Budget Review 2015–16

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Overview
Robert Dolamore

Introduction
The 2015–16 Budget was introduced into Parliament on 12 May 2015. It is the second Budget of the Coalition Government. This overview provides a summary of the headline numbers, the economic context, the Government’s fiscal strategy and broad policy agenda, and how the fiscal outlook has changed since the Mid-Year Economic and Fiscal Outlook (MYEFO) 2014–15.

The Budget is the government’s key economic and fiscal statement each year. However, the policy process underpinning the Budget is ongoing throughout the year and major policy announcements can be made at any time. The major influences on the content of the Budget include past revenue and expenditure decisions, changing economic conditions, and the government’s fiscal strategy and broader policy agenda.

When assessing the Budget some useful questions to keep in mind include:

• what problems is the Budget trying to address and what does it actually deliver?
• will the decisions in the Budget improve the wellbeing of current and future generations?
• does the Budget support growth and higher future living standards?
• what are the distributional effects of the Budget?
• what are the merits or otherwise of the individual spending and revenue decisions?
• what trade-offs have been made?
• what has been left to another day?

The headline numbers
• The underlying cash deficit is estimated to be $41.1 billion (2.6 per cent of gross domestic product (GDP) in 2014–15, $35.1 billion (2.1 per cent of GDP) in 2015–16 falling to a projected $6.9 billion (0.4 per cent of GDP) in 2018–19.
• Over the four years to 2018–19 accumulated deficits are estimated to total $82.3 billion.
• General government sector receipts are estimated to be $377.3 billion (23.5 per cent of GDP) in 2014–15, $398.0 billion (24.0 per cent of GDP) in 2015–16 rising to a projected $488.2 billion (25.2 per cent of GDP) by 2018–19.
• Tax receipts are estimated to be $351.5 billion (21.9 per cent of GDP) in 2014–15, $370.1 billion (22.3 per cent of GDP) in 2015–16 increasing to a projected $452.5 billion (23.4 per cent of GDP) by 2018–19.
• General government sector payments are estimated to be $415 billion (25.9 per cent) in 2014–15, $429.8 billion (25.9 per cent of GDP) in 2015–16 and increasing to a projected $491.1 billion (25.3 per cent of GDP) by 2018–19.
• In terms of total general government receipts and payments, the revenue side is forecast to make the biggest contribution as a share of GDP to reducing the size of the Budget deficit over the forward estimates period.
• General government sector net debt is estimated to be $250.2 billion (15.6 per cent of GDP) in 2014–15, $285.8 billion (17.3 per cent of GDP) in 2015–16 increasing to a projected $325.4 billion (16.8 per cent of GDP) by 2018–19.
• The face value of Commonwealth Government Securities (CGS) on issue is expected to increase from $499 billion in 2023–24, as estimated at the time of MYEFO 2014–15, to $555 billion. By 2025–26 the face value of CGS on issue is projected to increase to $573 billion.
The Budget deficit is forecast to gradually fall from $41.1 billion in 2014–15 to $6.9 billion in 2018–19.

### Underlying Cash Balance

<table>
<thead>
<tr>
<th>Year</th>
<th>$m</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013–14</td>
<td>-48,456</td>
<td>-3.1</td>
</tr>
<tr>
<td>2014–15</td>
<td>-41,121</td>
<td>-2.6</td>
</tr>
<tr>
<td>2015–16</td>
<td>-35,115</td>
<td>-2.1</td>
</tr>
<tr>
<td>2016–17</td>
<td>-25,836</td>
<td>-1.5</td>
</tr>
<tr>
<td>2017–18</td>
<td>-14,396</td>
<td>-0.8</td>
</tr>
<tr>
<td>2018–19</td>
<td>-6,905</td>
<td>-0.4</td>
</tr>
</tbody>
</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 25.9 per cent of GDP in 2015–16 and decline to 25.3 per cent in 2018-19.
- Receipts bottomed at 21.5 per cent of GDP in 2010–11 and are forecast to be 24.0 per cent of GDP in 2015–16 and increase to 25.2 per cent of GDP in 2018–19.

Net debt is forecast to peak as a percentage of GDP in 2016–17.

### Net Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>$m</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013–14</td>
<td>202,463</td>
<td>12.8</td>
</tr>
<tr>
<td>2014–15</td>
<td>250,234</td>
<td>15.6</td>
</tr>
<tr>
<td>2015–16</td>
<td>285,802</td>
<td>17.3</td>
</tr>
<tr>
<td>2016–17</td>
<td>313,356</td>
<td>18.0</td>
</tr>
<tr>
<td>2017–18</td>
<td>323,723</td>
<td>17.6</td>
</tr>
<tr>
<td>2018–19</td>
<td>325,447</td>
<td>16.8</td>
</tr>
</tbody>
</table>
Since MYEFO, policy measures and parameter variations have on balance worsened the near-term budget outlook.

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>
</tr>
</thead>
<tbody>
<tr>
<td>2014–15</td>
<td>-578</td>
<td>-181</td>
</tr>
<tr>
<td>2015–16</td>
<td>-4,525</td>
<td>650</td>
</tr>
<tr>
<td>2016–17</td>
<td>-2,547</td>
<td>-2,445</td>
</tr>
<tr>
<td>2017–18</td>
<td>-1,665</td>
<td>-1,251</td>
</tr>
</tbody>
</table>

Where does government spending go in 2015–16?

Estimates of Expenses by function

<table>
<thead>
<tr>
<th>Expense</th>
<th>$b</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security &amp; welfare</td>
<td>154.0</td>
<td>35.4</td>
</tr>
<tr>
<td>Health</td>
<td>69.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Education</td>
<td>31.9</td>
<td>7.3</td>
</tr>
<tr>
<td>Defence</td>
<td>26.3</td>
<td>6.1</td>
</tr>
<tr>
<td>General public services</td>
<td>22.2</td>
<td>5.1</td>
</tr>
<tr>
<td>All other functions</td>
<td>45.0</td>
<td>10.4</td>
</tr>
<tr>
<td>Other purposes</td>
<td>85.7</td>
<td>19.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>434.5</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Where does the revenue come from in 2015–16?

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$b</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals income tax</td>
<td>194.3</td>
<td>47.9</td>
</tr>
<tr>
<td>Company &amp; resource rent taxes</td>
<td>71.2</td>
<td>17.6</td>
</tr>
<tr>
<td>Sales tax (incl. the GST)</td>
<td>61.6</td>
<td>15.2</td>
</tr>
<tr>
<td>Fuels excise</td>
<td>17.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Other taxes</td>
<td>35.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>25.3</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>405.4</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


The economic context

The domestic economic outlook

Over the past year the near-term outlook for the Australian economy has become more subdued with both Treasury and the Reserve Bank of Australia (RBA) revising down their growth forecasts (Table 1). Reflecting the softer outlook the RBA Board has reduced the cash rate by 50 basis points since the beginning of 2015 to further support domestic demand. The forecasts suggest Treasury is slightly more optimistic about the growth outlook for 2015–16. However, both are forecasting growth to be back around the long–term average of 3.2 per cent over the course of 2016–17. Beyond that, Treasury is projecting growth will accelerate in the final two years of the forward estimates to 3.5 per cent.

The more subdued outlook for 2015–16 reflects the balancing out of a number of countervailing forces. The factors supporting stronger GDP growth include strong growth in resources exports and dwelling investment, and solid growth in household consumption. The lift in household spending is being supported by low interest rates, rising household wealth (due to rising house prices) and lower petrol prices. The depreciation of the Australian dollar over the past year will benefit trade-exposed industries such as tourism, higher education services and manufacturing. The Government is expecting exports from these industries to increase at a solid rate over the next couple of years.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget 2014-15</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Budget 2015-16</td>
<td>2.5</td>
<td>2.75</td>
<td>3.25</td>
</tr>
<tr>
<td>The Reserve Bank of Australia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMP* May 2014</td>
<td>2.25–3.25</td>
<td>2.5–4.0</td>
<td>...</td>
</tr>
<tr>
<td>SMP May 2015</td>
<td>2.25</td>
<td>2.0–3.0</td>
<td>2.5–4.0</td>
</tr>
</tbody>
</table>

* Statement on Monetary Policy.


However, a number of factors are inhibiting growth including large declines in mining investment and Australia’s terms of trade. Mining investment peaked in mid-2012 and is expected to fall significantly over the next few years as existing large-scale projects are completed and fewer new projects are added to the investment pipeline. Treasury is forecasting mining investment will fall by 15.5 per cent in 2014–15, 25.5 per cent in 2015–16 and 30.5 per cent in 2016–17. The fall in mining investment in 2015–16 and 2016–17 is expected to subtract around 4 percentage points from GDP over the three years to 2016–17.

With reference to the sharp fall in the terms of trade, Treasury is forecasting the terms of trade will decline by 12.25 per cent in 2014–15 and 8.5 per cent in 2015–16. Declining commodity prices are weighing heavily on Australia’s terms of trade. The 2014–15 Budget forecasts were based on an iron ore price of $US96 per tonne. This was revised down to $US60 per tonne FOB in MYEFO 2014–15 and to $US48 per tonne in this year’s Budget. The fall in the terms of trade is having a significant dampening effect on incomes and government revenue.

In recent times the factors supporting growth have not been sufficiently strong to keep the economy growing at its long-run average. One consequence of this is a degree of spare capacity in the labour market, with the unemployment rate at its highest level since the early 2000s. Treasury is forecasting the unemployment rate will peak in 2015–16 at 6.5 per cent before declining thereafter to reach 5.75 per cent by 2018–19.

1. The budget figures in this article have been taken from the following document unless otherwise sources: Australian Government, Budget strategy and outlook: budget paper no. 1: 2015–16.
4. Ibid., Statement 2, Table 1, p. 2–5.
5. Ibid., p. 2–16.
6. Ibid., Statement 1, Table 2, p. 1–7.
Reflecting the more subdued near-term outlook for product and labour markets, inflationary pressures are well contained. Treasury is forecasting inflation to remain around the middle of the RBA’s target band at 2.5 per cent through the year to the June quarter 2015 and 2016.7

If the Australian economy does get back to its long-run average growth rate by 2016–17 this will be a remarkably benign result given the magnitude of the economic adjustment needed as the mining investment boom recedes.

**Australia’s growth rate is taking longer to get back to its long-term average**

As reflected in the revisions to Treasury’s and the RBA’s forecasts, the Australian economy is taking a little longer to get back to its long-term average growth rate than previously thought. In part this reflects the fact that non-mining business investment is still to kick in. A lift in non-mining business investment is crucial to supporting structural change in the economy by underpinning improved productivity and enhanced competitiveness.

As Professor Ross Garnaut recently observed:

> To avoid a long period of weak employment and sagging real incomes and the possibility of deep recession, we need to restore strong investment and output growth in trade-exposed industries outside resources.8

Many of the pre-conditions for a lift in non-mining investment are in place. In its latest *Statement on Monetary Policy* the RBA argued:

> Finance is readily available at low cost and business credit growth has increased over the past year or more. Domestic demand growth has picked up and is likely to be supported in the period ahead by relatively strong population growth, low interest rates, low oil prices and the exchange rate depreciation. The Bank’s liaison suggests that a sustained pick-up in demand is required to spur growth in business investment.9

Treasury and the RBA have similar expectations as to how the rebalancing of growth will play out. In the near term, stronger dwelling investment, household consumption and exports are expected to boost demand. In time, non-mining investment is expected to respond to stronger demand. Also working in that direction are the health of business balance sheets and the need for some catch-up investment after a period of relatively subdued growth in the non-mining sector capital stock.

Treasury is forecasting non-mining business investment to increase by 4 per cent in 2015–16 and 7.5 per cent in 2016–17. Much hinges on these forecasts because it is stronger non-mining business investment which is expected to drive the increase in Australia’s growth to 3.25 per cent in 2016–17.10

**Risks**

On the domestic front there are two key sources of risk for the economic outlook. First, there is uncertainty about the extent to which households will feel inclined to save less and spend more. Treasury is forecasting household consumption to rise by 3 per cent in 2015–16 and 3.25 per cent in 2016–17. This is consistent with a gradual decline in the savings ratio. On the upside, it could be that household consumption turns out to be stronger than currently forecast if households are inclined to spend more as an effect of rising wealth from the housing market. However, it is also possible that low wages growth, rising unemployment and high levels of household debt will make households wary about increasing spending in the near-term.

Second, there is considerable uncertainty about the recovery in non-mining business investment. It is possible that if household spending surprises on the upside then the recovery in non-mining investment may happen earlier and be stronger than currently forecast. Against this is the possibility that demand and confidence fail to lift and the recovery in non-mining business investment gets pushed further out.

For its part the RBA has pushed out the recovery in non-mining business investment until later in 2016 and considers the risks to this outlook are roughly balanced.11

The Australian dollar remains something of a ‘wildcard’ for the outlook for non-mining investment. Professor Garnaut has argued for some time that non-mining business investment will only really increase after there has

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been a significant and sustained real depreciation in the Australian dollar.\footnote{12} Even an exchange rate of $US0.75 may be at the upper bound of the adjustment that is needed.\footnote{13} If this is the case and the dollar remains above this level for longer than currently forecast, the recovery in non-mining business investment may be delayed.

Australia is undoubtedly at a challenging juncture as the positive effects of the mining investment boom recede and need for structural adjustment becomes more pressing. Arguably, at this stage the risks remain tilted on the downside.

The global economic outlook

In the last few years global economic growth has stabilised at a moderate pace of around 3.4 per cent, which is a bit below the long-term average of 3.7 per cent. Forecasts suggest that global growth will be little changed in 2015 at around 3.5 per cent (Table 2). The global outlook matters for Australia because as an open economy Australia is affected by developments overseas through financial, trade and investment linkages and confidence and wealth effects.

In its latest update, the International Monetary Fund (IMF) argued that the global outlook is being shaped by a range of complex forces including: many countries still struggling with significant debt burdens; lower oil prices; and a strengthening US dollar.\footnote{14} The global recovery continues to be uneven with some countries having markedly better near-term growth prospects than others. The IMF is expecting global growth in 2015 to be driven by a rebound in the advanced economies, which are forecast to grow by 2.4 per cent in 2015 up from 1.8 per cent in 2014. Emerging market and developing economies are forecast to slow slightly with growth decreasing to 4.3 per cent in 2015 from 4.6 per cent in 2014.\footnote{15}

A number of factors are expected to drive a modest acceleration in global growth in 2016. Lower oil prices are expected to be a net positive for the global economy. In advanced economies lower oil prices have a stimulatory effect by raising the real incomes of households and reducing costs for firms. This positive effect on global growth is expected to more than offset the dampening effect that lower oil prices have on the growth prospects of oil producers.

The forecast pick-up in global growth in 2016 is also expected to be supported by the further widespread easing of monetary policy that has occurred over the last six months by a number of central banks. Arguably the most significant of these decisions was that of the European Central Bank (ECB), which announced on 22 January 2015 it would be significantly expanding its asset purchase program to include bonds issued by Euro area central governments, agencies and European institutions.\footnote{16} Asset purchases support demand by improving liquidity and lowering borrowing costs. Monthly asset purchases amount to €60 billion and will run at least until September 2016.

Treasury’s growth forecasts for the global economy are broadly in line with those of the IMF (Table 2). However, their near-term forecasts for the United States and China are arguably a touch more optimistic. Forecasts from Oxford Economics, a private global advisory firm, are provided in Table 2 as a point of comparison. The summary below draws on all three sources.

\begin{itemize}
\item \footnote{12} R Garnaut, \textit{Dog days: Australia after the boom}, Redback, Collingwood, Vic, 2013.
\item \footnote{13} R Garnaut, ‘We need a plan to revive the economy’, op. cit.
\item \footnote{14} International Monetary Fund, \textit{World Economic Outlook: Uneven growth: Short- and long-term factors}, April 2015, pp. 68–69.
\item \footnote{15} Ibid., p. 2.
\item \footnote{16} European Central Bank, \textit{ECB announces expanded asset purchase programme}, media release, 22 January 2015.
\end{itemize}
### Table 2: Treasury, IMF and Oxford Economics international growth forecasts (per cent)

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>2.4</td>
<td>3.25</td>
<td>3.25</td>
<td>3.0</td>
</tr>
<tr>
<td>IMF</td>
<td>2.4</td>
<td>3.1</td>
<td>3.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Oxford Economics</td>
<td>2.4</td>
<td>2.3</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Euro area</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>0.9</td>
<td>1.75</td>
<td>1.75</td>
<td>1.75</td>
</tr>
<tr>
<td>IMF</td>
<td>0.9</td>
<td>1.5</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Oxford Economics</td>
<td>0.9</td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
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<td><strong>China</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Treasury</td>
<td>7.4</td>
<td>6.75</td>
<td>6.5</td>
<td>6.25</td>
</tr>
<tr>
<td>IMF</td>
<td>7.4</td>
<td>6.8</td>
<td>6.3</td>
<td>6.0</td>
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<tr>
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<td>6.1</td>
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<tr>
<td><strong>Japan</strong></td>
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- **United States**: The US economy is expected to grow at a solid pace in 2015 and 2016. Although the US economy slowed more sharply than expected in the first quarter of 2015, this was mainly due to severe weather conditions and the effects of industrial disruption at west coast ports. Growth is being supported by lower oil prices, more moderate fiscal adjustment, strengthened balance sheets and an improving housing market. These factors are expected to more than offset the negative effects of a stronger US dollar, which will affect US exports.

- **China**: The Chinese economy is forecast to slow through to 2017 as it continues to transition to a broader-based model of growth. This slowdown reflects the impact of the ongoing property-market correction and the negative flow-on effects this is having for upstream industries. The Chinese authorities are allowing growth to slow in a controlled manner and pursuing the structural reforms needed to strengthen consumer-driven demand. The moderation of Chinese growth is expected to have important regional implications, impacting on the growth of other Asian economies.

- **Japan**: The Japanese economy is expected to recover in 2015 after growth stalled last year following an increase in the consumption tax rate. The recovery is being supported by accommodative fiscal and monetary policy settings, improving labour market conditions, lower oil and commodity prices and a weaker yen. Nevertheless, Japanese growth is still quite weak.

- **India**: India’s growth is expected to strengthen from 7.2 per cent in 2014 to around 7.5 per cent in 2015 and 2016. Business investment has been recovering as confidence has picked up reflecting reduced political uncertainty and the Indian Government’s economic reform agenda. As a major oil importer India is also benefitting from lower oil prices which have reduced firms’ operating costs and benefited consumers.

- **Euro area**: Recent news from the Euro area has been positive with growth expected to strengthen moderately, supported by lower oil prices, low interest rates and a weaker euro. Export and investment growth is expected to gradually build momentum. This improved outlook has reduced concerns of the euro area experiencing a protracted period of excessively low inflation. While the outlook is more positive for the Euro area as a whole, growth remains quite uneven.
• **Other East Asian economies**: Treasury reports that economic growth of this group of economies is expected to increase from 4.1 per cent in 2014 to 4.75 per cent in 2015 and 2016. These economies are benefiting from lower commodity prices. The IMF reports that growth among the ASEAN-5 economies is expected to continue to diverge this year with Malaysia forecast to slow in 2015 while growth in Thailand and the Philippines is expected to pick up.

Both Treasury and the RBA are forecasting that growth for Australia’s major trading partners will exceed 4 per cent in 2015 and 2016.

**Risks**

The risks to the global outlook have become more balanced in recent months but in the IMF’s view are still tilted on the downside.

Potentially, the price of oil is both an upside and downside risk for the global economy. It is possible that lower oil prices could give a stronger boost to demand than currently forecast, particularly for the advanced economies. Alternatively, if the price of oil rebounds more quickly than expected this would likely have a dampening effect on global growth.

For Australia a key risk is the outlook for China. It may turn out that Chinese authorities are not able to manage the slowdown in the economy as well as hoped. Since the onset of the Global Financial Crisis (GFC) China’s debt burden has increased significantly, much of it related to real estate. The authorities continue to face the daunting task of striking the right balance between reducing economic vulnerabilities, supporting growth and implementing structural reforms. It is possible the Chinese economy could slow by more than currently forecast particularly if investment is weaker than expected due to the ongoing real estate correction and more constrained local government spending. This could be expected to negatively impact on Australia through weaker demand for our commodity exports and indirectly through the flow-on effects lower Chinese growth would have for other Asian economies.

Emerging market and developing economies potentially face a triple hit from: a strengthening US dollar (which could have a significant impact on the financial systems of emerging market economies because many banks and companies have increased their borrowing in dollars over the past five years); higher global interest rates; and more volatile capital flows.

There is also a range of geopolitical risks that include developments in the Ukraine, the Middle East and parts of Africa. If these risks were to crystallise they have the potential to disrupt global trade, financial and investment flows, which would weigh on growth. Even if not realised, heightened tensions potentially add to uncertainty and undermine confidence.

In its recent update the IMF warned that in addition to these near-term risks, both advanced and emerging market economies face lower medium-term growth prospects than prior to the GFC. In part this reflects the effects of population ageing as well as the lingering impact of the GFC (such as markedly lower growth in the capital stock). The IMF took the opportunity to once again urge governments around the world to take decisive policy action to boost actual and potential growth, including by pursuing much needed structural reforms.

**Australia’s longer-term economic outlook**

An important part of the context for any budget is the longer-term challenges and opportunities Australia faces, encompassing the economic, social and environmental dimensions of community wellbeing. Generally, these change little from year to year but nonetheless over time have the potential to have a large cumulative impact on Australia’s economic prosperity and future living standards.

For Australia the list of challenges and opportunities that are likely to shape Australia’s longer-term outlook include:

• an ageing population

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17. Other East Asian economies comprises the newly industrialised economies of Hong Kong, South Korea, Singapore and Taiwan and the Association of South East Asian Nations group of five (ASEAN 5): Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
20. Ibid., p. 18.
21. Ibid., see Chapter 3.
• the economic rise of Asia
• new knowledge and technologies
• climate change
• changing patterns of global demand and
• natural resource depletion.

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

The budget provides an important mechanism through which governments can try to manage the effects of longer-term influences. For example, through patient long-term investment governments can build the capabilities needed to make the most of expected future opportunities and the flexibility and resilience needed in the face of less favourable long-term trends.

Last year’s Budget Strategy and Outlook: Budget Paper No. 1: 2014–15 included a narrative ‘Sustaining strong growth in living standards’. This focused 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 discussed 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.

There was no comparable standalone narrative about the longer-term outlook in this year’s budget papers. However, earlier this year the Government released an updated Intergenerational Report, which assesses the long-term sustainability of current Government policies and how changes to Australia’s population size and age profile may impact on economic growth, workforce and public finances over the next 40 years.

The implications of the economic outlook for the Budget

Generally, the economic context is 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 the nature, size and timing of individual policy measures which will in part reflect how favourable the economic outlook is.

Treasury’s assessment of the economic outlook is reflected in the key economic parameters used to estimate and project revenue and expenditure items. Treasury provides forecasts of the key macroeconomic parameters for the budget year and the following financial year and projections of these parameters for the following two financial years.

Table 3 shows that the forecasts for a number of key economic parameters for 2015–16 have been revised down over the past year, including those for real GDP growth, nominal GDP growth and the terms of trade.

The fiscal estimates and projections are sensitive to changes in the economic parameters. For example, since last year’s Budget, the price of iron ore has fallen rapidly and this and other changes have been reflected in the revisions to the forecasts for Australia’s terms of trade and nominal GDP growth for 2014–15 and 2015–16 (Table 3). As a result of the fall in the price of iron ore, tax receipts have been written down by around $20 billion over the four years to 2017–18. As Stephen Koukoulas recently observed:

Such is the power of the economy in delivering (and hindering) the budget revenue and spending outcomes. A few dollars difference in the global iron ore price, a small change in employment growth or a swing in GDP growth can have a huge impact on the budget bottom line.

This year Budget Paper No. 1 includes Statement 7 ‘Forecasting performance and scenario analysis’, which builds on the information provided in Appendices A and B of Statement 3 in last year’s Budget Paper No. 1.

25. S Koukoulas, Budget 2015: surplus could be sooner than we think, ABC website, 13 May 2015.
Statement 7 provides useful information about how accurate the forecasts of real and nominal GDP and estimates of government receipts have been. It also presents a number of scenarios to illustrate the sensitivity of fiscal estimates to changes in the economic parameters. The Budget Review includes an article Assessing forecasting risks and uncertainty, which looks at these issues in more detail.

The economic outlook is also reflected in some of the key decisions taken in this year’s budget. At an overarching level the Government has decided to only partially offset the negative effect of falling commodity prices on the budget bottom-line. Given the more subdued near-term economic outlook this decision provides some additional support to the economy at a challenging time, without seeming to delay the projected return to an underlying cash surplus in 2019–20.

In Statement 3 of Budget Paper No. 1 the Government sets out how the decisions in the Budget respond to Australia’s economic outlook. For example, the Government states that it is deliberately redirecting spending to investments which it considers will boost productivity including: the Jobs and Small Business Package; the Families Package; the Northern Australia Infrastructure Facility; and improving Fairness in Tax and Benefits. Separate detailed briefs on many of the budget measures have been prepared as part of this year’s Budget Review.

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

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<td>-3.75</td>
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<td><strong>-12.25</strong></td>
<td><strong>-8.5</strong></td>
<td><strong>0.75</strong></td>
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Source: Australian Government, Budget strategy and outlook: budget papers no. 1: 2014–15, Statement 1, Table 2, p. 1-7; Statement 2, Table 1, p. 2-5; Australian Government, Mid-year economic and fiscal outlook 2014–15, Table 1.2, p. 3, Table 2.3; p. 16; Australian Government, Budget strategy and outlook: budget paper no. 1: 2015–16, Statement 1, Table 2, p. 1-7; Statement 2, Table 1, p. 2-5.

**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. The objective of the Government’s fiscal strategy is to ‘achieve budget surpluses, on average, over the course of the economic cycle’. The details of the fiscal strategy can be found in Statement 3 of Budget Paper No. 1 (see box 1 on page 3-7).

The Budget projections show that since MYEFO 2014–15, the outlook for underlying cash balance has worsened by about $12.5 billion over the four years to 2017–18, although it is still projected to return to surplus in 2019–20. Beyond that point modest surpluses of less than one per cent of GDP are projected out to 2025–26.
course, given the difficulty of forecasting beyond the forward estimates period there is considerable uncertainty around the medium-term projections.

The average annual pace of fiscal consolidation to 2018–19 of 0.5 per cent of GDP is broadly consistent with the 2014–15 Budget.

Complementing its medium term fiscal strategy, the Government has set itself a budget repair strategy. This strategy sets a clear objective around when a strong budget surplus will be achieved, which is consistent with the medium-term fiscal strategy. The Government’s goal is to deliver budget surpluses building to at least 1 per cent of GDP by 2023–24. The details of the budget repair strategy are also set out in Box 1 in Statement 3 of Budget Paper No. 1 (see page 3-7).

As the Government acknowledges, the projected underlying cash surpluses from 2019–20 do not meet its budget repair target.26 As a consequence further fiscal adjustment will be needed in future budgets. In part the size of the fiscal adjustment needed to achieve the Government’s target will depend on how strongly the economy grows from here. If growth surprises on the upside, the size of the fiscal adjustment needed would be smaller than currently projected. If, however, growth disappoints then the size of the fiscal adjustment needed in future budgets will be larger.

A key element of the Government’s budget repair strategy is a commitment to more than offset new spending measures by reductions elsewhere in the Budget. The Government’s decision not to proceed with the Paid Parental Leave Scheme has allowed it to use the money allocated to the scheme to more than offset the cost of policy decisions taken since MYEFO 2014–15. Consequently, the budget position is better off by $1.6 billion over the five years to 2018–19.

On the other hand, the Government’s decision not to proceed with certain measures from the 2014–15 Budget plus the cost to the budget of delays in passing legislation since MYEFO 2014–15, has worsened the budget position by $5.2 billion over the five years to 2018–19.

The government’s broader policy agenda

The Budget has also been framed around the Government’s broader policy agenda. This year the major policy themes in the Budget include:

Building a stronger economy: Jobs, growth and opportunity—the Jobs and Small Business Package; the Northern Australia Infrastructure Facility; and additional support for farmers through the extension of drought relief loan schemes and social and community support measures.

Supporting Australian families—increased support for child care assistance including a new Child Care Subsidy and a two year pilot program for in-home care by nannies; increased funding for the Immunise Australia programme; and new and amended listings on the Pharmaceutical Benefits Scheme, including for more effective cancer treatments.

A fairer Australia—strengthening the integrity of the tax system; strengthening the integrity and sustainability of the welfare system; and strengthening Australia’s foreign investment framework.

Protecting Australia—new funding for national security measures and additional funding to extend and expand Australia’s military operations in Afghanistan, Iraq and the Middle East.

As part of this year’s Budget Review, the Parliamentary Library’s research specialists have prepared briefs on the major policy decisions taken in the Budget.

The fiscal outlook

The Budget forecasts an underlying cash deficit of $35.1 billion (2.1 per cent of GDP) in 2015–16, improving to a projected deficit of $6.9 billion (0.4 per cent of GDP) in 2018–19 (Table 4).

The size of the projected fiscal consolidation between 2015–16 and 2018–19 is around 1.7 per cent of GDP. By way of comparison, at the time of MYEFO 2014–15, the size of the projected fiscal consolidation between 2014–15 and 2017–18 was around 1.9 per cent of GDP.

26. Ibid.
The pace of fiscal consolidation is relatively even across the forward estimates period: around 0.6 per cent of GDP between 2015–16 and 2016–17; 0.7 per cent of GDP between 2016–17 and 2017–18; and 0.4 per cent of GDP between 2017–18 and 2018–19.

The revenue side accounts for most of the projected fiscal consolidation between 2015–16 and 2018–19, with general government sector receipts estimated to increase by around 1.2 per cent of GDP over the period. Taxation receipts are expected to increase by around 1.1 per cent of GDP and non-taxation receipts by around 0.1 per cent of GDP.

**Table 4: The underlying cash balance**

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<td>Underlying cash balance ($m)</td>
<td>-48,456</td>
<td>-41,121</td>
<td>-35,115</td>
<td>-25,836</td>
<td>-14,396</td>
<td>-6,905</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-3.1</td>
<td>-2.6</td>
<td>-2.1</td>
<td>-1.5</td>
<td>-0.8</td>
<td>-0.4</td>
</tr>
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</table>


General government sector payments are expected to fall by around 0.6 per cent of GDP between 2015–16 and 2018–19.

Given the Budget relies heavily on stronger taxation receipts over the next four years to substantially reduce the underlying cash deficit, much would appear to hinge on economic growth getting back to its long term average of around 3.2 per cent in 2016–17. In the wake of the GFC, Australian growth has averaged just 2.5 per cent a year between 2008 and 2014. If growth disappoints then tax receipts may not grow strongly enough to keep the Government’s planned fiscal consolidation on track. This would make achieving the Government’s goal of reaching a budget surplus of at least 1 per cent of GDP by 2023–24 harder and would require larger future fiscal consolidation measures.

There is also risk on the expenditure side. Real expenditure growth between 2015–16 and 2018–19 is forecast to average just 1.8 per cent per year. This compares with average real growth between 1980–81 and 2014–15 of around 3.3 per cent per year. The Government will need to maintain considerable fiscal discipline over the next few years if it is to reduce expenditure by around 0.6 per cent of GDP between 2015–16 and 2018–19.

**The structural budget balance**

In Statement 3 of *Budget Paper No. 1* the Government reports on the structural budget balance. Estimates of the structural budget balance remove the temporary changes to revenues and expenditures, due to fluctuations in commodity prices for example, and the extent to which economic output deviates from its potential level due to the economic cycle. As the Government notes, when considered in conjunction with other measures, estimates of the structural budget balance can provide insights into the sustainability of current fiscal settings.

The structural budget balance is estimated to improve from a deficit of around 1.25 per cent of GDP in 2015–16 to modest surpluses from 2018–19 through to the end of the projections period in 2025–26. This outlook is largely unchanged from the forecasts in MYEFO 2014–15.

**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 2014–15 Budget. Over the four years to 2017–18, it has worsened since last year’s budget. While the forecasts and projections still show a consistent pattern of gradually declining cash deficits, in dollar terms the deficit in 2017–18 is now projected to be around 5 times larger than was the case at the time of last year’s budget.

At the time of the 2014–15 Budget the size of the accumulated budget deficits over the four years to 2017–18 was $60.2 billion. This figure was revised up in MYEFO 2014–15 to $103.9 billion and in this year’s Budget to $116.5 billion. This suggests that since last year’s Budget there has been slippage over the four years to 2017–18 of $56.3 billion.

The bulk of this slippage is due to parameter and other variations (Table 5). The cumulative impact of parameter and other variations over the four years to 2017–18 has been to worsen the fiscal outlook by around $42.8 billion (76 per cent of the overall slippage). The cumulative impact of policy changes over the same period has been to worsen the fiscal outlook by around $13.4 billion (24 per cent of the overall slippage).

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27. Ibid., p. 3-12–3-13.
Focusing just on developments since MYEFO 2014–15, the fiscal outlook over the four years to 2017–18 has worsened by around $12.5 billion. Policy changes account for $9.3 billion (74 per cent) and parameter and other variations for $3.2 billion (26 per cent) of the overall slippage.

**Figure 1: Revisions to the underlying cash balance ($m)**

![Graph showing cash balance revisions from 2014-15 to 2018-19]

Source: Australia Government, *Budget strategy and outlook: budget paper no. 1: 2015–16*, Statement 1, Table 1, p. 1, Statement 3, Table 7, p. 3-17.

- Since MYEFO 2014–15 policy decisions have increased payments by around $10.1 billion over the four years to 2017–18, which has been partially offset by decisions which have increased receipts by around $0.8 billion over the same period.
- Since MYEFO 2014–15 parameter and other variations have reduced payments by around $17.4 billion and increased Net Future Fund earnings by an estimated $0.7 billion. Against this, parameter and other variations have reduced receipts by around $21.3 billion.

Statement 3 of *Budget Paper No. 1* includes a detailed reconciliation of the changes to the projected cash balance since the 2014–15 Budget.

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

<table>
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<tbody>
<tr>
<td>Policy decisions</td>
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<tr>
<td>$m</td>
<td>$m</td>
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<tr>
<td>2015–16</td>
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<td>2016–17</td>
<td>-501</td>
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<tr>
<td>2017–18</td>
<td>950</td>
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<tr>
<td>Total</td>
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</tbody>
</table>


The deterioration in Australia’s short-term fiscal outlook is reflected in the Commonwealth’s balance sheet (see Table 6). In broad terms, larger projected cash deficits over the four years to 2017–18 mean that the Australian Government faces a larger financing requirement and will need to borrow more.
Net financial worth

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 financial 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. One of the goals of the Government’s medium-term fiscal strategy is to strengthen the Government’s balance sheet by improving net financial worth over time.

- The short-term outlook for the Commonwealth’s net financial worth has deteriorated over the past year. It was projected to be -$352.7 billion (18.7 per cent of GDP) in 2017–18 at the time of Budget 2014–15; this declined to -$398.7 billion (21.5 per cent of GDP) at the time of MYEFO 2014–15; and declined further to -$415.2 billion (22.6 per cent of GDP) in this year’s Budget.

General government sector net debt

Australian Government general government sector net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowings, minus the sum of cash and deposits, advances paid and investments, loans and placements.

- At the time of last year’s Budget net debt was forecast to be $264.2 billion by 2017–18 (14 per cent of GDP). This projection was revised up in MYEFO 2014–15 to $315.8 billion (17 per cent of GDP) and to $323.7 billion (17.6 per cent of GDP) in this year’s Budget.

- Net debt as a percentage of GDP is still projected to peak in 2016–17 but at a higher level. The Budget has net debt as a percentage of GDP peaking at 18 per cent of GDP in 2016–17 compared with 17.2 per cent of GDP at the time of MYEFO 2014–15 and 14.6 per cent of GDP at the time of last year’s Budget.

General government sector net interest payments

Australian Government general government sector net interest payments are equal to the difference between interest paid and interest receipts.

- In dollar terms, net interest payments are now projected to be marginally lower in 2017–18 than was the case in last year’s Budget, but unchanged as a percentage of GDP.

Table 6: Net financial worth, net debt and net interest payments ($b and %)

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<tr>
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<td>MYEFO 2014–15 (% GDP)</td>
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<td>MYEFO 2014–15 (% GDP)</td>
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<td>Budget 2015–16 ($b)</td>
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• The Budget assumes that the weighted average cost of borrowing for the future issuance of Treasury Bonds in the forward estimates period will be slightly lower than was the case in last year’s Budget and MYEFO 2014–15.

Statement 6 of Budget Paper No. 1 includes a detailed reconciliation of the changes in the Commonwealth’s balance sheet since the time of MYEFO 2014–15.
Reactions from interest groups
Indra Kuruppu

**Australian Chamber of Commerce and Industry**

The Australian Chamber of Commerce and Industry (ACCI) is very supportive of small business measures, believing they will give small businesses the confidence to grow, invest and hire new staff and encouraging the parliament to support these measures. In particular, ACCI mentions the 1.5 percentage point cut to the company tax rate for businesses with turnover of less than $2 million and the 5 per cent tax discount up to $1000 for other businesses, the $20,000 instant asset deduction, and efforts to reduce red tape.

ACCI also supported measures to stimulate the labour market, including simplifying work experience arrangements, greater flexibility in wage subsidy payments, wage subsidies for older workers and changes to employment services. However, ACCI cautioned that these initiatives need to be carefully structured to most effectively meet the needs of employers and not lead to employment churn. ACCI also supported $25 million to assist businesses to take advantage of free trade agreements.

However, ACCI is concerned about the size of the deficit and urges further spending cuts. It urges the government to work with other parties to get support for its legislation and urges all parties to support the Budget.28

**Australian Conservation Foundation**

The Chief Executive Officer of the Australian Foundation (ACF), Kelly O’Shanassy, says that the Budget chooses big polluters over the community, highlighting that there is little in this Budget on climate action and criticising the government for disregarding the need for a healthy, safe environment.

On fossil fuel subsidies the ACF is critical of the failure to reform Fuel Tax Credit diesel subsidy and to address tax concessions claimed by resource companies, stating that changes to these two measures could have saved $15 billion and reduced pollution by up to 9 per cent.

Ms O’Shanassy is critical of $1.5 billion used to pay companies under the emissions reduction fund which will fail to achieve pollution targets by 2020, as well as $73.2 million in cuts to the Green Army program which comes on top of almost $500 million of cuts to the Landcare program. The ACF is also critical of funding cuts to the National Heritage Trust ($12.3 million over five years), to water buy-backs ($22.7 million over two years from 2017–18) and to government departments and agencies that help to protect the environment.

The ACF does welcome $100 million in initiatives aimed at protecting the Great Barrier Reef, but is wary that funding for Northern Australia could be used to build ports and railways to allow coal from the Galilee Basin to be transported across the reef.29

**Australian Council of Social Service**

The Chief Executive Officer of the Australian Council of Social Service (ACOSS), Dr Cassandra Goldie, welcomed a fairer approach to pension reform and investment in child care, but said the ‘overall package retains many harsh cuts from last year’s Budget which will leave many people on the lowest incomes worse off’. ACOSS also criticized the Budget for failing to stimulate investment in jobs.

ACOSS also stated that people on low incomes are still doing most of the ‘heavy lifting’ of budget repair, with unpassed budget measures from last year still part of the Budget, including cuts to health, education, community services and family and youth payments.

On the families package, Dr Goldie said that the increased investment in child care is overdue and welcome, but criticizes it for providing overly generous subsidies for high income earners and the government’s strategy of relying on cuts to family payments to fund it. ACOSS also criticizes cuts to Paid Parental Leave, saying they are taking the country backwards in search for short-term savings.

ACOSS supports changes to the pension and urges the government to consider changes to superannuation tax breaks for high income earners as well.

28. K Carnell (Chief Executive Officer, Australian Chamber of Commerce and Industry), Budget turbocharges small business to grow, invest and hire, media release, 12 May 2015.

29. K O’Shanassy (Chief Executive Officer, Australian Conservation Foundation), Budget chooses big polluters over community, media release, 12 May 2015.
ACOSS is critical of the Budget for failing to invest enough in jobs and skills, believing the small business measures are insufficient to stimulate jobs growth. ACOSS is also critical of a failure to fix the low rate of allowance payments and indexation arrangements, lack of investment in affordable housing, the loss of funding for vital policy, advocacy and service delivery across social services, health and legal assistance especially in Aboriginal and Torres Strait Islander communities.

ACOSS urges tax reform as the next priority for the government while preserving the social safety net into the future, in particular urging reform to generous super tax concessions, negative gearing and capital gains tax breaks.30

**Australian Council of Trade Unions**

The Australian Council of Trade Unions (ACTU) believes the budget does nothing to create jobs, highlighting that the budget itself forecasts unemployment to stay above 6 per cent for the next three years. Its strongest criticism is that the small business tax cut will not promote jobs growth, saving the average small business no more than $20,000 a year which is not enough to hire new staff.

The ACTU criticises the government for failing to produce measures to increase productivity, with cuts to research and innovation programs. ACTU urges the government to invest in infrastructure, skills and training and the public services to create jobs and boost the economy.

The ACTU also criticises the government for what it claims as unfairness in the budget measures: tying childcare assistance to unfair cuts to family benefits and paid parental leave; cutting almost $1 billion from health; and failing to address superannuation for the wealthy. The President of the ACTU Ged Kearney states that ‘Australian families will be worse off under this budget with cuts to paid parental leave and family tax benefits that are far greater than the government’s investment in childcare’.31

**Australian Industry Group**

Australian Industry Group (Ai Group) believes the Budget is a good start in providing incentives to invest for small business and welcomes forecasts for a surplus over the medium-term, but cautions that there are risks that the Budget may not provide the lift in business confidence and demand needed to increase investment, productivity, and growth and to address unemployment. Ai Group is wary that the budget forecasts worsening unemployment and worries that the GDP forecasts are optimistic.

Innes Willox, Chief Executive of the Ai Group, welcomes the package of business measures to provide incentives for small businesses to grow, invest and create jobs. He particularly welcomes the increase in the immediate tax deduction for capital expenses, but notes that it is limited to businesses with turnover of less than $2 million. He urges fundamental tax reform and a cut in the company tax rate for all companies.

Mr Willox also welcomes efforts to strengthen tax avoidance, but urges that the measure be implemented in consultation with business to avoid creating business uncertainty. He also supports extending the GST to online purchases and calls for further broadening of the GST as part of the upcoming tax reforms. Ai Group also welcomes the changes to childcare for their potential to improve workforce participation, but cautions that any changes to paid parental leave must not deter businesses from offering their own leave schemes.32

**Business Council of Australia**

Jennifer Westacott, Chief Executive Business Council of Australia (BCA), supports the federal Budget ‘as a sound, sensible and thoughtful Budget, taking pragmatic steps to get fiscal strategy back on track, while investing in jobs, participation and the capacity of the economy’. The BCA also urges the Senate to pass the Budget.

The BCA believes the Budget provides a boost to small business and creates a better environment for business confidence that will drive investment, job creation and economic growth.

Ms Westacott calls on the government to reset the fiscal strategy over 10 years to deliver durable budget outcomes and stronger economic growth underpinned by maintaining Australia’s AAA credit rating,

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30. C Goldie (Chief Executive Officer, Australian Council of Social Service), **ACOSS on budget 2015: better direction but lower income earners still doing the heavy lifting**, media release, 12 May 2015.
32. Innes Willox (Chief Executive, Australia Industry Group) **Constrained budget heading in the right direction-statement by Innes Willox, Chief Executive**, media release, 12 May 2015.
progressively returning the budget to surplus, ensuring the durability of priority services including an adequate safety net and ensuring capacity for investments in infrastructure and human capital.

On the fiscal position, the BCA believes the government has taken important steps to bring spending under control and invest in the capacity of the economy. Nonetheless, the BCA believes that achieving the planned budget surplus in 2023–24 needs a clearer long-term plan.

On the durability of priority services, including an adequate safety net, the BCA supports better targeting of the aged pension, the Pharmaceutical Benefits Scheme and the paid parental leave scheme. The BCA also urges considering further changes to pensions as part of a review of Australia’s retirement income system.

On capacity building, the child care package is a sound approach to encouraging workforce participation. The BCA also supports additional investment in infrastructure across northern Australia. While the BCA supports the small business package it cautions about a two-tier company tax rate.33

**National Farmers’ Federation**

The National Farmers’ Federation (NFF) supports the budget for delivering modest gains for the farm sector, welcoming measures on trade, tax breaks and small business.

NFF President Brent Finlay highlighted support for the following measures:

- measures that allow farmers to accelerate depreciation for spending on water, fodder and fencing which will encourage investment and improve cash flow on farm
- $25 million to help producers access the benefits of free trade agreements (a policy called for by the NFF)
- small business tax cuts which will assist more than 110,000 farm businesses that have less than $2 million in cash receipts and
- $83 million in pre-announced drought funding for rural communities and pest and weed control.

The NFF is awaiting the Agriculture Competitiveness White Paper and Northern Australia White Paper to measure the Government’s commitment to agriculture.34

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34. B Finlay (President, National Farmers’Federation), *Budget lays groundwork for Ag white paper*, media release 12 May 2015.
Parliamentary scrutiny of payments to the states and territories

Daniel Weight

In the 2015–16 Budget, the Commonwealth proposes to make grants of $101.7 billion to the states and territories under section 96 of the Constitution. The legislative framework through which these payments are made is complex, and parliamentary oversight of these arrangements—at least once they are established or authorised—appears to be limited.

The vast majority of grants to the states and territories are provided for by special appropriations, but some money is proposed to be appropriated for the making of grants to the states and territories in the 2015–2016 annual Appropriation Bills. For many of the grants made via special appropriations—particularly where they involve special accounts—the Parliament is able to control the overall amount that may be provided in any one year but not the nature of those grants or the programs or activities they fund.

Grants under section 96 of the Constitution may be made with or without conditions about how monies may be utilised by the recipient state or territory. Grants provided without conditions are known as ‘general revenue assistance’ payments, while grants provided with conditions are known as ‘payments for specific purposes’.

**Special appropriations**

The largest single category of grants provided to the states and territories is the revenue from the GST. These grants—estimated to be $57.1 billion in 2015–16, or 56.1 per cent of the total—are appropriated via the special appropriation in section 22 of the Federal Financial Relations Act 2009, which appropriates money for ‘general revenue assistance’ determined under Part 2 of that Act. While the relevant Minister has some discretion as to the timing of the payments, they occur largely automatically.

**Annual appropriations**

Under the 1965 Compact between the Senate and the House of Representatives dealing with what must be included in each annual Appropriation Bill, appropriations for grants to the states and territories must be included in separate annual Appropriation Bills so that the Senate is able to subject such proposed grants to scrutiny. Appropriation Bill (No. 2) 2015–2016, which provides for grants to the states and territories, however, only proposes that $763.7 million be appropriated from the Consolidated Revenue Fund for the purpose of making payments to the states and territories: less than 1 per cent of the total.

The Senate has sought to exercise its power to amend annual Appropriations Bills. Most recently, during the consideration of the Appropriation Bill (No. 4) 2014–2015, Senator Leyonhjelm sought to amend that Bill to remove $250,000 in appropriations for grants to the states and territories from the amount to be appropriated to the Department of Infrastructure and Regional Development. Senator Leyonhjelm advised the Senate he considered the provision to be ‘pork barrelling.’ The Senate, however, did not agree to that amendment.

**Special accounts**

A third way through which grants may be provided to the states and territories is through ‘special accounts.’ A special account is an amount of money in the consolidated revenue fund that is earmarked for a specific purpose and which may only be expended subject to the conditions imposed on that special account. Special accounts may be established by a disallowable instrument under section 78 of the Public Governance, Performance and Accountability Act 2013 (PGPA Act), or in another Act. When the conditions of the special account are met, special appropriations in sections 78 and 80 of the Public Governance, Performance and Accountability Act 2013 automatically provides for the release of monies from the Consolidated Revenue Fund, without further recourse to the Parliament.

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35. Section 96 provides that ‘the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit’.
41. The Senate, *Journals of the Senate No. 84*, p. 2309.
Various special accounts have been established that may be used to provide grants to the states and territories, such as the Building Australia Special Account that may be used to provide grants for various types of infrastructure,\(^{42}\) and the DisabilityCare Australia Fund Special Account that makes grants in connection with the National Disability Insurance Scheme.\(^{43}\)

While parliamentary approval is required for the establishment of a special account,\(^{44}\) once established, there is often little oversight of their use.

**Example: the COAG Reform Fund Special Account**

Much of the funding to the states and territories is through the COAG Reform Fund Special Account, established under the COAG Reform Fund Act 2008.\(^{45}\) This special account operates as a conduit through which monies are made available to the states and territories, rather than as a store of money or value. The annual Appropriation Bills in a given year play a role in managing the COAG Reform Fund Special Account by setting the ‘debit limit’ for the total amount that may be drawn from that special account in that year. Amounts up to that debit limit will be automatically appropriated via section 80 of the PGPA Act if the Minister determines a grant should be made. As shown in the following illustrations, this mechanism is used to provide both general revenue assistance, and payments for specific purposes.

**General revenue assistance**

Section 9 of the Federal Financial Relations Act 2009 has the effect that, if the Minister determines that an amount of general revenue assistance (other than the GST revenue) is to be provided to a state or territory, the COAG Reform Fund Special Account is to be debited by that amount. Subsection 9(5) of that Act makes such a determination a legislative instrument, but prevents it being disallowed by the Parliament.

In 2015–16, the limit of such general revenue assistance will be set by the ‘debit limit’ by clause 13(4) of annual Appropriation Bill (No. 2) 2015–2016, and is proposed to be $5 billion.\(^{46}\) Federal Financial Relations: Budget Paper No. 3: 2015–16 indicates, however, that only $698.9 million in general revenue assistance will be provided. It would appear, therefore, that if the Parliament passed Appropriation Bill (No. 2) 2015–2016 in its current form, an additional $4.3 billion in general revenue assistance grants to the states or territories could be made by the Minister without further consideration by the Parliament.

