auction rounds to be held regularly. In each round, the regulator will accept the lowest 80 per cent of bids that are below a ‘benchmark price’, which will not be disclosed to participants.

It is the Government’s intention that agricultural and forestry activities under the existing Carbon Farming Initiative will bid into the Fund, as well as new activities such as industrial and commercial energy efficiency and emissions avoidance projects. The ERF is not a grant scheme—that is, the Government will only pay project proponents once emissions reductions have been delivered, in the form of ACCUs (which are generated only after the emissions reduction has taken place and been measured).

Expenditure
The Coalition’s pre-election policy for the ERF was for a total allocation of $1.55 billion over the period to 2016–17, with $300 million for 2014–15, $500 million for 2015–16 and $750 million for 2016–17.

This amount was increased to $2.55 billion in April 2014, with the Minister for the Environment noting in his media release accompanying the issue of the ERF white paper that ‘the forward estimates commitment to the ERF will be $2.55 billion, with further funding to be considered in future budgets’. While the term ‘forward estimates’ noted by the Minister implies that the additional $1 billion would be allocated to 2017–18, in his foreword to the white paper the Minister noted that the $2.55 billion would be ‘allocated flexibly over time according to the profile of projects contracted under the [ERF]’.

Funding to the ERF explicitly allocated in Budget Measures: Budget Paper No. 2: 2014–15 is for funding of $1.15 billion over the four years to 2017–18. In a media release accompanying the 2014–15 Budget, the Minister for the Environment re-stated that the Australian Government ‘had today delivered on its pledge to provide $2.55 billion to establish the [ERF] from 1 July 2014’.

So where is the difference between the amount of $1.15 billion and the committed $2.55 billion?

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124. Ibid.
127. Department of the Environment, op. cit., p. 1. The Minister also signalled that ‘further funding would be considered in future budgets’.
The Government has indicated that it will acquire ACCUs under the ERF with a preference for five-year contracts. Given this decision, expenditure under the ERF as outlined in Budget Paper No. 2 represents the expected outlays in each year for contracted emissions reductions that relate to the particular year. The total allocation of $2.55 billion is referred to in the budget papers but the expenditure is now expected to occur over the ten years to 2023–24 given the timing of payments. An indicative profile of expenditure beyond 2018–19 based on certain assumptions, including a committed $2.55 billion of expenditure, shows expenditure peaking in 2019–20 (Table 1).

Table 1: Indicative annual Emissions Reduction Fund expenditure, 2014–15 to 2023–24 ($ million)

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<tr>
<td>2014–15</td>
<td>75.5</td>
<td>299.8</td>
<td>354.5</td>
<td>416.9</td>
<td>463.4</td>
<td>434.4</td>
<td>210.1</td>
<td>155.4</td>
<td>93</td>
<td>47</td>
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Note: italised appropriations are estimates.

Cash to be provided to the CER by Appropriation Bill (No. 1) 2014–15 is for an allocation of $79.3 million for administered items. This allocation essentially provides the resources for the CER to purchase emissions reductions in 2014–15. While the CER may be able to commit to multi-year contracts exceeding this amount in 2014–15, there is no appropriation available to the CER above this value or for future years. The payment of funds to the value of $2.55 billion will therefore require additional appropriations via annual appropriation bills or a standing appropriation.

Efficacy

For the Direct Action Plan to achieve the 5 per cent target, the Government must acquire 421 million ACCUs by the 2020–21 financial year (assuming emissions conform to projections, one ACCU equals one tonne of CO2-e avoided or offset). Our analysis suggests that the ERF will have spent $2.25 billion by 2020–21, which means that the average price the government can pay is $5.35 per ACCU. It is not clear if this price will be sufficient to purchase enough abatement to reach the target; currently similar certificates from other state-based energy savings schemes are trading in the range of $8-18 per tonne of avoided emissions. Analyst firm RepuTex concluded that the most likely source of abatement at around $5 per tonne would be avoided emissions from landfill, although this would only be a limited supply.

Should the government not be able to purchase enough abatement through the ERF to meet its target, it may be necessary to purchase cheaper abatement from overseas, although the Government has been a strong critic of this practice. Another risk to the efficacy of the DAP is that the associated emissions safeguard mechanism, to prevent companies emitting higher-than-usual amounts of greenhouse gases, is not set to start until July 2015, potentially leaving a year without either a carbon price or baseline system to constrain emissions.

130. Department of the Environment, op. cit., p. 11.
132. Parliamentary Library estimates based on allocated expenses to 2018–19 are extrapolated to 2023–24 using a total funding envelope of $2.55 billion assuming uniform distribution of payments over five year contracts entered into for the years 2014–15 to 2018–19. Does not include additional amounts that may be provided by the Government in future years.
133. Appropriation Bill (No. 1) 2014-2015, Schedule 1 Services for which money is appropriated: Environment portfolio, accessed 14 May 2014.
134. Prices sourced from certificate brokers’ websites (Green Energy Markets, Green Energy Traders), on 14 May 2014.
Water
Bill McCormick

Some areas of expenditure in national water policy are reduced in this budget. A further significant development is abolishing the National Water Commission (NWC). Created by the Howard government in 2004, during a time of drought, the NWC is an independent statutory authority designed to monitor the progress of national water reform. Over the years, its role expanded to do much more, including funding research in water-related areas. Now, however, it is to be axed following a recommendation from the National Commission of Audit, which argued that it should be consolidated in the Department of Environment. Its proposed abolition in December 2014 is estimated to save $20.9m over four years. Its key statutory functions will be carried out by other government bodies, yet to be specified, with $2.3 million annually in funding provided to these agencies from former NWC funding.

The Office of Water Science Research will also be terminated, saving $2 million per year over five years from 2013–14.

The NWC was a component of the National Water Initiative (NWI), a plan developed by the Council of Australian Governments (COAG) for sustainable water use in Australia, ensuring that residents and industries have a reliable supply of water in times of drought while protecting the health of Australia’s rivers and groundwater. The NWI has a timetable of key actions with regular assessments and the NWC was created partly to conduct these assessments. The NWC’s first task was developing baseline levels for Australia’s water resources from which the progress of the NWI could be determined.

In order to abolish the NWC, the National Water Commission Act 2004 (NWC Act) will need to be repealed and the Water Act 2007 amended. It is unclear which functions of the NWC will be transferred to other agencies and whether these authorities will have the independent statutory status that the NWC had.

The NWC Act was originally written with a sunset clause of 30 June 2012, designed to give the Commission a finite existence. A review of the NWC by COAG in 2011 concluded ‘that the NWC should continue, without sunset, for the duration of [the] NWI agenda’. Accordingly, the NWC Act was then amended to ensure that the NWC could continue on an ongoing basis. The idea was that it would continue oversight of national water reforms, audit the outcomes in the Murray-Darling Basin, monitor the implementation of the Murray-Darling Basin Plan, and carry out triennial assessment of progress of parties’ commitments to the NWI.

National Water Commission Chair Karlene Maywald said that some of the NWC’s core functions will transfer to other organisations but final agreement on all transfers is yet to be reached. The NWC will finalise its National water reform assessment 2014 (Triennial Assessment) over the next six months.

Reacting to the news, the Executive Director of the Water Services Association of Australia (WSAA), Adam Lovell, and the Australian Water Association (AWA) Chief Executive, Jonathan McKeown, said ‘abolishing the National Water Commission will weaken our ability to engage Australians on water management challenges through future droughts, floods and with population growth.’ They called for the key functions of the National Water Commission to continue to be funded.

Earlier the National Farmers Federation had called for the ‘role of an independent authority to drive national water reform’ to continue.

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140. Ibid.
144. Water Services Association of Australia (WSAA), Call for key functions to remain as National Water Commission abolished, media release, 13 May 2014, accessed 19 May 2014.
The Australian Conservation Foundation is concerned that the Government abolished the NWC without setting out which agency will be responsible for delivering its ‘critically important functions’.  

**Sustainable Rural Water Use and Infrastructure Programme—reduced funding**

Although the abolition of the NWC is significant, the main savings come from a reduction in funding for water recovery of $168.2 million over two years from 2017–18 and for infrastructure projects of $239.4 million over five years from 2013–14. Water recovery is the process of reducing water consumption in a catchment area to a sustainable level, either through new water efficiency programs, modernising irrigation infrastructure or by the Government purchasing water entitlements (known as water buybacks). Water recovery can make more water available to meet the environmental water needs of the Murray-Darling Basin. The Government will introduce a cap of 1,500 Gigalitres (GL) on the volume of water that the Commonwealth can buy back in the Murray-Darling Basin (MDB).

As at 31 March 2014, the Commonwealth had purchased 1,141,642 GL for the MDB. A commitment to a 1500 GL cap was given as a key component for New South Wales and Victoria to sign the Intergovernmental Agreement (IGA) on Implementing Water Reform in the Murray-Darling Basin.

The National Water Market System project, a COAG initiative that aims to improve the efficiency of water registers and transactions and the availability of market information, will be terminated.

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149. T Abbott (Prime Minister) and S Birmingham (Parliamentary Secretary to the Minister for the Environment), *States agree to implement Murray-Darling Basin water reform*, joint media release, 27 February 2014, accessed 19 May 2014.

Environment

Bill McCormick

In the 2014–15 Budget, the Government has reduced funding to a number of environmental programs, most notably landcare programs. A large portion of this funding has been redirected into the establishment of the new Green Army scheme.

National Landcare Programme

The Caring for our Country program, which includes Landcare, will be renamed the National Landcare Programme (NLP) and have its funding reduced by $471 million over the next four years, in addition to a reduction of $12.8 million for 2013–14. Included in the NLP, funding to the Environmental Stewardship Programme (ESP) will be reduced by $25.8 million over five years. In the ten years from 2018–19, the ESP funding will be cut by $54.8 million and will end a year early. These cuts were recommended by the National Commission of Audit (NCoA) which suggested that funding to the NLP ‘be halved and better aligned to the goals of the Environment Protection and Biodiversity Conservation Act 1999’ (EPBC). The new funding structure for landcare programs are shown in Table 1 below:

<table>
<thead>
<tr>
<th>Table 1: Appropriations for landcare programs</th>
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<tbody>
<tr>
<td>Caring for our Country—Environment</td>
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<tr>
<td>Natural Heritage Trust</td>
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<tr>
<td>Environmental Stewardship Programme</td>
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<td>Total at 2013–14 Budget</td>
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</table>

| National Landcare Programme—Environment | 262,541 | 251,775 | 227,294 | 215,763 | 204,195 |
| Natural Heritage Trust | 11,132 | 10,326 | 9,124 | 9,419 | 9,419 |
| Reef 2050 Plan | 14,383 | 11,266 | 10,339 | 9,918 | 9,918 |
| Environmental Stewardship Programme | 3,609 | 5,862 | 909 | | |
| National Wildlife Corridor Plan | 17,197 | 10,390 | 5,862 | 909 | |
| Total at 2014–15 Budget | 297,730 | 284,563 | 253,821 | 235,741 | 223,532 |

| Green Army | 48,430 | 97,679 | 148,299 | 230,562 | 230,562 |
| National Landcare Programme plus Green Army | 297,730 | 332,993 | 351,500 | 384,040 | 454,094 |

Funding from the NLP will be used to deliver several Coalition environmental policy initiatives, costing $81.9m. These include: 20 Million Trees ($50 million over 4 years), a more competitive and sustainable fisheries sector ($9 million over 4 years), Coastal River Recovery Initiatives ($9.3 million over 4 years), Dandenong Ranges Wildlife Recovery, Weed Management and Fuel Reduction Programme ($3 million over 3 years), Keep Australia Beautiful and Clean Up Australia ($0.6 million over 3 years), Greater Western Sydney-Cumberland Conservation Corridor ($7.5 million over 3 years), Kimberley Cane Toad Clean Up ($0.5 million over 2 years), and the Whale and Dolphin Protection Plan ($2.0 million over 3 years). In addition $40 million over four years will be used to establish the Reef Trust.

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Australian Conservation Foundation (ACF) CEO Kelly O’Shanassy criticised the Government for breaking its election promise to maintain full funding for Landcare. The ACF had earlier said the Government would be labelled anti-nature if it acted on the NCoA’s recommendations to cut Landcare funding.

**Green Army and 20 Million Trees programme**

The Government will establish its Green Army program in 2014–15, with $525.4 million in funding over four years, primarily redirected from Caring for our Country/NLP. In the Green Army, participants aged 17–24 will undertake environmental projects that are broadly comparable with landcare activities for a training allowance. See the Library’s [Bills Digest](#) for detail. Additionally, the Government’s Direct Action Plan commitment to plant 20 Million Trees by 2020 to re-establish green corridors and urban forests will be funded with $50 million over four years from within the NLP. The Government says that ‘revegetation projects will garner economic benefits such as preventing soil erosion and other land degradation.’

Under the Green Army program, the Government made commitments of $1.5 million to plant trees in Point Cook Park, $3.5 million for greening parks and gardens across western Melbourne and $5 million to plant one million trees in the Cumberland Conservation Corridor in Western Sydney. The Coalition planned that the programme would include large scale plantings in regional areas as well as urban street planting and highways. However, industry estimates in 2010 gave a delivery of cost $5 per tree, which results in a programme cost of $100m.

**Grants to Voluntary Environment, Sustainability and Heritage Organisations cessation**

The Government has implemented the NCoA recommendation to abolish Grants to Voluntary Environment, Sustainability and Heritage Organisations (GVESHO) because it overlaps with the objectives and outcomes of the NLP. The GVESHO started in 1973 and now contributes to the administrative costs of over 150 relevant local, regional, state and national community-based, not-for-profit organisations.

**Great Barrier Reef**

A [Reef Trust](#) will be established with $39.9 million over the next four years using funds redirected from the NLP. The Reef Trust will fund projects that improve water quality and coastal habitat along the Great Barrier Reef (GBR), although it is unclear how this relates to the existing Reef Rescue program ($200 million over five years) which also aims to improve the quality of water entering the GBR through improved agricultural and urban management practices. The Reef Trust will also fund other Coalition election policy initiatives, such as $2.0 million to cull crown-of-thorns starfish and $5.0 million for a Dugong and Turtle Protection Plan. The trust will be set up to allow private contributions along with funds from environmental ‘offsets’ of projects approved under the EPBC.
Mining and resources
Alex St John

The 2014–15 Budget brings only relatively small changes for the mining and resources sector. The Government is preparing an Energy White Paper, which is expected to be released in September 2014. It is likely that the Government will not release any further substantial policy measures for the sector until after that process is complete. However, there are two initiatives in the Budget which will be welcomed by mining and resources companies.

The Exploration Development Incentive
The principal resources initiative contained in the 2014–15 Budget is the allocation of $100 million over three years to provide the Exploration Development Incentive (EDI) for ‘greenfields’ mineral exploration. The allocated $100.0 million will be made available to eligible companies as follows: $25 million in 2014–15, $35 million in 2015–16 and $40 million in 2016–17. This measure is intended to enable small mineral exploration companies with no taxable income to provide exploration credits to their Australian shareholders as a refundable tax offset.

Currently, small mining exploration companies incur losses in the initial years of operations and carry these losses forward to be set off against future profits if the company’s discovery results in eventual commercial success. The ability to immediately distribute refundable tax offsets to investors could make investing in a ‘junior explorer’ more immediately attractive. According to the policy design consultation paper released by the Treasury, the tax credit will be aimed at the so-called ‘junior explorer’ sector, primarily small companies with no current mining activities.

Junior explorers rely almost exclusively on issuing stock to fund their activities, and because the vast majority of resources companies are loss-making, cannot often distribute profits to their investors.

The Coalition had committed to an EDI at both the 2010 and 2013 elections; the Labor Party had raised the idea before the 2007 election but had not moved to implement it. Resources bodies had lobbied for an EDI-type scheme, and say that an EDI will “…provide a strong incentive for shareholders to commit capital to the exploration sector, making investment in these juniors attractive and addressing the lack of start-up capital in a competitive market.” A report prepared for the minerals industry in July 2013 suggests that there is little growth in minerals exploration in Australia, and that Australia’s share of world exploration expenditure is diminishing, particularly in comparison to Canada.

However, there are several key details of the policy that are not yet clear. Firstly, the scheme is a tax expense but, unusually for a tax expense, it is capped. This means that eligibility for the tax offset will have to be restricted in some way; it seems that a likely way for this to occur is for the taxable losses to be ‘modulated’ so that each company reporting a taxable loss would receive a portion of the available tax credits, commensurate with total demand for the scheme. The Government has not yet decided if this modulation will be based on actual or expected losses.

Secondly, it has also not been decided if the credit will be available to all Australian shareholders of a company, or holders of newly issued shares only. If the intent of the measure is to stimulate exploration activity in Australia and attract capital to the sector, this would only be achieved by the latter option. If the tax credit was made available to holders of existing stock as well as newly issued stock, the potential for the scheme to

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167. Ibid.
171. South Australian Chamber of Mines and Energy, Exploration Development Incentive will attract much-needed investment, 3 September 2013, accessed 16 May 2014.
173. Department of the Treasury, op. cit.
incentivise capital raising and inject new funds for companies to use to explore would be diluted. Should this occur, the tax credit could simply represent a subsidy for owning shares in junior explorers.

The existence of junior explorers is important for the continued success of the Australian resources sector. Larger resource companies have previously withdrawn in-house exploration capability from Australia in response to lower commodity prices, and preferred to direct their efforts to ‘brownfields’ exploration, leaving junior explorers to search for new deposits. However, the case has not yet been strongly made that the EDI is necessary for the continued existence of the sector, or that exploration is not appropriately incentivised through normal market forces. The narrative around the EDI is mainly concerned with ‘building confidence’ in the resources sector.

Stimulating greenfields exploration through an incentive for junior explorers could be a cost-effective way of stimulating the mineral resources sector at large. If a junior explorer discovered a new mineral resource that could be developed with attractive economics, this would then attract investment from a larger mining company, bringing economic benefit. The actual cost of stimulating the junior explorer would be relatively small. However, there is also the possibility that no discoveries could be made, despite any additional capital being invested as a result of the EDI. There is also the possibility that if the design of the EDI did not effectively target junior miners or greenfields exploration, taxpayers may not receive a satisfactory return on their investment in a highly risky industry.

In the context of a tight budget scenario, the EDI must be carefully designed to ensure that it incentivises only new and additional exploration activity; genuine stimulation of the sector is a justifiable policy outcome, but only if it is conducted in an efficient and cost-effective fashion.

**Offshore petroleum activities environmental approvals**

As part of the Government’s policy to streamline environmental approval processes, the assessment and approval of offshore petroleum activity under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is now the responsibility of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA). Previously, offshore petroleum developers were required to submit an environmental plan to NOPSEMA, and also seek separate approval under the EPBC Act (where necessary) from the Environment Department. This streamlining has been welcomed by the resources sector.

Although this move has been less controversial than the plan to delegate some other EPBC Act approval functions to the states and territories, some environmental groups have reportedly criticised the initiative, as taking the approval process out of public view and away from the Parliament. The 2014–15 Budget provides that the Department of Industry will spend $0.3 million in 2014–15 to conduct an independent evaluation of the effectiveness of the new arrangements.

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174. T Williams, op. cit.
175. I Macfarlane (Minister for Industry) and A Sinodinos (Assistant Treasurer), *Opening the door to more mineral discoveries*, media release, 13 March 2014, accessed 16 May 2014.
Changes to energy and climate programs
Alex St John

The 2014–15 Budget contains a number of changes to climate and energy programs, with many programs being abolished or reduced to find budget savings. The broad policy background to these measures is the replacement of the previous Government’s ‘Clean Energy Future’ climate change policy, based on the carbon pricing mechanism, with the current Government’s ‘Direct Action Plan to Tackle Climate Change’, based on the proposed Emissions Reduction Fund (see separate brief). These are new savings, in addition to those previously announced in the 2013–14 Mid-year Economic and Fiscal Outlook (MYEFO). Some measures associated with the proposed repeal of the carbon pricing mechanism were included in MYEFO, so do not feature in the 2014–15 budget papers.

Renewable energy

Government support for renewable energy development has been dramatically reduced. Subject to passage of legislation, the Australian Renewable Energy Agency (ARENA) will be abolished, saving an additional $1.3 billion by 2021–22.180 ARENA was set up in 2012 to provide financial support for research, development and commercialisation of renewable energy technologies, and was to have spent $2.5 billion over ten years, in addition to other funds from existing programs.181 Although funding for ARENA’s activities had been deferred in the 2013–14 Budget ($370 million) and reduced by $434.9 million in the 2013–14 MYEFO182, its complete abolition had not been previously flagged. Existing projects that have a funding agreement with ARENA in place will not be affected, but no new grants will be issued.183 The abolition of ARENA, and the Clean Energy Finance Corporation, will leave the Renewable Energy Target as the sole substantial Commonwealth renewable energy program.

The Budget does provide $2.1 million over three years for a ‘Solar Towns’ initiative, which will provide grants to community groups to install solar hot water heaters or photovoltaic panels.184 However, grants will only be available to groups in the electorates of McEwen, Corangamite, Bendigo, Moreton, Bonner, Lyons; the City of Monash in Victoria, and the Port Adelaide/Wakefield/Makin area in South Australia. A spokesman for the Minister for the Environment, the Hon. Greg Hunt, stated that this fulfilled specific commitments made during the election campaign.185 This program is substantially smaller than the $50 million for solar towns that the Minister announced in December, 2013.186 The $500 million ‘One Million Solar Roofs’ and the $50 million ‘Solar Schools’ programs, also announced at that time, have not yet been proceeded with.

The Government has also provided $10.6 million over the forward estimates to service existing renewable energy power stations in remote Indigenous communities.187

Climate change programs

The Budget has made changes to several climate-related programs. Funding has been reduced for the Carbon Capture and Storage Flagships program and the National Low-Emissions Coal Initiative (NLECI). These programs, commenced in 2009–10 and 2008–09 respectively, were intended to provide a total of $2.5 billion for research, development and deployment of technologies to reduce greenhouse gas emissions from the combustion of coal and other fuel sources.188 Both these programs have had significant amounts of funding redirected, deferred or reduced since their inception by both the current Coalition and former Labor Governments. The Government has indicated that existing Carbon Capture and Storage Flagships projects will continue to be funded; there will

184. Ibid., p. 110.
185. J Newton, email, 22 May 2014.
also be $52.6 million allocated to the NLECI between 2014–15 and 2016–17. However, it is not clear if this funding simply covers existing projects or enables new projects as well.

Additional funding of $9 million has been provided to the National Climate Change Adaptation and Research Facility to continue operations, with emphasis on understanding risks from climate change in the coastal zone. NCCARF had been without funding since its previous contract with the Government expired in 2013. The Government has also merged several research programs, including the Australian Climate Change Science Program, into a new ‘National Environmental Science Program’; overall funding for the new body will be $21.7 million less over the forward estimates, compared with the predecessor programs.

A part of the Government’s Direct Action Plan is the 20 Million Trees program, under which new trees will be planted by 2020 ‘to re-establish green corridors and urban forests on both public and private land.’ The program will be established in 2014–15, but its $50 million cost will be funded from within the National Landcare Program (see separate article on Environment). Despite this measure being included as part of the Government’s plan to tackle climate change, planting new trees provides very little immediate greenhouse gas abatement. Trees absorb relatively little carbon dioxide in the early years of their life; it is therefore unlikely that this measure could contribute greatly to the target of reducing Australia’s emissions by 5 per cent by 2020.

Reduced support for biofuels

Along with changes to general fuel taxation (see separate brief on fuel excise taxation), the Government has moved to reduce support for biofuels. This is manifested by a reduction in the generosity of excise concessions for domestically produced ethanol and biodiesel (see separate brief on these topics). Given that ethanol represents a small and declining percentage of fuel sales, it is unlikely that there will be significant increases in greenhouse gas emissions associated with this measure, compared to emissions from transport more generally.

The Government has chosen not to proceed with a $5 million program to encourage research, development and deployment of advanced biofuels derived from algae. This initiative had been flagged in the Coalition’s Direct Action Plan policy document. Algae have been touted as a potential feedstock to produce large amounts of renewable fuel, without diverting land from agricultural uses, as they can be grown intensively in tanks on otherwise unproductive land. It is also thought that algae could produce biofuel with less environmental impact than growing other biofuel crops, such as palm oil.

194. According to the Bureau of Resources and Energy Economics’ Australian Petroleum Statistics March 2014 issue, 2,569 million litres of ethanol-blended petrol were sold in 2012–13. As almost all ethanol-blended petrol sold is 10% ethanol and 90% normal petrol, this represents ethanol sales of around 260 million litres of ethanol, which is 1.4% of all unleaded petrol sold in Australia for that year.
Health funding agreements
Amanda Biggs

The Budget included announcements affecting Commonwealth funding for public hospitals and other programs that will be significant for federal relations. A number of related health funding agreements with the states and territories are slated to be terminated, deferred or redrawn. The expected savings from changes to public hospital funding arrangements are significant. Hospital and education savings from this budget are expected to total $80 billion by 2024–25, with the largest component of this accruing from savings to hospital funding. All savings from these budget measures are to be directed to the new Medical Research Future Fund.

Public hospitals—change to funding arrangements
The budget announced that the hospital funding model agreed to in the Rudd Government’s National Health Reform Agreement 2011 (NHRA) will cease from July 2017. The NRHA agreed by all jurisdictions, sets out the shared Commonwealth and states and territories funding for public hospitals.

From July 2014 to July 2017, funding for public hospitals will be calculated using the model agreed to in the NHRA. This applies an activity based funding approach to determine an ‘efficient price’ for hospital services. The Commonwealth pledged to meet 45 per cent of the growth in the efficient price initially, rising to 50 per cent after 2017. The states and territories will meet the balance. But from July 2017, the Commonwealth’s contribution will no longer use this funding model. The Commonwealth contribution will be linked to movements in the consumer price index (CPI) and population growth—essentially a return to the funding model the NHRA replaced. If CPI movements track below the growth in the cost of medical services, the states and territories will face a shortfall in funding under this new formula.

From 2014–15, the Commonwealth will also cease the funding guarantees agreed to under the NHRA. Under the funding guarantee, the Commonwealth promised that no state would be financially worse off as a result of transitioning to the NRHA activity based funding arrangements which apply from 2014–15. The Commonwealth guaranteed that its contribution would be at least $16.4 billion greater than the amount the states and territories would have received under the superseded funding model. The cessation of the funding guarantee means payments of up to $574 million which were due to commence from July 2014, will not proceed.

The government has indicated that these changes are a ‘platform’ for moving towards longer term health funding arrangements. The development of these would involve new agreements with jurisdictions. The combined savings from implementing these two measures are forecast to be $1.8 billion over four years.

National Partnership Agreement on Improving Public Hospital Services
The Budget also announced the cessation of the National Partnership Agreement on Improving Public Hospital Services (NPAIPHS) from July 2015. Under the NPAIPHS, the states and territories receive funding for improving access to elective surgery, emergency care and subacute care. Funding involves both facilitation and reward payments for meeting agreed targets. The budget announced that the reward payments for emergency care and elective surgery would cease from July 2015. Around $30.7 million in these payments were made to states and territories in 2013–14. Savings of $201.1 million over three years are forecast.
Funding for new subacute care beds (palliative care, rehabilitation, psychogeriatric care, geriatric evaluation and management and subacute mental care) will also terminate in July 2014, but this component was always due to expire at this time.\(^\text{204}\)

### Other measures

The $5 billion Health and Hospitals Fund (HHF), established under the *Nation-building Funds Act 2008*\(^\text{205}\), as part of the Commonwealth’s commitment to the *National Partnership Agreement on Health Infrastructure*, will soon cease operation. The HHF funds health and hospital infrastructure projects of national significance, such as for cancer services or projects in regional areas. The new Medical Research Future Fund announced in this budget will be funded in part with $1 billion in uncommitted funds from the HHF. After this the HHF will be abolished, through a repeal of *Nation Building Funds Act 2008*. Projects that have funds committed to 2017–18, including the national cancer system component and the regional priority round, will continue to be funded after its abolition through a special appropriation.\(^\text{206}\)

The $7 patient co-payment for previously free GP visits may encourage patients to visit public hospital emergency departments (ED) where treatment is free. To address this, the budget announced that the government would seek to remove the restriction in the NHRA which prevents hospitals charging a co-payment. This requires agreement with jurisdictions, with NSW already rejecting the proposal.\(^\text{207}\)

Another national partnership agreement will also cease. The abolition of the *National Partnership Agreement on Preventive Health* (NPAPH) is forecast to generate savings of $367.9 million over four years. The NPAPH provides funding to state and territory initiatives that support healthy behaviours and address the rising prevalence of lifestyle related chronic diseases such as type 2 diabetes. It was initially due to expire in June 2015, but was extended under the previous government to June 2018.

As part of the NPAPH the Australian National Preventive Health Agency was established. This will also be abolished (legislation to enable this was recently introduced into Parliament) with savings of $6.4 million over five years.

In addition, savings of $390.0 million over four years will be achieved with the decision to defer the commencement of the *National Partnership Agreement for Adult Public Dental Services*, from 2014–15 to 2015–16. This measure was to support the provision of public dental services to adults in state-run public dental clinics.

The abolition of these partnership agreements is in line with the Commission of Audit recommendation to review and reduce their number.\(^\text{208}\) Legislation is not required.

### Reaction

Unsurprisingly, the response from state and territory governments to the loss of Commonwealth hospital funding has been negative.\(^\text{209}\) The Australian Health Care and Hospitals Association, representing the public hospital sector, expressed its concern that the change to hospital funding commitments will have an immediate effect on hospital waiting times and standards. Others hold concerns that the potential efficiencies from applying an activity based funding model with an efficient price, will be lost with a return to a population/CPI model which provides no incentive for such efficiencies.\(^\text{210}\)

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\(^{204}\) Department of Health and Ageing, *National Partnership Agreement on Improving Public Hospital Services*, July 2011, Part 5, Table 1, p. 8, accessed 16 May 2014.

\(^{205}\) *Nation-building Funds Act 2008*, accessed 19 May 2014.

\(^{206}\) P Dutton (Minister for Health), J Hockey (Treasurer), M Cormann (Minister for Finance) *Establishing a new Medical Research Future Fund*, joint media release, 13 May 2014, accessed 15 May 2014.


\(^{210}\) S Duckett, *Budget takes hospital funding arrangement back to the future* The Conversation, weblog, 16 May 2014, accessed 16 May 2014.
GST and Commonwealth–State relations

Daniel Weight

Decisions by the Commonwealth in the 2014–15 Budget to reduce health and education funding to the states and territories by around $80 billion between 2017–18 and 2024–25 has set the scene for a renewed debate on the base and rate of the Goods and Services Tax (GST), despite the Coalition’s ruling out any changes to the GST during its first term.

Commentators have suggested that the Government’s intention is to create a circumstance where the states and territories, when faced with a substantial reduction in revenues, will request the Commonwealth to increase the rate or expand the base of the GST to fill the looming void in state and territory budgets. The Treasurer, Mr Hockey, has denied that this is the Government’s intention, but any reform of the GST would be easier with the unanimous support of the states and territories.

Process for changing the GST

The GST is levied by the Commonwealth, but the revenue from the GST is distributed to the states and territories. This arrangement is set out in the Intergovernmental Agreement (IGA) on Federal Financial Relations. Clause A4(c)(i) provides that the Standing Council on Federal Financial Relations—chaired by the Commonwealth Treasurer—must approve ‘changes to the GST base and rate’, and clause A6 of that agreement requires that any such agreement be unanimous.

The first obstacle to changing the GST would appear to be gaining the unanimous support of the Commonwealth, states and territories for any proposal. However, it has been suggested that, despite the agreement set out in the IGA, the Commonwealth would be legally free to disregard the IGA and amend the GST legislation unilaterally. That is because legal experts suggest that the IGA is not legally binding, but merely a political agreement.

Another political obstacle may be the Government’s pre-election commitment to not alter the GST in its first term. However, the Government has proposed to undertake a comprehensive review of the tax system in its first term that will include an examination of the GST. The tax review could provide an opportunity to build political support—amongst both the general public and the states and territories—for altering the GST before the next election, which is due in 2016.

Reform options

There are two areas of the current GST arrangements that are contentious. The first area is the GST base and rate. The second area is how revenue from the GST is distributed amongst the various states and territories.

GST base and rate

The ‘base’ of the GST refers to the range of goods and services to which the GST applies. Some substantial areas of expenditure are excluded from the GST. As part of the negotiations with the Australian Democrats that secured the passage of the GST legislation, the Howard Government agreed to exclude fresh food from the GST. Other exemptions, such as for health, education and low value imports, were always part of the original design of the GST. The cumulative cost of those exemptions is now estimated to be around $17 billion in forgone revenue in 2014–15, and broadening the base is often mooted as a possible reform.

Another reform option is to increase the ‘rate’ of the GST from its level of 10 per cent. Currently, the total GST revenue is forecasts to be around $54 billion in 2014–15. Increasing the GST by another five percentage points, for example, would be likely to increase revenues by around $25 billion.

References

212. Ibid.
Another area of possible reform is to the distribution, or share, of the GST revenues that each state or territory receives. Currently, the GST revenue is distributed according to the principle of ‘fiscal equalisation.’ This principle ensures that each state or territory has ‘the fiscal capacity to provide services and the associated infrastructure at the same standard, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency.’219 The amount of GST received by each jurisdiction is determined by its ‘GST relativity’. A GST relativity of one would mean that a state or territory is receiving the same amount of GST revenue that it would if the money was distributed on an equal per capita basis.

Table 1: Forecast GST relativities for the states and territories, 2013–14 to 2017–18

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<tr>
<th></th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
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<td>2013–14</td>
<td>0.96576</td>
<td>0.90398</td>
<td>1.05624</td>
<td>0.44581</td>
<td>1.26167</td>
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<td>2014–15</td>
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<td>1.07876</td>
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<td>1.28803</td>
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</tr>
<tr>
<td>2015–16</td>
<td>0.96513</td>
<td>0.88240</td>
<td>1.09328</td>
<td>0.36355</td>
<td>1.29491</td>
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</tr>
</tbody>
</table>


The National Commission of Audit recommended that the states and territories receive an equal per capita share of the GST revenue, but with additional payments to ensure that no state or territory would be worse off.220 The states’ and territories’ views on this proposal appear mostly influenced by whether or not their jurisdiction would be better or worse off under the alternate method of distribution, with some supportive and others not.221

Discussion

Some commentators have supported reforms to the GST. For example, the chief executive of World Vision Australia, Tim Costello, has stated that increasing the GST is preferable to cuts to social programs and international aid.222 However, support for reforms to the GST is not universal. Professor Sinclair Davidson, for example, has warned that, once changes to the GST gained public acceptance, politicians would repeatedly increase the tax take, rather than reducing expenditure. He claims:

> Raising GST revenue is very easy – it is almost lazy. If community acceptance of changes to the GST were to occur, very quickly we’d find ourselves paying more and more in GST.223

Unilateral changes to the GST by the Commonwealth would appear to be legally possible, despite the IGA. However, building political support for any changes amongst at least some of the states and territories may be a less politically risky proposition for the Commonwealth. It is likely that states’ and territories’ views on both areas of possible reform—the rate and base, and the distribution of the GST—will be linked. This might mean that any support by a state or territory for an increase in the rate of the GST, for example, would be contingent upon reforms to the distribution of the GST that favoured that state or territory also being adopted.

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223. S Davidson, _Increase the GST to 20%? Yes, but I wouldn’t recommend it_, _The Conversation_ website, 12 August 2013, accessed 19 May 2014.
Federalism—an overview of changes

Brenton Holmes

Federalism and the practice of inter-governmental relations are central elements of Australian public administration—generally characterised by consultation and flexibility. In pursuit of a smaller national government, the 2014–15 Budget reveals a shift in the way Commonwealth-State relations have typically been conducted. The Prime Minister wants ‘to ensure that, as far as possible, the states are sovereign in their own sphere’. A White Paper to that end will be settled by the end of 2015. Guided in part by the National Commission of Audit, the Government seeks to re-establish the Federation on a more decentralised basis, rekindling interstate competition—a notion designated ‘competitive federalism’. The states could, for example, compete with each other on taxes as well as services and citizens could in theory relocate to states whose arrangements suited them.

There is an existing COAG Intergovernmental Agreement on Federal Financial Relations (IGAFFR) which implements a framework for financial relations, collaboration on policy, service delivery and economic and social reforms. State treasuries are responsible for distributing the Commonwealth funding. The Agreement is meant to operate indefinitely unless COAG agrees to revoke it.

Critics of competitive federalism say it ‘runs directly counter to decisions by successive Commonwealth governments … to centralise in Canberra decisions about tax, health, schools, roads and industrial relations’. The Prime Minister has said the Government would be looking to how things could be made better, but ‘we’re not going to turn the world on its head here; it is a matter of ‘sensible incremental change, where it can ensure that services are delivered better in an accountable and transparent way.’

2014–15 Budget: impacts on COAG relations

State premiers insist that budget savings measures and changes to the dynamics of federalism will have significant repercussions. For example, the Commonwealth’s $80bn savings over ten years to 2024–25 in healthcare and education will be keenly felt (see School education and Health funding agreements) especially as many National Agreements currently in place will soon expire. The Government will save $1.2 million in 2013–14 by withdrawing uncommitted Local Government Reform funds and freezing future grants, costing councils $925 million by 2018.

The range of savings measures has angered State premiers, setting the scene for renewed debate about raising the GST. There are claims that the states are being bullied into raising the GST. But the Prime Minister will not re-convene COAG, and makes ‘no apologies for wanting the states to be grown-up, adult governments that take responsibility for the programs that are theirs’. NSW Premier Mike Baird arranged a premiers-only meeting to consider the implications of the Budget for the states and the future of federalism.

