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Budget Review 2016–17

Introduction to the 2016 Budget Briefings

As is customary, the Library is providing a series of Budget Review briefings to assist parliamentarians to consider key issues posed by the 2016–17 Budget, selected on the basis of significance, complexity or degree of controversy.

Other Library publications you may also find useful:

- The 2016–17 Budget: a quick guide
- A Quickguide to the Commonwealth Budget
- A Bills Digest covering the supply bills
- Flagpost blog: Supply Bills—a reprise

These can be downloaded from the Library's website.

The Prime Minister has indicated his intention to call a double dissolution election on 2 July. As the Parliamentary Library's FlagPost article explains, if that is to happen, the Governor-General must dissolve both houses on or before 11 May.

Funding for the ordinary functions of government and for some programs ends on 30 June 2016. To provide funding from 1 July 2016, the Government introduced Supply Bills which passed Parliament without amendment on Wednesday 4 May 2016. They provide departmental and administered funding for five months from 1 July 2016.

The Appropriation Bills tabled on Budget night provide funding for the remaining seven months of the 2016–17 financial year. However, as with any other Bills remaining on the notice papers, these Bills will lapse on the dissolution of Parliament. Should the double dissolution be called, new Appropriation Bills, and any other budget-related legislation, will be needed after the election for the seven months not covered by the Supply Bills.

Several other events will shape the consideration of the current Budget.

First, the Reserve Bank of Australia (RBA) is due to release its quarterly Statement on Monetary Policy (SoMP) at 11.30 am on Friday 6 May. This sets out in detail the RBA's latest views on the Australian economy and forecasts.

Second, within ten days of the issue of the writ for a general election, the Secretary to the Treasury and the Secretary of the Department of Finance are required to release publicly the *Pre-election Economic and Financial Outlook* (PEFO), which is required under the *Charter of Budget Honesty Act 1998*.

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The purpose of the PEFO is to provide updated information on the economic and fiscal outlook. The information in the report takes into account, to the fullest extent possible, all government decisions made before the issue of the writ and all other circumstances that may have a material effect on the economic and fiscal outlook.

Parliamentarians are invited to raise any points requiring clarification or amplification directly with the research specialists who authored the briefs. Any general comments are also welcome and can be raised with me or by writing to the Parliamentary Library.

Dr Dianne Heriot
Parliamentary Librarian

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Budget Overview – the Headline numbers

Robert Dolamore

This brief provides a summary of some of the key numbers from this year's budget.

The headline economic forecasts

Table 1: Treasury forecasts of major economic parameters (per cent)

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Real GDP	2.2	2.5	**2.5**	3.0	3.0	3.0
Employment	1.6	2.0	**1.75**	1.75	1.25	1.5
Unemployment Rate	6.1	5.75	**5.5**	5.5	5.5	5.5
Consumer price index	1.5	1.25	**2.0**	2.25	2.5	2.5
Wage price index	2.3	2.25	**2.5**	2.75	3.25	3.5
Nominal GDP	1.6	2.5	**4.25**	5.0	5.0	5.0
Terms of trade	-10.3	-8.75	**1.25**	0.0		

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 1, Table 2, p. 1-8, Statement 2, Table 1, p. 2-6.

Table A1 provides a snapshot of how these forecasts have changed since last year's budget (see Attachment A).

The headline fiscal numbers

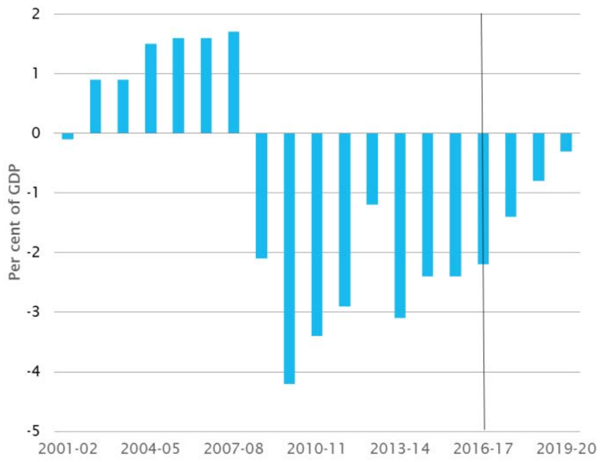
- The **underlying cash deficit** is estimated to be $39.9 billion (2.4 per cent of gross domestic product (GDP)) in 2015–16, $37.1 billion (2.2 per cent of GDP) in 2016–17 falling to a projected $6.0 billion (0.3 per cent of GDP) in 2019–20.
- Over the four years to 2019–20 **accumulated deficits** are estimated to total $84.6 billion.
- General government sector **receipts** are estimated to be $388.0 billion (23.5 per cent of GDP) in 2015–16, $411.3 billion (23.9 per cent of GDP) in 2016–17 rising to a projected $500.7 billion (25.1 per cent of GDP) by 2019–20.
- **Tax receipts** are estimated to be $364.5 billion (22.1 per cent of GDP) in 2015–16, $382.8 billion (22.2 per cent of GDP) in 2016–17 increasing to a projected $468.3 billion (23.5 per cent of GDP) by 2019–20.
- General government sector **payments** are estimated to be $425.0 billion (25.8 per cent) in 2015–16, $445.0 billion (25.8 per cent of GDP) in 2016–17 and increasing to a projected $502.6 billion (25.2 per cent of GDP) by 2019–20.
- In terms of total general government receipts and payments, the revenue side is forecast to make the biggest contribution as a share of GDP to reducing the size of the Budget deficit over the forward estimates period.
- General government sector **net debt** is estimated to be $285.7 billion (17.3 per cent of GDP) in 2015–16, $326.0 billion (18.9 per cent of GDP) in 2016–17 increasing to a projected $355.1 billion (17.8 per cent of GDP) by 2019–20.
- General government sector **net interest payments** are estimated to be $12.0 billion (0.7 per cent of GDP) in 2015–16, $12.6 billion (0.7 per cent of GDP) in 2016–17 increasing to a projected $14.2 billion (0.7 per cent of GDP) in 2019–20.
- The face value of **Commonwealth Government Securities** (CGS) on issue is estimated to be $425 billion in 2015–16, $497 billion in 2016–17 and $565 billion in 2018–19. Looking further out the total value of CGS on issue is projected to rise to $640 billion by 2026–27.

The Budget deficit is forecast to gradually fall from $39.9 billion in 2015–16 to $5.9 billion in 2019–20.

Underlying Cash Balance

Year	$m	% GDP
2014–15	-37,867	-2.4
2015–16	-39,946	-2.4
2016–17	**-37,081**	**-2.2**
2017–18	-26,123	-1.4
2018–19	-15,406	-0.8
2019–20	-5,955	-0.3

Underlying Cash Balance % GDP

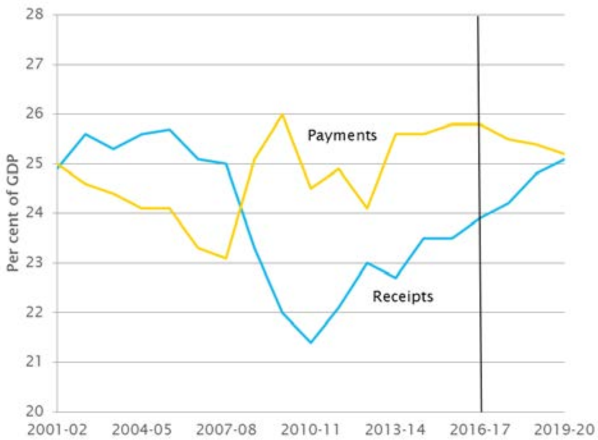


Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 1, p. 10–6.

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

- In the last decade payments peaked at 26.0 per cent of GDP in 2009–10 and are estimated to be 25.8 per cent of GDP in 2016–17 and decline to 25.2 per cent in 2019–20.
- In the last decade receipts bottomed at 21.4 per cent of GDP in 2010–11 and are forecast to be 23.9 per cent of GDP in 2016–17 and increase to 25.1 per cent of GDP in 2019–20.

Receipts and Payments % GDP



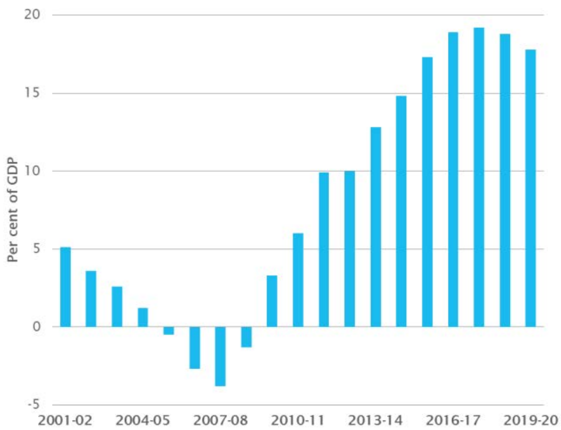
Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 1, p. 10–6.

Net debt is forecast to peak as a percentage of GDP in 2017–18.

Net Debt

Year	$m	% GDP
2014–15	238,721	14.8
2015–16	285,684	17.3
2016–17	**325,962**	**18.9**
2017–18	346,842	19.2
2018–19	356,373	18.8
2019–20	355,066	17.8

Net Debt % GDP



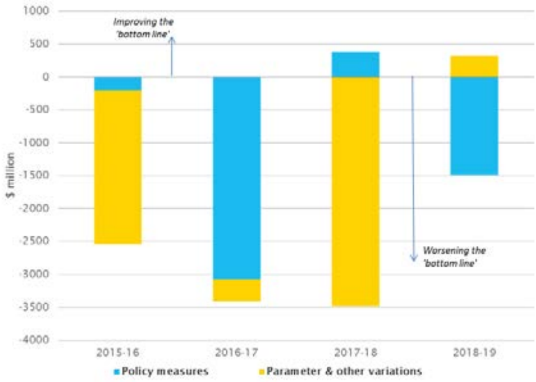
Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 4, p. 10–12.