**Payments for specific purposes**

Similarly, section 16 of the Federal Financial Relations Act 2009 provides that the Minister may make National Partnership Payments—a form of payment for specific purposes—to a state or territory on terms agreed with the state or territory, up to the ‘debit limit’ for that section set by the Appropriation Bills for each year. All that is required for National Partnership Payment grants to be provided is a determination by the Minister under that section, and subsection 16(5) provides that such determinations are not disallowable. Once a determination is made, the COAG Reform Fund Special Account is immediately debited by that amount for payment to the state or territory via the special appropriation in section 80 of the PGPA Act.

In 2015–16, $10.6 billion in grants are proposed to be made as Specific Purpose Payments via this mechanism, and the proposed payments are detailed in Table 2.10 in the Department of the Treasury’s Portfolio Budget Statement.\(^{47}\) Amongst these are initiatives that have attracted controversy such as:

- the Mechanical Fuel Load Reduction Trial that was announced in the 2015–16 Budget\(^ {48}\)
- the revised National School Chaplaincy Programme\(^ {49}\) which is now administered as a grant to the states and territories after the High Court twice ruled it unlawful for the Commonwealth to fund it directly\(^ {50}\) and

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42. National-building Funds Act 2008, s 53 to 56.
43. DisabilityCare Australia Fund Act 2013, s 10.
44. Public Governance, Performance and Accountability Act 2013, s 79 and 80.
46. Clause 13(4).
• the Asset Recycling Fund which the Parliament has failed to agree to when it was proposed in separate legislation.\textsuperscript{51}

Clause 13(5) of Appropriation Bill (No. 2) 2015–2016 proposes that the ‘debit limit’ for National Partnership Payments under section 16 of the \textit{Federal Financial Relations Act 2015–2016} be $25.0 billion, which is $14.4 billion higher than the $10.6 billion of proposed expenditure in 2015–16. Conceivably then, an additional $10.6 billion in new Specific Purpose Payment grants could be made in 2015–16, were the Minister to issue a determination.

\textbf{Discussion}

Under the \textit{Constitution}, the Executive Government cannot spend monies without the approval—via an appropriation—of the Parliament.\textsuperscript{52} Appropriations may take many forms, however, and the growing complexity of the financial arrangements of the Commonwealth means that it is increasingly difficult to identify what specific activities or initiatives are being approved by the Parliament, when it agrees to appropriations.

The arrangements around the COAG Reform Fund Special Account are particularly byzantine, and it is unclear how effective a scrutiny mechanism the use of ‘debit limits’ are in ensuring Parliamentary oversight of such expenditure. Moreover, the setting of ‘debit limits’ for special accounts in the annual Appropriation Bills far above what would be required to fund identified programs and activities—when coupled with the capacity for a Minister to authorise the funding of additional grants by determination—means that there is a potential for significant new expenditures to occur without specific scrutiny by the Parliament.

\textsuperscript{51} Ibid., p. 51.

\textsuperscript{52} In particular, s 83 provides that: ‘No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law.’
Assessing forecasting risks and uncertainty
Kai Swoboda

Treasury’s analysis of its own forecasting processes and performance, undertaken in 2011–12, generally found that budget forecasts were ‘broadly as accurate as those of both domestic forecasters and those generated by comparable agencies in countries with similar institutional arrangements as Australia’. 53

While this provides some reassurance about the quality of the budget estimates, what if international and domestic economic conditions don’t turn out as expected? What are the potential impacts on the economy and the budget?

There are several areas within the budget papers that provide a range of information to assist users to interpret the extent of some of the risks. Alternative sources on these issues are the views of various economic commentators and the Parliamentary Budget Office, which has recently published an analysis of the sensitivity of budget projections to changes in economic parameters. 54

Forecasting performance and scenario analysis

Budget Paper No. 1 (Statement 7: Forecasting performance and scenario analysis) includes some qualitative and quantitative analysis of the budget estimates. This covers a summary of previous forecasting errors and includes some figures on the range of ‘confidence’ for certain current forecasts. 55

Also included in this statement is a sensitivity analysis of the impact of two scenarios on headline economic indicators and the budget position for the budget year and the year following. These scenarios have been unchanged since the 2011–12 Budget. The modelled impact of each of these scenarios suggests that changes in economic indicators can have large impacts on the Budget outcome (Table 1).

Table: 1 Illustrative sensitivity of the budget balance to specified scenarios, 2015–16 and 2016–17 56

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<thead>
<tr>
<th>Scenario 1—reduction in nominal GDP</th>
<th>Scenario 2—increase in real GDP</th>
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<tr>
<td>Receipts ($b)</td>
<td>-2.8</td>
</tr>
<tr>
<td>Payments ($b)</td>
<td>-0.1</td>
</tr>
<tr>
<td>Underlying cash balance ($b)</td>
<td>-2.9</td>
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<tr>
<td>Change in underlying cash balance as proportion of budgeted underlying cash balance (%)</td>
<td>8.2</td>
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Note: Scenario 1 is a 1% reduction in nominal GDP due to a fall in the terms of trade. Scenario 2 is a 1% increase in real GDP driven by an equal increase in labour productivity and labour force participation.

Relative size of policy and parameter variations

Budget Paper No. 1 (Statement 3: Fiscal strategy and outlook) includes a reconciliation between the estimates of the previous budget and any intervening budget statement (such as a Mid-Year Economic and Fiscal Outlook (MYEFO)) and those presented in the current budget in terms of the extent to which changes in the underlying cash balance and fiscal balance have been due to policy change or to ‘parameter and other variations’. 57 This reconciliation provides information about how important the factors that the government can control (policy decisions) are, relative to those that it can’t (the parameter and other variations). It could be used to assess the potential impact of unanticipated changes over the next few years.

The 2015–16 Budget notes that the net change in the fiscal balance of over $61 billion for 2014–15 to 2017–18 was as a result of policy decisions of over $15 million and parameter and other variations of over $46 billion. 58 The extent of parameter variations is smaller than in recent budgets and around one-quarter of that associated

56. Ibid., pp. 1–5, 7–16 and 7–18.
57. Ibid., pp. 3–17 and 3–24.
58. Ibid., p. 3–24.
with the 2009–10 Budget, which reflected the effects of the global financial crisis (Graph 1). The graph also illustrates the pattern of underestimating revenue before the crisis and overestimating it since the crisis.

**Graph 1: Impact of policy and parameter changes on the fiscal balance, 2004–05 Budget to 2015–16 Budget ($ billion)**

![Graph showing impact of policy and parameter changes on fiscal balance](image)


**Statement of risks**

*Budget Paper No. 1* (Statement 8: Statement of Risks) provides a high level summary of the various events that could affect fiscal outcomes. These include economic developments and certain events that have been recognised as potentially occurring coming to fruition (such as a legal outcome).

**Ad hoc commentary within the budget**

Also usually within *Budget Paper No. 1* (Statement 1: Budget Overview and Statement 2: Economic Outlook) can be found remarks and assessment about economic conditions and factors affecting the Australian economy. These may provide a guide to the upside and downside risks that have been considered in formulating key assumptions.

On occasion, specific factors are considered. For example, while all budget papers since 2011–12 have included a discussion of the decline in the iron ore price, the 2014–15 MYEFO and the 2015–16 Budget included some specific discussion and sensitivity analysis relating to changes in forecasts for iron ore. This commentary reveals the extent of the changes in forecasts for iron ore prices over recent years, with assumptions about the price revised down for 2014–15 from US$95 per tonne at the 2014–15 Budget, to US$60 in the 2014–15 MYEFO and now down to US$48 in the 2015–16 Budget.

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59. Ibid. (and previous issues).
61. Ibid.
The inclusion of sensitivity analysis in the 2015–16 Budget of a further US$10 per tonne revision in the iron ore price (up or down) suggests that tax receipts would change by $2.1 billion in response.\(^6\) This analysis allows for more transparency on the state of the budget with future movements in iron ore prices.

Can a budget create an election war chest?

Kai Swoboda

Decisions taken but not yet announced

One potential angle of budget analysis for ‘election watchers’ is whether a government is building an election ‘war chest’ for a possible election in the near term.63 Such analysis can focus on two line items in the summary tables of revenue and expenses measures in Budget Paper No. 2 that provide amounts for ‘decisions taken but not yet announced’. These funds may relate to specific policies that would be announced in the near future. However, there may also be other considerations, such as commercial confidentiality issues relating to procurement activities that lead to some measures being included in these amounts rather than being separately identified.64

In the 2015–16 Budget, the impact on revenue of decisions taken but not yet announced is $1,174.7 million and the impact on expenditure of decisions taken but not yet announced is $1,139 million over the four year forward estimates period (2015–16 to 2018–19).65 The net impact of these unannounced measures is therefore $35.7 million for this period.

How does this compare to previous budgets and how useful is it as an indication of a possible election in the near term?

Previous budgets and timing of federal elections

An examination of the revenue and expenditure impact of decisions taken but not yet announced over the relevant four-year estimates period for the previous eight budgets suggests that there is no clear indication that the value of the measures included are related to the timing of an election (Graph 1).

Graph 1: Impact of ‘decisions taken but not yet announced’ over forward estimates period, Budget 2004–05 to Budget 2015–16 ($ million)66

Source: Australian Government, Budget measures: budget paper no. 2, 2015–16, pp. 5 and 54 (and previous years).

Note: For revenue measures, a positive number indicates that revenue has increased. A negative number indicates a decrease. For expense measures, a positive number indicates that expenses have increased. A negative number indicates a decrease.

66. Ibid. (and previous years).
For example, the 2010–11 Budget (which preceded the federal election on 21 August 2010) included significant measures that had a negative impact on the budget compared to budgets preceding the 9 October 2004, 24 November 2007 and 7 September 2013 elections (2004–05, 2007–08 and 2013–14 Budgets respectively) which did not allocate significant funding to this category. One common feature of election year budgets, but also part of 2005–06 and 2011–12 budgets, was that the net impact of decisions taken but not yet announced was negative on the budget bottom line.

If anything, the analysis reveals that the size of the ‘decisions taken but not yet announced’ measures has little relationship to election years.

One general point from the analysis is that the value of the ‘decisions taken but not yet announced measures’ has increased in importance since the 2010–11 Budget, with larger revenue and expenditure impacts in this and later budgets compared to those up to the 2009–10 Budget.

That said, it is important to note that the size of the ‘decisions taken but not yet announced’ relative to the size of overall budget measures in each Budget is relatively small and almost insignificant (Graph 2).

**Graph 2: Net impact of ‘decisions taken but not yet announced’ and net impact of total budget measures over forward estimates period, Budget 2004–05 to Budget 2015–16 ($ million)**

Indeed, even the budget measures are a relatively small proportion of total revenues and expenses: the net impact of the 2015–16 Budget measures in 2015–16 of $4.1 billion is less than 1% of the value of total expenses of $435 billion in 2015–16.

Previous measures: those revised in the 2015–16 Budget and those not yet proceeded with

Tarek Dale and Kai Swoboda

The 2014–15 Budget included a number of policy changes which proved controversial, and in some cases the Government has not yet been able to gain Parliamentary approval for particular measures. While some measures have been reversed in the 2015–16 Budget (for example, reductions in the Automotive Transformation Scheme and changes to Age Pension indexation), others are still included in the Budget estimates, despite not being legislated.

The 2014–15 Mid-Year Economic and Fiscal Outlook included estimates of the ‘Impact of delays in passing legislation’ grouped by portfolio, but did not outline individual measures in detail.69 Similarly, there is no definitive list in the 2015–16 Budget of measures for which the Government has not been able to gain Parliamentary approval.70

The table below provides a high-level summary of selected measures from the 2014–15 Budget and other budget updates, which are either unchanged but do not yet have Parliamentary approval, or were amended or reversed in the 2015–16 Budget.

### Table 1: Status of selected measures from previous budget updates

<table>
<thead>
<tr>
<th>Measure</th>
<th>Legislative status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abolition of the Clean Energy Finance Corporation.71</td>
<td>Bills to abolish the Clean Energy Finance Corporation were introduced but negatived by the previous Senate on two occasions. A bill has been reintroduced but not yet voted on in the House of Representatives.72</td>
</tr>
<tr>
<td>Fair Entitlements Guarantee – aligning redundancy payments to national employment standards.73</td>
<td>A bill to cap the maximum amount of redundancy pay entitlement available under the Fair Entitlements Guarantee scheme has been introduced but not yet voted on in the Senate.74</td>
</tr>
<tr>
<td>Increase the Age Pension qualifying age to 70 years.75</td>
<td>A bill that included this measure (amongst other changes) was discharged from the notice paper in the Senate. A bill reintroduced for this measure (amongst other changes) has not yet been voted on in the House of Representatives.76</td>
</tr>
<tr>
<td>Increase in Pharmaceutical Benefits Scheme co-payments and safety net thresholds.77</td>
<td>Bill not yet voted on by the Senate.78</td>
</tr>
<tr>
<td>Limit Family Tax Benefit Part B to families with children under six years of age.79</td>
<td>Two bills that included these measures (amongst other changes) have been discharged from the notice paper in the Senate. A second Bill including these measures has been reintroduced but not yet voted on in the Senate.83</td>
</tr>
<tr>
<td>Maintain Family Tax Benefit payment rates for two years.80</td>
<td></td>
</tr>
</tbody>
</table>

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69. J Hockey (Treasurer) and M Cormann (Finance Minister), *Mid-year economic and fiscal outlook 2014–15*, p. 23.
70. *Budget strategy and outlook: budget paper no. 1: 2015–16* does include estimates of the ‘Total impact of significant decisions not to proceed with prior Budget proposals’ and ‘Impact of delays in passing legislation’ (p. 3-11), but not by individual measure.
71. J Hockey (Treasurer) and M Cormann (Finance Minister), *Mid-year economic and fiscal outlook 2013–14*, pp. 144–145.
### Unchanged measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Legislative status</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Family Tax Benefit Allowance.81</td>
<td></td>
</tr>
<tr>
<td>Revise Family Tax Benefit end-of-year supplements.82</td>
<td></td>
</tr>
<tr>
<td>Reintroduction of fuel excise indexation.84</td>
<td>A bill has been introduced but not yet voted on in the Senate. The measure was subsequently implemented temporarily through tariff and excise proposals. Legislation to ratify the reintroduction of indexation from 10 November 2014 will need to be introduced and passed by Parliament prior to 10 November 2015.85</td>
</tr>
<tr>
<td>Removing caps on student contributions.86</td>
<td>Bills introduced but negatived in the Senate on two occasions.87</td>
</tr>
<tr>
<td>Repeal higher tax-free threshold from 1 July 2015.88</td>
<td>Initially a budget measure by the previous Government to delay a legislated higher tax-free threshold.89 Bills introduced but negatived in the Senate on two occasions. A bill has been reintroduced but not yet voted on in the House of Representatives.90</td>
</tr>
</tbody>
</table>

### Revised or reversed measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Changes in the 2015–16 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abolish Climate Change Authority.91</td>
<td>One Bill to abolish the Climate Change Authority was negatived in the Senate, and the re-introduced Bill has not been voted on in the Senate. Revisions announced in the 2015–16 Budget provide for a reallocation of funding to extend the Climate Change Authority until 31 December 2016.92</td>
</tr>
<tr>
<td>Automotive Assistance – reducing funding.93</td>
<td>Measures in the 2013–14 Mid-Year Economic and Fiscal Outlook and the 2014–15 Budget to reduce funding for the Automotive Transformation Scheme were reversed in the 2015–16 Budget.94</td>
</tr>
<tr>
<td>Changes to GP rebates.95</td>
<td>Changes included in the 2014–15 Mid-Year Economic and Fiscal Outlook in relation to GP rebates are not proceeding.96</td>
</tr>
<tr>
<td>Index pension and pension equivalent payments by the Consumer Price</td>
<td>Not proceeding.98</td>
</tr>
</tbody>
</table>

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81. Ibid., p. 199.
82. Ibid., p. 200.
84. Ibid., p. 17.
86. Budget measures: budget paper no. 2: 2014–15, op. cit., pp. 84–85. While other aspects of the measure were amended in the 2014–15 MYEFO, there were no changes in relation to the proposal to remove caps on student contributions (Mid-year economic and fiscal outlook 2014–15, op. cit., p. 151).
### Unchanged measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Legislative status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain eligibility thresholds for Australian Government payments for three years.</td>
<td>Elements affecting indexation of income test and deeming rate thresholds for pension payments are not proceeding. Elements affecting indexation of assets test thresholds and limits for all income support payments and the Child Care Rebate annual limit have been passed by the Parliament. It is unclear if elements affecting indexation of income test thresholds for non-pension income support payments, Family Tax Benefit and Child Care Benefit will proceed—attempts were made to legislate these measures but either did not pass or were discharged from the notice paper. Bills have been reintroduced for those measures and are currently in either the House (Child Care Benefit elements) or Senate (all other elements).</td>
</tr>
<tr>
<td>Reset the Assets Test Deeming Rate Thresholds for pensions.</td>
<td>Not proceeding.</td>
</tr>
<tr>
<td>Stronger Participation Incentives for Job Seekers under 30.</td>
<td>Revisions announced in the 2015–16 Budget to reduce the waiting period to one month (from six months), and only applying the measure to those aged under 25 (instead of under 30).</td>
</tr>
</tbody>
</table>

Budget briefs have been prepared by the Research Branch in relation to a number of these measures, including:

- Medicare
- The Pharmaceutical Benefits Scheme
- Pensions and
- Family Payments.

Identifying the impacts associated with particular measures which have not yet received Parliamentary approval is difficult. The Parliamentary Budget Office (PBO) released analysis in February 2015 (prior to the 2015–16 Budget) entitled ‘Update of major yet to be legislated payment measures’, which provides budget estimates in relation to some measures (although not all those identified above). The PBO is also expected to publish updated estimates in the near future. While the PBO noted that their February estimates would no longer be accurate after the 2015–16 Budget, that analysis suggests the orders of magnitude involved with some measures in the 2015–16 financial year, including:

- ‘Family Tax Benefit Reform package—Maintain FBT payment rates for two years’—$719 million
- ‘Family Tax Benefit Reform package—Limit FTB B to families with children under six years of age’—$88 million
- ‘Increase in co-payments and safety net thresholds’ (in relation to the Pharmaceutical Benefits Scheme)—$306 million.

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107. Ibid., p. 3.
Drought measures

Rob Dossor

Severe rainfall deficiencies have existed for some time in Queensland and parts of northern New South Wales (NSW). 108 The 2015–16 Budget adds further measures to support communities and businesses affected by droughts in Australia. 109

Of the drought package, the only new measure in the Budget is $35 million for infrastructure projects in drought affected areas. This measure will provide funding for shovel ready projects that offer the greatest potential to stimulate the local economy in drought affected areas over four years. Few other details are available as to which projects are eligible, or who determines which project has the greatest potential to stimulate the local economy.

Concessional loans

The major measure in the drought support package is $250 million for the continuation of the drought specific loans schemes in 2015–16, $150 million for the Drought Concessional Loan (DCL) and $100 million for the Drought Recovery Concessional Loan (DRCL). Unlike other support mechanisms, such as the general farmer support mechanism and the DCL, which operate Australia wide, the DRCL is available only in Queensland and NSW. Other differences between the two loans are the extreme drought requirement of the DRCL (characterised as a one-in-fifty year rainfall deficiency) and interest rates (which are 3.84 per cent for the DCL and 3.21 per cent for the DRCL). 110

A further feature of the DRCL is that in Queensland it is also available to farms which are experiencing a less than extreme drought but were affected by the disruption to the live cattle trade with Indonesia in mid-2011. 111 The DRCL is not available in the Northern Territory, although Northern Territory farms were impacted by the disruption to the live cattle trade.

Also available up to 1 July 2015 is the Farm Finance Concessional Loan Scheme (FFCLS—first introduced in the 2013–14 Budget), providing $420 million in concessional loans over two years (to 2015–16). 112 The FFCLS is available to any farm business which meets the eligibility criteria, not just those in drought affected areas. 113 Currently the FFCLS has a concessional interest rate of 4.34 per cent. 114

Take-up of concessional loans

The table below outlines the take-up of concessional loans. The Budget provides additional funds to extend the drought specific loans into 2015–16. Whether this will be an effective drought support measure is questionable as take-up has been low since the loans have been available, and the new scheme has more restricted eligibility.

Table 1: Take-up of concessional loans

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Take-up</th>
<th>Available</th>
<th>Number approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCL</td>
<td>$41.4</td>
<td>$280</td>
<td>66</td>
</tr>
<tr>
<td>FFSCS</td>
<td>$152.6</td>
<td>$420</td>
<td>322</td>
</tr>
<tr>
<td>Total</td>
<td>$194</td>
<td>$700</td>
<td>388</td>
</tr>
</tbody>
</table>

Source: Compiled by Parliamentary Library from data obtained in responses to questions in writing. 115

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108. The Bureau of Meteorology states that ‘long-term deficiencies in Queensland are now a result of three consecutive poor wet seasons’. Bureau of Meteorology (BOM), ‘Rainfall deficiencies’, BOM website.

109. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.


113. Department of Agriculture (DA), ‘Farm Finance Concessional Loans Scheme’, DA website. See here also for FFCLS eligibility criteria.


The low take-up may be due to complex or stringent eligibility criteria, which according to the National Farmers Federation have ‘caused angst for many in the farm sector’. The DCL and DRCL are administered by the Department of Agriculture and common eligibility criteria include:

- that the financial impact is as a result of a drought (which is defined in terms of a rainfall deficiency over a given period when compared with similar periods over the whole historical record)
- that the farm business has taken reasonable steps to prepare for the effects of the drought and
- that the farm business has an ability to repay the loan.

Fiona Simson, president of NSW Farmers, is cited as believing that concessional loans are unlikely to help farmers at breaking point. Similarly Dave Marshall, a farmer in northern NSW, is quoted as stating ‘loans are good, but they’ll probably only give it to you if you’re in a good position.’

Other measures

Other measures in the 2015–16 Budget are additional funds of $20 million to extend access to social and mental health services in drought affected communities, $25.8 million to continue pest and weed management in drought affected areas and $1.8 million for the Rural Financial Counselling Service.

Fifteen million dollars is allocated for the National Partnership on assistance for water infrastructure and pest management in drought affected areas through the Environment portfolio. Tax measures are also included which will allow primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores and irrigations. Capital expenditure on fodder storage assets will also be eligible for depreciation over three years. This change will be for income years commencing on or after 1 July 2016.

Treatment of $272 million in the Budget papers

Budget Paper No. 2 states that the government will provide $271.8 million over four years to extend current drought concessional loans. The supporting table, however, shows only $31.1 allocated in 2015–16 and $0.3 million in 2016–17. This is because the bulk of the measures included in this $271.8 million are concessional loans to drought affected farm businesses. The granting of a loan does not create an expense itself because the Commonwealth will be repaid the monies in full. The only expense that the Commonwealth needs to incur is the differential between the regular and concessional interest rates and administration costs associated with implementing the loans. As a result, only $9.3 million in 2015–16 is actually allocated for the concessional loans with a further $0.3 million in 2016–17.

119. Ibid.
Arts and film
Dr John Gardiner-Garden

The 2015 Budget has surprised and dismayed many people involved with the arts and film in Australia.121

Redirecting funding from the Australia Council

The Government announced that $110.0 million over four years would be redirected from the Australia Council (which in 2014–15 received $211.8 million and in 2015–16 will receive $184.5 million) to the Ministry for the Arts in the Attorney-General’s Department ($27.7 million in each of the next two financial years, $28.0 million in 2017–18 and $26.6 million in 2018–19).122 The redirection provides for:

• the establishment of a National Programme for Excellence in the Arts ($104.7 million over four years)
• the transfer of the Visions of Australia and Festivals Australia programs and the Major Festivals Initiative to the Ministry for the Arts (with the latter having its annual budget doubled to $1.7 million) and
• three more years of Creative Partnerships Australia’s matched funding program ($5.3 million over three years).123

The Minister for the Arts, Senator George Brandis, stated that ‘[t]here will be no reduction in the Australia Council’s funding to the 28 major performing arts companies as a result of this initiative’.124 However, the quarantining of major performing arts (as also happened when the Australia Council’s funding was reduced by $28.2 million over four years in the 2014–15 Budget), together with increased support for well-sponsored arts, will mean a smaller proportion of overall funding will flow to independent artists and small arts enterprises.125 This would be consistent with the Minister’s declaration in June 2014 that ‘I’m more interested in funding arts companies that cater to the great audiences that want to see quality drama, music or dance, than I am in subsidising individual artists responsible only to themselves.’126

National Programme for Excellence in the Arts

The Minister stated that the new National Programme for Excellence in the Arts (NPEA) will:

… support endowments, international touring and strategic projects, with an emphasis on attracting private sector support … allow for a truly national approach to arts funding … deliver on a number of Government priorities including national access to high quality arts and cultural experiences … [and] make funding available to a wider range of arts companies and arts practitioners, while at the same time respecting the preferences and tastes of Australia’s audiences.127

These are objectives which could conceivably be supported by the Australia Council, which only recently underwent a review which culminated in the Australia Council Act 2013.128 This suggests the potential for duplication of functions, raising questions about the respective roles of and relationships between the two bodies, and of the direction of art policy more generally.

Questions include whether applicants for and recipients of NPEA funding will have the same freedom to reject corporate sponsorship as the Australia Council has allowed its grant applicants and recipients—an issue that arose in the context of the Sydney Biennale last year and which led Minister Brandis to instruct the Australia Council ‘to develop a policy which deals with cases where an applicant for Australia Council funding refuses funding offered by corporate sponsors’.129 A further question is whether the NPEA process will involve the

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121. B Eltham, ‘Budget 2015: George Brandis’ extraordinary raid of the Australia Council’, The Drum (online) 13 May 2015; S Cannane and G Deavin, ‘Years ministry could become more powerful than Council’ and ‘Budget 2015: Changes to arts funding disastrous, says former chair of Australia Council’, ABC News (online) 14 and 15 May 2015; and see footnote 15 for reaction to film measures.
124. G Brandis, media release, op. cit.
127. G Brandis, media release, op. cit.
independent peer assessment that has been central to the Australia Council’s ‘arms-length’ funding model over the last four decades. In June 2013, Minister Brandis supported expanding the scope for ministerial involvement in funding decisions.\textsuperscript{130} In May 2014 he included in the budget $1.0 million for the Australian Ballet School; and in September 2014 he was reported as bypassing the Australia Council with a large grant to Melba Recordings.\textsuperscript{131} The measure provides for a greater role for the Minister and another avenue for obtaining grant support, but if the aim was to clarify the role of the federal minister and of the different levels of government in supporting different sorts of arts practice, the measure does not do this as simply and clearly as others have suggested in the past (e.g. in 1988 the Liberal shadow arts minister Chris Puplick released a Coalition arts policy which included abolishing the Australia Council and transferring its functions to the relevant department, and in 1986 the McLeay Report recommended special program and funding arrangement for the largest arts companies and devolving grant decision making in some other areas to the States and Territories).\textsuperscript{132} No relevant policy statement or Parliamentary report has foreshadowed this measure. The measure does not require legislation.

\textbf{Screen Australia}

The Budget also provides for a reduction in funding of $3.6 million over the next four years ($0.91 million each year) to Screen Australia, the Commonwealth’s main film support body. In the Portfolio Budget Statements, a portion of this reduction is explained as ‘related to the cessation in 2016–17 of the four-year $10.0 million ($2.5 million per year) Creative Australia—supporting Australian digital productions measure’. However, in \textit{Budget Paper no. 2} the measure is grouped under ‘Arts and Cultural Programmes—efficiencies’ to achieve savings that ‘will be redirected ... to repair the Budget and fund policy priorities’.\textsuperscript{133} As this reduction comes on top of a substantial ($25.1 million) reduction provided for in the 2014 Budget, Screen Australia, the Screen Producers Australia and the Media Entertainment and Arts Alliance have all been reported as saying the measure will seriously affect the screen industry.\textsuperscript{134}

\textbf{Efficiency savings}

The Budget also provides for further savings from the Australia Council of $7.3m over four years, to be met through reduced funding to the ArtStart, Capacity Building and Artists in Residence programmes.\textsuperscript{135} It also provides for collecting agencies (such as the National Gallery of Australia, National Film and Sound Archive of Australia, the National Museum and the National Portrait Gallery) to continue to be subject to the efficiency dividend and the ‘consolidation of back office functions’ measures announced in 2014.\textsuperscript{136}

\textsuperscript{130}. See the amendments moved by G Brandis to Clause 31 in debate on Australia Council Bill 2013. Parliament of Australia, ‘\textit{Australia Council Bill 2013 homepage}’, Australian Parliament website.


Environment and water
Bill McCormick and Alex St John

Two programmes administered by the Department of the Environment received significant funding increases (the Reef Trust and Tasmanian Irrigation projects), while three programmes had significant reductions in funding (Green Army, National Landcare, and Sustainable Rural Water Use and Infrastructure).

Green Army

Under the Green Army Programme, young volunteers aged between 17 and 24 years participate for 20–26 weeks in environmental conservation projects and undertake such tasks as tackling land degradation, cleaning up riverbanks and re-vegetating sand dunes. Participants receive an allowance of between $10.14 and $16.45 per hour and are provided with necessary work clothing and equipment. There will be savings of $73.2 million over four years from 2015–16 achieved through ‘efficiencies’ in the Green Army Programme. These savings will be used to fund other programmes including the Reef Trust. A number of Round 2 Green Army projects aim to rehabilitate vegetation in catchments so as to improve water quality outcomes for the Great Barrier Reef.

<table>
<thead>
<tr>
<th>Expense ($m)</th>
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</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Department of Social Services</td>
</tr>
<tr>
<td>Department of Human Services</td>
</tr>
<tr>
<td>Department of the Environment</td>
</tr>
<tr>
<td>Total Expense</td>
</tr>
<tr>
<td>-</td>
</tr>
<tr>
<td>-</td>
</tr>
<tr>
<td>-</td>
</tr>
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</tbody>
</table>

It is not clear how these savings can be achieved while funding the same number of Green Army projects and participants. The number of projects have been identified as 250 for 2014–15, 500 in 2015–16, 750 in 2016–17 and 1,500 in 2018–19 but there is no information as to the original target number of projects proposed for 2017–18, which is when over 60 per cent ($45.6 million) of the savings will be achieved.

Reef Trust – additional contribution

The Reef Trust, which provides funds to improve water quality, restore coastal ecosystem health and enhance species protection, will be provided with $100 million over four years from 2015–16 (see table below). This is on top of the $40 million provided in the 2014–15 Budget. Prime Minister Tony Abbott announced the $100 million in additional funding on 21 March 2015 at the launch of the Reef 2050 Long-term Sustainability Plan. To date, $30.4 million has been allocated, of which $15 million is to fund seven Phase 1 Reef Trust projects and $15.4 million to fund three Phase 2 Reef trust projects. These include crown of thorns starfish control, improvements to sugarcane farm fertiliser efficiency to reduce pollutant run off into the Reef lagoon, and enhanced protection and conservation of dugong and marine turtles.

<table>
<thead>
<tr>
<th>Expense ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Department of the Environment</td>
</tr>
<tr>
<td>-</td>
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</tbody>
</table>

A significant portion of the $100 million will be obtained through the savings in the 2015–16 Budget of $73.2 million (Green Army) and $12.3 million (National Heritage Trust component of National Landcare.

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138. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget Measures: Budget Paper No. 2: 2015–16.
144. Department of the Environment, ‘Reef Trust phase II investments’, Department of the Environment website.
Programme). It should be noted that the activities funded by the Reef Trust are intended to complement other initiatives already funded under the Green Army and the National Landcare Programme.\textsuperscript{145}

The Australian Marine Conservation Society said that the extra $100 million was not enough to help the reef and criticised the previous approval of dumping in the waters of the Great Barrier Reef and the fast tracking of environmental approvals of coal port expansion at Abbot Point.\textsuperscript{146}

Water

In February 2015, Prime Minister Tony Abbott announced that the Commonwealth would invest $60 million in five irrigation projects identified by the Tasmanian Government at Circular Head, North Esk, Scottsdale, Southern Highlands and Swan Valley.\textsuperscript{147} The Commonwealth will provide 2 for every $1 invested by the Tasmanian Government in those Tasmanian Irrigation Tranche II projects where final business cases are accepted. The Commonwealth contribution will be $34.4 million in 2015–16, $18.0 million in 2016–17 and $7.6 million in 2018–19. There will be a further $50 million ‘private capital contribution’ from the farmers involved in these schemes.\textsuperscript{148} The 2015–16 Budget states that four development projects will be funded by the $60 million but it did not identify which one of the five Tranche II projects will not be funded.

The Abbott Government policy for the Murray-Darling Basin is to place a cap on water buybacks in the Murray-Darling Basin at 1500 gigalitres and re-phase spending on buybacks over six years, rather than four.\textsuperscript{149} As a result, there will be a reduction of $22.7 million in funding for water buybacks in 2017–18 and 2018–19 from the Sustainable Rural Water Use and Infrastructure Program.\textsuperscript{150} The savings will contribute to reducing the deficit as well as to funding other unspecified programmes.

Climate Change

There has been little movement on climate change and energy policy since the 2014–15 Budget. In the current Budget, the Government has announced $6.2 million for the Climate Change Authority (CCA) to fund its operations through to 31 December 2016. The CCA was originally slated for abolition by the Coalition, but the Government agreed to retain it to study the feasibility of an emissions trading scheme in return for the support of the Palmer United Party in passing the Government’s preferred climate policy, the Emissions Reduction Fund.\textsuperscript{151} The Budget also provides for undisclosed compensation payments to families and businesses affected by the 2009–10 Home Insulation Program. The Government has withdrawn a further $3.4 million in 2014–15 from the National Low Emissions Coal Initiative, which the Government intends to conclude by July, 2016.\textsuperscript{152}

\textsuperscript{145} Department of the Environment, ‘Reef Trust - Frequently asked questions’, Department of the Environment website.

\textsuperscript{146} Australian Marine Conservation Society (AMCS), AMCS slams Hunt’s claims on World Heritage committee in danger listing, media release, 13 May 2015.

\textsuperscript{147} T Abbott (Prime Minister), Investing in Tasmanian jobs, productivity and water infrastructure, media release, 19 February 2015.

\textsuperscript{148} Tasmanian Irrigation, ‘Scottsdale Irrigation Scheme - Under Development’, Tasmanian Irrigation website.

\textsuperscript{149} Department of the Environment, ‘Water recovery strategy for the Murray-Darling Basin’, Department of the Environment website.

\textsuperscript{150} Department of the Environment, ‘Sustainable Rural Water Use and Infrastructure’, Department of the Environment website.


\textsuperscript{152} Department of Industry and Science (DIS), ‘National Low Emission Coal Initiative’, DIS website.
Outlook for the GST distribution

Daniel Weight

On April 9 2015, the Government publicly released the 2015 GST Review report by the Commonwealth Grants Commission (CGC),\(^ {153}\) in which the CGC made recommendations about the distribution of the GST to the states and territories for the 2015–16 year. That report was controversial; particularly as it recommended that Western Australia (WA) receive a GST relativity of 0.29999 for the 2015–16 year, down from 0.37627 in 2014–15. A state or territory’s GST relativity determines the amount of the GST that a state or territory will receive, relative to an equal per capita distribution. The CGC calculates each state or territory’s relativity to offset each state or territory’s revenue raising capacity and expenditure needs.\(^ {154}\)

**Background**

The main driver of WA’s low GST relativity is the rise in iron ore prices, and WA’s capacity to raise mining royalties. The CGC estimated that mining production enabled WA to raise $5.9 billion more in revenue in 2015-16 than the average of all the states and territories.\(^ {155}\) WA, however, argued that the methodology used by the CGC was flawed, as it was based on an historical iron ore price of $123 per tonne from 2013–14, and not the contemporaneous iron ore price of $48 per tonne.\(^ {156}\) WA Premier, Mr Colin Barnett, described the CGC system as ‘dysfunctional’ and suggested that ‘its time is up.’\(^ {157}\)

In response to the decline in the amounts of the GST revenue to be received by WA, the Commonwealth Government agreed to provide Western Australia with another $500 million in infrastructure funding outside the GST process.\(^ {158}\)

**Outlook**

The CGC’s reports did not make forecasts of the GST relativity of each state or territory in the years beyond 2015–16. The Government, however, typically provides projections of both the GST relativity of each state and territory, and the specific amount of GST revenue each state and territory is projected to receive, in *Federal financial relations: budget paper no. 3: 2015–16*.\(^ {159}\) But unlike prior years’ budgets, the 2015–16 *Budget paper no. 3* provides two sets of projections.

**Technical projection**

The first projection, which is consistent with the projections presented in prior years, only takes into account limited technical assumptions about the size of the GST revenue pool, changes in state and territory populations, and the impact of certain other Commonwealth payments. Those projections are set out at Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–16</td>
<td>0.94737</td>
<td>0.89254</td>
<td>1.12753</td>
<td>0.29999</td>
<td>1.35883</td>
<td>1.81906</td>
<td>1.10012</td>
<td>5.57053</td>
</tr>
<tr>
<td>2016–17(p)</td>
<td>0.92605</td>
<td>0.87367</td>
<td>1.21220</td>
<td>0.23820</td>
<td>1.42761</td>
<td>1.80375</td>
<td>1.08242</td>
<td>5.34709</td>
</tr>
<tr>
<td>2017–18(p)</td>
<td>0.92553</td>
<td>0.87159</td>
<td>1.26052</td>
<td>0.18064</td>
<td>1.44880</td>
<td>1.81104</td>
<td>1.11116</td>
<td>4.91376</td>
</tr>
<tr>
<td>2018–19(p)</td>
<td>0.93075</td>
<td>0.87740</td>
<td>1.25194</td>
<td>0.20175</td>
<td>1.42763</td>
<td>1.78167</td>
<td>1.10641</td>
<td>4.77782</td>
</tr>
</tbody>
</table>

(p): projection

The technical projection indicates that WA’s GST relativity would fall to 0.18064 in 2017–18, before recovering a little in 2018–19. Embedded within these technical projections, however, is an assumption of an iron ore price above $100 per tonne.

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158. T Abbott (Prime Minister), C Barnett (Western Australian Premier) and M Cormann (Finance Minister) transcript, *Joint press conference*, 6 May 2015.
160. Ibid., p. 80.
Technical projection with anticipated iron ore volumes and prices incorporated

The second projection produced by the Government differs from the first only through the incorporation of the effect of the iron ore volumes and prices that the Government anticipated at the time of the budget. Nowhere in the 2015–16 Budget Papers are forecasts for the years 2016–17 and beyond shown, so it is difficult to know exactly what those anticipated volumes and prices are. Nonetheless, the anticipated fall in the iron ore price—which would have the effect of reducing the amount of mining related revenue that WA would be assessed by the CGC as being able to raise—has a significant impact on WA’s projected GST relativity. The projections incorporating the Government’s forecasts of iron ore volumes and prices are set out at Table 2.

Table 2: Technical projections of CGC’s 2015 Review report GST relativities incorporating anticipated iron ore volumes and prices, 2015–16 to 2018–19

<table>
<thead>
<tr>
<th>Year</th>
<th>NSW</th>
<th>VIC</th>
<th>QLD</th>
<th>WA</th>
<th>SA</th>
<th>TAS</th>
<th>ACT</th>
<th>NT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–16</td>
<td>0.94737</td>
<td>0.89254</td>
<td>1.12753</td>
<td>0.29999</td>
<td>1.35883</td>
<td>1.81906</td>
<td>1.10012</td>
<td>5.57053</td>
</tr>
<tr>
<td>2016–17(p)</td>
<td>0.91576</td>
<td>0.86337</td>
<td>1.20192</td>
<td>0.32014</td>
<td>1.42045</td>
<td>1.79524</td>
<td>1.07212</td>
<td>5.34427</td>
</tr>
<tr>
<td>2017–18(p)</td>
<td>0.90023</td>
<td>0.84628</td>
<td>1.23524</td>
<td>0.38325</td>
<td>1.43118</td>
<td>1.79010</td>
<td>1.08585</td>
<td>4.90689</td>
</tr>
<tr>
<td>2018–19(p)</td>
<td>0.89176</td>
<td>0.83840</td>
<td>1.21298</td>
<td>0.51668</td>
<td>1.40042</td>
<td>1.74935</td>
<td>1.06741</td>
<td>4.76729</td>
</tr>
</tbody>
</table>

(p): projection

On these projections, WA’s GST relativity will increase in 2016–17 and in every year projected after that. Given the nature of the GST distribution, however, an increase for WA’s GST relativity would result in a decrease in all other state and territory GST relativities, when compared to the technical projection in Table 1 above.

Discussion

Making estimates or projections of the anticipated GST relativity of each state or territory appears to be a fraught task. Not only does it appear technically difficult, but small variations will inevitably have a significant impact upon the portion that each state or territory will receive of the GST revenue pool. That pool is forecast to be the largest item of Commonwealth expenditure in 2015–16, at $57.0 billion. The Government appears to recognise these difficulties, and advises that ‘[t]he Commonwealth Treasury will consult with the states and territories on the methodology for preparing relativity projections in future budget updates.’

Moreover, the technical projections that incorporate anticipated iron ore volumes and prices show a very rapid rebound in WA’s relativity. This shows that the CGC process may be more effective than assumed in adjusting state and territory GST relativities in response to short-run economic shocks than some of its critics assert.

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161. Ibid., p. 82.
162. Ibid., p. 77.
163. Ibid.
Funding the National Disability Insurance Scheme
Tarek Dale and Luke Buckmaster

The National Disability Insurance Scheme (NDIS) is a major and highly complex reform to the way in which disability support is funded, accessed and provided. It is jointly governed and funded by the Commonwealth and state and territory governments. It is expected to involve significantly increased government expenditure, from both Commonwealth and state and territory governments.164

In a period of increased tension over the allocation of funding and service delivery responsibility between Commonwealth and state and territory governments, funding the NDIS may prove to be a contentious issue. This brief outlines the key issues and information available, including where information is available in the 2015–16 Budget.

Agreements between the Commonwealth and states and territories

The actual delivery of NDIS services occurs through an agency—the National Disability Insurance Agency (NDIA)—which disburses funds for the provision of support to NDIS participants.165 The funding currently provided to the NDIA in relation to launch sites is governed by an intergovernmental agreement; this covers all states and territories except Queensland.166

The intergovernmental agreement includes schedules relating to each jurisdiction, which typically specify amounts (including both cash and in-kind contributions) up to and including the 2015–16 financial year.167 The Assistant Minister for Social Services has re-iterated the Coalition’s commitment to ‘honouring the agreements’.168

The previous Government also signed heads of agreement documents on the transition to a full scheme with all states and territories except for Western Australia.169 The heads of agreements documents include commitments on the funding split (but not specific amounts) between the Commonwealth and state and territory governments during the transition years between 2016–17 and full implementation of the scheme.170 Work is under way with state and territory counterparts (with the exception of Western Australia), with the goal of signing agreements on the transition.171

The heads of agreement documents also include specific amounts which states and territories will provide when the scheme is in full operation.172 However if the Council of Australian Governments (COAG) agrees to parameter changes after a Productivity Commission review in 2017, these may also change to some extent.173

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164. The full implementation costs of the NDIS are to some extent uncertain. In 2019–20 the NDIS is expected to cost ‘around $22 billion’, ‘around half of which’ will come from the Commonwealth, and the rest from the states and territories (Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.15A: Social Services Portfolio, p. 234). The 2015 Intergenerational Report projects that total government NDIS spending (including state and territory governments) is projected to reach 1.1 per cent of Australia’s gross domestic product in 2019–20 (Australian Government, 2015 Intergenerational Report: Australia in 2055, March 2015, p. xvii).


167. The schedules vary in the exact period covered; for more detail see ‘Intergovernmental Agreement on the National Disability Insurance Scheme Launch’, op. cit.

168. M Fifield (Assistant Minister for Social Services), Address to the National Press Club, speech, 20 November 2013, p. 6.

169. For the detail included in the individual heads of agreement documents see NDIA, ‘The Council of Australian Governments’, NDIA website.

170. All the heads of agreement documents except for the New South Wales heads of agreement include a commitment that the state or territory will cover 59.6 per cent of care and support package costs (the care and support packages are a large component of NDIS costs). The heads of agreement documents also typically specify that the Commonwealth will fund agency costs, and bear the risk of unexpected cost increases. The exact years identified vary between heads of agreement documents; some jurisdictions begin the full scheme in 2018–19, while for others it is 2019–20.


172. These amounts are indexed over time by what are referred to in the heads of agreement documents as ‘escalation parameters’. Under the heads of agreement documents, the Commonwealth has committed to bearing a significant portion of the risk associated with cost increases.

173. Most of the heads of agreement documents refer to a Productivity Commission review in 2017. The review will examine a number of factors, including the ‘escalation parameters’. If COAG agrees to changes to the risk allocation or escalation parameters based on the Commission’s analysis, this could also impact on the funding arrangements.
The NDIS in the 2015–16 Budget

The costs and funding commitments associated with the NDIS are reflected in a number of places in the 2015–16 Budget. Because of the negotiations under way with state and territory governments, figures in the Budget papers inevitably reflect to some extent assumptions which may change depending on the negotiated outcomes.

Budget Paper No. 1

NDIS costs are reflected in social security and welfare payments in Budget Strategy and Outlook: Budget Paper No. 1: 2015–16. However the costs as reported in Budget Paper No. 1 include full NDIA costs, which are funded jointly by the Commonwealth and the states and territories. Budget Paper No. 1 notes that ‘of the $37.0 billion in expenses over the forward estimates’, the Commonwealth will fund $18.9 billion, with the remainder from states and territories.

Budget Paper No. 2

Budget Measures: Budget Paper No. 2: 2015–16 includes a number of measures which relate to the NDIS or NDIA:

- ‘National Disability Insurance Agency Full Scheme ICT’ allocates funding for an ‘Information and Communication Technology’ system ‘to support the full implementation of’ the NDIS. This includes redirecting $50.3 million from an earlier NDIS budget measure.
- ‘National Disability Insurance Scheme — early access for children in the Nepean Blue Mountains area of Western Sydney’ provides funding to ‘facilitate early access’ for around 2,000 children from 1 September 2015.
- ‘National Disability Insurance Scheme — Sector Development Fund transfer’ shifts funding and responsibility from the NDIA to the Department of Social Services for the Sector Development Fund, which ‘was established … for the purpose of supporting the development of the disability support sector’ in preparation for NDIS implementation.

Budget Paper No. 3

Federal Financial Relations: Budget Paper No. 3: 2015–16 specifies a number of national partnership agreements (NPAs) which relate to the NDIS.

- The ‘National Partnership on assisting preparation towards the trial of the National Disability Insurance Scheme’ provides small amounts of funding for Tasmania and the Australian Capital Territory for ‘the transition to the new operating environment under the … NDIS’. 2015–16 is the last year in which funding is budgeted under this NPA.
- The ‘National Partnership payments from the DisabilityCare Australia Fund’ reflects an agreement which is currently under negotiation. The figures in Budget Paper 3 show expected payments that increase to $1.8 billion in 2018–19 for states and territories ‘when they meet key conditions such as agreement to fully roll out the NDIS and milestones relating to the participation of people with significant and permanent disability in the scheme’.

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175. Ibid., pp. 5-12 and 5-29. See also Senate Finance and Public Administration Committee, Official Committee Hansard, 28 May 2014, pp. 85-87 and 147-148.
176. Budget strategy and outlook: budget paper no. 1: 2015–16, op. cit., p. 5-29. Implicitly, this means that the Budget estimates include additional receipts from the states and territories of $18.1 billion over the forward estimates.
178. Ibid., p. 164.
179. Ibid., p. 164.
180. Ibid., p. 165.
182. Department of Social Services, email, 18 May 2015.
183. Ibid., p. 44.
Budget Paper No. 4 and the Portfolio Budget Statement

Both Agency Resourcing: Budget Paper No. 4: 2015–16 and the Portfolio budgets statements 2015–16: Budget related Paper no. 1.15A: Social Services Portfolio include detail on the NDIA’s funding and expenses. 184

- **Budget Paper No. 4** includes a number of figures in relation to the NDIS and NDIA, including
  - Appropriations 185
  - The DisabilityCare Australia Fund Special Account 186
  - Staffing levels 187
  - Estimated and projected expenses (covering 2015–16 to 2018–19). This includes a split between departmental expenses (broadly speaking, relating to the operation of the NDIA), and expense which are treated as administered (broadly speaking, this corresponds to the funds for support of NDIS participants) 188
  - Capital investment, 189 and
  - Outcome statements. 190

- The Social Services **Portfolio budget statement** (PBS) also includes a section relating to the NDIA. 191 This includes:
  - projections of the number of participants. The PBS notes that ‘These are Australian Government estimates of potential path of roll-out to full scheme and have not been agreed with the states and territories’ 192
  - projections of the ‘expenses for reasonably and necessary care and support for participants’ 193 and
  - projected agency costs. 194

The Portfolio budget statement also includes budgeted financial statements and budgeted cash flows for the NDIA, including projections to 2018–19. 195 To some extent these reflect expected cash-flows (although not actual contributions) from the Commonwealth and state and territory governments.

Both the financial statement and cash flow include a line entry for ‘Sale of goods and rendering of services’, which reflects expected cash flows from the state and territory governments. 196 This is projected to grow from $0.3 billion in 2015–16 to $10.8 billion in 2018–19. This cash-flow from state and territory governments does not match their actual cash contribution because a portion reflects the redirection of existing Special Purpose Payments (SPPs) into the NDIS. 197
An entry for ‘Other gains’ in the budgeted financial statement appears to reflect in-kind contributions by both Commonwealth and state and territory governments (the relative proportions are not reported). This grows from $0.3 billion in 2015–16 to $1.2 billion in 2018–19.