The independent, jointly-funded COAG Reform Council ceases on 1 July 2014, notwithstanding its robust annual reports and comparative analytical work that resulted in ‘significant progress’. The Council critically assessed

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and reported on the achievements, outcomes and benchmarks specified in National Agreements, and made relevant reward payments to the states under National Partnerships.  

**Asset sales, privatisation and fiscal decentralisation**

The Government has budgeted $5 million over five years to encourage the states to recycle assets (see Infrastructure growth package). Investors are pleased, but the states have been warned to monitor carefully the risks of ‘suboptimal privatisation decisions’. One public administration expert has accused the Government of making ‘simplistic propositions’ about public and private sector management and of failing to recognise ‘the impact that changes to the regulatory regime [have] on market behaviour and [the] eventual success’ of the privatised entity. While the Productivity Commission has tended to endorse privatisation—for example in the energy sector—other economists have ventured criticisms. In short, results are mixed, and parliaments have ‘failed to demand a full analysis of the pros and cons of privatisation’.

One of the common arguments advanced in favour of fiscal decentralisation is that ‘the preferences and the needs of citizens … are better known to the local government officials than …the central government… This argument is assumed to be strong enough to neutralize the advantages [of] economies of scale’. But the relationship between decentralisation and the assignment of taxes and expenditure is crucial. It means being very clear about what are the responsibilities of the national and of state governments:

> Like contracts, these decisions are never, and can never be, precise and final. ... The problem is that it is difficult to assign precise expenditure responsibilities... [The] experience gained in a large number of countries ... suggests caution.

What happens if each state pursues its own objectives, not just through taxes and public spending, but also through regulations? Some will be ‘necessary and useful; many will be much less so or even damaging’. It has been suggested that ‘Business loves competitive federalism—up to a point ... But they don’t love the multiplicity of regulatory environments that competitive federalism creates’.

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245. Ibid.
246. Ibid.
Corporate regulation—ASIC, APRA, ACCC, ATO, and AUSTRAC funding and governance changes

Kali Sanyal

The Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulation Authority (APRA) and the Australian Competition and Consumer Commission (ACCC) are the principal regulatory agencies that implement government policy on corporate regulation. The Australian Taxation Office (ATO) is the principal organisation for revenue collection and is entrusted with the role of ensuring the integrity of the tax system.

The Australian Transaction Reports and Analysis Centre (AUSTRAC) is responsible for regulating anti-money laundering and counter terrorism financing (AML/CTF) under the Attorney General’s Department.

The 2014–15 Budget announced savings measures by reducing funding on departmental operations of ASIC and ATO, and extended regulatory programs under ACCC. These institutions are engaged in dealing with corporate insider trading, breach of consumer rights and anti-competitive conduct, and tax evasion as part of their major enforcement obligations.

ASIC and the 2014–15 Budget

ASIC’s regulatory responsibilities include ensuring market integrity in the financial services sector; supervising investment management; capital markets, corporations and their auditors and liquidators; and overseeing market operators. These duties form part of its broader mandate to supervise, facilitate and improve the performance of the financial system, and administer Commonwealth laws regarding corporations and businesses.

In the 2014–15 Budget, the Government announced that funding for ASIC’s operations will be reduced by $120.1 million over five years in order to match the policy priorities of the new government.  

Cash appropriations for operational expenses were $363.8 million in 2012–13 and $373.2 million in 2013–14. The 2014–15 Budget allocates $325.1 million in 2014–15, down by 13 per cent from 2013–14. In the forward estimates period ASIC will receive cash appropriations for operating expenses, on average, of $305.2 million each year, down by 18 per cent from 2013–14.

The Government has yet to detail the rationale for reducing operational funding other than the need to repair the budget. Meanwhile media reports quoted the Hon Steven Ciobo, the Parliamentary Secretary to the Treasurer as saying there is ‘scope for the financial services industry ... to self-regulate more’.

Of late, community attention has focussed on ASIC’s role and balancing act between regulatory and enforcement issues. One aspect of that attention is how ASIC deals with corporate fraud, and insider trading which is ‘among the most complicated types of offence under our corporations law’ and ‘very difficult to prosecute’. The second issue is how ASIC has been dealing with the changes under the Future of Financial Advice (FOFA) Reform package.

Following some financial collapses in recent years and, in particular, instances of deceptive conduct in financial advice services, the Australian Parliament initiated an inquiry in June 2013 to scrutinise ASIC’s performance. The Senate Economics References Committee has already conducted five public hearings in 2014 to receive community feedback on the issue and is expected to release its recommendations at the end of May 2014.

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250. Ibid.


252. Ibid.


254. Senate Economics References Committee, Inquiry into the Performance of the Australian Securities and Investments Commission, Senate Economics References Committee website, accessed 16 May 2014.
Implications of the ASIC funding cut

According to one journalist, ASIC has some of the broadest responsibilities of any corporate regulator in the world. That includes big investigations, like the probe that led to the recent arrest of a former Bureau of Statistics employee and an ex-NAB trader over alleged insider trading.255

This reduction may force ASIC to be more selective in terms of the matters that they choose to investigate and then ultimately prosecute. Its decisions could, in the long term, have an impact on people’s confidence in capital markets. One commentator has noted:

…that would be most regrettable because we do need to have a corporate regulator that enforces our corporate laws very strongly in order to give people confidence in our capital markets.256

ACCC and the 2014–15 Budget

The ACCC (including Australia’s Energy Regulator – AER) is mandated to enforce the Competition and Consumer Act 2010, and is the national regulator of the energy sector in Australia. The ACCC’s focus in 2014–15 will be to ensure consumer protection, handling emerging consumer issues in the online marketplace, and in the supermarket and fuel sectors.

The 2014–15 Budget appropriated cash of $167.5 million to ACCC for operational expenses. In the forward estimates period, ACCC will continue to receive, on average, $163.3 million each year.257

In addition, the Government earmarked an additional $17.7 million in 2017–18 as part of a package of $68.5 million over four years from 2014–15 that was included in the Mid-Year Economic and Fiscal Outlook 2013–14. The fund is to extend ACCC’s role to monitor prices and protect consumer interests following repeal of the carbon tax.258

There is also $1.4 million over four years for the ACCC to administer a reform of unfair contract relief to small business under the Australian Consumer Law, similar to the relief provisions available currently to consumers in general. In order to make the relationship with big businesses fairer to the small business sector, the Government announced that legislative changes would be introduced.259

In addition, the Government also announced that the transfer of the National Competition Council (NCC) Secretariat to the ACCC, and thus saving $3.6 million over the forward estimate period.260

Funding to the Australian Taxation Office (ATO)

The taxation and superannuation systems are part of Australia’s social and economic infrastructure. As the principal revenue collection agency of the Australian Government, the role of the Australian Taxation Office also includes aspects of administering the superannuation system, acting as custodian of the Australian Business Register and managing business operations of the Australian Valuation Office.

The Budget 2014–15 announced savings of $142.8 million over three years from 2015–16 by reducing the ATO’s resourcing.261

On 6 November 2013, the Treasurer, announced that the Government would act on changes to a number of announced but not legislated tax measures.

Of the 92 unlegislated and unresolved tax and superannuation changes, the Government will proceed with 18 initiatives. A further three initiatives will be significantly amended. The Government will not proceed with seven initiatives.262

256. Ibid.
259. Ibid.
262. J Hockey (Treasurer), Restoring Integrity In the Australian Tax System, media release, 6 November 2013, accessed 19 May 2014.
There was no announcement regarding the other initiatives. It is believed that those measures are on hold and the Government may revisit them after consultation with the stakeholders.

Among the measures the Government will not proceed with are:

- Self-Education Expenses Cap (announced as part of the 2013–14 Budget, and delayed for one year in the 2013 Economic Statement)
- $1.8 billion Fringe Benefits Tax on the car industry. (announced the measure on 16 July 2013 and documented it in the 2013 Economic Statement)
- Tax on Superannuation Pensions – tax on earnings on super assets supporting retirement income streams (announced in April 2013 and documented in the 2013–14 Budget)

According to the Mid-Year Economic and Fiscal Outlook 2013–14 released on 1 December 2013, these changes would reduce ATO’s operational expenses by $9.1 million in 2013–14, and $10.6 million in 2014–15. There will be further savings of $33.2 million in the following two years. 263

The 2014–15 Budget savings measures include these previous announcements. The ATO will also be subject to an efficiency dividend by bringing forward staff reductions that had been already planned in response to efficiency dividends and decisions of the previous government. The Government now plans to bring forward the reduction of staffing numbers that were due to occur in 2015–16 (1,600). A total reduction of 4,700 staff is planned between 2013–14 and 2017–18. 264

Australian Prudential Regulatory Authority (APRA)

In the 2014–15 Budget, the Government announced that the prudential regulation of health funds functions of the Private Health Insurance Administration Council (PHIAC) will be merged into APRA. The rest of the function of the PHIAC will merge into the Australian Competition and Consumer Commission (ACCC). The winding up of the council will start from 2014–15 as part of the measures of the government initiative to reduce the number of agencies. 265 There is no revenue implication announced in the 2014–15 Budget.

Small Business and Family Enterprise Ombudsman—a new government initiative

There will be a further $8 million available to the Treasury to establish the Small Business and Family Enterprise Ombudsman, as an integral entity for small business operators to seek government services and assistance. 266

Australian Transaction Reports and Analysis Centre—industry contribution

The 2014–15 Budget announced that there would be an increase of revenue by $79.1 million over four years, through a phased increase in the Australian Transaction Reports and Analysis Centre’s (AUSTRAC) industry levy under the Attorney General’s Department. 267

Currently they agency recovers around 53 per cent of its total expenses from industry. Under this measure, industry contributions to AUSTRAC’s total expenses will increase to 70 per cent in 2014–15, 90 per cent in 2015–16 and 2016–17, and 100 per cent in 2017–18. 268

The Government also announced that the current $300 base component fee for AUSTRAC’s 3,638 smallest regulated entities would be removed. Under the new arrangements, only about 1,029 reporting large entities will be required to contribute towards AUSTRAC’s expenses. 269


268. Ibid.

269. Ibid.
Defence budget overview

David Watt

Following on from last year’s Department of Defence (Defence) budget, which partially reversed the reprogramming and cuts made over previous years, the 2014–15 Budget contains sharply increased spending on Defence. Total defence funding for 2014–15 will be $29.3 billion. This is a rise of 8.1 per cent (or 5.7 per cent in real terms) and is 12.6 per cent higher than the 2013–14 budget forecast for defence expenditure for that year.

Table 1 below compares the total defence funding from the forward estimates in the 2013–14 and 2014–15 Portfolio Budget Statements, allowing a comparison of the funding provided by the Labor Government in its last budget and the Coalition Government in its first budget.

Table 1: Total defence funding ($ billion)\textsuperscript{270}

\begin{tabular}{|c|c|c|c|c|c|}
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\hline
\end{tabular}

It should be noted that much of the rise in defence expenditure for 2014–15 is the result of the Government’s decision to reverse the previous Labor Government’s tendency to push expenditure from the budget year further into the forward estimates. In contrast, the 2014–15 Budget brings forward $1.5 billion from 2017–18 into the current year and the following three years (see below under budget measures for more detail).

The Minister for Defence, David Johnston, has asserted that the Budget sets the Government firmly on its way to achieving its stated target of spending 2 per cent of GDP on defence:

The Abbott Government is committed to growing the defence budget to two per cent of GDP within a decade. We will lay down a credible path to achieving our target following completion of the 2015 White Paper and the associated comprehensive force structure review.\textsuperscript{271}

In response, the Australian Strategic Policy Institute’s (ASPI) Mark Thomson has stated that ‘in the current fiscal environment it was a surprisingly good budget for defence’.\textsuperscript{272} However, Dr Thomson also acknowledged that the next three years of defence spending, as revealed in the Budget, is ‘likely to remain static in real terms’ and will have to rise by an average of 5.3 per cent per year for the six years following the forward estimates period for the 2 per cent of GDP target to be reached by 2023–24.\textsuperscript{273} The Abbott Government, like its predecessor, still has a significant challenge in providing defence funding which is adequate to fulfil the ADF personnel and capability goals it has set for itself and in turn, for defence to spend the money that it is given.

Budget measures and operations

As Table 2 shows, the most striking feature of the budget measures is the change to the ‘funding profile’ in which money is taken from the forward estimates for 2017–18 and allocated across the earlier years.

Table 2: Defence funding profile changes ($ million)\textsuperscript{274}

\begin{tabular}{|c|c|c|c|c|c|}
\hline
\hline
 & 500.0 & 300.0 & 550.0 & 150.0 & -2,020.0 \\
\hline
\end{tabular}

The Government has justified bringing forward this funding largely through the need to pay for capability development and acquisitions:


\textsuperscript{271.} D Johnston (Minister for Defence), \textit{Delivering on our commitments to build a stronger Australian Defence Force}, media release, 13 May 2014, accessed 16 May 2014.

\textsuperscript{272.} M Thomson, ‘The 2014 Defence Budget—as good as it gets!’, \textit{The Strategist}, Australian Strategic Policy Institute weblog, 13 May 2014, accessed 16 May 2014.

\textsuperscript{273.} Ibid.

\textsuperscript{274.} \textit{Portfolio budget statements 2014–15}, op. cit., p. 17.
Funding of the Approved Major Capital Investment Programme and important capabilities to support networked operations will be accelerated to reduce the risk of capability gaps…Bringing forward $500 million to 2013-14 will assist defence to fund priority foreign military asset purchases, including the Growler electronic attack aircraft, the Romeo Naval anti-submarine combat helicopter and the upgrade to the Naval Standard Missile-2 long range anti-aircraft missile.275

Other notable budget measures include $436.8 million for ADF operations.276 Operation Slipper will continue in Afghanistan ($240.8 million), Operation Manitou will encompass maritime security and anti-piracy in the Middle East Area of Operations (MEAO) ($52 million) and Operation Accordion will cover supporting functions in the Gulf States ($57 million). Information about funding for Operation Resolute, Defence’s contribution to the whole-of-government maritime surveillance can be found in the Parliamentary Library Budget Review article Counter-people smuggling measures.

The newly launched ADF Gap Year will receive funding of $191.8 million over four years—see the Parliamentary Library Budget Review article Defence personnel for further details. The Government is also establishing a new accumulation scheme for new members of the ADF—see the Parliamentary Library Budget Review article ADF Super: a new military superannuation scheme.

Defence will be allowed to retain the proceeds of planned property sales. Although there is no indication which parts of the extensive defence estate will be sold, the budget papers estimate that this will be worth $156.2 million across the forward estimates.277

A further point of interest is that Defence will absorb the cost of the development of infrastructure in Darwin which is needed to allow the ongoing rotations of forces from the United States Marine Corps. Negotiations over the financial arrangements are ongoing and the cost is ‘not for publication due to the commercial-in-confidence nature of the tender process involved’.278

Defence will be required to find savings of $1.2 billion across the next four years but will be allowed to invest this money in capability.279

National Commission of Audit

The Abbott Government’s National Commission of Audit made a number of recommendations about defence issues which have fed into the Budget. These included recommendations about reducing staffing levels to 1998 levels (including senior executives), introducing a new military superannuation scheme, re-integrating the Defence Materiel Organisation back into the Department of Defence and selling the Australian Submarine Corporation.280 The Government has already acted on some of these recommendations but will only properly consider many more as part of the process leading into the 2015 Defence White Paper. This suggests that the 2014–15 Budget is only the beginning of a process of significant change and development for defence.

278.  Ibid., p. 230.
279.  Ibid., p. 76.
Defence materiel
Nicole Brangwin

The 2014–15 Budget reflects the Abbott Government’s commitment to ‘repair Labor’s reckless under-investment in Defence’ by dedicating more funds to major equipment purchases for the Australian Defence Force.281 The Budget aims to achieve $1.2 billion in savings over four years with the savings being directed towards Defence capability.282 Furthermore, $1.5 billion will be brought forward from 2017–18 and distributed across financial years 2013–14 to 2016–17.283 The Approved Major Capital Investment Program (AMCIP) will be a significant recipient of these funds as the Government seeks to accelerate the program and avoid the potential for capability gaps to develop.284 The funding shift from expenses to capital expenditure aims ‘to improve Defence capability’.285 This means spending more on equipment while implementing efficiencies such as reducing public service staff numbers in the Department of Defence.

Three major projects—Growler electronic attack aircraft, Romeo maritime helicopters and naval anti-aircraft long-range missiles—will receive immediate funds this financial year totalling $500 million.286

The Defence Materiel Organisation’s (DMO’s) total net resourcing for 2014–15 will be approximately $12.8 billion.287 While the recent Commission of Audit report recommended that the DMO be re-integrated into the Department of Defence, this Budget did not include any structural changes to the DMO.288 However, the Commission’s recommendation is being considered as part of the First Principles Review of Defence.289 The ongoing DMO Review will also feed into this process.290

The Strategic Reform Program (SRP), introduced by the Rudd Government in 2009, aimed to achieve $20 billion in savings across Defence over ten years. This included finding savings through Smart Sustainment, one of the SRP streams.291 This Budget noted that Smart Sustainment has achieved $1.4 billion in savings.292 As this was the only reference to SRP in this year’s Budget, the fate of the SRP as a whole is unclear. However, the Budget did state that further reductions as part of the Smart Sustainment initiative would yield another $63.6 million in savings over four years.293

Approved and unapproved major capital investment

The AMCIP contains projects that have received Second Pass approval from the Government, are worth more than $20 million each and have been passed to DMO to manage. The unapproved program (also known as the Defence Capability Plan—DCP) contains projects worth more than $20 million each that are scheduled for Second Pass consideration by the Government and managed by the Defence Capability Group (DCG).294

The total AMCIP budget for 2014–15 is around $5.4 billion and the DCP budget for the same period is $671.5 million, with the DCP budget expected to significantly increase by 65.6 per cent each year over the forward estimates, reaching just over $3 billion in 2017–18.295 The capacity of Defence’s capability development as a

283.  Ibid., p. 229.
284.  Ibid.
291.  Smart Sustainment involves a collaborative approach by DMO, Defence and Defence industry to find efficiencies in sustainment. Defence Materiel Organisation (DMO), Defence smart sustainment reform stream, DMO website, accessed 16 May 2014.
293.  Budget paper no. 2, op cit., p. 76.
whole (Program 1.12) is forecast to incur substantial incremental increases in expenses across the forward estimates, including a significant increase in employee and supplier expenses. 296

As part of the unapproved DCP, last year’s Budget listed 12 projects waiting for First Pass approval and 17 for Second Pass. 297 This year’s Budget only lists five projects for First Pass consideration and 12 for Second Pass. 298 Notably, the SEA 1000—future submarine project is listed separately as a DCP project ‘in development for possible Other Approval Consideration that may be considered within the Financial Year 2014–15 ...’ 299 It is anticipated that the Government’s decision on this project, and many others, will be announced in the 2015 Defence White Paper. 300 A new 10-year outlook version of the public Defence Capability Plan is expected to follow the release of the Defence White Paper, providing a better account of the Government’s major capital equipment proposals. 301

Future capability

Defence’s top 30 approved projects attract an overall total budget expenditure of around $47.2 billion. 302 Some of the key programs include the:

- build program for three Air Warfare Destroyers (AWD) which has an approved budget of $7.8 billion. However, almost $5.2 billion has already been spent. The program has run over budget and is currently being assessed by an independent review team. 303
- Future Submarine acquisition program which currently has an approved budget of $235 million. 304 Of particular note, the Defence Portfolio Additional Estimates Statements 2013–14 (PAES) stated that the Government had ‘suspended work on Military off the shelf design options’ and would focus on Option 3 (evolved Collins) and Option 4 (new design) submarines. 305 This approach was also confirmed in this Budget. 306
- acquisition of 72 Joint Strike Fighter (JSF) aircraft, of which 14 had been approved by the Rudd Government in 2009 and a further 58 approved by the Abbott Government in April 2014. 307 The Budget notes the major risks to the JSF program include ‘the establishment of an electronic warfare reprogramming capability and the stand-up of sustainment systems and facilities required to support Australian operations’. 308

The Government’s March 2014 announcement to acquire an unknown number of Triton Unmanned Aircraft System (UAS) from the United States has not been included in this Budget. The UAS has yet to successfully complete development with the US Navy. 309

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296. Ibid., p. 62.
299. Ibid., p. 118.
303. Ibid., p. 159.
305. Ibid., p. 125.
307. Ibid., p. 158.
308. Ibid.
Defence personnel
Dr Nathan Church

Although the total workforce strength of the Defence organisation is set to grow in 2014–15 by 2.8 per cent from 77,274 to 79,424, this is the result of a projected significant increase in Australian Defence Force (ADF) personnel offsetting a reduction of Australian Public Service (APS) Defence employees. Furthermore, the growth in ADF numbers is indicated to slow across the forward estimates, while pronounced cuts to the number of APS Defence staff are expected to continue during the same period.310

ADF workforce levels

According to the Defence Portfolio Budget Statements 2014–15, the level of permanent ADF personnel is projected to grow by more than 3,000 in the next four years (see Table 1).311 Of the three Defence services, the Army will see the biggest growth—increasing by 8.6 per cent and accounting for 2,447 of the proposed additional personnel. The Navy and Air Force will likely see far more modest growth in permanent members over the same period, estimated at 4.2 per cent and 1 per cent, respectively.312 The ADF Active Reserve Force will add over 1,000 new Army and Navy personnel over the next four years, while 120 Air Force positions are planned to transfer from the Active Reserves to the ADF High Readiness Reserve.313

Table 1: ADF workforce data 2007–08 to 2017–18314

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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Navy</td>
<td>12,935</td>
<td>13,182</td>
<td>13,828</td>
<td>14,207</td>
<td>14,054</td>
<td>13,760</td>
<td>13,839</td>
<td>14,318</td>
<td>14,385</td>
<td>14,374</td>
<td>14,422</td>
</tr>
<tr>
<td>Army</td>
<td>26,611</td>
<td>27,833</td>
<td>30,253</td>
<td>29,697</td>
<td>28,928</td>
<td>28,580</td>
<td>30,383</td>
<td>30,464</td>
<td>30,768</td>
<td>31,027</td>
<td></td>
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<tr>
<td>Air Force</td>
<td>13,621</td>
<td>14,066</td>
<td>14,530</td>
<td>14,624</td>
<td>14,243</td>
<td>13,919</td>
<td>13,976</td>
<td>14,138</td>
<td>14,216</td>
<td>14,235</td>
<td>14,125</td>
</tr>
<tr>
<td>Total</td>
<td>53,167</td>
<td>55,081</td>
<td>57,697</td>
<td>59,084</td>
<td>57,994</td>
<td>56,607</td>
<td>56,395</td>
<td>58,839</td>
<td>59,065</td>
<td>59,377</td>
<td>59,574</td>
</tr>
<tr>
<td>Change (year on year)</td>
<td>+1,914</td>
<td>+2,616</td>
<td>+1,387</td>
<td>-1,090</td>
<td>-1,387</td>
<td>-212</td>
<td>+2,444</td>
<td>+226</td>
<td>+312</td>
<td>+197</td>
<td></td>
</tr>
</tbody>
</table>

ADF Gap Year program

According to the Defence Portfolio Budget Statements, a ‘major growth factor [of the ADF permanent strength] is the progressive re-introduction of the ADF Gap Year’.315 The renewed ADF Gap Year program was raised by the Coalition as part of the 2013 election campaign, with $113 million to be invested.316 Following the announcement on 28 April by the Assistant Minister for Defence, Stuart Robert, re-instating the program, the Defence Portfolio Budget Statements indicate that $191.8 million will be available in proposed funding, across the forward estimates.317 This funding will grow steadily from an initial allocation of $18.3 million and increase by approximately $20 million per year, reaching $78.5 million in 2017–18.318

In terms of new enlistments, the Government anticipates that the ADF Gap Year program will ‘ultimately employ up to 1,000 participants’.319 Although many of the specifics regarding this program remain unclear, it appears that most of the participants will be employed in the Army, as this service will see the largest projected growth.

311. Ibid.
313. Ibid.
318. Ibid.
319. Ibid.
out to 2017–18. The Department of Defence has also noted that only the Army and Air Force will be accepting participants in the initial Gap Year program.

**APS workforce levels**

The recently published National Commission of Audit report recommended ‘reducing the staffing size of Defence headquarters in Canberra, including senior staff, to 1998 levels’. The Defence Portfolio Budget Statements suggest that the Government has accepted this recommendation and the entire Department of Defence APS workforce will be reduced in size by over 2,000 positions within three years (as shown in Table 2). Marginally offsetting this will be a 34 per cent increase in the number of contractors employed by Defence, increasing from 368 in 2013–14 to 493 in 2014–15 after previous periods of ‘low contractor engagement’.

**Table 2: APS Workforce data 1997–98, 2012–13 to 2017–18**

<table>
<thead>
<tr>
<th>Year</th>
<th>APS–Defence (headcount)</th>
<th>APS–DMO (inc. ADF backfill)</th>
<th>Total (headcount)</th>
<th>Change (year on year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997–98</td>
<td>18,492</td>
<td>n/a</td>
<td>21,534</td>
<td>+3,042</td>
</tr>
<tr>
<td>2012–13</td>
<td>15,786</td>
<td>5,748</td>
<td>21,534</td>
<td>-1,023</td>
</tr>
<tr>
<td>2013–14</td>
<td>15,268</td>
<td>5,243</td>
<td>20,511</td>
<td>-419</td>
</tr>
<tr>
<td>2014–15</td>
<td>14,883</td>
<td>5,209</td>
<td>20,092</td>
<td>-1,024</td>
</tr>
<tr>
<td>2015–16</td>
<td>13,962</td>
<td>5,106</td>
<td>19,068</td>
<td>-613</td>
</tr>
<tr>
<td>2016–17</td>
<td>13,314</td>
<td>5,141</td>
<td>18,455</td>
<td>-350</td>
</tr>
<tr>
<td>2017–18</td>
<td>13,007</td>
<td>5,098</td>
<td>18,105</td>
<td></td>
</tr>
</tbody>
</table>

**Senior position levels**

Defence commentators and, most recently, the National Commission of Audit report have noted a significant increase in the number of senior managers within the Defence organisation. The National Commission of Audit report specifically highlighted that ‘since 2000 the number of public service senior executives in Defence has grown by 63 per cent (from 103 to 168) … while the number of deputy secretaries in Defence has increased from four to 14’. The projections outlined in the 2014–15 Defence Portfolio Budget Statements appear to do little in arresting this trend. For example, the Defence Senior Executive Service is proposed to increase by three personnel over the next financial year, accounting for 171 total staff within this grouping. Conversely, Defence senior officer (APS Executive levels 1 and 2) numbers are forecast to be reduced during the same period from 6,524 to 6,489. However, the more junior APS staff are likely to be the most affected by job losses, with a projected reduction of 387 positions. This would equate to a reduction of 12 junior APS positions for every senior position cut within the next financial year.

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320. Ibid., p. 24.
324. Ibid., pp. 22, 24.
ADF Super—a new military superannuation scheme

Kai Swoboda

The Government has announced that from 1 July 2016 the Military Superannuation Benefits Scheme (MSBS)—the existing superannuation scheme for serving Australian Defence Force (ADF) personnel—will be closed to new members. In its place will be a specific superannuation fund for ADF personnel, to be known as ADF Super. Existing members of the MSBS will have the option of moving to the new scheme but need not do so.

This change will affect how superannuation arrangements for people joining the ADF personnel are funded by government and members. It may also have an impact on final retirement savings and payments in retirement, death and disability benefits, management of superannuation by individuals and ADF recruitment and mobility.

The MSBS, established by the Military Superannuation and Benefits Act 1991, opened to new members in October 1991. As at 30 June 2013, there were around 157,000 members of the MSBS, with around 5700 new and rejoining members in the preceding 12 months. The average pension paid to MSBS pensioners in 2012–13 was $26,582.

Under the MSBS, members of the ADF are required to contribute a minimum of 5 per cent of their salary, with the option to increase this to up to 10 per cent and to make additional pre- and post-tax contributions. These contributions form the member-financed benefit, which is invested by the fund trustee and credited with the appropriate investment earnings.

Upon leaving the ADF, members who exit the scheme are entitled to receive the member-financed benefit regardless of their reason for leaving the ADF. Exiting members are also entitled to an employer-financed benefit, the amount of which varies based on the reason for their scheme exit. The employer-financed benefit is generally preserved until the member reaches their minimum preservation age. A key feature of the employer financed benefit is that benefits are not related to contributions but rather are based on years of service and salary.

This latter feature of the MSBS—characterised as a defined benefit—has been gradually phased out in the private and public sectors in favour of accumulation schemes. Under an accumulation scheme, a member’s benefits are directly related to cumulative contributions plus (or minus) investment earnings on the accumulated balance. The most recent estimate of the notional equivalent employer contribution that would be required to fund benefits paid from the MSBS is 30.4 per cent of superannuation salary.

The defined benefit feature of the MSBS is shared with a number of now closed Commonwealth public sector superannuation schemes and creates a future unfunded liability for the budget. Projections indicate that the unfunded liability from closed schemes declines from around 2030 but that total unfunded liabilities would continue to grow should the MSBS remain in its current form. The closure of the MSBS is expected to reduce unfunded superannuation liabilities by $126 billion by 2050. The switch to an accumulation scheme will however have an impact on the budget as the employer contributions will be paid when the liability is incurred. Including funding for administrative arrangements, the cost over the forward estimates is $242 million.

There have been calls for the closure of the MSBS for a number of years. A 2007 review of military superannuation arrangements commissioned by the Howard Government (the Podger Review), called for a new accumulation scheme to be established, with ‘generous’ employer contributions increasing with length of service (at 16, 23 and 28 per cent of superannuable salary). The Podger Review’s report, despite being received...
prior to the November 2007 election, was not released until after the election of the Rudd Government, and did not receive a formal government response under the Rudd or Gillard Governments.

More recently, the National Commission of Audit called for the MSBS to be closed to new entrants, with a new scheme established based on an accumulation plan for new ADF members.337

While both the Podger Review and Commission of Audit recognised that the unique nature of ADF service warranted a separate superannuation scheme, they provided different rationales for recommending the closure of the MSBS and for its replacement by an accumulation superannuation scheme:

- The Podger Review’s assessment of the MSBS was that it provided very generous benefits to long-serving members with a choice of an indexed pension or lump sum or both, but that for shorter serving members, it was a substantially less generous level of employer benefit than might appear. It also noted that the MSBS was too complex for members to understand and did not allow members to exert any control over their employer-financed benefits. It had not, in practice, contributed much to recruitment or retention because the complexity undermined the potential benefits of the scheme’s structure; but it provided generous death and disability benefits, in line with the unique nature of military service.338

- The Commission of Audit considered that the Commonwealth’s unfunded superannuation liabilities represented a significant long-term risk to the Commonwealth’s balance sheet and should be better managed. Closing the MSBS was to be part of a package of measures to address these risks.339

Some of the weaknesses of the MSBS highlighted by veterans groups in the past have included the application of a maximum benefit limit, the lack of portability of the employer benefit and indexation of a pension benefit to CPI only.340

The final features of the proposed new scheme are not finalised. Details that have been provided by the Government include:

- existing MSBS members who leave and then rejoin the ADF are able to re-enter the MSBS
- employer contributions will be paid at a rate of 15.4 per cent to a member’s chosen superannuation fund, increasing to 18 per cent for any period in which members are serving in war-like operations
- there will be no mandatory employee contribution and
- death and disability benefit arrangements will be consistent with those under the MSBS.

The move from a defined benefit to an accumulation scheme is consistent with changes in superannuation more generally in Australia. The design elements of the new scheme, including conditions attached to any death and disability benefits, the relative generosity of the employer contribution and portability of benefits will be keenly followed by veterans groups. It is difficult to assess at this stage how the new scheme will impact on recruitment and retention in the ADF. Other broader strategies, discussed in a related Defence Personnel, may be more important in this regard.

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Early childhood

Marilyn Harrington and Michael Klapdor

The future of Australian Government support for child care and early childhood education is dependent on the outcomes from reviews of early childhood national partnerships (NPs) and the Productivity Commission’s Inquiry into Child Care and Early Childhood Learning. These are scheduled for completion this year.

The 2014–15 budget measures for early childhood mostly ‘redirect’ funds to meet existing child care commitments and change eligibility criteria of existing programs to achieve savings. The Budget provides funding for only one new program—the reinstatement of the Neighbourhood Model Occasional Care Program.

Early childhood national partnerships

The major NPs are Universal Access to Early Childhood Education and the National Quality Agenda for Early Childhood Education (ECE) and Care. These NPs established the national reform framework for the provision of early childhood education and child care.

Under the NPs, the federal government provides funding to support the implementation of the NPs’ reforms. Since 2009, it has provided $1.6 billion to the states and territories to assist with the implementation of the ECE universal access commitment and $61.3 million for the implementation of the quality agenda for ECE and child care.

Prior to the Budget, there was speculation about the future of the Universal Access initiative in particular, with some states indicating that they may have to cut ECE program hours. While the Budget has not provided further funding for these two NPs, provision has been made in the Contingency Reserve for continued funding, subject to negotiations with the states and territories.

Child care measures

Changed eligibility criteria for the Community Support Programme

The Community Support Programme (CSP) provides funding to child care providers offering services in areas where they might not otherwise be viable, or which meet the unique needs of a particular community.

Under previously announced measures, family day care providers’ eligibility for CSP was tightened for new applicants from 1 April 2014. The same conditions will now apply to existing providers from 1 July 2015. These measures will provide savings of $157.1 million over three years.

The new criteria mean that an applicant for CSP funding is eligible only if they are the sole provider of family day care in an area, and if they can demonstrate there is unmet demand for child care. Similar eligibility restrictions currently apply to long day care and outside school hours care services. An annual cap of $250,000 will apply to operational support funding for CSP family day care providers from 1 July 2015.

The Budget also provides an additional $168.5 million in 2013–14 and 2014–15 to meet existing CSP commitments and a recent increase in demand for funding for family day care services. The Government justifies its CSP savings measures on the basis that ‘this level of additional funding is not sustainable’. Providers have warned that the proposed changes will result in higher fees for parents.

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343. M Harrington, op. cit.


346. Ibid.


Changes to the Jobs, Education and Training Child Care Fee Assistance (JETCCFA) program

The Budget provides an additional $54.3 million for the JETCCFA program to meet existing commitments and anticipated demand. However, the Budget proposes to cap the funding at $8 per hour of care per child for a maximum 36 hours per week. This measure is expected to save $22.8 million over two years from 2015–16. Additional funding of $12.0 million will be provided to the Department of Human Services to implement the measure. The combined measures result in a net expenditure increase of $43.5 million over the forward estimates.

The JETCCFA program is open to recipients of eligible income support payments, including Newstart Allowance, Youth Allowance (Other), Parenting Payment and Carer Payment. It covers the difference between fees charged by child care providers and assistance covered by Child Care Benefit (CCB), though parents must also contribute a $1 per hour co-payment. JETCCFA is available for child care used while undertaking work, training or study. The $8 hourly cap will apply to the difference between the hourly fee and CCB. This will mainly affect those parents using child care which charges fees in the upper range. However, the 36 hour cap could have a significant impact on those income support recipients whose work and study commitments require them to seek further hours of care.

Neighbourhood Model Occasional Care

The Budget provides $12.6 million over four years to the states and territories to reinstate the Neighbourhood Model Occasional Care (NMOC) program.

The NMOC program supported small non-approved occasional care services that were not eligible to receive funding under the Commonwealth’s other child care programs. Funding for these services was previously shared between the Commonwealth and state and territory governments. The Labor Government defunded the Commonwealth’s share in the 2010–11 Budget because the funding was not tied to service delivery and services were not subject to quality controls or learning outcomes. Approved occasional care services remained eligible for Commonwealth funding under other programs.

Redirected funding

The Budget proposes to shift $39.3 million in funding to the CSP and the JETCCFA program over five years by reducing funding for a number of other child care programs.

The savings primarily affect programs related to workforce development in the child care sector and will provide for temporary boosts in funding for CSP providers and the JETCCFA program.

Child care fee assistance indexation freeze

As part of a broader tightening of eligibility for social security and family assistance benefits, the Government will maintain the current Child Care Benefit (CCB) income test limits and the $7,500 annual limit on Child Care Rebate (CCR) for three years from 1 July 2014. This will result in lower rates of CCB for those whose earnings increase over time and increased child care expenditure for those who reach the CCR limit due to increased fees or hours of child care.

351. See the separate article in this Budget Review: ‘Changed indexation of pensions and tightened eligibility for all benefits’.
Reform of the higher education demand driven system

Dr Coral Dow

The 2014–15 Budget introduces a number of measures that together radically overhaul the higher education sector. Whilst maintaining the demand-driven system introduced by the Gillard Government, the Coalition Government proposes to deregulate the provision of places. It intends to do this by:

• allowing non-university providers (including private providers and Technical and Further Education colleges) access to Commonwealth supported places (previously called Higher Education Contribution Scheme or HECS places) and
• allowing higher education providers to set their own uncapped prices for the student contribution component of those places.

This moves the sector to a greater user-pays and market-driven model. The model will be reinforced by the Government’s proposal to reduce the government component in the funding of Commonwealth supported places and removing any limit to the amount a student can borrow under the income-contingent Higher Education Loan Programme (HELP).

Commonwealth Grants Scheme

The Commonwealth Grants Scheme (CGS) provides the funding for student places. Prior to 2008 the number of places funded was capped. The Howard Government loosened the caps slightly from 2008, but this did not lead to a substantial increase in student numbers. In 2009 the Labor Government commenced removing the caps on public university places and provided a place for every domestic bachelor student admitted to university from 2012. The uptake in demand from this policy was significant with an increase from some 440,000 to 541,000 Commonwealth supported places between 2009 and 2013. The demand was accompanied by a significant increase in CGS expenditure from $4.6 billion in 2009–10 to an estimated (in the 2013–14 Budget) $7.2 billion in 2016–17. Such growth has raised concerns about the financial sustainability of the system and underlies the government savings measures in this budget.

