Budget Review 2011–12

The context for the 2011–12 Budget differs considerably in some respects from that of last year’s Budget. The 2010–11 Budget was framed in the context of the Global Financial Crisis and the resulting sharp deterioration in the world economy, the worst since the Great Depression. While there has since been some recovery in the world economy, the effects of the downturn linger and so continue to affect this year’s Budget in different ways.

At the same time, new challenges are emerging which are testing those responsible for framing the Budget. Among these challenges is the long-term shift in the weight of the global economy towards Asia and China in particular. This shift poses challenges and opportunities for the Australian economy in the short- and long-terms. The most obvious and immediate opportunities and challenges are those resulting from what the budget papers refer to as mining boom mark II. This boom shares many features with the previous boom—mining boom mark I—including potentially strong growth in exports of minerals commodities, large increases in business investment driven by the mining sector, and the expansion of those sectors that are related to mining investment and exports. However, mining boom mark II also shares many challenges experienced during mining boom mark I. They include how to deal with inflationary pressures as demand presses on capacity in particular sectors while other sectors are not experiencing the same pressure, the ease with which resources are able to move to the expanding sectors, and how to share the benefits of the boom widely across the economy. This assumes that there will be no further major disruptions to the world economy. As discussed in the ‘key features’ item below, considerable uncertainties remain about prospects for the world economy.

As in previous years, the Parliamentary Library has produced the Budget Review. It examines key aspects of and measures contained in the Budget to assist parliamentarians in their consideration of these issues. The first article, Budget 2011–12: Key features, as well as examining uncertainties in the world economy, contains a macroeconomic analysis and commentary on the Budget including the assumptions that underpin the Government’s fiscal policy and the estimates of revenue and expenditure that underlie that policy. The other articles examine key measures that cover a wide range of areas across all portfolios.

As with previous Budget Reviews, this year’s has been prepared under time pressures with a view to making it available to parliamentarians as soon as possible. While care has been taken to ensure that the articles are accurate and balanced, they are based on information that was publicly available at the time of preparation. The articles do not intend to make value judgements about the relative importance of different measures or provide a comprehensive assessment of the Budget.
Parliamentarians are invited to raise points requiring amplification or clarification directly with the research specialist concerned and general comments on papers are 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 Opinion and analysis of the Budget in the media page on our website (http://libis1/library_services/budget_library/index.htm).

Roxanne Missingham
Parliamentary Librarian
May 2011
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**Budget 2011–12—key features**

Scott Kompo–Harms

**Introduction**

On 10 May 2011 at 7.30pm, Treasurer Wayne Swan handed down his fourth Budget, the first of the Gillard Government. The major theme of the 2011–12 Budget was a recommitment to the Government’s previously elucidated fiscal strategy (see ‘Fiscal outlook’ section below), which emerged in two distinct phases in the early days of the Rudd Government. The other main theme was the opportunities and challenges that arise from structural adjustment.

All of the policy initiatives seem to be quite modest, in large part because of the Government’s recommitment to their fiscal strategy, particularly when compared to the fanfare of some of the previous budgets. The most noteworthy were:

- removal or modification of a number of tax expenditures
- new participation requirements for the long–term unemployed and teenage parents as well as tougher eligibility conditions for the disability support pension
- a focus on skills development and workforce planning
- reform of mental health services, and
- prioritisation of regional areas in terms of spending on health and hospitals.

**Reactions from business associations and community groups**

**Australian Chamber of Commerce and Industry**

The Australian Chamber of Commerce and Industry (ACCI) expressed support for the intent of the Budget, but qualified that support by expressing a degree of scepticism about the ability of the Government to successfully implement those intentions. Support was given to measures designed to increase workforce participation, skills development and skilled migration. ACCI expressed concern about the lack of initiatives to assist small businesses. In particular, ACCI Chief Executive Peter Anderson stated:

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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: 2011–12*, Commonwealth of Australia, Canberra, 2011, viewed 11 May 2011, [http://www.budget.gov.au/2011-12/content/bp1/html/index.htm](http://www.budget.gov.au/2011-12/content/bp1/html/index.htm); All references to ‘the Government’ refer to the Australian Government, unless otherwise mentioned. The author would like to thank Julie King for her assistance in the preparation of the tables in this article and Paige Darby for her assistance with editing the article. Any errors are my own.
The Budget gets the short term thumbs up but whether it works in the mid to longer term on either the productivity side or the return to surplus depends heavily on good fortune and hope. The good fortune is that commodity prices and North Asia support big revenue flows. The hope is that the Reserve Bank [of Australia] decides the spending cuts to be enough to hold back on rate rises.2

**Australian Council of Social Service**

Dr Cassandra Goldie, chief executive officer of the Australian Council of Social Service (ACOSS), welcomed the initiatives to reduce the barriers to working for unemployed people, such as wage subsidies and easing of income tests, but was concerned at the impact of changes to benefit eligibility criteria and reductions in payments for sole parents with teenage children and young people on unemployment benefits. Mental health reforms won strong support from ACOSS, as did the changes to the private health insurance rebate, fringe benefits tax arrangements for company cars, the dependent spouse tax offset and the low income tax offset for investment income of children.3

**Australian Council of Trade Unions**

Overall, the Australian Council of Trade Unions (ACTU) was broadly supportive of the Budget. The ACTU supported new measures for workforce development, increasing workforce participation amongst disadvantaged groups, cuts to tax expenditures for higher income earners and mental health reforms. The President of the ACTU, Ged Kearney, cautiously welcomed a measure to provide mentoring for apprentices, while expressing concern about the increased public service efficiency dividend and increase in skilled migration intakes—particularly Enterprise Migration Arrangements (EMAs).4

**Australian Industry Group**

Australian Industry Group (AiG) Chief Executive Heather Ridout claims credit for suggesting the ‘Workforce Development’ agency concept in their pre–Budget submission, which the Government has pledged to establish as the National Workforce and Productivity Agency, as well as extra spending on Vocational Education and Training (VET) and apprentices. In addition, Ms Ridout also welcomed the commitment to infrastructure spending, improved resourcing and additional

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responsibilities for Infrastructure Australia and an increase in the skilled migration intake. AiG argued that more could have been done to assist exporting and import–competing sectors such as manufacturing, tourism and education that are struggling to compete with foreign producers as a result of a high Australian dollar. 5

**Australian Medical Association**

The Australian Medical Association (AMA) President, Dr Andrew Pesce, stated that people will be asked to pay more for mental health care, advice and referrals from general practitioners (GPs), and that GPs’ role in managing mental health issues in the community will be devalued as a result of the Budget. Dr Pesce expressed concern about the diversion of funding from direct patient care to NGOs and ‘a new level of bureaucracy’ in the form of Medicare Locals. He stated:

> We need to improve funding for mental health but this Budget decision gives with one hand and takes away with the other. 6

**Business Council of Australia**

The Chief Executive of the Business Council of Australia (BCA), Jennifer Westacott, praised the Government for their continuing commitment to a budget surplus in 2012–13, as well as a focus on skills and skilled migration, the renewal of funding and enhanced transparency for Infrastructure Australia (including a commitment to publish cost–benefit analyses and a National Infrastructure Construction Schedule). Ms Westacott did warn of increasing economic headwinds in the future and that this required ‘bold policy leadership’. She also expressed a desire to see greater transparency in the budget papers on the sensitivity of estimates to movements in commodity prices and improved budgetary governance more generally. 7

**Mental Health Council of Australia**

The Chief Executive Officer of the Mental Health Council of Australia (MCHA), Frank Quinlan, applauded the injection of new funds into services to provide mental health care and the establishment of a new Mental Health Commission. Mr Quinlan stated that the Federal government has laid down foundations for mental health reform and called on state and territory governments to work with the Commonwealth and build on the initiatives announced in this Budget. Mr Quinlan remarked:

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Today is a very good day for the mental health sector – increased investment, reform and better governance and accountability in mental health.\(^8\)

**National Seniors Australia**

Michael O’Neill, the Chief Executive of National Seniors Australia (NSA), said that seniors would generally emerge unscathed from the 2011–12 Budget. He welcomed support from the Government for older job seekers in the form of wage subsidies, new training opportunities and a doubling of allowable work hours for recipients of the Disability Support Pension (DSP), of whom a majority are aged over 50. Whilst welcoming these initiatives, he remarked:

> More than anything, real jobs for older Australians will require an attitudinal change from employers, and that can’t be legislated.\(^9\)

**Economic Outlook**

The economic outlook for Australia (and therefore the fiscal outlook) is predicated largely on little change in the international outlook. The section below on the international setting for the Budget outlines some significant uncertainties as to why the largely benign scenario presented by the Government might not unfold as expected.

**The international setting for the Budget**

The international outlook is precarious. While International Monetary Fund (IMF) and Treasury baseline projections are similar to one another and appear reasonable in the period ahead, there are considerable uncertainties that plague the outlook. These are shown in Table 1 below.

Both Treasury and the IMF accept that these significant uncertainties surrounding their GDP growth forecasts exist. Nevertheless, it is worth spelling out here exactly what lies at the heart of these uncertainties so as to emphasise just how finely balanced the world economy is at present. Readers might find that what is said below seems very pessimistic, and it is. The potential problems foreseen here may never materialise (and hopefully the worst-case scenarios will not) but it would be imprudent to ignore the possibilities altogether.

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### Table 1: International GDP growth forecasts—Treasury vs IMF (per cent)

<table>
<thead>
<tr>
<th></th>
<th>Forecasts (a)</th>
<th></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>Treasury</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>2.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Euro area</td>
<td>Treasury</td>
<td>1 1/2</td>
<td>1 1/2</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Japan</td>
<td>Treasury</td>
<td>1/4</td>
<td>2 1/2</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>1.4</td>
<td>2.1</td>
</tr>
<tr>
<td>China</td>
<td>Treasury(b)</td>
<td>9 1/2</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>9.6</td>
<td>9.5</td>
</tr>
<tr>
<td>India</td>
<td>Treasury(b)</td>
<td>8 3/4</td>
<td>8 1/4</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>8.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Other East Asia(c)</td>
<td>Treasury</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>5.1</td>
<td>5.1</td>
</tr>
<tr>
<td>World</td>
<td>Treasury</td>
<td>4 1/4</td>
<td>4 1/2</td>
</tr>
<tr>
<td></td>
<td>IMF</td>
<td>4.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

(a) World, Euro area, and other East Asia growth rates are calculated using GDP weights based on purchasing power parity (PPP).

(b) Production–based measure of GDP.

(c) Other East Asia comprises the newly industrialised economies (NIEs) of Hong Kong, South Korea, Singapore and Taiwan and the Association of Southeast Asian Nations group of five (ASEAN–5), which comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam. IMF projections for this region are not directly available from the IMF. These have been calculated by the Parliamentary Library on the same basis as Treasury. Treasury projections are rounded to nearest quarter of a percentage point.

Sources: ‘Statement 2: Economic Outlook’, Budget paper no. 1: 2011–12, Table 2; IMF, World Economic Outlook database, April 2011.

The most significant uncertainties are:

- the weak US economy still struggling with the after effects of the global financial crisis (GFC) accompanied by political uncertainty over the sustainability over public finances and whether the US federal debt limit will be raised and/or much-needed spending cuts are imposed

- an overheating Chinese economy and the response thereto, and

- continued concern over the sustainability of high sovereign debt levels in the Euro area, particularly peripheral European countries and whether a restructuring of public debt could lead to financial contagion across Europe and elsewhere.

In short, there remain significant international imbalances in the post–GFC environment and they have a common thread—the use of ‘fixed’ or ‘managed’ exchange rates, as is explained below. The chances that all of these imbalances can be resolved in an orderly manner are diminishing. A significant deterioration in the international economic environment has become more likely in recent months due to the increased likelihood of policy errors by economic policymakers around the world. The simple fact is that any disorderly unwinding as a result of international policy mistakes would have immense implications for the Australian budgetary position and so these uncertainties deserve a considerable discussion as to their nature and background. In addition, those advocating somehow managing the Australian dollar exchange rate in comparison to other currencies should consider the problems fixed/managed exchange rates are causing for other countries right now (and had caused in Australia prior to the float of our dollar). The difficulties arise because managed exchange rates limit the ability of a nation to run an independent monetary policy.

US and Chinese monetary and exchange rate policies

The Chinese Government has been pursuing a policy of preventing significant appreciation of the Chinese currency (the renminbi) relative to the US dollar in particular to encourage Chinese export-led economic growth for a number of years. By doing this, the Chinese Government has linked its monetary policy settings with those of the US, which at this point are highly expansionary. Hence the concern about the Chinese economy overheating and exporting inflation to the world, both directly through higher prices for Chinese-made goods and indirectly via commodity and asset price bubbles. Below is a simplified discussion of how the monetary policies of the two countries are linked through the exchange rate.\(^\text{11}\) To keep things simple, the discussion is limited to the bilateral dimensions between China and the US.

The Chinese Government tries to keep its exchange rate lower than it would otherwise be in order to encourage US citizens, firms and their government to import Chinese goods, as it makes their (US dollar) prices lower than they otherwise would be.\(^\text{12}\)

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12. The US dollar/Chinese renminbi exchange rate is technically not ‘fixed’, but is more accurately characterised as a ‘managed float’ and some limited appreciation of the Chinese currency is allowed, within a tight band. Nevertheless, the point still stands that the US dollar/Chinese renminbi exchange rate is lower than it otherwise would be.
Feature box: Chinese exchange rate policy

The exchange rate is kept ‘artificially low’ by the Chinese central bank, the People’s Bank of China or PBoC, purchasing US dollar–denominated debt instruments (US Treasury bills—or US government bonds) with newly created renminbi. Thus, the PBoC accumulates US dollar reserve assets. The newly created renminbi then finds its way back into the Chinese economy through increased foreign direct investment (as well as through other ‘speculative inflows’, to the extent that they can get around strict Chinese rules on foreign capital inflows). In addition, Chinese exporters are paid in US dollars, which the exporters then convert into renminbi, further increasing the Chinese money supply. In short, an artificially low exchange rate (in the absence of further intervention) results in an increase in the domestic Chinese money supply. If this were allowed to go on unchecked, the prices of goods, services and domestic assets would start rising rapidly in China and the ability for the Chinese government to continue a policy of holding down their exchange rate would soon come to an end.

In order to counter the inflationary pressures that result from such a policy, the Chinese central bank sells government bonds in order to ‘soak up’ the excess renminbi. This process is known as ‘sterilised intervention’ in the foreign exchange market. While sterilised intervention allows a government to forestall the emergence of domestic asset price bubbles and inflation, there are limitations to the process. At some stage, there will come a point where Chinese interest rates will have to rise in order to make the bonds necessary for sterilisation attractive to domestic savers. This has already been occurring for some time and implies an increasing cost to the government in terms of interest payments which will be offset, to some extent, by the interest paid on the US Treasury bills—US interest rates are now very low and so are only likely to partially offset Chinese interest costs, if at all. Sterilisation is now most likely a loss-making activity for the Chinese central bank. In addition, rising Chinese interest rates, relative to US interest rates, only strengthen the incentives for foreigners to send their funds to China in search of higher returns.

To stop the Chinese economy from overheating and avoid central bank losses while still limiting appreciation of the renminbi against the US dollar, the Chinese government is having to become more reliant on other measures, such as increasing the amount of deposits Chinese banks are required to hold with the PBoC (otherwise known as the ‘reserve requirement ratio’) and issuing directives as to what sectors banks can lend to and how much. All of this adds up to an increasingly unstable financial system and economy overall, as investment is determined more and more by political, rather than economic imperatives. An appreciation of the renminbi against the US dollar would help the situation, but would need to be very large to make a difference. This, in turn, would most likely lead to significant falls in the profitability of Chinese exporters and significant losses for Chinese banks. A breakdown of this symbiotic relationship between the Chinese and US economies would have significant implications for Australian nominal GDP growth and therefore the Budget.

In addition, the US is engaged in unconventional monetary policies—particularly quantitative easing, which increase the US money supply. In this process, US government bonds are taken onto the
Federal Reserve (i.e. the US central bank) balance sheet and exchanged for newly created US dollars which the government can then spend. The existing US dollar reserves accumulated by the PBoC (and others as well) are devalued, strengthening the incentive for the Chinese government to consider diversifying their foreign exchange reserves away from US dollars. This is creating bubbles in other asset and commodity markets around the world. As long as this process continues, the chances of a policy–induced ‘hard landing’ in China increase.

The Euro area sovereign debt crisis

Using a common currency is an extreme form of a fixed exchange rate between countries and so, like China and the US, European Union (EU) countries that use the Euro (known as the Euro area) are all locked into the same monetary policy settings even though these settings are not appropriate for all countries within the common currency area. A feature of a fixed exchange rate within a common currency area is that no country in Europe can devalue their currency or allow it to depreciate relative to others inside the Euro area. This is causing problems, particularly for ‘peripheral’ countries such as Greece, Ireland, Portugal and Spain. These countries all experienced large drops in output during the GFC and saw their net debt positions blow out, due to discretionary fiscal stimulus efforts, and more importantly, to collapses in revenue and significant capital injections into their banking systems to stop them from collapsing. These peripheral countries arguably require a devaluation, which would lower the foreign currency prices of their exports and help to restore their competitiveness with ‘core’ economies in Europe and beyond, but, as outlined above this is not an option.

In order to avoid defaulting on, or otherwise ‘restructuring’ their existing public debt—which has created a crippling interest burden as foreigners refuse to buy their government bonds at just about any price—the peripheral countries are instead in the midst of enacting deep spending cuts (‘austerity’ measures) as a way to restore their competitiveness. 13 The EU and IMF have announced bailout packages for these peripheral countries to buy them time in restructuring their public finances. Whether the packages are large enough, credible and will continue to receive enough political support within the stronger countries in the Euro area remains to be seen. 14 It also remains to be seen whether the spending cuts (including deep cuts to public sector wages) are politically palatable in the peripheral countries.

If the bailout measures prove to be insufficient and spending cuts in the peripheral economies prove too difficult to sustain politically for a number of years, then some sort of debt default or

13. The European Central Bank (ECB) is hesitant to accept their bonds as collateral for monetary policy operations, although to cease doing so would only hasten the onset of a crisis. For a short summary of the dilemmas involved see, for example: ‘Trichet the intransigent’, Economist, 12 May 2011, viewed 17 May 2011, http://www.economist.com/node/18681980

14. Australia could be classified as an Australian dollar fixed exchange rate area. However, there are no well–defined federal fiscal equalisation arrangements in the Euro area, such as those that operate between Commonwealth, state and territory governments in Australia. Also, unlike in Australia, there is no common European national identity, thus making such an institutional framework for redistribution less politically palatable across European borders.
restructuring by the peripheral countries would be inevitable and this in turn could have dramatic effects on the banking system across Europe. An extreme scenario (which cannot be ruled out) is that one or more of the peripheral countries (either voluntarily or involuntarily) leave the Euro area and reintroduce their own currency. This would likely create havoc within the entire European Union and could lead to another global financial crisis. As with the US–China situation, there are no easy answers to the problems plaguing the EU.

**Domestic forecasts**

**GDP**

There is a small difference between the Reserve Bank of Australia’s (RBA’s) forecasts versus those of the Government. The RBA is expecting slightly stronger real gross domestic product (GDP) growth outcomes in 2010–11 and 2011–12 than the Government. This can at least partially be attributed to the slightly different assumptions made about the Malaysian Tapis oil price.

**Table 2: Real GDP growth forecasts—RBA vs Budget**

<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBA forecasts</td>
<td>2 1/2</td>
<td>4 1/2</td>
<td>3 3/4</td>
</tr>
<tr>
<td>Government forecasts</td>
<td>2 1/4</td>
<td>4</td>
<td>3 3/4</td>
</tr>
</tbody>
</table>

N.B. Both RBA and Government forecasts based on A$/US$ exchange rate of $1.07 and a Trade–weighted Index of 78. RBA forecasts assume Malaysian Tapis oil price of $126 per barrel; Government assumes $132 per barrel.


In terms of the composition of real GDP growth, the Government is forecasting that business investment and commodity exports will be the predominant drivers of economic growth over the forward estimates period, while public final demand will decline as a contributor to growth as previous fiscal stimulus wanes. Household consumption and dwelling investment are expected to grow at the same pace or below household disposable income. Private business investment, particularly in the mining sector is forecast to increase substantially over the forward estimates. Also, imports are forecast to grow strongly, as the mining sector in particular imports more capital goods and the high Australian dollar makes imports generally more attractive. Commodity export growth is expected to be strong, although the overall outlook for exports is moderated by other sectors of the economy that are hampered by the high dollar. The forecasts for the various components of demand and output are shown in Table 3.

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The increased mining investment in Australia (and presumably elsewhere in the world) which is occurring as a supply response to high commodity prices, will at some stage begin to generate extra mining output and exert at least some downward pressure on non-rural commodity prices.

Table 3: Domestic economy forecasts—demand and output

<table>
<thead>
<tr>
<th>Outcomes(a)</th>
<th>Forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household consumption</td>
<td>2.1</td>
</tr>
<tr>
<td>Private investment</td>
<td></td>
</tr>
<tr>
<td>Dwellings</td>
<td>2.1</td>
</tr>
<tr>
<td>Total business investment(b)</td>
<td>−4.9</td>
</tr>
<tr>
<td>Non–dwelling construction(b)</td>
<td>−8.2</td>
</tr>
<tr>
<td>Machinery and equipment(b)</td>
<td>−4.8</td>
</tr>
<tr>
<td>Private final demand(b)</td>
<td>0.7</td>
</tr>
<tr>
<td>Public final demand(b)</td>
<td>7.0</td>
</tr>
<tr>
<td>Total final demand</td>
<td>2.1</td>
</tr>
<tr>
<td>Change in inventories(c)</td>
<td>0.3</td>
</tr>
<tr>
<td>Gross national expenditure</td>
<td>2.4</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>5.2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>4.9</td>
</tr>
<tr>
<td>Net exports(c)</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Real gross domestic product</strong></td>
<td><strong>2.3</strong></td>
</tr>
<tr>
<td>Non–farm product</td>
<td>2.3</td>
</tr>
<tr>
<td>Farm product</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Nominal gross domestic product</strong></td>
<td><strong>2.3</strong></td>
</tr>
</tbody>
</table>

All forecasts above represent the percentage change on previous year and are ‘chain volume’ or ‘real’ measures except for nominal GDP which is a ‘current price’ measure

(a) Calculated using original data unless otherwise indicated.
(b) Excluding second-hand asset sales from the public sector to the private sector.
(c) Percentage point contribution to growth in GDP.

Source: ‘Statement 2: Economic Outlook’, Budget Paper No. 1: 2011–12, Table 1, p. 2–10

Prices and Wages

Table 4 shows that, as is the case with the real GDP forecasts, there is a slight difference between RBA and Government forecasts for the headline consumer price index (CPI), which can at least partially be attributed to differences in the assumption about world oil prices.
Table 4: Headline CPI forecasts – RBA vs Budget

<table>
<thead>
<tr>
<th>Year to:</th>
<th>RBA forecasts</th>
<th>Government forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2011</td>
<td>3 1/2</td>
<td>3 1/4</td>
</tr>
<tr>
<td>June 2012</td>
<td>2 1/2</td>
<td>2 3/4</td>
</tr>
<tr>
<td>June 2013</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

N.B. Both RBA and Government forecasts based on US$ exchange rate of $1.07 and a Trade–weighted Index of 78. RBA forecasts assume Malaysian Tapis price of $126 per barrel; Government assumes $132 per barrel.

Sources: ‘Statement 2: Economic Outlook’, Budget Paper No. 1: 2011–12, Table 1; RBA, Statement on Monetary Policy, Table 6.1, May 2011.

The terms of trade\(^{16}\) forecast (Table 5) is for a large increase in 2010–11, followed by a slight easing in 2011–12 and 2012–13. This relies on a continuation of Asian (particularly Chinese) economic growth, which, as discussed above, is far from assured. In addition, there is a risk that the supply response, and therefore downward pressure on non-rural commodity prices turns out to be greater than Treasury implicitly assumes. The worst-case scenario would be a sudden fall in Asian demand for commodities combined with a larger than anticipated supply response to previous high prices.

Table 5: Domestic economy forecasts—prices and wages

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</tr>
</thead>
<tbody>
<tr>
<td>Consumer price index(b)</td>
<td>3.1</td>
<td>3 1/4</td>
<td>2 3/4</td>
<td>3</td>
</tr>
<tr>
<td>Gross non–farm product deflator</td>
<td>0.2</td>
<td>6</td>
<td>2 1/4</td>
<td>2</td>
</tr>
<tr>
<td>Terms of trade</td>
<td>–4.4</td>
<td>19 1/4</td>
<td>–1/4</td>
<td>–3</td>
</tr>
<tr>
<td>Wage price index(c)</td>
<td>3.0</td>
<td>4</td>
<td>4</td>
<td>4 1/4</td>
</tr>
</tbody>
</table>

(a) Calculated using original data unless otherwise indicated.
(b) Through–the–year growth rate to the June quarter.
(c) Seasonally adjusted, through–the–year growth rate to the June quarter.

Source: ‘Statement 2: Economic Outlook’, Budget Paper No. 1: 2011–12, Table 1, p. 2–10

Labour Market

Table 6: Domestic economy forecasts—labour market

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (labour force survey basis)(b)</td>
<td>2.4</td>
<td>2 3/4</td>
<td>1 3/4</td>
<td>1 3/4</td>
</tr>
<tr>
<td>Unemployment rate (per cent)(c)</td>
<td>5.2</td>
<td>5</td>
<td>4 3/4</td>
<td>4 1/2</td>
</tr>
<tr>
<td>Participation rate (per cent)(c)</td>
<td>65.3</td>
<td>66</td>
<td>66</td>
<td>66</td>
</tr>
</tbody>
</table>

16. ‘Terms of trade’ refers to the ratio of export prices to import prices. Australian export prices are dominated by the prices for non-rural commodities, particularly iron ore and coal prices.
(a) Calculated using original data unless otherwise indicated.
(b) Seasonally adjusted, through–the–year growth rate to the June quarter.
(c) Seasonally adjusted rate in the June quarter.

Source: ‘Statement 2: Economic Outlook’, Budget Paper No. 1: 2011–12, Table 1, p. 2–10

Chart 1 below shows that the Treasury is forecasting a slowdown in employment growth from the average rate that prevailed over the last 15 years. Keep in mind that the 15–year average includes slowdowns in employment growth associated with the 1997 Asian financial crisis, the 2000–01 introduction of the GST and the 2007–2009 global financial crisis. Nevertheless, the forecast rate of growth is still sufficient to see a reduction in the unemployment rate (see (Table 6).

Chart 1: Annual average employment growth vs average employment growth (March 1996 to March 2011)

Sources: ABS, Labour force, Australia, cat.no. 6202.0, March 2011 (seasonally adjusted); ‘Statement 2: Economic Outlook’, Budget Paper No. 1: 2011–12, Table 1. 17

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17. Employment growth in the chart is calculated in the same way as in the budget papers, i.e. annual average growth rates are based on quarterly averages of monthly data. Actual data from March 1996 to March 2011 are taken from ABS Labour Force publication, while the remainder of the data are linear interpolations derived using the Treasury forecasts. The March data, rather than the recently released April data from the ABS are used here so as to make the chart directly comparable to the Budget. Australian Bureau of Statistics, Labour force, Australia, cat. no. 6202.0, ABS, March 2011, viewed 20 May 2011,
Fiscal Outlook

Restatement of the Fiscal Strategy

The first component of the fiscal strategy emerged out of the 2008–09 Budget. This part of the strategy states:

- that the Government will aim to achieve budget surpluses, on average, over the medium term
- the Government will aim to keep taxation as a share of GDP, on average, below the level for 2007–08 (23.5 per cent) and
- the Government will aim to improve its net financial worth over the medium term.\(^{18}\)

It is worth noting that the ‘medium term’ timeframe is undefined and therefore somewhat meaningless. It is clearly longer than a year and less than 20 years. Beyond that it is hard to tell just what ‘medium–term’ actually means. Some further elucidation from the Government on this issue would be welcome, so as to enable critical appraisal of their performance. In addition, use of the term ‘on average’, without a definite timeframe attached is also rather meaningless.

In terms of actual performance at this point in time against the Government’s own criteria, the ALP–led Government has not yet delivered a budget in surplus and net financial worth has fallen every year since 2007–08. These trends are projected to continue until the end of the 2011–12 financial year. However, the Government has successfully managed to keep the taxation-to-GDP ratio below 23.5 per cent. This is projected to continue until at least the end of 2014–15. All of these outcomes have been significantly affected by the reduction in expected tax receipts that has occurred since the onset of the GFC.\(^ {19}\)

The Government committed to the second component of the fiscal strategy in the Updated Economic and Fiscal Outlook (UEFO) in February 2009, in order to lay out the means by which the Government plans to return the Budget to surplus. There are two elements:

- 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

---


\(^{19}\) It is arguable as to exactly when the global financial crisis began. The events which precipitated the initial financial crisis in the United States and elsewhere in the Northern Hemisphere occurred in 2007. However the financial crisis truly went global in September 2008. For a comprehensive timeline of events, see: Federal Reserve Bank of St Louis (St Louis Fed), ‘The financial crisis: a timeline of events and policy actions’, St Louis Fed website, viewed 13 May 2011, http://timeline.stlouisfed.org/index.cfm?e=timeline
• holding real growth in spending to two per cent a year once the economy is growing above trend until the Budget returns to surplus.\textsuperscript{20}

The Government also states that the two per cent real spending growth target will be maintained, ‘on average’ until the budget surplus is at least one per cent of GDP.

The first element of this part of the strategy is merely a restatement of the commitment above regarding the level of the taxation-to-GDP ratio, combined with the observation that tax receipts should recover naturally as economic growth returns to trend after a period of weakness. The second element utilises the consumer price index (CPI) as the deflator for nominal payments growth, as opposed to the non-farm GDP deflator, which was used to measure real growth in spending in Budgets prior to 2008–09. It is interesting to note that if the two per cent real payments growth cap was applied using the non-farm GDP deflator, anticipated payments growth would exceed two per cent in 2013–14 and 2014–15.

One other noteworthy feature of the Government’s fiscal strategy is the focus on the quantity of government spending and the lack of attention devoted to the quality of that spending. There is no embodiment in the fiscal strategy of the notion that the benefits of particular forms of government spending should outweigh the costs of such spending or of ‘value for money’, however defined. All government spending, at least for the purposes of the fiscal strategy, is implicitly viewed as perfectly substitutable and similarly effective. Having said that, trying to measure the effectiveness of government spending is notoriously difficult and even more so on an \textit{ex ante} basis. It should be noted that the expansion of Infrastructure Australia is welcome in this context, but there are still a lot of areas of government expenditure other than funding of infrastructure projects that deserve considerably more scrutiny than is currently the case. It is hoped that the establishment of an independent Parliamentary Budget Office, as announced in the Budget might improve this situation.

**Budget aggregates**

As shown in Table 7, in underlying cash terms, the Government has forecast a $49.4 billion deficit in 2010–11 which represents a deterioration of $8.6 billion since the 2010–11 Budget and $7.9 billion since the \textit{Mid-year Economic and Fiscal Outlook} (MYEFO) was released in November 2010. For 2011–12, the Government has forecast a deficit of $22.6 billion (a deterioration of $10.3 billion since the 2010–11 MYEFO and $9.6 billion since the 2010–11 Budget). The Government is still forecasting a return to surplus in 2012–13. Specifically, they are forecasting a surplus of $3.5 billion, an improvement of around $0.4 billion since MYEFO and around $2.5 billion since the previous Budget.

Table 7: Policy changes and parameter variations—underlying cash balance, MYEFO 2010–11 to Budget 2011–12

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MYEFO underlying cash balance(a)</td>
<td>$-40,756</td>
<td>$-30,045</td>
<td>$1,016</td>
<td>$5,432</td>
</tr>
<tr>
<td>PEFO underlying cash balance(a)</td>
<td>$-40,689</td>
<td>$-10,384</td>
<td>$3,503</td>
<td>$4,546</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-3.0</td>
<td>-0.8</td>
<td>0.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Changes from 2010–11 MYEFO to 2011–12 Budget

Effect of policy decisions(b)(c)

<table>
<thead>
<tr>
<th>Receipts</th>
<th>$82</th>
<th>$-406</th>
<th>$2,001</th>
<th>$1,906</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td>$1,989</td>
<td>$2,153</td>
<td>$51</td>
<td>$561</td>
</tr>
<tr>
<td>Total policy decisions impact on underlying cash balance</td>
<td>$-1,908</td>
<td>$-2,559</td>
<td>$1,950</td>
<td>$1,345</td>
</tr>
</tbody>
</table>

Effect of parameter and other variations(c)

<table>
<thead>
<tr>
<th>Receipts(d)</th>
<th>$-9,957</th>
<th>$-5,560</th>
<th>$-312</th>
<th>$1,660</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td>$-3,964</td>
<td>$2,212</td>
<td>$1,260</td>
<td>$2,590</td>
</tr>
<tr>
<td>Total parameter and other variations impact on underlying cash balance</td>
<td>$-5,933</td>
<td>$-7,772</td>
<td>$-1,572</td>
<td>$-930</td>
</tr>
</tbody>
</table>

| 2011–12 Budget underlying cash balance(a) | $-49,369 | $-22,618 | $3,498 | $3,672 |
| Per cent of GDP | $-3.6 | $-1.5 | 0.2 | 0.2 |

(a) Excludes expected Future Fund earnings.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.
(c) A positive number for receipts indicates an increase in the underlying cash balance, while a positive number for payments indicates a decrease in the underlying cash balance.
(d) Receipts will differ from the cash receipts reconciliation published in Budget Statement 5 because they exclude Future Fund earnings.

Similarly, the outlook for the fiscal balance has also deteriorated for 2010–11 and 2011–12, but improved for 2012–13. The fiscal balance is forecast to be in deficit to the tune of $45.7 billion in 2010–11 and $20.3 billion in 2011–12. A fiscal surplus of nearly $4 billion is forecast for 2012–13.
It should be noted that in tables 7 and 8 above, which reconcile the 2011–12 Budget with the 2010–11 Budget (and the updates in between), policy decisions actually contribute to a worsening of both the underlying cash balance and the fiscal balance in 2010–11 and 2011–12 (by around $1.9 billion and $2.5 billion, respectively), while improving both balances in 2012–13 and 2013–14. Whether this is a deliberate ploy to shuffle policy decisions between individual years so as to meet the promised return to surplus by 2012–13 or an inadvertent consequence of those policy decisions, is left to the reader to form an opinion. The truth probably lies somewhere in the middle.

As was the case in previous Budgets, the Government has produced sensitivity analyses which show how the economic and fiscal forecasts would be affected by:

- a fall in non–rural commodity prices, equivalent to a one per cent fall in nominal GDP, and

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**Table 8: Policy changes and parameter variations—fiscal balance, MYEFO 2010–11 to Budget 2011–12**

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010–11 Budget fiscal balance</td>
<td>$-39,598</td>
<td>$-12,093</td>
</tr>
<tr>
<td>2010 PEFO fiscal balance</td>
<td>$-39,422</td>
<td>$-8,738</td>
</tr>
<tr>
<td>2010–2011 MYEFO fiscal balance</td>
<td>$-41,920</td>
<td>$-10,943</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>-3.0</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

**Changes from 2010–11 MYEFO to 2011–12 Budget**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>102</td>
<td>-367</td>
<td>2,043</td>
<td>1,943</td>
</tr>
<tr>
<td>Expenses</td>
<td>1,971</td>
<td>1,722</td>
<td>-119</td>
<td>798</td>
</tr>
<tr>
<td>Net capital investment</td>
<td>33</td>
<td>379</td>
<td>54</td>
<td>-358</td>
</tr>
<tr>
<td>Total policy decisions impact on fiscal balance</td>
<td>-1,901</td>
<td>-2,467</td>
<td>2,107</td>
<td>1,504</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect of parameter and other variations(a)</th>
<th>2011–12</th>
<th>2012–13</th>
<th>2013–14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>-9,006</td>
<td>-5,049</td>
<td>758</td>
</tr>
<tr>
<td>Expenses</td>
<td>-5,516</td>
<td>2,094</td>
<td>3,853</td>
</tr>
<tr>
<td>Net capital investment</td>
<td>-1,574</td>
<td>-291</td>
<td>-742</td>
</tr>
<tr>
<td>Total parameter and other variations impact on fiscal balance</td>
<td>-1,916</td>
<td>-6,852</td>
<td>-2,352</td>
</tr>
</tbody>
</table>

(a) A positive number for revenue indicates an increase in the fiscal balance, while a positive number for expenses and net capital investment indicates a decrease in the fiscal balance.
(b) Excludes secondary impacts on public debt interest of policy decisions and offsets from the contingency reserve for decisions taken.

• a one per cent rise in real GDP caused by an equal increase in both labour productivity and labour force participation.\(^{21}\)

As the discussion above on the international outlook above makes clear, there is a substantial danger that commodity prices might fall much more sharply than the modest easing from their current historical highs assumed by Treasury in the central budget scenario. Therefore, this brief concentrates on the first scenario, as it has implications for the Government’s promised return to surplus. The second scenario, if it were to materialise would mean no qualitative change to the outlook and so it is not considered here.

Qualitatively speaking, assuming (as Treasury does) no change to the exchange rate and no change to fiscal or monetary policy settings, a fall in non–rural commodity prices would, over the next two years, reduce real GDP. The falls in both real GDP and non-rural commodity (i.e. export) prices would lead to substantial falls in company profits, employment growth and consumption. In terms of fiscal effects, company tax receipts in particular, but also individuals and withholding tax receipts and resource rent tax receipts would be impacted. Combined with minor rises in some payments, the total impact on the Budget would be a deterioration in the underlying cash balance of $2.8 billion in 2011–12 and $6.3 billion in 2012–13. Thus, the predicted budget surplus in 2012–13 would evaporate. As noted above, a more serious deterioration in our terms of trade (arising from a larger fall in non–rural commodity prices) would worsen the budget position even more dramatically. This cannot be ruled out, given the precarious international economic environment described above.

### Receipts/revenue

General government sector (GGS) receipts (cash basis) are projected to increase from $284.7 billion in 2009–10 to $415.5 billion in 2014–15.\(^{22}\) In accrual terms, total GGS revenue is projected to increase from $292.8 billion to $425.8 billion over the same period.

