Budget Review 2010–11

Last year’s Budget was framed amid a sharply deteriorating world economy which was considered the most challenging global economic conditions since the Great Depression. In 2009, the global economy contracted for the first time in the post-war era. In contrast, Australia grew by almost 1.5 per cent supported by monetary and fiscal policy stimulus, a well-functioning banking system, and strong growth in a number of East Asian economies.

The third Rudd Government Budget, presented on 11 May 2010, was developed within an improving but still uncertain outlook, with events in Greece and other European Union countries reminding us of the risks to the global economic recovery. Strong economic growth in China and India is expected to continue to flow throughout the region and, despite a slower pace, the US is leading the recovery among our advanced economy major trading partners. Global economic growth is in the early stages of recovery but we should remain cognisant of the precarious economic environment which is continuing to challenge government policy makers around the globe.

Once again the Parliamentary Library has produced the annual Budget Review that examines the key features of a selection of crucial measures contained in the Budget to assist parliamentarians in their consideration of these issues. The first article, Budget 2010–11: Key Features, provides a macroeconomic analysis and commentary of the Budget, including the assumptions underpinning the Government’s fiscal policy and the main spending and taxing features contained in the Budget. The remaining articles examine the impact of budget measures on a broad range of specific issues and initiatives.

The Budget Review 2010–11 has necessarily been prepared under time pressure with a view to making it available to parliamentarians as soon as possible. While great care has been taken to ensure that these articles are accurate and balanced, they are written using information publicly available at the time of production. It is not the intention of these documents to make value judgements about the relative importance of different measures or to provide a comprehensive overall assessment of the Budget.

Parliamentarians are invited to raise points requiring amplification or clarification directly with the research specialist concerned and any general comments on papers are also welcome. Any other feedback should be forwarded to me. Clients are also reminded that in addition to the Budget Review the Library publishes the Budget 2010: Editorials, Opinions and Media Releases page on our website (http://libbis1/library_services/budget_library/index.htm).

Roxanne Missingham
Parliamentary Librarian
May 2010
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Budget 2010–11: key features

Scott Kompo-Harms
Economics Section

Introduction

The 2010–11 Commonwealth Budget was handed down at 7.30 pm on 11 May 2010 by the Treasurer, Wayne Swan. The Treasurer emphasised a short-term ‘deficit exit strategy’ that is also consistent with the Government’s medium-term fiscal strategy. The medium-term fiscal strategy has three components:

• achieve budget surpluses, on average, over the medium term

• keep taxation as a share of GDP, on average, below the level for 2007–08 and

• improve the Government’s net financial worth over the medium-term.

The Treasurer stated that the deficit exit strategy has two key elements. These are:

• allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government’s commitment to keep taxation as a share of GDP below the 2007–08 level, on average and

• holding real growth in spending to 2 per cent per year once the economy is growing above trend until the Budget returns to surplus.

The Treasurer announced a series of new policies and policy changes in this year’s Budget. Some of the notable measures include:

• Reforms to company taxation and royalty regimes, specifically:
  
  – the introduction of what will be known as the Resource Super Profits Tax, or RSPT, from 1 July 2012 and

1. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, Budget strategy and outlook: budget paper no. 1: 2010–11, Commonwealth of Australia, Canberra, 2010.


a two-phased reduction in the company tax rate from 30 per cent to 28 per cent, commencing in 2013–14. Small business companies will gain a head start, with the full reduction occurring in 2012–13.

- the postponement of the Carbon Pollution Reduction Scheme (CPRS) and replacement with the establishment of a $652 million Renewable Energy Future Fund

- funding for 70 000 new training places and support for 22 500 apprentices worth $661 million over four years

- increasing the superannuation guarantee rate from 9 per cent to 12 per cent (in 0.25 and 0.5 percentage point increments) between 1 July 2013 and 1 July 2019

- tax concessions on interest earned on deposits held in Authorised Deposit-taking Institutions (ADIs) and on bonds, debentures and annuities and

- increasing excise on tobacco products by 25 per cent as of 30 April 2010.4

Media coverage

Some of the headlines from major newspapers on 12 May 2010 included:

- *The Australian Financial Review*:
  - ‘Surpluses supplied on a China platter’5

- *The Australian*:
  - ‘Swan rides tax wave’6 and

- *The Age*:
  - ‘Back to black and proud of it’7 and

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4. This list is not exhaustive. These measures (and others) will be considered in more detail in other briefs in this *Budget Review.*


More comprehensive media coverage of the Budget is available for members and senators from the Parliamentary Library’s ‘Budget 2010: Editorials, Opinion and Media Releases’ website.9

Reactions from business groups

Australian Chamber of Commerce and Industry (ACCI)

ACCI Chief Executive, Peter Anderson, has welcomed the projected return to surplus and expressed support for the proposed cuts to the company tax rate and new small business taxation arrangements. However, he was concerned about the proposed implementation of the RSPT. Support was also forthcoming for infrastructure and skills commitments made by the Government:

The earlier than expected return to a surplus position in 2012–13 is welcomed by business. ACCI has put the case that this is essential to ensure higher debt and deficits do not place pressure on interest rates.

Australia’s stronger growth outlook is set to bolster revenues over the forward estimates. However, ACCI considers greater scope still exists to reduce spending across government. This will provide the opportunity for earlier and more extensive tax reform.

ACCI has welcomed the depreciation changes for small business and the cut in the company tax rate. We are concerned though that failure to decouple these important initiatives from the Resource Super Profits Tax (RSPT) may make these benefits a political football.

Assisting the return to surplus is the implementation of the RSPT which we remain concerned will affect investment in this sector and businesses that are directly and indirectly linked to the resources industry.10

AIG Chief Executive, Heather Ridout, praised the projected path back to surplus, as well as budget initiatives on skills, health and business taxation:

This year’s Federal Budget, while appropriately cautious, lays out a credible strategy for rebuilding the nation’s balance sheet and ensures that fiscal policy does its share of the heavy lifting in easing pressure on inflation and monetary policy as the recovery gathers pace,” Australian Industry Group (Ai Group) Chief Executive Heather Ridout said today.

As well, the strategy on skills is very positive and when combined with the health initiatives will bring widespread benefits. The tax break for savings, the standard deduction measure and the interest withholding tax relief will be widely welcomed, as will the new infrastructure measures. At the same time, Australia faces major productivity challenges and capacity constraints and more will need to be done to address these in the period ahead.11

The Budget is fiscally strong and has largely avoided the temptation for election year giveaways, while relying heavily on a recovery in revenues to get back to surplus ... 

She did reveal some concern about the implementation of the Renewable Energy Future Fund, a lack of public investment in research and development, cuts to the Green Car Innovation Fund and no increase in assistance for export market development:

More details are needed about the new Renewable Energy Future Fund. The Climate Change Action Fund, which focused on mainstream energy efficiency and emission reduction strategies, has been indefinitely delayed. Ai Group will actively seek to ensure that a large share of the new Fund is allocated to mainstream energy efficiency and mitigation strategies.

There are a number of areas where the Budget falls short. It’s disappointing there are no new investments in business Research and Development and that the Government is persisting with the deeply flawed changes to the existing R&D tax credit. It is also disappointing the Government has cut the Green Car Innovation Fund by $200 million. This is short-sighted and will hurt our car industry which has worked hard to remain competitive through the Global Financial Crisis.

11.  H Ridout (Chief Executive, Australian Industry Group (AIG)), Budget is cautious and credible – Government plays to its strengths of economic management and health, media release, 11 May 2010, viewed 17 May 2010,
We welcome the continuation of the TradeStart program, however, we are disappointed there’s no additional funding for the Export Market Development Grants scheme. This fails to provide extra help for our exporters who have been battling a consistently high dollar and will continue to do so for some time to come.\(^\text{12}\)

**Business Council of Australia (BCA)**

BCA Chief Executive, Katie Leahy, offered a cautious assessment of the Budget and, in particular, expressed reservations about the proposed RSPT:

> This Budget sees a sooner-than-expected return to surplus and the government meeting its own fiscal rules, but it introduces a huge question mark over future growth ...

> The 2010–11 federal Budget forecasts a return to budget surplus by 2012–13 underpinned by the government meeting its commitments to cap real expenditure growth at 2 per cent and to constrain the level of tax to GDP. It also outlines a range of measures that have the potential to enhance productive capacity.

> The proposed introduction of the Resource Super Profits Tax (RSPT), however, creates a new and substantial risk – both for the economic outlook and for the stability of the Budget itself.

> While Treasury claims in the long run that the introduction of the RSPT will lead to an increase in resource sector investment, this stands at odds with the reaction of investors over the past week. Their reaction clearly raises questions about the achievability of the investment forecasts.\(^\text{13}\)

In addition, Ms Leahy praised investments in health, skills and infrastructure, as well as the modest reduction in company tax.

**Reactions from community and other groups**

**Australian Council of Trade Unions (ACTU)**

In describing it as a ‘traditional Labor Budget’, the ACTU focused on positive outcomes for working people with respect to tax cuts, healthcare, education and superannuation:

> It [the 2010–11 Budget] provides a social wage dividend with better quality and better value health, hospital, and aged care, higher spending on education, a boost to vocational training

\(^{12}\) H Ridout, op. cit.

and a lift in superannuation. These are all measures that unions have campaigned for and can take credit in helping achieve.\(^{14}\)

Statements by ACTU President, Sharan Burrow, also highlighted the positive effects on the economy that will result from a range of budget expenditures and revenues:

This Budget provides for massive investments in national infrastructure, a boost to workforce training, productivity and participation, and a lift in business efficiency at the same time as it shares the wealth and smooths the business cycle by taxing the super profits of mining companies.\(^ {15}\)

The ACTU strongly endorsed the Rudd Government’s management of the economy through the global financial crisis and credited the Government’s economic stimulus package for saving jobs and providing a platform for future job growth as the economy recovers. This latter aspect was highlighted by the Government’s commitment to tackle potential skills shortages through a range of vocational and education training expenditures that will help create a prepared workforce for future economic expansion, particularly in the ‘construction, resources, renewable energy, and infrastructure sectors’.\(^ {16}\)

**Australian Council of Social Services (ACOSS)**

Clare Martin, Chief Executive for ACOSS, said that forecasts of an earlier than expected return to surplus and declining unemployment were welcome. ACOSS also supported the $2.2 billion for more GPs and other improvements in primary healthcare, the Government’s commitment to invest $119 million on literacy and numeracy skills program, and the standardisation of deductions in tax returns. Ms Martin stated:

The resource rental tax has created an economically sensible way for the Government to fund services for the community, especially services for the most vulnerable Australians.\(^ {17}\)

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15. Ibid.


However, ACOSS was concerned that dental care did not receive funding and, with 600 000 Australians unemployed, the organisation was disappointed that more support to assist people in finding work was not forthcoming in the Budget. Other deficiencies identified included no increase in rent assistance for low income earners in a tight rental market and the fact that the Budget did not accept the Henry Tax Review’s recommendations regarding affordable houses given the critical shortage of over a quarter million homes.\textsuperscript{18}

**Economic outlook**

The detailed domestic economy forecasts from this year’s Budget are presented below in Table 1. By and large, the domestic economy forecasts have improved considerably since the last Budget. One of the forecast variables that is crucial to accurately forecasting revenue, in particular, is nominal GDP.

\textsuperscript{18} Ibid.
### Table 1: Detailed domestic economy forecasts

<table>
<thead>
<tr>
<th>Panel A – Demand and output (a)(c)</th>
<th>Budget Review 2010–11</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Panel A – Demand and output (a)(c)</strong></td>
<td></td>
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</tr>
<tr>
<td>Household consumption</td>
<td></td>
<td>1.9</td>
<td>2 3/4</td>
<td>3 1/2</td>
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<tr>
<td><strong>Private investment</strong></td>
<td></td>
<td></td>
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<tr>
<td>Dwellings</td>
<td></td>
<td>-1.9</td>
<td>3</td>
<td>7 1/2</td>
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<tr>
<td>Total business investment(d)</td>
<td></td>
<td>6.6</td>
<td>-2</td>
<td>7</td>
</tr>
<tr>
<td>Non-dwelling construction(d)</td>
<td></td>
<td>8.5</td>
<td>-7</td>
<td>8</td>
</tr>
<tr>
<td>Machinery and equipment(d)</td>
<td></td>
<td>4.8</td>
<td>-1/2</td>
<td>6</td>
</tr>
<tr>
<td>Private final demand(d)</td>
<td></td>
<td>2.3</td>
<td>1 3/4</td>
<td>4 1/2</td>
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<tr>
<td>Public final demand(d)</td>
<td></td>
<td>4.3</td>
<td>7 1/4</td>
<td>1</td>
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<tr>
<td>Total final demand</td>
<td></td>
<td>2.7</td>
<td>3</td>
<td>3 3/4</td>
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<tr>
<td>Change in inventories(e)</td>
<td></td>
<td>-0.9</td>
<td>3/4</td>
<td>1/2</td>
</tr>
<tr>
<td><strong>Gross national expenditure</strong></td>
<td></td>
<td>1.8</td>
<td>3 3/4</td>
<td>4 1/4</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td></td>
<td>0.1</td>
<td>1 1/2</td>
<td>5</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td></td>
<td>-2.8</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Net exports(e)</td>
<td></td>
<td>0.6</td>
<td>-3/4</td>
<td>-1</td>
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<tr>
<td><strong>Gross domestic product</strong></td>
<td></td>
<td>1.3</td>
<td>2</td>
<td>3 1/4</td>
</tr>
<tr>
<td>Non-farm product</td>
<td></td>
<td>1.0</td>
<td>2</td>
<td>3 1/2</td>
</tr>
<tr>
<td>Farm product</td>
<td></td>
<td>17.6</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td><strong>Nominal gross domestic product</strong></td>
<td></td>
<td>6.5</td>
<td>2 3/4</td>
<td>8 1/2</td>
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<tr>
<td><strong>Panel B – Other selected economic measures (a)</strong></td>
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<tr>
<td><strong>External accounts</strong></td>
<td></td>
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<tr>
<td>Terms of trade</td>
<td></td>
<td>9.6</td>
<td>-3 3/4</td>
<td>14 1/4</td>
</tr>
<tr>
<td>Current account balance (per cent of GDP)</td>
<td></td>
<td>-3.0</td>
<td>-4 3/4</td>
<td>-3 3/4</td>
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<tr>
<td><strong>Labour market</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Employment (labour force survey basis)(f)</td>
<td></td>
<td>0.1</td>
<td>2 1/2</td>
<td>2 1/4</td>
</tr>
<tr>
<td>Unemployment rate (per cent)(g)</td>
<td></td>
<td>5.7</td>
<td>5 1/4</td>
<td>5</td>
</tr>
<tr>
<td>Participation rate (per cent)(g)</td>
<td></td>
<td>65.4</td>
<td>65 1/4</td>
<td>65 1/2</td>
</tr>
<tr>
<td><strong>Prices and wages</strong></td>
<td></td>
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<tr>
<td>Consumer Price Index(h)</td>
<td></td>
<td>1.5</td>
<td>3 1/4</td>
<td>2 1/2</td>
</tr>
<tr>
<td>Gross non-farm product deflator</td>
<td></td>
<td>5.5</td>
<td>1</td>
<td>5</td>
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<tr>
<td>Wage Price Index(i)</td>
<td></td>
<td>3.8</td>
<td>2 3/4</td>
<td>3 3/4</td>
</tr>
</tbody>
</table>

(a) Percentage change on previous year unless otherwise indicated.
(b) Calculated using original data.
(c) Chain volume measures except for nominal gross domestic product which is in current prices.
(d) Excluding second-hand asset sales from the public sector to the private sector.
(e) Percentage point contribution to growth in GDP.
(f) Seasonally adjusted, through-the-year growth rate to the June quarter.
(g) Seasonally adjusted estimate for the June quarter.
(h) Through-the-year growth to the June quarter.

Note: the forecasts are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level – a trade-weighted index of around 70 and a United States dollar exchange rate of around US90c. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US$88 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions. Source: Australian Bureau of Statistics (ABS), cat. nos. 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

The Government expects a large increase in the terms of trade (the ratio of Australia’s export prices to import prices) and thus a large increase in nominal GDP in 2010–11. The terms of trade is forecast to rise by 14.25 per cent to its highest level in 60 years, whilst nominal GDP is forecast to rise by 8.5 per cent. Some moderation of commodity prices (albeit at a high level) is expected in 2011–12. This is due to the expectation of an increase in the global supply of minerals in coming years in (lagged) response to high prices. If realised, the high nominal GDP growth rates will allow nominal expenses to grow by nearly 16 per cent between the end of 2009–10 and 2013–14 or an average rate of around 3.8 per cent per annum and still meet the 2 per cent real spending growth target.

Another set of forecasts/projections that are notable includes those for the Consumer Price Index (CPI) and the unemployment rate.

The outlook for inflation, as measured by the CPI, seems remarkably benign. There is also a link to the projections for the unemployment rate. Budget Strategy and Outlook: Budget Paper No. 1: 2010–11 states:

The unemployment rate is expected to continue to fall, reaching 5 per cent by the end of 2010–11 and 4 ¾ per cent by the end of 2011–12, around its full employment rate.

The concept of a ‘full employment rate’ is a somewhat ambiguous term that tends to be used rather imprecisely at times and is applied to a variety of contexts. In this context, it seems as though the Treasury is referring to the concept of a ‘natural rate’ of unemployment or the ‘non-accelerating inflation rate of unemployment’ (known as the ‘NAIRU’). In very simple terms, these (unobserved) theoretical rates of unemployment are perceived to be the point at which an economy will start to overheat and experience accelerating inflation if the actual unemployment rate falls below the NAIRU. Thus, this is the point at which the Government is expecting that our capacity would be fully utilised.

The macroeconomic effect of discretionary fiscal stimulus

There is no doubt that the Australian economy has performed better than expected in the aftermath of the Global Financial Crisis (GFC), as well as faring relatively well when compared both to previous Australian downturns and to the current economic situation overseas. Statement 2 in Budget Paper No. 1 contains a feature box (Box 4) that provides supporting evidence of the ‘effectiveness’ of fiscal policy implemented over the course of 2009.¹⁹ A chart is shown, with the International Monetary Fund’s (IMF’s) ‘forecast error’ compared in a scatter plot to the size of discretionary fiscal stimulus packages (as a percentage of GDP). The IMF’s forecast error is defined as the difference between the actual GDP outcome over the 2009 calendar year and the IMF GDP forecast for that country as at April 2009. This can essentially be interpreted as unanticipated economic growth. Eleven countries are included in the sample used by the Treasury. The chart shows that there is a positive, highly statistically significant relationship between the size of discretionary stimulus

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packages and forecast errors. The relationship is approximately one-for-one. Treasury claims that this is evidence of ‘fiscal multipliers’ being larger than originally thought.

However, questions have been raised about this analysis.

The IMF dataset contains data for 19 countries. Thus, on what criteria were 8 of the 19 countries excluded? The countries selected are a mix of advanced and emerging economies. Some are resource-rich while others are not. There is no apparent focus on a particular geographic region. This point has been raised by RMIT Economics Professor, Sinclair Davidson. Davidson reproduces the analysis included in the budget papers using the same 11-country sample and then repeats the procedure using the full sample of 19 countries. The original results are not matched when the same methodology is applied to the full sample. In fact, the relationship turns out to be mildly positive but statistically indistinguishable from zero. There may be some good reasons for excluding some countries, however there is no explanation provided in the budget papers for discarding almost half the observations in an already small dataset. In addition, there appears to have been no attempt to control for other possible explanatory variables. As such the research remains open to question.

Budget position

Whether looking at budget balances, such as the underlying cash balance and the fiscal balance, or balance sheet measures such as net debt, it is clear that the 2009–10 budget projections (particularly for 2011–12 and 2012–13) were too pessimistic.

In 2010–11, the underlying cash balance is forecast to be a deficit of $40.8 billion, revised down from an anticipated deficit of $57.1 billion in the 2009–10 Budget. The fiscal balance is forecast to show a deficit of $39.6 billion in 2010–11, also revised down from an anticipated deficit of $56.0 billion in the 2009–10 Budget. Table 2 below shows the reconciliation between estimates and projections of the underlying cash balance made in the 2009–10 Budget, the Mid-year Economic and Fiscal Outlook (MYEFO) 2009–10, and the 2010–11 Budget.

The reconciliation tables throughout this briefing decompose changes into two categories:

- policy changes and

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20. The 11 countries included in the Treasury sample are: Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Korea, the United Kingdom and the United States. The other countries in the IMF database, but which were excluded from the Treasury sample, are: Argentina, Indonesia, India, Mexico, Russia, Saudi Arabia, South Africa and Turkey.


22. Parliamentary Library staff have reproduced and verified Professor Davidson’s results.
The first category consists of deliberate policy decisions made by the Government made in the intervening period, while the other reflects unexpected windfall losses or gains to the Budget that arise from differences between economic and other forecasts/projections and actual outcomes. A more detailed breakdown, by revenue and expenses, is provided in the relevant sections below.

Table 2: Reconciliation between Budget 2009–10, MYEFO 2009–10 and Budget 2010–11— underlying cash balance

<table>
<thead>
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<tbody>
<tr>
<td><strong>2009-10 Budget underlying cash balance</strong>(a)</td>
<td>-57,593</td>
<td>-57,051</td>
<td>-44,535</td>
<td>-28,150</td>
</tr>
<tr>
<td>Per cent of GDP**(b)**</td>
<td>-4.9</td>
<td>-4.7</td>
<td>-3.4</td>
<td>-2.0</td>
</tr>
<tr>
<td><strong>Changes between 2009-10 Budget and MYEFO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions**(c)**</td>
<td>-516</td>
<td>1,587</td>
<td>367</td>
<td>256</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>423</td>
<td>8,842</td>
<td>13,001</td>
<td>11,993</td>
</tr>
<tr>
<td><strong>Total variations</strong></td>
<td>-93</td>
<td>10,429</td>
<td>13,368</td>
<td>12,249</td>
</tr>
<tr>
<td><strong>2009-10 MYEFO underlying cash balance</strong>(a)</td>
<td>-57,685</td>
<td>-46,622</td>
<td>-31,167</td>
<td>-15,901</td>
</tr>
<tr>
<td>Per cent of GDP**(b)**</td>
<td>-4.5</td>
<td>-3.5</td>
<td>-2.2</td>
<td>-1.1</td>
</tr>
<tr>
<td><strong>Changes from MYEFO to 2010-11 Budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions**(c)**</td>
<td>-2,124</td>
<td>-3,024</td>
<td>227</td>
<td>-2,648</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>2,730</td>
<td>8,890</td>
<td>17,895</td>
<td>19,564</td>
</tr>
<tr>
<td><strong>Total variations</strong></td>
<td>606</td>
<td>5,866</td>
<td>18,122</td>
<td>16,917</td>
</tr>
<tr>
<td><strong>2010-11 Budget underlying cash balance</strong>(a)</td>
<td>-57,079</td>
<td>-40,756</td>
<td>-13,045</td>
<td>1,016</td>
</tr>
<tr>
<td>Per cent of GDP**(b)**</td>
<td>-4.4</td>
<td>-2.9</td>
<td>-0.9</td>
<td>0.1</td>
</tr>
</tbody>
</table>

(a) Excludes expected Future Fund earnings.
(b) GDP forecasts for the 2009–10 Budget were prepared according to the System of National Accounts 1993, while forecasts for MYEFO and the 2010–11 Budget were prepared according to the System of National Accounts 2008.
(c) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.


Chart 1 below shows both Australian Government revenue and expenditure, as forecast/projected in the 2010–11 Budget. The dotted lines show revenue and expenditure in nominal terms, while the solid lines show revenue and expenditure as a percentage of (nominal) GDP.
Projected budget surpluses in 2012–13 and 2013–14 are based on drastically upwardly revised revenue projections. In terms of accrual accounting, in the 2009-10 Budget revenue was forecast to be $294.8 billion in 2010–11, while in this year’s Budget revenue in 2010–11 is forecast to be $321.8 billion.

Table 3a below shows the revenue reconciliation statement for the period between the 2009–10 and 2010–11 Budgets. This table reveals that in 2010–11, around $25.8 billion out of a total improvement in estimated revenue of $27.0 billion (roughly 94 per cent) has come from parameter and other variations. In 2011–12 and 2012–13, parameter and other variations contribute over 100 per cent to the improvement in estimated revenue as policy changes made in the 2010–11 Budget are projected to slightly subtract from revenue in these years.
Table 3a: Reconciliation of Australian Government general government revenue estimates

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
<th>Projections</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td><strong>Revenue at 2009–10 Budget</strong></td>
<td>290 612</td>
<td>294 841</td>
<td>320 776</td>
<td>349 684</td>
</tr>
<tr>
<td><strong>Changes between 2009–10 Budget and MYEFO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>-34</td>
<td>-103</td>
<td>-78</td>
<td>-65</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>1 244</td>
<td>9 157</td>
<td>15 239</td>
<td>15 235</td>
</tr>
<tr>
<td><strong>Total variations</strong></td>
<td>1 211</td>
<td>9 053</td>
<td>15 162</td>
<td>15 170</td>
</tr>
<tr>
<td><strong>Revenue at 2009–10 MYEFO</strong></td>
<td>291 823</td>
<td>303 895</td>
<td>335 937</td>
<td>364 854</td>
</tr>
<tr>
<td><strong>Changes between MYEFO and 2010–11 Budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>226</td>
<td>1 699</td>
<td>-156</td>
<td>-2 103</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>2 167</td>
<td>16 228</td>
<td>20 616</td>
<td>19 169</td>
</tr>
<tr>
<td><strong>Total variations</strong></td>
<td>2 392</td>
<td>17 927</td>
<td>20 460</td>
<td>17 066</td>
</tr>
<tr>
<td><strong>Revenue at 2010–11 Budget</strong></td>
<td>294 215</td>
<td>321 822</td>
<td>356 397</td>
<td>381 920</td>
</tr>
</tbody>
</table>

(a) Excludes secondary impacts on public debt interest on policy decisions.

Source: [Budget paper no. 1: 2010–11](#), p. 5-12.

Cash receipts are forecast to be $314.4 billion in 2010–11, revised sharply upwards from the 2009–10 budget forecast for 2010–11 of $288.3 billion. As for accrual-based revenue estimates, cash-based receipt estimates have also primarily improved because of parameter and other variations.

Table 3b: Reconciliation of Australian Government general government receipt estimates

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
<th>Projections</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td><strong>Receipts at 2009-10 MYEFO</strong></td>
<td>283 608</td>
<td>297 131</td>
<td>324 653</td>
<td>355 216</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>22.4</td>
<td>22.2</td>
<td>22.9</td>
<td>23.5</td>
</tr>
<tr>
<td><strong>Changes between 2009-10 MYEFO and 2010-11 Budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions</td>
<td>222</td>
<td>854</td>
<td>3 104</td>
<td>-537</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>1 370</td>
<td>16 433</td>
<td>21 076</td>
<td>23 335</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>967</td>
<td>16 834</td>
<td>20 798</td>
<td>19 225</td>
</tr>
<tr>
<td><strong>Non-taxation</strong></td>
<td>403</td>
<td>-402</td>
<td>277</td>
<td>4 110</td>
</tr>
<tr>
<td><strong>Total variations</strong></td>
<td>1 593</td>
<td>17 286</td>
<td>24 180</td>
<td>22 798</td>
</tr>
<tr>
<td><strong>Receipts at 2010-11 Budget</strong></td>
<td>285 201</td>
<td>314 417</td>
<td>348 834</td>
<td>378 014</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>22.0</td>
<td>22.4</td>
<td>23.5</td>
<td>24.1</td>
</tr>
</tbody>
</table>


Even though the Australian economy has emerged from what turned out to be a mild downturn, the global economic downturn will continue to have a downward effect on expected revenues. This is because of certain features that exist within the tax system that mean that revenues will respond to the business cycle with a lag. For example, losses carried forward by companies, will tend to mean that company taxes do not deteriorate until well into a downturn and the associated deterioration in revenue will persist for some time after the economy begins to recover.
Modelling the impact of the RSPT

Given that the RSPT is a new tax, it is difficult \textit{a priori} to determine its impacts on the mining sector and the economy overall. Knowledge of key parameter values, such as the ‘uplift factor’, the tax rate and the rate at which losses are rebated are critical to its design. A brief summary of modelling commissioned by Treasury (conducted by KPMG Econtech) on the impacts of the RSPT combined with the proposed cut to the company tax rate is presented in \textit{Budget Paper No. 1}.\textsuperscript{23} Both of these tax reforms are modelled as a single package. A more detailed write-up of the results is available from KPMG Econtech.\textsuperscript{24}

Some issues regarding the modelling that are worthy of further consideration are discussed below:

- unlike modelling of royalties it is assumed that there is no ‘deadweight loss’ associated with the RSPT which may affect the calculation of the tax threshold
- the modelling results suggest that the increase in productivity that arises from the cut to the company tax rate will outweigh any negative productivity effects of the RSPT on the mining sector associated with its support of marginal mines and
- the introduction of the RSPT will make it more difficult in the immediate future for Treasury to accurately forecast revenues as the behavioural impacts of the tax are uncertain.

Welfare effects of the proposed tax changes

In relation to the modelling of the RSPT component of the changes, it should be noted that it is merely assumed that there is no ‘excess burden’ or ‘deadweight loss’ from the imposition of such a tax.\textsuperscript{25} The assumption is justified on the basis that the base for such a tax (i.e.

\begin{thebibliography}{25}

\bibitem{23} \textit{Budget paper no. 1: 2010-11}, op. cit., pp. 4-22–4-26.


\bibitem{25} Deadweight losses can be defined as a net loss in social welfare that results because the benefit generated by an action (in this case, the introduction of a new tax) differs from the foregone opportunity cost. Deadweight losses can be thought of, in an intuitive sense, as the opportunity cost in excess of benefits that leads to individuals to alter their behaviour to either avoid or take advantage of a particular action taken by the Government. ‘Social welfare’ usually refers to consumer surplus (the maximum amount a consumer is willing to pay for an item over and above what they actually paid), producer surplus (the amount a producer sells an item over and above the minimum price they would have accepted) and government revenue. These measure the gains to be made from exchange between individuals. Transfers of surplus from one group to another (say consumers to the government, or producers to
mineral deposits) is immobile and thus cannot shift to avoid the tax. On the other hand the existing royalty regimes are modelled as having an excess burden due to the discouragement of investment in more marginal projects. It is unsurprising then, that when compared to royalties, the introduction of a RSPT produces a net benefit or ‘welfare gain’.

This lack of behavioural modelling of the impacts of the RSPT is a weakness of the modelling. What really needs to be known to make a comprehensive evaluation of this new tax is the effect of various ‘uplift’ factors – the threshold which determines the boundary between a ‘normal’ rate of return on capital and so-called ‘super profits’ in the event that the true threshold where companies would start to face a disincentive to invest is uncertain.

If this threshold is too low (that is, it cuts in at levels that mining companies associate with normal rates of return on capital), then the assumption of zero excess burden may be unrealistic. Projects may get cancelled because of a lack of finance if financiers perceive that expected rates of return are not high enough. Conversely, if the threshold is set too high, the Government would miss out on some revenue that it could have otherwise collected, but mining investment would not be discouraged.

The essential point is that the Government has asymmetric information about the true threshold between ‘normal’ rates of return and ‘super profits’ or ‘economic rents’. That is, it is a relatively uncontroversial proposition that the miners and their financiers have better knowledge of the viability of their projects and their required rates of return than do the Government. Neither group have any incentive to reveal this to the Government. In any case, these may vary from project to project and so the RSPT with a single threshold may not be as economically efficient as is assumed. Further, there may be damaging unintended consequences on certain sectors of the industry which may have broader impacts on the economy. In short, the costs of making an error by setting the threshold too low (such as lost investment in the mining sector) are likely to be larger than setting the threshold too high (which implies less Government revenue). It will be difficult to directly observe the effects of the new tax, as there is no way to run a counterfactual scenario with the current taxation system left intact.

The KPMG Econtech analysis basically assumes that the RSPT is a perfectly efficient form of taxation and that the Government has identified the correct benchmark for ‘super profits’. Theoretically, the RSPT is an ‘ideal’ tax. If (and only if) the Government had full information relating to the correct threshold between returns on capital and ‘super profits’, levying a tax of 100 per cent on those super profits would not affect behaviour of mining companies at all. It is important to stress, this is the assumption that is embedded in the KPMG Econtech modelling. KPMG Econtech states:

consumers, for example) are seen as having no effect on social welfare as one group is benefited at the expense of another. Deadweight losses on the other hand, arise from the outright destruction of social welfare, which is no longer available to anyone.
In KPMG Econtech’s MM900 model, the RSPT has an excess burden of zero. This outcome rests on the modelling assumption that the RSPT only taxes the economic rents earned from immobile factors, in this case mineral reserves [my emphasis]. If only these rents are taxed, then the investment decisions of mining companies will not be distorted. Since the tax base for RSPT will not shrink in response to the tax, activity in the mining industry will not be distorted, and there will be no economic costs associated with the RSPT in MM900.

The incidence of the RSPT is also a result of the immobile nature of the natural resources on which it is levied. Since there is no change in the supply of mineral resources, their pre-tax price will not change. Instead, the after-tax return that owners of the resources are able to receive falls by the full amount of the tax in MM900.

Thus, using this methodology and modelling technique, it would not be hard to justify, in future, a much higher rate of taxation as the economic costs are assumed to be zero. At least in theory, raising the tax rate and the uplift factor may be a feasible compromise to try and avoid any deadweight losses whilst still maintaining the integrity of the Budget.

Productivity effects in the mining sector and broader economy

An intriguing result of the modelling is that, even though a new tax on the mining sector is being introduced, output in the mining sector, as well as investment and employment are all forecast to increase. Resource sector output (relative to the baseline case) is forecast to grow by 5.5 per cent, while resource sector investment and employment are forecast to grow by 4.5 per cent and 7 per cent respectively. These are the forecast impacts of both the introduction of the RSPT and the cut to company tax rates. On the surface, this may seem counter-intuitive. There are a couple of points to be made about this apparent contradiction. First, the RSPT effectively removes the state and territory government royalty regimes (at least from the perspective of the mining industry) by the Commonwealth refunding any royalties paid by mining companies. Thus, KPMG Econtech did not model the introduction of the proposed RSPT simply as a new tax being added to existing taxes, but rather as replacing royalties and crude oil excise.

Second, the Government stated:

More marginal mines that currently pay royalties may not earn sufficient profits to be net payers of the resource rent tax, so they will have an incentive to expand. Marginal prospective mines will pay less under the RSPT than under royalties and so a disincentive to invest in some new projects will also be removed.26

This statement implies that productivity growth in the mining sector may be reduced. On an intuitive level, more marginal mines are less profitable. Thus, if we are comparing two mines for the same commodity (that is, both face the same price for their output and thus their marginal revenue is the same), then the more marginal mine is less profitable because of a

higher cost structure. That means that for each additional dollar invested and each additional hour worked by an employee, less of that particular commodity will be extracted. Equivalently, to extract the same amount of output, more labour and capital resources must be employed in the more marginal mine. The modelling results suggest that the increase in productivity that arises from the cut to the company tax rate will outweigh any negative productivity effects of the RSPT on the mining sector, leading to a prediction of increased overall productivity growth in the economy. The company tax rate cuts increase productivity by increasing investment.

RSPT and future revenue forecasts

Ultimately, the introduction of the RSPT will make it more difficult in the immediate future for Treasury to accurately forecast revenues as the behavioural impacts of the tax are uncertain. The KPMG Econtech modelling does provide some insight into how such a tax works, although the authors do assume away one of the most interesting questions. That is, whether the boundary between normal returns and ‘super profits’ is set too low. Other than these modelling results, Treasury has little to go on in terms of the how the RSPT will affect revenue collections in the future.

One potential concern about the RSPT surrounds its symmetric nature. When mining companies earn ‘super profits’ these will be taxed at 40 per cent. When these companies make operating losses, the Government is proposing to provide a rebate for 40 per cent of those losses (some types of losses will not be covered). This will tend to make revenue flows more procyclical – it will be higher in booms and lower in downturns.

Another matter is related to the provision in the budget papers for any losses that the Government may have to provide a rebate for. As far as can be established, anticipated revenue flows from the RSPT are heavily linked to the terms of trade and that in years where the Government anticipates having to make good on rebates for mining company losses, this will merely subtract from anticipated revenue in future years. Thus, the stability of the Budget over time (in terms of anticipated revenues) could become even more reliant on Treasury getting their economic forecasts right. There have been some comments in the media from mining companies, who are claiming that financiers place little value on the commitment by the Government to rebate losses under the RSPT. This may be exacerbated due to the lack of an explicit commitment to make good on the rebates. There is some similarity between this situation and the implementation of the large deposit and wholesale funding guarantees introduced during 2009. Ratings agencies were hesitant in ascribing any value to those guarantees until they were perceived to have been ‘unconditional, irrevocable and timely’. Ultimately, this was ensured by the passage of legislation through the Parliament and provisions for contingent liabilities (explained below) were made in the budget papers.28

27. For more operational detail, see the ‘Resource Super Profit Tax’ brief in this Budget review.

An alternative to this approach, which may help to ease some these concerns would be to list potential losses as a ‘contingent liability’ in Statement 8 in Budget Paper No.1. Contingent liabilities are liabilities that will only be called upon contingent upon some event (contingent assets also exist). Depending on the nature of the risk of the event occurring and the total extent of any potential liabilities they can be quantifiable or unquantifiable. Sometimes, the Government has a very good idea of the nature of the liabilities and likelihood of contingent events occurring, while in some cases only an upper bound can be established. In other cases, no sensible estimate can be made. Nevertheless, by mentioning the losses in Statement 8, at least the Government would have acknowledged a commitment that it may be forced to meet in the future.

**Expenses and net capital investment**

Total expenses have been revised upwards in the 2010–11 Budget across the forward estimates period compared to the 2009–10 Budget. If the economic and other forecasts from this year’s Budget are realised, the Government will meet its cap on real spending growth of 2 per cent or less, once economic growth returns to trend. Table 4 below shows the evolution of total expenses over the forward estimates.

**Table 4: Australian Government general government sector expenses**

<table>
<thead>
<tr>
<th>MYEFO(a)</th>
<th>Revised</th>
<th>Estimates</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenses ($b)</td>
<td>340.2</td>
<td>343.1</td>
<td>354.6</td>
</tr>
<tr>
<td>Real growth on previous year (%)</td>
<td>2.4</td>
<td>3.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>26.8</td>
<td>26.5</td>
<td>25.2</td>
</tr>
</tbody>
</table>

(a) GDP forecasts for the 2009–10 Budget were prepared according to the System of National Accounts 1993, while forecasts for MYEFO and the 2010–11 Budget were prepared according to the System of National Accounts 2008.

(b) Real growth is calculated using the Consumer Price Index.

Source: Budget paper no. 1: 2010–11, p. 6-3.

A vast bulk of the changes in estimated expenses between the 2009–10 MYEFO and the 2010–11 Budget (shown in Table 5 below) arises from parameter and other variations. Goods and Services Tax (GST) payments to the states and increases in prices and wages are the two main economic parameter variations that have contributed to an overall increase in expenses over the forward estimates. These were offset to some degree by lower than anticipated expenditure on unemployment benefits and public debt interest. Policy decisions taken since the 2009–10 MYEFO are projected to increase expenses by a total of $5.2 billion over 2010-11 and 2011–12, and subtract around $2.6 billion from expenses in 2012–13. Assuming inflation comes in on target in these years, the Government has minimal margin for error to
achieve its self-imposed spending cap. It is probable that had this ‘intertemporal smoothing’ of expenses not occurred, then the spending cap would not have been achieved.

Table 5: Reconciliation of Australian Government general government expense estimates

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>2009–10 Budget expenses</td>
<td>338 213</td>
<td>344 528</td>
</tr>
<tr>
<td>Changes between 2009–10 Budget and MYEFO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>49</td>
<td>-1 491</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>1 905</td>
<td>1 943</td>
</tr>
<tr>
<td>Total variations</td>
<td>1 954</td>
<td>452</td>
</tr>
<tr>
<td>2009–10 MYEFO expenses</td>
<td>340 166</td>
<td>344 980</td>
</tr>
<tr>
<td>Changes between MYEFO and 2010–11 Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>1 916</td>
<td>3 468</td>
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<tr>
<td>Effect of economic parameter variations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total economic parameter variations</td>
<td>2 007</td>
<td>2 501</td>
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<tr>
<td>Unemployment benefits</td>
<td>-531</td>
<td>-1 757</td>
</tr>
<tr>
<td>Prices and wages</td>
<td>385</td>
<td>1 821</td>
</tr>
<tr>
<td>Interest and exchange rates</td>
<td>-31</td>
<td>-95</td>
</tr>
<tr>
<td>GST payments to the States</td>
<td>2 185</td>
<td>2 532</td>
</tr>
<tr>
<td>Public debt interest</td>
<td>-398</td>
<td>-137</td>
</tr>
<tr>
<td>Program specific parameter variations</td>
<td>1 911</td>
<td>2 347</td>
</tr>
<tr>
<td>Slippage in 2009-10 Budget decisions(b)</td>
<td>-124</td>
<td>887</td>
</tr>
<tr>
<td>Other variations</td>
<td>-2 356</td>
<td>599</td>
</tr>
<tr>
<td>Total variations</td>
<td>2 955</td>
<td>9 664</td>
</tr>
<tr>
<td>2010–11 Budget expenses</td>
<td>343 122</td>
<td>354 644</td>
</tr>
</tbody>
</table>

(a) Excludes secondary impacts on public debt interest of policy decisions.
(b) The amounts in all years relate to the delay in Private Health Insurance reform due to the rejection of legislation by the Senate.

Source: Budget paper no. 1: 2010–11, p. 6-4.

Net capital investment, which is defined as acquisitions of non-financial assets (such as computers, software, defence acquisitions, etc.) minus expenses for depreciation, usually only has a small impact on the overall budget balance. Table 6 shows the reconciliation statement for net capital investment. The most notable aspect of the reconciliation table is that net capital investment is projected to fall in 2012–13. This means that depreciation will outweigh any new investment in non-financial assets for that year.
Table 6: Reconciliation of Australian Government general government net capital investment estimates

<table>
<thead>
<tr>
<th></th>
<th>Estimates 2009–10</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>2010–11</td>
</tr>
<tr>
<td>2009–10 Budget net capital investment</td>
<td>5 545</td>
<td>6 269</td>
</tr>
<tr>
<td>Changes between 2009–10 Budget and MYEFO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>402</td>
<td>-218</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>87</td>
<td>-614</td>
</tr>
<tr>
<td>Total variations</td>
<td>488</td>
<td>-832</td>
</tr>
<tr>
<td>2009–10 MYEFO net capital investment</td>
<td>6 033</td>
<td>5 437</td>
</tr>
<tr>
<td>Changes between MYEFO and 2010–11 Budget</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of policy decisions(a)</td>
<td>396</td>
<td>693</td>
</tr>
<tr>
<td>Effect of parameter and other variations</td>
<td>-583</td>
<td>645</td>
</tr>
<tr>
<td>Total variations</td>
<td>-187</td>
<td>1 338</td>
</tr>
<tr>
<td>2010–11 Budget net capital investment</td>
<td>5 847</td>
<td>6 775</td>
</tr>
</tbody>
</table>

(a) Excludes secondary impacts on public debt interest of policy decisions.