The Government proposes to cut CGS expenditure to $6.6 billion in 2016–17 and $6.7 billion in 2017–18. Estimated savings of $1.1 billion over three years from 2015–16 will be made whilst still expanding the demand-driven system: from 2016 Commonwealth supported places will be funded for accredited courses at registered non-university institutions and extended to sub-bachelor courses.

The only estimate of expansion is the Government’s general statement that ‘by 2018, over 80,000 additional students a year will be supported’. Using the measure ‘students’ (rather than Commonwealth supported places or full time equivalent enrolments) makes comparisons with previous estimates difficult. There is no breakdown of where the Government expects the demand for places will be, except that the higher education overview suggests 48,000 students in sub bachelor places and 35,000 students in bachelor places. There is no estimate of uptake of places at non-university providers.

The expansion in places whilst making savings of $1.1 billion will be achieved by cutting the Government contribution per place by approximately 20 per cent. Government contributions vary by discipline. The existing eight funding clusters have been replaced by ‘five funding tiers with disciplines allocated to a particular tier based on private benefits for graduates, the standard teaching method and infrastructure required to deliver the course’. Some disciplines, such as humanities and mathematics will receive an increase in government contribution, but most will be reduced. Government contributions to places at non-university providers will


not been known, other than that they will be lower than those at universities, until a review by the Minister for Education is undertaken.  

Student Contributions

The shortfall in the funding per place will largely be met by students. The Government proposes to remove the cap on student tuition costs and allow universities and providers to set their own fees. The Government expects this deregulation will ‘enable competition based on quality and innovation’ and ‘facilitate choice and opportunity for students’. Universities will be faced with difficult decisions on how much they might expect students to meet the funding shortfall in courses such as nursing and agriculture which have received approximately 70 per cent of course costs from the Government contribution. Cross-subsidies from courses such as commerce and economics with existing high student contributions and low government contributions might be possible, but universities are likely to face price competition from private providers in these courses.

Widespread speculation has occurred on how high fees might rise. There seems little doubt that the elite universities in the Group of Eight which have advocated deregulation will increase their fees, possibly as high as the fees they charge international students. These are currently two to three times higher than domestic student fees. Academic Bruce Chapman suggests course costs of $120,000 are possible. Co-author of the report to government on demand-driven funding, Andrew Norton, disputes this figure but provides modelling suggesting that course costs might be $50,000.

The Government has anticipated increased fees and will amend the Higher Education Loan Programme (HELP) provisions to remove the cap on the amount a student may borrow. However, a number of budget measures relating to HELP will increase the cost of deferring a loan.

Deregulated fee provisions commence in 2016, but will apply to students accepting a place after 14 May 2014. Students intending to apply for courses in 2015 might be expected to need information from institutions before applying. Existing arrangements will remain for current students until they finish study, or until 31 December 2020 (whichever comes first).

The Higher Education Loan Programme

From 1 July 2016 the income threshold for repayment of HECS-HELP debt will be lowered to an estimated $50,638 (in 2014–15 the threshold is $53,345). Repayment will be set at two per cent of income up to the current threshold, which is estimated to be $56,264 for the 2016–17 year at which the existing repayment rates apply.

From 2016, the annual interest rate applied to loans will be changed from the existing Consumer Price Index (CPI) (in 2014 CPI indexation will be 2.6 per cent) to the ten year Government Bond rate (currently around 4.0 per cent) capped at a maximum rate of 6.0 per cent. The increased indexation rate is a savings measure designed to overcome the additional implied loan subsidy in the existing rate. It aims to act also as an incentive for debtors, including those moving overseas, to repay debt more quickly.

These provisions will apply from 2016 to new and existing debt: at June 2012 there were 1.68 million HECS-HELP debtors with a combined debt of $26.3 billion. These two measures are estimated to save $3.2 billion over four years from 2014–15.

Despite these savings there are expenses to government in providing HELP which will increase in line with student fees and the number of loans. Program expenses for HELP are estimated to increase from $1.4 billion in 2014–15 (similar to estimates in the 2013–14 Budget) to $2.4 billion in 2017–18.
In accounting terms, HELP loans are an asset. An indication of the estimated increase in loans is the Government’s estimate that total administered assets in the education portfolio will increase from $28.1 billion in 2013–14 to $54.4 billion in 2017–18. This increase will be ‘mainly attributable to HELP’. Each year a proportion of new HELP debt is estimated not to be repaid. This ‘doubtful debt’ is estimated to increase from 17 per cent in 2013–14 to 23 per cent in 2017–18. Despite the reduced income threshold repayment, estimates of the average number of years to repay debt have increased from 8.6 years in 2013–14 to 9.8 years in 2017–18. The higher indexation rates will likely result in the total debt and doubtful debt increasing more quickly.

An academic study undertaken before this budget predicts HELP doubtful debt will be $13 billion by 2017. Suggested fiscal sustainability measures have included changing the loan indexation rate, reducing the repayment threshold to the minimum wage, recovering debt from deceased estates, collection of debt from debtors moving overseas, imposing a loan fee on all HELP borrowing and selling (or ‘securitising’) the HELP debt to the private sector.

The changed indexation rate has been adopted in this budget and the threshold reduced (but still substantially above the minimum wage). However, existing loan fees on FEE-HELP and VET FEE-HELP loans have been abolished and there are no measures designed to recover overseas or deceased debtors’ debt. Public discussion of the best measures to recover debt will continue if the uptake of places, the number of loans and the amount of loans increase above the Government’s estimates and if the doubtful debt amount continues to rise.

Will the changes deter students from undertaking higher education?

This has been a continuing topic of research and debate which began with the introduction of HECS in 1989. The debate continued after differential student contributions and a lowered income repayment threshold were introduced in 1998 and when the Howard Government allowed universities to increase fees by 25 per cent in 2005. Particular emphasis has been on the effects on low socio-economic status (SES) students. The most recent detailed analysis of the research can be found in the Deloitte Access Economics report for the Higher Education Base Funding Review in 2011. The report has a section on low SES participation which includes the statement:

The focus of the literature on HECS has been on equity and the participation of students from lower socioeconomic backgrounds as HECS could potentially increase socioeconomic inequality. For example, people from lower socioeconomic backgrounds may be more debt averse and so be less likely to take on a loan to participate in higher education....However, there is little evidence in the literature to suggest that HECS has deterred participation in higher education among people from a lower socioeconomic background.

There have been constants since 1989: the rate of indexation has remained at CPI and governments have restricted Commonwealth funded places largely to public universities and capped the maximum student contribution. However, from 2016 the combined measures in this budget may have an effect on student behaviour.

Professor Chapman is reported as criticising the new indexation rate on loans as unfair. According to Chapman, students who drop out of university and start out in low-paying jobs and women who delay paying back their debts when they take time off work after having children will be hardest hit. Similar views are held by academic Simon Marginson who describes the new system as ‘socially regressive’.

Modelling undertaken by the Australian Greens provides the following examples:

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367. Ibid., p. 91.
368. Ibid., p. 76.
371. The impact of changes to student contribution levels and repayment thresholds on the demand for higher education, Department of Education, Employment and Workplace Relations, Canberra, August 2011, accessed 20 May 2014.
A science graduate with a starting debt of $34,000 and a starting salary of $50,000 who gets annual pay rises of 2% above inflation would take 21 years to repay their loan, according to the modelling. This person’s total interest payments would be $13,900 higher if the loan was indexed at 6% rather than at the consumer price index.

But a graduate with the same starting debt who managed to find a job with a starting salary of $75,000 and got annual pay rises of 2% above inflation would take just 10 years to repay their loan, with total extra interest payments of just $5,300, the modelling indicates.374

Such increasing debt may deter some students from undertaking a degree and override the incentive of higher graduate salaries that has seen students prepared to forgo income and take on debt in the HECS-HELP scheme.375

374. Hurst, op. cit.
375. For analysis of the returns to graduates see: A Norton, Graduate Winners: Assessing the public and private benefits of higher education, Grattan Institute, Melbourne, August 2012, accessed 20 May 2014.
Other higher education measures
Dr Coral Dow

The higher education budget is focussed on the major reforms to deregulate undergraduate education and the changes to the Higher Education Loan Programme (HELP). A number of other measures, mostly involving savings, will also affect the sector.

University funding

The combined effect of two measures—indexation changes and the application of an efficiency dividend—will reduce funding.

From 1 January 2016, the Government will replace the Higher Education Grants Index (HEGI) with the Consumer Price Index (CPI) to index all grants and regulated student contribution amounts for current students, including research grants and Australian Postgraduate Awards. The change is expected to save $202.8 million over three years from 2015–16.377

The Higher Education Grants Index (HEGI) was introduced in 2012 with the uncapped student demand driven system. It was welcomed by the sector which had lobbied for a number of years for indexation that took into account wages growth. Whilst CPI is a better rate than that used prior to 2012, it is unlikely to be as generous as the HEGI and it will probably diminish real growth.

The efficiency dividend of 2.0 per cent in 2014 and 1.25 per cent in 2015 was a Labor Government 2013-14 budget measure, but legislation was not introduced during the 43rd Parliament. The Coalition accepted the policy and took it to the 2013 election.378 Legislation to implement the efficiency dividend was introduced in November 2013 and is currently before the Senate.379 The efficiency dividend will provide estimated savings of $902.7 million over the forward estimates.380

Universities Australia’s 2014 pre-budget submission noted:

The improved indexation arrangements for all programs funded under the Higher Education Support Act 2003 from 2012 have improved the real rate of growth in university funding; however, disappointingly real growth in university funding has fallen after the introduction of a 2 per cent and 1.25 per cent efficiency dividend for university funding in 2014 and 2015 respectively.381

Equity

The Coalition Government announced in 2013 that it would abandon the previous Labor Government’s higher education targets to increase participation by those from low socio-economic status (SES) backgrounds to 20 per cent by 2020, and to have 40 per cent of those aged 25 to 34 years holding a bachelor degree or higher by 2025. The Minister for Education, Christopher Pyne, has said that he does not believe in ‘targets for targets’ sake’.382

Some funding granted to universities to improve participation of students from disadvantaged backgrounds has been cut. The Higher Education Reward Funding will cease from 2014 with savings of $121.1 million over five years. Savings of $51.3 million will also be made in the Higher Education Participation and Partnerships Programme. However, the Access and Participation Fund will retain $582.7 million to support low SES students.

A new Commonwealth Scholarship scheme to support student access, participation and success will be established. All higher education providers with enrolments of 500 or more domestic Commonwealth supported

376. For further information on these changes, see: C Dow, ‘Reform of the higher education demand driven system’, Budget review 2014–15, Research paper, 2014–15, Parliamentary Library, Canberra, 2014.
380. Ibid., p. 5.
382. D Hurst and J Tovey, ‘Christopher Pyne reveals university shake-up’, The Sydney Morning Herald, 25 September 2013, accessed 21 May 2014.
places will be required to set up a fund into which they pay $1 in every $5 of additional revenue raised from higher student fees. Despite the title, higher education providers, not the Commonwealth, will establish and administer their fund.\(^{383}\) Although this is an equity measure, it might be expected that the elite universities with greater capacity to increase fees will build greater scholarship accounts. Academic, Gavin Moodie believes:

The higher-status institutions will be dominated by students from high and upper-middle socioeconomic status backgrounds and have few students from a low socioeconomic background. The 20% of additional fee revenue the government will require universities to allocate to scholarships will make it easier for the few disadvantaged students who are accepted by the elite universities, but will not markedly increase their proportion.\(^{384}\)

Another criticism is that the scholarships ‘will be concentrated in the prestigious Group of Eight universities, drawing disadvantaged students away from outer metropolitan and regional areas. That would leave those universities with fewer resources to support their traditional student base’.\(^{385}\)

**Quality issues**

In reviewing the demand driven funding system, authors David Kemp and Andrew Norton stated ‘expanding higher education systems usually raise quality concerns, and the demand driven system has been no exception’.\(^{386}\) The same might be said for the proposed deregulated system especially with the proposal to open Commonwealth supported places to the non-university providers.

Many quality issues will be handled by the Tertiary Education Quality Standards Agency (TEQSA), which was established in 2011 to provide quality assurance to the higher education sector. However, TEQSA will have its funding reduced by $31.1 million over four years and be expected ‘to focus on its core activities as a regulator’. A Bill currently before the Senate proposes to remove TEQSA’s quality assessment functions and improve the efficiency of its operations.\(^{387}\)

**Research**

Although universities will welcome ongoing funding for the Future Fellowships Scheme and an additional year’s funding for the National Collaborative Research Infrastructure Strategy, the Government proposes to cut the Research Training Scheme (RTS) by 10 per cent for a saving of $173.7 million. The RTS funds the provision of research higher degrees (PhDs and Masters). Similar to undergraduate measures, the Government will expect the shortfall to be met by students. Universities will be permitted to charge a student contribution of up to $3,900 per year which students can borrow under the HELP scheme.

**Infrastructure funding**

The Education Investment Fund, with assets of $3.5 billion, will be rolled into the new Asset Recycling Fund.\(^{388}\)

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School education
Marilyn Harrington

The 2014–15 Budget confirms the end of the school funding reforms as introduced by the Labor Government, and implements a new funding arrangement for schools from 2018. 389 This will be the third change to Australian Government funding arrangements for schools since 2009.

Funding for students with disability and the National School Chaplaincy Programme are two other areas of budget interest.

School funding

The Government’s proposed changes to school funding mean that schools will not receive about $7.0 billion (over indexation) in additional federal funding. This funding would have been provided in 2018 and 2019 had Labor’s school funding reforms been fully implemented. 390 From 2018, funding will be based on 2017 levels indexed by the Consumer Price Index (CPI), projected at 2.5%, with an allowance for enrolments. 391 The Budget has provided $54.1 million in 2017–18 to ‘maintain real Commonwealth school funding beyond the 2017 school year’. 392

This indexation rate is different to the National Commission of Audit’s recommendation for an indexation factor comprising the weighted average of the CPI and the relevant Wage Price Index. 393 It is also lower than the current indexation rates which, for participating schools under the Australian Education Act 2013 (the Act), are 3.0%, 3.6 % or 4.7%, depending on the level of a school’s funding. 394 The indexation rates for non-participating government school systems are not available.

The Minister for Education, Christopher Pyne, has stated that the funding system from 2018 will remain needs-based and that it will include disadvantage loadings. 395 In evidence to the Senate Select Committee on School Funding, a Department of Education official confirmed that the only change to the current funding model will be the indexation arrangements, but the distribution methodology for both government and non-government schools is still to be negotiated. 396 However, school funding arrangements may also change when they are considered as part of the White Paper on the Reform of Federation. 397

While the overall quantum of funding to the states and territories will increase in 2018, the projected growth rate for the school education function will decline by about a third from 6.2% in 2016–17 to 4.0% in 2017–18, as the following table shows.

Real growth in school education sub-function, % change[a]

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014–15</td>
<td>3.6</td>
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<tr>
<td>2015–16</td>
<td>6.2</td>
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<td>2016–17</td>
<td>6.2</td>
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<tr>
<td>2017–18</td>
<td>4.0</td>
</tr>
<tr>
<td>Percentage change 2014–15 to 2017–18</td>
<td>17.2</td>
</tr>
</tbody>
</table>

[a] Parliamentary Library estimates. Prices adjusted for inflation by the CPI to June 2014 prices. Out-year index numbers calculated using Treasury estimates of CPI growth.

389. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget strategy and outlook: budget paper no. 1: 2014–15, 2014, accessed 16 May 2014.
395. S Ferguson interview, op. cit.
396. Senate School Funding Select Committee, Proof committee Hansard, 16 May 2014, p. 38, accessed 19 May 2014.
It is not possible from the budget papers to determine how the quantum of funding projected for 2017-18 differs from funding that would have been provided had the current funding arrangements continued. Departmental advice to the Senate Select Committee indicates that the Australian Government will provide 19.1% of total public funding to the Schooling Resource Standard for government schools in 2018.401

The Budget has identified $80.0 billion in savings in school education and hospital expenditure by 2024-25. It appears that about a third of these savings will be the result of the proposed changes to the indexation arrangements for school funding.402 It appears also that there will be about $6.0 billion less in Australian Government funding for schools in 2024–25.400

The Budget shows the continuing pattern of school expenditure—the Australian Government will provide the majority of its funding to non-government schools (state and territory governments provide the majority of their funding to government schools) over the forward estimates. In 2014–15, an estimated $5.1 billion (35.6% of funding in the schools sub-function) will be provided to government schools and an estimated $9.3 billion (64.4% of funding in the schools sub-function) to non-government schools. By 2017–18, there is a slight shift in these proportions when it is projected that 37.9% funding will be provided to government schools and 62.1% to non-government schools. Non-government schools national support is ranked tenth, and government schools national support ranked twentieth, in the Budget’s list of top 20 programs by expenses in 2014–15.

Another budget trend is expenditure on non-government schools compared to higher education. In 2013–14, non-government school expenditure was an estimated 29.5% of total education expenditure compared to 30.2% for higher education. By 2017–18, there is a noticeable difference with projected proportions of 34.4% and 28.9% respectively.

**Funding for students with disabilities**

The Budget does not extend funding for the More Support for Students with Disability (SWD) National Partnership beyond 2014–15.401 The 2013–14 Budget extended funding for this National Partnership in 2014, but this was intended only as a temporary measure pending the finalisation of the arrangements for the SWD loadings, to be implemented from 2015.402

There are interim SWD loadings for 2014.403 Advice was also provided to the Senate Select Committee on School Funding that about $4.8 billion for SWD will be provided over the forward estimates.404

**The National School Chaplaincy Programme**

The budget measure that provides the most new funding for schools is the continuation of the National School Chaplaincy Programme (NSCP)—$245.3 million over five years. The Government is also restructuring the NSCP so that it provides only for school chaplains as it was when it was first introduced under the Howard Government in 2007.405 In 2012, the Labor Government extended the NSCP to include the employment of secular welfare workers.406

The NSCP continues to be controversial.407 It is also currently subject to its second High Court challenge, which, if successful, will have significant implications for many other government programs that are not currently specifically authorised by Commonwealth legislation.408

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401. Senate School Funding Select Committee, op. cit.
402. Ibid.
406. S Ryan (Parliamentary Secretary to the Minister for Education), Keeping our commitments: funding a National School Chaplaincy Programme, media release, 13 May 2014, accessed 16 May 2014.
408. For example: D Miletic, ‘Chaplaincy funds “should be used” for disabled students’, The Age, 15 May 2014, p. 7, accessed 16 May 2014.
Support for skills training

Carol Ey

The 2014–15 Budget has two major new initiatives in the skills training area—the establishment of an Industry Skills Fund and the introduction of Trade Support Loans. However, the cost of these measures ($915.0 million) is more than offset by the cessation of a wide range of programs, resulting in total spending under the Building Skills and Capability Programme being reduced by more than 20 per cent, from $2.8 billion in 2013–14 to $2.3 billion for 2014–15.409

Industry Skills Fund

The Budget provides $476.0 million over four years to establish the Industry Skills Fund from 1 January 2015.410 The Fund is designed to meet the training needs of small to medium sized enterprises, with targeted industries including: health and biomechanical products; mining, oil and gas equipment technology and services; and advanced manufacturing, including defence and aerospace. It is expected to deliver some 200,000 training places and training support services over four years.411

The Fund is designed to streamline training provision. It is accompanied by the cessation of 10 programs currently delivering skills training and, as such, has been received positively by training providers.412 While the simplification of the multitude of programs operating in the skills training area is welcome, the total savings through the cessation of these programs is over $1.0 billion over the forward estimates, creating a net reduction in funding for training provision of more than $0.5 billion.

Many of the programs that will end are targeted at disadvantaged groups. These programs include the National Partnership Agreement on Training Places for Single Parents, the Australian Apprenticeships Access Program and the Workplace English Language and Literacy Programme (WELL). There is no mention of support for disadvantaged job seekers in the proposed new program, whereas the focus of the new program is supplying the requirements of smaller enterprises in emerging industry areas. The Australian Industry Group has raised concerns, particularly about the cessation of the WELL program, noting that ‘over four million working Australians do not have adequate literacy and numeracy skills for the modern economy’. 413

The cutback in training provision and, in particular, the cessation of programs supporting disadvantaged job seekers to enhance their employment prospects, appears to be at odds with other budget initiatives for young people to ‘earn or learn’. The Australian Manufacturing Workers Union has also noted that these cuts are being implemented at a time when there has been ‘an increase in 457 visas being issued to supposedly “plug skills shortages”’.414

Trade Support Loans

The introduction of Trade Support Loans delivers on an election commitment to provide income-contingent loans for living costs to apprentices.415 Up to $20,000 will be available over four years to apprentices undertaking Certificate III or IV qualifications leading to an occupation listed on the National Skills Needs List.416 The loans will be similar to those in the Higher Education Loan Program (HELP) in that repayment will be through the tax system once a threshold income level is reached. Students who successfully complete their training will receive a 20 per cent discount on their debt.


411. I Macfarlane (Minister for Industry), Skilling Australia to grow industry, media release, 13 May 2014, accessed 15 May 2014.

412. See for example, Australian Council for Private Education and Training, ACPET commends the government on crucial reforms for tertiary education, media release, 13 May 2014, accessed 16 May 2014.


414. Australian Manufacturing Workers’ Union, Training and apprenticeships gutted as skills shortages loom, media release, 13 May 2014, accessed 16 May 2014.


416. Australian Government, National skills needs list, Australian Apprenticeships website, access 16 May 2014.
The cost of establishing the loan program is $439.0 million over five years, of which $310.3 million will be provided in the first four years. This represents a very significant increase over the election commitment costing of $85.0 million over the same period.\textsuperscript{417}

It is unclear how the loan will be delivered. The budget papers state that the Australian Apprenticeship Centres will initially administer the loan payments for 2014–15, but consideration will be given to the scope for the financial services sector to administer them from 2015–16. It is not apparent whether this has contributed to the higher implementation costs than originally envisaged.

However, it is not all good news for apprentices. The new loan arrangements will replace the Tools For Your Trade program, which currently provides up to $5,500 in tax exempt cash payments over four years to support training, the purchase of relevant tools and other associated costs.\textsuperscript{418} Tools For Your Trade was also available to some apprentices undertaking agricultural and horticultural qualifications who will not be eligible for Trade Support Loans. The abolition of this program will save $914.6 million over the forward estimates, resulting in a net saving of nearly $0.5 billion in support for apprentices over the period to 2017–18.\textsuperscript{419}

While replacing cash payments with income-contingent loans places less pressure on the budget, there are concerns about the growing amount of these debts, their treatment as assets in the Government’s budget and the risk of non-repayment.\textsuperscript{420} There may also be a concern about the likely lower repayment rate of the proposed new Trade Support Loans compared to HELP loans, given that those with trade qualifications have lower average incomes that those with degrees.

Governments have previously resisted providing students with HELP-style loans to cover living expenses, with the existing HELP schemes largely covering tuition costs. The 2013–14 Budget did seek to convert Student Start Up Scholarships, which are designed to help with the costs of text books and equipment for those receiving income support payments, into income contingent loans.\textsuperscript{421} It will be interesting to see whether future budgets will increase the trend to student-related loans.


\textsuperscript{420.} A Norton, Doubtful debt: the rising cost of student loans, Grattan Institute, Melbourne, April 2013, accessed 20 May 2014.

Foreign affairs overview

Dr Geoffrey Wade

The appropriation of $1,404.8 million for the Department of Foreign Affairs and Trade (DFAT) in the 2014–15 financial year requires the Department to find approximately $110 million in savings in 2014–15 and some $400 million over four years. This will mean a considerable reduction in staff numbers, with some 500 positions (12 per cent of the total 4,215) slated for removal.422

The integration of the aid agency AusAID into DFAT will provide some of the required savings and many of the positions that are to be abolished.423 As Figure 1 shows, expenditure on DFAT as a proportion of total government expenditure is estimated to grow slightly to mid-2015 but then continue its decline. The Lowy Institute has underlined the continuing problem of the ‘diplomatic deficit’ resulting from this decline.424 This Budget is surprising, particularly given the Coalition’s promised ‘long-term policy to ensure Australia’s global diplomatic network is consistent with our interests’.425

Figure 1: DFAT expenditure as a proportion of total government expenditure

There has been a re-adjustment in how the Government describes Australia’s regional positioning, through multiple references to Australia’s relations with the ‘Indian Ocean Asia Pacific’.426 This new broader terminology for the region in which Australia is located is particularly used to situate the ‘New Colombo Plan’, a new $100 million initiative to fund Australian undergraduate students to travel to and study in the region.427

In the public diplomacy sphere, tourism has been elevated to a Cabinet-level undertaking, alongside foreign affairs and trade, with an entire Budget media release from the Minister for Trade and Investment being

423. For more details on the changes to aid, see the Parliamentary Library Budget Review article Official Development Assistance—the future of Australian aid.
devoted to the topic. Tourism Australia has retained its budget of $130 million, intended as ‘support for the tourism industry across the key areas of infrastructure development and overseas brand promotion in growing markets such as China’.

The concentrated emphasis on China, Australia’s biggest tourism market, is worth noting. There is a lot of attention being directed to attracting Chinese visitors, with $10.1 million in new funding for the Australia-China Approved Destination Status (ADS) scheme and $2.0 million for the 2016 Australia Week in China. This is in addition to previously announced policies, including three-year visas for Chinese business visitors and special additional arrangements for Chinese New Year flights.

Yet, despite its stated aims of promoting diplomacy and increasing overseas brand promotion, funding for Australia’s overseas television broadcasting service—the $223.0 million Australia Network run by the Australian Broadcasting Corporation (ABC)—was withdrawn. Citing a ‘fundamentally flawed tender process under the previous Labor Government’, the Minister stated that ‘the Australia Network has failed to deliver a cost-effective vehicle for advancing Australia’s broad and enduring interests in the Indo-Pacific region’. The ABC, however, claims that all DFAT-stipulated targets have been met in their broadcasts to 167 million households in 46 countries, and that audiences were increasing.

This action appears incongruous with similar strategies undertaken by many nations around the world which operate a state-sponsored international television presence as part of their public diplomacy and soft-power arsenal, several of which are increasing their broadcasts to the Asian region. Countries which publicly fund such broadcasting services include Argentina, Britain, Canada, Chile, China, France, Germany, India, Japan, Korea, Singapore, Spain, Thailand and the US. As such, it is unlikely that Australia will continue without such a service, and possible that the withdrawal of the Australia Network funding is intended simply to open the way for commercial operators to fill the gap, particularly given the Government’s complaint with the original tender process.

Embassy operations worthy of mention include $51.0 million in 2014–15 to maintain the Australian Embassy in Kabul, and $35.0 million to close the embassy in Baghdad and co-locate it with the British Embassy as a long-term savings measure. The $79.0 million previously set aside for the planned relocation of the Tehran embassy has been re-allocated as this move will now not proceed.
Official Development Assistance—the future of Australian aid
Dr Ravi Tomar and Wendy Bruere

Background

Decisions made since the change of government in September 2013 have had significant implications for Australia’s aid program, in administrative arrangements and aid priorities as well as the quantum of aid.

According to administrative changes announced on 18 September 2013, AusAID would cease to be an executive agency and be merged into the Department of Foreign Affairs and Trade (DFAT). This was to take effect from 1 November 2013, with a ‘final integrated structure in place by 1 July 2014’. 437

On 18 January 2014, Foreign Minister Julie Bishop announced that Australia’s Official Development Assistance (ODA) budget for 2013–14 would be:

$5.042 billion, refocused on reducing poverty in the Indo-Pacific region and tied to rigorous benchmarks … This year’s aid expenditure will be $107 million less than last year. From 2014–15 the $5 billion aid budget will grow each year in line with the Consumer Price Index. 438 (emphasis added)

While the figure of $107 million is accurate when compared to the 2012–13 outlay, it in fact represented a reduction of $650 million on the 2013–14 Budget Estimate. 439 This also indicated that the internationally recognised concept of ODA/GNI (Gross National Income) as a measure of a donor’s aid budget would no longer be immediately relevant in the Australian context.

In contrast, the UK’s aid budget increased by 30.5% in 2013, representing 0.72% of GNI, about which Prime Minister David Cameron is reported to have said, ‘I don’t think you break your promise to the poorest people in the poorest countries in the world’. 440 The UK has joined Luxembourg (1.00%), Norway (1.07%) and Denmark (0.85%) in having an ODA/GNI ratio of over 0.7%. 441

In keeping with a recommendation of the Independent Review of Aid Effectiveness (2011), according to the 2013–14 Aid Budget Statement, ‘the fundamental purpose of Australian aid is to help people overcome poverty. This serves Australia’s national interests by promoting stability and prosperity both in our region and beyond’. 442

However, the Foreign Minister said in early 2014:

[w]e are refocussing our efforts, placing our aid program more clearly in the context of Australia’s national interest … We have created a single department with responsibility for advancing Australia’s interest in diplomatic trade and development context. 443

Aid-for-trade (and greater private sector involvement) is therefore expected to be the basis of this policy approach. The Government has also promised to institute new quality assurance measures and performance benchmarks. 444

ODA budget 2014–15

On 13 May 2014, the Government announced that the 2014–15 ODA budget was estimated to be $5,031.9 million. 445 Contrary to the commitment given earlier by the Foreign Minister in her January 2014

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437. Senate Foreign Affairs, Defence and Trade References Committee, Inquiry into Australia’s overseas aid and development assistance program, 7 February 2014, accessed 19 May 2014.
439. Senate Foreign Affairs, Defence and Trade References Committee, Australia’s overseas aid and development assistance program, The Senate, Canberra, March 2014, accessed 19 May 2014.
444. Ibid.
statement (above) to increase the aid budget in line with the Consumer Price Index (CPI) from 2014–15, the outlay will be ‘stabilised at $5 billion in 2015–16, thereafter increasing annually by CPI’. In effect, the Government expects to ‘save’ $7.7 billion over five years by maintaining ODA at its 2013–14 level of $5 billion in 2014–15 and 2015–16 before it starts to grow in line with CPI from 2016–17. ‘The savings include $2.0 billion in 2017–18 by removing the provision previously set aside for ODA spending’. Contributing to these savings will be the reversal of previous decisions to join the African Development Bank Group and the International Fund for Agricultural Development as well as a decision to cap departmental costs to ‘administer ODA equivalent to 5 per cent of DFAT’s total ODA budget’. As Stephen Howes of the Development Policy Centre at the Australian National University (ANU) observed:

In this budget, the Coalition has delivered something quite different: a reduction in aid by 10% in real terms by 2015–16. In nominal terms, aid was cut 2.3% in 2013–14 relative to 2012–13, and then is held constant for the next two years (2014–15 and 2015–16). Add inflation to this, and we have a real (or constant price) 5.3% cut in 2013–14, and then another 2.25% this year and another 2.4% next year. This adds up to a 9.7% cut by 2015–16 relative to the 2012–13 base.

Another significant feature of the 2014–15 aid budget is the lack of detail. The annual aid budget statement (the ‘Blue Book’) which provided details of aid spending and has been published since at least 2001, was not issued this year. Instead, it was announced that ‘more details on a new aid policy and performance benchmarks will be delivered in the coming weeks’.

Significant decisions in the 2014–15 ODA budget include:

- an increase of about $57 million to the estimated 2014–15 outlay for PNG to $577.1 million
- a substantial decrease of ODA to Sub-Saharan Africa and the Middle East, down from $344.4 million in 2013-14 to an estimated $252.4 million
- ODA to Latin America and the Caribbean down from $29.6 million to $21.6 million. Funding for Humanitarian, Emergencies and Refugees has been restored back to 2013–14 Budget Estimate levels at $338.6 million ($339.6 million in 2013–14) and
- the amount of ODA administered by other government departments will drop to $390.0 million, from $701.2 million in 2012–13.

**Reactions to the aid budget**

As Howes has noted, ‘ODA by sectoral spend is simply not provided … For a government which promised to enhance aid transparency and to protect the real value of aid, it is a discouraging beginning’.

Susan Harris Rimmer, Director of Studies at the ANU’s Asia Pacific College of Diplomacy, also laments the lack of detail in the aid budget, referring to it as part of Australia’s ‘under-investment’ in international relations, and noting that linking ODA to CPI instead of GNI is not in line with international standards. The Lowy Institute has argued that while Australia is backing away from ‘ambitions to be a global aid player’, its ‘long-held position as the Pacific Islands region’s principal development partner’ is safe for now.

Australian NGOs and their peak body, the Australian Council for International Development (ACFID) have criticised the Budget for failing to increase ODA in line with inflation, as promised. UNICEF Australia claims that

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448. Ibid.
450. Budget highlights, op. cit.
the cuts to the aid budget mean that despite being ‘one of the world’s wealthiest nations’, Australia is set to become ‘one of the world’s least generous donors’. 454 Care Australia said, ‘these cuts may begin to put many of the outstanding gains made in our region at risk’. 455 Oxfam argued that the aid cut ‘means the poorest of the world are shouldering by far the largest of all cuts over the next four years’. 456 ACFID also called on the Government to ‘to commit to a target and timetable of 0.5% of GNI’ as was Australia’s goal previously. 457

454. UNICEF Australia, PM Abbott’s aid cuts make Australia one of the world’s least generous donors, media release, 13 May 2014, accessed 21 May 2014.
455. Care Australia, Care urges government to stop raiding aid budget, media release, 13 May 2014, accessed 14 May 2014.
Health workforce
Dr Rhonda Jolly

Delivering on promises
The health workforce measures in this Budget are mostly aimed at delivering on the Government’s promises made during the 2013 election campaign. In addition, one recommendation of the National Commission of Audit (NCoA) has been included in the budget measures—the abolition of two health bureaucracy bodies, Health Workforce Australia (HWA) and General Practice Education and Training Limited (GPET).

No response was made in the Budget to the important recommendation made by the NCoA for consideration of substantial changes to the delivery of health workforce services. Health analysts have advocated for some time that extended practice for suitably qualified professionals, such as nurses and pharmacists and physician assistants, would enhance the delivery of care and reduce health care costs for patients and for the system overall. Recent research by the Grattan Institute has also concluded:

Enabling less highly-trained hospital workers to play a bigger role could improve jobs for doctors and nurses, save public hospitals nearly $430 million a year and fund treatment for more than 85,000 extra people.

Doctors, nurses and allied health professionals such as physiotherapists and occupational therapists are all squandering their valuable skills on work that other people could do.

It doesn’t take 15 years of training to provide light sedation for a stable patient having a simple procedure, or a three-year degree to help someone bathe or eat – but that is the situation in Australian hospitals today.

The NCoA echoed this view in concluding that to cope with an expected rise in demand for health services in the future, it would be advantageous for the Government to examine the scope of existing practitioners and reassess skills mixes to achieve more flexibility. It noted:

Australia’s arrangements for the scope of professional practices and the appropriate skills mix for health professionals are less flexible than in other countries. Many health professionals report less qualified staff could safely undertake a significant share of their work.

Health Workforce Australia has initiated an Expanded Scope of Practice programme aimed at redesigning roles of the health workforce to improve productivity, retention, efficiency and effectiveness of health care services. This reform can go further.

In particular, pharmacists and nurse practitioners could, in an expanded range of settings provide immunisations, monitor blood pressure and diabetes tests, issue medical certificates for certain conditions (such as colds or hay fever) and undertake some prescribing for chronic conditions following an initial diagnosis and prescription by a doctor.

However, given that turf protection is entrenched in the various health workforces and the minimal success of earlier forays into workforce reform of this nature, it is not surprising that the Government has yet to respond to the NCoA’s suggestions.

Budget measures: nursing and allied workforce
The Budget provides funding of $13.4 million over three years to fund 500 additional nursing and allied health scholarships. The scholarships will be valued up to $30,000 each and will target workforce shortages in rural and remote areas. At the same time, it should be noted that the Government cancelled a Tasmanian nursing and

460. S Duckett and P Breadon, Access all areas: new solutions for GP shortages in rural areas, Grattan Institute, September 2013, accessed 16 May 2014.
allied health scholarships measure to achieve savings of $9.9 million over four years. According to the budget papers, savings from the Tasmanian scheme will be invested in the Medical Research Future fund to be created under another budget measure. It could be argued therefore that in effect, new investment in the nursing and allied workforces amounts to only $3.5 million over three years.

Nonetheless, the new scholarships were welcomed by the Australian College of Nursing as a measure which will be able to attract nurses to work in rural health services and provide professional development support for of those nurses already practicing in rural settings.\(^{464}\)

The other measure directly affecting nursing in the Budget is the continuation of funding for the mental health nursing incentive program. Funding of $23.4 million has been provided for 2014–15 to maintain services at current levels. The Australian College of Mental Health Nurses has indicated that it will lobby the Government for permanent funding allocation following restructuring of the program in response to a 2013 evaluation.\(^{465}\)

**Budget measures: medical workforce**

There are a number of measures in this Budget which will affect the current and future supply of medical practitioners.

- The Budget doubles the teaching payment to general practitioners for training medical students from $100 to $200 for each three hour session delivered ($238.4 million over five years).
- Infrastructure grants for at least 175 existing rural and remote general practices is another budget measure. To be eligible for funding (capped at $300,000) under this program, which will deliver $52.5 million over three years, practices will be required to match the Government’s infrastructure contribution.
- The Budget will provide $35.4 million over two years to meet increased demand from general practitioners for incentive payments, which encourage the general practitioners to work in rural and remote areas.
- Finally, the Budget provides for 300 extra government funded general practice training places. This will increase the total number of training practices to 1,500 in 2015.

All these measures appear to have been well received by stakeholders.