Total receipts fell by around $10.3 billion between 2007–08 and 2009–10 and so at least part of the projected growth is attributable to a rebound from the effects of the GFC. It should be noted however that the 2008–09 Budget forecast a rise in receipts from an estimated $295.6 billion in 2007–08 to $313.0 billion in 2008–09 and $330.1 billion in 2009–10, implying a shortfall in expected receipts. Table 9 below shows the expected receipts shortfall throughout the overlapping forward estimates years between the 2008–09 Budget and the 2011–12 Budget.

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Table 9: Expected receipt shortfalls—2008–09 Budget vs 2011–12 Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>2008–09 Budget</th>
<th>2011–12 Budget</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>2007–08</td>
<td>295,622 (e)</td>
<td>294,917</td>
<td>705</td>
</tr>
<tr>
<td>2008–09</td>
<td>312,961 (e)</td>
<td>292,600</td>
<td>20,361</td>
</tr>
<tr>
<td>2009–10</td>
<td>330,095 (p)</td>
<td>284,662</td>
<td>45,433</td>
</tr>
<tr>
<td>2010–11</td>
<td>343,705 (p)</td>
<td>303,690 (e)</td>
<td>40,015</td>
</tr>
<tr>
<td>2011–12</td>
<td>359,018 (p)</td>
<td>342,390 (e)</td>
<td>16,628</td>
</tr>
</tbody>
</table>

(e) estimates; (p) projections


In terms of the composition of receipts, Table 9 shows a few interesting features:

• some components of receipts are more cyclical than others
  - the components that fall between 2007–08 and 2008–09/2009–10 are the components relatively affected by movements in the economic cycle whereas the components that rise show a degree of invariance to the cycle

• notwithstanding cyclical effects, the combined effect of wages growth, bracket creep and employment growth makes personal income taxes a more important source of revenue over time

• the lagged cyclical impact on company tax

• the jump in the proportion of receipts raised by resource rent taxes in 2012–13 indicating the introduction of the Minerals Resource Rent Tax (MRRT) which is partially offset by changes to company tax as a result of the introduction of the MRRT.

Table 10: Composition of total (cash) receipts 2007–08 to 2014–15

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Estimates</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Total individuals and other withholding</td>
<td>42.01</td>
<td>41.82</td>
<td>42.18</td>
</tr>
<tr>
<td>Fringe benefits tax</td>
<td>1.31</td>
<td>1.16</td>
<td>1.23</td>
</tr>
<tr>
<td>Superannuation funds</td>
<td>4.09</td>
<td>3.15</td>
<td>2.14</td>
</tr>
<tr>
<td>Company tax</td>
<td>20.92</td>
<td>20.64</td>
<td>18.34</td>
</tr>
<tr>
<td>Resource rent taxes(a)</td>
<td>0.57</td>
<td>0.75</td>
<td>0.44</td>
</tr>
<tr>
<td>Total sales taxes</td>
<td>14.76</td>
<td>14.50</td>
<td>15.87</td>
</tr>
<tr>
<td>Total excise duty</td>
<td>8.05</td>
<td>8.33</td>
<td>8.59</td>
</tr>
<tr>
<td>Customs duty</td>
<td>1.89</td>
<td>1.99</td>
<td>1.88</td>
</tr>
<tr>
<td>Total other indirect taxation receipts</td>
<td>0.80</td>
<td>0.84</td>
<td>1.01</td>
</tr>
<tr>
<td>Non–taxation receipts</td>
<td>5.61</td>
<td>6.83</td>
<td>8.32</td>
</tr>
<tr>
<td>TOTAL RECEIPTS</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Payments/expenses

GGS payments (cash basis) are projected to increase from $336.9 billion to $406.5 billion over the five years to 2014–15. The Government’s fiscal policy response to the GFC resulted in rapid growth in payments, particularly in 2008–09 and 2009–10. GGS expenses (accrual basis) are also projected to increase from $339.2 billion to $414.1 billion over the same period.

Table 11: Composition of total (accrual) expenses—2008–09 to 2014–15

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General public services</td>
<td>5.30</td>
<td>5.66</td>
<td>6.05</td>
<td>5.71</td>
<td>5.65</td>
<td>5.60</td>
<td>5.58</td>
</tr>
<tr>
<td>Defence</td>
<td>5.91</td>
<td>5.94</td>
<td>5.74</td>
<td>5.82</td>
<td>5.44</td>
<td>5.49</td>
<td>5.50</td>
</tr>
<tr>
<td>Public order and safety</td>
<td>1.10</td>
<td>1.06</td>
<td>1.12</td>
<td>1.08</td>
<td>1.04</td>
<td>0.99</td>
<td>0.97</td>
</tr>
<tr>
<td>Education</td>
<td>6.96</td>
<td>10.28</td>
<td>9.28</td>
<td>8.17</td>
<td>7.88</td>
<td>7.80</td>
<td>7.84</td>
</tr>
<tr>
<td>Social security and welfare</td>
<td>38.38</td>
<td>32.19</td>
<td>33.28</td>
<td>33.32</td>
<td>33.56</td>
<td>33.42</td>
<td>33.61</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>1.57</td>
<td>2.66</td>
<td>1.64</td>
<td>1.27</td>
<td>1.32</td>
<td>1.22</td>
<td>1.06</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>0.96</td>
<td>0.97</td>
<td>0.95</td>
<td>0.93</td>
<td>0.91</td>
<td>0.83</td>
<td>0.78</td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>1.79</td>
<td>2.50</td>
<td>1.79</td>
<td>1.72</td>
<td>1.71</td>
<td>1.65</td>
<td>1.60</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>0.84</td>
<td>0.83</td>
<td>0.87</td>
<td>0.94</td>
<td>0.66</td>
<td>0.56</td>
<td>0.58</td>
</tr>
<tr>
<td>Mining, manufacturing and construction</td>
<td>0.59</td>
<td>0.48</td>
<td>0.58</td>
<td>0.55</td>
<td>0.53</td>
<td>0.49</td>
<td>0.48</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>2.14</td>
<td>1.96</td>
<td>1.35</td>
<td>1.89</td>
<td>1.87</td>
<td>1.69</td>
<td>1.51</td>
</tr>
<tr>
<td>Other economic affairs</td>
<td>2.00</td>
<td>2.54</td>
<td>2.58</td>
<td>2.57</td>
<td>2.28</td>
<td>2.06</td>
<td>1.97</td>
</tr>
<tr>
<td>Other purposes</td>
<td>17.32</td>
<td>17.77</td>
<td>18.44</td>
<td>19.67</td>
<td>20.97</td>
<td>21.97</td>
<td>22.16</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>


The composition of expenses (accrual basis) changed quite significantly as a result of the discretionary fiscal stimulus implemented as part of the Government’s response to the GFC. The two most affected functions were education (which saw a big rise as a result of the Building the Education Revolution program) and social security and welfare (stemming mainly from the one-off transfer payments). The ‘other purposes’ function is affected by a rise in public debt interest, which was accumulated partly as a result of the discretionary fiscal stimulus spending, increasing general revenue assistance payments to states and territories (essentially the distribution of GST revenues) and also because of increased spending on natural disaster relief.

Balance sheet measures—net debt, net worth and net financial worth

The net debt, net worth and net financial worth positions of the GGS are all forecast to deteriorate in 2011–12, before improving throughout the rest of the forward estimates period. These are all shown in Table 12.
Table 12: GGS balance sheet

<table>
<thead>
<tr>
<th></th>
<th>Estimates</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits</td>
<td>$1,998</td>
<td>$2,000</td>
</tr>
<tr>
<td>Advances paid</td>
<td>$27,184</td>
<td>$29,501</td>
</tr>
<tr>
<td>Investments, loans and placements</td>
<td>$99,661</td>
<td>$110,443</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>$85,806</td>
<td>$90,149</td>
</tr>
<tr>
<td><strong>Total financial assets</strong></td>
<td>$214,649</td>
<td>$232,092</td>
</tr>
<tr>
<td><strong>Total non-financial assets</strong></td>
<td>$108,378</td>
<td>$113,080</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$323,027</td>
<td>$345,173</td>
</tr>
<tr>
<td>Deposits held</td>
<td>$232</td>
<td>$232</td>
</tr>
<tr>
<td>Government securities</td>
<td>$200,569</td>
<td>$234,885</td>
</tr>
<tr>
<td>Loans</td>
<td>$9,633</td>
<td>$12,694</td>
</tr>
<tr>
<td>Other borrowing</td>
<td>$791</td>
<td>$780</td>
</tr>
<tr>
<td><strong>Total interest bearing liabilities</strong></td>
<td>$211,224</td>
<td>$248,590</td>
</tr>
<tr>
<td><strong>Total provisions and payables</strong></td>
<td>$180,072</td>
<td>$184,115</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$391,297</td>
<td>$432,705</td>
</tr>
<tr>
<td>Net worth(a)</td>
<td>$-68,270</td>
<td>$-87,532</td>
</tr>
<tr>
<td>Net financial worth(b)</td>
<td>$-176,648</td>
<td>$-200,613</td>
</tr>
<tr>
<td>Net debt(c)</td>
<td>$82,381</td>
<td>$106,646</td>
</tr>
</tbody>
</table>

(a) Net worth is calculated as total assets minus total liabilities.
(b) Net financial worth equals total financial assets minus total liabilities.
(c) Net debt equals the sum of deposits held, government securities, loans and other borrowing, minus the sum of cash and deposits, advances paid, and investments, loans and placements.


The market value of Commonwealth Government Securities (CGS) on issue, which makes up the bulk of what is commonly termed ‘gross debt’, is forecast to exceed $200 billion by the end of June 2011, while the face value is expected to be $192 billion by 30 June 2011. The expected net issuance of CGS in 2011–12 is around $33 billion—that is the face value of newly issued CGS over and above the issuance of CGS to rollover CGS that are due to mature during that period. The Commonwealth Inscribed Stock Act 1911 (CIS Act) currently specifies that the stock of CGS on issue, in face value terms, must not exceed $200 billion. The CIS Act as it currently stands actually specifies a limit of $75 billion. However, the Treasurer has the authority to issue a declaration of ‘special circumstances’ which has the effect of increasing the limit to $200 billion. Such a declaration is currently in force.

The Government has included a provision in Part 5 of the Appropriation Bill (No.2) 2011–12 to

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23. The Commonwealth expects gross issuance to be $53 billion during 2011–12 accompanied by $14 billion of maturities of existing bonds and a rundown of $6 billion in the amount of Treasury Notes on Issue. CGS can be broadly categorised into two types of instruments—Treasury Bonds and Treasury Notes. Treasury Bonds are CGS that have a maturity of greater than one-year whereas Treasury Notes are shorter maturity instruments, predominantly used to fund within-the-year financing needs. A rundown of Treasury notes, accompanied by positive net issuance of Treasury Bonds implies that debt of shorter maturities is being replaced by debt of longer maturities.
amend section 5 of the CIS Act to increase the limit to $250 billion and repeal section 5A, thereby eliminating the need to issue a declaration of ‘special circumstances’.

The market for CGS

Statement 7 in Budget Paper No. 1 contained some announcements that will have an impact on the CGS market. These relate to:

- the previously announced decision to issue Aussie Infrastructure Bonds (AIBs), which were to be used to partially fund the Government’s investment in NBN Co. These were to be marketed directly to retail and institutional investors24, and

- the recommendation from a panel of financial market participants and regulators to maintain the CGS market at its current size over time—around 12 to 14 per cent of GDP.

On the first issue, the Government states that AIBs will not be required in 2010–11, as all of the Government’s equity contribution will be sourced from the Building Australia Fund. The Government expects to fund $2.7 billion of the equity contribution using AIBs. This is to be achieved through wholesale issuance of CGS as part of the Commonwealth’s overall debt issuance program administered by the Australian Office of Financial Management (AOFM). AIBs will not be distinguishable from CGS when they are auctioned; however, they will apparently be reported after the fact as AIBs in future budget financial statements. In addition, at the beginning of the 2011–12 financial year, the tender notices issued by the AOFM prior to each auction will indicate that some of the proceeds of those tender auctions will be used to fund the Government’s equity contribution to NBN Co. As a rough calculation, using the figure of $53 billion gross issuance, it appears that around five per cent of the issuance of new bonds during 2011–12 will be used to finance the Government’s equity contribution to NBN Co. Disregarding the rolling over of existing bonds and replacement of shorter maturity debt with longer-maturity debt, then the proportion rises to just over eight per cent.

The genesis of the second issue dates back to the 2002–03 Budget, which indicated that a review of the market for CGS would take place, in light of the effect of continual budget surpluses and privatisations of Public Non-financial Corporations (PNFCs) on the market for CGS. If those surpluses and proceeds from privatisations were devoted to the retirement of Commonwealth debt, it could have led to the closure of the CGS market altogether.25 The Government of the day announced in the 2003–04 Budget that the CGS market would not be closed so as to maintain liquidity in the CGS market for (private sector) interest rate risk management purposes and net debt would be reduced.


by other means. These were the retirement of other Commonwealth liabilities (such as public sector superannuation) and the accumulation of assets via the Future Fund.

The Government amended the CIS Act in 2008 to implement a legislated $75 billion limit on the face value of CGS and amended it again in 2009 to effectively increase the limit to $200 billion, so as to allow the Government to issue CGS to cover the Budget shortfall as a result of the cyclical deterioration in revenue and also discretionary fiscal stimulus spending during and after the GFC.

In light of changes to banking regulation, as part of the so-called ‘Basel III’ reforms, the CGS market is set to undergo further change. The implementation of Basel III in Australia will require Authorised Deposit-taking Institutions (ADIs) to hold larger stocks of CGS and other highly rated securities on their balance sheets. The Government has, once again, expressed concerns regarding liquidity in the CGS market, as the holdings of CGS by ADIs will largely be ‘passive’ (i.e. not actively traded). Therefore, a review panel has recommended that the CGS market should be maintained at around its current size (12 to 14 per cent of GDP). The Government has indicated that it is considering the panel’s recommendations.

Conclusions

It is hoped that the discussion above gives readers some indication of the economic outlook assumed by the Government and serves to reinforce the short- to medium-term vulnerability of the Budget to changes in the international economic environment in particular. The current economic environment is particularly challenging for forecasters and policymakers, certainly in recent times. There is little doubt that emerging economies such as China and India, are on a growth path that, if it continues, would see the living standards of their citizens ‘converge’ to those enjoyed by those in advanced economies. The sheer size of their populations means that growth in individuals’ living standards will have impacts across the globe as they become more significant players in world markets. This process of convergence is in its formative stages and, all going well, will be a long-term trend. Nevertheless, there can be significant deviations from that trend in the short- to medium-terms. Furthermore large, unanticipated events might be sufficient to derail emerging economies from their long-run growth path altogether—nothing is pre-ordained.

28. The review panel consisted of officials from Treasury, the AOFM, the Reserve Bank of Australia (RBA), APRA, the NSW Treasury Corporation, the Treasury Corporation of Victoria and a number of private sector CGS market participants.
Rapid growth in the emerging economies presents large opportunities for Australia as a supplier of critical materials to fuel economic development, as we have seen with the rise of post-war Japan. But with those opportunities come huge challenges. If the rapid rates of economic growth in large emerging economies continue in the decades ahead, a vast restructuring of the Australian economy will be required in order to take full advantage of the opportunities that presents. As with all structural changes, the benefits are not necessarily felt by all individuals, households or businesses in the same way. Some groups are damaged by structural change while others feel a sense of being left behind. Some of the benefits are not really apparent until they disappear and thus taken for granted. The challenge for policymakers is to resist pleading from special interest groups that seek to use structural change as an opportunity to gain an advantage over other groups in society. In addition, resisting structural change can ultimately be futile and a lot of resources and effort can be wasted in attempting to do so. Ensuring that, as a nation, we are flexible and able to adapt to change will hold us in good stead. Economic reforms of previous decades have been vital in increasing the ability of Australia to adapt to, and indeed prosper from, large external shocks, such as the rise of emerging economies. But, above all, Australian policymakers and citizens must not become complacent. Some countries like Greece, Ireland, Portugal and the United Kingdom are currently finding out just how painful long periods of complacency followed by a crisis can be, while others like the United States seem to be unwilling to face up to their fiscal problems. Australia is a long way from that, but the combination of complacency and unexpected events can rapidly change the situation facing a nation.
## Appendix A: General government sector receipts, payments and underlying cash balance

<table>
<thead>
<tr>
<th></th>
<th>Receipts(b)</th>
<th>Payments(c)</th>
<th>Future Fund earnings</th>
<th>Underlying cash balance(d)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$m</td>
<td>Per cent of GDP</td>
<td>$m</td>
<td>Per cent real growth (CPI)</td>
</tr>
<tr>
<td>1985–86</td>
<td>66,206</td>
<td>-</td>
<td>71,328</td>
<td>-</td>
</tr>
<tr>
<td>1986–87</td>
<td>74,724</td>
<td>12.9</td>
<td>77,158</td>
<td>8.2</td>
</tr>
<tr>
<td>1987–88</td>
<td>83,491</td>
<td>11.7</td>
<td>82,039</td>
<td>6.3</td>
</tr>
<tr>
<td>1988–89</td>
<td>90,748</td>
<td>8.7</td>
<td>85,326</td>
<td>4.0</td>
</tr>
<tr>
<td>1989–90</td>
<td>98,625</td>
<td>8.7</td>
<td>92,684</td>
<td>8.6</td>
</tr>
<tr>
<td>1990–91</td>
<td>100,227</td>
<td>1.6</td>
<td>100,665</td>
<td>8.6</td>
</tr>
<tr>
<td>1991–92</td>
<td>95,840</td>
<td>-4.4</td>
<td>108,472</td>
<td>7.8</td>
</tr>
<tr>
<td>1992–93</td>
<td>97,633</td>
<td>1.9</td>
<td>115,751</td>
<td>6.7</td>
</tr>
<tr>
<td>1993–94</td>
<td>103,824</td>
<td>6.3</td>
<td>122,009</td>
<td>5.4</td>
</tr>
<tr>
<td>1994–95</td>
<td>113,458</td>
<td>9.3</td>
<td>127,619</td>
<td>4.6</td>
</tr>
<tr>
<td>1995–96</td>
<td>124,429</td>
<td>9.7</td>
<td>135,538</td>
<td>6.2</td>
</tr>
<tr>
<td>1996–97</td>
<td>133,592</td>
<td>7.4</td>
<td>139,689</td>
<td>3.1</td>
</tr>
<tr>
<td>1997–98</td>
<td>140,736</td>
<td>5.3</td>
<td>140,587</td>
<td>0.6</td>
</tr>
<tr>
<td>1998–99</td>
<td>152,063</td>
<td>8.0</td>
<td>148,175</td>
<td>5.4</td>
</tr>
<tr>
<td>1999–00</td>
<td>166,199</td>
<td>9.3</td>
<td>153,192</td>
<td>3.4</td>
</tr>
<tr>
<td>2000–01</td>
<td>182,996</td>
<td>10.1</td>
<td>177,123</td>
<td>15.</td>
</tr>
<tr>
<td>2001–02</td>
<td>187,588</td>
<td>2.5</td>
<td>188,655</td>
<td>6.5</td>
</tr>
<tr>
<td>2002–03</td>
<td>204,613</td>
<td>9.1</td>
<td>197,243</td>
<td>4.6</td>
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<tr>
<td>2003–04</td>
<td>217,775</td>
<td>6.4</td>
<td>209,785</td>
<td>6.4</td>
</tr>
<tr>
<td>2004–05</td>
<td>235,984</td>
<td>8.4</td>
<td>222,407</td>
<td>6.0</td>
</tr>
<tr>
<td>2005–06</td>
<td>255,943</td>
<td>8.5</td>
<td>240,136</td>
<td>8.0</td>
</tr>
<tr>
<td>2006–07</td>
<td>272,637</td>
<td>6.5</td>
<td>253,321</td>
<td>5.5</td>
</tr>
<tr>
<td>2007–08</td>
<td>294,917</td>
<td>8.2</td>
<td>271,843</td>
<td>7.3</td>
</tr>
<tr>
<td>2008–09</td>
<td>292,600</td>
<td>-0.8</td>
<td>316,046</td>
<td>16.</td>
</tr>
<tr>
<td>2009–10</td>
<td>284,662</td>
<td>-2.7</td>
<td>336,900</td>
<td>6.6</td>
</tr>
<tr>
<td>2010–11(e)</td>
<td>303,690</td>
<td>6.7</td>
<td>349,685</td>
<td>3.8</td>
</tr>
<tr>
<td>2011–12(e)</td>
<td>342,390</td>
<td>12.7</td>
<td>362,078</td>
<td>3.5</td>
</tr>
<tr>
<td>2012–13(e)</td>
<td>378,520</td>
<td>10.6</td>
<td>372,125</td>
<td>2.8</td>
</tr>
<tr>
<td>2013–14(p)</td>
<td>395,935</td>
<td>4.6</td>
<td>389,249</td>
<td>4.6</td>
</tr>
<tr>
<td>2014–15(p)</td>
<td>415,453</td>
<td>4.9</td>
<td>406,464</td>
<td>4.4</td>
</tr>
</tbody>
</table>

(a) Data has been revised in the 2011–12 Budget to improve accuracy and comparability through time.

(b) Receipts are equal to receipts from operating activities and sales of non-financial assets.

(c) Payments are equal to payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(d) Underlying cash balance is equal to receipts less payments, less expected Future Fund earnings. For the purposes of consistent comparison with years prior to 2005–06 Future Fund earnings should be added back to the underlying cash balance.
(e) Estimates.
(f) Real spending growth using Non-Farm GDP as the deflator has not been used as a basis for calculating real spending growth in the Budget since 2007–08, and is included for comparative purposes only. Real spending growth, using the Consumer Price Index as the deflator, is the benchmark against which the Government’s fiscal strategy has been based since it was introduced.

(p) Projections.

Source: ‘Statement 10: Historical Australian Government Data’, Budget Paper No. 1: 2011–12, Table 1, p. 10–6
Agency capital investment—funding and presentation

Richard Webb

The way in which the Government funds agency capital expenditure has changed is explained below. This has also affected the presentation of some financial statements. In particular, some income statements show agencies as incurring losses. The following explains the change to funding and how this affects the presentation of financial statements.

Readers of the ‘departmental comprehensive income statement’ that appears at the end of each agency’s portfolio budget statements have noted that the statements can show that agencies have incurred or will incur a loss, and have queried how this can arise.

The losses arise in part from a change in the way the Government finances depreciation (and amortisation and ‘make good’ expenses). In the past, the Government provided money to agencies to cover depreciation. Agencies were required to hold the depreciation money until such time as they used it for investment in assets such as computers. This led some to question why agencies were being given money for depreciation before agencies actually used the money for capital investment.

Starting in 2010–11, funding for depreciation was replaced by a departmental capital budget (DCB) for departmental (and administered) assets for which depreciation funding was previously provided. Two financial statements are affected: the income statement and the DCB statement. The effect on the income statement is that money that was previously included in appropriations (revenue) for depreciation is no longer included in the income statement. Consequently, income statements can show losses whereas previously, they may not have. Instead, funds for capital investment now appear in the DCB statement in the agency’s portfolio budget statements.

29.  The jargon for ‘loss’ in the income statements is the ‘deficit attributable to the Australian Government’.
30.  Make good expenses are those incurred in returning an asset to near its original state before relinquishing its use.
32.  The DCB allows agencies to meet costs of replacing minor assets, that is, those valued at $10 million or less.
Environment and natural resource management

Bill McCormick

National Wildlife Corridors Plan—establishment

In fulfilment of a 2010 election commitment, the Government will establish a new program, involving expenditure of $10 million over three years, to create a National Wildlife Corridors Plan.\(^{33}\) The idea is to facilitate the effective migration of species and will involve private land as well as protected areas. This will help with ecosystem conservation and should allow appropriate movement of species to occur in response to climate change.

The Government has stated it will work with 56 regional natural resource management groups to develop the plan.\(^{34}\) A trial will be conducted in one or more regions to test the plan’s effectiveness. Funding will come from the Renewable Energy Future Fund.\(^{35}\)

An advisory group, headed by the Hon Bob Debus, has been appointed and will consult with landowners, environmental community groups, industry and other governments on the development of a draft National Wildlife Corridors Plan. The Minister for Sustainability, Environment, Water, Population and Communities, Tony Burke, said:

> The corridors will link national parks and reserves with well-managed private land and guide future Government investments in projects to support the protection of our natural environment and conserve our biodiversity.\(^{36}\)

Community Heritage Grants—establishment

There are presently four competitive heritage grants programs: National Historic Sites program, Indigenous Heritage Program, Commemorating Eminent Australians, and Grants to Voluntary Environment and Heritage Organisations.\(^{37}\) A new Community Heritage Grants program will be established in the Department of Sustainability, Environment, Water, Population and Communities

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34.  Ibid.
with $4 million per year over the next two years, for projects to assist local communities manage, conserve and provide greater community access to heritage places.\(^{38}\)

There is an existing Community Heritage Grants program administered by the National Library of Australia (NLA) that has been operating since 1994. However, the NLA program provides grants of up to $15 000 to community organisations to assist with the preservation of locally owned, but nationally significant collections of materials that are publicly accessible. These include artefacts, letters, diaries, maps, photographs, and audio-visual material.\(^{39}\)

**Environmental Stewardship Program—continuation**

Program Expenses 1.1: Sustainable Management of Natural Resources and the Environment

<table>
<thead>
<tr>
<th>Annual Administered Expenses Environmental Stewardship Program</th>
<th>2010–11 ($m)</th>
<th>2011–12 ($m)</th>
<th>2012–13 ($m)</th>
<th>2013–14 ($m)</th>
<th>2014–15 ($m)</th>
</tr>
</thead>
</table>


The Environment Stewardship Program was first funded under the Caring for our Country Program with total funding (departmental expenses as well as annual administered expenses) of $37.5 million over three years from 2008–09. The program will continue from 2011–12.\(^{40}\) However, the 2011–12 annual administered expenses will be $0.617 million less than 2010–11 levels before rising significantly in later years, as shown in the table above.\(^{41}\)

The program was established to maintain and/or improve the condition and extent of endangered ecological communities that are listed as matters of National Environmental Significance under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC). It will provide stewardship payments to private sector land managers if they carry out voluntary conservation measures to protect specific endangered ecological communities.\(^{42}\) The 2008–09 and 2009–10 funding aimed to conserve the box gum grassy woodland ecological community in NSW and Queensland. In 2010–11 the program was significantly expanded, targeting endangered ecological communities in NSW and South Australia, and in 2011–12 funding will protect the Swamps of the Fleurieu Peninsula ecological community in South Australia.\(^{43}\)

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42. *Budget measures: budget paper no. 2*, op. cit., p. 308.
The Government proposes to exempt from capital gains tax any gains or losses arising from stewardship payments that maintain native vegetation. Amendments to the Tax Act will be necessary to achieve this exemption.

Regional Marine Planning Program—continuation

The Government provided $9.7 million in 2011–12 to finalise the Regional Marine Planning process that started with the release of the Oceans Policy in December 1998. The core of the Oceans policy was a commitment to ecosystem-based management of Australia’s marine jurisdiction to be implemented through the development of a Regional Marine Planning Process. A total of $50 million was allocated for its implementation. The first Plan to be developed was the South-east Regional Marine Plan, released in March 2004. It proposed a system of marine protected areas, 13 of which were declared as part of the South-east Commonwealth Marine Reserve Network in 2007.

The regional marine planning process was brought under the EPBC Act in 2006 by means of bioregional plans. These are the mechanism for the development of the National Representative System of Marine Protected Areas in Commonwealth waters (starting three nautical miles offshore). The rest of the Marine Bioregional Plans for Australia, the North-west, North, East and South-west Marine Regions, are still being developed. A draft marine bioregional plan and a Commonwealth marine reserve network proposal for the South-west Marine Region were released on 5 May 2011 for public consultation by 8 August 2011. The question remains whether the planning process can be completed in all four regions by 30 June 2012. This funding has already been included in the forward estimates.

There have been concerns that the Regional Marine Planning process will result in exclusion of commercial and recreational fishing in the new marine reserves. The National Seafood Alliance has called for the extension of the process until the end of 2014 with a six month consultation period on the draft plans.

44. Budget measures: budget paper no. 2, op. cit., p. 16.
47. I Campbell (Minister for the Environment and Heritage), New focus for Australia’s marine planning programme, media release, 13 October 2005, viewed 16 May 2011, http://parlinfo/parlInfo/download/media/pressrel/0AMH6/upload_binary/0amh62.pdf;fileType=application%2Fpdf#
its restructure. Subsequently Senator Colbeck introduced a Private Member’s Bill that would amend the EPBC Act to require that declarations of new Bioregional Plans and Commonwealth Reserves be disallowable by either chamber of Parliament.
Pests

Bill McCormick

Animal and Plant Pest and Disease Eradication Programs—meeting existing commitments

Australia has been subject to numerous incursions of plant and animal pests and pathogens that require eradication or control. The Commonwealth government has committed $15.4 million over two years in this Budget to meet existing cost-sharing commitments to state and territory governments and relevant industries relating to pest and disease eradication. The funding is aimed at the eradication of at least two plant diseases, four insect pests and five weeds. However, the funding levels will decrease from $12.6 million in 2010–11 to $2.8 million in 2011–2012, with no further funding provided.\(^{53}\)

The lack of funding in the forward estimates may be linked to the conclusion by authorities that it is not technically feasible to eradicate either myrtle rust, eight months after the pest was first detected in Australia, or the Asian honey bee (after four years of eradication and control effort). Authorities are still attempting to eradicate chestnut blight that was first discovered in, and is still limited to, the Ovens Valley in Victoria in September 2010.\(^{54}\) In a post-Budget speech, the Minister for Agriculture, Fisheries and Forestry stated:

> The funding is for existing agreements only and doesn’t prevent the Government from entering into new commitments to combat other incursions, should they occur.

> The funding I have announced today demonstrates that the Federal Government is pulling its weight in the mutual obligation of eradicating and managing pests that have passed the border. Under the established cost sharing obligations funding is borne by Federal, State and territory governments and by industry. Overall efforts into pest eradication and management are measured by the strength of all players acting together.\(^{55}\)

Four of the weeds and one of the insects referred to in Budget Paper No. 2 are listed as part of key threatening processes under the Environment Protection and Biodiversity Conservation Act 1999.

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Two of the other insect species are ‘tramp ants’ (ant species that come to Australia through a variety of transport means, for example in cargo, and successfully colonise new areas). These are subject to a Threat Abatement Plan under the EPBC Act.

The decision that it is not technically feasible to eradicate the Asian honeybee has been challenged by many in the bee-keeping industry. It was reported that Queensland was the only state that wanted to continue the eradication program. According to Dr Max Whitten, Chairman of the Wheen Foundation, the implications of non-eradication could be devastating, possibly even leading to the ‘elimination of feral European honey bee colonies in Australia, damaging commercial and amateur bee-keeping.’ The honey industry claimed that the Federal government wanted them to contribute $1 million to continue the eradication program. The Minister for Agriculture, Fisheries and Forestry, Senator Joe Ludwig, said that this does not mean that control activities will cease. On 31 March 2011, the Senate requested that the Consultative Committee on Emergency Plant Pests meet again to reconsider the feasibility of eradicating the Asian honey bee but the Committee could not reach consensus about whether this species could be eradicated. The eradication program is being continued.

The response to 31 March 2011 included an eradication program to detect and destroy any Asian honey bee swarms and nests, the introduction of movement restrictions controlling managed bees and beekeeping equipment and a notification system so all hives reported could be destroyed.

Yellow crazy ants on Christmas Island—continuation of control efforts

Yellow crazy ants are an invasive species that many island communities around the world have unsuccessfully attempted to eradicate. On Christmas Island the species has affected the forest

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62. Ibid.
ecosystem and is listed as a ‘Key Threatening Process’ under the EPBC Act. Yellow crazy ants were accidentally introduced to Christmas Island sometime between 1915 and 1934. They have no natural predators on the island, have a high reproductive rate and form super-colonies with up to 300 queens and millions of ants.

The yellow crazy ant super-colonies, first discovered in 1989, only occur on Christmas Island and, at their greatest extent, affected 25 per cent of the island’s forest area. These super-colonies pose the greatest threat to the island’s biodiversity. The huge numbers of crazy ants kill and displace the island’s many species of crabs, including the red crabs that are of fundamental importance to the ecology of the island’s forests.

According to the Department of Sustainability, Environment, Water, Population and Communities, on the Christmas Island National Park website, ‘populations of other ground and canopy dwelling animals, such as reptiles and other leaf litter fauna have also decreased’.

A major baiting campaign focussing on super-colonies occurred in 2009. It covered 784 hectares, and reduced crazy ant densities in the targeted area by 99 per cent. The $4 million to be provided over four years is for research into biological control of the pest. The cost will be met from within the existing resourcing of the Department of Sustainability, Environment, Water, Population and Communities.

65. Ibid.
66. Ibid.
67. Ibid.
Sustainability

Bill McCormick

Sustainable Australia—measuring sustainability

Sustainability indicators have been proposed for many years. Objective 14.1 of the 1992 National Strategy for Ecologically Sustainable Development stated that Governments would:

request the Australian Bureau of Statistics [ABS], in conjunction with ABARE and the Industry Commission, to develop an initial set of sustainability indicators for ESD, including indicators which would enable Australia to measure the gender impacts of ESD policies and actions.

In 2002, Environment Australia produced Are We Sustaining Australia? Report Against Headline Sustainability Indicators which listed 24 indicators against 21 values. The then Department of Environment and Heritage expected to produce a second report against the national headline sustainability indicators by 2007 but this has not eventuated.

Since 2005 the ABS has been producing Measures of Australia’s Progress, which is designed to address the question, ‘Is life in Australia getting better?’ The project reports on various indicators of social, economic and environmental progress.

The 2010 Sustainable Development Panel Report, appended to the Sustainable Population for Australia Issues Paper, proposed that ‘Sustainability Indicators should be used as a basis of policy formation generally, including through the use of Sustainability Impact Statements to inform government policies and investments.’ The report includes a table of sustainability indicators divided into the categories of Environmental Sustainability, Sustainable Communities, and Economy.

It would appear that the Commonwealth has taken note of the report’s proposal and will provide the Department of Sustainability, Environment, Water, Population and Communities $10.1 million over four years to develop sustainability indicators and reporting for Australia, along with sustainability impact statements of new policy proposals.  

**Sustainable Australia—sustainable regional development**

Sustainability plans or Local Agenda 21 plans were developed for many local government authorities in the late 1990s and early 2000s. In 2000 it was reported that 75 councils were developing Local Agenda 21 plans and in 2002 it was estimated that one-third of councils in Victoria would have an overarching Local Sustainability or Local Agenda 21 Strategic Plan. An example of a council involved in this process can be found on the [Tackling Sustainability Progress](http://www.stirling.wa.gov.au/Home/Community/Sustainability/Tracking+Sustainability+Progress.htm) page of the Western Australia City of Stirling website.

It appears that the Government’s proposed funding towards the development of seven sustainability plans will have a slightly different purpose from those of Local Agenda 21. The plans will be developed for regional and coastal high growth centres by state and local governments, and will be funded with $29.2 million over four years. Apparently one aim of these plans is to facilitate development in these centres by streamlining environmental decision-making under the *Environment Protection and Biodiversity Conservation Act 1999*. The sustainability plans will be assessed under the strategic assessment provisions of the Act.

The Government’s $100 million ‘Suburban Jobs’ initiative is discussed in the Urban Infrastructure and Transport section of the Budget Review 2011–12.

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Water

Bill McCormick

Tax treatment of payments made under the Sustainable Rural Water Use and Infrastructure Program

The Budget confirms the Government’s February 2011 decision to amend the tax laws law relating to payments under the Sustainable Rural Water Use and Infrastructure Program (SRWUIP). This was in response to issues raised in stakeholder consultations and by the House of Representatives Inquiry into the impact of the Murray-Darling Basin Plan in Regional Australia. The amendments would eliminate the timing difference between when payments under SRWUIP are taxed. The amendments will be deemed to apply from 1 April 2011. Presently, while payments under the SRWUIP are taxable in the year they are received (either as income or as a subsidy or as capital gains), expenditure is deductible over three years, as it counts as water facilities used in primary production. The Government response said that a capital gains tax exemption for payments under the SRWUIP would be a part of the taxation changes; the final form of the amendments, however, would be determined in consultation with stakeholders. The $30 million cost of the measure will be met from the SRWUIP funds so there will be no net cost.

Water for the Future—National Rainwater and Greywater Initiative—termination

As a result of lower than expected demand, the Government has terminated the National Rainwater and Greywater Initiative, saving $14.5 million over three years. This 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.’ Existing committed funds will be allocated in 2010–11 and 2011–12. This means that rainwater tanks or greywater systems purchased after 10 May 2011 will not be eligible.

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82. Ibid.
83. S Crean, op. cit.
84. Ibid.
86. Ibid., p. 169.
for a rebate, but householders may still apply for a rebate for systems that were purchased on or before 10 May 2011.\textsuperscript{88}

The termination is the third and final cut in funding to the program in the last two years. The 2009–10 Mid-Year Economic and Fiscal Outlook (MYEFO) cut $44.4 million from the funding in 2009–10 and 2010–11 and the 2010–11 Budget reduced funding a further $180 million in the 2010–11 Budget over five years to 2013–14, both due to lower than expected demand.\textsuperscript{89}

Applications for the National Rainwater and Greywater Initiative grants for surf life saving clubs opened on 1 October 2008 and closed on 31 January 2010 with 98 applications received and over $600,000 in funding for 79 projects approved as at May 2010.\textsuperscript{90}

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

The six year $1 billion National Urban Water and Desalination program provides grants and refundable tax offsets for water recycling, and for storm water and desalination projects in towns or cities with populations greater than 50,000.