Source: Budget paper no. 1: 2010–11, p. 6-45.

Balance sheet measures

Net debt is now forecast to peak in 2012–13 at $93.7 billion as opposed to the 2009–10 Budget, where the projected peak was 13.1 per cent of GDP in 2014–15, which equated to close to $200 billion. Gross debt (the bulk of which is comprised of Commonwealth Government securities, or CGS, on issue) was forecast to exceed $300 billion by 2014–15, whereas it is currently forecast to peak at around $232.3 billion in 2012–13. Forecasts for net worth and net financial worth have also been revised upwards. Forecasts and projections for net debt, net worth, net financial worth and net interest payments are presented below in Table 7.
Table 7: Australian general government sector net debt, net worth and net financial worth

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td>$219.2</td>
<td>$235.6</td>
</tr>
<tr>
<td>Non-financial assets</td>
<td>$98.4</td>
<td>$104.2</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>317.6</strong></td>
<td><strong>339.8</strong></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$337.7</td>
<td>$396.2</td>
</tr>
<tr>
<td>Net worth</td>
<td>-20.1</td>
<td>-56.5</td>
</tr>
<tr>
<td>Net financial worth</td>
<td>-118.5</td>
<td>-160.6</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-9.2</td>
<td>-11.4</td>
</tr>
<tr>
<td><strong>Net debt</strong>(b)</td>
<td><strong>41.8</strong></td>
<td><strong>78.5</strong></td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>3.2</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Net interest payments</strong></td>
<td>2.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>

(a) Net financial worth equals total financial assets minus total liabilities. That is, it excludes non-financial assets.
(b) Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowing minus the sum of cash and deposits, advances paid and investments, loans and placements.

Source: Budget paper no. 1: 2010–11, p. 3-23.

It is interesting to note that under sections 5 and 5A of the Commonwealth Inscribed Stock Act 1911, the Commonwealth has imposed a ceiling on itself, in terms of the face value of the total amount of CGS on issue. At present, the total face value of CGS on issue at any one time is limited to $200 billion. Thus, if the budget forecasts turn out to be accurate, then new legislation will be required in order for the Government to continue borrowing beyond the $200 billion limit. The Commonwealth Inscribed Stock Act 1911 actually sets a limit of $75 billion under normal circumstances. However, there is a provision for the Treasurer of the day to declare ‘special circumstances’ and increase the borrowing limit by $125 billion to $200 billion (a declaration can only be made by the Treasurer once—that is, the Treasurer cannot declare special circumstances twice and raise the borrowing limit by a further $125 billion, for example). Such a declaration was made in early 2009. As it stands, the declaration can remain in force in perpetuity and the Government has not given any indication of when it expects to reverse the declaration.
Climate change and energy

Anita Talberg and Mike Roarty
Science, Technology, Environment and Resources

Climate change

New government spending in relation to climate change focuses on renewable energy and energy efficiency measures. There are no new funds for specific emission reduction policy instruments, or for adaptation. Conservation and environmental groups, while welcoming the energy initiatives, are generally disappointed by this Budget.29

Carbon Pollution Reduction Scheme

The Government has announced that it will not put forward legislation for its emissions trading scheme, the Carbon Pollution Reduction Scheme (CPRS), until after the Kyoto Protocol’s first commitment period ends on 31 December 2012.30 The delay of the CPRS creates a net improvement in the budget position of $652 million.31 This has been allocated over four years to a new Renewable Energy Future Fund (REFF).32

The REFF will come under the expanded Clean Energy Initiative (CEI), which is administered by the Department of Resources, Energy and Tourism. This will bring the total budget of the CEI to $5.1 billion.

International funding

In associating itself with the Copenhagen Accord in January 2010, the Australian Government agreed to a collective commitment by the developed world to provide developing countries with US$30 billion between 2010 and 2012, increasing to

US$100 billion dollars annually by 2020.33 The Budget includes a total of almost $300 million towards this commitment, shared between the programs listed in Table 1.

### Table 1: International climate change funding

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>International Climate Change Adaptation</td>
<td>-</td>
<td>-</td>
<td>78.6</td>
<td>99.6</td>
</tr>
<tr>
<td>Initiative</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multilateral climate change funding</td>
<td>5.0</td>
<td>-</td>
<td>40.6</td>
<td>60.6</td>
</tr>
<tr>
<td>Bilateral partnerships on climate change</td>
<td>-</td>
<td>-</td>
<td>5.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>5.0</td>
<td>-</td>
<td>124.2</td>
<td>170.2</td>
</tr>
</tbody>
</table>


The Budget also provides an additional $56 million in 2012 and 2013 towards the existing International Forest Carbon Initiative with Indonesia and Papua New Guinea.34

While this contribution seems significant, it must be viewed in the context of Australia’s overall Overseas Development Assistance (ODA) funding. Total Australian ODA has increased by $500 million, or 9 per cent since the 2009–10 Budget. However, $300 million of this increase is destined for the climate change programs listed in Table 1. There has been criticism that the large sum given to climate change in the ODA may mean reductions in real terms for humanitarian aid and other more immediate assistance priorities.35 This point was also made during international negotiations, when developing countries expressed concern that financial commitments to international climate change action from developed countries might come at the expense of other existing ODA, such as investment in health and education.36

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For a more detailed review of international development assistance see the relevant section in the Parliamentary Library’s *Budget Review 2010–11*.

**Energy sources and energy efficiency**

One program that was established to complement the axed CPRS will remain. The Australian Carbon Trust Limited (ACT Ltd) was created to encourage involvement in the CPRS and assist in the implementation of energy efficiency measures. The Energy Efficiency Trust was an initiative under the ACT Ltd to support energy efficiency improvements in the private sector. The Government has stated that this arrangement will continue, but funds have ‘not yet been finalised with ACT Ltd and therefore are not included in the Portfolio Budget Statements’.  

As outlined above, all other CPRS-allocated funds will now form the new REFF, which sits under the CEI and expands the overall funding of this program to $5.1 billion. The CEI was announced last Budget and includes the Carbon Capture and Storage (CCS) Flagships program, the Solar Flagships program, and Renewables Australia. On budget day, the Government announced a series of new grants and renewable energy projects under these programs, but it should be noted that these were allocated from existing, not new, funds. Details of these projects can be found [here](#).

**The expanded Renewable Energy Target (RET)**

Legislation for the expanded RET was passed in August 2009. It amends the existing scheme to target an annual production of 45 000 GWh of electricity from renewable sources. To support this, additional funds of $6 million have been allocated to the Office of the Renewable Energy Regulator under the responsibility of the Department of Climate Change.

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and Energy Efficiency.\textsuperscript{41} To continually assess the impact of this new legislation on industry sectors, the Productivity Commission has also been allocated $4 million over four years.\textsuperscript{42}

The Energy Efficient Homes Package (EEHP)

The EEHP was initially funded under the $42 billion economic stimulus in February 2009 and included the Home Insulation Program (HIP) and Solar Hot Water Rebate program (SHWRP).\textsuperscript{43} Following serious safety concerns, the Government announced on 19 February 2010 that both the HIP and the SHWR would be discontinued and replaced by a new Renewable Energy Bonus Scheme (REBS).\textsuperscript{44} The 2010–11 Budget allocates remaining funds from the HIP and SHWR to REBS, which will be used to finance three programs:

- the Home Insulation Safety Program, established to perform safety inspections of ‘at least 150,000 homes that had non-foil insulation installed’ under the HIP\textsuperscript{45}
- the Foil Insulation Safety Program, established to ‘inspect approximately 50,000 homes that had foil insulation installed’ under the HIP\textsuperscript{46} and
- the Insulation Industry Assistance Package, established to support firms that participated in the HIP to ‘meet the cost of insulation stock-holdings, through the deferral of GST payment obligations and a $15.0 million grants program’.\textsuperscript{47}

Additionally, the Government announced $41.2 million over two years for the Insulation Workers Adjustment package, including a reallocation of $11.5 million from the Jobs Fund stream to fund an Insulation Workers Adjustment Fund.\textsuperscript{48}

\textsuperscript{41} Budget measures: budget paper no. 2: 2010–11, op. cit., p. 123.
\textsuperscript{42} Ibid., p. 294.
\textsuperscript{45} Budget measures: budget paper no. 2: 2010–11, op. cit., p. 119.
\textsuperscript{46} Ibid.
\textsuperscript{47} Ibid., p. 120.
Other energy related measures

Green Loans

A total of $102.7 million has been allocated to a ‘redesign’ of the Green Loans program.\(^{49}\) This program once consisted of three stages: a free home sustainability assessment, a free $50 rewards voucher and then a possible $10 000 loan towards improvements (based on the sustainability assessment report).

The Government has discontinued the rewards voucher and loan components due to ‘low take-up’.\(^{50}\) Commentary in the media claimed a flood of applications for assessments led to a bottleneck and then an influx of poorly trained assessors. There are claims that people who paid to train as assessors are now without a job, and the administration of the program was widely criticised.\(^{51}\) The Government acknowledged some of the problems in a statement in March, and reviewed the matter.\(^{52}\) The loans component and the $50 rewards vouchers have been cancelled, and activity has been capped at 5000 assessors in total, and 15 000 assessment bookings per week. Even though there are no new loans, and the current program consists only of the home sustainability assessments, the program is still officially (albeit inaccurately) called ‘Green Loans’.

Resource exploration refundable tax offset—geothermal included

As part of its response to *Australia’s Future Tax System: Report to the Treasurer* (Henry Tax Review), the Government will provide $1.8 billion over four years from 2010–11 for a refundable tax offset at the company rate for expenditure carried out in Australia.\(^{54}\) The refundable tax offset will be available to all companies (at the company level) for eligible

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49. *Budget measures: budget paper no. 2: 2010–11*, op. cit., p. 120.
50. Ibid.
expenditure incurred on or after 1 July 2011, instead of the immediate deductions currently available for such expenditure. As part of this measure, the definition of exploration expenditure will be expanded to include expenditure incurred in exploring for potential geothermal energy.\(^{55}\)

However, explorers for geothermal energy will not benefit from this measure until they are earning revenue—presumably from power generation. A mineral exploration company that has no income from a mining operation will accrue no benefit. Additionally, well-established geothermal explorers in Australia that have already spent substantial funds on deep-seated geothermal energy evaluation would not be able to claim their expenditure through this measure.\(^{56}\)

### Fuel ethanol tax

From 1 July 2011, ethanol-blended fuels will no longer receive a full production subsidy offset for the fuel excise.\(^{57}\) In line with a recommendation from the Henry Tax Review, the Government has announced its intention to introduce a content-based fuel excise system, and to include fuel ethanol.\(^{58}\) This means that fuel ethanol producers will pay excise from July 2011. The Australian biofuel industry is both surprised and concerned about this measure, especially as implementation details have not yet been decided. The industry fears that the excise is likely to restrain its development.\(^{59}\)

For a more detailed review of the fuel ethanol tax measure see the relevant section under taxation in the Parliamentary Library’s *Budget Review 2010–11*.

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56. This measure is unlike a flow through share scheme of arrangement—as presently operating in Canada—whereby investors in mineral exploration companies can write off losses from mineral exploration activity from other sources of income. Such a properly administered scheme is far more beneficial to mineral exploration activity.


Green Start

First announced on 25 November 2009, the Green Start program is aimed at improving ‘the energy and water efficiency of low-income and disadvantaged Australian households’.\(^\text{60}\) The program has been delayed and is now due to start on 1 January 2011.\(^\text{61}\) Funding is $130 million over three years redirected from the discontinued Low Emissions Assistance for Renters.\(^\text{62}\)

FutureGen

The Government has announced that it ‘will not proceed with FutureGen Alliance membership at this time’.\(^\text{63}\) FutureGen was a proposed public-private alliance with the United States to develop a quasi carbon-neutral coal power plant. This will save the Government $15 million and there is no explicit reallocation of these funds towards other climate change related measures.

Education, research and innovation

Climate change Foundation Campaign

The climate change Foundation Campaign is a national educational initiative to help raise public understanding and knowledge on climate change and the science. The measure has been costed at $30 million over two years, which will come from existing funds.\(^\text{64}\)

Green Car Innovation Fund

The Green Car Innovation Fund is targeted at delivering technology for a modern vehicle with higher fuel economy and reduced greenhouse gas emissions. The Government has announced that it will reduce funding to this by $200 million over the three years starting in 2011.\(^\text{65}\) This move, together with the new excise on ethanol-blended fuels (which are

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\(^{64}\) Ibid., p. 119.

\(^{65}\) Ibid., p. 281.
marginally less carbon intensive) suggests that reducing greenhouse gas emissions from transport is now receiving a lower priority than in the past.66

**Cairns Institute Tropical Innovation Hub**

James Cook University is constructing a $44 million research facility to staff 125 researchers interested in issues of relevance to the tropics, including climate change science. Towards this, the Government is providing $19.5 million over two years.67

**Geoscience Australia**

This Budget commits an additional $65.3 million of general funding to Geoscience Australia. This financial support is diverted from funding originally allocated to the CCS Flagships Program under the CEI.68 Although Geoscience Australia’s activities include studies on greenhouse gas storage and other climate change-related issues, this is not its sole focus. The reallocation of funds away from the CCS Flagships program to Geoscience Australia is apparently not balanced by a concomitant increase elsewhere in the climate change budget.

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68. Ibid., p. 290.
Environment and natural resource management

Bill McCormick
Science, Technology, Environment and Resources Section

Caring for our Country

The Government announced in the Budget that it will require savings from the Caring for our Country (CfoC) initiative of $81.3 million over the next four years. These savings will come from the Landcare program (which is funded through the Department of Agriculture, Fisheries and Forestry (DAFF)), and from the Natural Heritage Trust of Australia (funded through the Department of the Environment, Water, Heritage and the Arts (DEWHA)).

Caring for our Country (CfoC) has provided funding for Landcare (among other things) since the National Landcare Program finished on 30 June 2008. The Australian Government announced in July 2008 that the CfoC initiative would include $189 million over five years for landcare-related activities. In 2008–09 Landcare Sustainable Practice projects were allocated under CfoC. Since then, $26 million in Landcare grants have been allocated through the 2009–10 CfoC Business Plan. In June 2009 the Government committed $33.6 million over four years under the CfoC to support the work of a national network of up 56 Landcare facilitators across Australia. Funding commitments to both these programs end in 2012–13.

These budget savings from CfoC are referred to as ‘reducing duplication’ but it is not clear if there is much duplication in the CfoC. To date there are no specified areas where cuts have been identified. As noted in Table 1, the cuts will increase over the next four years from $10.3 million in 2010–11 up to $35.3 million in 2013–14.

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### Table 1 Caring for our Country—reducing duplication

<table>
<thead>
<tr>
<th></th>
<th>2010–11 ($m)</th>
<th>2011–12 ($m)</th>
<th>2012–13 ($m)</th>
<th>2013–14 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEWHA</td>
<td>-8.8</td>
<td>-12.9</td>
<td>-17.1</td>
<td>-31.6</td>
</tr>
<tr>
<td>DAFF</td>
<td>-1.5</td>
<td>-2.4</td>
<td>-3.2</td>
<td>-3.7</td>
</tr>
<tr>
<td>Total</td>
<td>-10.3</td>
<td>-15.3</td>
<td>-20.3</td>
<td>-35.3</td>
</tr>
</tbody>
</table>


It is expected that the reduction in funding will be achieved first through internal efficiencies and minor adjustments to the program, which is why the cuts increase each year until 2013–14.

However, the Minister for Agriculture, Fisheries and Forestry, Tony Burke, has given a commitment that the base level funding for the 56 Natural Resource Management Regions ($138 million per annum through 2012–13) and the funding for Landcare facilitators ($8.1 million through 2012–13) will be maintained until 2012–13. It should be noted that both programs have funding commitments until the end of 2012–13 so it is possible that these two programs could have cuts of up to $15 million in the 2013–14 financial year to meet the further reduction in funding planned for that year.

The National Party and Australian Greens senators have criticised the reduction in funding to Landcare and other natural resource management programs. Senator Rachel Siewert, the Australian Greens spokesperson on NRM and agriculture, said:

> Caring for Our Country was in need of an overhaul, I have been extremely critical of this Government’s approach to NRM and Landcare but the last thing it needed was a funding cut of this magnitude, one which strikes at the core of Australia’s natural resource management programs.

### National Plan for Environmental Information—establishment

The Budget provides funding for the development of a National Plan for Environmental Information. The plan is to be a whole-of-government initiative implemented jointly by the


74. R Siewert (Australian Greens Spokesperson on NRM and Agriculture), *Budget delivers sting for environmental programs*, media release, 12 May 2010, viewed 17 May 2010, [http://parlinfo.parlInfo/download/media/pressrel/3POW6/upload_binary/3pow60.pdf;fileType=application%2Fpdf#search=%22landcare%22](http://parlinfo.parlInfo/download/media/pressrel/3POW6/upload_binary/3pow60.pdf;fileType=application%2Fpdf#search=%22landcare%22)

Department of the Environment, Water, Heritage and the Arts (DEWHA) and the Bureau of Meteorology (BOM). The Plan aims to improve the quality and coverage of Australia’s environmental information so that it can be used to make sound decisions about issues that affect natural resources.

The plan will coordinate and prioritise the way the Australian Government collects, manages and uses environmental information. It represents a long-term approach to building and improving our environmental information base. In the first four years, the initiative will:

- establish the Bureau of Meteorology as the Australian Government authority for environmental information
- formalise arrangements to coordinate priorities and activities across government
- review existing information resources, and environmental information activity
- begin building priority national environmental datasets and the infrastructure to deliver them.76

As part of the plan, legislation governing environmental information will be introduced; there will be a review of Australian Government activity in environmental information; and a high-level advisory group will provide whole-of-government direction and prioritise environmental information activities. BOM will conduct a review of existing environmental data to meet national environmental information priorities, to identify potential gaps in our existing capabilities, and establish expert technical panels and partnerships with key Australian Government agencies to develop and deliver specific products.77

To develop the Plan, the government will provide $18 million over four years (including $7.6 million in capital funding). An Environmental Information Reform program will be established in DEWHA ($1.3 million over 2010–11 and 2011–12) and an Environmental Data Coordination program will be established in the Bureau of Meteorology ($16.7 million over 2010–11 through 2013–14).

National Waste Policy—implementation

The National Waste Policy was agreed to by the Environment Protection and Heritage Council (EPHC) at its 5 November 2009 meeting and replaces the National Strategy for Ecological Sustainable Development as the basis for waste management in Australia.78 It sets

76. Ibid.
77. Ibid.
a national direction for waste policy until 2020 and aims to avoid the generation of waste; reduce the amount of waste for disposal; manage waste as a resource; and ensure that waste treatment, disposal, recovery and re-use are undertaken in a safe, scientific and environmentally sound manner:

The policy sets a clear direction for Australia over the next 10 years, toward producing less waste for disposal, and managing waste as a resource to deliver economic, environmental and social benefits. It will complement action to deliver greenhouse gas emission reductions, reduce energy and water use, support jobs, and invest in future long term economic growth. It will promote more consistent regulation and address market impediments. The policy will provide the basis for collaboration among the jurisdictions to deliver effective and efficient approaches to national waste issues, and ensure that waste management remains aligned with Australia’s international obligations.79

In announcing the agreement to the National Waste Policy, the Minister for the Environment, Heritage and the Arts said:

The National Waste Policy sets out a comprehensive agenda for national coordinated action on waste across six key areas:

• Taking Responsibility
• Improving the Market
• Pursuing Sustainability
• Reducing Hazard and Risk
• Tailoring Solutions
• Providing the Evidence

This is a fundamental shift in our approach to waste complementing broader action on climate change and sustainability. It will lead to less waste and better management of waste as a resource, to deliver economic, environmental and social benefits, while ensuring that we continue to manage waste in a safe and environmentally sound manner.80

The 2010–11 Budget stated that the Government will provide $23 million over five years to 2014–15 to implement the initial components of the National Waste Policy: ‘As a first step, the policy will deliver new schemes for recycling computers, televisions and tyres.’81

Water

Bill McCormick
Science, Technology, Environment and Resources Section

Two initiatives, both concerned mainly with urban water, have seen their funding reduced within the large Water for the Future program. A third program involving buy-back of Murray-Darling Basin (MDB) water entitlements has had $100 million in capital funds brought forward from the out-years for spending in 2010–11.

Water for the Future—National Rainwater and Greywater initiative—reduced funding

The program ‘provides rebates of up to $500 towards the cost of installing rainwater tanks or new piping for greywater use, or up to $10,000 to surf life saving clubs to install a rainwater tank or as a contribution towards a larger water saving project’.

The funding for what was a $250 million initiative has been reduced by a further $180 million in the 2010–11 Budget in response to a lower than expected demand from the public. This comes after $44.4 million was already cut from the funding in 2009–10 and 2010–11 in the Mid-Year Economic and Fiscal Outlook 2009–10 (MYEFO) for the same reason (see Table 1). The $25.9 million that will eventually be provided is therefore only about one-tenth of the original budget of the program.

It is interesting to note that on 14 May 2010 the Department of the Environment, Water, Heritage and the Arts (DEWHA) website had the following message which implies that demand may be increasing: ‘The National Rainwater and Greywater Initiative is currently experiencing peak workloads. Applicants may find a small delay in payment as a result.’

Table 1: National Rainwater and Greywater initiative—reduced funding

<table>
<thead>
<tr>
<th></th>
<th>2009–10 (€m)</th>
<th>2010–11 (€m)</th>
<th>2011–12 (€m)</th>
<th>2012–13 (€m)</th>
<th>2013–14 (€m)</th>
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</thead>
<tbody>
<tr>
<td>2009–10 MYEFO</td>
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<td>-34.4</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2010–11 Budget</td>
<td>-20.0</td>
<td>-22.6</td>
<td>-55.0</td>
<td>-45.0</td>
<td>-37.1</td>
</tr>
</tbody>
</table>


Sophie Morris, writing in the *Australian Financial Review*, commented:

The low demand for the rebates contrasts markedly with the massive response when the government offered subsidies for roof-top solar panels in recent years, leading to an $850 million cost blowout. The budget papers reveal that few were convinced by the offer of a rebate of up to $500 to invest in water-savings measures at home.

The economics of such an investment simply did not stack up as water prices would need to rise substantially before a home owner would save money by installing a rainwater tank or greywater system.84

**Water for the Future—National Urban Water and Desalination Plan—reduced funding**

Also, $70.3 million has been cut from funding to the National Urban Water and Desalination Plan, again due to a lower than expected demand. The cuts will be $20 million in 2011–12 and $50.3 million in 2012–13. The $1 billion six-year National Urban Water and Desalination Plan, which started in 2008–09, targets cities and towns of 50 000 people or more and supports projects that use desalination, recycling and stormwater harvesting to improve the security of water supply. Tax credits or grants to major projects with a minimum capital cost of $30 million will be provided up to a value of ten per cent of capital costs, capped at a maximum $100 million per project.85

The Taxation Institute of Australia, while supporting the proposed tax offsets, raised a number of issues about the draft legislation for the proposed urban water tax offset in 2009:

1. the scope of the ED (exposure draft) and the types of entities to which the urban water tax offset is available is too narrow, in that urban water tax offset is not available to any private sector entity that is not a company and that does not directly carry out the eligible project;

2. the cut-off date for claiming the urban water tax offset is arbitrary and inflexible, effectively meaning that taxpayers will be unable to claim an urban water tax offset for any milestones for the eligible project met, even 1 day, after the end of the 2012–13 income year;

3. the time limits of amending assessment claiming an urban water tax offset are unreasonably long and will leave taxpayers uncertain with respect to their tax position for unreasonably long period of time;


4. key aspect of the urban water tax offset scheme are to be governed by yet to be released guideline that may be amended or varies after taxpayers have been issued with a certificate under proposed section 402-760, leaving taxpayers with ongoing uncertainty as to their ability to claim urban water tax offsets; and

5. the assumption of obligations in return of the tax offset should be treated as not being taxable for GST and the amount of the offset needs to be calculated on a GST exclusive basis.86

Of the cities that are building desalination plants, only the desalination plant in Adelaide has had funding committed to its construction under this program.

Kerry Schott, Managing Director of Sydney Water, was critical of the program, saying it was based on a poor understanding of how urban water worked and argued that such investments should be fully funded by water users rather than government handouts.87

**Water for the Future—accelerated water buy-backs for the Murray-Darling Basin**

There is a commitment under the Restoring the Balance in the Murray-Darling Basin (MDB) program to spend $3.1 billion over 10 years to purchase water entitlements in the MDB to restore the environmental health of the MDB system, and to smooth the transition to the lower sustainable diversion limits anticipated in the new Basin Plan.88 The Government has decided to bring forward $650 million in capital funds into 2009–10 to accelerate the purchase of environmental water, ‘by bringing purchases from the 2008–09 water tender to timely settlement, as well as providing for new water purchase initiatives in 2009–10’.89

In 2009–10, the MYEFO brought forward $320 million in capital funds ($220 million from 2010–11 and $100 million from 2011–12) to accelerate the water buy-backs under the Restoring the Balance in the MDB program.90 *Budget Paper No. 2* shows that a further


89. Ibid.

$330 million in capital funds which had been planned for expenditure in the three years 2011–2014 was brought forward for use in 2009–10. 91 (This was originally reported in the 2009–10 EWHA Portfolio Supplementary Budget Statements. 92)

There is an inconsistency between Budget Paper No. 2 and the EWHA Portfolio Budget Statements 2010–11. Table 1.2 of the Portfolio Budget Statement shows that $100 million in capital funds are brought forward from 2012–13 to accelerate water buy-backs in 2010–11. 93 However there is no mention of this movement of capital funds in Budget Paper No. 2.

The Minister for Climate Change, Energy Efficiency and Water, Senator Penny Wong said:

An additional $100 million in funding for water purchasing has been brought forward in the 2010–11 Federal Budget to help return the Murray Darling Basin’s rivers and wetlands to health. 94

So far in 2009–10 there have been three tenders for purchase of water entitlements in the Southern Basin of the MDB as well as one for a water entitlements purchase in the lower Balonne catchment in the Northern Basin. 95

93  Ibid.
Defence introduction

Laura Rayner
Foreign Affairs, Defence and Security Section

It is getting harder to come to any conclusion on Defence’s financials, because the process is even murkier than usual.96

Total funding in the 2010–11 Defence budget is estimated to be $26 896.6 million. From this amount Defence will provide $10 536.8 million to the Defence Materiel Organisation (DMO) for procurement of equipment and the provision of sustainment services to the Australian Defence Force, making up the bulk of DMO’s total net resourcing of $11 996.5 million for 2010–11.97 The 2010–11 Defence budget of $26 896.6 million is a 6 per cent increase on the $25 371.6 million which the Defence Portfolio Budget Statements 2010–11 list as the estimated actual funding for 2009–10.98

Defence workforce

David Watt
Foreign Affairs, Defence and Security Section

This year’s Budget has engendered some comment by both journalists and the Opposition on the increase in the number of civilian Australian Public Service (APS) staff in the Department of Defence. In his response to the Budget, Shadow Treasurer Joe Hockey stated that the Budget would deliver ‘more bureaucrats and less to the front line, increasing civilian numbers by 1500 and cutting the number of uniform personnel by 500’. The media also commented on this change in staffing numbers.

The following data is derived from the staff numbers outlined in Budget Strategy and Outlook: Budget Paper No. 1: 2010–11.

Table 1: Average Staffing Levels

<table>
<thead>
<tr>
<th>Average staffing levels</th>
<th>2009–10</th>
<th>2010–11</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept of Defence – Civilian</td>
<td>15 320</td>
<td>16 790</td>
<td>1 470</td>
</tr>
<tr>
<td>Department of Defence – Military</td>
<td>57 777</td>
<td>57 276</td>
<td>-501</td>
</tr>
<tr>
<td>Dept of Defence – Reserves</td>
<td>21 574</td>
<td>22 018</td>
<td>444</td>
</tr>
<tr>
<td>Defence Housing Australia</td>
<td>700</td>
<td>599</td>
<td>-101</td>
</tr>
<tr>
<td>Defence Materiel Organisation</td>
<td>5 632</td>
<td>5 818</td>
<td>186</td>
</tr>
</tbody>
</table>

The Department’s explanation for the rise in the number of APS staff is that, based on ‘the detailed diagnostic program completed as part of the Strategic Reform Program’, the new

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number is a more realistic appraisal of Defence needs over the coming years. 102 More specifically, the Defence Portfolio Budget Statements 2010–11 (PBS) state:

The increase in the civilian APS is due to increases associated with the White paper, civilianisation of military positions and conversion of contractor positions associated with the Strategic Reform Program and delays in recruitment resulting in a lower budget forecast outcome for 2009–10. 103

The conversion of contractor positions to APS positions and the civilianisation of positions held by uniformed staff was flagged in the 2009 Defence White Paper:

Government has also directed Defence to substantially reform the workforce to drive productivity improvements, based on three initiatives: a leaner, more effective business support model; a largely civilianised and professionalised non-deployable military workforce; and the conversion of contractor positions to less expensive full-time civilian positions. 104

The White Paper went on to say that these measures, coupled with consolidation and centralisation of services, would lead to substantial savings in the Defence Budget. However, it also noted that the process initiated by the White Paper would see a net growth in the number of APS staff employed in the Department of Defence. 105

The publicly released documents which describe the Strategic Reform Program (SRP) have attempted to quantify the changes on two occasions. Released in late 2009, The Strategic Reform Program: Delivering Force 2030 had this to say:

While there will be increases to the APS workforce through civilianisation, contractor conversions and new White Paper initiatives, there will also be reductions in creating a leaner business model and an ongoing improvement dividend. Based on initial analysis, civilian numbers will grow overall by the total civilian workforce of between 50 and 300 in any one year. These reductions equate to between 0.2 per cent and 1.2 per cent of the total civilian workforce. 106

103. Ibid., p. 31.
105. Ibid., p. 123.
By the time of *The Strategic Reform Program: Making it Happen*, released in early 2010, the numbers had been revised somewhat:

As a result of previously planned growth and White Paper initiatives there will be a net growth of around 3,800 ADF positions and 1,500 APS positions to 2018-19. This is a larger number of positions than previously advised in the booklet *Strategic Reform Program: Delivering Force 2030*. The implementation planning phase of the SRP did not produce the same level of reductions in shared services, civilianisations or contractor conversions as predicted in the Defence Budget Audit.\(^{107}\)

It should be noted that uniformed military personnel and contractors both cost the Department of Defence considerably more than do equivalent APS staff. The SRP documentation states that contractors cost between 15 and 40 per cent more than their APS equivalents and that it is hoped that the planned reductions in contractors will produce savings of around $400 million by 2018–19.\(^{108}\)

It also claims that between 500 and 600 uniformed military support positions will be civilianised between 2010 and 2014. Since APS employees cost on average 30 per cent less than their ADF counterparts it is hoped that this will result in a cost reduction of around $400 million over the life of the program.\(^{109}\) Defence states that there are approximately 11,000 military personnel in support positions across the ADF but that civilianisation will only affect a maximum of about 10 per cent of these positions.

*The Strategic Reform Program: Making it Happen* booklet contains a table which sets out the projected workforce implications of the SRP and the White Paper. The table includes data on intended numbers of both civilianisations and contractor conversions out to 2018–19.\(^{110}\) The relevant figures for 2010–11 project an increase of 244 in the number of APS staff as a result of conversions and that civilianisation will result in a further 188 additional staff. The table also estimates that during 2010–11 there will be an increase of 1,375 APS staff as a result of the White Paper implementation process. Allowing for some SRP efficiency-based reductions and the fact that the reduction in the number of contractors employed is exactly equal to the number of APS personnel employed to carry out the same roles (albeit the APS staff cost less), these figures seem to be the basis of the projected budget increase of 1,470.

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The portfolio budget statement (PBS) for Defence does not comment on the reduction of 101 in the Average Staffing Level for Defence Housing Australia (DHA). However, the announcement by the Minister for Defence Personnel, Materiel and Science in November 2009 that DHA had lost the contract for removal and relocation services to Toll Transport Pty Ltd could, in part, be responsible for the lower number. The PBS states that this contract resulted in direct revenue to DHA of $19 million during 2009–10. The loss of this money would presumably have an impact on staff numbers.\footnote{Australian Government, Portfolio budget statements 2010–11: budget related paper no. 1.5A & 1.5C: Defence Portfolio, op. cit., p. 209.}
F-111 Deseal/Reseal maintenance workers—further support

Nicole Brangwin
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The Government has allocated $55 million over five years (including the current financial year) towards a new health care and compensation package for former F-111 aircraft fuel tank maintenance workers.112 This initiative responds to recommendations made by the parliamentary inquiry into ‘Deseal/Reseal’ repair activities on Royal Australian Air Force’s (RAAF’s) F-111 fuel tanks between 1973 and 2000.113 It is expected to deliver wider access by:

... expanding the definition of eligible personnel and the benefits and services available to them – to provide better access to care and compensation under the SRCA [Safety, Rehabilitation and Compensation Act 1988].114

However, some former F-111 maintenance personnel have expressed dissatisfaction with the Government’s new initiative claiming: ‘… the package is insulting. They say it excludes many of the people who have suffered the most and offers little more in terms of real increases in funding’.115

The following table from Budget Measures: Budget Paper No. 2: 2010–11 illustrates the distribution of the $55 million over the next five years, commencing from the current financial year 2009–10:116

F-111 Deseal/Reseal maintenance workers—further support

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<td>Department of Veterans’ Affairs</td>
<td>2.2</td>
<td>18.4</td>
<td>13.3</td>
<td>11.8</td>
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<td>Department of Families, Housing, Community Services and Indigenous Affairs</td>
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<td>Department of Health and Ageing</td>
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<td>-0.3</td>
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<tr>
<td>Total</td>
<td>2.1</td>
<td>18.1</td>
<td>12.8</td>
<td>11.3</td>
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A number of inquiries and health studies conducted from 2001 found that thousands of former F-111 maintenance workers had been exposed to toxic chemicals while working on the aircraft’s fuel tanks. Unsurprisingly, many of these workers have presented with various physical and psychological health concerns. The first study, the Study of Health Outcomes in Aircraft Maintenance Personnel (SHOAMP), found that a higher rate of adverse health problems was evident in F-111 Deseal/Reseal maintenance personnel than comparison groups. As a result, the SHOAMP Health Care Scheme was established to provide treatment and counselling services to affected personnel. This scheme closed after September 2005 but has now been reopened as part of the Government’s budget initiative to adequately compensate and treat affected personnel and their families.

In 2009, the Joint Standing Committee on Foreign Affairs, Defence and Trade made 18 recommendations in its report examining issues surrounding the RAAF F-111 Deseal/Reseal program. The Government’s initial response to the report was outlined in this year’s Budget. In the full response tabled in Parliament on 13 May 2010 the Government accepted 14 of the Committee’s recommendations, some with modifications and/or enhancements, and rejected four. The rejected recommendations relate to the ex-gratia

117. For further details about these inquiries and studies, refer to Department of Defence and Department of Veterans’ Affairs (DoD and DVA), ‘F-111 fuel tank maintenance—history’, joint DoD and DVA website, viewed 13 May 2010, [http://f111.dva.gov.au/history.htm](http://f111.dva.gov.au/history.htm)


119. A Griffin (Minister for Veterans’ Affairs and Minister for Defence Personnel), op. cit.


payment scheme, where one-off lump sum payments ranging from $10 000 to $40 000 were made to eligible applicants.122

The Committee report noted that the ex-gratia payment scheme excluded a large number of workers who conducted ‘pick and patch’ programs on the aircraft and recommended that the scheme’s eligibility criteria be expanded to include these potential applicants.123 The Government rejected this proposal on the basis that the:

... scheme did not make payments based upon need but based upon working conditions. As a consequence the majority of ex-gratia payments were made to personnel who were not suffering adverse health conditions. At the same time, other personnel suffering from similar health conditions were not able to access appropriate health care and compensation.124

Nonetheless, the Government intends to keep the ex-gratia payment scheme open as previous applicants who were rejected, due to a lack of supporting documentation, might now have the opportunity to reapply under the newly established statutory declaration process.125 Additionally, the Government accepted the Committee’s recommendation to remove the barrier which prevented the estates of eligible former personnel who died prior to 8 September 2001 from accessing the ex-gratia scheme.126

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123.  ‘Pick and patch’ is an idiomatic term used to describe maintenance programs involving ad-hoc repairs to aircraft fuel tanks, as opposed to conducting formal Deseal/Reseal overhauls. JSCFADT, Sealing a just outcome: Report from the Inquiry into RAAF F-111 Deseal/Reseal Workers and Their Families, op. cit., pp. 11, 146.


125.  The statutory declaration process allows applications to be made, in the absence of documentary evidence, in support of their case for compensation and treatment. Ibid.

126.  Ibid., p. 7.
Major capital facilities projects

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The 2010–11 Budget contains $1.7 billion in funding for Capital Facilities Projects—the building, upgrading and maintenance of Defence facilities. The Defence Portfolio Budget Statements 2010–11 (PBS) contain extensive data about works falling within this area. In particular, Table 28 of the PBS lists all of the major and medium capital works by state and federal electorate.127

Major capital facilities projects involving expenditure over $15 million require government approval and are reviewed by the Parliamentary Standing Committee on Public Works. Medium facilities projects have an expenditure of between $250 000 and $15 million.

One of the major criteria by which funding is allocated is that facility upgrades should support the Approved Capital Major Investment Program (ACMIP). Examples of projects which appear to fit this criterion include:

- RAAF Base Amberley facilities to support the Super Hornet aircraft
- Multi-role helicopter facilities at HMAS Albatross, RAAF Base Townsville, Army Aviation Centre at Oakey and Gallipoli Barracks Enoggera
- Airborne Early Warning and Control Aircraft facilities at RAAF Base Tindal
- Hardened and Networked Army Facilities to support the creation of a mechanised battle group at Edinburgh and
- Heavy Airlift Capability Facilities to support the C-17 Globemaster 111 aircraft at Amberley (the home base of the aircraft) but also at Edinburgh, Townsville, Darwin and Pearce.

Other major areas of expenditure are associated with the Enhanced Land Force projects:

- a range of accommodation and facilities upgrades (Enhanced Land Force Stage 1) at the following locations: RAAF Base Richmond, Holsworthy, Singleton, Kapooka, Puckapunyal, RAAF Base Amberley, Lavarack Barracks, Townsville High Range Training Area, RAAF Base Edinburgh and Campbell Barracks and
- a range of accommodation and facilities upgrades (Enhanced Land Force Stage 2) at the following locations: Singleton, Garden Island, HMAS Penguin, Watsonia, Puckapunyal,

RAAF Base Amberley, Enoggera, Canungra, Lavarack Barracks, Townsville Field Training Area, Greenbank Training Area, Wide Bay Training Area, Cultana Training Area, RAAF Base Edinburgh, Majura Field Training Area, Royal Military College Duntroon.

Taken together, these projects account for over $900 million of the capital facilities budget for 2010–11, and a not insignificant amount of the rest will be spent on other works at the same bases.

Both the 2009 Defence White Paper and the 2008 Audit of the Defence Budget (Pappas Review) made much of the need for Defence to consolidate its extensive estate holdings. The White Paper puts this succinctly:

> Defence should consolidate units into fewer, larger and sustainable multi-user bases aimed at increasing the alignment of functions at Joint and Service level and their capacity to support operations ..."  

The White Paper also stated that Defence would rationalise its storage and distribution network, reducing the number of sites from 24 to 7.\(^{129}\)

The Government has been reluctant to move rapidly towards the closure of bases. When the Minister for Defence released the public version of the Pappas Review in November 2009 he announced that he had instructed the Department to conduct a review of Defence’s basing requirements. This would be:

> A comprehensive departmental review, including a strategic assessment of Defence’s basing requirements and a detailed financial analysis of long-term costs and efficiency gains of different basing mixes, will develop options for changes to the estate over a 25-30 year period. “It is envisaged that a detailed study of this type will take 12-18 months to complete. An independent commission will then be appointed to consider Defence’s recommendations. This commission will conduct substantial public consultation before reporting back to the Government ..." \(^{130}\)

The Budget does not provide many clues about the Government’s thinking on base closures. It is highly unlikely that the larger (and growing) bases mentioned above will be closed and it is also notable that Queensland and the Northern Territory are to receive close to $680

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\(^{129}\) Ibid., p. 124.

\(^{130}\) J Faulkner (Minister for Defence), *Defence budget audit released*, media release, 17 November 2009, viewed 17 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FMPBV6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FMPBV6%22)
million of the money allocated to major and medium capital facilities projects. Given that, according to the Pappas Review, Defence owns 350 properties and leases 350 more—albeit only 76 of these are bases with permanent staff—there is certainly plenty of scope for the Government to look at rationalisation.  

Moorebank

The Budget also provides $13.7 million in 2010–11 and $21.5 million during 2011–12 to facilitate Defence moving the School of Military Engineering from Steele Barracks at Moorebank to the barracks at Holsworthy. This is part of the Government’s strategy to build a major intermodal transport terminal at Moorebank.

The Howard Government announced in 2004 the plan to build a road and rail freight hub at Moorebank, and both the current Government and the Opposition promised the development of the transport terminal at the time of the 2007 election. Both the cost of the removal of the School from Moorebank and its final location (the initial announcement listed Puckapunyal as the new home) have been under discussion for much of the intervening time.

Moorebank remains the location of Defence’s National Storage and Distribution Centre (NSDC) and the decision mentioned in the White Paper to rationalise the network of distribution centres has led to a decision to build a new ‘state of the art’ centre there. It should be noted that Defence has not actually owned the land at Moorebank on which the NSDC is sited since 2003, having sold it to Westpac Funds Management (reportedly for $185 million) and then leased it back.

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The current Budget estimates that costs associated with the Defence Capability Plan (DCP 09) will be $277.9 million for the 2010–11 financial year. This is a significant decrease from the previous year’s estimate of $1433.7 million for the 2010–11 financial year. The Opposition has argued that this signifies the deferral of around $1.2 billion in defence projects. The Government countered that the decreased figure indicates ‘money was transferred to the Defence Materiel Organisation (DMO) for spending on approved projects’. However, this transfer of funds is not obvious from the budget figures.