This means that while the PBS shows expected funding for the NDIA, it does not provide an exact breakdown of the relative contributions by different levels of government. Ultimately, the actual outcomes will depend on the transition agreements which are currently under negotiation.
Defence budget overview
David Watt

The 2015–16 Defence budget contains few, if any, examples of new spending and might be characterised as ‘steady’. This is because the Government made a number of major announcements prior to the Budget and is expected to be making more later in the year. The First Principles Review, which was released on 1 April 2015, has informed the Government’s decisions concerning the structure of the Defence portfolio. The Defence White Paper will be released later in 2015 in conjunction with the long-awaited successor to the 2012 Defence Capability Plan which will, according to the Government’s budget brochure, also contain a Naval Shipbuilding Plan. These documents are expected to set out the Government’s long-term strategic plans for capability acquisition and will dominate major policy announcements in the Defence sphere during 2015.

Given this, the 2015–16 Budget is very much about the dollars and not much else. The Government continues to increase the Defence budget in a manner that is broadly in line with its pre-election commitment to set expenditure on defence at 2 per cent of GDP by 2023–24. The growth in funding in 2015–16 is a 4 per cent increase in real terms and should mean that defence spending is over 1.9 per cent of GDP next year.

Table 1: Total defence funding ($ billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–16</td>
<td>30.1 (est. actual)</td>
<td>32.1</td>
<td>31.1</td>
<td>33.6</td>
<td>36.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence Portfolio (see footnote 201).

Having noted the funding increase, there are a few things about its composition that should also be highlighted. Much of the increase is attributable to the cost of military operations (discussed below) and the $732 million for foreign exchange supplementation. Foreign exchange supplementation, which maintains the Department of Defence’s buying power in the face of the declining value of the Australian dollar, is provided on a ‘no win/no loss’ basis and does not improve the department’s position in real terms. This supplementation follows the $320 million allocated for the same purpose in 2014–15.

In addition, the headline figure includes $805 million which would have been appropriated directly to the Defence Materiel Organisation (DMO) if the Government had not accepted the recommendation of the First Principles Review to reintegrate the functions of the DMO back into the Department of Defence. For more on the Defence Materiel Organisation, see the Library’s Budget Review article on Defence capability.

In regards to the ratio of defence expenditure to GDP, defence analyst Mark Thomson has already noted that this has been ‘boosted by slower than expected economic growth’. In other words, if the GDP pie is smaller and Defence expenditure continues to grow, then the proportion of expenditure on balance is greater. Thomson also points out that the 2 per cent target will require seven years of compounding real annual growth of 4.2 per cent. This figure will be lower in succeeding years if Treasury forecasts are correct about the size of the Australian economy: 1.83 per cent in 2017–18 and 1.86 in 2018–19. It is also true that 2 per cent of a smaller GDP will not improve Defence’s buying power overseas when it comes to capital equipment acquisition. Certainly, the usefulness of the 2 per cent target remains the topic of debate by experts in the field.

Budget measures and operations

In addition to the supplementation for foreign exchange mentioned above, this year’s budget measures include $751.2 million for operations. This is detailed in the following table.

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203. M Thomson, op. cit.
204. Ibid.
Table 2: Funding for operations 2015–16 ($ million)\(^{207}\)

<table>
<thead>
<tr>
<th>Operation</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation Okra</td>
<td>359.8</td>
</tr>
<tr>
<td>(Australia’s contribution to the international coalition against ISIL in Iraq)</td>
<td></td>
</tr>
<tr>
<td>Operation Accordion</td>
<td>189.3</td>
</tr>
<tr>
<td>(support activities across Australia’s involvement in the Middle East)</td>
<td></td>
</tr>
<tr>
<td>Operation Highroad</td>
<td>115.1</td>
</tr>
<tr>
<td>(Australia’s contribution to the NATO-led ‘train advise and assist mission in Afghanistan)</td>
<td></td>
</tr>
<tr>
<td>Operation Manitou</td>
<td>40.3</td>
</tr>
<tr>
<td>(Australia’s contribution to the international maritime effort to combat piracy and related illegal activities in the Middle East region)</td>
<td></td>
</tr>
<tr>
<td>Operation Resolute</td>
<td>48.1</td>
</tr>
<tr>
<td>(Defence’s contribution to border protection)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence Portfolio (see footnote 207).

The cessation of Operation Slipper (Australia’s military mission in Afghanistan) at the end of 2014 has not facilitated a reduction in spending or the tempo of military operations overseas. The 2014–15 Mid-Year Economic and Fiscal Outlook (MYEFO) revealed funding to support Operation Okra at a cost of $260.8 million for 2014–15, as well as $63.2 million for Operation Accordion for the same period. In addition, there is funding of $46.4 million for the Department of Foreign Affairs and Trade (DFAT) to run its embassy in Baghdad (DFAT also received $64.1 million for the embassy in Kabul).\(^{208}\) Involvement in the Middle East and Afghanistan continues to cost Australia substantial sums of money.

**Defence Cooperation Programme (DCP)**

The Defence Cooperation Programme is budgeted to rise from an estimated actual expenditure of $90.6 million in 2014–15 to $106.5 million in 2015–16.\(^{209}\) This features a substantial increase (from $25.3 million to $37 million) in funding to Papua New Guinea as well as $2.2 million for the resumption of the Defence relationship with Fiji (suspended after the 2006 coup).

Another notable feature of the DCP is the Pacific Patrol Boat Programme. Through this program, between 1987 and 1997, Australia provided 22 patrol boats to the 12 Pacific island countries which are part of the DCP. On 5 March 2015 the Minister for Defence announced a tender process which will lead to the supply of 21 new—Australian-made—steel-hulled patrol boats to replace the current vessels being used by the Pacific island nations.\(^{210}\) The total cost of the project is $594 million, with $22.1 million allocated for 2015–16.

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\(^{207}\) Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence Portfolio, op. cit., p. 18.


\(^{210}\) K Andrews (Minister for Defence), Tender announced for Pacific Patrol Boat replacement project, media release, 5 March 2015.
Defence capability
Nicole Brangwin

The 2015–16 Budget does not reveal any new Defence capabilities. Much like last year’s Budget, the wait continues for the Defence White Paper to be released before any new major military acquisitions are announced. Major capability announcements are expected to be made in the upcoming Defence White Paper, which was originally scheduled for release in March 2015 but has been delayed until the second half of this year. The Defence White Paper will be accompanied by a Defence Investment Plan (incorporating the Defence Capability Plan (DCP)) with a 10-year outlook, an Enterprise-level Naval Shipbuilding Plan and a Defence Industry Policy Statement. The last DCP was updated in 2012 under the Gillard Government. The most anticipated announcement will be the Future Submarine program, estimated to be worth around $50 billion over the life of the submarines.

This Budget reflects the changes being implemented by the Government following the recommendations of the First Principles Review, released on 1 April 2015, to re-integrate the functions of the Defence Materiel Organisation (DMO) into the Department of Defence (Defence). This was also one of the Commission of Audit’s recommendations.

As of 1 July 2015, the DMO will transition its core functions over to Defence. The DMO’s ongoing annual funding of $805 million will automatically transfer to Defence and any savings generated from this measure ‘will be reinvested in Defence capability’. However, the amount of savings will not be identified until later in 2015. Due to the DMO’s transition back into Defence, the 2015–16 Budget does not allocate direct appropriations from the Government to the DMO, or prepayments from Defence ‘for contracted acquisition and sustainment services’. In last year’s Budget these allocations contributed to the DMO’s overall total net resourcing of almost $12.8 billion.

This Budget continues to refer to the DMO as functioning within Defence as part of the transition process but does not mention the establishment of the new Capability Acquisition and Sustainment Group, as recommended by the First Principles Review.

The Government’s budget fact sheets state that in the last 12 months, around $5 billion worth of capability projects have been approved and up to $22 billion in total since the 2013 election. However, in anticipation of the Defence White Paper’s release, only the ‘most urgent capability projects’ will be considered.

This Budget allocates $885.5 million to the Unapproved Major Capital Investment Programme (also referred to as the Defence Capability Plan—DCP) and almost $6.2 billion to the Approved Major Capital Investment Programme (AMCIP); an investment of just over $7 billion for 2015–16. Similar to last year’s Budget, the DCP budget is expected to significantly increase each year, totalling more than $12.2 billion across the Forward

213.  Australian Government, Military capability information, Department of Defence website.
214.  K Andrews (Minister for Defence), Speech—RUSI Submarine Summit, op. cit.
220.  Ibid.
221.  Ibid., pp. 145–220.
223.  Ibid.
The current and future sustainment costs (including ICT and facilities) for 2015–16 is expected to reach $7.6 billion and steadily increase over the Forward Estimates, totalling just over $32.4 billion.226

According to the Defence Capability Group, the number of major projects approved in 2014–15 totalled $1.53 billion in value: two projects received First Pass approval and seven received Second Pass approval.227 This is fewer than the previous financial year which saw seven First Pass approvals and ten Second Pass approvals totalling around $19 billion.228

Some of the more significant capability announcements previously made by the Abbott Government include:

<table>
<thead>
<tr>
<th>Project announcement</th>
<th>Approved Project Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two additional C-17A Globemaster III aircraft</td>
<td>AIR 8000 Phase 4 = $1.3 billion</td>
</tr>
<tr>
<td>An additional 58 F-35A Joint Strike Fighter (JSF) aircraft, bringing the total to 72</td>
<td>AIR 6000 Phase 2A/B = $15.2 billion</td>
</tr>
<tr>
<td>P-8A Poseidon maritime patrol replacement aircraft</td>
<td>AIR 7000 Phase 2 = $3.9 billion</td>
</tr>
<tr>
<td>Australian Light Armoured Vehicle (ASLAV) replacement</td>
<td>LAND 400 Phase 2 = $117 million</td>
</tr>
</tbody>
</table>

Future capability announcements include:

- an unspecified number of Future Submarines to replace the existing six Collins Class submarines (SEA 1000 is currently undergoing a competitive evaluation process)234
- an unspecified number of MQ-4C Triton unmanned aerial surveillance systems (Second Pass approval for this element of AIR 7000 is ‘subject to the successful completion of the US Navy’s development programme’)235
- replacement of HMA Ships Success and Sirius (SEA 1654 Phase 3 is undergoing a limited competitive tender process involving Navantia of Spain and Daewoo of South Korea)236 and
- Future Frigates (SEA 5000 is currently looking at preliminary engineering and design work).237

229. The Approved Project Expenditure figures have been taken from the following document unless otherwise sourced: Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence portfolio, op. cit., p. 158.
230. T Abbott (Prime Minister) and K Andrews (Minister for Defence), Acquisition of two additional C-17A Globemaster III aircraft, media release, 10 April 2015.
231. At the same time the Australian Government announced the approval of an additional 58 JSF, bringing the total to 72 aircraft, the total capital cost was $12.4 billion, which included ‘associated facilities, weapons and training’, cited in T Abbott (Prime Minister) and K Andrews (Minister for Defence), F-35 Joint Strike Fighters to transform Australia’s air combat capability, media release, 23 April 2014.
232. T Abbott (Prime Minister) and D Johnston (Minister for Defence), P-8A Poseidon aircraft to boost Australia’s maritime surveillance capabilities, media release, 21 February 2014.
233. This project has received First Pass approval and the Request for Tender has been released, cited in K Andrews, LAND 400 Phase 2 – Mounted Combat Reconnaissance Capability, media release, 19 February 2015.
234. K Andrews (Minister for Defence), Speech—RUSI Submarine Summit, op. cit.
235. T Abbott (Prime Minister) and D Johnston (Minister for Defence), Triton unmanned aerial vehicles to boost maritime surveillance capabilities, media release, 13 March 2014.
236. D Johnston (Minister for Defence), Boosting Australia’s maritime capabilities, media release, 6 June 2014.
Defence personnel
Dr Nathan Church

During 2015–16 the total size of the Department of Defence (Defence) workforce will continue to reduce for the fourth year in a row (see Table 1). This is primarily due to a decline in Defence’s public service (APS) workforce, which has decreased by 2,458 personnel since 2012–13 and is expected to reduce by another 980 personnel in the coming financial year. This will represent a loss of 15 per cent of civilian staff over the last four years. Further cuts are projected into the forward estimates, bringing the APS workforce to a baseline of 17,800 personnel in 2016–17, down from its 2014–15 level of 19,360. However, the recently published First Principles Review into Defence cautioned against continued cuts, and recommended that ‘the focus on public service reductions as the primary efficiency mechanism for Defence cease’. The report also noted that ‘whilst these arbitrary approaches are delivering results, the review team believes a more targeted approach would produce more control over the shape and skills of the workforce’.

Table 1: Defence workforce data 2010–11 to 2018–19

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</thead>
<tbody>
<tr>
<td>Navy</td>
<td>14,207</td>
<td>14,054</td>
<td>13,760</td>
<td>13,862</td>
<td>14,061</td>
<td>14,238</td>
<td>14,368</td>
<td>14,416</td>
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<tr>
<td>Army</td>
<td>30,253</td>
<td>29,697</td>
<td>28,928</td>
<td>28,568</td>
<td>29,433</td>
<td>29,528</td>
<td>30,774</td>
<td>31,018</td>
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<tr>
<td>Air Force</td>
<td>14,624</td>
<td>14,243</td>
<td>13,919</td>
<td>13,934</td>
<td>14,094</td>
<td>14,216</td>
<td>14,236</td>
<td>14,125</td>
<td>14,014</td>
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<tr>
<td>Total ADF</td>
<td>59,084</td>
<td>57,994</td>
<td>56,607</td>
<td>56,364</td>
<td>57,588</td>
<td>57,982</td>
<td>59,378</td>
<td>59,559</td>
<td>59,382</td>
</tr>
</tbody>
</table>

Change from previous year
-1,090  -1,387  -243  1,224  394  1,396  181  -177

APS*      20,648  21,818  21,534  20,496  19,360  18,380  17,850  17,800  17,800

Change from previous year
1,170  -284  -1,038  -1,136  -980  -530  -50  0

Total Defence 79,732  79,812  78,141  76,860  76,948  76,362  77,228  77,359  77,182

Change from previous year
80  -1,671  -1,281  88  -586  866  131  -177

Source: Parliamentary Library estimate based on data derived from Department of Defence, Annual Reports; Australian Government, Portfolio budget statements 2015–16: Defence portfolio, p. 25.

*does not include employed contractors

In contrast to the APS reductions in Defence, the number of Australian Defence Force (ADF) personnel is expected to increase by almost 400 in 2015–16. This rise consolidates the substantial gain of over 1,200 members attained in the previous year, but even that is barely half of what was expected in the previous year’s budget papers. The growth of the ADF is expected to continue out to 2017–18 where it is expected to peak at 59,559 personnel. These projections indicate a 5.2 per cent increase in the number of ADF personnel since the 2012–13 level of 56,607. In terms of cost, the First Principles Review also notes that ADF personnel are 30 per cent more expensive for Defence to employ than APS staff.

Within the ADF, the Army is expected to expand by an additional 1,585 personnel out to 2018–19 and remains more than double the size of either the Navy or Air Force. It is also anticipated that the Navy will overtake the Air

238.  The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence Portfolio, pp. 22–25.
239.  Data derived from Department of Defence, Annual Reports; Australian Government, Portfolio budget statements 2015–16: Defence Portfolio, p. 25.
243.  Data derived from Department of Defence, Annual Reports; Portfolio budget statements 2015–16:Defence Portfolio, op. cit., p. 25.
244.  ‘First Principles Review’, op. cit., p. 66.
Force in 2015–16 with the second largest number of serving personnel in the ADF, which is unprecedented in the past 40 years.\(^{245}\) This shift is possibly the result of the increased capability requirements to crew two new Landing Helicopter Docks (LHDs) and three new Air Warfare Destroyers (AWDs). The first LHD, HMAS Canberra, has already been commissioned and the Navy expects to take delivery of all five new vessels by 2019.\(^{246}\)


The Centenary of Anzac
Dr Nathan Church

New funding for commemorations
As part of its ‘Anzac Centenary Program’, the Australian Government has announced $35.5 million in funding for the Department of Veterans’ Affairs (DVA) to provide for further commemoration services.247 This is in addition to approximately $140 million already committed by the Government for DVA to administer the overall program.248 The $35.5 million in new funding includes $9.1 million allocated for 2015–16, with a slight increase the following year before a peak in 2017–18 of almost $11.5 million.249

In total, DVA has $88.7 million in budgeted funding for its War Graves and Commemorations program (including Anzac Centenary commemorations) in 2015–16.250

Comparisons with other nations’ commemorations
According to Monash University academic Dr Carolyn Holbrook, the British and French governments are each spending $90 million on commemorating the centenary of the First World War, while Germany is spending $7 million and Canada is not spending any new specific money.251 This broadly correlates with figures noted in a Financial Times article from July 2014.252

Specific projects
Sir John Monash Centre
The Abbott Government’s commitment to establish the Sir John Monash interpretive centre at Villers-Bretonneux in France is the single most expensive element of Australia’s ‘Centenary of Anzac’ commemorations, at a cost of over $100 million. According to the Department of Defence’s ‘Budget snapshot’, the Government has committed $18 million in 2015–16 and $89 million across the forward estimates to construct the centre.253 However, no specific expenditure for the centre is recorded in the 2015–16 Department of Defence Portfolio Budget Statements, only a statement that ‘the cost of this measure will be met from within existing resourcing of the Department of Defence’.254

The 2015–16 Defence ‘Budget snapshot’ states that ‘the Government has previously announced it would provide initial funding of $2.8 million in the Budget to commence the establishment of an Australian interpretive centre at Villers-Bretonneux’.255 In fact, this $2.8 million in funding (for what was to ultimately become the Sir John Monash Centre) was actually announced almost a decade earlier in April 2007 by Prime Minister John Howard, following an earlier commitment of approximately $300,000 in the 2006–07 DVA budget for a ‘strategic and design study for an interpretive centre on the Western Front’.256

Despite the initial progress of the project announced by Prime Minister Howard—the full construction of which reportedly had been projected to cost up to $35 million—the Rudd Government shelved the project in 2009 due to the impact of the ‘current financial environment’, with then Veterans’ Affairs Minister Alan Griffin noting that other commemorative centres on the Western Front had cost between $2–3 million.257 Accordingly, it was indicated in February 2009 during Senate Estimates that DVA would probably return more than half the $2.8 million allocated for preliminary work on the centre, which remained unspent.258

247. Australian Government, ‘100 years of Anzac’ website; Department of Veterans’ Affairs, Key 2015–16 Budget initiatives, p. 2.
250. Department of Veterans’ Affairs, Key 2015–16 Budget initiatives.
258. Senate Standing Committee on Foreign Affairs, Defence and Trade, Official Committee Hansard, 25 February 2009, p. 142.
However, through the support of Liberal Party leader Tony Abbott in both Opposition and as Prime Minister, the project has now been renewed, with anticipated completion by 25 April 2018.259 Approximately $6.9 million was allocated in the 2014–15 DVA budget in ‘initial funding’ for the centre, while the 2015–16 DVA budget includes almost $10.9 million across the forward estimates in expenses related to the centre, notably in managing the project. An additional $88.6 million in capital costs will be met by the Department of Defence.260

Anzac Centenary Public Fund

Established in June 2013, this fund provides an opportunity for corporate and public donors to support Anzac Centenary commemoration projects, as distinct from any federal government funding. These projects include spending of up to $48 million in redeveloping Anzac Square in Brisbane, the Hyde Park Memorial in Sydney and the Shrine of Remembrance in Melbourne.261 According to its 2015–16 portfolio budget statements, DVA’s administered Special Account for the fund received an estimated $24 million in 2014–15, of which all was transferred out of the account in payments.262 DVA also anticipates approximately $22.4 million to be allocated in payments from the fund in 2015–16, with an additional $36.6 million in expected payments across the forward estimates—making a total of approximately $83 million.263

Anzac Day commemorative services at Gallipoli

The annual Anzac Day commemorative services held at Gallipoli cost approximately $5.8 million in 2014–15, which included prior planning work and management of related reviews and research.264 This is almost $800,000 below the amount noted in the previous year’s budget.265 However, the 2015–16 budget estimate for this event will be slightly higher than the previous year at $5.9 million, despite the centenary of the Anzac landings having already occurred.266 This amount is almost double the $3.1 million noted in the previous year’s forward estimates.267

259.  T Abbott (Leader of the Opposition), Address to the 2012 RSL national conference, Sydney, media release, 25 September 2012; T Abbott (Prime Minister), Address to the Anzac Day National Ceremony, Australian War Memorial, Canberra, media release, 25 April 2014; T Abbott (Prime Minister), Sir John Monash Centre design unveiled, media release, 26 April 2015.
262.  Ibid., p. 67.
263.  Ibid., p. 70.
264.  Ibid., p. 70.
266.  Portfolio budget statements 2015–16 (DVA), op. cit., p. 70.
Sustainability of HECS-HELP
James Griffiths

Since the introduction of the demand-driven system for bachelor degrees in 2012, successive governments have made policy decisions aiming to improve the fiscal sustainability of the higher education system. This Budget marks a continuation of this approach, with the Government sticking with its policy of fee deregulation under the Higher Education Loan Programme (HELP, also known as HECS-HELP), and announcing that it will seek to recover HELP debts from people who have moved overseas.

In considering the Government’s treatment of HELP in this Budget it is necessary to recognise that the past two years of HELP reforms remain unlegislated. This Brief sets out proposed HELP changes as a guide to the assumptions in this year’s Budget.

Background

2013–14 Budget

In the 2013–14 Budget, the then Labor Government announced a series of higher education savings measures, including the removal of the incentives for voluntary and upfront payment of HELP debts, in order to assist with the funding of the then Government’s Better Schools Plan.268 This policy was not legislated prior to the 2013 federal election.

The Abbott Coalition Government presented the savings measures to Parliament as part of the Higher Education Support Amendment (Savings and Other Measures) Bill 2013.269 In his second reading speech, the Minister for Education, Christopher Pyne, stated that the Bill’s fiscal savings would ‘ensure the sustainability of funding for the higher education sector’.270 However, as the Coalition Government proposed not to fund the last two years of the Better Schools Plan, the Labor Opposition reversed its position and did not support the legislation.271 As a result, this Bill did not pass the Parliament.

2014–15 Budget

The 2014–15 Budget proposed wholesale changes to the higher education sector, including:

• an average 20% cut to funding through the Commonwealth Grant Scheme (CGS), the deregulation of undergraduate student fees and a new fee for those embarking on a PhD
• a real interest rate for HELP debts and a lower income threshold for repayment and
• loan fees would be removed as the FEE-HELP and HECS-HELP schemes were amalgamated.

The policy rationale for the average 20% cut in Commonwealth contributions to the funding for each student place was that it would rebalance the system and ensure it was ‘fair and sustainable’.272 It would also likely assist in containing the cost of extending the demand-driven system to private providers and sub-bachelor tertiary qualifications. The 2013–14 HELP measures were also included in this package.

The initial higher education reform legislation, the Higher Education and Research Reform Amendment Bill 2014, did not pass the Senate.273 Following negotiation with the Senate, the Abbott Government presented a series of policy compromises to the Parliament in the form of the Higher Education and Research Reform Bill 2014.274 These proposals also failed to receive legislative assent.

**2015–16 Budget**

The Budget does not change the mix of measures contained in the Higher Education and Research Reform Bill 2014 and confirmed in MYEFO. The spending and performance data is predicated on the basis that student contributions will be deregulated, the demand-driven system extended, and HELP debt repayment will start at a lower income threshold. 275

**Higher Education Loan Programme — recovery of repayments from overseas debtors**

This revenue measure will extend the HELP repayment framework to debtors residing overseas from 1 July 2016. 276 HELP debtors residing overseas for six months or more will be required to make repayments of their HELP debt at the same repayment rates as debtors in Australia if their worldwide income exceeds the minimum repayment threshold. This measure was proposed by the peak universities body, Universities Australia, in August 2014. 277 Minister Pyne formally announced the policy change prior to the Budget on 2 May 2015. 278

The implementation of this measure will require legislative change to include debtors residing overseas in the current repayment framework and include any associated penalty provisions in cases of debts continuing to go unpaid. Both England and New Zealand have income-contingent loan schemes to cover tuition fees—both schemes apply to overseas debtors and both are administratively complex. However, a quarter of England’s overseas student debtors were in default as of 2013, while 60% of overseas debtors in the New Zealand system have overdue payments. 279

The measure is expected to recover $26.0 million over four years. This should be considered within the context of a HELP loan total projected to be at $62.7 billion by the end of the same period. 280

The measure may be able to pass the Senate as long as it is not included in the overall higher education reform package. The relevant Shadow Minister, Senator Kim Carr, stated that the Opposition would support measures ‘to protect fairness and integrity in universities, including the HECS system. 281 Liberal Democrat Senator Leyonhjelm has previously labelled the HECS scheme as ‘generous’ and so could support measures to ensure repayment of outstanding debt. 282

**Comment**

The last three Budgets have included measures to shift the burden of payment for higher education, by ensuring that students contribute more and taxpayers contribute less. The overall aim is to make the programme more fiscally sustainable. However, it should be noted that there is no general consensus about what constitutes ‘sustainability’ in the context of an income-contingent loan programme such as HELP. In the absence of an agreed definition of what sustainability is, it is difficult to evaluate the likely success of proposed changes to the system.
Other higher education and skills measures

James Griffiths

The Budget contains several new expense measures in higher education, mostly achieved through the redirection of funding between programmes. The previous year’s higher education reforms remain in the Budget with the assumption the adjustments indicated in the Mid-year Economic and Fiscal Outlook will pass.283

For vocational education and training (VET), the Budget continues a decline in the funding trajectory. The key skills measures of the 2014–15 Budget, the Industry Skills Fund and the Trade Support Loans programme, have both been continued for another year. The Government has already announced further reforms to VET programmes and governance arrangements throughout the first half of 2015, although media reports of VET regulatory failures continue to emerge.284 There is a single new compliance measure in relation to the VET FEE-HELP loan programme.

Expenses by sub-function

Overall expenses in the higher education sub-function are estimated to be $9.3 billion in 2015–16, decreasing by 7.3 per cent in real terms from 2015–16 to 2018–19.285 This is largely due to the Government’s of policy reducing the subsidies available under the Commonwealth Grant Scheme from 2016 and deregulating student fees to enable them to make up the shortfall. The legislation required to implement these policy decisions has not yet passed the Parliament.286

Expenses in the VET sub-function are expected to decrease even more significantly, from a total of $1.8 billion in 2015–16 to a total of $1.5 billion in 2018–19, or a decline of 22.4 per cent in real terms over the four-year period, owing largely to the expiration of the National Partnership Agreement on Skills Reform in 2016–17.287 State, territory and Commonwealth Ministers with responsibility for VET have announced the National Partnership will be reviewed.288

Higher education and research funding

While the average 20% cut to Commonwealth Grant Scheme funding for approved higher education providers in the 2014–15 Budget remains government policy, there are three new measures in this Budget which will further reduce the funding available to higher education institutions. These measures involve shifting funding to meet the government’s priorities and will not require legislative change.

The funding that had been allocated to the new Higher Education Participation Programme (HEPP) has been reduced by $5 million for 2015–16.289 However, the HEPP does not currently exist—the Government plans to establish this programme through amendments to the current Other Grants Guidelines (Education) 2012 which have twice been negatived by the Senate.280 Announced in the 2014–15 Budget as part of the higher education reform package, the HEPP is a rebadged and consolidated version of a previous grant program. This means there has been a total $56.1 million reduction in funding across the 2014–15 and 2015–16 budgets, comprising a


284. Adjustments to the overall package of reforms were confirmed in J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2014–15, p. 150–1, following negotiations in the Senate.

285. For vocational education and training (VET), the Budget continues a decline in the funding trajectory. The key skills measures of the 2014–15 Budget, the Industry Skills Fund and the Trade Support Loans programme, have both been continued for another year. The Government has already announced further reforms to VET programmes and governance arrangements throughout the first half of 2015, although media reports of VET regulatory failures continue to emerge.284 There is a single new compliance measure in relation to the VET FEE-HELP loan programme.

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$51.3 reduction in funding in the 2014–15 budget associated with the transition to the HEPP, and an additional $5 million cut to the provision for HEPP in the 2015–16 Budget.\(^{291}\)

This $5 million is to be redirected to the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) to implement the *Preservation of Indigenous cultural resources* measure.\(^{292}\) This is intended to assist AIATSIS in the preservation of their catalogue, following concerns raised in the media as to the need for additional funding.\(^{293}\)

The Sustainable Research Excellence grant programme, designed to assist with the indirect costs of research for universities, has had its funding reduced by a total of $262.5 million across 2016–17 to 2018–19.\(^{294}\) Of this, $150 million will be redirected to fund the National Collaborative Research Infrastructure Strategy (NCRIS) for an additional year in 2016–17.\(^{295}\) The remaining $112.5 million in savings has not been redirected to support the continuation of NCRIS in future years.

In expanding a demand-driven system to private providers, the Higher Education and Research Reform Bill 2014 limits the government subsidy to 70% of what is available to universities, as private institutions are not required to undertake research.\(^{296}\) This acknowledges that the Commonwealth contribution paid per student under the Commonwealth Grant Scheme cross-subsidises research. With an average 20% cut to the Commonwealth contribution in the higher education reforms, the indicated funding cuts to the Sustainable Research Excellence programme are likely to have a further cumulative effect on the research capacity of Australian universities.

The Department of Education and Training Portfolio Budget Statements (PBS) notes that the Office for Learning and Teaching (OLT) will be abolished from 1 July 2016 and its functions undertaken by a university or consortium of universities.\(^{297}\) The OLT operates as the administrative body within the Department for the Promotion of Excellence in Learning and Teaching in Higher Education program (PELTHE). It is unclear if the change in the relevant program expenses from $14 million in 2015–16 to $8.2 million in 2018–19 is based on savings from the abolition of OLT or whether PELTHE grants will also be affected.\(^{298}\) Universities Australia has raised concerns about the lack of clarity regarding the new arrangements, with media reports indicating university managerial staff have also queried whether this measure would reduce the status of university teaching.\(^{299}\)

**Australian Research Council**

The Australian Research Council (ARC) is funded under the *Australian Research Council Act 2001*, which provides a legislative cap on the amount of grant funding it allocates per three year funding cycle.\(^{300}\) The Act is regularly amended to include a new year of funding and extend the cycle.

While the Government has announced an efficiency dividend to the ARC as part of the higher education reforms, this is dependent on the passage of legislation. It is difficult to reconcile proposed expenditure for 2015–16 of $789 million with the funded cap limits in both the current ARC Act ($783 million) and the Government’s proposed amendments ($776 million).\(^{301}\)

**Skills funding**

The single new measure in relation to skills is *VET FEE-HELP – enhanced compliance regime*. This measure amounts to $18.2 million in expenditure over four years from 2015–16, including $3.6 million in capital funding, to enable the Department of Education and Training to better monitor the new compliance regime for VET FEE-HELP loans under the VET Guidelines 2015.\(^{302}\)


\(^{293}\) M Raggatt, *‘Indigenous collections could be lost’*. The Canberra Times, 7 December 2014, p. 3.

\(^{294}\) Ibid, p. 80.

\(^{295}\) Ibid, p. 78.


\(^{298}\) Ibid, p. 46.


\(^{300}\) *Australian Research Council Act 2001 [Cth]*, Part 7.

\(^{301}\) See the indicated Special Appropriation funding for 2015–16 in Table 2.1: Budgeted expenses for Outcome 1, *Australian Research Council Budget Statements 2015–16*, p. 157 as compared with Part 7, Subsection 49(p) of the *Australian Research Council Act 2001 [Cth]*, and Schedule 5, Part 1, Section 2 of the Higher Education and Research Reform Bill 2014.

The PBS confirms that the Accelerated Australian Apprenticeships and Apprentice to Business Owner – Business Skills and Mentoring programmes are no longer funded after 2015–16. The Workplace English and Literacy programme and National Workforce Development Fund both receive substantial funding reductions following 2015–16 and close by the end of the forward estimates, reflecting decisions made in the 2014–15 Budget. 303

The Australian Apprenticeships Support Network has been reformed in order to raise the rate of apprenticeship completions, with new outcomes-based payments arrangements to apply from 1 July 2015. 304 This includes a reduction of funding from $200 million in 2015–16 to $189 million per year in the forward estimates. 305

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304. S Birmingham (Assistant Minister for Education and Training), *New support network to increase apprenticeship completion rates*, media release, 27 April 2015.
School education
Marilyn Harrington

There are only three school education budget measures in the Education Portfolio and expenditure continues on the trajectory established by the Coalition’s first budget. Although school education is not a major feature of this year’s Budget, there is likely to be ongoing speculation about the future of Australian Government funding for school education beyond 2017.

**Budget measures**

There are three school education measures in the Budget. These are:

- $16.9 million over four years for Improving the Quality of Teachers and Teacher Education Courses, which will implement the Government’s response to the report of the Teacher Education Ministerial Advisory Group.\(^\text{306}\)
- $5.4 million over two years to extend the Remote Indigenous Students Attending Non-Government Boarding Schools initiative, which assists schools with the additional costs of boarding Indigenous students from remote areas, and which was first funded in the 2014–15 Budget.\(^\text{307}\)
- $5.0 million over two years for an awareness campaign about the benefits of parents’ engagement in their children’s education (however, the budget papers show only $3.7 million), funded by the redirection of funds from the Government’s information campaign for its higher education reforms.\(^\text{308}\)

**Expenditure on school education**

Total expenditure on schools is expected to increase by 10.8% in real terms from 2015–16 to 2018–19. However, the rate of this increase will decline in the out-years as the Government’s 2014–15 Budget decision to index school funding by the Consumer Price Index (CPI) (with an allowance for enrolment growth) from 2018 takes effect.\(^\text{309}\) CPI is currently projected at 2.5% in the out-years, compared to the current indexation rates of 3.0%, 3.6% or 4.7%. These current rates vary according to the level of a school’s funding compared to the Schooling Resource Standard.\(^\text{310}\)

The table below shows a noticeable decline in the estimated rate of annual increase in real terms after 2016–17. In 2018–19, the first full financial year in which CPI indexation will apply, the real growth rate in school education expenses will be about a third of the growth rate estimated for 2015–16. The 2014–15 Budget estimated that the changed indexation arrangements will account for just under $30.0 billion in school expenditure savings by 2024–25.\(^\text{311}\)

**Real growth in school education sub-function, % change\(^\text{(a)}\)**

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<td>All schools</td>
<td>4.7</td>
<td>5.5</td>
<td>3.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Government schools</td>
<td>3.6</td>
<td>4.0</td>
<td>2.5</td>
<td>1.6</td>
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<td>Non-government schools</td>
<td>6.8</td>
<td>8.0</td>
<td>5.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

\(\text{a)}\) Parliamentary Library estimate based on Schools line item of Table 7, Statement 5, Budget Paper No. 1, p. 5-21 adjusted for CPI using forecasts and projections included in Table 2, Statement 1, Budget Paper No. 1, p. 1-7.


\(^{308}\) Budget measures: budget paper no. 2: 2015–16, op. cit., p. 78.


The Independent Schools Council of Australia and the National Catholic Education Commission are concerned about the use of the CPI for the indexation of school expenses. They consider the CPI does not reflect the ‘real’ cost of education.\(^{312}\)

The Australian Education Union estimates that the non-funding of the last two years of Labor’s Better Schools Plan (commonly referred to as ‘Gonski funding’) combined with the effect of the changed indexation arrangements will result in $3.8 billion less funding for schools in 2019 and 2020.\(^{313}\)

**Funding for students with disability**

The Budget’s omission of additional provision for students with disability (SWD) has been criticised by some in the education sector.\(^{314}\)

The pre-budget advocacy for more funding for SWD was driven by the cessation of the More Funding for Students with Disability initiative and the delay in the finalisation of the SWD loading provided under the *Australian Education Act 2013* (the Act). It was also underscored by evidence of the increasing numbers of SWD, particularly students with autism spectrum disorders, and the inability of schools to cope with the needs of these students because of the lack of resources.\(^{315}\)

Funding for the More Funding for Students with Disability initiative (which began in 2012) ceased at the end of 2014. The intention was that this funding would be replaced by the SWD loading.\(^{316}\) The SWD loading, budgeted at an estimated $4.8 billion from 2014–15 to 2017–18, is being implemented.\(^{317}\) However, the loading will be refined once the Nationally Consistent Collection of Data on School Students with Disability (NCCD) is finalised.\(^{318}\) Originally scheduled for implementation from 2015, the intention is now to implement the revised SWD loading from 2016 as a result of technical delays with the NCCD.\(^{319}\)

Regardless of the outcome for the SWD loading, it would appear that it will not be fully implemented because the Coalition Government has not committed to the last two years of the Act’s funding model, the additional funding for which was to be phased in over six years, and because of the changed indexation arrangements.

**The future of Australian Government funding for schools**

The future of Australian Government funding for schools beyond 2017 is uncertain; the distribution methodology for both government and non-government schools is yet to be negotiated.\(^{320}\) School funding arrangements may also change when they are considered as part of the White Paper on the Reform of Federation.\(^{321}\) It also appears that education payments to the states, including the 2014–15 Budget’s proposed $30 billion in savings over ten years, will be discussed at the Council of Australian Governments’ leaders’ retreat to be held in July.\(^{322}\)

**Note:** the extension of funding for universal access to early childhood education is discussed in the Budget Review article, ‘Early childhood education and child care’.

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313. Australian Education Union (AEU), *Budget abandons promise to students with disability, confirms real cuts to schools by ending Gonski funding*, media release, 12 May 2015.


318. For further information, see: DET, *What is the Nationally Consistent Collection of Data on School Students with Disability?*, DET website.


321. J Hockey (Treasurer) and M Cormann (Minister for Finance), *Our response to the National Commission of Audit report*, media release, 13 May 2014.

322. S Smail, ‘**COAG**: state and territory leaders welcome Tony Abbott’s move to resolve funding stand-off’, *ABC News*, 18 April 2015.
Foreign affairs overview
Dr Geoff Wade

The appropriation of $1,400 million to the Department of Foreign Affairs and Trade (DFAT) for 2015–16 represents a five per cent increase over the $1,324 million appropriated in 2014–15. In terms of staffing, while some 500 positions were slated for removal last year, partly through the integration of aid agency AusAID into DFAT, this year DFAT will see average staffing levels increase slightly from 5,722 to 5,734.

Across the foreign affairs realm, changes to the aid budget have been of the largest magnitude and attracted the greatest attention. By comparison, the other changes in DFAT’s budgeted operations are less dramatic, but some aspects are worthy of mention.

First, Australia’s regional positioning has been revised again. While the 2014–15 Budget was replete with references to Australia’s location in the ‘Indian Ocean Asia Pacific’, this year’s Budget statement makes no reference at all to this term, with Australia now being located simply within the ‘Indo-Pacific region’. The significance of this change is moot, but it does reflect a growing use of this new term.

In areas of intense engagement overseas, over $110 million is being provided for continuing diplomatic activities in Iraq and Afghanistan in 2015–16, along with a further $15 million in capital costs. These figures represent marked increases over 2014–15, a trend that looks set to continue—departmental expenses will see $6 million growth in 2016–17.

Increases in the funding of the New Colombo Plan, which carries forward and expands the Rudd Government’s Australia Asia Awards, feature prominently in this year’s Budget. Some 4,800 grants will be on offer in 2016 to assist Australians to study across the region. The almost $28 million allocation in the current Budget more than doubles that provided in the 2014–15 Budget and the forward estimates suggest that in 2017–18 and 2018–19 the program will be funded at about $50 million annually. This funding will thereby far surpass the $100 million over five years to which the Coalition initially committed.

In the sphere of trade promotion, two measures are notable. The international and domestic promotion of the various Free Trade Agreements into which Australia has entered during the current government has been funded for $24.6 million. In addition, five new offshore investment promotion positions have been created and a new office for investment promotion is to be established in Boston.

The inaugural Australia Week held in Shanghai in April 2014, which was intended primarily to promote Australia as an investment and tourism destination, was obviously seen to have been worthwhile as the new Budget provides Austrade with $9.2 million over four years to fund further Australia Week events in China, India, the US and ASEAN countries.
Tourism has lost the prominent position it enjoyed in the 2014–15 Budget. The $151 million appropriated this year for programs to promote Australia’s international tourism interests represents a reduction compared to the estimated actual expenditure in 2014–15. Industry bodies have indicated their disappointment.  

Worthy of further note is Austrade’s participation in the Global Leader in Tropical Health program, assisting the Department of Industry and Science in efforts to develop northern Australia into a centre of expertise in tropical health. Austrade is being given $1.4 million (growing to more than $2 million annually over 4 years) to provide sectoral expertise and advice to what will be an $80 million undertaking.

The Budget also provides for expanded Australian diplomatic representation, as outlined in the Library’s Budget Review article The Indo-Pacific focus of ‘Expanding Australia’s Diplomatic Footprint’.

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335. A Robb (Minister for Trade and Investment), $15.4 million to support tropical research under Northern Australia growth plan, media release, 10 May 2015.
336. This initiative is part of a broader education and science undertaking aimed at tropical health and medicine research in northern Australia. See C Pyne (Minister for Education), $42 million for tropical health and medicine research in northern Australia, media release, 9 May 2014.
The Indo-Pacific focus of ‘Expanding Australia’s Diplomatic Footprint’

Marty Harris

In what Foreign Minister Julie Bishop termed ‘the single largest expansion of Australia’s diplomatic network in forty years’, the 2015–16 Budget announced that Australia would open five new overseas diplomatic missions, all in the Indo-Pacific. 337

The Government will provide $98.3 million over four years to open new diplomatic missions in:

• Buka, Bougainville, Papua New Guinea (PNG)
• Doha, Qatar
• Makassar, south Sulawesi, Indonesia
• Ulaanbaatar, Mongolia and
• Phuket, Thailand. 338

The Government justifies the new posts in the following terms:

New posts in Makassar, Doha and Ulaanbaatar will advance trade and investment opportunities for Australia. A consulate in Phuket will help manage Australia’s significant consular load while a new post in Buka will provide greater focus for Australia’s development assistance to Bougainville. 339

These are the latest in a series of new diplomatic missions the Australian Government has opened—after some years of think tank and parliamentary committee criticism of Australia’s diplomatic network. A 2009 report from the Lowy Institute for International Policy calculated that Australia had ‘fewer diplomatic missions than all but a few OECD countries’, concluding that Australia’s network of overseas diplomatic missions was ‘overstretched and hollowed out’. 340 A follow-up report from 2011 found that Australia had the smallest overseas network of all G20 nations. 341

In 2012, the Joint Standing Committee on Foreign Affairs and Trade (JSCFADT) published its report *Australia’s Overseas Representation—Punching below our weight?*, which recommended to the Government that ‘the budget priority for overseas representation should be significantly raised because of the benefits that accrue from diplomacy’ and that Australia should establish at least 20 new diplomatic posts ‘to bring it to a level commensurate with its position within the G20 and OECD’. 342

Since 2009, Australia has opened a further six diplomatic missions—Addis Ababa (Ethiopia), Lima (Peru), Chennai (India), Mumbai (India), Chengdu (China) and Kyiv (Ukraine). The former Labor Government announced in May 2012 that it would open a post in Dakar (Senegal), though the incoming Coalition Government cancelled this decision in December 2013.

The new diplomatic missions announced in the 2015–16 Budget have a distinctly ‘Indo-Pacific’ focus. In 2012 the Department of Foreign Affairs and Trade (DFAT) was asked where it would like to see new posts opened, should the Department receive extra resources. Then Secretary Dennis Richardson said at the time that should DFAT receive an extra $100 million over four years, the Department would like to see posts opened in the following five locations: Astana (Kazakhstan), Ulaanbatar (Mongolia), Dakar (Senegal), Phuket (Thailand) and Funafuti (Tuvalu). 343 The $98.3 million allocated in the 2015–16 Budget is a very similar figure, yet only two of DFAT’s recommended locations made the cut. Considering Foreign Minister Bishop argues that ‘our foreign policy focus

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338. This also includes an undisclosed amount of funding to provide ‘increased resources’ to the Australian consulate in Houston, Texas. The budget figures have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2015–16*.
must be on our region—the Indian Ocean Asia Pacific (Indo-Pacific)', this is not surprising. Indeed, not long after winning government the new Foreign Minister stated her intention to expand Australia’s diplomatic network, while signifying that any new posts would be located in the Indo-Pacific.

Alex Oliver from the Lowy Institute provides further possible reasoning for the location of these particular posts:

> The mission in Phuket, presumably a consulate-general, was probably the first priority on anyone’s list. Phuket is Australians’ fourth most popular travel destination, and one of the most demanding places for DFAT to provide consular services, accounting for the largest number of Australian deaths overseas.

> The Makassar post, in eastern Indonesia ... in order to serve Australia’s considerable interests there (although the cuts to Indonesia aid trim those interests somewhat). Of the others, the post in Bougainville anticipates the independence referendum sometime in the next five years, the Ulaanbaatar post was in [then DFAT Secretary Dennis] Richardson’s top five, and the Doha post is more of a surprise—presumably it’s to serve increasing bilateral trade and investment interests.

The announcement that Australia will open a diplomatic mission in the Autonomous Region of Bougainville has drawn sharp criticism from the PNG Government. Speaking in Sydney two days after the Budget’s release, PNG’s Prime Minister Peter O’Neill stated that ‘we were shocked to learn from the budget documents that Australia was planning to establish a diplomatic post in Bougainville…. We have to sanction this. You can’t just go around and open offices at your pleasure’. Foreign Minister Julie Bishop, for her part, claimed that Australia had consulted PNG on the Bougainville post in December 2014, and that Australia’s High Commissioner had formally informed the PNG Government in the lead-up to the Budget.

Bougainville is a sensitive issue for PNG, where a civil war in the 1980s and 1990s resulted in 15,000–20,000 deaths. Following a peace treaty in 1998, Bougainville received autonomy status, with a referendum on independence to occur prior to 2020. The Australian Government’s announcement that it would open a post in Buka came while elections were underway in Bougainville, with the resulting regional government becoming responsible for negotiating a referendum date with PNG.

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344. J Bishop (Shadow Foreign Minister), ‘Why the Coalition is the best choice on foreign, aid and trade policy at this election’, Lowy Interpreter weblog, 19 August 2013.
The ever-shrinking aid budget
Dr Ravi Tomar

Background
As noted in the Library’s Budget Review 2014–15, in January 2014, Foreign Minister Julie Bishop announced that from 2014–15 the $5 billion aid budget would grow annually in line with the Consumer Price Index.\(^{350}\)

In keeping with that announcement, Australia’s Official Development Assistance (ODA) budget for 2014–15 was estimated to be $5,031.9 million.

The commitment to keep growth in the aid budget tied to the CPI did not last very long. The Mid–Year Economic and Fiscal Outlook 2014–15 (MYEFO) released on 15 December 2014 stated that the Government would save $3.7 billion over three years from 2015–16: $1,000.0 million in 2015–16, $1,350.0 million in 2016–17 and $1,377.0 million in 2017–18.\(^{351}\)

In other words ODA would now be capped at around $4 billion and would decline in real terms in coming years, reaching an all-time ODA/GNI ratio low of 0.22 per cent in 2016–17.\(^{352}\) If current budget forecasts are any guide, the ODA budget is in for a sustained period of decline in real terms.

ODA budget 2015–16
On 12 May 2015, the Government announced that the 2015–16 ODA budget was estimated to be $4,051.7 million.\(^{353}\)

One aspect of the 2015–16 aid budget is the lack of overall detail. The statement found within the Department of Foreign Affairs and Trade (DFAT) website on the webpages for countries that have suffered budget cuts offers an indication as to why:

> The website will be updated to reflect priorities following discussions with our partners. These priorities will be detailed further in new Aid Investment Plans which will be finalised by no later than 30 September 2015.

Another change in the information on the 2015–16 aid budget is that unlike previous years, where the data for the coming year was compared with the estimated outcome of the current year, the comparison now is with the budget estimate for 2014–15. However, estimated outcome is a better measure of actual expenditure.

Some of the more significant changes to the 2015–16 aid budget are outlined in the table below.

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<th>Table 1: Fluctuations in ODA funding 2014–15 to 2015–16</th>
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<td><strong>2014–15 Budget Estimate</strong></td>
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<td>Australian Volunteers Program</td>
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351. J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid–year economic and fiscal outlook 2014–15, p. 164.
353. The budget figures in this article have been taken from the following website (including country pages) unless otherwise sourced: Department of Foreign Affairs and Trade, ‘Budget highlights 2015–16’, website.
PNG’s total allocation in 2015–16 goes up to $553.6 million after including expenditure by DFAT regional and global programs and by other government departments (OGDs) and agencies.

Indonesia’s allocation in 2015–16 rises to $366.4 million if expenditure by OGDs is included.

Although Cambodia’s allocation in 2015–16 remains unchanged at $52.4 million, it will receive an additional $10 million ‘in line with Australia and Cambodia’s agreement on refugee resettlement’. Total outlay for Cambodia (including expenditure by OGDs) will be $79.1 million.

The Gender Equality Fund to strengthen women’s economic empowerment is a new initiative with funding of $50.0 million.

Reactions to the aid budget

Since the 20 per cent cut in the 2015–16 aid budget and the delinking of it to the CPI was announced in the MYEFO, the issue has been commented on and discussed extensively, most notably by the Development Policy Centre.354

Gerry Hueston, chairman of Plan International Australia (and former president of BP Australia) commented:

The scale of these changes is unprecedented—and if business investors had been asked to cop changes of this magnitude they would simply have packed up and gone home. How can anyone plan for the future when the key determinants of that future are constantly chopped and changed by Government whim with no regard given to promises made?355

Overall, as the Australian Council for International Development (the peak body of Australian International NGOs) observed in its 2015–16 Federal Budget Analysis:

Almost $1 billion was cut from 2015–16, representing a 20% cut for the year. The budget also confirms $2.7 billion of additional cuts in 2016–17 and 2017–18. By 2016–17, total Australian Overseas Development Assistance (ODA) as a share of Gross National Income (GNI) will fall to 0.22%. This is the lowest ever level since records began.356

Economist Matthew Morris drew an interesting analogy in the context of the recent UK elections. Noting that the UK has legislated a target of an ODA/GNI ratio of 0.7 per cent with bipartisan support, he commented:

In short, expect business as usual on UK aid. But it is sobering to note that the party which best reflects Australian aid policy is the far-right UKIP. It wants UK aid to be cut to 0.2% of GNI. Australia’s aid-to-GNI ratio? 0.22% in 2016–17.357

355. G Hueston, ‘Australia: one of the richest countries, but also one of the meanest’, The Sydney Morning Herald, 12 May 2015.
Strengthening Australia’s foreign investment framework

Kali Sanyal

The *Foreign Acquisitions and Takeovers Act 1975*[^358] (FATA) along with the *Foreign Acquisitions and Takeovers Regulations 1989*[^359] (the Regulations) provides legislative support for the Government’s foreign investment policy and the associated screening regime.