Since MYEFO, policy measures and parameter variations have on balance worsened the near-term budget outlook.

Effect on the Underlying Cash Balance of changes since MYEFO

Year	*Policy measures $m*	*Parameter variations $m*
2015–16	-195	-2,352
2016–17	**-3,070**	**-343**
2017–18	384	-3,484
2018–19	-1,494	319

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



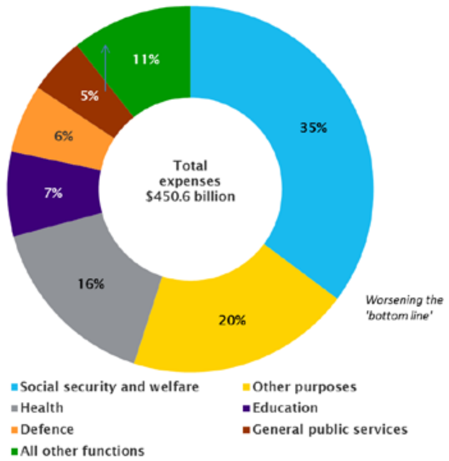
Source: Australian Government, [Budget strategy and outlook: budget paper no. 1: 2016–17](), 2016, Statement 3, Table 5, p. 3–24.

Where does government spending go in 2016–17?

Estimates of Expenses by function

	$b	%
Social security & welfare	158.6	35.2
Health	71.4	15.9
Education	33.7	7.5
Defence	27.2	6.0
General public services	22.7	5.0
All other functions	47.9	10.6
Other purposes	89.1	19.8
Total	**450.6**	**100.0**

Expenses by function in 2016–17

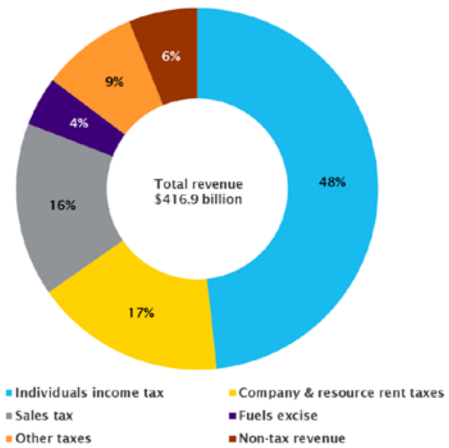


Source: Australian Government, Budget 2016–17 [overview](), 2016, Appendix B, p. 25.

Where does the revenue come from in 2016–17?

	$b	%
Individuals income tax	201.3	48.3
Company & resource rent taxes	71.0	17.0
Sales tax (incl. the GST)	64.8	15.5
Fuels excise	18.4	4.4
Other taxes	35.8	8.6
Non-tax revenue	25.6	6.1
Total	**416.9**	**100.0**

Revenue in 2016–17



Source: Australian Government, Budget 2016–17 [overview](), 2016, Appendix B, p. 25.

Attachment A

Table A1: Treasury forecasts of major economic parameters (per cent)

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Real GDP						
Budget 2015–16	2.5	2.75	3.25	3.5	3.5	
MYEFO 2015–16	2.2	2.5	2.75	3.0	3.0	
Budget 2016–17	**2.2**	**2.5**	**2.5**	**3.0**	**3.0**	**3.0**
Employment						
Budget 2015–16	1.5	1.5	2.0	2.0	2.0	
MYEFO 2015–16	1.5	2.0	1.75	1.5	1.5	
Budget 2016–17	**1.6**	**2.0**	**1.75**	**1.75**	**1.25**	**1.5**
Unemployment Rate						
Budget 2015–16	6.25	6.5	6.25	6.0	5.75	
MYEFO 2015–16	6.0	6.0	6.0	5.75	5.5	
Budget 2016–17	**6.1**	**5.75**	**5.5**	**5.5**	**5.5**	**5.5**
Consumer price index						
Budget 2015–16	1.75	2.5	2.5	2.5	2.5	
MYEFO 2015–16	1.5	2.0	2.25	2.5	2.5	
Budget 2016–17	**1.5**	**1.25**	**2.0**	**2.25**	**2.5**	**2.5**
Wage price index						
Budget 2015–16	2.5	2.5	2.75	2.75	3.25	
MYEFO 2015–16	2.3	2.5	2.75	2.75	3.0	
Budget 2016–17	**2.3**	**2.25**	**2.5**	**2.75**	**3.25**	**3.5**
Nominal GDP						
Budget 2015–16	1.5	3.25	5.5	5.25	5.5	
MYEFO 2015–16	1.6	2.75	4.5	5.0	5.25	
Budget 2016–17	**1.6**	**2.5**	**4.25**	**5.0**	**5.0**	**5.0**
Terms of trade						
Budget 2015–16	-12.25	-8.5	0.75			
MYEFO 2015–16	-10.2	-10.5	-2.25			
Budget 2016–17	**-10.3**	**-8.75**	**1.25**	**0.0**		

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2015–16*, 2015, Statement 1, Table 2, p. 1-7, Statement 2, Table 1, p. 2-5; S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, 2015, Table 1.2, p. 3, Table 2.2, p. 9; Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 1, Table 2, p. 1-8, Statement 2, Table 1, p. 2-6.

The economic and fiscal context

Robert Dolamore

This brief provides an overview of the economic and fiscal context for the 2016–17 Budget.

The economic context

The domestic economic outlook

Over the past year Australia's transition from mining driven growth to broader-based growth has gained some traction. In its latest *Statement on Monetary Policy* (SMP), the Reserve Bank of Australia (RBA) reports that the non-mining sector expanded at an above average rate in 2015, with growth strongest in services industries.[1] The impetus for a rebalancing towards non-mining sector activity has come primarily from stronger dwelling investment and household consumption supported by an accommodative monetary policy. The depreciation of the Australian dollar since early 2013 has also helped by boosting demand for Australia's exports including non-mining export oriented industries such as tourism and higher education. This transition has played out against a backdrop of falling commodity prices, rapidly declining mining investment, expanding resources exports and at times volatile global financial, equity and commodity markets.

However, revisions to Treasury's forecasts suggest the transition to broader-based growth has been slower than expected (Table 1). At the time of last year's Budget, Treasury and the RBA were forecasting growth would strengthen to around its long-term average of 3.25 per cent in 2016–17. Treasury is now expecting the economy will grow by 2.5 per cent in 2016-17, unchanged from the previous year. The RBA is slightly more optimistic, forecasting growth of 3 per cent in 2016-17 (taking the mid-point of the RBA's forecast range). Both Treasury and the RBA are forecasting the economy will grow by around 3 per cent in 2017-18.

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

	2015–16	2016–17	2017–18
Treasury			
Budget 2015-16	2.75	3.25	3.5
Budget 2016-17	**2.5**	**2.5**	**3.0**
The Reserve Bank of Australia			
SMP* May 2015	2.0–3.0	2.5–4.0	...
SMP May 2016	**2.5**	**2.5–3.5**	**2.5–3.5**

* Statement on Monetary Policy.
Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2015–16*, May 2015, Statement 1 Table 2, p. 1-7; Australian Government, *Budget strategy and outlook: budget paper no. 1 2016–17*, May 2016, Statement 1, Table 2, p. 1-8; Reserve Bank of Australia, *Statement on Monetary Policy*, May 2015, Table 6.1, p. 65; Reserve Bank of Australia, *Statement on Monetary Policy*, May 2016, Table 6.1, p. 61.

Growth strengthened in the second half of 2015, with particularly strong growth in the September quarter of 1.1 per cent. Growth moderated in the December quarter to around 0.6 per cent and the RBA considers this more moderate momentum has continued into 2016.[2]

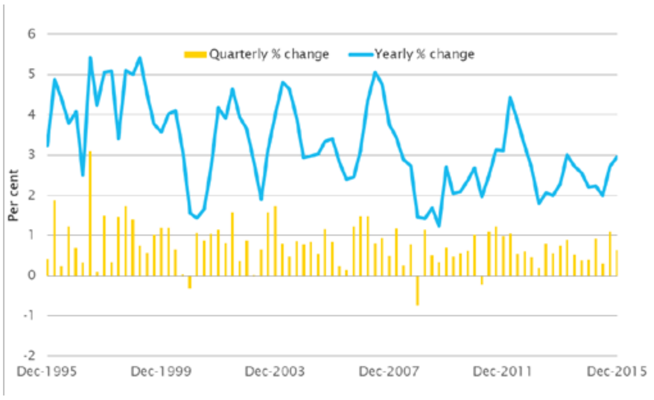
The dynamics of growth are not expected to change markedly in the near-term. Growth is expected to continue to be supported by stronger household consumption, dwelling investment, resources exports and net services exports. While declining mining investment will continue to weigh on growth for some time yet, the RBA notes it is likely to have had its biggest impact on growth in 2015-16.[3]

1. Reserve Bank of Australia (RBA), *Statement on Monetary Policy*, May 2016, p. 27.
2. Ibid.
3. Ibid., p. 31.

Some selected Australian economic indicators

Real GDP growth (per cent)[4]

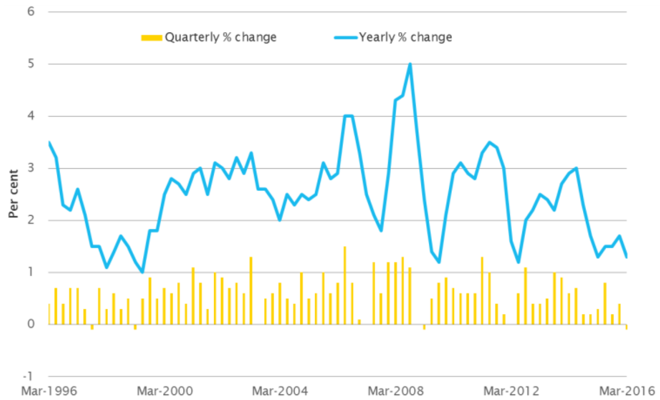
- Real GDP increased by 0.6 per cent in the December quarter. This was above market expectations.
- Annual growth was 3 per cent, slightly higher than Treasury's revised estimates of Australia's potential growth rate of 2.75 per cent.
- Consumer spending, dwelling investment and public spending all contributed to growth.
- Declining business investment detracted from growth.