**Budget measures: demise of Health Workforce Australia and GPET**

According to the budget papers, efficiencies achieved by abolishing the bureaucracy and red tape associated with GPET and HWA and consolidating the bodies within the Department of Health will be largely sufficient to fund the additional training places promised ($257.4 million over five years).

A number of stakeholders are not enthusiastic about closure of these bodies. The Australian Medical Association, for example, considers the mergers may ‘undermine the capacity to undertake essential medical workforce planning to ensure the community has access to the right number of doctors in the right places’.\(^{466}\)

These concerns are not without foundation, especially in the case of HWA. Workforce planning, essential in addressing skills shortages and structural inefficiencies across the various health workforces, requires specialised skills and far-sighted thinking. HWA, an independent body with a clear mandate to build capacity, boost production and improve distribution of the health workforce, has produced research and trialled initiatives calculated to achieve these aims. To what extent a government department will be able to deliver independent analysis in these areas remains to be seen.


\(^{466}\) A Rollins, ‘*Health care on the frontline of painful budget cuts*’, *Australian Medicine*, 13 May 2014, accessed 16 May 2014.
Medicare
Amanda Biggs

The Budget contains a number of significant changes to Medicare Benefit Schedule (MBS) arrangements which the Government says are needed to strengthen and improve the sustainability of Medicare. These include the introduction of a patient co-payment, a reduced Medicare rebate for MBS services and a pause in indexation for others, changes to MBS optometry items, and new Medicare safety net arrangements. Adjustments to the Medicare levy low income thresholds will also be made.

Patient co-payment

A $7 patient co-payment on bulk-billed general practice (GP) visits, and out-of-hospital pathology and diagnostic imaging services, will apply from 1 July 2015. In addition, the MBS rebate for these services will be cut by $5, regardless of whether they are bulk billed.\(^{467}\) For concession card holders and children under 16, the rebate reduction will only apply for the first 10 visits a year, after which the full MBS rebate will apply.\(^{468}\) Certain MBS services, such as Health Assessments and Chronic Disease Management items will be quarantined from the co-payment. Savings of $3.5 billion over five years will be used to fund a new Medical Research Future Fund.

The imposition of the co-payment is to ensure all patients contribute to the cost of their health care.

Under current Medicare arrangements doctors are free set their own fees, but those who choose to bulk bill accept the MBS rebate as full payment for the service and cannot charge a co-payment. The rebate for out-of-hospital services is 85 per cent of the Medicare Schedule Fee, but GP services attract a 100 per cent rebate.\(^{469}\) Under this measure, doctors will have the discretion to charge a co-payment of $7 for bulk billed and other services, but their Medicare rebate will also be reduced by $5. This means they will be worse off each time they bulk bill unless they impose the co-payment.

A new Low Gap Incentive payment will replace current bulk billing incentives. Doctors will receive the incentive payment if they only charge concession card holders and children the $7 patient co-payment for their first ten visits. They will then receive an incentive payment if they waive the patient co-payment after ten visits.

The Government will also seek to remove the restriction on charging patients who visit public hospital emergency departments (EDs), so that patients don’t present to EDs for free treatment and shift costs onto state governments. This will require a redrafting of the hospital funding agreement with states and territories.

A $2.50 patient co-payment for GP services and lower MBS rebate was also imposed in 1991, but was short-lived. The imposition of a $6 co-payment was recommended by a former Coalition adviser Terry Barnes late last year.\(^{470}\) A $15 co-payment was recommended by the Commission of Audit.\(^{471}\)

Reaction

Stakeholder reaction has been generally negative. The Australian Medical Association expressed concern that patients will face higher out-of-pocket costs, and access to primary care will become more difficult. They are also worried about additional red tape on doctors.\(^{472}\) The Royal Australian College of General Practitioners warns it will lead to a two tier health system, where vulnerable patients will be disadvantaged.\(^{473}\) The Consumer’s Health Forum says that it ‘shatters the notion of universal access to primary care under Medicare’.\(^{474}\)

Legislative change will be needed but it may face defeat in the Senate with Labor and the Greens already indicating opposition.\(^{475}\)

\(^{467}\) 83.6 per cent of GP visits are bulk billed. Department of Health, ‘Quarterly Medicare statistics: March quarter 2007 to March quarter 2014’, Table 1.4, accessed 14 May 2014.


\(^{469}\) The rebate for a standard GP visit is $36.30.


\(^{471}\) National Commission of Audit, Towards responsible government: phase one, February 2014, Recommendation 17.


\(^{473}\) Royal Australian College of General Practitioners, ‘$7 co-payment widens the gap to accessible healthcare’, media release, 13 May 2014, accessed 14 May 2014.

\(^{474}\) Consumers Health Forum, ‘$8.5 billion ripped out of health care’ media release, 13 May 2014, accessed 14 May 2014.

**Medicare safety net**

To help patients with high out-of-pocket medical costs two safety nets currently operate: the Original Medicare Safety Net and the Extended Medicare Safety Net (EMSN). Broadly, these provide higher Medicare rebates to patients once an annual threshold of out-of-pocket spending is exceeded, with lower thresholds for concessional patients. The Greatest Permissible Gap, which is the difference between the Medicare Schedule fee and the rebate, also moderates high costs. The budget announced these arrangements will be simplified through the introduction of a single Medicare Safety Net (with lower thresholds for concessional patients). Savings of $266.7 million over five years will be used to fund the Medical Research Future Fund.476

From 1 January 2016, new safety net thresholds of $400 for concessional patients, $700 for general singles and Family Tax Benefit Part A families and $1,000 for general families, will apply. Once out-of-pocket spending exceeds these thresholds Medicare will reimburse patients 80 per cent of their out-of-pocket spending for the rest of the calendar year. However, the total benefit for each MBS item will be capped at 150 per cent of the MBS schedule fee.

This will also replace the current EMSN capping arrangements. Out-of-pocket spending related to the new patient co-payment will not count towards the thresholds.

**Other savings**

Savings of $99.2 million over the forward estimates will also be achieved by lowering the MBS rebate for optometry services (from 85 to 80 per cent of the Schedule fee), and removing a charging cap. The time period for Medicare rebatable eye examinations will also be extended from two to three years for asymptomatic people under 65, and reduced from two to one year for those over 65.477

Annual indexation of some MBS fees will be paused for two years from 1 July 2014. Indexation of GP fees will be quarantined from the pause. Indexation of the income tier thresholds that are used to calculate the Medicare Levy Surcharge (a surcharge on high income earners who decline to purchase private hospital cover) and the means-tested Private Health Insurance Rebate will also apply from 1 July 2015. Savings of $1.7 billion are forecast over five years.478

**Medicare Levy Low Income Thresholds**

Consistent with previous annual increases, the Medicare Levy low income thresholds for families will be increased in line with movements in the Consumer Price Index (CPI). Below the Medicare Levy Low Income Threshold, no Medicare levy is imposed. For the 2013–14 income year the threshold for couples with no children will rise to $34,367 and for each dependent child or student it will rise by $3,156.479

The increases will only apply to families and couples as the thresholds for pensioners and individuals have already been increased by more than the CPI. The cost to revenue is forecast to be $48.0 million over the forward estimates.

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477. Ibid., p. 133 and p. 135.
478. Ibid., p. 139.
Pharmaceutical Benefits Scheme
Leah Ferris

As part of its goal to ‘put health spending growth on a sustainable path’, the Government has announced changes to the Pharmaceutical Benefits Scheme (the PBS) which will increase the amount that consumers pay for medicines. By increasing both the co-payment and the safety net, the Government will achieve savings of $1.3 billion over four years.

Under the PBS, the Government subsidises the cost of those medicines that are considered suitable for listing on the PBS Schedule. When a consumer purchases the drug at a pharmacy, they are required to pay a co-payment (currently up to $36.90 for most PBS medicines or $6.00 for those people who have a concession card). If the cost of the medicine is higher than the co-payment, the Government pays the remainder. The co-payment is intended to act as a contribution to the overall cost of the PBS. The amount of the co-payment is adjusted on 1 January each year in line with the Consumer Price Index (CPI). From 1 January 2015, in addition to the CPI increase, the co-payment for general patients will increase by $5.00 (to $42.70) and the co-payment for concessional card holders will increase by $0.80 (to $6.90).

There will also be an increase in the PBS safety net thresholds. The PBS Safety Net is aimed at protecting patients who require large quantities of medicines by reducing the cost of their medicines once they reach a threshold. The safety net for general patients will increase by 10 per cent per year for a period of four years in addition to the CPI indexation (beginning 1 January 2015). Currently the safety net is $1,421.20 per person/family. When a patient or their family’s total expenditure reaches this amount, they then pay the concessional amount for the rest of that year. Concessional patients currently have a safety net of 60 PBS prescriptions (or $360.00). Once they go over this limit PBS medicines are free for the rest of the year. For concessional patients there will be an increase of two prescriptions per year for a period of four years (beginning 1 January 2015). It remains the responsibility of consumers to keep a record of their PBS medicine costs on a Prescription Record Form in order to qualify for the safety net.

In introducing the increased patient contributions, the Government has included a commitment that all savings will be invested in the new $20 billion Medical Research Future Fund. Medicines Australia has shown enthusiastic support for this proposal. However, the Government has stated that increased patient contributions will keep the PBS sustainable and allow for new medicines to be listed. It is unclear how this will occur if all savings are to be invested in the Fund.

This is not the first time that the PBS co-payments or the safety net have been increased, with the latest changes occurring during the Howard Government. From 1 January 2005, patient co-payments increased by 21 per cent. In the 2005–06 Budget, the Government announced that both general and concessional safety nets would increase annually from 1 January 2006 to 1 January 2009. Despite having criticised the increases while in Opposition, this increase was retained under the Rudd Government.

The underlying issue with price increases is the impact it has on consumer’s access to medicines. Australia’s co-payments are already fairly high and recent statistics show that people are already deferring filling their prescriptions because of the cost, especially in disadvantaged areas. Not only does this significantly impact...

483. Ibid.
490. Ibid., p. 5.
the health of the individuals themselves, it also leads to higher healthcare costs due to increased hospitalisations. Increases to both co-payments and the safety net mean that not only are consumers required to pay a higher cost before the safety net applies; the period for which they are covered by the safety net is significantly shorter or in some cases non-existent. This particularly affects concessional card holders, who account for 78.5 per cent of the Government’s PBS expenditure. If the cost of medicines continues to increase, some Australians will no longer have timely access to the medicines they need at a cost they can afford to pay—one of the core components of the National Medicines Policy.

The Consumer Health Forum (CHF) has expressed great concern over the growing out-of-pocket costs that Australian pay for health care. Both the CHF and the Pharmacy Guild of Australia have criticised the increase in the cost of medicines for consumers and have argued that it will particularly affect the elderly in light of other social security changes. However Medicines Australia and Generic Medicines in Australia have welcomed the changes as a way of making the PBS more sustainable.

Both of the increase in co-payments and the increase in the safety net were discussed by the National Commission of Audit (the Commission) in its report into Government expenditure. While the Commission recommended that the co-payment for general patients be increased by $5.00, it did not recommend any changes to the concessional co-payment. Its view on the safety net was also different, with general patients to pay $11.00 as opposed to $6.00 once they hit the threshold and concession card holders to co-contribute $2.00 to the cost of their medicines once the threshold had been met.

Industry groups are no doubt relieved that the Government has so far chosen to not implement some of the more significant changes proposed by the Commission. These included capping the cost of the PBS to control expenditure, establishing a new independent authority which would take over the role of the Pharmaceutical Benefits Advisory Committee, and opening up the pharmacy sector to competition, including through the deregulation of ownership and location rules. While these reforms would have resulted in significant savings to the PBS, they would have been strongly opposed by industry stakeholders.

Phillip Clarke has argued that the Government would have saved significantly more by changes to pricing arrangements, including reducing the cost of generic medicines. He states that it will be ‘consumers, particularly those with chronic diseases, rather than the pharmaceutical industry or pharmacists that will feel the pain from these budget measures’. While the changes to the co-payments and the safety net will achieve savings of $1.3 billion over four years, this is fairly insignificant when compared with the total cost of PBS expenditure (in 2012–13 it was $9.0 billion).
**Sport**

Dr Rhonda Jolly

**Commonwealth Games funding**

When in Opposition the Prime Minister was reported to have promised Gold Coast Mayor Tom Tate, $100.0 million in funding towards the 2018 Commonwealth Games.\(^{505}\) This Budget delivers on that commitment and more. The Government will provide $156.0 million to the Queensland Government in immediate support for infrastructure projects for the Games.\(^{506}\) In addition, the Government has noted that $2.5 million will be allocated from existing resources in the Department of Health, the Attorney General’s Department and the Department of Immigration and Border Protection to support co-ordinated planning for the Games.

The *Gold Coast Bulletin* was not entirely satisfied with the Budget, however, calling the funding a ‘mixed bag’ as forward estimates indicate there are no plans to commit any further funding to the Games.\(^{507}\)

In confirming there would be no further direct cash contributions Federal Parliamentary Secretary to the Treasurer, Steven Ciobo, emphasised that the funding was more than the federal government had allocated to the 2006 Melbourne Games. He added that the Games are traditionally funded predominantly by state governments, ‘and that will continue to be the case in Queensland’.\(^{508}\)

**Redirected funding**

The Government will move some functions of the Australian Sports Commission (ASC) to the Department of Health and streamline the ASC’s dealings with National Sporting Organisations with the intention of achieving savings of $22.8 million over four years. The redirection of funding is intended to allow the ASC ‘to focus on its core business of sports participation and high performance sport’.\(^{509}\)

This announcement is in keeping with the new role allocated to the Australian Institute of Sport (AIS) under the ASC’s new high performance strategy, *Australia’s Winning Edge 2012–2022*. The AIS has moved from direct program delivery to act as a strategic high performance sport agency. Its responsibility is to assist National Sporting Organisations to achieve sporting success against their individual plans.\(^{510}\)

**Funding for participation**

The Sporting Schools Initiative will provide $100.3 million over three years for schools to run activities across 35 major sports throughout the school year. The Sporting Schools Initiative will replace the Active after Schools communities program which has been running since 2005.

The new initiative, which will directly link schools with sporting clubs, is expected to provide more access for children to activities than the program it is to replace. The Government predicts around 850,000 children in over 5,000 primary schools and 80 secondary schools will participate in the program.

Teachers will be able to access a range of training guides and coaching courses under the program and it is expected that program grants will be worth on average $1,700 each.\(^{511}\)

John Wylie, Chair of the ASC, which will administer the new program, considered it will ‘provide more young Australians than ever before with the opportunity to participate in a range of sports while at school’ and ‘foster a greater connection for Australia children with sport’; one that Wylie hoped would also provide a lifelong love of sport.\(^{512}\)

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Funding gains and possible losses

The Budget contains good news for one sports-related program that is working towards breaking what is increasingly being seen as an unhealthy link between alcohol and sport in Australia.

The Government will continue to fund the Good Sports Programme, which is administered by the Australian Drug Foundation (ADF), under a measure that provides $19.0 million over four years. The Good Sports initiative has been able to reach over 1.8 million Australians in 6,500 sports clubs with its alcohol management program. The ADF calculates that the continuing government funding will help it to extend its reach to three million people. Success of the program and potential for its expansion is indicated by a recent poll conducted by the Foundation which found that 87 per cent of those questioned would be more likely to choose a sports club or code for their child if it manages alcohol responsibly.

Conversely, a Government decision as a result of a recommendation by the National Commission of Audit may see the closure of a similar program. The decision to transfer essential functions of the Australian National Preventive Health Agency (ANPHA) to the Department of Health, with a view to closing the Agency, has meant that there are questions surrounding whether there will be future funding allocated for the Be the Influence – Tackling Binge Drinking program, and from where that funding will be sourced.

Under this program, introduced by the previous government, 16 national sporting organisations receive support to reduce the exposure of young people to alcohol imagery and branding and reduce the links between alcohol and sporting activities where young people are involved. Organisations funded include Football Federation Australia, Netball Australia and Swimming Australia. Australian Sponsorship News noted in an article speculating on the future of the program that while some of the higher profile sports sponsored are likely to gain replacement sponsorship relatively easily if government funding is discontinued, others may struggle. Prior to the budget a spokesperson for one of the sponsored organisations maintained that not only would the loss of funding from the ANPHA be devastating, it would also be a ‘regressive step’ which would damage sports and communities.

There is, however, as yet no clear indication of what may happen to programs funded under the Be the Influence umbrella.

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Other health measures
Dr Rhonda Jolly and Amanda Biggs

E health

Since the 1990s, e health has been increasingly seen by most developed countries as central to the provision of current and future high quality, patient-centred care. Electronic health records, in turn, are considered the cornerstone of e health development.

In seeking to advance the e health agenda at a national level the Rudd Government allocated $466.7 million specifically for the purpose of creating a personally controlled electronic health record (PCEHR) for Australians who chose to ‘opt in’. The PCEHR has been plagued, however, by development problems and criticised by numerous stakeholders since it was first announced in the 2010–11 Budget.

In Opposition the Coalition also criticised Labor’s approach to the introduction of electronic health records. Hence, soon after it took power in 2013 the new Health Minister, Peter Dutton, announced a review of the PCEHR. The review, chaired by the head of Uniting Care Health Queensland, Richard Royle, was given the task of investigating some of the problems associated with the PCEHR. Of particular interest were issues surrounding clinician and patient useability. The review was also tasked with considering what incentives could be employed to encourage people to register and use the PCEHR system.

The Review reported to Minister Dutton in December 2013 with what the Minister considered was ‘a comprehensive plan’ for the future of electronic health records. The Minister did not publish the report, however, which prompted some stakeholders to apply, unsuccessfully, under freedom of information for its release. The report was released by the Minister on 19 May 2014.

This budget has provided funding of $140.6 million for one year to allow for the continued operation of the PCEHR, while the Government ‘finalises its response’ to the Royle Review. What responses there have been to the budget announcement have been almost indifferent and can be summarised in the response from David More, long-time critic of the manner in which the PCEHR project has been conducted. More wrote that the announcement simply indicated that the Government ‘just couldn’t decide what to do’ about the PCEHR.

Another view was more sympathetic to the dilemmas the Government faces with regards to the PCEHR:

... we are seeing a similar situation to the Coalition’s dilemma with regards to Labor’s National Broadband Network project. No Coalition Government would organically decide to throw half a billion dollars at an electronic health records project. However, as Labor has already spent that money, and as the project has some legs, it appears the Coalition does not yet feel it can cancel it wholesale just yet.

Ovum public sector research director Kevin Noonan was more positive. Noonan noted that although the PCEHR has a troubled past, the Government ‘is still committed to the concept’.

It appears the year’s respite for the PCEHR is intended to give the Government time to decide exactly how that commitment will be refined and transferred into policy directions.

Primary Health Networks

From 1 July 2015, Medicare Locals (ML) will be replaced with a smaller number of larger Primary Health Networks (PHNs). PHNs will establish new clinical councils with general practitioner representation, as well as
local consumer advisory committees. Their role will be to improve patient outcomes by improving the coordination of primary care and acute care services across defined geographic areas. The measure is to be funded from existing Departmental resources.

Currently 61 MLs operate, most as incorporated entities. MLs were established as one of the key reforms under the National Health Reform Agreement (NHRA) in 2011. Their initial focus was to expand GP after hours services.

The Coalition’s election policy included a commitment to review the ML program to ensure funding was being directed to frontline services. Late in the campaign Mr Abbott also pledged none would close. Former Chief Medical Officer John Horvath undertook the review which was provided to Government in March 2014, but not publicly released until the eve of the budget.

The review reported a range of shortcomings with some MLs, but found others performing well. An accompanying audit found no significant financial performance issues. The review was critical of MLs that had not engaged effectively with local stakeholders or had duplicated existing services when developing expanded GP after hours services. It found MLs’ reporting requirements often burdensome and complex and criticised the amount of funding that was being devoted to administration. Patients were confused by the name as shown by repeated attempts to lodge Medicare claims with MLs. However, the review accepted the ongoing need for primary care organisations to support better integrated and coordinated primary care. As well as a name change, the review recommended the number of MLs be reduced and replaced by a smaller number of higher performing regional primary care organisations with clinical councils and community based advisory committees. It also recommended the abolition of the national peak body, the Australian Medicare Locals Alliance (AMLA).

The Government’s budget measure broadly implements the review’s recommendations. Funding for the AMLA will cease on 30 June 2014, and its functions transferred to the Department of Health. Funding for all existing MLs will cease on 30 June 2015. New PHNs will be selected by a competitive tender process with boundaries aligned with those of Local Hospital Networks. PHNs will purchase services but not directly provide services unless there is demonstrable market failure. As there will be fewer PHNs operating, job losses may occur. A review of GP after hours services will be conducted, although details are not yet forthcoming.

Implementation will require consultation with the states and territories and hospitals, professional bodies and other stakeholder groups.

Reaction to the measure has been mixed. The AMLA describes replacing MLs with PHNs as re-inventing the wheel and a waste of taxpayer’s money. The Australian Healthcare and Hospitals Association cautiously endorsed the review’s recommendations, but warned that ‘it will be critical for the replacement organisations to maintain an appropriate connection’ to their local communities and for responsibility for population level health planning tasks to be clearly assigned. Former Chair of the National Health and Hospitals Reform Commission, and current Dean of Medicine at the University of Notre Dame, Christine Bennett, is reported to support the measure.

Health Flexible Funds

Some $197.1 million in savings over three years will be achieved through pausing indexation of Health Flexible Funds—which provide grants across a range of priority areas—and reducing uncommitted funds from 2015-16. Flexible Funds were established in 2011, when the previous 159 separate grant programs were consolidated into 18 funds; 16 now remain. Among others, these fund grants in chronic disease prevention, communicable disease prevention, substance misuse, primary care, rural health, Aboriginal and Torres Strait

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Islander health, health system capacity and quality use of diagnostics and therapeutics. Savings will be invested in the proposed Medical Research Future Fund.

Expanded/new commitments

A number of new and expanded commitments were announced in the Budget. Of note is the accelerated expansion of the bowel cancer screening programme at a cost of $95.9 million over four years, to fund biennial screening for all those aged 50 to 74 by 2019–20. Additional funding of $200.0 million over five years is provided for dementia research, and ten new headspace centres (youth-friendly community based mental health services) will be established at a cost of $14.9 million over four years. All were election commitments.

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535. Ibid., p. 129.
536. Ibid., p. 126 and p. 130.
Migration and humanitarian programs
Janet Phillips and Elibritt Karlsen

Australia has two formal programs in place to facilitate the arrival of permanent migrants—the Migration Program for skilled and family entrants and the Humanitarian Program for refugees and those in refugee-like situations. For many years the Australian Government has announced the number of places it intends to allocate each year for permanent migrants under these programs during the Budget process. The 2014–15 Budget has made no change to the planned intakes in either program. However, some services traditionally housed within the Immigration Portfolio have been re-located to other portfolios and the previous six Immigration Portfolio outcomes have been collapsed to three, making it difficult to compare funding levels with previous budgets for certain programs.

Migration program

In the 2012–13 Budget, the planned intake under the Migration Program was increased to 190,000 places—the highest level on record. Migration Program places announced in this year’s Budget will be maintained at this same level and the planning figures will retain the same composition as last year with 128,550 skilled stream, 60,885 family stream and 565 special eligibility places.537

As expected, the additional 4,000 family stream places allocated by the previous Government specifically for family members of protection visa holders, a recommendation made by the Expert Panel on Asylum Seekers in August 2012, will be reversed.538 The Budget Measures: Budget Paper No. 2: 2014–15 states that this measure, together with a cessation of new applications for the non-contributory parent category, will achieve savings of $305.2 million over five years and enable faster processing of existing applications.539 Within the family stream, places for the contributory parent category have increased by 500 and places for partners and children have increased by 335.540

Changes to administrative arrangements have significantly altered the composition of the Immigration and Border Protection Portfolio, as reflected in the new reporting arrangements in this Budget. For example, the Coalition Government made the decision not to proceed with the Building Multicultural Communities Program and moved responsibility for both multicultural affairs and settlement services for migrants and refugees from the Immigration Department to the Department of Social Services under Program 2.1 Families and Communities.541 Most, but not all, of the previous settlement programs have moved into the ‘Settlement Services’ component of the Families and Communities program and multicultural services has been incorporated with other services into the ‘Strengthening Communities’ component of the program, making it difficult to compare funding levels from previous years.542 In last year’s Budget, additional funding was allocated in the Immigration and Citizenship Portfolio (under Outcome 5: Settlement Services for Migrants and Refugees) in anticipation of increased demand for services due to the implementation of some of the recommendations from the Report of the Expert Panel on Asylum Seekers.543 Presumably this additional funding will no longer be required. However, in this year’s Budget one of the most costly of the settlement services, the Adult Migrant English Program (AMEP), has been moved to the Department of Industry and clearly identified—$236.0 million has been allocated for 2014–15.

538. The additional places were identified in the Mid-Year Economic and Fiscal Outlook 2012–13, but were never formally accounted for in total program numbers by the previous Government. They were counted separately in the Department of Immigration and Citizenship’s Annual Report 2012–13, p. 63, accessed 14 May 2014. See W Swan (Treasurer) and P Wong (Minister for Finance and Deregulation), Mid-year economic fiscal outlook 2012–13; and Expert Panel on Asylum Seekers, Report of the Expert Panel on Asylum Seekers, Canberra, August 2012, accessed 15 May 2014.
539. For many years contributory parent visas have been allocated higher processing priority and more places than non-contributory visas. As a result, non-contributory visa applicants have experienced significantly long waiting times—currently around 13 years.
540. S Morrison (Minister for Immigration and Border Protection), Budget 2014: Boosting the economy through Australia’s migration programme, media release, 13 May 2014, accessed 15 May 2014.
542. Many stakeholders have been critical of the changes. See for example, Refugee Council of Australia, Settlement policies: where to from here, Background paper, National Settlement Policy Network (SPN), 2 October 2013, accessed 15 May 2014.
543. In particular, the decision to increase the number of places to 20,000 was expected to impact on several service providers such as the Adult Migrant English Program (AMEP), Humanitarian Settlement Services (HSS) and Translating and Interpreting Services (TIS).
Also included in this Budget is $1.3 million over four years to extend access to streamlined visa processing arrangements for students enrolled in advanced diploma level Vocational Education and Training (VET) courses at eligible TAFEs and other education providers (these arrangements have been available to students at certain universities since March 2012). In addition, the Offshore Biometrics program is to be expanded creating savings of $18.6 million over four years (by outsourcing to service delivery partners and introducing more user-pays arrangements) and the Outreach Officer program will cease, creating savings of $11.2 million over four years according to this year’s Budget.

**Humanitarian program**

The Humanitarian Program is comprised of an onshore and offshore component. The offshore component is further divided into two categories: the Refugee category (UNHCR-referred) and the Special Humanitarian Program (SHP) category (for those subject to substantial discrimination). The onshore component provides protection to onshore refugees. Onshore refugees offered temporary humanitarian visas, including unauthorised air and sea arrivals, are not counted under this program.

Since 1995–96, Humanitarian Program planning levels have hovered between 12,000 and 13,750 places. However, in line with the recommendations of the Expert Panel on Asylum Seekers, the former Government increased the Program by more than 30 per cent to 20,000 in 2012–13, allocating a minimum of 12,000 places to offshore refugee resettlement.\(^5\)

The new Government has returned the Humanitarian Program intake to 13,750 and the 2014–15 Budget maintains the Humanitarian Program intake at 2013–14 levels—that is 13,750 and not 20,000.\(^5\) Of these, about 4,000 will be reserved for SHP entrants, and about 7,000 will be reserved for resettled offshore refugees. Though the onshore component is yet to be determined by the Government, it appears it is likely to be set at around 2,750.

Though the Government has only slightly increased the number of offshore refugees it will accept this financial year (an additional 1,000 on previous years) it has substantially increased the number of SHP entrants it will accept to enable humanitarian entrants to be re-united with family members. Under the former Government, the number of places available under the SHP fell as low as 503 in 2012–13 as more visa grants went to onshore refugees, including those that had arrived by sea. However, despite a significant backlog in people waiting for family reunion, the Government has decided to remove the additional 4,000 places in the family stream allocated by the previous Government.\(^5\)

The Government will also provide an additional $27.3 million over two years for the supervision and welfare of children who arrive in Australia without a parent or guardian and who have been granted a humanitarian visa. This may be linked to the Government’s recent decision to give lowest processing priority to children holding protection visas (who arrived irregularly by boat) that are seeking to be reunited with family under the SHP. In addition, family members of such children will need to show that they have humanitarian claims in their own right, which at the Department’s own admission, will make it more difficult for them to be eligible for an SHP visa.\(^5\)

\(^5\) J Gillard (Prime Minister) and C Bowen (Minister for Immigration and Citizenship), *Refugee program increased to 20,000 places*, media release, 23 August 2012, accessed 14 May 2013.

\(^5\) S Morrison (Minister for Immigration and Border Protection), *Budget 2014: 20,000 places for those most in need of protection*, media release, 13 May 2014, accessed 14 May 2014.


Responding to unauthorised arrivals

Harriet Spinks

Costs associated with the detention and processing of irregular maritime arrivals (IMAs) have been a hot topic in both public and political debate in recent years, with budgeted expenditure increasing exponentially, from $304.3 million in 2009–10 to over $3 billion in 2013–14. One of the Coalition’s key election promises was to ‘stop the boats’ and, as a consequence, put a stop to what it described as a ‘budget blowout’ in this area. The Budget appears to have delivered on this promise, with the Government announcing that it will reduce spending on IMAs by $2.5 billion over the forward estimates, and save more than $280 million by closing a total of nine immigration detention facilities. There have been no IMAs transferred to immigration authorities since December 2013, although several vessels have been intercepted and turned back to Indonesia.

In 2014–15, the Department of Immigration and Border Protection’s outcomes and programs have been restructured, making a year to year comparison of funding more difficult than in previous years. Previously, all spending on IMAs, whether they were in Australia or transferred offshore, was contained in a single program (Program 4.3). In 2014–15 the same funding has been divided across four programs, two each (one departmental funding and one administered) for managing IMAs onshore (in Australia), and managing them offshore (in Regional Processing Countries). When looked at together, total spending on IMAs, both onshore and offshore, is expected to decline from $3.1 billion in 2013–14 to $2.7 billion in 2014–15, with even more significant reductions anticipated over the forward estimates. By 2017–18 the Government expects spending on IMAs to come down to $1 billion, which is the level it was at in 2011–12.

It is interesting to note that the majority of funding for IMAs is budgeted to be spent onshore, rather than offshore—$1.5 billion onshore in 2014–15 compared to $826.7 million offshore. This is despite the fact that offshore processing is more expensive on a per person basis than onshore detention and processing. The higher level of spending on onshore IMAs likely reflects the fact that there are substantially more IMAs in Australia than there are at offshore processing centres, including some 30,000 who arrived prior to the introduction of offshore processing and who are not subject to transfer offshore. Some funding has been specifically allocated to manage this caseload of people—$149.9 million over five years for reforms to compliance and removal capability, and $574.1 million over five years for support services and mutual obligation arrangements.

However, even by 2017–18 the Government anticipates spending more on onshore IMA management than it does on offshore IMA management—$649.9 million compared to $389.8 million. Under the terms of the agreements with Nauru and Papua New Guinea for the transfer and settlement of asylum seekers to those countries, the Australian Government will be responsible for assisting those countries with the costs of settling successful asylum seekers. It might therefore be expected that the costs of offshore IMA management would be higher than those of onshore IMA management into the future, given that the onshore numbers are expected to decline (as more people are either processed out of the onshore network or transferred offshore, and new arrivals are expected to remain at zero).

Also of interest is that, while the Government has claimed success in stopping the boats, it appears to be envisaging the continued presence of asylum seekers on Christmas Island into the near future, as it is planning on spending $217.6 million over five years to upgrade essential infrastructure on Christmas Island to support the transfer of asylum seekers to regional processing centres within 48 hours. This measure will also include funding for health infrastructure to reduce the need to transfer people to the mainland for the assessment and

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555. Ibid., p. 159.
treatment of health issues. A total of $2.6 million will also be spent in 2014–15 to fund access to full time school education for asylum seeker children on Christmas Island.  

While the savings announced in this Budget are largely the result of the dramatic reduction in IMAs, with no further arrivals anticipated, some savings—$77.5 million over five years—will also be achieved by renegotiating and consolidating contacts with service providers at offshore processing centres. The Government’s desire to reduce the cost of offshore processing in this way is understandable, as offshore processing is expensive. The report of the Commission of Audit found that the annual cost of detaining a person in an offshore processing centre was around twice that of holding a person in detention onshore, and more than three times the cost of community detention. While the Commission made no recommendations in relation to offshore detention and processing, it did suggest that savings could be made in the onshore detention network by renegotiating and consolidating contracts with service providers, and ‘in some cases, reduction in services to people in detention.’ While it has not been made explicit, it is possible that the renegotiation of contracts with service providers in offshore detention centres will include some reduction in the level of service provided to the people held in those centres, which could have potentially significant consequences for both asylum seekers and staff.

The past several years have shown that predicting expenditure on IMAs is notoriously difficult, as numbers of arrivals fluctuate, and new policy measures in detention and processing arrangements have had significant budgetary impacts. The Coalition promised it would massively reduce costs in this area, which it appears to have done in its first budget. It remains to be seen whether it can continue to keep costs down in this difficult, expensive and often unpredictable policy area.

556. Ibid., p. 152.
557. Ibid., p. 155.
559. Ibid., p. 197.
Counter-people smuggling measures
Cat Barker

The Coalition went into the 2013 Federal Election with two key policies relevant to countering people smuggling—establishment of Operation Sovereign Borders (OSB), a ‘military-led response to combat people smuggling and protect our borders’, and a regional deterrence framework.560 Most of the funding to implement those policies was included in the Mid-Year Economic and Fiscal Outlook 2013–14 (MYEFO). The 2014–15 Budget supplements the MYEFO, mainly by providing further funding for existing measures due to expire.

Regional deterrence and cooperation

The MYEFO contained $66.8 million (including $4.3 million in capital funding) from 2013–14 to 2015–16 for law enforcement and intelligence agencies to ‘work domestically and with regional partners to combat the operations of people smugglers’ through increased intelligence gathering, disruptions and joint policing operations.561 The bulk of the funding will go to the Australian Federal Police (AFP) ($38.0 million) and the Australian Secret Intelligence Service ($26.8 million). Both agencies received additional funding for these activities in the 2009–10 and 2011–12 Budgets, with the AFP also allocated a small amount in the 2013–14 Budget.562 The Australian Security Intelligence Organisation has been allocated $1.4 million and the Australian Crime Commission $0.5 million. The Australian Signals Directorate will also contribute to this measure, but will do so from existing resources. The relevant election policy indicates the AFP’s involvement at least will be focused on Indonesia, Malaysia and Sri Lanka.563 This measure will have been affected by Indonesia’s decision in November 2013 to suspend cooperation with Australia on people smuggling issues.564

A further $40.9 million from 2013–14 to 2015–16 (including capital funding of $4.4 million) was included in the MYEFO for the Department of Immigration and Border Protection to help countries in the region ‘detect and disrupt irregular movements of people from source and transit countries and reduce the flow of potential illegal immigrants to Australia’. The relevant election policy indicates the Government will work with other countries to identify high-risk travellers at an early stage, accelerate work underway through the Bali Process Regional Support Office for matching of biometric data with Indonesia and Malaysia and provide equipment, software and training to Indonesia.565

Smaller amounts of additional funding announced since the 2013–14 Budget include:

- $19.9 million over four years for community engagement and communications aimed at preventing and disrupting people smuggling activities, including in Indonesia (MYEFO)
  - Communications campaigns aimed at deterring asylum seekers from using people smugglers to reach Australia have been funded from 2009–10 onwards.566
  - The campaign outlined in the relevant election policy included a ‘capped boat buy-back scheme’ and the option of ‘bounty payments’ for information resulting in significant people smuggling disruptions or convictions.567 The Australian reported in December 2013 that funding for the measure had been ‘quietly reassigned’, with around $8.0 million allocated for a community liaison program in Indonesia and the remainder to be spent on a communications campaign focused in Afghanistan, Iran, Sri Lanka and Pakistan.568

561.  The budget figures have been taken from the following document, unless otherwise sourced: J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2013–14, 2014, accessed 14 May 2014.
563.  The Coalition’s policy for a regional deterrence framework, op. cit., p. 10.
567.  The Coalition’s policy for a regional deterrence framework, op. cit., p. 11.
• $6.4 million over two years from 2014–15 for the Department of Foreign Affairs and Trade to continue existing counter-people smuggling measures, specifically a dedicated position in Sri Lanka, the Ambassador for People Smuggling Issues and Bali Process meetings (2014–15 Budget)
• $3.7 million in 2014–15 to continue Australian Customs and Border Protection Service (Customs) officer postings in Indonesia, Malaysia and Sri Lanka to coordinate Australian Government activities to prevent maritime people smuggling (2014–15 Budget)
• $2.4 million over four years to donate two retired Bay Class vessels each to Sri Lanka (MYEFO) and Malaysia (2014–15 Budget) to be used to combat people smuggling and
• $1.0 million over two years from 2013–14 to fund the Special Envoy for OSB (2014–15 Budget, first identified in the 2013–14 Portfolio Additional Estimates Statements). 569

Maritime surveillance and interception
Additional funding announced since the 2013–14 Budget for maritime surveillance and interception includes:

• $81.2 million over four years to maintain Customs operations in Australia’s northern waters, including extending the leases on Australian Customs Vessels Triton and Ocean Protector and Reims aircraft, increasing flight hours for Dash 8 aircraft and expanding the Australian Maritime Identification System (MYEFO)
  – Additional funding towards extending leases, increasing patrols and replacing vessels has been a regular feature of budgets handed down since 2009–10. 570
• $31.6 million in 2013–14 (MYEFO) and $60.3 million in 2014–15 and 2015–16 (2014–15 Budget) to cover the net additional cost of continuing Operation Resolute, the Australian Defence Force’s (Defence) contribution to whole-of-government maritime surveillance efforts, until 2015, and expand it to include activities related to OSB  571
  – Defence was required to absorb the additional costs of this operation, which were around $10.0 million per year, in the 2011–12 to 2013–14 Budgets. 572
  – This operation targets a range of other maritime security threats.  573 However, the significant increase in the net additional cost since it was expanded at the commencement of OSB may indicate that most of the resources are currently focused on dealing with irregular maritime arrivals and
• $10.0 million from 2013–14 to 2015–16 to establish a Joint Agency Taskforce to lead OSB (MYEFO, p. 167).