The FATA empowers the Treasurer to examine proposals by foreign entities to:

- acquire, or to increase, a substantial interest in, or acquire a controlling interest in the assets of, a prescribed Australian corporation valued above the relevant thresholds or
- acquire an interest in Australian urban land.[^360]

The Treasurer can block proposals that are contrary to the national interest or apply conditions to the way proposals are implemented to ensure they are not contrary to the national interest. When making such decisions, the Treasurer relies on advice from the Foreign Investment Review Board (FIRB).

The Act also gives the Treasurer power in certain circumstances to make an order prohibiting a proposed transaction and, where a transaction has already been completed, to direct a foreign person to dispose of shares or terminate arrangements.[^361]

In addition, *Australia’s Foreign Investment Policy*[^362] (AFIP) provides for further notification and approval requirements for foreign investors specific to a particular application. The policy sets out a roadmap as to what factors the Treasurer will consider in determining if a proposed investment is contrary to Australia’s national interest.

**Background to the reform measures**

Currently applications from private foreign investors over a specified monetary threshold need an approval from the Foreign Investment Review Board (FIRB). Acquisitions of Australian business and land by foreign government entities, however, attract FIRB scrutiny irrespective of the value of the assets.

There are two opposing views of foreign investment in Australia. There is a body of opinion that accepts the importance of high levels of foreign investment in order to drive employment, productivity growth, and innovation. On the other hand, there is widespread community anxiety about the control of Australian assets by foreign entities, particularly in agriculture and mining sectors.

Political anxieties about foreign investment appear to rise around the surge in new sources of foreign investment, historically from the United States, Japan and recently from China. Each wave of foreign investment has attracted a measure of political resistance. …Concerns in recent years about the impact of foreign investment on Australia created a momentum that has seen political commentary that is antagonistic towards foreign investment and led to a number of parliamentary committees inquiring into different aspects of the foreign investment regime.[^363]

Recently the Senate Rural and Regional Affairs and Transport Committee (the Committee) held an inquiry into ‘Foreign Investment and the National Interest’. The Committee released its final report on 26 June 2013.

**Major findings of the Committee**

- Information gap—there is a significant lack of detailed and accurate information regarding foreign investment in the Australian agricultural sector.


[^361]: Ibid.


• The transparency and scrutiny of the national interest test—while some submitters and witnesses supported the current FIRB arrangements, there were significant shortcomings in the transparency of the FIRB process and in the scrutiny of the national interest test.

• The FIRB review investment threshold—the current investment threshold that triggers a FIRB review of proposed private foreign investments in the agriculture industry is far too high.

• Definitional issues: rural land, urban land, and direct investment—the definitions of key terms in the FATA and the AFIP were inappropriate or inadequate for managing current foreign investment challenges in agriculture.364

Summary of recent changes

Following the recommendations of the Committee, on 25 February 2015, the Government released a discussion paper entitled ‘Strengthening Australia’s Foreign Investment Framework’. The paper proposed a series of new policy positions regarding acquisitions of real estate property, farm land and businesses by foreigners.

After a series of consultations, the Government announced a revised foreign investment framework on 2 May 2015.365

One change that has already taken effect from 1 March 2015 is that a reduced cumulative monetary threshold of $15 million (from the existing $252 million in 2015) will apply for acquisitions of rural land to all foreign private investors except those from the Australia’s free trade agreement (FTA) partners. Private investors from FTA partner countries will have differentiated thresholds according to the terms of agreements.366

Other changes that are proposed to take effect from 1 July 2015 include:

• fees for FIRB applications (up to 1 per cent of the investment value for certain land acquisitions)
• greater information gathering, review and audit powers for the relevant government agencies to ensure compliance
• greater penalties for non-compliance by foreign investors
• a new threshold, likely to be much lower than the existing threshold of $252 million in 2015, for acquisitions of Australian agribusinesses—this threshold will also vary for private investors from the FTA partner countries, and has been announced as $50 million for Thailand and Singapore, and $1,094 million for the United States, New Zealand and Chile
• restrictions to advance ‘off the plan’ approvals for developers and
• changes to the different categories of land with consequent changes to the notification requirements for investment in those land categories.367

A revenue gain of $735.0 million over the forward estimates period is estimated after the introduction of application fees on all real estate, business and agricultural foreign investment proposals from 1 December 2015.368 The Treasury would receive $19.7 million and the ATO $47.5 million to enforce the changes.369

The Treasury will receive a further allocation of $15.8 million over four years to establish an office in Sydney, which is expected to provide greater engagement with private sector including foreign investors.370

Under the new arrangements, increased criminal penalties and a new civil pecuniary penalties regime will be introduced for breaches of the Foreign Acquisitions and Takeovers Act 1975 (FATA). A reduced penalty period for foreign investors that have previously breached the foreign investment rules in relation to residential real estate

365. J Hockey (Treasurer), Government strengthens the foreign investment framework, Joint media release with the Prime Minister, 2 May 2015.
366. FIRB, Australia’s Foreign Investment Policy 2015, op. cit., p.10.
369. Ibid.
370. Ibid.
has been provided until 30 November 2015. These investors may avoid prosecution, but will be required to
divest the property.371

There has not been much comment on the foreign investment measures in the wake of the budget
announcement, but one commentator described the changes as ‘mere populism’.372

The Government will introduce legislation into Parliament in the Spring Sittings to ensure that the reforms will
commence on 1 December 2015.

371.  Ibid.
Promoting trade agreements
Tarek Dale

The 2015–16 Budget includes a measure which will provide $24.6m over two years from 2015–16 to:
... promote business understanding of the recently concluded Free Trade Agreements in North Asia and to assist businesses to access and maximise their benefits under these agreements.373

A press release by the Minister for Trade notes that the funding will cover:
• ‘the continued roll-out of a national FTA [free trade agreement] seminar series over the next two years’, by the Department of Foreign Affairs and Austrade
• ‘an online dashboard-portal—including a comprehensive tariff finder’
• FTA kits which ‘will include fact sheets and a video presentation’
• ‘enhanced help-desk support’
• ‘a grants program and training’, and
• ‘a promotional campaign to explain the benefits of the FTAs to businesses and consumers, and showcase Australia as a trade and investment destination for offshore business’.374

The difficulty for businesses in utilising preferential trade agreements (PTAs—frequently referred to as free trade agreements, or FTAs), and resulting under-utilisation, is a frequently identified issue.375 A survey by HSBC found that:

On average each FTA signed by Australia is used only by 19% of Australian exporters, compared to an average of 26% among Asian exporters using their respective markets’ FTAs.

... half of the Australian respondents had limited or no understanding of one or more of Australia’s FTAs, citing complexity of trade terms, a lack of understanding of benefits, and deals with non-strategic markets being the key factors behind the subdued uptake.376

The low awareness and use of PTAs by businesses can be difficult to measure; however an analysis of the Thailand-Australia Free Trade Agreement (TAFTA) found that in 2010 only 10.4 per cent of eligible Australian exports to Thailand utilised the preferential tariff rates available under TAFTA.377

Following a 2015 survey of businesses, Kate Carnell, chief executive officer of the Australian Chamber of Commerce and Industry (ACCI), stated:

Raising awareness of all FTAs is an important first step, followed by education for businesses explaining how the agreements can create opportunities and save businesses money. Our research tells us there is a strong appetite for FTA knowledge, but many businesses don’t know where to go to find out more.378

373. Australian Government, Budget measures: budget paper no. 2: 2015–16, p. 97. While the total expenditure on the measure is $24.6m, the net increase in expenses is $24.2m, with some of the funding offset ‘from within the existing resources of the Department of Foreign Affairs and Trade’. The funding offset from within the Department of Foreign Affairs and Trade is $0.3m (the reason the figures do not reconcile exactly is likely rounding differences).

374. A Robb (Minister for Trade), $25 million to help businesses boost exports, media release, 12 May 2015, pp. 1–2. The media release does not specify the cost of different components of the measure.

375. The Productivity Commission notes in relation to different types of trade agreements that ‘While most of these are commonly referred to as Free Trade Agreements … it is important to distinguish the effects of these agreements from “free trade”. Free trade would require the removal of all tariffs, quotas, subsidies and other government measures that distort trade flows. FTAs involve preferential arrangements under which tariffs and some other barriers to trade are lowered … but only for those countries party to the agreement. The barriers for other countries are not reduced by the agreement’ (Productivity Commission (PC), Bilateral and Regional Trade Agreements, PC, Canberra, November 2010, p. 5).

376. HSBC, ‘Australian companies under-utilising Free Trade Agreements, HSBC research’, HSBC website.

ACCI has previously recommended a proactive approach by Government to inform industry about PTAs, including that:

... the Government provide appropriate annual resourcing to ensure that Australian industry is fully informed about the opportunities available in the markets covered by Australian trade agreements, and how they might utilise these agreements. 379

378. Australian Chamber of Commerce and Industry, Businesses hungry for more information on free trade agreements, survey finds, media release, 27 March 2015.

Dental health
Amanda Biggs

The main dental health spending measure announced in the 2015–16 Budget is for a one year National Partnership Agreement (NPA) on dental services to replace the previously deferred National Partnership Agreement on adult public dental services. $155.0 million will be provided to the states and territories to support their provision of public dental services in 2015–16. Medicare funding for the child dental benefit scheme (CDBS) will bring the total envelope of Australian Government funding for dental health this financial year to around $200 million.

Under the deferred NPA, $1.3 billion over four years was promised to the states and territories for improving public dental services for low income adults. Although the Coalition promised to honour the NPA in the lead-up to the 2013 election, commencement was delayed by one year in last year’s budget. While funding is now partially restored for one year, future funding remains uncertain. The delayed start to the NPA has been blamed for lengthening queues for public dental services.

The nation’s current dental arrangements, split between the Australian Government and the states and territories, have been described by the Health Minister, Sussan Ley, as ‘fragmented’ with funding models that increase risks of inefficiencies and service gaps. In her view, the Reforming the Federation process provides a ‘once-in-a-generation opportunity for constructive reform’ to ‘ensure Australians get seamless access to the services they need’. She has foreshadowed a series of reforms to dental funding arrangements to be pursued over the next 12 months.

The Budget also included a pause in indexation arrangements for the CDBS, with savings of $125.6 million over four years forecast. Operating since 1 January 2014, the CDBS is a means-tested dental benefit for children aged 2 to 17 funded through Medicare. Benefits are capped at $1,000 over two years, indexed annually. Pausing indexation will bring the CDBS indexation arrangements in line with the paused indexation arrangements for other Medicare Benefits Schedule items (announced in last year’s budget). Further, the previously announced pause on indexation for Dental and Allied Health Provider fees for veterans services will be extended to July 2018, with savings of $69.6 million over four years. In addition, unspecified savings over five years are forecast from redesigning some dental workforce programmes, including incentives to encourage dentists to relocate to smaller rural centres.

Poor oral health for some Australians continues to be observed with the latest data finding one in three adults have untreated dental decay, with higher rates for those on lower incomes. Meanwhile, evidence of links between poor dental health and poor health status have prompted calls for greater action. Generally, stakeholders have reacted to the dental measures in this budget with some concern and disappointment. In a joint statement, the Consumer’s Health Forum and the Australian Healthcare and Hospital Association point to the high unmet demand for dental services and the cost barriers many consumers face. They argue that agreement on a new NPA must be achieved urgently, as further delays in funding ‘will be extremely disruptive to

References:
381. S Ley (Minister for Health), Abbott govt to sink teeth into dental reform, media release, 10 May 2015.
382. The NPA was announced by the former Labor Government. W Swan (Treasurer) and P Wong (Minister for Finance and Deregulation), Mid-year economic and fiscal outlook 2012–13, p. 229.
385. S Ley, op. cit.
386. Ibid.
388. The CDBS is based on a calendar year, so the pause will cease in December 2018. Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.10: Health portfolio, p. 84.
390. Ibid., p. 110. The budget measure Rationalising and streamlining Health programmes, is forecast to realise savings of $962.8 million over four years.
service provision and will have a negative impact on patients and their health’. 393 The Australian Dental Association (ADA) warns that waiting times for public dental services and access difficulties will continue, but is also concerned about the pause in indexation for the CDBS and veterans’ dental services, as well as reduced support for the dental workforce. The ADA points out that many dentists already cross-subsidise the cost of dental care through their participation in bulk billing, but would find this harder to do under the indexation pause. 394

This suggests that progress on dental reforms over the next 12 months will be keenly scrutinised. But whether this will resolve duplication issues and arguments over responsibility for funding dental health remains to be seen.

393. Australian Healthcare and Hospitals Association, Consumer’s Health Forum, Dental health funding a clawback on previous commitments, media release, 11 May 2015.

E health
Dr Rhonda Jolly

E health makes use of developments in computer technology and telecommunications to deliver health information and services more effectively and efficiently. The e health funding provided in this Budget represents the Government’s response to recommendations made in a 2013 review into its predecessor’s Personally Controlled Electronic Health Record (PCEHR) system.395

Prior to Budget night, Health Minister Sussan Ley announced that the Government would provide $485 million over four years to restructure the current system.396 The Minister suggested that this funding would deliver ‘a fully functioning national e-health system’ that could save taxpayers $2.5 billion per year within a decade, and an additional $1.6 billion in annual savings for the states and territories.397

There are to be a number of major changes to current arrangements under the restructured system. These include a name change—the PCEHR will become the myHealth Record. Unlike the PCEHR, responsibility for myHealth is to be situated within a new body, the Australian Commission for eHealth. This body, which is to be established by July 2016, will take over from the National E-Health Transition Authority (NEHTA).

In response to criticisms of the model adopted under the PCEHR that required patients to request that an e health record be set up, the revamped system will trial a system that will automatically create an e health record for participants. It will be necessary for patients to request that they are not included in the system—that is, they will have to ‘opt out’. Commenting on the proposed model, a Government spokesperson maintained that rather than changing directly to the new system, the trial will be necessary ‘to ensure public confidence in the system is maintained’ and to ‘assist in evaluating the effectiveness of associated public awareness and information dissemination and education and training for healthcare providers’.398

Many stakeholders appear to be pleased with the decision to trial the opt out model. Leanne Wells, from the Consumer Health Forum (CHF), for example, has stated that the approach ‘will require active leadership from the Minister, an open and transparent process and a public education campaign to ensure community and clinician confidence in the security and reliability of the scheme’.399 The Australian Medical Association (AMA) appears supportive of the proposed revision and the Royal Australian College of General Practitioners (RACGP) considers it would help to ensure future policy could be based on evidence. RACGP president Frank Jones has added, however, that the organisation considered it crucial that the trial was directed by medical practitioners, not bureaucrats.400

The RACGP has observed also that it would closely examine details of the revised system as they emerge, since it is eager to see where funding is to be allocated and whether training in its use will be provided to general practitioners. Moreover, the RACGP is keen to see if, and how medico-legal issues associated with the new model will be resolved, whether arrangements for governance for the new e health commission will be appropriate and whether those arrangements will include stakeholder representation.401

Not everyone is satisfied that the Government’s approach will deliver a well-functioning solution. E health analyst, Steve Wilson, believes it is simply not possible to switch from opt in to opt out records unless the fundamental architecture of the system is redesigned to include a ‘privacy by design’ function which is attuned to the new model. Wilson contends:

... you simply cannot invert the consent model as if it's a switch in the software.

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396.  S Ley (Minister for Health), Patients to get new myHealth Record: $485m ‘rescue’ package to reboot Labor’s e-health failures, media release 10 May 2015.
397.  Ibid.
399.  Consumers Health Forum, Online health records trial a big step forward, media release, 19 May 2015.
401.  McDonald, op. cit.
The privacy approach is deep in the DNA of the system. Not only must PCEHR security be demonstrably better than experience suggests, but it must be properly built in, not retrofitted. 402

Academic Dr David Glance has commented also that while changes may increase the general usage of the e health record system, the system itself ‘remains fundamentally flawed’ because there is no guarantee that all health professionals involved in patient care will participate and supply information, nor is there a guarantee that information supplied will be complete. 403 In addition, the system will continue to allow patients to withhold information so that records may not be complete—and acting on such a record ‘becomes a significant clinical risk’ for health professionals. 404 Dr Glance considers that there are other models that may work better than that proposed by this, and the previous government, and that some alternative models have the benefit of not needing centralised infrastructure, and as a result, not needing government involvement. 405

In a variation of Glance’s proposition, former Senator Amanda Vanstone has declared that perhaps it is time to say with regards to e health projects in general that ‘enough is enough’ and to ‘outsource the job to the private sector’. 406 Bernard Keane, from the online journal Crikey, is similarly unimpressed with the proposed changes to e health records. Keane declares the Budget simply ‘warms over’ a ‘dud’ Labor idea, which he labels ‘one of the most spectacular wastes of money of recent decades after War on Terror funding’. 407

Regardless of the legitimacy of these types of criticisms, it is most likely too much to expect any government to abandon the PCEHR in its entirety, given the substantial investment in the e health project made by various federal governments since the 1990s. And as Steve Hambleton, the former AMA President and current chair of NEHTA has remarked, while the PCEHR could have been more efficient, the foundations of the e health record system are in place. 408 So it may be impractical to abandon work already accomplished. Nevertheless, at the very least, technical issues such as those raised by Wilson would seem worthy of further investigation. So too is the idea that the opt out trials should not only include advice from health practitioners, but also the expertise of medical health information technicians.

It may be that the suggestion from long-time critic of the current e health record system, Dr David More is pertinent—the funding in this Budget represents ‘a holding action’; that is, a prelude to the development of what Dr More thinks will be a ‘new’ strategy for e health. 409 It is more likely that the new strategy will actually be a variant of the old strategy, simply because it is too costly and difficult to replace existing e health architecture. At the same time, it will be interesting to see how the opt out model contributes to a new or improved or revised strategy, and to what extent the suggestion of more inclusive system development, which has accompanied the myHealth announcement, is realised to the satisfaction of government, health practitioners, medical software and other industry stakeholders and patients.

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404. Ibid.
405. Ibid.
408. A Gartrell, Budget to revive health scheme on life support, Sun Herald, 3 May 2015, p. 10.
409. D More, ‘op. cit.'
Medicare

Amanda Biggs

The Budget’s most significant measure in relation to Medicare was confirmation of the Government’s position that it would not proceed with changes announced in the Mid-Year Economic and Fiscal Outlook 2014–15. At MYEFO the Government proposed modifications to rebates for Level A and B general practice (GP) consultations, a $5 reduction in rebates for GP consultations for non-concessional patients and an optional patient co-payment. Reversing these measures is expected to cost the Budget $2.9 billion over the forward estimates.

Last year’s budget announcement of a $7 GP and pathology co-payment had been dropped and replaced by the MYEFO measures. A pause on indexation of Medicare rebates introduced in last year’s Budget remains in place until 2018.

Following broad opposition to its revised MYEFO proposals, the Health Minister Sussan Ley recently announced a new approach. A review of all items on the Medicare Benefits Schedule (MBS) will be conducted by a Review Taskforce to ensure these align with current clinical evidence. In addition, a Primary Health Care Advisory Group will be established to: identify ways to provide better care for people with chronic and complex conditions; identify innovative care and funding models and improved treatment options for mental health conditions; and, ways to improve integration between the primary and acute care sectors. Lastly, it is intended that clearer Medicare compliance rules will be developed in consultation with representatives from the medical profession, clinical leaders and patient representatives. It is expected that these processes will be ongoing, with priority action areas due to be reported in late 2015. This approach has been broadly welcomed by the medical profession, although they remain opposed to the pause in indexation.

The Budget allocates funding of $34.3 million over two years to support these review measures as well as the activities of the Medical Services Advisory Committee (which reviews applications for Medicare funding of new medical treatments).

A number of new and revised MBS listings have been funded in the Budget, at a cost of $39.8 million over four years. New listings include introducing Medicare rebates for: second expert opinions for certain types of pathology testing; telehealth optometric services; remote monitoring of cardiac devices; new investigations for gastro-oesophageal reflux; and intraoperative radiotherapy for breast cancer. Revised listings will apply to paediatric surgical services and computed tomography colonography.

It is intended that savings of $144.6 million will be achieved by modifying health assessments provided under the MBS that duplicate child health assessments already provided by state and territory governments. A Healthy Kids Check is currently funded by Medicare for children who have received, or are receiving their four-year-old immunisation. A number of jurisdictions also offer child health checks. For example, the Victorian Government funds free regular health and development checks at Maternal and Child Health centres for children up to the age of three and a half.

Currently, a child health check is required in order to obtain a certain family payment. Under the Healthy start to school measure, parents with a child turning four and in receipt of Family Tax Benefit (FTB) Part A, may be

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413. S Ley (Minister for Health), Abbott government to deliver a healthier Medicare, media release, 22 April 2015.
414. Ibid.
417. Ibid., p. 103.
420. Checks can be undertaken by medical practitioners or by nurses under supervision of a doctor. Details are in Department of Health (DoH), Medicare Benefits Schedule, ‘Category 1 Professional Attendances: Note A26’, DoH website.
421. Department of Education and Training (DoET), ‘Your Maternal and Child Health Service Visits’, (DoET) website. Child and development reviews are conducted by nurses.
required to arrange a child health check in order to qualify for the FTB Part A Supplement. However, health checks that meet the requirements for this include a Healthy Kids Check as well as specified child health checks that are conducted by state and territory jurisdictions. Details of what the revisions to health assessments will be are not provided in the Budget, but some media suggest that the rebates paid to GPs for conducting the Healthy Kids Check might be halved. If GPs want to make up for their lower rebate, they may choose to move away from bulk billing these services. Parents may have to bear any additional cost to access health assessments or may opt to forego the health check altogether. The President of the Australian Medical Association, Professor Brian Owler, has questioned whether duplication in child health assessments even exists. Owler suggests that the proposed review into primary health care is best placed to consider any changes to these assessments.

In another Budget measure, the Medicare Levy low-income thresholds for singles, families, single seniors and pensioners will be increased in line with movements in the Consumer Price Index, at a cost to revenue of $231 million over the forward estimates. Increasing these income thresholds is meant to ensure that those on low-incomes remain exempt from paying the Medicare Levy. Legislation will be needed to raise these income thresholds.

The Budget also reveals that Medicare expenditure is expected to exceed $21.1 billion in 2015–16, an increase of 1.6 per cent from the previous year. Growth in Medicare expenditure to 2018–19 is expected to be 6.7 per cent in real terms, which is below forecast growth in expenditure on the private health insurance rebate (7.0 per cent), but higher than for the Pharmaceutical Benefits Scheme (3.8 per cent) over the same period.

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422. Section 61A of the **A New Tax System (Family Assistance) Act 1999** specifies health check requirements. Certain exemptions for health checks apply. Parents will be notified by letter if a health check is required. See also Department of Human Services (DoH), 'Healthy Start for School', DoH website.

423. DoH website, op. cit.

424. '$2b spending cuts a prescription for big changes', Courier Mail, 13 May 2015, p. 6.


427. Amendments to the **Medicare Levy Act 1986** will be required.


429. Ibid., pp 5–8.
Pharmaceutical Benefits Scheme
Alex Grove

There are no significant new measures announced in the Budget for the Pharmaceutical Benefits Scheme (PBS), despite earlier media reports that up to $5 billion of savings over four to five years would be sought from reimbursements paid to pharmaceutical companies and pharmacies. 430 Rather, the Government indicated that it is in the final stages of negotiations with the pharmacy sector regarding ‘a balanced range of measures’ to support the sustainability of the PBS. 431 Last year’s budget measure to increase patient co-payments and safety nets has also been retained.

The start date for the increase in co-payments and safety net thresholds announced in the 2014–15 Budget has been pushed back one year to 1 January 2016, resulting in an additional saving of $5.1 million in 2018–19, which now becomes the last year of the measure. 432 This is in addition to the $1.3 billion in savings over four years that were announced in the 2014–15 Budget. 433 The measure increases the co-payment for PBS medicines for general patients by $5.00 and concessional patients by $0.80. 434 It also increases the safety net thresholds above inflation each year for four years. Further information on this measure, including stakeholder responses, is available in Budget Review 2014–15. 435

The increased co-payments and thresholds were due to start from 1 January 2015, but the legislation to enact the measure has not passed the Senate. 436 Then Health Minister Peter Dutton indicated last December that ‘it remains the government’s policy to implement this change’ but that in the face of Labor opposition to the measure it might be willing to compromise in order to secure cross-bench support. 437 The measure in the 2015–16 Budget has been described by one commentator as ‘politically dead, unlikely to ever be approved by the Senate’, but with savings still contributing to budget forecasts. 438

In keeping with previous years’ Budgets, new and amended drug listings on the PBS have been included as a budget measure, at a cost of $1.6 billion over five years. 439 This includes drugs to treat a number of cancers, asthma and multiple sclerosis. Price changes recommended by the Pharmaceutical Benefits Advisory Committee (PBAC) have also been listed as a budget measure, and are predicted to save $252.2 million over five years to be directed to fund other health priorities or the proposed Medical Research Future Fund. 440

Future changes

More significant changes for the PBS have been foreshadowed by the Government. The PBS is forecast to cost $9.7 billion in 2015–16, but this estimate ‘excludes the outcomes of the negotiations on the Sixth Community Pharmacy Agreement and broader PBS Access and Sustainability Package of measures’. 441 Further measures are expected to be introduced from 1 July 2015 following consultation with stakeholders including ‘the pharmacy and pharmaceutical sectors’. 442

Community pharmacy agreements are five year agreements between the Australian Government and the Pharmacy Guild of Australia that pay pharmacists to dispense PBS medicines, fund professional programs and support the supply of PBS medicines by wholesalers. The Fifth Community Pharmacy (5CPA) was allocated $15.4 billion over five years and is due to end on 30 June 2015. 443 A recent review of the 5CPA by the Australian National Audit Office (ANAO) found that the Department of Health ‘is not well positioned to assess whether the

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440. Ibid., p. 109.
442. Ibid., p. 53.
443. Australian National Audit Office (ANAO), Administration of the Fifth Community Pharmacy Agreement, ANAO, 2015, p. 16.
Commonwealth is receiving value for money from the agreement overall, or performance against the six principles and objectives. There have been calls from some consumer groups to extend the 5CPA by two years to allow an overhaul of the process. However, the Budget reveals that the next pharmacy agreement is ‘in the final stages of negotiation’.

While there is little detail in the Budget, media reports have suggested that the Sixth Community Pharmacy Agreement (6CPA) may include total funding of $18.9 billion over five years, including increases to pharmacy remuneration and program funding, performance measures, and an option for pharmacists to discount the patient co-payment by $1 as long as they absorb the cost. The government wants the discount to boost competition between pharmacies, although the Health Minister has acknowledged that rural and regional pharmacists may not be as well placed to offer the discount. The $1 discount could also reduce the impact on consumers of the Government’s budgeted increases to co-payments.

In addition to the 6CPA negotiations, the Budget also notes that the Government is negotiating a ‘broader PBS Access and Sustainability Package of measures’, but no details are provided. This appears to refer to negotiations with the pharmaceutical industry to reduce the price that the government, and in some cases consumers, pay for PBS medicines. Measures reportedly being considered include:

- removing over the counter medicines such as paracetamol and aspirin from the PBS
- closing a loophole in the pricing of combination drugs to ensure that they don’t cost more than the total price of their component drugs
- requiring patented drugs to take a 5 per cent price cut after 5 years on the PBS and
- changing price disclosure rules to force the price of brand name drugs that are no longer on patent closer to the prices of their generic competitors.

**Commentary**

While the above proposals have received quite a lot of attention, stakeholder reaction to the PBS budget measures has been relatively muted. The Pharmaceutical Society of Australia (PSA) and the Pharmacy Guild, for example, have noted the lack of funding announcements relating to the Sixth Community Pharmacy Agreement and wider proposed PBS changes. Both the Consumers Health Forum (CHF) and the PSA have reiterated their opposition to higher costs for consumers resulting from the co-payment and safety net increases.

It would seem that there are significant changes ahead for the PBS, but that these are being addressed outside of the budget process.

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444. Ibid., p. 24.
445. Consumers Health Forum of Australia, Cancer Voices Australia and the Chronic Illness Alliance, *Now is the time for overhaul of antiquated pharmacy agreement*, media release, 1 April 2015.
446. *Portfolio budget statements 2015–16, Health Portfolio*, op. cit., p. 56.
Other health measures

Amanda Biggs

Major savings

A significant saving announced in this Budget is the $962.8 million over five years expected to be achieved by changes to a range of health programs. Programs to be targeted for savings include: the Department of Health’s Flexible Funds, workforce and research programs, the GP Super Clinics program, a program for special foods and medicines and a medical aids appliance program.

In 2011, 18 Flexible Funds were established as a result of the consolidation of 159 separate funding programs—consolidation was intended to reduce red tape, improve flexibility and more efficiently fund health priorities. Following machinery of government changes after the 2013 federal election, 16 Flexible Funds remained in the Health portfolio. Under the Flexible Funds, non-government organisations are funded to deliver a range of health and community services. Flexible Funds cover a diversity of health priority areas, including: chronic disease prevention, substance misuse prevention, rural health outreach, health workforce, communicable disease prevention, Aboriginal and Torres Strait Islander chronic disease, quality use of diagnostics and therapeutics, and primary care incentives.

The Budget does not detail if all or only some of these Flexible Funds will be affected, or the precise level of savings to be realised from rationalising this particular program, although media reports suggest a figure of $500 million. Last year’s Budget included a pause in indexation for the Flexible Funds over three years, with $197.1 million in savings forecast. The flow-on effects of this pause in indexation remain unclear as the measure was not to apply to all funds and, in any case, is not due to commence until the 2015–16 financial year. Michael Moore of the Public Health Association of Australia has raised concerns about the cuts to the Flexible Funds, stating: ‘If these drastic cuts go ahead it could decimate NGO sector responses to many of the key challenges in public health and leave Australian families and communities without the support they need’.

Others worry that funding for organisations that treat drug and alcohol abuse will be cut. Unspecified savings from rationalising and streamlining other programs include: not proceeding with GP Super Clinics that have not commenced construction; redesigning some dental workforce programs, including incentives to encourage dentists to relocate to smaller rural centres; ceasing funding for the Inborn Error of Metabolism program as key medicines are subsidised through the Pharmaceutical Benefits Scheme (PBS) and low-protein foods are more readily available at lower cost; piloting competitive tendering in the Stoma Appliance Scheme and rationalising preventative health research funding.

In addition, savings of $113.1 million over five years are forecast from the Smaller Government – Health Portfolio measure. This aims to create operational efficiencies in the Department by merging certain corporate functions across agencies, ceasing departmental activities in areas already performed by a number of other agencies (including agencies that were previously slated for merger in last year’s Budget), ceasing a Lead Clinicians Group, rationalising departmental structures and business functions, consolidating staffing and reducing contracting arrangements.

The combined savings from these two measures total over $1.0 billion, which will be redirected to fund other health priorities and the proposed Medical Research Future Fund (MRRF).

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458. Two moved to the Department of Social Services. Ibid.
459. Ibid. Others cover indemnity insurance, health surveillance, health protection, health information, and health system capacity.
462. Officials quizzed at Senate Estimates indicated that five funds would be exempt from indexation. Senate Community Affairs Committee, Official Committee Hansard, 25 February 2015, p. 129.
463. M Moore (Chief Executive Officer, Public Health Association of Australia), Health Budget 2015: death by 1000 cuts, media release, 12 May 2015.
465. Budget measures: budget paper no. 2: 2015–16, op. cit., p. 110. The Inborn Error of Metabolism program provides financial assistance to patients with rare genetic disorders in which the body cannot properly turn food into energy.
466. Ibid., p. 111.
Savings of $7.6 million over four years are also forecast from changes to items that are listed on the Stoma Appliance Scheme. This scheme provides free products to people who require either a temporary or permanent stoma to remove body waste (for example, following a colostomy). From 1 July 2015, two new items will be listed on the Stoma Schedule, one will be removed and prices for a further 21 products will be amended (presumably including price reductions), consistent with recommendations of the Stoma Product Assessment Panel (SPAP).

**After hours primary care**

The Budget also seeks to shift funding for after hours primary care away from the After Hours GP Helpline (AHGPH) and the Medicare Locals After Hours Programme to a new Practice Incentives Programme (PIP) After Hours Payment from 1 July 2015. This measure is intended to encourage General Practitioners (GPs) to provide after hours care and follows recommendations of a review into after hours primary care by GP, educator and researcher, Professor Claire Jackson.

The AHGPH was established in 2011 by the Gillard Government. Callers are first triaged by a nurse through the National Health Call Centre Network who assesses their medical condition before transferring the caller to a GP if appropriate. More than 208,000 calls were transferred to the AHGPH in 2013–14. Between July 2011 and June 2014, the AHGPH dealt with over 407,000 calls. Of these, around 63.1 per cent of callers were advised to either self-care or see a doctor within normal operating hours.

The Jackson review reported that the AHGPH had received a ‘mixed evaluation from many respondents’. A number of issues were identified, including: incomplete awareness of local services, suitability of some conditions referred to the Helpline, anecdotal evidence of unnecessary presentations to emergency departments, accountability and transparency issues, cost and communication arrangements with a patient’s regular GP. However, the review acknowledged that a full cost-benefit analysis of the Helpline had not been conducted.

Medicare Locals (MLs) are due to be replaced with new Primary Health Networks (PHNs) from July 2015. One of the key tasks of MLs was to improve access to after hours primary care. However, concerns were expressed to the Jackson review that the transition to these new organisations should not disrupt effective after hours programs. The National Rural Health Alliance (NRHA) submission cautioned: ‘The impending transition from MLs to PHNs may stifle opportunities for collaboration in the establishment or expansion of after-hours services’. The NRHA further advised that ‘PHNs should consider the full range of models by which after-hours care might be delivered in their respective area’. Whether this advice will be heeded by the new PHNs remains to be seen.

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467. Ibid., p. 112.
468. A review to assess the clinical effectiveness of products is being undertaken by the Department of Health in conjunction with the Stoma Product Assessment Panel (SPAP) and an expert group. Department of Health, ‘Stoma Appliance Scheme – Group 9 Review’, DoH website.
471. J Gillard (Prime Minister) and N Roxon (Minister for Health and Ageing), GP care a phone call away for families, media release, 30 June 2011.
472. Callers from Tasmania are transferred to the GP Assist service in that state.
475. Ibid., p. 39.
476. Ibid.
477. Ibid., p. 40. Conducting a cost/benefit analysis was considered beyond the scope and timeframe of the review.
Health workforce
Dr Rhonda Jolly

Health workforce measures in this Budget are minimal and essentially involve re-distribution of funding.

Rural and remote scholarships

The budget papers have announced that the 100 government-supported places for medical students under the Medical Rural Bonded Scholarships Scheme (MRBS Scheme) will be transferred to the Bonded Medical Places Scheme (BMP Scheme).480 Currently, students trained under the MRBS Scheme commit to working for six continuous years (after completing their specialist training) in rural or remote areas (less any credit obtained through a scaling scheme that can reduce the return of service dependent on the rurality of the area in which they choose to practice).481 Students on the BMP Scheme, on the other hand, have a greater geographical choice in terms of fulfilling their return of service obligation482. They commit to work in a district of workforce shortage area of their choice (districts of workforce shortage can be in outer metropolitan, rural or remote areas) for a period of time equal to the length of their medical degrees, less any credit obtained through scaling.

A further measure will achieve savings of $72.5 million over four years from 1 July 2016 by combining nine existing allied health workforce scholarships into one. According to the budget papers this measure will not affect scholarships aimed at Aboriginal and Torres Strait Islander students. The Government intends that this measure will produce a more effective program and encourage more students to embark on rural practice.

The decision to transfer the MRBS Scheme was most likely premised on the fact that it has been unsuccessful in increasing the numbers of medical practitioners working in rural and remote areas. As Jennifer Mason, former Director-General of the New South Wales Departments of Human Services and Community Services, observed in her review of health workforce programs, critics of the program claim that not only do its participants lack ‘a positive connection’ with the bush, they also demonstrate an unwillingness to participate in rural life.483 The Mason review added that rural bonding is seen as ‘stigmatising’ of rural practice and it is common for scholarship participants to seek release from their obligations, some pursuing employment overseas as a means of avoiding working in rural areas. And, as Mason pointed out, after a decade of investment by the federal government fewer than 50 MRBS recipients had commenced their return of service period.484

For these reasons the Mason review suggested that the Government phase out the MRBS Scheme and redirect funding to support the Rural Australia Medical Undergraduate Scholarship (RAMUS) Scheme, which targets students with a significant rural background. In Mason’s words ‘RAMUS ‘is both popular among rural communities and rural medical students’.485 Importantly, with regards to the ongoing policy of successive Australian governments of improving health services in rural and remote areas, the Mason review recommended that at least a portion of the savings made from phasing out the MRBS Scheme was allocated to support rural allied health scholarships.486 Mason pointed out that these are already oversubscribed. Hence, there is the potential for an increased number of scholarships to make a difference to rural health outcomes.

While the Budget has announced that the MRBS Scheme will cease, it appears that the number of medical students to receive government support will not be diminished and there will be no savings from the demise of the Scheme. However, there is equally no compensation provided for the loss of a scheme intended specifically to increase the presence of medical practitioners in the bush.

However, as noted above, the budget papers predict that there will be savings from the consolidation of allied health scholarships. Given the Mason review recommendation and its acknowledgement that a greater investment in allied health will be of benefit to rural communities, it is significant that the savings from that consolidation have not been reinvested in more scholarships or incentives for allied health students and workers.

480. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.
481. See more information on the Medical Rural Bonded Scholarships Scheme and scaling for the scholarship on the Department of Health website.
482. See more information on the Bonded Medical Places Scheme on the Department of Health website.
484. Ibid., p. 107.
485. See more information on the RAMUS Scheme on the National Rural Health Alliance website.
The Services for Australian Rural and Remote Allied Health organisation (SARRAH) which administers scholarships for allied health workers, has commented on the lack of detail in the budget announcements relating to rural and regional scholarships. 487 SARRAH has also observed that the measures do nothing to address the fact that government support and initiatives for allied health workers is less than comparable with that given to other health practitioners. 488 And, given that the new allied health scholarships will entail a return of service obligation to work in rural or regional areas for one year, it likely that SARRAH and other advocates of more government support for the allied health workforce will be concerned that an existing similar obligation imposed on medical students has most likely been a primary reason behind the demise of the MRBS Scheme.

As the Minister for Infrastructure and Regional Development, Warren Truss, highlighted in his Budget Statement, rural and remote health is a priority area for Government policy. 489 Therefore, it is possible that health workforce advocacy groups, such as SARRAH, may ask why the Government has not used savings from the consolidation of allied health scholarships to invest in more rural and remote places for allied health students. Given the impending demise of the MRBS Scheme, this may have been an effective way of pursuing the Government’s stated priority.

**Other re-directions of funding**

A small amount of funding (just over $3.0 million over four years) from two programs, the More Doctors for Metropolitan Areas Relocation Incentive Grant and the Higher Education Contribution Reimbursement Scheme, is to be re-directed to the General Practice Rural Incentives Program (GPRIP). GPRIP aims to encourage medical practitioners to practise in regional and remote communities and the budget papers state that the ‘expanded’ GPRIP as a result of this measure ‘will be redesigned with a refined geographical classification system to increase the incentives for General Practitioners in smaller rural communities’.

A second re-direction measure will transfer responsibility for a training program for junior medical officers at two former repatriation hospitals from the Department of Veterans’ Affairs to the Department of Health. Funding of $40.0 million has been provided over four years for this program.

488. Ibid.
489. W Truss (Minister for Infrastructure and Regional Development) and J Briggs (Assistant Minister for Infrastructure and Regional Development), *Partnership for Regional Growth 2015–16*, ministerial budget statement 2015.
'No Jab No Pay' and other immunisation measures

Michael Klapdor and Alex Grove

Immunisation measures feature strongly in this Budget, with three measures aimed at improving vaccination rates and reducing the spread of vaccine preventable disease.

‘No Jab No Pay’

In April 2015, the Government announced that it would close off some exemptions from the immunisation requirements for eligibility for the FTB-A end-of-year supplement, Child Care Benefit (CCB) and Child Care Rebate (CCR) payments stating that it was extremely concerned at the risk non-vaccinated children pose to public health.490 A requirement for children to meet immunisation schedules has been attached to childcare payments since 1998 and for the FTB-A supplement from 2012 (coinciding with the abolition of a separate, immunisation specific payment: the Maternity Immunisation Allowance). Exemptions from the immunisation requirements for those with medical reasons and for those who submit a conscientious objection to immunisation have been included in the relevant legislation since these immunisation requirements were put in place in 1998, as have legislative instruments allowing for an exemption specifically for members of the Church of Christ, Scientist.491

On 12 April 2015, the Government announced that it would remove the conscientious objector exemption but retain the medical and Christian Scientist exemption.492 On 19 April 2015, Minister for Social Services, Scott Morrison, announced that after discussions with the Church of Christ, Scientist, their specific exemption would be removed as the Church advised it was no longer necessary.493

The measure not only removes these exemptions but will extend the requirements to include children of all ages—currently, for the FTB-A supplement, qualifying children need to meet the relevant vaccination schedule requirements for the financial year in which they turn one, two and five years old.494 For child care payment eligibility, all children under seven years must meet the relevant vaccine schedule requirements on any day CCB/CCR is claimed. From 1 January 2016, children of all ages must be up-to-date with their childhood immunisations or lose eligibility for these payments, with exemptions granted only for medical reasons. The Government expects the measure will result in savings of $508.3 million over five years.495 Media reports suggest around 10,000 families will lose eligibility for payments in 2016–17 as a result of the measure, though many more are expected to act to ensure all their children are up-to-date with their childhood immunisation schedules (including teenagers who missed some childhood vaccinations).496

The percentage of children under seven years with a conscientious objection recorded on the Australian Childhood Immunisation Register (ACIR) has risen from 0.23 per cent in December 1999 to 1.77 per cent in December 2014.497 The Government holds that removing non-medical exemptions will ‘reinforce the importance of immunisation and protecting public health’ and that ‘the choice made by families not to immunise their children is not supported by public policy or medical research nor should such action be supported by taxpayers in the form of child care payments’.498

Registered conscientious objectors represent a minority of the total number of children not up-to-date with their vaccination schedules—around 20 per cent of all children aged one, two or five who are not fully immunised.499 For children up to five years of age, immunisation rates range from around 90 to 92 per cent (depending on the age group). While there has been an increase in immunisation coverage since 1998, overall rates have remained static in recent years.500

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490. T Abbott (Prime Minister) and S Morrison (Minister for Social Services), No job – no play and no pay for child care, media release, 12 April 2015.
492. T Abbott, op. cit.
493. S Morrison (Minister for Social Services), Government ends religious ‘No Jab No Pay’ of benefits exemption, media release, 19 April 2015.
494. T Abbott, op. cit.
495. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.
The Budget measure is primarily targeted at conscientious objectors but will affect all those who receive child care subsidies or the FTB-A supplement and whose children’s vaccination records are not up-to-date. Some parents refuse to vaccinate their children out of a concern that potential harms outweigh the benefits or because of particular moral or philosophical beliefs, but many others have failed to keep up-to-date with vaccination schedules as a result of practical difficulties in accessing services. The Western Australia survey of families with children who had no vaccinations recorded on the ACIR found that the most common reason was that the families had moved from overseas and their children’s vaccination records had not been added to the national register (though only a small number of these children would have been considered fully immunised under the Australian schedules).

While the measure poses a significant financial incentive for parents to ensure their children are immunised, some health professionals and researchers have questioned whether imposing financial penalties is an effective way of lifting immunisation rates and engaging with parents who are hesitant about vaccinations. Hal Willaby and Julie Leask from the University of Sydney have argued that other measures which address access issues and which prompt parents who are behind on their children’s vaccination schedules would be more effective in boosting coverage rates. The other budget measures relating to immunisation, described below, are aimed at addressing some of these issues. Willaby and Leask also argue that removing the chance for conscientious objectors to discuss their position with a health professional (which is required in order for a parent to register their objection) forgoes an opportunity to engage with these parents and address their concerns. President of the Australian Medical Association, Brian Owler, stated that it was a concern that such large savings were expected from the measure: ‘it indicates that a number of people aren’t going to vaccinate their children. What we should be saying is we need to make sure that we do get all those children vaccinated and we should be aiming to actually continue to spend the same amount on those sorts of Family Tax Benefits.

**Other immunisation measures**

The Budget includes $161.8 million over five years for new and amended listings to the National Immunisation Program (NIP) Schedule of free vaccines. Listings include an extra dose of Diptheria, Tetanus and Acellular Pertussis (DTPa) vaccine for 18 month olds, for extra protection against whooping cough, and Zostavax vaccine to prevent shingles for 70 year olds (with a catch up program for 71–79 year olds).

There is also $26.4 million over four years to improve immunisation coverage rates, particularly in children and adolescents. The Government intends to:

- make an incentive payment to doctors and other immunisation providers when they identify a child who is overdue for vaccination and call them in for a catch up
- fund an awareness campaign to promote the NIP and address parents’ concerns regarding immunisation and
- expand the existing National Human Papillomavirus Vaccination Program Register (the HPV register) to include all adolescent vaccinations delivered in schools under the NIP.

Currently the ACIR records NIP vaccinations for children up to the age of seven. Adolescent and adult NIP vaccinations are not recorded nationally, with the exception of the HPV register, which is specific to the one vaccine. Expanding the HPV register to become the ‘Australian School Vaccination Register’ will allow for the

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501. Western Australia, Department of Health (WADoH), *Investigation of Western Australian children with no vaccinations recorded on the Australian Childhood Immunisation Register*, WADoH, Perth, 2014.
503. H Willaby and J Leask, ‘Opinion: with vaccination rates stable, ‘no jab, no play’ rules are beside the point!’ *The Conversation*, 22 May 2013; J Leask, ‘Will stopping vaccine objectors from accessing payments have its desired impact?’, Human factors weblog, 11 April 2015.
504. Willaby and Leask, Ibid.
recording of other adolescent vaccinations, and is intended to ‘provide the tools needed, such as recall and reminder systems, to improve adolescent coverage rates.’\textsuperscript{512}

Health professionals have previously called for the introduction of a whole-of-life register to include adult vaccinations.\textsuperscript{513} The Government appears to have heeded these calls, although the exact nature of their response is not yet clear. The NIP Budget measure states that ‘[a]n adult vaccination register will be established to record all adult vaccines provided under the NIP from 1 September 2016’, but a media release from the Minister has the Government ‘exploring options to capture adult immunisation records.’\textsuperscript{514} Similar ideas have been proposed in the past, but not fully investigated. In 2006 the Government announced $1.2 million for a scoping study to examine ‘the feasibility of establishing a whole-of-life immunisation register’, but it appears that the study did not proceed.\textsuperscript{515}

Through these efforts to improve coverage rates, coupled with financial penalties for non-compliance with immunisation schedules, the Government believes that it is taking a ‘balanced “carrot and stick” approach’ to encouraging vaccination.\textsuperscript{516} Of course, the sizeable savings expected from the ‘stick’ element may not be realised if these policies succeed in significantly lifting childhood immunisation rates.

\textsuperscript{512} DoH, \textit{Improving immunisation coverage rates}, op. cit.

\textsuperscript{513} L Chin, N Crawford, G Rowles and J Buttery, op. cit., p. 29.

\textsuperscript{514} \textit{Budget measures: budget paper no. 2: 2015–16}, op. cit., p. 106; S Ley, op. cit.

\textsuperscript{515} Department of Health and Ageing (DoHA), '\textit{Australian Childhood Immunisation Register – Redevelopment scoping study}', DoH website; Senate Community Affairs Committee, Answers to Questions on Notice, Health and Ageing Portfolio, Budget Estimates 2007–08, 30 and 31 May 2007, \textit{Question E07–130}. The study is listed in a table of ‘Measures Terminating from 2006–07 Onwards’, but does not have any actual expenditure listed.

\textsuperscript{516} S Ley, op. cit.
Migration and humanitarian programs

Harriet Spinks

Along with funding measures, a key budget night announcement in the Immigration and Border Protection portfolio was the release of planning figures for Australia’s two programs for receiving permanent migrants—the Migration Programme for skilled and family entrants and the Humanitarian Programme for refugees and others in humanitarian need. Planning levels for 2015–16 keep both of these programs at exactly the size they have been for the past several years. However, there will be some significant changes in the composition, particularly of the Humanitarian Programme, reflecting some recent changes in immigration and refugee policy. The 2015–16 Budget also provides for an increase in visa application charges across a range of visas, and a move to full cost recovery for citizenship costs.

Migration Programme

The Government will provide 190,000 places for permanent migration in 2015–16.517 This number has been the same since 2012–13. The composition of the program also remains relatively unchanged, with 128,550 places allocated for skilled migrants, 57,400 places for family migrants and 565 places for the special eligibility program for former residents who have maintained close ties with Australia.518 This composition reflects the Coalition’s commitment to maintaining the focus of the Migration Programme on skilled migrants, and limiting family migration to around a third of the total program.519

An interesting feature of the Minister’s Migration Programme announcement is the statement that ‘at least 3,485 place [sic] will be provided for Child category migrants outside the managed Migration Programme’ (emphasis added).520 When counted together with the stated 57,400 places for family migration, these 3,485 places take the total family migration allocation to 60,885, (the same figure allocated for family migration last year) and bring the Migration Programme up to the stated total of 190,000 places. These places are therefore clearly included in the permanent migration planning figures and it is unclear what is meant by the Minister’s statement that these places are outside the managed Migration Programme.