Inflation (CPI*, per cent)[5]

- Headline inflation fell by 0.1 per cent in the March quarter, which was sharply lower than market expectations.
- In annual terms headline inflation was 1.3 per cent, down from 1.7 per cent in the December quarter. Although there were some temporary factors, the results suggest broad-based weakness in domestic cost pressures.
- Underlying inflation was estimated to be around 1.5 per cent in annual terms down from around 2 per cent in the December quarter.

*Excluding interest and tax changes of 1999-00.



Unemployment rate & participation rate (per cent)[6]

- The unemployment rate (seasonally adjusted) decreased by 0.1 of a percentage point to 5.7 per cent in March.
- The participation rate (seasonally adjusted) was steady at 64.9 per cent.
- Employment increased by 26,100 in March, which was above market expectations.
- Employment grew by 2 per cent in the year to March.

4. Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product, December 2015*, 2 March 2016.
5. RBA, *Statistical Tables: Table G1 Consumer Price Inflation*, RBA website.
6. ABS, *Labour force, Australia, March 2016*, 14 April 2016.

Australia's terms of trade (index)[7]

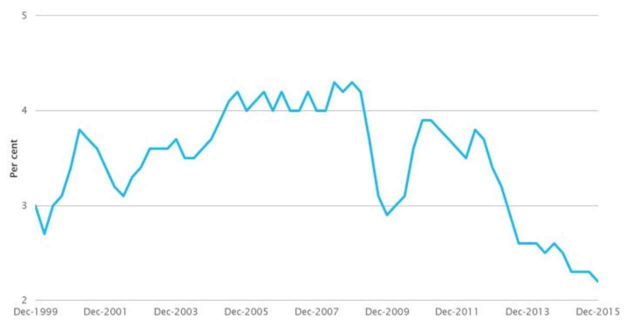
- In recent years large falls in commodity prices have driven a significant decline in Australia's terms of trade.
- In seasonally adjusted terms the terms of trade declined by 3.2 per cent in the December quarter and by 12 per cent annually.
- Australia's terms of trade have fallen by around 34 per cent since their peak in late 2011.

Reserve Bank of Australia (RBA) Index of Commodity Prices (SDR, 2014-15 average =100)[8]

- The RBA reports that preliminary estimates for April indicate the index rose by 2 per cent (on a monthly average basis) in Special Drawing Right (SDR) terms, after increasing by 6.3 per cent in March.[9]
- Over the past year, the index has fallen by 9.4 per cent in SDR terms, led by declines in the prices of base metals.
- The index has fallen by around 52 per cent in SDR terms since its peak in July 2011.

Labour Costs, Year-ended change (per cent)[10]

- Labour cost pressures have been weak in recent times.
- The wage price index (WPI) is calculated by comparing the cost of wages over time for the same work level and output.
- The WPI increased by 0.5 per cent (seasonally adjusted) in the December quarter.
- The annual change in the WPI was 2.2 per cent, the lowest rate of wages growth since the start of the series in 1998.



A pick-up in non-mining business investment remains important to boosting productivity, growth and future living standards. However, as the Government notes in *Budget Strategy and Outlook: Budget Paper No. 1: 2016-17*, this has been slower than expected.[11]

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7. *Australian National Accounts: National Income, Expenditure and Product, December 2015*, op. cit.
8. RBA, *Statistical Tables: Table I2 Commodity Prices*, RBA website.
9. RBA, *Index of commodity prices*, 2 May 2016.
10. RBA, *Statistical Tables: Table H4 Labour Costs and Productivity*, RBA website.
11. Australian Government, *Budget Strategy and Outlook: Budget Paper No. 1: 2016-17*, 2016, p. 2-19.

It appears unlikely there will be a strong lift in non-mining business investment in the near term. *Budget Paper No. 1* cites the Australian Bureau of Statistics (ABS) Private New Capital Expenditure and Expected Expenditure Survey (CAPEX) and Treasury's own business liaison programme as indicating that businesses are continuing to wait before committing to new investment.[12] The RBA also considers that the outlook for non-mining business investment is subdued but observes:

> However, very low interest rates and the depreciation of the Australian dollar over the past few years have supported an improvement in business conditions (which is clearly evident in the various survey measures and consistent with the rise in employment) and there is evidence that investment has increased in areas of the economy that have been less affected by the decline in mining investment and commodity prices.[13]

The March quarter **inflation** figures were sharply lower than expected. The headline consumer price index (CPI) fell by 0.1 per cent (in seasonally adjusted terms) to be 1.3 per cent higher over the year. The RBA reports that although there were some temporary factors (for example, lower fuel prices) the data suggest there has been broad-based weakness in domestic cost pressures.[14] A negative quarterly CPI reading is relatively rare. In the last 20 years there have been only three other occasions when the quarterly CPI reading was negative. Underlying inflation decreased to be around 0.25 per cent in the March quarter and about 1.5 per cent over the year.[15] The softness of the latest inflation figures prompted the RBA Board to cut the cash rate by 25 basis points to a new historic low of 1.75 per cent on 3 May 2016.[16]

Many central banks in recent years have been grappling with low inflation.[17] Indeed, the International Monetary Fund (IMF) reports in its latest *World Economic Outlook* that in the advanced economies underlying inflation remains well below central bank targets and deflationary pressures are a risk. [18] Against this international backdrop, European Central Bank President, Mario Draghi, outlined in a speech earlier this year why it is important for central banks to act within their mandates to ensure transitory deflationary pressures do not lead to permanently lower inflation.[19]

In its latest SMP the RBA revised down its inflation forecasts. [20] Headline inflation is expected to converge towards underlying inflation over the forecast period. Both measures are forecast to be still below 2 per cent (taking the midpoint of the RBA's forecast band) by December 2016 and at the bottom of the RBA's inflation target band of 2 to 3 per cent out to June 2018 (again taking the midpoint of the RBA's forecast band). The downward revisions to the RBA's inflation forecasts reflect a view that domestic cost pressures, including wages growth, will pick-up more gradually than previously thought.

Labour market conditions have been noticeably stronger than previously forecast adding weight to the view that Australia's transition to broader-based growth has gained some traction. In last year's Budget Treasury forecast that employment would grow by 1.5 per cent in 2015-16 and the unemployment rate would be 6.5 per cent in the June quarter.[21] The latest Budget forecasts show stronger employment growth of 2 per cent in 2015–16 and a lower unemployment rate of 5.75 per cent.[22]

Over the past year employment growth has been supported by moderate wage growth and the transition to more labour-intensive sectors of the economy such as household and business services.

Both Treasury and the RBA are expecting labour market conditions will continue to improve in 2016-17, although at a slower pace than in 2015-16. Treasury is forecasting employment will grow by 1.75 per cent in 2016-17 and

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12. *Budget Paper No. 1*, op. cit., p. 2-19.
13. *Statement on Monetary Policy*, op. cit., p. 62.
14. Ibid., p. 3.
15. Measures of underlying inflation focus on persistent or generalised movements in prices by excluding price movements which reflect temporary, highly volatile or policy factors. In this way measures of underlying inflation gauge price movements that are predominantly due to market forces and have implications for future inflation.
16. G Stevens, *Statement by Glenn Stevens, Governor: Monetary Policy Decision*, media release, 3 May 2016.
17. Bank for International Settlements (BIS), *85th Annual report: 1 April 2014–31 March 2015*, Basel, 28 June 2015, p. 65.
18. International Monetary Fund, *World economic outlook: too slow for too long*, April 2016, p. 4.
19. M Draghi, *How central banks meet the challenge of low inflation*, The Marjolin lecture at the SUERF conference, Frankfurt, 4 February 2016.
20. *Statement on Monetary Policy*, op. cit., p. 62.
21. Australian Government, *Budget Strategy and Outlook: Budget Paper No. 1: 2015-16*, 2015, p. 2-5.
22. *Budget Paper No. 1*, op. cit., p. 2-6.

the unemployment rate will fall slightly to 5.5 per cent in the June quarter. This is broadly consistent with the RBA's view.

Just as rising commodity prices and the upswing in mining investment affected some **jurisdictions** more than others, the downswing of the mining boom has been felt unevenly across Australia. During the upswing the resource rich jurisdictions of Western Australia (WA), Queensland and the Northern Territory (NT) benefited from the direct and indirect effects of surging mining investment and employment. While other jurisdictions also benefited many trade exposed non-mining industries in the south east of Australia found conditions difficult as the boom drove the Australian dollar higher. More recently economic activity outside the resource-rich jurisdictions has picked up helped in part by stronger demand for household and business services. In contrast WA has faced a challenging transition as mining investment and employment unwinds.

One window on the regional effects of Australia's current transition is provided by CommSec's quarterly *State of the States* report.[23] CommSec assesses the economic performance of Australia's states and territories using eight indicators: economic growth; retail spending; equipment investment; unemployment; construction work done; population growth; housing finance and dwelling investment. In its latest report CommSec found New South Wales (NSW), Victoria and the Australian Capital Territory (ACT) held the first three spots in terms of overall economic performance. Three years ago WA and the NT held the first two spots respectively.[24] WA now ranks 6th in terms of overall economic performance and the NT ranks 4th.

Risks

On the domestic front there are a number of risks to the economic outlook. On the upside it is possible that if wages growth strengthens by more than currently forecast this would likely feed through to stronger household consumption, which would boost domestic demand.

A key downside risk is around the timing of the pick-up in non-mining sector business investment. One plausible scenario is that the support to growth coming from stronger dwelling investment and a lower Australian dollar wanes over coming months and consequently pushes the pick-up in non-mining sector business investment further out.