Australian Border Force
Cat Barker

One of the efficiency measures recommended by the Commission of Audit was to merge the border control functions of the Department of Immigration and Border Protection (DIBP) and the Australian Customs and Border Protection Service (Customs) into a ‘single, integrated border agency’. The Commission’s recommendation rested on two grounds—that the consolidation ‘has the potential to generate significant savings’ and would provide the ‘optimal structure’ to pursue a more effective approach to border protection through ‘a series of integrated activities both beyond and within the border’. The Minister for Immigration and Border Protection announced on 9 May 2014 that the Government would adopt the Commission’s recommendation and establish the Australian Border Force (ABF) from 1 July 2015. Echoing the Commission, he stated that it would be ‘a reform measure, not simply a savings measure’.

Costs and potential savings

The 2014–15 Budget includes $480.5 million over four years (with an additional $231.4 flagged for the following two years) to consolidate Customs into the DIBP. More than half of the cost ($272.3 million over four years and $365.3 million over six) will come from existing portfolio resources, with the remainder sourced through ‘improved revenue collection … through the use of analytics and detailed data modelling, new processes for revenue collection and targeted campaigns to improve compliance’. The consolidation, combined with the transfer of other functions out of DIBP and Customs in 2013 Machinery of Government changes, is anticipated to lead to a staffing reduction of approximately 480 full-time positions (or 3.4 per cent). It appears all of these positions are expected to go during 2014–15 and mostly from DIBP, with the average staffing levels of DIBP and Customs respectively forecasted to drop by 400 and 80 (which includes the transfer of the Anti-Dumping Commission out of Customs) over the year ahead.

The Commission considered savings may be generated by ‘removing duplication, better integrating and improving operational systems and practices, reducing staff, as well as consolidating back office functions and rationalising property’. The Government has not published detailed costings, but has claimed that the measure will produce ‘hundreds of millions in savings’ that it will re-invest into the ABF.

New structure

During 2014–15, a series of reforms and capability improvements will be implemented in Customs. Customs will then be abolished on 1 July 2015, leaving the DIBP and, within it, the ABF. While the ABF will be headed by a Commissioner who will report directly to the Minister, it will not be a standalone agency, and there will be ‘a reporting link’ to the Secretary of DIBP for administrative purposes. The ABF will bring together frontline staff from Australia’s air and sea ports; those working in immigration or customs investigations, compliance and enforcement; management of detention facilities and removal activities; and staff working in operational roles overseas. All corporate services and policy functions will sit within DIBP. Visa and trade service functions will be undertaken by DIBP, but consideration will be given to moving them across to the ABF at a later stage.

Creation of a single Australian border agency was previously rejected by the 2008 Review of Homeland and Border Security. Only the summary and conclusions of the report are publicly available, so it is not possible to compare the ABF with any particular model that may have been considered. However, the document notes that the temptation to create new organisations or merge existing ones to address evolving security threats carries several risks. One such risk is that other service delivery, policy, program and regulatory functions of some of the
agencies concerned could be jeopardised by restructuring them around their security roles. Given the Minister’s emphasis on the ABF as a national security agency, and the breadth of the roles and functions of both DIBP and Customs, this is particularly relevant. More specifically, the review stated ‘[r]ather than bringing key border functions together in a “single border agency”, a whole-of-government strategic planning framework would better suit Australia’.

The Minister stated that the Government had studied the successes and failures of similar reforms overseas, particularly in the UK and the US, and that the ABF is ‘a hybrid of the current UK Home Office model’. The model proposed does resemble what the UK now has in place, where its Border Force, previously part of the troubled UK Border Agency, became a ‘law enforcement command’ within the Home Office in 2012. The move came after the Independent Chief Inspector of the UKBA found that border controls had been relaxed at Heathrow and other ports without ministerial permission. However, two more recent reports have highlighted continuing problems with the Border Force, with one concluding that the move was ‘expected to strengthen its capability. But there is little evidence, some 18 months later, of progress in tackling the legacy issues’. It will be important that the Government continues to heed the lessons from overseas reforms, as well as giving due weight to Australia’s particular circumstances, as this measure is implemented over the coming years.

Funded reforms
The Customs reforms funded in the 2014–15 Budget, which largely build upon reforms already underway or foreshadowed under the former Government, are:

- $98.9 million for enforcement, including establishing a Strategic Border Command (the formation of which was flagged in the Customs Blueprint for Reform 2013–18, released in June 2013) and acquisition of six vessels suitable for inshore and coastal operations
- $256.6 million for intelligence and systems, including new capabilities to support the National Border Targeting Centre (the establishment of which was a 2013–14 Budget measure)
- $70.9 million for trade and travel, including a new ‘trusted trader’ framework (also in the Blueprint for Reform 2013–18) and
- $53.6 million ‘for the consolidation, workforce measures and training, including creation of the ABF College and enhanced integrity measures’ (the latter of which form a key plank of the Blueprint for Reform 2013-18).

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584. See further C Berg, ‘Beware the Border Force fetish’, The Drum, Australian Broadcasting Corporation, 14 May 2014, accessed 15 May 2014. Only one of DIBP’s three outcomes is focused on border protection, while only one of Customs’ three programmes is focused on enforcement: Portfolio budget statements, op. cit., pp. 21, 95–6.
590. Australian Customs and Border Protection Service (Customs), Blueprint for reform 2013–18, Customs, Canberra, June 2013, pp. 27, 38, accessed 15 May 2014.
592. Blueprint for reform, op. cit., p. 36.
593. Ibid., pp. 4–7, 16–17, 26–29.
Indigenous affairs
Dr John Gardiner-Garden

The 2014–15 Budget included a significant reorganisation of Indigenous affairs and an overall funding reduction while not offering a lot of detail about either, or about the Government’s intentions with respect to some relevant National Partnerships.

The Budget foreshadowed more than 150 Indigenous programs, grants and activities being consolidated into five broad-based programs (jobs, land and the economy; children and schooling; safety and wellbeing; culture and capability; and remote Australia strategies) and funding being reduced by $534.4 million over five years.595 This is in line with the National Commission of Audit (NCoA) finding ‘too many disparate and fragmented Commonwealth Indigenous programmes’ and seeing ‘significant scope for consolidation and rationalisation.’

There is no detail regarding the consolidation and how savings will be achieved in the Budget papers, but the split across agencies is:

• $409.2 million less for the Department of the Prime Minister and Cabinet
• $121.8 million less for the Department of Health (reduction of $165.8 over the first four years then increase of $44.0 million in the fifth year)—with savings to be invested in the Medical Research Future Fund, and
• $3.5 million less for the Torres Strait Regional Authority.

Responses to these measures have included Reconciliation Australia’s call for the consolidation to ‘be informed by evidence and a proper evaluation of existing programs’ and for savings arising from the consolidation to ‘be reinvested in addressing the needs of the most vulnerable First Australians’. Reconciliation Australia has expressed particular concern about the cut to the Indigenous health budget, and questioned which programs would be affected.597

Other Indigenous affairs related budget measures include:

• Cessation of funding for the National Congress of Australia’s First Peoples resulting in savings of $15.0 million over the next three years (Department of the Prime Minister and Cabinet). This is in line with a recommendation by the NCoA that reasoned ‘it duplicates existing Indigenous representative advisory bodies’.598 Reconciliation Australia believes the Congress had been ‘a strong voice for Aboriginal and Torres Strait Islander peoples’ and that ‘ongoing Government support is necessary until a representative body for Aboriginal and Torres Strait Islander peoples is well established and self-sustainable’.599

• Reducing by $9.5 million over the next three years the allocation for Indigenous languages support (Attorney-General’s Department)—discussed further in ‘Arts and Culture’.

• New expenditures in the Department of the Prime Minister and Cabinet portfolio include:

  • $54.1 million over the next four years for police stations to be built in seven remote Indigenous communities in Queensland, Western Australia (WA) and South Australia
  • $18.1 million (to be met from within existing resources) for the continuation and extension of the Remote School Attendance Strategy
  • $13.4 million dollars over the next four years to provide 3,000 additional places for Indigenous boys in the Clontarf Foundation Academy sports program
  • $10.6 million over four years to service up to 250 existing renewable energy systems in remote Indigenous communities in Queensland, WA and the Northern Territory (NT) and
  • $2.5 million over four year to engage Community Engagement Police Officers in the NT.

595. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2014–15, 2014, accessed 16 May 2014.
597. Reconciliation Australia, Budget a mixed bag for reconciliation, media release, 14 May 2014, accessed 16 May 2014.
598. National Commission of Audit, phase one, op. cit., p. 175, accessed 16 May 2014.
599. Reconciliation Australia, op. cit.
Additional funding in the Department of Education portfolio includes:

• $6.8 million in 2014–15 for non-government schools with more than 50 Indigenous boarding students from remote or very remote areas or where 50 per cent of boarding students are Indigenous students from remote or very remote areas and

• $3.3 million in 2014–15 to the Australian Institute of Aboriginal and Torres Strait Islander Studies to continue digitisation of Indigenous cultural resources.

• The Health portfolio includes funding of $25.9 million in 2014–15 to states and territories for programs addressing teenage sexual and reproductive health, continuing activities currently funded under the National Partnership Agreement on Indigenous Early Childhood Development.

With respect to the National Partnership Agreements (NPAs):

• further funding for the NPA for Indigenous Early Childhood Development, due to expire on 30 June 2014, is not provided for, save as noted above

• the NPA on Remote Indigenous Housing and the Stronger Futures in the Northern Territory NPA both have allocations until 2017–18

• the NPA on Closing the Gap in Indigenous Health Outcomes that expired in June 2013, is not mentioned (neither are meeting the goals of the National Aboriginal and Torres Strait Islander Health Plan 2013–23) and

• the NPA on Remote Service Delivery is, when it expires in June 2014, to be replaced with a new Remote Community Advancement Network in the Department of the Prime Minister and Cabinet, and bilateral arrangements with each state and territory. The Government has not yet explained how the new arrangements would work. However further changes would seem to contradict the advice of Brian Gleeson, the Coordinator General for Remote Indigenous Services, in his last biannual report, January 2014:

> If there is one message I want Governments to hear from this report it is: Do not press the reset button! ... If we continue to start over again the foundations previously laid will be pulled up time and again, never allowing enough time or energy to build the structure required to close the gap on Indigenous disadvantage.\(^{600}\)

The Budget did not directly address the future of Indigenous Business Australia and the Indigenous Land Council, the subject of a February 2014 review, or of Indigenous employment and training programs, the subject of a current review.\(^{601}\)

In addition to direct measures, many of the Budget’s wider health and social security changes could be expected to have a disproportionate impact on Indigenous people, given higher rates of chronic disease and lower levels of employment.

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Restructuring business assistance programs
Eugenia Karanikolas

The measures relating to business assistance programs in this budget appear to reflect a number of the recommendations made by the National Commission of Audit report.\(^602\) Briefly, the underlying message that comes out of the report was that assistance to industry would need to be limited and provided predominantly where there is a ‘genuine market failure’ case to be made.

Consistent with the Commission’s recommendations for the abolition of programs, the Government has decided to cease a number of business assistance programs and essentially roll them into the newly created Entrepreneurs’ Infrastructure Programme (EIP). At this stage there is no publicly available information outlining how the Government’s business support flagship program will actually work, other than that it will ‘focus on supporting the commercialisation of good ideas, job creation and lifting the capability of small business, the provision of market and industry information, and the facilitation of access to business management advice and skills from experienced private sector providers and researchers.’\(^603\)

The language used by the Government appears to indicate that its new EIP will be a hybrid of many of the existing business measures, albeit with substantially lower funding, including:

- **Enterprise Connect**—this is designed to provide business skills services to small to medium sized enterprises (SME) and bridge one of the key sources of ‘genuine market failure’, information gaps, faced by SMEs in accessing reliable information.\(^604\) In the context of its report into the not-for-profit sector, the Productivity Commission, recommended that the program be expanded because of its success in providing ‘highly relevant business support services to SME’ and engendering the trust of SME.\(^605\)

- **Innovation Investment Fund and Commercialisation Australia**—these are designed to address market failures faced by innovative start-up companies by linking them to finance and commercial advice as well as providing funding for the commercialisation of their product, service or process. Evaluations of the programs have found that they have been effective and are widely supported by stakeholders.\(^606\)

- **Industry Innovation Councils and Precincts**—set up in 2013 they are designed to foster collaboration between research institutes and industry with high export growth potential.

- **Australian Industry Participation**—a long standing program designed to increase opportunities for Australian businesses to compete for large private projects and government procurement in Australia by addressing information asymmetries.

- **Enterprise Solutions Program**—set up in 2013 the program is designed to assist innovative SME to build capacity and participate in large government projects.

- The Enterprise Solutions Programs, which is broadly based on the successful US Small Business Innovation Research program, previously had a budget of just over $24 million.\(^607\) In the 2013–14 budget, the Government announced that it would provide $2.8 million (including $0.5 million in capital expenditure) to

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604. Information gap or information asymmetry is when one party has more information about crucial aspects of the transaction than the other.
606. For example a 2012 review of Australia’s venture capital and entrepreneurial skills programs found that whilst it was difficult to evaluate the effectiveness of venture capital support programs given the relatively short time they had been operating, it nevertheless noted that ‘Australia’s venture capital industry has largely developed over the period that these programs have been active’ and that ‘some of Australia’s successful innovative companies were originally launched with the help of government backed venture capital’. The report also stated that ‘international venture capital is unlikely to be drawn to Australia in the absence of domestic venture capital capacity.’ For more information see Australian Treasury and Department of Industry, Innovation, Science, Research and Tertiary Education, *Review of Venture Capital and Entrepreneurial Skills*, Final report prepared for the Australian Government, 2012.
fund a new program, the Improving small business access to Commonwealth contracts initiative, to be spearheaded by the Department of Finance.608

• The estimated savings from abolishing Enterprise Connect, Innovation Investment Fund, Commercialisation Australia, Industry Innovation Councils and Precincts, Australian Industry Participation, the Enterprise Solutions Program plus the Textile, Clothing and Footwear Small Business and Building Innovative Capability program, are $845.6 million over five years.609 Part of the savings will be redirected to funding the new EIP. In particular, Budget Measures: Budget Paper no. 2: 2014–15 mentions that a total of $484.2 million over five years will be provided to establish the EIP. This figure however, appears to also incorporate funding for the programs that are closing, including $45.2 million for Enterprise Connect, $29.4 million for Industry Innovation Precincts and $24.4 million for Australian Industry Participation. The actual funding provided for the EIP is $342.6 million over four years.610 As a result when taking into account the abolition of the eight programs and the establishment of the EIP, the net saving over four years is estimated to be $455.6 million.

So far the Government’s industry package has received a mixed reception by industry. Whilst for example the Australian Chamber of Commerce and Industry (ACCI) has welcomed the Government’s attempt to ‘rein in spending and get the budget back on a credible path to surplus’, others, including the Australian Industry Group (AiG) have stated that they are ‘deeply concerned’ about the abolition of successful SME and innovation programs and hope to see the better features of these programs retained and integrated into the new initiatives.611,612

Start-up firms and the venture capital sector have been critical of the Government’s approach to innovation and ‘perverse’ attitude towards digital infrastructure, arguing that Australia will fall further behind in fostering a start-up culture than other developed economies.613 Capturing the sentiment, Yasser El-Ansary, chief executive of the Australian Private Equity and Venture Capital Association, the national body representing private equity and venture capital sectors, stated that:

   Everyone was expecting to see plenty of short-term pain for businesses in this budget – and that’s exactly what we got. But what we were also expecting to see tonight was a plan which set out the longer-term vision for what the Australian economy will look like in the next five or ten years – the short-term strategy of deep cuts to expenditure only makes sense when you can line it up against a picture of where we are trying to get to.614

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609. Ibid., p. 165.
611. See for instance the Australian Chamber of Commerce and Industry (ACCI), Business backs the budget that we had to have, media release, 13 May 2014, which welcomed the Government’s attempts to ‘rein in spending and get the budget back on a credible path to surplus’.
612. Australia Industry Group (AiG) Federal budget: long-term ambitions – short-term risks, media release, 13 May 2014, which whilst offered a broad support for the budget stated that they are ‘deeply concerned’ about the abolition of successful SME and innovation programs.
613. For more information see M Bailey, ‘Roads, roads, but where are the nodes? Tank Stream Ventures slams Budget’, BRW, 13 May 2014, and C Fitzsimmons, ‘The reason we kept the company here’: Commercialisation Australia recipients like Omny tell what we’ll lose’, BRW, 14 May 2014, accessed 16 May 2014.
614. Australian Private Equity & Venture Capital Association Limited (AVCAL), We’ve seen the short-term pain, now we need the long-term gain, media release, 13 May 2014, accessed 16 May 2014.
Automotive industry package
Margaret Lee

The past year has marked an era of change for the automotive industry. All remaining Australian-based automotive manufacturers, Holden, Ford and Toyota, have announced that they intend to cease production in Australia, with the last scheduled to close by the end of 2017.615 The automotive industry has a long history of government support. As tariff assistance to the automotive industry declined after 1984, a series of industry-specific budgetary measures were implemented to help the industry adjust. In a recent position statement, the Productivity Commission considered that ongoing industry specific assistance to the automotive manufacturing industry is not warranted.616

The Automotive Transformation Scheme (ATS) is part of a suite of programs offering assistance to the automotive industry from 2008–09 to 2020–21. Similar to its predecessor, the objective of the ATS was primarily to encourage competitive investment and innovation in the industry and to place it on an economically sustainable footing.617

Budget 2014–15 reflects the Government’s decision to terminate the ATS on 1 January 2018, in line with the timing of production ending. Approximately $1.0 billion funding over five years from 2013–14 will remain available under the Scheme to support vehicle manufacturers and supply chain companies. Terminating the ATS will save $618.5 million over eight years from 2013–14.618 The Government will also save $215.0 million over four years from 2013–14 by not proceeding with funding for the General Motors Holden’s next generation vehicles project.619 A further $4.1 million over three years from 2014–15 will be saved by not proceeding with the Ford Australia – assistance to workers programme.620 The latter program mainly provided funding for career advice and training to supplement employment support services.621 These workers will continue to have access to the Automotive Industry Structural Adjustment Programme.

The Government announced a Growth Fund to support new jobs, investment and economic growth in South Australia and Victoria in response to the planned closure of vehicle production facilities.622 The Budget provides $100.6 million funding for this initiative, with the remainder of the $155 million Growth Fund to be contributed by the South Australian and Victorian Governments, Holden and Toyota.623

- The Growth Fund includes: $35.8 million over five years to establish the Next Generation Manufacturing Investment Programme to support investment in high-value manufacturing in Victoria and South Australia
- $29.8 million over five years to establish the Regional Infrastructure Programme to encourage investment in capital projects outside manufacturing to support new business opportunities
- $20.0 million over five years to establish the Automotive Diversification Programme to assist component suppliers to transition to new products and markets, including redirecting existing uncommitted funding of $16.9 million from the Automotive New Markets Initiative
- $15.0 million over two years from 2016–17 to extend the Automotive Industry Structural Adjustment Programme to assist automotive workers made redundant to find employment and
- the Skills and Training Programme, funded by Holden and Toyota, to transition automotive workers into new jobs through skills recognition and training.

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617. Ibid., pp. 41–42.


619. Ibid., p. 166.

620. Ibid., p. 95.


622. See, for example, I Macfarlane (Minister for Industry), $155 million growth fund to drive states future growth, media release, 6 May 2014, accessed 15 May 2014.

The Budget provides $50.0 million in funding over three years from 2014–15 to establish the Manufacturing Transition Grants Programme. This will assist Australian manufacturers to transition to higher value manufacturing activities and/or niche activities which result in a new end product and improve a firm’s competitiveness. This measure also assists diversification away from traditional manufacturing, such as automotive.

Labour market adjustment support elements of the Automotive Industry Structural Adjustment Programme will be delivered through the employment portfolio.624 This provides intensive employment services to employees made redundant from eligible manufacturing firms in the automotive manufacturing industry (employees made redundant would not normally be entitled to this type of employment service due to income support waiting periods and their recent work experience). Job seekers also receive additional assistance such as employment subsidies, equipment and training through the Employment Pathway Fund.625 Providing this support for eligible workers in the automotive and several other industries will be a priority in the employment portfolio for 2014–15.626

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Export Finance and Insurance Corporation—capital injection
Eugenia Karanikolas and Kai Swoboda

The Government has announced that it will provide a $200 million equity injection to the Export Finance and Insurance Corporation (EFIC). EFIC is the Government export credit agency that provides export related services including finance and insurance to Australian exporters and investors in overseas markets. The agency has a mandate to operate in circumstances where the private sector is either not able or not willing to provide support.627

The National Commission of Audit recommended the abolition of EFIC based on its observations that most of Australia’s exports take place without EFIC’s assistance and ‘the support it provides mostly goes to a small number of large businesses’.628 Specifically, businesses in the mining sector received the greatest amount of support, accounting for 44.4 per cent of the value of signings, followed by those in the construction sector.629

Rationale

The rationale for returning the $200 million is to ‘reverse the decision of the previous Government to take a one-off special dividend from EFIC’ and, according to the Minister for Trade, to ‘support small and medium size businesses to successfully grow their exports’.630

As discussed below, the decision appears to go even further than a request from the EFIC Board to double its callable capital—funds that can be accessed by EFIC if required, up to a maximum of $200 million (or a higher amount as determined by the Minister)—and to be at odds with the Productivity Commission’s recommendation for EFIC to return $200 million in surplus capital.

Inquiry into EFIC

In September 2011, the former Government announced it had requested that the Productivity Commission (the Commission) undertake an inquiry into Australia’s arrangements for the provision of export credit provided through EFIC.631 The Commission’s report was released in June 2012. In brief, the Commission recommended that EFIC’s mandate be changed to require that it re-orient its resources to addressing market failures, including information gaps, experienced by newly exporting small and medium size enterprises (SME). This recommendation was based on the finding that EFIC was providing its services to large projects including many in the resources sector where there was little evidence to suggest that there was market failure. It noted, for example that:

The fact that some transactions (or projects) are unable to attract private sector support is not a market failure and may reflect assessments by market participants of the expected return of the transaction. 632

In addition, the Commission recommended that EFIC be required to return surplus capital to the Government as it imposed an opportunity cost borne by taxpayers.633 In particular, it noted that as of June 2011, EFIC’s capital adequacy ratio including its callable capital was 34.6 per cent, ‘well above’ the minimum level set by the Australian Prudential Regulation Authority (APRA) and even EFIC’s internal benchmarks.

In response to the Commission’s recommendations, the former Government introduced two pieces of legislation to amend the Export Finance and Insurance Corporation Act 1991 (EFIC Act) and, in summary, to: allow for a $200 million one-off dividend to be paid to the Government; give authority to the Minister to increase the limit of EFIC’s called capital when necessary; restrict EFIC’s

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627. This is known as the ‘market gap mandate’. For more information on what is expected of EFIC see: C Emerson (Minister for Trade), ‘Statement of Expectations’, 19 July 2011, accessed 20 May 2014.
631. B Shorten (Assistant Treasurer) and C Emerson (Minister for Trade), Productivity Commission inquiry into the Export Finance and Insurance Corporation, media release, 1 September 2011, accessed 22 May 2014.
633. Ibid., p. 37.
mandate so that it provides services only when there is a ‘market failure’.\(^{634}\) The Bill providing for the $200 million dividend was enacted in March 2013, with the dividend paid in June 2013.\(^{635}\)

**Request for additional callable capital**

Unlike private sector financial providers, EFIC’s capital adequacy is not directly regulated. Instead, EFIC’s board is given responsibility under the *EFIC Act* to ensure, ‘according to sound commercial principles that the capital and reserves of EFIC at any time are sufficient’.\(^{636}\) In its most recent annual report, EFIC noted that it ‘guides itself in fulfilling this obligation by setting its own regulatory standards drawing upon both the standards of [the Australian Prudential Regulation Authority] and those set by the Bank for International Settlements through the Basel Committee on Banking Supervision’.\(^{637}\) Key measures established by EFIC in meeting these requirements are that a minimum capital adequacy ratio of 16 per cent (including callable capital of $200 million) or 8 per cent (excluding callable capital) is maintained.\(^{638}\)

EFIC’s capital adequacy as at 30 June 2013 was 11.3 per cent (excluding the callable capital) and 21.2% (including callable capital).\(^{639}\) In its 2012–13 Annual Report, EFIC noted that it had ‘experienced a number of breaches of capital-based limits specific to large exposures as a consequence of paying the special dividend’ and the Board had written to the Minister to request that the Government provide an additional $200 million of callable capital to bring the total callable capital to $400 million.\(^{640}\)

**Accounting for the $200 million withdrawn and then restored**

For budget accounting purposes, EFIC sits outside the general government sector.\(^{641}\) As such, its day to day operations and financial position do not directly impact the budget bottom line. In the 2012–13 Budget, the withdrawal of $200 million cash from EFIC was treated as a ‘special dividend’ and was recorded as a revenue gain to the Budget underlying cash balance and fiscal balance.\(^{642}\) In the 2014–15 Budget, the reversal of this transaction is being treated as a capital injection, therefore having no direct impact on the underlying cash balance or fiscal balance.\(^{643}\)

There is some flexibility in the use of reporting standards in the budget in the treatment of dividends and capital injections. These assessments require judgements about the nature of the transaction, including factors such as the impact on the entity’s operations and its ongoing financial performance.\(^{644}\)

In classifying the $200 million as a ‘special dividend’, EFIC had sufficient retained earnings (accumulated profits) in 2012–13 to cover the $200 million payment ($302 million as at June 2012 and $98 million as at June 2013 after the payment was made).\(^{645}\) This provides a basis for arguing that it was a return of profit rather than of contributed capital. In classifying the return of the $200 million as a capital injection, EFIC’s general profitability supports the view that the injection is not being used to fund ongoing operating deficits—one consideration when determining whether or not the payment may be a grant.

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635. Export Finance and Insurance Corporation (EFIC), *Annual Report 2012–13*, EFIC, Canberra, 2013, p. 55, accessed 24 May 2014. The bill that would have required EFIC’s mandate to be changed and to focus on SMEs lapsed at the end of the 43rd Parliament.


638. Ibid., p. 7.

639. Ibid., p. 118.

640. Ibid., p. 59.


Research and Development tax incentive—reduction in rates of offset

Tarek Dale

The Government has announced reductions in the rates of the research and development (R&D) tax offsets. The reductions (effective from 1 July 2014) will result in savings of $550m in underlying cash balance terms over the forward estimates.646

The research and development tax offsets prior to the 2014–15 Budget

There are currently two offsets available to companies that engage in eligible R&D research:

- a 45 per cent refundable tax offset is available to entities with a turnover of less than $20m and
- a 40 per cent non-refundable tax offset (that can be carried forward) is available to all other eligible entities.647

The R&D offsets are a mechanism that uses the corporate tax system to provide incentives to engage in research and development, and to support companies engaged in research and development that are not making a taxable profit. After reducing the tax liability of an eligible entity, the balance of a refundable offset can be paid as a refund, while the non-refundable offset can be carried forward and reduce tax in future years.648

The R&D offsets are the latest version of a tax incentive that has existed in various forms since 1986; the current system – the Research and Development Tax Incentive – came into effect from 1 July 2011.649 Legislation is currently under consideration by the Senate (after passing the House of Representatives in December 2013) to ‘limit the research and development (R&D) tax incentive to companies with aggregated assessable income of less than $20 billion’.650

Changes announced in the 2014–15 Budget

Budget Measures: Budget Paper No. 2: 2014–15 states that ‘Consistent with the Government’s commitment to cut the company tax rate from 1 July 2015, the Government will preserve the relative value of the of the Research and Development Tax Incentive by reducing the rates …’.651 From 2014–15 the ‘rates of the refundable and non-refundable offsets will be reduced by 1.5 percentage points to 43.5 and 38.5 per cent respectively’.652

There are different measures of the value of a tax offset:

- In absolute terms, the value of the R&D offsets will decrease. For any given R&D expenditure, there is now a smaller reduction in tax liability available through the R&D offset. Additionally, for those companies not making a taxable profit in a given period, the refundable tax offset will now offer a smaller cashflow.

- From 2015–16 (the first year in which the company tax rate cut is expected to take effect) the margin between the R&D offset rates and the company tax rate will return to 10 and 15 percentage points (for the

647. AusIndustry, ‘Program Information: About the R&D Tax Incentive’, AusIndustry website, accessed 20 May 2014. Entities must be either a corporation ‘incorporated under an Australian law, incorporated under foreign law but an Australian resident for income purposes’, or operating a permanent establishment in Australia through a double taxation agreement; special rules apply for some corporate structures. For more detail see the Australian Taxation Office (ATO), ‘Research and development tax incentive: eligible entities’, ATO website, 11 December 2012, accessed 22 May 2014.
non-refundable and refundable tax offsets, respectively). This means that the net tax benefit of the R&D offsets will return to current levels.\textsuperscript{653}

While the Government has linked the changes to the R&D offset rates to planned changes to the company tax rate, it has not commented on the timing of the changes, or the interaction between the proposed Paid Parental Leave levy and the offset rates.

While the company tax rate will be reduced from 2015–16, the offset rate will be reduced from 2014–15. For the 2014–15 financial year eligible companies will be liable for the current company tax rate, while receiving a lower offset.

Additionally, a number of companies claiming the R&D offsets are likely to be liable for the proposed 1.5 per cent levy on companies with taxable incomes above $1.5m. These companies will face a reduced offset while their marginal tax rate is effectively the same; for those companies, a lower offset rate with a 30 per cent marginal tax rate will mean that the net tax benefit of the R&D offset has decreased.

\textsuperscript{653} The net tax benefit is a measure of the net benefit (including any refunds from the refundable offset) to a company from transferring spending from ineligible expenditure to eligible R&D expenditure. For a more detailed example, see Annex 8 of the \textit{Report on the review of the national innovation system}, Review of the National Innovation System Panel, 2008, accessed 20 May 2014.
Infrastructure expenditure

Rob Dossor

The Treasurer announced in his Budget Speech ‘a package of measures that will significantly increase investment in infrastructure across Australia’.

The infrastructure expenditure in the Budget for the years 2014–15 to 2017–18 totals $28.5 billion. The Budget also estimates that actual expenditure on infrastructure in 2013–14 will total $6.9 billion, almost $2 billion more than what is allocated in the 2013-14 Budget ($5.0 billion). New infrastructure expenditure increases so that in 2016–17, the last year of the 2013–14 Budget forward estimates, an additional $5.1 billion has been allocated. This expenditure is shown in the chart and table below.

Infrastructure spending 2007–08 to 2017–18

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656. Ibid., p. 84.
State shares

The chart above illustrates the infrastructure spending share for each state and territory. New South Wales receives the largest share at 35.5 per cent (an increase of 7.5 percentage points from the 2013–14 Budget). Queensland follows as a distant second with a share of 28 per cent which, for the second year running, is significantly larger than its share of population (20.1 per cent). Victoria receives the next highest share with 13.5 per cent followed by Western Australia with 12.7 per cent, and South Australia with 6.2 per cent. Tasmania and the Northern Territory receive 1.8 per cent and 1.6 per cent respectively while the ACT receives only 0.5 per cent.

Road and rail

As expected, the majority of the Budget’s infrastructure expenditure is allocated towards road projects. For example, in 2014–15 over 78 per cent of all infrastructure expenditure is to be spent on roads. Rail receives approximately 13 per cent. In 2015–16 road expenditure remains over 78 per cent, while rail expenditure falls to a little over 6 per cent. By 2017–18 rail expenditure is only around 0.5 per cent, while road expenditure increases to over 83 per cent. The remaining expenditure is undetermined or allocated to non-road or rail projects such as Community Infrastructure Grants.

Infrastructure Australia priority list

This Budget provides funding for some 36 major named infrastructure projects, such as the Sydney WestConnex motorway, the Melbourne East-West Link, investment in the Bruce Highway and Toowoomba Second Range Crossing in Queensland, the Adelaide North-South Road Corridor, the Swan Valley Bypass in Western Australia, the Midland Highway Upgrade in Tasmania, the Darwin Tiger Brennan Drive Duplication, and Canberra Majura Parkway project. Of the major named projects announced in this Budget, only four – the Gateway Motorway North and Ipswich Motorway in Queensland and the Great Northern Highway and North West Coastal Highway in Western Australia have been assessed by Infrastructure Australia and placed in a ‘threshold’ or ‘ready to


proceed’ category in their Priority List; and only 7 of the projects appear anywhere on the list, either in the ‘early stage’ or ‘real potential’ category.\textsuperscript{659}

Infrastructure Growth Package—Asset Recycling Fund

Rob Dossor

The language used within the infrastructure expenditure section of the 2014–15 Budget may be confusing. To clarify:

- **Infrastructure Growth Package**: a series of new measures
- **Asset Recycling Fund**: a new fund which will replace the Building Australia Fund and will fund the Infrastructure Growth Package and other programmes, and
- **Asset Recycling Initiative**: a new measure which provides states and territories with a financial incentive to sell assets and use the proceeds to fund infrastructure investment.

In the 2014–15 Budget, the Australian Government has committed to spend over $5.7 billion in 2014–15 on infrastructure, and a total of $28.5 billion over the forward estimates. Of this, an additional $2.7 billion will supplement the Infrastructure Investment Program. Another $1 billion is allocated to the Infrastructure Investment Program in 2013–14 i.e. in the current financial year. This brings the total new infrastructure expenditure in this budget (for five years from 2013–14) to $29.5 billion. The Treasurer stated in his Budget Speech that the Australian Government’s ‘Growth Package will take the Government’s total investment to $50 billion by the end of the decade – the largest on record ... [and] drive over $125 billion of spending on new infrastructure across the continent.’ Of this $29.5 billion (allocated from 2013–14 to 2017–18) over $7.8 billion is funded through a new fund, the Asset Recycling Fund (ARF).

**Asset Recycling Fund**

The Asset Recycling Fund (ARF) will be created on 1 July 2014. The initial size of the ARF at approximately $5.9 billion is made up entirely of the uncommitted funds from the Building Australia Fund ($2.4 billion) and the Education Investment Fund ($3.5 billion). Subsequent funds will come from the privatisation of Commonwealth assets, the first of which will be Medibank Private.

The ARF will primarily fund the new Infrastructure Growth Package (IGP). In addition to the IGP the ARF will contribute to elements of the Infrastructure Investment Program, such as Black Spot Projects, road investment projects and the Roads to Recovery Programme. According to Minister Truss’s media release, the ARF will also make contributions of $229 million to national highway upgrades.

**Infrastructure Growth Package**

The IGP is a key component of the infrastructure expenditure in the 2014–15 Budget. In total the IGP is budgeted to spend $11.6 billion over ten years (from 2013–14), of which $6.8 billion is over the forward estimates and $1 billion in 2013–14.

The IGP is made up of three measures, the Asset Recycling Initiative, new investments, and the Western Sydney Infrastructure Plan.

**Asset Recycling Initiative**

The Asset Recycling Initiative, the largest of the IGP measures, will provide an incentive to States and Territories to privatise assets and use the proceeds to fund infrastructure. The federal government will provide the incentive in the form of a financial contribution of 15 per cent of the assessed sale value of the asset used to...
fund infrastructure. The States and Territories agreed to this initiative on 2 May 2014. This measure is budgeted at $5 billion over five years with $3.9 billion available over the forward estimates.

**New investments**

The new investments measure of the IGP will provide $3.7 billion ($2.7 billion over the forward estimates and $1 billion in 2013–14) to expedite investment in ‘high quality’ economic infrastructure. It will accelerate work on major projects such as Melbourne’s East West Link – stage 2, Adelaide’s North South Corridor and the Perth Freight Link. This measure includes additional funding for national highway upgrades ($229 million), Black Spot Programme ($200 million) and Roads to Recovery Programme ($350 million). The new investments measures will be administered under the existing Infrastructure Investment Programme.

**Western Sydney Infrastructure Plan**

The final measure in the IGP is the Western Sydney Infrastructure Plan. This involves the building of road infrastructure in preparation for the Badgerys Creek airport. This plan includes upgrading the Northern Road to a minimum of four lanes from Narellan to the M4 Motorway, the construction of a new four-lane motorway between the M7 Motorway and the Northern Road, upgrading Bringelly Road to a minimum of four lanes from Camden Valley Way to the Northern Road, improving interchanges that connect the Northern Road and the new motorway, as well as a $200 million local roads package. The plan is budgeted at $2.9 billion over ten years, with $1.2 billion available over the forward estimates.

A Western Sydney Infrastructure Unit will be established within the Department of Infrastructure and Regional Development and will be responsible for the development of detailed airport design concepts, conducting environment assessments and engaging with potential private sector operators. The Department has been allocated $77.8 million over four years to establish this Unit.

**Legislation required**

For the ARF to be established legislation is required.

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671. W Truss (Minister for Infrastructure and Regional Development) and J Briggs (Assistant Minister for Infrastructure and Regional Development), *Infrastructure Growth Package*, media release, op. cit.