Aside from the program planning figures, the key budget feature of relevance to the Migration Program is the announcement of an increase in visa application charges (VACs) from 1 July 2015, and a move to full cost recovery for citizenship costs from 1 January 2016.521 This measure is expected to raise $437.1 million over four years. The VAC increases will vary across visa categories, with some being increased by only 2.3 per cent in line with inflation, while others will be increased by 5, 10 or 50 per cent.522

The Government reviews and increases VACs on a regular basis, with increases usually in line with the Consumer Price Index. The last general increase in VACs took effect on 1 September 2013, so for most visa subclasses this will be the first increase in two years. The exception to this is partner visa categories, which were increased by 50 per cent as of 1 January 2015. This was a revenue measure announced in the 2014–15 Mid-Year Economic and Fiscal Outlook.523 Under the VAC increases announced in the 2015–16 Budget, the VAC for onshore applications for partner visas will not increase, but the fees for offshore applications will be raised to bring them into line with the onshore fees.524 For those visa subclasses, this will be the second increase in the VAC in seven months.

In addition to this revenue measure, the Government is expecting to achieve savings of $168.1 million over four years through efficiencies in visa processing and simplifying the skilled migration and temporary visa programs. This will include consolidating visa subclasses in the skilled migration and temporary visa programs. This is consistent with the Government’s visa simplification agenda which has been in process for several months. The Department of Immigration and Border Protection consulted with stakeholders and in December 2014 released

517.  P Dutton (Minister for Immigration and Border Protection), Restoring integrity to refugee intake, media release, 12 May 2015.
518.  Ibid.
519.  For example: S Morrison (Minister for Immigration and Border Protection), Address to the Migration Institute of Australia National Conference, Canberra, speech, 21 October 2013.
520.  P Dutton, op. cit.
521.  The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.
524.  DIBP, op. cit.
a proposed framework for the simplification of skilled and temporary visa programs. Most of the budget savings from this measure will be achieved over the forward estimates, reflecting the fact that the new visa framework will not be implemented until 2016–17.

Humanitarian Programme

The Humanitarian Programme provides permanent visas for refugees and others in humanitarian need. It is comprised of an offshore component (for people resettled to Australia from other countries, either as refugees referred by the United Nations High Commissioner for Refugees or under the Special Humanitarian Programme (SHP) for those subject to substantial discrimination) and an onshore component (for those who arrive in Australia and make a claim for protection). Program planning levels have hovered between 12,000 and 13,750 places since the mid-1990s, with a temporary increase to 20,000 places in 2012–13 before the Coalition brought it back down to 13,750 in 2013–14. The Coalition has committed to increasing the Humanitarian Programme, but the increase will not begin until 2017–18 when it will be 16,250 places, rising again to 18,750 places in 2018–19. There has been no commitment made to maintain this increase beyond 2018–19.

For 2015–16 the Humanitarian Programme will remain at 13,750 places, with the Government committing to provide a minimum of 11,000 places for the offshore component. This will leave around 2,750 places for those granted protection onshore. The Government’s commitment to reserving so many places within the Humanitarian Program for offshore entrants is a result of it successfully negotiating the passage of its legislation for the introduction of Temporary Protection Visas (TPVs) and Safe Haven Enterprise Visas (SHEVs) in December 2014. As temporary visas, TPVs and SHEVs are not counted under the Humanitarian Programme. Historically, onshore protection visa grants have been numerically linked to the offshore SHP, meaning that as onshore protection visa grants increased, places under the SHP decreased. Now that people who arrived in Australia as Irregular Maritime Arrivals (IMAs) are eligible only for a temporary visa, and not a permanent protection visa, visa grants to IMAs will no longer affect the number of places available under the SHP.

The Government has announced that it will provide additional funding of $20.8 million in 2015–16 to provide support to non-IMAs under the Asylum Seeker Assistance Scheme (ASAS). The 2014–15 Budget had allocated only $5.3 million for the ASAS in 2015–16. This additional funding will bring the 2015–16 allocation up to $26.2 million. However, this is only a one year funding measure, and, after 2015–16, funding for the Scheme will revert to around $5.1 million each year over the forward estimates. The Government has stated that this measure will be partially offset by not renewing federal grant funding of $140,000 per year for the Refugee Council of Australia (RCOA). The removal of the RCOA’s funding was actually implemented in 2014–15—the RCOA was advised of the decision two weeks after the 2014–15 Budget, which had included the funding. The decision not to renew the RCOA’s funding continues to be treated by the Government as a saving, with no money allocated over the forward estimates.

527. P Dutton, op. cit.
528. P Dutton, op. cit.
532. Refugee Council of Australia, Government removes Refugee Council’s core funding, media release, 30 May 2014.
Responding to unauthorised arrivals
Harriet Spinks

The primary area of interest in the Immigration Portfolio budget over recent years has been the costs associated with irregular maritime arrivals (IMAs). Spending on this issue grew exponentially between 2009–10 and 2013-14, and a key Coalition election commitment was to end the ‘budget blowout’ in this area.533

The Abbott Government’s second Budget shows a further reduction in spending in on IMAs, reflecting the fact that the flow of IMAs to Australia has all but ceased. Only one asylum seeker vessel has arrived in Australia since the Coalition began turning boats around under its Operation Sovereign Borders policy, and all the passengers on that vessel were transferred offshore for processing.534

The savings announced as a result of the halt in the flow of IMAs will be achieved through various consolidations and efficiencies across the immigration detention network, including: $326.0 million through the closure of detention facilities on Christmas Island and in Darwin, $66.0 million due to the reduced use of charter flights between detention facilities, and $112.0 million in logistics and service costs across the detention network.535 Total savings are expected to be $554.3 million over five years.536

Spending on irregular maritime arrivals

While $554.5 million in savings over five years is certainly significant, spending on IMAs remains high, at an estimated $2.3 billion in 2015–16.537 Expenditure on IMA onshore management is expected to decline from almost $2.0 billion in 2014–15 to $1.5 billion in 2015–16. The savings in IMA offshore management are expected to be more modest, from $912.6 million in 2014–15 to $810.8 million in 2015–16. Further savings in both programs are expected over the forward estimates, with total spending on IMAs expected to decline to just over $1.0 billion by 2018–19.

However, it is also worth noting that actual spending on IMAs has been higher than anticipated every year since asylum seekers began arriving in large numbers in 2008–09.538 For instance, the $2.9 billion spent in 2014–15 was higher than the $2.7 billion anticipated in the 2014–15 Budget. Spending on IMAs can vary considerably in response to fluctuations in the numbers of arrivals and changes in detention and processing arrangements. While these factors appear to be stable for now, it remains to be seen whether the Government can continue to keep spending down in this expensive, and often unpredictable, policy area.

Tracking spending

Tracking spending on IMAs over the last several years is complicated because the outcomes and program structure for the Department of Immigration and Border Protection (DIBP) have changed for the second year in a row. The change to the outcomes structure in 2015–16 is the result of the impending merger of the DIBP with the Australian Customs and Border Protection Service from 1 July 2015.

Under the new structure, spending on IMAs is captured under two programs: Programme 1.4 IMA Onshore Management (for IMAs who remain in Australia) and Programme 1.5 Offshore IMA Management (for IMAs who have been transferred to a Regional Processing Centre in Nauru or Papua New Guinea). In the 2014–15 Budget, IMA spending was spread across four programmes, with two each for onshore IMA management (Programmes 3.3 and 3.4) and offshore IMA management (Programmes 3.5 and 3.6).539

534. P Dutton (Minister for Immigration and Border Protection), New Australian Border Force strengthens Operation Sovereign Borders, media release, 12 May 2015; T Abbott (Prime Minister) and P Dutton (Minister for Immigration and Border Protection), Budget dividend from stopping the boats, media release, 4 May 2015.
537. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.11: Immigration and Border Protection Portfolio.
Refugee Resettlement

The 2015–16 Budget provides $389.6 million over two years for refugee resettlement arrangements for IMAs in offshore processing centres who are found to be refugees, and for the removal of those found not to be refugees. This funding will be directed towards building the capacity of Nauru, Papua New Guinea and Cambodia to deliver settlement services to refugees. Some of the funding will come under Programme 1.5 IMA Offshore Management (which includes assisting partner countries in returning people to their country of origin and in managing the settlement of refugees). The measure also includes $141.9 million in capital funding to provide infrastructure (such as accommodation, health and education facilities) to support refugee resettlement in partner countries.

It should be noted that under the terms of the agreements with Nauru and Papua New Guinea for the transfer and settlement of asylum seekers to those countries, and with Cambodia for the resettlement of people found to be refugees in Nauru, the Australian Government is responsible for the full cost associated with resettling those found to be refugees, with no time limit placed on the period over which these costs may be incurred. The funding announced for refugee resettlement in regional partner countries is provided over two years, but it is likely that resettlement support for IMAs in partner countries will continue to require funding well into the future.

Adult Migrant English Programme

Also of relevance to IMAs, the Budget provides $14.5 million in 2015–16 to extend the Adult Migrant English Programme (AMEP) to refugees on temporary substantive visas (Temporary Protection Visa, Safe Haven Enterprise Visa or Temporary (Humanitarian Concern) Visa). These will be people from what the Coalition has termed the ‘legacy caseload’—around 30,000 people who arrived in Australia as IMAs under the Labor Government, but whose claims for protection had not been processed when the Government changed in 2013. Following the passage of the Migration and Maritime Powers Amendment (Resolving the Asylum Legacy Caseload) Act 2014, people in this cohort are only eligible for a temporary visa, not a permanent protection visa. Temporary protection visa holders are generally not eligible for the full range of government-funded settlement services.

This budget measure will allow people who arrived in Australia as IMAs, who have been found to be refugees and granted a temporary visa, to access the AMEP, which sits in the Education and Training Portfolio, and provides up to 510 hours of English language tuition. However, funding is provided for 2015–16 only, with no resources allocated over the forward estimates. In December 2014, then Minister for Immigration and Border Protection, Scott Morrison, stated that the Government intended to process the legacy caseload within three years. Such a timeframe would mean that many in this cohort will not be granted a temporary visa until later than 2015–16 and will, therefore, miss out on the one year of access to the AMEP provided for in this Budget.

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541. Ibid., p. 75.
Border protection and counter-people smuggling measures
Cat Barker

The 2015–16 Budget contains several measures relating to border protection and counter-people smuggling. While most include additional funding, none are entirely new measures. Rather, they continue existing measures due to expire or represent savings realised from 2014–15 Budget measures.

Border protection

The consolidation of the Australian Customs and Border Protection Service (Customs) into the Department of Immigration and Border Protection (DIBP) and the establishment of the Australian Border Force (ABF) were announced in May 2014. Legislation to establish the ABF from 1 July 2015 has been passed by both Houses of Parliament.

The 2014–15 Budget allocated $480.5 million over four years for the consolidation and associated reforms, with more than half the total from existing portfolio resources. The Government stated at the time that the measure would produce ‘hundreds of millions in savings’ that would be reinvested back into the ABF, but those savings were not detailed in the 2014–15 Budget. The savings foreshadowed last year are reflected in the 2015–16 Budget, which indicates the Government will save $270.1 million over four years. However, it does not appear they are necessarily being reinvested back into the ABF. The description of the measure states the savings will be ‘redirected by the Government to repair the Budget and fund policy priorities’, while a note in the Portfolio Budget Statement indicates $70 million of the total will be ‘reinvested for reform activities’ in the measure outlined below.

The 2015–16 Budget measure ‘Strengthen and enhance Australia’s border protection—further measures’ builds on the $480.5 million in the 2014–15 Budget and a measure in the Mid-Year Fiscal and Economic Outlook (MYEFO). A further $151.9 million over four years will go to the DIBP for:

• initial work towards new technologies to manage travellers’ biometric data and visa information
• a trial and rollout of new eGates at major international airports and three seaports (funding towards this measure was included under a counter-terrorism package in the 2014–15 MYEFO) and
• additional equipment and training for the ABF.

The funding for particular components has not been fully detailed. A Budget media release indicates $93.7 million over five years will go towards the ‘Seamless Traveller’ initiative, which covers the rollout of SmartGates and new eGates with biometric capabilities, and that $5.6 million will go towards a pilot phase of a ‘Trusted Trader Programme’. Neither initiative is mentioned directly in Budget Measures: Budget Paper No. 2: 2015–16, and both appear to have originated under Customs’ Blueprint for Reform 2013–18.

544. S Morrison (Minister for Immigration and Border Protection), A new force protecting Australia’s borders: address to the Lowy Institute for International Policy, Sydney (A new force), media release, 9 May 2014.
547. Ibid.; A new force, op. cit.
548. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16, 2015.
550. The Immigration and Border Protection portfolio was allocated $154.7 million under the 2014–15 MYEFO measure ‘Additional counter-terrorism funding’, some of which was for the eGate rollout (the exact amount does not seem to have been made public). J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2014–15 (MYEFO 2014–15), pp. 135–36; S Morrison (Minister for Immigration and Border Protection), New measures at our borders to protect against terrorist threat, media release, 10 September 2014.
551. P Dutton (Minister for Immigration and Border Control), Benefits for consumers, travellers and industry from red tape cuts and new technology, media release, 12 May 2015.
552. Australian Customs and Border Protection Service (Customs), Blueprint for reform: 2013–18, Customs, Canberra, June 2013, pp. 36–37.
The measure also includes an additional $12.9 million over four years for the Australian Commission for Law Enforcement Integrity. The Commission’s jurisdiction already includes Customs; from 1 July 2015 it will oversee the whole of the DIBP. 553

Separate measures include a further ‘restructure’ of the Import Processing Charge (IPC) and licence charges that will generate $107.6 million in additional revenue over four years (the IPC was last increased in the 2013–14 Budget554), and $26.2 million over four years (including $2.3 for the Department of Agriculture) to establish permanent border clearance services at Townsville and Sunshine Coast airports to support international flights.

**Counter-people smuggling and maritime surveillance**

Funding in the 2015–16 Budget for counter-people smuggling activities and maritime surveillance is directed at extending or expanding existing measures. It comprises the following:

- **$53.8 million over two years for Defence to cover the net additional cost of extending Operation Resolute to the end of June 2016.** This operation targets a range of maritime security threats, but the significant increase in the net additional cost since it was expanded at the commencement of Operation Sovereign Borders (OSB) may indicate that most of the resources are currently focused on dealing with irregular maritime arrivals. 555

- **$74.3 million over five years from 2014–15 to increase the patrol days of the Australian Customs Vessel (ACV) Ocean Shield from 180 to 300 days annually from 2015–16 to 2017–18, and to continue patrols for 180 days in 2018–19.** A total of $92.9 million was included in the 2014–15 MYEFO to ‘repurpose and transition ownership’ of Ocean Shield from Defence to Customs from 1 July 2014 (instead of 1 July 2016) and extend the lease for the ACV Triton by six months to the end of 2014–15. 556 Additional funding towards extending leases, increasing patrols and replacing vessels has been a regular feature of budgets handed down since 2009–10. 557

- **$39.9 million over four years to continue counter-people smuggling ‘strategic communications campaigns’ in Australia and overseas.** Campaigns of this type have been run for some time; however, they have been expanded, with concomitant funding increases and a degree of controversy, in recent years. 558

- **$12.5 million allocated from existing resources to continue the OSB Disruption and Deterrence Task Group, led by the Australian Federal Police, for a further two years.** Funding to the end of 2015–16 was included in the 2013–14 MYEFO. 559

- **$4.7 million in 2015–16 only to retain ABF (currently Customs) postings in Indonesia, Malaysia and Sri Lanka to coordinate activities aimed at preventing maritime people smuggling.** This measure has been extended at one or two year intervals since 2009–10. 560

- **$1.3 million in 2015–16 only to continue activities through the Bali Process Regional Support Office.** The Office was established in 2012 to support implementation of the Regional Cooperation Framework to reduce irregular migration in the Asia Pacific region. 561

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553. Parliament of Australia, ‘Customs and Other Legislation Amendment (Australian Border Force) Bill 2015 homepage’, Australian Parliament website. The Bill has been passed by both Houses of Parliament but had not received Royal Assent at the time of writing.


557. ‘Counter-people smuggling measures’, op. cit.


559. J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2013–14, p. 120.


Indigenous affairs
Dr John Gardiner-Garden

After a year of structural rearrangement in the administration of indigenous affairs programs, the Budget has provided $4.9 billion for the continuation of the Government’s Indigenous Advancement Strategy (IAS). 562 It also provides for the indexation of IAS funding in 2018–19 and anticipates the cost of administering the IAS falling from $311.1 million in 2014–15 to $279.0 million in 2015–16. 563

The Budget has retained most of the $534.0 million in funding reductions from the 2014–15 Budget, disappointing the co-chairs of the National Congress of Australia’s First Peoples who assert that the funding cuts and uncertainty arising from last year’s Budget, together with the new IAS procedures, continue to ‘wreak havoc’ on indigenous communities and organisations. 564 The 2015–16 Budget also left in place the mandatory work-for-the-dole in remote communities that was introduced in December 2014 and which has been challenged by some as impractical. 565 The Budget also disappointed Close the Gap campaigners because it has no new funding for indigenous health. 566

Municipal and essential services

The Budget provides for further transitioning to the states and territories of full responsibility for delivering municipal and essential services to remote indigenous communities. The Australian Government officially ended its Municipal and Essential Services program on 30 June 2014. This was followed by the redirection (originally announced in the 2014–15 Budget and confirmed in the Mid-year Economic and Fiscal Outlook 2014–15) of $120.9 million from the Department of the Prime Minister and Cabinet (PM&C) to assist the governments of Queensland, Victoria, Tasmania and Western Australia (WA) with the transition. 567

Despite concerns that that this process might lead to the closure of many communities, the 2015–16 Budget continues the process, confirming $15.0 million in 2014–15 for South Australia and providing $154.8 million in 2015–16 to the Northern Territory (NT). 568 With respect to South Australia, the measure gives effect to a recently reached transition agreement over services outside Anangu Pitjantjatjara Yankunytjatjara Lands. 569 An agreement with the NT has yet to be announced—the Chief Minister Adam Giles has said he would ‘like to sit down with Cabinet and see if we’re willing to accept and what it actually means’ while Opposition Leader Michael Gunner said it looked like an ‘upfront sweetener’ before making the NT Government pick up the bill forever after. 570

National Partnership Agreements

The Budget replaces several National Partnership Agreements (NPAs):

- The existing NPA on Remote Indigenous Housing will be replaced with a new Remote Indigenous Housing Strategy—$1.1 billion will be provided over three years for the New South Wales, WA, South Australian, Queensland and NT governments to build new houses and refurbish existing houses in remote Indigenous communities. This latest recasting is represented by the Government as putting a new focus on increasing indigenous home ownership and, controversially, supports the building of accommodation in urban and regional areas for Indigenous Australians who relocate from remote communities for work or training. The

563. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16, Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.14: Prime Minister and Cabinet Portfolio, p. 45.
569. N Scullion (Minister for Indigenous Affairs) and K Maher (South Australian Minister for Aboriginal Affairs and Reconciliation), Funding certainty for remote SA Indigenous communities, media release, 13 April 2015.
570. A Betts, ‘Budget 2015: concerns raised over federal plans to hand funding of Indigenous outstations to NT, in deal similar to WA’, ABC News, (online), 13 May 2015.
2015–16 allocation is down on 2014–15 funding—$95.0 million was redirected mid-financial year for the ‘Reform of the Remote Jobs and Communities Programme’ measure, which included the introduction of mandatory work-for-the-dole in remote communities.  

- Funding of $988.2 million over eight years will be redirected from the NPA on Stronger Futures in the Northern Territory to establish in its place, with an additional $61.3 million over four years, an NPA on Northern Territory Remote Aboriginal Investment. The Stronger Futures NPA was agreed in 2012, supported by Commonwealth legislation and accompanied by ten years of funding commitments. The new NPA is represented by the Government as prioritising schooling, community safety and employment, and includes the above-mentioned funding to transition responsibility for municipal and essential services. Australian Government administered funding of $1.4 billion, currently part of the NPA on Stronger Futures in the Northern Territory, will not be included in the new NPA, but will continue outside the NPA framework administered by the departments of PM&C and Social Services.

- Funding of $6.7 million over three years will be redirected from the Department of the Treasury, where it was supporting the NPA on Remote Indigenous Public Internet Access, to PM&C to provide remote indigenous internet infrastructure and training under the IAS.

**Employment and education outside remote communities**

The Budget includes measures intended to support the seeking of employment and education outside remote communities:

- $10.0 million over five years will be provided to extend the ABSTUDY Under-16 Boarding Supplement to approved hostels

- $5.4 million over two years will be provided to continue to support specific non-government schools for the additional costs associated with boarding and educating indigenous students from remote communities

- Home loans and financial support will be made portable for Indigenous Australians living in remote communities who choose to move to another location to take up a job or undertake education. It will support Indigenous Australians in the transition from renting to home ownership by extending financial support grants to cover start-up and ongoing home ownership expenses. The cost will be met from within the existing resources of the Indigenous Business Australia’s Indigenous Home Ownership Programme.

As part of the Government’s smaller government reforms, another budget measure ends the operations of a number of trusts and combines their trust accounts into a single Indigenous Real Estate Investment Trust.
Assistance to industry
Anne Holmes

During the investment phase of the mining boom, resources of capital and labour moved into the construction of mines, and the high exchange rate meant that Australian exports were less competitive in overseas markets. Many companies closed down or shifted production offshore.

Now that the investment phase of the boom is winding down, the Australian economy will need to adjust. Other industries will need to take up the slack in the economy to provide jobs and growth. However, there will not be a simple reversal of the processes of the boom. The companies that provide growth will not simply be the ones that were there before. To maintain high standards of living it will be necessary to develop innovative, highly productive, knowledge intensive industries.

The necessary adjustments will be assisted by macroeconomic conditions including a lower Australian dollar, low wage growth and low interest rates. However, as the Reserve Bank of Australia has observed, ‘non-mining business investment has been subdued, although many of the conditions typically associated with stronger investment are in place.’

Several commentators have pointed to the need for active policy to stimulate the growth of new industries. Former Treasury Secretary Ken Henry noted that the endowments on which we have to build include natural ones and ones that previous generations have built. His list includes systems supporting research and innovation, and other economic and social infrastructure. He implies that the need to build on them creates a role for government.

The Business Council of Australia has called for a more active industry policy, involving:

• ‘adopting a global mindset in everything we do and coming to terms with what it means to operate in a truly global marketplace
• returning to a more thoughtful role for government in facilitating and coordinating economic development and social progress
• dramatically increasing our competitiveness through innovation
• growing those sectors of our economy that can win on a global scale and make the greatest contribution to lifting our national wealth.’

The Commonwealth Budget is regarded as the most important economic statement of the year. So it is perhaps surprising that the word ‘industry’ did not occur in the Budget Speech.

There are few new budget measures in the Industry and Science portfolio. All are savings measures, except for $13 million in 2016–17 for the Australian Nuclear Science and Technology Organisation’s operation of the Australian Synchrotron, and payments to the automotive industry, which are dealt with below.

In the 2014–15 Budget the Government established the Entrepreneurs’ Infrastructure Programme to implement its new approach to industry policy. Elements of the program are:

... 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.

The new approach involved funding of $484 million over five years, but represented a net saving of around $360 million. In this Budget there is a further reduction in funding for the Entrepreneurs’ Infrastructure Programme of $23 million in 2014–15, and a $32 million reduction in funding in 2014–15 and the two years following for the grants programs that were closing on 1 January 2015.

574. Reserve Bank of Australia, Statement on Monetary Policy, May 2015, p. 35.
577. J Hockey (Treasurer), Budget Speech 2015.
579. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.
Budget Paper No. 2 shows an expense of $783 million over five years for the Automotive Transformation Scheme. This is a reversal of the reduction in funding to the industry which had been announced but not passed by the Parliament. However, the description of the measure notes that the Government does not expect most of this money to be spent, because of ‘decisions taken by motor vehicle manufacturers’ (p. 126).

One of the central features of the Budget is the Growing Jobs and Small Business package. None of the measures in the package is in the Industry and Science portfolio. The package comprises:

- tax measures, most importantly a reduction in the tax rate for small businesses, which are dealt with in another article in Budget Review 2015–16
- workforce measures, mostly aimed at helping at-risk job seekers into work, which are dealt with in another article in Budget Review 2015–16
- $32.4 million over five years for the Australian Taxation Office, the Australian Securities and Investments Commission and the Department of Industry and Science to develop a single online portal to facilitate the establishment of a new business and
- $8 million for the Australian Securities and Investments Commission to improve the regulatory environment for crowd sourced equity funding, in part by making it easier for a business to become a public company.

The tax measures are not selective: they treat all small businesses alike. This may be equitable, but it is not necessarily a good way to encourage economic growth. The Productivity Commission in a recent report notes that most small businesses are not innovative (and that larger businesses tend to be more innovative). While the PC warns against directing assistance to particular business models, technologies, sectors or locations, it does suggest that:

> … criteria based on desired outcomes (such as technology transfer and spillovers) with matching private sector investment, are less likely to distort incentives and behaviours, particularly in a rapidly evolving environment.

In this case the PC is referring to establishing new businesses, but the general suggestion that assistance should be directed to outcomes that benefit the economy, and should not distort behaviours, is worth noting. In particular, the new accelerated depreciation measure favours asset acquisition above, for example, purchasing advice on improving management or developing export markets.

The economic theory underlying this approach to industry policy appears to be that the economy will make its own adjustments. And understandably there is a reluctance to ‘pick winners’. But there are some features of the Australian economy and society, and some developments in the rest of the world, which make it possible to identify policies with a good chance of payoff. The Department of Industry and Science last year released two reports, The Australian Industry Report and The Australian Innovation System Report, which could be the basis for a strategic approach to developing industries where Australia has a competitive advantage. Some action has been taken under existing programs towards the establishment of Industry Growth Centres for industries identified in the Australian Industry Report, but the limited funding available for the five industries specified ($188 million, presumably over five years) suggested that they can at best be consultative.

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Infrastructure expenditure

Rob Dossor

The bulk of Commonwealth infrastructure expenditure is by way of payments to the states. The 2015–16 Budget allocates $6.8 billion towards infrastructure expenditure in 2015–16. This is almost $2 billion higher than the estimated amount spent on infrastructure in 2014–15, but $1.2 billion less than was allocated for 2015–16 last year. These figures are outlined below.

Total payments to the states for infrastructure

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<tr>
<td>2015–16 Budget totals</td>
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<td>6823.2</td>
<td>9244.7</td>
<td>7436.0</td>
<td>28404.7</td>
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<td>9107.8</td>
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<td>-802.1</td>
<td>-1198.6</td>
<td>136.9</td>
<td>1761.8</td>
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While there is an underspend in 2014–15 and less than expected allocation in 2015–16, the four years to 2017-18 of the two budgets have broadly similar allocations. In other words, while the total expenditure is similar, a substantial amount is pushed out over the forward estimates.

The underspend in 2014–15 would have been significantly higher if it were not for the $500 million committed in the week before the budget to Western Australia for nine infrastructure projects as compensation for the GST revenue shortfall in 2014–15. Without this compensation measure the underspend would total $1.3 billion.

The lower than expected expenditure in 2014–15 was likely affected by the three state elections that occurred in the period. Asset privatisation played a major role in the defeat of the Newman government in Queensland, while asset recycling (under the Asset Recycling Initiative) was a key election issue in the recent NSW election. These concerns may have pushed back Queensland and NSW infrastructure investment plans.

Infrastructure was also a key issue in the Victorian election. The 2014–15 Budget allowed for spending of $1.5 billion over the forward estimates for Melbourne’s East West link. The East West Link was committed to by the Napthine Victorian government prior to the election, despite a cost benefit ratio (which was released after the election by the incoming Andrews government) of between 0.45 and 0.84, meaning that the project was expected to have a negative return. On election the new government halted further work on the project before reaching an in-principle agreement with the project contract holders to cancel the project in April 2015. The Budget includes as savings (over the forward estimates) the $1.5 billion previously allocated for the project. However, it also includes a commitment of $3 billion (as a contingent liability) to any Victorian government which proceeds with it. The Victorian government has ruled out returning the $1.5 billion.

During the 2013 election campaign the Coalition made a commitment that Infrastructure Australia would assess any infrastructure project worth more than $100 million, as well as calculate and publish the net present value for projects that were added to the priority list. While the East West Link appears on Infrastructure Australia’s most recently available priority list, no net present value, or cost benefit analysis was made publicly available.

586. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Federal Financial Relations: budget paper no. 3: 2015–16, 2015.
588. T Abbott (Prime Minister), W Truss (Deputy Prime Minister and Minister for Infrastructure and Regional Development) and M Cormann (Minister for Finance), ‘Commonwealth support for infrastructure projects in Western Australia’, media Release, 6 May 2015, p. 1.
prior to the Commonwealth committed funding. In addition, since December 2013 no priority list has been released and Infrastructure Australia has only made two assessments available—for the Sydney WestConnex and the Melbourne City Link projects.

In the Budget few new infrastructure projects receive funding. While a number of major road projects are outlined as part of the Budget, most were announced in the 2014–15 Budget, including the Bruce Highway in Queensland, the Western Highway in Victoria and the WestConnex in NSW. Most of the projects that appear new are the projects associated with the WA concession payment, which are funded in 2014–15 and were announced separately.

Two new infrastructure items that were announced in the Budget, the Developing Northern Australia package and the Stronger Communities program, are dealt with elsewhere in this Budget Review.

The infrastructure measures in the Budget have attracted some negative comment. Marion Terrill of the Grattan Institute has observed that both major infrastructure announcements (the East West Link measures and the WA GST compensation measure) appear to serve political goals. Ross Gittins, of the Sydney Morning Herald, rated the Government’s failure to increase spending on infrastructure to offset the declining effectiveness of interest rate cuts as the biggest ‘miss’ in the Budget. Alan Kohler of The Australian, said ‘The Abbott government’s efforts on infrastructure have been pathetic, especially with the 10-year bond rate at 3 per cent …’ These are important issues as the scale of money is vast and infrastructure investment has the real potential to stimulate the economy, even if more debt were taken on to fund productive projects.

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598. Infrastructure Australia, ‘Project Assessments’, IA website.
599. W Truss (Deputy Prime Minister and Minister for Infrastructure and Regional Development) and J Briggs (Assistant Minister for Infrastructure and Regional Development), ‘Building our Future: world-class infrastructure for a stronger Australia’, Budget 2015, media release, 12 May 2015.
600. T Abbott, W Truss and M Cormann, ‘Commonwealth support for infrastructure projects in Western Australia’, op. cit.
Scoping study: sale of Australia Rail Track Corporation

Rob Dossor

The Government will undertake a scoping study in 2015–16 to determine options for the future management, operation and ownership of the Australian Rail Track Corporation (ARTC). The cost of this study will be met from the existing resources of the Department of Finance.

The ARTC was created in 1997 when the Commonwealth and the states agreed to form a ‘one stop shop’ for all rail operators seeking access to the national interstate rail network. The ARTC’s corporate charter is to:

- provide seamless and efficient access to users of the interstate rail network
- pursue a growth strategy for interstate rail through improved efficiency and competitiveness
- improve interstate rail infrastructure through better asset management and coordination of capital investment
- encourage uniformity in access, technical, operating and safe working procedures and
- operate the business on commercially sound principles.

As of 2014 the ARTC owns or leases (from states) and operates over 8,500 kilometres of standard gauge track in NSW, Victoria, South Australia, Western Australia and Queensland. The map below shows the ARTC network, including owned and leased routes.

Source: Australian Rail Track Corporation (ARTC), ‘Our Network’, ARTC website.

The ARTC has a monopoly in interstate rail haulage. The ARTC appears to own or manage all interstate rail lines, as well as numerous intrastate lines (but the line between Northgate and Alice Springs is under a long term lease to Genesee and Wyoming Australia).

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607. Australian Rail Track Corporation (ARTC), ‘Our Network’, ARTC website.
The 2013 Commission of Audit recommended that a scoping study be undertaken to examine an appropriate access regime, implications for ARTC’s leases and wider considerations stemming from intergovernmental agreements that established the ARTC.\(^{611}\) The Commission of Audit further noted that the monopoly characteristics of the ARTC could be adequately managed in a manner similar to airport or electricity distribution monopolies.\(^{612}\) It also found that ‘in recent years some of the capital projects undertaken by ARTC have had marginal benefit-cost ratios, were not needed to meet future demand projections or did not effectively address expected capacity constraints.’\(^{613}\)

ARTC is estimated to be valued at around $4 billion.\(^{614}\) In 2012–13 the ARTC made a loss of over $202 million before returning a profit of over $163 million in 2013–14.\(^{615}\) ARTC has been rated at Aa2 by Moody’s Investor Services (Moody’s)—with a baseline credit assessment of a1.\(^{616}\) Moody’s stated, ‘the Government’s announcement of the scoping study in itself is credit negative for ARTC’s Aa2 rating because it signals a possible change in intention in relation to the government’s continued ownership.’

Moody’s goes on to say that ARTC’s ratings could be lowered if there were a weakening in the likelihood of support from the Government due to the full or partial privatisation of ARTC.\(^{617}\) The ARTC could take ‘countermeasures’ to manage any change in ownership, such as changing dividend policy or reducing costs.\(^{618}\)

The Government continues to invest in rail infrastructure managed by ARTC. The Budget, for example, committed $400 million to enable the Inland Rail Implementation Group and the ARTC to continue providing the Government with a delivery plan for inland rail.\(^{619}\) Whether the Government intends to continue funding rail projects after a possible sale is unclear. Both Labor and the Coalition have funded rail projects over the years and it may be considered a responsibility of government to provide an appropriate level of service for rail infrastructure.\(^{620}\)

While the investment industry has welcomed the proposal,\(^{621}\) the rail freight industry has warned that privatisation could increase costs for consumers.\(^{622}\) Shadow Treasurer Mr Bowen has said that ‘When it comes to these decisions there are two threshold questions—is it a function which can only be conducted by the Government and is it a good deal for the taxpayer?’\(^{623}\)

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\(^{612}\) Ibid.


\(^{615}\) ARTC, 2014 \textit{Annual Report}, op. cit., p. 37.

\(^{616}\) Moody’s Investor Service, ‘Moody’s: No immediate rating impact from government’s announcement of scoping study for ARTC’, Moody’s website.

\(^{617}\) Ibid.


\(^{619}\) The Inland Rail project will complete a new rail connection between Melbourne and Brisbane, via Wagga, Parkes, Moree and Toowoomba. ARTC has been tasked with developing a ten year program to deliver the project, under the guidance of the Inland Rail Implementation Group. Australian Rail Track Corporation (ARTC), ‘Inland Rail – A significant commitment’, media release; ARTC website; ARTC ‘Inland Rail’, ARTC website.


\(^{621}\) ‘Mandates set to fly as budget resets the selling agenda’, \textit{Australian Financial Review}, 13 May 2015.

\(^{622}\) A White, ‘Rail track sale will “lift costs”’ \textit{The Australian}, 20 May 2015.

\(^{623}\) C Bowen (Shadow Treasurer) quoted in ‘Rail Track float backed by business’, op. cit.
Digital Transformation Agenda

A new announcement in the Budget was the creation of a Digital Transformation Agenda, designed to ‘drive innovation’ and make it easier for individuals and businesses to access government services. To support the implementation of this Agenda, the government is providing $254.7 million over four years from 2015–16 onwards. This includes the already announced Digital Transformation Office (DTO) to be located within the Communications portfolio. At the same time, other portfolios will make contributions of $120 million over five years from 2014–15 onwards, through the transfer of their digital delivery services and functions to the new centralised office.

The main portfolios likely to be affected by this measure appear to be Social Services, Human Services and the Australian Taxation Office. The scheme includes projects to streamline government grants administration through adopting standard business processes and a common platform; provide a trusted digital identity verification framework (for secure authentication) with simple client access; and implement a whole-of-government digital mailbox system for individuals and businesses to use.

Australia has a history of changing bureaucratic arrangements for digital engagement policies. The Australian Government Information Management Office (AGIMO) (now absorbed within the Department of Finance), and before then the National Office for the Information Economy (NOIE), were examples of such changes. Then, on 23 January 2015, the new DTO was announced jointly by the Prime Minister and the Minister for Communications:

The DTO will operate more like a start-up than a traditional government agency, focusing on end-user needs in developing digital services... One of the DTO’s first tasks will be to ensure people no longer have to complete separate log on processes for each government service. Instead, people should have a ‘digital identity’, which they can use to log in to each of their services across the government. The DTO will also work closely with State and Territory Governments to identify opportunities for collaboration, including ways to make better use of myGov.

The myGov authentication service website already exists on its own to link a range of Australian Government services with one username and password, all in one place. However, it operates under the Human Services portfolio and it is not yet clear how myGov will sit with DTO-provided services. The new DTO will aim to take an across-agency or whole-of-government approach to investing in common platforms that can be used by every agency. According to James Riley in the Business Spectator, Australia’s Digital Transformation Office is modelled on the UK’s Government Digital Service, which has been operating for three years and apparently providing productivity gains in government service delivery.

Australia’s DTO website sets out some details of the initial, developmental (alpha) version of the new digital service standard. The DTO digital service standard webpage states that ‘The Digital Service Standard has been adapted from the UK Government’s Digital by Default Service Standard under the Open Government Licence v2.0.’

Under the DTO Digital Transformation Plan:

All agencies with services in the scope of the Standard will require a Digital Transformation Plan, by September 2015, setting out how and when the service will adopt the Standard.

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624. The budget figures have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16, pp. 67–69.
625. T Abbott (Prime Minister) and M Turnbull (Minister for Communications), Establishment of a Digital Transformation Office, media release, 23 January 2015.
National Broadband Network (NBN)

The NBN is treated as an investment in the Commonwealth accounts, and Commonwealth funding of it is contributed by equity injections to NBN Co, the entity established to design, build and operate the NBN. The funding provided is thus not treated as expenditure. The following table sets out the Commonwealth’s equity contributions as set out in the 2014–15 Budget, the Mid-Year Economic And Fiscal Outlook (MYEFO) and the current Budget:

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<tr>
<td>2017–18</td>
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Including the equity contributions made under the previous Government from 2010–2013 and the contributions made in 2013–14, total equity contributions remain capped at $29.5 billion as the Government has said. The government has promised to fund the broadband rollout project with equity injections until the cash flows are sufficient to allow it to utilize private sector funds.

The Budget Paper No. 1 in Statement 6: ‘The Australian Government’s major assets and liabilities’, says:

On 14 December 2015 (sic; actually 14 December 2014), the Government announced that it has successfully renegotiated the Definitive Agreements with Telstra and Optus. These agreements secure access to existing fixed-line infrastructure that could be used to rollout the NBN faster and at lower cost. In the 2015–16 Budget, $2.6 billion in equity payments for NBN Co have been brought forward to 2015–16 and 2016–17 from 2017–18. This is to reflect the launch and scale of new network technologies. The Government’s equity contributions are capped at $29.5 billion.

As the table above shows, equity funding in 2014–15 has been reduced from $5.2 billion to $4.9 billion and moved out to the following two years. The Budget papers also show that, in 2016–17, funding is scheduled to increase from $6.9 billion to $8.3 billion. The budget papers state that by 28 February 2015, NBN Co’s ‘termination liabilities’ reached $7.3 billion. These liabilities are the funds that would be needed to meet the direct costs of NBN Co if the broadband rollout were terminated. Under the equity funding agreement with NBN Co, the Commonwealth guarantees these contingent liabilities.

634  M Turnbull (Minister for Communications), Strategic Review of National Broadband Network, media release, 12 December 2013.
636  M Turnbull (Minister for Communications), NBN Co and Telstra sign revised Definitive Agreements, media release, 14 December 2014.
Federal courts and tribunal funding
Michele Brennan and Tyler Fox

Robert French, Chief Justice of the High Court of Australia (HCA), has said that court funding decisions are ‘value judgments’ that cannot merely be based on ‘economic justifications’ but the courts’ ‘functions in the maintenance of constitutional arrangements, the rule of law and the provision of access to justice for individuals, organisations and governments’. 639 However, the Chief Justice recognised that the Parliament is justified in taking measures to ensure that ‘public resources allocated to the courts are used efficiently and that their use is capable of intelligible explanation’. 640

This article provides an overview of actual and proposed funding for federal courts and tribunals from 2009–10 to 2017–18. As is apparent from Graph 1, after a slump from 2010–11 to 2014–15 (during which funding fell by almost 32 per cent), funding for the major federal courts and tribunals is forecast to increase by 27 per cent in 2014–15 and by 2017–18 will be approximately 91 per cent of 2009–10 funding.

Graph 1: Total federal court and tribunal funding 641

However, the forward year figures include the increased funding for the expanded jurisdiction of the Administrative Appeals Tribunal (AAT). The boost to the AAT accounts for 97 per cent of the increase in funding in 2014–15. The AAT’s funding increases by $83.7 million in 2015–16, more than tripling its funding from $37.9 million to $121.6 million. 642 This increase reflects the passage of the Tribunals Amalgamation Bill 2014, which will merge the Migration Review Tribunal (MRT), Refugee Review Tribunal (RRT) and Social Security Appeals Tribunal (SSAT) into the AAT from 1 July 2015. 643 In recent years, annual appropriation to the MRT, RRT and SSAT has been around $113 million. 644 This funding has been moved to the AAT, but not in its entirety. Leaving aside this

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639. RS French, _Boundary conditions – the funding of courts within a constitutional framework_, Journal of Judicial Administration, 19(2), October 2009, pp. 75–76.
640. Ibid.
644. In 2014–15, the MRT-RRT received new appropriations of $84 million, consisting of $60.6 million in the _Portfolio budget statements 2014–15: budget related paper no. 1.11: Immigration and Border Protection Portfolio_, p. 70 and $23.4 million in the _Portfolio additional estimates statements 2014–15: Immigration and Border Protection Portfolio_, p. 68. As the SSAT is not a statutory agency, its funding was included in the funding for the Department of Social Services and was not separately identified in the budget papers: _Portfolio budget statements 2014–15: budget related paper no. 1.15A: Social Services Portfolio_, p. 6. The SSAT received appropriations of $29.1 million in 2013–14: Social Security Appeals Tribunal (SSAT), _Annual report 2013–14_, SSAT, Canberra, 2014, p. 34.
consolidation within the AAT of pre-existing funding, federal court and tribunal funding will remain flat into the forward estimates, as indicated by **Graph 2**.

**Graph 2: Funding by court/tribunal**

Reorganisations

As is evident from **Graph 2**, the amalgamation of tribunals is not the first reorganisation that the federal system has undergone in the period since 2009–10 and this year’s Budget indicates that it will not be the last. The *Courts and Tribunals Legislation Amendment (Administration) Act 2013* removed the National Native Title Tribunal’s status as a statutory agency, merging it into the Federal Court of Australia (FCoA). 646 That Act also facilitated the merger of the administrative functions of the Family Court of Australia and the Federal Circuit Court (FCC). 647 This year’s budget foreshadows further amalgamation, proposing that the corporate functions of the Family Court and the FCC are to merge with the FCoA to form a single administrative body with a single appropriation from 1 July 2016. 648 However, the court funding forward estimates figures do not reflect the proposed consolidation ‘as the timing of this proposed reform is subject to legislative change’. 649

Fee increase

An extra $87.4 million will be raised over the next four years from changes to the fee structure of the FCoA, Family Court and FCC. 650 The fee increases will raise $69.6 million from litigants in the Family Court and FCC, and $17.8 million from those in the FCoA. Details of the fee increases are not provided in the Budget papers, but media reports indicate that they will be provided on 1 July 2015. 651 Media reports also suggest that the increases to Family Court fees will be substantial, with the cost of filing an application for divorce foreshadowed to rise by around 42 per cent, from $845 to around $1,200 and applications for consent orders foreshadowed to rise by around 55 per cent, from $155 to around $240. 652 The plan to increase fees has drawn criticism from the Family Law Section of the Law Council of Australia:

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645. See footnote 3, above.


647. The Federal Magistrates Court was renamed the Federal Circuit Court on 12 April 2013, on commencement of the *Federal Circuit Court of Australia (Consequential Amendments) Act 2013*.


649. Ibid.


we would be extremely concerned that any fee increase would severely restrict access to the courts by the people most in need. Court fees even at their existing levels are a significant burden for families who are struggling through a crisis.653

While family court fees are set to rise, media reports indicate that the Government is considering reversing fee increases introduced by the previous Government in 2012 for FCoA tax cases.654

Refurbishment of court buildings

$30 million is provided to the Department of Finance for refurbishment of court buildings, including improvements to holding cells consistent with the recommendations of the Royal Commission into Aboriginal Deaths in Custody, which issued its final report in 1991.655 (Given that federal courts primarily deal with civil cases, with most Commonwealth criminal prosecutions being conducted in state and territory courts, holding cells are likely to be used relatively infrequently in federal courts. This may explain the delay in implementing the recommendation in the federal buildings.)

The Law Council remarked:

It’s worth inquiring why the Royal Commission recommendation is only now being implemented 20 years after it was made. In any event, when infrastructure spending is being funded by a potential increase in fees, you immediately have an access to justice issue. We don’t make Australians pay a fee to access public hospitals or schools – why should we have to pay for the courts?656

653. N Berkovic, op. cit.
654. Federal Court and Federal Magistrates Court Regulation 2012. For current fees see Federal Court of Australia (FCoA), ‘Fees payable’, FCoA website.
656. Law Council of Australia, Small business changes a boon for law practices, but legal aid freeze will hurt access to justice, media release, MR 1521, 13 May 2015.
Legal aid and legal assistance services

Jaan Murphy

**Legal aid services:** Commonwealth funded legal services delivered by legal aid commissions.

**Legal assistance services:** 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.

The Australian Government provides funding to the states and territories for the delivery of **legal assistance services** for disadvantaged Australians. 657

Funding for legal assistance services in the 2015–16 Budget is generally consistent with recent trends. Funding for legal aid commissions returns to recent levels, after taking account of large (but temporary) additional funding provided in the 2011–12 to 2013–14 budgets. 658 It is difficult to determine the long-term trend in funding for Indigenous legal aid, due to recent program amalgamation and name changes.

**Changes to funding arrangements for legal aid services and legal assistance services**

The Australian 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 (National Partnership), which was extended by one year to 30 June 2015. 659 The Government has stated it will negotiate a new National Partnership which, in addition to continuing to providing funding for legal aid services, will also ‘transfer Commonwealth funding for Community Legal Centres to the states’. 660

In 2015–16 the Australian Government will provide $250.9 million funding for both legal aid services and legal assistance services through the new National Partnership. 661 Whilst this is an increase of $46.5 million from 2014–15, much of that increase appears to be attributable to the re-direction of funding previously provided to the Attorney-General’s Department (AGD) for community legal services to the states and territories via the new National Partnership. These had not previously been covered by the National Partnership agreement. 662 The forward estimates indicate that funding will increase by a total of $6.2 million over the 2015–16 Budget levels in 2016–17, before returning in 2017–18 and 2018–19 to a funding level similar to that provided in 2015-16. 663

Figure 1 below shows payments for the provision of legal aid services to states and territories between 1994–1995 and 2018–2019, noting that the increase from 2015–16 is due in part to the expansion of the new National Partnership agreement to include funding for community legal services. 664

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Funding appropriated to the AGD for legal aid commissions (programme 1.4 – ‘Justice Services’) has been renamed ‘Expensive Commonwealth Criminal Cases Fund’. The decrease from 2015–16 is primarily due to a 2014–15 budget measure ‘Legal aid—withdrawal of additional funding’. However, the funding provided in 2015–16 and over the forward estimates represents a return to levels similar to that provided prior to the 2011-12 Budget revisions (as discussed in Budget Review 2014-15) as the table below demonstrates.

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<td>$3,881</td>
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In contrast to legal aid commissions, funding provided to the AGD for community legal services (programme 1.4 –‘Justice Services’) is expected to drop sharply (compared with recent levels) as set out in the table below. However, the reason for the decrease given by the Government is that from 2015–16 ‘the majority of funding

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previously provided to the Department for community legal services will be provided through national partnership agreements with the states and territories.  

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<td>2013–14 Budget</td>
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<td>2014–15 Budget</td>
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*estimated actual from Portfolio budget statement 2015–16: Attorney-General’s Portfolio.

**Indigenous legal assistance services**

As noted in *Budget Review 2014-15*, changes to some Indigenous program names, their transfer to the Department of the Prime Minister and Cabinet, subsequent consolidation and the lack of detail in relevant portfolio budget papers makes assessing long-term funding trends difficult.

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 the 2014–15 and 2015–16 Budget are treated as equivalent and compared in the following table:

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<td>2013–14 Budget</td>
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* estimated actual from Portfolio budget statement 2015–16: Attorney-General’s Portfolio.

This would tend to indicate that funding for at least some Indigenous legal aid programs will increase slightly, compared to previous budget trends.

**Reaction from stakeholders**

The Law Council of Australia (LCA) expressed mixed views over the 2015–16 Budget, stating that whilst the continued level of funding for legal assistance was welcomed ‘an absence of additional legal aid funding’ was disappointing and would ‘have an immediate impact on access to justice’. Likewise the Law Society of Western Australia stated that whilst it welcomed the decision ‘not to make funding cuts to Legal Aid’ it was disappointed at ‘the lack of increases nationally’ that in its view will ‘put further pressure on Community Legal Centres and courts’. The Australian Bar Association also expressed support for the ‘halt to legal aid funding cuts’ but noted that it was ‘deeply concerned’ about how money will be distributed under the new National Partnership Agreement and concluded that:

The reality is that the 2015 Budget failed to deliver the crucial reform and long term security of funding for justice we desperately need.


673.  Law Council of Australia (LCA), *Small business changes a boon for law practices, but legal aid freeze will hurt access to justice*, media release, 13 May 2015.