Funding is capped at either 10 per cent of the total cost of the project or at $100 million, depending on which is the lesser amount.\textsuperscript{91} One-third of the total funds available has already been allocated for the construction of the Adelaide desalination plant. The funding to the Adelaide plant was increased from $100 million to $328 million in the 2009–10 Budget on the basis that the plant’s capacity would be doubled to 100 Megalitres per day.\textsuperscript{92}

According to Budget Paper No 2, $85.5 million will be cut from funding in 2011–12 due to lower than expected demand.\textsuperscript{93} The Portfolio Budget Statements forecast that $250.5 million will be allocated to the program in 2011–12 and a further $48.1 million in the final year of the program 2012–13.\textsuperscript{94}

\begin{thebibliography}{99}
\bibitem{91} W Swan (Treasurer) and P Wong (Minister for Climate Change and Water), $1 billion to help secure urban water, media release, 7 December 2008, viewed 17 May 2011, \url{http://www.climatechange.gov.au/minister/previous/wong/2008/media-releases/December/mr20081207.aspx}
\bibitem{92} P Wong (Minister for Climate Change and Water), media release, 12 May 2009, viewed 17 May 2011, \url{http://parlinfo/parlinfo/download/media/pressrel/1ist6/upload_binary/1ist60.pdf;fileType=application%2Fpdf#search=%22wong%20adelaide%20desalination%22}
\bibitem{93} Budget measures: budget paper no. 2: 2011–12, op.cit., p. 314.
\end{thebibliography}
This appears to be in conflict with the statement in Budget Paper No 2 that $574.2 million will be provided over two years from 2011–12. It is likely that the second figure includes funding already allocated to projects but not yet spent.

The $100.0 million saved from reducing the funding for National Urban Water and Desalination Plan and ceasing the National Rainwater and Greywater Initiative will:

- assist the Government to respond to challenging domestic and global economic conditions, including the impact of natural disasters.  

95. Ibid., p. 59.
96. Ibid., p. 16.
Climate change

Anita Talberg

That this Budget is thin on climate change policy details comes as no great surprise. The development of such policy has been entrusted to a Multi-Party Climate Change Committee (MPCCC) that is not expected to announce details of any proposed scheme until later in the year. To date, the MPCCC—created by the Prime Minister in September 2010 to win the support from the Greens and Independents in securing government—has released only the broad architecture of a carbon price mechanism.\(^{97}\) In its third communiqué it advised that it intends the carbon price ‘package’ to be budget neutral.\(^{98}\)

Climate change funding announced in this Budget is therefore restricted to programs and measures that can be considered additional to a carbon price mechanism, and thus it is, for the most part, uncontroversial. Again, renewable energy forms a large component of the Government’s climate change strategy, with a special focus on promoting new and emerging technologies, but this is covered in detail in the separate brief ‘Renewable Energy.’

Climate change advertising

In the 2009–10 and 2010–11 Budgets, $30 million was allocated to an advertising campaign known as the Climate Change Foundation Campaign.\(^{99}\) The program was subsequently paused pending the outcome of the 2010 election.\(^{100}\) Although apparently less than $1 million of the total allocation has thus far been spent, this latest Budget sees only $13.7 reallocated to the program over two years, with $5.5 million earmarked for 2010–11 and $8.2 million for 2011–12.\(^{101}\)


Carbon Farming initiative

One important new program that is considered either separate or complementary to a carbon price mechanism is the Carbon Farming Initiative (CFI), which was a Government election commitment.\(^{102}\) By creating incentives to reduce emissions and maximise carbon absorption from farming and forestry activities, the CFI attempts to engage regional Australia in the national challenge of mitigating emissions of greenhouse gases. First announced in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2010–11, the program is costed at $45.6 million over four years, of which $39.6 million is provided to the Department of Climate Change and Energy Efficiency (DCCEE) and $6 million to the Department of Agriculture, Fisheries and Forestry (DAFF).\(^{103}\) Of the $6 million, $4 million is to provide landholder education and training on the CFI through Landcare. The other $2 million will see the creation of a Biochar Capacity Building Program to further research into biochar opportunities.\(^{104}\)

Policy data, analysis and modelling

To help inform the decision-making process of the MPCCC, the Government has commissioned analysis and modelling tasks from various agencies. On 15 November 2010, the Government announced that the Productivity Commission (PC) would undertake ‘a study of emission and energy-reduction policies in key international economies’.\(^{105}\) The PC was provided $2.6 million for this measure, which was a ‘decision taken but not yet announced’ at the MYEFO 2010–11.\(^{106}\) Another $6.6 million over two years is provided to the Treasury to ‘maintain its existing capacity to model and analyse the aggregate economic, sectoral and distributional impacts of different emission reduction goals and trajectories.’\(^{107}\) In addition, $5.9 million over two years is being provided to the Australian Bureau of Statistics to produce the data for analysis.\(^{108}\) Finally, an additional $20.2 million is provided over four years to the DCCEE to continue collecting and policing national greenhouse gas and energy reports from Australian businesses.\(^{109}\)

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107. Ibid., p. 326.
108. Ibid.
109. Ibid., p. 122.
Emissions from coal power

There have been some changes to funding measures aimed at reducing emissions from Australian coal power stations. A new National CO₂ Infrastructure Plan is to be established with $60.9 million over four years. The plan will fund investigation into the exploration, data acquisition, drilling, storage and transport of carbon dioxide. However, the funding is from existing money redirected from the Carbon Capture and Storage (CCS) Flagship. Overall, funding for the CCS Flagships Program—originally funded in 2009–10 as a $2 billion initiative—is being reduced by $670.9 million over five years (although $420 million is expected to be returned after 2015). Another $100 million is being cut from the Global Carbon Capture and Storage Institute over the forward estimates, with $5 million to be returned afterwards. More than $300 million is being redirected to the Natural Disaster Recovery and Rebuilding package. The National Low Emissions Coal Initiative has also had funding reduced by $12.8 million over five years.

Energy efficiency measures

There is some new money in this Budget for energy efficiency measures. The DCCEE is being provided $28.1 million over five years specifically for energy efficiency programs, and some of this money is intended to fund delivery of the ongoing COAG National Strategy on Energy Efficiency. There has also been a change to the car fringe benefit rules, in line with a recommendation from the Australia’s Future Tax System Review (Henry Review). This will remove the situation whereby a greater mileage increases the fringe benefits tax concession, and should encourage greater frugality in the use of vehicles that come under fringe benefits. Details of the Budget impact of this measure are provided in the brief ‘Reform of the car fringe benefit rules’. The Government has also decided to defer the commencement of Tax Breaks for Green Buildings until July 2012, for a saving of $295 million over the forward estimates. Aside from these three initiatives, this Budget’s energy efficiency actions are more focussed on the final stages of fixing problems arising from the previous Budget in areas such as the Green Loans and Home Insulation Program.

Home Insulation Program corrections

The 2011–12 Budget sees the tail-end of funding which had been redirected to correct safety concerns of the Home Insulation Program (HIP). Three such programs had been announced in the

110. Ibid., pp. 301–2; 303.
112. Ibid., p. 303.
113. Ibid., p. 302.
114. Ibid., p. 121.
115. Ibid., p. 23.
116. Ibid., p. 45.
2010–11 Budget: the Home Insulation Safety Program (HISP), established to perform safety inspections of ‘at least 150,000 homes that had non-foil insulation installed’; the Foil Insulation Safety Program (FISP), established to ‘inspect approximately 50,000 homes that had foil insulation installed’; and the Insulation Industry Assistance Package, established to support firms that participated in the HIP. In addition to the HISP, the Government has been undertaking household-initiated inspections, and in this Budget has announced that it will continue to do so until July 2012. This will be funded from existing resourcing for the HISP and FISP with any residual funding being returned to the Budget.

**Green Loans and Green Start wrap up**

The Government announced in July 2010 that the Green Loans program would be terminated and replaced by the Green Start program. Like the Green Loans program, the Green Start program aimed to improve household energy efficiency, but it was specifically targeted at low-income homes. However, in September 2010 an Auditor General’s report concluded that the Green Start program should not go ahead. Instead, the Green Loans program was extended to 28 February 2011. The 2011–12 Budget reflects these decisions, providing savings of $209.5 million over three years from the cancelled Green Start program. Of this, $10 million goes towards extending the Green Loans program and $36.5 million to financial and training assistance schemes for those contractors unfairly affected.

**Adapting to climate change**

There is no new money in this Budget for climate change adaptation initiatives in Australia. However, $251 million, or six per cent of Australia’s total overseas development assistance in 2011–12, is dedicated to climate change and environmental activities in other countries.

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118. Ibid., pp. 119–20.
Renewable energy

Anita Talberg

This Budget seeks to bring about innovations in the renewable energy sector, and in particular tries to engage rural and regional Australia in this. However, measures promoting more ‘traditional’ renewable energy have suffered. Renewable energy funding of almost $400 million over four years has been cut from these areas to pay for flood recovery and reconstruction.124

New and emerging renewable energy technologies

Delivering on its election commitments, the Government is establishing two new schemes to promote the advance of renewable energy technologies: the Emerging Renewables program and a Renewable Energy Venture Capital Fund, financed at $104.2 million over five years and $108.7 million over 14 years respectively. Both will be administered by the Australian Centre for Renewable Energy. The funding is being met from existing resources within the Department of Resources, Energy and Tourism (DRET), and specifically from funding announced in the 2010–11 Budget for the Renewable Energy Future Fund (REFF). 125

Geothermal energy and related technologies are expected to be major beneficiaries of these initiatives. The geothermal industry will also enjoy a tax deduction for exploration activities after the Government announced a change to the definition of ‘exploration’. 126 From 1 July 2012, geothermal exploration activities will receive the same income tax treatment as already applies to the explorations of traditional hydrocarbon energy sources.127 This measure was a recommendation of the Policy Transition Group and will cost the Government $10 million over two years (2013–14 and 2014–15).128

128.  Australian Government, Policy Transition Group report to the Australia Government—Minerals and petroleum exploration, Policy Transition Group, Canberra, December 2010, p. 29, viewed 13 May 2011,
There is also an additional $1.4 million over three years for the design of the Connecting Renewables—Connecting to the Grid program.\footnote{129} This program was first funded in the Mid-Year Economic and Fiscal Outlook (MYEFO) 2010–11 as a $1 billion initiative over 10 years, also out of the REFF.\footnote{130} It will help to deliver renewable energy coming from remote and regional areas.

**Renewable Energy Target scheme**

The Minister for Climate Change and Energy Efficiency announced on 5 May 2011 a change to the Solar Credits component of the Renewable Energy Target (RET) scheme. The RET scheme is a market mechanism that relies on tradeable renewable energy certificates (RECs). Under the Solar Credits component of the RET scheme, the number of RECs received from the first 1.5 kilowatts of small-scale solar installations is effectively multiplied. These RECs from small-scale solar installations are then either sold through the Government’s Clearing House at a fixed $40 per certificate or on secondary markets. So, by means of ‘multiplied’ RECs, households, businesses and community groups receive an augmented rebate for their rooftop solar systems. On 5 May 2011, the Minister announced that the Solar Credits multiplier will be reduced to three instead of four from 1 July 2011, and the Solar Credits scheme phased out completely by 2013.\footnote{131} This is a second announcement of its kind. Already on 1 December 2010, the Minister announced that the Solar Credits would be reduced and phased-out a year earlier than planned.\footnote{132} In just six months the scheme has been reduced twice and shortened by two years.

To the consumer these announcements will result in a simple reduction in the rebate for installing a household solar system. For the solar sector, however, and for the renewable sector as a whole, these changes are significant and necessary. They are aimed at preventing an oversupply of RECs weakening the market, and therefore the entire scheme. An oversupply of small-scale RECs has been threatening to flood the market and lead to a bottleneck in the Clearing House, thus favouring spot trading where REC prices are lower and more volatile.\footnote{133}

In this Budget the Government has also announced an increase in the registration fee for small-scale RECs from 8 to 47 cents. This measure will increase revenue by $14.1 million over four years, offsetting the $11.9 million cutback in revenue from the reduction of the Solar Credits multiplier.

\footnote{130} Budget measures: budget paper no. 2: 2011–12, op. cit., p. 299.
\footnote{133} S Maher, ‘Combet cools on solar credits’, The Australian, 5 May 2011.
The Government is providing an additional $58.8 million over five years to the Office of the Renewable Energy Regulator to implement the amendments, for technology upgrades, and for ‘the introduction of an inspection regime for solar panel installations and increased compliance powers.’

Capital Gains Tax

For the 2007–08 income year and beyond, capital gains tax will not be due on any gains or losses generated by taking advantage of a State or Federal renewable resources or environmental sustainability incentive scheme, such as the RET scheme. The net effect on revenue from this change is minimal.

Solar

The Solar Flagships program

A combined total of $370 million (from two redirections of funding) has been cut from the Solar Flagships program over the forward estimates. Of this, $150 million has gone towards the recovery and reconstruction of flood-affected areas. Initially, the Government had planned to cut $250 million from the Solar Flagship program’s budget to help fund the flood levy, ‘with $190 million of this to be re-phased to beyond the forward estimates.’ After negotiations with the Greens, the Government agreed to restore $100 million of that to the program.

This reduced funding to the solar industry has been widely criticised. In recent years, growth of ‘big solar’ in Australia has been stunted by the uptake of smaller installations which have enjoyed more favourable policy settings. Yet for a country as rich in solar radiation as Australia, large-scale solar is a cost-effective and efficient way to generate power from renewable energy and reduce

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135. Ibid., p. 16.
136. Ibid., pp. 302 and 304.
greenhouse gas emissions. Of 52 proposed solar projects, only two will receive funding under the Solar Flagships’ first round, and now there is uncertainty surrounding a second round.

**National Solar Schools Program**

The lifespan of the National Solar Schools Program (NSSP) has been cut short by two years, so it is now due to close at the end of the 2012–13 financial year. The program has also had its funding reduced by $156.4 million. Over the next two years, a total funding of $498 million will be disbursed in $50,000 grants, with priority given to remote or low socioeconomic areas.

**Solar Cities**

Additional funding of $13.7 million over two years is being provided to the Solar Cities program which trials innovative energy technologies and concepts in Adelaide, Alice Springs, Blacktown, Central Victoria, Moreland, Perth and Townsville.

**United States—Australia Solar Research Collaboration initiative**

A new United States—Australia Solar Research Collaboration initiative is being established at a cost of $50 million over four years drawn from the REFF. The initiative is designed to ‘support joint projects with the United States designed to reduce the cost of solar energy technologies.’

**Biofuels**

A new Australian Biofuels Research Institute (ABRI) funded initially at $20 million over four years is being established by the DRET to further the development of next generation biofuels. This funding includes $5 million towards a biofuels development project at James Cook University.

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Added to this, the Assistant Treasurer announced in January 2011, that the expected changes to the taxation of alternative fuels will be delayed until December 2011.\footnote{B Shorten (Assistant Treasurer and Minister for Financial Services and Superannuation), \textit{Release of exposure draft legislation for the taxation of alternative fuels}, media release, 21 January 2011, viewed 13 May 2011, \url{http://assistant.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/017.htm&pageID=003&min=brs&Year=&DocType=0}} This will cost the Government $26 million over the forward estimates period, but alleviate pressure on the industry to prepare for the new tax regime.\footnote{\textit{Budget measures: budget paper no. 2: 2011–12}, op. cit., p. 14.} On 12 May 2011, the Government introduced enabling legislation to Parliament.
Defence introduction

Nicole Brangwin

For nearly two decades, Australia’s annual budget has been a bit of a ho-hum experience for Defence. It was not quite tick-and-flick, but Defence has had relatively little to fear ... Those decades of ho-hum [have come] to a shuddering end.149

In a prelude to the release of the 2011–12 Defence Budget, the Minister for Defence, Stephen Smith, announced that increased efficiencies within Defence would result in a reduction of 1000 civilian positions.150 On release of the Defence Budget, the Minister further announced that Defence would contribute to the Government’s overall surplus targets by reducing ‘its call on the budget by $1.6 billion in 2010–11 and $2.7 billion over the next four years’.151

Total funding in the 2011–12 Defence Budget is estimated to be $26 559.8 million.152 From this amount Defence will provide $10 099.5 million to the Defence Materiel Organisation (DMO) for acquisitions and sustainment services in support of the Australian Defence Force (ADF). This makes up the bulk of DMO’s available total net resourcing of $11 745.6 million for 2011–12.153

In effect, the total Defence funding estimate for 2011–12 has been reduced by 1.3 per cent when compared to the Defence Portfolio budget statements 2010–11 estimate of $26 896.5 million for 2010–11.154 Despite the reduction, this is still an improvement on the 2010–11 Budget forward estimate for 2011–12 of $25 867.4 million, which would have reduced Defence funding by 3.8 per cent.155 The estimated actual Defence funding for 2010–11 is expected to drop to $25 250.1 million.156

Due to increased efficiencies, the cancellation of the purchase of two C-130J Hercules and capital investment reprogramming is expected to generate total savings of $2 712.0 million up to 2014–
Additionally, the efficiency dividend that applies across the Australian Public Service has again been extended from 1 per cent in the 2009–10 Budget to 1.5 per cent in this year’s Budget, but is expected to drop back to 1.25 per cent by 2013–14 and 2014–15.\(^\text{158}\) An additional $134.9 million in savings across the forward estimates has been earmarked for return to the Government.\(^\text{159}\)

How these fiscal reductions will impact on the Government’s promised 3 per cent average real growth in the Defence Budget to 2017–18 remains to be seen.\(^\text{160}\) Some commentators have noted that although the forward estimates indicate a reduction in capital expenditure to 2014–15 followed by a significant increase, Defence industry is anticipated to decline over the downturn period as a result. In effect, ‘the Defence Budget is going to have to rise precipitously’ for it to achieve 3 per cent average real growth for the decade, however, it is likely to be ‘very difficult’ for defence industry to ‘ramp up’ around 2014–15 in response to the Government’s increased demand.\(^\text{161}\)

\[^{157}\] Ibid., p. 28.
Australian War Memorial funding

Marty Harris

The 2011–12 Budget allocates a total of $48.154 million to the Australian War Memorial (AWM), comprising both appropriations and equity injections. This represents an increase of about $10 million compared to funding allocated in the 2010–11 Budget.

Background

During Senate Estimates hearings on 19 October 2010, the AWM’s Director, Major General (retired) Steve Gower, confirmed that the AWM’s Council had considered, although quickly rejected, closing the Memorial for one day a week in an effort to save money.

Not long after this hearing the Prime Minister Julia Gillard ordered a review into the Memorial’s funding arrangements. The Minister for Veterans’ Affairs, Warren Snowdon, said at the time:

We are going to be looking at the memorial’s finances in quite some detail as a result of a directive from the Prime Minister.

In December 2010 a redacted copy of the Department of Veterans’ Affairs incoming Government brief (the ‘Red Book’) was released, which made the following statements on the state of the AWM’s budget:

As Government appropriation for operational expenses has decreased the Memorial has sought to offset the impact by increasing its non-government sources of revenue. This has been successful but is becoming increasingly difficult given the current economic environment.

... The Memorial is facing potentially constraining, if not crippling, financial circumstances.

... In the context of the 2009–10 Budget, a NPP [new policy proposal] was submitted, seeking an increase of $5m p.a. to the base operational funding. This was not supported


and the resulting budget was balanced through further reductions in programs and staffing.

... What can only be considered as draconian measures will now be introduced from 2011, including closing the Memorial (excepting the Commemorative Area) one day a week and closing the Research Centre on weekends, severely limiting public access to this preeminent national institution.\textsuperscript{165}

In response to the public release of this information, the media began reporting on the budgetary pressures faced by the AWM and the potential adverse effects on staff numbers and preparations for the Centenary of Anzac in 2015.\textsuperscript{166}

Subsequently, the Opposition urged the Government to increase funding for the AWM.\textsuperscript{167} Following its review of the AWM’s finances, on 3 March 2011 the Government announced a funding increase for the AWM of $8 million per year for four years, and a one-off payment of $1.7 million to assist with the redevelopment of the First World War galleries in preparation for the Centenary of Anzac in 2015.\textsuperscript{168}

\begin{itemize}
\item[168.] J Gillard (Prime Minister) and W Snowdon (Minister for Veterans’ Affairs), \textit{Funding boost for the Australian War Memorial}, media release, 3 March 2011, viewed 12 May 2011, \url{http://minister.dva.gov.au/media_releases/2011/mar/Join002.pdf}
\end{itemize}
2011–12 Budget

The extra funding announced in March 2011 is reflected in *Budget Measures: Budget Paper No. 2: 2011–12* which records the additional funding for the AWM as a new measure. It states that an additional $33.9 million will be provided over the forward estimates period, at an average of $8.5 million per year.\(^{169}\) On the intended use of this money, the Department of Veterans' Affairs *Portfolio budget statements 2011–12* note:

> The announcement of a recent Measure to increase Appropriation will fund additional resourcing needed to not only deliver core programs, but also address the expected increase in demand on Memorial resources in the lead up to, and during the First World War centenaries 2014–2018, and ongoing interest thereafter.\(^{170}\)

The $1.7 million ‘one-off payment’ to the AWM is included in this year’s Budget as a capital measure and will be used to ‘commence planning’ for a new First World War gallery, which is expected to be completed in ‘late 2014’.\(^{171}\)

Following the release of the 2011–12 Budget, the Shadow Minister for Veterans’ Affairs, Michael Ronaldson, remained critical of the Government’s funding measures for the AWM, stating:

> Labor has failed to commit any funding for commemoration for the ANZAC Centenary.

> ...

> The Coalition is disappointed that only $1.7 million of the $25 million required has been committed to the redevelopment of the World War One galleries at the Australian War Memorial.\(^{172}\)

The chart below demonstrates the changes in budgeted Government appropriations to the AWM from 2003–04 to forward estimates 2014–15. The chart shows a dramatic rise in funding between 2006–07 and 2008–09—resulting from an increase in equity injections to finance the redevelopment of the AWM’s eastern precinct—and a decrease in appropriations between 2008–09 and 2010–11.


\(^{170}\) *Portfolio budget statements 2011–12*, Defence Portfolio (Department of Veterans’ Affairs), op. cit., p. 95.


Table 1: Budgeted total annual appropriations to the Australian War Memorial: 2003–04 to 2014–15 (current prices)\textsuperscript{173}

\begin{tabular}{|c|c|c|c|c|c|c|c|c|c|c|c|}
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\textsuperscript{173} These figures have been drawn from each year’s Department Veterans’ Affairs Portfolio budget statements by combining funding allocated under Appropriation Bill (No. 1) and equity injections funded under Appropriation Bill (No. 2).
Defence civilian workforce

Marty Harris

On 6 May 2011 the Minister for Defence, Stephen Smith, declared:

    [A]s a result of our Strategic Reform Program, a thousand civilian employees will not be required [in the Department of Defence] as a result of the introduction of greater efficiencies, particularly in the shared services area.\textsuperscript{174}

The Minister said that the approximately $300 million in savings (over three years) this would generate would be returned to the Government to contribute to ‘overall Budget requirements and surplus targets’.\textsuperscript{175}

Minister Smith stressed that some areas of the Department of Defence would be quarantined from these reductions in staff numbers, including Navy, Navy Sustainment, Capability Development Group, and Joint Operations Command.\textsuperscript{176} In terms of where the planned reductions in civilian staff are to come from, and how they are to be achieved, Defence Minister Smith said:

    We currently have a range of, what I’d call, back of house services which we believe can be integrated and shared more effectively and efficiently amongst parts of the Defence organisation. That will bring a large number of the 1000 employees. It won’t bring all of them in our current judgement.

    We’re making it clear that the 1000 civilian employees will be achieved or affected through the shared services efficiencies, through non-replacements, through natural attrition and there may well be a small number of voluntary redundancies.\textsuperscript{177}

However, as the table below indicates, the number of civilians at the Department of Defence is anticipated to actually increase in 2011–12 and 2012–13.

\textsuperscript{175} Ibid.
\textsuperscript{176} Ibid.
\textsuperscript{177} Ibid.
Table 1: Anticipated number of civilian employees, Department of Defence, 2010–11 to 2014–15.178

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<tbody>
<tr>
<td>Civilian workforce</td>
<td>21 331</td>
<td>22 292</td>
<td>22 394</td>
<td>22 344</td>
<td>22 202</td>
</tr>
<tr>
<td>Change (year on year)</td>
<td>-</td>
<td>+961</td>
<td>+102</td>
<td>-50</td>
<td>-142</td>
</tr>
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Civilian staffing levels and the Strategic Reform Program (SRP)

The 2010–11 Budget envisaged an increase in civilian employees at the Department of Defence, equating to approximately 2100 extra civilian positions (including contractors) by 2013–14.179 Defence’s Portfolio budget statements 2010–11 explained that the increase in civilian staff numbers in Defence resulted from:180

[T]he detailed diagnostic program completed as part of the Strategic Reform Program.181

The publicly available SRP documentation also refers to the growth in civilian positions at the Department of Defence:

While there will be increases to the APS [Australian Public Service] 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.182

The Department of Defence’s 2010 booklet on the SRP, The Strategic Reform Program: Making it Happen, provides figures on the expected staffing levels at Defence as a result of the SRP and the 2009 Defence White Paper.183 The civilian staffing figures in the table below have been taken from that document.

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Table 2: Expected civilian staff levels in the Department of Defence (including Defence Materiel Organisation): predictions under the Strategic Reform Program.

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<tbody>
<tr>
<td>Civilian workforce</td>
<td>21 862</td>
<td>21 811</td>
<td>21 826</td>
<td>21 804</td>
<td>21 755</td>
</tr>
<tr>
<td>Change</td>
<td>-61</td>
<td>-51</td>
<td>+15</td>
<td>-22</td>
<td>-71</td>
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</table>

These figures do not match those provided in Defence’s *Portfolio budget statements 2011–12* (see table 1). However, as the Department of Defence explains, staffing numbers are expected to be fluid as needs vary over the course of the Program: ‘as the SRP evolves, these figures are likely to change to reflect the experience of implementation’.  

Although it has not been explained in detail why the SRP has now resulted in 1000 fewer future positions, the Defence Minister Smith did tell *ABC News 24*:

> We discovered that on our, if you like, our operating expenses we were being much more successful in - the Strategic Reform Program - than we expected in our early years and so we’ve been able to reduce the number of civilian employees, and reduce our estimates of cost into the future.  

It appears, therefore, that the Defence Minister’s Budget announcement that ‘a thousand civilian employees will not be required’ does not represent an actual reduction in the current number of civilian employees at the Department of Defence. Instead, it represents a reduction in the number of staff who would have been employed over the next three years.

In fact, *Budget Strategy and Outlook: Budget Paper No. 1: 2011–12* estimates that the department/agency that will experience the largest increase in staffing levels across the general government sector in 2011–12 will be the Department of Defence.

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184. Department of Defence, Strategic Reform Program: making it happen, op. cit., p. 29.
Defence major capital investment program

David Watt

The Defence Portfolio budget statements 2011–12 provide an estimate of expenditure on major capital expenditure of $5128.6 million in 2011–12. In addition to this, Defence will spend $739.8 million on minor capital purchases of equipment and infrastructure, and a further $1180.3 million on major capital facilities. This adds up to $7046.6 million.

In one of the media releases accompanying the budget, the Minister for Defence reveals that the Defence Materiel Organisation (DMO) has underspent its budget for 2010–11 by $1.1 billion. Some $815 million of this comes from the Approved Major Capital Investment Program (AMCIP) and the balance is from the major Capital Facilities Programs (MCFP).

Most of the unspent AMCIP money relates to non-delivery of projects being undertaken by industry for the DMO.

In contrast to previous years, in which the DMO has been able to retain this money for future use, this year the unspent $1.1 billion will be returned to the official public account for general government use. In addition to this, a further $1.3 billion will be handed back to the Government over the forward estimates.

Budget Measures: Budget Paper No. 2: 2011–12 states that this money will be reprogrammed beyond the forward estimates. The Minister’s budget media release states:

The reprogramming is necessary to better reflect realistic achievement of milestone delivery payments by industry for capability and infrastructure projects.

This might mean that the DMO will get the money when they, and industry, can spend it. However, together with the projections of expenditure in the forward estimates, it raises important questions about the Government’s ability to fund the ambitious White Paper materiel requirements.

No mention is made by the Minister of the contribution of Government scrutiny to delays in project approvals as they move through the two-pass approval process. The Australian Industry Group has

191. Smith, Defence budget overview, op. cit.
criticised Defence for achieving only 10 out of 29 of the possible first and second-pass approvals set out in the *Portfolio budget statements 2009–10*.\(^{192}\)

Professor Peter Leahy, a former Chief of Army (and now Director of the National Security Institute at the University of Canberra), has told the *Canberra Times* that the political process is contributing to delays:

> He said the National Security Committee appeared to be a bottleneck and said this was delaying the acquisition of new defence capability. “Industry is finding it difficult to cope in an environment where there isn’t a smooth spread of projects over time but, rather, a boom and bust cycle,” he said.\(^ {193}\)

Indeed, while the initiative recently announced by the Minister that minor projects (those with a value of less than $20 million) will now go through the post-Kinnaird Review two-pass approval process may strengthen the Government’s ability to scrutinise and control defence projects, it also carries with it the potential for further delays.\(^ {194}\)

However, it could also be argued that such scrutiny is a matter of proper management and accountability. In announcing a recent set of reforms to project management accountability the Minister for Defence Materiel noted that projects which have been through the two-pass approval process gain a 20–25 per cent improvement to their schedule compared to projects that are not subject to this process.\(^ {195}\)

### Less money now, more money later

The Major Capital Projects line from the Total Capital Investment Program shows the proposed pattern of expenditure through the forward estimates.

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Table 1: Defence Capital Investment Program

<table>
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<tr>
<th></th>
<th>2011–12 Budget Estimate $m</th>
<th>2012–13 Forward estimate $m</th>
<th>2013–14 Forward estimate $m</th>
<th>2015–16 Forward estimate $m</th>
<th>Total $m</th>
</tr>
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<tbody>
<tr>
<td>Major Capital Investment Program</td>
<td>5 128.00</td>
<td>4 244.30</td>
<td>5 360.00</td>
<td>6 411.30</td>
<td>21 144.10</td>
</tr>
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It is apparent that the reduction in spending over the next two financial years will be followed by two years which contain substantial increases in expenditure. These increases are required in order to get spending back on course to meet the Government’s target of a 3 per cent average spending increase in the overall defence budget through to 2017–18.

This raises two questions:

- will the necessary increases be affordable if the overall budget situation does not improve at the rate indicated by government forecasting?
- can the DMO and Australian defence industry cope with such a substantial increase in the amount of available money?

The Minister for Defence denies that there is any problem with the fulfilment of the White Paper plans, and has asserted:

> It will be spent in future years. So, that the timetable has a couple of important points. None of the projects that we are referring to here are what you regard as any of the big projects out of the white paper, all of which are, you know, to be constructed, somewhere, from 2020 through to 2040 and so some people are erroneously suggesting that that has implications for the big bills in the white paper. It doesn’t. All of those are in their preliminary or planning stages.\(^{197}\)

This might well be true, and it might be assumed that a substantial amount of this money will go towards the purchase of the first fourteen F-35A Joint Strike Fighters in 2014, but questions have been raised about the capacity of Australia’s defence industry to respond when spending is increased later in the decade. As Mark Thomson from the Australian Strategic Policy Institute (ASPI) notes:

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We are two years in and the Defence white paper is substantially behind schedule . . . the concern is that when spending finally recovers, industry simply won’t have the capacity to deliver the projects.\textsuperscript{198}

Similarly, James Brown from the Lowy Institute has said:

But the bigger concern is the delay in spending the money allocated for new equipment necessary to build Force 2030. Defence and the Defence Material Organisation failed to spend €1.1 billion allocated for new projects this year and will hand it back to Government. Their allocation for new projects has been cut by €1.3 billion in the forthcoming year and looks set to be cut again next year. Finally, the promised 3% real annual increase on defence expenditure, necessary to pay for Force 2030, has failed to eventuate.\textsuperscript{199}

As has so often been the case with the purchase of major capital equipment in recent years, the final outcome of these things will not be known for some years.

The Government has also agreed to cancel the purchase of two C130J Hercules aircraft and, according to the Portfolio budget statements, this will result in the saving of €111.3 million over the forward estimates and €520.1 million over the ten years to 2021. This decision has been made in light of the intention to acquire an additional C17A Globemaster from the United States.\textsuperscript{200} The Globemaster has a greater load capacity than the Hercules and the €251 million cost over the forward estimates is being met from within the existing Defence budget.

**Defence Capability Plan**

**Projects**

Table 44 in the Portfolio budget statements lists 36 projects for which second-pass approval might be sought from the Government at some point during the next two financial years.\textsuperscript{201} Table 45 lists 54 projects intended for first-pass approval. The Defence Minister’s budget media release on defence capability chooses to highlight the following five major projects to which the government expects to give second-pass approval in the next 12 to 18 months.\textsuperscript{202}


\textsuperscript{201} Portfolio budget statements 2011–12, Defence Portfolio, op. cit., pp. 90–92.

Air 9000 Phase 8 future naval combat helicopter

This project seeks to provide a replacement for the Royal Australian Navy’s (RAN) ageing Seahawk helicopters and the cancellation of the Seasprite helicopters project in March 2008. This is particularly important because the RAN currently has a serious gap in its anti-submarine warfare capabilities. The White Paper identified this ‘as a matter of urgency’ in 2009 so the Government is under some pressure to make a decision soon.\(^{203}\) Fortunately, the choice has been narrowed down to two aircraft, the NH90 NFH (NATO Frigate Helicopter) or the MH-60R Seahawk, both of which have been praised as suitable for Navy needs.\(^{204}\)

Land 121 Phase 3 Project Overlander

Phase 3 of Land 121 is intended to deliver Light and Lightweight unprotected Class vehicles and Medium and Medium Heavy protected and unprotected vehicles for land forces. Specifically, this refers to Bushmaster protected mobility vehicles (approximately sufficient to equip four battalions plus support), lightweight field vehicles and compatible trailers. This is particularly important for military personnel operating in Afghanistan because the vehicles are expected to operate in rugged conditions and, in the case of the Bushmasters, provide protection against Improvised Explosive Devices and road mines.

This phase of Overlander is well past second-pass approval but the Minister’s media release states that it will be reconsidered by Government when Defence completes the current tender evaluation activities for Medium and Medium Heavy protected and unprotected vehicles.\(^{205}\)

Land 121 Phase 5A Project Overlander

This project, which seeks to provide unprotected vehicles for tactical training purposes, was listed in the Defence Capability Plan 2009 for second-pass approval during 2010–11 or 2011–12.

Joint Project 2072 Phase 2A Battlespace communications systems

JP 2072 is a multi-phased project designed to enhance communications for ADF land forces. It covers the spectrum of Combat Net Radio and trunk communications as well as local area voice and data systems. It also seeks to improve the ADF’s ability to transmit tactical data to units in the field.


\(^{205}\) S Smith (Minister for Defence), *Budget 2011–12: Defence capability*, op. cit.
**JP 2048 Phase 3 Replacement Watercraft project**

This project will provide landing craft with the capacity to transport personnel, equipment and vehicles from the Canberra Class Landing Helicopter Docks to shore when the LHDs are in service. Given the cancellation earlier this year of the proposed watercraft for the *Kanimbla* and *Manoora* as a result of their unsuitability for purpose, this is a project which perhaps should now be considered a priority.

**Still no serious money for submarines**

It is notable that there is little mention in the budget papers of project Sea 1000—the Future Submarine. Sea 1000 is listed in the *Portfolio budget statements* as one of the projects which might go to the Government for first-pass approval but the window allowed for this extends out to 2014–15.

ASPI has suggested this project might cost $36 billion, and based on experience with the Collins Class, it is also likely to be a task of substantial complexity. A number of commentators have pointed to the problems that Australia will have in realising a project of this complexity if progress is not made soon.206

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Australian Defence Force (ADF) operations

David Watt

The Budget estimate for the total additional cost of Operations for 2011–12 is $1919.8 million, $1551.9 million of which has been contributed by the Government, with the Department of Defence required to absorb the other $367.9 million.  

Defence receives additional funding for operations in part because the cost of operations is not always predictable, but also because it avoids Defence having to cut or compromise other activities in order to fund military operations. This additional funding comprises money to cover operating costs but also money for capital investment to buy equipment for a specific operation.

Some $1221.8 million of this has been allocated in 2011–12 to Operation Slipper, Australia’s military contribution to operations in Afghanistan and the wider Middle East (which includes regional anti-piracy operations). This comprises $959 million in new funding, plus $303.7 million in previously approved funding.  

The Government already provided Defence with additional funding of $108.5 million during 2010–11 to meet additional costs arising from the withdrawal of the Netherlands from Uruzgan Province. The budget papers state that this was to pay for the acquisition and maintenance of hardened living and working accommodation, increased transport costs, communications and detainee management.

Operation Slipper is by far the largest operational commitment currently being undertaken by the ADF. Other operations receiving funding in 2011–12 are:

- Operation Astute—the military contribution to maintaining stability in East Timor will receive $160.2 million in 2011–12. This comprises $137.9 million in new funding in addition to $26.8 million in previously approved funding. Defence is extending the operation until 30 June 2012, but is also continuing to work towards transferring full security responsibility to East Timorese authorities, and expects to maintain bilateral defence cooperation with East Timor beyond 2012.

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209. Ibid., p. 126.


- **Operation Anode**—Australia’s contribution the Regional Assistance Mission to Solomon Islands (RAMSI) is expected to cost $43.5 million in 2011–12. Costs have been reduced by $1 million as a result of payment received from New Zealand for logistics support.\(^\text{212}\)

- **Operation Resolute**—the ADF’s contribution to whole-of-government maritime security activities will comprise $9.8 million in 2011–12, although the cost of this effort (approximately 400 personnel operating mainly AP-3C Orion maritime patrol aircraft and Armidale class patrol boats) will be met from within existing Defence resources.\(^\text{213}\)

- **Operation Kruger**—the ADF’s contribution to security for the Australian Embassy in Iraq, has been estimated to cost $2.1 million, but the Government expects Defence to absorb this cost without further supplementation. The ADF’s military role in Iraq concluded in July 2009 and future security services for the Department of Foreign Affairs and Trade will be provided by contractors. In addition to absorbing the net additional cost of the operation for 2011–12, Defence will also return to Government previous funding of $3.1 million provided for Operation Kruger.\(^\text{214}\)

### Other measures

A total of $482 million of the expenditure on force protection measures announced in last year’s Budget will be allocated in 2011–12. This includes $126.4 million which has been reprogrammed from the 2010–11 allocation.\(^\text{215}\)

The Government has undertaken to provide $19.9 million over four years from 2010–11 to improve internet access for ADF personnel deployed on operations. Some $2.5 million of this will be met from within existing Defence resources.\(^\text{216}\)


\(^{213}\) Ibid., p. 126.

\(^{214}\) *Portfolio budget statements 2011–12, Defence Portfolio*, op. cit., p. 30.

\(^{215}\) Ibid., p. 32.