This year’s Budget shows that there are 15 significant DCP 09 projects in development for second pass approval. Three of these projects have been deferred from the previous year’s Budget and carried over into this year’s Budget:

- Seahawk Capability Assurance Program (Phase SCAP1 of AIR 9000)
- Joint Counter Improvised Explosive Device (Phase 1 of JP 154) and
Absent from the list of projects in development for second pass approval is Project Land 121—Overlander (Phase 4), which has received first pass approval but is ‘seeking further guidance from Government prior to second pass approval.’ This poses the question of whether the Department is seeking financial guidance or a change of strategy.

The year in which second pass approval might be expected for these projects is imprecise as the indicative years for approval now span two financial years instead of one. Brendan Nicholson of The Australian suggests:

... the government has given itself wriggle room by changing the timing of projects. Last year, equipment purchases were allocated to specific years for approval, but they are now placed in two-or-three-year brackets, making it harder for those scrutinising Defence spending to hold it to account.

By extending the bracketed period for decision, there is the potential for reprogramming to be obscured, which may impact on defence industry planning.

Risk

As the Defence Industry & Aerospace Report (DIAR) points out:

... the seven largest projects within the ‘Top 30’ list are forecast to constitute 67.9% of the DMO’s total forecast acquisition expenditure for 2010/11’ (as predicted on realisation of the forecast outcome for 2009/10)... The budget papers further note the high-level dependence upon a small number of projects raises a significant risk to the DMO in achieving its overall acquisition budget expenditure projections, should one of these projects experience a substantially technical difficulty or related schedule delay.

One significant project that appears to be absent from the coming financial year’s estimates is SEA 1000–future submarine.

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142. The term ‘first pass approval’ denotes that the ‘Government considers alternatives and approves a capability development option(s) to proceed to more detail. Defence Capability Development Manual 2006, op. cit., pp. 29, 77.
143. Ibid., p. 76.
SEA 1000—future submarine

The Defence White Paper 2009 (DWP 09) specified that by 2030 the existing fleet of six Collins Class submarines will be replaced by a ‘more superior class’ of 12 submarines.\(^{146}\) The estimated potential cost for this ambitious project was not disclosed in the DWP 09 or the 2009–10 Defence Budget.

When the Defence Capability Plan (DCP 09) was released in June 2009, estimated costs for project SEA 1000 were not specifically identified. The DCP 09 simply lists the Acquisition Category (ACAT) as ‘Level 1 very high’, which means the project is expected to exceed $1500 million.\(^{147}\)

The DCP states that project SEA 1000:

> ... seeks to acquire an increased and enhanced submarine capability that will provide the ADF with a potent submarine capability beyond the planned withdrawal date of the Collins Class submarines. Phase 1 will commence the design of the new capability.

> SEA 1000 will provide Australia with a new and more potent defence capability with greater range, longer patrol endurance and increased capability compared to the Collins Class. Key capabilities will be in the areas of anti-submarine warfare; anti-surface warfare; strike; intelligence, surveillance and reconnaissance; electronic warfare; mine warfare; and support to both Special Forces and advance force operations.\(^{148}\)

Construction of the future submarine fleet is expected to commence in 2016.\(^{149}\)

Current funding allocation?

Project SEA 1000 commenced a phased acquisition process in August 2009 with the Government’s announcement that requests for tender would be sought by the Department of Defence.\(^{146}\)

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\(^{147}\) The phased expenditure bands used in previous DCPs were replaced in the 2009 DCP with Acquisition Category (ACAT) scores, which designate the project’s level of complexity. SEA 1000 is designated ACAT 1 which is described as ‘major capital equipment acquisitions that are normally the ADF’s most strategically significant. They are characterised by extensive project and schedule management complexity and very high level of technical difficulty, operating, support and commercial arrangements’. Cited in Defence Materiel Organisation (DMO) and the Capability Development Group, *Defence Capability Plan (public version)*, DMO, Canberra, 2009, pp. 6–7, 172, viewed 17 May 2010, [http://dpl/Books/2009/DeptDefence_DefenceCapabilityPlan2009.pdf](http://dpl/Books/2009/DeptDefence_DefenceCapabilityPlan2009.pdf)

\(^{148}\) Ibid., p. 171.

\(^{149}\) Ibid.
Defence for a domestic submarine design study. In November 2009, it was announced that the (US) RAND Corporation had won the contract with the study report expected to be completed by February 2010. To date, no further announcements have been made.

So far, $15.4 million has been allocated to project SEA 1000 for early studies and scoping activities. The project is not scheduled to receive second pass approval until 2016 and due to a number of design decisions still to be made, further costs are yet to be determined.

While the Government remains hesitant at this stage to estimate an overall cost for SEA 1000, Sean Costello and Andrew Davies from the Australian Strategic Policy Institute (ASPI) forecast that costs could reach around $36 billion (in 2009 dollars) based on historical trends. In a November 2009 speech, the Minister for Defence Materiel and Science, Greg Combet, acknowledged that commentators are suggesting the cost for funding the future submarine project might exceed $30 billion. While he would not confirm this figure, he stated that ‘these estimates give some idea of the potential scale of the project depending on what choices are made’.

The Defence Portfolio Budget Statements 2010–11 did not indicate any specific funding for project SEA 1000 other than to note the project is in development and scheduled for first pass approval sometime between 2009–10 and 2010–11. The Opposition and defence analysts


cautioned the Government that if significant funds to the future submarine project were not committed in the 2010–11 Budget, the project would slip before it has begun.\textsuperscript{156}

ASPI predicts that the acquisition strategy for SEA 1000 will take some time to develop due to the level of complexity involved in the project.\textsuperscript{157} Additionally:

\begin{quote}
... in order to have a boat in the water for sea trials by 2022 and in service by 2025, Australia has barely seven years in which to determine the design and capability of the Collins Class replacement.\textsuperscript{158}
\end{quote}

In terms of funding, the Minister for Defence, John Faulkner, stated:

\begin{quote}
... [a]dditional funding will continue to be made available, step by step, as the Government is satisfied that the necessary preliminary work for each stage of this large and complex undertaking has been done.\textsuperscript{159}
\end{quote}

Given the necessary timeframe to significantly progress project SEA 1000, funding to properly maintain the existing fleet of Collins Class submarines is all the more crucial.

**Submarine unit ready days**

While $352 million has been allocated to the sustainment of the Collins Class submarine for the next financial year, the number of days the Collins Class submarine fleet is expected to be available for tasking has been rendered indistinguishable in the current Budget.\textsuperscript{160} The submarine ‘unit ready days’, details of which are traditionally listed separately from other naval platforms, have been placed in the same category as the Royal Australian Navy’s frigates and identified as ‘major combatants’.\textsuperscript{161} This might be indicative of the number of submarines undergoing repairs, planned maintenance and system improvements. As Defence

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\textsuperscript{157} S Costello and A Davies, op. cit., p. 10.
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\textsuperscript{158} Ibid., p. 2.
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\textsuperscript{159} I McPhedran, ‘Sub project funding sinks below surface’, *Adelaide Advertiser*, 13 May 2010, p. 11, viewed 17 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FAZOW6%22
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\textsuperscript{160} *Portfolio budget statements 2010–11: budget related paper no. 1.5A & 1.5C: Defence Portfolio*, op. cit., p. 180.
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\textsuperscript{161} Ibid., p. 43.
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reported earlier this year in a response to a Question on Notice, only one submarine (HMAS *Farncomb*) was fully operational for the period 1 July to 30 September 2009.
Operations funding and enhanced force protection in Afghanistan

Laura Rayner
Foreign Affairs, Defence and Security Section

Middle East Area of Operations—continuation and enhancement of Australia’s military contribution

The Government will provide approximately $1125.7 million for the net additional cost of extending Operation Slipper (the ADF’s contribution to the international coalition against terrorism in Afghanistan and the wider Middle East Area of Operations, and including anti-piracy operations off the coast of Somalia) until 30 June 2011. Over the forward estimates this measure will provide $239.2 million funding for ‘pre-existing force protection capabilities in Afghanistan that will provide direct protection for Australian Defence Force members from small arms, improvised explosive devices and direct fire’.\(^\text{162}\) It is also in addition to the enhanced force protection measures referred to below, and to the $48.7 million provided over two years to upgrade infrastructure at Tarin Kowt in Afghanistan which will improve protection of ADF personnel and expand facilities to support the maintenance of vehicles and equipment.\(^\text{163}\)

Force protection measures

The Budget includes a commitment of $487.1 million for 2010–11 as part of approximately $1.1 billion over the period 2009–10 to 2012–13 for enhanced force protection measures for Australia’s deployed troops. Approximately half of the $487.1 million for 2010–11 will be funded from Defence’s existing capital investment programs, with the Government providing the additional $221.6 million.\(^\text{164}\)

The new force protection measures include the acquisition of a Counter Rocket Artillery Mortar (C-RAM) sense and warn capability, a measure which the Government said is a direct result of the Force Protection Review commissioned by the Minister for Defence in July 2009.\(^\text{165}\) Formerly, the acquisition of a rocket defence system was scheduled for entry into service in 2018. The sense and warn capability detects and tracks ‘rocket, artillery and mortar


\(^{163}\) Ibid.


\(^{165}\) G Combet (Minister for Defence Material and Science), *Budget 2010: address at the Defence budget breakfast, Canberra*, media release, 12 May 2010, viewed 14 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fp ressrel%2FKKOOW6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FKKOOW6%22)
fire in flight … [relying] on audible and visual alarms’, giving troops some warning time of an imminent attack.\textsuperscript{166} Defence is reported to have investigated the purchase of systems which will destroy the incoming mortars and rockets, but has found that the technology needed to shoot down incoming mortars and rockets ‘is not yet reliable or safe enough’.\textsuperscript{167} According to a pre-budget media report, ‘it is hoped the new suite of early warning radars, audio warning systems and command and control systems will be deployed in Afghanistan by the end of the year’.\textsuperscript{168}

Other planned capabilities include:

- improved protection and firepower for Protected Mobility Vehicles
- new night-fighting equipment
- improved body armour
- a new weapons system for the Special Operations Task Group
- additional military working dogs and
- a suite of improved intelligence and reconnaissance capabilities.\textsuperscript{169}


\textsuperscript{168} Ibid.

\textsuperscript{169} G Combet, op. cit.
Strategic Reform Program (SRP)

Laura Rayner
Foreign Affairs, Defence and Security Section

The SRP is focused on doing business better in order to generate savings. The SRP seeks to improve accountability and planning, and to increase productivity across Defence.\footnote{170}

The implementation of the first stages of the Strategic Reform Program (SRP) is considered to be so important that the Defence \emph{Portfolio Budget Statements 2010–11} identify it as ‘the Government’s key initiative in 2010–11’, placing it second only to the conduct of current operations.\footnote{171} The Government has put a great deal of emphasis on the need for the SRP to succeed. The Defence Minister, John Faulkner, said in his budget media release on the SRP that ‘to be blunt, achieving Force 2030 in its full potential will not be possible without achieving the SRP’.\footnote{172}

The SRP was initiated in 2009 in the Defence White Paper as part of the Government’s financial plan for Defence to deliver ‘gross savings’ of $20 billion over the next decade.\footnote{173} The SRP brought together the work of the:

- Independent Defence Budget Audit (Pappas Report), which was conducted as part of the Defence White Paper process
- Companion Reviews
- Brady Review (into intelligence capability) and the
- Mortimer Review (into Defence procurement and sustainment).\footnote{174}

\footnotetext{170}{\textit{Australian Government, Portfolio budget statements 2010–11: budget related paper no. 1.5A & 1.5C: Defence Portfolio}, Commonwealth of Australia, Canberra, 2010, p. 143.}
\footnotetext{171}{Ibid., p. 13.}
\footnotetext{172}{J Faulkner (Minister for Defence), \textit{Budget 2010–11: strategic reform program to deliver $1 billion of cost reductions in 2010–11}, media release, 11 May 2010, viewed 14 May 2010, \url{http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressre!%2FYNOW6%22}}
\footnotetext{173}{J Faulkner, ‘Shaping up for change ahead a serious task’, \textit{Weekend Australian}, 24 October 2009, p. 4, viewed 17 May 2010, \url{http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FHO0V6%22}}
\footnotetext{174}{Department of Defence, \textit{The Strategic Reform Program: delivering Force 2030}, Department of Defence, Canberra, 2009, p. 4, viewed 14 May 2010,
As part of the SRP process, Defence will invest about $2.4 billion to enable the SRP reforms to be implemented. Defence will be allowed to reinvest the resources freed up by these planned cost reductions into Force 2030, the force structure that the Government has determined that Australia needs to defend itself and its interests over the next two decades.¹⁷⁵ In fact, ‘Defence’s budget to 2019 has already been adjusted to take account of the $20.6 billion in reinvestment required for Force 2030’.¹⁷⁶

Defence estimates that it will have achieved cost reductions of $797 million in 2009–10; and that the SRP will deliver more than $1 billion in cost reductions in 2010–11 as part of the $6.4 billion in planned cost reductions across the forward estimates.¹⁷⁷ References to the SRP appear throughout the Defence Portfolio Budget Statements 2010–11, but there is no consolidated section dealing with the detail of the planned SRP savings. The Minister’s budget media release indicates that the ‘$1 billion in cost reductions in 2010–11 will come from a number of reform streams, including around $293 million from improved maintenance and inventory management techniques and around $221 million from better management of Defence non-equipment procurement’.¹⁷⁸ However, it is unclear if this will be offset by the $384 million which Defence will invest in reform initiatives in 2010–11 as part of the SRP, or whether the $1 billion is a net figure.

The SRP consists of ‘over 300 separate initiatives which are managed in 15 individual “reform streams”’, with ‘over half of the initiatives not having any cost reductions directly associated with them’.¹⁷⁹ The Government has promised that the SRP will be audited, with savings measured. For instance, the SRP has an Integrated Performance Management Model which will give Defence ‘a twice yearly look at how the SRP is travelling’.¹⁸⁰ This model, together with more regular local monitoring of the program, the Defence Audit and Risk Committee, and the Defence Strategic Reform Advisory Board which will report to the Minister quarterly, will all be used to ‘ensure that the SRP is achieving its aims’.¹⁸¹


¹⁷⁶. Ibid., p. 4.


¹⁷⁸. J Faulkner (Minister for Defence), Budget 2010–11: strategic reform program to deliver $1 billion of cost reductions in 2010–11, op. cit.

¹⁷⁹. Department of Defence, The Strategic Reform Program: making it happen, op. cit., p. 3.

¹⁸⁰. Ibid., p. 24.

¹⁸¹. Ibid., p. 25; and J Faulkner, ‘Shaping up for change ahead a serious task’, op. cit.
In answers to various questions on notice on 23 February 2010, Defence Minister Faulkner said that ‘savings to the Defence budget have been attributed annually and will be reported on this basis’. Presumably public reporting of the progress and success or otherwise of the SRP’s initiatives will appear in the Defence annual report, but it is unclear how detailed any public reporting will be. Defence states that ‘[Strategic Reform] Program success will free up resources - both people and dollars - to redirect to other priorities’. While the SRP has ‘cultural’ aspects’, the redirection of staffing and financial resources are measurable outcomes which should be transparent to and available for scrutiny by taxpayers. Given the SRP’s wide-ranging scope and complexity, the challenges it poses, and the emphasis that the Government has placed on the SRP’s importance to long-term defence planning, detailed information on the conduct, progress and outcome of the reforms should be made available to the Parliament on a regular basis.

More information on the SRP can be found in the two booklets released by Defence—The Strategic Reform Program: delivering Force 2030, released in May 2009, and The Strategic Reform Program: making it happen, released in April 2010—and on Defence’s SRP homepage.

Standard business reporting

Kali Sanyal
Economics Section

The Standard Business Reporting (SBR) program was launched in August 2007 by the Howard Government following consultation by a committee of Commonwealth and state government officials in 2006.185 The Rudd Government has also supported the program, and it has since been incorporated into the Council of Australian Governments’ (COAG) reform agenda.186

In the 2010–11 Budget, the Government has earmarked $73.2 million over five years as ongoing funding to the program (as well as moving $16.7 million from unspent development funding in 2009–10 to 2010–11). This funding is allocated to the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulatory Authority (APRA), the Australian Taxation Office (ATO) and the Department of the Treasury to maintain and operate the SBR program. The measure also includes $2.6 million in 2010–11 to the states and territories to enable them to manage and operate their components of the SBR system.187

The SBR program is focussed on harmonising the definitions, procedures and reporting requirements for information provided to governments. Practically, the aim is to reduce compliance costs for a wide range of businesses through the establishment of an IT-based system which allows businesses to report to relevant authorities in a consistent manner. This


187. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, Budget measures: budget paper no. 2: 2010–11, Commonwealth of Australia, Canberra, 2010, p. 296.
removes the need for businesses to individually report to various government agencies at the Commonwealth, state and local levels.\textsuperscript{188}

SBR enables businesses to use a single, secure, sign-on (known as AUSkey) to send financial reports to participating agencies, which include the Australian Bureau of Statistics, APRA, ASIC, ATO, and all state revenue offices. Businesses will no longer need to log-in to separate systems to submit their financial reports to each of these agencies, therefore making e-commerce with government more viable for business.\textsuperscript{189}

In 2008, the Government invited tenders for IT software developers to design and develop the system and, with the 2010–11 budget allocation, the SBR enabling technology is expected to be progressively introduced and taken up by business from July this year.\textsuperscript{190}

The Government has indicated that once fully implemented, SBR could save Australian businesses an estimated $800 million per year.\textsuperscript{191} According to research undertaken when the program was first mooted in 2006, a similar program introduced in the Netherlands generated an estimated €350 million savings per annum for small and medium sized businesses.\textsuperscript{192}

More detailed information about SBR is available at www.sbr.gov.au.


\textsuperscript{190} See: ‘SBR: timeline’, op. cit.


\textsuperscript{192} \textit{Reducing business reporting costs}, op. cit.
Department of Foreign Affairs and Trade (DFAT)

Dr Frank Frost and Nina Markovic
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Introduction

The Foreign Affairs and Trade Portfolio Budget Statements 2010–11 state that in 2010–11 the Department of Foreign Affairs and Trade (DFAT) will ‘… seek to advance the national interest by enhancing Australia’s relations multilaterally, regionally and bilaterally, heightening Australia’s status and influence as a middle power on global and regional developments and furthering national stability and prosperity’. Major emphases will include advancing engagement with Australia’s main strategic ally the United States, building on the mature and broad-ranging relationship with Japan, enhancing growing links with China and the Republic of Korea, continuing to bring relations with India into the front rank of Australia’s international partnerships, and expanding comprehensive cooperation with Indonesia. Key multilateral emphases will include the G-20 (with summits in Canada and the Republic of Korea), the World Trade Organization (WTO), and the South Pacific Forum. The Government will continue support for the International Commission on Nuclear Non-Proliferation and Disarmament (ICNNPD), the bid for a non-permanent seat on the United Nations (UN) Security Council (in 2013–14) and support for the enhancement of regional architecture.

The ‘total net resourcing for DFAT’ for 2010–11 is $2.212 billion, compared to the ‘actual available appropriation’ for 2009–10 of $2.072 billion, representing an increase of 6.8 per cent. The ‘Departmental appropriation’ for 2010–11 is $1.328 billion for operating expenses, compared to the actual available appropriation for 2009–10 of $1.245 billion, which is an increase of $83 million, or 6.7 per cent. The figure for the Departmental appropriation excludes a range of items not under the control of the Department, including administered expenses (such as contributions to international organisations and UN peacekeeping operations, costs of employee pension schemes and the cost of the passport program). Average DFAT staff numbers across the three outcomes are projected to increase by 60 from 3562 to 3622.

196. Portfolio budget statements 2010–11: budget related paper no. 1.10: Foreign Affairs and Trade Portfolio, op. cit., p. 24. For further discussion of the distinction between the figures for ‘total net resourcing’ for DFAT and ‘Departmental appropriations’ see Blue Ribbon Panel
The ‘total net resourcing for DFAT’ for 2010–11 ($2.212 billion) includes a significant amount, $525.5 million, which has been carried forward from the previous year. In relation to the funds carried over from 2009–10, it is understood that there may sometimes be gaps between the time when moneys are appropriated and when they are actually spent, for reasons including delays arising from security factors, the need to arrange cooperation with other partners and the timing requirements of particular renovation or construction projects (such as for overseas missions).

While the DFAT budget allocation for 2010–11 has been increased from the previous year, the overall level of support for Australia’s diplomatic capacities has been subject to recent critical comment. The Lowy Institute for International Policy stated in a March 2009 report that Australia’s overall number of overseas posts, and the proportion of diplomatic staff deployed overseas, are at the lower end of the range of members of the Organisation for Economic Co-operation and Development (OECD). The Lowy Institute report stated that reductions in diplomatic personnel numbers over the past two decades (including a decline between 1996 and 2008 of about 25 per cent in the number of ‘Australia-based’ staff deployed overseas) has meant that ‘Australia’s overseas diplomatic network is hollowed out and under increasing strain’. The Lowy Institute recommended the provision of increased resources for DFAT to provide for 75 additional diplomatic staff and a further 20 overseas posts in areas where Australia, in the view of the Institute, needs increased representation.


198. Ibid., pp. 16–17.

199. Blue Ribbon Panel Report, Australia’s diplomatic deficit: reinvesting in our instruments of international policy, op cit., pp. 19–20. The Report states that among the 30 members of the OECD, Australia with ‘91 missions’ is well below the average number of 150. Among the 30 members, Australia is ranked the fifth lowest in numbers of missions, with only Ireland, Luxembourg, the Slovak Republic and New Zealand operating fewer posts.

200. Ibid., p. 47.

201. Ibid, pp. 47–8. The Lowy report recommended the opening of new Australian posts in regional India (including Mumbai), regional China (including Chengdu and Chongqing), regional Indonesia (including Makassar), Africa (including North Africa), Latin America, North Asia (including North Korea and Mongolia), and Central Asia (including Kazakhstan).
It should be noted that the Government has indicated that a new embassy will be established in Addis Ababa (in Ethiopia). The embassy in Addis Ababa will support Australia’s bid for a UN Security Council seat, but it will also contribute to other objectives.

**Administrative changes**

The Foreign Affairs and Trade Portfolio’s organisational chart for 2010–11 envisages two parliamentary secretaries, with responsibilities for trade and international development assistance. This contrasts with the structure last year, which also had a third position of Parliamentary Secretary for Pacific Islands Affairs, a position the Government decided to discontinue following Duncan Kerr’s retirement on 30 October 2009. The chart also shows that the heads of all Foreign Affairs and Trade Portfolio agencies have changed since last year’s Budget, including that of DFAT Secretary, now held by Dennis Richardson.

On 13 January 2010, Dennis Richardson, a former ambassador to the US and Director-General of ASIO for nine years, became the Secretary of DFAT, replacing Michael L’Estrange (who held the position from January 2005 and is now Director of the National Security College at the Australian National University).

Tony Walker from *The Australian Financial Review* observed that Mr Richardson has already instituted a number of internal reforms aimed towards making the Department a stronger actor in ‘Canberra’s “contested” foreign policy space’ and more involved in policy planning activities—possibly in line with the foreign affairs departments of major partners.

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203. Hamish McDonald in the *Sydney Morning Herald* suggests that this mission would include a defence representative ‘to co-ordinate support for the African Union’s growing security role in places such as Sudan and Somalia’. H McDonald, ‘Diplomats are learning to do more with less’, *Sydney Morning Herald*, 12 May 2010, p. 16, viewed 17 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FD2OW6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FD2OW6%22)

204. It is important to note that the salaries for the two parliamentary secretaries are not paid from the Department of Foreign Affairs and Trade (DFAT) budget.

such as the United States. The Government has not to date issued a White Paper on foreign policy.

**Outcome One**

Outcome One comprises ‘the advancement of Australia’s international strategic, security and economic interests including through bilateral, regional and multilateral engagement on Australian Government foreign and trade policy priorities’.207

The Budget has delivered a reduction of $120.13 million (or 12.4 per cent) in funding for Outcome One—from estimated actual expenses of $967.2 million in 2009–10 to $847.1 million in the 2010–11 Budget.208 Funding for ‘public information services and public diplomacy’ (program 1.3) has decreased significantly from estimated actual expenses of $65.95 million in 2009–10 to estimated expenses of $28.83 million in 2010–11 (or by 56.3 per cent).209 No new initiatives for public diplomacy have been introduced beyond the expected funding for the **Australian Pavilion at the Shanghai World Expo**, which will close down on 31 October 2010.210 It is likely that other agencies, such as the Australian Trade Commission (Austrade), will be more engaged in promoting a positive image of Australia overseas (for instance, through an added responsibility in the 2010–11 Budget to promote international education).211

Staffing levels for Outcome One are expected to increase by eight. This is despite the reduced funding and an extensive foreign policy agenda under Outcome One, which includes new budget initiatives such as Australia’s increased civilian engagement in Afghanistan, stepped up bilateral and multilateral relations with African, Caribbean and Latin American countries, and membership of the Asia-Europe (ASEM) dialogue process and the Organization for

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208. Ibid., p. 22.

209. Ibid.


Security and Co-operation in Europe (OSCE) as an Asian partner. As part of the Government’s enhanced multilateral engagements, the Budget envisions a closer Australian relationship with the Gulf Cooperation Council (GCC) through establishment of an Australia–GCC Foreign Ministers Strategic Dialogue, as well as further engagements with the Arab League and its members. Another organisation with which Australia will enhance cooperation under this Outcome is the South Asian Association for Regional Cooperation.

Budget Measures: Budget Paper No. 2: 2010–11 states that on 12 November 2009 the Prime Minister announced that Australia would enhance bilateral engagement with India. This is envisaged to take place through the provision of $129.9 million over five years from 2009-10, including $26.9 million in capital funding. Budget Paper No. 2 expects that Australia’s diplomatic presence will be increased over this period with enhanced representation in Mumbai and Chennai as a result of this measure. There was no additional funding for the measure in this year’s Budget, even though the measure was included under ‘Expense Measures’ in Budget Paper No. 2.

New budget measures

Increased civilian engagement in Afghanistan with a focus on Oruzgan Province

One of the new measures announced in the Budget is Australia’s increased civilian engagement in Afghanistan as part of an integrated ‘whole-of-government’ approach. For this measure, the Budget allocates to DFAT $68.4 million in departmental expenses for two consecutive years ($34.1 million for 2010–11 and $34.3 million for 2011–12). This

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215. This is in line with the Lowy Institute Blue Panel Ribbon report’s recommendation. See endnote 173.

216. International agencies have for years called on Coalition partners to increase civilian (and policing) assistance to Afghanistan.

measure has increased departmental capital funding by $16.9 million in 2010–11. 218 As a result of this measure, the funding provided to the Foreign Affairs Portfolio (including AusAID and DFAT) has been topped up by $194.1 million over two consecutive years from 2010–11. 219

Transition towards civilian security arrangements at the Baghdad Embassy

The Australian Government has allocated $51.9 million over two years ($23.8 million for 2010–11 and $28.1 million for 2011–12) for civilian security transition at the Australian Embassy in Baghdad due to the ‘improved security situation in Iraq’, although just how much the situation has improved has been subject to question. 220

The Canberra Times reported that as a result of this budget measure, private contractors will be engaged to guard the Baghdad Embassy. 221

Outcome Two

Outcome Two covers the ‘protection and welfare of Australians abroad and access to secure international travel documentation through timely and responsive travel advice and consular and passport services in Australia and overseas’. 222 For 2010–11, budgeted outlays are estimated at $282.9 million, a slight reduction from the 2009–10 expenditure of $289.1 million, but staff levels are projected to increase from 977 to 1022. 223 The Government is allocating $100.8 million over six years to provide a new passport issuing

218. Ibid., p. 19.
223. Ibid, p. 35.
system aimed at enhancing the security and efficiency of passport operations. The new system will provide improved security and efficiency through four elements:

- ‘eScan’ will enable large-scale scanning of passport applications and supporting documents
- ‘eFlow’ will enhance the flow of data in the passport approval process
- ‘eCase’ will enable increased capacities to prevent fraud and improve case management and
- ‘ePrint’ will allow for quality assured and bulk printing of personal information into passports (including biometric chip encoding).

The program to enhance the security of Australian passports comes in the wake of the use of forged Australian passports by persons involved in the assassination of a member of the Palestinian group Hamas, in Dubai in January 2010. The Government expects that the new program will save the budget $10.2 million by 2015–16.

**Outcome Three**

Outcome Three comprises ‘a secure Australian Government presence overseas through the provision of security services and information and communications technology infrastructure, and the management of the Commonwealth’s overseas owned estate’. Total budgeted expenses for Outcome Three are projected to increase by $32.9 million, from estimated actual expenses for 2009–10 of $222.8 million to estimated expenses for 2010–11 of $255.7 million. The staffing levels for this outcome are likely to increase by seven to a total of 591.

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226. Outcome Three comprises ‘a secure Australian Government presence overseas through the provision of security services and information and communications technology infrastructure, and the management of the Commonwealth’s overseas owned estate’, *Portfolio budget statements 2010–11: budget related paper no. 1.10: Foreign Affairs and Trade Portfolio*, op. cit., p. 5.

227. Ibid., p. 41.
The Australian National Audit Office (ANAO) recently reported that the network of DFAT’s ‘89 overseas diplomatic posts’, and its offices in Australia contribute to the projection of a positive image for Australia and to the overall success of Australia’s diplomacy.\footnote{228} The report suggested that DFAT needs to increase its efforts to strengthen the administrative processes required to support the effective management of Commonwealth-owned estate under the DFAT portfolio.\footnote{229}


\footnote{229} Ibid., p. 13.
Official Development Assistance (ODA)

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Foreign Affairs, Defence and Security

According to the Minister’s budget statement, Australia’s Official Development Assistance (ODA) budget for 2010–11 is $4349.3 million, $528.4 million more than the estimated outcome for 2009–10. This represents a 9.1 per cent increase in real terms over the estimated outcome for 2009–10.

The amount of ODA a country provides is usually expressed as a percentage of Gross National Income (GNI), which is referred to as the ‘ODA/GNI ratio’. Australia’s adoption of new international accounting standards has led to a change in the methodology used to calculate GNI. This has increased GNI by about four per cent and reduced the ODA/GNI ratio for 2009–10 to 0.31 per cent instead of the projected 0.34 per cent.

GNI also increased due to stronger economic growth which resulted in an increase of nearly $530 million in the 2010–11 Budget, with the ODA/GNI ratio forecast to increase from the current level of 0.31 per cent in 2009–10 to 0.33 per cent in 2010–11.

Nonetheless, the budget statement reaffirms the Government’s commitment to increasing the ODA/GNI ratio to 0.5 per cent by 2015–16:

The Government will provide an estimated $4349 million in total ODA in 2010-11, of which $3,762 million will be managed by AusAID. This is consistent with the Government’s commitment to scaling up ODA to 0.5 per cent of GNI by 2015-16.

Australia’s ODA/GNI ratio is forecast to increase to 0.33 per cent in 2010-11, up from 0.31 per cent in 2009-10 and the Government expects to increase Australia’s ODA to levels


231. This has been the cause of some confusion. For a detailed discussion of the issue, see A Hewitt, ‘Time for AusAID to lead policy on development’, Canberra Times, 14 May 2010, p. 19, viewed 14 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FHCPW6%22
equivalent to 0.35 per cent of GNI in 2011-12, 0.38 per cent of GNI in 2012-13, and 0.42 per cent of GNI in 2013-14.232

How and where the money is spent is as important as the size of the ODA budget. In keeping with the recommendations of the Australian National Audit Office (ANAO) performance audit report, *AusAID’s Management of the Expanding Aid Program* (2009):

... AusAID will focus on rolling out a comprehensive operational policy and management framework to reform business systems, operational guidance on new country strategy and planning architecture, updating the quality of reporting systems, and providing guidance on working through partner country systems in aid delivery.

... AusAID is investing in strategic workforce planning and developing policies and practices aimed at attracting and retaining a skilled, knowledgeable and motivated workforce, including locally engaged staff.

In 2010-11 AusAID will undertake a review, together with partner governments, of advisers working in the aid program. The review will ensure that each adviser is the most effective, value-for-money response to meeting agreed needs and priorities. The review will also aim to provide a basis for more substantive changes to the way aid is delivered to increase aid effectiveness.233

To reflect this additional activity the AusAID departmental budget is to increase from an expected outcome of $141.2 million in 2009–10 to an expected $211.8 million in 2010–11.234 The Average Staffing Level (ASL) in AusAID is expected to increase by 56 from 907 to 963.235

New initiatives announced in the aid budget include:

- an investment of $303.7 million over four years to assist developing country partners progress towards achieving their Millennium Development Goals (MDGs) in the education sector

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232. S Smith (Minister for Foreign Affairs) and B McMullan (Parliamentary Secretary for International Development Assistance), op. cit., p. 3.

233. Ibid., pp. 32–3.

234. However, see: Australian Government, *Portfolio budget statements 2010–11: budget related paper no. 1.10: Foreign Affairs and Trade Portfolio*, Commonwealth of Australia, Canberra, 2010, p. 107. This puts the total for ‘departmental support’ at about $214.3 million.

• an expenditure of $173.4 million over four years to help developing country partners achieve the health MDGs

• an expenditure of $30.2 million over four years to support developing country partners improve the quality of life of people with disability

• increased support for development in Afghanistan with an additional $140 million over two years

• an investment of $323 million over four years to expand Australia’s development partnership with Indonesia especially in the education, health and governance sectors and

• an investment of $346.9 million over four years to support capacity building and address other development challenges in Africa.
Broadband and telecommunications

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Economics section

The broadband and telecommunications measures announced in the 2010–11 Budget do not include any high-value initiatives relative to the initial $43 billion National Broadband Network (NBN) announcement on 7 April 2009. This year’s budget measures mainly concern the continuation of the Government’s NBN initiative and cyber-safety enhancement program.

The National Broadband Network initiative

The National Broadband Network Company (NBN Co.) was created in April 2009 to build and operate a new high-speed NBN. NBN Co. is a wholly owned Australian Government company that has been prescribed as a Government Business Enterprise.

In August 2009, the Government commissioned McKinsey/KPMG to conduct an implementation study examining a range of issues relating to the NBN, including operating and governance arrangements for NBN Co., network design, ownership caps and scope for private sector investment.

The implementation study concluded that the NBN can be constructed within the $43 billion envelope identified by the Government in April 2009, even assuming the NBN does not have access to existing infrastructure. In relation to the study’s findings, the Government states:

The study also indicates that the NBN Co will have a positive business case and that NBN Co can expect to generate a rate of return that allows the Government to cover its cost of capital.


This claim has been subject to debate in the media and among analysts, particularly given the fact that the Government’s cost of capital is around 6 per cent. For the Government to recover
The implementation study recommends that private equity should not be introduced prior to privatisation. The Government states that:

this will allow the Government to retain policy and regulatory flexibility before introducing private sector equity investment.\(^{239}\)

Excluding private sector equity in the early stages of the NBN construction achieves two outcomes. Firstly, it lowers the cost of capital as it avoids the increased cost of capital associated with equity (the cost of capital increases progressively with the use of internal cash reserves, debt and then equity) and secondly, it avoids being subject to the input of other equity holders during the construction process. This relates to the Government’s aim of retaining policy and regulatory flexibility.

Finally, in relation to the budget measures for the NBN initiative, the Government states that they have made appropriate provision in the Budget for the rollout of the NBN subject to a final response on the implementation study\(^ {240} \).

**National Broadband Network policy implementation**

**Implementation**

The Government has announced its intention to rollout an NBN that delivers fibre-optic access to high-speed broadband to all Australians. The Government has therefore allocated $21.3 million to the Department of Broadband Communications and the Digital Economy (DBCDE) over five years, starting from 2009–10, in support of the implementation and regulation of the NBN, including:

- policy and regulatory support for the rollout

its cost of capital, the NBN need only generate a rate of return greater than the 6 per cent cost of capital. However, finance theory suggests that in order to efficiently allocate capital, the discount rate should reflect not only the cost of capital but the risk associated with the investment project, which in this case is likely to be substantially higher than 6 per cent. In addition, had the Net Present Value (NPV) calculations been subject to a discount rate that was comparable to similar projects in the market, the NPV would have likely been negative. Ultimately, given mutually exclusive projects, finite capital and appropriate discount rates, finance theory is such that the projects which realise positive NPV’s represent a growth in value and the project with the highest NPV represents the best use of capital. For more information see the following source:


\(^{239}\) *Budget strategy and outlook: budget paper no. 1: 2010–11*, op. cit.

\(^{240}\) Ibid.
overseeing construction of the regional backbone transmission links

- managing the Government’s shareholding in NBN Co. and

- a national communications campaign focused on raising public awareness of the value of high-speed broadband to Australian households, businesses and organisations.

Table 1: NBN implementation—budget measures, 2009–10 through 2013–14

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<td>-0.9</td>
<td>14.0</td>
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<td>0.5</td>
<td>0.4</td>
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<td>Total</td>
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<td>4.5</td>
<td>3.1</td>
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Source: Australian Government, Budget measures: budget paper no. 2: 2010–11, Commonwealth of Australia, Canberra, 2010, p. 117. Note: DBCDE is the Department of Broadband, Communications and the Digital Economy and DFD is the Department of Finance and Deregulation.

Funding of $2.1 million over four years will be provided to the Department of Finance and Deregulation (DFD) to assist in managing the Government’s shareholding in the NBN Co., given the Department’s role in advising the Minister for Finance and Deregulation as joint shareholder.

The Government will also provide a further $16 million over two years to the DBCDE for a national information campaign, focused on: ‘raising public awareness of the value of super-fast broadband which will be delivered to Australian households, businesses and organisations through the rollout of the NBN’.

Of this $16 million, $7.6 million in 2009–10 will be met from existing DBCDE resources.

Regulatory framework

The Government will provide $24 million over five years to the Australian Competition and Consumer Commission (ACCC) to establish and deliver the proposed regulatory arrangements for the NBN. This measure will also fund the ACCC in its regulation of the NBN Co. in relation to:

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implementing specific access arrangements for the NBN as well as initial preparatory work and industry consultation

• undertaking regulatory reporting requirements and

• providing advice on pricing and quality of service.

The costs of this measure will be fully recovered by the Australian Communications and Media Authority (ACMA) from annual carrier licence charges collected under the *Telecommunications (Carrier Licence Charges) Act 1997*.243

**Regional Backbone Blackspots program**

The amount of $216 million originally allocated to the Regional Blackspots program in 2009–10 has been deferred until 2010–11 to reflect actual contractor payments. From 2011-12, net capital investment in the program is expected to decline.244

**Australian Broadband Guarantee**

The budget measures indicate that the Australian Broadband Guarantee (ABG) program will now focus on the 2 per cent of premises where adequate broadband services are not available commercially. This follows independent testing of the Telstra Next G broadband service, which found that the Next G broadband network provides services that meet the program’s requirements everywhere, except at the margins of the 3G network.245

The increased availability of metro-comparable broadband services to residential and small business premises has reduced the funds required for the delivery of the ABG by $16.4 million over three years ($4.1 million in 2009–10, $4.9 million in 2010–11 and $4.0 million in 2011–12).

The Government will raise the minimum standard for services provided under the program to increase speed and download limits. The level of financial assistance available to eligible residents or businesses is not affected.246

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National Broadband Network funding

Aussie Infrastructure Bonds

On 7 April 2009, the Government announced that its investment in NBN Co. would be partly funded through the issuance of Aussie Infrastructure Bonds (AIBs) to both households and institutional investors. 247

In 2010–11, the Budget indicates that $300 million of this investment will be financed by AIBs. The component of this funding to be provided by institutional and other wholesale investors will be through the issue of Commonwealth Government Securities (CGS) as part of the Government’s overall debt issuance program. These bonds will not be separately identified from other CGSs at the time of issue, but will be reported in the annual budget statements.

Institutional investors are likely to have first access to these CGSs on issuance and government consideration is currently being given to offerings of AIBs for household investors. 248

The contingency reserve

The contingency reserve (other purposes function) is an allowance included in aggregate expenses, principally to reflect anticipated events that cannot be assigned to individual programs in the preparation of the Australian Government’s budget estimates. The reserve is used to ensure that the budget estimates are based on the best information available at the time of the Budget. It is not a general policy reserve.

The contingency reserve includes provisions for future equity investments in the NBN. This is subject to the Government’s final response to the implementation study and is not disclosed in the budget papers. 249

While the Government has not disclosed these amounts in the budget papers, an indication of required total future NBN Co. funding amounts is presented in the implementation study which recommended government funding amounts. In addition, budgeted equity injections from the Building Australia Fund (BAF) to the NBN Co. present another component of future funding, as expected by the Government. These budgeted equity injections/transfers from the BAF to the NBN Co are discussed in further detail below.

247. Rudd, Tanner and Conroy, op. cit.
249. Ibid., op. cit, p. 6-54.
Building Australia Fund

Transfers to the BAF Communications Portfolio Special Account (PSA) relate to eligible NBN matters. The 2010–11 Budget measures indicate a budget for the construction of the NBN, via equity injections from the BAF only, of $2.965 billion (through the five-year period to 2013–14). This amount is in addition to:

- the $300 million worth of planned AIBs in 2010–11
- any future contingency reserve amounts and
- any future amounts raised through further debt issuance.

To date and as compiled from this year’s Budget, there is a total funding allocation to the NBN of $3.265 billion (comprising the $2.965 billion BAF PSA equity and $300 million in AIB/CGS debt allocations). This is lower than the amount recommended in the implementation study as discussed below.

### Table 2: Building Australia Fund—communications budget, 2009–10 through 2013–14

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</table>


### NBN Implementation Study—recommended funding approach amounts

The NBN implementation study presents its recommended funding approach on page 367 of the report. The approach recommends the use of 100 per cent government funding in the first five years of construction. The total recommended government funding amount for each of those five years is $22.4 billion (see Table 3 below).

### Table 3: NBN Implementation Study – recommended funding amounts, years 1 through 5

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding amount ($ millions)</td>
<td>2 700</td>
<td>4 500</td>
<td>6 400</td>
<td>4 700</td>
<td>4 100</td>
<td>22 400</td>
</tr>
</tbody>
</table>


To sum, the difference between the $3.265 billion allocation to the NBN Co. to date, is less than the amount of government funding recommended in the NBN implementation study, for the first five years, by $19.135 billion.

This value is calculated in the absence of any allocated AIB/CGS debt issuance amounts after 2010–11 (2011–12 through 2013–14), any contingency reserve amounts and any funding utilised from the general revenue pool in future.