675.  Australian Bar Association (ABA), *ABA supports State & Territory calls to address inadequate legal aid ahead of Friday meeting in Canberra with AG*, media release, 20 May 2015.
In contrast, the Law Society of New South Wales offered qualified support for the 2015–16 Budget, noting that it had raised its concerns about the ‘under-resourcing of the legal assistance sector’ for some time, but was hopeful that ‘funds announced in the Budget indicate a willingness by the Federal Government to ensure adequate and ongoing funding for legal aid services more generally’. 676

Reaction from the states and territories to the proposed changes to the quantum of funding and the funding arrangements for community legal services has been largely negative, with the attorneys-general from the ACT, New South Wales, Victoria, South Australia, Queensland and Tasmania expressing concern at the ‘significant reduction in the funding’. 677

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Abolition of the Administrative Review Council

Moira Coombs

The Government has announced that the Administrative Review Council (ARC) will be abolished, with residual functions to be managed by the Attorney-General’s Department. The National Commission of Audit had recommended in 2014 that the ARC be consolidated within the Department.

The Minister for Finance, Mathias Cormann, noted that, as part of the fourth phase of the Smaller Government Reform Agenda, the Budget would further reduce the number of government bodies by 35 to ensure that the public sector is as streamlined, effective and transparent as possible. The Administrative Review Council is one such body. This is part of the efficiencies to be made in the Attorney-General’s portfolio, which will save $54.2 million over five years from 2014-15.

The ARC was established in 1976 as a key element of the administrative review system. The functions and powers of the ARC are set out in section 51 of the Administrative Appeals Tribunal Act 1975. The ARC is recognised as having ‘played an important role in the development and maintenance of the system as a check on the unchallenged exercise of executive power’.

The ARC consists of the President, the Commonwealth Ombudsman, the President of the Australian Human Rights Commission, the President of the Australian Law Reform Commission, the Australian Information Commissioner and at least three, and not more than 11, other members.

The ARC came into existence through amendments proposed to the Administrative Appeals Tribunal Bill 1975 by the then Liberal–Country Party Opposition. John Howard considered the proposal to establish the ARC a matter of particular importance, while Bob Ellicott noted:

Another basic and far sighted amendment which the Opposition will press is to establish an administrative review council and so implement another recommendation of the Kerr Committee. This council would consist of officials, including the president, the ombudsman, the chairman of the Law Reform Commission, a senior administrative official and a parliamentary draftsman. It would enable a permanent and informed consideration of the process of administrative and judicial review. It would review further discretions to see whether they were appropriate for review by the administrative appeals tribunal. It would have a small staff to assist it.

At the first meeting of the Council on 15 December 1976 Bob Ellicott, as Attorney-General, noted that the role of the ARC was:

... to ensure that our system of administrative review is as effective and significant in its protection of the citizen as it can be.

The current role of the ARC is to:

... monitor and provide advice to the Government in relation to Commonwealth administrative review. The “monitoring” function arises from the nature of the administrative review system, and the several institutions that perform different but complementary review functions. The Council contributes to maintaining the integrity of the entire system by ensuring that, as laws and government decision making processes change, the various administrative review mechanisms continue to perform appropriate, effective and complementary functions.

As envisaged by the Kerr Committee, the Council examines existing and new administrative decision making powers in Commonwealth legislation, and assesses the availability of review of decisions made under those powers. The
Council also conducts larger projects that deal with broader issues of change, such as corporatisation and contracting out of government services.688

In a recent press report Professor George Williams noted that the ARC is ‘like the law reform council, it may not be glamorous, but it plays an essential role’. Further:

Professor Williams said moving its independent functions to the department was “not an appropriate substitute.” 689

Another report notes that the decision to abolish the ARC ‘will be hotly contested’. 690

The ARC is currently funded from the budget of the Attorney-General’s Department, which has sole responsibility for the Council’s expenditure.691 However, the annual reports for the Department do not include specific figures quantifying the support provided to the ARC.692 Although the ARC is required to provide an annual report to the Minister for tabling in Parliament, it appears that ARC has not done so since the 2011–12 financial year.693

688. Attorney-General’s Department (AGD), Australian administrative law policy guide, AGD website, 2011, p. 18.
Countering terrorism and violent extremism
Cat Barker

Although countering terrorism and violent extremism was not a feature of the 2014–15 Budget, the Government announced a $630 million counter-terrorism funding package in August 2014, detailed in the Mid-year economic and fiscal outlook 2014–15 (MYEFO)\(^{694}\). The 2015–16 Budget provides a further $326.4 million (including $88.9 million beyond the forward estimates) for counter-terrorism and broader national security measures, most of which will go to the Australian Secret Intelligence Service (ASIS)\(^{695}\).

As outlined in Table 1 below, the bulk of the MYEFO funding was allocated to intelligence, law enforcement and prosecution agencies. While little has been made public about the funding for intelligence agencies, specific measures in the package included:

- $13.4 million to prevent and counter radicalisation and involvement with extremist groups (including $1.6 million for the Living Safe Together Grants Programme)\(^{696}\)
- $50.7 million for measures relating to ‘foreign fighters’, including a Community Diversion and Monitoring Team, local and regional liaison officers and two new investigative teams for the Australian Federal Police and a ‘multi-agency disruption group’, as well as $24.4 million to establish a Foreign Fighters Task Force comprising 22 investigators and analysts in the Australian Crime Commission\(^{697}\)
- $50 million for the Australian Customs and Border Protection Service to establish counter-terrorism units at Australia’s eight international airports, $34.8 million to expand Advance Passenger Processing systems and $13.7 for additional Airline Liaison Officers\(^{698}\)

| Table 1: Counter-terrorism funding in the MYEFO 2014–15 |
|---------------------------------|---------------------------------|---------------------------------|
| **Intelligence agencies ($m)** | **Law enforcement and prosecution agencies ($m)** | **Others ($m)** |
| Australian Security Intelligence Organisation | 196.1 | Australian Federal Police | 77.3 | Attorney-General’s Department | 37.8 |
| Australian Secret Intelligence Service | 126.3 | Australian Crime Commission | 24.4 | Department of Immigration and Border Protection | 55.1 |
| Office of National Assessments | 6.1 | Australian Customs and Border Protection Service | 99.6 | Inspector-General of Intelligence and Security | 3.2 |
| | | Australian Transaction Reports and Analysis Centre | 20.0 | Office of Parliamentary Counsel | 0.6 |
| | | Commonwealth Director of Public Prosecutions | 3.2 | Department of Health | 0.2 |
| Totals($m) | 328.5 | 224.5 | 96.9 |

Source: J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2014–15

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694. T Abbott (Prime Minister) and G Brandis (Attorney-General), New counter-terrorism measures for a safer Australia, media release, 5 August 2014; T Abbott (Prime Minister) and G Brandis (Attorney-General), Counter-terrorism measures for a safer Australia, media release, 26 August 2014; J Hockey (Treasurer) and M Cormann (Minister for Finance), Mid-year economic and fiscal outlook 2014–15 (MYEFO 2014–15).

695. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16, 2015. This total does not include funding for implementation of mandatory telecommunications data retention or national security measures in the Defence and Immigration and Border Protection portfolios, which are covered by separate articles in Budget review 2015–16, ‘Telecommunications data retention’, ‘Defence overview’ and ‘Border protection and counter-people smuggling measures’. Included in the Government’s total of $1.2 billion for national security are the funding for ASIS and the Independent National Security Legislation Monitor outlined in this article, data retention and Defence operations Afghanistan, Iraq and the Middle East.


697. Counter-terrorism measures for a safer Australia, op. cit.; M Keenan (Minister for Justice), $24 million to establish Australian Crime Commission’s Foreign Fighters Taskforce, media release, 2 September 2014.

698. T Abbott (Prime Minister) and P Dutton (Minister for Immigration and Border Protection), Transcript of doorstop, media release, 25 March 2015; S Morrison (Minister for Immigration and Border Protection), New measures at our borders to protect against terrorist threat, media release, 10 September 2014.
The additional funding in the 2015–16 Budget comprises:

• $295.8 million over six years ($206.9 in the first four) for ASIS to improve its capabilities, including updating information and communications technology systems.

• $21.7 million over four years for the Combating Terrorist Propaganda in Australia measure initially announced by the Attorney-General in February 2015. This will fund social media monitoring and analysis capabilities, work aimed at reducing extremist material online, a portal for members of the public to report extremist material and assistance to community groups for work with vulnerable individuals.

• $7.6 million over four years for the Office of National Assessments and $0.7 million over four years for the Inspector-General of Intelligence and Security, by exempting those agencies from the Efficiency Dividend (partially implementing a recommendation of a review of counter-terrorism machinery that reported in January 2015).

• $1.3 million over four years to continue funding the Independent National Security Legislation Monitor, which the Government previously sought to abolish.

The Government states that it has tripled investment in countering violent extremism (CVE) from around $3 million per year to ‘more than $40 million over four years’. However, the amount allocated to these measures remains low in comparison to the additional funding allocated to intelligence and law enforcement agencies in the 2014–15 MYEFO and 2015–16 Budget. The time it has taken to put these measures in place also stands in contrast to the speed with which the Government moved to enact the tougher counter-terrorism laws in the second half of 2014. Some Muslim community leaders and counter-terrorism experts have expressed concern at what they see as an imbalanced response, with disproportionate resources directed to reactive measures such as law enforcement and prosecution at the expense of prevention and intervention.

The Government’s own review of counter-terrorism machinery recognised the value of CVE and recommended the Government ‘significantly boost’ CVE activities, including seeking agreement from the Council of Australian Governments (COAG) to a new CVE strategy in 2015. The review report noted that without the right preventative measures in place, resource pressures on operational agencies would continue to grow. There may be more to come on this. COAG agreed in April 2015 to develop a new national counter-terrorism strategy ‘with a strong focus on countering violent extremism’, with further discussions to take place following a ‘special retreat’ for COAG participants in July 2015.

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706. Ibid., p. 30.

Telecommunications data retention
Cat Barker and Jaan Murphy

After a long and chequered history, legislation to introduce a mandatory telecommunications data (sometimes called ‘metadata’) retention scheme was passed by both Houses of Parliament in March 2015. Several aspects of the scheme have been the subject of extensive debate since it was first officially proposed by the previous government in May 2012, including its cost and how much of it should be met by government. The Abbott Government was criticised for introducing legislation to establish the scheme before determining its cost, and for its reluctance to disclose certain information about estimated costs, on which it had commissioned a report from Pricewaterhouse Coopers (PwC). The 2015–16 Budget includes $153.8 million over four years to ‘support the implementation and ongoing management’ of the data retention scheme, including $131.3 million over three years for telecommunications service providers. However, important questions remain unanswered, including the basis on which the Government has estimated the costs of establishing and maintaining the scheme, and how funding will be distributed across the various service providers.

Cost estimates

Estimates of how much the scheme will cost have varied widely. Initially this was partly due to a lack of clarity around what data was actually to be retained and what sort of requirements the Government might impose in terms of the security of the data. As those parameters became clearer, service providers became less willing to publicly disclose their estimates, citing commercial sensitivity.

The Government has not publicly released the PwC report. It has disclosed the estimates it contained, which incorporated advice from service providers and government agencies. But in the absence of the assumptions underlying the modelling, it is not possible to determine how reliable they are.

PwC estimated the upfront capital costs to industry to be between $188.8 million and $319.1 million, and the Government has estimated the total upfront and ongoing costs associated with the scheme over the first ten years to total $738 million. Industry groups say they are still working with the Government on implementation arrangements, and that the actual costs are not yet known; the Internet Society is concerned they have been ‘significantly underestimated’.

Who pays for what

Described by the Government as a ‘substantial contribution’, the $131.3 million in the Budget for telecommunications service providers is to help them ‘meet their initial capital costs of retaining a limited set of metadata for a period of two years’. Based on PwC’s estimate, this will cover approximately 40–70 per cent of those costs.

In its February 2015 report, the Parliamentary Joint Committee on Intelligence and Security (PJCIS) generally endorsed the conclusion of the 2005 Blunn Review that service providers should bear the capital cost of developing and incorporating capabilities, and government agencies the costs associated with individual requests for data. However, in light of concerns about the potential cost impact of the scheme, particularly on
smaller providers, the PJCIS recommended that the Government make a ‘substantial contribution’ to the upfront capital costs faced by providers. 717 It also noted that it expected current arrangements, under which providers can recover the costs of complying with requests for data from agencies on a ‘no profit, no loss’ basis, to continue. 718 However, those cost recovery arrangements relate to the costs of complying with individual access requests, not those associated with retaining the specified dataset for two years. On the basis of estimates provided by the Government, that cost would be somewhere between $418.9 million and $549.2 million over the first ten years of the scheme. Industry has signalled that costs not met by government will be passed on to consumers. 719

Distribution of funding for telecommunications service providers

Based on evidence to its inquiry, the PJCIS recommended that the model for the Government’s contribution to upfront costs:

• provides sufficient support for smaller service providers, who may not have sufficient capital budgets or operating cash flow to implement data retention, and privacy and security controls, without up-front assistance;
• minimises any potential anti-competitive impacts or market distortions;
• accounts for the differentiated impact of data retention across different segments of the telecommunications industry;
• incentivises timely compliance with their data retention obligations;
• provides appropriate incentives for service providers to implement efficient solutions to data retention;
• does not result in service providers receiving windfall payments to operate and maintain existing, legacy systems; and
• takes into account companies that have recently invested in compliant data retention capabilities in anticipation of the Bill’s passage. 720

The Government supported the recommendation, but has not detailed how it expects to meet those objectives. 721 Industry has called on the Government to outline how the funding will be allocated across the hundreds of providers subject to the scheme, stating that how it is dispersed is just as important as the amount. 722

Oversight

The legislation establishing the data retention scheme also expanded the Commonwealth Ombudsman’s role in overseeing access to telecommunications data by law enforcement agencies, the additional cost of which the PJCIS recommended the Government should cover. 723 The Budget provides additional funding of $6.7 million over four years for that purpose. It also allocates $4.2 million over four years for the Privacy Commissioner to monitor the privacy implications of the scheme and measures in the Counter-Terrorism Legislation Amendment (Foreign Fighters) Act 2014. However, only $1.1 million of that amount is new funding.

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718. Ibid., pp. 181–3.
719. N Brew, op. cit.; Internet Society Australian Chapter, op. cit.; Communications Alliance, op. cit.
721. G Brandis (Attorney-General) and M Turnbull (Minister for Communications), Government response to committee report on the Telecommunications (Interception and Access) Amendment (Data Retention) Bill 2014, media release, 3 March 2015.
Australian Public Service staffing and efficiencies

Philip Hamilton

Efficiency measures and targeted savings

In place for over 25 years, the efficiency dividend (ED) is an annual funding reduction for Australian government agencies, in general applied only to ‘departmental’ expenses. The ED has usually been applied at a rate of either 1.00 or 1.25 per cent; in some years governments have increased the rate, with the highest ED rate being four per cent. The 2015–16 Budget provides that, as efficiencies are increasingly being sought from targeted, known areas of inefficiency in specific agencies, from 2017–18 the Government will return the ED to a base rate of one per cent, subject to ongoing monitoring.724 The Budget does not specify the ED rate over 2015–17; in 2013 the previous Government set the ED at 2.25 per cent for 2014–17, and in the 2014–15 Budget the current Government increased the rate by a further 0.25 per cent for 2014–15, 2015–16, and 2016–17.725

The proposed reduction in the ED will be welcomed by public service managers and commentators who have long argued that, after more than 25 years, there are few substantial savings to be achieved by a blunt instrument such as the ED, and that the ED has placed particular burdens on smaller agencies.726

The Government’s use of targeted savings began in the 2014–15 Budget, with the targeting of agencies’ communications and public affairs functions.727 Specific targeted savings identified in the 2015–16 Budget include:

- $31.4 million over two years from 2017–18 by consolidating agencies’ Enterprise Resource Planning Systems; that is, agencies’ ‘back-office’ IT systems.728 This is consistent with a recommendation of the National Commission of Audit in 2014, and the example of the current Shared Services Centre (SSC), which provides services to the Education and Industry departments and some of their portfolio agencies.729
- An expansion of coordinated procurement arrangements for ICT products and services, including software licensing, for estimated whole-of-government net savings of $13.7 million over four years from 2015–16.730
- $55.1 million over four years from 2015–16 in the Human Services portfolio by ceasing, from 1 July 2015, the payment to the Australian Taxation Office for the Child Support Lodgement Enforcement Programme, and by changing mechanisms for payments by Centrelink, Medicare and the Pharmaceutical Benefits Scheme.731
- $13.2 million over five years will be sought through efficiencies to arts and cultural programmes administered by the Australia Council, Screen Australia and the Attorney-General’s Department (AGD). Savings of $54.2 million over five years from 2014–15 will also be achieved through a reduction in departmental funding for AGD and efficiencies in a range of administered programmes. Current funding levels will be maintained for the Family Relationship Services Programme, Grants to Australian Organisations Programme, the Australia New Zealand Counter Terrorism Committee, and payments to the International Criminal Court. There will also be a redirection of funding for discretionary legal assistance to ensure a more targeted approach.732

The Government has also commenced Functional and Efficiency Reviews to determine whether the functions of departments and large agencies are aligned with the Government’s policy priorities, and whether they are working as efficiently as possible. Two such reviews have examined the departments of Health and Education and Training. As a result, in Health the Government expects net savings of $96 million through efficiencies in contracting, corporate, staff and property costs. Education and Training is to achieve savings of $131 million by ceasing and redesigning programmes; $7.6 million of this is in the operations of the department.733 After the

731. Ibid., p. 115.
Budget, further recommendations from the Education and Training review will be considered, focussing on the department’s administrative costs. In 2015–16, Functional and Efficiency Reviews will be undertaken of the departments of Agriculture, the Environment, Foreign Affairs and Trade, Treasury, Attorney-General’s and Social Services, as well as the Australian Taxation Office and the Australian Bureau of Statistics.734

Funding for whole-of-government measures

The 2015–16 Budget includes expenditure measures that are significant for the whole public service. The Budget provides $254.7 million over four years from 2015–16 to the Communications portfolio to support the initial implementation of Digital Transformation Agenda (this includes savings redirected from other portfolios—$120 million in over five years from 2014–15).735 The first phase of the Agenda will include: improved myGov services; a Digital Service Standard to make services faster and easier to use; and a new service to simplify the process of registering a business.736 In addition, funding of $106.8 million over four years is allocated to establish a whole-of-government grants administration process.737 The Digital Transformation Office (DTO) will be established as a new Executive Agency in the Communications portfolio, with $95.4 million over four years from 2015–16, although staffing levels for the DTO are yet to be determined.738

Extending a measure in the 2010–11 Budget, the Department of Finance will be funded to further redevelop the Central Budget Management System (CBMS) that underpins the budget and financial management of the Government. The financial impact of this measure is not disclosed.739 Delays in the CBMS project have been canvassed at Senate Estimates.740

Staffing

From September 2013 to February 2015 over 17,300 public servants left the Australian Public Service, with the Government providing $212 million to 38 agencies to assist with redundancies.741 In 2015–16, reductions in staffing levels are expected in a number of portfolios, notably a net reduction of some 1,000 ASL as the Defence Materiel Organisation is merged into the Department of Defence.742 Relatively significant reductions will also occur at the Australian Broadcasting Corporation and the Bureau of Meteorology. Staffing at the Clean Energy Finance Corporation is projected to reduce from 54 to 30 ASL, anticipating the abolition of the Corporation from 31 December 2015.743

The 2015–16 Budget forecasts that, for 2015–16, total staffing will return to the level last recorded in 2006–07 as measured across the General Government Sector (GGS) excluding military personnel and reserves: the total ASL for 2015–16 is estimated to be 167,340, but this may drop depending on further Functional and Efficiency Reviews and efficiency measures through 2015.744 Notably, this is very close to the total ASL for 2014–15 (167,411 ASL). Overall, staffing reductions will be offset by temporary increases in particular areas, for example, in the ABS.745

734. Ibid.
745. Ibid., p. 134. 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.
746. Budget measures: budget paper no. 4: 2015–16, op. cit., pp. 129, 133, 135, 139 and 141. A Bill to abolish the Corporation has been in the Senate since March 2014.
747. Total ASL for 2006–07 is estimated to be 167,596: ibid., p 131. The General Government Sector comprises departments and agencies that provide public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. Australian Government, _Budget measures: budget paper no. 1: 2015–16_, 2015, p. 9-33.
More broadly, the recruitment ‘freeze’ introduced in November 2013 will end. From 1 July 2015, agency heads will be able to recruit without seeking approval from the Australian Public Service Commission, although this will be subject to ongoing monitoring by the Commission. 746

**Enterprise agreements**

The salaries of the majority of public servants are determined in agency enterprise agreements. In general, the agreements made in 2011 included a nominal expiry date of 30 June 2014. 747

New workplace bargaining arrangements were released in March 2014. In December 2014, the Prime Minister made a commitment that ‘no public sector worker will be paid at a higher rate of increase than our defence forces.’ 749 At that time, the offer to defence personnel was 1.5 per cent per year (later increased to two per cent); for the public service, the December 2014 Mid-Year Economic and Fiscal Outlook statement noted the Government’s ‘intention to keep average annual wage rises across the public service to 1.5 per cent or less over the next three years’. 750 In contrast, the major union representing public servants is seeking a 4 per cent pay increase each year. 751

Early in May 2015, it was reported that ‘most [agencies] are offering a pay increase of about 1 per cent a year’ and that no new enterprise agreements had been signed. 752 In an escalation of the apparent stand-off in negotiations, on Budget day the public sector union commenced a series of stop-work meetings that will affect a number of agencies. This prompted media coverage predicting that the APS ‘is facing its worst industrial strife for 30 years.’ 753

According to the Opposition, the 2015–16 Budget provides that public sector wages will increase by only 1.49 per cent by 2018–19, which is less than inflation. Suggested consequences include a wage freeze or ‘thousands more public sector workers sacked by 2018–19.’

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746. Ibid., p. 129.
Smaller Government agenda

Philip Hamilton

Last year’s Budget introduced the Government’s Smaller Government agenda, which was characterised as a three-stage process for reducing the size of government through closures, mergers and consolidations of functions of government organisations. The first stage comprised the Machinery of Government changes following the 2013 election, and initiatives in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2013–14 statement, with measures such as the amalgamation of AusAID and the Department of Foreign Affairs and Trade. The second stage was the 2014–15 Budget, and the third was the MYEFO statement of December 2014. With the fourth round of the agenda in the 2015–16 Budget, Smaller Government appears to have become an ongoing ‘business as usual’ function, expanded to include a number of other efficiency-related objectives in addition to reducing the size of government.

For example, the Government has commenced Functional and Efficiency Reviews to determine whether the functions of departments and large agencies are aligned with the Government’s policy priorities, and whether they are working as efficiently as possible. Two such reviews have examined the departments of Health and Education and Training. The Government estimates that, including savings from the Health and Education reviews and further efficiencies in the Attorney-General’s Department and the Department of Immigration and Border Protection, Smaller Government announcements in the 2015–16 Budget will deliver $497 million in savings, and will take total savings from the Government’s Smaller Government agenda to $1.4 billion. In 2015–16, Functional and Efficiency Reviews will be undertaken of the departments of Agriculture, the Environment, Foreign Affairs and Trade, Treasury, Attorney-General’s and Social Services, as well as the Australian Taxation Office and the Australian Bureau of Statistics.

A fifth stage of Smaller Government measures has been foreshadowed for the MYEFO statement due around December 2015.

Reducing the size of government

In the 2015–16 Budget the Government announced a further reduction in the number of government bodies by 35, which brings planned reductions to 286 since the 2013 election. In general, the current round of changes can be characterised as ‘mergers and transfers’ (where bodies will be consolidated, or where functions will be performed by another body), and ‘abolitions’ (where a body will cease). In some cases, for example the Defence Materiel Organisation (DMO) and the Bureau of Resource and Energy Economics, both a transfer of function and an abolition are involved.

Mergers and transfers

Mergers and transfers of function have occurred, or will occur, in the following portfolios:

- in Defence, the core functions and funding of the DMO will be transferred to the Department of Defence.
- in Immigration, the Australian Customs and Border Protection Service and the Department of Immigration and Border Protection (DIBP) will be consolidated into a single department; the Office of the Migration Agents Registration Authority function will be consolidated into DIBP; and the Office of the Migration Agents Registration Authority Advisory Board will be replaced by a non-remunerated independent reference group.
- in Industry and Science, the functions of the Bureau of Resource and Energy Economics are now being performed by the Department of Industry and Science (DIS); the CSIRO Marine National Facility Steering Committee will become a subcommittee under the CSIRO Board; the function of the CSIRO Environment Strategic Advisory Committee has been reallocated by CSIRO; IIF Investments Pty Ltd and its assets have been transferred to DIS; and the functions of the Consumer Advocacy Panel have been transferred to Energy

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756. Ibid.
758. Agency resourcing: budget paper no. 4: 2015–16, op. cit., p. 2. Not all of the previously announced abolitions have been fully implemented. For example, the Government has decided not to proceed with the abolition of the National Security Legislation Monitor, and bills to abolish the Clean Energy Finance Corporation, the Office of the Australian Information Commissioner, the Australian Charities and Not-for-profits Commission and the Australian Renewable Energy Agency are currently under consideration by Parliament.
Consumers Australia (established by the South Australian Government on behalf of the Council of Australian Governments’ Energy Council).

- in Education and Training, the Office for Learning and Teaching Strategic Advisory Committee will be replaced with a program to be administered by the university sector.
- in Agriculture, the Freshwater Invertebrate Pests Subcommittee will merge with the Invasive Plants and Animals Committee.

**Abolitions**

The table below lists, by portfolio, bodies to be abolished. Any residual functions will be managed or performed by a relevant body that is not being abolished, such as the portfolio department.

**Table: Bodies to be abolished, by portfolio**

* Bodies marked with an asterisk have already ceased.

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<th>Agriculture</th>
<th>Environment</th>
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<td>Aquaculture Committee</td>
<td>Emissions Reduction Fund Expert Reference Group*</td>
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<td>Community Consultative Committee</td>
<td>River Murray Water Committee*</td>
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<td>Industry Liaison Committee</td>
<td>Water Act Review Expert Panel</td>
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<td>National Decision Making and Investment Working Group</td>
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<td>Statutory Fishing Rights Allocation Review Panel</td>
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<td>Attorney General’s</td>
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<td>ANU Section 68 Pty Ltd*</td>
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<td>National Indigenous Participation Trust</td>
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<td>National Indigenous Property</td>
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**Scoping studies into government business ownership options**

In addition to merging and abolishing agencies, the Government has commissioned scoping studies into future ownership options for a number of government businesses.

Following previously-announced scoping studies, the Government will retain ownership of the Royal Australian Mint in its current form, but will consult further before making a decision on Australian Hearing. Defence Housing Australia (DHA) will not be sold ‘at this time’, but DHA’s accounting, IT and business reporting systems will be reviewed to improve the transparency of the cost of providing services. A competitive tender process will be undertaken to test private sector capacity to upgrade and operating the registry services of the Australian

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761.  M Cormann (Minister for Finance), *Smaller government—transforming the public sector*, op. cit.
Securities and Investments Commission.\textsuperscript{762} However, the Government will maintain ownership of the base data.\textsuperscript{763}

In 2015–16, scoping studies will make recommendations on the future ownership of the Intra-Government Communications Network (ICON) and the Australian Rail Track Corporation Ltd.\textsuperscript{764}

\textbf{Property portfolio and lease holdings}

Observing that there are significant maintenance and opportunity costs associated with continued ownership of surplus properties, the Government will progress divestment ‘where appropriate’.\textsuperscript{765}

Following a scoping study, the Government will retain ownership of the John Gorton Building and the Treasury Building ‘at this time.’\textsuperscript{766} However, investor interest will be sought in four other properties in Canberra’s Parliamentary Triangle: East Block (currently tenanted) and West Block (recently vacated), both near Old Parliament House; and, across Lake Burley Griffin, Anzac Park East (vacant for decades) and Anzac Park West (currently tenanted).\textsuperscript{767} All four of these properties, together with a separate Anzac Park West cafeteria building, are on the Commonwealth Heritage List.\textsuperscript{768} The Department of Finance will be provided with $4.8 million over two years from 2015–16 to implement these measures.\textsuperscript{769}

Following last year’s Budget measure to establish the Australian Emergency Management Institute as a virtual institute, Finance will be provided with $0.5 million over two years from 2015–16 for the divestment of the Institute’s property at Mount Macedon. For commercial confidentiality reasons, the Budget papers do not include the overall financial impact of selling the Canberra and Mount Macedon properties.\textsuperscript{770} The Government will also dispose of up to 23 properties across regional Western Australia, Queensland, South Australia and the Northern Territory that are surplus to the service delivery requirements of the Department of the Prime Minister and Cabinet (PM&C). In this case, the Budget papers anticipate a return of $10 million over four years from 2015–16.\textsuperscript{771}

In addition to divestment, large vacant legacy leases, which have previously been regarded as problems for individual agencies, will be handled through a whole-of-government approach that is estimated to save up to $200 million over 10 years. Priority will be given to reducing surplus office space in the ACT by tenanting with agencies that have similar requirements and upcoming lease expiry dates.\textsuperscript{772} Pre-Budget media coverage noted concerns that a large and long-term Belconnen tenant, the Department of Immigration and Border Protection, would move to another part of Canberra as part of its merger with the Australian Customs and Border Protection Service.\textsuperscript{773} Just before the Budget the Minister for Finance stated that the ‘long-term accommodation needs of the Department of Immigration and Border Protection and local impacts will be considered’.\textsuperscript{774}

\textsuperscript{762.} Budget measures: budget paper no. 2: 2015–16, op. cit., p. 93.

\textsuperscript{763.} M Cormann (Minister for Finance), Smaller government – transforming the public sector, op. cit.

\textsuperscript{764.} Ibid. ICON is a secure network connecting 97 government agencies in Canberra. The network is 882 km long, comprising approximately 160,000 km of fibre optic cables. ICON is provided by the Department of Finance on a cost-recovery basis, reportedly at ‘about a tenth of the cost of commercial cable.’ Senate Finance and Public Administration Legislation Committee, \textit{Official committee Hansard}, 24 February 2015, p. 97.

\textsuperscript{765.} Agency resourcing: budget paper no. 4: 2015–16, op. cit., p. 4.

\textsuperscript{766.} M Cormann (Minister for Finance) and M McCormack (Parliamentary Secretary to the Minister for Finance), \textit{Getting best value from Commonwealth properties}, media release, 11 May 2015.


\textsuperscript{768.} Department of Finance (DoF), \textit{Heritage Register}, DoF website.

\textsuperscript{769.} Budget measures: budget paper no. 2: 2015–16, op. cit., p. 10; M Cormann (Minister for Finance) and M McCormack (Parliamentary Secretary to the Minister for Finance), \textit{Getting best value from Commonwealth properties}, op. cit.


\textsuperscript{771.} Ibid., p. 200. The PM&C sales appear as Capital measures, whereas the Canberra and Mt Macedon sales on pp. 10–11 are Revenue measures—the reason for this apparent inconsistency is not clear from the Budget papers.

\textsuperscript{772.} Agency resourcing: budget paper no. 4: 2015–16, op. cit., p. 4.


\textsuperscript{774.} M Cormann (Minister for Finance) and M McCormack (Parliamentary Secretary to the Minister for Finance), \textit{Getting best value from Commonwealth properties}, op. cit.
Streamlined and targeted program delivery
The Government is also focussed on ‘eliminating wasteful fragmentation in service delivery and removing unnecessary complexity in rules.’ The 2015–16 Budget states that the skilled migration and temporary activity visa program will be simplified by consolidating the number of visa categories. Examples of measures undertaken prior to the 2015–16 Budget include, in the Social Services portfolio, the consolidation of 18 grants programs into seven and, under the Indigenous Advancement Strategy (IAS), the reorganisation of over 150 programs into five broad program categories. In addition, grants administration in the Department of Health has been consolidated into a single division. In a related measure, funding of $106.8 million over four years has been allocated to the Digital Transformation Office to establish streamlined grants administration processes.
Extra funding for the Australian Bureau of Statistics
Dr Nicholas Horne

The 2015–16 Budget provides an extra $234.7 million in funding for the Australian Bureau of Statistics (ABS) over five years from 2014–15 to ‘enhance the core capacity’ of the ABS; this includes $85.2 million in capital funding over the period. 780

ABS systems and infrastructure

The majority of the $234.7 million in extra funding, $219.6 million over 2015–19, is earmarked for a ‘business transformation programme’ involving process and systems change and statistics infrastructure investment, with the largest component of this ($151.9 million) to be spent in 2016–17. 781 Just over $11 million of the $234.7 million will be allocated over 2015–19 for the ongoing production of the input output tables that facilitate the national accounts. 782

The Government announced funding for ‘critically urgent upgrades to [ABS] ICT systems’ in advance of the Budget, and noted that the ‘current ICT infrastructure is highly vulnerable to failure and error … the ability of ICT staff to maintain the existing systems is becoming increasingly compromised’. 783 In 2013 the then Australian Statistician expressed concerns over the ‘wide range of ageing and fragile business processes and supporting infrastructure used by the ABS’ together with the ABS’ ‘difficult capital position, which is barely adequate to ‘keep the lights on’’. 784 Similar concerns regarding ABS systems were expressed by then acting Australian Statistician in 2014. 785

The census

The Government has also confirmed the 2016 national census (the last census was conducted in 2011), envisaging that ‘more than two-thirds’ of those providing census data are expected to do so online. 786 Media reporting earlier in 2015 noted a possible move to a 10-year census together with a focus on greater digital completion. 787 The media reported criticism of a 10-year census cycle from the Opposition and research professionals, with leading demographers and other experts arguing that a 10-year census would constitute a ‘retrograde step’. 788

Agency resourcing

The 2015–16 Budget increases total ABS resourcing appropriations from $391.9 million in 2014–15 to $505.4 million in 2015–16; programme costs for the ABS are expected to rise over 2015–17 due mainly to the 2016 census and the business transformation programme. 789 The Government also intends to look to ‘new sources of revenue from sophisticated and commercial users of data and through better data services’; the Budget estimates revenue from other sources retained by the ABS under the Public Governance, Performance and Accountability Act 2013 (Cth), such as amounts offsetting costs in relation to activities or relating to asset sales, to be $44.2 million in 2015–16. 790 Average ABS staffing levels are forecast to increase slightly from 2,580 ASL in 2014–15 to 2,670 ASL in 2015–16. 791

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781.  Ibid. An additional $36.8 million is to be provided in 2019–20.
782.  Ibid.
783.  J Hockey (Treasurer) and K O’Dwyer (Parliamentary Secretary to the Treasurer), New investment to modernise the ABS, media release, 7 May 2015, pp. 1–2.
784.  J Hockey (Treasurer) and K O’Dwyer (Parliamentary Secretary to the Treasurer), New investment to modernise the ABS, media release, 7 May 2015, pp. 1–2.
785.  Ibid.
786.  J Hockey (Treasurer) and K O’Dwyer (Parliamentary Secretary to the Treasurer), New investment to modernise the ABS, media release, 7 May 2015, pp. 1–2.
789.  J Hockey (Treasurer) and K O’Dwyer (Parliamentary Secretary to the Treasurer), New investment to modernise the ABS, op. cit.
793.  J Hockey (Treasurer) and K O’Dwyer (Parliamentary Secretary to the Treasurer), New investment to modernise the ABS, op. cit.; Portfolio budget statements 2015–16: budget related paper no. 1.16: Treasury Portfolio, op. cit., p. 69.
Developing northern Australia

Rob Dossor

The Treasurer in his Budget speech announced a $5 billion Northern Australia Infrastructure Facility to address northern Australia’s need for infrastructure.792 This $5 billion forms part of the Government’s response to the yet to be released White Paper on Developing Northern Australia.793 A number of other measures included in the 2015–16 Budget also form part of the Government’s White Paper, including:

- positioning the north as a leader in tropical health
- improving northern cattle supply chains
- northern Australia infrastructure projects pipeline and
- northern Australia insurance premium taskforce measures.

All together the measures forming part of the White Paper included in the 2015–16 Budget total approximately $916.3 million over four years.

Background to Northern Australia package

Prior to the 2013 Commonwealth election the Coalition committed to producing a White Paper on the development of Northern Australia, within 12 months of an election.794 Preceding the White Paper was the Green Paper, as well as the Joint Select Committee on Northern Australia Inquiry into the Development of Northern Australia. Both the Green Paper and the Joint Committee Inquiry will inform the drafting of the White Paper.795

The Budget states that all the measures discussed in this article form part of the White Paper. The White Paper is not scheduled to be released until June 2015.796 It is unusual to announce a range of measures from a White Paper that has not yet been released.

Infrastructure deficiencies were identified as major issues in Northern Australia in both the Green Paper on Developing Northern Australia and the Joint Committee Inquiry on Developing Northern Australia Final Report.797 Infrastructure Australia’s Northern Australia Infrastructure Audit found, among other things, that:

- road maintenance backlogs are a feature of the northern road system
- the limited population and often small industry sizes of northern Australia can make it difficult to capture the infrastructure economies of scale that allow commercially viable infrastructure services at competitive prices and
- 70 per cent of premises in northern Australia received the lowest broadband quality rating in 2013.798

Budget related measures

A number of measures are included in the Budget to address these issues. The largest of these is the Northern Australia Infrastructure Facility. This facility will provide concessional loans up to $5 billion with the objective of increasing private sector investment in infrastructure in Northern Australia. Little else is said about this measure, other than the cost to the Government will be less than $5 billion. The cost of the loan facility will also be less than what is shown in Budget Paper No. 2. This is because the only expense that the Commonwealth will incur is the differential between the regular and concessional interest rates.

The Minister for Finance could not rule out mining companies making use of these loans to fund the building of mine related infrastructure.799

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792. J Hockey (Treasurer), Budget speech 2015–16.
793. The budget figures have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.
798. Infrastructure Australia, Northern Australia Audit: Infrastructure for a Developing North Report, January 2015, pp. 6–19.
Another measure will provide $101.3 million over four years to improve cattle supply chains in the north, with a particular focus on road infrastructure. CSIRO logistics modelling will be drawn on, as well as input from livestock transport and beef industry experts.

The other northern Australia infrastructure measure is the northern Australia infrastructure projects pipeline. This measure will provide $3.7 million over four years to develop a new infrastructure project priority list which will be informed by priorities identified by Infrastructure Australia Northern Australia Infrastructure Audit. This list will be developed by the Department of Infrastructure and Regional Development.

The northern Australia insurance taskforce measure will provide $2.1 million to establish a taskforce to assess ways to reduce home, contents and strata insurance premiums in northern Australia. This taskforce was first announced by Assistant Treasurer J Frydenberg on 30 March 2015. The affordability and availability of insurance was another issue outlined in both the Green Paper and in the Joint Committee Final Report. A similar measure was included in the 2014–15 Budget, which resulted in the establishment of an insurance comparison website for North Queensland. The Government has not indicated what direction will be taken although the establishment of a mutual insurer for cyclone cover or providing support to a reinsurance pool are said to be possibilities.

The Productivity Commission, in its Natural Disaster Funding Arrangements Inquiry Final Report, stated that ‘intervention in property insurance markets (either through direct provision of insurance or by providing pooling through reinsurance) is overwhelmingly ineffective.’

The Budget also includes a measure which will provide $15.3 million over four years to invest in research into exotic disease threats to Australia and the region. This measure is further discussed in the Foreign Affairs Overview of the Budget Review.

Commentary

Commentary has centred on the headline measure, the northern Australia infrastructure facility. Andrew Campbell of Charles Darwin University states that the northern Australia infrastructure facility could play a very useful role in supporting the smart development of Northern Australia if it uses evidence, especially from the Infrastructure Australia audit, undertakes transparent cost-benefit analysis and appraises projects using an independent expert body at arm’s length from government.

Laura Tingle of the Australian Financial Review considers the northern Australia infrastructure facility a ‘badly thought out initiative which may yet bite the Government.’ Tingle had earlier stated that the facility ‘will apparently give government guarantees or concessional rates to unspecified projects, with undefined priorities having been determined by undefined processes. It smacks of a very last-minute addition to the budget …’ A Crikey editorial says that ‘Northern Australia … [is] a costly distraction from our real infrastructure needs.’

Science and research funding

David Brett

The full state of science and research funding will not be clear until the release of the Department of Industry and Science’s Science, Research and Innovation Budget Tables (Tables) later this year. When the figures from last year’s Tables were calculated as a share of Gross Domestic Product (GDP), the 2014–15 science and research spending was seen to be the equal lowest since records started in 1978–79.809 Looking at the current budget, it appears that overall science and research funding, as a share of GDP, is likely to be the lowest on record.

National Collaborative Research Infrastructure Strategy and Sustainable Research Excellence

The National Collaborative Research Infrastructure Strategy (NCRIS) supports major research infrastructure and previously had its funding tied to the passage of the higher education reforms. However, in March 2015 Minister Pyne announced that funding for NCRIS would instead be found from offsets within the Education and Training portfolio.810 The 2015–16 Budget reveals that funding from the Sustainable Research Excellence (SRE) program has been redirected to fund the extension of NCRIS into 2016–17, pending the completion of a review of research infrastructure funding arrangements.811 The SRE program is intended to support the indirect costs of research - therefore this funding redirection is essentially transferring money that was for researchers and using it to support research equipment and infrastructure.812 This leaves a noticeable gap in the SRE funding profile, which raises questions about how such a large variation in funding for the SRE program will be managed.

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National Health and Medical Research Council and the Medical Research Future Fund

Research grants administered by the National Health and Medical Research Council (NHMRC) are the second largest area of spending for the Australian Government in science and research. Funding for medical research in 2014–15 is now estimated to be $74 million less than was expected in the 2014–15 Budget, with a further $10 million reduction in 2015–16.814 NHMRC research grant funding is not expected to exceed the 2014-15 funding level in any of the years in the forward estimates.

The anticipated establishment of the Medical Research Future Fund (MRFF) is expected to add $10 million in support of medical research in 2015–16; this funding has been brought forward from earnings that would otherwise not be available until 2016–17.815 Legislation is expected to be introduced to parliament to enable the MRFF to be established on 1 August 2015. Until the legislation is passed, it is unclear whether the MRFF will need to establish its own grant assessment infrastructure or if it will provide funds for the NHMRC to disburse; only in the latter case is the MRFF likely to be able to provide medical research funding in 2015–16. If the MRFF is able to provide funding in 2015–16 as specified in the Budget, it will only provide an additional $22,000 for medical research once the reduction in NHMRC research grants is factored in. The Treasurer’s claim of $400 million distributed from the MRFF over the forward estimates is supported by the Budget papers ($417 million). However, if the revised 2014–15 funding level is used as a baseline, the net medical research

809. Australian Broadcasting Corporation (ABC), Fact check: Science, research and innovation spending cut to ‘historic low’, ABC Fact Check, 7 October 2014.
812. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Portfolio budget statements 2015–16: budget related paper no. 1.5: Education and Training Portfolio.
funding will be reduced to $349 million by cuts to NHMRC grant funding, with most of the additional funding unavailable until 2018–19.\textsuperscript{816}

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**Australian Research Council**

Australian Research Council (ARC) grant funding in 2015–16 has been reduced by $86 million (9.8%) from 2014–15. There is a $35.6 million reduction in funding for the ARC Discovery program, which funds Australian Laureate Fellowships, Discovery Early Career Researcher Awards, Discovery Indigenous, Discovery Projects and Future Fellowships. $50.4 million has been cut from the ARC Linkage program, which supports ARC Centres of Excellence, co-funded research centres, Industrial Transformation Research Hubs, Industrial Transformation Training Centres, Linkage Infrastructure, Equipment and Facilities, Linkage Learned Academies Special Projects, Linkage Projects and Special Research Initiatives. Funding for both of these programs remains below 2014–15 levels over the period of the forward estimates.

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The Budget papers do reveal some additional funding is to be provided, including:

- $13 million to the Australian Synchrotron in 2016–17;
- $49.1 million over the forward estimates to the Australian Nuclear Science and Technology Organisation;
- $9.4 million for Antarctic research in 2015–16; and
- $15.3 million over the forward estimates for research into tropical diseases.

However, the Cooperative Research Centres program will be cut by a further $26.8 million over the forward estimates.

The Australian Academy of Science welcomed the extension of NCRIS funding to 2016–17, the anticipated establishment of the MRFF, and additional funding for the Australian Synchrotron, ANSTO, Antarctic and tropical medical research, but was critical of the cuts to university block grants and Cooperative Research Centres. It argued that, with the slowing of the mining boom, it was appropriate to direct additional funds into science, but that instead Australia’s future prosperity was at risk.\textsuperscript{820}

Science & Technology Australia described the 2015–16 Budget as “a mixed budget for science”, welcoming the anticipated establishment of the MRFF and the confirmation of the additional funding for NCRIS but disappointed that the funding was found by redirecting it from the SRE program. It described the cuts to the Cooperative Research Centres as “difficult to understand” and the budget as having “mixed and confusing messages ... for Australian science”.\textsuperscript{821}

\textsuperscript{816} J Hockey (Treasurer), \textit{Budget speech 2015–16}.

\textsuperscript{817} Budget paper no. 1: 2015–16, op. cit., p. 5-26.

\textsuperscript{818} Portfolio budget statements 2014–15, Education and Training Portfolio, op. cit., p. 178

\textsuperscript{819} Includes ARC Research Endowment special account


\textsuperscript{821} Science & Technology Australia, \textit{Some cuts, some lifelines in a mixed budget for science}, media release, 12 May 2015
Aged care
Alex Grove

This Budget introduces significant aged care policy changes, particularly for home care. The home care changes come with new implementation funding, but there are a number of savings measures in other related areas. This reflects the Assistant Minister’s commitment to continue with aged care reform while ensuring ‘sustainability in terms of taxpayer dollars’.822

Changes to aged care in the home

The most significant new measure is $73.7 million over four years to allocate Commonwealth funded Home Care Packages (HCPs) directly to consumers, rather than to providers as is currently the case.823 HCPs provide individually tailored care and support services to help older people remain in their own homes, at an estimated cost of $7.5 billion to the Government over the next four years.824 A certain number of HCPs are funded within each aged care planning region according to the aged care provision ratio.826 Home care providers currently compete for an allocation of packages through the Aged Care Approvals Round (ACAR), which they then offer to eligible consumers.827

Under this measure, from 1 February 2017 packages within each region will be prioritised and allocated directly to eligible consumers by My Aged Care Gateway.828 Funding for each package will be paid to the approved provider selected by the consumer.829 The measure is intended to increase competition and improve service delivery through increased choice for consumers, including the flexibility to change providers if they wish. It is also meant to reduce ‘red tape’ for providers who will no longer have to compete in the ACAR for home care places.830

A related measure, which has been announced but has not been funded in the Budget, is to explore options for combining HCPs and the Commonwealth Home Support Programme (CHSP) from 2018.831 The CHSP is an entry-level home support program that commences on 1 July 2015 and replaces a number of existing programs including the Commonwealth Home and Community Care (HACC) Program.832 Combining HCPs and the CHSP is intended to ‘make the aged care system easier for consumers to understand and further reduce regulation and red tape for providers.’833

These changes are in keeping with the Productivity Commission’s 2011 recommendation for a system of aged care entitlements in which ‘[i]ndividuals should be given an option to choose an approved provider or providers’,834 and were foreshadowed by the Assistant Minister in a key speech last November.835

Reaction

The reaction to the proposed home care changes has generally been positive. Catholic Health Australia (CHA) has welcomed the HCP changes as a first step towards ‘a consumer-driven aged care system’, while noting that the integration of HCPs and the CHSP may leave some service providers ‘alarmed at the prospect for yet further change.’836 COTA Australia (formerly Council on the Ageing) believes the changes will lead to older Australians
receiving better services, allowing them to remain in their homes for longer. Aged & Community Services Australia (ACSA), however, cautions that ‘strong supports and safety nets’ for disadvantaged older Australians should be maintained as the system changes.

**Savings measures**

A number of other policy measures in the Budget are forecast to produce small savings. These include:

- An increase in short term restorative care places (currently called transition care places) to help rehabilitate older Australians and reduce premature admissions to permanent residential care. This measure is anticipated to save $56.2 million over four years as the places will be included in the aged care provision ratio at the expense of an equivalent number of permanent residential places.

- Moving the Aged Care Complaints Scheme from the Department of Social Services (DSS) to the Aged Care Commissioner from 1 January 2016, for an estimated saving of $2.8 million over four years. This is in keeping with the Productivity Commission’s recommendation that consumer complaints should be handled by an independent agency, and has been welcomed by COTA who has ‘long called for a more independent complaints scheme’.

- Charging most residential aged care providers the full cost of accreditation services undertaken by the Aged Care Quality Agency, including site audits and unannounced visits, for a projected saving of $30.7 million over four years. The longer term aim is to move towards private market provision of accreditation services for aged care providers.

- Including rental income in the aged care means test for residents who rent out their former home and pay their accommodation costs by periodic payment, saving $26.2 million over five years.

Cuts have been made to two program funds: $20.1 million over four years to the Aged Care Service Improvement and Healthy Ageing Grants (ACSIHAG) Fund and $40.2 million over four years to the Aged Care Workforce Fund (ACWF). The latter cut has been described by ACSA as ‘poor policy when 55,770 additional [aged care] employees are required over the next eight years’. As promised, the $54.5 million that was cut when the Dementia and Severe Behaviour Supplement for residential care providers was ceased on 31 July 2014 has been restored as funding to establish Severe Behaviour Response Teams.

In this Budget, the Government is continuing with reforms intended to produce a consumer-led market for aged care, but also pursuing savings opportunities where possible.