Strategic Reform Program

Nicole Brangwin

The experience to date with the Strategic Reform Program has demonstrated that reform in Defence is necessary, achievable and sustainable.\(^{217}\)

During a press conference on 6 May 2011, the Minister for Defence, Stephen Smith, along with Minister for Materiel, Jason Clare, announced further Strategic Reform Program (SRP) initiatives. These include:

- savings to be achieved by reducing Defence’s civilian workforce by 1000 positions
- continued reforms to shared services ‘to realise workforce reductions in corporate overhead functions in a way that does not reduce standards of service in support of operations or capability development’, and
- project management accountability reforms.\(^{218}\)

Civilian employment reform and efficiency measures

Under the Workforce and Shared Services Reform Stream of the SRP, Defence recognised that the predicted net increase of 1655 civilian personnel from 2010–11 to 2013–14 could sustain a reduction of 1000 positions ‘over the next three years’. As such, this measure was introduced by Minister Smith at the press conference on 6 May and includes the application of the temporary increase in the public service efficiency dividend of 1.5 per cent, from which Defence is not exempt.\(^{219}\)

Usually the savings achieved via the SRP are reinvested in Defence for the acquisition of new capabilities under the Defence White Paper, Defending Australia in the Asia Pacific century: Force 2030.\(^{220}\) However, in this instance Minister Smith has directed that the estimated $300 million saved...
over the next three to four years through the reform of civilian employment will be included in Defence’s contribution to Government surplus measures.\textsuperscript{221}

The Capability Development Group, Joint Operations Command and the Royal Australian Navy are exempt from the application of this measure as they are deemed priority areas in support of operations.\textsuperscript{222}

**Shared services reform**

The Budget does not offer much in the way of detail about Defence’s shared services reform other than Minister Smith’s statement that it is an ‘externally-led reform’ involving the ‘rationalisation of shared services’ towards realising further ‘workforce reductions in corporate overhead functions...’ \textsuperscript{223}

The Defence Strategic Reform Advisory Board, chaired by Mr George Pappas, continues to oversee the SRP, including this reform, and also provides advice to Government.\textsuperscript{224} Planning for this reform is expected to be completed by late July, with implementation to commence in August 2011. \textsuperscript{225}

The increased efficiencies under this reform are expected to achieve savings of over $1.1 billion throughout the forward estimates.\textsuperscript{226} More specific details about how these expected savings will be achieved remains ambiguous at this time.

**Accountability and procurement reforms**

According to the Minister for Defence’s budget media release, to date, Defence has not fully implemented some of the accepted key recommendations following the 2008 *Defence procurement and sustainment review* (the Mortimer Review) and will fast-track all residual recommendations as a priority.\textsuperscript{227} This will involve:

- the provision of greater guidance to Defence, via acquisition project directives, on the Government’s intentions
- ‘benchmarking all acquisition proposals against off-the-shelf options where available’

\textsuperscript{221}  Smith and Clare, *Budget and Strategic Reform Program*, op. cit.
\textsuperscript{222}  Smith and Clare, *Strategic Reform Program*, op. cit. For further discussion of this initiative, refer to the section in this Review entitled *Defence civilian workforce*, by M Harris.
\textsuperscript{223}  Smith and Clare, *Strategic Reform Program*, op. cit.
\textsuperscript{225}  Smith Clare, *Strategic Reform Program*, op. cit.
\textsuperscript{226}  *Portfolio budget statements 2011–1, Defence Portfolio*, op. cit., p. 30.
\textsuperscript{227}  Smith and Clare, *Strategic Reform Program*, op. cit.
• the formation of an independent Project Performance Office (PPO) to monitor project progression.228

• a requirement for Capability Managers to regularly report to Government on the status of capability development, and

• a more stringent process for changing the scope of a project.229

The Government indicated that it will request the Auditor-General to undertake an audit of the Mortimer implementations during the second half of 2011.230

The Government has also flagged further reforms that are aimed at ‘improving project management and minimising risk at project start and identifying problems early’. These reforms will see:

• an expansion of the two-pass approval system to include ‘minor capital projects valued between $8 million and $20 million’

• the establishment of an Early Indicators and Warning system that will trigger a report to the Minister for Defence and the Minister for Materiel, prompting an internal review and possibly further action if necessary.231

• expanded Gate Reviews, which will assess projects and provide recommendations. The expansion incorporates ‘all major projects in DMO [Defence Materiel Organisation] and other parts of Defence including the Chief Information Officer’s Group and the Defence...

228. According to the Government’s response to the Mortimer Review, the implementation of this recommendation (Recommendation 3.6) will draw on the DMO’s existing Assurance Board experience and framework. How the PPO will differ in operation and output to the Assurance Board and whether the PPO will work in conjunction with the Assurance Boards or replace them is unclear, Department of Defence, The response to the report of the Defence procurement and sustainment review (the Mortimer Review), Commonwealth of Australia, Canberra, 2009, p. 28, viewed 17 May 2011, http://www.defence.gov.au/publications/Mortimer_Review_Response.pdf

229. Smith and Clare, Strategic Reform Program, op. cit.

230. Ibid.

231. According to the Minister for Materiel, the initial triggers that will alert the Ministers to problematic projects include: ‘Post-first pass triggers: the project is likely to go outside a parameter agreed by Government at First Pass;...a significant milestone will not be achieved within three months of the schedule approved by Government at First Pass; or the project cannot meet the essential requirements within the cost, schedule and risk levels approved by Government at First Pass. Post-second pass triggers: the schedule for meeting Initial or Final Operational Capability will be delayed by 10 per cent or more for off-the-shelf capability, 20 per cent or more for local adaptation of off-the-shelf capability and 30 per cent or more for developmental projects; the project’s costs will exceed its approved budget; the contractor is not meeting promised capability or schedule milestones or exceeding approved costs; policy or legislative changes are likely to increase the project’s schedule or cost; an essential capability requirement will not be met; emerging requirements or regulatory or safety standards are different to those at the time the project was approved by Government and will materially affect the project; industry engaged in the project does not have the required workforce or financial capacity or management commitment to meet critical project milestones; or project risks have increased beyond the parameters agreed by Government’. Cited in ibid.
Support Group’ and in cases where the Early Indicator and Warning system prompts a diagnostic review\textsuperscript{232}, and

- the establishment of Quarterly Accountability Reports, which will generate reports every three months to the Minister for Defence, Minister for Materiel, Secretary of Defence and the Chief of the Defence Force. Reporting on ‘designated key projects’ will commence on 1 July 2011, with the Government expecting to start receiving such reports from October 2011.\textsuperscript{233}

**Future reforms**

Further announcements concerning reforms to accountability and governance processes and maintenance of naval ships are expected following the release of the Government’s response to the Rufus Black (Defence Accountability Framework) and Paul Rizzo (Amphibious Sustainment) Reviews.\textsuperscript{234}

**Measure of the SRP’s achievements?**

According to the *Defence Annual Report 2009–10*, under the SRP, Defence ‘delivered the $797m in cost reductions programmed for 2009–10 while maintaining capability and delivering agreed outcomes’.\textsuperscript{235}

The Defence *Portfolio budget statements 2011–12* simply note that ‘Defence has successfully delivered the scheduled cost reductions and reforms without any adverse impact on capability or safety’.\textsuperscript{236} DMO reports that the Smart Sustainment initiative, which is aligned with SRP savings targets, lists average yearly savings targets of approximately $520.6 million for the forward estimates ‘building to $777.0m in 2018–19’.\textsuperscript{237}

During a hearing of the Joint Standing Committee on Foreign Affairs, Defence and Trade Defence Subcommittee in March 2011 on the Review of the *Defence Annual Report 2009–10*, Defence Secretary, Dr Ian Watt, commented in relation to the SRP:

> It is early days. This is a decade-long campaign. We are one and two-third years into it. We achieved our cost reduction targets last year. Looking on the basis of everything so far, we are certainly well on the way to achieving them this year and we expect to do that. The targets get harder to achieve. We are looking to make cost reductions of about $1 billion next year. I think in two years time it rises to nearly $2 billion, so the ski

\begin{itemize}
\item[232.] Smith and Clare, *Budget and Strategic Reform Program*, op. cit.; Smith and Clare, *Strategic Reform Program*, op. cit.
\item[233.] Smith and Clare, *Strategic Reform Program*, op. cit.
\item[234.] Ibid.; Smith and Clare, *Budget and Strategic Reform Program*, op. cit.
\item[236.] *Portfolio budget statements 2011–12*, Defence Portfolio, op. cit., p. 17.
\item[237.] Ibid., p. 185.
\end{itemize}
ramp comes up. The most important thing is that we have sign-on at senior levels. It is very true that major reform exercises do not tend to fail on the shop floor, they fail firstly around the boardroom table. (emphasis added)

Since the SRP was first introduced in the 2009 Defence Budget, Defence appears hesitant to disclose any quantitative figures about the level of savings achieved under this initiative. As Mark Thomson pointed out in Cost of Defence 2010–11:

If the SRP really is ‘a major public sector reform initiative’ as the Minister has said, why not open it up to public scrutiny?... It is a matter of public and parliamentary interest to see whether the savings are being delivered and, perhaps more importantly, what the impact on capability is.

Until Defence takes seriously its need to provide taxpayers and parliament with clear explanations of how savings are being achieved, the SRP will remain a mystery.

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Mining boom mark II

Kali Sanyal

With its rich endowment of natural resources, coupled with strong demand for minerals from emerging countries, particularly China, Australia is poised to embark upon strong economic growth. The possible consequences of this growth and how the Government can try to manage it to the benefit of the community are outlined in ‘Statement 4: Opportunities and challenges of an economy in transition’ in *Budget Paper No. 1*. In particular, Statement 4 distinguishes between mining boom mark I which commenced in 2003–04 and continued until the global financial crisis, and mining boom mark II which Australia is currently experiencing.

The following are interrelated features of mining boom mark II:

- the terms of trade are high and are expected to remain so for a considerable period
- appreciation of the real exchange rate as commodity exports rise
- pressure on some domestic manufacturing and trade-exposed sectors
- parts of the non-tradeable services sector such as road transport are likely to grow relatively slowly and
- sectors aligned with mineral resources are showing promising signs of growth.

Mining boom mark II shares the above features with mining boom mark I. However, boom mark II differs from mark I in several ways including:

- the economy is now operating closer to full capacity. Thus there is less room for further expansion before price and wage pressures emerge
- access to credit is now tighter for business, and consumers are cautious and saving more. This has contributed to a ‘patchwork economy’ whereby performance in the mining and non-mining sectors is diverging and

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• while the terms of trade are now at expected peaks and likely to remain high for some time, falls are in prospect. Consequently, the surge in growth and government revenues that occurred when the terms of trade increased in mark I will not be repeated in mark II.241

Consequently, while tax receipts grew at approximately 11 per cent per year during mark I, they are expected to grow at around seven per cent per year between 2012–13 and 2014–15.242

These features raise the question of how the Government can and should respond to the boom.

Spreading the mining boom dividend and easing its fallout

The Government has adopted several measures to capture the benefits of the boom and ease pressures on adversely affected sectors. They include:

• the proposal to return the Budget to surplus

• supply-side (capacity-expanding) measures such as investing in infrastructure, improving skills, and expanding the labour force through increased participation rates

• increasing productivity through tax reform. Proposed tax measures include introducing a mineral resources rent tax and cutting the corporate income tax. The Government also proposes to increase the superannuation guarantee rate from nine to 12 per cent.

Some commentators have argued that a sovereign wealth fund, funded from the increased tax receipts generated by the economic boom and the proposed MRRT, would help ease pressures arising from the mining boom, and share current gains across generations.243 However, the Government has indicated that it prefers to encourage savings in superannuation funds and its other initiatives outlined above, rather than create a sovereign wealth fund.244

While such measures may help the economy to adapt to the mining boom, the ability of government to affect the course of events is limited. For example, short of changing the exchange rate system, many of the consequences of the mining boom for non-mining sectors will flow from the


appreciation of the exchange rate. Consequently, there will be considerable pressure on some non-mining sectors to adapt and some are likely to contract.
Department of Foreign Affairs and Trade (DFAT)

Nina Markovic

Introduction

DFAT’s *Portfolio budget statements 2011–12* indicate that the total net resourcing for DFAT is likely to increase by $11.9 million to $2.13 billion. The *Portfolio budget statements 2011–12* also record that in 2011–12, $382.3 million in prior year departmental appropriation (estimated adjusted balance) will be carried forward. DFAT’s revenue from Government is also projected to decrease by 6.4 per cent in 2011–12 to $827.8 million. According to Appropriation Bill No. 1 for 2011–12, DFAT will receive $54.8 million less in 2011–12 than in 2010–11 in appropriation for departmental and administered items.

DFAT’s priority areas

The *Portfolio budget statements 2011–12* highlight that:

- DFAT’s ‘core work’ lies in the strengthening of regional architecture through enhanced political, security and economic regional dialogue, including through the expanded East Asia Summit, Asia Pacific Economic Cooperation (APEC), and other regional mechanisms.
- DFAT will play a key role in supporting Australia’s hosting of the Commonwealth Heads of Government Meeting in Perth in October 2011.
- DFAT will continue to support the Bali Process, a regional mechanism aimed at combating People Smuggling, Trafficking in Persons and Related Transnational Crime, which Australia will also continue to co-chair with Indonesia. DFAT will also support the convening of regional technical experts to exchange information on mutual legal assistance and law enforcement cooperation in anti-human trafficking and anti-human smuggling efforts.
- DFAT will help to bring forward the Doha Round of multilateral trade negotiations and also support multilateral dialogues through Australia’s membership of the G20. DFAT will play an

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246. Ibid., pp. 16 and 17 (footnote 2).
247. See figures on p. 46 in *Portfolio budget statements 2011–12, Foreign Affairs and Trade Portfolio*, op. cit.
250. Ibid., p. 15.
252. Ibid.
important role alongside other government agencies in facilitating the advancement of free trade agreements (FTAs) with selected countries and regional institutions.

- DFAT will continue to provide support for ‘action on climate change in developing countries and small island states’.

- Australia will continue its engagement with European countries both bilaterally and in multilateral forums, including through the Asia Europe Meetings (ASEM) process and the Organization for Security and Cooperation in Europe (OSCE), which Australia joined in October 2010 and December 2009, respectively.

Other multilateral organisations with which Australia will closely engage in 2011–12 include the North Atlantic Treaty Organization (NATO) with which Australia has developed even closer links in recent years in light of Australia’s contributions to the NATO-led mission in Afghanistan. It is likely that DFAT and in particular, the Australian mission in Brussels, will support the strengthening of Australia’s political and strategic dialogue with NATO in 2011–12, including on cyber-security issues.

**Administrative changes**

The position of Parliamentary Secretary for Pacific Island Affairs, which was provided for in the 2009–10 Budget (but not in 2010–11), has re-emerged in 2011–12. This position has been held by Richard Marles since 14 September 2010. The re-establishment of this position (following Duncan Kerr’s retirement on 30 October 2009) has possibly eased some of the concerns expressed in the

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258. *Biography for Marles, the Hon. Richard Donald*, APH website, viewed 16 May 2011, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3Did%3A%22handbook%2Fallmps%2Fhallms%2FHWQ%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3Did%3A%22handbook%2Fallmps%2Fhallms%2FHWQ%22)
past by Australia’s neighbours about the position being vacant. There are currently two Parliamentary Secretaries in the portfolio, down from three in 2009–10.

DFAT’s Portfolio budget statements 2011–12 note the department’s ongoing involvement in the Pacific Islands Forum, this year’s meeting of which will be hosted by New Zealand in September 2011. In particular, the Portfolio budget statements 2011–12 outline that Australia will ‘actively support international pressure on Fiji’s military regime to return the country to democracy and the rule of law’. Jenny Hayward-Jones from the Lowy Institute for International Policy has argued that Australia should moderate its approach towards Fiji to achieve more comprehensive results, an argument which has been disputed by another Australian Melanesian expert, Jon Fraenkel, from the Australian National University. The policy debate on Fiji is likely to intensify in Australian domestic and regional discussions in 2011–12.

Regarding the proposed Trans-Pacific Partnership Agreement, which had its 6th round of negotiations in March/April 2011, DFAT’s Portfolio budget statements 2011–12 reaffirm the department’s role in supporting an ‘increase [in] economic integration among [the Agreement’s] nine Pacific-rim members’—a measure which was endorsed by the Federal Opposition following a ministerial declaration on 26 November 2008.


**Staffing levels and funding by Outcome**

There is a projected overall increase of 10 staff, taking the total number of staff across DFAT to 3817 in 2011–12.

Outcome 1, which includes the bulk of DFAT’s diplomatic activities, anticipates a reduction of 13 staff, despite funding of $10.5 million (over two years) from existing DFAT resourcing being allocated to new positions for the final phase of Australia’s bid for a non-permanent two-year membership of the United Nations Security Council (UN SC) in 2013–14. This Budget measure will fund ‘additional positions in New York and Canberra’, ‘extra funding for small posts’, ‘Special Envoys’, and ‘public diplomacy’ initiatives.

The elections for the UN SC non-permanent seat will be held in October 2012. Australia is in direct competition for the seat with Finland and Luxembourg, both of which are members of the European Union, and both of which entered the race before Australia. Australia has previously served on the UN SC four times, whereas Finland has served twice, and Luxembourg never. Two countries will be selected in a secret ballot by members of the UN General Assembly to serve a two-year term in the ‘West European and Others’ group of the 15-member UN SC in 2013–14.

The Federal Opposition has repeatedly criticised the Government’s UN SC bid. It has been suggested by the Federal Opposition that Australia’s new diplomatic and other initiatives with African countries are, at least in part, aimed at securing as many African votes as possible ahead of the 2012 vote.

Over the past four years, Australia has gradually established closer linkages with another 10 African countries (up from 41 in 2007 to 51 in 2011).

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263. **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’. **Outcome Two** comprises ‘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’. **Outcome Three** relates to ‘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 2011–12, Foreign Affairs and Trade Portfolio*, op. cit., p. 5.


Some media commentators have claimed that the total cost of Australia’s bid is larger than indicated in the budget papers, as a significant amount of departmental resources has been, and is likely to still be spent, on assisting the Government in its quest for support from other UN members. According to the Coalition’s overseas development assistance spokeswoman, Teresa Gambaro, Australia should instead provide more aid ‘closer to home’.

Total expenses for Outcome 1 are also estimated to decline by about $63.4 million in 2011–12. It is projected that program expenses will decline in 2011–12 by: $47.8 million for ‘foreign affairs and trade operations’ (Program 1.1); $6.6 million in ‘payments to international organisations’ (Program 1.2); and by $6.9 million for ‘public information and public diplomacy’ (Program 1.3).

Staffing levels for Outcome 2, which includes the provision of consular and passport services, are projected to increase by 19 in 2011–12. The Government has indicated that it will finalise the design for a new series of Australian travel documents, as well as proceed with a ‘staged delivery of the National Security—Improved Passport Integrity and Strengthened Issuance Systems program’. This is part of the Government’s upgrading of Australia’s passport information technology systems, to combat identity theft, improve passport security, and to respond to the projected growth in passport demand.

Staffing for Outcome 3 is likely to increase by four staff, while total expenses are expected to decrease by about $2.05 million. Outcome 3 projects include construction of a ‘new chancery and Head of Mission residence in Bangkok’, refurbishment of the Paris chancery, and construction of new establishments in Jakarta.

Key new budget measures

New budget measures include:

- additional funding of $4 million for consular services in 2011–12, following recent natural disasters in New Zealand and Japan, and civil unrest in Egypt and Libya.
• $17.5 million in 2011–12 ($1 million of which will be met from within the existing resources of the Department of Defence) for the final phase of transferring responsibility from other agencies to DFAT for security contracts at the Australian embassy in Iraq (Baghdad)\footnote{Ibid., p. 203.}

• DFAT’s provision of $2 million over three years to the United States Studies Centre at the University of Sydney, which will be overseen by the Department of Prime Minister and Cabinet.\footnote{The Department of Defence is also contributing $1 million to the Department of Prime Minister and Cabinet for the US Studies Centre, Australian Government, \textit{Portfolio budget statements 2011–12: budget related paper no. 1.05: Defence Portfolio}, Commonwealth of Australia, Canberra, 2011, p. 31, viewed 13 May 2011, \url{http://www.defence.gov.au/budget/11-12/pbs/2011-2012_Defence_PBS_03_department.pdf}; \textit{Portfolio budget statements 2011–12, Foreign Affairs and Trade Portfolio}, op. cit., p. 19.}

This measure is in line with the Government’s intention to deepen engagement with the United States on ‘economic, political and security issues’.\footnote{Portfolio budget statements 2011–12, Foreign Affairs and Trade Portfolio, op. cit., p. 13.}

The Government will also continue to provide support ($223.1 million over ten years) for the International Australian Television Service, \textit{The Australia Network}. A change in contract arrangements includes an extension of the broadcasting contract from five to ten years, which will be awarded to the most successful bidder in the tender announced on 4 February 2011.\footnote{For details of this tender (now closed), see Austender, DFAT11-CPD-02, 4 February 2011, viewed 16 May 2011, \url{https://www.tenders.gov.au/?event=public.advert.showClosed&AdvertUID=EF2F790B-F60A-795E-ABC996E4F08E2E18}}
Official Development Assistance—a commitment kept

Dr Ravi Tomar

According to the Aid Budget Statement 2011–12, Australia’s Official Development Assistance (ODA) budget for 2011–12 is $4836.2 million, which is $474.4 million more than the estimated outcome for 2010–11. This represents a 8.4 per cent increase in real terms over the estimated outcome for 2010–11. It is estimated that Australia’s ODA will be about 0.35 per cent of Gross National Income (GNI) in 2011–12, up from 0.33 per cent in 2010–11.

The Statement reaffirms the Government’s commitment to increasing the ODA/GNI ratio to 0.5 per cent by 2015–16:

The Government has committed to increase Australia’s ODA/GNI ratio to 0.5 per cent by 2015–16. To reach this target, the Government expects to increase Australian aid to around 0.38 per cent of GNI in 2012–13, 0.42 per cent of GNI in 2013–14 and 0.46 per cent of GNI in 2014–15.

Indonesia has re-emerged as the largest bilateral recipient of Australian aid ($558.1 million), followed by Papua New Guinea ($482.3 million).

Compared to previous years, the revised format of the Aid Budget Statement 2011–12 is more reader-friendly and has increased both the transparency and availability of information. Australia has also signed the International Aid Transparency Initiative ‘through which donors are implementing a range of transparency commitments by developing a common standard of reporting’.

Each country snapshot is accompanied by information on priority areas and the provision of Australian assistance in those sectors.

For the first time, information is available on ODA-eligible expenditure by Other Government Departments (OGDs) which forms part of the aid budget and is estimated at $529.1 million in 2011–12, up from an estimated outcome of $512.2 million in 2010–11. For example, the Australian Federal Police will spend an estimated $217.7 million as ODA-eligible expenditure in 2011–12 and the Department of Immigration and Citizenship an estimated $65.9 million.

New initiatives announced in the aid budget include:

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283. Statement by the Hon Kevin Rudd MP, Minister for Foreign Affairs, op. cit., p. 3

284. Ibid, p.119.
- an investment of $433.1 million over four years to improve water, sanitation and hygiene
- an expenditure of $244 million over four years to provide more than 1000 volunteer assignments per year and to double the AusAID-NGO Cooperation Program, enabling ten more Australian NGOs to participate
- some $96.4 million over four years towards eliminating violence towards women by providing support through women’s crisis centres in the Pacific and supporting United Nations programs
- $124.5 million over four years to increase access to education in the Pacific
- $21.3 million over four years to tackle preventable blindness in East Asia
- an investment of $492.8 million over four years in Indonesia to improve education services, including building 2000 schools
- an expenditure of $462.6 million over four years to expand assistance to Africa and the Middle East and
- $32 million over four years to support rapid deployment of Australian Civilian Corps specialists to countries experiencing or emerging from major conflicts and disasters.

**Major aid reviews**

In 2010, a review of the use of advisers by the aid program was carried out. New measures have been introduced as a result of this review to provide better guidance in the use of advisers.

In November 2010, the Government commissioned the Independent Review of Aid Effectiveness—the first independent review in almost fifteen years. The report was submitted to the Minister for Foreign Affairs in late April. The Government intends to release the Review and a formal response to its recommendations by mid-2011.

In December 2010, AusAID commissioned a review of its procurement and grants administration practices. The review recommendations are currently being examined and the report is expected to be released by mid-2011.
National Broadband Network—funding, implementation and regulation

Brian Dalzell

NBN funding allocation

The major item in the 2011–12 Budget with respect to the Broadband and Communications Infrastructure Program (BCIP) is the identification of $18.2 billion of equity funding for the NBN (via NBN Corporation (NBN Co)) over the budget and forward years. At least some of the $18.2 billion was in the contingency reserve as provided in the 2010–11 Mid-year Economic and Fiscal Outlook (MYEFO), although the MYEFO did not state a dollar amount. The total NBN allocation from initiation in 2008–09, through 2014–15, is shown in the Table.

Table: NBN allocations, 2008–09 through 2014–15 ($ millions)

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<td>Actual</td>
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Table 1 shows that total funding from 2011–12 through 2014–15 is $18.188 billion, and that the total allocation since the initiation of equity injections into the NBN (2008–09 through 2014–15) is $19.9 billion.

NBN funding sources and timing

During the NBN rollout, the Government will retain full ownership of NBN Co and funding will initially come from government equity. NBN Co will be funded via this equity until it has sufficient cash flows to support private sector debt. Government equity will be partly financed through the issuance of Aussie Infrastructure Bonds (AIBs). The 2011–12 Budget Strategy and Outlook states that...

**NBN implementation**

The Department of Broadband Communications and the Digital Economy (DBCDE) will receive $23.4 million over four years to support the Government during the rollout of the NBN. Key deliverables include the establishment and support of a new agency to manage the delivery of the Universal Service Obligations.

**NBN regulation and oversight**

The Budget allocates funds for the regulation and oversight of the NBN. The Australian Competition and Consumer Commission (ACCC) has been allocated $5.6 million over four years to monitor competition outcomes arising from the structural change delivered by the NBN. The Australian Communications and Media Authority (ACMA) has been allocated $7.2 million over four years to develop and monitor implementation of appropriate network standards and codes to facilitate the rollout.\footnote{Portfolio budget statements 2011–12: Broadband, Communications and the Digital Economy Portfolio, op. cit., p. 14.} The Department of Finance and Deregulation has been allocated $1.2 million for ongoing shareholder governance and policy advice to the Government and NBN Co.\footnote{Ibid.}

The Government will provide $3.1 million over two years (2010–11 and 2011–12) to conduct a review of communications regulation. Funding will be from amounts set aside in the contingency reserve for the transition from analog to digital television. The review is expected to be finalised in 2012.

The Government will provide $2.1 million over four years to the Department of the House of Representatives to support the Joint Committee on the NBN.
Urban infrastructure and transport safety

Matthew L James

Metropolitan Initiatives

The Federal Government used the Budget to release ‘Our Cities, Our Future—A National Urban Policy for a productive, sustainable and liveable future’. This ministerial statement by the Minister for Infrastructure and Transport, Anthony Albanese, outlined the Government’s objective and directions for Australia’s metropolitan areas, and noted the uniqueness of the urban initiative.

It recognises the critical roles of State, Territory and local governments, the private sector and individuals, in planning, managing and investing in cities. This is the first time that an Australian Government has sought to outline its overarching goals for the nation’s cities and how we will play a role in making them more productive, sustainable and liveable.

The Budget allocated $20 million over two years, for planning, feasibility assessment, design and/or capital works projects to improve the quality of life in capital cities, outer suburbs and major regional areas under the ‘Sustainable Communities–Liveable Cities’ program. The objectives of the program are to invest in the development of major urban renewal projects with improved access to jobs and housing, and to improve the urban design of public spaces and streetscapes. Examples might include planning for transit-oriented design, improved housing services access, or cycle-ways.

Under the Sustainability, Environment, Water, Population and Communities portfolio, a separate ‘Suburban Jobs’ $100 million initiative (over four years) will assist state and local governments to plan and provide greater employment opportunities in the outer suburbs of metropolitan areas.

Infrastructure Australia received an extra $36 million over four years to enhance its capability assessment and financial advisory activities. An increase in funding will enable Infrastructure

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292. Ibid., p. 1.
294. A Albanese, op. cit., p. 3.
295. Ibid., op. cit., p. 3.
Australia to encourage private sector involvement in nationally significant infrastructure.\textsuperscript{297} The Government also announced in the Budget a statement of expectations for Infrastructure Australia and three new members to its governing council of twelve, plus an infrastructure investment incentive measure.\textsuperscript{298}

A further $61.4 million commitment over three years was made to a national smart managed motorway trial, involving anti-congestion initiatives in major cities. An initial set of projects eligible for funding have been identified in Melbourne, Sydney, Brisbane and Perth.\textsuperscript{299} All projects will be jointly funded by the Commonwealth and the relevant jurisdiction; funding will also be subject to state and territory governments signing National Partnership Agreements.

With such new Federal metropolitan initiatives, the Lord Mayors of Australia’s capital cities welcomed the overall $180 million investment in our cities as a down payment towards delivering more productive, sustainable and liveable metropolitan areas. However, they were awaiting the release of an Australian Government National Urban Policy and Sustainable Population Strategy, which occurred just after the Budget, on 13 May 2011.\textsuperscript{300}

Subsequently on 18 May 2011, the Government released its ‘National Urban Policy – Our Cities, Our Future’ which it described as a long-term blueprint for making the nation’s eighteen biggest cities.\textsuperscript{301} As well, on 13 May 2011 the Government released its population strategy ‘Sustainable Australia – Sustainable Communities, A Sustainable Population Strategy for Australia’.\textsuperscript{302}

Special note should be made of a one-off Centenary of Canberra grant to the ACT of $42 million for the redevelopment of Constitution Avenue, an urban renewal project through Civic to Campbell.\textsuperscript{303} However, there is some dispute as to whether this is a re-allocation of existing committed funds.\textsuperscript{304}

\textsuperscript{297} Budget measures: budget paper no. 2: 2011–12, op. cit., pp. 266.
\textsuperscript{299} Budget measures: budget paper no. 2, op.cit., p. 274.
\textsuperscript{303} Budget measures: budget paper no. 2, op. cit., p. 268.
National safety regulation and airports

The 2011–12 Budget provided $25.2 million over two years to establish national regulators for heavy vehicles, rail safety and maritime safety activities. Of this $4.8 was for the Commonwealth’s contribution to the project implementation teams for the national heavy vehicle and rail regulators; $10 million for the Australian Maritime Safety Agency to undertake regulation responsibilities for all commercial vessels, and $10.4 for the Australian Transport Safety Bureau to establish a national investigation framework for maritime and rail safety. This was additional to the $8.3 million provided in the previous Budget. An additional $28 million over the next two years was committed to improving airstrip safety in remote and Indigenous communities under the Regional Aviation Access Program. As well, the Government will provide $10.4 million over four years to uphold building standards for public safety in infrastructure development at airports on Commonwealth land. The cost of this is to be offset by an increase in the building application fees paid by developers at the airports.

306. Ibid., p. 271.
307. Ibid., p. 266.
Constitutional recognition of local government

Diane Spooner

The Government will provide $49.8 million over five years to the Department of Regional Australia, Regional Development and Local Government (the Department) ‘to strengthen the Government’s engagement with regional Australia’. Part of this measure includes funding for the implementation of specific policy commitments for the constitutional recognition of local government.308

It is also made clear in Budget Measures: Budget Paper No. 2: 2011–12 that this ‘measure delivers on the Government’s ‘Commitment to Regional Australia’ agreement’.309

On 7 September 2010, the Australian Labor Party (ALP) and independent members, Robert Oakeshott and Tony Windsor signed an agreement which enabled the ALP to form Government. Annex B to that agreement, ‘Commitment to Regional Australia’, included that the Government is ‘committed to working towards achieving constitutional recognition for local Government’ and noted that in 2010, ‘the Government allocated $250,000 for [the Australian Local Government Association] to help councils run community consultations and campaigns to build support’.310

The ALP also entered into an agreement with the Australian Greens on 1 September 2010. One of the ‘Goals’ of the agreement included for the parties to work together and with other parliamentarians to:

Hold referenda during the 43rd Parliament or at the next election on Indigenous constitutional recognition and recognition of local government in the Constitution.311

Simon Crean MP (Minister for Regional Australia, Regional Development and Local Government), in a Budget statement said:

An additional $9.4 million has been allocated to the Department to implement a range of specific priorities relevant to regional Australia, including delivering effective whole-Government responses to the challenges and opportunities that face regional Australia. These priorities include the progression of a referendum on constitutional

309. Ibid., p. 291.
311. J Gillard (Prime Minister), W Swan (Deputy Prime Minister), B Brown (Leader of the Australian Greens), C Milne (Deputy Leader of the Australian Greens) and A Bandt, The Australian Labor Party and the Australian Greens (the Parties)–agreement, 1 September 2010, viewed 16 May 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Ffj%nart%2Ff218794%22, p. 2.
Combating discrimination—the Australian Human Rights Commission

Juli Tomaras

The Government will provide additional funding of $2.8 million over four years to the Australian Human Rights Commission (AHRC).\(^{316}\) $1.2 million of this amount will provide the funding for the establishment of an Age Discrimination Commissioner and support team. The remaining $1.6 million will fund the return of the stand-alone positions of Race and Disability Discrimination Commissioners. The position of Sex Discrimination Commissioner continues. As a result, each of the areas of Age, Race, Sex and Disability will receive equal and deserving prominence in their own right.

On 30 September 2010, the Government introduced legislation to establish for the first time, at the federal level, a stand-alone position of Age Discrimination Commissioner in the AHRC.\(^{317}\) The new commissioner will take office from 1 July 2011, replacing the current arrangement whereby the Sex Discrimination Commissioner has also been responsible for age discrimination issues. This dedicated position will provide for a more explicit focus on the issue of age discrimination and raise the visibility of this salient issue, especially in light of a noted ageist culture in Australia,\(^{318}\) our ageing population and the challenges posed by skills demand in the workforce. The comparative weakness of this area of discrimination has in part been attributed to the absence of a dedicated commissioner to deal with this issue.\(^{319}\)

However, it has been pointed out that in addition to the establishment of the position of Age Discrimination Commissioner, there also needs to be attached to this position, powers that are sufficiently wide as to effectively deal with systemic discrimination, as is the case with the position of Sex Discrimination Commissioner.\(^{320}\) And, there also needs to be a review of the breadth and depth of exemptions relating to the issue of age discrimination.\(^{321}\)

The establishment of a dedicated Age Discrimination Commissioner is a necessary and welcomed step, though arguably, by itself, not sufficient.

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319. Ibid.
Australian Law Reform Commission

Juli Tomaras

The governance and resourcing of the Australian Law Reform Commission has been the subject of recent parliamentary interest.

In April 2011, the Senate Standing Committee on Legal and Constitutional Affairs tabled the report of its inquiry into the Australian Law Reform Commission (ALRC). The inquiry’s Terms of Reference included consideration of ‘the adequacy of [the ALRC’s] staffing and resources to meet its objectives’, arising from reductions to its budget in the 2009–10 Mid-Year Economic and Fiscal Outlook of $0.242 million and $0.495 million per annum in the forward estimates. The majority report recommended, among other things, that these budget cuts be reversed. The dissenting report by Government senators, however, concluded that the ALRC was adequately resourced to fulfil its functions.

In contrast to the 2009–10 Mid Year Economic and Fiscal Outlook, the 2011–12 Budget indicates that the ALRC’s funding from Government has been reduced by $0.31 million for 2011–12 and by $0.11 million for 2012–13, and then increased by $0.24 million for 2013–14 with a further increase of $0.27 in 2014–15.

The President of the ALRC remains concerned about the impact of these cuts, and the Portfolio Budget Statement notes that the ALRC will need to find ‘additional productivity savings and new

322. Senate Standing Committee on Legal and Constitutional Affairs, Inquiry into the Australian Law Reform Commission, Senate, Canberra, April 2011, p. 1. The Terms of Reference were: ‘The Australian Law Reform Commission (ALRC), with particular reference to (a) its role, governance arrangements and statutory responsibilities; (b) the adequacy of its staffing and resources to meet its objectives; (c) best practice examples of like organisations interstate and overseas; (d) the appropriate allocation of functions between the ALRC and other statutory agencies; and (e) other related matters’.


325. Ibid., p. 64.


methodologies to ensure that [its] ability to provide timely, straightforward and sound advice to government is not compromised.328

In 2009–10 the ALRC completed three inquiries.329 Currently, in 2010–11 the ALRC has completed one inquiry330 and has two in progress: Family Violence and Commonwealth Laws (due to be completed by 30 November 2011) and National Classification Scheme Review (due to be completed by 30 January 2012).331 It should be noted that the Attorney-General’s Department is apparently assisting with the costs of a second full time Commissioner, Mr Terry Flew, appointed in April 2011 for the latter review; and it will be interesting to see if similar funding support is available for future inquiries.332
Legal aid

John Murray

Democracy requires a robust and meaningfully accessible rule of law framework, without which the rights and liberties enjoyed by all Australians would be made vulnerable.

Our democratic society is based on the premise that all Australians are equal before the law. Legal aid commissions play a defining role in achieving that equality. They strive to ensure that all citizens, including those who can’t afford to pay, have access to legal services and to the law.333

The Government will provide $194.8 million in funding to the states for legal aid commissions under the National Partnership Agreement on Legal Assistance Services. This amount is an increase of $4 million from last year, and forward estimates show this funding increasing by a total of $11 million over the next three years.334 A key objective of the National Partnership Agreement on Legal Assistance Services is to promote a more integrated approach to service delivery. Jurisdictional forums set up under the Agreement within each state and territory consider opportunities for improved coordination and targeting of legal services which will include improving services in areas of need in regional Australia.335

$10.4 million will also be provided to legal aid commissions under the Attorney-General’s Department Program 1.3: Justice Services. This represents a significant increase from the $3.3 million originally allocated in the 2010–11 Budget. However, that amount was revised up to $20.5 million when $17.6 million was provided in the 2010–11 Additional Estimates specifically for legal aid to combat people smuggling.336 Further to this amount, the Government will provide an additional $11.3 million over the next two years to reimburse costs incurred by state and territory legal aid commissions in providing legal assistance in costly Commonwealth law-related cases. The

funding will be made available through the Expensive Commonwealth Criminal Cases Fund (ECCCF).  