There is a risk that a sharp downturn in the Australian housing market would expose households and the banking sector to increased stress. Tightening credit conditions would weigh on domestic demand as would the negative confidence and wealth effects a downturn of this nature would have.

Finally, it is possible that like recent international experience, deflationary pressures in Australia prove more stubborn than currently thought. Some economists have raised the possibility that deflationary pressures in the advanced economies reflect structural factors (for example related to demographics, the long-term cycle in commodity prices, technological change and the effects of globalisation).[25] To the extent this is the case there is a risk these pressures may persist and become embedded in people's expectations and decision-making. If deflationary pressures prove to be less transitory than currently thought it would further complicate an already challenging macroeconomic policy environment.

The global economic outlook

The global outlook matters because as a relatively small open economy Australia is affected by developments overseas through financial, trade and investment linkages and confidence and wealth channels. Since the beginning of the year the economic outlook for the global economy has become more subdued. The New Year saw one of the worst stock market sell-offs since the 2008 global financial crisis (GFC).[26] Initially, global markets focussed on slowing growth in China and rising vulnerabilities in emerging market economies more generally. This was followed by heightened concerns about bank profitability in an environment in which the outlook for the global economy looked more subdued and there were increased expectations of further reductions in interest rates in some of the major economies.

23. CommSec, 'State of the States', CommSec website, April 2016.
24. Commsec, 'State of the States', CommSec, April 2013.
25. *How central banks meet the challenge of low inflation*, op. cit.
26. BIS, 'Uneasy calm gives way to turbulence', *BIS Quarterly Review*, March 2016, p. 1.

Since then global markets have calmed but there remain concerns about the extent to which market sentiment remains relatively unanchored, lacking a clear sense of what the new long-term sustainable growth path is.[27]

While forecasters have trimmed their near-term global growth forecasts, growth is still expected to strengthen gradually over the next couple of years (Table 2). The IMF considers this improvement is contingent on growth picking up in emerging market and developing economies as the outlook for advanced economies remains relatively subdued.[28]

Treasury's growth forecasts for the global economy are broadly in line with those of the IMF (Table 2). However, Treasury is a little less optimistic about the near-term growth prospects of the United States (US). Forecasts from Oxford Economics, a private global advisory firm, are provided in Table 2 as a point of comparison. The summary below draws on all three sources.

- **United States**: growth has slowed in recent quarters but is expected to firm in the second half of 2016. Subdued global growth and a strong US dollar have weighed on net exports and manufacturing investment while lower oil prices have triggered a contraction in investment in the energy sector. Against this growth is being supported by solid labour market gains, moderate growth in consumer spending, accelerating housing activity and strengthening balance sheets.
- **China**: growth is expected to slow in 2016 in line with official growth targets. The Chinese authorities have provided some additional stimulus which is expected to support growth in the near-term. This stimulus has included boosting credit growth, easing housing policies and increasing infrastructure investment. Growth is also being supported by robust consumer spending and an expanding services sector. However, recent stimulus measures are unlikely to be sustainable in the longer-term and China continues to face significant challenges including a sizeable debt burden and the need to transition to more balanced and sustainable growth.
- **Japan**: the recovery in the Japanese economy stalled mid-way through 2015 in the face of weaker demand from China and other Asian economies and sluggish private consumption. The near-term outlook for the Japanese economy remains relatively subdued with the recent strength of the Japanese yen weighing on exports and any improvement in domestic demand looking relatively muted at this stage.
- **India**: growth continues to be robust and Treasury and the IMF are forecasting it will continue to strengthen over the next couple of years. Most of the impetus for growth recently has come from household consumption and public investment. This is expected to broaden as private investment and net exports make a stronger contribution to growth helped by recent reforms. Oxford Economics is a little less optimistic forecasting growth will soften slightly over the forecast period.
- **Euro Area**: the modest recovery in the Euro Area is expected to continue with weaker external demand offset by the positive effects of accommodative monetary policy, lower energy prices, a modest fiscal expansion and supportive financial conditions.

Table 2: Treasury, IMF and Oxford Economics international growth forecasts (per cent)

	2015	2016	2017	2018
United States				
Treasury	2.4	2.0	2.25	2.25
IMF	2.4	2.4	2.5	2.4
Oxford Economics	2.4	2.0	2.4	2.3
Euro area				
Treasury	1.6	1.5	1.5	1.5
IMF	1.6	1.5	1.6	1.6
Oxford Economics	1.5	1.6	1.8	1.7

27. L Pereira da Silva, *Old and new challenges for 2016 and beyond: Strengthening confidence by re-anchoring long term expectations*, Speech to the Lamfalussy Lecture Series: Professor Lamfalussy Commemorative Conference, Budapest, 1 February 2016.
28. International Monetary Fund, *World economic outlook: too slow for too long*, April 2016, p. 18.

China				
Treasury	6.9	6.5	6.25	6.0
IMF	6.9	6.5	6.2	6.0
Oxford Economics	6.9	6.5	6.2	5.9
Japan				
Treasury	0.5	0.5	0.25	0.5
IMF	0.5	0.5	-0.1	0.4
Oxford Economics	0.5	0.5	0.3	0.6
India				
Treasury	7.3	7.5	7.5	7.75
IMF	7.3	7.5	7.5	7.6
Oxford Economics	7.3	7.4	7.2	7.0
World				
Treasury	3.1	3.25	3.5	3.75
IMF	3.1	3.2	3.5	3.6
Oxford Economics	3.0	3.0	3.5	3.7

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1 2016–17*, 2016, Statement 2, Table 2, p. 2-9; International Monetary Fund, *World economic outlook: too slow for too long*, April 2016; Table 1.1, p. 2.; Oxford Economics, *World Economic Prospects*, April 2016.

In recent years Australia has benefited from growth in its major trading partners being higher than the world as a whole.[29] As the RBA notes this has in part reflected the increasing share of Australia's exports going to China.[30] The RBA is forecasting trading partner growth a bit below 4 per cent over the next couple of years.[31]Treasury is forecasting that growth in Australia's major trading partners will remain around 4 per cent in the forecast period.[32]

Risks

The global economy also poses a number of risks for the Australian economy. On the upside it is possible a lower exchange rate than currently forecast could provide additional support to Australia's transition to broader based growth by boosting demand in Australia's trade exposed non-mining sectors.

Even though concerns about the Chinese economy appear to have eased recently, the potential for a sharp downturn in China remains the main perceived near-term risk to the global economy. If this was to eventuate it would trigger renewed volatility in global markets and quickly flow through to China's major trading partners. Australia would be hit by weaker demand for its commodity and other exports, weaker Chinese investment and the negative confidence and wealth effects these developments would cause. Australia would also be hit by the flow-on effects of a downturn in the Chinese economy for the Asian region and the global economy more generally.

There is a risk of persistently slow growth among the advanced economies and that growth is not only slow but these economies struggle to fully use their productive potential. It is possible that structural factors are at work; for example, those related to demographics, debt levels, technological change and inequality, which could result in a sustained weakening of demand relative to supply in these economies.

29. *Statement on Monetary Policy*, op. cit., p. 5.
30. Ibid.
31. *Statement on Monetary Policy*, op. cit., p. 59.
32. *Budget Paper No. 1*, op. cit., p. 2-9.

If Britain votes to exit the European Union in June 2016 it is likely there would be considerable uncertainty about the implications for Britain and Europe. There is a risk that this could trigger further volatility in global markets with negative flow-on effects for the rest of the world.

Finally, geopolitical tensions (for example in the Middle East and the South China Sea) have the potential to disrupt global financial, investment and trade flows and dampen confidence.

Australia's longer-term economic outlook

The longer-term challenges and opportunities that Australia faces are also an important backdrop to the budget. These longer-term influences encompass the economic, social and environmental dimensions of community wellbeing. Generally, they change little from year to year but nonetheless over time have the potential to have a large cumulative impact on Australia's economic prosperity and future living standards.

The list of challenges and opportunities that are likely to shape Australia's longer-term outlook include:

- an ageing population
- the economic rise of Asia
- climate change
- natural resource depletion
- changing patterns of global demand and
- new knowledge and technologies.

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

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

In the 2016–17 Budget the Government set out its economic plan, which, it says, seeks to facilitate Australia's transition to a stronger and more diversified economy.[33] The key elements of this plan are a focus on jobs and economic growth; the tax system; and seeking to balance the budget and reduce the burden of long-term debt.

The implications of the economic outlook for the Budget

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

Table 3 shows how Treasury's forecasts of major economic parameters have tracked over the past year. Overall the revisions to the 2016-17 forecasts suggest a softer reading of Australia's economic conditions. Real GDP growth, the CPI, the wage price index and nominal GDP growth have all been revised down. Against this, the unemployment rate has been revised down reflecting stronger labour market conditions and the terms of trade are now forecast to increase slightly.

The fiscal estimates and projections are sensitive to changes in the key economic parameters. Even relatively small changes in the parameters can affect the budget bottom line.

For example, in Statement 2 of *Budget Paper No. 1,* the Government highlights the uncertainty around movements in commodity prices.[34] Forecasts of commodity prices have an important bearing on the outlook for nominal GDP growth and hence government revenue. The Budget assumes the price of iron ore will be US$55 per tonne Free on Board (FOB), compared with US$S39 per tonne FOB in MYEFO 2015–16. The results of a sensitivity analysis presented in the Budget reveal that a US$10 per tonne reduction/increase in the iron ore price results in just over a $6 billion reduction/increase in nominal GDP in 2016-17.[35]

33. Australian Government, Budget 2016–17: *Overview*, 3 May 2016, p. 2.
34. *Budget Paper No. 1*, op. cit., p. 2-27.
35. Ibid., p. 2-28.