672. Ibid.

673. T Abbott (Prime Minister) and W Truss (Minister for Infrastructure and Regional Development), *Western Sydney Airport to Deliver Jobs and Infrastructure*, media release, 15 April 2014.

674. W Truss (Minister for Infrastructure and Regional Development) and J Briggs (Assistant Minister for Infrastructure and Regional Development), *Western Sydney Infrastructure Plan*, media release, 13 May 2014, accessed 14 May 2014.


676. Ibid., p. 114
Legal aid and legal assistance services
Jaan Murphy

The Government provides funding to the states and territories for the delivery of ‘legal assistance services’ for disadvantaged Australians. ‘Legal assistance services’ means all of the sector-wide legal service providers, including legal aid commissions, community legal centres, Aboriginal and Torres Strait Islander legal services and family violence prevention legal services.

Funding for legal assistance services is generally consistent with recent trends. Funding for legal aid commissions is about 25% below recent historical trends, after taking account of recent large (but temporary) additional funding provided in the 2011–12 to 2013–14 Budgets. It is difficult to determine the trend in funding for Indigenous legal aid, due to program amalgamation and name changes.

The Government provides funding to the states and territories for the delivery of legal aid services for disadvantaged Australians through the National Partnership Agreement on Legal Assistance Services, which has been extended (by one year) to 30 June 2015. In 2014–15 the Government will provide $204.4 million funding for legal assistance services, an increase of $3.8 million from 2013–14. The forward estimates indicate that funding will increase by a total of $10.6 million over the 2014–15 Budget levels by 2017–18.

Funding for legal aid commissions (programme 1.3 – ‘Justice Services’) is below trend, as set out in the table below. The decrease in 2014–15 is primarily due to the budget measure ‘Legal aid—withdrawal of additional funding’, which provides savings of about $15 million in 2014–15. This measure partially reduces the $21 million of additional funding provided for 2014–15 in the 2013–14 Budget. Whilst a decrease, it is a return to a similar level of funding as that provided to legal aid prior to the revisions in the 2011–12 Budget to include ‘additional funding for legal aid for people smuggling, national security and drug-related cases’. Changes to the prosecution policy in relation to people smuggling introduced in August 2012, together with a decrease in the number of unauthorised boat arrivals, has resulted in a reduction in the number of people being prosecuted for people smuggling offences, which has led to a parallel decrease in the legal aid funding required in this area.

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<tr>
<td>Legal Aid Commissions</td>
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*estimated actual from Portfolio budget statement 2014–15: Attorney-General’s Portfolio. Sources: as per footnote 685.

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The Law Council of Australia (LCA) and Law Institute of Victoria (LIV) have both expressed disappointment with the funding for legal aid commissions in the 2014–15 Budget, with the LCA expressing the view that:

... an additional $80 million in funding was required in tonight’s budget not a reduction of $15 million ... up to 1997, the Commonwealth contribution to Legal Aid Commission funding was 55 per cent – current funding stands at 35 per cent.686

In contrast to legal aid commissions, funding for community legal services’ (programme 1.3 – ‘Justice Services’) is expected to be broadly consistent with recent historical trends, as set out in the table below:

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<td>Community legal services</td>
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<td>-2,128</td>
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*estimated actual.687 Sources: as per footnote 687.

Program names for indigenous legal aid previously listed in Indigenous legal aid (programme 1.5 – ‘Indigenous Law and Justice’) have changed, making funding trends difficult to assess.688 Also, responsibility for over 150 Indigenous programs is being transferred to the Department of the Prime Minister and Cabinet (to be consolidated into five programs).689 Others have remained with the Attorney-General’s Department.690

Due to the lack of detail in the portfolio budget papers of the Department of the Prime Minister and Cabinet, the fate of several programs is not apparent. However, some commentators and sector participants have expressed concern over decreased funding to Indigenous legal services.691

On the basis of the similarity in the size of the funding commitments, the Indigenous Legal Aid Policy Reform Program, funded in the 2013–14 Budget, and the Indigenous Legal Assistance Program in this Budget, are treated as equivalent and compared in the following table:

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<td>2013–14 Budget</td>
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<td>-5,388</td>
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*estimated actual from 2014–15 Portfolio Budget Statements, p. 32.692 Sources: as per footnote 692.

This would tend to indicate that funding for at least some Indigenous legal aid programs may have remained broadly consistent with previous budget trends.


689. *Budget measures: budget paper no. 2: 2014–15*, op. cit., p. 185. The following programs appear to have been transferred to the Department of the Prime Minister and Cabinet as part of that process: payments under the Indigenous Justice Programme, payments for the provision of Family Violence Prevention Legal Services for Indigenous Australia, and Stronger Futures in the Northern Territory—community safety and justice; *Portfolio budget statements 2014–15: Attorney-General’s Portfolio*, op. cit., p. 32. These programs were allocated a total of $60.8 million in 2013–14. In addition, $1.3 million was allocated for payments for Indigenous interpreter services in the Northern Territory (which, unlike the three programs listed above, is not listed in the 2014–15 Budget papers) *Portfolio budget statements 2013–14: Attorney-General’s Portfolio*, op. cit., p. 30.


Amalgamation of merits review tribunals
Moira Coombs

As part of the Budget, the Government announced its intention to amalgamate the Commonwealth’s merits review tribunals, noting:

The reforms will remove unnecessary layers of bureaucracy and deliver an improved and simplified merits review system for all Australians. 693

This decision implements recommendation 54 of the National Commission of Audit report. 694 The tribunals that will merge are the Administrative Appeals Tribunal (AAT), Migration Review Tribunal (MRT), Refugee Review Tribunal (RRT), Social Security Appeals Tribunal (SSAT) and the Classification Review Board. The merits review of freedom of information matters, which is currently the responsibility of the Office of the Information Commissioner, will transfer to the AAT from 1 January 2015. 695 Legislative change will be required to implement the proposal.

The Veterans’ Review Board (VRB) was not included in the Commission of Audit’s recommendation as the Commission considered that the Board operates essentially as a division of the Department of Veterans’ Affairs and focuses on defence-related matters. 696

The Attorney-General points to the ‘states and territories which now have established similar ‘super tribunals’ for merits review, with considerable success’. 697

It is expected that this measure will save $20.2 million over four years.

The idea of streamlining the merits review structure was first raised by the Administrative Review Council (ARC) in its report Better Decisions: Review of Commonwealth Merits Review Tribunals in 1995. The report recommended the unification of the Veterans’ Review Board, the SSAT, Immigration Review Tribunal, the RRT and the AAT into one body called the Administrative Review Tribunal (ART). The Council took the view that this would:

... achieve[s] greater perceived and actual independence, improvements in agency decision making, and improved accessibility and economic efficiencies. 698

Agreeing with the recommendation of the ARC, the then Coalition Government introduced two Bills: the Administrative Review Tribunal Bill 2000 699 and the Administrative Review Tribunal (Consequential and Transitional Provisions) Bill 2000. 700 These Bills would have replaced the AAT, the SSAT, the MRT and the RRT with the ART, but failed to pass the Senate as they did not receive the support of Labor and the Democrats.

The Bills were considered by the Senate Standing Committee on Legal and Constitutional Affairs, which noted the concerns that had been raised in submissions to the Committee about the proposal’s potential adverse impact on the quality of administrative review:

In particular, it has been claimed that the anticipated efficiencies and cost savings will be gained at the expense of:

- Lack of independence of the proposed ART from government agencies
- Loss of multi-member/multi skilled review panels
- Reduced quality of review
- Loss of two-tier external review

696. National Commission of Audit, Towards responsible government: phase one, op. cit., p. 212. However, the VRB does not operate as part of the Department. It is an independent merits review Tribunal. For administrative purposes it is included as a sub-program in the Department of Veterans’ Affairs, but it is still an independent statutory authority with the Minister having no statutory power of direction over the VRB. See: Veterans’ Review Board, Annual report 2012–13, 2013, p. 6, accessed 21 May 2014.
697. G Brandis (Attorney-General), op. cit.
• Reduced procedural fairness and
• Restriction on consumer representation despite increased participation of government agencies.701

In 2012 Stephen Skehill conducted a strategic review to assess small and medium agencies in the Attorney-General’s portfolio, and federal courts and tribunals, with reference to the Expenditure Principles. The review was to advise on a range of options for improving the value for money for the Government in terms of the discharge of the functions of the bodies being considered, and accountable and transparent decision-making.702 The Review recommended that the ARC proposal for tribunal amalgamation be endorsed as the desired end-state and to extend that proposal to all Commonwealth merits review bodies. However, the Review did not consider that it would be appropriate to attempt to arrive at that end-state at that time, due to the expected costs of setting up the new ART; that implementing the reforms could be protracted and politically difficult with expected opposition from key stakeholders; and that access to second tier review could be compromised.703

The then Attorney-General, Nicola Roxon, did not support the recommendation to endorse the ART as a preferred longer-term outcome, but supported a recommendation to establish a forum encompassing the five Commonwealth merits review tribunals, with the aim of encouraging the tribunals to identify initiatives that could result in increased efficiencies across the group.704 This resulted in the establishment of the Commonwealth Tribunals Collaborative Forum.705


703. Ibid., p. 91.

704. N Roxon (Attorney-General), Review of Attorney-General Portfolio Agencies released, media release, 8 June 2012.

Law and Justice—Commissions
Mary Anne Neilsen

Independent statutory agencies and royal commissions administered within the Attorney-General’s portfolio, featured in the Budget—the more notable announcements being the disbanding of the Office of the Australian Information Commissioner from 1 January 2015; the reduction of the number of Commissioners within the Australian Human Rights Commission from seven to six; and the allocation of funding for the Royal Commission into Trade Union Governance and Corruption.

Office of the Australian Information Commissioner

In 2010, the then Labor Government established a new statutory agency, the Office of the Australian Information Commissioner (OAIC), as part of a major reform of its information policy strategy and framework aimed at placing a stronger emphasis on open government and disclosure of information.

The previously free-standing Office of the Privacy Commissioner was integrated into the new arrangements and two new statutory positions were established—the Freedom of Information (FOI) Commissioner and the Australian Information Commissioner (Information Commissioner).

The OAIC has a comprehensive range of powers and functions to provide independent oversight of privacy and FOI and advance information policy and management across Australian Government agencies. The OAIC appropriation for 2013–14 is $10.6 million. At the end of March 2014 the OAIC had 63.3 Full-Time Equivalent (FTE) staff in budget-funded positions. An additional 15.82 FTE staff are funded under Memorandum of Understanding arrangements with other agencies to undertake specific privacy work such as work relating to the eHealth initiative.

From 1 January 2015 the OAIC’s status as an agency under the Financial Management and Accountability Act 1997 will cease and funding for ongoing functions will be transferred to other agencies. The new arrangements for privacy and FOI regulation are forecast to produce a saving of $10.2 million over four years.

From 1 January 2015 an Office of the Privacy Commissioner will be established as an independent statutory position within the Australian Human Rights Commission. It will be responsible for the exercise of statutory privacy functions.

External merits review of FOI decisions, which are currently conducted by the AOIC, will transfer to the Administrative Appeals Tribunal (AAT). A total of $1.8 million will be transferred to the AAT over four years to assist with the processing of FOI reviews.

Other Information Commissioner functions related to FOI guidelines and FOI statistics will be administered by the Attorney-General’s Department. Complaints about FOI administration will be directly dealt with by the Commonwealth Ombudsman.

In terms of the three Commissioner positions, it would seem that the FOI Commissioner (currently James Popple) will transfer to the AAT, the Privacy Commissioner (currently Timothy Pilgrim) to the new Office of the Privacy Commissioner and the Information Commissioner position (currently John McMillan) will be abolished. It is unclear how many of the OAIC staff may be redundant and how many may transfer to other agencies.

These changes would in many respects return FOI and privacy structural regulation to the position prior to the 2010 Labor Government changes.

707. Ibid.
710. Ibid, p. 61.
711. Ibid.
The Shadow Attorney-General Mark Dreyfus has criticised the changes, stating the cut has come with no consultation and will make a minor saving at the cost of Australians’ access to information about their Government.\footnote{M Dreyfus (Shadow Attorney-General), \textit{Budget 2014: Brandis abolishes Australian Information Commissioner}, media release, 14 May 2014, accessed 19 May 2014.}

The Government’s stated rationale for the measure appears to be strongly based on the perceived advantages of moving external FOI merits review to the AAT, with the Attorney-General arguing:

> The complex and multi-level merits review system for FOI matters has contributed to significant processing delays. Simplifying and streamlining FOI review processes by transferring these functions from the OAIC to the AAT will improve administrative efficiencies and reduce the burden on FOI applicants.\footnote{G Brandis (Attorney-General), \textit{Streamlined arrangements for external merits review}, media release, 13 May 2014, accessed 22 May 2014.}

It is of interest that the disbanding of the OAIC was not one of the National Commission of Audit recommendations, although the Commission did make a recommendation regarding the amalgamation of other specialised merits review tribunals.\footnote{National Commission of Audit, \textit{Towards responsible government: phase one}, February 2014, p. lxii, accessed 19 May 2014. See also: M Coombs, ‘Amalgamation of merit review tribunals’, \textit{Budget review} 2014–15, Research paper, 2013–14, Parliamentary Library, Canberra, 2014.}

The 2013 Hawke Review into the 2010 changes to FOI laws, while noting the reforms had been operating as intended and have been generally well received, did raise questions about the current two-tiered FOI merits review process and recommended that it be ‘re-examined as part of a more comprehensive review of the FOI Act’.\footnote{Australian Government, \textit{Review of the Freedom of Information Act 1982 and Australian Information Commissioner Act 2010}, prepared by Alan Hawke, 2013, [the Hawke Review], p. 37, accessed 19 May 2014.}

Whether the proposed changes will, ‘lessen the burden on FOI applicants’ as the Attorney-General argues, is not clear. Currently the \textit{Freedom of Information Act 1982} provides for a two-tiered system of external merits review of FOI decisions: the first being conducted by the Information Commissioner and if a party is not satisfied, the second being conducted by the AAT.\footnote{Merits review is where a person or body other than the primary decision-maker reconsiders the facts, law and policy aspects of the decision and determines the correct and preferable decision.}

The proposal to return to separate privacy and FOI regulation may well be viewed positively by those who argue there is a tension between the right to privacy and the right of access to government information.\footnote{C Adams, ‘One office three champions? Structural integration in the office of the Australian Information Commissioner’, \textit{Australian Journal of Administrative Law}, 21(2), 2014, pp. 77–97, accessed 19 May 2014.}

One of the more significant Information Commissioner functions is the provision of strategic advice to the Attorney-General on Australian Government information management policy and practice more broadly. The transfer of responsibilities announced in the Budget appears not to provide for such a role.\footnote{The Hawke Review, op. cit., p. 28.}
Australian Human Rights Commission

The Australian Human Rights Commission (the Commission) is a regulatory agency responsible for the promotion and protection of human rights through education and raising public awareness; handling discrimination and human rights complaints; ensuring human rights compliance; and contributing to policy and legislative development in the area of human rights.

The Commission is currently composed of a President and seven specialist commissioners covering Aboriginal and Torres Strait Islander Social Justice, Age Discrimination, Children, Disability Discrimination, Human Rights, Race Discrimination and Sex Discrimination.

The controversial appointment of Tim Wilson as Human Rights Commissioner in February 2014 was the most recent special purpose Commissioner appointment. This position had previously been left vacant for over 18 months. At Senate Estimates hearings in February 2014, the Attorney-General indicated that the appointment of a Human Rights Commissioner with a focus on freedom was a method of creating a ‘personal freedom’ commissioner position and thereby fulfilling a Coalition election commitment. Media reports prior to the appointment indicated that Senator Brandis saw no reason why the Commission should receive additional funding to cover the $320,000 salary for Mr Wilson.

The Budget includes savings of $1.7 million from the Commission over four years to be achieved by reducing the number of special-purpose Commissioners from the current seven to six. The saving will be achieved by not replacing the current Disability Commissioner Graeme Innes when his first term of office expires in July 2014. It is expected that the position of Disability Commissioner will be amalgamated with another Commissioner position.

The Commission President, Professor Gillian Triggs has expressed her disappointment in this reduction, noting also that Commissioner Innes has made an outstanding contribution to the rights of people with disability and the development of the National Disability Insurance Scheme (NDIS).

The Shadow Attorney-General, Mr Dreyfus has criticised the measure, noting the Government’s decision to appoint Tim Wilson as a Human Rights Commissioner has come at the expense of Australia’s first full time Disability Discrimination Commissioner.

Another less-publicised budget measure affecting human rights, is the cessation of the Human Rights Education Program within the Attorney-General’s Department from 1 July 2014. This will achieve savings of $1.8 million over four years.

Royal Commissions

On 14 March 2014, the Attorney-General and the Minister for Employment announced the establishment of a Royal Commission into Trade Union Governance and Corruption. Justified on the basis of delivering on a Government election commitment, the Royal Commission will inquire into the governance arrangements and alleged financial irregularities associated with the affairs of employee associations, including trade unions, and the adequacy of existing laws as they relate to the governance and financial management arrangements of these entities. Hearings before the Commission commenced on 9 April 2014 and the expected reporting date is 31 December 2014.

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727. Ibid, p. 57.
732. The Royal Commission website is available here.
Funding for the Royal Commission is provided in the Budget with the Government allocating $53.3 million over two years (including $5.3 million in capital funding).\footnote{733} The cost of this measure will be offset by redirecting funding from the Employment, Industry and Infrastructure and Regional Development portfolios.\footnote{734}

Funding for the other ongoing Royal Commissions administered within the Attorney-General’s portfolio, namely the Royal Commission into Institutional Responses to Child Sexual Abuse and the Royal Commission into the Home Insulation Programme is ongoing, although the reduction in funding across the forward estimates reflects the expected dates of completion of the Royal Commissions.\footnote{735}

\footnote{733. Budget measures: budget paper no. 2 2014–15, op. cit., p. 62. Although this was also published in the \textit{Supplementary Additional Estimates 2013–14}, p. 3, accessed 22 May 2014.}

\footnote{734. Budget measures: budget paper no. 2 2014–5, op. cit., p. 62.}

Law enforcement and crime prevention
Cat Barker

Law enforcement agency staffing

In the 2008–09 Budget, the Government committed $25.0 million over five years for a retention and recruitment program for the Australian Federal Police (AFP) and $191.9 million over the same period to deliver an additional 500 sworn AFP officers.\(^{736}\) In the 2012–13 Budget, it deferred the recruitment target for additional sworn officers by a year in order to save $25.9 million over three years.\(^{737}\) The Coalition was critical of this delay when in opposition.\(^{738}\) However, in the 2014–15 Budget, the Government has announced it will save $42.5 million over four years by ceasing the additional recruitment altogether and reclaiming the unspent funding from the two 2008–09 Budget measures.\(^{739}\) It will save a further $11.7 million over the same period through increased efficiencies in the AFP.

The Coalition was also highly critical of Labor Government cuts to Commonwealth law enforcement agencies more broadly, stating that the agencies ‘cannot be expected to continue to do less with more’.\(^{740}\) The Government delivered on its promise to restore Australian Customs and Border Protection Service (Customs) funding for port boarding and cargo inspections, cut by the Labor Government in its 2008–09 Budget, by providing $88.0 million in the 2013–14 Mid-Year Economic and Fiscal Outlook (MYEFO).\(^{741}\) It has also delivered some additional funding for the AFP and Customs for counter-people smuggling measures.\(^{742}\) However, average staffing levels for Customs and the Australian Crime Commission are forecast to continue to decline in 2014–15.\(^{743}\) The average staffing level of the AFP (excluding ACT Policing), which rose by 197 from 2012–13 to 2013–14, is forecast to decline by 335 in 2014–15, from 5,596 to 5,261.\(^{744}\)

National Anti-Gang Squad

In the 2013–14 Budget, the Labor Government provided $64.0 million to the AFP to establish a National Anti-Gang Taskforce (NAGT) and an Australian Gang Intelligence Centre, and to supplement the Criminal Assets Confiscation Taskforce.\(^{745}\) The NAGT was to be comprised of strike teams in Sydney, Brisbane and Melbourne and liaison officers in Darwin, Perth and Adelaide.\(^{746}\) When it formed government in September 2013, the Coalition re-badged the initiative as the National Anti-Gang Squad (NAGS) and brought forward the start date so the three strike teams were operational by late November 2013.\(^{747}\) In the 2014–15 Budget, it has provided a further $10.2 million over three years to establish an additional strike team in Western Australia. The funding will come from the Confiscated Assets Account (see below under Crime prevention programs).

Airport policing

In line with a recommendation of the Federal Audit of Police Capabilities, airport policing began transitioning in December 2009 from the Unified Policing Model, under which the AFP and state and territory police shared...
responsibility, to the ‘All-in’ model, under which the AFP would be responsible for policing at Australia’s eleven major airports. 748

In the 2011–12 MYEFO, the Labor Government announced it would save $16.4 million over four years by withdrawing the AFP from aviation policing at Alice Springs Airport, drawing criticism from the Shadow Minister for Justice, Customs and Border Protection for neglecting its responsibilities and weakening national security and border protection. 749 In the 2014–15 Budget, the Coalition Government will save $22.0 million over four years by withdrawing the AFP from Hobart Airport and handing over responsibility for its security to the Tasmanian Police Force. No information is provided in the 2011–12 MYEFO or the 2014–15 Budget on any assessment of the possible security implications of these changes.

**Crime prevention programs**

While it is traditionally more of a state and territory government responsibility, federal governments of both persuasions have been providing funds for community crime prevention initiatives through grants programs for a number of years. In the 2008–09 Budget, the Labor Government ‘redirected’ funding from the Coalition-initiated National Community Crime Prevention Programme towards its own Safer Suburbs Program, and established a Schools Security Program. 750 Similarly, in the 2014–15 Budget, the Government will redirect and supplement funding allocated to the Labor-initiated National Crime Prevention Fund (NCPF) and Secure Schools Program to its own programs. The Safer Streets Programme will receive $50.0 million over four years, partially offset by ceasing the NCPF. The Schools Security Programme will receive $18.0 million over three years, $10.0 million of which has been redirected from the Secure Schools Program.

One source of funding for crime prevention programs is the Confiscated Assets Account (CAA), which is estimated to have a balance of $90.18 million at the end of the 2013–14 financial year. 751 Section 298 of the *Proceeds of Crime Act 2002* allows the Australian Government to use money confiscated under the Act and the proceeds of confiscated assets to fund crime prevention and law enforcement measures, measures relating to drug addiction treatment and diversionary measures relating to illicit drug use. 752 While the previous Government continued to draw on the CAA to make a series of small grants, it deferred payments of $90.3 million in the 2011–12 and 2012–13 Budgets so funds could be diverted to other priorities. 753 In the 2013–14 Budget, it committed $40.9 million from the CAA to the new NCPF. 754 The current Government has stated that in the 2014–15 Budget it is increasing expenditure from the CAA by $61 million over four years. However, around two-thirds of that total appears to have already been committed from the CAA by the previous Government under the NCPF.

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752. ‘Organised crime and crime prevention’, op. cit.

753. Ibid.; J Gillard (Prime Minister) and J Clare (Minister for Justice), *National Crime Prevention Fund*, media release, 12 April 2013, accessed 16 May 2014.
Smaller government
Philip Hamilton

Reducing the number of government entities
The government reported that, through closures, mergers and consolidations of functions, the Budget resulted in the abolition of 36 government bodies. These 36 were in addition to a reduction of 40 entities initiated in the first few months after the 2013 election. In announcements coinciding with the Budget, the government characterised the 36 and 40 as the first two steps in a three-phase ‘smaller government’ agenda.  

Phase 1 – September 2013
The first Phase comprised the Machinery of Government changes following the 2013 election, and initiatives in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2013–14. Phase 1 included the merger of the Australian Agency for International Development (AusAID) into the Department of Foreign Affairs and Trade (DFAT); combining the Department of Resources, Energy and Tourism into the Department of Industry and DFAT; abolishing 23 advisory bodies; and commencing the process to sell Medibank Private.

While many of these changes could be effected by the government or the Governor-General, the intended abolition of statutory authorities will require the passage of legislation. This category includes the Climate Change Authority, the Clean Energy Finance Corporation, and the Australian Charities and Not-for-profits Commission.

Phase 1 was followed by the establishment of the National Commission of Audit (NCoA) with a brief that included public sector performance and accountability. The NCoA identified nearly 900 bodies, including 696 that it described as ‘non-principal’; generally, councils, boards, and committees. The NCoA made specific recommendations in relation to a large proportion of the bodies it had identified, particularly with a view to reducing their number. In line with two broader NCOA recommendations, the government has committed to producing a publicly-searchable directory of government bodies, and an Australian Government Governance Policy, with a view to limiting the creation of new government bodies in the future.

Phase 2 – May 2014
The Finance Minister issued a list of actions that reported ‘smaller government and related budget measures’ undertaken in the Budget. These included the abolition or merger of seven committees and working groups in the Agriculture portfolio and 14 entities in the Health portfolio, six of which are intended to combine into a new Health Productivity and Performance Commission. Four civilian tribunals will create a single merit review tribunal. The Australian Customs and Border Protection Service will merge into the Department of Immigration and Border Protection to form a single operational border group, the Australian Border Force.

The corporate back-office functions of seven Canberra-based cultural institutions will be consolidated (see the Arts and Culture brief). Scoping studies will be undertaken into the possible privatisation of Defence Housing Australia, the Royal Australian Mint, Australian Hearing, and the Registry function of the Australian Securities and Investments Commission (ASIC). The Council of Australian Governments (COAG) Reform Council will be abolished, with some functions to be undertaken by the Productivity Commission and the Department of the Prime Minister and Cabinet. As in Phase 1, some of the measures will require the passage of legislation.

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756. The Mid-Year Economic and Fiscal Statement (MYEFO) is usually delivered in November or December each year.
758. Ibid., p. 7.
Phase 3 – Late 2014

Later in 2014, in time for the MYEFO 2014–15, the third and ‘most comprehensive’ phase of consolidation will focus on reducing the number of small agencies. This phase could potentially draw from the recommendations of the NCoA.763

Further efficiencies will be sought through the implementation of a ‘Contestability Framework’ to assess whether particular government functions should be open to competition, and how competition should occur. Under this new framework, government functions will be reviewed over the next three years to determine whether they are appropriate for competition, in whole or in part.764

The smaller government reforms outlined in the 2014–15 Budget are forecast to deliver savings of $530 million through to 2017–18. Not all the savings will accrue to the government; in some cases, where a service was delivered by a government body funded by a levy and that body is abolished or streamlined, those who formerly paid the levy will make the savings.765

Issues

A focus of the NCoA and the Budget was the number of advisory bodies. One experienced commentator on public administration observed that, of the entities identified for abolition or merger:

More than half [are] advisory boards, advisory committees, councils and that sort of thing. And although people sit on those, they don’t actually employ people directly. So that won’t make any real difference. It’ll mean a reduction in the amount of advice flowing through, but it’ll make no difference to service delivery.766

The challenge for a department will be to assure itself and its minister that an appropriate range of reliable information and advice has been obtained and assessed from, for example, representatives of industry, academia, non-government organisations and sectoral interest groups.

The abolition of the COAG Reform Council, as discussed in ‘Federalism – an overview of changes,’ raises the risk of missed opportunities for independent assessment of and reporting on federal-state issues. Similarly, if the government were to act on the NCoA’s recommendation that the role of the Australian Public Service Commission should be subsumed into the Department of Employment, there is a risk that modest savings in the short term could be overshadowed by inefficiencies arising from the removal of a source of relatively independent information and advice about the public service.767

Although the government has identified a quantum of savings expected to result from the measures, previous experience points to difficulties when it comes to demonstrating that savings have been achieved.768

As outlined in the brief on ‘APS staffing and efficiencies,’ bargaining for enterprise agreements has commenced on an agency-by-agency basis. According to one commentator, a public service wide bargain would be a more efficient approach as it would minimise duplication of effort by government bodies – this represents an opportunity for savings that has been disregarded by the government.769

765. Ibid., p. 8.
768. Cormann, op. cit., p. 8.
**Australian Public Service staffing and efficiencies**

**Philip Hamilton**

**Efficiency measures**

In place for over 25 years, the efficiency dividend (the ED) is an annual funding reduction for Australian government agencies, in general applied only to ‘departmental’ expenses. Usually applied at a rate of either 1.00 or 1.25 per cent, in some years governments have increased the ED; the highest increase has been to four per cent.\(^{770}\)

The previous government set the ED at 2.25 per cent for the 2014–15, 2015–16 and 2016–17 financial years.\(^{771}\) This Budget increases that rate by a further 0.25 per cent in each of those years, and forecasts savings of $569.0 million over four years (including $25.0 million in capital savings). The Budget papers provide guidance to agencies in how the ED should be applied by indicating that ‘savings [are] to be targeted in areas such as reduced advertising, consultancy and travel costs and deregulation efficiencies.’\(^{772}\) The Australian Research Council has had a one-off 3.25 per cent ED applied to its administered funding for 2015–16.\(^{773}\)

A number of agencies usually exempt from the ED will be subject to one-off reductions that resemble the ED. For example, a reduction of one per cent will be applied to the Australian Communications and Media Authority, the Australian Broadcasting Corporation (ABC), and the Special Broadcasting Service Corporation (SBS).\(^{774}\) In the case of the ABC and SBS, an Efficiency Study is reviewing operations to ensure the organisations are as efficient and cost effective as possible. In that context, the one-off reduction is characterised as a down-payment on back office savings to be identified over the coming months.\(^{775}\)

**Staffing—Reductions**

It was no surprise that the Coalition’s first Budget included a reduction in public service staffing. Since May 2010 a target of 12,000 positions had been proposed by the Coalition, with the expectation that numbers would be reduced through natural attrition.\(^{776}\) In addition, the National Commission of Audit notes that implementation of its recommendations could result in ‘significant reductions in the number of mid-level public servants employed by the Commonwealth.’\(^{777}\)

However, in mid-November 2013, it became apparent that the 2013–14 Budget had included measures that would reduce public service numbers by approximately 14,500.\(^{778}\) Debate ensued about Labor’s ‘secret, unfunded’ cuts, and whether 12,000 would be in addition to 14,500.\(^{779}\) By Budget night, the government’s position was that the ‘indiscriminate’ reduction of 14,500 positions would be ‘managed,’ and augmented by the reduction of a further 2,000 positions arising from ‘deliberate decisions about functions, priorities and the proper scope of government.’\(^{780}\) The Treasurer stated that ‘16,500 staff will leave over the next three years without compromising frontline services,’ in line with the government’s view that ‘a smaller, less interfering Government won’t need as many public servants.’\(^{781}\)


\(^{771}\) C Bowen (Treasurer) and P Wong (Minister for Finance and Deregulation), *Economic statement August 2013*, media release, 2 August 2013, accessed 16 May 2014.


\(^{775}\) M Turnbull (Minister for Communications), *Putting our public broadcasters on a sustainable footing*, media release, 13 May 2014, accessed 16 May 2014.


\(^{779}\) M Cormann (Minister for Finance) and E Abetz (Minister for Employment), *Building a more sustainable public service*, media release, 13 May 2014, accessed 14 May 2014.


Staffing levels in the General Government Sector (GGS) are forecast to return to levels similar to those in place at the end of the Coalition government in 2007.\(^{782}\) Excluding military personnel and reserves, the forecast for the GGS in 2014–15 is 169,222, which is close to the 2006–07 figure of approximately 167,500.\(^{783}\) A peak of 182,505 was reached in 2011–12.

The Budget papers compare entities’ budgeted staffing numbers for 2014–15 with 2013–14. Entities with major reductions include the Australian Taxation Office (2,329), the CSIRO (489), the Australian Federal Police (347), and the departments of Foreign Affairs and Trade (535), Health (326), and Agriculture (232).\(^{784}\) The Budget papers report staffing numbers in terms of Average Staffing Level (ASL), a method of counting that adjusts for casual and part-time staff in order to show the average number of full-time equivalent employees. ASL is almost always a lower figure than a headcount of actual employees so, when staff are shed, the number of individuals who leave the public service will be higher than the ASL figure. This will contribute to the effects of job losses being particularly acute in Canberra.\(^{785}\)

Not all positions will be lost through natural attrition, and redundancies are foreshadowed.\(^{786}\) While the media and Opposition observed that the Budget’s provisions for redundancies were reducing, the government indicated that Budget measures for agency mergers and abolitions also included funding for redundancies.\(^{787}\)

The Minister for Finance has noted that the interim ‘recruitment freeze’ arrangements announced in October 2013 will continue.\(^{788}\)

Further reductions

The Finance Minister has foreshadowed that the ‘most comprehensive’ phase of consolidation in the number of government bodies will be considered by government in time for inclusion in the MYEFO 2014–15.\(^{789}\) With a stated focus on reducing the number of small agencies, potentially drawing from the recommendations of the National Commission of Audit, this phase could be expected to result in a further reduction in the number of public servants.\(^{790}\)

The Budget also included the relocation of approximately 600 public service positions to Gosford, about half comprising ATO positions.\(^{791}\) The government has indicated that ‘where there is the opportunity, where it makes sense,’ further one-off proposals for ‘decentralisation’ would be considered on their merits.\(^{792}\)

Enterprise agreements

On Budget night, the Treasurer announced a one-year freeze on the salaries of senior public servants.\(^{793}\) The salaries of the majority of public servants are determined in agency enterprise agreements which, in general, have a nominal expiry date of 30 June 2014.\(^{794}\) Following the release of new workplace bargaining arrangements in March 2014, negotiations for new enterprise agreements have commenced.\(^{795}\) The government’s position is that ‘public service conditions must not only be in line with community expectations, but they must be affordable and sustainable [and] agencies will be required to negotiate genuine productivity gains to offset

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\(^{782}\) The General Government Sector excludes entities that are mainly commercial.


\(^{786}\) Cormann and Abetz, op. cit.


\(^{788}\) Cormann and Abetz, op. cit.

\(^{789}\) The Mid-Year Economic and Fiscal Statement (MYEFO) is usually delivered in November or December each year.


\(^{795}\) Australian Public Service Commission (APSC), Australian government public sector workplace bargaining policy, 28 March 2014, accessed 16 May 2014.
public sector wage increases.’\textsuperscript{796} With that context, further impacts are to be expected in terms of staffing and conditions.

**Implementation of new Commonwealth financial framework**

On 1 July 2014, the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)* will replace the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* as the Commonwealth’s primary resource management legislation. The *PGPA Act* represents a shift in public resource management from a compliance approach to a principles-based framework. Transitional legislation, anticipated to be introduced in the Budget sittings, will address any changes required to implement the PGPA Act. Note, though, that materials for the Budget 2014–15 have been prepared with reference to existing legislation and frameworks.\textsuperscript{797}

\textsuperscript{796.} E Abetz (Minister for Employment), *Public service wage bargaining*, media release, 28 March 2014, accessed 16 May 2014.

\textsuperscript{797.} Budget Paper no. 4, op. cit., pp. 2–3.
**Science sector futures**

Matthew James

While medical research receives a boost through a new future fund within the health portfolio, research and development related agencies in many other areas of science are facing tight times. The main specific budget measure restriction (‘Science and Research Agencies – reduced funding’) details reductions in general research funding over four years for three agencies in the industry portfolio:

- Commonwealth Scientific and Industrial Research Organisation (CSIRO) – $111.4 million
- Australian Nuclear Science and Technology Organisation (ANSTO) – $27.6 million
- Australian Institute of Marine Science (AIMS) – $7.8 million.

This represents a total cut of $146.8 million to 2017–18.\(^{798}\) In addition, all agencies are subject to efficiency dividend requirements.

However, two of these same agencies benefit from other specific funding measures. This includes ANSTO gaining $31.6 million over the four years for operation of its Open Pool Australian Lightwater (OPAL) reactor, as well as $25.8 million to enable facilitation of the shipment and processing of its spent nuclear fuel assemblies.\(^{799}\) Similarly, CSIRO gains $65.7 million over the period to assist with operation of a new marine research vessel, to which it must also contribute.\(^{800}\) The Government is also to provide $22.6 million over three years to study design options and a second stage business case for a National Radioactive Waste Management complex.\(^{801}\)

After all this is taken into account, CSIRO will see its total government appropriation drop $30.9 million this year, down to $745.3 million.\(^{802}\) ANSTO will have $252.8 million in total government-sourced funds this year, while AIMS gains $23.5 million to $38.8 million for the year.\(^{803}\) Total net resourcing for Geoscience Australia drops from $201.3 million to $168.1 million.\(^{804}\) The Office of Spatial Policy is to shift to the communications portfolio.

Some of these agencies will immediately lose staff over the coming year: CSIRO drops 489 to 5034, ANSTO loses 63 to 1204 and Geoscience Australia declines 96 to 620, while AIMS drops 2 to 202.\(^{805}\)

The Co-operative Research Centres programme expense rises slightly this year to $149.8 million, but declines over the remaining four years as the Government reduces funding.\(^{806}\) The CRC program notes a $80 million cut over the next four years, with the 17th selection round not to proceed.\(^{807}\) A review of the CRC Programme is expected to commence by 30 June 2014 for finalisation by 30 March 2015.\(^{808}\)

For science education and communication, the budget provides $28 million over four years for activities including the Prime Minister’s Prizes for Science, National Science Week and some Questacon programs.\(^{809}\) As well, there is funding to support the expansion of Tropical Health and Medicine at James Cook University amounting to $42 million.\(^{810}\)

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799. Ibid., p. 162.
800. Ibid., p. 164.
801. Ibid., p. 169.
803. Ibid., pp. 128, 102.
804. Ibid., p. 223.
810. Ibid., p. 87.
Other portfolios

Further detail of funding across portfolios may be available when the Australian Government’s Science, Research and Innovation Budget tables are available. At one time they appeared with the budget, but are now not available for weeks or months.811

The Australian Academy of Science (AAS) laments a $74.9 million cut over three years to Australian Research Council (ARC) activities, along with a reduction to the Defence Science and Technology Organisation (DSTO) of $120 million and the charging of research student tuition fees for their PhD and Masters programs. The AAS welcomes $100 million over four years in new support for Rural R&D Corporations, and the medical research funds.812

The Science Technology Australia lobby body notes $150 million for an additional year (2015–16) of the National Collaborative Research Infrastructure Strategy (NCRIS).813 This may assist large science infrastructure such as the synchrotron and astronomy supercomputers.