**Cyber-safety enhancement**

The DBCDE *Portfolio Budget Statements 2010–11* indicate that the existing cyber-safety plan was subject to a re-allocation of an existing $40.8 million available over five years, to enhance cyber-safety education, awareness and counselling programs. This funding will also assist with the Government’s introduction of legislative amendments to the *Broadcasting Services Act 1992* to require all Internet service providers to filter overseas hosted Refused Classification (RC) material on a RC content list, to be maintained by ACMA.251

The measures include provision of additional and ongoing funding of $3.0 million per annum to enhance a range of initiatives to help protect children from inappropriate material on the Internet. Examination of the reported cyber-safety enhancement measures for DBCDE and ACMA resulted in the following table:

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Table 4: Cyber-safety enhancement budget measures, 2009–10 through 2013–14

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tr>
<td><strong>Expense ($ millions)</strong></td>
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<tr>
<td>ACMA</td>
<td>1.400</td>
<td>4.300</td>
<td>4.400</td>
<td>4.500</td>
<td>4.500</td>
<td>19.100</td>
</tr>
<tr>
<td>DBCDE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administered expenses</td>
<td>-25.828</td>
<td>0.760</td>
<td>-1.388</td>
<td>-1.444</td>
<td>-3.102</td>
<td>-31.002</td>
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<td>Departmental expenses</td>
<td>2.078</td>
<td>1.016</td>
<td>0.704</td>
<td>0.110</td>
<td>3.908</td>
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<tr>
<td><strong>Total</strong></td>
<td>-25.828</td>
<td>2.838</td>
<td>-0.372</td>
<td>-0.740</td>
<td>-2.992</td>
<td>-27.094</td>
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<td>AG’s Department</td>
<td>-</td>
<td>1.500</td>
<td>1.800</td>
<td>1.400</td>
<td>1.500</td>
<td>6.200</td>
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<tr>
<td><strong>Total</strong></td>
<td>-24.428</td>
<td>8.638</td>
<td>5.828</td>
<td>5.160</td>
<td>3.008</td>
<td>-1.794</td>
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<td><strong>Related Capital ($ millions)</strong></td>
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<tr>
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<td>0.800</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.600</td>
</tr>
<tr>
<td>DBCDE</td>
<td>-</td>
<td>0.100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.800</td>
<td>0.900</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>1.700</td>
</tr>
<tr>
<td><strong>Total expense and capital measures</strong></td>
<td>-23.628</td>
<td>9.538</td>
<td>5.828</td>
<td>5.160</td>
<td>3.008</td>
<td>-0.094</td>
</tr>
</tbody>
</table>


Table 4 illustrates:

- an increase in funding (expense and capital measures) to ACMA for the cyber-safety enhancement program of $20.7 million ($19.1 million plus $1.6 million) over five years (2009–10 inclusive)

- a reduction in funding to the DBCDE in relation to cyber-safety enhancement of $26.994 million (a $27.094 million reduction plus $0.1 million capital increase) over the same period and

- an increase in funding to the Attorney Generals Department (AG’s Department) for the cyber-safety enhancement program of $6.2 million over four years (2010–11 to 2013–14)

resulting in a total net reduction in cyber-safety enhancement funding across the three agencies of $0.094 million, for the period 2009–10 through 2013–14.

In addition, the cyber-safety enhancement budget measure states that the Government will also introduce a grants program to assist and encourage internet service providers (ISPs) to offer wider forms of filtering to customers on a commercial basis, in addition to the extra funding provided to ACMA to enhance cyber-safety education, awareness raising and counselling services.
Digital television switchover and public broadcasting

The Government will provide $375.4 million over 12 years under the digital television switch-over program to assist commercial and national broadcasters to provide a digital television satellite service for those Australians unable to receive digital terrestrial transmission. In addition, the Government will provide $2.6 million in 2009–10 to assist the community television broadcasting sector to meet the costs of commencing digital simulcasts.252

For further analysis of the digital switchover see the ‘Arts and Media’ brief in this publication.

Transport safety

Matthew L James,
Science, Technology, Environment and Resources Section

National safety regulation

The Budget provides an extra $8.3 million to facilitate nationwide regulation of the rail, road and maritime sectors. Funding is to be used to establish a national heavy vehicle (over 4.5 tonnes) regulator based in Brisbane, a national rail safety regulator based in Adelaide, and extra resources for the Australian National Maritime Safety Authority (AMSA) in Canberra. The funding implements reforms developed in cooperation with state and territory governments and formally approved by the Council of Australian Governments in December 2009. The Australian Government is also to provide an extra $14.5 million for Australian transport safety authorities to maintain work with their Indonesian counterparts in the aviation and maritime sectors. This additional funding builds upon $24 million allocated in 2008 and involves the training of safety inspectors and accident investigators, plus joint search and rescue exercises.

Civil Aviation Safety Authority (CASA)

CASA will recruit about 100 extra frontline staff, through $89.9 million in new funding over four years, to be raised by an increase in the aviation fuel excise (from $0.02854 to $0.03556 per litre or a rise of 25 percent). These additional safety specialists, analysts and airworthiness inspectors should allow CASA to expand surveillance activities and fulfil complex regulatory responsibilities. Initial recruitment has already been allocated $3.9 million for 2009–2010 in forward estimates.

Aviation security

The Budget provides almost $200 million to the rollout of new and additional measures announced in the Aviation Security Package of 9 February 2010. It includes $28.5 million for a range of new technologies at passenger screening points, $32 million over four years to enable screening at regional airports, $18.2 million also over four years to improve security cooperation in the Asia-Pacific region and $54.2 million over four years for air cargo industry x-ray screening and explosive trace detection technology. These are cross-portfolio measures.

Aviation strategic plan for the Sydney region

As foreshadowed in the 2009 National Aviation Policy White Paper, the Government is to provide $8.5 million in 2010–2011 to jointly develop this plan with the New South Wales Government. The Plan is to consider options for additional capacity in the Sydney region as well as future options for the release of land at the Commonwealth’s Badgerys Creek site.
Australian Law Reform Commission—funding

Pauline Downing
Law and Bills Digest Section

The 2010–11 Budget contains significant budget reductions for the Australian Law Reform Commission (ALRC).

Its budget will be reduced in 2010–11 by $242 000 with further reductions of $495 000 per year from 2011–12.\(^{254}\) The latter reduction represents a cut of about 20 per cent on 2009–10 levels. These reductions will require the ALRC to find additional productivity savings as well as streamline its operations and further develop its online resources.

In 2009–10, the ALRC conducted three inquiries but is only expecting to conduct two in this and subsequent years to 2013–14.\(^{255}\) There is also an expected reduction in the number of consultation meetings from 180 in 2009–10 to (an estimated) 100 from 2010–11.\(^{256}\)

Other law reform bodies have had their funding reduced in this Budget. The Criminology Research Council has had its revenue reduced by $148 000 to $448 000\(^{257}\) and the Australian Institute of Criminology (AIC) has had its revenue reduced by $548 000 to $7.393 million for 2010–11.\(^{258}\) The ability of the AIC to operate with a reduced budget may be facilitated by the reduction in the number of staff from 56 in 2009–10 to 46 in 2010–11.\(^{259}\)

Cuts to these legal bodies have created concerns that independent advice is not valued by the Government.\(^{260}\)

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255. Ibid., p. 234.

256. Consultation meetings involve input and feedback from key stakeholders and the public and may be conducted using face-to-face meetings, ‘phone-ins’ or online feedback.


258. Ibid., p. 221.

259. Ibid., p. 219.

The Government is going to provide $18.3 million over four years to implement a new framework for the ‘protection and promotion’ of human rights in Australia.\textsuperscript{261}

On 30 September 2009, the report on the Consultation into Human Rights in Australia (the Report) was presented to the Attorney-General by Father Frank Brennan. The Report contained 31 recommendations to Government; including that Australia adopt a federal Human Rights Act.\textsuperscript{262} According to the statistics provided in Appendix H of the Report, 27,888 submissions were in favour of a Human Rights Act, and 4,203 were against.

In its response to the Report, Australia’s Human Rights Framework (the Framework), the Attorney-General, Robert McClelland, in his foreword states:

\begin{quote}
The Framework does not include a Human Rights Act or Charter. While there is overwhelming support of human rights in our community, many Australians remain concerned about the possible consequences of such an Act. The Government believes that the enhancement of human rights should be done in a way that as far as possible unites, rather than divides, our community. The Government is committed to positive and practical change to promote and protect human rights. Advancing the cause of human rights in Australia would not be served by an approach that is divisive or creates an atmosphere of uncertainty or suspicion in the community.\textsuperscript{263}
\end{quote}

The first and key recommendation of the Report was that education be the highest priority for improving and promoting human rights in Australia, and this is reflected in the Government’s response in the Budget. The $18.3 million will go towards targeted education measures, increased parliamentary scrutiny, consolidated anti-discrimination laws and a National Action Plan on Human Rights.\textsuperscript{264}

\begin{itemize}
\item \textsuperscript{264} \textit{Budget measures: budget paper no. 2: 2010–11}, op cit.
\end{itemize}
The Government will provide funding of $2 million over the next four years to non-government organisations for the development and delivery of human rights education and engagement programs for the community. The Government will also provide an additional $6.6 million over four years to the Australian Human Rights Commission to enable it to expand its community education role and to provide information and support for human rights education programs.

In relation to increased parliamentary scrutiny, the Framework proposes a statutory parliamentary Joint Committee on Human Rights which will scrutinise Bills, and the Government also intends to legislate that each new Bill and piece of delegated legislation subject to disallowance will be accompanied by a statement which assesses the proposed legislation for human rights compatibility. There is little detail on the funding of a new Joint Committee, but the Senate Scrutiny of Bills Committee has deferred its inquiry and report into the future direction and role of itself until ‘after the introduction of legislation to establish the proposed Parliamentary Joint Committee on Human Rights’.265

Legal Aid

Diane Spooner
Law and Bills Digest Section

The Government will provide $154.0 million over four years to increase the resources available to legal assistance service providers. The funding will go to legal aid commissions, community legal centres and the Aboriginal and Torres Strait Islander Legal Services.266

In particular, the additional funding will be provided from 1 July 2010 and will include an additional:

- $92.3 million over four years for legal aid
- $39.9 million over four years for Indigenous legal services and
- $26.8 million over four years for community legal services programs.267

This will take the Commonwealth’s funding for legal assistance services to over $1.2 billion over four years.

Savings to fund this increase come from the reduction in funding of $84 million over four years across a range of Attorney-General’s Departmental programs, cuts to the Family and Federal Magistrates Courts by the Government not filling four judicial vacancies, and the reduction in the number of registries for the National Native Title Tribunal from four to two. There will also be a cut of $4.5 million from counselling services provided under the Family Relationship Services program.268 As well, revenue of $66.2 million over four years will be raised by increasing hearing and filing fees for Commonwealth courts and tribunals and changing fee waivers and exemptions.269

The money allocated to legal aid will go to all states but not to the Northern Territory or the Australian Capital Territory. In commenting on the legal aid component, the director of the


269. Ibid., p. 104.
Tasmanian Legal Aid Commission, Norman Raeman, is reported as saying: ‘The big boys scooped the whole pool and the little guys got totally duded’.  

South Australia also expressed disappointment, but the National Legal Aid Chair, Alan Kirkland, welcomed the funding boost. 

The Law Council of Australia and the Victorian Bar Association have pointed out that the allocation of an average of $23 million in additional funds fell short of the $43 million required to return legal aid funding to 1997 levels.


271. Ibid.

Australian Public Service

Dr Nicholas Horne
Politics and Public Administration Section

Background

Australian Public Service staffing

The 2009–10 Budget estimated that the total average staffing level (ASL) for Australian Government general government sector agencies in 2009–10 would be 253 318 ASL after an estimated staffing increase of 2750 ASL over 2009–10. The 2010–11 Budget gives a revised estimate of 258 321 ASL for agencies for 2009–10. ASL figures are not a headcount but rather:

... reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part time staff, to show the full-time equivalent. This also includes non-uniformed staff and overseas personnel.

In September 2009 the Minister for Finance and Deregulation, Lindsay Tanner MP, indicated that the Government would be seeking ‘savings and efficiencies’ in government administration for the 2010–11 Budget. In April 2010 Minister Tanner stated that the Government had ‘no plan to cut overall public service numbers’, and:

... our focus will always be on getting better efficiency and on getting better targeted programs. That inevitably means that there’ll be changes upward and downward in particular agencies. That’s always going to be the case … We have no agenda to slash public service jobs.


275. Ibid., p. 6-71.


277. L Tanner (Minister for Finance and Deregulation), *International Monetary Fund’s World Economic Outlook*, media release, 22 April 2010, p. 3, viewed 17 May 2010,
In the lead-up to the 2010–11 Budget there was some speculation concerning positions at the Department of Climate Change further to the deferment of the Government’s Carbon Pollution Reduction Scheme. In April 2010 the Department of Climate Change stated that it ‘has offered no redundancies to staff’ and that there are ‘no plans in the immediate future for redundancies’.

The Community and Public Sector Union (CPSU) was reported as being concerned regarding possible staff reductions at the Australian Tax Office and in the Immigration portfolio. It was also reported that internal Commonwealth Scientific and Industrial Research Organisation (CSIRO) documents noted the possible reduction of 500 positions at the CSIRO due to the need to find savings.

**Coordinated procurement**

In February 2008 the Government announced that it would be pursuing greater coordination of government procurement of goods and services. A number of cooperative and whole-of-government procurement arrangements are in place or in process, including procurement for government printing, data centres, telecommunications products and services, major office machines, and air travel for Australian Public Service (APS) agencies and Parliamentarians.

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Reform of government administration

In September 2009 the Prime Minister, the Hon Kevin Rudd MP, announced the establishment of an Advisory Group to be tasked with developing a ‘blueprint for reform’ of the APS.284 The Advisory Group on Reform of Australian Government Administration completed its final report in March 2010 and proposed a number of reforms including restructuring and augmenting the role of the Australian Public Service Commission (APSC) and reviewing existing efficiency mechanisms within the APS such as the efficiency dividend.285 In May 2010, shortly before the 2010–11 Budget, the Prime Minister announced that the Government had accepted the Advisory Group’s recommendations in full.286

2010–11 Budget measures

Administrative efficiencies and savings

As noted above, in September 2009 the Government indicated that it would be pursuing efficiencies for the 2010–11 Budget. Finance Minister Tanner has stated that efficiency measures in the Budget will generate savings of $1.2 billion over four years, and that the Rudd Government has ‘achieved savings of more than $8.5 billion from reducing waste and inefficiency’ since taking office.287

The Budget also identifies the following estimated savings arising from the Government’s implementation of coordinated procurement arrangements:

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284.  K Rudd (Prime Minister), ‘Speech to the Australia New Zealand School of Government Annual Conference (John Paterson Oration)’, 3 September 2009, p. 11, viewed 17 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F1VKU6%22


287.  L Tanner (Minister for Finance and Deregulation), Budget delivers more than $1.2 billion in efficiencies from government operations, media release, 17 May 2010, viewed 17 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F8MOW6%22
• $1 billion in estimated savings over the next 10–15 years arising from whole-of-government data centre procurement

• $4.2 million in estimated net savings over 2010–14 arising from whole-of-government procurement of major office machines and

• $160 million in estimated savings over 2010–14 arising from whole-of-government air travel procurement arrangements for APS agencies and parliamentarians.  

The Budget further states that the Government will continue to limit real growth in government expenditure to 2 per cent per annum until a budget surplus of 1 per cent of Gross Domestic Product is achieved.  

In addition, it has been reported that the current annual 1.25 per cent efficiency dividend applied to agencies will be reduced to 1 per cent per annum from 2011–12. 

Australian Public Service staffing

For 2010–11 the Budget estimates the total ASL for Australian Government general government sector agencies to be 258 704 ASL. This represents an overall estimated increase of 383 ASL on 2009–10 levels (258 321 ASL). For 2010–11 the Budget also estimates:

• total ASL reductions for agencies of 4278 ASL, and

• total ASL gains for agencies of 4661 ASL. 

The largest estimated ASL reductions are for Centrelink (–1880 ASL), the Department of Education, Employment and Workplace Relations (–525 ASL), and Defence military personnel (–501 ASL). The largest estimated ASL gains are for Department of Defence civilian staff (+1470 ASL), Defence reserves (+444 ASL), and the Department of Innovation,  


291. Budget paper no. 1: 2010–11, op. cit., p. 6-50. General government sector agencies are those which ‘provide non-market public services and are funded mainly through taxes’: Ibid., p. 9-32.

292. Ibid., pp. 6-68–6-71.
Industry, Science and Research (+315 ASL). Estimated ASL changes in 2010–11 for each portfolio and for selected agencies are set out in Table 1 below.

Reform of government administration

As noted above, in May 2010 the Government accepted all of the recommendations of the Advisory Group on Reform of Australian Government Administration, including augmentation of the role of the APSC. The 2010–11 Budget provides $38.7 million for the APSC over 2010–13 to facilitate its expanded role and responsibilities. The APSC will:

- be responsible for implementation of half of the Advisory Group’s recommendations and ‘have a reporting role to government on the overall implementation of the reform strategy across the APS’
- take on a ‘central, leadership role in providing expertise, guidance, performance monitoring and some centralised services to all agencies’ and
- take over the policy function for ‘agreement-making, classification structures, APS pay and employment conditions, work level standards and workplace relations advice from the Department of Education, Employment and Workplace Relations’.

The APSC is also estimated to gain a staffing increase of 42 ASL in 2010–11.

Reaction to the 2010–11 Budget

Media coverage of the Budget in relation to the APS has focused on resourcing in the portfolios and agencies, including the increased resourcing for the APSC in the context of the reform of government administration.

293. Ibid.
Opposition Senator Gary Humphries was reported in the media as being pleased that expected APS staff cuts did not materialise, but also concerned regarding future APS staffing levels in the context of government debt.\(^{297}\) Family First Senator Steve Fielding was highly critical of the estimated ASL increases for the Department of the Prime Minister and Cabinet.\(^{298}\)

The CPSU noted that the overall size of the APS would be largely unchanged. The Union endorsed the extra resourcing for Defence and the Australian Bureau of Statistics, but expressed concern over the estimated reductions at Centrelink and the Australian Customs and Border Protection Service. The CPSU further stated that it was ‘a great pity’ that the Government did not abolish the efficiency dividend in the Budget.\(^{299}\)

**Table 1: estimated portfolio and agency ASL changes 2010–11**

The following table, extracted from *Budget Strategy and Outlook: Budget Paper No. 1: 2010–11*, sets out the estimated ASL changes (reductions or gains) in 2010–11 for each portfolio and for selected agencies. As the table indicates, ASL reductions and gains vary considerably among agencies and both within and across portfolios.

While the estimated ASL changes in the budget papers draw on figures provided by agencies, it should be noted that they are estimates only and that agencies determine their own staffing levels subject to requirements.

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Table 1: Estimated portfolio and agency ASL changes 2010–11

<table>
<thead>
<tr>
<th>Portfolio / agency</th>
<th>ASL reductions</th>
<th>ASL gains</th>
</tr>
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<tr>
<td><strong>Agriculture, Fisheries and Forestry Portfolio</strong></td>
<td></td>
<td>+49</td>
</tr>
<tr>
<td>—Department of Agriculture, Fisheries and Forestry</td>
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<tr>
<td>—Australian Crime Commission</td>
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<tr>
<td>—Australian Customs and Border Protection Service</td>
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<td></td>
</tr>
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<td>—Australian Federal Police</td>
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<td>+50</td>
</tr>
<tr>
<td>—Australian Security Intelligence Organisation</td>
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</tr>
<tr>
<td>—Australian Transaction Reports and Analysis Centre (AUSTRAC)</td>
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<td>+22</td>
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<td>—Family Court of Australia</td>
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<td>—Insolvency and Trustee Service Australia</td>
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<td>—National Native Title Tribunal</td>
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<td>—Department of Defence–reserves</td>
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<tr>
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<td>—Defence Materiel Organisation</td>
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<td>Department of Parliamentary Services</td>
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<td><strong>Education, Employment and Workplace Relations Portfolio</strong></td>
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<td>—Fair Work Australia</td>
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<td>—Safe Work Australia</td>
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<td><strong>Environment, Water, Heritage and the Arts Portfolio</strong></td>
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<td>—Department of the Environment, Water, Heritage and the Arts</td>
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<tr>
<td>—Australian Film, Television and Radio School</td>
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<tr>
<td>—Australian National Maritime Museum</td>
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<td>+17</td>
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<tr>
<td>—Bureau of Meteorology</td>
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<td>+19</td>
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<tr>
<td><strong>Families, Housing, Community Services and Indigenous Affairs Portfolio</strong></td>
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<td>—Department of Families, Housing, Community Services and Indigenous Affairs</td>
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<td>Portfolio / agency</td>
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<td>ASL gains</td>
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</tr>
<tr>
<td>Aboriginal Hostels Limited</td>
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<td>+16</td>
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<td><strong>Finance and Deregulation Portfolio</strong></td>
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<td><strong>Foreign Affairs and Trade Portfolio</strong></td>
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<tr>
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<tr>
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<td>Australian Institute of Health and Welfare</td>
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<td>Australian Sports Commission</td>
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<td>Food Standards Australia and New Zealand</td>
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<td>Medicare Australia</td>
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<tr>
<td><strong>Immigration and Citizenship Portfolio</strong></td>
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<tr>
<td><strong>Infrastructure, Transport, Regional Development and Local Government Portfolio</strong></td>
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<td>Australian Maritime Safety Authority</td>
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<tr>
<td>Civil Aviation Safety Authority</td>
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<td><strong>Prime Minister and Cabinet Portfolio</strong></td>
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<tr>
<td>Australian Taxation Office</td>
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</tr>
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</table>

Source: Budget Paper No. 1, pp. 6-68–6-71.
Drought measures

Peter Hicks
Economics Section

The 2010–11 Budget provides funding for both a continuation of existing drought assistance arrangements and a trial of new support measures to be conducted in part of Western Australia (WA).

Ongoing arrangements

The main component of the suite of ongoing drought assistance arrangements continues to be Exceptional Circumstances (EC) assistance. EC assistance provides both income support to households and business support in the form of interest rate subsidies. Almost all EC assistance goes to farmers, with farm dependent small businesses the recipients of the remainder.

Table 1 provides estimates of Commonwealth spending on existing drought support measures in 2009–10 and 2010–11.300 Attention is drawn to the comments at the end of the table. The reduction in estimated spending on existing drought support programs from $752 million to $410 million reflects the substantial improvement in seasonal conditions over much of eastern Australia’s agricultural areas. Between May 2008 and May 2010 the proportion of agricultural land which is EC declared has fallen from 56 per cent to 29 per cent.301

The Government advises that no current EC declarations extend beyond 30 June 2011 and that for any areas subsequently declared as EC or any EC declarations which are extended, additional funding will be provided.


WA trial of new measures\textsuperscript{302}

The trial of new support measures in WA was announced by the Minister for Agriculture, Fisheries and Forestry on 5 May 2010 and will commence on 1 July 2010.\textsuperscript{303} The purpose of the trial is to:

\begin{quote}
test a range of new measures, including farm planning, on-farm investment, farmer training, family income support and community grants.
\end{quote}

and

\begin{quote}
grants of up to $60,000 will be available to eligible farmers to invest in on-farm projects which help them adapt to future challenges, including fencing, precision farming equipment and natural resource management work.
\end{quote}

The trial is part of:

\begin{quote}
the Rudd Government’s plans to deliver an improved drought support system which better supports farmers, their families and regional communities.\textsuperscript{304}
\end{quote}

The trial region essentially covers the agricultural production region in WA south from approximately Port Headland, with the notable exception of the higher rainfall areas in the south-west corner. It encompasses 67 local government regions. A map of the trial region is available on the Department of Agriculture, Fisheries and Forestry’s website.\textsuperscript{305}

A brief outline of the Government’s drought policy review was provided in the Library’s \textit{Budget Review 2009–10}.\textsuperscript{306}

The Budget provides $18 million for the trial over five years including 2009–10, with $11 million of this to be spent in 2010–11.\textsuperscript{307} Significant elements of the trial include:

\begin{itemize}
\item \textsuperscript{302} In addition to the sources cited in footnote 272, this section includes information drawn from: Department of Agriculture, Fisheries and Forestry (DAFF), ‘Pilot of drought reform measures in Western Australia’, DAFF website, viewed 17 May 2010, \url{http://www.daff.gov.au/agriculture-food/drought-pilot}
\item \textsuperscript{303} A Burke (Minister for Agriculture, Fisheries and Forestry), \textit{Start of a new era in drought support with Western Australian trial}, media release, 5 May 2010, viewed 14 May 2010, \url{http://www.maff.gov.au/media/media_releases/2010/may/start_of_a_new_era_in_drought_support_with_western_australian_trial}
\item \textsuperscript{304} \textit{Drought reform trial: current support continues across Australia}, op. cit.
\item \textsuperscript{305} DAFF, ‘Pilot of drought reform measures in Western Australia’, op. cit.
\end{itemize}
• Building Farm Businesses (BFB) – this is the main component of the trial with up to $8.4 million to be allocated in combined grants of up to $60 000 to assist eligible farmers prepare for climate change and reduced water availability. BFB comprises Farm Business Adaptation Grants of up to $40 000 and Landcare Adaptation Grants up to $20 000

• Farm Family Support – $4.9 million is available for income support for eligible farmers experiencing hardship

• Farm Planning – $3.6 million will fund farmers to develop strategic business plans identifying priority activities to improve the management and preparedness of the farm business to respond to future challenges. Individual grants will be up to $7500 and

• Farm Exit Support – $0.3 million is available for farmers in significant financial difficulty who decide to sell their farm. Eligible farmers will receive up to $170 000.

The planning component of the trial will be funded by the WA Government which is contributing $5 million to the trial, bringing total funding to $23 million.

The Government has yet to advise:

• the definition of hardship that will be adopted for the WA trial

• whether legislative changes will be required to give effect to the trial and

• how the trial will be evaluated.

Table 1: Estimated(a) Commonwealth spending on drought support 2009–10 and 2010–11 ($m)

<table>
<thead>
<tr>
<th>Drought support measures</th>
<th>2009–10</th>
<th>2010–11</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC assistance for primary producers and small business</td>
<td>613.1</td>
<td>320.1</td>
</tr>
<tr>
<td>Interim income support for primary producers and small business</td>
<td>0.5</td>
<td>–</td>
</tr>
<tr>
<td>Professional advice and planning</td>
<td>28.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Re-establishment assistance</td>
<td>24.3</td>
<td>24.4</td>
</tr>
<tr>
<td>Transitional income support(b)</td>
<td>–</td>
<td>13.9</td>
</tr>
<tr>
<td>Drought assistance for schools(c)</td>
<td>26.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Family support drought response teams</td>
<td>7.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Rural support services(d)</td>
<td>11.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Mental health support for drought-affected communities</td>
<td>5.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Assistance for isolated children</td>
<td>26.0</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Total drought support measures</strong></td>
<td><strong>742.5</strong></td>
<td><strong>401.5</strong></td>
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<tr>
<td>DAFF drought support program expenses</td>
<td>9.2</td>
<td>8.0</td>
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<tr>
<td><strong>Total estimated drought spending</strong></td>
<td><strong>751.7</strong></td>
<td><strong>409.5</strong></td>
</tr>
</tbody>
</table>

(a) Estimates compiled by the Parliamentary Library from published budget documents. A ‘-’ does not necessarily mean a measure is not being funded, but rather that relevant information has not been located. Consequently the table probably slightly under-estimates drought spending.

(b) Transitional Income Support being funded from within existing DAFF resources in 2010–11.

(c) As the list of drought support programs identified by the Government for a 12-month extension to 30 June 2011 does not include assistance to schools, it is assumed to have ceased.308

(d) Rural Support Services being funded from within existing Centrelink resources in 2010–11.

Sources: DAFF and Treasury components of the figures are from their respective Portfolio Budget Statements 2010–11 (PBS). Figures for other agencies involved in drought programs (Department of Education, Employment and Workplace Relations; Department of Families, Housing, Community Services and Indigenous Affairs; Centrelink; and Department of Health and Ageing) are drawn from Budget Paper No. 2 and respective PBSs. The full list of sources is provided in footnote 300. As no updated spending figures for 2009–10 have been found for some of the smaller drought programs from those announced in the 2009–10 Budget, these figures have been included in the table.

308.  Drought reform trial: current support continues across Australia, op. cit.
Biosecurity funding

Peter Hicks
Economics Section

Several biosecurity measures were announced in the 2010–11 Budget, including two which involve revenue raising, plus funding for further measures being implemented as a result of the Beale Review (the Review) of biosecurity and quarantine released by the Government in December 2008.309

Biosecurity reform measures

The Budget allocates $20 million over the next four years to be used for the development of a risk-based approach to biosecurity operations, and the enhancement of data collection and analysis capabilities within the Australian Quarantine and Inspection Service (AQIS). Funds for this measure will come from an increase in the level of cost recovery from Australia Post for the quarantine clearance of incoming mail.310

The 2010–11 Budget also provides $61.3 million over two years to maintain core quarantine border protection activities and to commence work on initial elements of biosecurity reform as recommended in the Review. This funding will also enable continuation of other outcomes of the Review, namely:

- the Office of the Interim Inspector General of Biosecurity, who reports directly to the Minister and was appointed on 1 July 2009, to conduct independent systems audits of Australia’s biosecurity systems. The interim arrangements will continue until new legislation is in place and the statutory position is established311


• the expanded Eminent Scientists Group, which independently reviews major Import Risk Analyses, now includes an economist and has had its terms of reference broadened to include that ‘all relevant matters relating to the likely economic consequences of a pest or disease incursion have been properly considered’ and

• the Biosecurity Advisory Council appointed in December to replace the Quarantine and Exports Advisory Council.312

Within the budgeted $61.3 million there is $3.9 million for the development of the project concept for future arrangements for post-entry quarantine facilities. This amount will be recovered from relevant industry sectors under existing cost recovery arrangements.

Export certification

This Budget also provides further funding of $88 million for changes to export certification arrangements and follows initial funding of $39 million announced in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2009–10. This measure has its origins in the Review’s recommendation that the 40 per cent rebate on AQIS fees and charges be discontinued when it reached its scheduled expiry on 30 June 2009. The rebate had been in operation since 2001. The Government accepted this recommendation and sought to revert to full cost recovery of AQIS fees and charges effective from 1 July 2009. However, the proposal was defeated in the Senate in September 2009.

In November 2009, the Government announced an agreement with non-government parties to facilitate Senate passage of a $127.4 million Export Certification Reform Package (ECRP).313 ECRP provides for a return to full cost recovery of AQIS fees and charges, fee rebates to assist exporters transition to full cost recovery by 30 June 2011, reforms of the regulatory and supply chain and reform of the meat inspection system. New export fees and charges returning industry to full cost recovery commenced in December 2009.

Taskforces for each export sector (dairy, fish, grain, horticulture, live animals and meat) were established in April 2009 to explore delivery arrangements for AQIS export certification and inspection services in line with recommendations of the Review and to promote efficiencies


and to improve productivity. These taskforces are at varying stages of developing and implementing their respective reform agendas.\textsuperscript{314}

Science Budget and nuclear issues

Matthew L James
Science, Technology, Environment and Resources Section

Overall national expenditure in this area amounts to $8.923 billion, which is just under 2.6 per cent of total government expenditure for the year. This figure is an increase of about six per cent on the previous year. The Australian Government’s 2010–11 Science, Research and Innovation Budget Tables provide further breakdown by agencies across portfolios.315

Major Australian Government support for science, research and innovation continues to rise across most portfolio programs and agencies into the year ahead, although some innovation activities decline. There were essentially no new programs announced for science research, save for a contribution of $19.5 million to a new Cairns Institute–Tropical Innovation Hub and $2 million to maintain and repair the National Measurement Institute in Sydney.

The Australian Academy of Science, however, expressed concern at a lack of future funding for the International Science Linkages scheme, noting that a current parliamentary Inquiry into Australia’s International Research Collaboration is in progress.316

The Budget also reveals that CSIRO total staffing will fall during the 2010–11 financial year from 5835 to 5706, which is a loss of 129 jobs.317 However, it is not clear how many of these are research positions. The media has reported concerns at plans to merge the Divisions of Entomology and Sustainable Ecosystems. In a letter to a newspaper, the Science Minister reiterated that CSIRO funding is secure.318

Australian Nuclear Science and Technology Organisation (ANSTO) and nuclear waste

The Government announced funding to decommission obsolete nuclear facilities operated by ANSTO at the Lucas Heights Science and Technology Centre and the National Medical Cyclotron at Camperdown. The Government will provide $9.7 million in 2010–11 to ensure that Australia complies with international best practice for decommissioning nuclear facilities. This measure follows on from $13.2 million provided in the Mid-Year Economic and Fiscal Outlook 2007–08 to initiate the decommissioning at Lucas Heights. However, ANSTO is also expected to impose an efficiency dividend on its operations, amounting to $2.5 million over four years relating to administrative and corporate costs.

ANSTO staff will finish decommissioning the ‘Moata’ reactor and continue work on decommissioning the ‘HIFAR’ reactor, both at Lucas Heights, and begin the process of decommissioning the National Medical Cyclotron. The funding will be used to dismantle the facilities, support ongoing maintenance and inspections, and manage waste products. The Australian Radiation Protection and Nuclear Safety Agency will oversee the decommissioning projects and ensure that rigorous safety procedures are in place.

The Government will provide $30 million over four years to enable the repatriation of reprocessed nuclear waste from the United Kingdom and France by 2016, as part of ANSTO’s spent fuel storage program. The funding includes provision for an interim storage facility. There is no announcement on the selection of a combined national low and intermediate level waste management facility previously proposed for the Northern Territory, although legislation is currently before the Parliament.

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Australian Security Intelligence Organisation and related intelligence issues

Nigel Brew
Foreign Affairs, Defence and Security Section

After several years of receiving regular annual increases to its budget and experiencing rapid, significant growth in staff numbers under a planned expansion program stemming from the 2005 (Taylor) Review of ASIO Resourcing, the Australian Security Intelligence Organisation’s (ASIO’s) overall budget has again increased (from $427 million in 2009–10 to a total of some $717 million this year) as the program enters its final phase.319

This is despite the fact that ASIO has this year suffered what is effectively a budget cut of $15.1 million in the form of money clawed back from the forward estimates. These ‘savings’ are described in Budget Measures: Budget Paper No. 2: 2010–11 as being the result of ‘increased efficiencies’, achieved through ASIO adopting ‘strategic work practices that will ensure that it operates more effectively and efficiently’. (ASIO is one of a number of agencies subject to ‘increased efficiencies’ this year.)320 Although there is no detail provided as to how the $15 million cut and the resulting changes enable ASIO to operate more efficiently, Budget Paper No. 2 assures that the cut ‘will not impact on ASIO’s operational activities, nor affect service delivery to operational areas’.321 In all likelihood, ASIO has indeed simply streamlined some of its operating procedures as it moves through the final stages of a period of dramatic growth. Indeed, as some commentators have suggested, after nearly a decade of increased spending on the intelligence agencies (‘tenfold since 2001’ in some cases), some of them may now be over-resourced.322

ASIO is also expecting an increase of 89 to its Average Staffing Level (ASL) this coming financial year, bringing the agency’s ASL to a total of 1800.323 This is in line with ASIO’s ongoing five-year growth program and keeps it on track to meet its objective of 1800 staff by

321. Ibid.
2010–11, consistent with the recommendations of the Taylor Review. ASIO staff numbers have been steadily increasing every year now for some time.

Evidence exists that ASIO has begun expanding its focus beyond counter-terrorism, which necessarily stemmed from the terrorist attacks of 11 September 2001, and is making a return to dealing with re-emerging traditional national security threats by actively enhancing its counter-espionage capabilities.

In his inaugural National Security Statement to Parliament in December 2008, the Prime Minister highlighted the threat of increased espionage and foreign interference targeting Australian military, diplomatic, and intelligence institutions, describing it as ‘inevitable’. In a farewell address to staff in February 2009, the former Director-General of ASIO, Paul O’Sullivan, stated:

We’ve broadened and strengthened our human and technical collection, and our investigative and strategic analysis, not only in counter-terrorism, but across all areas of security concern. We have responded proactively to the evolution of espionage in the 21st century, and the accumulation of challenges this presents, by boosting our counter-espionage and foreign interference capability.

Similarly, in ASIO’s 2008–09 annual report, the current Director-General, David Irvine, noted that 2008–09 ‘saw the most intense period of operational activity since 2005’. All of this suggests that ASIO is busy addressing a range of ongoing and re-emerging threats to security while continuing to manage significant growth in both the numbers and capabilities of its personnel. Indeed, as ASIO’s Portfolio Budget Statements 2010–11 note, ‘ASIO continues to build capability and operational momentum against counter-espionage and foreign interference targets, which includes a focus on electronic espionage’. Also announced in the Budget is the fact that over the next 18 months, ASIO and its five partner agencies, which together comprise the Australian Intelligence Community, will be

325. According to the ASIO report to Parliament 2008–09, staff numbers have increased by 735 people between 2004–05 (955) and 2008–09 (1690). Ibid., p.113.
328. ASIO, op. cit., p. vii.
subject to an independent review. This proposal is consistent with a recommendation of the (Flood) Inquiry into Australian Intelligence Agencies that external reviews of the Intelligence Community be conducted every five to seven years. Given that the Flood Inquiry conducted in 2004 was the last major review of the intelligence agencies, that traditional security threats appear to be re-emerging with a modern twist, and that both the staffing and funding of the intelligence community have increased dramatically over the last decade, it is indeed timely that a full-scale systemic review of the intelligence community be carried out to determine and ‘ensure its effectiveness in supporting the policy and operational needs of the Government’. The Government is providing $3 million over two years to the Department of the Prime Minister and Cabinet to undertake the review, and the overall cost will be offset by savings from ASIO in 2009–10.

Although the terms of reference or any other details of the independent review are yet to be released, there has been some speculation in the media as to what it might involve. Two weeks before the review was announced in the Budget, a report in The Sydney Morning Herald cited ‘intelligence sources’ who claimed that a secret review of the intelligence community was underway and that its recommendations proposed major changes to long-standing limitations on the powers and activities of Australia’s intelligence agencies, such as allowing:

- ASIO officers to carry weapons for self-defence
- officers of the Australian Secret Intelligence Service (ASIS) to carry weapons more freely and initiate and engage in paramilitary-style activities overseas (bringing it into line, it is claimed, with the UK’s Secret Intelligence Service [MI6], and the CIA) and
- the Defence Signals Directorate (DSD) to intercept communications within Australia.

The Government denied the review existed. Following the announcement of the independent review in the Budget, The Sydney Morning Herald took up the story again and linked its earlier claims to the budget announcement, claiming that it had ‘broken the story’ back in

330. The other agencies are the Office of National Assessments, the Australian Secret Intelligence Service, the Defence Signals Directorate, the Defence Intelligence Organisation, and the Defence Imagery and Geospatial Organisation.
333. Ibid.
April. The Government again refused to comment in any detail and certainly did not confirm a connection. Another media report cited ‘intelligence and security insiders’ in suggesting that the former Inspector-General of Intelligence and Security, Ian Carnell, would be a likely candidate to lead the review.

Funding of $9.1 million (over four years) has been allocated in the Budget to the establishment of a multi-agency Counter-Terrorism Control Centre inside ASIO to improve the integration and coordination of counter-terrorism capabilities across relevant government agencies. The concept was originally announced in the Counter-Terrorism White Paper of February 2010 and the cost of the measure will be met from within ASIO’s existing resources.

The Government has also provided $10.1 million over two years (including $0.3 million in capital funding) to ASIS to enhance its intelligence gathering capability, although $8.3 million of this has already been included in the forward estimates.

In another intelligence-gathering measure funded from the forward estimates, the Government is providing $101.6 million over four years (including $9.5 million in capital funding) to ASIO, the Attorney-General’s Department, the Australian Crime Commission and the Australian Federal Police for the maintenance and further development of telecommunications interception capabilities and delivery systems.

The combined effect of the intelligence-related measures announced in the 2010–11 Budget is to underpin the Government’s public recognition of the growing need to deal with the re-

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340. Ibid., p. 110.
emergence of traditional security threats in a technology-enabled world, and to plan for the long-term strategic security implications of modern shifts in geopolitics. The proposed Independent Review of the Intelligence Community is an important opportunity to evaluate the efficiency and effectiveness of the intelligence agencies in a burgeoning and possibly over-resourced security environment, to ensure the overall balance is right and that they are in the best position possible to address such challenges. It should be money well-spent.
Border security—passenger and air cargo security

Morag Donaldson
Law and Bills Digest Section

The Government will provide $199.2 million over five years to various government departments and law enforcement agencies to enhance Australia’s aviation security regime.\textsuperscript{341} The 2010–11 Budget contains a number of measures aimed at improving passenger and air cargo security which respond to current threat assessments, aviation security policy (set out in the recent Aviation White Paper) and recommendations made by the National Security Adviser following the attempted terrorist attack in the United States on 25 December 2009.\textsuperscript{342} Some of the funded measures include:

- new technologies for passenger and air cargo screening at international gateway airports (including an immediate increase in the number of passengers subjected to explosive trace detection; and the use of body scanners and multi-view x-ray machines)\textsuperscript{343}

- passenger and checked baggage screening at more regional airports

- increased firearms and explosives detector dog (FEDD) capability at major international airports

- increased community policing presence by the Australian Federal Police (AFP) at major airports

- increased bilateral multilateral engagement and cooperation in aviation security and

- enhanced passenger assessment and clearance, particularly aimed at detecting high-risk individuals seeking to travel to Australia (using risk profiling and data-sharing by ‘intelligence, border management and law enforcement agencies’).\textsuperscript{344}


\textsuperscript{343} In the 2009–10 financial year, more than 900 000 travellers were processed using the ‘SmartGate’ option at Australia’s international airports. SmartGate is a self-serve computer system which uses the data in an ePassport and face recognition technology to perform the customs and immigration checks that are usually conducted by a Customs and Border Protection officer. See Australian Customs and Border Protection Service, \textit{SmartGate}, Customs website, 2 December 2009, viewed 12 May 2010, http://www.customs.gov.au/site/page5552.asp

\textsuperscript{344}
Provision has already been included in the forward estimates for:

- continuing AFP aviation security commitments under the Unified Policing Model at Australia’s 11 major airports and

- maintaining the Fraudulent Travel Document Detection System (FTDDS) which is used by Australian Customs and Border Protection officers at Australia’s international airports to verify the travel documents of international travellers.

For details of other border protection measures funded in the Budget (including anti-people smuggling and immigration issues) see the ‘Border protection and detention’ section by Janet Phillips and Elibritt Karlsen in this Budget Review.


Superannuation

Leslie Nielson
Economics Section

The Government has proposed significant changes to Australia’s superannuation regime in this year’s Budget. The following covers the major proposed changes in this area.