Statement 7 of Budget Paper No. 1 provides a detailed analysis of the historical performance of budget forecasts and estimates of uncertainty around the forecasts.[36] It also provides a sensitivity analysis of the Budget estimates to changes in key assumptions as required under the *Charter of Budget Honest Act 1998*. For example, the sensitivity analysis includes an assessment over the forecast period of the impact on GDP, labour market conditions and prices of a permanent 10 per cent fall in world prices for non-rural commodity exports through 2016-17 (which is consistent with a fall in the terms of trade of 4.75 per cent and a reduction in nominal GDP growth of 1 per cent by 2017-18).[37] The analysis shows the overall impact of the fall in the terms of trade is a decrease in the underlying cash balance of around $2.2 billion in 2016-17 and around $5.4 billion in 2017-18.[38]

The Fiscal context

The Government's fiscal strategy and broader policy agenda

The fiscal strategy

Consistent with the requirements of the *Charter of Budget Honest Act 1998*, the Government has set out in the Budget its medium-term fiscal strategy. The Government's objective is to 'achieve budget surpluses, on average, over the course of the economic cycle'.[39] The details of the fiscal strategy can be found in Statement 3 of *Budget Paper No. 1* (see box 1 on page 3-7).

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

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Real GDP						
Budget 2015–16	2.5	2.75	3.25	3.5	3.5	
MYEFO 2015–16	2.2*	2.5	2.75	3.0	3.0	
Budget 2016–17	**2.2***	**2.5**	**2.5**	**3.0**	**3.0**	**3.0**
Employment						
Budget 2015–16	1.5	1.5	2.0	2.0	2.0	
MYEFO 2015–16	1.5*	2.0	1.75	1.5	1.5	
Budget 2016–17	**1.6***	**2.0**	**1.75**	**1.75**	**1.25**	**1.5**
Unemployment Rate						
Budget 2015–16	6.25	6.5	6.25	6.0	5.75	
MYEFO 2015–16	6.0*	6.0	6.0	5.75	5.5	
Budget 2016–17	**6.1***	**5.75**	**5.5**	**5.5**	**5.5**	**5.5**
Consumer price index						
Budget 2015–16	1.75	2.5	2.5	2.5	2.5	
MYEFO 2015–16	1.5*	2.0	2.25	2.5	2.5	
Budget 2016–17	**1.5***	**1.25**	**2.0**	**2.25**	**2.5**	**2.5**
Wage price index						
Budget 2015–16	2.5	2.5	2.75	2.75	3.25	
MYEFO 2015–16	2.3*	2.5	2.75	2.75	3.0	
Budget 2016–17	**2.3***	**2.25**	**2.5**	**2.75**	**3.25**	**3.5**

36. Ibid., pp. 7-3 to 7-22.
37. Ibid., p. 7-13.
38. Ibid., p. 7-14.
39. Ibid., p. 3-7.

Nominal GDP						
Budget 2015–16	1.5	3.25	5.5	5.25	5.5	
MYEFO 2015–16	1.6*	2.75	4.5	5.0	5.25	
Budget 2016–17	**1.6***	**2.5**	**4.25**	**5.0**	**5.0**	**5.0**
Terms of trade						
Budget 2015–16	-12.25	-8.5	0.75			
MYEFO 2015–16	-10.2*	-10.5	-2.25			
Budget 2016–17	**-10.3***	**-8.75**	**1.25**	**0.0**		

* outcomes

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2015–16*, 2015, Statement 1, Table 2, p. 1-7, Statement 2, Table 1, p. 2-5; S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, 2015, Table 1.2, p. 3, Table 2.2, p. 9; Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 1, Table 2, p. 1-8, Statement 2, Table 1, p. 2-6.

Since the 2014–15Budget, the Government has also set itself a budget repair strategy, which is consistent with and complements the medium-term fiscal strategy. When originally introduced the objective of the budget repair strategy was 'to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24'.[40] In the 2015-16 MYEFO the Government moved away from specifying a target date, with the goal becoming 'to deliver budget surpluses building to at least 1 per cent of GDP as soon as possible'.[41] This remains the objective of the Government's budget repair strategy as set out in *Budget Paper No. 1* (see box 1 on page 3-7).

In the 2015–16 Budget the Government was projecting the underlying cash balance would improve over the period to 2018-19, reaching a small surplus by 2019-20.[42] The Government's latest medium-term projections show that the underlying cash balance is not expected to reach a surplus of around 0.2 per cent GDP until 2020-21.[43] After that the surplus is projected to peak at around 0.3 per cent of GDP in 2021-22 before declining gradually over the period to 2026-27.[44] Given the difficulty of forecasting beyond the forward estimates period there is considerable uncertainty about whether even these relatively modest surpluses will be achieved.

The Government acknowledges the medium-term outlook for the underlying cash balance does not meet key elements of its fiscal strategy and much more needs to be done.[45]

How much additional fiscal adjustment is needed in future budgets will, in part, depend on how strongly the economy grows over the medium-term. If economic growth turns out to be stronger than currently projected, the size of the fiscal adjustment task will be smaller than would otherwise be the case.

A key element of the Government's budget repair strategy is a commitment to offsetting all new policy decisions. In Budget Paper No. 1 the Government notes that all new spending measures in the Budget have been offset by savings in payments and not by policy decisions to increase tax revenue.[46]

The Government has also indicated that it remains committed to implementing Budget measures which have been delayed in the Senate.[47] The Government estimates that the impact of the delays will be to worsen the budget bottom line by $2.2 billion over the five years to 2019-2020.[48]

The Government's broader policy agenda

In *Budget Paper No. 1* the Government highlights the ways it is redirecting government spending to investments which it considers will boost productivity and workforce participation. In this regard, key initiatives include:

40. Australian Government, *Budget Strategy and Outlook: Budget Paper No. 1: 2014–15*, 2014, p. 3-7.
41. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, December 2015, p. 18.
42. *Budget Strategy and Outlook: Budget Paper No. 1: 2015–16*, op. cit., p. 3-3.
43. *Budget Paper No. 1*, op. cit., p. 3-10.
44. Ibid.
45. Ibid. p. 3-11.
46. Ibid., p. 3-25.
47. Ibid.
48. Ibid.

- *The ten year enterprise tax plan*—aims to support growth, higher wages and jobs by lowering the corporate tax rate over time to an internationally competitive level and provides for early cuts for smaller businesses. The Government claims this initiative will deliver a permanent increase to GDP of just over one per cent in the long term.
- *Changes to superannuation*—aims to improve the sustainability, flexibility and integrity of the superannuation system. The Government has announced it is introducing or lowering transfer balance and contribution caps and providing savings support to those who need it most. The Government has also announced changes to allow people to make catch-up contributions; allow all individuals under the age of 75 years to claim a tax deduction for personal contributions; and extend the eligibility for individuals to claim a tax offset for contributions made to their spouse's superannuation.
- *Youth Employment Package*—aims to help young people become more competitive in the labour market by enhancing their skills, providing opportunities for work experience and supporting their transition from welfare to work.
- *Infrastructure spending*—the Government is investing $50 billion in infrastructure from 2013-14 to 2019-20. It reports in the Budget that around 100 major projects are currently under construction and 80 are in the pre-construction phase.
- *Defence investments*—the Government has provided an additional $29.9 billion over the period to 2025-26 for defence investments in order to strengthen Australia's defence capabilities and support Australia's advanced local defence manufacturing industry.
- *Financial assistance to hospitals and schools*—with the Government linking three-year funding arrangements in these areas to reforms which focus on improving quality and patient safety in hospitals and improving student outcomes in schools.

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

The fiscal position

As this year's Budget is the final budget delivered to the 44th Parliament it is appropriate to look back at how the budgetary position has evolved since the Pre-Election Economic and Fiscal Outlook (PEFO) was released in August 2013. The brief then considers in more detail the fiscal position and outlook set out in the Budget.

A look back – PEFO to Budget 2015–16

The *Charter of Budget Honesty Act 1998* requires the Secretary to the Treasury and the Secretary of the Department of Finance to publicly release a PEFO report within 10 days of the issue of the writ for a general election. Accordingly, PEFO was released after the writ was issued for the 2013 election. It provided updated information about Australia's economic and fiscal outlook, including fiscal projections out to 2016-17.

This section briefly outlines how estimates of two headline fiscal measures, namely the underlying cash balance and general government sector net debt, have changed since PEFO.

The underlying cash balance

At the time of PEFO, Australia's underlying cash balance was estimated to turn around from a deficit of $30.1 billion in 2013-14 to a small surplus of $4.2 billion by 2016-17. Over the four years to 2016-17 the accumulated deficits were projected to total $54.6 billion.

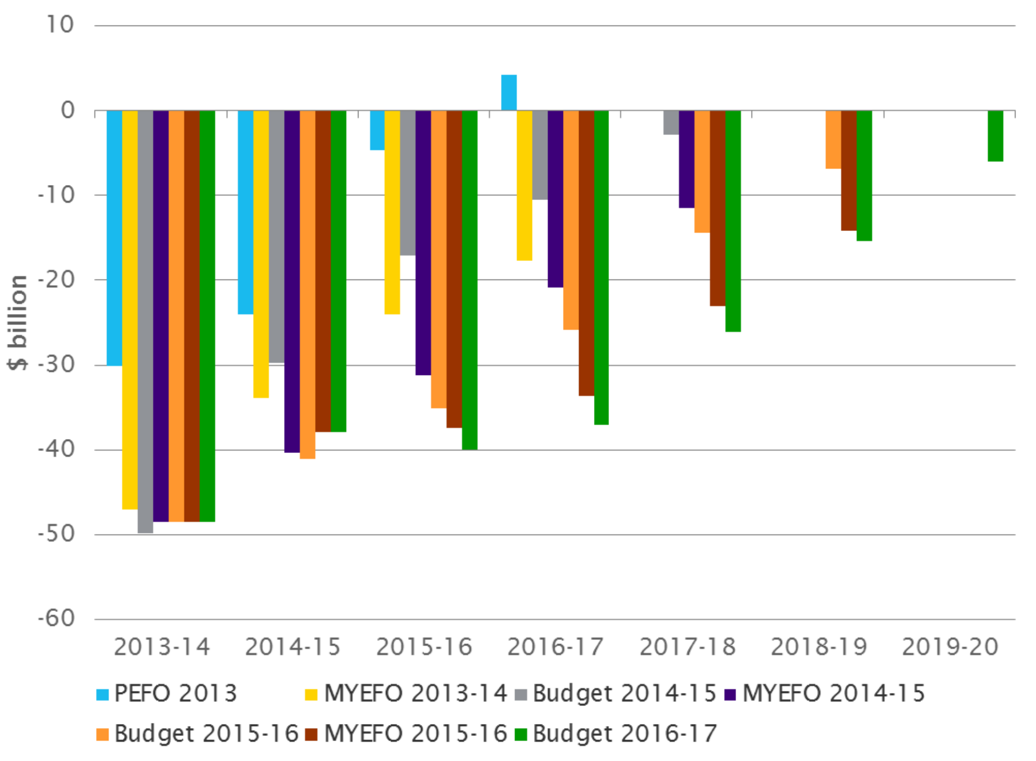
Since PEFO there has been significant fiscal slippage (Figure 1). The size of budget deficits over this period has been progressively revised up. The latest figures show the deficit in 2013-14 was $48.5 billion some $18.3 billion higher than estimated in PEFO. In 2016-17 the deficit is now estimated to be $37.1 billion some $41.3 billion higher than at the time of PEFO. The latest numbers also reveal that over the four years to 2016-17 accumulated deficits total $163.4 billion some $108.8 billion more than projected at the time of PEFO.