The change in funding to legal aid commissions reflects ‘a change in the annual funding profile for additional funding for legal aid for people smuggling, national security and drug-related cases’. Further details on funding to legal aid commissions, specifically in relation to people smuggling cases, can be found in the ‘Responding to Boat Arrivals’ brief in this Budget Review.

The Government also identified $10.4 million in savings over four years from financial assistance schemes for Commonwealth legal matters though streamlining administration and legislative change leading to further rationalisation.

To improve access to legal assistance for people in regional Australia, the Government will provide $4 million over four years through the use of the National Broadband Network (NBN). Grants will be made available to legal assistance providers to support NBN based delivery of legal services, and to attract and retain staff in particular regional areas.

In 2011–12, funding for community legal services and indigenous legal aid will continue. Under the Attorney-General’s Department Program 1.3: Justice Services, $34 325 million ($31 483 million in 2010–11) in payments will be made for the provision of community legal services across Australia. Under the Attorney-General’s Department Program 1.5: Indigenous Law and Justice, Commonwealth funding for Indigenous Legal Aid and Policy Reform will be $65 466 million ($65 721 million in 2010–11) and the Government has committed $19 833 million ($19 500 million in 2010–11) for payments for the provision of Family Violence Prevention Legal Services for Indigenous Australia.

The Budget allocation for legal aid has attracted comment from the Law Council of Australia (LCA), which described a financial crisis facing the legal assistance sector ‘due to 14 years of underfunding by the Commonwealth Government’. The LCA has lobbied the Government to contribute at least 50 per cent of the total Commonwealth/state funding for legal aid commissions. Commonwealth funding has been less than 50 per cent of combined Commonwealth/state funding for legal aid commissions since 1999–00. In 2010–11 Commonwealth funding was 42 per cent of combined Commonwealth/state funding. In 1996–97 this figure was 63 per cent.

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339. Ibid., p. 102.
340. Ibid.
341. Ibid., pp. 31, 33.
In December 2009, the Senate Standing Committee on Legal and Constitutional Affairs recommended an evidence-based review of funding for legal aid commissions involving federal, state and territory governments and relevant stakeholders.\footnote{344 Senate Legal and Constitutional Affairs Committee (References), Access to Justice, The Senate, Canberra, December 2009, p. xxi.}
Parliamentary issues

Brenton Holmes and Cathy Madden

Context

Budget measures for the parliamentary departments flow largely from the Government’s commitments to parliamentary reform and other matters arising from various agreements with independent MPs and the Australian Greens.

The Agreement for a Better Parliament, negotiated in September 2010 between the Government, Coalition and Independents, provided for, among other things:

• more sitting days each year
• the establishment of a Parliamentary Budget Office, and
• a review of staffing levels for House committees.

The Committee Office staffing review proposed a ‘modest increase’ in resources for House committees. The report of the review ‘will be central in managing the strategic direction of committee support in future years’. The Joint Select Committee on the Parliamentary Budget Office (PBO) was established by resolution in November 2010 and its report was tabled on 23 March 2011. The Committee inquired into the mandate, resourcing and protocols for the PBO, including consideration of comparable overseas bodies.

The Government also agreed to support the establishment of a Joint Select Committee on Gambling Reform, chaired by Independent MP Andrew Wilkie. The Joint Committee was established on 30 September 2010 and is resourced through the Department of the Senate.

Budget measures

Parliamentary Budget Office

The Government will provide $24.9 million over four years to establish a Parliamentary Budget Office. The PBO will be headed by a statutory officer, the Parliamentary Budget Officer. The PBO will be established as a new entity and will provide Parliament with independent advice and policy analysis on the Budget, fiscal policy and the financial impacts of policy proposals. The Government


will undertake further work in relation to the specific functions of the PBO, governance and accountability arrangements and the PBO’s interactions with Government agencies.\textsuperscript{348}

Funding of $0.5 million previously allocated to the Parliamentary Library for 2013–14 to provide policy advice to non-government MPs in election years is being redirected to the PBO.\textsuperscript{349}

**Parliamentary departments**

The Budget provides funding to the parliamentary departments for additional staffing, Hansard, broadcasting and security costs arising from additional scheduled sitting hours over the life of the 43rd Parliament. It also supports the establishment of new parliamentary committees.\textsuperscript{350} However, as small agencies, the parliamentary departments have highlighted for several years, in their annual reports and elsewhere, the compounding budgetary difficulties arising from application of the efficiency dividend. In 2008, the Joint Committee of Public Accounts and Audit reported that:

\begin{quote}
many small agencies report that they are no longer able to find genuine efficiency savings. To meet the efficiency dividend requirement, many small agencies have resorted to reducing or discontinuing activities that they consider to be lower priority or discretionary. For some agencies, their ability to deliver on core functions has been restricted.\textsuperscript{351}
\end{quote}

The temporary additional 0.25 per cent dividend sought by the Government will add to the parliamentary departments’ difficulties in delivering the expected level of service within budget.

\begin{itemize}
\item **Department of the House of Representatives**
\end{itemize}

The Budget provides the Department with an additional $1.008 million over two years to meet the costs of extra scheduled sitting hours.\textsuperscript{352} As well, it provides $2.1 million over four years to support the Joint Committee on the National Broadband Network.\textsuperscript{353} According to the Department’s Portfolio Budget Statement (PBS), the additional funding for the new measures ‘should take considerable pressure off the Department’s budgetary position in 2011–12 and 2012–13’, although ‘the budgetary position will remain tight in the forward years’.\textsuperscript{354}

\begin{itemize}
\item \begin{itemize}
\item \textsuperscript{349} Ibid.
\item \textsuperscript{350} Ibid., p. 282
\item \textsuperscript{351} Australian Parliament, Joint Committee of Public Accounts and Audit, *The efficiency dividend: size does matter*, Report 413, House of Representatives, Canberra, 2008, p. 3.
\item \textsuperscript{352} Portfolio budget statements 2011–12: *Department of the House of Representatives*, op. cit., p. 12.
\item \textsuperscript{353} *Budget Paper No. 2*, op.cit., p. 282
\item \textsuperscript{354} Portfolio budget statements 2011–12: *Department of the House of Representatives*, op. cit., p. 8.
\end{itemize}
\end{itemize}
The PBS also notes:

The financial year 2011–12 marks the peak year in the current parliamentary cycle and activity levels across all areas of operations of the Department are expected to be high ... [The] advent of the 43rd Parliament, with the first minority government in the House of Representatives for nearly 70 years, has increased the pressure on advice and service delivery.\textsuperscript{355}

The total appropriation for the Department in the 2011–12 Budget is $23.253 million, comprising $21.848 million (operating) and $1.405 million (capital).\textsuperscript{356}

• \textit{Department of the Senate}

The Department has received additional funding for one new initiative—the Joint Select Committee on Gambling Reform mentioned above. The Committee was established to pursue gambling reforms, including the roll out of a full national pre-commitment scheme by 2014, and will present its final report to Parliament no later than 30 June 2013.\textsuperscript{357} The total additional funding over three years amounts to $1.355 million, of which $0.33 million was approved for the 2010–11 budget period. (The funding for 2010–11 has been included in the 2011–12 Budget appropriation, so that in FY 2011–12 the Department will receive $0.841m for this measure.)\textsuperscript{358}

The total appropriation for the Department of the Senate in the 2011–12 Budget is $21.569 million, which includes both the amount for the Joint Committee on Gambling Reform and a capital appropriation of $0.815 million.\textsuperscript{359} This amount compares with $20.5m appropriated in 2010–11.\textsuperscript{360}

• \textit{Department of Parliamentary Services}

The Department will receive funding of $0.677 million over two years to meet increased costs for Hansard, broadcasting and security services arising from additional sitting hours.\textsuperscript{361} The appropriation for FY 2011–12 comprises $102.932 million (operating) and $20.133 million (capital)—a total Departmental appropriation of $123.065 million\textsuperscript{362}—and $12.279 million administered.

\begin{itemize}
\item \textsuperscript{355} Ibid.
\item \textsuperscript{356} Ibid., p. 23. (See p. 24 for capital budget.)
\item \textsuperscript{357} J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), B Shorten (Assistant Treasurer), A Wilkie (Member for Denison), N Xenophon (Senator for South Australia), \textit{New committee to progress gambling reform}, joint media release, 30 September 2010, viewed 12 May 2011, http://www.jennymacklin.fahcsia.gov.au/mediareleases/2010/Pages/gambling_reform_30sept.aspx
\item \textsuperscript{359} Ibid., Table 1.1: Resource statement, Budget Estimates for 2011–12
\item \textsuperscript{360} Ibid., p. 4.
\item \textsuperscript{361} Australian Government, \textit{Portfolio budget statements: 2011–12, budget related paper no. 1.19C, Department of Parliamentary Services}, Commonwealth of Australia, Canberra, 2011, Table 1.2: ‘DPS 2011–12 Budget Measures’
\item \textsuperscript{362} Ibid., p. 34, 38.
\end{itemize}
funding for the Parliament House Works program. The Department’s PBS notes that supplier costs continue to rise at rates higher than the budget supplementation.

A decline in purchasing power and the additional 0.5% efficiency dividend in 2011–12 will necessitate a succession of cost savings actions. For example, in 2010–11, actions included reducing staff levels by over 20 FTE and a further reduction of around 6 is planned for 2011–12.

### Additional staffing entitlement for senators and members

The Budget provides for a total of 10 additional personal staff for government and non-government members. The Budget funding is $7.2 million over five years, with $700 000 in FY 2010–11, and $1.6 million in each of the following four financial years. Partly in response to the Henderson review of government staffing undertaken in 2009, the Government had provided $44 million over four years in the 2009–10 Budget to employ an additional 44 government and non-government personal staff. It has been reported that of these 44 positions, 34 were allocated to ministers’ offices.

The number of Government personal staff has increased from 368 as at 1 October 2009 to 420 as at 1 February 2011. Special Minister of State, Mr Gray, has been reported as saying that the Government’s staffing level of 420 positions is still 10.2 per cent below the 467.9 full time equivalent staff positions of the Howard government in 2007.

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363. Ibid., p. 11
364. Ibid., p. 33.
365. Ibid.
Australian Public Service

Dr Nicholas Horne

Background

Australian Public Service staffing

The 2011–12 Budget gives an estimate of 262,995 average staffing level (ASL) for agencies in the general government sector for 2011–12 and a revised estimate of 261,891 ASL for 2010–11.\(^\text{370}\) ASL is not a headcount but rather a figure showing full-time equivalent staffing levels.

In March and April 2011 some staffing reductions within the Australian Public Service were reported as having taken place.\(^\text{371}\) In the lead-up to the Budget the Government announced that forecast Defence civilian staffing growth of 1,655 over 2010–14 would be reduced by 1,000 positions through ‘natural attrition, not hiring new staff and, if required, some limited voluntary redundancies’.\(^\text{372}\) The Government also stated that it did not ‘necessarily expect any forced job losses in the public sector’ resulting from Budget measures.\(^\text{373}\)

Agency efficiency and financial sustainability

In April 2011 the Finance Minister announced that the efficiency dividend, which is currently applied at 1.25 per cent per annum, will rise to a rate of 1.5 per cent per annum for the 2011–12 and 2012–13 financial years before returning to 1.25 per cent.\(^\text{374}\) The Minister expressed the Government’s expectation that ‘agencies will be able to meet the temporary increase in the efficiency dividend without resorting to forced or compulsory redundancies’.\(^\text{375}\)

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\(^{375}\) Ibid.
Also in April 2011 the Government released a review report on the efficiency dividend and on promoting efficiency within government. The review proposed that the efficiency dividend should be retained in the short term, but also that it should be applied at the portfolio level commencing in 2011–12 ‘to allow more flexibility to re-allocate its impacts at agency level’. The review also proposed that ‘consideration be given to improving the public presentation of the [e]fficiency [d]ividend and its role in the current budget framework’. The Government has accepted the recommendation to apply the efficiency dividend at portfolio level.

In April 2011 the Australian National Audit Office indicated that 20 agencies had reported ‘financial sustainability issues’ for the 2009–10 financial year including ‘difficulties encountered in absorbing the costs of new budget initiatives for which departmental funding had not been provided’ and ‘difficulties in achieving savings targets’.

2011–12 Budget measures

Australian Public Service staffing

As noted above, the Budget estimates a total ASL of 262,995 for agencies for 2011–12. This represents an overall estimated increase of 1,104 ASL on 2010–11 levels (261,891 ASL). For 2011–12 the Budget also estimates:

- total ASL reductions for agencies of 1,726 ASL and
- total ASL gains for agencies of 2,830 ASL.

The largest estimated ASL reductions are for Centrelink (−1,016 ASL) and the Department of Education, Employment and Workplace Relations (−270 ASL). The largest estimated ASL gains are for Department of Defence/Defence Materiel Organisation civilian staff (+961 ASL), Department of Defence reserve staff (+500 ASL), and the Department of Immigration and Citizenship (+285 ASL).

Estimated ASL changes in 2011–12 for each portfolio and for selected agencies are set out in Table 1 below.

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377. Ibid.

378. P Wong (Minister for Finance and Deregulation), Driving efficiencies in government, op. cit. In December 2008 the Joint Committee of Public Accounts and Audit completed an inquiry into the effect of the efficiency dividend on small agencies. The Committee’s report and the government response to the Committee’s recommendations are available on the Committee website: http://www.aph.gov.au/house/committee/jcpaa/reports.htm, viewed 17 May 2011

Efficiencies and savings

The Budget estimates that the increase in the efficiency dividend rate will return $126 million to the budget in 2011–12 with a total of $1.1 billion being returned to the budget over the four years to 2014–15. From 2011–12 the dividend will also be applied at a portfolio level which will enable ‘portfolio Ministers to reallocate the application of the efficiency dividend between entities, particularly small agencies, within their portfolio’. The Budget further states that the efficiency dividend rate will drop to 1 per cent per annum in 2015–16.

The Budget also identifies various other savings measures across and within the portfolios including:

- approximately $6 million per annum arising from the implementation of coordinated procurement arrangements for stationery and office supplies commencing in 2011–12
- $1.185 billion over four years in the Defence portfolio arising from ‘efficiencies in corporate and support functions’
- $53.5 million over four years in the Health and Ageing portfolio arising from administrative efficiencies
- $510.2 million over four years arising from measures relating to the integration of Department of Human Services, Medicare Australia, Centrelink and Child Support Agency information technology functions and services
- $32.8 million over four years in the Department of Agriculture, Fisheries and Forestry arising from ‘rationalisation of corporate functions’
- $12.1 million over four years in the Australian Transaction Reports and Analysis Centre (AUSTRAC) arising from efficiencies
- $167.8 million over four years in the Department of Human Services and the Department of Education, Employment and Workplace Relations arising from ‘efficiencies in employment services arrangements’ and
- $205.2 million over four years in the Department of Immigration and Citizenship arising from grant administration efficiencies and funding reductions.

The Budget continues the Government’s policy of limiting real growth in government expenditure to 2 per cent per annum until a budget surplus of at least 1 per cent of Gross Domestic Product is achieved.

381. Ibid.
Agency additional funding

The Budget provides additional funding to support the operations of a number of existing agencies. Examples include:

- $6.1 million over four years for the High Court of Australia ‘to assist the High Court in managing unavoidable increases in costs primarily relating to the High Court’s accommodation’

- $10 million in 2011–12 for the Australian Electoral Commission (AEC); a ‘financial review’ of the AEC will be conducted before the 2012–13 Budget

- $28.8 million in 2011–12 for the Australian Securities and Investments Commission (ASIC); $18.8 million of the funding will come from interest earned by the government on unclaimed moneys. A ‘financial review’ of ASIC will be conducted before the 2012–13 Budget and

- $30 million over four years for the Australian Bureau of Statistics (ABS) ‘to improve the collection and analysis of macro-economic statistics’ by the ABS. 384

Table 1: estimated portfolio and agency ASL changes 2011–12

The following table, extracted from Budget strategy and outlook: budget paper no. 1: 2011–12, sets out the estimated ASL changes (reductions or gains) in 2011–12 for each portfolio and for selected agencies. As the table indicates, ASL reductions and gains vary considerably among agencies and portfolios.

The Budget indicates that some ASL changes, for example those for the Department of the Prime Minister and Cabinet, the Department of Sustainability, Environment, Water, Population and Communities, and the Department of Health and Ageing, are related to machinery of government changes such as transfers of responsibilities or functions.

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 and budget.

### Table 1: Estimated portfolio and agency ASL changes 2011–12

<table>
<thead>
<tr>
<th>Portfolio / agency</th>
<th>ASL reductions</th>
<th>ASL gains</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture, Fisheries and Forestry portfolio</strong></td>
<td></td>
<td>+51</td>
</tr>
<tr>
<td>— Department of Agriculture, Fisheries and Forestry</td>
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<td>+46</td>
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<td><strong>Attorney-General’s portfolio</strong></td>
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<td>— Attorney-General’s Department</td>
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<td></td>
</tr>
<tr>
<td>— Australian Crime Commission</td>
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<tr>
<td>— Australian Customs and Border Protection Service</td>
<td>-90</td>
<td></td>
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<tr>
<td>— Australian Federal Police</td>
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<tr>
<td>— Australian Security Intelligence Organisation</td>
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<tr>
<td>— Australian Transaction Reports and Analysis Centre (AUSTRAC)</td>
<td>-22</td>
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<td>— Family Court of Australia</td>
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<td></td>
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<tr>
<td>— Insolvency and Trustee Service Australia</td>
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<td>— Office of the Director of Public Prosecutions</td>
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<td><strong>Broadband, Communications and the Digital Economy portfolio</strong></td>
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<td>— Department of Broadband, Communications and the Digital Economy</td>
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<td>— Australian Broadcasting Corporation</td>
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<tr>
<td>— Australian Communications and Media Authority</td>
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<td>— Special Broadcasting Service Corporation</td>
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<td><strong>Climate Change and Energy Efficiency Portfolio</strong></td>
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<td>— Department of Climate Change and Energy Efficiency</td>
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<td><strong>Defence portfolio</strong></td>
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<td>— Department of Defence–civilian (including Defence Materiel Organisation)</td>
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<td>— Department of Defence–military</td>
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<tr>
<td>— Department of Defence–reserves</td>
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<tr>
<td>— Department of Veterans’ Affairs</td>
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<tr>
<td>— Australian War Memorial</td>
<td>+20</td>
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<td>— Defence Housing Australia</td>
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<td><strong>Departments of the Parliament portfolio</strong></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>— Department of Education, Employment and Workplace Relations</td>
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<td>— Comcare</td>
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<td>— Fair Work Australia</td>
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<td>— Office of the Fair Work Ombudsman</td>
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<td><strong>Families, Housing, Community Services and Indigenous Affairs portfolio</strong></td>
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<tr>
<td>— Aboriginal Hostels Limited</td>
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<tr>
<td>— Northern Land Council</td>
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<td><strong>Finance and Deregulation portfolio</strong></td>
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<td>ASL gains</td>
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<tr>
<td>—Australian Electoral Commission</td>
<td>-39</td>
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<td>—ComSuper</td>
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<td><strong>Foreign Affairs and Trade portfolio</strong></td>
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<td>—Department of Foreign Affairs and Trade</td>
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<td>—AusAID</td>
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<td>—Australian Trade Commission (Austrade)</td>
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<td><strong>Health and Ageing portfolio</strong></td>
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<td>—Medicare Australia (will become part of DHS in 2011–12)</td>
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<td><strong>Immigration and Citizenship portfolio</strong></td>
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<td>—Migration Review Tribunal and Refugee Review Tribunal</td>
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<td><strong>Infrastructure and Transport portfolio</strong></td>
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<td>—Australian Maritime Safety Authority</td>
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<td><strong>Innovation, Industry, Science and Research portfolio</strong></td>
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<td>—Australian Nuclear Science and Technology Organisation</td>
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<td>—Commonwealth Scientific and Industrial Research Organisation</td>
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<td>No change</td>
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<td>—IP Australia</td>
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<td><strong>Prime Minister and Cabinet portfolio</strong></td>
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<td>—Department of Regional Australia, Regional Development and Local Government</td>
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<td>—Australian National Audit Office</td>
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<td>—Australian Sports Commission</td>
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<td>—National Archives of Australia</td>
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<td>—National Library of Australia</td>
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<td>—National Museum of Australia</td>
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<td><strong>Resources, Energy and Tourism portfolio</strong></td>
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<td>—Department of Resources, Energy and Tourism</td>
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<td>—Geoscience Australia</td>
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<td><strong>Sustainability, Environment, Water, Population and Communities portfolio</strong></td>
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<td>—Department of Sustainability, Environment, Water, Population and Communities</td>
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<td>—Bureau of Meteorology</td>
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<td><strong>Treasury portfolio</strong></td>
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<td>—Australian Bureau of Statistics</td>
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<td>—Australian Competition and Consumer Commission</td>
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<td>—Australian Prudential Regulation Authority</td>
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<td>—Australian Taxation Office</td>
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<td>+55</td>
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<tr>
<td>—Productivity Commission</td>
<td>-11</td>
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</table>

Source: *Budget paper No. 1*, pp. 6–69—6–73.
Science portfolio overview

Matthew L James

Before this year’s announcement, scientists feared severe cutbacks to research spending, but the reality was an overall growth trend. There were, however, some limitations, particularly in specific programs in the rural and environmental science sectors.

Estimated total Federal Government expenditure on science research and innovation areas amounted to $9,384 million in 2011–12, which was an increase of about three per cent above revised outcomes for the previous year. (The Australian Government’s 2011–12 Science, Research and Innovation Budget Tables provide further breakdown by agencies across portfolios). While the 2011–12 budget for the Commonwealth Scientific and Industrial Research Organisation (CSIRO) dipped slightly from 2010–11, the Government has committed $3 billion to it through a new Quadrennial Funding Agreement to operate from 2011 to 2015. Funding for the National Health and Medical Research Council (NHMRC) research grants was maintained with small increases projected in forward years. Funding, through the NHMRC’s Medical Research Endowment Account, increased from $715.5 million in 2010–11 to $746.1 million in 2011–12, or an increase of 4.3 per cent.

Additional funding was announced for a number of science programs, such as: $21 million over three years for ‘Science for Australia’s Future—Inspiring Australia’ a national strategy for the public engagement in science (redirected from savings); and, $40.2 million of new money over four years, to support the Joint Australia-New Zealand bid to host the Square Kilometre Array radio telescope to be located in the Western Australian outback. There were also grants for establishment of a

389. Ibid.
South-East South Australian Innovation and Investment Fund of $10 million (over two years); for the continuation of the Tasmanian Information and Communication Technologies Centre ($20 million over five years to be matched by the other parties involved); and a new Australia-China Science and Research Fund of $9 million, with each program expenditure allocation spread over some years.\(^{391}\)

However, on the debit side, funding for the Cooperative Research Centres programs dropped by $33.4 million over four years, reportedly in the areas of cotton and beef research, forestry and national plant bio-security, and feral pest controls, the savings being redirected to other programs.\(^{392}\) The Department of Innovation, Industry, Science and Research’s Collaborative Research Networks funding program is destined to be cut back by $20.7 million in its last two years.\(^{393}\) As well there was no funding to continue the International Science Linkages program beyond this year, although this cut was somewhat offset by the new China fund mentioned above.\(^{394}\)

Overall, science bodies were relieved that large cuts were avoided. The Australian Academy of Science, while welcoming maintenance of most research funding, said that the Budget lacked inspiration for our technologically advanced future.\(^{395}\) The Federation of Australian Scientific and Technological Societies appear to concur with this view, saying it was business as usual for science.\(^{396}\)

### Australian Nuclear Science and Technology Organisation (ANSTO) and Nuclear Waste

The Government announced additional 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 an additional $8.7 million (over four years) to the $9.7 million allocated in 2010–11 to ensure that Australia complies with international best practice.

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for decommissioning nuclear facilities.\footnote{K Carr (Minister for Innovation, Industry, Science and Research), \emph{Funding to safely decommission nuclear facilities}, media release, 10 May 2011, viewed 11 May 2011, \url{http://minister.innovation.gov.au/Carr/MediaReleases/Pages/FUNDINGTOSAFELYDECOMMISSIONNUCLEARFACILITIES.aspx}} This measure followed on from $13.2 million provided in the \emph{Mid-Year Economic and Fiscal Outlook 2007–08} to initiate the decommissioning at Lucas Heights.

In the Resources, Energy and Tourism portfolio, the implementation of a legislative regime for a new National Radioactive Waste Management Facility continued, involving consultation with state and territory governments. This will cost $4.2 million this year and $2.9 million in the year ahead.\footnote{Australian Government, \emph{Portfolio budget statements 2011–12: budget related paper no. 1.16: Resources, Energy and Tourism Portfolio}, Commonwealth of Australia, Canberra 2011, pp. 27–8, 30–1, viewed 12 May 2011, \url{http://www.ret.gov.au/Department/Documents/budget_2011-12/dept_resources_energy_and_tourism.pdf}} Total departmental appropriation for Geoscience Australia in 2011–12 was down by about $4.5 million from its 2010–11 budget.\footnote{Ibid., p. 78.}
**Film and arts**

Dr John Gardiner-Garden

**Film**

The Government’s film and television initiatives in the 2011–12 Budget amount to a $56 million funding boost over four years.  

**Background**

When it comes to Commonwealth support for film production, concerns are often expressed that the criteria for eligibility are too generous and that open-ended tax incentives to overseas productions can forgo and drain revenue without permanent benefits to Australia. This was the case in the early 1980s when the cost to revenue of film production tax incentives was rapidly increasing, and it prompted a policy shift in the late 1980s away from tax concession to film bank models. Following a policy shift early last decade back in favour of tax instruments (this time a range of tax offsets) concerns have again been raised.  

The Government, however, in this Budget, appears to have balanced these concerns against other considerations. These include the impact the high Australian dollar is having on the flow of production work into Australia, reported job losses in the Gold coast film industry, and a campaign by industry stakeholders (which included a 9500 signature petition) calling for an increase in film production tax offsets. The Government’s initiatives were also a response to a recent review which found that, yes, the cost to government is increasing:

- In the three years since the introduction of the Australian Screen Production Incentive, the Government has provided $412.1 million in support through the tax system, compared to $136.7 million in the three years before the package and

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The strong uptake of the Producer Offset alone has provided $266.63 million in indirect Government support to the end of 2010, and the Location and Post, Digital and Visual Effects Offsets have provided $67 million in support.\textsuperscript{402}

But

- early signs show that the Producer Offset is encouraging domestic feature film production, with total [Australian feature film] production expenditure in 2009–10 of $265 million representing an 88 per cent increase above the five-year pre-Producer Offset average

- in 2009–10, total production expenditure in Australia [Australian feature film and television drama together with international activity] was a record $731 million, well above the five-year pre-Producer Offset average of $547 million

- the Producer Offset is encouraging increasing interest in Australia as a co-production partner and

- there are indications that the Producer Offset is having a solid impact on television production.\textsuperscript{403}

The review also found that the industry expressed concern about the timing of payments through the tax system and the administrative burden in applying for the offset, especially for non-feature documentary productions. It also noted that while the Government’s international film tax offsets attract large-budget offshore productions to Australia, the evidence indicates that the success of the Location and Post, Digital and Visual Effects (PDV) Offsets is closely related to global financial circumstances, the exchange rate and competition from incentives available in other countries.

**The Government’s Initiatives**

The $56 million funding boost over four years is made up of:

- $2 million to the Australian Bureau of Statistics and Screen Australia to conduct a screen industry survey and deliver the latest comprehensive data on the sector

- $11 million for direct funding from Screen Australia to documentary producers with projects under $500 000 (thus reducing the administrative burden on these producers) and

- $43 million dollars for changes to production incentives which include:


\textsuperscript{403} Ibid.
– lowering the eligibility threshold for the Producer Offset eligibility for feature films, television and online programs from $1 million to $500 000

– increasing the PDV Offset to 30 per cent of qualifying Australian PDV expenditure worth $8 million over four years

– expanding the eligible expenses under the Producer, Location and PDV Offsets with the intention of benefiting all screen formats by allowing for the claiming of relevant insurance, legal, auditing and company fees, marketing, distribution and carbon offsets expenditure

– removing of the 20 per cent cap on ‘above the line’ qualifying expenditure under the Producer Offset

– extending eligibility for the Producer Offset to short-form animated documentaries

– allowing 65 hours of programming to be eligible for the Producer Offset, rather than 65 episodes

– allowing official co-productions to claim relevant expenditure on foreign studio shoots under the Producer Offset and

– increasing the Location Offset rebate to 16.5 per cent and allowing international productions to claim additional insurances and legal, auditing and company fees as qualifying expenditure.404

Nearly all the cost of the above changes will be offset by $48 million in savings over four years from 2011–12 by removing Goods and Services Tax (GST) amounts from expenditure qualifying for the film tax offsets and increasing the minimum expenditure thresholds for documentaries to $500 000 in production (from the current threshold of $250 000).405

Arts

The Government’s wider arts initiatives include $10 million over five years for the Australia Council to fund up to 150 additional artistic works, presentations and fellowships over the next five years through the New Support for the Arts program.406 The program will provide grants of up to $80 000 for new work, grants of up to $50 000 for presentations to Australian audiences, and fellowships for young and emerging and mid-career artists. This commitment comes in the context of some years of funding for the Australia Council which has not kept up with Consumer Price Index increases, leaving

404. $56 million support package for the film and television industry – Federal budget 2011, media release, op. cit.
the agency with a grant fund of steadily diminishing value, and in the context of a raising of the efficiency dividend which will cost the Australia Council $3.3 million over forward estimates (and make significant demands also on the budgets of national collecting agencies such as the National Film and Sound Archive, National Gallery, National Library and National Museum).  

Of some relevance also to the arts is the Government’s commitment of $6 million over three years to a joint national program of activities to celebrate the Centenary of Canberra in 2013. The activities will include cultural, sporting and civic awareness events.

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Media

Dr Rhonda Jolly

Digital television: the Household Assistance Scheme

This Budget extends the Household Assistance Scheme (HAS), which was announced in the 2009–10 Budget, to help certain households in Mildura, regional South Australia, Broken Hill, regional Victoria and eastern Queensland to convert to digital television.  

People who are in receipt of Age Pensions, Disability Support Pensions, Carer Payments, Department of Veterans’ Affairs (DVA) service pensions or DVA income support supplements across Australia will be eligible to receive a high definition (HD) set top box under the scheme. Six months before each designated region is due to switchover to digital television Centrelink will invite eligible households to opt in to the scheme. The households will then be eligible to receive, at no cost, the set top box plus installation by a qualified installer and a demonstration of the technology. So far the scheme’s allocation of $15.1 million has assisted over 38 000 households, this Budget provides a further $308.8 million to cover the period to December 2013 when it is expected that digital switchover will be completed.

Extension of the HAS scheme has proven to be controversial, with one commentator labeling it silly and asking why pensioners cannot pay for their own set top box and have their relatives install it. Gerry Harvey, from the retailer Harvey Norman, has claimed that his company could install the boxes more cheaply than the average cost of $350 allocated by the Government to accredited installers. The Opposition has also questioned the viability of the scheme and in response the Government released a statement on 11 May justifying its operation. Stephen Conroy, the Minister for Broadband, Communications and the Digital Economy, was adamant in this statement that claims that HAS would ‘risk lives and damage businesses’ were ‘misleading and based on incorrect information’. The Minister also challenged Gerry Harvey to bid for the contract to install the set top boxes, with one illustrator wryly implying (as shown in the cartoon below) that Harvey’s

412. Gerry Harvey made the comments on talkback radio and this was reported on television programs such as the Seven Network’s Sunrise program on 13 May.
413. Conroy, Media statement, op. cit.
414. Ibid.
comments may not necessarily be followed up with action.\textsuperscript{415} The Opposition Leader continued
discussion of the issue in his budget reply speech commenting that the program should be called
‘building the entertainment revolution’ and later remarking on the difference in pricing between the
Government’s allocation and the Harvey Norman claims.\textsuperscript{416} Senator Conroy responded by releasing a
further statement on 13 May which revealed that HAS had been developed in consultation with
Vision Australia and that it had been supported by a specialist consumer group. In addition, the
accreditation and registration process for installations had been developed in consultation with
television industry groups.\textsuperscript{417}

Gerry Harvey and the set top box saga

\begin{figure}
\centering
\includegraphics[width=0.5\textwidth]{set_top_box_saga.png}
\caption{Set top box saga}
\end{figure}

It is interesting that the HAS scheme has taken this long to spark debate. As pointed out in the
Parliamentary Library’s review of the Budget in 2009–10, it is clear that a fundamental consideration
in introducing this type of scheme is its cost.\textsuperscript{418} The Library brief noted the substantial cost of a
similar scheme in Britain. Similarly, the United States found that providing a large number of people
with set top boxes was extremely expensive.\textsuperscript{419}

\begin{thebibliography}{9}
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transcript, Australian Broadcasting Corporation (ABC), 12 May 2011, viewed 13 May 2011,
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\bibitem{Conroy} S Conroy (Minister for Broadband, Communications and the Digital Economy), \textit{Household Assistance Scheme: the facts}, media release, 13 May 2011, viewed 13 May 2011,
\bibitem{Jolly1} R Jolly ‘Broadcasting and the arts: digital radio and television’, \textit{Budget review 2009–10}, Research paper no. 33,
2009–10, Parliamentary Library, Canberra, 2009, viewed 12 May 2011,
\bibitem{Jolly2} R Jolly, \textit{Going digital: tracing the transition to digital television in Australia}, Research paper no. 7, 2010–11,
\end{thebibliography}
The bottom line, however, is that without a scheme such as HAS, it is probable that a number of households would be left with blank television screens after their areas make the switch to digital. So given the consistent rhetoric of governments, regardless of their persuasion, about the right of Australian audiences to have access to free-to-air broadcasts and to see events of national significance on their television sets, this scheme, or something similar was an inevitable component of the digital transition. It is regrettable that the debate about cost and alternative options did not take place sooner and that so much of the current debate has overlooked the issue that those who can least afford to make the transition to digital television are the beneficiaries of the scheme.

Community broadcasting: funding boost

This Budget also provides a funding boost of $12.5 million for community radio over four years to establish a new Community Radio Content Development Fund and to increase local content production. Some of this funding will be specifically targeted towards assisting the development of new content for Indigenous and ethnic radio and Radio for the Print Handicapped broadcasting.

The Community Broadcasting Association of Australia General Manager, Kath Letch, welcomed the funding increase calling it ‘fresh hope’ that the Government was prepared to give greater recognition to the contribution community broadcasting makes to society and to assist many of its stations which are struggling to survive. The Australian Greens also welcomed the community broadcasting funding, but at the same time, the Greens pointed out that a number of community broadcasters in a joint submission to the Government in 2010 requested an additional $25 million in annual funding. Greens’ Senator, Scott Ludlam, highlighted the inconsistency with the funding allocated to the set top scheme and the lack of funding for a broadcasting sector that ‘includes a significant number of stations specifically catering to senior audiences’.

The Minister for Broadband, Communications and the Digital Economy, Stephen Conroy noted that the rationale behind the boost to community broadcasting was that this sector plays a vital role in

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supporting media diversity and providing communities with a local voice’. That having been said, there is some justification therefore in the sector’s pleas for more than what could be labelled token funding by some, given the size of the sector and its not inconsiderable audience of over 9.5 million Australians.

National Indigenous Television: possible new directions

The National Indigenous Television Service (NITV) began in 2007 as a private company, but with a government funding allocation of $48.5 million to allow it to broadcast until the end of June 2010. Funding was extended in 2010–11, pending the outcome of a review of Indigenous broadcasting (the Stevens review). Further funding of $15.2 million was announced in an interim government response in April and confirmed in the Budget to allow NITV to continue to broadcast during 2011–12.

The Stevens Review emphasised that Indigenous broadcasting has great potential to improve the wellbeing of Aboriginal and Torres Strait Islander peoples and to support policy objectives in Indigenous affairs, in particular, closing the gap initiatives. The review delivered a number of significant recommendations for the Government to contemplate. One of these was that the ownership of NITV was transferred to the Government and that it was funded as an ongoing program on a triennial basis, as are the Australian Broadcasting Corporation and the Special Broadcasting Service.

As the interim response noted, the 2011–12 funding will cover NITV’s operations during a transitional period, during which time responsibility for Indigenous broadcasting will be transferred to the Department of Broadband, Communications and the Digital Economy. During the transitional period the Communications Minister, Senator Conroy, intends to ‘negotiate with NITV a more sustainable structural model that achieves the sector’s widely held goal of providing more original Indigenous content on free-to-air television’.

In effect therefore, the funding for NITV in this Budget allows the Government time to consider the Stevens’ recommendations and to negotiate with the Indigenous broadcasting sector, particularly

425. Nine point five million Australians listen to community radio in an average month and 3.7 million viewers watch community television nationally.
428. This is due to take place 1 July 2011.
with NITV, before making any decisions regarding funding arrangements for the service in the future. The NITV noted in April that it was looking forward to negotiations with the Government ‘in good faith, and with a sense of optimism about NITV and what it can do to make a positive difference to the lives of Indigenous Australians, and indeed all Australians’.\footnote{K Reys, \textit{Response to the review of the Australian Government investment in the Indigenous broadcasting and media sector} (the Stevens Review), media release, 19 April 2011, viewed 13 May 2011, \url{http://nitv.org.au/index.php?option=com_content&view=article&id=762:response-to-the-review-of-australian-government-investment-in-the-indigenous-broadcasting-and-media-sector-the-stevens-review&catid=8&Itemid=13}}
School education

Marilyn Harrington

The 2011–12 budget measures for school education have received a mixed response. The portfolio area is not immune from the Budget’s fiscal constraints and ‘redirection’ of funding to new areas of priority, which will significantly affect two of the Labor Government’s most prominent school education programs.

The provision of new funding for students with disabilities (SWD), after a lengthy campaign for additional support from both the government and non-government school sectors, has been widely welcomed. Indeed, this budget measure could be considered the missing budget measure of recent budgets. Of the $200 million over three years to 2013, it is estimated that $153.3 million (76.7 per cent) will be provided to government schools and $42.4 million (21.2 per cent) to non-government schools. This apportionment is to be expected with government schools educating the majority of SWD—79.1 per cent of the 169 517 SWD in 2009. The remaining $4.3 million is likely for departmental expenses. One issue in relation to this measure is the need to secure national agreement on definitions of disability. This has been an ongoing issue, particularly in relation to students with learning and behavioural difficulties. Presumably, national standards will be addressed through the proposed National Partnership with the states and territories and through funding agreements with non-government authorities, which will be the means by which the funding for this budget measure is delivered.