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842. Productivity Commission, op. cit., p. 422.
843. COTA Australia, op. cit.
848. Ibid., pp. 148, 151.
849. Aged & Community Services Australia (ACSA), op. cit.
Domestic violence
Dr Matthew Thomas and Anna Dunkley

In March 2015, the Prime Minister described domestic violence as a ‘tragic and deadly epidemic’, and announced the establishment of a new Advisory Panel on violence against women.852 This followed a commitment by the Council of Australian Governments (COAG) at its latest meeting to take urgent collective action to address violence against women, the Victorian Government’s establishment of a Royal Commission into Family Violence, and a period of sustained media attention to the issue of domestic violence.853

Despite the recent public focus on domestic violence and calls for increased Government funding to support victims of domestic violence and violence prevention efforts, the Budget delivers a relatively minor amount of funding for a new national awareness campaign and does not increase funding for other national domestic violence initiatives. The Budget provides funding for community services grants, legal assistance and homelessness services, but this funding is short-term, continuing a cycle of funding uncertainty for these service providers.854

National Initiatives

The Australian Government’s strategy to tackle domestic violence in cooperation with state and territory governments is outlined in the National Plan to Reduce Violence against Women and their Children (the National Plan).855 Funding for the National Plan is provided under the National Initiatives program component of the Social Services portfolio, which was allocated a total of $119.5 million over four years.856 This is only slightly more than the $117.9 million that was allocated last year for the period 2014–15 to 2017–18.857

Similarly, the Budget does not provide any substantial new funding for the Office for Women. This Office, which is based within the Department of Prime Minister and Cabinet (PM&C), has responsibility for women’s policies and programs on gender equality, women’s economic empowerment and opportunity, safety and leadership. It has been allocated $3.6 million for 2015–16, only slightly more than the $3.5million it was allocated in 2014–15 and less than the actual spend for 2014–15 of $3.8 million.858

New funding was announced in March 2015 for the National Awareness Campaign to Reduce Violence Against Women and their Children. This new campaign is to receive total funding of $30.0 million over three years.859 The states and territories will contribute $15.0 million towards this total, and the Australian Government has allocated the remaining $15.0 million, as well as a further $1.7 million for administration costs.860 It is envisaged that the campaign will ‘drive nation-wide change in the culture, attitudes and behaviours that underpin violence against women and their children’.861

852. T Abbott (Prime Minister) and M Cash (Minister Assisting the Prime Minister for Women), National awareness campaign to reduce violence against women and children, media release, 4 March 2015. The membership of the advisory panel was announced on 14 May 2015. See T Abbott (Prime Minister) and M Cash (Minister Assisting the Prime Minister for Women), Advisory panel announced to reduce violence against women, media release, 14 May 2015. For information about domestic violence in Australia, see: J Phillips and P Vandenbroek, Domestic, family and sexual violence in Australia: an overview of the issues, Research paper series 2013–14, Parliamentary Library, Canberra, 14 October 2014.


854. In the interim report of its inquiry into domestic violence in Australia, the Senate Finance and Public Administration References Committee observed that funding uncertainty as a result of changed Department of Social Services grant arrangements has had a negative impact on the community services sector, reducing some organisations’ capacity to plan effectively and retain experienced staff. Senate Finance and Public Administration References Committee, Domestic Violence in Australia: interim report, The Senate, Canberra, March 2015, pp. 8–9.

855. COAG, National Plan to Reduce Violence against Women and their Children, p. 2.


859. T Abbott and M Cash, op. cit.


861. Ibid.
Community grants

As a part of the 2014–15 Budget, the Government introduced reforms to discretionary grants programs administered by the Department of Social Services. The reforms resulted in funding for community grants being reduced by $240.0 million over four years.  

Following the Budget, community service providers were asked to change their service offers in line with new criteria, and to submit bids for a share of the reduced funding that was available. A number of specialist family violence service organisations were advised that their bids had been unsuccessful. In January 2015, 27 of these organisations were offered four-month agreement extensions. Perhaps unsurprisingly, some stakeholders have argued that the changed funding arrangements have negatively affected service provision.

The Budget allocates $55.6 million over three years from 2014–15 to broadly ‘ensure continuity of front line community services as funding arrangements transition to the New Way of Working for Grants framework’. While a proportion of this funding will go towards services that provide general support for women and children experiencing domestic violence, it is not clear just how much will be targeted towards specialist family violence programs. That said, in April 2015, Minister for Social Services, Scott Morrison, announced the allocation of $15.7 million over two years towards the delivery of 27 specialist family violence services and eight family early intervention alcohol and drug services.

Legal Assistance

Legal assistance services play an important role in addressing domestic violence. The Australian Government’s 2013–14 Mid-year Economic and Fiscal Outlook included $43.1 million in savings over four years, achieved by removing funding for policy reform and advocacy for four legal assistance programs. This decision was to have affected community legal centres, legal aid and Indigenous legal services.

In March 2015, Attorney-General George Brandis announced that the Government would restore $25.5 million in legal support funding over two years. Accordingly, the Budget includes $12.0 million in funding for community legal centres and $11.5 million for the Indigenous Legal Assistance Programme. This budget measure will be offset by unspecified savings from the Indigenous area of PM&C and the Attorney-General’s Portfolio.

Homelessness

Domestic violence is a leading cause of women and children using homelessness services and women’s shelters. Funding for these services is provided through the National Partnership Agreement on Homelessness (NPAH) under the National Affordable Housing Agreement.

In March 2015, Scott Morrison announced the provision of $230.0 million to extend the NPAH until 30 June 2017. This decision is reflected in the Budget, which indicates that funding will be targeted towards

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862. Australian Government, *Budget measures: budget paper no. 2: 2014–15*, p. 197. The Senate Community Affairs References Committee is currently holding an inquiry into the Impact on Service Quality, Efficiency and Sustainability of Recent Commonwealth Community Service Tendering Processes by the Department of Social Services, which is due to report on 19 August 2015.


867. S Morrison (Minister for Social Services), *Coalition Government boosts funding support for vulnerable children and their families*, media release, 17 April 2015.


870. G Brandis (Attorney-General) and M Cash (Minister Assisting the Prime Minister for Women), *Legal aid funding assured to support the most vulnerable in our community*, media release, 26 March 2015.


874. Department of Social Services (DSS), ‘*Housing support*’, DSS website.
frontline services, focusing on women and children experiencing domestic and family violence and homeless youth.\textsuperscript{876}

The 2014–15 Budget provided $115.0 million to extend the NPAH for 2014–15.\textsuperscript{877} At the time, providers of homelessness services were concerned that there would be a crisis in service delivery should ongoing funding beyond June 2014 not be forthcoming. The one-year extension of funding followed a similar single year commitment of $159.0 million by the Gillard Government for the previous year.\textsuperscript{878} The 2014–15 Budget also discontinued funding rounds for homelessness research and peak bodies, a decision announced on 22 December 2014.\textsuperscript{879}

\textit{Comment}

Some commentators have criticised the Budget’s limited response to the issue of domestic violence. For example, Renee Carr, Executive Director of Fair Agenda, has argued that the Budget does not demonstrate a long-term commitment to tackling what the Government has itself described as a national epidemic.\textsuperscript{880}

It should be noted that following the Budget’s release, Scott Morrison and Michaelia Cash, Minister Assisting the Prime Minister for Women, announced that the Government would be providing an additional $4.0 million towards the 1800RESPECT hotline—a service that supports women who have experienced, or are at risk of, sexual assault or domestic violence.\textsuperscript{881} Morrison and Cash also suggested that the Government would have ‘more to say’ on domestic violence ‘in the near future’.\textsuperscript{882} The states and territories have a key role to play in tackling domestic violence and COAG will be drawing on the advice and recommendations of the Advisory Panel in developing means to address violence against women.

The key issue would appear to be the need for sufficient on-going funding for services to support women and children experiencing domestic violence. As Carr observes, an awareness campaign is ‘pointless’ without services to support women experiencing and leaving situations of domestic violence.

\textsuperscript{875} S Morrison (Minister for Social Services), \textit{Coalition reverses Labor’s funding cuts on homelessness with $230 million commitment prioritising victims of domestic violence}, media release, 23 March 2015.

\textsuperscript{876} \textit{Budget Measures: budget paper no. 2: 2015–16}, op. cit., p. 165.


\textsuperscript{878} M Butler (Minister for Housing and Homelessness), \textit{$159 million for national homelessness agreement}, media release, 18 March 2013.


\textsuperscript{881} S Morrison (Minister for Social Services) and M Cash (Minister Assisting the Prime Minister for Women), \textit{Abbott Government delivers funding boost for 1800RESPECT}, media release, 17 May 2015.

\textsuperscript{882} Ibid.
Early childhood education and care
Monika Sheppard

In the Budget, the Australian Government has responded to the Productivity Commission’s Inquiry into Childcare and Early Childhood Learning. The existing child care system will be reformed, with a new system implemented from 1 July 2016 to 1 July 2017. The budget measures providing for the new system are set out in the Government’s $4.4 billion Families Package and funding from existing programs will be absorbed into the new program structure.

The Families Package also includes continued funding to support the objectives of national partnership agreements (NPAs) that aim to enhance early childhood education and care (ECEC).

Families Package—key child care measures

A single Child Care Subsidy for mainstream services

Currently, the Australian Government provides financial assistance to eligible families to assist with the costs of child care via the means tested Child Care Benefit, the non-means tested Child Care Rebate, and the Jobs, Education and Training Child Care Fee Assistance programs. From 1 July 2017, these programs will be replaced with a single means tested Child Care Subsidy (CCS).

The CCS will cover 85 per cent to 50 per cent of eligible families’ actual or benchmarked fees (whichever is the lower). The maximum subsidy (85 per cent) will be provided to families with an annual income of $65,000 or less and the subsidy rate gradually tapers to 50 per cent for families earning around $170,000 or more. A cap of $10,000 in CCS per child, per year for families earning more than $185,000 annually will apply. Eligibility criteria include that families satisfy an activity test, with the number of subsidised child care hours dependent upon the number of hours spent in work, study, training or recognised volunteering each fortnight. Families earning below $65,000 annually, who do not meet the activity test, will be subsidised for up to 24 hours of child care each fortnight, while those who receive income support payments with participation requirements (for example, Newstart Allowance) will have their level of participation recognised under the activity test.

Since the Productivity Commission (PC) recommended a single means tested child care subsidy, much of the child care funding debate has focussed on how the rate of the subsidy would be calculated. Initial concerns regarding the hourly benchmark rate appear to have been resolved, with the Government adopting a higher rate—based on a projected average price plus additional loading for different service types—than that proposed by the PC, which was based on a median price for the relevant service type. The benchmark is intended to exert downward pressure on child care fees (by capping the level of subsidy available). However, Ben Phillips from the National Centre for Social and Economic Modelling warns that the long-term impact of the Government’s significant investment in child care expenditure will be inflation in child care prices.

Some in the ECEC sector have expressed concerns that the activity test will prioritise workforce participation objectives over the best interests of children. For example, Early Childhood Australia has argued that ‘it is often the children whose parents aren’t working that benefit the most from access to quality early learning’. The proposed activity test is designed to closely align the level of government assistance with parents’ level of work participation, while retaining some level of support to all families (as well as targeted support for disadvantaged and vulnerable groups). Minister for Social Services, Scott Morrison, has stated that ‘support for child care is not a welfare payment. It is a payment that makes the cost of child care affordable for families who need to be in work and choose to be’.

885. T Abbott (Prime Minister) and S Morrison (Minister for Social Services), Jobs for Families child care package delivers choice for families, media release, 10 May 2015; Budget 2015–16: families package, op. cit., p. 7.
886. T Abbott and S Morrison, op. cit.
887. Ibid. See also: S Morrison (Minister for Social Services), Address to Early Childhood Australia Forum, speech, 16 April 2015.
890. Early Childhood Australia, op. cit.
891. T Abbott and S Morrison, op. cit.
**Child Care Safety Net for non-mainstream services**

A new Child Care Safety Net program will be established to provide targeted support to disadvantaged or vulnerable families who encounter barriers to accessing child care. The new measure will partly replace the existing Inclusion and Professional Support Programme with a new Inclusion Support Programme from 1 July 2016; the existing Special Child Care Benefit with an Additional Child Care Subsidy from 1 July 2017; and the existing Community Support and Budget Based Funded programs with a new Community Child Care Fund from 1 July 2017. Some funding for these existing programs will be redirected to the Safety Net and the CCS.892

The Safety Net will have total funding of $869 million over three years: the Additional Child Care Subsidy ($156 million over two years), the Community Child Care Fund ($304 million over two years) and the Inclusion Support Programme ($409 million over three years).893 In general, this measure is consistent with PC recommendations aimed at reforming child care services for families with additional needs, although the PC recommended funding for operational capital costs be time-limited.894

**Uncertainty of the additional funding**

The Budget provides additional funding of $3.5 billion over the forward estimates: $3.2 billion in respect of the CCS and $327.7 million in respect of the Safety Net.895 This funding has been welcomed across the ECEC sector as an acknowledgement of the importance of investing in ECEC.896 However, the Government has linked the additional funding with Family Tax Benefit savings measures announced in the 2014–15 Budget which have stalled in the Senate.897

The Opposition, the Greens and most crossbench senators have warned that they will not support cuts to family payments to fund the child care measures, particularly Family Tax Benefit Part B (FTB-B), which provides support to single parent and single earner families.898 Some Nationals senators have signalled their opposition to the FTB-B cuts and that their support for the child care measures is contingent on more financial support for stay-at-home parents.899

**A pilot program for in-home services**

The Budget provides $246 million for an Interim Home Based Carer Subsidy Programme (Nannies Trial), a two-year pilot, commencing 1 January 2016, that extends child care fee assistance to in-home care provided by nannies.900 The pilot targets families who are not able to access mainstream child care services, such as emergency services and shift workers, and is expected to subsidise the cost of 4,000 nannies providing care to 10,000 children.901 Eligible families with income up to $60,000 will receive subsidies worth 85 per cent of the capped hourly rate ($7 per hour, per child), with the subsidy rate tapering to 50 per cent of the capped rate for families with income up to, and above, $165,000. Families with income over $250,000 per annum will not be eligible. With the typical hourly rate for nanny services estimated to be between $20 to $35 per hour, and the subsidy providing only a percentage of $7 per hour, the cost of nanny services is likely to remain prohibitive for many families.902

**National Partnership Agreements**

The key ECEC NPAs are those for the National Quality Agenda for Early Childhood Education and Care (NQAECEC) and Universal Access to Early Childhood Education (UAECE). The Budget provides $61.1 million over three years from 2015–16 to continue the Government’s support for implementation of the National Quality Framework.

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897. T Abbott and S Morrison, op. cit.


(NQF), and $843 million under the UAECE NPA for the 2016 and 2017 calendar years was previously announced.903

The NQAECCEC NPA provides a national system for the regulation and quality assessment of ECEC services. The NPA was reviewed in 2014—the final report may impact government funding in the next budget, as well as state and territory funding allocations which are yet to be determined for 2015–16 and over the forward estimates.904

The UAECE NPA is aimed at providing universal access to quality early childhood education programs for all children in the year before full-time school for 600 hours per year.905 While the 2015–16 Budget provides clarity for the short-term, the long-term future of the Australian Government’s funding for preschool programs is unclear.


Family payments
Michael Klapdor

New means testing arrangement for youth payments
As part of the Budget’s Families Package the Government has announced that it will remove the family assets test and the family actual means test that currently apply to dependent young people in receipt of Youth Allowance, ABSTUDY Living Allowance and the Assistance for Isolated Children Scheme. The parental income test that currently applies will also be aligned with the Family Tax Benefit Part A (FTB-A) income test. The stated aim of the measure is to provide more support for families with dependent young people, particularly rural and regional families with children undertaking post-secondary studies. The Government expects an additional 5,300 young people to qualify for Youth Allowance and 4,860 existing recipients will receive an increase in their payment rate. The measure is expected to cost $262.7 million over five years and will commence on 1 January 2016.

Currently, young people aged under 22 years who are considered financially dependent on their parents have both their own means as well as their family’s means assessed to determine eligibility for payments such as Youth Allowance. The family means-testing arrangement includes a parental income test, a family assets test and, in some cases, a family actual means test. Each test is designed to assess the level of resources a family can draw upon to support their dependent children, and income, assets or means over a certain level can result in a reduced payment rate or ineligibility for income support. The Budget proposes to remove any assessment of a family’s means other than their income. This will mean that children from asset-rich but income-poor families, such as farmers, will be more likely to qualify for income support or receive higher payment rates.

A separate change will see all Family Tax Benefit (FTB) eligible children included in the ‘family pool’ for the parental income test rather than just FTB children aged 16 or older and other children in receipt of income support. The parental income test assesses how many other dependent children are supported by the same parents’ income. The more children assessed as part of this process, the less an individual young person’s rate is reduced by their parent’s income. The changes to the ‘family pool’ arrangements will see 5,800 families become eligible for a payment and 13,700 families will receive a rate increase. Maintenance income will also be removed from the parental income test assessment and, from 1 July 2017, a separate maintenance income test will apply to these payments, similar to the way child support is assessed for FTB-A. These changes will see a reduction in payments for 850 young people.

There are few details as to how the new income test arrangements will work. The available information suggests it will be administratively simpler and less onerous on families, but at the cost of a less rigorous assessment of the resources families can draw upon and a less targeted youth payment system.

Abolition of the Large Family Supplement and the Low Income Supplement
Two separate budget measures will abolish supplementary payments for low-income families. The first measure will abolish the Large Family Supplement (LFS) paid to each family in receipt of FTB-A with three or more children, from 1 July 2016. The LFS is currently worth $321.20 per annum per child after the second-born child (that is, for the third and each subsequent child). Abolishing the payment is expected to achieve savings of $177.3 million over four years and follows a 2014–15 budget measure, passed by the Parliament, which will see the LFS paid only to families with four or more children in 2015–16. The LFS was introduced in 1996 to ensure the rate of payments for families with four or more children would be maintained following a reform of the family payment structure. The rationale for abolishing the LFS is for savings to be redirected to ‘repair the Budget and fund policy priorities’.

The second measure will abolish the Low Income Supplement and the Low Income Family Supplement (LIS/LIFS). These payments were introduced as part of the Clean Energy Household Assistance package, which

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906. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2015–16*


908. Ibid.


910. The Low Income Family Supplement (LIFS) is an administrative name for the Low Income Supplement (LIS) as it is paid to Family Tax Benefit recipients and to one member of a couple if eligible.
provided compensation for the introduction of a carbon price. The LIS/LIFS payments were compensation payments to low-income households who would not receive enough assistance through the tax cuts and changes to welfare payments included in the Household Assistance package to offset the average expected cost impact of carbon pricing. The basic rate of the LIS/LIFS is $300 per year.

At the 2013 Election, the Coalition committed to removing the carbon price while keeping the compensation measures introduced in the Household Assistance package. With the carbon price removed, it is questionable whether or not the LIS/LIFS is needed. However, abolishing the payment is inconsistent with the Government’s pre-election commitment. The measure is expected to achieve savings of $42.9 million over four years.

**Reduction in Family Tax Benefit Part A portability**

Savings of $42.1 million over five years are expected from a measure which will limit the period FTB-A can be paid while a recipient is overseas (known as the portability of the payment). No rationale has been provided for the measure other than the ‘savings have already been provided for by the Government’. Currently, FTB-A can be paid at the full rate for temporary absences overseas of up to six weeks and at the ‘base rate’ for a further 50 weeks (56 weeks in total). The measure will see the period for which FTB-A is payable while overseas reduced to a maximum of six weeks in a 12-month period. Some extensions and exemptions to this rule will apply, similar to current arrangements. A six-week portability period applies to many income support payments, but the cumulative cap on travel within 12 months is unusual, although similar to the four-week in 12 months general portability limit for Disability Support Pensioners (announced in the 2014–15 Budget and applying from January 2015).

**Status of 2014–15 family payment budget measures**

The 2014–15 Budget included an array of savings measures affecting different family payments—some have been implemented, but a number are yet to be passed by the Parliament. The measures that have passed commence from 1 July 2015 and include: limiting the FTB-A LFS to families with four or more children; removing the FTB-A ‘per child add-on’ to the higher income-free area for each additional child after the first; and reducing the primary earner income limit for Family Tax Benefit Part B (FTB-B) from $150,000 to $100,000 per annum. The measures that are yet to pass include (from 1 July 2015):

- pausing indexation of several FTB income test free areas for three years
- pausing indexation of the maximum and basic rates of FTB-A and the maximum rate of FTB-B for two years
- reducing the FTB end-of-year supplements to close to their 2004 values, and ceasing indexation
- limiting FTB-B to families with children under six years of age and
- Introducing a new FTB allowance for single parents receiving the maximum rate of FTB-A for each child aged 6 to 12 years, to partially make up for the loss of FTB-B.

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917. L Buckmaster and M Klapdor, op. cit., p. 10.

Changes to welfare system compliance and ICT systems
Don Arthur

Welfare Payment Infrastructure Transformation—Tranche one

The Government will provide $60.5 million over four years from 2015–16 for Tranche One of the Department of Human Services’ (DHS’s) Welfare Payment Infrastructure Transformation (WPIT) program.919

In April 2014, the Treasurer, Joe Hockey, said that the Government had no choice but to replace Centrelink’s information and communication technology (ICT) system arguing that problems with the system were affecting the quality of service to customers.920 According to the budget papers: ‘Changes to policy and processes over the past three decades have made the system extremely complex, inflexible, costly to maintain and difficult to ensure compliance’.921

According to DHS, this will be one of the world’s largest social welfare ICT system transformations. It is designed to:

• provide customers with faster, more connected and automated digital services
• give staff a modern ICT platform that makes it easier for them to do their jobs and
• position the Department to meet future policy needs of government.922

The Government expects the WPIT program to be completed in 2022. The work will be completed through multiple work packages with each stage expected to deliver tangible benefits to customers.923 The Treasurer has indicated that the total cost of the project will be in the billions.924

National Welfare Rights Network (NWRN) President, Kate Beaumont, has welcomed the WPIT program and said it should reduce the administrative burden on recipients and result in reductions in overpayments and debt recovery.925

DHS’s Income Security Integrated System manages income support payments and supports Centrelink’s customer service and compliance activities. The system relies on the Model 204 database management system, a system the Department of Social Security began using in 1983. At the time, Model 204 was the only product that could meet the Department’s performance and capacity requirements.926

Even as the number of Model 204 users around the world declined, Centrelink defended its continued reliance on the system.927 In 2009, DHS’s Chief Information Officer, John Wadeson, said Centrelink would only replace Model 204 if the Government wanted to move to a new welfare system model.928

In February 2015, the final report of the Reference Group on Welfare Reform (the McClure report) proposed a new income support model and explained that the Government would not be able to implement the reforms it recommended without replacing the ICT system.929

Strengthening the integrity of welfare payments

The Budget provides $204.9 million over five years to DHS to improve its capacity to detect and deter welfare fraud and non-compliance.930 Together with improvements in the capacity of other agencies such as the Office

920. J Hockey (Treasurer), Interview with Neil Mitchell, 3AW, transcript, 24 April 2104.
923. M Payne (Minister for Human Services) and S Morrison (Minister for Social Services), ‘Coalition IT reboot to drive welfare reform’, media release, 10 April 2015.
924. J Hockey, op. cit.
926. M Payne and S Morrison, op. cit.
of the Director of Public Prosecutions, the Government expects this investment to produce net savings of $1.5 billion over four years. 931

DHS expects to undertake 900,000 additional fraud investigations and compliance interventions over four years; an increase on recent years. 932 For example, in 2013–14, DHS:

- undertook 869,082 compliance interventions (which included early interventions, such as reminders to report information) resulting in 77,272 payment reductions and 101,331 debts raised
- undertook 27,632 reviews as a result of data matching with other agencies and
- conducted 3,107 investigations into fraudulent activity and referred 1,158 cases to the Director of Public Prosecutions (1,071 cases related to social security or family assistance payments). 933

In 2010, the Australian National Audit Office found that around 80 per cent of prosecuted welfare fraud in Australia related to a failure to declare or an under-declaration of employment income. 934

According to DHS, ‘a more streamlined and cost-effective approach will be used to manage inconsistencies in income tax payment summaries and income declared to the Department of Human Services during the 2010-2011, 2011–2012 and 2012–2013 financial years.’ 935

NWRN President, Kate Beaumont, argues that many overpayments are the result of errors rather than fraud: ‘The social security system is so complex that many people find it difficult to understand the rules and make errors which can lead to significant levels of overpayment,’ she said. 936

Beaumont also claims that language such as ‘welfare cops on the beat’ creates ‘the false impression that social security fraud is rampant’. As noted above, NWRN has welcomed the Government’s WPIT program as it is likely to reduce overpayments due to errors. 937

According to media reports, the Minister for Human Services, Marise Payne, has announced that the Government plans to appoint a senior Australian Federal Police office to lead a welfare fraud taskforce. According to Ms Payne, ‘The taskforce will analyse risk factors to identify geographic hot spots and lead the associated investigations of fraud and non-compliance.’ 938

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931. Australian Government, Fairness in tax and benefits, op. cit. According to Budget paper no. 2: budget measures, 2015–16, the savings over five years will be $1.7 billion.
Parental Leave Pay
Luke Buckmaster

One of the most contentious measures in the Budget is the decision to remove the ability for most individuals who receive paid parental leave from their employers to also access the Australian Government’s Parental Leave Pay (PLP) scheme. The measure would apply from 1 July 2016 and is expected to save the Government $967.7 million over four years from 2015–16. Savings from the scheme—$617.1 million in PLP payments by 2018–19—are reduced by taxation foregone on those payments of $250.0 million (net: $367.1 million). The Government has budgeted for $900,000 over four years in extra expenditure by the Administrative Appeals Tribunal, presumably to deal with disputes over PLP scheme eligibility.

In 2009, the Productivity Commission estimated that around half of employed mothers were eligible for paid maternity leave as part of arrangements negotiated with their employers. The measure will cost those affected who may have taken the maximum PLP entitlement over $11,500. According to the Government, ‘in cases where individuals get less generous parental leave entitlements from their employer, the Government will top up the amount paid to be equal to the full amount available under the existing scheme’.

Objectives of PLP

In proposing its government PLP scheme (later adopted by the Rudd Government), the Productivity Commission suggested that it could help achieve a range of commonly agreed objectives, including:

• generating child and maternal health benefits by increasing the time parents take away from work
• promoting the idea that parents can take time out from work for family reasons
• countering work participation disincentives for new parents posed by the tax/welfare system and
• increasing retention rates for business, with reduced training and recruitment costs.

Current PLP scheme

The current national PLP scheme, introduced by the Rudd Government in 2010, is paid to working parents of children born or adopted from 1 January 2011. To be eligible, persons must be primary carers and have incomes of $150,000 or less. They must also have worked at least one day a week for at least ten of the 13 months before the birth or adoption of the child.

Those eligible are paid for 18 weeks at the National Minimum Wage (currently $641.05 per week before tax). While PLP is paid from general taxation revenue, it is generally paid through the recipient’s employer. PLP is taxable income and does not include superannuation contributions. From January 2013, Dad and Partner Pay (DAPP), a separate two-week payment, paid at the National Minimum Wage, was made available to working fathers or partners.

In 2013–14, there were 144,255 recipients of PLP, and 72,975 fathers and other partners who took the full two weeks of DAPP. In 2014–15, PLP was expected to cost $1.9 billion and DAPP $94 million.

It appears likely that the measure introduced in this Budget will involve changes to provisions in the Paid Parental Leave Act 2010 relating to eligibility for PLP, such that those with access to employer paid parental (or maternity) leave paid above NMW would be prevented from accessing the government scheme.

940. Ibid.
941. Ibid.
943. 18 weeks multiplied by the current rate of payment of $641.05 (see later section on the current PLP scheme for details).
945. PC, op. cit., p. XIV.
**Rationale for change**

The Government says that the savings from the measure are intended to be used ‘to repair the Budget and fund policy priorities’.950

Its justification for the change has focused on the idea that the practice of accessing both employer-funded and government-funded parental leave amounts to ‘double dipping’ (that is, drawing income from two sources). Media reports have also recorded government ministers using (or agreeing with) terms such as ‘rort’, ‘fraud’ and ‘scam’ in connection with the practice.951 The ‘double-dipping’ measure was included in the Budget Overview’s featured ‘actions to strengthen the integrity of our welfare system’, along with measures aimed at detecting, investigating and deterring suspected welfare fraud and non-compliance.952 The Government has also justified the change in terms of the need to address the issue of ‘double-dipping’ public servants (though the measure is intended to apply to all employees, not just those who are government employees).953

**Comment**

In designing the PLP scheme, the Productivity Commission had envisaged that it would be possible to use it as part of an overall package to supplement an existing employer entitlement. It suggested that doing so would increase opportunities to extend leave and meet some or all of the objectives associated with PLP outlined above.954 This is highlighted by the Fair Work Ombudsman who lists ‘topping up’ an employee’s pay during the period of government-funded PLP to their full rate of pay as an option for employers wishing to offer a best-practice parental leave scheme.955 It also appears that the Government was intending to allow private employers to offer ‘top-ups’ to the far more generous PLP scheme (26 weeks paid at full income replacement up to a cap) it proposed at the 2010 and 2013 elections but which has since been set aside.956

On the other hand, removing the possibility of ‘double dipping’ could be seen as consistent with an underlying principle of Australia’s welfare system that government support be targeted at those most in need.957 This approach focuses on retaining incentives for private provision, with government payments seen more as a safety net. Indeed, these principles were the source for much of the opposition to the Government’s former PLP proposal. In this sense, the removal of ‘double dipping’ effectively redefines government paid parental leave as mainly a safety net scheme, marking a substantial change from the Government’s previous emphasis on PLP as a workplace entitlement.

There are questions about the extent to which this measure will effectively address the issue of ‘double dipping’ (or indeed achieve the proposed savings). For example, employer groups and unions have indicated that the Government’s plan may not eradicate ‘double dipping’ by those in private employment because many employers would offer their current benefits in different ways (for example, return-to-work bonuses), in order to enable their employees to continue to access the government scheme.958

According to government backbencher (formerly the Coalition’s Shadow Minister on the Status of Women), Sharman Stone, the measure will address the issue of some women receiving support who do not need it at the expense of many who do:

952.  ‘Welfare integrity measures’, op. cit.
954.  PC, op. cit., pp. XX–XI.
Clearly we are in a terrible dilemma because we have the worst of all worlds – it was extraordinary that some higher-paid women, particularly public servants, were able to access a generous employer-provided scheme and also collect $11,500, but for low-income earners it was not at all unreasonable for them to add to the minimalist national scheme to get a few more weeks at home with their newborn if that was all their struggling small business employer could afford.\footnote{L Taylor, ‘Liberal MP Sharman Stone attacks paid parental leave policy’, The Guardian, (Australian edition, online), 21 May 2015.}

Sharman Stone, who describes the current system as ‘cheap and mean’, has argued that the Coalition should attempt to negotiate a deal with the Opposition to find a way to offer more generous PLP benefits to low-income women.\footnote{Ibid.}
Pensions

Michael Klapdor

Dropped 2014–15 budget measures

The 2015–16 Budget confirms that the Government will no longer proceed with most of the 2014–15 budget measures affecting pension payments, including proposals to:

- index pension and pension-equivalent payment rates according to movements in the Consumer Price Index (CPI) only, rather than the current method which indexes pensions by the higher of increases in the CPI or the Pensioner and Beneficiary Living Cost Index (PBLCI), and benchmarks the rate against a percentage of Male Total Average Weekly Earnings (MTAWE)

- reduce the income test deeming rate thresholds, which affect how much income is deemed to be earned from certain assets, to the level at which they were set in 1996 and

- freeze CPI indexation of the pension income test free areas and deeming thresholds for three years.961

These three measures were to commence in 2017. The pension rate indexation measure was expected to save $449.0 million from 2013–14 to 2017–18 and the Parliamentary Budget Office estimated savings of close to $25.5 billion from this measure by 2024–25.962 Not proceeding with the other two measures will cost an estimated $217.1 million over the forward estimates period.963

The 2014–15 Budget’s proposal to increase the Age Pension eligibility age to 70 by 2035 has not been dropped.

Asset test changes

In place of last year’s proposed pension rate indexation change, the 2015–16 Budget introduces a new savings measure which will tighten the assets test for pension payments. The measure is expected to achieve net savings of $2.4 billion over five years which includes savings from the assets test change and the expense of dropping the 2014–15 Budget’s indexation change. The measure consists of two parts: raising the assets test thresholds and increasing the rate at which pension payments are reduced (known as the ‘taper rate’).

All income support payments are means tested under both income and assets tests. Both tests are used in calculating the rate of payment, with the one that results in the lower rate being the one that is applied. The assets test thresholds apply differently for allowances (such as Newstart Allowance) than they do for pensions (such as the Age Pension). For allowances, assets over these thresholds will mean a person is not eligible for the payment. For pensions, assets over the thresholds affect an individual’s rate of payment. Currently, every $1,000 of assets over the relevant threshold reduces an individual’s fortnightly pension payment by $1.50, so those with significant assets may only receive a part pension rate. The level of assets which would reduce a person’s fortnightly payment to zero is known as the asset test limit. The budget measure proposes to raise the assets test thresholds and increase the taper rate from $1.50 to $3.00 for every $1,000 in assets over the relevant threshold. This arrangement would be the same as that which applied prior to 2007. The last Howard Government Budget included a measure which halved the taper and, as a result, doubled the asset test limit.964

The following tables set out the current assets test thresholds and limits applicable in different circumstances and the thresholds and limits that would apply from 1 January 2017 under the Budget measure:

<table>
<thead>
<tr>
<th>Family circumstances</th>
<th>Current</th>
<th>From January 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Homeowners</td>
<td>Non-homeowners</td>
</tr>
<tr>
<td>Single</td>
<td>$202,000</td>
<td>$348,500</td>
</tr>
<tr>
<td>Couple (Combined)</td>
<td>$286,500</td>
<td>$433,000</td>
</tr>
</tbody>
</table>


963. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.

### Asset test limits for part pensions

<table>
<thead>
<tr>
<th>Family circumstances</th>
<th>Current Homeowners</th>
<th>From January 2017 Homeowners</th>
<th>Current Non-homeowners</th>
<th>From January 2017 Non-homeowners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$775,500</td>
<td>$547,000</td>
<td>$922,000</td>
<td>$747,000</td>
</tr>
<tr>
<td>Couple (Combined)</td>
<td>$1,151,500</td>
<td>$823,000</td>
<td>$1,298,000</td>
<td>$1,023,000</td>
</tr>
</tbody>
</table>

Sources: S Morrison (Minister for Social Services), *Fairer access to a more sustainable pension*, media release, 7 May 2015; Department of Human Services (DHS), *Assets*, DHS website.

Currently, around 1.4 million out of 2.4 million age pensioners receive the full-rate and only around 420,000 receive a part-rate under the assets-test. The new assets test arrangements will benefit a small number of pensioners with low-asset values (an estimated 170,000 will have their pension rates increased as a result of the threshold increasing) while those with significant assets could receive either a reduced payment rate or lose eligibility for their pension altogether (due to the steeper taper rate). An estimated 235,000 will have their payment reduced while 91,000 are expected to lose eligibility for the pension as a result of the changes. Those who lose eligibility for the pension as a result of this measure will be granted either a Commonwealth Seniors Health Card (CSHC) or Health Care Card (HCC) (depending on their age) to make up for the loss of their Pensioner Concession Card. The CSHC and HCC provide access to discounted medicines under the Pharmaceutical Benefits Scheme as well as some state and territory government funded concessions.

### Reaction

The Australian Council of Social Service has welcomed this budget measure describing it as a ‘modest step in the right direction’. COTA Australia, a peak body representing older Australians, also welcomed the measure but continued their call for a broad review of the ‘whole retirement space’ to address inequities, inefficiencies and waste.

### Comment

The measure will draw significant savings from the largest single component of budget expenditure (after payments to the states and territories), the Age Pension, with only those with significant assets affected. This will achieve the same goal as the proposed indexation measure in the 2014–15 Budget (that is, budget savings) while, unlike the dropped measure, only affecting a small minority of relatively wealthy pensioners. An array of academics and think tanks have called for more extensive changes to the assets test to encourage pensioners to draw upon their home equity in retirement to reduce their dependence on government payments and lower the cost of the Age Pension (more than $44.1 billion in 2015–16). However, with both the Government and the Opposition currently opposed to any changes affecting the family home, modest changes to the pension assets test, such as those proposed in this Budget, present the most achievable option for budget savings in this area.

### Changes for pensioners travelling or residing overseas

The 2015–16 Budget includes a measure which will affect the payment rates of pensioners who travel or move overseas. While most income support payments can only be paid for a limited period of time if a recipient is overseas (known as the portability of the payment), the Age Pension, Widow B Pension, Wife Pension and the Disability Support Pension (in special circumstances) can continue to be paid while a person is overseas indefinitely and even where an eligible pensioner chooses to reside in another country. However, if a pensioner is overseas for a period longer than 26 weeks, their payment rate may be reduced to a proportion of the time they spent in Australia between the age of 16 years and the age pension age. This period is known as their Australian Working Life Residence (AWLR). Those with less than 35 years AWLR will, after 26 weeks overseas, have their payment reduced to a rate equivalent to the proportion of 35 years their AWLR represents. For

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966. S Morrison (Minister for Social Services), *Fairer access to a more sustainable pension*, media release, 7 May 2015.
967. Ibid.
example, a person with 16 years of AWLR will receive 46 per cent of the rate otherwise payable if they resided in Australia. Those with 35 years or more AWLR residence will not have their payment reduced.

The Budget proposes to commence payment of the proportionalised rate earlier—after six weeks overseas rather than 26 weeks. The measure is expected to save $168.6 million over four years from 1 January 2017. The specifics of the savings (year and agency) were not provided with the budget papers, which simply stated that ‘savings for this measure have already been provided for by the Government’. Pensioners overseas at the time of the measure’s commencement will not be affected unless they return to Australia and make another trip overseas. The measure follows on from an increase in the AWLR required to receive a full pension rate from 25 years to 35 years which commenced on 1 July 2014.972

**New income test rules applying to defined benefit superannuation schemes**

The Budget also includes a change to the way in which income streams from certain defined benefit superannuation schemes are treated under the social security income test—the change is expected to realise savings of $465.5 million over five years. This measure will limit the proportion of superannuation income that can be excluded from the income test to ten per cent of the individual’s annual defined benefit payment from 1 January 2016. Currently, the amount that can be excluded, the ‘deductible amount’, is based on elements of the tax treatment of the particular defined benefit income stream. The Howard Government’s *Simpler Super* reforms in 2007 equalised the tax treatment of income streams from different defined benefit schemes but also saw some schemes benefit from a new tax-free component based on certain years of employment. This component is included in the deductible amount under the social security income test. The current arrangement has meant that some former state government employees and employees of large corporate firms have had a sizeable proportion of their actual superannuation income not included in their income assessment for the Age Pension.

The measure will ensure that a greater proportion of the income from defined benefit superannuation schemes is used to assess an individual’s need for income support—it is expected to affect around 48,000 people.973 Recipients of veterans’ pensions, such as the Service Pension, and/or defined benefit income streams paid from military superannuation schemes will be exempt from the measure.

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Waiting period for young people to access income support
Dr Matthew Thomas

As a part of last year’s Budget, the Government introduced a measure that would have imposed a six-month waiting period on a majority of new claimants of Newstart Allowance (NSA), Youth Allowance (Other)(YA(o)) and Special Benefit for those aged under 30 years. After six months in receipt of payment, these young people would have been excluded from income support for a further six months, with this cycle continuing until they gained employment, undertook full-time study or turned 30 years of age. Following strong community resistance to the proposed measure and its failure to pass the Senate, the Government has made some changes in this Budget.

Under the revised measure, a waiting period of four weeks would be applied to new claimants of NSA, YA(o) and Special Benefit for those aged under 25 years. As was the case under the previous measure, there would be some exemptions. The waiting period would be applied only to those new claimants judged to be the most work ready—that is, those job seekers who are classified as Stream A under the new jobactive employment services arrangements. Young people with dependent children and those assessed as requiring greater assistance to obtain employment or as having vocational issues and/or other forms of disadvantage would be exempt. It appears that the ongoing exclusion period component of the previous measure has been dropped.

From 1 July 2016, young people subject to the waiting period would be obliged to participate in a new RapidConnect Plus rapid activation strategy. This strategy would require participants to undertake a number of additional job search activities in the four weeks before they received income support.

The Government expects that the changes will result in costs in excess of $1.8 billion over five years. While the previous measure was not legislated, it was nevertheless budgeted. Hence, the costs are a result of the Government’s not proceeding with the previous measure and having to pay out an increased amount in income support under the new measure.

Rationale for the measure

According to the Government, the new waiting period measure ‘will set the clear expectation that young people must make every effort to maximise their chances of successfully obtaining work’. As such, the waiting period measure appears to be premised on the notion that many young people are either choosing, or likely to choose, to rely on government-provided income support, rather than attempting to find work. According to this argument, it is necessary to provide a disincentive to stop young people from becoming disengaged and reliant on government-provided support. The Government has chosen to create such a disincentive by withholding unemployment benefits and thereby forcing young people to increase their efforts to find work.

There are three main issues associated with this rationale.

First, there is no substantive evidence to suggest that young Australians lack the will to work. A number of surveys of young people show that a majority want to work or to work more hours, but face a number of barriers to their doing so. These include a lack of available jobs, particularly entry-level positions and full-time

976. See Department of Employment (DoE), jobactive, DoE website.
978. RapidConnect Plus operates on a similar principle to the existing Rapid Connect process, which seeks to connect job seekers with employment service providers as quickly as possible by obliging them to meet with their provider before they are able to receive their first income support payment. The Rapid Connect measure was introduced by the Howard Government as a part of the 2005–06 Budget’s Welfare to Work package. Australian Government, Budget measures: budget paper no. 2, 2005–06, 2005, p. 146. The idea behind this general approach is that connecting a job seeker with their employment services provider and making them actively seek work as quickly as possible both improves their prospects of finding a job quickly and does not give them a chance to become dependent on welfare.
980. Australian Government, Budget 2015: growing jobs and small business, p. 27.
work opportunities; not having the relevant experience, skills or qualifications required or the opportunity to acquire experience or training; and, employers who are unwilling to hire younger people. 982

Second, where young people are in receipt of income support, they must comply with the general requirements under the activity test, as well as other participation requirements, if they are to remain eligible for their payment. 983 In terms of job search requirements and monitoring, Australia’s eligibility criteria for unemployment benefits are some of the strictest in the OECD. 984

Third, the low rate at which NSA and YA(o) are paid is likely to prove sufficient incentive for many young people to find and accept work. This is the intention of these payments, whose low rates and strict eligibility criteria are calculated to provide a clear financial incentive for people to work or engage in training to boost their employability.

Risks and unintended consequences

While the waiting period measure is not nearly as severe as the previous budget’s measure, it nevertheless does not appear to have the support of Labor, the Greens, or a majority of the Senate crossbenchers. 985 Judging by recent media reports, much of the community services sector is opposed to the measure. 986

The main argument that has been raised against the proposed waiting period is that, although it has been significantly reduced, four weeks without access to income support would still place many young people in severe financial hardship. National Welfare Rights Network Policy Officer, Gerard Thomas, has insisted that the measure would ‘lead to greater levels of welfare dependency, not less’. 987

As has been noted in relation to the previous iteration of the waiting period proposal, withdrawing access to income support could have the unintended consequence of detracting from some young people’s ability to find and gain paid employment. 988 Some have argued that the low level at which NSA is paid (a base rate of $519.20 per fortnight for a single person with no children) already restricts recipients’ capacity to find paid work. 989 If young people subject to the proposed new waiting period are unable or unwilling to call upon family support or the assistance of charities, then they could lack sufficient means to find a job. Further, if they have no savings or other means of support, these young people would be more likely to be preoccupied with the immediate needs of paying for food and rent than with finding paid employment.

Comment

The imposition of an extended up-front waiting period for income support is a novel measure in international terms. The New Zealand requirement for some claimants of working age payments to undertake pre-benefit activities within a 28-day period has been compared to a one-month waiting period. 990 However, claimants who successfully complete the requisite activities within 28 days can receive their payments earlier and all eligible recipients will receive back pay to the relevant commencement date. 991

982. Ibid.
983. Under the Social Security Act 1991, all recipients of Newstart Allowance or Youth Allowance (other) must comply with the activity test and other participation requirements. This means that a person must be actively seeking and willing to undertake paid work that is suitable for that person.
985. On 14 May 2015, Senator Rachel Siewert moved ‘that the Senate calls on the Government to drop its ideological attack on young job seekers by withdrawing the budget measure that forces young people under 25 to wait one month before being able to access income support’. The motion was supported by a majority of the Senate. See: Australia, Senate, Journals, 94, 2015, pp. 2604–05. See also: J Macklin (Shadow Minister for Families and Payments), Abbott’s cut to young job seekers still unfair, media release, 13 May 2015. J Ireland, ‘Federal budget 2015: young unemployed will still go hungry, say agencies’, The Sydney Morning Herald, (online edition), 15 May 2015.
986. For example: J Ireland, op. cit.
987. Ibid.
990. See K Andrews (Minister for Social Services), New Zealand waiting period for benefits, media release, 23 September 2014.
If there could be said to be a ‘usual practice’ where it comes to withholding access to income support, it is to place time limits on receiving income support benefit. As such, in the absence of overseas precedents, it is unclear what the outcomes of the measure will be. While the waiting period has been significantly reduced from that of the previous measure, this has not allayed the concerns of many in the community services sector that the measure would result in a substantial number of young people experiencing financial hardship.

992. In the US, for example, time limits have been in place at the state level since the 1990s and, in 1996, a 60-month time limit was imposed on federally funded assistance for most families under the Personal Responsibility and Work Opportunity Reconciliation Act. See M Farrell, S Rich, L Turner, D Seith and D Bloom, Welfare time limits: an update on state policies, implementation and effects on families, The Lewin Group and MDRC, 2008.
Investment approach to welfare

Don Arthur

The Budget provides $33.7 million over four years to develop a new ‘investment approach’ to welfare reform and to fund longitudinal surveys to provide data to support the approach.993

The measure has two components. The Government will provide $20.7 million over four years to develop an annual actuarial valuation of the lifetime liability of Australia’s welfare system from 2015. This valuation will identify groups of people most at risk of long-term reliance on income support.

The Government will also provide $13.0 million over two years to support data collection needed for actuarial assessments. This funding will be used to maintain four longitudinal surveys (the Household, Income and Labour Dynamics in Australia data collection, the Longitudinal Study of Australian Children, the Longitudinal Study of Indigenous Children and the Longitudinal Study of Humanitarian Migrants) and to undertake a review of future longitudinal data needs.

The development of an investment approach was one of the recommendations of the review of Australia’s welfare system, A New System for Better Employment and Social Outcomes (the McClure Review).994

The investment approach to reform was originally developed by the New Zealand Government in response to a review on welfare dependency conducted by the Welfare Working Group, an independent group appointed by the New Zealand Government. The Government specifically asked the Working Group to look at the insurance industry for ideas on reform.995

What is an investment approach to welfare reform?

The investment approach is designed to rein in future spending on working age income support payments by:

• identifying recipients most likely to remain on income support for long periods of time and
• intervening early with these recipients to prevent long-term dependence on income support.996

The first step in the approach is an actuarial valuation that estimates the ‘future liability’ associated with current income support claims. Policymakers then identify interventions to reduce the future liability and prioritise these interventions by their expected return on investment (the amount they save relative to their cost). Policymakers can use periodic valuations of the future liability to measure progress.

The idea of using actuarial assessment to estimate a government’s future liability (or ‘forward liability’) comes from the insurance industry.997

The New Zealand experience

The New Zealand Government has commissioned four actuarial valuations (in 2011, 2012, 2013 and 2014) from Australian actuarial consultants Taylor Fry. The valuations attempt to isolate the changes in liability that result from factors that are under the program managers’ control and report significant progress as a result of the Government’s recent welfare reforms.998

Taylor Fry’s most recent valuation reports particularly strong results for two groups targeted by government—single parents and youth. The greatest impact on the future liability has come from single parents. The valuation

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993. The information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget paper no. 2: budget measures 2015–16.
report suggests that active case management enhanced the impact of new part-time work obligations for single parents with school-aged children.\footnote{999}{Ibid., p. 6.}

### Concerns about the investment approach

In a recent report on social services, the New Zealand Productivity Commission notes that ‘Slavish application of an investment approach might lead to perverse outcomes.’\footnote{1000}{Ibid., p. 190.} For example, if people who are obese die earlier, increased rates of obesity could reduce future health costs.\footnote{1001}{P van Baal, J Polder, G de Wit, T Hoogenveen, T Feenstra, H Boshuizen, P Engelfriet and W Brouwer, ‘Lifetime medical costs of obesity: Prevention no cure for increasing health expenditure’, \textit{PLoS Medicine}, 5(2), 2008.} If health policymakers relied on an investment approach designed around reducing future health costs they might decide to do little or nothing to discourage obesity.\footnote{1002}{Ibid., pp. 190–1.}

There is some risk that an investment model could have perverse effects if implemented in Australia. For example, some highly successful interventions could be ruled out by the investment approach because the benefits they provide flow to program participants and the broader community rather than to the Treasury.\footnote{1003}{For example, it is often argued that intervening in early childhood is a most cost-effective way to prevent adult disadvantage. The US High/Scope Perry Preschool Program is widely regarded as one of the most effective early childhood interventions ever evaluated. L Schweinhart, J Montie, Z Xiang, W Barnett, C Belfield and M Nores, \textit{The High/Scope Perry Preschool study through age 40: summary, conclusions, and frequently asked questions}, High/Scope Educational Research Foundation, 2005.} Others could be ruled out because cost savings accrue to other Australian Government portfolios or to state or territory governments (for example, savings due to reductions in homelessness or crime).\footnote{1004}{For example, the largest savings and benefits to government from the US High/Scope Perry Preschool were associated with the justice system and increased taxes on earnings. G Parks, \textit{The High/Scope Perry Preschool Project}, \textit{Juvenile Justice Bulletin}, US Department of Justice, October 2000.} Based on the New Zealand experience, the largest returns on investment are likely to come from applying work requirements to groups who have not been subject to activity tests in the past. International evaluations suggest that the interventions most likely to produce a positive return on investment are ‘work first’ interventions rather than those that attempt to invest in recipients’ human capital and improve their earning ability.\footnote{1005}{D Greenberg, V Deitch and G Hamilton, \textit{Welfare-to-work program benefits and costs: a synthesis of research}, MDRC, February 2009.}

In New Zealand, the feasibility study by Taylor Fry warned that the investment approach would only deliver the economic and social benefits that policymakers intended if savings were achieved by moving people into work. Simply reducing eligibility for benefits could result in higher levels of homelessness and other socially costly problems.\footnote{1006}{Taylor Fry, \textit{Actuarial advice of feasibility: a long-term investment approach to improving employment, social and financial outcomes from welfare benefits and services}, report for the Ministry of Social Development and The Treasury (New Zealand), 27 October 2011, p. 12.}

There are also concerns that an investment approach could exacerbate the problem of ‘parking’ in the employment services system.\footnote{1007}{‘Parking’ occurs when a person is referred to an employment services provider but receives little or no assistance.} The Australian Council of Social Service (ACOSS) argues that the approach is biased towards investments in young people and could lead to less assistance being provided to older jobseekers.\footnote{1008}{Australian Council of Social Service, \textit{Submission to Review of Australia’s Welfare System}, August 2014, p. 74.}

New Zealand researcher Simon Chapple argues that the welfare system has multiple goals that include equity objectives as well as cost savings.\footnote{1009}{S Chapple, \textit{Forward liability and welfare reform in New Zealand}, \textit{Policy Quarterly}, 9(2), May 2013.} Chapple argues that while a more conventional approach to evaluation, such as cost-benefit analysis, would capture a broad range of benefits, the investment approach ‘fails to value employment and social impacts of interventions in a rational fashion.’\footnote{1010}{S Chapple, \textit{Ibid.}, p. 61.}

The New Zealand Productivity Commission argues that while future welfare liability could lead to perverse effects in some cases, it is a reasonable proxy for the broader set of goals the community cares about.\footnote{1011}{Ibid., pp. 288–90.}
Income management

Don Arthur

The Budget includes funding for an extension of income management across Australia until 2017, and a trial of a new type of debit card as recommended by the Indigenous Jobs and Training Review (the Forrest Review). The Review recommended the new debit card arrangements as a simpler and cheaper alternative to current income management arrangements. 1012

Income management was first introduced in 2007 as part of the Howard Government’s Northern Territory (NT) Emergency Response and was initially restricted to Indigenous communities in the NT. 1013 Subsequent governments have expanded it to include Indigenous and non-Indigenous people across the NT and at a number of other sites around Australia. 1014

Income management sets aside (or ‘quarantines’) a proportion of a recipient’s income support payment to pay for necessities such as food, clothing, housing and utilities. Recipients can spend their income-managed funds using a BasicsCard or by arranging for Centrelink to make a payment on their behalf (for example, regular rental payments). 1015 Recipients can only use their BasicsCard at approved merchants and cannot use it to buy excluded goods, such as tobacco, alcohol, pornography or scratch lottery tickets. 1016

Income management does not operate uniformly across locations and target groups. Different locations target different groups for income management and different groups of recipients have different proportions of their payments set aside for necessities. 1017 Income management is part of a package of measures that currently includes access to Money Management courses, a Matched Savings Scheme and an incentive payment for people who volunteer for income management. 1018

Income management is a costly measure. From 2005–06 to 2014–15, it has cost the Commonwealth around $1.0 billion. 1019 The Forrest Review proposed a less costly approach that relies on bank issued debit cards. The Government is planning to trial this new approach (see below).