Revisions to the budget bottom-line reflect the impact of policy decisions and/or parameter and other variations. Table 4 uses information provided in successive budget and MYEFO documents to piece together as much of a reconciliation of progressive revisions to the underlying cash balance as possible. For 2013-14 and 2014-15 it is only possible to provide a partial reconciliation.

Table 4 shows that over the four years to 2016-17, parameter and other variations account for the bulk of the fiscal slippage over this period. A large part of this slippage is likely to be explained by lower than expected commodity prices which have consistently resulted in significant write-downs in government revenue.

The revisions to 2013-14 stand out as being different to that of the other three years of this period (Table 4). To the extent that it is possible to attribute slippage between the effects of policy decisions and parameter and other variations for 2013-14, the figures suggest policy decisions accounted for over half the fiscal slippage. In the other three years policy decisions typically account for a much smaller share of the total fiscal slippage.

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



Source: The Secretary to the Treasury and The Secretary to the Department of Finance and Deregulation, *Pre-Election Economic and Fiscal Outlook 2013*, The Commonwealth of Australia, August 2013, Table 1, p. 1; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2013-14*, December 2013, Appendix D, Table D1, p. 265; *Budget strategy and outlook: budget paper no. 1: 2014-15*, May 2014, Statement 10, Table 1, p. 10-7; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2014-15*, December 2014, Appendix D, Table D1, p. 267; Australian Government, *Budget strategy and outlook: budget paper no. 1 2015–16*, May 2015, Statement 10, Table 1, p. 10-7; S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, December 2015, Appendix D, Table D.1, p. 291; Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, May 2016, Statement 10, Table 1, p. 10-6.

Looking further out, estimates of the size of the underlying cash balance deficit for 2017-18 and 2018-19 have also been progressively revised up (figure 1 and table 4). For both years parameter and other variations account for over 90 per cent of the slippage. The revisions since Budget 2015-16 are discussed in more detail below.

General government sector net debt

At the time of PEFO, general government sector net debt was projected to increase from $184 billion in 2013-14 to a peak of $219 billion in 2015-16 before decreasing slightly to $217.3 billion in 2016-17.

The latest figures reveal Australia’s net debt position has deteriorated markedly from what was projected at the time of PEFO (Figure 2). Net debt reached $202.5 billion in 2013-14, some $18.5 billion more than estimated in PEFO. It is estimated to increase to $326 billion in 2016-17, some $108.7 billion more than projected in PEFO.

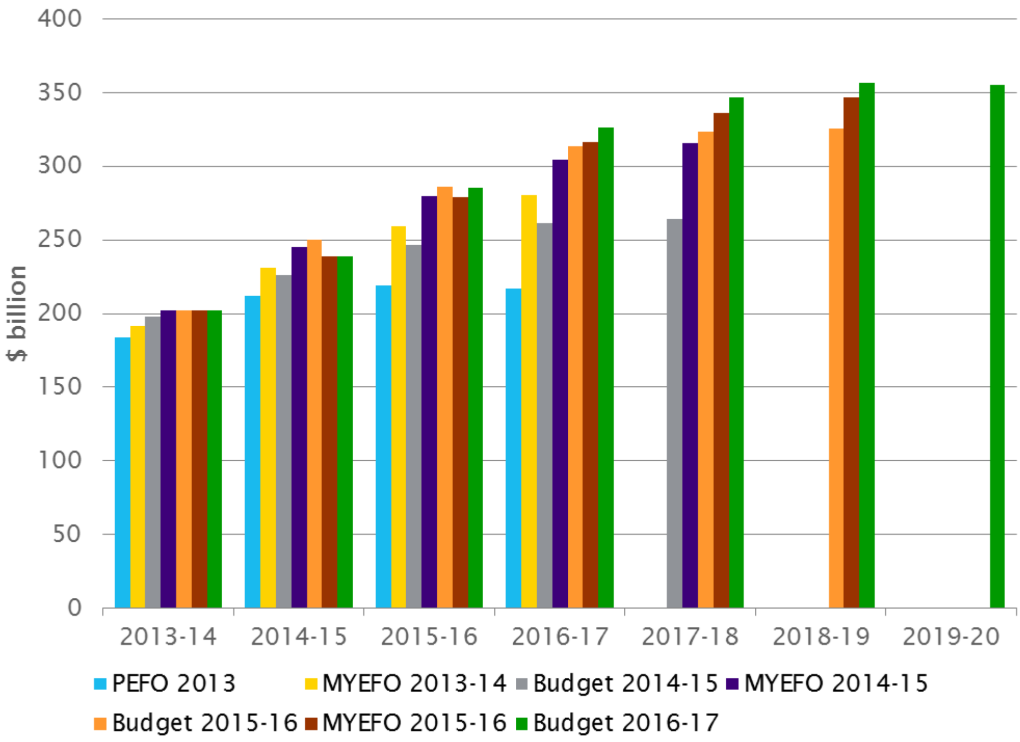
The latest budget figures show net debt peaking at $356.4 billion (18.8 per cent of GDP) in 2018-19 before decreasing slightly to $355.1 billion (17.8 per cent of GDP) in 2019-20. Changes in the Commonwealth’s balance sheet since Budget 2015-16 are discussed in more detail below.

Table 4: Revisions to the Underlying Cash Balance (UCB): Pre-Election Economic and Fiscal Outlook (PEF0) 2013 to Budget 2016–17

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
PEFO 2013 UCB	**-30,142**	**-23,981**	**-4,662**	**4,199**			
Policy changes	*-10,266*	*-655*	*-1,505*	*-1,274*			
Parameter & other variations	*-6,582*	*-9,272*	*-17,916*	*-20,592*			
MYEFO 2013-14 UCB	**-46,989**	**-33,907**	**-24,083**	**-17,668**			
Policy changes	*-514*	*1,718*	*5,934*	*10,414*			
Parameter variations	*-2,352*	*2,416*	*1,065*	*-3,309*			
Budget 2014-15 UCB	**-49,855**	**-29,773**	**-17,084**	**-10,562**	**-2,825**		
Policy changes		*-2,314*	*-2,195*	*-501*	*950*		
Parameter & other variations		*-8,275*	*-11,960*	*-9,781*	*-9,606*		
MYEFO 2014-15 UCB		**-40,362**	**-31,239**	**-20,844**	**-11,480**		
Policy changes		*-578*	*-4,525*	*-2,547*	*-1,665*		
Parameter & other variations		*-181*	*650*	*-2,445*	*-1,251*		
Budget 2015-16 UCB		**-41,121**	**-35,115**	**-25,836**	**-14,396**	**-6,905**	**1,300**
Policy changes			*-2,516*	*-2,427*	*302*	*921*	*na*
Parameter & other variations			*231*	*-5,404*	*-8,927*	*-8,246*	*na*
MYEFO 2015-16 UCB			**-37,399**	**-33,667**	**-23,021**	**-14,229**	**-7,300**
Policy changes			*-195*	*-3,070*	*384*	*-1,494*	*5,894*
Parameter & other variations			*-2,352*	*-343*	*-3,484*	*319*	*-4,549*
Budget 2016-17 UCB	**-48,456**	**-37,867**	**-39,946**	**-37,081**	**-26,123**	**-15,406**	**-5,955**
Revisions: PEFO 2013 to Budget 2016-17 (as far as possible)							
Policy changes	**-10,780**	**-1,829**	**-5,002**	**595**			
Percentage of total revisions	*54.7*	*10.7*	*14.2*	*-1.4*			
Parameter & other variations	**-8,934**	**-15,312**	**-30,282**	**-41,874**			
Percentage of total revisions	*45.3*	*89.3*	*85.8*	*101.4*			
Total revisions	**-19,714**	**-17,141**	**-35,284**	**-41,279**			

Source: The Secretary to the Treasury and The Secretary to the Department of Finance and Deregulation, *Pre-Election Economic and Fiscal Outlook 2013*, The Commonwealth of Australia, August 2013, Table 7, p. 16; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2013–14*, December 2013, Table D5, p. 269; *Budget strategy and outlook: budget paper no. 1: 2014–15*, May 2014, Statement 10, Table 5, p. 10-11; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2014-15*, December 2014, Appendix D, Table D6, p. 273; Australian Government, *Budget strategy and outlook: budget paper no. 1 2015–16*, May 2015, Statement 10, Table 1, p. 10-7; *Mid-year economic and fiscal outlook 2015–16*, December 2015, Appendix D, Table D.4, p. 297; *Budget strategy and outlook: budget paper no. 1: 2016–17*, May 2016, Statement 10, Table 4, p. 10-12.