The other two major initiatives—National Rewards for Great Teachers ($425.0 million over four years) and Teach Next ($18.1 million over four years)—have had a mixed response. Through the Council of Australian Governments’ National Partnership Agreement on Improving Teacher Quality, there is national agreement for rewarding teachers’ performance but, as critics have continued to note, the results of research into the effectiveness of performance rewards is ambivalent. The

Calculations of funding for students with disabilities are based on data in Table 2.4, p. 48.


Teach Next initiative, similar to the Teach for Australia program which recruits high-achieving graduates into teaching, has raised concerns about the fast-tracking of teacher qualifications.436

The extension of funding for the School Chaplaincy Program ($222.0 million over three years), has also been criticised. The Program is currently the subject of a High Court challenge and there is a view that the money would be better spent on the provision of counselling services provided by professionally qualified staff.437 However, the measure, with its focus on schools in remote, regional and disadvantaged areas, has been welcomed by the Australian Primary Principals Association.438

Two prominent Labor Government programs have been affected by the reprioritisation and redirection of funding—the Digital Education Revolution (DER) and the Trade Training Centres (TTC) program. Significant DER funds ($132.5 million over four years) are being ‘redirected’ and the TTC program is being put on hold (amounting to $102.8 million over four years). Given the Budget’s emphasis on vocational education and training, it is unclear why the Government has chosen to defer funding of further TTC projects until 2015–16.439

The Schools Support Program is also having its funding reduced ($10 million over four years). Funding is being taken from two elements of this program—the Drugs component of the Values Education and Civics and Citizenship program, and the School Drug Education Strategy—to support the continuation of the Active After Hours Program.440

In the case of one minor school education program, the Framework for Open Learning Program, the funds are being ‘redirected’ towards the listing of the organisation, ‘One Laptop per Child’, as an income tax deductible gift recipient.

440. Department of Education Employment and Workplace Relations, email, 13 May 2011. There is a question, however, about why the Government has chosen only to continue funding for the Active After Schools program until December 2012. Active After Schools, first introduced in 2005 by the Howard Government, has been a successful program and assessed in 2009 with a 90 per cent satisfaction rate. See Australian Sport Commission (ASC), An interim report of the evaluation of the Australian Sports Commission’s Active After-school Communities Program: summary findings of the program monitoring research 2009, ASC, Canberra, 2011, viewed 13 May 2011, http://www.ausport.gov.au/_data/assets/pdf_file/0011/399107/Interim_AASC_report_Summary_findings_of_th e_program_monitoring_research_2009_Revised_28_April_2011_v3.pdf
Whether funding for two science education programs—the Primary Connections and the Science by Doing programs—would be extended was the subject of pre-Budget speculation.\footnote{See, for example, D O’Keeffe, ‘Anger over axing of science program’, \textit{Campus Review}, vol. 21, no. 6, 5 April 2011, p. 6, viewed 17 May 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjrnart%2F690610%22} These programs have been funded under the Boosting Innovation, Science, Technology and Mathematics Teaching program, the funding for which will finish at the end of the current financial year.\footnote{The Boosting Innovation, Science and Mathematics and Technology Teaching program was funded in the 2004–05 Budget ($38 million over seven years to 2010–11) as part of the Howard Government’s Backing Australia’s Ability initiative. Australian Government, \textit{Budget measures: budget paper no. 2: 2004–05}, Commonwealth of Australia, Canberra, p. 137, viewed 17 May 2011, http://www.budget.gov.au/2004-05/bp2/html/expense-06.htm}

With the finalisation of the Building the Education Revolution programs and the phasing out of some of the National Partnerships for schools that temporarily changed the traditional ratio of Commonwealth funding between the government and non-government school sectors, the 2011–12 Budget marks the return of the usual pattern of Australian Government expenditure. Ongoing funding for government and non-government schools, as provided through the National Schools Specific Purpose Payment will amount to an estimated $11.4 billion in 2011–12, of which two-thirds will be provided to non-government schools. While overall funding for school education is not a particular focus of the 2011–12 Budget, there is definitely a sense of anticipation with the Government’s school funding review due to report later this year.
Higher education

Coral Dow

Commonwealth supported places

The 2011–12 higher education budget provides increased funding of $1.2 billion over four years, primarily to fund the student demand-driven system which will remove the cap on the number of Commonwealth funded university places from 2012.

The new system, a major recommendation of the Bradley review of higher education, was announced in the context of the 2009–10 Budget. In 2009 the Government allowed universities to enrol above the existing cap by ten per cent in 2010 and 2011 as a lead-in to the new system. The demand for places has been strong, particularly in 2010 during the economic downturn, and the Government has significantly revised the number of places funded under the Commonwealth Grants Scheme. In 2009 it estimated 458 000 undergraduate Commonwealth supported places would be funded by 2012 and revised the figure to 488 016 in the 2010–11 Budget.443 This target has almost been met in 2011 with the latest data showing over 480 000 Commonwealth supported undergraduate places.444 The 2011–12 Budget now estimates 517 000 places for 2013 and has adjusted funding accordingly.445 Stakeholders will be pleased that the Government has maintained the 2009 commitment to the student demand driven system as concern about cutbacks and savings— that the Government might reduce funding and restrict the expansion of university places— was expressed in pre-budget discussions.446

Regional loading

Regional universities and universities with regional campuses have been awaiting the outcome of the Review of Regional Loading. The Government has released the Review’s final report in the context of the Budget and has accepted its recommendations to increase funding by $109.9 million


to a total of $249.4 million over four years. The formula for the regional loading will be revised and take effect from 2012. The revised formula will use the Australian Bureau of Statistics remoteness categories which will increase the loading to remote and outer regional campuses (such as Charles Sturt University and James Cook University) and reduce the loading to inner regional campuses (such as the University of Tasmania). 447

Regional universities and campuses will also benefit from infrastructure funding of up to $500 million from a regional priority round from the Education Investment Fund in 2011–12.

However, there are also savings and redirections of funding that affect the higher education sector. These include:

• The redirection from the Australian Learning and Teaching Council of $87.7 million over four years. Initially all this funding was to go to the National Disaster Recovery and Rebuilding measure; but the Government has reduced this to $37.7 million and will redirect $50.0 million to grants and awards for excellence in university teaching. 448

• The cessation of the Capital Development Pool with savings of $298.0 million over four years to be used for the National Disaster Recovery and Rebuilding measure. 449 The primary source of infrastructure funding will now be the Education Investment Fund.

• The delay of $95.0 million over two years (2011–12 and 2012–13) in reward funding from the Higher Education Performance Funding. The Government states savings will be ‘redirected to support other Government priorities’ but gives no details. 450

• Reducing discounts for up-front payments (from 20 to 10 per cent) and voluntary repayments (from 10 to 5 per cent) made under the Higher Education Contribution Scheme (HECS). This measure is expected to ‘provide savings of $479.5 million over four years in terms of underlying cash, and savings of $293.4 million in terms of the fiscal balance’. 451

**HECS discounts**

Under present arrangements students receive a 20 per cent discount on their HECS liability if they pay up-front rather than deferring their loan. By reducing the discount the Government estimates savings of $229.5 million over four years will be made from reductions in the amount the Government will need to pay universities for the equivalent amount of the up-front discount. This


449.  Ibid.

450.  Ibid., p. 164.

amount counts as an expense to the Government and appears as expenditure in the Budget.\textsuperscript{452} Savings will also be made by reducing the discount for any early repayment of HECS debt. The Government estimates that $63.9 million will come through increased revenue from reducing the voluntary repayment discount from 10 per cent to 5 per cent.

The Government has justified this measure on equity grounds claiming that ‘discounts advantage those with the capacity to pay their fees upfront. Analysis of the upfront discounts provided in 2009 showed that only around 12 per cent of these students came from low-SES postcodes’.\textsuperscript{453} This might therefore be seen, like other budget measures, as targeting those who are wealthier. However, the measure is primarily aimed at making savings to the budget bottom line as the discounts are an expense to the Budget whereas the deferring of a HECS liability is not. Savings will depend on the number of students who continue to pay up-front with the discount halved to 10 per cent: the fewer numbers who pay up-front, the greater the savings as their HECS liability will be deferred and not counted as an expense. In 2009 the Government paid $107 million to universities for the discount. Budget figures predict a saving of $29.4 million in 2011–12 rising to $62.5 million in 2012–13; but there is no indication of the total HECS liability for those years or the expected up-front payment to universities.

The discount on up-front payments was a feature of HECS when it was introduced in 1989 and it was set at 15 per cent. It was increased to 25 per cent in 1993 and the percentage of students paying up-front rose from 20.3 per cent in 1990 to 28.5 per cent in 1997.\textsuperscript{454} Part-time students, external students and those aged over 30 are those most likely to pay up-front.\textsuperscript{455} Analysis of HECS liability by the Higher Education Council in 1997 revealed low rates of up-front payments by equity groups: for example, of all students paying up-front with a discount in the first semester of 1997, 10.5 per cent were low SES students and 16.6 per cent were rural students.\textsuperscript{456}

The percentage of students paying all their HECS liability up-front gradually declined after 1998 to about 21 per cent and the reduction in the bonus from 25 per cent to the current 20 per cent in 2005 did not further reduce the percentage.\textsuperscript{457} However, data for equivalent full-time student places, rather than for all students, shows a decline from 21.0 per cent in 2005 to 17.5 per cent in

\begin{footnotesize} 
\begin{enumerate}
\item[452.] In contrast HECS that is deferred is regarded as a loan to the student and does not count as expenditure.
\item[456.] Higher Education Council, op. cit., p. 50.
\end{enumerate}
\end{footnotesize}
The total amount paid by the Government to higher education providers on behalf of students paying up-front also declined from $112 million in 2004 to $89 million in 2005 and, despite increases in total student liabilities, was still at $107 million in 2009.\textsuperscript{459}

The measure may increase the number of students who defer their HECS liability. However, while it may lead to a reduction in expenditure, we may see HECS debt taking longer to be repaid and the amount of doubtful debt increase. In the view of Professor Bruce Chapman who was instrumental in the establishment of HECS:

while the measure would probably raise money for the government in the short term, it was poor economics ... the 20 per cent discount represented the right “implied” interest rate cost on HECS loans, and that reducing it effectively increased the taxpayer subsidy to students.\textsuperscript{460}

\begin{thebibliography}{99}
\end{thebibliography}
Vocational education and training

Carol Kempner

The 2011–12 Budget provides for expenditure on payments to the states and territories for vocational education and training (VET) to grow from $1.9 billion in 2010–11 to $2 billion in 2011–12 and on Commonwealth own VET programs from $1.8 billion in 2010–11 to almost $2 billion in 2011–12. However, as in last year’s Budget, fiscal constraints have seen many new initiatives and priority areas funded through the redirection of funds, to the extent that even some of the measures of the 2010–11 Budget are being abandoned. The proposed $129.8 million (over three years) Quality Skills Incentive for the 100 largest Registered Training Organisations, due to commence this year, has ceased before it started. Savings of $19.2 million will also be made from the cessation of the $19.9 million (over four years) Smarter Apprenticeships program which will be replaced with another program that also aims to fast track apprenticeships, but is being afforded a larger budget.

Redirected again in this Budget, as in the last, is some funding from the Productivity Places Program (PPP)—both from the PPP National Partnership (which is to cease anyway) and also from the Commonwealth component of the PPP. Funding for the Vocational Education Broadband Network has also been redirected, and there has been some restructuring of apprenticeship incentives as well. 461

As VET Specific Purpose Payments (SPPs) to the states have been held constant in real terms under the current Commonwealth/State agreement, the slight growth in payments to the states will be in the area of National Partnership Payments (NPPs). There will be a new NPP to provide $80 million over four years for additional Certificate Level II places for single and teenage parents on income support to help them gain work skills. In addition, the Government’s ongoing objective to drive reform in state and territory VET systems will be progressed by the incentives afforded by the new $1.75 billion (over five years) NPP which will in part be funded by some redirected, residual PPP funds. The reform agenda which will require ‘improved quality, transparency and outcomes’ will also be driven through the Council of Australian Governments’ review and re-negotiation of the agreement with the states and territories that underpins the SPP funding. 462

Other priority areas to benefit from the redirection of funding include the Trade Apprentice Income Bonus and the New Enterprise Incentive Scheme. Also attracting additional funding are the fast tracking of apprenticeships (now $100 million over four years), apprentice mentoring (now $101.4 million over four years) and mature workers with $30 million being provided over three years for


trade skills assessment. As in last year’s Budget, the Government also continues to prioritise expenditure on foundation skills with increased funding for language, literacy and numeracy training and pre-vocational training to assist with the transition to apprenticeships (the Australian Apprenticeship Access program).

Central to the Government’s broad ranging workforce initiatives, is the plan to ‘place industry at the heart of the training effort’ with the formation of the National Workforce and Productivity Agency and the National Workforce Development Fund. However, while some additional funding has been provided for these ‘new’ initiatives, the Agency and the Fund have their origins in pre-existing arrangements. Skills Australia, the statutorily independent advisory body will transition to the new National Workforce and Productivity Agency and the Critical Skills Investment Fund provided for in the last Budget, will be absorbed by the National Workforce Development Fund.

The new National Workforce and Productivity Agency will continue in Skills Australia’s role advising the Minister on workforce skills and development and in addition will administer the new National Workforce Development Fund. It will be provided with $25 million over three years as compared with the $19.6 million over five years provided to Skills Australia. Commencing in July 2012 the National Workforce and Productivity Agency’s estimated annual expenditure will be in the order of $8.5 million whereas the estimated allocation for Skills Australia for 2011–12 was only $5 million.

The proposed National Workforce Development Fund is based on a model of funding that engages industry as a co-contributor to enterprise based training in critical occupations. This was trialled in the successful Enterprise Based Productivity Program and was then incorporated into the proposed Critical Skills Investment Fund that was allocated $200.2 million of funding over 4 years in last year’s Budget. However, only $0.2 million of the estimated annual $49.2 million was spent in the first year and the residual $200 million now forms part of the $359.3 million over four years that has been provided for this new fund.

Public education initiatives such as the Productivity Education and Training Fund ($20 million over two years) to enhance employer and employee understanding of the benefits of productivity, and the $21.8 million (over three years) information campaign to promote workforce participation and training are interesting new measures. There is also $19.1 million over three years to engage 34 regional strategists to develop regional education, skills and jobs plans. This delivers on the Government’s agreement with two Independents.

The VET measures in this Budget were delivered under the broader banner of Building Australia’s Future Workforce which included a range of other measures relating to employment incentives and services covered in the ‘Workforce participation measures’ brief in this Budget Review. Funding of $9.5 million over five years has been provided to monitor and evaluate the suite of measures introduced under this banner.

463. Ibid.
Mental health—centrepiece of this year’s health budget

Anne-marie Boxall

Investment in the mental health sector is undoubtedly the feature of this year’s health budget, with the total package amounting to a $2.2 billion investment over five years. Of this, $1.5 billion worth of funding is for new initiatives or to expand existing ones. The remaining $700 million is for mental health initiatives announced last financial year, most of them in the 2010–11 Budget and 2010–11 Mid-Year Economic and Fiscal Outlook.

The most significant new funding measures for mental health include:

• $419.7 million over five years to establish up to 12 new Early Psychosis Prevention and Intervention Centres (EPICC), and 30 new headspace sites to help young people with or at risk of mental illness

• $343.8 million over five years to provide more coordinated care services to people with severe mental illnesses

• $269.3 million over five years for community mental health services, in particular to expand Family Mental Health support services and increase the number of personal helpers, mentors, and respite care services

• $201.3 million over five years for a National Partnership Agreement on Mental Health. Funds from this agreement would be made available to state and territory governments on a competitive basis for projects designed to address major gaps in mental health services and

• $205.9 million over five years to expand access to the Access to Allied Psychological services programs in hard to reach and low socioeconomic areas.

Other important initiatives include the establishment of a Mental Health Commission and an online portal to make it easier for people to find and access mental health services.

The initiatives outlined in the Budget broadly accord with the priorities for investment outlined in a blueprint for mental health reform published by an Independent Mental Health Reform Group in March this year. With its strong focus on expanding access to EPICC and headspace centres, the Government’s reforms closely match the Coalition’s Real Action Plan for Mental Health, released in
August 2010. However, the Government’s priorities do vary from some of those announced by the Coalition in April this year. For example, there is relatively small investment in programs to help people with mental illnesses participate in the workforce in this Budget ($2.4 million over five years), no dedicated funding for mental health research and no new initiatives to boost the mental health workforce.

There has been widespread support in the health sector for the Budget initiatives. The reaction this year is notable because the Government was strongly criticised after the last budget for its lack of investment in mental health. This year, some of the key critics (for example former Australian of the Year, Professor Patrick McGorry, and Professor John Mendoza, who resigned from the Mental Health Council of Australia in protest over the inaction on mental health) have welcomed the Government’s mental health reforms. Professor Mendoza reportedly was so impressed with the package that he offered to work with the Government once again on mental health reform.

Professor McGorry’s response was more subdued but he lauded this year’s investments in mental health as an excellent first step. And another key advocate, Professor Ian Hickie, has reportedly been ‘fairly gushing with praise’ for the Prime Minister and Mental Health Minister, Mark Butler, because of the role they played in getting mental health funding into the budget.

470. T Abbott (Leader of the Opposition), P Dutton (Shadow Minister for Health and Ageing) and C Fierravanti-Wells (Shadow Minister for Mental Health), Further support for mental health, media release, 21 April 2011, viewed 11 May 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F713522%2F713522
471. See for example: Get Up! Acton for Australia, Mental health experts welcome reform budget: comment from Professors McGorry, Mendoza, Hickie, media release, 10 May 2011; Australian Healthcare & Hospitals Association, Budget good for mental health, media release, 10 May 2011; Mental Health Council of Australia, Gillard Government delivers on mental health commitments, media release, 10 May 2011.
476. Ibid.
477. Ibid.
478. Ibid.
Criticisms about the Government’s mental health reforms have been largely restricted to professional groups whose members are currently the main beneficiaries of the Better Access to Psychiatrists, Psychologists and General Practitioners Initiative (Better Access Initiative): the Australian Medical Association (AMA) and Australian Psychological Society (APS). The Better Access Initiative (which provides Medicare rebates to patients receiving mental health care from doctors, psychologists and other allied health professionals) will continue to be funded. However, this Budget seeks to reduce the rebate for some mental health services that General Practitioners (GPs) provide (in particular the rebate for developing mental health treatment plans) and limit the number of Medicare-funded treatment sessions that can be provided by allied health professionals. Savings will be redirected into some of the other mental health initiatives outlined earlier.

The AMA has protested against the changes to the Better Access Initiative by arguing that the changes will make it more expensive for patients and devalue the role of GPs in managing community mental health. The APS argue that the changes will undermine what it considers to be the most successful program in mental health in the last 30 years, one that has been proven to be cost-effective.

Although the critical responses of the AMA and APS stand out because the majority of the sector has been so positive, they do highlight one important issue that has gone largely unnoticed in this Budget: it ushers in an important change to the way mental health services in Australia will be funded. This Budget directs funding away from fee-for-service provision by individual health professionals (such as GPs) and prioritises instead multidisciplinary services provided by community health centres, Medicare Locals and other non-government organisations, which will be funded through block grants.

Many health experts have been arguing for a long time that fee-for-service medicine that is the backbone of the Medicare system is not well suited to preventing and managing chronic diseases, including mental illnesses. It encourages health professionals to focus on acute management of symptoms rather than preventing disease or managing the symptoms effectively over time. The Government made a small attempt to move away from fee-for-service practice in the last Budget with its Coordinated Diabetes Care initiative. However, after strong protest from the AMA, the Government announced that it would instead limit it to a pilot program running for three to four


480. H Swerissen, Funding programs for chronic disease prevention and management, Chronic Disease Management Forum speech, Brisbane, 8 November 2006.
These subtle changes in funding arrangements for mental health are unlikely to result in large-scale changes to the way health services are funded and delivered in Australia in the short-term, but they may have an impact over the longer-term if experts can show that they have contributed to tangible improvements in health outcomes for people with mental illnesses.

Dental health—modest steps towards reform

Amanda Biggs

This Budget announced two new initiatives in dental health, in areas where reform has been seen to be long overdue and calls for it have been ongoing. These are the funding of voluntary internships for dentistry graduates and the establishment of a new National Advisory Council on Dental Health. Funding for 150 dentistry internships from 2013 mainly in the public dental health sector, at a cost of $52.6 million over four years, aims to address the chronic shortages in the public dental health workforce. The new Advisory Council is to be established in 2011–12, with total funding of $0.5 million. To be comprised of dental health experts, the Committee will advise the Minister on dental issues and prioritise areas for improvement and investment. In addition, this Budget includes a commitment that, ‘in line with the Government’s agreement with the Australian Greens’, dental health reform will be a major priority for the 2012–13 Budget.\textsuperscript{482}

Funding the dental internships will partly address a key recommendation of the National Health and Hospitals Reform Commission. In 2009, it proposed funding of $200 million to support 700 annual internships for dentistry graduates.\textsuperscript{483} The Australian Dental Association has also been advocating funding for a one year residency program for graduating dentists.\textsuperscript{484} It has welcomed this initiative.\textsuperscript{485}

The public dental workforce has long faced chronic shortages, which exacerbate waiting times for public dental services. Although dentistry students are required to undertake clinical training in public dental facilities, this measure is aimed at graduates who might otherwise move into private practice. Many in the dental and public health sectors will therefore welcome this initiative. However, as it will be voluntary it may do little to address the uneven distribution of the dentistry workforce. Around 78 per cent of dentists work in the major cities, meaning that people in rural and regional areas could continue to face barriers to affordable dental care.\textsuperscript{486}

The Budget also confirmed that the Government intends to close down the Chronic Disease Dental Scheme (CDDS) by December 2011.\textsuperscript{487} Operating since 2007, dental benefits (up to $4250 over two


\textsuperscript{485} S Fryar (President, Australian Dental Association), \textit{Federal Budget indicates a commitment to fill dental gaps}, media release, 11 May 2011.


years) have been available for those diagnosed with a chronic illness, whose dental condition is exacerbating their illness and who are managed under a General Practitioner care plan. Some $1.5 billion in benefits have been paid since the inception of the CDDS, well over the original budget estimate of $377 million over four years. The latest estimate indicates that spending is accelerating. Even if the scheme is closed later this year, expenses over the period 2010–11 to 2011–12 alone are estimated to be $1.6 billion.

The Government says that it must redirect funding from the CDDS in order to fund two other dental reform initiatives that were promised during the 2007 election: a Commonwealth Dental Health Program (CDHP) and a Teen Dental Plan (already implemented). The CDHP will provide the states with $290 million to deliver one million additional public dental services for the financially disadvantaged, targeting those with chronic conditions, Indigenous people and children. Without the redirection of funding from the CDDS the CDHP is likely to remain in abeyance.

Attempts in 2008 to cancel the CDDS were opposed in the Senate, despite reports of rorting and claims that the program is poorly targeted. Opposition to its abolition has spanned the political spectrum, with the Greens, the Federal Opposition and key Independent Senators voting against it previously. Arguments against closing the scheme include that it fulfils a real need for those who have chronic illnesses. The Australian Dental Association, although not a supporter of the CDDS, has expressed concern that without a replacement program in place many chronically ill patients who now rely on the scheme would face ‘devastating consequences’. Others have argued that the CDDS could be made more sustainable, if the range of services was tightened and it was better targeted.

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490. The Teen Dental Plan gives teenagers from families that satisfy a means test a voucher (currently valued at $159.85) towards funding an annual dental health check.


495. S Fryar (President, Australian Dental Association), *Federal Budget indicates a commitment to fill dental gaps*, op cit.

It remains to be seen if the modest dental initiatives announced in this Budget—and the promise of more to come—will be enough to persuade the Greens (who will hold the balance of power in the Senate from July this year), or the Independents who hold the balance of power in the lower House, that closing down the CDDS can be justified enabling funds to be redirected to other dental health programs. Nevertheless, introducing the CDHP remains Government policy, with the budget papers estimating that $94.3 million (from a total fund of $290 million) would be provided to the states this financial year to implement the program. Whether this funding will be sufficient to provide enough services to meet demand is uncertain. In seeking to close the CDDS the Government would be delivering on a key election promise and supporting dental reform. However, another reason for closing down the CDDS is concern about the growth in expenditure in a fiscally tight environment.

Health infrastructure

Rebecca de Boer

The additional investment in regional health infrastructure announced in this Budget has been hailed as a ‘win’ for the regions.498 Rural health groups have welcomed the measure, but have sounded a warning about the adequacy of the health workforce to support this initiative.499

As part of its agreement with the independents to form government, the Government committed to a Regional Priority Round for the Health and Hospitals Fund (HHF). This has resulted in $1.8 billion over six years to support the development of health infrastructure in regional areas.500 Of this, $1.33 billion (over five years) has been allocated to 63 projects across Australia, including the Royal Hobart Hospital, Port Macquarie Hospital, Tamworth Hospital, and successful projects in Far North Queensland and regional Western Australia.501 The remaining $475 million has been placed in the contingency reserve to fund a further Regional Priority Round from the HHF.502 This Round is due to commence before the end of 2011.503

The HHF was first announced in the 2008–09 Budget as part of the Rudd Government’s commitment to ‘nation building’. It was one of three nation building funds and $5 billion was appropriated for it in 2008–09.504 The outcomes from the first HHF funding round were announced in the 2009–10 Budget, and around $3 billion was committed to a range of health infrastructure projects such as hospitals, integrated cancer centres and translational research and workforce training.505 To date, 85 health infrastructure projects have been funded.506

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501. For a complete list of all recipients, see N Roxon (Minister for Health and Ageing), Gillard government delivers $1.8 billion to improve health services in regional and rural communities, media release, 10 May 2011, viewed 1 March 2011, http://www.health.gov.au/internet/budget/publishing.nsf/Content/1216C4D1A32575B7CA25788A002F4A62/$File/hmedia03.pdf
502. Ibid., p. 219.
Information from various portfolio budget statements suggests that the total estimated transfers from 2008–09 to 2014–15 from the HHF are around $4.3 billion. This would suggest that the Government has almost allocated the entire HHF. Despite the Government’s ‘Operation Sunlight’ initiative to improve openness and transparency of government expenditure and financial accountability, there is no way to track actual expenditure from the HHF or expenditure associated with specific projects. While the portfolio budget statements provide estimated transfers from the HHF, estimates of expenditure beyond the forward estimates are not publicly available, making it difficult to know precisely how much money remains in the Fund. Estimates of transfers from the HHF are only available up until 2014–15, but Budget measures: budget paper no. 2: 2011–12 notes that there will be funding ($265.5 million) for specific projects in 2015–16. It is not clear whether the $475 million that has been placed in the Contingency Reserve for the additional Regional Priority Round to be conducted later this year has been included in the estimated transfers.

The investment in health infrastructure in regional areas has largely been welcomed by stakeholders as much of this infrastructure is long overdue for an upgrade. However, the data would suggest that there is still much more work to be done in rural health. People living in rural and regional areas typically have poorer health outcomes than their metropolitan counterparts and have limited access to health services. Many regional areas struggle to attract and retain appropriately qualified health professionals. The newly-created regional health agency which has a mandate to ensure a whole-of-government approach to tackling regional health issues may further help to focus attention on these issues.

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Health financing

Rebecca de Boer

The Commonwealth will spend around $15.4 billion to support state health services in 2011–12.\(^{512}\) This is the sum total of the National Healthcare Special Purpose Payment (SPP) and payments under health-related National Partnership Agreements (NPAs) and is an increase of $1.049 billion from the previous year.\(^{513}\)

The budget papers also set out how the payment structures will work under the new arrangements for health reform agreed by the COAG in February 2011.\(^{514}\) In reaching this agreement with the states and territories, the Gillard Government abandoned the more contentious aspects of the proposed arrangements that had been negotiated by the Rudd Government, such as the Commonwealth’s retention of some GST revenue to pay for health care and the Commonwealth taking full funding and policy responsibility for primary health care.

Currently, the majority of the Commonwealth’s contribution to state health services is through the National Healthcare SPP. This will cease in 2011–12 and National Health Reform funding will commence from 1 July 2012. This will comprise of base funding equivalent to the existing National Healthcare SPP and efficient growth funding from 1 July 2014. As part of the new arrangements for health reform, the Commonwealth will pay for 50 per cent of the ‘efficient’ growth associated with hospital costs. Introduction will be phased, beginning with 45 per cent in 2014–15 and 50 per cent in 2017–18. This funding will be calculated according to the ‘efficient price’ determined annually by the yet-to-be established Independent Hospital Pricing Authority.\(^{515}\) National Health Reform funding will be paid into a national funding pool for public hospitals.\(^{516}\)

Payments under NPAs will continue under the new arrangements. In 2011–12 payments of around $2.6 billion will be made to the states through health-related NPAs. These include a new NPA for mental health introduced in this Budget, estimated at $201.3 million over five years, with $21.4 million to be spent in 2011–12.\(^{517}\)

The proposed new arrangements for payments to the states for state health services that will take effect in 2012, that is, through a combination of a SPP and various NPAs, do not appear to differ materially from the current arrangements that were put in place in the 2008–09 Budget. The main


\(^{513}\) Ibid, p. 22.


\(^{515}\) Budget measures: budget paper no. 3: 2011–12, op cit, p. 5.

\(^{516}\) Budget measures: budget paper no. 3: 2011–12, op cit, p. 23. This reflects what was agreed in the ‘Heads of Agreement – Health Reform’ agreed at COAG in February 2011.

\(^{517}\) Refer to Table 2.3, Budget measures: budget paper no. 3: 2011–12, op cit, p. 22.
difference is that the National Healthcare SPP will be known as ‘Health Reform Funding’ from 2012–13 and will be paid into a national pool. It remains to be seen whether this approach will improve the accountability and transparency of health funding.

As part of the arrangements agreed by COAG, the Commonwealth will take full funding and policy responsibility for aged care.\footnote{COAG Communiqué: 13 February 2011, op cit.} The proposed transfer of policy and funding responsibility for aged care is expected to be budget neutral. However, the mechanism to achieve this has not yet been finalised.\footnote{Budget paper no.3: 2011–12, op cit, p. 65.} Adjustments will be made either to the National Healthcare SPP or the National Disability SPP.\footnote{Ibid.}

Discussions between the states and the Commonwealth about the final details of the new agreement are continuing but the National Health Reform Agreement is due to be signed by July 2011.

**New program and grant funding arrangements in the Department of Health and Ageing**

The Department of Health and Ageing undertook a strategic review during 2010–11. One outcome of the review is the consolidation of various program and grant funding arrangements into 18 flexible funds, and the transfer of two programs to Cancer Australia and the National Medical Health and Research Council. This is expected to save $53.4 million over four years, which will be redirected to support other government priorities.\footnote{Australian Government, Budget measures: budget paper no.2: 2011–12, Commonwealth of Australia, Canberra, 2011, p. 218, viewed 12 May 2011, http://www.budget.gov.au/2011-12/content/bp2/html/index.htm} The stated rationale for this approach is to: reduce red tape for program and grant recipients, provide greater flexibility when responding to emerging policy challenges and achieve better value for money and evidence-based funding.\footnote{Australian Government, Portfolio budget statements 2011–12: budget related paper no. 1.11: Health and Ageing Portfolio, Commonwealth of Australia, Canberra, 2011, pp. 48–9, viewed 12 May 2011, http://www.health.gov.au/internet/budget/publishing.nsf/Content/2011-2012_Health_PBS} However, it is not clear at this stage what mechanisms or processes will be used to achieve these objectives and how they will be measured as the budget papers do not outline any accountability measures for the administration and expenditure associated with these funds.

The consolidation of these funds will take place on 1 July 2011. Existing programs and grants will be funded until 30 June 2012 or until the current agreement expires (whichever is later).\footnote{Ibid.} The budget papers state that there will be no net reductions in funding for these programs.\footnote{Ibid.} The funds have been categorised as either ‘grant related’ or ‘non-grant related’. The intention of non-grant related funds is to achieve streamlined administration and greater policy flexibility.\footnote{Ibid, p. 49.} These funds are also consistent with the Government’s approach to more flexible funding arrangements in some other
parts of the health portfolio. For example, in primary care, incentives that were previously paid to general practice will now be administered by the ‘Practice Incentives for General Practices Fund’.\textsuperscript{526} While at this stage it is not clear how the new payment arrangements will be administered, consultation with health professionals is due to commence in mid 2011.\textsuperscript{527}

The strategic review also proposed the streamlining of financial and human services, improving the governance of IT spending and the introduction of shared corporate services across the Department.\textsuperscript{528} These changes are expected to result in staff reductions of around 160 in 2011–12 and 260 in 2012–13. The budget papers note that the savings generated from these staff reductions will be redirected into new measures in health policy areas.\textsuperscript{529}

\textsuperscript{526} Ibid, p. 823.
\textsuperscript{527} Ibid, p. 221.
\textsuperscript{528} Ibid, p. 50.
\textsuperscript{529} Ibid.
Ongoing issues for the health and aged care budget

Private health insurance rebate—the ongoing debate

Amanda Biggs

This Budget confirms that means-testing the private health insurance rebate, as announced in 2009, remains a key government savings priority and will be pursued. In the 2009–10 Budget, the Government announced it would introduce three new income tiers so that the amount of the rebate would proportionally reduce as personal income increases. The rebate reimburses 30 per cent of the cost of purchasing private hospital cover for those under 65, with higher rebates for older people. Under the proposed system of means testing, individuals in the highest, or income tier 3, with incomes over $120 000 per annum (or $240 000 for families) would receive no rebate; those in tier 2, earning over $90 000 (or $180 000 for families) would receive a 10 per cent rebate; those in tier 1, earning over $75 000 (or $150 000 for families) would receive a 20 per cent rebate. Those on incomes below $75 000 (or $150 000 for families) who purchased private cover would continue to receive the full rebate. The initiative also included a proposal to proportionally increase the 1 per cent Medicare levy surcharge applied to high income earners who decline to purchase health insurance. Those in income tier 3 (as above) without private cover would pay a higher 1.5 per cent levy; those in tier 2 would pay 1.25 per cent. Overall, these measures were expected to realise savings of $1.9 billion over four years.

Efforts to implement this measure have so far failed with the federal Opposition, the Greens and key independent senators voting against legislation in 2009. Concerns have been expressed that means testing the rebate would lead many higher income earners to drop or downgrade their private cover. This could push up premium prices for those who retain their private insurance and add more pressure onto the public health system as those leaving private cover seek medical care in public hospitals. One recent private health industry estimate claimed that up to 1.6 million people would


drop their cover, premiums would rise by ten per cent and an additional 845 000 public hospital admissions would be required to deal with increased demand.\textsuperscript{533}

The Government has dismissed these claims. It considers that just 25 000 people would drop their cover with the vast majority retaining their membership.\textsuperscript{534} Others have argued that as the rebate is inefficient and expensive it should be means tested.\textsuperscript{535} In particular, some have pointed to the lack of value for money for those in rural and regional areas, where access to private health services is limited and most have to rely on the public health system.\textsuperscript{536}

It remains to be seen whether the Greens, who will hold the balance of power in the Senate after July, will support re-introduced legislation. Although they have repeatedly stated they do not support the private health insurance rebate, preferring that it be scrapped and the money redirected to support the public health sector, the Greens voted against the legislation to means test the rebate. This was because they opposed the legislation to increase the Medicare levy surcharge, which was introduced at the same time.\textsuperscript{537} If the increase to the surcharge—which in any case will contribute only a small proportion to the overall savings for the measure—were dropped, the Greens may well support legislation to means test the rebate.\textsuperscript{538}

But even if Greens support can be won, the Government will still need to persuade the country independents in the House of Representatives to support means testing the rebate. The argument that the rebate represents poor value for money for people in rural areas, where there is limited access to private health services, may resonate for some.\textsuperscript{539} However, concerns that means testing the rebate might add further pressure on the public health system may also need to be addressed.

\begin{itemize}
\item \textsuperscript{534} N Roxon (Minister for Health and Ageing), \textit{Speech: Australian Health Insurance Association conference}, media release, 11 November 2009, viewed 19 May 2011, http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2FPressRel%2F76UV6%22
\item \textsuperscript{538} It was originally estimated that means testing the rebate would achieve savings of around $1.8 billion, while increasing the surcharge would achieve additional revenue of $145 million. See, Australian Government, \textit{Budget measures: budget paper no. 2: 2009–10}, Commonwealth of Australia, Canberra, 2009, p. 311.
\item \textsuperscript{539} J Doggett, ‘Why Independents should support means testing private health insurance rebate’, op. cit.; see also, A Biggs, ‘Means testing the private health insurance rebate—one more attempt in a changed Parliamentary
Bowel cancer screening

Dr Anne-marie Boxall

Another potentially contentious issue in this year’s Budget is the way the national bowel cancer screening program will be implemented.

There has been much speculation about the future of the program since funding lapsed in December 2010, with many calling for funding to be re-instated.

In this Budget, the Government has provided funding of $138.7 million over four years to test men and women aged 50, 55 and 65 for signs of bowel cancer, Australia’s second most common form of cancer. Although many may welcome the renewed funding, public health experts point out that, according to international evidence, the best way to save lives from bowel cancer screening is to test people every two years after the age of 50. Because Australia’s bowel cancer screening program does not accord with the strong evidence base that exists, it has been labelled by some experts as a ‘pretend’ screening program and a disappointment.

Workforce

Dr Rhonda Jolly

Health workforce initiatives in this Budget are negligible. In effect, there are only two new workforce measures. One will provide funding ($52.6 million over four years) to develop a voluntary dental intern year, which the Government argues ‘will potentially help reduce waiting lists and preventable hospitalisations by increasing the capacity of dental services, particularly in the public sector’. The other measure is obliquely referred to in the Department of Health Ageing Portfolio Budget Statements and involves the Department working with health stakeholders to increase the number of people trained to deliver radiation oncology services. In addition, in 2011–12 the Government will provide part-funding for radiation therapists during an intern year or professional development environment’.


year. It will also provide funding for radiation oncology medical physics registrars and radiation oncology medical physics preceptor (clinical tutor) positions. No details of this funding are given.