From June 2016, National ICT Australia limited (NICTA) must be self-funding. The Government is to provide $84.9 million funding for the next two years. To enable this, the Department of Communications and the ARC will each contribute $21.4 million in 2014–15 and $21.0 million in 2015–16.814

The Government made an election commitment of $24 million over three years from 2014–15 for a new Antarctic Gateway Partnership, between the Australian Antarctic Division (AAD), the University of Tasmania and CSIRO to provide for collaborative larger scale scientific research. The money is to be used to transport scientists onto the ice and to the Southern Ocean area. The Government has also approved the process to procure a new icebreaker to replace the ageing Aurora Australis, with the new icebreaker to be based in Hobart.815 However, specific funding is not clear yet for the vessel. Ongoing forward funding in the budget provides for Antarctic research, transport and station operation.

Regarding the Medical Research Future Fund (MRFF), the Government says that it is establishing the Fund from 1 January 2015 (subject to the passage of legislation), with the uncommitted funds in the existing Health and Hospitals Fund to be transferred into the Fund at its inception.816 See the separate briefings on health policy for further information on the scheme’s funding.

The Fund’s capital is set to be preserved in perpetuity, with net interest earnings distributed to support medical research through the National Health and Medical Research Council (NHMRC). If legislation is passed, the fund will start paying out from 2015–16 ($20 million in that year), increasing to $500 million in 2019–20 and to about $1 billion by 2022 and thereafter.817

It is undoubtedly true that this is a large endowment, and that medical research in Australia is likely to benefit considerably from the funds. How exactly they are spent, however, is an important question. A controversial issue in medical research funding is the relative importance of preventative versus curative health measures. The discussion in that area looks set to continue.

813. Science and Technology Australia (STA), $420m science and tech cuts threaten prosperity, media release, 14 May 2014, accessed 14 May 2104.
814. M Turnbull (Minister for Communications), Transitioning NICTA to a self-sustaining model, media release, 13 May 2014, accessed 14 May 2014.
815. G Hunt (Minister for the Environment), Boosting Australia’s commitment to Tasmania and Antarctica with new icebreaker, media release, 13 May 2014, accessed 14 May 2014.
Aged care
Leah Ferris

Compared with recent budgets, aged care was not a prominent feature in this Budget. Most of the measures are aimed at reducing aged care expenditure in order to achieve overall savings and there is little funding for new initiatives.  

This is the first budget since aged care has been moved from the Department of Health to the Department of Social Services. This change appears to reflect the Government’s view of aged care as a social service, as opposed to a priority area for reform. As noted by Hal Kendig, Professor of Ageing and Public Policy at the Australian National University, ‘it is telling that the Department of [Social] Services did not mention aged care in its media releases though the Budget outcomes statement did include residential and community care’. Aged care was also not featured in the portfolio overview.

The most discussed measure in the Budget with regards to aged care is the ceasing of the Aged Care Payroll Tax Supplement from 1 January 2015. This Supplement is currently paid to private residential care providers who, unlike not-for-profit providers, are required to pay state governments’ payroll taxes. In its report, the National Commission of Audit recommended that the Supplement should cease, ‘as it is effectively shifting the payment of a State tax to the Commonwealth’. The Government has stated that by discontinuing the Supplement, it ‘will remove an indirect transfer payment from the Commonwealth to states, saving the Budget around $653 million over the next four years’. Private aged care providers have opposed this change, with Leading Age Services Australia (LASA) stating that it will ‘erode capacity for providers to deliver frontline care services to older Australians’. Ian Yates, the CEO of the Council of the Ageing (COTA), has stated that it ‘will see aged care providers pass on more than $650 million to consumers over the next four years in higher accommodation charges’. Providers have also expressed disappointment over the lack of consultation.

As a way of lessening the pain, the Government also announced that it will provide $1.5 billion over five years to increase aged care subsidies. Residential, home care and flexible care providers will have their basic subsidies increased by 2.4 per cent from 1 July 2014. This will also apply to some grant programs, such as the Home and Community Care Program (HACC). The viability supplement, which is aimed at supporting small providers in rural and remote areas, will be increased by 20 per cent. This is not new funding—it has been re-directed from the Aged Care Workforce Supplement which was introduced in the 2012–13 Budget to improve wage conditions for aged care workers and will be discontinued from 1 January 2015.

This redirection of funding has been welcomed by the majority of aged care providers, who argued that the Aged Care Workforce Supplement was not an attractive option for providers and had resulted in inequality between those who chose to sign up and those that had not. Catholic Health Australia argued that the funding should have always been available to all providers, regardless of wage conditions and that ‘governments should have no role in setting wages for workers’. Blue Care especially applauded the increase in the Viability Supplement, noting that ‘small providers, particularly in rural and remote areas play a crucial role in many communities and are the only option for older people to remain in their community’. However, other stakeholders noted that nothing had been done to address the growing issue of workplace shortages in aged care. In particular, COTA

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823. Australian Ageing Agenda, op. cit.
824. Ibid.
825. Ibid.
827. Australian Ageing Agenda, op. cit.
828. Ibid.
829. Ibid.
830. Ibid.
commented that ‘giving aged care providers back the $1.5 billion Aged Care Workforce Supplement over five years will do nothing for development of the aged care workforce’.  

There were also significant changes to funding for home care services. Both the Home Care Packages Program and the Home Support and Respite Programme provide home based care, with the former providing high level care for residents still able to live at home and the latter providing more basic services. The Government has announced that it will cut the rate of real growth in the Home Support and Respite Program from 2018–19 to 3.5 per cent above indexation to align with the growth in Australia’s ageing population. This reduction ‘will not affect current funding to providers and [will] save the Budget $1.7 billion over the next ten years’.  

This changed has been opposed by both COTA and Aged and Community Services Australia (ACSA). COTA noted that these changes will affect the front line of aged care and that it makes no sense to reduce the rate, while ACSA stated that it would be taking this up with the Government.

The other change to the Home Support and Respite Program is the decision not to proceed with further grant rounds in 2013–14 under the National Respite for Carers Programme (NRCP). Under the Home Support and Respite Program, there are two main types of home support—the HACC program and the NRCP. The purpose of the NRCP is to provide respite to carers in a number of different settings. By not proceeding with further grant rounds the Government will achieve savings of $7.7 million. Providers of respite care had suspected this funding may be cut, with the Government refusing to confirm the Budget situation in March, but nothing was announced until Budget night. While this appears to be a temporary measure, with $965.1 million over four years remaining in the Program, it will have a significant impact on those carers who rely on respite services and may lead to some families having to move people into residential care.

With regards to the Home Care Packages Program, the Government has brought forward the allocation of home care places. This has been welcomed by stakeholders, though it does not allow for the provision of more home care places.

While the largest area of aged care expenditure is residential care, the majority of Australians who receive aged care services live at home or in the community and wish to remain there as long as possible. These changes to the current funding arrangements may limit consumers’ ability to access home care services and may force them into moving into residential care sooner.

Compared with other areas in the Social Services portfolio, aged care has been spared from the majority of funding cuts. The Government appears to be focused on continuing with implementing Labor’s Living Longer, Living Better reforms and has left the question of future changes open. Hal Kendig believes that ‘aged care will surely emerge more prominently in the lead-up to the next election’ and that consumers can expect to contribute more due to new means testing arrangements. With the number of older Australians growing, it is important that the momentum for reform continues to address sustainability issues within the sector, while maintaining quality of care.

831. Ibid.
835. Ibid.
836. Australian Ageing Agenda, op. cit.
837. Ibid.
Changed indexation of pensions and tightened eligibility for all benefits

Michael Klapdor

The 2014–15 Budget contains a range of measures which will affect the payment rates and eligibility conditions for pension payments made to the aged, veterans, carers, people with disability and single parents as well as income support payments paid to the unemployed, the sick, and young people. The measures include changed indexation arrangements for pensions, a freeze on means test limits and thresholds for all benefits and changes to the income test for pensions.

Changes affecting pension payments for the aged, veterans, carers and people with disability will not take effect until July 2017, after the next election. Those affecting pension payments for single parents and other benefit recipients will take effect from July 2014. At the 2013 election, the Coalition promised ‘no cuts to pensions’—the delayed commencement of these changes ensures that the savings measures affecting the main pension payments do occur during the 44th Parliament.838

Pension indexation

The 2014–15 Budget proposes to change indexation arrangements for the Age Pension, veterans’ pensions, Carer Payment, Disability Support Pension and Parenting Payment (Single) so that payment rates are only adjusted by movements in the Consumer Price Index (CPI). The measure will save $449.0 million over five years.839

Currently, most pensions are indexed twice each year (on 20 March and 20 September) by the greater of the movement in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI). They are then ‘benchmarked’ against a percentage of Male Total Average Weekly Earnings (MTAWE). The combined couple rate is benchmarked to 41.76 per cent of MTAWE; the single rate of pension is set at 66.33 per cent of the combined couple rate (which is equal to around 27.7 per cent of MTAWE). ‘Benchmarked’ means that after it has been indexed, the combined couple rate is checked to see whether it is equal to or higher than 41.76 per cent of MTAWE. If the rate is lower than this percentage, the rates are increased to the appropriate benchmark level.

Other income support payments such as Newstart Allowance are also indexed twice a year but only in line with movements in the CPI. Parenting Payment (Single) was previously adjusted in the same way as other pensions but from 2009 has been indexed to CPI and benchmarked to 25 per cent of MTAWE.

Indexing pension rates to CPI maintains their real value over time. The PBLCI is designed to check whether pensioners’ disposable incomes have kept pace with price changes. The MTAWE benchmark is not intended to maintain the value of the pension relative to costs; it is seen as ensuring pensioners maintain a certain standard of living, relative to the rest of the population.

Previous changes to indexation

Prior to 1997, pension payments were only indexed in line with movements in CPI (automatic CPI indexation commenced in 1976). Labor policy from the Whitlam Government onwards was to benchmark single pension rates to 25 per cent of MTAWE and ad hoc rate increases were made in line with this policy. The Howard Government introduced automatic benchmarking of the single pension rate to MTAWE in 1997. In 2009, the Rudd Government increased the single rate of pension, and introduced the current indexation method which reflects movements in the CPI, PBLCI and MTAWE.840

Removing the earnings benchmark and the PBLCI from the indexation formula

In recent decades, earnings have tended to increase at a faster rate than prices, meaning that pension rates have increased significantly in real terms and led to a growing gap with allowance payment rates. This has also meant increases in expenditure on pensions. The Age Pension is the Commonwealth’s largest expense program (after revenue assistance to the states and territories), and expenditure on pensions for seniors, people with disability and carers will total almost $67 billion in 2014–15 (not including expenditure on pensions for veterans or single parents).841 Removing the MTAWE benchmark will curb the rate of growth in expenditure on the various pensions significantly in the years beyond the forward estimates, assuming CPI does not outstrip wage...
growth. Removing the PBLCI from the indexation formula is also likely to reduce the rate of increase considering the PBCLI has driven three of the ten pension increases since it came into use (six were driven by MTAWE and the most recent by CPI).

The National Commission of Audit recommended benchmarking pensions to 28 per cent of Average Weekly Earnings (AWE) rather than the current MTAWE benchmark. AWE includes male and female wage earners and is lower than MTAWE which only measures average male earnings (both measure both full and part-time earnings). The 2009 Harmer Review of pensions considered pension rates and indexation in detail and found that both CPI and MTAWE have drawbacks that make them ‘less than ideal measures to ensure the maintenance of an appropriate rate of pension over time’. The Harmer Review recommended the development of the PBLCI and also recommended replacing the MTAWE benchmark with a measure of the net income of an employee on median full-time earnings. The Review found that this measure, while not without limitations, would more accurately reflect community living standards.

Indexation policy is concerned with maintaining payments over time and this is connected to the question of whether the payment offers adequate support. Determining adequacy is very difficult given the diverse levels of need for income support recipients and differing opinions on whether support should be in terms of costs or relative to general living standards. The Government has not addressed these questions in changing the indexation settings for pensions, stating only that this will ensure indexation is consistent across social security payments and expenditure is sustainable.

Reduced rates and restricted eligibility

The budget savings from this measure arise from lower growth in the rate of payment provided to pensioners. Effectively, pensioners will receive a lower payment over time than they would have had the indexation method not been changed. Lower payments also affect the impact of the pension means test with less people likely to qualify for a payment under the income and assets test over time. The savings predicted in the Budget are modest compared to the impact of these measures in the years beyond the forward estimates.

‘Fair’ and ‘unfair’ indexation

The Government recently passed legislation applying the current pension indexation arrangements to some military superannuation benefits. The Coalition has long described this as applying ‘fair indexation’ to these military superannuation benefits. The Budget has allocated $1.4 billion over four years to help fund the military superannuation indexation measures. The measures will also increase the unfunded liability of these schemes by $5.1 billion as at 1 July 2014. Boosting the benefit rates for these military superannuation benefits, at a significant cost to the Budget, while lowering the anticipated payment rate of veterans’ service and disability pensions appears to be grossly inconsistent and inequitable.

The proposed changes to indexation will mean the end of automatic real increases in pension rates but will maintain the real value of the payment rates over time. Massive savings are likely though not included in the forward estimates due to the delayed implementation of the main pension measures until after the next election. Pensioners will see lower increases in their payments than would have been anticipated and will gradually fall behind in relative measures of income and living standards. However the relativity with other income support payments will be maintained.

Indexation freeze on income and asset test thresholds for all pensions, allowances and benefits

The Government estimates that $1.5 billion will be saved over four years through a freeze on the income and asset test threshold for all Australian Government payments. The thresholds for Family Tax Benefit, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payment (Single and Partnered) and Youth Allowance

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will not be subject to annual CPI indexation for three years from 1 July 2014. The relevant thresholds for pension payments (including Age Pension, Carer Payment, Disability Support Pension and veterans’ pensions) will not be subject to annual CPI indexation for three years from 1 July 2017—as with the changes to pension rate indexation, the delayed commencement of the measures affecting pensions is intended to meet the Government’s ‘no cuts to pensions’ commitment.

A range of income thresholds and limits are indexed in line with movements in the CPI, either on 1 January or 1 July of each year. Relevant thresholds include:

- income free areas—the amount of income a person can earn before their payment begins to be reduced. For example, the income free area for single pensioner increased from $152 a fortnight to $156 a fortnight on 1 July 2013
- asset test limits—the maximum value of assets a person can have before losing qualification for a payment. For example, the asset limit for a single, non-homeowner Newstart Allowance recipient increased from $332,000 to $339,250 on 1 July 2013 and
- payment limits or cap—the maximum amount a person is entitled to claim. For example, the Child Care Rebate limit which is set at $7,500 per child (and has had its indexation frozen since 2011–12).

Savings will arise from lower rates of payment being provided to those whose earnings or assets increase in value over time as well as from less people being eligible for the various affected payments as their income or assets push them beyond the qualifying limits. Significant savings to the Budget will arise in the years beyond the forward estimates as the freeze on limits for pension payments begin to take effect.

The Government has continued in the tradition of successive Labor government budgets which identified large savings through indexation freezes. This method of achieving savings has a less noticeable impact than eligibility rule changes or payment rate cuts but will still see a comparatively large number of people affected as their income and asset values increase and they lose more of their benefits. The measures are purely savings measures and do not constitute real reform of the welfare system.

Reducing the deemed income thresholds for the pensions asset test

A further change to the pension means test, lowering the deeming thresholds, will accrue minor savings of $32.7 million for one year of operation (in 2017–18) but significant savings in the years beyond the forward estimates. Deeming is used to assess income from financial investments for social security and veterans’ payments. Deeming assumes that financial investments of a certain value are earning a set rate of income, regardless of the amount of income actually earned. The main types of financial investments to which deeming rules apply are: bank, building society and credit union accounts and term deposits; managed investments, loans and debentures; and, listed shares and securities.

Currently a deemed income rate of 2 per cent applies to the first:

- $46,600 of a single pensioner’s total financial investments and
- $77,400 of a pensioner couple’s total financial investments.

A deemed income rate of 3.5 per cent applies to financial investments above these amounts. The thresholds at which the higher deeming rate begins to apply are indexed in line with the CPI in July each year while the deemed income rate is determined by the Minister for Social Services. The Budget measure will reduce the amount of assets to which the lower deeming rate applies to $30,000 for singles and $50,000 for couples (the level set in 1996). This will increase the amount of income included in the income test for pensions and mean more people will receive a part-rate pension and some will lose eligibility for a pension altogether.

847. Ibid., p. 208.
Changes to Disability Support Pension

Dr Luke Buckmaster

The Budget announced changes to the Disability Support Pension (DSP) intended to ‘help young people with disability enter the workforce if they are able to do so’. 849

The DSP provides income support for people who have a disability and are unable to work for 15 hours or more per week. 850 Recipients must be permanently blind or have been assessed as having a physical, intellectual, or psychiatric impairment of at least 20 points under a classification system known as the impairment tables.

From 1 July 2014, DSP recipients under 35 years of age with an assessed work capacity of eight hours or more per week will be required to participate in ‘compulsory activities’ aimed at assisting them to find employment.851 Participants will be required to develop a participation plan which will include activities such as Work for the Dole, job search, work experience, education and training, and connection with Disability Employment Services. 852 This will be the first time that participation requirements have been attached to the DSP. The measure is expected to cost $29.3 million over five years from 2013–14.

The Budget also includes a measure to review the eligibility of DSP recipients aged under 35 years who were granted DSP between 1 January 2008 and 31 December 2011. Eligibility will be reviewed against the revised impairment tables introduced on 1 January 2012. Under the new impairment tables, eligibility for support is focused more on the extent to which a person is impaired from working and less on whether a person has been diagnosed with a disabling condition. Those found eligible would continue to receive DSP and be subject to the new participation requirements outlined above. Those found ineligible would need to find employment and/or apply for income support through an Australian Government payment such as Newstart Allowance (NSA).

Currently, the maximum payment rate of DSP for a person aged over 21 is $766.00 per fortnight, while the maximum payment for a single person on NSA is $510.50. The Government will provide $46.4 million over five years for this measure, which will terminate on 30 June 2019.

At June 2013, only around 17 per cent of DSP recipients were aged under 35 years, while over half (56.2 per cent) were over 50 years old. 853

The Budget also announced changes to portability arrangements for DSP. From 1 January 2015, DSP recipients will be able to travel overseas for no more than four weeks in a 12 month period and still receive the payment. Currently, DSP recipients may be paid for temporary absences from Australia for up to six weeks, on multiple occasions in a given year. This measure is expected to result in savings of $12.3 million over five years.

Growth in DSP receipt

Receipt of DSP has grown substantially over the last three decades, despite various attempts to tighten criteria for eligibility. The numbers of people on DSP grew from 216,600 in June 1982 to 821,700 in June 2013. 854 This has led the Government to question the sustainability of the DSP in the absence of further reform. 855

However, as the Parliamentary Library has previously noted, there is evidence that previous attempts at reform of DSP have been confounded by factors external to the payment itself. 856 A recent paper by economists, Duncan McVicar and Roger Wilkins, found that around 117,000 of the 600,000 additional DSP recipients since 1982 was driven by population growth in the working age population (those aged 16-64 years). 857 They

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suggested a further 17 per cent of the increase in the working age population receiving DSP was attributable to population ageing.  

The main driver of growth in DSP receipt, they argue, has been changes to other payments, such as the increase in the age at which women can receive the Age Pension; the closure of other income support payments such as Mature Age Allowance and Partner Allowance; and tightening of eligibility for Parenting Payment. The increasing disparity in payment rates between NSA and DSP in recent years has also probably made it much more likely that people with some capacity to work who may previously have registered for the former, are more likely to apply for the latter so as to receive higher rates of payment and be subject to a more liberal means test.

Indeed, the authors show that the percentage of the working age population with a disability receiving welfare has declined since 1993, leading them to wonder ‘whether there would be quite so much concern about the rise in DSP receipt were this simple fact widely appreciated’.  

Improving workforce participation by people with disabilities

As the Government notes, workforce participation by people with disabilities is low in Australia compared with other Organisation for Economic Cooperation and Development (OECD) countries. A 2010 OECD report found that Australia ranks 21st out of 29 OECD countries in employment rates for people with a disability. Further, in Australia, a person with a disability has a poverty risk around 2.7 times higher than a person without a disability, which puts Australia 27th out of 27 OECD countries on this measure.

While the measures outlined above may result in some slowing in the growth of DSP receipt, they are unlikely to lead to a general improvement in the workforce participation and self-support of people with disabilities. The Government says that it ‘will continue to provide employment support to people with disability through Disability Employment Services, which offer a range of services including helping people with disability to prepare for work, providing job search support and providing support once placed into a job’. However, the Budget does not include any additional funding for Disability Employment Services.

It is likely that improving employment rates for people with a disability will require more than changes to the DSP and the continued provision of employment services. This is particularly so, given that unemployment is forecast to increase over the next few years. In a recent Parliamentary Library Lecture, Craig Wallace, president of People with a Disability Australia, argued that for genuine improvements to take place Australia would need to commit to a national challenge to create jobs for people with disabilities over the next decade. This would involve more innovative approaches and setting targets for numbers of jobs to be created. He argued that 200,000 additional jobs (20,000 per year for 10 years) is ‘reasonable’ but requires ‘policy ambition’.

There is likely to be a range of views on the extent of this ambition and the manner in which it might be achieved. Further, the measures introduced by this Budget indicate that greater emphasis will be placed on improving the capacities of some people with disabilities on DSP to find employment. Nevertheless, there is little doubt that more substantial and sustained policy effort aimed at overcoming structural and institutional barriers to employment will be required to achieve the Government’s objective of helping people with disabilities into work.

858. Ibid., p. 347.
859. Ibid., pp. 351–3.
860. Ibid., p. 351.
Changes to support for pensioners and retirees

Michael Klapdor

The 2014–15 Budget cuts funding or restricts eligibility for a range of programs that provide assistance to pensioners and self-funded retirees, including: increasing the Age Pension age to 70 by 1 July 2035; terminating the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders from 1 July 2014; abolishing the Seniors Supplement from 20 September 2014; and including untaxed superannuation income in the income test for the Commonwealth Seniors Health Card (CSHC) from 1 January 2015.

Increasing the Age Pension age to 70

The 2014–15 Budget confirmed speculation that the qualifying age for the Age Pension will be raised to 70 by 2035. The current qualifying age is 65. The Labor Government introduced measures in 2009 to increase the pension age to 67 through gradual increases during the period July 2017 to July 2023. The proposal contained in the 2014–15 Budget is to continue to increase the pension age by six months every two years from 1 July 2025 until it reaches 70. The measure does not affect this Budget and is intended to help address the impact an ageing population will have on government finances in the long term.

An ageing population increases demand on the Budget through increased expenditure on pensions as well as services such as health and aged care. Another issue is the projected decline in the number of potential workers—taxpayers—in proportion to the number of aged people needing support from government. In 2010, there were five people of working age for every person over the current pension age; it is estimated that this number will fall to 2.7 by 2050.

Options to address these budget pressures include: increasing revenue, reducing expenditure on the aged, and ensuring more people can provide for their own retirement (via superannuation). The Government has included a number of these options in this Budget: increasing the qualifying age to both increase revenue (taxpayers will contribute for longer periods) and limit expenditure (by reducing the number of people eligible for pensions); slowing the growth of pension rates by changing indexation; and tightening eligibility through freezes on current means test limits.

Raising the pension age is one of the most controversial of these measures as many people, particularly those undertaking physically demanding work, are concerned they will not be able to continue working until they are 70. There are also concerns as to the fairness of an increase in the pension age and its impact on more disadvantaged groups in the community. The effectiveness of the measure in terms of reducing budget pressures will depend in large part on whether access to superannuation is also delayed (the preservation age is currently legislated to increase to 60 by 2024), the capacity of older Australians to remain in the workforce, as well as the extent to which those over 65 move to other income support payments such as the Disability Support Pension.

Terminating funding for concessions

The Pensioner Concession Card (PCC) entitles holders to a range of benefits including cheaper medicines under the Pharmaceutical Benefits Scheme as well as a wide range of discounts and services provided by state, territory and local governments. Most important among the concessions provided by state and territory governments are discounts on rates, utility bills, motor vehicle registration charges and public transport fares. For example, in New South Wales, PCC holders can receive a $225 rebate on their yearly electricity bills and are exempt from fees for licences, registration and the motor vehicle tax.

Under the National Partnership Agreement on Certain Concessions for Pensioner Concession Card and Seniors Card Holders, the Commonwealth provides financial assistance to the states and territories for the provision of

869. The latter two measures will take effect in 2017–18. For details on these measures see the accompanying article in this Budget Review: ‘Changed indexation of pensions and tightened eligibility for all benefits’.
these concessions to PCC holders. The most recent Agreement commenced in January 2013 and is set to expire on 30 June 2016. The Commonwealth intends to terminate this agreement from 1 July 2014, and will no longer provide financial assistance to the states and territories for the provision of concessions, providing savings of $1.3 billion over four years.

The states and territories are yet to issue a response to this measure but it is likely that, without this financial assistance, many concessions currently available will be withdrawn or reduced. Any changes will raise the cost of living for pensioners and retirees, particularly in terms of energy bills and transport costs.

### Abolishing the Seniors Supplement and improving the income test for the CSHC

The 2014–15 Budget also proposes abolishing the Seniors Supplement payment from 20 September 2014, paid to CSHC holders and eligible Veteran Gold Card holders, and tightening eligibility for the CSHC by including untaxed superannuation income in the income test from 1 January 2015.

The CSHC assists certain seniors with the cost of prescription medicines and other health services. The card is targeted at self-funded retirees of Age Pension age who do not qualify for Age Pension because of their level of income or assets. To be eligible for the card, seniors must have an adjusted taxable income of less than: $50,000 for singles; $80,000 for couples (combined income); and $100,000 combined for couples separated by illness, respite care or prison. An amount of $639.60 per year is added to the allowable income amount for each dependent child. There is no assets test for the CSHC.

- Since July 2007, persons aged 60 or more with income from private taxed superannuation sources (lump sums or periodic payments) have had their superannuation income treated as being tax free. As the CSHC income test uses adjusted taxable income it does not currently include non-taxed private superannuation as income, even though it is one of the main sources of income for retirees. In the 2008–09 Budget, the Labor Government proposed including tax-free superannuation income in the income test but the measure was later dropped. The National Commission of Audit took issue with the exclusion of this source of income in its recent report and recommended that it be added to the definition of adjusted taxable income for the purposes of determining eligibility for the card.

- Including tax-free superannuation in the income test will mean an improvement in the targeting of the CSHC, ensuring it is provided to those who need it most. While many self-funded retirees will miss out on the card in the future, current holders of the card will have any existing account-based superannuation income treated under the current rules. These grandfathering arrangements will reduce the overall saving from the measure which is expected to achieve savings of only $20.9 million over five years.

- Abolishing the Seniors Supplement, a payment worth $876.20 a year for singles or $660.40 a year for a member of a couple and paid to CSHC holder and eligible Veterans’ Gold Card holders, will achieve savings of $1.1 billion over five years. The loss of the payment will affect more than 280,000 CSHC holders The Clean Energy Supplement, paid in addition to the Seniors Supplement, will still be paid in line with the Coalition’s election commitment to keep carbon tax compensation measures. It is worth around $361 per year for singles and $273 per year for members of a couple.

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873. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2013–14, 2014, accessed 15 May 2014.


Family payments
Peter Yeend and Michael Klapdor

The 2014–15 Budget proposes a number of changes to the Family Tax Benefit (FTB) program. These changes were not unexpected given the impetus for reform in this program in recent years, particularly in regards to concerns about ‘middle class welfare’. 876 The National Commission of Audit recommended major changes to the FTB program to better target assistance to those most in need and to achieve significant Budget savings. 877 The FTB program is estimated to cost $20.1 billion in 2013–14. 878

FTB changes in the Budget
The changes to the FTB program proposed in the 2014–15 Budget are: 879

• better targeting of Family Tax Benefit Part B (FTB-B) by lowering the income cut-off point for sole-parents and primary earners in a couple from $150,000 down to $100,000

• introducing a new FTB allowance for single parents on maximum rate of FTB-A who have a child aged six to twelve years, worth $750 per child, to partially makeup for the loss of access to FTB-B

• limiting FTB-B to families with a child under age six years

• limiting the Family Tax Benefit Part A (FTB-A) Large Family Supplement to families with four or more children; currently it is provided to families with three or more children

• maintaining FTB payment rates for two years, that is, they will not be indexed

• removing the FTB-A ‘per child add–on’—currently under the FTB-A income test the second taper of 30 cents in the dollar commences at $94,316 for one child, but is increased by $3,796 each additional child. This will mean for all families, regardless of the number of children, the second step in the FTB-A income test taper will start at $94,316, and

• reducing the FTB end-of-year supplements to their original 2004 values of $600 for an FTB-A child and $300 for an FTB-B family—they are currently $726.35 per FTB-A child and $354.05 per family for FTB-B.

The Government has stated that it intends to ‘ensure the family payments system is sustainable in the long term’ and is ‘better targeted to support those who need it most’. 880 The net savings for the overall FTB program is $7.3 billion over four years; with the estimated annual outlays for the FTB program falling from $20.1 billion in 2013–14 to $16.8 billion in 2017–18. 881

Changes do not constitute real reform
While the proposed changes to FTB-B will have a significant impact, the changes do not constitute a major reform to the FTB program. The National Commission of Audit report recommended collapsing FTB-B into FTB-A and reforming the income test so that a single 20 per cent taper rate applied to income over the income test free area. 882 A similar overhaul was also recommended by the 2009 Henry Review of Australia’s Future Tax System. 883

The measures do not address a number of major issues with the FTB program such as the issue of vertical equity that was highlighted in the National Commission of Audit report. 884 Vertical equity is the concept that those with lesser means should receive higher levels of assistance. Under the current FTB-A rules, the same rate of FTB-A is

879. The budget measures and figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2. 2014–15, 2014, pp. 197–200, accessed 16 May 2014.
880. K Andrews (Minister for Social Services), Supporting parents through a sustainable, better targeted family payments system, media release, 13 May 2014, accessed 16 May 2014.
paid across an income range from $64,350 to $94,316. The net result is that a family with one child aged 0–12 with income of $94,000 will receive the same assistance as a like family with income of $65,000. This issue has been in existence since the FTB program was introduced in 2000.885

The measures also fail to address participation disincentives inherent in the interaction between FTB, other government benefits and the tax system. Multiple family payments with separate withdrawal rates combine with tax rates to reduce returns on employment, particularly for second-earners in partner families.886 The budget measures reduce payment rates and eligibility, reducing government expenditure, but these participation disincentives persist.

Impact on single parents

The group that will probably be most affected by the changes to FTB-B, and by a range of other measures in the Budget, will be single parents. In 2010–11, 643,000 single parents received FTB-B, many of whom were also reliant on income support such as Parenting Payment and Newstart Allowance.887

Those reliant on income support and family assistance will face significant financial pressures as a result of measures in this Budget: for example, around 85,000 single parents on Newstart Allowance with children aged six and over are set to lose the substantial support that FTB-B offers (currently $3,069.65 per year including the end of year supplement and Clean Energy Supplement).888 These parents are also set to lose the Income Support Bonus ($215.60 per year) and the Schoolkids Bonus ($410.00 per year for a primary school child).889 These parents will, however, receive the new FTB allowance worth $750 per child aged between six and 12. Other measures that will directly impact on these single parents are:

- the reduction in the end of year supplement amounts for FTB-A and the freezing of payment rates for two years
- the freezing of the income test thresholds for FTB, income support payments and Child Care Benefit as well as the annual cap for the Child Care Rebate890
- the termination of funding to the states and territories for the provision of concessions to Pensioner Concession Card—this could see a significant reduction in the concessions available to single parents who are card holders, but the potential impacts will vary between jurisdictions891
- the cessation of the Pensioner Education Supplement that single parents on income support can access if they return to study and
- the proposed patient contribution for medical services along with the proposed increases in the co-payments for prescribed pharmaceuticals under the Pharmaceutical Benefits Scheme.892
- Groups such as single parents who are reliant on government assistance will face challenges on many fronts as a result of this Budget and the Government’s drive for savings.

886. See Australia’s Future Tax System Review Panel, op. cit., p. 64.
890. See the article in this Budget Review: ‘Changed indexation of pensions and tightened eligibility for all benefits’.
891. See the article in this Budget Review: ‘Changes to support for pensioners and retirees’.
Workforce participation measures
Dr Matthew Thomas and Peter Yeend

Participation incentives for under 30s
There are several significant changes to working age income support arrangements in this Budget, targeting increased employment participation and self-support. They are:

• Compulsory participation requirements for Disability Support Pension (DSP) recipients aged under 35 years.893 (See the budget review article Changes to the Disability Support Pension.) This is new; there have not been participation requirements attached to the DSP program since its inception in November 1991, nor to its predecessor, the Invalid Pension.

• A six month waiting period before payment commences for Newstart Allowance (NSA) and Youth Allowance (YA) claimants aged under 30 years, during which time they will be required to satisfy work search activity test requirements.894 Meeting job search requirements will demand participation in Work for the Dole (WfD) but also registering with a Job Services Australia provider and actively seeking suitable paid employment. This has echoes of the school leaver deferment period, which applied from 1976 to 1998, in which payment couldn’t commence until the beginning of the new school year and in some cases the non-payment period was 12 to 13 weeks.

• The raising of the qualification age to access NSA and Sickness Allowance from 22 to 24 years of age.895 With the last two changes, it will be quite difficult for a young unemployed job seeker to access an income support payment if they have just become unemployed and are looking for work. As is stated in the Budget papers, the intention is that ‘young people should be earning or learning’.896 For affected people aged under 30 the steps in accessing income support are summarised below:

  • Phase 1 (Initial six months) – no payment of YA or NSA. Period can be reduced by previous full-time work history – one year of equivalent full-time work is one month off the maximum 6 months. There are exemptions.897
  • Phase 2 (Next six months) – can access YA or NSA if undertaking a WfD program for up to 6 months.
  • Phase 3—In the next six months the jobseeker can only access assistance indirectly via a wage subsidy paid to an employer. The subsidy paid to the employer will be the amount of YA or NSA otherwise payable to the jobseeker.
  • Phase 4—This six month period is essentially back to Phase 2; that is, job seekers must participate in a WfD program to access payment of YA or NSA.

The six month waiting period measure is anticipated to realise savings of $1.2 billion over four years and will commence from 1 January 2015.898 The bulk of the savings will be gained through the non-payment of any NSA or YA for this six month waiting period. Accordingly, in the forward estimates for job services there are significant amounts allocated to provide WfD programs and other employment assistance connected to these changes. This starts off at $19.4 million in 2014–15, increasing to $215.0 million by 2017–18.899 Notwithstanding the quite large increase in funding allocated to job services providers to cope with the increased demand from job seekers, there are few complementary job creation initiatives in this Budget. It is to be assumed that the Government is anticipating that employment outcomes will be largely achieved through the

895. Ibid., p. 203.
897. People exempt from 6-month waiting period are those in full-time education; have a partial work capacity (<30 hours per week); a single parent receiving Family Tax Benefit for a child; a part-time apprentice; a principle carer parent; a Stream 3 or Stream 4 job seeker (or Remote Jobs and Communities Programme equivalent) under the current employment services arrangements; or eligible for Disability Employment Services.
incentive effects of depriving job seekers access to income support, combined with increased job placement activity by Job Services Australia and wage subsidies.

Interestingly, the significant tightening of access to income support payments for younger people does not appear to have a corresponding impact on expected average duration on payment or exits off payments within 3 and 12 months of grant. The anticipated figures for these trends for both YA and NSA are not expected to vary from 2013–14 to 2017–18. 900 Given the quite radical nature of the ‘earn or learn’ changes, this seems odd.

Work for the Dole expansion

In keeping with its election commitment to ‘reinvigorate the Work for the Dole programme’, the Government has made Wfd the default Work Experience Activity for job seekers under 30 years of age and allocated substantial funding for the program’s expansion. 901 This funding is more than offset by the anticipated $1.2 billion in savings over the forward estimates period to be realised through restricting young people’s access to income support. 902

The Wfd programme was introduced by the Howard Government in 1998. The program is based on the principle of mutual obligation, with the logic being that through participation job seekers are able to improve their prospects of gaining paid employment and give something back to the community that supports them.

The program has been found to have had a modest impact on job seeker employment outcomes. 903 According to two departmental evaluations of the program, Wfd had a net impact on employment outcomes of over 7 per cent, and this was found to increase over time. 904 Given that many program participants are likely to be highly disadvantaged young people, Anne and John Nevile have observed that this is a reasonable result. 905 There is also some (albeit limited) evidence to suggest that the Wfd program has helped to inculcate in some participants personal skills that improved their employability. These include communication, interpersonal and organisational skills, which can help to boost the self-confidence and motivation of participants.

Wfd has also been the subject of some criticism. 906 Much of the criticism has been either to do with the compulsory nature of the program or the claim that participation in Wfd actually reduces people’s probability of finding employment. The latter is primarily based on the argument that the work experience gained by Wfd participants is relatively ineffectual in that it is not linked to paid work or accredited training. 907 There is also the possibility that Wfd participation has a ‘lock-in’ effect for some participants, reducing their job search activity. Most critics agree that, to the extent that the emphasis of the program is primarily placed on ensuring job seeker compliance and that they give something back to the community, its potential will go unrealised. They argue that the focus should instead be placed on improving the program to ensure that its value and effectiveness in helping job seekers to find jobs is maximised. 908

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902. Ibid.