Changes to the superannuation guarantee regime

The superannuation guarantee (SG) is one of the three ‘pillars’ of the Australian retirement income system (the other two pillars are the Age Pension and voluntary superannuation contributions). Briefly, employers are required to make SG contributions to superannuation funds on behalf of their employees. In 2009, total employer contributions to superannuation funds (the overwhelming majority of which were SG contributions) were $71 billion, an increase from $67.9 billion in 2008.347

Increasing the superannuation guarantee contribution rate

The required SG contribution rate is proposed to rise from 9 per cent to 12 per cent of ordinary time earnings in 2019–20. The proposed rise is gradual and will not commence until 2013–14, as shown in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013–14</td>
<td>9.25</td>
</tr>
<tr>
<td>2014–15</td>
<td>9.50</td>
</tr>
<tr>
<td>2015–16</td>
<td>10.00</td>
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<tr>
<td>2016–17</td>
<td>10.50</td>
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<tr>
<td>2017–18</td>
<td>11.00</td>
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<tr>
<td>2018–19</td>
<td>11.50</td>
</tr>
<tr>
<td>2019–20</td>
<td>12.00</td>
</tr>
</tbody>
</table>

Source: Budget measures: budget paper no. 2: 2010–11.348

The proposed increase in the SG rate was not supported by the Henry Review.349


Funding the increased contributions

Based on government statements and media commentary, it would be easy to assume that the proposed rise in the SG contribution rate is to be directly funded by the proposed Resource Super Profits Tax (RSPT). However, this is not the case.

Generally, SG contributions are made by employers, on behalf of their employees. Further, all SG contributions made within the allowable time limits are tax deductible for the employer. As such, an increase in SG contributions reduces the employer’s taxable income. This means a reduction in company tax paid to the government. The company tax rate is currently 30 per cent (the government has proposed in this Budget to reduce the rate to 29 per cent from 2013–14 and 28 per cent from 2014–15). The receipts from the proposed RSPT make up for (amongst other things) the short-fall in company tax arising from the proposed increase in SG contributions, not the increased SG contributions themselves. The payment of the SG contributions remains the responsibility of employers.

This loss of tax revenue is not compensated for by any increase in the Superannuation Fund Income Tax (SFIT), arising from the proposed increase in SG contributions. The SFIT is set at a rate of 15 per cent on tax deductible contributions (such as SG contributions) and 15 per cent on the investment earnings of superannuation funds.

Raising the SG age limit from 70 to 75

Currently, employers are not obliged to make SG payments in respect of employees who are age 70 and over. However, employers can make voluntary tax deductible superannuation contributions on behalf of employees aged between 70 and 75, and the self-employed may make such contributions up until age 75.


353. Budget measures: budget paper no. 2, op. cit., p. 44.
From 1 July 2013, the government proposes to raise the SG age limit from 70 to 75. This means that employers would be required to make SG contributions on behalf of workers in this age group.

Changes to the government superannuation co-contributions regime

The Government has proposed changes to the superannuation co-contributions regime to limit its costs and to provide enhanced benefits for lower income earners via a contributions tax rebate targeted at this group (see below). In 2007–08 and 2008–09 the Government made about $1.2 billion in superannuation co-contribution payments.354

Freezing the income thresholds

In 2009–10, taxpayers with an adjusted annual income less than $31 920 are eligible for a matching dollar-for-dollar contribution from the Government to their superannuation fund for the first $1000 of eligible personal superannuation contributions they make. Those with an annual income above $31 920, but less than $61 920, are entitled to a co-contribution, but at a lesser rate.355 These income thresholds are usually increased each year in line with increases in the Average Weekly Ordinary Time Earnings (AWOTE) as calculated by the Australian Bureau of Statistics. This process by which these thresholds are increased is known as indexation.

Proposed change

The Government has proposed that these income thresholds will not increase for the 2010–11 and 2011–12 tax years only. Under the proposed change, these thresholds would next increase in the 2012–13 tax year.356

This proposed change will affect those receiving annual incomes close to the $37 000 per annum threshold. Normally, incomes increase with successive wage settlements. The indexation of the co-contribution income thresholds compensates for increased wages. It may be the case that some who would have continued to be eligible for the maximum rate of government co-contribution support due to the indexation of these thresholds would be disadvantaged by the proposed change.


355. The rate of the superannuation co-contribution is reduced by 3.33 cents for every dollar the taxpayer earns over the lower threshold.

Freezing the government contribution

As noted above, currently for every $1 in personal contributions made by a person with an adjusted taxable income up to $31,920 per annum, the Government will contribute $1 up to a maximum contribution of $1000. The maximum rate of government contribution was previously $1.50 for every $1 contributed by the individual. However, legislative amendments in Schedule 2 of Tax Laws Amendment (2009 Budget Measures Act No.1) 2009 (Cth) changed this contribution rate to $1 for every $1 made in eligible personal contributions for the 2009–2010, 2010–2011 and 2011–2012 years only.

After the 2011–12 financial year, government superannuation co-contribution rates are currently legislated to be:

- $1.25 for every $1 of eligible personal contribution in the 2012–13 and 2013–14 financial years. That is, the maximum government superannuation co-contribution for these years will be $1250 and
- $1.50 for every $1 of eligible personal contribution in 2014–15 and later financial years. That is, the maximum annual government superannuation co-contribution will be $1500.357

The above increases in co-contribution rates will not occur under the proposed change.

Proposed change

The Government proposes to make the current contribution rate of $1 for every $1 contributed by the individual (up to $1000 in personal contributions) a permanent feature of the co-contributions regime. The legislated changes in the superannuation co-contribution rate noted above will have to be repealed for this to occur.

Low income earners superannuation contributions rebate

Low income earners currently receive little, if any, tax benefit from superannuation. As noted in the Personal Income Tax Brief in this Budget Review, in 2010–11 those with incomes of less than $37,000 per annum are subject to a 15 per cent marginal tax rate, while those on incomes of less than $16,000 per annum do not pay any income tax. As noted above, the Superannuation Fund Income Tax (applying to both tax deductible contributions and investment earnings) is also set at 15 per cent. In these circumstances there is no tax benefit to be gained by a low income earner having tax deductible contributions (known as concessional contributions) made on their behalf (such as SG contributions), or by making personal contributions.

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357. Changes made by Schedule 2 of Tax Laws Amendment (2009 Budget Measures Act No.1) 2009 (Cth).
Proposed change

From 1 July 2012, the Government proposes to introduce a tax rebate of up to $500 per annum, in respect of concessional contributions made by individuals whose adjusted taxable incomes are less than $37 000 per annum. This threshold will not be indexed and the rebate will be paid directly into the individual’s superannuation account.\(^\text{358}\)

This proposed measure will affect all those with SG payments made on their behalf whose annual income is less than $37 000 per annum.

**Increased concessional contributions limits**

A ‘concessional’ superannuation contribution is generally a tax deductible contribution. Annual limits apply to concessional contributions made by an employer on behalf of an employee and by a self-employed individual claiming these contributions as a tax deduction against their taxable income. These annual limits are:

- $25 000 for the 2010–11 financial year (indexed)\(^\text{359}\) or
- $50 000 for those aged 50 and over under special transitional arrangements, which are scheduled to end on 30 June 2012\(^\text{360}\)

A tax of 31.5 per cent is imposed on the amount of a person’s tax deductible contributions in excess of the above annual limits.\(^\text{361}\) This tax is in addition to the 15 per cent contributions tax that may have already been paid on these excess contributions by the superannuation fund, bringing the total tax paid on excess contributions to 46.5 per cent (which is the top personal marginal tax rate plus the Medicare levy).\(^\text{362}\)

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359. ATO, *Key superannuation rates and thresholds*, media release, Canberra, 4 May 2010, viewed 12 May 2010, [http://ato.gov.au/superfunds/content.asp?doc=/content/60489.htm](http://ato.gov.au/superfunds/content.asp?doc=/content/60489.htm) This threshold is the same as for the previous financial year; the increase in the Annual Weekly Ordinary Time Earnings (AWOTE) by which this threshold increases was not large enough to justify its increase for the 2010–2011 financial year.

360. The current transitional concessional contributions cap applies until 30 June 2012 for people aged 50 years old or over. The current cap is not indexed.


These limits were introduced to restrict the amount of tax advantaged superannuation benefits an individual could accumulate and also as a measure to limit the revenue loss occasioned by unlimited tax deductible contributions to superannuation funds. These limits have been of particular concern to older workers nearing retirement as they are perceived as preventing them from making significant contributions late in their working life.

Proposed change

From 1 July 2012, individuals with less than $500,000 in total superannuation benefits may make $50,000 in annual concessional contributions, without being subject to excess contributions tax.

The major differences from the current rules outlined above are:

- as noted above, the current $50,000 limit on concessional contributions for those aged 50 and over ends on 30 June 2012. The proposed change removes this time limit and

- the proposed change limits the ability of a taxpayer aged over 50 years to make more than $25,000 in annual concessional contributions, if they already have more than $500,000 in superannuation benefits.

Other changes

The Government has proposed a number of other changes to the superannuation system, including:

- additional administration funds to the Australian Taxation Office to ensure that participants in the superannuation co-contribution scheme satisfy eligibility requirements

- additional funding for the Superannuation Complaints Tribunal

- permitting complying superannuation funds and retirement savings account providers to deduct a wider range of terminal medical benefits from their fund’s taxable income. That is, a wider range of terminal medical conditions may be recognised as being of sufficient seriousness to warrant the early release of superannuation benefits

- extending the existing merger tax relief for superannuation funds past the 2010–11 tax year

- increasing the time-limit for deductible employer contributions (mostly SG contributions) to be made. Generally, employers have up to 28 days at the end of the relevant quarter to make the required SG payment. This time period may be extended in the case of SG payments due to a former employee and
• providing new arrangements for public sector defined benefit superannuation schemes which fund benefits through last minute contributions to those schemes.363

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Company tax reduction—head start for small business

Bernard Pulle and Stephen Barber
Economics and Statistics and Mapping Sections

Introduction

The Australian Government announced in its response to the *Australia’s Future Tax System Review* (Henry Tax Review) that one of the consequences of the proposal to introduce a Resource Super Profits Tax (RSPT) from 1 July 2012 was that it was possible to cut the company tax rate. In the 2010–11 Budget, the Government has announced that the current company tax rate of 30 per cent will be cut to 29 per cent in 2013–14 and 28 per cent in 2014–15. In addition, small business companies will be given a head start by having access to the reduced 28 per cent company tax rate from the 2012–13 income year.

The Government also announced on budget night that small businesses will enjoy an instant write-off of assets which cost less than $5000, compared with the current ability to write off assets costing less than $1000. In addition, small businesses will also be able to depreciate all other assets (other than buildings) in a single pool at a rate of 30 per cent, compared with the existing two depreciation pools which are depreciated at 30 per cent and 5 per cent depending on the life of the asset. These measures will take effect from the 2012–13 income year.

The table below sets out the revenue consequences of these proposals as indicated in *Budget measures: budget paper No. 2: 2010–11*.

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366. A small business company is an incorporated company with a turnover of less than $2 million per annum.


368. These depreciation rates are halved in the year of purchase.
Revenue ($m)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowering the company tax rate</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-300.0</td>
<td>-2000.0</td>
</tr>
<tr>
<td>Early start to the reduction in the company tax rate</td>
<td>-</td>
<td>-</td>
<td>-50.0</td>
<td>-300.0</td>
<td>-200.0</td>
</tr>
<tr>
<td>Small business instant asset write-off and simplified pooling</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-1030.0</td>
</tr>
</tbody>
</table>

Source: Budget measures: budget paper No. 2: 2010–11, pp. 39, 43, 46. Note: the $300 million in 2012–13 for the lowering of the company tax rate and the $50 million in 2011–12 for the head start in the reduction of the company tax rate were not explained (these measures do not take effect until the following financial years).

Reduction in company tax rate

Recommendation 27 of the Henry Tax Review’s report to the Treasurer proposed that the company tax rate be reduced to 25 per cent over the short-term to medium-term, subject to economic and fiscal circumstances. The report illustrated that Australia’s company tax rate of 30 per cent is high relative to other comparably sized OECD countries, and indicated that the rate should be brought down to the average rate for small to medium OECD economies, which is currently around 25 per cent (see the chart below).

The Government’s first response to the recommendations in the Henry Tax Review on 2 May 2010 proposed the progressive reduction of the company tax rate outlined in the Budget. As noted by the Prime Minister and the Treasurer in a joint media release, *Stronger, Fairer, Simpler: A tax plan for our future*, on 2 May 2010, the initial response of the Government—including the lowering of the company tax rate—is the first step in a 10-year agenda.  

### Early start in the reduction of company tax for small business companies and less red tape for small business

As indicated above, small business companies, relative to companies generally, will have the current company tax rate of 30 per cent reduced by 2 percentage points from the income year 2012–13.

The Government estimates that the loss to revenue from the approximately 720,000 small business companies involved will be $300 million in 2012–13 and $200 million in 2013–14.

The Government expects that the early start to the reduction in the company tax rate will enable these small business companies to reinvest more of their profits back into the company to expand and grow their business. Thus, the Government expects that savings from the reduction in the tax rate in the year 2012–13 will be reinvested to produce higher profits by these small business companies in the year 2013–14. Higher profits means more tax collected and so the loss to revenue will not be as large in 2013–14 as in 2012–13.  

The Government has also agreed to grant approximately 2.4 million small businesses the instant asset write-off tax concession from 1 July 2012. However, a loss to revenue is not recorded in the Budget for this measure until 2013–14.

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Fuel ethanol taxation

Richard Webb
Economics Section

Budget proposals

In the 2010–11 Budget, the Government announced that it would amend a ‘2004–05 Budget measure to introduce an energy content-based fuel excise system’. These proposals would change the way fuel ethanol—ethanol blended with other fuels (mostly petrol)—is taxed. The proposals are estimated to yield a net increase in revenue (revenue would increase by $276.5 million and expenses by $1.5 million over the forward estimates).

The proposals in the Budget are identical to those that the Howard Government intended but never legislated. The latter are outlined below under the heading ‘Howard Government’s proposals’.

Fuel ethanol: current arrangements

Ethanol in fuel is subject to excise at the rate of 38.143 cents per litre. Production of ethanol is also subsidised by the same amount. Consequently, the ‘effective’ rate of excise on fuel ethanol is zero. Table 1 shows the cost of the subsidy since its introduction.

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Table 1: Cost of ethanol production subsidy ($ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010–11</td>
<td>183.300</td>
</tr>
<tr>
<td>2009–10</td>
<td>154.556</td>
</tr>
<tr>
<td>2008–09</td>
<td>79.849</td>
</tr>
<tr>
<td>2007–08</td>
<td>35.732</td>
</tr>
<tr>
<td>2006–07</td>
<td>31.880</td>
</tr>
<tr>
<td>2005–06</td>
<td>15.381</td>
</tr>
<tr>
<td>2004–05</td>
<td>8.646</td>
</tr>
<tr>
<td>2003–04</td>
<td>20.182</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>529.526</strong></td>
</tr>
</tbody>
</table>


Under the budget proposals, the excise (and excise-equivalent customs duty) rate for ethanol would be set at 25 cents per litre from 1 July 2011. This rate would be phased down to a final rate of 12.5 cents per litre with effect from 1 July 2015. The production subsidy to domestic ethanol producers would also be progressively reduced from 22.5 cents per litre on 1 July 2011 to zero from 1 July 2015 (there will be no offsetting grants for excise-equivalent customs duty). The effect of the proposals is shown in Table 2.

Table 2: Proposed effective excise rates on ethanol (cents per litre)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 July 2011</td>
<td>2.5</td>
</tr>
<tr>
<td>1 July 2012</td>
<td>5.0</td>
</tr>
<tr>
<td>1 July 2013</td>
<td>7.5</td>
</tr>
<tr>
<td>1 July 2014</td>
<td>10.0</td>
</tr>
<tr>
<td>1 July 2015</td>
<td>12.5</td>
</tr>
</tbody>
</table>


Energy content-based fuel excise system

In 2001, the Howard Government established the Fuel Taxation Inquiry. The Inquiry recommended an energy content-based excise system whereby all fuels would be taxed on the basis of their relative energy content.374 The Howard Government rejected this recommendation.375 In 2010, the Australia’s Future Tax System Review (the Henry Tax


Howard Government’s proposals

As noted above, the Rudd Government’s budget proposals with respect to fuel ethanol are identical to those of the Howard Government. Having rejected the recommendations of the Fuel Taxation Inquiry, the Howard Government subsequently proposed reforms to fuel taxation of which reform of fuel ethanol taxation was a part. The reforms included:

- excise would fall into four bands. The bands would be based on energy content; namely, high, medium and low and a fourth band was for ‘other’ fuels such as compressed natural gas and

- so-called ‘alternative’ fuels that were explicitly excise-exempt (liquefied petroleum gas, compressed natural gas and liquefied natural gas) or effectively so (biodiesel and ethanol) would be subject to excise from 1 July 2011:

  - excise on alternative fuels would be phased in. Beginning 1 July 2011, credits would be paid that would reduce effective rates below the final rates, which would apply from 1 July 2015 and

  - the final rates on alternative fuels would be half of what they would be if rates were based on energy content (the so-called ‘discount’ for alternative fuels).377

Comments

There is little basis for the current arrangements for fuel ethanol. For example, an independent study of government support for ethanol and biodiesel in Australia called into question whether government assistance to biofuel production and use is warranted.378 Adoption of an energy content-based excise system for all fuels would be a positive development because it would provide a rational basis for taxing fuels in contrast with the...
history of fuel taxation which is one of ad hoc decisions. The budget proposal is, however, only a small first step towards what should be a wider move to taxing fuels based on their energy content.

Personal income tax

Les Nielson
Economics Section

Overall, the 2010–11 Budget made few changes to the personal income tax regime. This brief covers the major, already legislated, changes to commence on 1 July 2010 and the changes proposed in the Budget.

Already legislated changes—personal income tax rates

As previously legislated, the personal income tax rates will reduce from 1 July 2010, as shown in the following tables. The current personal income tax rates are as follows:

Marginal personal income tax rates 2009–10

<table>
<thead>
<tr>
<th>Taxable Income $ p.a.</th>
<th>Tax on Income $ p.a.</th>
<th>Tax on excess above lower threshold (marginal rate) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil to 6 000</td>
<td>0</td>
<td>plus 0</td>
</tr>
<tr>
<td>6 001 to 35 000</td>
<td>0</td>
<td>plus 15</td>
</tr>
<tr>
<td>35 001 to 80 000</td>
<td>4 350</td>
<td>plus 30</td>
</tr>
<tr>
<td>80 001 to 180 000</td>
<td>17 850</td>
<td>plus 38</td>
</tr>
<tr>
<td>180 001 plus</td>
<td>55 850</td>
<td>plus 45</td>
</tr>
</tbody>
</table>

Source: Parliamentary Library estimates.

On 1 July 2010 the personal income tax rates will change to the following:

Marginal personal income tax rates 2010–2011

<table>
<thead>
<tr>
<th>Taxable Income $ p.a.</th>
<th>Tax on Income $ p.a.</th>
<th>Tax on excess above lower threshold (marginal rate) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil to 6 000</td>
<td>0</td>
<td>plus 0</td>
</tr>
<tr>
<td>6 001 to 37 000</td>
<td>0</td>
<td>plus 15</td>
</tr>
<tr>
<td>37 001 to 80 000</td>
<td>4 650</td>
<td>plus 30</td>
</tr>
<tr>
<td>80 001 to 180 000</td>
<td>17 550</td>
<td>plus 37</td>
</tr>
<tr>
<td>180 001 plus</td>
<td>54 550</td>
<td>plus 45</td>
</tr>
</tbody>
</table>

Source: Parliamentary Library estimates.

The Low Income Tax Offset (LITO) will increase to $1500 per annum in the 2010–11 tax year (compared with $1350 in the previous year), giving a tax free income threshold of $16 000 for taxpayers with incomes up to $30 000 per annum in 2010–11 (compared with
The LITO is no longer available once the taxpayer’s income reaches $67,500 in 2010–11. The following table illustrates the effect of the above changes:


<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30,000</td>
<td>3,600</td>
<td>3,600</td>
<td>1,350</td>
<td>1,500</td>
<td>2,250</td>
<td>2,100</td>
<td>150</td>
</tr>
<tr>
<td>40,000</td>
<td>5,850</td>
<td>5,550</td>
<td>950</td>
<td>1,100</td>
<td>4,900</td>
<td>4,450</td>
<td>450</td>
</tr>
<tr>
<td>50,000</td>
<td>8,850</td>
<td>8,550</td>
<td>550</td>
<td>700</td>
<td>8,300</td>
<td>7,850</td>
<td>450</td>
</tr>
<tr>
<td>60,000</td>
<td>11,850</td>
<td>11,550</td>
<td>150</td>
<td>300</td>
<td>11,700</td>
<td>11,250</td>
<td>450</td>
</tr>
<tr>
<td>70,000</td>
<td>14,850</td>
<td>14,550</td>
<td>0</td>
<td>0</td>
<td>14,850</td>
<td>14,550</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: Parliamentary Library estimates.

### Changes announced in the 2010–11 Budget

#### Medicare levy changes

The Government proposes to increase the low income Medicare levy threshold with effect from 1 July 2009, that is, for the current financial year. This threshold is the annual income level below which no Medicare levy is payable.

The new thresholds are $18,488 for a single person (up from $17,794 for 2008–09) and $31,196 for a family (up from $30,025 for 2008–09). Each dependent student or child increases the threshold by $2,865 (up from $2,787 for 2008–09). Pensioners (such as disability pensioners), who are below Age Pension Age (65 but increasing to 67 over the next 13 years) will also receive an increase in this threshold to $27,697 for the 2009–10 tax year, compared with $25,299 for the 2008–09 tax year.381

#### Tax offsets

The net medical expenses tax offset allows a person to claim a tax offset equal to 20 per cent of unreimbursed eligible medical expenses above a set threshold, currently $1,500 p.a. For example, if a person has $1,600 worth of unreimbursed eligible medical expenses in a tax year, they may claim a tax offset of $20, which is equal to 20 per cent of $100.

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The Government proposes to raise this annual threshold to $2000 from 1 July 2010 and index it to the Consumer Price Index from 1 July 2011. This threshold was last increased in 2002–03.

**Tax deductions**

From 1 July 2011, the Government proposes to provide individual taxpayers with a 50 per cent tax discount in respect of the first $1000 of interest earned from bank accounts, bonds, debentures and annuity products.

Though details of this proposed measure are still to be finalised, the workings of the proposed tax discount appear to be similar to the current 50 per cent discount on taxable capital gains, whereby 50 per cent of realised capital gains are exempt from tax. Taking this approach as a model for the proposed measure, 50 per cent of the first $1000 in interest earned from the above products would not be subject to personal income tax. This makes the measure a tax deduction (rather than a tax offset) because it reduces a taxpayer’s taxable income.

Assuming a 6 per cent per annum interest rate, the full 50 per cent discount would apply to individuals with a saving balance of up to $16,666.67. However, individuals with savings balances above this level will only be eligible for a $500 tax deduction.

The Government has noted that, assuming the benefit gained from the discount is reinvested each year, a middle-income taxpayer with $17,000 invested at 6 per cent per annum will, after five years, have a balance almost $1000 higher than if they had not received the discount.

The proposed measure implements a revised version of a recommendation of the Henry Tax Review.

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382. Ibid, p. 35.
386. *Budget strategy and outlook: budget paper no. 1*, op. cit.
From 1 July 2012, personal income taxpayers will have a choice when filing their tax returns. Either they can continue to claim itemised work-related expenses and the cost of managing tax affairs as tax deductions (backed up by the relevant receipts, etc., should that prove necessary) or they can claim a standard $500 tax deduction. This standard deduction amount will rise to $1000 in the 2013–14 tax year.\textsuperscript{388}

This particular measure, designed to free most personal taxpayers from having to prepare a tax return, was proposed in the recent Henry Tax Review.\textsuperscript{389}

\begin{itemize}
\item \textsuperscript{388} Ibid, p. 47.
\item \textsuperscript{389} Ibid., p. 83.
\end{itemize}
Resource Super Profits Tax

Kali Sanyal and Paige Darby
Economics section

The Government announced its intention to introduce the Resource Super Profits Tax (RSPT) in its response to the Australia’s Future Tax System Review (Henry Tax Review) report on 2 May 2010. A resource rent tax was one of five recommendations the Government accepted from the 138 presented by the Henry Tax Review.

Budget measures

As part of the 2010–11 Budget, the Government has proposed to introduce the RSPT from 1 July 2012, with revenue from the tax estimated at $3 billion in its first year of operation, increasing to $9 billion in 2013–14.

Of this $12 billion in revenue, $700 million will be used to set up a Resource State Infrastructure Fund in 2012–13, with another $735 million budgeted for the Fund in the following financial year. When announcing the Fund, the Government estimated that it would constitute ‘more than $5.6 billion over the next decade, particularly for mining states’.

393. Ibid., p. 297.
In addition, the Government has set aside $1.8 billion over four years for a resource exploration tax offset which will be available for expenditure incurred from 1 July 2011.\footnote{Budget paper no. 2: 2010–11, op. cit., pp. 297–98. For further information on the resource exploration refundable tax offset, see the ‘Climate change and energy’ brief in this Budget Review 2010–11.}

The RSPT

The RSPT constitutes a 40 per cent tax on the ‘super’ profits made from ‘the exploitation of Australia’s non-renewable resources’. It will replace crude oil excise and involve a refundable credit for royalties mining entities pay to the states and territories. Also, entities currently covered by the Petroleum Resource Rent Tax (PRRT) will be able to opt into the RSPT scheme.\footnote{Australian Government, Fact sheet: Resource Super Profits Tax, Commonwealth of Australia, 2010, p. 1, viewed 17 May 2010, \url{http://www.futuretax.gov.au/documents/attachments/10_Fact_sheet_Resource_Profit_Tax_Final.pdf}}

The Henry Tax Review specifically recommended a resource rent tax with the following characteristics:

\begin{quote}
A uniform resource rent tax should be set at a rate of 40 per cent. It would use an allowance for corporate capital system, with taxable profit associated with a resource project equal to net income less an allowance for undeducted expenses or unused losses. The allowance rate would be set by the long-term government bond rate, as the government would share in the risks of projects by providing a loss refund if the tax value of expenditure is otherwise unable to be used.\footnote{Australia’s Future Tax System Review, Australia’s future tax system: report to the Treasurer: part I – overview, op. cit., p. 48.}
\end{quote}

The Government has largely followed these recommendations in its design of the RSPT. Under the RSPT scheme an entity can deduct the costs outlaid on a project from the project’s RSPT income or income of another project owned by that entity. Any remaining costs will be carried forward to be deducted as a loss against future income, or potentially refundable at the 40 per cent rate on a reasonable basis (to be determined through consultation with stakeholders). Undeducted costs will be held in an RSPT capital account which will earn an interest allowance (set at the long-term government bond rate, as recommended by the Henry Tax Review). Entities with existing projects subject to the RSPT will have access to an RSPT starting base to recognise past investment. This ‘starting base’ will operate over the first five years of the RSPT. However, the starting base will not be refundable or transferable to other projects.\footnote{Fact sheet: Resource Super Profits Tax, op. cit. pp. 3–4.}
Deductions will be allowed for the cost of extracting resources and getting them to the taxing point, but not for the following types of expenditure:

- payments of interest and financing costs, including the cost of issuing shares, the repayment of equity, the payment of dividends and financial hedging costs
- payments to acquire an interest in an existing exploration permit, retention lease, development licence, production licence, pipeline licence or access authority
- payments to acquire interests in projects subject to the RSPT and
- payments of income tax or GST.\textsuperscript{399}

The main implication for existing projects is that if they are very profitable, they will pay more tax under the RSPT, and if they are in a net loss position they will not have to pay any RSPT. In particular, the Government maintains that ‘no project that was profitable under the royalty system will become unprofitable because of the RSPT’.\textsuperscript{400}

However, specific details—such as the ‘taxing point’ of these super profits—are still unclear. The Government has committed to an extensive consultation period in order to determine the design of the tax in discussion with industry:

> There will be a period in excess of two years between announcement and commencement of the scheme, which will allow for extensive consultation on the details of the system and ensure technical design is settled before commencement.\textsuperscript{401}

The consultation period will cover, inter alia:

- the need for exemptions from the RSPT (for example, in respect of low value minerals or micro businesses)
- the basis on which deductible costs will be refundable (for example, when an entity exits the resource sector)
- arrangements for projects covered under the PRRT to irrevocably elect into the RSPT
- the design of the transitional arrangements into the RSPT and

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\textsuperscript{400.} Ibid., p. 9.

\textsuperscript{401.} *The Resource Super Profits Tax: a fair return to the nation*, op. cit., p. 3.
• establishing a methodology for taxing super profits (especially those methodologies for establishing taxing point values where arm’s length prices occur downstream of the taxing point). 402

Consultation will include the announcement paper (which was released on 2 May 2010), an issues paper to be released in July 2010, the final design paper to be published in late 2010, and exposure draft legislation to be released in mid-2011. 403 Initial consultations based on the announcement paper are scheduled to start in Sydney on 24 May 2010 and end in Adelaide on 11 June 2010. 404

The current arrangements

The current system of resource taxation involves excise duties administered by the Commonwealth and royalties administered at the state level. 405 Both of these types of taxes are typically levied ad valorem—that is, mining is taxed on a per unit of output basis which, as resources increase in value, is increasingly distant from the profits being made from these resources. In other words, if a tax is levied on the amount per tonne of a resource (say coal), the tax collected by the Government does not increase if the value of that resource increases on international markets—direct tax revenue only increases if the mining company chooses to mine more coal.

The RSPT will replace the Commonwealth excise, but, in order to avoid the need to force states to remove their royalty-based systems, the Government is introducing a refundable credit for royalties paid to the states and territories. This essentially means the Commonwealth Government will pay the states their royalty revenue (through the mining companies).

The Commonwealth Government also administers the PRRT which was introduced in the 1980s. While the RSPT is similar to the PRRT, as they are both profit-based taxes levied at a rate of 40 per cent, there are some key differences:

405.  Mining companies are also subject to business taxes, such as the company tax.
An important lesson to learn from the PRRT will become apparent when determining the taxing point and valuation methodologies for the RSPT—both of which have been a point of concern for the petroleum resource industry under the current regime.\footnote{See: Fact sheet: Resource Super Profits Tax, op. cit., p. 6.}

There are arguments in favour of both profit-based taxes like the RSPT and royalty-based taxes. The Henry Tax Review argued that royalty-based taxes lower the return available from resources:

Current charging arrangements fail to collect a sufficient return for the community because they are unresponsive to changes in profits. Further, the current arrangements distort investment and production decisions, thereby lowering the community’s return from its resources.\footnote{Australia’s Future Tax System Review, Australia’s future tax system: report to the Treasurer: part 2 – detailed analysis, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 217, viewed 17 May 2010, \url{http://taxreview.treasury.gov.au/content/downloads/final_report_part_2/AFTS_Final_Report_Part_2_Vol_1_Consolidated.pdf}}

However, many countries retain mining royalties because they create a direct link between use of the resource and the State:

While the trend has been to move toward profit-based taxes, many nations still retain royalty taxes. There are many reasons for this but the most important one is probably the issue of patrimony. In most nations minerals belong to the state. If a company extracts the state’s resources, the state may deem it necessary to demonstrate that it has received something in return for its lost minerals. Mining companies do not always generate taxable profits, and thus there is no guarantee that the state will receive any income-based taxes for its lost resources. There are many examples of mines that operate at a loss. The policy question then is, should a miner be allowed to extract the state’s resources, sell them, and pay the state nothing if the mine is operating at a loss? Some nations have answered this affirmatively but many developing economies impose a royalty thus insuring that anytime a mine extracts the state’s minerals, the state receives at least a nominal payment.\footnote{J M Otto, Mining taxation in developing countries: study prepared for UNCTAD, 2000, p. 6, viewed 17 May 2010, \url{http://r0.unctad.org/infocomm/Diversification/cape/pdf/otto.pdf}}
Pros and cons

The Government has argued that applying a resource rent tax on all non-renewable resources enables the Government to address the ‘risk of a “two speed economy”’. In addition, only applying the tax to profits recognises the large investments required for resource projects. These large investments are further recognised because losses will be able to be credited to future years (which is not possible under the PRRT).409

The Government has based its proposal on modelling conducted by KPMG Econtech for Treasury.410 This modelling suggests that under the RSPT scheme:

• mining investment will rise by 4.5 per cent
• employment in the mining industry will increase by 7 per cent and
• mining production will increase by 5.5 per cent, in the ‘long run’.411

For further analysis on this modelling and the implications on the RSPT on the Budget, see ‘Budget 2010–11: Key Features’ by Scott Kompo-Harms in this Budget Review 2010–11.

However, the scheme has been criticised over a number of issues including:

• it will apply to existing projects, rather than just ‘greenfields’ projects (when the PRRT was introduced it excluded existing projects)
• the profit threshold of 6 per cent—the same as the long-term government bond rate—is too low (the PRRT kicks in at the bond rate plus 5 percentage points, that is, 11 per cent)
• it applies the same tax rate to all commodities, rather than applying commodity-specific tax rates and

it could make Australia look like a less stable and less competitive place for long-term investment, especially given details of the tax will be uncertain while they are discussed over the next two years.412

Workplace relations

Steve O’Neill
Economics Section

The budget measures relating to workplace relations provide:

- a once-off grant of $10 million to the Trade Union Education Foundation for the development and delivery of national workplace education programs which will enable employee representatives to increase their understanding and knowledge of the Fair Work workplace relations system

- $85.7 million over four years for the implementation of a national workplace relations system for the private sector to reduce compliance costs and the level of administrative complexity for employers and employees. The funds will be primarily directed toward the Office of the Fair Work Ombudsman for education and compliance activities and grants targeted to small business through employer associations and

- $4.4 million over five years to increase Comcare’s ability to initiate additional proceedings to prosecute possible breaches and better manage proceedings initiated by others concerning its administration of the Occupational Health and Safety Act 1991.\(^{413}\)

The following table compares resources and average staffing levels (ASL) for the key workplace relations agencies in 2010–2011 with those in 2009–10.

<table>
<thead>
<tr>
<th>Workplace Relations Agencies</th>
<th>2009–10 $'000</th>
<th>2010–11 $'000</th>
<th>ASL 2009–10</th>
<th>ASL 2010–11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Work Australia</td>
<td>73 516</td>
<td>77 849</td>
<td>360</td>
<td>333</td>
</tr>
<tr>
<td>Workplace Ombudsman/OFWO</td>
<td>154 741</td>
<td>150 742</td>
<td>900</td>
<td>846</td>
</tr>
<tr>
<td>Australian Building and Construction Commission</td>
<td>33 456</td>
<td>34 462</td>
<td>155</td>
<td>155</td>
</tr>
<tr>
<td>Safe Work Australia (jointly funded with the Commonwealth by the States and Territories)</td>
<td>15.6</td>
<td>18.1</td>
<td>91</td>
<td>110</td>
</tr>
<tr>
<td>Comcare</td>
<td>328 285</td>
<td>339 020</td>
<td>551</td>
<td>454</td>
</tr>
</tbody>
</table>


The General Employee Entitlements and Redundancy Scheme will receive funding of $178.3 million in 2010–2011, falling to its more traditional funding levels of around $90 million in future years. Programs, including protected action ballots, small business work and family grants, home workers code of practice, the International Labour Organisation subscription and the fair work educational program, will be funded at about $14.2 million in

aggregate, a reduction of $15 million, derived from cuts to the Fair Work educational program.
Social Policy budget overview

Matthew Thomas and Luke Buckmaster
Social Policy Section

The 2010–11 Budget has been widely described as a ‘no-frills’ Budget. Arguably, this was to be expected in the current economic and political environment.

Australia’s political culture has become one in which sound economic management is viewed (or portrayed) as being perhaps the key political virtue. This appears to be especially so in the wake of the 2008–09 global financial crisis and in the face of emerging pressures on federal finances that are largely caused by the need to support an ageing population. In this setting, and under sustained pressure from the Opposition, the Government has focused much of its energy on returning the Budget to surplus in as short a time as possible. This has involved reining in stimulus spending, but also making some attempts to increase workforce participation and reduce the number of people reliant upon income support.

However, the degree to which the Budget may be understood as being ‘tight’ and ‘fiscally conservative’ is open to question with regard to social policy areas.

For example, while there may not have been significant (or any) increases in spending in the areas of housing and community amenities, social security and welfare and education in this year’s Budget, substantial funding has been allocated for health reforms—although it should be noted that a considerable proportion of this funding is coming from the states and territories through ‘claw-back’ of GST funding. Also, as is the case with all budgets, funding has been reallocated across and within social policy areas in line with changing needs and priorities. Put simply, this Budget’s spending in social policy areas may not have been broad, but it was certainly deep in the case of health.

It is also the case that the Government has in its previous two budgets (and, indeed, between budgets) spent sizeable amounts and implemented more or less comprehensive reforms in some key social policy areas. For example, the Government has invested heavily in public housing and education (both higher education and school infrastructure) and in increasing the rate of the pension, while also undertaking significant policy reform. This signals the importance of not treating individual budgets in isolation. It also highlights the potential limitations of singling out who were the Budget’s ‘winners’ and ‘losers’ on an annual basis.

It is also important to bear in mind that fiscal responsibility should refer as much to the nature as it does to the quantum of the spending.

Thus, for example, questions could be raised as to whether or not the Government has exercised sufficient fiscal responsibility in relation to the establishment of a National Health and Hospitals Network. Has the government spent too much in gaining the support of the premiers for this reform, especially given that there is some debate as to whether or not the
reform will achieve its stated objectives.\textsuperscript{414} In relation to savings measures, it could be asked whether or not more significant savings might have been made by the Government in what it pays for medicines.\textsuperscript{415} Arguably, the Government could also have undertaken deeper reform and realised greater savings in relation to Disability Support Payments,\textsuperscript{416} and through the introduction of further cuts to middle class welfare. In short, the Government could have been more fiscally conservative than they actually were.

It is also worth noting that, to some extent, perceptions that the Government has underspent in social policy areas in this year’s Budget may also reflect raised community expectations associated with the Government’s objective of a more inclusive Australian society. As a consequence, a number of commentators have expressed disappointment that, as they see it, the Budget does not include a significant range of measures capable of promoting the ideal of a more inclusive society.\textsuperscript{417}

Certainly, the Government did not want for social policy ideas to choose from. The pressure for fiscal conservatism comes at a time in which the Government has, in the report of the Australia’s Future Tax System Review (Henry Tax Review), a wealth of policy reforms that it could potentially have implemented. These include:

- improved alcohol and gambling taxation arrangements
- refined housing assistance measures, including increasing the maximum rate of Rent Assistance to assist renters to afford an adequate standard of dwelling
- more consistent payment relativities for income support aimed at reducing the gap between the amount paid to the unemployed or students and those in receipt of a pension
- new, more comprehensive and rationalised means testing arrangements for income support recipients
- substantial changes to family assistance aimed at, for example, more directly reflecting the costs of raising children and avoiding unnecessarily high disincentives for working
- rationalisation of child care assistance payments and

\textsuperscript{414} See the ‘Hospitals’ brief in this Budget Review.
\textsuperscript{415} See the ‘Pharmaceuticals and pharmacy’ brief in this Budget Review.
\textsuperscript{416} See the ‘Disability Support Pension’ brief in this Budget Review.
• improved funding arrangements for aged care based around the principle of user-directed funding.\textsuperscript{418}

The Australian Council of Social Services has been broadly supportive of the Henry Tax Review’s proposals in the areas of superannuation, housing affordability, Newstart and community services.\textsuperscript{419}

Unsurprisingly, given the above agenda, the Government has chosen to employ few of the Henry Tax Review recommendations in this Budget, and those that it has selected are more or less in line with its overall objective of ‘balancing the books’.

Significant social policy measures in the Budget include:

• substantial expenditure in health, including $7.3 billion over five years related to the Government’s health and hospitals reform agenda

• new savings and revenue measures in health, including cuts in the amounts paid to pharmaceutical companies and pharmacies for Pharmaceutical Benefits Scheme medicines, increasing the tobacco excise, and increasing the threshold for the medical expenses tax offset

• reforms to the Disability Support Pension under which some claimants will be asked to demonstrate they cannot work by participating in employment assistance or rehabilitation—estimated to realise savings of $383.4 million over four years

• $410 million over six years to establish the new scheme of income management in the Northern Territory announced by the Government in November 2009

• a restructuring of Commonwealth vocational education and training (VET) programs, under which expenditures will be offset by the cessation or redirection of funding from other VET programs—resulting in a decline in VET expenditure of 10.7 per cent from 2010–11 to 2013–14

• $273.7 million to support the introduction of the National Quality Framework for early childhood education and child care and


\textsuperscript{419} Australian Council of Social Services, \textit{A Fairer Tax System: some important steps but further to go}, media release, 2 May 2010, viewed 21 May 2010, \url{http://www.acoss.org.au/media/release/a_fairer_tax_system_some_important_steps_but_further_to_go}
• reinstatement of the cap on the amount of Child Care Rebate that can be claimed for each child in care to the 2008–09 level of $7500 per annum and suspension of further indexation until July 2014—expected to achieve savings of $86.3 million over four years.

On the other hand, the social policy budget does not include:

• significant commitments or reforms in aged care, mental health, Indigenous health, dental health or health workforce

• a substantial initiative capable of fundamentally addressing the inexorable growth in the numbers of people receiving DSP

• major new directions or new funding allocations in the area of Indigenous affairs and

• any of the Henry Tax Review recommendations for changes in areas such as alcohol and gambling taxation, income support, means testing, family assistance, housing assistance or aged care.

In summary, while it is certainly the case that the 2010–11 Budget lacked significant announcements across a range of social policy areas, one area in particular, health (and, more specifically, hospitals) has received a substantial investment. As discussed above, this reflects a number of factors, including the electoral cycle, fiscal constraints, expenditure already committed in other areas of social policy in previous budgets and the Government’s identification of health and hospitals reform as a major priority. As with most reforms of this nature, the costs and benefits of the Government’s approach will most likely be the subject of much debate for decades to come.
Arts and media

Dr John Gardiner-Garden and Dr Rhonda Jolly
Social Policy Section

Arts

Most arts-related sums announced in the 2010–11 Budget media releases are continuations of existing funding. Included in this category is:

- $686.6 million over four years for the Australia Council
- $3.2 million over two years for the Australia Business Arts Foundation
- $4 million over four years for the Business Skills for Visual Artists initiative to assist the Indigenous arts industry (with Indigenous Arts Centres to replace the Australia Business Arts Foundation as administrator) and
- $15.2 million for another year’s operation of the National Indigenous Television Service (with its continuation beyond that date subject to the findings of a promised review into the Indigenous broadcasting and media sector).