It could be argued that there is some justification that health measures in this Budget should focus on neglected areas, such as mental health, given that significant attention has been paid to workforce recruitment and retention initiatives in recent times. As the Department of Health and Ageing Portfolio Budget Statements point out, since 2007 workforce programs have included increases in the number of general practice medical training places available, extra funding for rural clinical schools, scaling initiatives to increase the attractiveness of working in rural and remote areas for overseas trained doctors and increased locum support.

At the same time, there is a sense in this Budget that the process of health workforce reform may have stalled; that workforce reforms requiring fundamental and innovative change have given way to other health priorities. It appeared that the 2009–10 Budget was the beginning of a new approach, with nurse practitioners promised access to Medicare and the Pharmaceutical Benefits Scheme and, in last year’s Budget, a relatively small number of scholarships were offered to entice these practitioners into the difficult-to-fill aged care sector. There have been no similar measures in this Budget.

This year would seem to be the right time to expand on the nurse practitioner initiative, with funding to complement mental health measures, for example. The Australian Nursing Federation has alluded to the issue in noting that there needs to be an integrated strategy to identify a new workforce to deliver on the mental health investment. It would also seem to be the time to look more seriously at harnessing the potential of the allied health workforce by providing more support to attract and retain people and by introducing measures that could appropriately extend scopes of practice and responsibilities. These measures need not have been big ticket items; funding for a moderate allied health program in last year’s Budget, for example, was only $6.5 million over four years to provide 100 additional clinical placement scholarships per year for allied health students. However, they may have better allowed the new cohort of medical practitioners who will graduate in the next few years to concentrate on diagnosis and complex management of patients, while handing over more mundane and repetitive medicine to other professionals.

It is possible to concede that the Government has decided it is too early to embrace such momentous change. More work needs to be undertaken by its workforce agency, Health Workforce Australia, to consider what options will indeed work best in the Australian health system. There is,

545. Ibid., Outcome 12, Health Workforce Capacity section, pp. 321–337.
however, already considerable evidence available which supports the introduction of new types of health professionals and documents the success of enhancing the skills of existing health workers.  

Aged Care—the wait continues

Rebecca de Boer

In a post-Budget interview, the Minister for Mental Health and Ageing, Mark Butler, acknowledged that the Budget did not contain any significant funding or policy reform for aged care. The Government is waiting for the Productivity Commission’s (PC) final report into aged care which will detail options to redesign the aged care system. Yet this Budget is not without any additional expenditure on aged care or policy changes.

Expenditure

The majority of additional expenditure in the aged care portfolio is directed towards aged care providers. The viability supplement to assist aged care providers in rural and remote areas has been increased by 40 per cent ($16 million in 2011–12), and extended for another year to services providing care to people at risk of homelessness and/or Indigenous Australians, or operating in rural and remote areas. Another round of zero interest real loans (ZRIL) will be conducted and the time taken to repay the loan has been extended from 12 to 22 years. The focus of this round will be aged care homes in the same priority areas outlined above with a specific emphasis on smaller aged care services. This ZRIL round is part of what was agreed between the Government and the states in the context of the health reform agreement.

Funding for the Ambassador for Ageing has been extended and Noeline Brown will continue in her role.

553. Ibid.
Policy changes

One of the features of the Government’s health reform package was that the Commonwealth would take full funding and policy responsibility for aged care. A network of ‘one-stop shops’ across Australia was to be established at a cost of $37 million.\footnote{Australian Government, Delivering better health and better hospitals, Commonwealth of Australia, 2010, p. 41, viewed 12 May 2011, \url{http://www.health.gov.au/internet/yourhealth/publishing.nsf/content/report-redbook}} These were to be a single-entry point to the aged care system that would provide information and advice to older Australians about the aged care system and assistance with accessing aged care (including assessment services).\footnote{Australian Government, Portfolio budget statements 2010–11: budget related paper no 1.10: Health and Ageing Portfolio, Canberra, Commonwealth of Australia, 2010, p. 168.} The network was due to commence from 1 July 2011 with a one-stop shop in every region supported by telephone and web-based systems.\footnote{Ibid.}

It appears that the network of one-stop shops will not be implemented as originally envisaged. Rather, the Government will first introduce a single phone number for consumers and carers and develop a new ‘front end’ for the aged care system.\footnote{Ibid.} This phone number will be used by consumers and carers seeking information about how to access and navigate the aged care system.\footnote{Portfolio budget statements 2011–12: budget related paper 1.10: Health and Ageing Portfolio, op. cit, pp. 163, 180.} During 2011–12, the Government will consult with state and territory governments, aged care service providers, workforce and peak bodies about the core elements of the proposed front end.\footnote{Ibid., p. 180.} It is envisaged that the new front end will have strong links with Local Hospital Networks and Medicare Locals and existing infrastructure, such as the Commonwealth Respite and Carelink Centres.\footnote{Ibid., p. 181.} The Government will continue to support access to information through the Aged Care Information Line and the Aged Care Australia website.

As has been noted elsewhere in the Budget Review, this Budget makes an attempt to move away from fee-for-service provision in mental health. This approach, in a limited context, has also been adopted in aged care. The incentives that have previously been paid to health professionals (general practice and allied health) to provide care in residential aged care facilities will be transferred to the Medicare Locals Fund.\footnote{Ibid., pp. 211–12, 822.} It is not clear from the budget papers whether (or when) the financial incentives to health professionals will cease or how the funding will be allocated to Medicare Locals. It remains to be seen whether this approach will be more effective than previous incentives and programs to encourage improved access to primary care in aged care settings.\footnote{See, for example, the Aged Care Access Initiative, introduced as part of the 2008–09 Budget, viewed 12 May 2011, \url{http://www.agpn.com.au/programs/aged-care-initiative/aged-care-access-initiative}}
Consumer directed care (CDC) packages were first announced in the 2010–11 Budget with 500 packages to be allocated. These packages allow consumers greater flexibility and choice about the type of aged care they access. A further 500 packages will be allocated in 2011–12 and will be classified as either ‘Low’, ‘High’ or ‘Dementia’. It is not yet possible to determine how many packages from the previous Budget have been allocated (and operational), or how successful they have been in promoting consumer choice. There have long been calls to remove the distinction between high and low in aged care packages and the benefit of the proposed classification of packages in this context is not clear. The introduction of CDC was a recommendation of the National Health and Hospitals Reform Commission. Extension of this approach has been canvassed in the PC’s draft report.

The Gillard Government has signalled that reform to aged care will be a feature of this term. Without pre-empting the recommendations of the PC report, this Budget maintains current policy settings with some attempts to move towards, in part, more flexible funding arrangements and greater consumer involvement in aged care.

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564. There is often a delay between the ‘allocation’ and the ‘operation’ of aged care packages.

Migration and humanitarian programs

Janet Phillips

Migration Program

Once again the Government has released its Migration and Humanitarian Program planning figures as part of the Budget process. In this Budget the planned intake for permanent migrants under the Migration Program for 2011–12 will rise across all categories to 185,000 places (an increase of 16,300). As has been the case for the last decade, the majority of places will be allocated to skilled entrants with skill stream places rising to 125,850 for 2011–12— an increase of 12,000 places from the previous year. Family stream places will also rise slightly to 58,600 (an increase of 4,050) and special eligibility places will rise to 550 (an increase of 250).

These increases bring planning levels back in line with those announced during the 2008–09 Budget when the planned intake was 190,300. However, this figure was subsequently amended to 168,700 in response to the Global Financial Crisis. Therefore, the planning figure of 185,000 for 2011–12 is effectively the highest on record since 1969 when program planning figures also reached a high of 185,000. It is important to note that while Migration Program planning numbers are at similar levels to those of forty years ago, the balance of the program is now quite different, with the emphasis now firmly on attracting permanent skilled migrants (and temporary skilled workers) in order to meet Australia’s labour needs (the post-war focus was simply on boosting Australia’s population).

One of the notable announcements in this Budget is a decision to allocate $5.9 million over four years to implement a new model to select skilled migrants—the Skilled Migrant Selection Model. The model will be an electronic system whereby prospective applicants must first submit an expression of interest (EOI) before being invited to make a visa application. Expected to be introduced on 1 July 2012, this measure will mean that prospective independent or state/territory sponsored migrants applying after that date will be required to receive an invitation before they are able to lodge a visa application. Prospective applicants with an employer sponsor will not be required to submit an EOI. It would appear that this measure is designed to limit application

566. This practice was introduced by the Howard Government during the 2007–08 Budget.
569. Ibid., p. 2.
numbers (and presumably reduce processing backlogs); cut down on processing times; allow for ‘quick and easy identification of prospective workers with the requisite skills and attributes, reducing advertising and recruitment costs to businesses’; and ‘deliver the skills Australia needs by matching the best and brightest migrants to the available places in the migration program’.\textsuperscript{572} In his budget press release the Minister states:

The new model concludes a series of reforms to ensure the skilled migration program is more focussed and efficient, demand-driven and tailored to employers’ needs. Under this model, the government will be able to select migrants like a business manages its workforce – selecting the best candidates, altering the skill composition of its workforce, and speeding up or slowing down recruitment as circumstances change.\textsuperscript{573}

Other measures announced in the Budget include:

- an additional $13.9 million over four years to the Migration Review Tribunal and Refugee Review Tribunal to ‘manage the increase in caseload and case complexity’

- a provision of $0.6 million in 2011–12 for the National Accreditation Authority for Translators and Interpreters (NAATI) to supplement base funding

- the implementation of a new General Skilled Migration Points test—with the cost to be met from within existing departmental resources and

- the implementation of Australia’s Multicultural Policy—with the cost also to be met from within existing departmental resources.\textsuperscript{574}

Mining companies and many other stakeholders have been generally supportive of the Migration Program Budget announcements.\textsuperscript{575} However, some argue that even with these reforms it is likely there will still be significant skills shortfalls in some sectors.\textsuperscript{576} The Federation of Ethnic Communities Councils of Australia (FECCA) expressed several concerns. These included the need for enhanced support services to deal with the increasing numbers of temporary migrants in both regional and urban settings.\textsuperscript{577}

\textsuperscript{572} Ibid.
\textsuperscript{573} Ibid.
\textsuperscript{574} Budget measures: budget paper no. 2, op. cit., p. 260.
Regional skilled migration

In order to encourage skilled migration to the regions where skill shortages are particularly acute, the last two decades have seen the introduction of a variety of federal government measures designed to attract skilled migrants to regional and rural areas where employers have been unable to fill vacancies through the local labour market.

In this Budget there is a particular focus on regional skilled migration with the Government providing $4.8 million over four years to implement several measures (some of which will be met within the existing resources of the Department) to encourage migration to regional Australia. Some of the key measures include:

- **Regional Sponsored Migration Scheme (RSMS)**—16,000 places will be specifically allocated to regional areas for the first time through the Regional Sponsored Migration Scheme—part of the Employer Sponsored Program stream. Introduced in 1995–96, the RSMS is a key component in the push to attract migrants to regional areas. It enables employers in a designated RSMS area to nominate temporary residents already in Australia or applicants from overseas, to fill skilled vacancies for a minimum of two years. Successful nominees who are prepared to settle in these regions are able to apply to migrate permanently to Australia. There has been growing demand on the RSMS category in recent years with an increase of 35.2 per cent in lodgements in 2009–10 (the RSMS outcome in 2009–10 was 10,213, a 15.9 per cent increase on 2008–09).

- **Skilled Migrant Selection Model**—due to come into effect in July 2012, this model will allow prospective migrants to nominate their willingness to live and work in regional Australia. The model will enable state and territory governments and regional employers to access these expressions of interest and select skilled workers through a central database of prospective migrants. This measure (together with the recently introduced State Migration Plans), is designed to further assist the states and territories in addressing specific skill shortages and local labour market needs in the regions.

- **Temporary (Long Stay) Business visas (subclass 457)**—in this Budget, the Government has announced additional funding of $10 million over four years to prioritise the processing of visas. Through this funding the Government aims to halve processing times for 457 visas from the current median of 22 calendar days. The Government also announced it will fast track

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580. DIAC, Proposed Skilled Migrant Selection Model, op. cit.

permanent residency for 457 visa recipients who have spent two years working in regional Australia and who have an employer willing to sponsor them for a further two years.582

- Labour agreements: A labour agreement is a legal contract between the Australian Government and an employer which allows the employer to bring in skilled overseas workers to Australia on either a temporary or permanent visa. Labour agreements are designed to assist potential employers to sponsor a temporary worker where there are no other options available to them (for example, when the skill required by an employer is not included on the relevant list of approved occupations). In this Budget the Government announced two new labour agreements aimed at regional areas:

  - Regional Migration Agreements (RMAs)—expected to commence in 2012, RMAs will be targeted at high growth regional areas where local labour is in short supply. Access to semi-skilled overseas workers will be negotiated where there is a ‘demonstrable and critical need’. It is proposed that once a designated local representative has negotiated an agreement with the Government, individual local employers will then be able to directly sponsor temporary workers under the terms of the RMA. Individual employers who sponsor overseas workers under an RMA-associated labour agreement will be required to demonstrate investment in the training of local workers583

  - Enterprise Migration Agreements (EMAs)—this agreement introduces a new temporary migration option specifically designed to address the growing skill needs of the resources sector. EMAs will be available to projects with capital expenditure of $2 billion and a peak workforce of 1500 workers.584 It is envisaged that these agreements will ‘streamline negotiation arrangements for access to overseas workers and guarantee fast processing times for visa applications’. The introduction of EMAs was recommended by the National Resources Sector Employment Taskforce in July 2010.585

It remains to be seen what effect these measures will have on addressing skills shortages and encouraging migration to the regions. At the time of the 2006 Census the vast majority of migrants continued to reside in urban areas, particularly Melbourne and Sydney.586

582. C Bowen, Budget 2011–12: Skilled migration reform to support Australia’s growing economy, op. cit.
Humanitarian Program

Since 1995–96, Humanitarian Program planning levels have hovered around 12 000 to 13 000 places (with a peak of 13 750 in the last two program years). In this Budget the Government has announced that the Humanitarian Program planned intake will rise to 14 750, consisting of 7000 (previously 6000) refugee places and 7750 Special Humanitarian Program (SHP) places.587

This increase is a direct result of a bilateral agreement between Australia and Malaysia whereby the Australian Government has agreed to accept an additional 4000 Humanitarian Program entrants over four years at a cost of $216.4 million. Under this agreement 800 irregular maritime arrivals (arriving on the Australian mainland or at an excised offshore place) will be transferred to Malaysia for refugee status determination (at a cost of $75.9 million over four years). In exchange Australia will resettle 1000 refugees a year over four years from Malaysia (the additional 4000 places will only be available to refugees residing in Malaysia).588

This agreement is being negotiated under the anti-people smuggling Regional Cooperation Framework agreed to during the fourth Bali Process conference held on 30 March 2011. Further details can be found in the ‘Responding to boat arrivals’ brief in this Budget Review.589

588. Ibid., p. 258.
Responding to boat arrivals
Harriet Spinks, Janet Phillips, Elibritt Karlsen and Nigel Brew

Managing unauthorised boat arrivals

Much has been said in the media recently about the rising costs to the Australian Government associated with asylum seekers, and the Opposition has repeatedly criticised the Government for presiding over a budget ‘blow out’ in this area. It is certainly true that these costs have been rising steadily over the last few years, and the 2011–12 Budget provides for another significant increase in expenditure. Most of this increase is in offshore asylum seeker management, which includes the costs associated with detaining unauthorised boat arrivals on Christmas Island, as well as regional cooperation and capacity building aimed at reducing the flow of unauthorised arrivals. Additionally, as more detainees have been moved from Christmas Island to detention centres onshore in order to deal with overcrowding, there are also some cost implications for the onshore detention network. Following the trend of the last several budgets, this Budget also provides significant funding, across several portfolios, aimed at combating people smuggling.

Offshore asylum seeker management

Expenditure on offshore asylum seeker management is accounted for under Program 4.3, Offshore Asylum Seeker Management in the Department of Immigration and Citizenship (DIAC) portfolio. Administered items under Program 4.3 include Community and Detention Services, the Management and Care of Irregular Immigrants in Indonesia and Regional Cooperation and Capacity Building.

The Budget provides a total of $1.05 billion for administered and departmental expenses under Program 4.3 in 2011–12. This represents a significant increase from the $762.8 million for 2010–11 and the $304.3 million that was spent in 2009–10. The 2009–10 Budget had anticipated that costs under Program 4.3 would increase in line with increasing numbers of unauthorised boat arrivals. Consequently subsequent budget estimates have fallen short and have been revised to meet the costs of the increases in the number of arrivals in the last two years.

592. Ibid.
593. As at 6 May 2011 there were 6715 people in immigration detention including 5069 on the mainland and 1645 on Christmas Island. Of this total, 6444 were irregular maritime arrivals. This compares with a total immigration detention population of 490 in April 2008, of which 7 were irregular maritime arrivals. Department of Immigration and Citizenship (DIAC), Immigration detention statistics summary, 6 May 2011, viewed 20 May 2011,
Expenditure on the management of offshore entry asylum seekers provides for Community and Detention Services involving contracts for the provision of support, health and detention services for offshore asylum entrants in both community and detention environments on Christmas Island and the mainland. The estimate for Community and Detention Services for 2011–12 is $709.4 million (an increase of approximately $148 million from the $561.9 million spent in 2010–11). Interestingly, the 2012–13 forward estimate is just $449.8 million, perhaps reflecting an expectation that unauthorised boat arrivals might decline.

However, the projected increase in expenditure in Program 4.3 in 2011–12 is not solely attributable to detention services. The other two continuing administered items under Program 4.3 have also received a significant increase in funding in 2011–12. Management and Care of Irregular Immigrants in Indonesia has leapt from $3 million in 2010–11 to $17.9 million in 2011–12, while Regional Cooperation and Capacity Building has increased from $32.2 million in 2010–11 to $47.2 in 2011–12.

Additionally, in the 2011–12 Budget, two new administered items have been added under Program 4.3. Refugee Status Determinations for Offshore Entry Persons has been allocated $107.7 million over four years ‘to support the new process for determination of refugee status for offshore entry persons ... [which] is part of the commitment made by the Government in response to the High Court decision that confirmed the availability of judicial review for offshore entry persons’. The funding comprises $26.1 million over two years to DIAC for legal expenses, $8.2 million over four years for two additional Federal Magistrates and $73.4 million over two years for the Independent Protection Assessment Office.

The other addition to Program 4.3 is the new Regional Cooperation Framework, under which the Government has negotiated a bilateral agreement with Malaysia which will see the transfer of 800 irregular maritime arrivals to Malaysia. This will cost $75.9 million over four years.

The table below shows how expenditure under Program 4.3 has increased over the last four years.

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596. Ibid.


598. Ibid., p. 263. The bilateral agreement also provides for an additional 4000 places in the Humanitarian Program, which also has cost implications. See the Budget Brief *Migration and Humanitarian Programs* for more detail.
Program 4.3: Offshore Asylum Seeker Management

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<td>Community and detention services</td>
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<tr>
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<td>-</td>
<td>$5.0 million</td>
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<td>Refugee status determinations for offshore entry persons</td>
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<td>-</td>
<td>-</td>
<td>$17.4 million</td>
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<tr>
<td>Regional cooperation framework</td>
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<td>$26.3 million</td>
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<tr>
<td>Departmental expenses*</td>
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<td>$160.7 million</td>
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</tr>
<tr>
<td>Total administered and departmental expenses for Program 4.3 Offshore Asylum Seeker Management</td>
<td>$111.5 million</td>
<td>$304.3 million</td>
<td>$762.8 million</td>
<td>$1.05 billion</td>
</tr>
</tbody>
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*Departmental expenses include service delivery and policy advice and program design. These are not disaggregated by each administered component of Program 4.3 in the budget papers.

Onshore detention

Expenses for Community and Detention services onshore are provided under Program 4.2, *Onshore Detention Network*. In the 2010–11 Budget, total expenses for Program 4.2 (administered and departmental) were estimated at $93.8 million.\(^{599}\) In the 2011–12 Budget, expenditure for 2010–11 has been revised down to $88.5 million. The estimated budget for 2011–12 is $90.2 million.\(^{600}\) This stability in ongoing expenses for the onshore detention network may perhaps be explained by the fact that the costs associated with the management of asylum seekers who are transferred from Christmas Island to the mainland continue to be met from the budget for Program 4.3 *Offshore Asylum Seeker Management*.\(^{601}\)

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601. Ibid., p. 50.
It is in the capital funding associated with the new facilities needed to accommodate the growing detention population that the increased costs to the onshore detention network are more visible. For the second successive year the Budget has provided capital funding to increase capacity in the detention network.602 In the 2011–12 Budget $24 million has been allocated over two years in capital measures for two new detention facilities. This comprises $14.8 million for works to a defence facility at Pontville, Tasmania, and $9.2 million for works to a facility at Wickham Point in the Northern Territory.603

Preventing people smuggling

The Government has been under increasing pressure to address border security and people smuggling issues since September 2008 due to an increase in the number of unauthorised boat arrivals (also referred to as irregular maritime arrivals). In the 2009–10 Budget the Government allocated $654 million across several portfolios to fund a whole of government strategy to combat people smuggling.604 This was followed by an investment of $1.2 billion to ‘bolster Australia’s border security’ (mostly allocated to border and aviation security initiatives) in the 2010–11 Budget.605

In this Budget the Government has allocated funding across several portfolios for measures aimed at preventing and deterring people smuggling and irregular migration. This funding, largely for measures in the Immigration and Attorney-General’s portfolios, signals continued government investment in border protection and people smuggling deterrence, building on funding provided for such measures in the previous two budgets.606 The Regional Cooperation Framework referred to above is one such measure.

Much of the funding for specific enforcement measures announced in the 2011–12 Budget as part of the Government’s response to people smuggling is for the continuation or extension of existing measures. It includes:607

• $61.8 million over two years to the Australian Customs and Border Protection Service (Customs) to extend until 30 June 2013 the lease of the Australian Customs Vessel, ACV Triton, which patrols Australia’s northern waters

• $3 million over two years to enable Customs to maintain the Government’s anti-people smuggling communications campaign in source and transit countries

• $10.8 million over two years to the Australian Federal Police (AFP) and $8.0 million over two years to Customs to maintain the deployment of AFP and Customs liaison officers to several key source and transit countries and

• $15.3 million over two years to Customs to maintain aerial surveillance of Australia’s northern waters (by commercial contractors).  

It is worth noting that one anti-people smuggling measure from the 2009–10 Budget—a two year ($11.3 million) package of specific funding for people smuggling prosecutions for the Office of the Director of Public Prosecutions (DPP)—ceases on 30 June 2011.

As at 15 March 2011 over 350 individuals had been arrested and charged with people smuggling offences. During the period September 2008 and 23 February 2011, 118 crew members and an additional five people smuggling organisers were convicted of people smuggling offences. An interesting development of note documented in the 2011–12 budget papers is the significant increase in legal aid funding to the states for people smuggling cases for the 2010–11 financial year. The Government provides legal aid funding to the states and territories for high cost Commonwealth criminal matters through the Expensive Commonwealth Criminal Cases Fund (ECCCF). The 2011–12 budget papers show that the Government has allocated $28.9 million over three years to the ECCCF to reimburse costs incurred by state and territory legal aid commissions in the provision of legal assistance in Commonwealth law-related cases, including people smuggling cases. This funding is comprised of $17.6 million for 2010–11 (in the 2010–11 Attorney General’s Portfolio Additional Estimates this was specifically allocated for legal aid to combat people smuggling); $4.2 million for

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608. Ibid., p. 99.
2011–12; and $7.1 million for 2012–13. As of 22 February 2011, all reimbursements from the ECCCF for people smuggling matters had been made to Legal Aid Western Australia where most of the people smuggling cases have been prosecuted.

It would appear that, in future, much of the legal aid funding specifically for costly people smuggling, national security and drug-related Commonwealth cases will be allocated in the Budget to the ECCCF. The use of ECCCF funds for this purpose ensures that legal aid commissions have access to separate funding for costly Commonwealth-related cases and do not have to divert resources from their normal legal aid caseloads:

The ECCCF is separately funded to ensure that Commonwealth criminal trials do not impact on the ability of legal aid commissions to provide legal assistance for other Commonwealth legal aid priorities ... allocation of monies from the ECCCF is at the discretion of the Department.

Further details on legal aid funding can be found in the ‘Legal Aid Commissions’ brief in this Budget Review.

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Disability support pension—reforms

Peter Yeend

The 2011–12 Budget introduces several significant reforms to the Disability Support Pension (DSP) program as a part of the Building Australia’s Future Workforce measures.

The DSP program currently provides income support to in excess of 800 000 recipients and it is estimated to expend $13.8 billion in the 2011–12 year. Over the past 20 years, DSP recipient numbers have grown more than recipient numbers in any other government income support program.

DSP recipient numbers 1990 to 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>DSP recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>316 713</td>
</tr>
<tr>
<td>2000</td>
<td>602 280</td>
</tr>
<tr>
<td>2004</td>
<td>696 742</td>
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<tr>
<td>2005</td>
<td>706 782</td>
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<td>2006</td>
<td>712 163</td>
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<td>2007</td>
<td>714 156</td>
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<td>2008</td>
<td>732 367</td>
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<tr>
<td>2009</td>
<td>757 118</td>
</tr>
<tr>
<td>2010</td>
<td>792 581</td>
</tr>
</tbody>
</table>

Note: Years selected track growth over last two decades and show the impact of 2006 reforms.
Source: Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

The DSP reforms in this Budget are in part a response to concerns about these burgeoning numbers. While of obvious concern, this increase in numbers needs to be viewed in the context of an overall decline in the proportion of working-age people receiving welfare, population growth, the

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demographic changes which are the result of an ageing population and the impact on the DSP of the phasing out of other income support payments.\textsuperscript{619}

It would therefore appear that the real underlying concern driving these reforms is that many people claiming the payment may have a greater capacity to engage in work. This fits with the Government’s ongoing emphasis on the importance of work participation in relation to broad social outcomes. As the relevant budget factsheet iterates: ‘working helps boost self-esteem, improves social contact, provides more income and leads to improved health and financial security’.\textsuperscript{620}

Welfare to Work DSP reforms

Governments have attempted reforms to income support for people with disability and the DSP program in the past. The most significant reforms in the last decade were the Welfare to Work (WtW) initiatives that took effect from 1 July 2006.\textsuperscript{621} The major DSP element in the WtW reforms was the halving of the incapacity to work test (which determines eligibility for DSP) from being unable to work for 30 hours a week to 15 hours a week. This was a radical reform which had some impact on DSP growth, as can be seen in the table above. However, the impact was short-lived and the growth rate has since accelerated.

Proposed DSP reforms

The DSP reforms in this Budget include:\textsuperscript{622}

- allowing recipients who are subject to the 15 hours a week requirements to work for up to 30 hours a week and remain eligible for a part-rate pension
- introducing participation requirements by way of quarterly interviews for new and existing recipients aged less than 35 years who have some work capacity (from 1 July 2012)
- improving work capacity assessments for DSP claimants


• providing personal helpers and mentors specifically to help people with mental illness who are participating in employment services and who are on, or in the process of claiming income support, including the DSP and

• auditing a sample of DSP claims lodged in 2012–13 to identify assessment deficiencies and inconsistencies and to thereby improve assessment quality.

These initiatives will cost more in increased administrative effort and outlays, but there are potentially some associated savings. Potential savings would arise from an increase in DSP recipients with earned income from employment, a reduction in the number of claimants eligible for the DSP, and support being provided through alternative payments that are paid at a lower rate, such as Newstart Allowance (NSA).

The potential for increased work participation

Allowing for increased work participation by DSP recipients could potentially provide an incentive for further engagement in paid work. As at June 2008, 90.2 per cent of DSP recipients had no employment earnings. Of the 9.8 per cent with some employment income, 4.4 per cent had income less than $200 a fortnight. This is not surprising as there has not been any activity test requirements attached to DSP and it is likely that for many claimants their grant of DSP is seen as a formal decision by government that they are unable to work, and are not expected to work. The other great source of inertia discouraging DSP recipients from working is the perception that work may jeopardise their DSP qualification. The incentive to remain on DSP is high as DSP is paid at a higher rate than NSA, it has more favourable income/assets tests, provides a Pensioner Concession Card (PCC) and has no work activity test requirements.

The vast majority of current DSP recipients were granted their DSP under the 30 hour a week rule that preceded the WtW DSP work test changes. Regardless of whether they have passed the 30 hours a week or the 15 hours a week test, it is hard to know what the actual capacity of individual DSP recipients for work is. Given the nature of the application process and the criteria that they must meet, it is likely that almost all DSP claimants would, when claiming (and when being reviewed), present as significantly work incapacitated, and provide supporting evidence of significant work inability. The process encourages applicants to present their work capacity in terms of what they are incapable of doing. The examination of DSP claimants to identify, encourage and promote their work capacity in a positive way has not been attempted before and it is unclear what the results of this approach might be.

623. Newstart Allowance is more commonly known as the unemployment benefit.


625. As at May 2011, the single rate of DSP is $670.90 per fortnight (pf) (including pension supplement) – NSA is $474.90pf.
Allowing claimants to work up to 30 hours a week (for those subject to the 15 hour a week work incapacity rule) will help encourage participation by removing one disincentive to work. It should be noted that DSP recipients have had the benefit of easier two year re-entry rules for some time. These allow the recipients to attempt work and go off DSP for up to two years and re-qualify without having to be re-assessed if the work attempt is not successful. Not many DSP recipients have taken advantage of this opportunity. Perhaps this has been because work participation has not been actively promoted and because participating in work has been viewed by many as a threat to their DSP qualification.

The reform that targets participation requirements to those under age 35 is also new. On the surface, targeting work participation at younger DSP recipients is understandable, but it may only reveal that a high proportion of the younger DSP population are on this benefit because they have significant congenital impairment or have acquired a significant impairment at a young age.

**Significance of the reforms**

Past experience suggests that measures to improve the quality of DSP and work capacity assessments are likely to have only a limited impact on DSP numbers; the impetus for a working age person to qualify for DSP, as opposed to NSA, where most DSP claimants transition from, continues to be strong. The radical WtW halving of the incapacity to work test in 2006 had a limited, short-term impact, with many new DSP claimants still managing to meet the new criteria. The concerns about the DSP program numbers are not new. Population growth and ageing and increases in the age pension age mean that DSP recipient numbers will continue to grow. Limiting the impact of this growth on government outlays will require a continued policy focus on increasing the participation and employment earnings of those on DSP. The reforms outlined in this Budget are of limited significance but are a step in the right direction. Their effectiveness in removing some of the current disincentives to work and ensuring assistance is being directed at those who need it most remains to be seen.

627. Whiteford, op. cit.
Family assistance retargeted

Dale Daniels

The changes to family assistance in the 2011–12 Budget should be seen as a continuation of well established reform directions that have been followed in the Labor Government’s first term. They combine a return of the Hawke/Keating Government’s emphasis on targeting payments to those most in need with a newer emphasis on ensuring that family assistance supports young people in education and skills development at a time of skill shortages and few unskilled jobs. The total family assistance package will deliver savings of $2.8 billion, part of which will be redirected to these new priorities in family assistance.628

Increased targeting

The main measure that addresses targeting of family assistance in the Budget is the continuation for two extra years of the indexation freeze introduced in the 2009–10 Budget for the following income test thresholds:

- the Family Tax Benefit part B (FTBB) primary earner income threshold of $150 000 per annum
- the Dependency Tax Offsets (DTO) income limit of $150 000 per annum
- the Baby Bonus (BB) income eligibility limit of $75 000 in the six months following the birth or adoption of a child and
- the higher income test free threshold for Family Tax Benefit part A (FTBA) of $94 316 plus $3 796 per annum per additional child after the first.

In addition, indexation of the primary carer income limit in the newly introduced Paid Parental Leave (PPL) scheme will be frozen.

FTBB, the Dependency Tax Offsets, Baby Bonus and Paid Parental Leave all have ‘sudden death’ income tests. That means that once the threshold is reached, the entitlement can go from full payment to nothing. So at any time (with or without the freeze) the impact on families whose income moves above the limit is quite significant. The impact of these measures will, however, be restricted only to those families with incomes in the few thousands of dollars above the frozen thresholds, who would have retained access to payment if indexation of the threshold had gone ahead. In the case of FTBB, about 11 400 families would lose their entitlement in 2013–14, due to

the indexation freeze. They represent only about one percent of estimated FTBB families at that time.\textsuperscript{629}

The freeze on the higher income threshold for FTBA will affect families with incomes between the threshold and the point where payments cease altogether. That income range will vary according to how many children are involved and their ages. It is estimated that about 39 000 families who would have received a part rate payment with indexation will cease to receive FTBA in 2013–14. They represent about 2.6 per cent of estimated FTBA families at that time.

This level of income test tightening is relatively mild compared to that which occurred after the implementation of the income testing measures in the 2008 Budget. That was when upper income thresholds were introduced for FTBB and Baby Bonus and the definition of income under the income test was tightened. After those changes the proportion of all families with dependent children aged under 16 years receiving FTB was about 75 per cent (1.87 million), a proportion similar to that which applied back in 1998 before the introduction of FTB.\textsuperscript{630}

The most recently published income distribution data for FTBA families being paid by instalments fortnightly, indicates that in 2008–09 their average adjusted taxable income was $49 768.\textsuperscript{631} Therefore, even with this tighter targeting of FTB, families close to the upper income test thresholds who will be affected by the indexation freeze are on incomes two and three times greater than the average income of those receiving FTBA.

Other budget measures which fit with this policy direction are:

- the phasing out of the dependent spouse rebate (DSR), which is currently only available to spouses not caring for children, by limiting eligibility to taxpayers with a dependent spouse born before 1 July 1971 and

- the reduction in the upper age limit for FTBA from 24 years to 21 years.

Both of these changes remove somewhat anachronistic and poorly targeted provisions that do not sit well with current policy settings. The DSR adds to workforce disincentives by contributing to effective marginal tax rates for dependent spouses returning to work, and has lost its reason for existence now that participation of women in the paid workforce is the norm. The DSR will be retained for spouses with disabilities, who are carers or who are eligible for zone or overseas tax offsets. The age qualification will shield those presently over forty years of age but allow a gradual

\textsuperscript{629.} This and other estimates of the numbers affected are derived using the NATSEM micro-simulation model STINMOD 10.
\textsuperscript{631.} Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), \textit{Annual report 2009–10}, FaHCSIA, Canberra, 2010, p. 393.
phase out of the DSR. This is a mechanism used in the past when phasing out dependency based payments in the social security system such as the widow pension.

Improving the targeting of assistance to low income people has been viewed by many as tackling ‘middle class welfare’. There has always been a tension in family assistance policy between two equity objectives in a climate of limited resources. On the one hand, assisting low income families and tackling child poverty is best done with payments for the poorest only. On the other hand, family assistance policies have additional objectives such as assisting families with the high costs associated with raising children, and aiding women making the transition between the workforce and the raising of children (and back again). For some, this implies the need for more universally available family assistance—in particular, one that avoids barriers to participation in the workforce as a result of high effective marginal tax rates.\(^{632}\) The balance between these two approaches continually shifts as government priorities change and economic circumstances fluctuate. This Budget is not the first and it is unlikely to be the last to contribute to the quest for the right balance in family assistance policy.

**Cost Cutting**

Another feature of the family assistance measures in the Budget is cost cutting to make the system more sustainable.\(^{633}\) While some measures (such as those above) may be justified on policy as well as savings grounds, another budget measure would appear to be primarily about savings to pay for the enhancements to family assistance mentioned below. That measure is the freezing of the indexation of the FTBA and FTBB supplements for three years.\(^{634}\) It is indicative of the size of the FTB program (an estimated $18.1 billion in 2011–12) that stopping the growth of these supplements by quite small amounts (about $20 per child per annum for the FTBA supplement for example) can realise savings of $803.2 million over the coming four years.\(^{635}\)

**Enhancements to family assistance**

The biggest spending measure in the family assistance area in this Budget is the increase in FTBA maximum rates for 16 to 19 years old full-time students to match that paid to 13 to 15 year olds (currently $6 161.20 per annum).\(^{636}\) The rate will increase by $3741, for 16 and 17 year olds, and by

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$4208 for 18 and 19 year olds. While this has been funded in the Budget, it is not a new measure. It was promised in the 2010 election campaign and legislation to implement the measure is currently before the Senate. The objective of this change is to encourage teenagers to stay in school and it complements changes to FTBA eligibility for this group introduced from 1 July 2010. From that date, 16 to 20 year olds without a year 12 qualification needed to be studying full-time towards gaining one, in order to qualify for FTBA. An estimated 650 000 teenagers turning 16 over the next five years are expected to attract the increased rate. These changes are estimated to cost $771.9 million over five years.

The other family assistance spending measure in the Budget improves the system of advance payments of FTBA.

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637. Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Election Commitments and Other Measures) Bill 2011.

638. Macklin, Supporting Australian families through a sustainable family payment system, op. cit.
Workforce participation measures

Matthew Thomas

The Budget includes a range of measures that seeks to encourage and help the very long-term unemployed, people with a disability and single parents into training and employment.

Over recent years, with low and falling unemployment, job seekers who have relevant skills and minimal barriers to employment have tended to find work relatively quickly. Those who remain on income support are job seekers who were already disadvantaged in the labour market and have become increasingly so over time. The long-term unemployed now make up around 50 per cent of those in receipt of Newstart Allowance (NSA).639 In recognition of this problem, the Rudd-Gillard Government has substantially reformed Australia’s employment and disability employment services to better meet the needs of difficult-to-place job seekers and the long-term unemployed. This has built on the previous efforts of the Howard Government through its 2006 Welfare to Work reforms.