904. Ibid.


Tougher compliance measures

The Budget introduces tougher compliance measures for job seekers who refuse work without good reason or fail to comply with activity test requirements. The measure is anticipated to realise $20.9 million in savings over four years.909

Under current arrangements, refusal of a suitable job offer without a valid reason and persistent non-compliance with participation or Activity Test requirements constitute ‘serious failures’. The penalty for a serious failure is an eight week non-payment period. However, a job seeker’s payment can be reinstated if they participate in a Compliance Activity or if it is determined that they would be in severe hardship as a result of the application of the penalty. The Budget measure discounts that possibility for job seekers who refuse a suitable job offer and allows only one opportunity to waive the penalty for job seekers who are persistently non-compliant.

Judging by job seeker compliance data (for the 2012–13 financial year), the vast majority of serious failures are for persistent non-compliance.910 Relatively few serious failures are for job seekers who refuse a suitable job or do not commence a suitable job. A majority of the sanctions for serious failures are waived. This is because job seekers either comply with the requirements imposed on them or are found to be in financial hardship. Ultimately, a non-payment period was imposed on 6,863 job seekers in the 2012–13 financial year. This measure is likely to result in a relatively small increase in financial penalties due to its deterrent effects. However, where penalties are imposed this could result in considerable hardship for the job seekers involved, who are typically disadvantaged.

Wage subsidy for older job seekers

The budget provides $304.1 million over four years to increase the wage subsidy for employers who hire job seekers aged 50 years or over for at least six months ($3,000 after six months, $3,000 after 12 months, $2,000 after 18 months and $2,000 after 24 months).911 This is not new funding. It is funding that has been freed up through abolishing the Mature Age Worker Tax Offset (MAWTO) from 1 July 2014, which results in savings of $760.0 million over the forward estimates.912 The previous government had already begun phasing out the MAWTO from 1 July 2012 and redirecting savings to other ‘better targeted’ mature age employment initiatives.

The measure is a modified version of the Government’s election commitment to introduce a seniors employment incentive payment. The commitment was to pay $3,250 for employers that employ, for at least six months, mature age job seekers who had been unemployed for six months or more and in receipt of income support payments.913 The measure replaces the Rudd-Gillard Government’s Experience+ Jobs Bonus scheme, which provided a $1,000 bonus for up to 10,000 employers who took on a worker aged 50 years or over for at least three months.914 It also builds on a range of training and support measures for mature age workers and job seekers that were introduced by the previous government, especially in the 2012–13 Budget.

The payment ‘is designed to help overcome the initial reluctance of some employers to appoint older jobseekers’.915 There is no complementary measure calculated to help counter negative stereotypes and many employers’ prejudices against mature age job seekers more generally.

Comments

The workforce participation measures contained in most budgets are typically comprised of ‘carrots’ and ‘sticks’; that is, they provide incentives designed to encourage and assist people into paid work, and sanctions for those who do not accept these opportunities. In this budget, the emphasis is very much on activating unemployed young people through the use of ‘sticks’. There is comparatively little in the way of enhanced employment

910. Department of Employment, *Job seeker compliance data—June Quarter 2013*, p. 11. Where a job seeker deliberately and persistently fails to comply with participation or Activity Test requirements or refuses a suitable job offer without a valid reason, this constitutes a ‘serious failure’.
915. Ibid.
support services, skills and training programs for them.\textsuperscript{916} Indeed, the measures applying to young people are severe and appear to be premised on the notion that many unemployed young people are reluctant to work.

In a buoyant labour market such measures might be deemed reasonable—as ‘tough love’. However, in a subdued labour market, ‘characterised by weak employment growth, a falling participation rate and a rising unemployment rate’ that is ‘forecast to edge higher’ these measures could have serious deleterious consequences for some young people.\textsuperscript{917} As noted above, departmental estimates suggest these measures will have little impact on the duration of unemployment, and hence many young people will spend extended periods with no source of income. They are therefore likely to have to rely upon their families’ goodwill or, if this is not forthcoming, on charities and welfare services, for housing and other basic requirements.\textsuperscript{918}


\textsuperscript{918} See for example Australian Council of Social Service (ACOSS), \textit{Budget divides the nation, young and old, rich and poor: ACOSS}, media release, 13 May 2014.
Housing and homelessness

Dr Matthew Thomas

The Government has determined not to proceed with Round 5 of the National Rental Affordability Scheme (NRAS), thereby achieving savings of $235.2 million over three years. 919

The NRAS was introduced by the Rudd-Gillard Government in the context of the 2008–09 Budget as a part of its broader package to address housing supply pressures and as part of the stimulus package in response to the Global Financial Crisis (GFC). Under the scheme, the Australian Government provides an annual incentive to investors for up to ten years as a refundable tax offset or payment (a payment if the developer is a non-income tax paying organisation). This is augmented by a state or territory annual contribution which may take the form of cash grants, concessions on stamp duty or the provision of discounted land over the same period. 920 The tax free incentive is indexed each year to the rental component of the CPI. For the year 2014–15, the Australian Government contribution was to be $7,996, and the state or territory contribution, $2,665. 921

Properties developed under the scheme are made available to low-income to middle-income earners at 20 per cent below market price for each of the ten years for which an NRAS incentive is received.

Initially, the NRAS was to provide $622.6 million over four years from 2008–09 for the development of up to 50,000 affordable rental properties across Australia by mid-2012. 922 If market demand was strong, the government was to deliver a further 50,000 properties from 2012 onwards. These figures were subsequently revised down to up to 35,000 new dwellings in the period up to 2014–15, with a further 15,000 dwellings to be supported beyond 2014–15. 923

As at 30 June 2013, 14,575 dwellings had been built and were either tenanted or available for rent under the scheme. 924 A further 23,884 incentives had been reserved—that is, the incentives had been taken up but not yet delivered. Hence, a total of 38,459 incentives had been allocated, were reserved or under offer throughout Australia. Clearly, these figures are below those originally anticipated.

The NRAS has had something of a difficult history.

Initial progress under the scheme was slow. Several reasons have been advanced to explain this sluggish progress. However, the main reason would appear to be that larger super funds and institutional investors—upon whom the scheme was to rely for its long-term viability—were not signing on. Instead, various consortia such as community housing associations and developers dominated the scheme. 925 Other reasons proffered for the scheme’s slow take up include: the GFC and an associated tightening of credit from banks for property investment; administrative hold-ups in assessing NRAS proposals that encouraged would-be investors to invest elsewhere; squabbling between state and local governments; and skills shortages faced by the construction industry. 926 Some commentators have observed that the proposed cuts to the scheme to help fund the Queensland flood relief fund—although they were subsequently vetoed—are likely to have undermined investor support for the scheme. 927

919. Australian Government, Budget measures: budget paper no. 2: 2014–15, p. 205, accessed 16 May 2014. In a media release of 13 May 2014, Kevin Andrews, Minister for Social Services, announced that the scheme was to be discontinued, but indicated that it would be ‘reviewed to address ongoing issues and ensure remaining incentives meet the scheme’s original aim’, K Andrews, Round 5 of flawed National Rental Affordability Scheme not proceeding, media release, 13 May 2014, accessed 16 May 2014.
920. Initially, the Australian Government contribution was $6,000 per annum and the state or territory contribution, $2,000. Australian Government, Budget measures: budget paper no. 2: 2008–09, 2008, p. 172, accessed 16 May 2014.
922. K Rudd (Federal Labor leader), W Swan (Shadow Treasurer), T Plibersek (Shadow Minister for Housing), Federal Labor’s National Rental Affordability Scheme not proceeding, media release, 13 August 2007, accessed 19 May 2014.
924. Department of Social Services, National Rental Affordability Scheme—performance reporting, DSS website, content updated 23 April 2014, accessed 16 May 2014.
926. Ibid.
927. See N Lenaghan, Housing supply plans suffer, Australian Financial Review, 28 January 2011, p. 59, accessed 16 May 2014. Following the floods in Queensland in early 2011, the Gillard Government announced that, as a means to fund the rebuilding of Queensland infrastructure, it would be introducing spending cuts and a levy. Included in the spending cuts was a reduction in the NRAS target from...
More recently, the scheme has been the subject of some controversy, with media reports of universities having received NRAS incentives towards building accommodation for students. The reports argued that a significant proportion of NRAS dwellings have been allocated to university students, ‘and in many cases foreign students’, rather than to the low-income Australians for whom they were intended. While the proportion of places calculated to have gone to university students under the scheme is likely to have been inflated, it nevertheless exposed what was, for some, an unintended outcome of the scheme. Further reports in The Australian revealed that two companies which had secured a substantial number of NRAS incentives to deliver properties in Western Australia had only delivered a relatively small number of properties thus far.

While the NRAS has not exactly ‘taken off’ and does exhibit some problems it is, nevertheless, strongly supported by housing affordability peak bodies. It is widely recognised that there is a need to strengthen financial incentives to encourage investors to provide affordable private rental properties. And the strength of the NRAS in this regard is that it is the only Commonwealth taxation concession calculated to assist investment in private rental housing that actually links the tax concession to a consumer outcome.

There is also some evidence that the NRAS could help to make inroads—albeit modest ones—into Australia’s housing affordability problem in the future. Modelling conducted by the Australian Housing and Urban Research Institute indicates that the scheme has the potential to lift a number of Australians out of their housing affordability problems. It is important to note that a program similar to the NRAS that was started in the United States in the 1980s—the Low-income Housing Tax Credit—took seven years to attract institutional investors. The program, which started much like the NRAS with ‘mum and dad’ investors, has gone on to deliver more than 1.67 million units of affordable housing and is responsible for around 90 per cent of all affordable rental housing now created in the US.

Australia’s housing affordability situation has been described as being in crisis. Given that this is the case, arguably the nation can ill afford to lose the only federal housing program that provides for the construction of additional private housing stock made available at below-market rates.

The Budget provides $115.0 million to extend the National Partnership Agreement on Homelessness for 2014–15. This will be welcomed by providers of homelessness services, a number of whom wrote to the Government earlier this year to warn of a crisis in service delivery should they not receive a guarantee of ongoing funding. The one year extension of funding follows a similar commitment of $159 million by the Gillard Government for the previous year. The Government has committed to working with state and territory governments and providers on future funding arrangements and providers will be hoping that these give longer term certainty.

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50,000 to 35,000 incentives. The Gillard Government anticipated that this would save $264 million, which would go towards the Queensland recovery and reconstruction effort.


934. M Butler (Minister for Housing and Homelessness), $159 million for national homelessness agreement, media release, 18 March 2013, accessed 19 May 2014.

Paid Parental Leave and other social services measures
Dr Luke Buckmaster and Michael Klapdor

Paid Parental Leave
The Budget did not include an announcement relating to funding for the Government’s proposed new Paid Parental Leave (PPL) scheme.

The Government has committed to introduce a new system of PPL from 1 July 2015. The current system is paid for up to 18 weeks at $622.10 per week before tax (based on the rate of the National Minimum Wage). The Government’s proposed scheme would extend support to 26 weeks at replacement wage or National Minimum Wage (whichever is greater) up to a cap. The cap was originally to be set at a salary of $150,000 per annum, but this was recently revised to $100,000.

Under the $150,000 cap, the proposed scheme was to have cost $4.1 billion in 2015–16 and $5.7 billion per year when up and running in 2016–17, while the current scheme is expected to cost $2.1 billion in that year. It is not clear how much the cost of the scheme will reduce under the new $100,000 cap, though the Prime Minister has indicated that ‘the savings won’t be vast’. In 2011–12, of those women aged 18 to 49 who lodged tax returns, approximately 3 per cent had a taxable income from $100,001 to $150,000. Media reports have suggested that the cost of the scheme may only reduce by $40–60 million per year.

The amounts listed in the Department of Social Services’ Portfolio Budget Statements refer only to the cost of the current scheme (around $2 billion per year). Additional funding for the Government’s PPL system and provision for the PPL Levy (which will be used to partially fund the scheme) is in the Budget’s Contingency Reserve.

The Contingency Reserve:
... is an allowance, included in aggregate expenses, that principally reflects anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates. The Contingency Reserve is used to ensure that the estimates are based on the best information available at the time of the Budget. It is not a general policy reserve.

The PPL funding has reportedly been put in the Contingency Reserve because the Government is still negotiating with the states and territories in relation to their participation in the scheme and how costs might be shared.

Income management
The Budget includes $101.1 million to fund the operation of income management in particular locations in 2014–15.

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944. P Coorey, op. cit.
947. Ibid., p. 6–46.
948. S Maiden (@samanthamaiden), ‘Paid parental leave is in the contingency reserve of the budget. officials in lock up said reason was ongoing negotiations with the states’, [sic], tweet, 13 May 2014, accessed 19 May 2014, [https://twitter.com/samanthamaiden/status/466412864568590338](https://twitter.com/samanthamaiden/status/466412864568590338); D Hurst, ‘Coalition to speak with states on sharing parental leave funding’, *The Sydney Morning Herald*, (online edition), 19 August 2013, accessed 19 May 2014.
Income management refers to a policy under which a percentage of the welfare payments of certain people are set aside to be spent only on ‘priority items’ such as food, housing, clothing, education and health care.950 There is also an explicit ban on certain goods and services which must not be bought with income managed funds, including alcoholic beverages, tobacco products, pornographic materials and gambling services.

Welfare recipients who may be subject to compulsory income management include those in:

- the Northern Territory (NT), deemed by the Government to be ‘Disengaged Youth’, ‘Long-term Welfare Recipients’ or ‘Vulnerable Welfare Payment Recipients’
- the NT and metropolitan Perth and the Peel and Kimberley regions of Western Australia (WA), whom a child protection officer has referred to Centrelink to have their income managed (‘Child Protection Income Management’) 
- Cape York, whom a statutory body, the Family Responsibilities Commission (FRC), has ordered should be subject to income management for engaging in dysfunctional behaviour
- one of five targeted communities (Bankstown, Greater Shepparton, Playford, Logan and Rockhampton), who have been referred for Child Protection Income Management or the Vulnerable Welfare Payment Recipients measure (known as ‘Place Based Income Management’) and
- the Anangu Pitjantjatjara Yankunytjatjara Lands (APY Lands) (South Australia (SA)) or Ngaanyatjarra Lands (NG Lands) and Laverton Shire (WA), who have been referred for Child Protection Income Management or the Vulnerable Welfare Payment Recipients measure.

People in any of the above locations may also participate in income management voluntarily.

The Budget measure continues income management in the NT, WA and the APY Lands. It also expands income management into the Ceduna region of SA from 1 July 2014. Income management is already funded in Cape York (until 31 December 2015) and the five targeted communities (until 30 June 2015).

As the Parliamentary Library has previously highlighted, evidence for the success of income management is mixed: while some people report that it has improved their lives, there is little evidence that it is leading to widespread changes in behaviour.951

**Clean Energy Supplement**

The Budget proposes to cease indexation of the Clean Energy Supplement (CES), an amount that was added to pensions, allowance, veterans’ payments and family tax benefit payments as compensation for expected cost increases arising from the carbon price.952 The payment will also be renamed as the ‘Energy Supplement’.953 At the time it was introduced, the CES was equivalent to 1.7 per cent of the basic rate of the payment it was attached to. The CES rate is currently indexed in line with movements in the Consumer Price Index on the same day as the underlying payment is indexed (20 March and 20 September for most pensions and allowances), to preserve its real value over time.

Stopping indexation of the CES from 1 July 2014 will achieve estimated savings of $479.1 million over five years. The Government has committed to removing carbon pricing and, arguably, the CES and other forms of carbon price compensation will not be required. However, the Coalition committed to removing the carbon price while keeping the compensation measures:

> The Coalition will keep the current income tax thresholds and the current pension and benefit fortnightly rates while scrapping the carbon tax.

This means that Australian workers, families and pensioners will keep the tax cuts and fortnightly pension and benefit increases provided in Labor’s carbon tax package, but without the carbon tax.

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As a result these tax cuts and fortnightly benefit increases will become genuine cost of living relief...954

The Budget measure will not reduce the nominal value of the CES but it will mean its real value will decline over time and benefit recipients will not receive the increases they had expected. The measure continues a theme for this Budget: not achieving significant savings through direct benefit cuts but through changed indexation methods or by halting the normal indexation of some rates and means test limits.955

Discretionary grant program reform

The Budget announced changes to grants programs administered by the Department of Social Services (DSS). The changes will bring together 18 programs from five former departments into seven ‘streamlined’ social policy programs.956 This is expected to create savings of $240.0 million over four years.

According to the Government, ‘[T]his will consolidate existing grants to create more efficient and effective programmes which will reduce red tape for service providers and remove the duplication of funding and services’.957

The new streamlined program is intended to ‘provide greater freedom for service providers who will no longer be restricted by overly prescriptive Programme Guidelines that can hinder solutions to community needs’.958

The seven programs under the new arrangements are:
• Home Support Programme
• Residential and Flexible Care Programme
• Workforce and Quality Programme
• Ageing and Service Improvement Programme
• Families and Communities Programme
• Housing and Homelessness Programme and
• Disability, Mental Health and Carers Programme.

The first four of these are existing programs carried across from the Ageing portfolio, while the latter three are new ‘broadbanded’ programs.

The Government says DSS will be ‘offering funding extensions to the majority of existing service providers with grant funding due to expire on or before 30 June 2014’.959 Most will be offered extensions of six months, though some providers in areas such as aged care, disability and mental health services will be offered a 12 month extension.

957. Grant programmes’, op. cit.
Superannuation changes
Kai Swoboda

Following the Government’s pre-election policy that there would be ‘no negative unexpected changes’ to superannuation it is not surprising that there are only relatively minor changes proposed for superannuation in the 2014–15 Budget. Any significant changes are likely to be left until the Government has considered the recommendations of the financial system inquiry (reporting to the Treasurer in December 2014) and the proposed tax white paper (end 2015).

Changing the trajectory for the superannuation guarantee increase to 12 per cent

The Government has proposed extending the deferral of the increase in the superannuation guarantee from the current 9.25% to 12% by a further year. This is to be achieved by pausing the rate at 9.5% between 2014–15 and 2018–19 and then increasing the rate incrementally by 0.5 percentage points each year to reach 12% in 2022–23.

The Superannuation Guarantee (Administration) Act 2012 implemented the previous Government’s policy to incrementally lift the superannuation guarantee rate from 9% in 2011–12 to 12% by 2019–20. This increase was linked to the revenue from the Minerals Resource Rent Tax (MRRT). In March 2014, the Senate rejected the Government’s proposal to modify the timetable of the increase to 12%, which would have resulted in a pause in the rate at 9.25% for a further two years, with annual incremental increases thereafter to reach 12% by 2021–22 (figure 1).

Superannuation industry groups are generally disappointed with the proposed pause. The Association of Superannuation Funds of Australia (ASFA) considers that ‘the original timetable for phased increases should be..."
maintained ... This view is overwhelmingly supported by the community, with ASFA consumer research showing almost four in five Australians support the measure’.967

The impact of the Government’s proposal is a revenue gain of $90 million over the forward estimates due largely to reduced tax deductions by businesses from 2017–18.968 Any change to the trajectory for the superannuation guarantee increase may have implications for employees and employers, who may be better or worse off under the proposed arrangements depending on how the superannuation guarantee rate is incorporated into their employment arrangements.

Non-concessional excess contributions tax changes

Non-concessional contributions are generally those made to a superannuation fund from after-tax income. An annual cap of $150,000 applies to non-concessional contributions, although a ‘bring forward’ arrangement also applies. This allows certain individuals to bring forward two years’ worth of entitlements to make three years’ non-concessional contributions in one year. As the earnings of a superannuation fund are concessionally taxed, this cap (in conjunction with a cap on concessional contributions) limits the amount of funds that can be shifted into superannuation each year. Under current arrangements, breaches of the cap are taxed at the Excess Contributions Tax (ECT) rate of at 46.5% (the rate increases to 47% from 2014–15).969

Included in the 2014–15 Budget is a measure to allow individuals the option to avoid ECT on non-concessional contributions by withdrawing superannuation contributions in excess of the cap made from 1 July 2013 and any associated earnings and have these taxed at their marginal rate.970 This implements a pre-election commitment to ‘develop an appropriate process that addresses all inadvertent breaches of the contribution caps where an individual can show that their mistake was genuine and the error would result in a disproportionate penalty’.971

Such a proposal is similar to that legislated by the previous Government for contributions exceeding the concessional contributions cap. These changes allowed individuals to withdraw any part of their excess concessional contributions from 1 July 2013 and have these subject to ECT at their marginal tax rate, plus an interest charge, rather than the 46.5% ECT rate.972

A review by the Inspector-General of Taxation (IGT) of the Australian Taxation Office’s (ATOs) compliance approach to ECT—dated March 2014 but released on 13 May 2014—included the recommendation that government consider whether the ECT regime provides an appropriate treatment for excess non-concessional contributions.973 The IGT suggested minimising the impacts through methods such as refunding excess contributions, applying a charge to neutralise any benefit on concessionally taxed earnings from these contributions, and having a ‘deterrent factor that is commensurate with targeted taxpayer action’.974 The Government’s announced policy, by providing the option for refunding excess contributions, is consistent with this suggested approach. However, the final details of the policy are yet to be determined, with the Government indicating that there would be further consultation.975


967. Association of Superannuation Funds of Australia (ASFA), ASFA’s response to the federal budget, media release, 13 May 2014, accessed 15 May 2014.


971. Liberal Party of Australia, op. cit., p. 5.


974. Ibid.

Temporary budget repair levy

Tarek Dale

The Government has announced a ‘Temporary Budget Repair Levy’. The tax will apply at a rate of two per cent to personal taxable incomes in excess of $180,000 per annum from 1 July 2014 to 30 June 2017, and is projected to raise $3.1 billion over the forward estimates. The legislation that has been introduced will adjust ‘a number of tax rates that are currently based on the top personal marginal tax rate’, including the fringe benefits tax.976

In 2011–12 (the latest public data) approximately 2.3 per cent of taxpayers had taxable incomes above $180,000; the Explanatory Memorandum estimates that ‘around 400,000 taxpayers (or less than four per cent of taxpayers) will directly incur the levy’.977

Levies and taxes

Some commentary has centred on the distinction between a levy and a tax. The High Court has previously broadly defined a tax as ‘a compulsory exaction of money by a public authority for public purposes … and … not a payment for services rendered’.978 Taxes on specific industries or transactions are often described as levies, particularly if revenue is used for industry purposes.979

The contribution of high-income earners to ‘repairing’ the Budget

The Treasurer stated in his budget speech ‘Tonight we are asking higher-income earners to help repair the Budget … It is only fair that everyone makes a contribution’ and the Prime Minister has stated that ‘there’s a very significant share of the heavy lifting being done by high income earners as it should’.980 The Treasurer also stated the need to ‘ensure the Budget is sustainable.’981 One measure of the long-term sustainability of a budget is the ‘structural balance’. In a report on the topic, the Parliamentary Budget Office (PBO) explained:

The structural budget balance (SBB) is a partial measure of the sustainability of the budget. It shows the underlying position of the budget after adjusting the actual budget balance for the impacts of major cyclical and temporary factors.982

Personal income taxes (including capital gains) are an important part of the Australian Government’s structural balance. They are one of the largest revenue sources, at almost 52 per cent of the Commonwealth’s taxation revenue over the forward estimates.983

$180,000 is the threshold for the highest personal marginal tax rate (45 per cent).984 The application of the new tax effectively reverses a two per cent decrease to the top marginal rate that first applied in 2006-07 (the previous top marginal rate was 47 per cent). However, the preceding two per cent decrease was one of a larger set of tax cuts that significantly altered the structural budget balance. The PBO estimated that:

984. 45 per cent is the highest marginal personal income tax rate; this means that for every dollar over the threshold ($180,000), the tax rate is 45 per cent. Lower tax rates apply to lower income levels.
Over two thirds of the 5 percentage points of GDP decline in structural receipts over the period 2002–03 to 2011–12 was due to the cumulative effect of the successive personal income tax cuts granted between 2003–04 and 2008–09. 985

These income tax cuts took the form of both lower tax rates and higher thresholds. As the PBO noted in an analysis of Commonwealth revenue:

In Australia, changes to tax rates and thresholds have been particularly noticeable for higher incomes, with the top marginal tax threshold increasing from $35,788 (or $141,955 in 2012–13 dollars) to $180,000. 986

Figure 1 shows changes in the threshold for the top income rate, and the number of and taxable income share of individuals paying the top marginal rate.

**Figure 1: Top marginal rate thresholds and taxpayer statistics**

![Figure 1](https://example.com/figure1.png)


While the tax will contribute to improving the fiscal balance, it will only apply above the higher threshold first applied in 2008–09. In terms of net fiscal impact, the tax is the largest revenue measure in the 2014-15 Budget. The majority of savings in the Budget come from reductions in expenditures. More importantly, as a temporary tax it will not permanently alter the underlying structural balance, because the top marginal rate for those earning over $180,000 will decrease again after 2017–18.


Reintroduction of fuel excise indexation

Richard Webb

The Government announced that it would reintroduce the biennial indexation of fuel excise to changes in the consumer price index (CPI).\(^{987}\) Indexation will apply to the general rate of excise (and customs duty) which is now 38.143 cents per litre (cpl). In 2014–15, indexation will add about one cpl to this rate. The main fuels affected will be petrol and diesel.

The additional revenue over the forward estimates is $4.15 billion. This will be offset, in part, by rebates paid under the Fuel Tax Credits Scheme (FTCS).\(^{988}\) The FTCS provides (fully or in part) rebates of excise paid on fuel used in certain activities including in agriculture and mining.\(^{989}\) The estimated revenue and FTCS rebates are shown in Table 1.

Table 1: Net revenue from the reintroduction of fuel excise indexation ($ million)

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</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>280.0</td>
<td>750.0</td>
<td>1270.0</td>
<td>1850.0</td>
<td>4150.0</td>
</tr>
<tr>
<td>FTCS rebates</td>
<td>-100.7</td>
<td>-350.0</td>
<td>-550.0</td>
<td>-800.0</td>
<td>1800.7</td>
</tr>
<tr>
<td>Net</td>
<td>179.3</td>
<td>400.0</td>
<td>720.0</td>
<td>1050.0</td>
<td>2349.3</td>
</tr>
</tbody>
</table>


Indexation will maintain the real value of the rate. Non-indexation has eroded the tax base; had indexation continued, the rate would now be about 55cpl, that is, 17 cpl higher. Non-indexation may also have had other effects such as encouraging the purchase of relatively fuel-inefficient cars.

Past reviews have recommended the reintroduction of indexation. The Fuel Tax Inquiry recommended:

... the reintroduction of twice yearly fuel excise indexation to preserve the real value of fuel taxation revenue. If fuel taxation is to continue as a source of revenue for government, it should not be eroded by inflation over time.\(^{990}\)

The review of the tax system, Australia’s Future Tax System (the Henry report) recommended that:

Fuel tax should apply to all fuels used in road transport on the basis of energy content, and be indexed to the CPI.\(^{991}\)

The non-indexation of fuel excise also contrasts with the indexation of excise on tobacco and alcohol.

In the Budget Speech, the Treasurer stated that the Government:

... is reintroducing fuel indexation where every dollar raised by the increase will be linked by law to the road-building budget.\(^{992}\)

Almost $2.2 billion will be available over the forward estimates period for this purpose.\(^{993}\)

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989. The Fuel Tax Credits Scheme is not a subsidy. Neither Treasury nor the Productivity Commission treat it as such. See R Webb, Fuel tax credits: are they a subsidy to fuel use?, FlagPost, Parliamentary Library weblog, 3 May 2012, accessed 14 May 2014.
Taxation treatment of ethanol and biodiesel
Richard Webb

Introduction
The Budget contains proposals for ethanol and biodiesel that are similar. Similarities include:

- grants for both will be reduced to zero
- the current excise rate—which applies to both fuels—of 38.143 cents per litre (cpl) will fall to zero from 1 July 2015 to 30 June 2016
- from 1 July 2016, excise rates on both fuels will rise over five years
  - the ‘final’ rates will be based on 50 per cent of the energy content-equivalent tax rate, and
- the current customs rate of 38.143 cpl—which also applies to both fuels—will remain.994

Ethanol
The Ethanol Production Grants (EPG) Programme provides a grant of 38.143 cpl on fuel supplied for transport where production inputs are sourced domestically.995 Thus the effect of the EPG is to reduce the ‘effective’ rate of excise to zero.

Imported ethanol is subject to customs duty and a value duty of five per cent. Together, the duties and the EPG protect the domestic industry against imports.

The EPG will cease on 30 June 2015. The Government proposes to replace the EPG with excise. The following table shows the resulting differences between the excise and customs duty rates.

<table>
<thead>
<tr>
<th>Date of effect</th>
<th>1 July 2015</th>
<th>1 July 2016</th>
<th>1 July 2017</th>
<th>1 July 2018</th>
<th>1 July 2019</th>
<th>1 July 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excise rate</td>
<td>0.000</td>
<td>2.500</td>
<td>5.000</td>
<td>7.500</td>
<td>10.000</td>
<td>12.500</td>
</tr>
<tr>
<td>Customs duty</td>
<td>38.143</td>
<td>38.143</td>
<td>38.143</td>
<td>38.143</td>
<td>38.143</td>
<td>38.143</td>
</tr>
<tr>
<td>Difference</td>
<td>38.143</td>
<td>35.643</td>
<td>33.143</td>
<td>30.643</td>
<td>28.143</td>
<td>25.643</td>
</tr>
</tbody>
</table>


Under the proposals, the level of protection for ethanol will fall: the bottom row of the table shows that the difference between the excise and customs rates will decline. Further, with inflation, the real value of the customs duty will also fall.

Bureau of Resources and Energy assessment
In 2014, the Bureau of Resources and Energy (BRE) assessed the costs and benefits of the EPG.996 The assessment found that the EPG has little merit. The BRE’s findings include:

- the EPG distorts resource use in the economy by retaining resources in an uneconomic industry
- the financial cost to the taxpayer is significant
- regional employment and greenhouse gas abatement are relatively modest but come at a very high cost
- there is no real benefit to liquid fuel security
- there is no net benefit to agricultural producers and
- the industry is unlikely to be viable in the absence of the EPG.

The benefit to motorists in the form of lower prices for petrol containing ethanol is also limited. The Australian Competition and Consumer Commission found that in 2012–13, petrol containing 10 per cent ethanol (E10) was,
on average, around only two cpl cheaper than regular unleaded petrol despite E10 having the advantage of the grant. 997

In sum, the proposals will reduce the distortion of resources in the economy by reducing protection to an uneconomic industry, and contribute to the goal of reducing the budget deficit through net savings. The savings result from the combination of the cessation of the EPG and its replacement with excise. The savings, which extend beyond the forward estimates period, are expected to amount to $120 million over six years from 2015–16. 998

**Biodiesel**

Similar to ethanol, producers (and importers) of biodiesel are eligible for a grant of 38.143 cpl but theirs is under the Cleaner Fuels Grants Scheme (CFGS). Since the CFGS grant equals the excise rate, the ‘effective’ rate of excise on biodiesel is also zero.

As with ethanol, reducing the excise on biodiesel to zero from 1 July 2015 to 30 June 2016 will, for that year, maintain the same level of protection to domestic biodiesel producers as now, that is, 38.143 cpl.

However, unlike ethanol, Budget Measures: Budget Paper No. 2: 2014–15 does not state what the proposed biodiesel rates will be from 1 July 2016.

Expected net savings from the biodiesel measure are $156 million over four years. 999

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Restoring integrity in the Australian tax system—further decisions
Bernard Pulle

Introduction

Budget Measures: Budget Paper No. 2: 2014–15 provides information on the further decisions the Australian Government has taken to restore the integrity of the Australian tax system (ATS). These decisions relate to the action proposed to clear the backlog of taxation and superannuation measures that were announced by former governments but not legislated. These proposed measures are estimated to cost the Budget $358.1 million over the forward estimates period.

These measures are in addition to the decisions set out in the joint media release of the Treasurer and Assistant Treasurer on 6 November 2013 and the media release of the Assistant Treasurer on 14 December 2013. The Minister for Finance and the Acting Assistant Treasurer provided additional information in a media release of 13 May 2014.

Outline of further decisions reflected in the 2014–15 Budget

Briefly, the Australian Government announced the following measures in Budget Paper No. 2.

Multiple entry consolidated groups

The government will not proceed with the proposal of the previous government to remove inconsistencies between the tax treatment of multiple entry consolidated groups and ordinary consolidated groups. A consolidated group generally consists of an Australian resident head company and all of its wholly-owned Australian resident subsidiaries. Specific rules allow certain resident wholly-owned subsidiaries of a foreign holding company to consolidate by forming a multiple entry consolidated group.

A tripartite working group review, chaired by the Treasury, private sector tax specialists and the Australian Taxation office had concluded in April 2014 that there is limited scope to address the inconsistencies without considering the broader international tax policy issues. A report was made to the present government in April 2014.

The decision not to proceed with this proposal is estimated to cost revenue $140 million over the forward estimates.

Integrity measures for foreign resident capital gains tax regime

The government proposes to modify integrity measures proposed by the previous government in relation to the foreign resident capital gains tax regime. This is estimated to have no impact on revenue over the forward estimates period.

Integrity measures for consolidated group

The government will refine the consolidated integrity package announced in the 2013–14 Budget to ensure that it operates as intended. The impact on revenue over the forward estimates period is unquantifiable.

Deferral of the start date of the following proposed measures

The following dates will apply:

(a) The start date of the new tax system for managed investment trusts will be deferred by 12 months to 1 July 2015. This is estimated to have a gain to revenue of $75.0 million over the forward estimates period.

1000. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2:2014–15, 2014, pp. 18–19, accessed 14 May 2014.

1001. J Hockey (Treasurer) and A Sinodinos (Assistant Treasurer), Restoring integrity in the Australian tax system, joint media release, 6 November 2013, accessed 14 May 2014; A Sinodinos (Assistant Treasurer), Integrity restored to Australia’s taxation system, media release, 14 December 2013, accessed 14 May 2014.

1002. M Cormann (Minister for Finance and Acting Assistant Treasurer), More progress in restoring integrity in the tax system, media release, 13 May 2014.


(b) The start date of reforms to the offshore banking unit regime will be deferred to income years commencing on or after 1 July 2015. This is estimated to have a cost to revenue of $180.0 million over the forward estimates period.

(c) The start date of the legislative elements of the measure to improve tax compliance through third party reporting and data matching will be deferred to 1 July 2016. This is estimated to have a cost to revenue of $113.1 million over the forward estimates period.

**Previous decisions taken by the current Australian Government to restore integrity in the Australian tax system**

The Mid-year Economic and Fiscal Outlook 2013–14 gave details of the decisions taken previously by the current Australian Government after examining the backlog of 92 taxation and superannuation measures not yet legislated. The decision was taken to proceed with 34 measures, amend three measures and not proceed with 55 measures. The cost to the Budget of these amendments and not proceeding with the remaining 55 measures was estimated at $3.1 billion over the forward estimates period. The government added that in underlying cash terms, the cost to the Budget is $2.9 billion over the forward estimates period. Details of these measures were given in the joint media release by the Treasurer and Assistant Treasurer on 6 November 2013 and the Assistant Treasurer’s media release on 14 December 2013.

- The information in the media releases includes the following details for each measure: measure title and description, announcement, date of effect and net financial impacts ($m, underlying cash balance).

Reductions in payments under the Fair Entitlements Guarantee

Anne Holmes

The Fair Entitlements Guarantee (FEG) replaced the General Employee Entitlements and Redundancy Scheme in 2012. The FEG is funded by the Commonwealth and provides a safety net for employees whose employers have become insolvent, where the employees’ entitlements cannot be recovered through other means.1006 Assistance is available for wages (up to 12 weeks’ pay), annual leave, long service leave, payment in lieu of notice (up to five weeks) and redundancy payments (up to four weeks for each year of service). The wages that will be paid are capped at a maximum weekly rate. This was $2,364 when the scheme began and has been indexed by movements in average weekly ordinary time earnings. At present it is $2,451.

The Government has announced two changes to the FEG.

The maximum entitlement to redundancy pay from the FEG will be reduced to 16 weeks. (At present the FEG pays all accrued redundancy entitlements, subject to the cap on weekly earnings.) The description of the measure in Budget Measures: Budget Paper No. 2: 2014–15 says that this will bring the payment ‘in line with the maximum set by the [National Employment Standards]’.1007 This is not accurate. The Fair Work Act 2009 sets out a scale of redundancy pay where the highest entitlement, for nine years of service but less than 10 years, is 16 weeks.1008 However, the National Employment Standards are minimum standards.1009 Sixteen weeks’ pay is therefore the minimum redundancy pay an employee is entitled to by law when he or she has served nine years with an employer—not the maximum.

Other entitlements under the FEG are not set at the minimum National Employment Standard. They are set in relation to the worker’s entitlements under the relevant award, agreement or contract.

The perceived generosity of the maximum redundancy entitlements was controversial when the Fair Entitlements Guarantee Bill 2012 was being debated. The Coalition Opposition moved an amendment to cap the entitlements at 16 weeks, arguing that the Government was trying to increase, by stealth, the acceptable community standard for redundancy payments.1010

The second change is to freeze the indexation of the maximum weekly wage rate for calculating entitlements from 1 July 2014 to 30 June 2018. Over the period, this would make a difference of around $300 a week to the wage used for calculating entitlements for workers earning above the maximum.

As the description of the measure points out, employees are able to take legal action as creditors to attempt to recoup any outstanding entitlements.

The measure is estimated to generate savings of $87.7 million over four years. It has generated only passing comment to date, perhaps because it has no immediate effect on individuals.1011

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