Income Management—two-year extension

The Government will extend income management in all current locations until 30 June 2017 under a measure providing $146.7 million over three years. 1020 Income management currently operates across the NT and in discrete locations in every jurisdiction except Tasmania and the Australian Capital Territory. 1021

As part of the extension of income management, the Government will also continue funding for Financial Counselling and Capability support services in existing income management locations for another two years.

The Government is phasing out two payments associated with income management—the Voluntary Incentive Payment and the Matched Savings Payment. The Voluntary Incentive Payment is designed to encourage people to volunteer for income management. Volunteers can receive a $250 payment for every six months they participate in the scheme. The Matched Savings Payment, of up to $500 for participants, is designed to encourage people on income management to complete an approved money management course and demonstrate a record of savings. Evidence from a recent evaluation of Place-Based Income Management suggests that neither measure is effective in changing client behaviour. 1022

1012. Forrest Review, Creating parity, Department of Prime Minister and Cabinet, Canberra, 2014, p. 28.
1015. Department of Human Services (DHS), About income management, DHS website.
1017. For details on the different income management models see individual evaluation reports at: Department of Social Services (DSS), Income management evaluations, DSS website.
1018. DHS, op. cit.
1020. The information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget paper no. 2: budget measures 2015–16.
1021. For a full list of locations see: Department of Social Services, Income management locations and map.
New debit card trial and industry consultation

In response to recommendations in the Forrest Review’s report, the Government will trial new debit card arrangements in up to three communities. The Government will decide on locations after consultations with stakeholders. Parliamentary Secretary to the Prime Minister, Alan Tudge, has indicated that trials could include both Indigenous and non-Indigenous communities.1023

The Government will provide $2.7 million in 2015–16 for consultation and engagement of the new debit card arrangements. Funding for the trial itself is not for publication because the Government has not completed negotiations with potential commercial providers.

The Forrest Review recommended introducing new debit card arrangements as a less costly alternative to current income management arrangements.1024 Andrew Forrest argued that a new debit card would allow recipients more choice about where to shop and that, because it would look like any other bank-issued debit card, would be less stigmatising than the BasicsCard.1025 The Review’s original proposal was to completely block access to cash for people using the new debit card.1026 However, Parliamentary Secretary to the Prime Minister, Alan Tudge, has indicated that most debit card users will be able to access part of their payment as cash.1027

The Forrest Review’s debit card proposal differs from the current income management system in a number of ways. These include:

• The debit card will rely on existing technology: the Forrest Review argued that the new debit card would be cheaper for government because it would rely on existing technology in the mainstream banking system. The current BasicsCard requires additional infrastructure including dedicated electronic kiosks in income management areas that allow recipients to check their balances.

• Merchants do not have to opt in: in the current income management system, merchants have to apply to the Department of Human Services (DHS) in order to accept payments through the BasicsCard.1028 Under the Forrest Review’s proposal, any merchant that accepts Visa and MasterCard with electronic and EFTPOS payment facilities would be able to accept payments made with the new debit card unless they had been excluded. The new debit card would automatically block purchases from certain merchant categories, such as alcohol and gambling outlets.

• The range of excluded goods may be narrower: the Basicscard cannot be used to purchase alcohol (or home brew kits or concentrate), tobacco products or pornography. There are also restrictions on the kinds of businesses that DHS will approve. According to the Forrest Review’s proposal, the new debit card would allow purchases at a wider range of merchants (including online merchants) and would only prevent purchases of alcohol, gambling and ‘illicit services’. As with the BasicsCard, the proposed debit card would prevent the purchase of gift cards.

In a submission to the Forrest Review, the Australian Bankers’ Association (ABA) opposed the proposal and warned that there were a number of technical challenges involved in its implementation. The ABA also stated that it does not ‘support using the banking industry to block access to cash or prohibit the purchase of goods and services available to other Australians’.1029

According to the ABA, one technical challenge is how to prevent income support recipients from buying alcohol at supermarkets and grocery stores that sell alcohol alongside other goods.1030 Merchants that accept payments by card are assigned a merchant category code (MCC).1031 It is relatively straightforward to block payments to all merchants in a category (for example, ‘package stores – beer, wine and liquor have an MCC of 5921). However, purchases of alcohol from supermarkets cannot be blocked using a MCC without blocking all purchases from

1024. Forrest Review, ibid., p. 102.
1027. A Tudge (Parliamentary Secretary to the Prime Minister), Doorstop 4 Treasury Place, Melbourne, transcript, 22 March 2015.
1030. Ibid.
1031. For a list of MCCs see: ANZ, ‘Commercial Cards Merchant Category Code Controls’, [form].
supermarkets (‘grocery stores and supermarkets’ have an MCC of 5411). One alternative is to rely on supermarket checkout operators to identify restricted cards and refuse to allow customers to purchase alcohol.

In March 2015 Alan Tudge said that the Government had been consulting with the banks about how the technology could work.\(^{1032}\)

\(^{1032}\) A Tudge, ‘6PR Perth, interview with Gary Adshead’, transcript, 23 March 2015.
Workforce participation measures
Dr Matthew Thomas

Youth Employment Strategy

Unemployment among young Australians is significantly higher than that for the population as a whole, and has been rising since 2008 and the global financial crisis.1033 In response to this ongoing problem, the Government has introduced a Youth Employment Strategy, which is made up of range of measures aimed at increasing young people’s participation in education, training and employment and ensuring that they do not become long-term unemployed.1034 These measures include:

- $212.0 million over four years for intensive support services to be provided by a network of community-based organisations to early school leavers aged 15 to 21 years
- $13.5 million over four years to reinforce existing ‘earn or learn’ requirements, requiring early school leavers aged 15 to 21 years to study, actively look for work, or undertake a combination of the two and
- $105.7 million over five years for intensive support for vulnerable young job seekers who are at risk of long-term unemployment, including people with mental illness, young refugees and migrants and young parents.

The Budget also includes further, complementary measures:

- enabling access to the Youth Wage Subsidy for eligible job seekers aged 15 to 29 years after 6 months rather than after 12 months and
- $18.3 million over five years to expand work experience opportunities for people aged 18 years and over and provide them with a supplement to assist with the costs of participating in work experience.

The community sector has on the whole welcomed the Youth Employment Strategy. For example, the Brotherhood of St Laurence has stated: ‘we are pleased to see the Abbott Government has begun to take the necessary steps to tackle the steep challenge that youth unemployment poses to our nation and neighbourhoods’.1035 Similarly, the Australian Council of Social Service has described the Strategy as ‘a move in the right direction’.1036

Other measures

While the emphasis in this year’s Budget is on tackling youth unemployment, it does include other measures that seek to increase the employment participation of other groups vulnerable to unemployment, including mature age job seekers, parents and people with disability.

The Government has restructured the arrangements for providing wage subsidies by consolidating the four existing wage subsidy programs and establishing a single wage subsidy pool. The pool is funded as a part of the broad suite of jobactive employment services that are to commence on 1 July 2015, and is substantially made up of funding that has been redirected from other programs.

The measures improve access to the Youth Wage Subsidy (as noted above) and provide for more generous Tasmanian Jobs Program subsidies. They introduce a new wage subsidy stream for parents who receive income support payments and have participation requirements. Tasmanian Jobs Program subsidies are to be doubled to $6,500 from 13 May 2015, whilst $10,000 payments for the Restart Wage Subsidy are to be made available over

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1033. Australian Bureau of Statistics (ABS), Labour Force, Australia, Apr 2015, cat. no. 6202.0, ABS, Canberra, 2015. As Table 17 shows, as at July 2009, the end of the global financial crisis, the rate of unemployment among those aged 15 to 24 years was 11.9%. At April 2015, the rate was 13.6%.

1034. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2015–16.


12 months rather than the current 24 months. These changes have been introduced in response to the low take-up rate of subsidies under both of these programs.

The Budget provides $24.9 million over four years for a new job seeker compliance measure. The first part of the measure extends the application of existing ‘No show, No pay’ sanctions. The second part allows for the suspension of income support payments of job seekers deemed not to have undertaken adequate job search efforts, and does not allow them to have the penalty waived by undertaking a compliance activity.

Typically, compliance measures result in savings due to the reduced amount paid out in income support payments. However, the anticipated savings of $6.9 million over three years to be realised as a result of the measure are more than offset by the expected cost of $31.6 million over four years, with a net cost of $24.9 million over four years.

Australian Greens Senator, Rachel Siewert, has criticised the measure, arguing that ‘if the government is going to spend $3 to earn just $1 back, it should be better invested on measures that genuinely help people to engage with, find and maintain attachment to work’. A spokesperson for Assistant Employment Minister, Luke Hartsuyker, is reported to have defended the cost, insisting that the government ‘is committed to reducing the costs and red tape burden for employment providers, and other organisations, of non-attendance by job seekers at appointments and activities’.

The Budget provides $25.2 million over four years for measures that seek to improve access to employment services for people with disability. The package is made up of:

- $9.0 million over three years to create a JobAccess Gateway—a central point for disability employment information and services
- $2.2 million over four years to extend Disability Employment Services (DES) to young people with a disability who are participating in post-school employment programs and
- $14.0 million over four years to allow people with a disability who are employed in Australian Disability Enterprises (ADE) to access DES support for up to two years to help them move towards employment in the open labour market. Currently, people must leave their ADE in order to access DES support.

The measures are to be funded through savings achieved by introducing a new benchmark under which DES providers are paid an outcome fee when job seekers who are assessed as having the capacity to work at least 23 hours per week gain this amount of work. Currently, providers receive an outcome payment where job seekers gain 15 hours work per week, despite having a greater assessed work capacity.

The disability sector would appear to be broadly supportive of the package of employment measures, with Craig Wallace, President of People with Disability Australia, describing it as the beginning of a long-awaited comprehensive jobs plan.

Comment

Following the cessation of funding for programs that fell under the National Partnership on Youth Attainment and Transitions (which focused on those aged 15 to 24 years and young people at risk) at the end of 2014, there have been no youth-specific employment-related government initiatives, with the exception of the Job Commitment Bonus.

The relatively successful and well-regarded Youth Connections program that provided...
individually supported young people at risk of not attaining Year 12 (or equivalent) education was one of the programs for which funding was not renewed. 1045

The emphasis in last year’s Budget was on activating unemployed young people through the use of coercive measures. The most severe of these was the measure which sought to introduce a six-month waiting period before payment commenced for a majority of Newstart Allowance (NSA) and Youth Allowance (YA) claimants aged under 30 years (this has been revised to a four week wait for under 25-year-olds in this year’s budget—see budget review article). In the face of sustained opposition to this measure from a number of quarters, and calls from the community sector for a new approach to assisting unemployed young people, the Government has developed the Youth Employment Strategy. 1046

The Strategy is well-structured and, indeed, best practice, inasmuch as it supports intensive interventions for disadvantaged young people who are at risk of becoming disengaged and long-term unemployed. 1047 The Budget’s emphasis on work experience, earlier access to the Youth Wage Subsidy, and coordinated regional support for young people at risk, is likely to assist some young people in moving towards employment.

A number of commentators have observed that the Strategy represents an important first step in tackling youth unemployment. 1048 If sustainable employment outcomes are to be realised for disadvantaged young people, however, then this is likely to demand ongoing intensive support for them, as well as more jobs and employers who are willing to hire young people. As such, much will depend on the success or otherwise of the Budget’s Growing Jobs and Small Business package. Should small business owners be unwilling or unable to employ young people, then an alternative strategy for increasing productivity and investment in jobs for young people may be required.


1046. The Brotherhood of St Laurence (BSL), which has an ongoing campaign on the issue of unemployment, has been especially active in pushing for policy action on youth unemployment. See BSL, ‘Youth employment – My chance, our future’, BSL website.


1048. For example, see: ProBono News, jobs and employment strategies a good start, media release, 13 May 2015.
Small business tax changes
Kai Swoboda

The 2015–16 Budget includes a number of tax measures that apply specifically to small businesses—defined in the tax system as an entity (however structured) that carried on a business with an aggregate annual turnover of less than $2 million—that will reduce tax payable.1050 The combined impact of these tax-related measures over the forward estimates is to reduce tax revenue by over $5 billion.1050

**Cut in tax rate on small business profits**

Small businesses, whether incorporated or unincorporated, will pay less tax on their profits from 1 July 2015. For incorporated small businesses—estimated to account for 36% of small businesses—this will be implemented by a reduction in the company tax rate from 30% to 28.5%. For small businesses that are unincorporated, this will be implemented by a 5% tax offset (equivalent to the reduction in tax rate for incorporated entities), but this is to be capped at $1,000 per individual for each income year.1051

The proposal to cut the company tax rate for small business has evolved from a proposal by the Rudd and Gillard Governments to bring forward by one year for small business a general cut in the company tax rate (with this measure linked to revenue from the Minerals Resource Rent Tax).1052 A favourable regime for small business was also an outcome of the Coalition’s policy to lower the company tax rate and to fund the (now dropped) paid parental leave scheme with an equivalent levy on big business—effectively providing for a tax cut for smaller companies only.1053

The favourable tax treatment of small business can be justified on efficiency grounds if there is evidence that they provide spillover (external) effects to the rest of the economy that are not fully captured by these entities.1054 However, special tax arrangements may distort choices including the structure of business organisation and commercial decisions about forms of expenditure. They may also result in economic inefficiency if they interfere with the market and result in the allocation of resources to small, less efficient, firms rather than to larger, more efficient, ones.1055

One distortion associated with the turnover-based small business threshold is a bias towards high margin activities.1056 For example, a business that sells large volumes of goods to generate a profit (such as a retailer) may have a much greater turnover than a business which delivers an expensive professional service to generate the same level of profit. The application of a lower tax rate to eligible small businesses may reinforce this bias and also be a disincentive to accelerating business growth as the business approaches the $2 million aggregate turnover threshold.1057

A lower tax rate for smaller companies was considered in a tax review (the Asprey review) conducted in the early 1970s.1058 The Asprey review did not support such an approach, noting that ‘one should not lightly introduce a new element of non-neutrality into the company tax system’.1059 Neither of the two major tax reviews since the Asprey review—the Ralph review (1999) and the Henry review (2009)—canvassed the issue of a different tax rate for small business.1060 However, this issue could be examined in the current tax review. The discussion

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1049. The definition used for a small business in the tax law uses an aggregate annual turnover of less than $2 million (Income Tax Assessment Act 1997, Section 328-110). Unless specified, the term ‘small business’ in this article refers to this definition.
1052. K Rudd (Prime Minister of Australia), *Stronger, fairer, simpler: a tax plan for our future*, media release, 2 May 2010; J Gillard (Prime Minister of Australia), W Swan (Treasurer) and M Ferguson (Minister for Resources and Energy), *Breakthrough agreement with industry on improvements to resources taxation*, joint media release, 2 July 2010.
1056. Taxpayers Alliance, ‘Preliminary #2015 budget thoughts: More tax, more spending, more deficits’, Taxpayers Alliance website.
paper for the review asked: ‘What other mechanisms (such as a single lower tax rate, improved technology deployment or other non-tax mechanisms) could assist small businesses to engage with the tax system while decreasing compliance and complexity costs?’

That said, a lower tax regime for small business is already part of the corporate tax regime in a number of OECD countries, including Canada, France and Japan. The OECD noted in a 2009 review of taxation arrangements for small business that ‘[t]he rate reduction may be targeted at small business income in a number of ways (in some systems only to firms satisfying a small business test, in other systems available to [small and medium-sized enterprises] and large firms but only up to some taxable profit limit), together possibly with other targeting criteria (e.g. profits from targeted business activities)’.

**Accelerated depreciation**

Small businesses will also be entitled to an increase in the threshold for the instant deductibility of assets from $1,000 to $20,000. This measure will apply to assets acquired and installed ready for use between 7.30 pm (AEST) 12 May 2015 and 30 June 2017. As part of this change, assets valued at $20,000 or more can utilise existing simplified depreciation arrangements and the ‘lock out’ regime preventing a small business re-entering the simplified depreciation will be suspended.

The increase in the threshold to $20,000 reverses the recent lowering of the threshold from 1 January 2014 from $6,500 to $1,000 as part of the repeal of measures that were linked by the former Government to the implementation of the Minerals Resource Rent Tax.

There is a broad literature on the economic impacts of accelerated depreciation, which has examined links between provisions for accelerated depreciation with economic growth, investment and innovation, with mixed views about their impact. This literature includes an analysis of a specific period of ‘bonus’ depreciation for certain assets provided to firms in the US in the early 2000s that observed ‘a substantial stimulative impact on investment in capital goods that benefited most from bonus depreciation’.

**Other tax changes for small business**

Several other tax changes also apply to small business:

- from 1 April 2016, small businesses will be entitled to a fringe benefits tax (FBT) exemption if they provide employees with one or more qualifying work-related portable electronic devices, even where the items have substantially similar functions.
- from 1 July 2016, small businesses will be able to change their legal structure without attracting a capital gains tax liability at that point.
- from 1 July 2015, small businesses will be able to immediately deduct a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

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1061. Australian Government, *Rethink: Tax discussion paper*, March 2015, p. 120.
1068. Ibid.
1069. Ibid.
1070. Ibid. While the description of this measure does not refer to the $2 million small entity, a separate description of this measure includes a reference to this threshold (Business.gov.au, ‘Jobs and Small Business package’, Business.gov.au website).
Applying GST to digital products and services imported by consumers

Kali Sanyal

In light of the ongoing surge in the business of digital downloading, a growing proportion of consumption is not being caught by the Goods and Services Tax (GST). Tax experts contend that ‘the absence of GST on services and digital products imported by consumers represents an omission from the tax base that has been increasingly untenable’. 1071

Under current law, things imported by consumers and which are not goods or real property (including digital products and services) are not subject to the GST. This results in forgone GST revenue, which would be passed to the States and Territories. It also places domestic businesses, which generally have to charge and remit GST on the digital products and services they provide, at a tax disadvantage compared to overseas businesses. 1072

In order to maintain the integrity of the tax system and offer a level playing field for domestic suppliers, the Government announced in the 2015–16 Budget that it would extend GST to offshore intangible supplies to Australian consumers with effect from 1 July 2017. The measure is estimated to generate a revenue gain of $350.0 million over the forward estimates period. 1073

The key features of the ‘Netflix tax’ are as follows:

• it will be imposed on intangible supplies such as supplies of digital content, games and software—but will also extend to consultancy and professional services performed offshore for customers in Australia

• the liability for the GST will rest either with the supplier or with the operator of an electronic distribution service

• GST will be imposed at a rate of 10 per cent on the value of the supply

• at this stage it would appear that all intangible supplies will be caught, regardless of the value of the supply (currently goods valued of less than $1,000 from overseas suppliers over the internet imported by Australian consumers are not covered under the GST Act, hence it is likely there might be scope for this value of intangible supplies to be changed by regulation) and

• only supplies made to consumers will be caught: business-to-business transactions will be exempt. 1074

Soon after the announcement of this budget measure, the government released an exposure draft Bill titled ‘Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015’. Schedule 1 item 1 of this Bill would extend the scope of the GST to offshore supplies of services and intangibles to Australian consumers from 1 July 2017. 1075

The proposed Bill would also amend section 9-25 of the A New Tax System (Goods and Services Tax) Act 1999 (GST Act) 1076 in order to make supply of goods and services connected with the indirect tax zone (broadly, supplies made or done in Australia or made to Australia, excluding those geographic areas where the GST does not apply—principally the external territories) taxable supply for GST purposes, unless the supply is GST free or input taxed (section 9-5 of the GST Act). 1077

The proposed amendments would permit the making of regulations to provide for a modified GST registration and remittance scheme. If a foreign supplier of digital services has established an Australian operator (for example, iiNet/Netflix for the Netflix global company) of an electronic distribution service, the operator will be registered for GST purposes. However, entities will also be able to elect to have limited registration for GST. They will not then be able to access input tax credits. An industry-wide consultation will follow to determine the scope of these rules. 1078


1073. The budget figures in this article have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no 2: 2015–16.


1078. Ibid., pp. 7–8.
Responsibility for GST liability may be shifted from the supplier to the operator. This would happen in certain circumstances where the operator controls any of the key elements of the supply such as delivery, charging or terms and conditions. Shifting responsibility for GST liability to operators is aimed at minimising compliance costs. It is expected that operators are generally better placed to comply and ensure that digital goods and services sourced in a similar manner are taxed in a similar way.1079

Some pertinent issues that will still need to be considered as part of the development of any regulations include the frequency of remittance and what, if any, registration thresholds should apply.1080

The experience of other countries

The measure will result in Australia being an early adopter of guidelines for business-to-consumer supplies of digital products and services currently being developed by the Organisation for Economic Co-operation and Development (OECD) as part of the OECD/G20 base erosion and profit shifting project, *Addressing the Tax Challenges of the Digital Economy*.1081

At the start of 2015, the European Union (EU) started to overhaul its consumption tax (value added tax or VAT) to extend it to providers of broadcasting and electronic services based on the location of their customers, not where the companies set up their head offices.1082 Digital downloads and services sold to European retail consumers are taxed at VAT (value added tax) rates of up to 27 per cent making the digital retail economy a significant source of tax revenue.1083 The complexity and variation of VAT regimes in different EU member countries, however, created huge challenges for the EU and the digital companies.1084 The amendments in Australian law are broadly modelled on similar rules currently in operation in the European Union and Norway.1085

Comments

One aim of the Australian government in applying GST to digital supplies is to create a level playing field for domestic suppliers with their offshore counterparts. However, many of the difficulties of Australian retailers have to do with the nature of the market—it is currently dominated by offshore multinational companies operating with substantial economies of scale. ‘The difference in price between overseas online stores and domestic retailers has little to do with the tax system. It is a market issue.’1086

Administration of the measure will be complex. Two particular issues are:

- defining the operation of a business and sources and
- excluding digital supplies related to education and health services.

As one senior taxation expert said, ‘drafting law to broaden the goods and services tax (GST) to overseas digital companies such as Netflix, was easy. The challenge ... would be collecting the cash’.1087

Additionally, the change will require the unanimous agreement of the States and Territories before enactment of legislation.

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1079. Ibid., p. 6.
1083. R Minor, ‘European VAT: 10 things online sellers need to know about taxes on digital goods and services’, Forbes, 15 May 2014.
1084. Ernst and Young, *Overview of EU VAT changes on digital products and services in 2015*, 2013, p. 9.
1087. Ibid.
Changed eligibility for the Zone Tax Offset

Kali Sanyal

The Zone Tax Offset (ZTO) is a concessional tax offset available to individuals against their tax liability in recognition of the isolation, extreme climate and high cost of living associated with living in particular locations. Eligibility is based on defined geographic zones. The offset and its predecessors have existed since just after the Second World War and the regions have not significantly changed since 1981.

The specified remote areas of Australia covered by the ZTO are in two zones, Zone A and Zone B. Zone A comprises the Australian tropics apart from the Queensland east coast south of Cape Tribulation, and zone B includes the Queensland coast from Cape Tribulation south to Sarina plus the following: a belt of inland Queensland adjacent to zone A; the far west of New South Wales; the far north of South Australia; the Western Australian goldfields and the west of Tasmania.

Zone A comprises those areas where the unfavourable factors are more pronounced and Zone B comprises the less badly affected areas. The tax offset for ordinary Zone A residents is accordingly higher than the tax offset for ordinary Zone B residents. A special category of zone allowances is available to taxpayers residing in particularly isolated areas (‘special areas’) within either zone.

In addition to those benefits available through the ZTO, there are a range of fringe benefits tax exemptions and concessions which apply to employers. They include exemptions predominantly around housing and transportation.

Eligibility for ZTO restricted

Currently, to be eligible for this tax offset, a taxpayer must reside or work in a specified remote area for more than 183 days in an income year.

The Government announced in the 2015–16 Budget that ‘fly-in fly-out’ (FIFO) and ‘drive-in drive-out’ (DIDO) workers will be excluded from the ZTO where their normal residence is not within a designated ‘zone’. The measure is designed to target the ZTO to taxpayers who have taken up genuine residence within the zones and align the tax offset with the original intent of the policy. For those FIFO workers whose normal residence is in one zone, but who work in a different zone, they will retain the ZTO entitlement associated with their normal place of residence.

Background to the proposed changes

The measure follows a recent inquiry by the House of Representative Standing Committee on Regional Australia (the Committee) into the use of FIFO and DIDO workforce practices in regional Australia. In its findings, the Committee observed that the use of FIFO and DIDO workers presented two very different dynamics depending on whether the perspective was from a ‘host’ or ‘source’ community.

For host communities, concerns were raised about access to medical services, availability of accommodation and the security implications of a large influx of young men.

On the other hand, the remote work practices suited a lot of people and were more convenient than actually being in the zone. For example they could earn relatively higher wages by being FIFO or DIDO workers. A substantial proportion of them live in an urban area–outside the designated zones—and enjoy the ZTO benefit at the same time.

The Committee acknowledged that the labour and skills shortages meant that employers need to offer a range of work practices, including FIFO/DIDO in order to attract employees. The findings of the inquiry admitted that

1091. Australian Taxation Office (ATO), Fringe benefit tax–remote areas, website.
1094. Ibid.
the prevalent work practices are necessary and appropriate for operations in remote areas and the labour intensive construction phase of resource projects.

Given the complexity of the dynamics of the host community, the Committee suggested that FIFO/DIDO should not be utilised as the primary work practice where it undermines the liveability of regional Australia. In some areas liveability is becoming so eroded that the choice to ‘live-in’ rather than FIFO/DIDO is simply not available.1095

Recommendation 14 of the inquiry report asked the ‘Commonwealth Government to review the Zone Tax Offset arrangements to ensure that they are only claimable by permanent residents of a zone or special area’.1096

The Government announced in the 2015–16 Budget that FIFO workers will be excluded from the ZTO where their normal residence is not within a ZTO ‘zone’. Those FIFO workers who live in one ZTO zone, but work in a different ZTO zone, will have their ZTO entitlement unchanged.

In the 2012-13 income year, more than half a million Australian residents (with taxable income) claimed ZTO of $284.3 million.1097 It is estimated that around 20 per cent of all claimants do not actually live full-time in the zones.1098

On 20 May 2015, the Labor Opposition pledged to support this budget measure.1099 But Steve McCartney, the WA secretary of the Australian Manufacturing Workers Union, said that the measure was unfair because those affected were spending a substantial proportion of their time in those zones.1100

This budget measure will apply from 1 July 2015 (in the 2015–16 income year), but the revenue gain of approximately $110 million a year will start flowing from the 2016–17 accounting year.1101

1095. Ibid.
1096. Inquiry into ‘the use of ‘fly-in, fly-out’ (FIFO) and ‘drive-in, drive-out’ (DIDO) workforce practices in regional Australia’, op. cit.
Changed calculation of work-related car expenses

Les Nielsen

In the 2015–16 Budget the Government announced that there will be substantial changes to the way in which tax deductions for the necessary use of a motor vehicle during the gaining of assessable income will be calculated. 1102 Currently, there are four methods for calculating work related expenses:

• cents per kilometre
• 12 per cent of original value
• one-third of actual expenses
• logbook. 1103

Briefly, the changes are:

• the 12 per cent of original value of the vehicle method and the one third of actual expenses incurred method will no longer be used
  – these two methods may currently be used when more than 5,000 km are driven annually for work purposes. 1104 About three per cent of total deductions in 2012–13 (the latest available data) were claimed using these two methods (see below)1105 and
• the three existing rates for expenses per kilometre (km), determined by engine size, will be replaced with one rate of 66 cents per km. This rate may be updated by the Commissioner for Taxation from time to time
  – this method is currently used when annual distances travelled for work-related purposes are less than 5,000 km. The current rates per km, by engine capacity and engine type, are in the following table.

Table 1: Rates per km for motor vehicle expense claims

<table>
<thead>
<tr>
<th>Ordinary engine</th>
<th>Rotary engine</th>
<th>Cents per km</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6 litre or less</td>
<td>0.8 litre or less</td>
<td>65</td>
</tr>
<tr>
<td>1.601 to 2.6 litre</td>
<td>0.801 to 1.3 litre</td>
<td>76</td>
</tr>
<tr>
<td>2.601 litre and over</td>
<td>1.301 litre and over</td>
<td>77</td>
</tr>
</tbody>
</table>

Source: ATO1106

Claimed revenue gains for this measure total $845 million over the forward estimates starting 2016–17, including $270 million in the first year. 1107

What’s not changed

Vehicle operators will still be able to:

• use the logbook method, if it gives them a better outcome
• claim all other expenses incurred in operating a vehicle during the gaining of assessable income, such as petrol, oil, tyres, registration, servicing costs, lease charges, interest on a car loan, necessary car parking expenses and car washing costs and
• use the vehicle for private purposes (but not claim related costs as a tax deduction). 1108

Will these savings be realised?

On the face of it, these are minor changes to the rules governing the claiming of work-related vehicle expenses. Would such seemingly minor changes produce the claimed revenue gain?

1105. Figure sourced from Australian Taxation Office, Taxation Statistics 2012–13, Table 1: Individuals: Selected items, for income years 1978–79 to 2012–13, released April 2015.
1106. Australian Taxation Office (ATO), Income and Deductions for Business, Cents per Kilometre, ATO website, 13 March 2015.
In the 2012–13 tax year (latest available data), total work-related vehicle expenses deductions were approximately $8,062 million. Of these, approximately $5,046 million was claimed by the per kilometre method.

The estimated savings from this measure are $270 million in the first year.

Some savings may come from moving claimants from the first two methods of claiming to the cents per kilometre method. The main savings will come from the substitution of a single rate only slightly above the existing lowest rate for the three rates per kilometre.

The amount claimed for the two biggest engine sizes will reduce by at least 10 cents per kilometre or 13 per cent. Let us assume that half of the vehicles used for cents per kilometre claims have engine capacity greater than 1.6 litres. If half of claimants reduced their claim by 13 per cent the saving just from the existing cents per kilometre claimants would be nearly $330 million. So the estimate of the saving appears plausible, even conservative.

The move has been greeted as environmentally positive and there has been little criticism.
**Tightening fringe benefit tax on not-for-profit organisations**

Les Nielson

In the 2015–16 Budget the Government announced a limit of $5,000 per year, per employee, for the value of fringe benefits exempt from fringe benefits tax (FBT) purposes for:

- salary sacrificed meal entertainment expenses and
- salary sacrificed entertainment facility leasing expenses.

The description of this measure specifically identifies employees of public benevolent institutions and health promotion charities as currently having annual limits for FBT exempt benefits well above $5,000 ($30,000) and employees of public and not-for-profit hospitals and public ambulance services as having an annual limit of $17,000 per year.\(^{1112}\) Currently there are no limits on meal entertainment expenses; they are all exempt from FBT for employees of these organisations. Under the proposed measure all use of meal entertainment benefits will be reportable.

The measure is to commence from 1 April 2016, to coincide with the start of the FBT year and is projected to produce a revenue gain of $295 million between 2015–16 and 2018–19, as the following table shows:

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</thead>
<tbody>
<tr>
<td>Revenue gain</td>
<td>20</td>
<td>85</td>
<td>90</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Budget paper no. 2: 2015–16\(^{1113}\)

**What is the current situation for employees of ‘for profit’ organisations?**

All entertainment fringe benefits provided by a for-profit employer, including meals, are subject to FBT. So there is no FBT exemption limit for benefits provided to employees of profit making entities.

**Why are these rules in place?**

The limits on FBT exemptions for employees of health related not-for-profit institutions arises under subsection 5B(1E) of the *Fringe Benefits Tax Assessment Act 1986*.\(^{1114}\) Initially these employees had been exempt from FBT. This subsection was inserted by the *A New Tax System (Fringe Benefits) Act 2000*.\(^{1115}\) The Explanatory Memorandum to the *A New Tax System (Fringe Benefits) Bill 2000* noted that:

> The FBT capping measure will stop the overuse of the FBT exemption for PBIs [public benevolent institutions] and the concessional FBT treatment for certain non-profit, non-government organisations, which are currently open-ended, by capping the exempt or concessional treatment to $25,000 of the tax-inclusive value of an employee's fringe benefits. However, the threshold is $17,000 where the employee of the s57A employer or rebatable employer works in a hospital. This measure goes some way towards the ideal position where employees earning the same remuneration are taxed the same, while ensuring that PBIs and certain non-profit organisations retain a cost advantage over other employers.\(^{1116}\)

The annual limit of $25,000 was later increased to $30,000 as the result of a Government Senate amendment, arising from negotiations between the then Government and the Democrats.\(^{1117}\) These limits have not changed

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1112. Australian Government, *Budget measures: budget paper no. 2: 2015–16*, pp. 22–23. Slightly higher limits apply in the first year due to the Temporary Budget Repair Levy. Further, these values are ‘grossed up’, meaning that the value of the limit is calculated to take into account benefits provided with a taxable value that included the FBT paid by the employer.

1113. Ibid.


since 2000, so their real value has decreased. The FBT concessions available to the non-profit sector at that time were aimed at helping these organisations attract and retain staff. 1118

Are these concessions still effective?

While the FBT concessions were implemented to allow health related not-for-profit organisations to offer competitive salaries to attract staff, two questions remain. Are these FBT incentives still effective? Do they place ‘for-profit’ organisations at a disadvantage? In a 2010 study the Productivity Commission found that:

... in a small number of areas, notably hospitals, FBT arrangements confer advantage to both not for profits (NFP) and public hospitals. The concession allows them to offer staff, often considerable, FBT benefits that commercial hospitals cannot, despite facing the same funding arrangements. In relation to hospitals, the FBT benefits do impact on competitive neutrality. More generally, these arrangements are not an ideal method of providing support to those NFPs that the government wishes to assist as FBT rates have been frozen, eroding the benefit conferred; and FBT exemptions are complex and costly to administer for both the [Australian Taxation Office] and NFPs. 1119

The Commission concluded that:

[given the distortions, the significant transactions costs associated with salary packaging, and the lack of a clear public benefit justification, the FBT concession does not appear to be very effective, efficient or equitable. In the case of public hospitals, it also provides a non-transparent Commonwealth subsidy to state and territory public hospitals. 1120

A 2013 study by a Treasury Working Group reported that the FBT concession was:

... primarily used by PBIs, health promotion charities, public and NFP hospitals, and public ambulance services ... to provide salary packaging benefits in order to attract and retain employees. FBT concessions are also used to compensate for funding shortfalls in the NFP sector. 1121

This study also found that:

The uncapped access to meal entertainment and entertainment facility leasing benefits has raised concerns about the legitimacy of such concessions, especially since the rest of the community are not able to access such concessions or claim a deduction for such expenses. The benefit of this concession is also not evenly spread among NFP employees, tending to be more highly utilised by eligible employees on higher salaries. 1122

Reform or removal?

The Productivity Commission preferred that assistance to not-for-profits be provided in a more transparent manner, such as direct government funding, and the gradual phase out of these concessions. 1123 The Henry Tax Review recommended that the FBT concessions be phased out and replaced with direct government funding. 1124 The Treasury Working Group recommended that the FBT concessions be removed and proposed ‘an alternative support payment to employers, possibly through the tax system, to replace the FBT concessions provided through salary packaging’. 1125

1119. Productivity Commission, Contribution of the Not-for-Profit Sector, January 2010, p. XXXI.
1120. Ibid., p. 216.
1122. Ibid.
Changed rules for working holiday makers

Les Nielson

In the 2015–16 Budget the Government proposes to change the tax status of temporary working holiday makers from that of resident, to that of non-resident, from 1 July 2016. \(^{1126}\)

**Background**

*Australia’s working holiday program*

Most individuals who will be affected by the proposed change will be participants in the ‘Working Holiday Maker Program’. This program allows young adults (aged 18 to 30) from eligible partner countries to work in Australia while having an extended holiday. Work in Australia must not be the main purpose of the visa holder’s visit. \(^{1127}\)

This is a cultural exchange programme which enables young travellers to have an extended holiday and earn money through short-term employment. \(^{1128}\)

**Qualifications for being classed as a working holiday resident tax payer**

Currently, to work legally as a working holiday maker an individual has to obtain an Australian Tax File Number (TFN). These numbers are available to non-residents who have the required working visas. Examples of common valid working visa types are:

- Working holiday makers (subclass 417)
- Entertainment (subclass 420)
- Sport (subclass 421) and
- Work and holiday makers (subclass 462). \(^{1129}\)

At this stage it is not clear whether the proposed measure will extend to holders of all of these visa types.

**Tax consequences of proposed change**

The measure proposes a change in the personal income tax rates applying to non-residents. Following is a table showing the differences in personal income tax rates for residents and non-residents.

**Table 1: Resident and non-resident tax rates 2014–15**

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Resident tax rates</th>
<th>Non-resident tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – $18,200</td>
<td>Nil</td>
<td>0 – $80,000</td>
</tr>
<tr>
<td>$18,201 – $37,000</td>
<td>19c for each $1 over $18,200</td>
<td>32.5c for each $1</td>
</tr>
<tr>
<td>$37,001 – $80,000</td>
<td>$3,572 plus 32.5c for each $1 over $37,000</td>
<td>$80,001 – $180,000</td>
</tr>
<tr>
<td>$80,001 – $180,000</td>
<td>$17,547 plus 37c for each $1 over $80,000</td>
<td>$80,001 – $180,000</td>
</tr>
<tr>
<td>$180,001 and over</td>
<td>$54,547 plus 45c for each $1 over $180,000</td>
<td>$180,001 and over</td>
</tr>
</tbody>
</table>

Source: ATO \(^{1130}\)

For example, a non-resident individual earning $40,000 in the current tax year would be liable for $4,547 in personal income tax, leaving an after-tax income of $35,453. Under the proposed arrangements, this individual would be liable for $13,000 in personal income tax, leaving an after tax income of $27,000.

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1127. Department of Immigration and Border Protection (DIBP), *What is the Working Holiday Maker program?*, DIBP website, 13 August 2013.
1128. Tourism Australia, *Planning to stay and work while you’re visiting Australia?*, Australian Tourism website, 2015.
Comparison with departing superannuation payments

The proposed change is not the only instance where working holiday makers are subject to a higher rate of tax than residents. When temporary residents depart Australia permanently, they may withdraw their accumulated superannuation balance. The tax rate is between 38 and 47 per cent. In similar circumstances, residents withdrawing their superannuation balance when they are below their preservation age (generally between 55 and 60) face a 20 per cent tax rate.\footnote{Australian Taxation Office (ATO), \textit{Table 10: Super lump sum tax table}, ATO website, 30 April 2015.}

Second round effects

A recent press article has highlighted some problems with the proposed changes:

- this new policy could substantially increase the incentives for tax evasion and

- the number of working holiday makers may diminish rapidly as soon as visa holders perceive there is less economic benefit to undertaking work that most Australians are reluctant to do, such as picking fruit, cleaning and casual hospitality.

The new income tax policy could end up hurting Australian companies that will find it hard to fill job vacancies without a cheap and casual visiting workforce.\footnote{P Carvalho, ‘\textit{Budget 2015: plucking the foreign flock may backfire}, \textit{The Drum}, 14 May 2015.}

Meanwhile, the tourism industry is concerned because backpackers, who are more likely to go to regional areas and are relatively high-spending tourists, will be less likely to visit Australia and will go instead to New Zealand, Canada or South Africa.\footnote{H Kempton, ‘\textit{Anger grows over backpacker tax}, \textit{Mercury}, 15 May 2015.} At the same time, the industry relies heavily on working holiday makers as a labour force.\footnote{L Allen, ‘\textit{Backpacker tax “ridiculous”}, \textit{The Australian}, 14 May 2015.}
Tightening anti-avoidance provisions for multinational companies
Les Nielson

The measures
In the 2015–16 Budget the Government has proposed tightening tax laws to collect appropriate revenue from multinational companies operating in Australia in three ways:

• releasing an exposure draft of amendments to Part IVA of the Income Tax Assessment Act 1936 (ITAA 1936)1135
• announcing the implementation of new transfer pricing documentation standards and
• announcing a doubling of the maximum administrative penalties for large companies that enter into tax avoidance and profit shifting schemes.1136

Other measures
At the same time the Government has announced that:

• from 1 January 2016 Australia will implement country by country reporting that requires multinational companies to provide information on their world-wide operations, including tax paid in each country
• Australia will adopt the Organisation for Economic Cooperation and Development’s (OECD) recommendations on tax treaties
• the Board of Taxation has been asked to advise on the implementation of OECD rules governing the use of hybrid instruments and
• the Australian Taxation Office has commenced the exchange of information on secret tax deals provided to multinationals by other countries that may contribute to tax avoidance in Australia.1137

Do these measures run ahead of international efforts to address this issue?
Since July 2013, the OECD together with the Group of 20 Nations (OECD/G20) have been undertaking the Base Erosion and Profit Shifting Project (BEPS) designed to equip governments with the domestic and international instruments needed to deal with problems in collecting the appropriate revenue from multinational corporate entities.1138

Coordinated action by all countries affected is seen as vital for the successful implementation of the suggested instruments.1139 Recently, the United Kingdom has been criticised for running ahead of international efforts by implementing its ‘diverted profits tax’ (that is, the ‘Google Tax’) in early 2015.1140 However, these proposed measures do not lay Australia open to the same charge.

In respect of the formal budget measures, the exposure draft strengthens existing general anti-avoidance provisions of the ITAA 1936: it does not introduce a completely new measure. Some of the language used in the proposed changes is that used in a 2014 OECD report entitled Preventing the Granting of Treaty Benefits in Inappropriate Circumstances which is part of the BEPS project (see further discussion below on ‘principal purpose or more than one principal purpose’).1141 Further, the new documentation requirements for transfer pricing arrangements implement the OECD/G20 recommendations in this area.1142 And imposition of penalties is not a part of the BEPS project. The other announced measures (which are not part of the Budget) generally stem from the OECD BEPS project.

1138. OECD, About BEPS, OECD website.
1140. M Croker, Diverted Profits Tax - A rogue tax or a tax on rogues?, Institute of Chartered Accounts Australia, weblog, 15 December 2014.
Revenue raised?
The budget announcement was remarkable for not estimating the amount of revenue that may be raised by these measures. This is not surprising, as Treasury representatives have been unable to quantify the extent to which Australian tax has been avoided by large multinational corporate entities operating in Australia, preferring to say that it may be substantial.\(^{1143}\)

Any tax payable under the proposed changes will be subject to litigation. Often a complex tax case may take between six and seven years before final resolution. Additional revenue raised under the proposed changes will not quickly flow into consolidated revenue. In this environment any estimate of revenue raised will be provisional, at best.

Will it work?
This budget announcement was unusual in that it was accompanied by the release of relevant exposure draft legislation. This enables some tentative initial comment to be made on the prospects for successful implementation.

Purpose of a scheme
One problem is the difficulty, noted recently by the Tax Commissioner, of interpretation of the purpose, let alone one of the principal purposes, of a scheme. Under the \textit{ITAA 1936}, the Commissioner can take action against a scheme which has as its \textit{sole or dominant purpose} the generation of a tax benefit. In one case the court was faced with 30 expert reports, put forward by 11 barristers, in relation to what on the surface was a simple case.\(^{1144}\) The overall effect is to enable 'large corporations to build very confused or murky or convincing cases about why different ideas [other than obtaining a tax benefit] were really the purpose of what they were doing'.\(^{1145}\) Though these comments were made in relation to the current definition, the same difficulties would most likely apply in a case to decide whether a scheme had as \textit{a principal purpose or one of its principal purposes} (the requirement in the draft new legislation) the generation of a tax benefit.

Low tax definition
One of the conditions of the proposed changes that apply to Part IVA is that the non-resident who is liable to pay Australian tax is connected with a ‘no or low corporate tax jurisdiction’. According to the OECD corporate tax database, in 2015 corporate tax rates ranged from 12.5 per cent (Ireland) to 35 per cent (United States).\(^{1146}\) Lower corporate tax rates apply in many non-OECD countries. In these circumstances, defining what may be a ‘low tax rate’ as opposed to a ‘normal corporate tax rate’ will be a rich source of argument.

These potential difficulties are not reasons for shelving these changes. The proposed changes are a significant improvement on the current tax law in this area. Should these draft laws be passed by Parliament, they are unlikely to lead to any quick solutions. But they will contribute to resolution of difficulties in appropriately taxing multinational corporations on their economic activity in Australia.

\(^{1143}\) R Heferen (Deputy Secretary, The Treasury), \textit{Evidence to the Senate Economic References Committee, Inquiry into Corporate Tax Avoidance, 9 April 2015}, p. 24.
\(^{1146}\) OECD, \textit{Table II.1, Corporate income tax rate}, OECD Tax Database.
GST compliance

Les Nielson

The Government has announced a three year extension of funding for the Australian Tax Office (ATO) to continue its current Goods and Services Tax (GST) compliance activities. It notes that continued focus on GST compliance will also produce increased tax collections from non-GST sources, for example increased personal and company income tax collections. The measure also includes an additional $1.8 billion GST payment to the states.1147

This announcement is an extension of similar programs announced in previous budgets. In the 2012–13 Budget the former Government announced a two year extension of GST compliance activities, with expected net revenues of $432 million.1148 In the 2010–11 Budget the then Government announced a four year GST compliance program of:

... additional activities that promote voluntary GST compliance and provide a level playing field for Australian businesses.1149

What are these compliance activities?

As noted above, the focus of this compliance program has always been to increase voluntary compliance with the GST provisions. The current voluntary compliance program focuses on:

- protecting businesses, taxpayers and the community, by detecting and dealing with taxpayers who deliberately avoid their GST obligations
- enhancing support and education to encourage taxpayers to willingly meet their GST obligations.1150

The ATO has listed the key activities of the current program as:

- improving activity statement lodgement activity, dealing with GST fraud and evasion and reducing GST debt.1151

As this measure is a continuation of funding for a range of current activities, presumably, future GST compliance activity will be along the above lines.

Revenue to be raised

The following table shows the estimated net revenue raised by this continued funding:

Table 1: Net expected revenue—GST compliance, $m

<table>
<thead>
<tr>
<th>Year</th>
<th>2016–17</th>
<th>2017–18</th>
<th>2018–19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expected revenue</td>
<td>717.8</td>
<td>860.8</td>
<td>948.0</td>
</tr>
<tr>
<td>Total expected expenses</td>
<td>586.1</td>
<td>700.6</td>
<td>794.9</td>
</tr>
<tr>
<td>Net expected revenue</td>
<td>131.7</td>
<td>160.2</td>
<td>153.1</td>
</tr>
</tbody>
</table>

Source: Budget paper no.2: 2015–161152

In 2011–12 alone, the GST compliance program raised net GST liabilities of $529 million.1153 Should anything near this annual outcome continue to be achieved then the above net revenue estimates of $445 million over the forward estimates period should be easily met.

It could be argued that these net revenue estimates significantly under-estimate the amount to be collected. But it is interesting to note that voluntary compliance with the GST provisions has increased as a result of this program.1154 That being the case there may be a smaller number of GST compliance problems to be addressed, leading to, perhaps, smaller amounts to be gained from continued compliance activities.

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1151. Ibid.
1152. Ibid.
1153. Ibid.
1154. Ibid.
Budget measures routinely include announcements of continued tax compliance activities, with continued GST compliance activities being unexceptional. Such measures seem to be effective in maintaining voluntary compliance with the tax provisions.