The 2011–12 budget measures should be seen as part of an on-going effort by successive Australian Governments to increase the employment participation and self-reliance of disadvantaged job seekers. The measures attempt to strike a balance between incentives and obligations—‘carrots and sticks’—for employment participation. Thus, for example, on the one hand they tighten the eligibility requirements for Youth Allowance (other) (YA(o)) and NSA recipients, while on the other hand they remove tax obstacles that discourage young unemployed people, single parents and people on the Disability Support Pension from working.640

The most substantial measures include:

- $558.5 million over four years for a National Workforce Development Fund to support relevant, industry-based training in areas of skill shortage
- $143.1 million over four years for up to 30,000 additional Language, Literacy and Numeracy Program training places
- $80.0 million over four years for additional training places for single and teenage parents in receipt of government-provided income support
- $133.3 million over four years for very long-term unemployed job seekers to undertake approved Work Experience Activities for 11 months of the year (rather than six months under the current scheme)

639. ‘Long-term unemployed’ refers to those job seekers in receipt of income support for 12 months or more.
• $11.3 million over three years for wage subsidies to be paid to employers who provide employment placements to people with disability who have been unemployed for at least 12 months

• $94.6 million over four years for wage subsidies for employers of very long-term unemployed job seekers to provide paid employment experience to help them transition into paid employment

• $21.8 million over three years for an awareness campaign that promotes the benefits of employing the very long-term unemployed and people with a disability

• $22.7 million over four years for professional career advisory services for single parents and support services for parents and children to improve personal and parenting skills and children’s educational and health outcomes

• $35.3 million over four years for measures that streamline services for job seekers (as part of the Government’s response to the Independent Review of the Job Seeker Compliance Framework)

The measures also include changes to employment services arrangements that reduce red-tape (largely through reduced reviews and unnecessary assessments). These are calculated to deliver savings of $167.8 million over four years. The Government has wound up the Innovation Fund, which is calculated to deliver savings of $41.0 million over three years. The changes to eligibility criteria for YA(o) and NSA are expected to provide further savings of $183.9 million over four years.

Comments

Disadvantaged job seekers face significant barriers in gaining employment and overcoming these barriers is easier said than done.

The measures introduced by the Government indicate that it is aware of the difficulties faced by disadvantaged job seekers and it is serious about getting them into work. However, these measures need to be viewed as one further step (albeit a reasonably large one) on the long road towards getting disadvantaged people into employment. Along with the Government’s reform of employment services, they are a contribution to an on-going investment that will require significantly more funding and time before it is likely to realise substantial dividends.

A majority of the measures are supply-side initiatives that are clearly necessary given that most of the job seekers who are being targeted are severely disadvantaged. These people typically have lower levels of education, are lacking in literacy and numeracy skills, have little or no recent employment experience and suffer from health problems and social isolation, among other things.

The additional funding for language, literacy and numeracy training is therefore welcome. The Australian Bureau of Statistics (ABS) 2006 Adult Literacy and Life Skills Survey found that approximately million Australians aged 15 to 74 years (46 per cent) had literacy scores that were below the minimum level required ‘for individuals to meet the complex demands of everyday life and work in the emerging knowledge-based economy’. On the numeracy scale, the ABS found that
approximately 7.9 million Australians (53 per cent) had numeracy scores that were below the minimum required. The Business Council of Australia has recently observed that many job seekers who attend interviews are lacking in basic literacy skills.

The success of the measure that requires very long-term unemployed job seekers to undertake Work Experience Activities for 11 months of the year, rather than six months, is likely to be dependent on the quality and the relevance of the activities. If the activities do not involve the development of relevant skills in truly work-like environments then there is a risk that this could amount to time wasted. The provision of a $1000 Employment Pathway Fund credit to fund additional assistance to each job seeker could help to enhance the value of Work Experience Activities. It is worth noting that the Welfare to Work evaluation found that participation in Full-Time Work for the Dole and Wage Assist services only realised modest outcomes for very long-term unemployed job seekers and for the public purse, in terms of reduced reliance on income support.

The Budget includes funding for increased wage subsidies for employers of people with disability who have been unemployed for at least 12 months and for very long-term unemployed job seekers (that is, job seekers who have been in receipt of income support for two years or more). It also includes funding for an awareness campaign that promotes the benefits of employing people with a disability as well as the very long-term unemployed. Approaches that link employer demand strategies with employer incentive strategies are more likely to prove successful in terms of recruitment and retention than approaches where these strategies are used in isolation. Hence, the budget measures, which seek to increase employers’ awareness of the potential benefits of hiring people with disabilities and the very long-term unemployed while also promoting programs and initiatives that make it easier for them to do so, should, to some degree, complement one another.

However, it is important to recognise that wage subsidies are viewed by employers as an incentive that might help to get a disadvantaged job seeker ‘over the line’, but not one that would actually create a job opportunity. An employer survey that was conducted in 2007 and reported on in the evaluation of the Welfare to Work reforms, showed that employers are generally reluctant to employ people with a disability. They are even more unwilling to employ very long-term unemployed job seekers, considering them to be a ‘last resort’. Employer attitudes are likely to have changed over the past few years as unemployment has fallen, and with it the pool of available job

seekers. Nevertheless, they are aware that people with disability and very long-term unemployed people frequently lack basic employability skills and face ongoing barriers to employment. As a result, what employers appear to want is broad, flexible placement support that would target the on-going needs of individuals in the work place.644

Relevant, industry-based training in areas of skills shortage through the National Workforce Development Fund should promote industry investment in Australia’s workforce and may assist many less disadvantaged job seekers. Given that the training is to be enterprise-based, this should address any industry concerns that the vocational training with which job seekers are provided should meet their demand for particular skill sets. The training will not be ‘training for training’s sake’.

644. P Karvelas, op. cit.
Welfare reforms to change personal behaviour

Luke Buckmaster

The Budget contains a number of measures that aim to bring about change in the personal behaviour of welfare recipients. This reflects the growing emphasis by the Government on addressing what it describes as the ‘corrosive’ effects of welfare. That is, the idea that while welfare is necessary for the alleviation of disadvantage it also has a role in maintaining or possibly even causing disadvantage.

During the 2010 election campaign, Labor’s main welfare policy committed a re-elected Gillard Government to the task of modernising Australia’s welfare system through ‘creating opportunity’ and ‘requiring responsibility.’ The policy referred to the need ‘to spread the dignity and purpose of work, end the corrosive aimlessness of welfare and bring more Australians into mainstream economic and social life’.

A central theme of government policy in this area has been the need to support or induce the adoption of more responsible behaviours in particular communities by, for example, placing conditions on eligibility for welfare payments or on how welfare payments may be spent. The best known example of this is income management. Under this policy, a percentage of the income support and family payments of certain people is set aside to be spent on priority goods and services, such as food, housing, clothing, education and health care. Those subject to compulsory income management include certain categories of welfare recipients in the Northern Territory (NT) deemed to be ‘individuals at risk’, welfare recipients in the NT and Western Australia (WA) whom a child protection officer has referred to Centrelink to have their income managed, and welfare recipients in Cape York whom a statutory body, the Family Responsibilities Commission, has ordered should be subject to income management for engaging in dysfunctional behaviour. Individuals may also participate in income management on a voluntary basis.

Budget measures in the area of personal responsibility and behavioural change include:

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648. Ibid., p. 5.

• Introduction of child protection and voluntary income management in locations ‘experiencing high levels of social disadvantage’, namely: Playford (SA), Shepparton (Vic), Bankstown (NSW), Rockhampton and Logan (Qld) ($117.5 million over five years)\textsuperscript{650}

• Continuation of the Cape York Welfare Reform Trial, a program aimed at rebuilding social norms in Cape York communities by linking the receipt of welfare payments to fulfilment of socially responsible behaviours ($16.1 million over two years)

• Continuation of the child protection and voluntary income management trial in WA ($17.9 million in 2011–12)

• Introduction of compulsory participation plans and support for teenage parents ‘in achieving educational qualifications to assist them to gain future employment’ in 10 disadvantaged local government areas (LGAs), namely: Playford (SA), Hume and Shepparton (Vic), Burnie (Tas), Bankstown, Wyong and Shellharbour (NSW), Rockhampton and Logan (Qld) and Kwinana (WA) ($47.3 million over four years)\textsuperscript{651}

• Introduction of a trial for new participation requirements and support services for parents who have been on income support for more than two years or who are under 23 years of age in the 10 LGAs listed above—with the requirement that they meet regularly with Centrelink in order to set personal and family goals, and receive assistance in accessing pre-vocational, community, health and educational services ($71.1 million over four years)\textsuperscript{652}

• Continuation of the School Attendance and Enrolment Measure (SEAM), a program being trialled in the NT and Queensland under which parents can have welfare payments suspended if their children are not enrolled at or do not attend school ($6.4 million over two years)

• Introduction of changes making the payment of the Family Tax Benefit Part A Supplement for a child turning four in a particular income year conditional on the child having received a basic health assessment—this fulfils a commitment made by the Government in the 2010 election campaign ($12.1 million over five years).\textsuperscript{653}

Funding for the above measures totals $288.4 million. The measures are an indication of the Government’s growing commitment to the role of personal behavioural change in overcoming disadvantage (sometimes described as ‘new paternalism’).\textsuperscript{654} It is also notable that several of the measures were highlighted in announcements by the Prime Minister in 2010 and 2011 as demonstrating an increased focus on personal responsibility.

\textsuperscript{650}. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), \textit{New approaches to address disadvantage in targeted communities}, media release, 10 May 2011, viewed 10 May 2011, \url{http://www.jennymacklin.fahcsia.gov.au/mediareleases/2011/Pages/b06_10052011.aspx}

\textsuperscript{651}. Ibid., the amount in the media release is rounded down.

\textsuperscript{652}. Ibid., the amount in the media release is $71 million – the 71.1 comes from \textit{Budget Paper No. 2}.

\textsuperscript{653}. J Gillard (Prime Minister), \textit{Healthy start for school}, media release, 11 August 2010, viewed 19 April 2011, \url{http://www.alp.org.au/agenda/education---training/healthy-start-for-school/}

measures involve interventions in particular disadvantaged communities. This reflects growing interest on the part of the Government in what are known as ‘location based initiatives’—programs that draw on research indicating that disadvantage tends to cluster in particular geographical locations.655

The specific measures raise a number of questions, including how the Government decided which locations would be included, whether exemptions from the measures are possible and how the measures will be evaluated (what would constitute success?).

General questions related to the growing emphasis on new paternalist measures include: what limits ought there be on the nature and extent of interventions in the lives of welfare recipients; and, to what extent can welfare reforms cause individuals to change their behaviours in a meaningful and enduring way (is there a risk of creating even further dependency)?

Reforms and rationalisation of the Human Services delivery agencies

Peter Yeend and Michael Klapdor

The 2011–12 Budget announced several initiatives to reform and update business operations and information technology (IT) inside the Department of Human Services (DHS). These reforms largely have their origins in the rationalisation of several separate government service delivery agencies announced in December 2009. Those reforms involve the incorporation of two major service delivery statutory agencies, Centrelink and Medicare Australia, into the DHS. Another agency affected by this budget initiative, the Child Support Agency (CSA), which is responsible for the delivery of the Child Support Scheme, is already a part of the DHS.

The DHS initiatives funded in the Budget include:

• a new organisational structure amalgamating the business operations of Centrelink, Medicare Australia and the CSA

• the provision of a single point of telephone and website contact for all Centrelink, Medicare Australia and CSA customers

• integrated and automated online business operations allowing customers to interface with the three different service delivery arms through a single access point

• the physical and administrative integration of the different service delivery arms of the DHS and

• the integration of the IT elements of the three service delivery agencies.

Legislation for the rolling in of Centrelink and Medicare Australia into the DHS, the *Human Services Legislation Amendment Act 2011*, was recently passed by Parliament and is awaiting Royal Assent.

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IT rationalisation and savings

While there are other elements of administrative rationalisation in these Budget initiatives, the budget reforms feature a rationalisation and amalgamation of the IT functions and services of these agencies.

That the rationalisation of these separate agencies into the one DHS would realise savings should not come as a surprise. In particular, it will be cheaper to support these currently separate businesses with a centralised IT service. The scale of their business activities and their reliance on IT to conduct their business is substantial. In 2009–10, Centrelink serviced 7.02 million customers, provided $84.2 billion in payments, had 32.7 million phone calls, sent out 113.8 million letters and had 85 million website visits.659 It is one of the biggest business operations in Australia. Similarly, Medicare Australia is a significant operation and in 2009–10 provided $40 billion in benefits, received 15.3 million phone calls and had 7.8 million website visits.660

Further IT and business rationalisation?

The intention of these measures is to ‘provide customers and staff with a complete picture of a customer’s interactions across the portfolio’, and will see both consenting customers and DHS staff accessing the customer’s different accounts through a single transaction.661 The Government has maintained that it is only the IT platforms that are being brought together and not personal information, that is, unless individuals request information sharing for their own convenience:

We are bringing IT platforms together, not information itself. Apart from the limited data that is already shared between agencies like Medicare and Centrelink, no more information will be shared, unless the individual concerned asks us to share the information for their convenience. Personal health information is of particular sensitivity for most people, which is why we have excluded health information from these reforms. That’s not to say we are closing our minds to the advantages or benefits of the agencies’ closer integration for people who deal with us regularly. If, for example, you inform Medicare of a change of address, we’ll ask if you would like us to let other parts of DHS know.662

However, it is possible that notwithstanding current intentions, over time there may be pressures on future governments to find further efficiencies by reconciling any differences in customer records as well as streamlining the databases. However, it should be noted that any reconciliation of personal information on the different databases could not be achieved without amending the statutes which

govern these. In view of the amount of personal information held on these databases such a possibility could give rise to questions about information security, and concerns about the protection of privacy.
Indigenous affairs

Dr John Gardiner-Garden

The 2011–12 Budget initiatives of most potential relevance to Indigenous affairs fall in the portfolio areas of education, training and health. They come in the context of commitments by all governments, as part of a National Indigenous Reform Agreement, to National Partnerships intended to ‘close the gap’ in these areas and to monitor progress towards agreed goals.

There is much hope that monitoring this progress will be made possible by a range of developments:

- the advent of three forward year Key Performance Indicators (KPIs)
- the formulation of State and Territory Overarching Bilateral Indigenous Plans (OBIPs)
- the publication of the Council of Australian Governments Reform Council’s National Indigenous Reform Agreement reports (the second due out in May 2011) and
- the inauguration of reporting on Indigenous service expenditure by a newly established Indigenous Expenditure Report Steering Committee (with its secretariat in the Productivity Commission).

However, the detail offered in the Prime Ministerial Closing the Gap reports and in State and Territory OBIPs has to date fallen short of offering the information needed to fully assess progress, and progress in delivering on some earlier commitments (for example to do with Indigenous housing) has been slow. Accordingly the potential value of this year’s Indigenous measures, may best be judged down the track.

It is worth noting that two of the potentially most significant measures, that address two of the most pressing problems, do not seem to have any specifically tailored year-by-year KPIs in the relevant portfolio’s budget statement. The first is the Education, Employment and Workplace Relations Portfolio’s new $50.7 million (over four years) Indigenous Youth Career Pathways Program to help up to 6400 Indigenous students achieve school-based traineeships—though there are specific KPIs for the Indigenous Ranger Cadetship program and overarching KPIs for Indigenous Employment.


The second is the Health and Ageing Portfolio’s $113.4 million (over five years) for 15 new or expanded Indigenous health clinics and 40 new renal dialysis chairs over five years from 2011–12—though there are KPIs to do with such quantitative deliverables as additional workforce and increased episodes of care.665 (Funding for this initiative is to come from the $1.8 billion for regional health infrastructure through the Health and Hospitals Fund Regional Priority Rounds.)

Moreover, it is not clear that whether the funding commitment for the Indigenous Youth Career Pathways Program means more money for Indigenous training as ‘the cost of this measure will be met from within existing resources of the Indigenous Employment Program (IEP) made available by realigning the program. The (IEP) will no longer fund activities that can be funded under mainstream programs.’666

In the area of education and training, the Budget also offers:667

- an extra $171.3 million to continue until the end of 2013 a raft of programs supporting Indigenous students in schools across the country under the *Indigenous Education (Targeted Assistance) Act 2000*
- $25.5 million over five years to extend the Community Development Employment Program
- $4.1 million over three years to trial the Indigenous Ranger Cadetships initiative in a dozen schools
- $6.1 million over four years for Job Services Australia to pilot culturally appropriate mentoring supports for Indigenous job seekers
- $1 million over two years to allow greater flexibility for employment service providers in remote areas to work more successfully with job seekers, many of whom are Indigenous and
- $233 million through the *Building Australia’s Future Workforce* package for new measures to help the very long-term unemployed, about 17 percent of whom are Indigenous, move into employment.

In the area of health, the Budget also offers:668


668. *Investing to close the gap*, op. cit.
• $34.9 million over five years in Indigenous-specific funding to deliver services to around 18,000
  Indigenous Australians, as part of the expansion of Access to Allied Psychological Services

• continuation of funds for several existing programs, including for Indigenous health services
  seeking clinical and organisational accreditation, Bringing Them Home and Expanding Link Up
  Programs, the Indigenous chronic disease package, expanded primary health care delivery in the
  Northern Territory, and national smoking and healthy lifestyle teams

• $8.5 million over four years to expand and reform the support available for women experiencing
  domestic violence

• extra funding of $28.0 million over two years under the Regional Aviation Access Program for
  safety upgrades at remote and isolated airstrips across Australia, including ones in remote
  Indigenous communities

• $74.4 million from over four years to trial a new approach to service delivery known as ‘case
  coordination’ and part of this will assist Indigenous people to access appropriate services and

• $208.3 million over five years for an extra 425 community mental health workers to work one on
  one with an additional 3400 people with severe mental illness, many of whom may be
  Indigenous.

Among other potentially significant budget measures is the allocation of $16.1 million to extend and
expand the Cape York Welfare Reform trial. This trial aims to improve parental responsibility,
combat welfare dependence and ensure welfare is spent in the best interests of children. 669

669. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), Extending the Cape York
Welfare Reform Trial, media release, 10 May 2011, viewed 11 May,
http://www.jennymacklin.fahcsia.gov.au/mediareleases/2011/Pages/b12_10052011.aspx  See also Budget brief on
Welfare Reform to change personal behaviour.
‘Stronger Super’ and other reform measures

Paige Darby


‘Stronger Super’ initiatives

The Super System Review recommended three major initiatives which were taken up by the Government in its Stronger Super proposals: the creation of a simple, low cost, default superannuation product called MySuper; self managed superannuation fund (SMSF) reform; and a package of superannuation productivity and ease-of-use measures called SuperStream.

According to the Government response to the review, superannuation funds will be able to provide MySuper products from 1 July 2013. The 2011–12 Budget provides $26.2 million over four years to the Australian Prudential Regulation Authority (APRA) and $3.7 million over the same period to the Australian Securities Investment Commission (ASIC) for the introduction of MySuper. In order to offset the cost of creating MySuper, the levy on APRA-regulated superannuation funds will be increased.

The SMSF reforms will be funded through a $30 increase in the SMSF levy (with effect from the 2010–11 income year) and the introduction of SMSF auditor registration fees. The SMSF reforms give the Australian Taxation Office (ATO) greater oversight of the sector, and also tighten legislative


standards for certain types of investments. The 2011–12 Budget provides $40.2 million over five years to the ATO and $8.4 million over four years to ASIC in order to implement the SMSF reforms. In an additional capital measure ASIC will receive $2.8 million over 2010–11 and 2011–12 to develop an online registration facility for approved SMSF auditors.

The ATO will also receive $14.6 million over 2010–11 and 2011–12 to develop a business case and detailed design of IT systems to support the SuperStream measures. The Department of Finance will receive $400 000 over six years to undertake a Gateway review of the project. Some measures announced under the SuperStream initiative are included elsewhere in the 2011–12 Budget and are discussed below.

Greater use of tax file numbers

The Government will allow superannuation fund trustees and retirement savings account providers to make greater use of tax file numbers (TFNs). From 1 July 2011 they will be able to use TFNs to locate member accounts, and from 1 January 2012 they will be able to use TFNs to assist the consolidation of multiple member accounts. This is in line with recommendation 9.11 of the Super System Review and was announced as part of the Government’s SuperStream initiative designed to enhance the ‘back office’ of superannuation.

This measure was included in Schedule 3 of Tax Laws Amendment (2011 Measures No. 2) Bill 2011 which was introduced in the House of Representatives on 24 March 2011. It is expected to have a minimal, but unquantifiable, cost to revenue.

Refund of excess concessional contributions

From 2011–12, eligible individuals who make superannuation contributions in excess of their concessional contributions cap may have these contributions refunded and taxed at their marginal tax rate rather than at the effective excess contributions tax rate of 46.5 per cent. This only applies to individuals who have breached the cap for the first time and by less than $10 000 (not indexed). The concessional contributions cap for 2011–12 is $25 000. Employees 50 years or over have a concessional contributions cap of $50 000 in 2011–12.

This measure will reduce taxation revenue by $19.9 million over the forward estimates, and will also cost an additional $15.6 million for the Australian Taxation Office (ATO) to administer.

676. For further information on this Bill see: Pulle and Darby, op. cit., pp. 7–12.
‘Securing Super’

As part of the 2010 election campaign, the Government announced a three-part package titled ‘Protecting Workers’ Entitlements Package’, one aspect of which was the ‘Securing Super’ initiative. This measure involves ensuring employees are aware of when their superannuation is being paid by requiring superannuation contributions to appear on employee payslips. Also, if regular superannuation payments cease, employees will receive a quarterly notification from their superannuation fund. This measure has an ongoing negligible impact on revenue.

Superannuation contributions cap for over 50s

This measure changes the way the concessional contribution cap for over 50s is indexed, resulting in a $155 million increase to revenue over the forward estimates. In the 2010–11 Budget, the Government indicated it would double the concessional contribution cap of $25 000 (indexed) for individuals aged 50 or over from 1 July 2012. The 2011–12 Budget changes the cap for over 50s so that it is set at $25 000 higher, rather than double the indexed general cap. This means that when the general concessional contribution cap increases due to indexation, the over 50 cap will increase by the same dollar amount.

Superannuation co-contribution indexation

The Government will decrease expenditure on the superannuation co-contribution by continuing to freeze the income thresholds at their 2010–11 levels for a further year. Under the superannuation co-contribution scheme, the Government currently matches the after-tax superannuation contributions of taxpayers to a maximum value of $1000 for individuals with incomes of up to $31 920. This matched amount is then phased down for individuals with an income of between $31 920 and $61 920. By not indexing these thresholds for three years from 2012–13, the Government will reduce expenditure on this initiative by $75 million.

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678.  J Gillard, Protecting workers’ entitlements package, media release, 25 July 2010, pp. 3–4, viewed 13 May 2011,
http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fpartypol%2FNGQX6%2
2
679.  Cooper and others, op. cit., p. 298.
11/content/bp2/download/bp2_v2.pdf
Fringe benefits tax—reform of the car fringe benefits rules

Bernard Pulle

The Budget Measures: Budget Paper No. 2: 2011–12 states that the Australian Government will reform the current “statutory formula” method for determining the taxable value of car fringe benefits for fringe benefits tax (FBT) purposes.\(^{681}\) The Treasurer and the Assistant Treasurer in their Joint Media Release on 10 May 2011 indicated the taxation and environmental objectives of this reform measure:

The Gillard Government will change the fringe benefit treatment of cars to remove the unintended incentive for people to drive their vehicle further than they need to, in order to obtain a larger tax concession.

Phasing out the current car fringe benefit treatment is a sensible reform from both taxation and an environmental perspective, and implements another recommendation of the Australia’s Future Tax System Review.\(^{682}\)

Brief background

The final report of the Australia’s Future Tax System review (known as the Henry review) had recommended that the statutory formula for working out the taxable value of car fringe benefits should be reformed and the Australian Government has accepted this recommendation. The proposed reform in the Henry report was to provide a single statutory rate that would apply to the original cost of the car regardless of the distance travelled. In Recommendation 9(b) it recommended that the current formula for valuing fringe benefits should be replaced with a single statutory rate of 20 percent regardless of the kilometres travelled.\(^{683}\)

The Ralph Review of Business Taxation in its 1999 report A Tax System Redesigned recommended a schedule approach to replace the statutory formula.\(^{684}\) The schedule was to be based on a survey by motoring organisations of aggregate running costs of vehicles, both fixed and variable. In


recommendation 5.4 it suggested that a 45 per cent business use be deducted from this schedule of running costs to determine the taxable value of an employee’s car benefit. If an employer or employee wished to specify a percentage higher than 45 per cent for business usage, the obligation should be on the employer or employee who makes the claim to substantiate it.

**What is the statutory formula method for working out car fringe benefits?**

There are currently two methods of working out car fringe benefits. These are described as the statutory formula method (SFM) or the operating cost method. Under the operating cost method, the taxable value of the car fringe benefit is a percentage of the total cost of operating the car during the FBT year. This percentage is based upon actual business/private usage of a car supported by the maintenance of a car logbook.

The SFM uses a statutory formula to estimate the annual taxable fringe benefit of the vehicle based on a percentage of the original purchase cost. This statutory percentage is determined by the total kilometres travelled by the vehicle in the FBT year. The higher the kilometres travelled the smaller the percentage is, as shown in the table below. The SFM therefore provides scope for an employee to lower their FBT liability by increasing the kilometres travelled and thereby reducing the applicable statutory percentage.

<table>
<thead>
<tr>
<th>Total kilometres travelled during the FBT year</th>
<th>Statutory percentage</th>
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<tbody>
<tr>
<td>Less than 15,000km</td>
<td>26</td>
</tr>
<tr>
<td>15,000 to 24,999km</td>
<td>20</td>
</tr>
<tr>
<td>25,000 to 40,000km</td>
<td>11</td>
</tr>
<tr>
<td>More than 40,000 km</td>
<td>7</td>
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</table>

Source: *Calculating the taxable value of a car fringe benefit using the statutory formula method* 685

**Proposed Reform**

Under the proposed reform, the Government will replace the current statutory percentages with a single rate of 20 per cent that applies regardless of the distance travelled. Thus the incentive under the current rules to increase the distance travelled in any FBT year to reduce the statutory percentage and the FBT liability will be removed.

This reform will apply to new contracts entered into after 7:30 pm (AEST) on 10 May 2011, and will be phased in over four years. This measure will result in a gain to revenue of $970 million over the forward estimates and is expected to increase GST revenue by $50 million over the same period.

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Not-for-profits—regulation and taxation

Steve O’Neill and Matthew Thomas

Australia’s not-for-profit (NFP) sector is made up of around 600 000 organisations. Of these, some 59 000 are economically significant, contributing $43 billion to the nation’s annual gross domestic product. Despite the size of the NFP sector and its economic contribution, over the years successive governments have failed to develop a national and whole-of-government perspective on the sector and its regulation. As a result, regulation of the sector has been allowed to develop into what one prominent commentator has described as ‘a mess’.

Currently:

• there is a range of different ways to incorporate a NFP organisation

• fundraising regimes differ across the states

• there is no one set of accounting standards or uniform standard for reporting

• the taxation laws applying to NFP organisations are haphazard, making it difficult to determine what the sector is worth and how much tax is forgone through concessions

Generally speaking, the confused regulatory environment makes for a NFP sector that is not as efficient as it could be and makes it confusing for the public to know which organisations they should trust when making donations. It has been broadly agreed for some time that regulation of the sector is in need of major reform.

On gaining office in 2007, the Rudd Government committed to the development of a new, more collaborative and productive relationship with the NFP sector. To this end, among other things, the Rudd-Gillard Government:

• appointed a Parliamentary Secretary for Social Inclusion and the Voluntary Sector

• removed ‘gag’ clauses in government contracts with the sector which threatened to cut off government funding and grants where organisations were openly critical in the media of government policy

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• commissioned the Productivity Commission to develop a tool to measure the direct and indirect contributions of the sector to the economy

• developed a National Compact with the sector that defines ‘the rules of engagement’ and provides a basis for improving the policy, programs and services for Australia’s communities. 689

In its response to the Productivity Commission report, and in the context of the 2010 Federal Election, the Government committed, if re-elected, to:

• establish a new office for the NFP sector, located within the Department of Prime Minister and Cabinet

• commence a scoping study to determine the role and design options for a national ‘one-stop-shop’ regulator for the sector to remove the complex regulatory arrangements currently in place and streamline reporting arrangements

• harmonise and simplify Federal, State and Territory Government regulation of the sector

• reduce red-tape for government-funded NFP organisations by developing a common form contract or ‘master agreement’ and reviewing tendering, contracting and acquittal arrangements between the Australian Government and NFP organisations to streamline and reduce burden commensurate with risk 690

The establishment of a national ‘one-stop-shop’ regulator for the NFP sector has been recommended by a number of reviews of the sector or its taxation arrangements in recent years. 691

For example, the Henry Review recommended that:

... a national charities commission should be established to monitor, regulate and provide advice to all not-for-profit (NFP) organisations (including private ancillary funds). The charities commission should be tasked with streamlining the NFP tax


concessions (including the application process for gift deductibility), and modernising and codifying the definition of a charity. 692

The measures in this Budget go some way towards implementing the above recommendation, including its suggested development of a statutory definition of ‘charity’, as well as the Government’s election commitments.

The Government will establish a new independent statutory agency—the Australian Charities and Not-for-profits Commission (ACNC)—by 1 July 2012. 693 The ACNC will assess the charitable status of NFP entities for all Commonwealth purposes and provide education resources to the NFP sector. The responsibility for determining ‘charitable, public benevolent institution, and other not-for-profit status for all Commonwealth purposes’ will be that of the ACNC Commissioner alone. The Budget provides $53.6 million over four years for the establishment of the ACNC and for related structural changes to the Australian Tax Office (ATO). An implementation taskforce is to be set up in Treasury from 1 July 2011 to facilitate the establishment of the ACNC.

The ATO will terminate its role in determining charitable status, but will continue to administer NFP tax concessions in preparation for the establishment of the ACNC. The ATO will also assist the ACNC with its corporate services.

The Government is to consult with the states and territories on national regulation and a new national regulator for the sector, ‘with the aim of minimising reporting and other regulatory requirements through coordinated national arrangements’. 694 This measure is expected to result in additional tax revenue of $41 million over four years through increased compliance activity.

Another area in which the Government is to consult with the states and territories is the development of a definition of ‘charity’ that may be applied consistently across all jurisdictions. This statutory definition is likely to take into account the findings of the recent High Court decision that activist group Aid/Watch is a charitable institution, and thus eligible for tax concessions. The definition, to be applied to all Commonwealth laws, is to take effect from 1 July 2013. An additional $2.9 million over four years has been allocated to the ACNC to implement changes associated with the adoption of a uniform definition of ‘charity’.

694.  Ibid., p. 322.
NFP income tax concessions will be reformed to ensure that they only apply to those activities that ‘directly further a NFP’s altruistic purposes’. This means that NFP entities will pay income tax on profits from their unrelated commercial activities that are not directed back to their altruistic purpose (that is, the earnings they retain in their commercial undertaking). The new arrangements will commence on 1 July 2011, affecting only new unrelated commercial activities commencing after 10 May 2011. Commercial activities that further a NFP entity’s altruistic purposes and small-scale and low-risk unrelated commercial activities will not be affected by the reforms. NFP entities with existing unrelated commercial activities will initially be able to continue to use their tax concessions to support these activities.

Unsurprisingly, there are likely to be a significant number of issues to be worked through with the implementation of the budget measures and ongoing NFP sector reforms. For example, following the announcement of the budget measures, Catholic Health Australia Chief Executive, Martin Laverty, expressed concerns that the measure restricting tax concessions to only those activities that contribute to a NFP’s altruistic purposes could have a significant negative impact on his organisation. While the tax treatment of the hospitals themselves will not be influenced by the changes, the businesses (like cafes) that are run in the hospitals could be forced to pay taxes. This, Laverty argues, could result in less money for the health care services that are a part of the organisation’s religious ethos. While hospitals run by church groups and other larger NFP organisations that run businesses are likely to be the object of some scrutiny where it comes to their tax-exempt status, most NFPs will probably not be affected by the changes. As a result, the measure appears to have gained the broad support of the NFP sector.

Generally speaking, the measures represent the first major steps towards substantive NFP sector reforms—reforms that are, arguably, well overdue.

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695. Ibid., p. 36.
Small business car tax write-off

Michael Priestley

Small businesses will be eligible for an immediate tax write-off of up to $5000 on new motor vehicles purchased from 1 July 2012. The remainder of the vehicle value will be pooled, along with other small business assets, which can be depreciated at 15 per cent in the first year and then 30 per cent thereafter. Under the existing depreciation rules for small business, motor vehicles are treated like other business assets in the pool and depreciated at 30 per cent (15 per cent in the first year). The measure thus reduces the amount in the pool.

The measure provides a tax benefit. Taking the example of a new vehicle which is purchased for $33,960 in 2012–13, the net tax benefit is $1275 in 2013–14. This net benefit is the amount over and above what a small business would be entitled to under the existing depreciation rules, and takes account of the flat $5000 write-off, plus 15 per cent depreciation for the remainder of the motor vehicle value ($28,960). According to the Budget forward estimates, the cost of the new tax write-off will be $350 million over two years.

Small business depreciation—accelerated initial deduction for motor vehicles

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<tr>
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<td>-</td>
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Entrepreneurs’ tax offset

The tax write-off effectively replaces the entrepreneurs’ tax offset (ETO) which was introduced in 2005 by the former coalition government to help small businesses become established. The ETO targeted independent contractors, very small businesses or micro businesses and self-employed people starting up a small business. Typically, start-up costs of these businesses are self-funded and the ETO provided a tax offset of 25 per cent of the income tax liability.

The ETO applied to small businesses with an annual turnover of $50,000 or less and the maximum tax refund available was $2750. The offset phased out for annual turnover between $50,001 and $75,000. In 2009, the offset was subject to a means test and ceased for single persons with incomes...


699. Under the tax law (section 328–110 of the *Income Tax Assessment Act 1997*), a small business entity is generally a taxpayer who is carrying on a business and has an annual turnover of less than $2 million.

over $70,000 and families with incomes over $120,000. Any unused tax offset could not be refunded or deferred for future years.

From an estimated 2.7 million small businesses in Australia, a total of 397,785 businesses claimed the ETO in 2007–08 and 402,485 businesses in 2008–09, accounting for $177 million in deductions.701


Cost of the entrepreneurs’ tax offset ($m)

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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Commencement date:</td>
<td>2005</td>
<td></td>
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<td></td>
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<td>Expiry date:</td>
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The abolition of the ETO will lead to savings of $180 million in 2013–14 and $185 million in 2014–15.

Assistance to the car industry

The Budget makes provision for a $300 million special appropriation in each of the budget and forward years under the Automotive Transformation Scheme Act 2009, and annual appropriations over the same period of $649 million ($212 million in 2011–12).702 The Automotive Transformation Scheme is the centrepiece of the Government’s assistance package to the car industry. It is a cash payment scheme established by the Automotive Transformation Scheme Act 2009. Taking the car tax write-off, special appropriations and annual appropriations together, budgetary assistance to the car industry over the forward estimates will total almost $1.69 billion.

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Conclusions

Expert opinion on the abolition of the ETO and its replacement with the car tax write-off is divided, with some commentators citing the abolition of the ETO as a disincentive for business growth and others suggesting that the $5000 motor vehicle deduction sends the wrong signal to small business owners starting out in business. Although the majority of small businesses (85 per cent) did not qualify for the ETO tax offset, those businesses which were eligible for the tax offset found it supportive. Other tax experts noted that the write-off of the first $5000 of any new motor vehicle purchase should be viewed in tandem with other initiatives announced in response to the Henry Tax Review which include a reduction in the company tax rate to 29 per cent in 2013–14 and immediate write-off of all business assets valued at under $5000 from 1 July 2012.

The car tax write-off is a stimulatory measure that will lead to increased motor vehicle sales. The measure is also budget-neutral as the savings from terminating the tax offset cover the estimated $350 million cost of the car tax write-off. A technical argument can be made in favour of early-stage assistance to self-funded business operators as against applying a tax concession to a broader group of taxpayers who were eligible for the small business tax break announced in the 2009–10 Budget.

The car tax write-off underlies the ongoing assistance to the car industry at a time of falling car exports, and motor vehicle production at 1962 levels.

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704. Ibid.


Workplace relations

Steve O’Neill

The following table compares workplace relations departmental expenses of agencies falling within the portfolio of the Department of Employment, Education and Workplace Relations (DEEWR) along with average staffing levels (ASL) in 2011–12 compared with those in 2010–11.

<table>
<thead>
<tr>
<th>Workplace Relations agencies</th>
<th>2011–12 $’000</th>
<th>2010–11 $’000</th>
<th>ASL 2011–12</th>
<th>ASL 2010–11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Work Australia</td>
<td>74 872</td>
<td>73 715</td>
<td>332</td>
<td>329</td>
</tr>
<tr>
<td>Fair Work Ombudsman</td>
<td>143 475</td>
<td>150 291</td>
<td>855</td>
<td>868</td>
</tr>
<tr>
<td>Australian Building and Construction Commission</td>
<td>35 381</td>
<td>34 888</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>18 737</td>
<td>19 315</td>
<td>110</td>
<td>107</td>
</tr>
<tr>
<td>Comcare</td>
<td>401 338</td>
<td>545 016</td>
<td>642</td>
<td>637</td>
</tr>
</tbody>
</table>


Comcare, which operates the Commonwealth’s workers’ compensation fund, expects a significant reduction in expenses through its recently introduced ‘service delivery model’. Compensation claims expenses are expected to reduce by over $150 million, compared to 2010–2011. 707

2011–12 Budget items relating to workplace relations programs include:

- $14.7 million over two years (including $7.1 million in capital funding) to Comcare to implement nationally harmonised model work health and safety laws within the Commonwealth’s jurisdiction

- $4.0 million over four years to continue to support Ethical Clothing Australia (administered by DEEWR) to promote its accreditation and labelling system and encourage participation in the National Retailers Ethical Clothing Code of Practice. Funding for this will be met from existing resources and

- $3.6 million over four years for the establishment of a National Workers’ Memorial to honour Australian workers who have lost their lives due to work related accidents, and an interactive website. Funding for this will be met from existing resources. 708

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DEEWR workplace relations programs which are to cease include the Work and Family Support for Small Businesses grants, the Fair Work Education and Information program, and the Home Workers’ Code of Practice program (in 2012–13).

Expenses for the General Employee Entitlements and Redundancy Scheme (GEERS) will fall to $102.3 million (from $189 million in 2010–11), returning to its more traditional funding levels of around $100 million in future years. The Fair Work Guarantee legislation to be introduced later in 2011 will formalise administrative arrangements which have underpinned GEERS for ten years. Programs which continue include Protected Action Ballots, Small Business Work and Family grants, and the Home Workers Code of Practice program whose expenses will fall from $1 million in 2010–11 to $250 000 in 2011–2012, before ceasing. Funding is provided for asbestos claims against the Commonwealth, and Australia’s International Labour Organisation subscription.709

709. Ibid., pp. 132 and 133.