There were no significant budget increases for any of the national collecting institutions. The Minister reports that the Government will invest more than $8 million in an education and public programs facility for the Australian National Maritime Museum at Darling Harbour, and $7 million for an extension to the National Museum of Australia’s main building, to open up space for more exhibitions. It is apparent that these investments represent not new money, but simply permission to direct the money from their existing budget and reserves.

An additional $400 000 has been provided for the Contemporary Music Touring Program but the $260 000 over three years for CONTROL: The Business of Music Management, a training program to improve the business skills of music industry managers, is to come from existing Department of Environment, Water, Heritage and the Arts resources.

Financial support for the Prime Minister’s Literary Awards will be doubled to $400 000. This will accommodate funding for two new children’s awards—$100 000 for best young adult fiction book and $100 000 for best children’s fiction book. The rationale for such generous prize money is unclear.

Film

The 2009–10 Budget provides for two changes in federal film support from 1 July 2010. The first is dispensing with the requirement for film production costing between $15 million and $50 million to spend a minimum of 70 per cent of the production budgets in Australia to qualify for the 15 per cent Location Offset. The second is lowering of the amount, from $5 million to $500 000, a foreign film maker needs to spend to qualify for the 15 per cent rebate for the Post, Digital and Visual Effects Production (PDV). It is anticipated that these changes will encourage more films to be shot in Australia and more PDV projects to come to Australia. There may be still further changes to federal film support mechanisms when the Government receives the recommendations of a Review of the Australian Independent Screen Production Sector currently being conducted by the Department of the Environment, Water, Heritage and the Arts.

Digital television

Last year’s Budget delivered considerable funding to assist regions in the switchover to digital television which is due to commence progressively from 1 July 2010. Victoria’s Mildura/Sunraysia region is scheduled to be the first region in Australia to ‘go digital.’

This Budget has delivered funding to deal with one of the problems identified with switchover, inadequate television reception in some communities, most of which are in regional and remote areas.

Areas of inadequate reception, also known as black spot reception areas, have been able to receive analogue television either through self-help transmission services or through a direct to the home (DTH) satellite service. According to the Australian Communications and Media Authority (ACMA), there are 177 sites with one or more self-help retransmission services.


423. The 2009–10 Budget provided $138.7 million over three years to assist regions in South Australia, Victoria and Queensland to undertake switchover. Funding of $119.7 million over three years was provided to the Department of Broadband, Communications and the Digital Economy to deliver a digital television information and communications campaign and to initiate a technical assistance program for eligible households in Victoria, South Australia and Queensland.
located in metropolitan and regional licence areas and 486 sites in remote Australia. There is DTH satellite reception equipment installed in more than 74 000 households.

In early 2009, the Government recognised the difficulties self-help transmission sites would experience in digital switchover and promised that it would introduce a satellite service to remedy this problem. In January 2010, the Government announced television broadcasters had agreed to upgrade 100 existing analogue self-help sites to enable them to operate in digital mode. Viewers in the transmission area of these sites would then ‘simply need to install a high definition set-top-box to access a full suite of digital television channels’. The satellite service would be funded to provide digital television to the remaining self-help sites.

By April 2010, the Government had reached an agreement with Southern Cross Media and Imparja to establish a joint venture company, Viewer Access Satellite Television (VAST), to deliver the satellite service. The VAST service will transmit programming in standard definition from the Seven, Nine and Ten networks and their digital channels, as well as all ABC and SBS channels and high definition channels. The Government also announced that a $400 subsidy would be paid to eligible households to convert to the new satellite service. This would assist in the purchase of a satellite set-top-box with an access ‘smart card’, a satellite dish and cabling.

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428. Ibid.

Funding of $375.4 million over 12 years has been allocated in this Budget to assist commercial and national broadcasters to provide the digital television satellite solution for self-help sites. The funding will be used to build the service, to assist broadcasters in upgrading the 100 existing analogue sites as agreed with the Government and to provide satellite conversion subsidies to communities unable to receive terrestrial digital broadcasts.

The Senate Environment, Communications and the Arts Legislation Committee recently examined the digital satellite solution in the context of legislation under which the satellite service will be established. The Committee noted a number of concerns about the service. These included the extent to which the satellite platform will be available to narrowcasters, such as National Indigenous Television (NITV). The Department of Broadband, Communications and the Digital Economy (DBCDE), however, assured the Committee that this concern was unwarranted; narrowcasters would not be precluded from the satellite.

A further issue of concern surrounding the satellite service is that relating to the delivery of local content. In two of the licence areas to which the satellite service will be delivered a dedicated local news channel will need to operate. This channel will ‘aggregate’ local news from terrestrial regional broadcasters who broadcast in the licence areas. The terrestrial broadcasters will then be required under their licence conditions to provide local material to the satellite broadcaster ‘as soon as practicable’ after the terrestrial licensee begins broadcast of the material. It may be possible that broadcasters’ interpretations of what is ‘practicable’ could amount to the delivery of information hours after a broadcast on terrestrial television and, at the least, at an inconvenient time for audiences. This issue appears not to have been resolved during the Senate inquiry into the service.

Little comment appears to have been made concerning the Government’s satellite proposals since the Budget was released. However, as one report pointed out, the funding for the satellite service comes on top of licence fee rebates to broadcasters to assist them to convert

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It appears, therefore, that not only is this funding about providing equity of access for certain audiences, it also effectively continues a long-standing tradition of government largess for commercial broadcasters. It is of course difficult to see what practical alternative the Government had to this dilemma for as Broadcast Australia’s Stephen Farrugia maintains, it would be almost impossible to guarantee a 100 per cent terrestrial broadcast coverage. The alternative to a satellite solution could well have been no pictures at all for many communities, especially those in remote Australia.\footnote{S Farrugia, ‘Tackling the digital black spots’, Onscreen Asia website, viewed 17 May 2010, \url{http://www.onscreenasia.com/article-5885-tacklingthedigitalblackspots-onscreenasia.html}}
Child Care Rebate

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Social Policy Section

The 2010–11 Budget provides $273.7 million to support the introduction of the National Quality Framework (NQF) for early childhood education and child care. The NQF will involve, amongst other matters, the progressive phase-in of improved carer-to-child ratios and higher qualification requirements for carers from January 2012. From July 2010, a transition phase commences where services will begin to undergo assessment against the NQF’s National Quality Standard. The NQF will increase the costs faced by child care services which will then, it is anticipated, pass those increased costs on to families using child care.

Claims about the extent of fee increases vary from the Government’s view (supported by the new operators of ABC Learning) that they will be small, to claims from some industry groups that they may be as high as $12 to $22 per day. These conflicting views are not new, but have been given renewed attention in light of the Government’s decision to return the cap on the amount of Child Care Rebate (CCR) that can be claimed for each child in care to the 2008–09 level of $7500 per annum. Indexation had taken this cap to $7778 in 2009–2010. This measure will take effect from July 2010 and indexation will be suspended until July 2014. Savings of $86.3 million over four years are expected.


The Government views this measure as a savings measure to offset some of the $273.7 million to be spent implementing the NQF for early childhood education and child care. Deputy Prime Minister Gillard points out that the change will only affect three per cent of families receiving the rebate in 2010–11. That means that about 20 700 families will be affected, losing up to about $9 a week (taking account of the indexation of the cap that was due in July 2010). As the indexation freeze progresses, the impact will grow due to increases in child care fees over that time. This is reflected in the growth in the estimated savings from $5.7 million in 2010–11 to $42 million in 2013–14. If the worst case fee increases projected by some in the child care industry come to pass then that would substantially increase the impact of this change.

The Government does expect expenditure on the CCR to increase as the NQF rolls out. Increased expenditure on CCR over the period 2010–11 to 2013–14, as a result of the improved child care standards, is identified in Budget Measures: Budget Paper No. 2: 2010–11 under the heading ‘National Quality Agenda for Early Childhood Education and Care – national partnership implementation’. Expected CCR outlays climb from $9.1 million in 2010–11 to $64 million in 2013–14.

However the impact of the change in dollar terms pans out, it is clearly going to fall mainly on those families who use a lot of the most expensive child care (usually located in expensive accommodation in central business district locations). It follows that these families are unlikely to be low income families.


Education and skills overview

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An estimated $33 billion will be spent on education in 2010–11. The budget estimates in Budget Strategy and Outlook: Budget Paper No. 1: 2010–11 indicate a decline in funding from 2009–10 to 2011–12, which mostly reflects the end of the Building the Education Revolution (BER) economic stimulus initiatives. From 2010–11 the Budget estimates and projections show a progressive return, in nominal terms, to the usual pattern of Commonwealth support for education, particularly school education.441

The education focus of the 2010–11 Budget is the vocational education and training (VET) sector, presented under the banner, Skills for Sustainable Growth. However, in spite of this focus, VET expenditure is expected to decline by 10.7 per cent in real terms from 2010–11 to 2013–14. As explained in the separate analysis of the VET budget measures which follows, these measures are essentially a restructuring of Commonwealth VET programs, with expenditures offset partly by declines in expenditure resulting from the cessation of programs or a redirection of funding from other programs.

School education and higher education are not a particular focus of the 2010–11 Budget. Higher education was a feature of the 2009–10 Budget which funded the Government’s response to the Review of Australian Higher Education (the Bradley Review) and introduced new indexation arrangements. The new school education policy framework, particularly for government schools, was embedded through the new federal financial relations framework, set in place in 2009 by the Intergovernmental Agreement on Federal Financial Relations.442

School education

In 2010–11 ongoing funding for school education, as provided through the National Schools Specific Purpose Payment (SPP), amounts to an estimated $10.5 billion, of which two-thirds ($6.9 billion) is allocated to non-government schools and the remainder ($3.5 billion) to government schools. There is also funding for the various National Partnerships (including teacher quality, assisting low socio-economic status school communities, literacy and numeracy, the Digital Education Revolution and Trade Training Centres National


Partnerships) as well as the remaining BER funding ($5.4 billion). The Budget projects that ‘core’ funding for government schools is expected to increase at a real average annual rate of 4.3 per cent over the forward estimates. Although the Budget does not provide a similar calculation for non-government schools, applying a similar methodology to the non-government schools SPP amounts, calculations using the Budget’s CPI forecasts indicate that funding for non-government schools will increase at a real average annual rate of 5.1 per cent over the forward estimates.

While funding for school education is not a feature of this Budget, it will be a focus of attention as the Government’s school funding review (due to conclude in 2011) gets underway. Originally announced as a review of the non-government schools funding system, the review’s ambit has been broadened to include funding for government schools.443

Higher education

Higher education was a highlight of the 2009–10 Budget when the Government resourced significant reforms of the sector. As a result, the 2010–11 Budget has no new higher education initiatives. Funding for higher education is an estimated $8.1 billion in 2010–11, with an expectation that expenses will ‘increase by 4.0 per cent in real terms over the forward years’. The increased expenses are largely the result of funding to student places which have been higher than estimated since the Government allowed universities to over-enrol by ten per cent in 2010 and 2011. Despite commencement of the student demand driven ‘voucher’ system in 2012, the Government expects student demand to ‘moderate from 2011–12’.

The student assistance sub-function includes expenses relating to the Higher Education Loan Program (HELP). Reflecting the increased 2010 enrolments, HELP expenses are estimated to be $1.0 billion in 2010–11 and then, despite the Government’s expectation that student demand will moderate from 2011–12, ‘to rise by 11.7 per cent in real terms from 2010–11 to 2013–14’.

The 2009–10 revised estimates for higher education are down from $8.0 billion to $7.5 billion. This is partly due to the expectation in 2009 that infrastructure spending from the Education Investment Fund (EIF) and Higher Education Special Projects would significantly increase expenses in higher education.444 EIF Round 3 projects, due to be announced in early 2010, are now expected in July 2010. Consequently, estimated expenses from the EIF, initially expected to tail off by 2012–13, now show a rise in 2013–14.445

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Skills development and vocational education and training

Carol Kempner
Social Policy Section

Presented under the banner Skills for Sustainable Growth, the vocational education and training (VET) measures in the 2010–11 Budget have been highlighted as a feature. This wide range of new measures has perhaps created the impression that VET has received a significant injection of additional funds. However, as Budget Strategy and Outlook: Budget Paper No. 1: 2010–11 notes, ‘expenses under the vocational and industry training sub-function are expected to decline by 10.7 per cent in real terms from 2010–11 to 2013–14’, a decline that starts with this Budget.446

The new measures effectively involve a restructuring of Commonwealth VET programs. Expenditures on these measures are offset by some of the declines in expenditure associated with the cessation or redirection of funding from other programs.

In summary the 2010–11 Budget effectively has three main elements for VET:

• it maintains the level of assistance to the states and territories for the running of their VET systems at approximately $1.3 billion as prescribed by the intergovernmental agreement that provides for the National Skills and Workforce Development Specific Purpose Payment (SPP)447

• it restructures Commonwealth own VET programs and incentive payments in response to changing economic circumstances. Planned expenses are adjusted to take into account the cessation of some programs and the redirection of funds to others. There is a redirection from stimulus and structural adjustment initiatives that were introduced to respond to the labour market fall-out from the global financial crisis, towards new incentives and programs to deal with the skills needs of a growing economy. The net effect of this is a


slight decline in outlays in relation to these programs from approximately $2.1 billion in 2009–10 to $1.9 billion in 2010–11 in nominal terms and

- it facilitates structural changes to the VET system by providing start-up funding to support regulatory reforms to the national VET system as agreed by the Council of Australian Governments (COAG). It also aims to drive quality improvements in the VET system as well as reforms within individual state and territory VET systems that would increase competition and student provided funding. Though the initial investment in some of these measures is substantial, the Commonwealth expects to recover some of the costs through associated revenue measures.

**Commonwealth own VET programs**

Funding will be freed up from programs that are ceasing—$300 million from the VET Teaching and Learning Capital Fund which was a one-off injection of funds associated with the 2008 Nation Building Package; and $375.9 million in 2013–14, from the early cessation of the Productivity Places Program (PPP). PPP funding that was provided for structural adjustment places for retrenched workers during the global financial crisis is an example of funding that is being redirected to meet new economic priorities. Following a mid-term review of the PPP and some sustained criticism, it should not come as a surprise that adjustments are being made to this program.448

The focus of the new Commonwealth own program initiatives include: restoring, in part, the client reach of foundation skills programs—the Language, Literacy and Numeracy Program and the Workplace English Language and Literacy Program—which has declined in recent years; increasing the participation and completion rates of apprenticeships (for example, through extending the Kickstart incentives for young apprentices and the Smarter Apprenticeship initiatives to fast-track apprenticeships); and addressing skill shortage areas.

The establishment of a Critical Skills Investment Fund is a new budget measure aimed at boosting the number of workers in skill shortage areas. Modelled on the Enterprise Based Productivity Places Program (EBPPP) which has been trialled successfully over the last year, it will leverage industry co-investment by providing 50 per cent of the cost of training for large firms and up to 90 per cent of the cost for small firms.

**VET system structural changes**

Departmental funding of $105.5 million is being provided over four years for the establishment of a National VET Regulator ($92.3 million) and a National Standards Council ($10.6 million), as agreed to by COAG. The initiative is expected to cost the Commonwealth

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448. J Ross, ‘Low funding and state differences plague the PPP’, *Campus Review*, vol. 20, no. 5, 16 March 2010, p. 4, viewed 13 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjmart%2FSQ8W6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjmart%2FSQ8W6%22)
$55 million over four years—as the initial expenses will be offset by $50.4 million in revenue as the Regulator transitions to full cost recovery by 2014–15. Furthermore, $15.7 million will be redirected from current expenses for the National Audit and Registration Agency and the National Quality Council whose functions will be subsumed by the National VET Regulator.

Another measure—the Quality Skills Incentive— which is potentially controversial in its implementation, aims to improve quality in the VET system. This will make funding available to the 100 largest Registered Training Organisations (RTOs) to reward them for meeting performance benchmarks. Funding of $129.8 million over three years has been provided for this measure.

In addition, incentives such as those that have already been taken up by Victoria, are being offered to the other states and territories to encourage them to reform their VET systems. The incentives include the cashing out of Commonwealth funding for the PPP. More significantly, however, this measure would provide states which engage in reform with increased access to Commonwealth supported income contingent loans (ICLs) known as VET FEE–HELP. The Budget measure is consequently labelled a ‘national entitlement to a quality training place’. With Commonwealth grants assistance to the states for VET remaining static for many years, and the states’ own capacity to increase their training expenditure limited, governments have been exploring other financing options to meet the skills needs of a growing Australian economy. ICLs, which support students in meeting the costs of their own training, have therefore been gaining acceptance in policy-making circles.

The Commonwealth must have a reasonable expectation that other states will follow Victoria down the market-based reform path as annual expenses of approximately $40 million are allocated to this measure, totalling $159.5 million over four years. As loans are repaid, there will be an associated revenue stream to offset these costs, estimated to total $105.8 million over four years. Total annual expenditure on VET FEE–HELP is expected to rise from $34.9 million in 2009–10 to $205.8 million in 2010–11, and $309.6 million in 2013–14. This is despite the lower than expected take-up in 2009–10 when only 25 650 of the budgeted 73 000 students were assisted. Recent reports confirm that although VET FEE–HELP has been extended to government subsidised students in Victoria, there has been a low take-up rate in Victorian Technical and Further Education Institutes (TAFEs). Other reports have also noted that the fee increases associated with the Victorian reforms supported by the introduction of ICLs have led to a decline in enrolments in Diploma and Advanced Diploma courses.


450. F Tomazin, ‘Brumby plan to tackle skills shortage backfires: TAFE fee increases deter students’, *The Age*, 24 March 2010, p.3, viewed 13 May 2010,
Health overview

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There have been calls for reform to the Australian health system for a long time. The centrepiece of the 2010–11 Budget for health is the Rudd Government’s response to an extensive consultation process on the shape of this reform. This involved the commissioning of three major reports, and extensive discussions with health care providers, community and stakeholder groups, the public and other levels of government.

The Budget sets out the new National Health and Hospitals Network (NHHN), which will radically change the way that hospitals are funded, and provides funding for a range of other significant health initiatives. Some of these were announced earlier this year at the Council of Australian Governments’ (COAG) meeting. Funding is provided to: establish the infrastructure and institutions for the NHHN, improve hospital services through the proposed Local Hospital Networks (LHNs), develop new primary health care organisations to coordinate services (to be known as Medicare Locals), improve the management of diabetes, expand and support the health workforce, build more GP super clinics and fund GP infrastructure, increase some mental health services, implement e-health initiatives, ensure sustainability of the Pharmaceutical Benefits Scheme (PBS), take action on smoking and alcohol, develop a more integrated aged care system, and fund the advertising of these reforms. This Budget also includes funds for a number of other measures, including partly restoring the Medicare rebate for cataract surgery that was reduced last year.

These funding commitments, along with those made earlier in the year at COAG, provide a package totalling $7.3 billion over five years. Over the forward estimates, expenditure on the health function is forecast to grow by 9.3 per cent a year, significantly higher than growth

http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FEX8W6%22


The Government is seeking to generate savings and revenue to offset some of the costs, mainly by reducing the price paid for subsidised medicines, increasing the tobacco excise, and increasing the threshold for the medical expenses tax offset. It will also continue to press for a means test on the private health insurance rebate, a measure that has been rejected by the Senate.\textsuperscript{456}

While the health funding and reform commitments in the Budget are significant, some argue that aged care, mental health, Indigenous health and dental health have not received adequate attention.\textsuperscript{457} The calls for greater investment in these sectors are likely to continue into the future. Mental health in particular remains an area of significant stakeholder concern. While some funding announcements in the Budget have been welcomed, some in the health sector have expressed considerable disappointment with the Budget overall.\textsuperscript{458} In residential aged care, there remain concerns over the longer-term viability of the sector, given funding gaps between the cost of providing care and the available government subsidies.\textsuperscript{459} Reforming the health workforce to meet the challenges of current and future health needs continues to be a challenge for policy makers and, while alternative workforce options are being investigated, this Budget appears to have favoured more traditional solutions.\textsuperscript{460}

Nevertheless innovative approaches, such as the budget proposals to manage patients with diabetes (and veterans with chronic diseases) through fund-holding arrangements, signal a preparedness to explore new models. However, changes are usually associated with uncertainty and questions remain over whether such approaches will deliver better care or create perverse incentives. Meanwhile, the fate of some savings measures remain uncertain; the legislation means-testing the private health insurance rebate remains unsupported in the

\begin{itemize}
\item \textsuperscript{456} This measure remains stalled in the Senate.
\item \textsuperscript{457} J Breusch, ‘Nursing homes press funds case’, \textit{Australian Financial Review}, 14 May 2010, p. 20, viewed 14 May 2010, \url{http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FK8PW6%22}
\item \textsuperscript{458} The Mental Health Council of Australia has condemned the lack of funding in the Budget. See Mental Health Council, \textit{Government wrong – this is not a good budget for mental health}, media release, 13 May 2010, viewed 17 May 2010, \url{http://www.mhca.org.au/newsmodule/view/id/279/src/@random48c0ac557f3fe/}
\item \textsuperscript{459} These concerns are explored in more detail in the ‘Aged care’ brief by Rebecca de Boer in this \textit{Budget Review 2010–11}.
\item \textsuperscript{460} For more detail, refer to the ‘Health workforce’ brief by Dr Rhonda Jolly in this \textit{Budget Review 2010–11}.
\end{itemize}
Senate, and expected savings from reforms to pharmaceutical pricing arrangements may be difficult to fully realise.\textsuperscript{461}

Significant challenges also remain to realising the Government’s ambitious reform agenda. How the proposed independent LHNs and Medicare Locals will improve integration and coordination at the local level is yet to be determined. Governance arrangements need to be established, performance standards set, information and data systems established, reporting protocols agreed and, not least, goodwill established between stakeholders and vested interests overcome. Furthermore, although Western Australia will continue to be funded through the existing National Healthcare Specific Purpose Payment arrangements, it will continue to remain outside these arrangements as long as it is not a signatory to the COAG agreement. A truly national reform program therefore remains an elusive goal.

\textsuperscript{461} For more detail, refer to the ‘PBS and pharmacy’ brief by Rebecca de Boer in this \textit{Budget Review 2010–11}. 
Funding and policy arrangements for aged care have long been subject to calls for significant structural reform. In response to the recommendations of the National Health and Hospitals Reform Commission (NHHRC) and as part of the National Health and Hospitals Network (NHHN), the Government has announced that it will assume full funding and policy responsibility for aged care in all states and territories apart from Western Australia and Victoria. In addition, the Government has announced the Productivity Commission will inquire into options for further structural reform of aged care and report by April 2011.\(^{462}\)

Although the specific arrangements for aged care in the NHHN are lacking in detail, the recurring themes are improved integration of aged care with other parts of the health care system as well as greater availability and flexibility of care in the community. Funding has been allocated to:

- expand the capacity of multi-purpose services to provide aged care or sub-acute services
- improve access to general practice and primary health care for older Australians in residential aged care facilities
- incentives for community care providers in regional, rural and remote areas; and extra ‘one-stop shops’ to assist older Australians in accessing information about aged care assessment services.

The benefits of these initiatives may take some time to realise but represent the first stage of the Government’s commitment to full policy and funding responsibility for aged care.

The Budget provides $10.8 billion for aged and community services in 2010–11, part of a $47 billion package over four years.\(^{463}\) The majority of this funding is directed towards residential aged care and community aged care packages, but there is some additional funding for the aged care workforce, improved access to primary care services and zero interest loans for capital infrastructure.

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In contrast to previous budgets, this Budget contains greater investment in the aged care workforce. Over $310 million over four years has been allocated to a combination of workforce programs, including additional nursing places and scholarships, incentive payments for the aged care workforce to undertake additional training and/or upgrade qualifications and the introduction of the Aged Care Nurse Practitioner Program which will promote access to aged care nurse practitioners as well as explore appropriate models of care for aged care nurse practitioners. The Australian Nursing Foundation (ANF) was supportive of the Government’s announcements but continues to lobby for minimum staffing levels in aged care.464

Previous budgets that have focussed on the return of nurses to the aged care workforce have met with limited success.465 The budget announcements are intended to create a career pathway in aged care, provide greater flexibility for training initiatives and assist the industry in recruitment and retention of the aged care workforce.466 There are considerable workforce shortages in aged care and it remains to be seen whether these measures will address this. Furthermore, the aged care workforce is ageing and unless there are sufficient incentives to attract nurses to aged care, this will remain an ongoing policy challenge for government. For further analysis of aged care workforce issues refer to the Health Workforce brief in this publication.

Peak lobby groups and aged care providers all expressed disappointment that there were no increases to aged care subsidies in the Budget.467 The funding gap between government

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payments and the costs of providing residential aged care is considered ‘unsustainable’ and insufficient to meet both community and government standards of care. Complex policy issues, such as accommodation bonds and reform of aged care funding and regulatory arrangements, have been referred to the Productivity Commission. However, it was argued that interim arrangements should be established to address this perceived shortfall. Under the current arrangements many aged care providers consider the building of new nursing homes unaffordable. Furthermore, the future viability of the sector has been described as ‘untenable’ under the current arrangements.

One of the more notable initiatives in the aged care budget was the introduction of consumer-directed aged care packages. These were a recommendation of the NHHRC and will give older Australians and their carers greater flexibility and choice about the type of care they access. Under this initiative, consumers will be able to tailor their care to their needs and make decisions about the design and delivery of the care provided to them. This represents a shift from the current model where care is largely linked to the package, not the consumer. Implementation will be phased, with 500 consumer directed packages to be released in 2010–11. The Government has not detailed what support (if any) will be provided to consumers about making decisions in relation to their care or when negotiating with service providers to ensure value for money.

472. N Bita, ‘Nursing homes failing on care’, *The Australian*, 17 May 2010, p. 4, viewed 17 May 2010, http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=:group=:holdingType=:id=:orderBy=customrank;page=0;query=Author%3Abita%20Date%3A17%2F05%2F2010%20Data set%3Apressclp;querytype=:rec=1;resCount=Default
474. Ibid.
E-health

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A report to the Government in 2008 noted a growing amount of research which highlights the important role e-health may be able to play in delivering ‘a higher quality, safer, more equitable and more efficient health system’. E-health can achieve efficiencies by reducing medical errors associated with lack of access to patient information and adverse drug events as well as time and costs associated with duplicate, unnecessary and dangerous treatments and tests. The report also estimated annual cost savings from e-health implementation of approximately $2.6 billion in 2008–09 dollar terms. More importantly, according to the report, the ultimate benefit:

... will be a safer and more sustainable health system that is suitably equipped to respond to emerging health sector cost and demand pressures. Improvements in the Australian health care system will also drive stronger workforce productivity and will therefore be integral to Australia’s long run economic prosperity.

In December 2008, the Government released a National E-Health Strategy which set out an incremental and staged approach to developing e-health capabilities. The approach was intended to leverage on existing e-health strategies, manage the variation in capacity across the health sector in general and in the various states and territories, and include scope for changes as technology developed further.

The final report of the Rudd Government’s National Health and Hospital Reform Commission (NHHRC), released six months later in June 2009, endorsed the directions set out in the National E-Health Strategy. The NHHRC also made a number of recommendations relating to e-health. These included a recommendation that a person-controlled electronic health record should be in place for all Australians by 1 July 2012.

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478. Ibid.

Access to the personal health record would be owned and controlled by individuals and access would need to be approved by the owners. 480

In this Budget the Government has responded to the NHHRC recommendations by committing funding of $466.7 million over two years to establish ‘the key components’ of a personally controlled electronic health record system’. 481

This funding is intended to ensure that nationally consistent patient health summaries result from existing and compliant information sources, so patients who choose to participate in the system will have secure access to their health records. They will also be able to grant their healthcare providers access to those records. In time, information in these records is intended to deliver more informed clinical assessments and decision making, improve continuity of care for patients and introduce efficiencies in health care service delivery.

There is long-standing opposition to electronic health records which is based on concerns about the security of the information that will be kept on the records, who will be able to access information and whether the records will become a means to achieve what has been labelled ‘function creep’, through the use of information for other purposes. 482 In response to this measure, David Vaile, from the Australian Privacy Foundation, has repeated the concerns of the Foundation that what has been developed in e-health will not protect privacy—it is the ‘elephant in the room’ and a recipe for a technology and public health disaster. 483

At the same time, a number of health stakeholders have expressed their support for electronic health records and for the general use of technology to improve health outcomes. The Australian Medical Association ‘supports individuals taking responsibility for their own health and recognises that “person-controlled” electronic health records could empower and

480. Ibid.
482. For example, the Privacy Commissioner has noted that ‘function creep’ was experienced in relation to Canada’s Social Insurance Number which was looked upon as a piece of identification and property. Owners asked for it on apartment rental applications, video stores required it as security for movie rentals, universities and colleges requested it on their application forms and pizza places even used it as a customer number for their delivery system. Office of the Privacy Commissioner, Healthcare identifiers and privacy: discussion paper on proposals for legislative support, submission to the Australian Health Ministers’ Conference, August 2009, viewed 17 May 2010, http://www.health.gov.au/internet/main/publishing.nsf/Content/eHealth-061
encourage patients to do this'. The Consumers Health Forum (CHF) is also supportive of the development of e-health initiatives, including personal electronic health records. The CHF is of the view that there must be measures in place to ensure that all Australians will have access to these electronic health records and individual consumers and health practitioners will be able to use them effectively.

The Government’s recently released national health and hospitals reform package has been extensively criticised by the Health Informatics Society of Australia (HISA) for what HISA considers is its failure to address e-health issues. President of the Society, Michael Legg, has argued spending on hospital beds and doctors has taken precedence over health technology, but the way to real health system reform is not just by increasing the numbers of doctors or hospital beds; real reform will be gained by improving the flow of information across geographic and private-public boundaries. According to Legg, reform will therefore require fixing the ‘glaring omission’ in the health and hospitals reform package through a commitment to connect health care systems electronically.

Similarly, the lead author of the Deloitte e-health strategy report, Andrew Powick, has made the point that a considerable section of the health system remains reliant on ‘bits of paper, human memory and patients lugging their x-rays around’. It is critical to make investments to remedy this situation and to deliver a co-ordinated national e-health agenda.

Legg makes a valid point about overcoming negative perceptions of e-health which Ian Birks, Australian Information Industry Association (AIIA) Chief Executive, echoes. That is, it is difficult to promote spending on e-health as something that will deliver eventual cost savings for the system. More doctors, nurses and hospital beds are tangible, but spending millions of dollars on technologies which many people have difficulty in comprehending, is not an easy sell for any government. Providing specific funding in the Budget to promote consumer awareness and understanding of this measure and the Government’s proposed overall directions for e-health may have gone some way to address this situation.

In terms of the specific funding in the Budget, the National E-Health Transition Authority (NeHTA) has been enthusiastic. According to its Chief Executive Officer, Peter Fleming, this


487. Ibid.

488. Ibid.
Budget provides everything the authority asked for. NEHTA is a government authority and unlikely to be critical of the measure or funding provided.

While others have welcomed this measure, there have been reservations about the extent of the funding. The AIIA, for example, considers that while the funding is positive, it is ‘only a start’. Medical Software Industry Association (MSIA) President, Geoffrey Sayer, agrees that ‘any investment is a good investment’, but adds that ‘the devil is in the details about how the funding will actually translate to a national e-health system’.

Others are less cautious and have criticised the measure as a ‘drop in the ocean’. Professor Mohamed Khadra, for example, argues for ten times as much to be spent on e-health. Independent health technology consultant, David More, also believes the Government has ‘not provided enough detail for a sensible assessment ... Until that (detail) becomes clear, this is so much hot air’.

Further, Geoffrey Sayer has questioned how the funding will be distributed and whether the Government is truly committed to implementing a comprehensive e-health system. Sayer believes the opt-in nature of this measure is ambitious also in assuming a target of 190 000 hospital admissions associated with medication errors will be cut by personal health records implementation.

In his Budget Reply speech, Opposition Leader Tony Abbott noted his support for e-health but he considered ‘hundreds of millions of dollars have already been spent to make this a reality and no more should be spent until it’s certain that we’re not throwing good money after bad’.


495. T Abbott (Leader of the Opposition), Budget reply speech 2010–11, Commonwealth of Australia, Canberra, 2010. Abbott is referring, for example, to funding totalling $366.2 million over seven years (from 2005–06 to 2011–12) already committed to e-health development. Senate Community Affairs Committee, Answers to Estimates Question on
The idea of an efficient, secure national electronic personal health record system was arguably one of the most substantial reforms advanced by the NHHRC—an important systematic opportunity ‘to improve the safety and quality of health care, reduce waste and inefficiency, and improve continuity and health outcomes for patients’.\(^{496}\) The commitment in this Budget to such an e-health future is considerably less than some expected. It is short of recent estimates by the consulting firm Booz and Company which concluded that Australia would need to spend between $4 and $8.5 billion to implement an e-health strategy.\(^{497}\) As a number of commentators have pointed out, in effect, the commitment in this Budget is but ‘a small investment’.\(^{498}\) It appears the general consensus is that considerably more funding will need to be invested to ensure viable e-health outcomes.

\(^{496}\) NHHRC, \textit{A healthier future for all Australians}, op. cit.


\(^{498}\) Khadra in Foo, ‘Budget 2010’, op. cit.
Hospitals
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On budget night, the Government released its response to three key reports—those by the National Health and Hospitals Reform Commission (NHHRC) and the Preventative Health Taskforce, and the Primary Care Strategy. Some $7.3 billion of funding over five years has been allocated to implement the recommendations accepted by Government. The National Health and Hospitals Network (NHHN) is the centrepiece of the Government’s response and has been presented by the Government as the most ‘significant reform ... since the introduction of Medicare’.

Central to the Government’s plan is the establishment of independent Local Hospital Networks (LHN) and independent primary health care organisations, to be known as Medicare Locals. LHNs will be single or small groups of public hospitals with a geographic or functional connection and will be directly funded by the Commonwealth to provide hospital services. Hospitals (with the exception of some rural and regional hospitals which will be block funded) will be funded on the basis of activity based funding (ABF). The Commonwealth will pay 60 per cent of the ‘efficient price’ of an episode of hospital care with the states meeting the balance. Each LHN will be responsible for the delivery of agreed services, meeting performance standards and the day-to-day operation of the LHNs.

The initial allocation to the NHHN of $2.2 billion over four years is a reflection of the Government’s commitment to be the dominant funder of public hospitals, and to take full policy and funding responsibility for GP and primary care services and full funding responsibility for aged care. These arrangements were agreed at the Council of Australian Governments.


501. Activity based funding refers to making payments on the basis of outputs delivered by health service providers. In the hospital context this can refer to a hospital admission or an emergency department visit. It is also known as casemix funding; and typically casemix classifications have been developed for inpatient services and include the full range of services received by a patient during their hospital stay.

Governments meeting in April, after difficult negotiations with the state and territory governments. It should be noted that Western Australia is not a signatory to the agreement and Victoria did not agree to hand over responsibility for aged care.

To fund public hospitals, the Government will create a National Health and Hospitals Network Fund. The Commonwealth and each state and territory will jointly create a Funding Authority. Each government will transfer funds to the Funding Authority, which will distribute funds to the LHN on the basis of services provided. These arrangements are expected to commence from 1 July 2011.

Agreement on the NHHN is conditional on the retention of a proportion of goods and services tax (GST) revenue by the Commonwealth from state and territory governments (around one-third). The Government has also introduced a range of governance structures and accountability measures for hospitals.

**Budget measures**

In 2010–11, the Commonwealth will provide $14.3 billion to the state and territory governments for the provision of health care services. For many of these measures, the Government has allocated ‘facilitation and reward payments’ as well as capital funding. The measures include:

- recurrent funding for around 22,000 additional elective surgery procedures in 2013–14
- implementation of access targets for elective surgery:
  - $650 million over four years for facilitation and reward payments and
  - $150 million over three years for capital funding
- additional funding for emergency departments to implement four-hour national access targets:
  - $500 million over four years for facilitation and reward payments
  - $250 million over four years for capital funding
- 1300 new sub-acute beds ($1.6 billion over four years) and

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2. Council of Australian Governments, op. cit.
• flexible funding for emergency departments, elective surgery and sub-acute care through creation of a funding pool ($200 million over four years).\textsuperscript{504}

Funding of $91.8 million over four years will be allocated to establish the Independent Hospital Pricing Authority which will have responsibility for the development and implementation of the activity based funding arrangements.\textsuperscript{505} Implementation of these arrangements will be supported by $163.4 million over four years to develop the infrastructure and accelerate implementation.\textsuperscript{506}

**Activity based funding (ABF)**

The shift to ABF has not been without criticism. Commentators have expressed reservations: there is insufficient data to calculate a single national price, there are differences among the states in the cost of procedures and superannuation, and there are problems in adjusting the formula to account for differences in Aboriginal and Torres Strait Islander and rural populations.\textsuperscript{507} Concerns raised about the ongoing viability of rural and remote hospitals under ABF prompted the Government to agree that some small regional and rural public hospitals will be block funded.\textsuperscript{508}

The introduction of a nationally consistent approach to ABF was first agreed as part of the National Healthcare Agreement in 2008.\textsuperscript{509} Implementation to date has been slow. According to the proposed outputs of the implementation plan, a patient classification system and refined casemix costing methodology was to be agreed by the end of 2009–10. Work was to commence on the development of a common approach to costing small or regional hospitals not adequately funded by ABF, and a common framework for the funding of training,


\textsuperscript{508} Council of Australian Governments, op. cit.

research and development was to commence during 2009–10 to be finalised by 2010–11.\textsuperscript{510} Continuing debate about the introduction of ABF would suggest that many of these issues remain unresolved. It remains to be seen whether the creation of the Independent Hospital Pricing Authority will facilitate resolution of these issues and meet the proposed implementation 2012 date for ABF for the NHHN.

**Performance reporting**

There is a strong focus on performance reporting and management in the NHHN. All public and private hospitals, Medicare Locals and LHNs will be overseen by the National Performance Authority, at a cost of $118.6 million over four years.\textsuperscript{511} A range of reports will be required: each hospital will be required to produce a ‘Hospital Performance Report’, all LHNs will be required to report against national standards and a ‘Healthy Communities Report’ will also be produced by each of the Medicare Locals. This level of reporting has the potential to create a significant administrative burden on health care professionals and providers with the additional risk of duplication of effort and data. Performance indicators and reporting will be set against ‘new, higher national standards’, although little detail is yet available about what these standards might be and the implications for clinical governance, safety and quality standards and reporting. While performance reporting can deliver improvements in quality, care and safety, there are also limits to its capacity and ability to identify underlying systemic issues such as poor clinical governance and staff morale which can have profound impacts on patient safety.\textsuperscript{512}

The Government envisages that this reporting will help Australians make ‘informed choices’ about health services.\textsuperscript{513} However, there is some evidence that ‘performance report cards’ of health care services have little impact on consumers and may even create confusion.\textsuperscript{514} Furthermore, the way in which information is presented can have a significant influence on

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decision making.\textsuperscript{515} The format, standards and content of this reporting remain to be determined.

Much of the commentary about the establishment of LHNs occurred soon after the Prime Minister’s announcement in March 2010.\textsuperscript{516} One of the significant criticisms of the LHNs was the potential lack of integration with other aspects of the health care system, notably primary care and aged care.\textsuperscript{517} Although it is anticipated that Medicare Locals and LHNs would have common geographic boundaries, neither appear to be accountable to a single governing entity, potentially adding to the fragmentation of the health care system. Integration and ‘reform’ of the health care system may well be limited if there is no single point of accountability.\textsuperscript{518}

\textsuperscript{515} Ibid.

\textsuperscript{516} A national health and hospitals network for Australia’s future, op. cit.


\textsuperscript{518} J Dwyer, ‘Health plan needs a few dollars more’, Australian Financial Review, 11 May 2010, p. 63, \url{http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=:group=:holdingType=:id=:orderBy=customrank;page=0;query=Author%3Adwyer%20Date%3A11%2F05%2F2010%20%3E%3E%3A2205%2F2010%20Dataset%3Apressclp;querytype=:rec=0;resCount=Default}
Pharmaceuticals and pharmacy

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Social Policy Section

Pharmaceutical policy in Australia is a highly contested space fuelled by debates over listing and pricing of medicines, costs to the consumer and persistent concerns over the long-term sustainability of the Pharmaceutical Benefits Scheme (PBS). Changes to the PBS and the finalisation of the Fifth Community Pharmacy Agreement (5CPA) announced in the Budget are expected to deliver the Government net total savings of $2.5 billion between 2010–11 and 2014–15. The Government has signed a Memorandum of Understanding (MOU) with Medicines Australia which is designed to ensure ‘a stable environment for business and continued access to new medicines for all Australians’. The 5CPA provides more than $15.4 billion over the next five years (2010–11 to 2014–15) to pharmacists to ensure the timely and reliable supply of PBS medicines and other professional services. According to the Government, this also represents a saving of $1.0 billion across the forward estimates. Although measures announced in this Budget are predicted to garner the Government $1.9 billion of savings over five years, the MOU with Medicines Australia also includes a guarantee that the Government will not seek to impose any further price savings on the pharmaceutical industry before 30 June 2014 or introduce any measure which favours the dispensing of generic medicines, thereby possibly precluding further measures which could deliver additional savings to the Government.

Changes to the Pharmaceutical Benefits Scheme

This Budget extends the PBS reforms of the 2006 PBS Reform package. When first announced, the PBS Reform package was expected to save more than $580 million over the succeeding four years and more than $3 billion dollars over 10 years. These savings have

519. The budget figures and policy details in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Portfolio budget statements 2010–11: budget related paper no. 1.11: Health and Ageing Portfolio*, Commonwealth of Australia, Canberra, 2010.


521. Ibid.

since been revised down to $103 million over four years. This may be in part due to the high cost of the structural adjustment package ($359.3 million to date).\(^{523}\)

The PBS Reform package signalled a radical change to the PBS. Key features included the creation of two separate formularies, Formulary 1 (F1) and Formulary 2 (F2), the imposition of price cuts for products listed on F2, and the introduction of price disclosure arrangements for products listed on F2. F1 are ‘single brand’ medicines (only one medicine of its type listed on the PBS) and typically includes patented drugs. No price cuts were applied to products listed on F1. Products listed on F2 had multiple brands and typically include medicines that are interchangeable at the patient level and where generic drugs are available. Perhaps the most significant change was the ‘de-linking’ between F1 and F2. This effectively shielded most patented products from being subject to the price cuts that would previously have flowed from the expiry of the patents on products to which they were cost-minimised at the time of their original PBS listing.