Figure 2: Revisions to general government sector net debt ($m)



Source: The Secretary to the Treasury and The Secretary to the Department of Finance and Deregulation, *Pre-Election Economic and Fiscal Outlook 2013*, The Commonwealth of Australia, August 2013, Table 7, p. 16; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2013–14*, Table D5, p. 269; *Budget strategy and outlook: budget paper no. 1: 2014–15*, 2014, Statement 10, Table 5, p. 10-11; J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2014-15*, Appendix D, Table D6, p. 273; Australian Government, *Budget strategy and outlook: budget paper no. 1 2015–16*, 2015, Statement 10, Table 1, p. 10-7; *Mid-year economic and fiscal outlook 2015–16*, 2015, Appendix D, Table D.4, p. 297; *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 4, p. 10-12.

Budget 2016-17: The fiscal position and outlook

The underlying cash balance

The Budget forecasts an underlying cash deficit of $37.1 billion (2.2 per cent of GDP) in 2016-17, improving to a projected deficit of $6.0 billion (0.3 per cent of GDP) in 2019-20 (Table 5).

Table 5: The general government sector: The underlying cash balance

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Underlying cash balance ($m)	-37,867	-39,946	**-37,081**	-26,123	-15,406	-5,955
Per cent of GDP	*-2.4*	*-2.4*	***-2.2***	*-1.4*	*-0.8*	*-0.3*

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 1, p. 10-6.

The size of the projected fiscal consolidation between 2016-17 and 2019-20 is around 1.9 per cent of GDP. By way of comparison the size of the fiscal consolidation achieved between 2013-14 and 2016-17 is estimated to have been 0.9 per cent of GDP.

The pace of fiscal consolidation decreases slightly over the forward estimates period being around 0.8 per cent of GDP between 2016-17 and 2017-18; 0.6 per cent of GDP between 2017-18 and 2018-19; and 0.5 per cent of GDP between 2018-19 and 2019-20.

General government sector receipts

The revenue side accounts for most of the projected fiscal consolidation between 2016-17 and 2019-20, with general government sector receipts projected to increase by around 1.2 per cent of GDP over the period (Table 6). Taxation receipts are projected to increase by 1.3 per cent of GDP and non-taxation receipts to decrease slightly by 0.1 per cent of GDP.

Table 6: General government sector: Taxation receipts, non-taxation receipts and total receipts

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Taxation receipts ($m)	353,494	364,507	**382,769**	410,165	438,821	468,278
Per cent of GDP	*22.0*	*22.1*	***22.2***	*22.7*	*23.1*	*23.5*
Non-taxation receipts ($m)	24,807	23,520	**28,515**	27,221	31,100	32,464
Per cent of GDP	*1.5*	*1.4*	***1.7***	*1.5*	*1.6*	*1.6*
Total receipts ($m)	378,301	388,027	**411,284**	437,385	469,921	500,742
Per cent of GDP	*23.5*	*23.5*	***23.9***	*24.2*	*24.8*	*25.1*

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 3, p. 10-10.

Given that the Budget relies heavily on stronger taxation receipts over the next four years to substantially reduce the underlying cash deficit, much would appear to hinge on the Budget's revenue forecasts. These forecasts are sensitive to the underlying assumptions made about nominal economic growth and wages growth:

- Nominal GDP growth provides a rough indication of growth in the size of the tax base. Treasury is forecasting nominal GDP growth of 4.25 per cent in 2016-17 and 5 per cent a year for the remainder of the forward estimates period. Nominal GDP growth in turn is sensitive to changes in the terms of trade. Treasury is forecasting the terms of trade to rise slightly by 1.25 per cent in 2016-17 after declining by 8.75 per cent in 2015-16. The RBA's latest forecasts of the terms of trade suggest Treasury's forecasts are plausible given recent improvements in commodity prices.[49]
- The assumptions made about wages growth are important for forecasting income tax revenue. Treasury is forecasting wages growth of 2.5 per cent in 2016-17, 2.75 per cent in 2017-18, 3.25 per cent in 2018-19 and 3.5 per cent in 2019-20. The relatively modest pick-up in wages growth over the next two years is plausible given that there is still a degree of spare capacity in the labour market. It is also possible that wages growth may increase thereafter if labour market conditions tighten as growth picks up.

While these assumptions are plausible, at this stage the balance of risk is on the downside.

General government sector payments

General government sector payments are projected to fall by 0.6 per cent of GDP between 2016-17 and 2019-20 (Table 7)

Real expenditure growth between 2016-17 and 2019-20 is forecast to average 2 per cent a year. This compares with average real growth between 2013-14 and 2016-17 of 3 per cent a year. This suggests that the Government will need to maintain considerable fiscal discipline if it is to reduce expenditure as a share of GDP over the forward estimates period.

Table 7: General government sector: Payments

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Payments ($m)	412,079	424,961	**445,045**	459,934	481,484	502,556
Per cent of GDP	*25.6*	*25.8*	***25.8***	*25.5*	*25.4*	*25.2*

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 10, Table 1, p. 10-6.

The structural budget balance

In Statement 3 of Budget Paper No. 1, the Government reports on the structural budget balance.[50] Estimates of the structural budget balance remove the temporary changes to revenues and expenditures—due to

49. *Statement on Monetary Policy*, op. cit., p. 60.
50. *Budget Paper No. 1*, op. cit., p. 3-12.

fluctuations in commodity prices for example—and the extent to which economic output deviates from its potential level due to the economic cycle. As the Government notes, when considered in conjunction with other measures, estimates of the structural budget balance can provide insights into the sustainability of current fiscal settings.

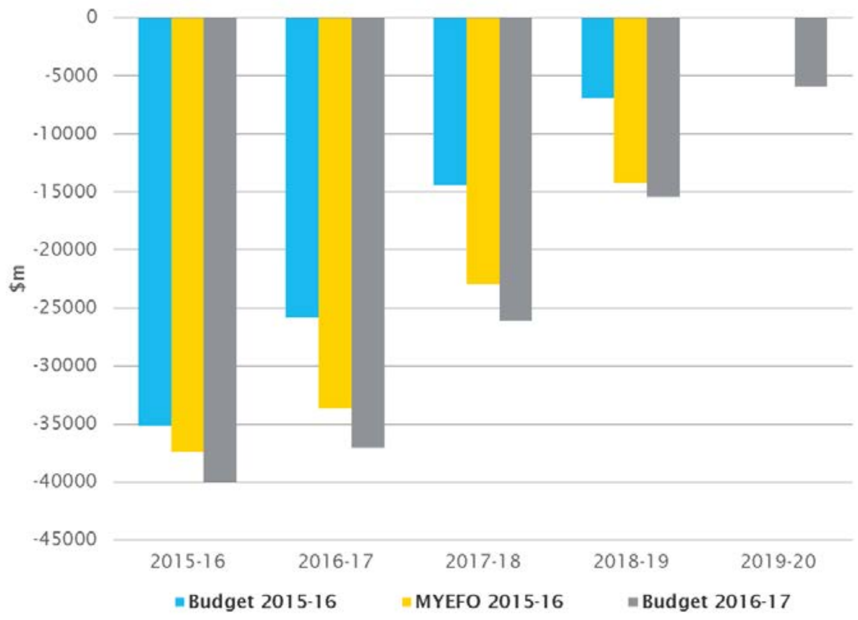
Estimates of the structural budget balance over the next decade are marginally lower than at the time of the 2015-16 MYEFO . This reflects that Treasury has revised down its terms of trade outlook over the medium-term, which flows through downward revisions to structural revenues.

The Budget is projecting that the overall level of the structural budget balance will improve from a deficit of around 2 per cent of GDP in 2015-16, to a series of small surpluses from 2020-21 onwards, converging to the underlying cash balance.[51]

How has the short-term fiscal outlook changed?

Figure 3 provides a snapshot of how the outlook for the underlying cash balance has changed since Budget 2015-16. Over the four years to 2018-19, it has worsened since last year's budget. While the forecasts and projections still show a consistent pattern on gradually declining cash deficits, in dollar terms, the deficits in 2018-19 are now projected to be more than twice as large as they were in the 2015-16 Budget.

Figure 3: Revisions to the underlying cash balance ($m)



Source: Australia Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 3, Table 5, p. 3-24.

In last year's budget, the size of the accumulated budget deficits over the four years to 2018-19 was $82.3 billion. This figure was revised up in MYEFO 2015-16 to $108.3 billion and in the 2016–17 Budget to $118.6 billion. This suggests that since last year's budget there has been slippage over the four years to 2018-19 of $36.3 billion.

The bulk of this slippage is due to parameter and other variations (Table 8). The cumulative impact of parameter and other variations over the four years to 2018-19 has been to worsen the fiscal outlook by around $28.2 billion (78 per cent of the overall slippage). The cumulative impact of policy changes over this period has been to worsen the fiscal outlook by around $8.1 billion (22 per cent of the overall slippage).

Table 8: The effect of policy and parameter variations on the underlying cash balance

	Changes from 2015–16 Budget to 2015–16 MYEFO $m	Changes from 2015–16 MYEF to Budget 2016–17 $m

51. Ibid., p. 3-12.

	Policy decisions	Parameter & other variations	Policy decisions	Parameter & other variations
2015-16	-2,516	231	-195	-2,352
2016-17	-2,427	-5,404	-3,070	-343
2017-18	302	-8,927	384	-3,484
2018-19	921	-8,246	-1,494	319
Total	-3,720	-22,346	-4,375	-5,860

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, Statement 3, Table 5, p. 3-24.

Focusing just on developments since MYEFO 2015-16, the fiscal outlook over the four years to 2018-19 has worsened by around $10.2 billion. Policy changes account for $4.4 billion (43 per cent) and parameter and other variations for $5.9 billion (57 per cent) of the overall slippage:

- Since MYEFO 2015-16 policy decisions have increased payments by around $3.1 billion over the four years to 2018-19 and decreased receipts by $1.2 billion over the same period.
- Since MYEFO 2015-16 parameter and other variations have reduced payments by around $8.5 billion, decreased receipts by $16.8 billion and decreased net Future Fund earnings by $2.4 billion. The net effect has been to increase the underlying cash deficit by $5.9 billion.