This Budget contains plans for further pricing changes to medicines listed on F2, with expected savings of $1.9 million over five years.\(^{524}\) These measures are the outcome of negotiations between Medicines Australia and the Department of Health and Ageing reflected in the MOU.\(^{525}\) The MOU brings forward implementation of price disclosure arrangements to October 2010 from January 2011 and captures all products on F2. Price disclosure was previously agreed in the context of the 2006 reform package. However, it was only applied at the time of listing of a new brand on F2 and therefore was voluntary for existing products. Price disclosure was designed to ensure that the Government reaped the benefits of the discounting arrangements between pharmacists and wholesalers. Manufacturers are required to disclose the actual price at which medicines are supplied to wholesalers and/or pharmacists. Price reductions occur if there is a difference of more than ten per cent between the weighted average disclosed price and the price paid by the Government.\(^{526}\)


\(^{526}\) Under current price disclosure arrangements, suppliers provide the price at which the drug is sold to wholesalers and/or pharmacies. DoHA then invites other suppliers of the same medicines to disclose their pricing arrangements. This information is then used to calculate the weighted average price. If the price reduction is less than 10 per cent of the ex-supplier price, the price reduction will not apply. If the reduction is greater than 10 per cent, the weighted average disclosed price will be the subsidised price, rather than the disclosed price.
The MOU also provides agreement that further statutory price reductions would be applied to F2 listings. There are two sub-groups on F2, Formulary 2A (F2A) and Formulary 2T (F2T), which will be combined from 1 October 2010. The following pricing arrangements will apply:

- the statutory price reduction of 12.5 per cent when a product moves from F1 to F2 will be increased to 16 per cent
- products formerly listed on F2A will be subject to a 2 per cent reduction on 1 February 2011, as well as the scheduled reduction of 2 per cent on 1 August 2011 and
- products formerly listed on F2T will be subject to a 5 per cent reduction on 1 February 2011.

These price cuts will be applied in addition to any reductions that occur as a result of price disclosure. In short, generic medicine manufacturers and pharmaceutical wholesalers are likely to be most affected by this MOU, while the originator sector remains largely protected.

Other features of the MOU include:

- improved access to information held by the Commonwealth by Medicines Australia. This is of particular note as the MOU does not require Medicines Australia to reciprocate
- a guarantee that the Commonwealth will not amend the existing provisions for exemption from price disclosure
- a minimum price reduction of 23 per cent as a result of price disclosure arrangements
- greater transparency for price disclosure arrangements
- a commitment from the Commonwealth that no new Therapeutic Groups will be formed, other than in limited circumstances\textsuperscript{527}
- sponsors will be provided with ‘reasonable notice’ of any additions to existing Therapeutic Groups
- an undertaking by the Commonwealth that it will not introduce any measure that favours the prescribing or dispensing of generic drugs over originator brands of the same drug, without the agreement of Medicines Australia

\textsuperscript{527.} Presumably this clause does not allow the Government to revisit the therapeutic groups that were announced as part of the 2009–10 Budget. The three new Therapeutic Groups announced in the \textit{Mid-Year Economic and Fiscal Outlook 2009–10} are exempted from the MOU.
• parallel Therapeutic Goods Administration (TGA) and Pharmaceutical Benefits Advisory Committee (PBAC) evaluation processes

• other arrangements to reduce the time between a positive recommendation by the PBAC and approval by the Minister

• the development of a so-called ‘managed entry’ mechanism to facilitate the PBS listing of products for which there is limited evidence of cost-effectiveness and

• a commitment to ‘work together’ formally on matters such as pricing.

Comment

Despite the obvious support from Medicines Australia, this announcement has generated considerable consternation within the pharmaceutical supply chain in Australia. Generic manufacturers, wholesalers and some pharmacists in particular have expressed outrage at the lack of consultation and argue that these measures will result in significant cuts to their revenue. The Pharmacy Guild of Australia cautiously welcomed the ‘increased certainty’ for community pharmacy. The Generic Medicines Industry of Australia (GMIA) expressed disappointment that its savings proposals had been ignored.

There is no doubt that the pricing of generic medicines in Australia represents a significant policy challenge. There is a case for price reductions as the prices of generic medicines in Australia are high by international standards. However, the MOU, while offering some mechanistic savings, does little to re-engineer the market. Commentators anticipate that the Australian Government is therefore likely to continue to pay high prices for generic medicines. The MOU also prevents the Government from introducing any additional price cuts or new policy proposals beyond those agreed, further limiting the capacity of the Government to garner savings from the anticipated market entry of generic versions of several big ticket PBS medicines over the next five years.


530. K Mercer and N Ahmed, ‘The drug wars’, Australian Financial Review, 14 May 2010, p. 65, viewed 14 May 2010, http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=0;query=Author%3AMercer%20Date%3A14%2F05%2F2010%20Dataset%3Apressclp;querytype=;rec=0;resCount=Default

Furthermore, the record shows that, to date, implementation of price disclosure arrangements has been fraught with both administrative complexity and legal challenge.\textsuperscript{532} The extension of price disclosure arrangements to all products listed on F2 is likely to create an additional administrative burden for Government. As there is the likelihood of limited returns for products that are either low volume, low value or have been listed on the PBS for a considerable period of time (many of which are already subject to discounting arrangements), one might question whether these administrative costs will outweigh the benefits.

Questions have also been raised about the effectiveness of price disclosure in a market which is not fully competitive.\textsuperscript{533} International experience suggests that price disclosure arrangements are notoriously challenging to implement and are often circumvented.\textsuperscript{534} In Australia there is a delay of six months from the date of the price determination to when it takes effect for existing products. A price reduction associated with the listing of a new brand typically takes two years to take effect.\textsuperscript{535} These delays would limit the savings the Government is able to achieve under this proposal. The value of extending the price disclosure arrangements therefore remains to be seen.

The PBS reform package was introduced in 2007 in part to curb the nominal growth of 12 per cent per annum in PBS expenditure that had occurred between 1995 and 2004.\textsuperscript{536} In 2009–10 the PBS is expected to grow by 10.6 per cent, following a 9.2 per cent growth in 2008–09. Governments of all persuasions remain concerned about programs with high growth rates and the PBS is no different. Some stakeholders have suggested that the MOU provides ‘certainty’; however, there would appear to be no such certainty for Government. The MOU does not contain a guarantee that savings will be realised and it limits the capacity of the Government to introduce new measures that potentially offer greater value for money in PBS expenditure. Given that the estimated savings from the previous reform measures have reduced from $540 million to $103 million over four years, it remains to be seen whether the projected savings of $1.9 billion over five years will be realised.

\textsuperscript{532} The impact of PBS reform: report to the Parliament on the National Health Amendment (Pharmaceutical Benefits Scheme) Act 2007, op. cit., p. 6.


\textsuperscript{535} The impact of PBS reform: report to the Parliament on the National Health Amendment (Pharmaceutical Benefits Scheme) Act 2007, op. cit., p. 36.

Furthermore, these price cuts require legislative amendment and the position of the Opposition and the minor parties is not yet clear.\(^{537}\) The 2009–10 Budget included a proposal to create a therapeutic group for two cholesterol-lowering drugs that had previously been exempt from therapeutic pricing arrangements.\(^{538}\) This was subject to significant opposition from Medicines Australia and the federal Opposition. It culminated in a disallowance motion and a referral to the Senate Committee on Community Affairs for inquiry. To date, the Senate Committee has not yet reported, but the disallowance motion has been passed.

**Fifth Community Pharmacy Agreement**

The Government has consistently highlighted the need to ‘carefully consider’ health expenditure in light of the ‘Government’s significant reform agenda’.\(^{539}\) During the negotiations for the Fifth Community Pharmacy Agreement (5CPA), Minister Roxon approached the Pharmacy Guild of Australia (the Guild) to advise that the Government would demand ‘significant savings’ from the 5CPA.\(^{540}\) In late December 2009, the Government announced that agreement on the key areas of the 5CPA had been reached, with a total value of $15.1 billion over five years, and with savings of $1.0 billion over the forecast funding for community pharmacy.\(^{541}\) The 5CPA was finalised on 3 May 2010 and the full details have been released with this Budget. The total value of the 5CPA is now $15.4 billion, around $300 million higher than originally announced. The projected savings are unchanged, highlighting the strong negotiating skills of the Guild.

With one notable exception, the 5CPA does not appear to materially differ from past agreements. Many of the provisions in the 5CPA, such as the Home Medicines Review and Residential Medication Management Reviews, seek to refine and improve existing arrangements. There is also provision to improve services for Aboriginal and Torres Strait

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538. The Therapeutic Group arrangements ensure that the Government pays the same price for products that offer the same therapeutic outcome; and the price paid by the Government is the lowest price of the group.


541. N Roxon (Minister for Health and Ageing), *Agreement to deliver certainty for community pharmacy and government*, op. cit.
Islander people, more support for pharmacies that supply Aboriginal Health Services and the Aboriginal and Torres Strait Islander pharmacy workforce. Other features include Rural Pharmacy Programs which are designed to provide a number of incentives and support for the rural pharmacy workforce and improve access and availability of services for those living in rural areas. Some Pharmacy Practice Incentive Program payments will now be subject to accreditation and demonstrated delivery of defined services which are designed to promote the quality use of medicines.

The notable exception is that pharmacists will be allowed to dispense a single standard pack of medicines to patients without prescription, known as ‘medication continuance’ (subject to legislative change in all States and Territories). It is envisaged that this will initially apply to two therapeutic categories, oral contraceptives and lipid modifying agents (cholesterol-lowering drugs). The Australian Medical Association considers this would be ‘putting patients at risk’, arguing that there was no evidence to suggest that it was safe for pharmacists to dispense medication without a prescription or any review of the patient’s condition. Others have described the program as a ‘pragmatic’ way to ensure medication adherence as pharmacists will only be able to dispense prescriptions in limited circumstances, such as the inability to make an appointment with a general practitioner.

Three features of the 5CPA which benefit pharmacy remain relatively unchanged from previous agreements and each of these is not without controversy—the location rules, the continuation of the wholesaler Community Service Obligations payment in full (with a pause on indexation until 2011), and a dispensing fee for each PBS prescription dispensed. A new fee has also been added. This provides for $0.15 per transaction to be paid to pharmacists dispensing scripts under the Repatriation Pharmaceutical Benefits Scheme (RPBS) and under

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544. Ibid.


co-payment prescriptions that are generated electronically. This is expected to cost around $75.5 million during the life of the 5CPA.

The retention of the community pharmacy location rules includes the prohibition on a community pharmacy being co-located in a supermarket. The location rules were first introduced in 2000 as part of the Third Community Pharmacy Agreement and were amended in 2004 to prevent supermarkets from operating pharmacies. Critics have argued that these arrangements are anti-competitive, limit access and choice in rural and remote areas and prevent young pharmacists from owning their own business as a result of the high cost. Due to the location rules, there are limited opportunities to open a pharmacy in most capital cites and major towns, resulting in a concentration of ownership and a relatively constant number of pharmacies across Australia since 1990.

Prior to the negotiations, media reports had suggested that the Government was prepared to ‘reassess’ the location rules. It was argued that population growth and lack of competition within the sector warranted a systematic review. The preservation of location rules, however, does raise questions about the influence of the Guild and why, despite widespread deregulation and increased market competition in the broader economy, pharmacy continues to be protected by successive governments.


549. The median price for a pharmacy is estimated to be $1.89 million. See E Connors, ‘Calls to ease limits on new pharmacies’, Australian Financial Review, 10 August 2009, p. 5, viewed 13 May 2010,
http://parlinfo.parlinfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=0;query=Author%3A%22connors%20%22%20Date%3A01%2F08%2F2009%20%3E%3E%2030%2F08%2F2009%20Dataset%3Apressclp;querytype=;rec=6;resCount=Default

http://parlinfo.parlinfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=0;query=Author%3A%22connors%20%22%20Date%3A01%2F08%2F2009%20%3E%3E%2030%2F08%2F2009%20Dataset%3Apressclp;querytype=;rec=6;resCount=Default

http://parlinfo.parlinfo/search/display/display.w3p;adv=yes;db=;group=;holdingType=;id=;orderBy=customrank;page=0;query=Author%3A%22connors%20%22%20Date%3A01%2F06%2F2009%20%3E%3E%2030%2F06%2F2009%20Dataset%3Apressclp;querytype=;rec=1;resCount=Default
Both pharmacists and wholesalers were given significant compensation arrangements under the PBS Reform package introduced in 2007. Pharmacists were eligible for a $0.40 payment for each script dispensed under PBS Online and a $1.53 payment (indexed annually) for the dispensing of ‘premium free’ medicine. The wholesaler Community Service Obligation (CSO) pool was increased to $69 million over three years from 1 July 2008. Although the PBS Online incentive has been scrapped, the $1.53 payment is likely to generate significant income to pharmacists. This payment generated $112 million (over 75 million scripts) for pharmacists from 1 August 2008 to 31 July 2009. Given the indexation arrangements, this amount will continue to increase during the 5CPA. This payment essentially provides pharmacists additional income for a task which is already remunerated by the dispensing fee. Furthermore, it is not contingent on the supply of a generic medicine or activities associated with the quality use of medicines, raising questions about the ‘value for money’ to government and consumers in this additional payment. Similar arguments could be made about the continuation of the wholesaler CSO payment as it provides additional funding to eligible wholesalers to ensure the timely supply of the full range of PBS medicines. The pricing of PBS medicines includes specific provision for a wholesaler margin which remunerates wholesalers for the supply of PBS medicines.

The introduction of a $0.15 payment for each transaction to pharmacists for dispensing RPBS prescriptions and for co-payment prescriptions is designed to offset some of the costs charged to pharmacists by electronic prescription providers. This electronic prescribing program is owned by the Guild and therefore uptake among Guild members is likely to be high, potentially increasing costs to the Government. Currently, pharmacists are charged $0.25 for each transaction. This program is expected to generate income of $30 million per annum to the Guild and, under the 5CPA, the Government will pay $18 million. Other online initiatives, such as PBS Online, have had a much higher uptake than expected, at a

552. It should be noted that this is not necessarily a generic medicine. It is a medicine that does not have a brand premium or special patient contribution.
554. Ibid.
556. Ibid.
considerable additional cost to the Government.\textsuperscript{558} This arrangement has also been criticised on the grounds that, as the Government has abandoned its electronic prescribing project, the Guild will have an advantage in the current market and any future policy considerations.\textsuperscript{559}

The 5CPA reinforces the fee-for-service model for community pharmacy. This is in direct contrast to many of the reforms announced as part of the National Health and Hospitals Network which signal a shift from fee-for-service to block funding for the provision of services. Pharmacists are essential to the timely provision of PBS medicines, yet this does come at a cost to Government. It remains to be seen whether the projected savings will be realised, if consumers will benefit from the proposed changes to existing programs and how pharmacy will be integrated into the proposed Medicare Locals, the National Health and Hospitals Network and the new payment arrangements.

**Concluding comments**

Both the MOU and the 5CPA are expected to deliver considerable savings to the Government, but there is no requirement in either agreement that these savings be delivered, or any indication what the consequences might be if the projected savings are not realised. Both agreements limit the action of the Government for the next five years, creating certainty for the branded pharmaceutical industry and pharmacists, but potentially limiting the capacity of Government to respond to new and emerging policy challenges.

The overarching policy framework for the PBS is the National Medicines Policy and the objectives of access, equity and affordability. It remains to be seen whether the MOU and the 5CPA advance these objectives.

\textsuperscript{558.} The impact of PBS reform: report to the Parliament on the National Health Amendment (Pharmaceutical Benefits Scheme) Act 2007, op. cit., p. 8.

\textsuperscript{559.} K Mercer, op. cit.
Primary care and prevention

Amanda Biggs
Social Policy Section

In the lead up to this year’s Budget, major announcements around primary health care and prevention were made by the Government in the context of winning the support of the state premiers for its national health reform agenda—A National Health and Hospitals Network. This included a proposal to take over funding for all primary health care services, including those currently provided by the states and territories.\textsuperscript{560}

This Budget sees the Government moving to realise these reforms with significant funding allocated to primary health care and prevention initiatives, the establishment of new primary care organisations to be known as Medicare Locals and the release of the first National Primary Health Care Strategy. In summary, the major allocations include:

\begin{itemize}
  \item $290.5 million to establish a new network of primary health care organisations, to be known as Medicare Locals, to coordinate and connect health services
  \item $126.3 million to improve access to local after hours services
  \item the introduction of $449.2 million in payments to general practices to manage and care for diabetes patients in the community, if the patient voluntarily enrols with that practice\textsuperscript{561}
  \item $390.3 million in grants to general practices to help them employ more practice nurses
  \item $355.2 million to expand the number of General Practitioner (GP) super clinics and upgrade existing general practice infrastructure
  \item $494.5 million to increase the number of GP training places and more training rotations for junior doctors and
  \item $54 million for a comprehensive Australian Health Survey.\textsuperscript{562}
\end{itemize}


\textsuperscript{561} A similar scheme for veterans with chronic conditions, managed through the Department of Veterans Affairs, was also announced in this Budget.

\textsuperscript{562} The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, \textit{Budget measures: budget paper no. 2: 2010–11}, Commonwealth of Australia, Canberra, 2010.
Additional funding was also announced for the prevention of chronic diseases: $50 million to tackle binge drinking, $195.2 million to encourage participation in sport and physical activity and $27.8 million to fund an anti-smoking campaign. The excise on tobacco will be lifted. It is expected to generate nearly $5 billion in additional revenue to be directed into funding hospitals and health services and, in a global first, plain packaging of tobacco products will be mandated.

**Stakeholder responses**

Although responses to these measures have been largely positive, criticisms of particular elements have emerged—the most well-known being the tobacco industry’s opposition to the plain packaging proposal. The proposal to create Medicare Locals, essentially re-branded and expanded Divisions of General Practice, has been generally well received, although how these independent legal entities would work with the proposed independent Local Hospital Networks and other health professionals and organisations, remains unclear.

Another measure that may provoke debate as it represents a shift towards fund holding—long opposed by some in the medical profession—are the proposals around personalised care for patients with diabetes. The proposal is to give GPs block grants (on average $1200) for each voluntarily enrolled patient with diabetes, to manage and coordinate all their health care needs. If the person stays healthy and remains out of hospital the GP could then receive up to $10 800 in additional payments.

Recent reports to Government have recommended exploring such fund holding options, as well as the voluntary enrolment of patients with chronic conditions. The Government points to the high numbers of hospital admissions that could be avoided if patients with diabetes received more coordinated and integrated care in the community. But many issues remain unclear; for example, would the GP be the sole fund holder for payments for other

563. For a discussion on the tobacco excise increase, refer to the brief by Dr Matthew Thomas; for a discussion of the workforce initiatives affecting primary care, refer to the brief by Dr Rhonda Jolly.

564. For example, some doctors expressed concern that Medicare Locals could undermine their independence. See, A Cresswell, ‘Doctors slam Medicare Locals’, *The Australian*, 13 May 2010, p. 7, viewed 13 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FWROW6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FWROW6%22)


566. K Rudd (Prime Minister), N Roxon (Minister for Health), $436 million to take pressure off our hospitals by delivering personalised care for diabetics, media release, 31 March 2010, viewed 14 May 2010, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FKEEW6%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FKEEW6%22)
diabetes health services such as allied health services, and what role would Medicare Locals have in managing these or in coordinating care. Nor is it clear how perverse incentives, such as GPs ‘cherry picking’ healthier patients, could be fully avoided. It also remains possible that GPs could charge patients gap fees if the available funds run out. If fully implemented so as to include other chronic diseases, this scheme would be a major shift in Medicare arrangements as it ‘introduces a whole new system of medical care’, something that has also been noted by the Government.

The Australian Medical Association (AMA) has been critical of this scheme and an apparent lack of consultation over its development. On the other hand, Diabetes Australia has welcomed the new funding model.

Budget proposals for the prevention of chronic illnesses—such as the tobacco excise, anti-smoking campaign funds and funding to address binge drinking—have been broadly welcomed by public health advocates. But the failure to adopt other recommendations of the Preventative Health Taskforce, such as bans on alcohol advertising during broadcasts of sporting events and restrictions on junk food advertising, has led some to question whether the Government’s commitment to prevention can withstand the interests of powerful lobby groups.


Sport

Dr Rhonda Jolly
Social Policy

In August 2008, the Government commissioned an Independent Sport Panel (ISP) to investigate what reforms may be required to ensure the Australian sporting system was prepared for future challenges. The ISP made a number of recommendations for actions it believed were necessary if Australia was to continue to be successful at the elite sports level. Importantly, it also considered that all Australians should be able to compete in sport and recommended corresponding actions which it believed would improve the health and wellbeing of the population.572

There was some controversy surrounding some of the ISP’s recommendations. This was particularly the case with regard to its suggestion that more attention should be paid to grassroots sports which were part of the ‘national ethos’, rather than the quest to gain top-five status in Olympic sports. The ISP also recommended that the Australian Sports Commission (ASC) should be relieved of its oversight of the Australian Institute of Sport (AIS) and the AIS amalgamated with state and territory institutes.573

The Government released its response to the ISP report in conjunction with this Budget. With two exceptions, the Government has signalled its support for the ISP’s recommendations. These exceptions relate to alternative funding options, most notably to consideration of a system whereby the cost of sports participation could be reduced. It could be argued, however, that in its response to the ISP report the Government does not appear to have engaged with the ideological underpinning of some of the ISP’s recommendations, especially those relating to the balance between funding for elite and grassroots sports. This may possibly be largely a result of their controversial nature. On the other hand, budget measures indicate that the Government has made some attempt to take the recommendations into account. It is likely to become clearer to what extent this has been successful once further details of the strategy are revealed.

Investment of $1.2 billion is to be made in sporting programs at the elite and community levels as part of the Government’s ‘new strategic direction’ and ‘integrated whole-of-sport


approach to the Australian sport system’.

The new approach will target three areas: increasing grassroots participation, strengthening pathways linking grassroots participation and ensuring Australia continues to excel in international competition.

The new sports strategy will also involve close cooperation between the states and territories, the ASC and other government agencies. At the grassroots level, funding will be allocated for a national volunteer program, participation plans, providing coaches with access to training and support to encourage participation by people experiencing disadvantage. Elite level sport will benefit from an extra $324.8 million for the ASC ‘to create a secure platform to plan beyond Budget cycles’. Funding to the ASC will sustain various high performance, coaching and talent identification programs. Sports science and medicine will also receive support.

One particularly innovative initiative to be implemented under the Government’s new sport plan will require elite athletes to contribute at the grassroots level as volunteer coaches, sports officials or administrators. There was some suggestion during the ISP’s deliberations that elite athletes should make some contribution, either financial or in kind, to their training, but this was firmly rejected for a number of reasons; principally, the belief that these athletes contribute to social cohesion, national pride and the nation’s standing in the world. This view is not without its critics and some continue to argue that HECS-like arrangements should apply to elite athletes. Depending on how strictly the requirements are enforced, it could be argued that this initiative goes some way towards ensuring athletes repay some of the investment the nation has made in developing their skills.

Little comment has been made on the sport measures in the Budget. John Coates, President of the Australian Olympic Committee, was satisfied with the budget outcomes. He had been

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575. Ibid.


579. For instance, R Denniss, *Funding sport fairly: an income contingent loans scheme for elite sports training*, Australia Institute, 10 February 2003.
critical of the ISP report, and had lobbied against the idea that too much was spent on gaining Olympic success to the detriment of general sport participation. Coates considered everyone involved in sport, and those who believe sport should have a role to play in society in creating a healthier nation and in enhancing Australia’s international reputation, would also be delighted.\footnote{580}

One sports journalist has wryly commented that the sports budget measures amount in essence to ensuring there are fewer fat people and more Olympic gold medal glory in the future.\footnote{581} From this perspective the Government has appeared to have got the aim right. Whether the balance between elite and grassroots funding is equally balanced will be more obvious as further details of programs funded emerge.


\footnote{581. D Lewis, ‘$1.2bn to trim and support athletes’, \textit{The Age}, 12 May 2010, p. 7.}
**Tobacco excise increase**

Matthew Thomas  
Social Policy Section

From midnight on 29 April 2010, the Government increased the excise and excise-equivalent customs duty rate applying to tobacco products by 25 per cent. The excise on cigarettes was increased from $0.2622 to $0.32775 per stick and the excise on loose leaf tobacco was increased from $327.77 to $409.71 per kilogram. The increase was expected to raise the price of a pack of 30 cigarettes by around $2.16 and is calculated to yield an extra $5.5 billion in tax revenue over the forward estimates period. The Government has indicated that this additional revenue will, along with existing tobacco excise revenues, be invested in improving health and hospitals through the newly instituted National Health and Hospitals Network Fund.

The last general increase in tobacco excise—that is, other than adjustments for CPI—was a 10 per cent increase in the 1995–96 Budget. Partly as a consequence of this, Australia has lagged behind other OECD countries where it comes to the rate of tax as a percentage of the final recommended retail price of a typical packet of cigarettes. Prior to the latest increase, taxes comprised around 68 per cent of the total cost of a packet of cigarettes in Australia. This is low compared with countries such as France (80 per cent), the United Kingdom (78 per cent) and Canada (76 per cent) and, as at 2003, Australia ranked 17th out of the 19 OECD countries for which data were available.

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583. There have been two other relatively significant increases in excise since this time. The first of these was as a result of a change in the way tobacco excise was levied. Until November 1999, the levy was calculated per kilogram of weight of manufactured cigarettes (including the filter and paper). Subsequently, the levy was calculated per stick. The second price increase was associated with the introduction of the GST in June 2000. M Scollo, ‘Policy measures associated with quitting’, in M Scollo and M Winstanley (eds.), *Tobacco in Australia: facts and issues*, third edn., Cancer Council Victoria, 2008, viewed 12 May 2010, [http://www.tobaccoinaustralia.org.au/](http://www.tobaccoinaustralia.org.au/)


585. Ibid.
expensive in the world, until the latest excise increase the price of cigarettes was nevertheless typically lower than in other OECD countries.

On the strength of the above factors, it may be argued that a general increase in tobacco excise was overdue in Australia on health grounds. The Government anticipates that the excise increase should cut total tobacco consumption by around six per cent, and the number of smokers by two to three per cent—that is, around 87 000 Australians. (It is to be assumed that this is over the next 10 years, as per the National Preventative Health Strategy goal and the COAG National Partnership Agreement on Preventive Health.) Although it is difficult to quantify precisely the impact of such a measure, it is reasonable to assume that the excise increase should result in a significant reduction in the prevalence and incidence of smoking; that is, a number of existing smokers are likely to give up the habit, and less people are likely to take up smoking. A substantial body of evidence supports the finding that real price increases and reductions in the affordability of tobacco products are the most significant policy intervention in reducing tobacco consumption.

However, as many public health commentators see it, it is important that the reduction in consumption should extend to people in low income groups and other disadvantaged populations (especially Indigenous Australians), and not just be confined to people who are more educated and from higher socio-economic groups.

586. Both present and former Opposition Leaders—Tony Abbott and Malcolm Turnbull—have proposed an increase in tobacco excise. In his 2009–10 Budget reply speech, Malcolm Turnbull proposed a 12.5 per cent increase in tobacco excise as means to increase government revenue while improving public health. The tax hike was recommended as an alternative to the Government’s policy to means test the private health insurance rebate. Tony Abbott has in the past proposed a 20 per cent increase in tobacco excise as a means to subsidise the expansion of income management, or welfare quarantining, to all families in receipt of income support payments. While Abbott is reported to have labelled the tobacco excise increase as a ‘tax grab’, he has nevertheless indicated that the Coalition will support it. P Coorey, ‘Tobacco tax draws support for Rudd’, *Sydney Morning Herald*, 11 May 2010.

587. K Rudd, op. cit.

588. There are many determinants of tobacco consumption and econometric analyses are required to distinguish the impact of price increases on tobacco consumption from the impact of other policies that are calculated to reduce consumption.

On this understanding, tobacco excise increases have been described by some as regressive. That is, they impact disproportionately on people from lower socio-economic groups who are more likely to be smokers, and less able to afford the increased purchase price of a product to which they are more or less addicted.\textsuperscript{590} This much seems irrefutable.

That said, some have argued from a preventative health perspective that this need not necessarily be the case. As prominent Australian tobacco researcher, Michelle Scollo sees it, ‘the key issue in determining whether tobacco taxes are regressive is the extent to which people in various socio-economic groups actually do reduce tobacco consumption in response to price increases’.\textsuperscript{591} Scollo’s rationale is that so long as tobacco excise increases do indeed deter people from lower socio-economic groups from taking up smoking or influence them to quit, then they may be viewed as progressive. This is because it is these people who stand to gain the most financially and in health terms from excise increases that provide an incentive for them to quit or reduce their consumption. A majority of research evidence indicates that low income smokers are either as likely as, or more likely than, higher income smokers to reduce their consumption or quit smoking in response to tax increases.\textsuperscript{592} Thus, Scollo suggests that tobacco taxes can be described as being, on the whole, progressive.

However, arguably the degree to which the Government’s tobacco excise increase is likely to prove successful, and may be viewed as progressive, is heavily dependent on the support provided to assist low income and disadvantaged smokers to quit.

It is widely recognised that the achievement of a decline in smoking demands a comprehensive approach. As the National Preventative Health Taskforce notes, ‘the more comprehensive the approach, the more likely it is that prevalence will decline among all social groups’.\textsuperscript{593} The Government has not introduced the tobacco excise increase in

\textsuperscript{590} For example, some have argued that while some people on lower incomes will be driven to reduce their spending on tobacco, others who are unable to quit or cut back may go without food or other essential items rather than give up smoking. Thus, the increases may have unintended consequences. While the National Preventative Health Taskforce acknowledged this possibility, it argued that ‘there is little direct evidence of food insecurity attributable to tobacco use in Australia, although it is likely that some heavy smokers already spend less than is optimal on food, clothing and other goods and services’. Australian Government, \textit{Australia: the healthiest country by 2020. National Preventative Health Strategy – the roadmap for action}, Department of Health and Ageing/The Taskforce, Canberra, 2009, p. 176, \url{http://dpl/Books/2009/AustraliaHealthiestCountry.pdf}


isolation. It has also committed to restricting Australian internet advertising of tobacco products, increasing by $27.8 million over four years funding for anti-smoking advertising campaigns and, in a world first measure, introducing plain packaging for all cigarettes sold in Australia by 1 July 2012.\footnote{K Rudd, op cit.}

What the Government has not done for low income and disadvantaged groups is provide additional assistance such as increased funding for smoking cessation programs. For example, the Government has not adopted a March 2010 recommendation by the Pharmaceutical Benefits Advisory Committee that nicotine replacement therapy patches be placed on the Pharmaceutical Benefits Scheme and subsidised by taxpayers.\footnote{L Vasek, ‘Roxon ignored plea for nicotine patch subsidy’, \textit{The Australian}, 3 May 2010.} This was also one of the recommendations made by the National Preventative Health Taskforce.\footnote{Australian Government, \textit{Australia: the healthiest country by 2020 – National preventative health strategy – the roadmap for action}, op. cit., pp. 188–89.} In short, the tobacco excise increase is not as progressive as it might have been had it been accompanied by further measures to assist low income and disadvantaged groups, such as those outlined by the National Preventative Health Taskforce.
Health workforce

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It is acknowledged that health system reform is unlikely to succeed without accompanying substantial workforce reform and pronouncements made by the Rudd Government have consistently implied it is supportive of such change. However, this Budget, like its predecessors, appears to deviate only marginally from conventional approaches to dealing with the dilemmas of a shrinking workforce and an opposing growth in demand for health workers. At the same time, it should be noted that while there is little real reform to be seen in the Budget, there remains the potential for some budget measures to be its precursors.

In recent months a number of workforce initiatives have been announced progressively, and the funding for these has been included as budget measures. Overwhelmingly, these measures focus on medical practitioners, with over $600 million allocated to increasing numbers over the next decade. Individual measures include doubling the number of general practice training places and expansion of the Prevocational General Practice Placement Training Program to enable more junior doctors to experience general practice.597

Not surprisingly, increasing the numbers of doctors has been well received by the medical profession. The Royal Australian College of General Practitioners (RACGP) considers the Government’s investment in medical practitioners reaffirms the central role of general practice in the health system.598 A supplementary measure to invest over $390 million to expand and restructure a general practice nurse initiative has also been generally well accepted.599 The Australian General Practice Network believes the nursing initiative will


alleviate workforce problems, and there is clear evidence that the initiative to date has indeed improved patient outcomes.600

Questions can be raised, however, about whether this initiative will deliver where it is most needed. There appears, for example, to be no guarantee that solo practices, which could gain great benefits from the services of a practice nurse, will be eligible for funding under the measure. Similarly, it could be asked if it would be more appropriate to encourage nurses into aged care, rather than general practice. This is particularly so given the increases in medical practitioner numbers that will be realised, albeit not for a decade or so, as a result of government initiatives. Because this initiative focuses on supporting the traditional, medico-oriented perspective of health teams, it could be seen as a backwards step to realising a more cooperative and collaborative health workforce in the future.

Similar questions arise about how the investment in medical practitioner training, despite there being an emphasis on placements in rural areas, will benefit people in the bush.601 There is no certainty this will be the case, as fully qualified Australian trained doctors cannot be forced to practice in a particular location.602 It is therefore easy to understand the disappointment expressed by the Rural Doctors Association of Australia (RDAA) that there is not enough focus in this Budget on attracting doctors to rural areas.603 The RDAA and the AMA insist that a rural rescue package is needed, but rural-specific measures are limited to an increase in an allied clinical placements scheme and the establishment of two locum programs for allied health workers and nurses.604 These reflect assessment by the NHHRC that an integrated workforce package should apply across all health disciplines.605


602. Civil conscription for medical practitioners is prohibited under section 51 of the Constitution.


604. K Rudd (Prime Minister), N Roxon (Minister for Health and Ageing) and W Snowden, (Minister for Indigenous Health, Rural and Regional Health and Regional Services Delivery), Boost for allied health in rural and remote Australia, media release, 6 April 2010, viewed
The specific circumstances of rural Australia aside, it can be argued that the recent increase in medical training places, in conjunction with earlier complementary increases in university places for nursing and clinical training places for doctors, nurses and allied health professionals, is a significant step in the Government’s overall plan for the health system. Certainly, this is how it has been promoted in budget documents. The rationale in this argument is that increasing the numbers of health professionals in the community can provide the means by which health reform can look beyond care delivered in hospitals to a more cost effective and efficient community-centred delivery of services.\(^606\)

However, it has been argued that such a strategy on its own is essentially flawed.\(^607\) Increasing the number of health workers of any type, as a number of commentators have pointed out over time, will not resolve workforce problems, unless it is accompanied by complementary strategies.\(^608\) Solving shortages and reforming the workforce to deal more effectively with disease prevention and management of persistent, long-term and recurrent conditions involves more tangential thinking around a variety of issues. These include: task allocation that provides for innovative and better uses of skill sets, not simply conventional use of skills; persuasive remuneration that draws practitioners to areas where their skills are most needed; and exploration of workforce related issues and patient involvement. These include, for example, consideration of how patient self-management can complement professional health service delivery and ways in which practitioners can be trained to work better with patients to improve health outcomes in such an environment.

From this perspective, health commentator and academic John Dwyer is convinced that training dollars alone will not make general practice the preferred career choice for medical graduates, but complementary appropriate remuneration and job satisfaction may achieve this ‘desired effect’.\(^609\) The Budget takes a small step in this direction by funding the two


\(^{608}\) Ibid.

\(^{609}\) J Dwyer, ‘Health plan needs a few dollars more’, *The Australian Financial Review*, 11 May 2010, p. 63, viewed 12 May 2010,
programs to provide locum placements for rural nurses and allied health workers noted above. The programs are clearly attempts to make rural practice more attractive. But these programs appear to be more ad hoc responses, rather than part of an integrated approach towards gaining a desired effect, or effects.

Similarly, the provision of $18 million in seed funding to explore models of practice which may promote the use of nurse practitioners in the aged care sector has the potential to deliver significant workforce reform in the future. But its success may be dependent on the right combination of incentives and scope of practice leeway being in place to achieve the elusive desired effect.\(^\text{610}\) The Australian Medical Association has already reacted negatively to the implication that nurse practitioners could have a role to play in aged care.\(^\text{611}\) Given that the Government was forced to revise its only attempt at task reallocation—allowing nurses and midwives access to Medicare and the PBS—as a result of similar objections from the medical profession, it is likely to be wary of sparking a similar controversy. It would be easy to speculate that nothing will eventuate from this investigation because conventional numbers only and traditional task allocation strategies are less divisive and easier to ‘sell’ than contentious and potentially divisive reforms.

In essence, the Government’s enthusiasm for reform in other areas of the health portfolio is perhaps not matched in the workforce area. While previous budgets hinted there might be underlying enthusiasm to explore multiple options for workforce change, this Budget appears to have embraced a more traditional solution.

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Migration and humanitarian programs

Elsa Koleth
Social Policy Section

For a third consecutive year the Government released its immigration planning figures in concert with its Budget announcements. This year’s migration program planning figures were delivered in the context of heightened public debate about the sustainability of Australia’s population growth and the role of Australia’s immigrant intake. However, the overall size of both the Migration Program and the Humanitarian Program for 2010–11 remains unchanged from the previous year, at 168 700 places for the Migration Program and 13 750 places for the Humanitarian Program.

Migration Program

While the overall size of the Migration Program remains unaltered, its composition has been modified to favour skilled migration, with 113 850 skill stream places, 54 550 family stream places and 300 special eligibility places.

After increasing the family stream of the Migration Program by 3900 places in 2009–10, in this Budget the Government has announced that it will be reduced by a further 5750 places—a reduction of approximately 9 per cent on the previous year’s family migration planning level. The increase in family stream places in 2009–10 was intended to provide more opportunities for family reunion. This year, however, the Government has instead emphasised the availability of temporary visas that enable people to visit relatives in Australia. However,


614. Evans, Budget: Government sharpens focus of skilled migration program, op. cit.

one such temporary visa class, the Sponsored Family Visitor visa (subclass 679), is conditional on the lodgement of a bond, the cost of which may prove prohibitive for some sponsors, imposed at the discretion of the Department of Immigration and Citizenship (DIAC).616

While it is unclear which elements of the family stream will be cut as a result of the reduction in places, the reduction could conceivably exacerbate existing pressures on certain parts of the family migration program. For example, applicants for non-contributory parent visas continue to face a ten-year wait for visa grant consideration, after being allocated a queue date.617 The federal Opposition has for some time been advocating a reduction in the family stream.618 In contrast, the Federation of Ethnic Communities Councils of Australia (FECCA) has described the reduction in the family stream in this year’s Budget as, ‘highly disappointing, with family reunion being a key form of settlement support for migrants ...’ .619

There has been an increase of 5750 places in the Skilled Migration Program. The composition of the Skilled Migration Program has been changed to increase employer-sponsored skilled migration places to 9150 and reduce the General Skilled Migration (GSM) program (for independent migrants) by 3600 places. This expansion of employer-sponsored migration is consistent with the turn to ‘demand driven’ skilled migration announced by the Government in December 2008 in the context of the global economic downturn. It also serves to support major reforms that have been made to the skilled migration program since that announcement.620

The first set of reforms came into effect in January 2009, when the Government revised skilled visa processing priorities to accord highest priority to employer and state or territory sponsored visas, and developed a Critical Skills List (CSL) for independent skilled visa

applicants. The latest major reforms to the skilled migration program, announced on 8 February 2010, tightened eligibility requirements for the GSM, including through:

- the cancellation of approximately 20,000 GSM applications lodged before September 2007 under less stringent eligibility requirements
- the introduction of a new, more targeted, Skilled Occupations List (SOL) (to replace the previous SOL, the Migration Occupations in Demand List (MODL), and the CSL)
- proposed amendments to the *Migration Act 1958*, empowering the Minister to cap the number of visas that may be granted to applicants in any one occupation and
- a review of the points test used to assess applicants under the GSM program.\(^{621}\)

The February 2010 reforms, along with the changes to the Skilled Migration Program planning levels for 2010–11, are aimed at ensuring that Australia’s permanent skilled migrant intake is ‘more responsive to the needs of industry and employers and better addresses the nation’s future skill needs’.\(^{622}\) As a result of the anticipated reduction in the number of GSM applications, flowing from the tightening of GSM eligibility requirements, the Government estimates it will forgo $268.3 million over five years in revenue associated with visa charges. At the same time, the Government also indicated that it will provide $33.0 million over five years to implement the announced reforms to the GSM program, covering costs such as departmental expenses ($18.6 million over four years), and visa application charge refunds ($14.4 million in 2009–10). DIAC’s existing resources will be reprioritised from 2010–11 to fully offset the cost of this measure.

**Humanitarian Program**

The Humanitarian Program planning figures for 2010–11 remain unchanged from the planned intake for 2009–2010, which included a 250-place increase on the previous year’s


planning level.\textsuperscript{623} This planning level has been maintained despite ongoing calls from refugee advocacy groups to increase the size of the Humanitarian Program, particularly through an expansion of the offshore resettlement component of the program.\textsuperscript{624} Once again, the 2010–11 Humanitarian Program comprises 6000 refugee places, predominantly filled by refugees referred to Australia for resettlement by the United Nations High Commissioner for Refugees (UNHCR), and 7750 places in the Special Humanitarian Program (SHP), which includes refugees in Australia who are granted protection visas.\textsuperscript{625} Similar to the previous year, resettlement in 2010–11 will again focus on refugees from Africa, Asia and the Middle East, with a particular focus on refugees in protracted situations, such as the Bhutanese in Nepal.\textsuperscript{626}

On 9 April 2010, following a significant increase in the numbers of asylum seekers arriving by boat over the preceding months, the Government announced that it would suspend the processing of new asylum applications from Sri Lankan and Afghan nationals, for three and six months respectively, in response to evolving conditions in both countries.\textsuperscript{627} The Government indicated that as a result of the suspension and the outcomes of UNHCR reviews of the situations in both Sri Lanka and Afghanistan it is likely that in future a greater number of Sri Lankan and Afghan asylum claims will be refused.\textsuperscript{628} Sri Lanka and Afghanistan were among the top three countries of citizenship for people found to be refugees and granted onshore Protection visas in 2008–09; and 847 Afghani refugees (the third largest group after Iraqis (2874) and Burmese (2412)) were resettled under the offshore component of the

\begin{itemize}
\item \textsuperscript{624} Refugee Council of Australia, \textit{Australia urged to take greater leadership in refugee resettlement}, media release, 24 February 2010, viewed 13 May 2010, \url{http://www.refugeecouncil.org.au/docs/releases/2010/100224_Intake_submission.pdf}
\item \textsuperscript{625} C Evans, \textit{Budget: 2009–10—Humanitarian program}, op. cit.
\item \textsuperscript{626} Ibid. See also, C Evans (Minister for Immigration and Citizenship), \textit{Commitment to helping the forgotten refugees}, media release, 20 June 2009, viewed 12 May 2010, \url{http://www.minister.immi.gov.au/media/media-releases/2009/ce09057.htm}
\item \textsuperscript{628} Evans, \textit{Changes to Australia’s immigration processing system}, op. cit.
\end{itemize}
Humanitarian Program in 2008–09. The suspension may therefore have an impact on the outcomes of the Humanitarian Program for 2010–11, either with respect to the size or composition of the humanitarian intake, although it is unclear at this stage what that impact will be. While the Government has acknowledged that the number of asylum seekers affected by the suspension is growing, it has yet to outline details of a processing strategy for when the suspension is lifted.

The Government announced that it will almost double its funding to the Australian Red Cross for administering the Asylum Seeker Assistance Scheme, from $5.6 million in 2009–10 to $10.1 million in 2010–11. The Scheme provides a range of services, such as income support, general health care, casework support and referrals, to eligible asylum seekers who are awaiting decisions on onshore protection visa applications. The Scheme’s funding will be increased for four years in response to increases in the number of people seeking assistance under the Scheme.

The Government has also announced a new grant of $140 000 per year to the Refugee Council of Australia, for the provision of advice on the views of the refugee and humanitarian non-government sector in Australia on matters such as resettlement and onshore protection, and on humanitarian settlement in Australia. This grant is to be funded from the Department’s existing resources within the Grants for Community Settlement Program. The Budget does not provide details about the terms on which this grant will operate.

Two existing grants programs, the ‘Diverse Australia’ program and the ‘National Action Plan to Build Social Cohesion, Harmony and Security’, will be consolidated to form the new ‘Diversity and Social Cohesion’ program, a measure which the Government estimates will provide savings of $1.1 million over four years.

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Border protection and detention

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The Government allocated $654 million across several portfolios in the previous Budget ‘to fund a comprehensive, whole-of-government strategy to combat people smuggling and help address the problem of unauthorised arrivals’. Since then the Government has been under increasing pressure to further address people smuggling issues due to a significant rise in the number of unauthorised boat arrivals—as at 13 May 2010, just over 4700 people have arrived in 100 boats since July 2009.

In the 2010–11 Budget, the Government has stated that it ‘will invest $1.2 billion to bolster Australia’s border security’ to ‘build on the $654 million border protection and anti-people smuggling package in the 2009 Budget’. This funding is spread across several portfolios—primarily Attorney General’s and Immigration and Citizenship.

It would appear that much of the $1.2 billion goes towards the continuation of existing or previously announced border and aviation security initiatives, such as $759.4 million over four years for enhanced policing at Australian airports; and funding for the replacement of ageing Customs (Border Protection Command) patrol vessels.

The Government will provide $32.9 million over four years to strengthen Indonesia’s ability to manage irregular migration. Additional funding will also go to the International Organisation for Migration (IOM) and the United Nations High Commissioner for refugees.


637. Evans and O’Connor, Budget: strengthening Australia’s border security, op. cit.

This measure will support Indonesia’s Directorate-General of Immigration in managing irregular migration flows and combating people smuggling activities. The measure includes assistance to Indonesia to improve the integrity of their visa application determination and granting process, and the processing of involuntary returns; additional funding to the International Organisation for Migration to support the Indonesian Government in upgrading a number of immigration detention facilities; and extra funding to the United Nations High Commissioner for Refugees for the processing of refugee status determinations.

It is worth noting that although only 28 people smugglers have been convicted in Australia between 29 September 2008 and 25 February 2010, efforts to combat people smuggling on a regional level have been relatively successful according to the Minister for Home Affairs:

The Australian Federal Police continues to provide support to foreign law enforcement agencies in their efforts to combat people smuggling activities in the region. These close working relationships have resulted in a number of arrests and disruptions to people smuggling ventures in countries such as Indonesia, Malaysia, and Sri Lanka. As a direct result of these strong working relationships, since September 2008, in Indonesia there have been 147 identified disruptions; 3813 foreign nationals detained by Indonesian authorities; and 87 arrests of facilitators/organisers.

Other regional initiatives include $5.8 million over two years to deploy two DIAC officers to Afghanistan to ‘liaise with the Afghan Government and relevant international organisations to assist with the appropriate settlement and reintegration of returned Afghan nationals’.

The Government had previously foreshadowed that it would be necessary to allocate more funding to immigration detention facilities, particularly Christmas Island given the rise in the number of boat arrivals.

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Budget estimates for community and detention services on Christmas Island; management and care of irregular immigrants in Indonesia; and regional cooperation and capacity building are provided under Program 4.3: Offshore Asylum Seeker Management. As predicted, in the 2010–11 Budget total expenses for Program 4.3: Offshore Asylum Seeker Management have been revised:

- 2009–10: $304.3 million (up from $125 million in the 2009–10 Budget), and

- 2010–11: $471.2 million (up from $113.2 million in the 2009–10 Budget forward estimates).  

Annual administered expenses specifically for community and detention services on Christmas Island (for the provision of a range of support, health and detention services in community and detention environments to offshore entry people) were revised as follows:

- 2009–10: $149.4 million (up from $60.6 million in the 2009–10 Budget), and

- 2010–11: $327.6 million (up from $53.5 million in the 2009–10 Budget forward estimates).  

The 2010–11 Budget has allocated $202 million over five years to increase capacity, maintain and upgrade service delivery and upgrade infrastructure in both onshore and offshore immigration detention facilities including capital funding for several immigration detention facilities as outlined in Budget Paper No. 2:

The measure provides for funding of $143.8 million for increased capacity at immigration detention facilities. The measure also provides capital funding for a number of upgrades and enhancements to essential amenities and security at existing facilities, consisting of $22.0 million for Christmas Island, $15.0 million for the Northern Immigration Detention Centre


644. Ibid.
in Darwin, $1.5 million for Villawood in Sydney and $1.0 million to upgrade existing residential facilities at Port Augusta (South Australia) for unaccompanied minors.\(^645\)

An allocation of $800,000 goes to the Commonwealth Ombudsman over two years to continue ‘external independent scrutiny of the Department of Immigration and Citizenship’s processing of refugee claims’.\(^646\)

Many press reports since the Budget was announced have claimed that $1 billion or more will go towards processing and detaining ‘boat people’.\(^647\) Although there has been a significant increase in funding for offshore asylum seeker management; an increase in funding to manage irregular migration in Indonesia; and funding allocated to increase capacity and upgrade infrastructure in immigration detention facilities; most of the $1.2 billion identified for strengthening border security in this Budget will go to aviation security initiatives.


Indigenous affairs

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The 2010–11 Budget offered no significant new directions and only a few new funding allocations in the area of Indigenous affairs. The total of all portfolio Australian Government Indigenous expenditure (AGIE) figures would appear to remain at a steady level—for 2008–09 $3,507 million, for 2009–10 $3,348 million and for 2010–11 (budgeted) $3,482 million.

The budget measures listed in the Government’s Closing the gap—Building Momentum budget statement are billed as continuing the Government’s commitment to ‘closing the gap’ between Indigenous and non-Indigenous Australians, and include the following:

- $56.0 million as a temporary transfer of unutilised capital from the Home Ownership on Indigenous Land program, initiated in 2006 to provide loans secured by leases on community-titled land (typically in remote Indigenous communities), to the Home Ownership Program, which since 1975 has provided loans secured by freehold title (typically in cities and towns), while further land tenure reform takes place on Indigenous land in remote communities

- $46.0 million in response to the first report of the Coordinator General for Remote Indigenous Services for a Remote Service Delivery Flexible Funding Pool to fund priority projects that are not able to be funded through existing programs.

- $44.3 million over four years from existing allocations (mostly from the national community development funding) to extend the reforms of the Community Development Employment Projects (CDEP) program which commenced in other areas in July 2009, to the Torres Strait. These reforms involve new CDEP entrants receiving income support payments instead of CDEP wages and paid jobs being created in state and local government services, while continuing CDEP participants will receive CDEP wages until June 2012

- $38.5 million over four years to expanding the roll-out of Opal fuel (not sought for petrol sniffing) as part of a strategy to reduce petrol sniffing in Indigenous communities, assisting in expanding storage and distribution facilities to meet demand in Western Australia, Northern Territory and Queensland

- an additional $34.9 million over four years for the Indigenous legal aid services across Australia to assist in meeting increasing demand

- $15.4 million over four years from existing Department of Education, Employment and Workplace Relations resources for a flexible funding pool to support projects that improve
education outcomes for children and young people as part of the *Aboriginal and Torres Strait Islander Education Action Plan 2010–2014*[^648]

- around 100 Indigenous early childhood services are also expected to benefit from the $59.4 million allocated to raise the quality of early childhood services to meet the requirements of the new National Quality Framework for early childhood education and child care

- $15.2 million for the National Indigenous Television to continue for another year while a review of the Government’s investment in the Indigenous broadcasting and media sector is undertaken

- $9.2 million over two years for the Australian Federal Police to continue their work as a part of Closing the Gap in the Northern Territory while new Northern Territory Police complete their training and become fully operational

- $6.9 million for Aboriginal Hostels Limited to make necessary repairs to a number of its hostels

- $6.6 million over two years for the National Indigenous Child Abuse and Violence Intelligence Task Force to continue to investigate patterns of violence, serious crime and abuse of power and trust in remote Indigenous communities

- $4.0 million over four years to continue the Business Skills for Visual Artists initiative which supports ethical commerce in the Indigenous visual arts sector and

- $1.6 million to improve Indigenous employment, recruitment and retention practices in Commonwealth public sector organisations[^649]

All of the above measures are mentioned in the media release, *Closing the Gap - Strengthening Indigenous Communities[^650]*, but not mentioned there are four other policy developments.


[^650]: J Gillard (Minister for Education, Employment and Workplace Relations), J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), N Roxon
Firstly, the Government will provide $410.5 million over six years for a new scheme of income management in the Northern Territory, and $17.4 million in 2010–11 to continue the trial of income management in the Kimberley region of Western Australia. Although theoretically not Indigenous-specific measures and therefore not treated as such in the budget papers, the income to be managed will almost exclusively be that of Indigenous people.\(^{651}\) For more detail see the Income Management brief in the Social Policy section of this publication.

Secondly, the Government will provide $29.2 million over five years from 2009–10 to establish the National Congress of Australia’s First Peoples, funded by reducing funding to the Indigenous Communities Strategic Investment program, which funds individual and community capacity building activities.\(^{652}\)

Thirdly, it is apparent from Minister Macklin’s *Closing the Gap* budget statement that the Strategic Indigenous Housing and Infrastructure Program (SIHIP) program, which is meant to be delivering on the Commonwealth’s commitment to the National Partnership Housing Agreement, is seriously behind schedule. That budget statement reports:

> Concern about slow progress on capital works had led the Australian Government to set up an Office of Remote Indigenous Housing in the Department of Families, Housing, Community Services and Indigenous Affairs and to deploy staff to key jurisdictions to help oversee the rollout of this National Partnership Agreement.\(^{653}\)

The statement then pronounces progress as ‘on track’ though the number of new houses completed nationally is just 33 and, in the Northern Territory, just seven:

> The target for 2009-10 is for 320 new houses and 587 refurbishments to be completed. There has been an improvement by the state and Northern Territory Governments in progressing this work. We are on track to achieving these targets with 320 new houses underway, 33 completed and more than 640 refurbishments also completed or underway […] By 2013, SIHIP will have delivered 750 new houses, 230 rebuilds of existing houses and 2,500 refurbishments across the Northern Territory…[and] at the end of April 2010 the construction of over 80 new houses was underway, with seven completed. Over 180 existing

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houses had been refurbished or rebuilt and over 110 existing houses had refurbishments or rebuilds underway. In total, work on over 380 housing lots was underway or completed.  

Fourthly, *Budget Measures: Budget Paper No. 2, 2010–11* states that the Government, in making the ‘new funding arrangements for Indigenous Land Corporation’ that guarantees the Indigenous Land Corporation a minimum annual draw-down from the Indigenous Land Fund of $45 million, is going ‘to ensure that the capital value of the Land Account is not eroded’. However, the prevention of such an erosion is not guaranteed in the Social Security and Indigenous Legislation Amendment (Budget and Other Measures) Bill 2010 which is currently before Parliament and will give effect to this measure.  

654. Ibid.  

British nuclear test participants in Australia

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Introduction

The Government announced in the 2010–11 Budget the provision of extra assistance to some participants in British nuclear tests conducted in Australia in the 1950s. The proposal is to classify the service of nuclear test participants who were also members of the Australian Defence Force as non-warlike or hazardous peacekeeping service. Hitherto, nuclear test participation has not been ascribed a service classification in the Veterans’ Entitlements Act 1986 (VEA). Rather, participation in the British nuclear tests has been covered by military and civilian workers’ compensation arrangements.

To describe their nuclear test service as non-warlike or hazardous peacekeeping service will provide these nuclear test participants with access to some assistance under the VEA. This will include access to the Disability Pension for illnesses/injuries arising from that service and to War Widow’s/er’s Pension (WWP) for surviving partners, where the death of the service person is attributable to that service.

Nuclear test participants

The Nominal Roll of Australian participants in the British Atomic Tests Program conducted in Australia from 1952–1963 contains 16,716 names. The names on the Roll are in the following categories:

- Navy – 3268
- Army – 1657
- RAAF – 3201 and
- 8590 civilians, including 10 Indigenous people.

Pastoralists are not identified separately within the civilian group.

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Thus, of the total number of participants, 8126 (or 48.6 per cent) were Australian military personnel.

**Hazardous peacekeeping service**

Part IV of the VEA provides for the classification of peacekeeping service for members of the Defence Force. Classification of ‘Hazardous Service’ under Part IV provides for access to the Disability Pension provided under Part II of the VEA for illnesses/injuries arising out of the service. It also allows for access to the WWP provided under Part II of the VEA to surviving partners of a person whose death is accepted as being caused/attributed to their hazardous service. Such classification also allows access to a health treatment card (White Card) for the medical condition/s accepted as being caused/attributed to the hazardous service. For those with a significant impairment arising from the hazardous service (that is with an impairment of 70 per cent or more), there is also access to the Gold Card, providing coverage for all medical conditions.

**Previous assistance for nuclear test participants**

For a long time, governments have considered that because the illness/injuries/death incurred by participants in the British nuclear tests have occurred in peacetime they should be covered by workers’ compensation arrangements that apply to public servants generally. For example, Senator Nick Minchin advised, in an answer to a Question on Notice:

> No disability pension paid by DVA would be paid for illnesses relating to atomic testing. Atomic testing is not service covered by the Veterans’ Entitlements Act 1986. Therefore, all pensions paid by DVA are for conditions arising from service other than atomic testing.\(^{658}\)

In 2006, the Howard Government extended coverage for cancer testing and treatment to nuclear test participants.\(^ {659}\) This was done in response to the recommendation of the 2003 Clarke Review which reviewed veterans’ entitlements.\(^ {660}\)

**Clarke Review recommendations**

In its terms of reference, the Clarke Review was specifically asked to examine the claims by nuclear test participants and consider what would be appropriate government assistance. The

\(^{658}\) Ibid.


Clarke Review recommended the accreditation of participation in the nuclear tests for Defence Force staff as ‘non-warlike hazardous service’. 661

Some 2160 submissions on this matter were made to the Clarke Review, with a majority of the submissions urging that nuclear test service should be classified as ‘non-warlike hazardous service’, and, as such, they would be covered by Part IV of the VEA. Most of the submissions were from Defence Force personnel. 662 A small number of submissions also sought classification of participation in the tests as ‘qualifying service’ for the service pension. This is the same as war or warlike service and would basically have allowed access to the Service Pension and also to the Gold Card for those aged 70 or above. This proposal was not supported by the Clarke Review and it did not recommend that the nuclear test participation be classified as being the same as ‘qualifying service’, or war service.

Howard Government response to the Clarke Review recommendation about nuclear test participation

Essentially, the Howard Government rejected the Clarke Review recommendation to accord Defence Force personnel involved in the nuclear testing with accreditation as being involved in non-warlike hazardous service. However, while the Howard Government chose not to change the service classification of Defence personnel involved in the nuclear testing, it made a loose commitment to meeting these personnel’s needs in other ways. The Prime Minister reported:

The Government also had decided to respond positively to the needs of those affected by the British Atomic Test programme when the outcomes are available of the Australian Participants in the British Nuclear Test Programme – Cancer Incidence and Mortality Study.

The Government will continue to provide special recognition and comprehensive assistance to those who have served Australia in times of war, at personal risk of injury or death from an armed enemy.

In keeping with this approach, we have accepted the Clarke Report’s recommendation that there be no change in the incurred danger test for Qualifying Service. However, we reject the view that this test has been interpreted too narrowly. 663

662. Ibid., p. 371.
663. J Howard (Prime Minister), Additional benefits for veterans – government response to the Clarke Report, media release, Canberra, 2 March 2004, viewed 15 May 2010, http://parlinfo/parlInfo/search/display/display.w3p;adv=yes;db=:group=:holdingType=:id=:orderBy=customrank;page=0;query=AuthorSpeakerReporter%3Ahoward%20Content%3Aclarke%20Date%3A01%2F03%2F2004%20%3E%3E%2001%2F04%2F2004%20Dataset%3Apressrel;querytype=:rec=1;resCount=Default
Governments have been reluctant to accredit peacetime service as either war service or non-warlike hazardous service under the VEA

There were several submissions made to the Clarke Review to have various forms of peacetime military service accredited as either warlike or non-warlike hazardous service under the VEA. Some of these claims included special submarine operations to the north and west of Australia, personnel involved in covert intelligence gathering or covert signals operations and major peacetime accidents, like the Black Hawk helicopter accident of 1996. Generally, the Clarke Review recommended that peacetime service should not be accredited as service under the VEA. The exception to this was service that included mine clearing, bomb disposal and improvised explosive device clearance. The Clarke Review recommendations that some mine clearing and bomb disposal work post World War Two (WWII) in the South Pacific be accredited, was accepted by the Howard Government. This recommendation was given effect with the Veterans’ Entitlements (Clarke Review) Act 2004.

Civilian nuclear test participants not covered by this measure

As stated above, only those nuclear test participants who were also members of the Australian Defence Force will gain access to the VEA assistance under the proposed initiative. This is in accordance with the Clarke Review recommendation. The 8590 civilian nuclear test participant personnel are not covered.

Submarine special operations to be accredited as warlike service

Peter Yeend
Social Policy Section

Introduction

The Government announced in the 2010–11 Budget that it will accredit submarine special operations conducted in the period 1978 to 1992 as warlike service.666 Accreditation as warlike service will provide Australian military personnel involved in such service with access to the Service Pension from age 60 and also access to a Gold Card from the age of 70 years.

Special submarine service – examined by the Clarke Review

The Report of the Review of Veterans’ Entitlements (the Clarke Review) examined submarine special service operations to assess whether they constituted warlike service.667 In the late 1970s to the early 1990s, some Royal Australian Navy (RAN) submarines, filled with special intelligence equipment, were regularly deployed in areas to the north and west of Australia. Submissions to the Clarke Review claimed that the special operations were conducted in an environment in which overwhelming force could have been expected if the submarine had been detected. The Clarke Review commented that the operations were covert and thus it was unable to elaborate further on the nature of the tasks performed in its report. The Clarke Review found that due to the classified nature of the operations, the assessment of the service and whether it met the warlike definition could only be made by the Department of Defence. The Review reported that it had deliberated extensively about the nature of the operations with the authors of submissions and senior Defence officials and concluded that there was no evidence to substantiate a description of the special operation service as warlike. As a result, the Review recommended that the service be classified as non-warlike service.668

Peacetime service as warlike service

In addition to the submissions regarding submarine special operations to the north and west of Australia covered by this budget initiative, the Clarke Review received 44 submissions to


668.  Ibid.
have various forms of peacetime military service accredited as either ‘warlike’ or ‘non-warlike hazardous service’ under the Veterans’ Entitlements Act 1986 (VEA). These claims included personnel involved in covert intelligence gathering or covert signals and also major peacetime accidents like the Black Hawke helicopter crash of 1996. Generally, the Clarke Review did not recommend that peacetime service should be accredited as warlike service under the VEA. The exception to this was the accreditation of some peacetime mine clearing and bomb disposal work post World War Two (WWII) in the South Pacific and this was given effect with the Veterans’ Entitlements (Clarke Review) Act 2004.

While accreditation as warlike service for mine and bomb clearance work does show that some peacetime service has been recognised as warlike service for the VEA, it is exceptional. Generally, governments have not wanted to have peacetime service recognised as war or warlike service in the VEA, as it would then diminish the special recognition given to the special service provided for in the VEA. This view was emphasised in Prime Minister John Howard’s media release when announcing the Government’s responses to the Clarke Review recommendations:

The Government will continue to provide special recognition and comprehensive assistance to those who have served Australia in times of war, at personal risk of injury or death from an armed enemy.

In keeping with this approach, we have accepted the Clarke Report’s recommendation that there be no change in the incurred danger test for Qualifying Service. However, we reject the view that this test has been interpreted too narrowly.

Governments have considered that illness/injuries/death incurred by Defence Force staff during peacetime activities should be covered by workers’ compensation arrangements, as applies to public servants generally.

**A precedent for other claims?**

War, and warlike service, involves action against an armed hostile enemy force in a time of conflict. Section 7A of the VEA describes qualifying service. It essentially refers to risk

669. Ibid., p. 342.


671. J Howard (Prime Minister), Additional benefits for veteran – government response to the Clarke Report, media release, Canberra, 2 March 2004, viewed 15 May 2010, http://parlinfo.parlinfo/search/display/display_w3p;adv=yes;db=:;holdingType=:;id=:;orderBy=customrank;page=0;query=AuthorSpeakerReporter%3Ahoward%20Content%3Aclarke%e%20Date%3A01%2F03%2F2004%20%3E%3E%2001%2F04%2F2004%20Dataset%3Apressrel;querytype=:;rec=1;resCount=Default

672. 7A Qualifying service.
and dangers incurred while a service person was engaged in service during a period of hostilities from an armed enemy force.

The proponents of the submarine special service insist that, had they been detected, they were at great and overwhelming risk and danger. However, the detail of the special submarine service has not been made public due to the apparently ‘top secret’ nature of its operations. Nor has there been any publicity relating to its operations, such as might be expected if it had engaged in any conflict with, or discovered any covert operations by, other forces or nations. Therefore, the Government’s decision implies acceptance that the risks the operations ran should be given the same recognition as warlike service. This is even though the submarine operations were not during a period of hostilities against an armed enemy force, hitherto a requirement for the classification of war and warlike service. This budget initiative might therefore set a precedent for the accreditation of other claims relating to dangerous peacetime military service.673

(1) For the purposes of Parts III and VA and sections 85 and 118V, a person has rendered qualifying service:
(a) if the person has, as a member of the Defence Force:
(i) rendered service, during a period of hostilities specified in paragraph (a) or (b) of the definition of period of hostilities in subsection 5B(1), at sea, in the field or in the air in naval, military or aerial operations against the enemy in an area, or on an aircraft or ship of war, at a time when the person incurred danger from hostile forces of the enemy in that area or on that aircraft or ship.

Disability Support Pension

Peter Yeend
Social Policy Section

The Budget announced revised access procedures for some Disability Support Pension (DSP) claimants, to commence from 1 January 2012.674 The changes to DSP entry for new claimants were described as follows:

Disability Support Pension claimants without sufficient evidence of a future work capacity of less than 15 hours per week may be referred to an alternative income support payment and offered employment assistance through Job Services Australia or Disability Employment Services. These services will assist in developing the skills of job seekers or building evidence of their future work capacity for subsequent claims which may be made at any time.675

DSP claimants, who are not considered to be self-evidently unable to work for at least 15 hours a week, will be asked to actually demonstrate they cannot work to this level by participating in employment assistance or rehabilitation.

Origins of the initiative

This initiative has its origins in the inexorable growth in the DSP population over the past 20 years and the limited impact on this growth of the Welfare to Work (WtW) reforms of the Howard Government, introduced in 2006.676 The major change to the DSP qualification requirements with WtW was a reduction in the number of hours that a person was unable to work due to their disability, down from being unable to work for 30 hours a week to being unable to work for at least 15 hours a week.

675. Ibid.
Growth in the DSP population

In 1985, the DSP population was 259,162.\textsuperscript{677} There has been a 43.5 per cent increase in the DSP population from 1997 to 2009.\textsuperscript{678} Changes since 2001 are documented below.

**Disability Support Pension population 2001–2009**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of DSP recipients (June)</th>
<th>% increase from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>623,926</td>
<td>3.6</td>
</tr>
<tr>
<td>2002</td>
<td>658,913</td>
<td>5.6</td>
</tr>
<tr>
<td>2003</td>
<td>673,334</td>
<td>2.1</td>
</tr>
<tr>
<td>2004</td>
<td>696,742</td>
<td>3.5</td>
</tr>
<tr>
<td>2005</td>
<td>706,782</td>
<td>1.4</td>
</tr>
<tr>
<td>2006</td>
<td>712,163</td>
<td>0.7</td>
</tr>
<tr>
<td>2007</td>
<td>714,156</td>
<td>0.3</td>
</tr>
<tr>
<td>2008</td>
<td>732,367</td>
<td>2.5</td>
</tr>
<tr>
<td>2009</td>
<td>757,118</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), Department of Education, Employment and Workplace Relations (DEEWR), various annual reports.

No other income support program has seen this level of sustained increase. Several factors have contributed to this growth, including: the ageing of the population and corresponding ageing of the workforce aged population, increased levels of unemployment for the older working age persons, and the incentives associated with being on DSP compared with the other main income support payment for the working aged, the Newstart Allowance (NSA). The economic downturn is also likely to have been a contributing factor to some of this increase since 2008.

**The comparative advantage of Disability Support Pension over Newstart Allowance**

The main advantage of DSP over NSA is that DSP is paid at a much higher rate.\textsuperscript{679} DSP is also tax free and has more generous pensions’ income and asset testing. DSP also provides access to the Pension Supplement\textsuperscript{680} and the more generous concessions attached to the

\begin{itemize}
    \item \textsuperscript{678} Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), Department of Education, Employment and Workplace Relations (DEEWR), various annual reports.
    \item \textsuperscript{679} Current single rate for DSP is $644.20 per fortnight (pf); for NSA it is $462.80 pf.
    \item \textsuperscript{680} Pension supplement is currently $56.90 pf – single.
\end{itemize}
Pensioner Concession Card. Another major advantage for claimants is that DSP has no work search or mutual obligation requirements, as does the NSA.

**Welfare to Work reforms**

The main element of reform for the DSP program in the WtW reforms was the reduction in the work capacity test from 30 hours a week to 15 hours a week. This reform commenced from 1 July 2006 and made the work capacity test much tougher. However, as can be seen in the table above, its impact on DSP growth was only short-term and the DSP growth rates of pre-WtW have returned. Why did this occur? In brief, the work capacity test is essentially a subjective test and the decision is made by the delegate under the *Social Security Act 1991* (SSA). Regardless of where the bar is set, claimants adjust their behaviour. Accordingly DSP claimants are likely now to present their claims as being unable to work for 15 hours a week with presumably their supporting medical evidence.

**Granting DSP and assessing work capacity**

There are two main streams through which a DSP claim is initially processed. Firstly, the claim is considered to see if it is ‘manifest’. Manifest means that the person is clearly and obviously medically qualified for DSP, based on the presentation of medical evidence. For example, if a claimant has a terminal illness, permanent blindness, requires nursing home level care, or has category 4 HIV/AIDS, this would be manifest. For a manifest claim, subject to other qualification requirements being met, the DSP claim can be granted.\(^{681}\)

Where the claim is not manifest, then the impairment points level must be assessed against the DSP minimum 20 points requirement. Where 20 points impairment is not achieved, the claim can be rejected. Where 20 points are achieved, the next step is the continuing inability to work (CITW) assessment.\(^{682}\) The CITW assessment is a matter for decision by the Centrelink officer who is the delegate under the SSA. The CITW assessment considers opinions and advice from the treating doctor, the Medibank Health Solutions doctor, and the Job Capacity Assessment (JCA) team,\(^{683}\) but the delegate makes the decision. This CITW decision is the matter that generates most appeals against DSP claim rejections. Notwithstanding the significant aforementioned change in the CITW test with the WtW reforms, the figures above would suggest that many DSP claimants are succeeding in being

\(^{681}\) Age, residence, income and assets tests.

\(^{682}\) CITW means the person is unable to work for at least 15 hours per week at wages at or above the relevant minimum Australian wage, even if not within the person’s locally accessible labour market. The person must be able to do this work independently of a program of support.

\(^{683}\) The JCA is an independent comprehensive exploration of the person’s participation barriers and CITW. It also identifies any services that could improve their capacity to work. The assessment can include input from a range of medical and allied health professionals.
assessed as unable to work for at least 15 hours a week, hence motivating the changes in this Budget.

2010–11 Budget initiative – DSP claimants will have to prove they have a CITW

The Budget initiative provides for non-manifest cases, (that is, where it is not clear that the person cannot work for more than 15 hours a week), to be referred to another income support payment, the NSA. This may not apply to all non-manifest cases. Considering that more than 50 per cent of current DSP claimants come from NSA, some may already have supporting evidence that they are unable to work for at least 15 hours a week from previous work search and work assistance attempts.

The Government has provided no indication as to how many or what proportion of DSP claimants will be affected by this Budget measure. This is not surprising as this process has not been attempted before. Given that manifest grants of DSP are by far the minority of grants, there is the potential to place many DSP claimants on NSA for varying periods to actually test their CITW after they have received assistance and support. However, this process may not realise all that is hoped for it. So long as there continues a comparative and significant advantage of DSP over NSA there will be an incentive for claimants not to jeopardise any future DSP claim attempts by demonstrating improvements in their work capacity.

Assessing continued inability to work is problematic

Assessing CITW has been an element of DSP claims since DSP’s introduction in 1991 and, for that matter, also its predecessor, the Invalid Pension, which was introduced in 1908. However, CITW assessments are highly problematic for a number of reasons. For example, the same medical condition may affect individuals differently, depending on their age, their work history and skills, and their own attitude to the condition. While it is to be expected that DSP claimants would regard themselves as significantly affected by their condition, their actual work capacity may be quite different. It may be that they have an overly pessimistic view of the real impact and level of imposed restriction of their condition. In their turn, treating doctors, while expert in the diagnosis and treatment of a medical condition, may have no training or skills in work capacity assessments. Their role may involve them in serving conflicting interests. On the one hand patients may call on them to be an advocate and supporter of their claim. On the other hand they are required to provide unbiased objective advice about the impact of the condition and its effect on the person. The ongoing increase in the DSP numbers following the recent WtW changes would suggest that even where a radical

change is made to the qualification requirements, the reality of the complexity and subjectivity of the assessment process can render changes ineffective.

Summary

This initiative is estimated to realise savings of $383.4 million over four years. Given that this is not a large sum in the context of a program with estimated outlays of between $13 to $14 billion over the next four years, this initiative may not now be viewed as the major reform to the DSP program that was envisaged when introduced with the WtW changes of 2006.

Successive governments have supported the view that persons of working age should, where they can, support themselves first, before calling on the support of the taxpayer by way of income support payments. However, a policy that places an emphasis on claimants presenting as unable to work would seem to be counterproductive when the emphasis should be on work capacity. This policy does aim to enhance work capacity through support and assistance, but its effectiveness may be limited as long as there remain perverse incentives.


Income management

Luke Buckmaster
Social Policy Section

The Budget includes $410 million over six years for a new scheme of income management in the Northern Territory.

This funding supports changes the Rudd Government is seeking to make to the system of income management of welfare payments—a system originally introduced by the Howard Government in 2007 as part of the Northern Territory Emergency Response (NTER). On 25 November 2009, the Government announced that it would replace the existing income management scheme for prescribed NT Indigenous communities with a broader scheme targeted at ‘vulnerable regions’ and ‘individuals at risk’. From 1 July 2010, the new scheme will be introduced throughout the Northern Territory as a whole, including urban, regional and remote areas. According to the Government, this is to be the ‘first step in a national roll out of income management in disadvantaged regions’.

The income management reforms are to apply to people in the following categories:

- people aged 15 to 24 who have been in receipt of Youth Allowance (other), Newstart Allowance, Special Benefit or Parenting Payment for more than three of the last six months

- people aged 25 and above who have been in receipt of specified payments, including Newstart Allowance and Parenting Payment for more than one year in the previous two years

- people referred for income management by child protection authorities and

- people assessed by Centrelink social workers as requiring income management due to vulnerability to financial crisis, domestic violence or economic abuse.

Affected income support recipients will have 50 per cent of their regular payments (70 per cent in child protection cases) and 100 per cent of lump sum payments quarantined in a separate account that may only be used for the purchase of ‘the essentials of life’, such as


688. Ibid.

689. Ibid.
food, clothes and rent. The Government expects that around 20 000 individuals are expected to be covered by income management in the Northern Territory when it is fully implemented.690

Funding committed to this measure includes the cost of operating the income management scheme; provision of complementary services such as budgeting, financial counselling, financial education; and incentive payments for those who can demonstrate a pattern of savings.

The Rudd Government argues that income management is necessary to ensure that more of income support recipients’ money is spent on priority items and in the interests of children and families, rather than on alcohol and gambling.691 Further, the reforms are intended to improve welfare recipients’ ability to move out of welfare dependence and into economic and social participation.692

The Government has argued that evidence obtained from various reports provides support for the continuation and expansion of income management. For example, the Government has highlighted an evaluation of income management in the Northern Territory undertaken by the Department of Families, Housing, Community Services and Indigenous Affairs which found that more than half of parents interviewed reported their children were eating more (62.5 per cent), weighed more (57.4 per cent) and were healthier (52.1 per cent).693

These changes are being made through a Bill currently before the Parliament, the Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009. For a description and analysis of the Bill (including detailed background discussion of income management), see the Parliamentary Library’s Bills Digest.

690. Ibid.


692. Ibid.

Comment

The proposed changes to income management have attracted some public support, but also substantial criticism.

One supporter, Cape York Indigenous leader, Noel Pearson, has described the new scheme as the most fundamental and important reform in the history of Australia’s welfare system, arguing that ‘black and white Australians who are in disadvantaged situations can only benefit from these changes’ and that there have been ‘tangible benefits’ from the income management system currently in place in Cape York Peninsula.694

Criticisms have included:

• claims by the Opposition that the new scheme amounts to a ‘watering down’ of the old scheme because it will no longer apply to all welfare recipients in prescribed Indigenous communities (only those in the ‘at-risk’ categories outlined above)695

• while the Government claims that the introduction of income management to the whole of the NT represents the precursor to a national roll-out of the scheme, it is by no means clear, based on available information, to what extent this will in fact be the case696

• although the proposed new arrangements are more targeted than the current system, they may still be regarded as arbitrary in that the new scheme includes entire categories of income support recipients, with the burden of proof placed on these recipients to demonstrate that they are socially responsible if they are to be excluded from income management697


695. The Opposition has, nonetheless, said that it will support the Bill. See P Kelly, ‘Tony Abbott backs ALP welfare management bill’, The Australian, 16 March 2010, p. 5, viewed 14 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%22Fressclp%2F446W6%22

696. Ibid.

697. For example, J Falzon, ‘Macklin’s measures a far cry from fairness’, Canberra Times, 1 December 2009, p. 13, viewed 14 May 2010, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%22Fressclp%2FVRCV6%22
many commentators regard the relatively indiscriminate application of income management arrangements as detracting from, rather than supporting, income support recipients’ ability to exercise responsibility.\textsuperscript{698}

some argue that evidence presented by the Government in support of income management has been flawed and has ignored evidence suggesting that compulsory income management has had negative consequences\textsuperscript{699} and

some have raised concerns about the substantial cost of the scheme—that is, over $400 million to bring 20 000 people under income management.\textsuperscript{700} Further, some have noted that this money would be better spent on more directly providing people with the opportunities and resources necessary for social participation.\textsuperscript{701}

An issue of note in relation to the cost of the scheme is that\textit{Budget Measures: Budget Paper No. 2: 2010–11} refers to a funding amount of only ‘$6 million in 2014–15’.\textsuperscript{702} The Office of the Minister for Families, Housing, Community Services and Indigenous Affairs has since clarified that the difference in funding between 2013–14 and 2014–15 ‘reflects the fact that one component of the funding (the $6 million for the Department of Human Services) is the only aspect of the funding package that extends into a sixth year—beyond the usual 5 year forward period. This amount is included to reflect particular contractual obligations over that period’.\textsuperscript{703} The Minister’s Office adds that ‘as is usual, funding for the other elements of the new income management system beyond the five year period has not yet been considered by Government’.\textsuperscript{704}

\begin{itemize}
\item[698.] Ibid.
\item[699.] For example, E Cox, ‘Data without destiny: Macklin fudges evidence’,\textit{Crikey}, 18 December 2009.
\item[700.] For example, Frank Quinlan, Executive Director of Catholic Social Services Australia, quoted in J Massola, ‘Welfare bodies oppose income quarantining’,\textit{Canberra Times}, 26 November 2009, p. 8, viewed 14 May 2010, \texttt{http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FBZAV6%22}
\item[701.] For example, Ibid. See also S Dunlevy, ‘Help those on welfare to help themselves’,\textit{Daily Telegraph}, 18 March 2010, p. 46, viewed 14 May 2010, \texttt{http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FNA7W6%22}
\item[703.] Email correspondence from Office of Jenny Macklin MP, 14 May 2010.
\item[704.] Ibid.
\end{itemize}
Job Capacity Assessment

Matthew Thomas
Social Policy Section

In the context of the 2010–11 Budget, the Government has two main, related objectives with regard to disability policy. The first of these is to reduce the number of people in receipt of the Disability Support Pension (DSP). The second is to increase the workforce participation of people with disabilities. In keeping with these objectives, the Government has introduced changes to the Job Capacity Assessment (JCA) and the work capacity assessment process more generally. These changes are based upon the principle that work capacity assessments (and disability employment policy as a whole) should focus on people’s ability to participate in paid employment, rather than on their disability.

The JCA was introduced by the Howard Government on 1 July 2006 as a part of its Welfare to Work reforms. Essentially, as its title implies, the JCA is an evaluation and streaming tool that is used to identify a person’s ability to work and any barriers that they may face in gaining employment. As such, the JCA serves a dual purpose. Firstly, it is used to determine whether a person with disability should be in supported (Disability Employment Services) or open (Job Services Australia) employment services. And, secondly, the JCA is used to assess whether or not a person has the capacity to work 15 hours or more per week and, thus, whether or not they qualify for the DSP. The assessment is made using the Impairment Tables, which are calculated to assist in measuring how a person’s impairment affects their ability to work. At present, JCAs are conducted by Centrelink, Commonwealth Rehabilitation Service Australia (CRS) and Health Services Australia Group (HSA), all of which are Human Services Portfolio agencies. Until 1 July 2009, the JCA program was managed by the Department of Human Services. Responsibility for the program’s management was then shifted to the Department of Education, Employment and Workplace Relations (DEEWR).

Under the Budget reforms,

- from 1 July 2010, JCAs will not be conducted for job seekers in receipt of Newstart Allowance (NSA) or Youth Allowance (other)(YA(o)) who require a temporary exemption from participation requirements due to a medical condition. Instead, these determinations will be made by Centrelink staff.

- from 1 July 2011, job seekers requiring a work capacity assessment will be appraised through a revised assessment, which will be conducted by an allied health professional within Centrelink. From the same date, all JCAs will be conducted by Centrelink, with the assistance of Commonwealth Rehabilitation Service Australia (CRS).

- from 1 January 2012, in the most significant change, JCAs will be based on substantially revised Impairment Tables—ones that ‘focus more on ability’. New applicants for DSP who do not have evidence of an inability to work more than 15 hours per week may be
referred to NSA or YA(o) and offered employment assistance through Disability Employment Services or Job Services Australia. The Government anticipates that through their participation in these services, job seekers will develop skills that will enable them to gain employment of over 15 hours per week, thereby precluding them from DSP qualification. Alternatively, they will gain evidence for their inability to work for more than 15 hours per week, and thus the basis for another DSP claim. See the Disability Support Pension brief in this publication for analysis of this reform.

The above reforms are likely to achieve the Government’s twin objectives in the immediate to short-term. In doing so, they will save a substantial amount of tax payer’s money. However, it has been argued that if the Government is to achieve its objectives over the longer term, then this demands more substantive reform in two key areas.

The first of these is the removal of perverse incentives that encourage disadvantaged people to strive for DSP qualification and its associated ‘disabled’ status. These incentives include the DSP’s: higher rate of payment, its indexation according to Male Total Average Weekly Earnings rather than the CPI, its absence of activity test requirements and other benefits such as the mobility allowance. So long as these inducements remain, many of those would-be DSP claimants who lack evidence of an inability to work for more than 15 hours per week will attempt to achieve just this. As Australian Council of Social Service Chief Executive Officer, Clare Martin puts it:

... the $120 weekly gap between pensions and allowances has caused disincentives for people on disability support payments to move into work. If these payments were equalised, there would be less need for measures such as the push to restrict access to the disability support pension.705

Following similar lines, Sydney Morning Herald columnist and reporter, Adele Horin has made the point that in the absence of changes to NSA—namely, an increase in its level of payment and/or a loosening of its income test—many people moved off DSP and onto NSA could end up unemployed, underemployed or in poverty.706


Horin’s observations find support in International Labour Organisation (ILO) analyses and findings: ‘In the world of work, persons with disabilities tend to experience high unemployment and have lower earnings than persons without disabilities. They are often relegated to low-level, low-paid jobs with little social and legal security, or segregated from the mainstream labour market. Many are underemployed. This affects their self confidence.
The second area is the provision of sufficient support and services to ensure that disadvantaged people are able to meaningfully participate in the workforce. This means support in post-school education and training as well as in employment itself. Based on the most recent available data on the level of unmet demand for disability employment services (and for disability services more generally) it would appear that there is still scope for improvement in this area.707

It should be noted that there has been a decline in unmet demand for disability employment services in recent years.708 This decline should continue with the Government’s recent (1 March 2010) removal of the cap on supported employment services. Nevertheless, because of the general policy shift towards encouraging people with disabilities to move into the labour market, overall demand for disability employment services has increased and is likely to continue to do so in the future.


708. The decline in unmet demand is due to two main factors. The first of these is that government expenditure on disability employment services has increased in real terms since 2003–04. Australian Institute of Health and Welfare (AIHW), *Disability support services 2007–08: national data on services provided under the Commonwealth State/Territory Disability Agreement*, AIHW, Canberra, 2009, viewed 17 May 2010, [http://www.aihw.gov.au/publications/index.cfm/title/10751](http://www.aihw.gov.au/publications/index.cfm/title/10751) The second is that, with the introduction of the Welfare to Work reforms in the 2005–06 Budget, an additional 21 000 demand driven disability employment places was made available over four years.