Statement 3 of Budget Paper No. 1 includes a detailed reconciliation of the changes to the projected underlying cash balance since the 2015-16 Budget.

The Commonwealth's balance sheet

The deterioration in Australia's short-term fiscal outlook is reflected in the Commonwealth's balance sheet (Table 9). In broad terms, larger projected cash deficits over the four years to 2018-19 mean that the Australian Government faces a larger financing requirement and will need to borrow more.

Net financial worth

The primary indicator of fiscal sustainability articulated in the Government's medium-term fiscal strategy is net financial worth (that is, total financial assets minus total financial liabilities). It provides a broad measure of the Government's assets and liabilities as it includes both the assets of the Future Fund and the superannuation liability the Future Fund is intended to offset. One of the goals of the Government's medium-term fiscal strategy is to strengthen the Government's balance sheet by improving net financial worth over time.

The short-term outlook for the Commonwealth's net financial worth has deteriorated over the past year. It was projected to be -$417.8 billion (-21.6 per cent of GDP) in 2018-19 at the time of Budget 2015-16. This declined to -$438.2 billion (-23 per cent of GDP) at the time of MYEFO 2015-16; and declined further to -$454.3 billion (-24 per cent of GDP) in this year's Budget.

Table 9: Net financial worth, net debt and net interest payments ($b and %)

	2014-15	2015–16	2016–17	2017–18	2018–19	2019–20
			Net financial worth			
Budget 2015–16 ($b)	-350.1	-383.5	**-406.0**	-415.2	-417.8	
Budget 2015–16 (% GDP)	*-21.8*	*-23.2*	***-23.3***	*-22.6*	*-21.6*	
MYEFO 2015–16 ($b)	-421.1	-377.5	**-409.7**	-427.3	-438.2	
MYEFO 2015–16 (% GDP)	*-26.2*	*-22.9*	***-23.7***	*-23.6*	*-23.0*	
Budget 2016–17 ($b)	-421.1	-387.9	**-427.2**	-445.2	-454.3	-455.8
Budget 2016–17 (% GDP)	*-26.2*	*-23.5*	***-24.8***	*-24.6*	*-24.0*	*-22.9*
						Net debt

Budget 2015–16 ($b)	250.2	285.8	**313.4**	323.7	325.4	
Budget 2015–16 (% GDP)	*15.6*	*17.3*	***18.0***	*17.6*	*16.8*	
MYEFO 2015–16 ($b)	238.7	278.8	**316.5**	336.4	346.6	
MYEFO 2015–16 (% GDP)	*14.8*	*16.9*	***18.3***	*18.5*	*18.2*	
Budget 2016–17 ($b)	238.7	285.7	**326.0**	346.8	356.4	355.1
Budget 2016–17 (% GDP)	*14.8*	*17.3*	***18.9***	*19.2*	*18.8*	*17.8*
	Net interest payments					
Budget 2015–16 ($b)	10.9	11.6	**11.9**	12.3	13.0	
Budget 2015–16 (% GDP)	*0.7*	*0.7*	***0.7***	*0.7*	*0.7*	
MYEFO 2015–16 ($b)	10.9	11.2	**11.9**	12.7	13.5	
MYEFO 2015–16 (% GDP)	*0.7*	*0.7*	***0.7***	*0.7*	*0.7*	
Budget 2016–17 ($b)	10.9	12.0	**12.6**	13.4	14.2	14.2
Budget 2016–17 (% GDP)	*0.7*	*0.7*	***0.7***	*0.7*	*0.8*	*0.7*

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1 2015–16*, 2015, Statement 10, Table 5, p. 10-14, Table 8, p. 10-19; S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, 2015, Appendix D, Table D4, p. 297, Table D7, p. 301; Australian Government, *Budget strategy and outlook: budget paper no. 1 2016–17*, 2016, Statement 10, Table 4, p. 10-12, Table 7, p. 10-16.

General government sector net debt

Australian Government general government sector net debt is equal to 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:

- At the time of last year's budget net debt was forecast to be $325.4 billion by 2018-19 (16.8 per cent of GDP). This projection was revised up in MYEFO 2015-16 to $346.6 billion (18.2 per cent of GDP) and to $356.4 billion (18.8 per cent of GDP) in the Budget.
- Net debt as a percentage of GDP was projected to peak in 2016-17 in last year's budget at 18 per cent of GDP. It is now projected to peak a year later in 2017-18 at 19.2 per cent of GDP.
- Statement 6 of *Budget Paper No. 1* includes a reconciliation of changes in net debt from MYEFO 2015-16 to the Budget.

General government sector net interest payments

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

- At the time of last year's budget, net interest payments were projected to be $13.0 billion (0.7 per cent of GDP) in 2018-19. This was revised up slightly in MYEFO 2015-16 to $13.5 billion (0.7 per cent of GDP) and to $14.2 billion (0.8 per cent of GDP) in this year's Budget.
- The Budget assumes a weighted average cost of borrowing of around 2.5 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 2.7 in MYEFO 2015-16.

Reactions from interest groups

Indra Kuruppu

Australian Chamber of Commerce and Industry

The Chief Executive Officer (CEO) of the Australian Chamber of Commerce and Industry, James Pearson, says the Budget demonstrates that good policy can also be good politics, with its focus on the future while providing real help right now for the 'engine room of the economy'—small and medium enterprises. The ten-year glide path to a reduced company tax rate would encourage international investment. Local development of enterprises and unincorporated businesses would also benefit through expanding tax discounts. Mr Pearson also welcomed benefits for small and medium enterprises through the increases in the instant asset write-off eligibility threshold and company tax rate at ten million dollar turnover threshold, as well as practical measures to prepare people for employment and provide meaningful work paths. Increasing the 32.5 per cent personal income tax threshold was a start to addressing tax increases through bracket creep, and Mr Pearson looked forward to this approach continuing. Mr Pearson supported commitments to infrastructure investment and initiatives to ensure compliance with company tax obligations.[52]

Australian Conservation Foundation

The Australian Conservation Fund (ACF) has labelled the Budget as continuing the environmental neglect shown by former Prime Minister Tony Abbott and choosing the interests of big polluters over those of the community. It gives as examples that spending on the environment is forecast to fall by 17 per cent in 2019–20; that there is no reform of fossil fuel subsidies that give public money to big polluters and divert resources from health, education and environmental protection; that the $171 million announced for the Great Barrier Reef will not occur until 2019, and at the expense of other environmental programs; subsidised loan facilities for new dam development; and significant cuts to funding for the Commonwealth Environmental Water Holder and the Murray-Darling Basin Authority. While the ACF welcomes funding commitments to the National Carp Control Plan, it is disappointed that there is no clear provision for the Indigenous Ranger programs, no commitment to supporting an energy transition away from coal, and no new money for protected areas or threatened species recovery.[53]

Australian Council of Social Service

Australian Council of Social Service CEO, Dr Cassandra Goldie, has welcomed the tightening of superannuation tax concessions and changes to youth employment programs, but identified the failure to strengthen revenue as a major problem that would affect the ability to properly fund health, education and social security. Cuts affecting low income earners include cuts from family payments, income support for young people and paid parental leave as well as Newstart. Dr Goldie was concerned that the deficit reduction over the next four years has come from the spending side, with a decline in revenue, failure to address housing affordability or lift unemployment payments, and failure to address gaps in essential services including legal assistance, early childhood and homelessness services.[54]

Australian Council of Trade Unions

President of the Australian Council of Trade Unions, Ged Kearney, stated that the Budget delivers a golden handshake to $100 million corporations and the top one per cent of income earners through significant tax cuts, while leaving working Australians worse off. In particular, it neglects tax reform in areas such as capital gains tax and negative gearing, while leaving workers to bear the brunt of cuts to health, education and other services over the last three Budgets. Ms Kearney identified a failure to lay out a clear economic vision to generate jobs growth, labelling 'trickle-down' logic that corporate tax cuts would create investment or stimulate the economy as a 'fantasy'. Ms Kearney also raised concerns about the legality and potential for exploitation in the internship program and shortfalls in the ability to address multinational tax evasion.[55]

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52. J Pearson (Chief Executive Officer, Australian Chamber of Commerce and Industry), *Enterprise Budget fuels the engine room of the economy*, media release, 3 May 2016.
53. Australian Conservation Foundation, *Turnbull's first Budget continues the environmental neglect of his predecessor*, media release, 3 May 2016
54. C.Goldie (Chief Executive Officer, Australian Council of Social Services), *Some positive directions, but budget locks in harsh cuts—with more likely to come*, media release, 3 May 2016.
55. G Kearney (President, Australian Council of Trade Unions), *Turnbull fails working Australians and gives golden handshake to big corporations*, media release, 3 May 2016.

Australian Industry Group

Australian Industry Group (Ai Group) Chief Executive, Innes Willox, considers the Budget to be good for business. The gradual path to restoring the competitiveness of the company tax system will result in immediate benefits to many small to medium-sized businesses as well as improved incentives to invest, which will also create jobs. Measures including extended eligibility to small business tax measures and tax relief for small businesses, together with the increase in the personal income tax threshold, will provide a timely boost to the economy and underwrite improved living standards. Ai Group welcomed measures to address tax avoidance and aggressive tax planning, and stated that new pathways to help young people enter the workforce would assist the contribution of businesses to improving long-term employment prospects of eligible young people. Positives include an ongoing commitment to innovation, improving urban and regional transport infrastructure, the continuation of a permanent migration program with a strong focus on skilled migration, and renewed efforts in higher education. The biggest disappointment was significant cuts to the Industry Skills Fund.[56]

Business Council of Australia

Business Council of Australian (BCA) Chief Executive, Jennifer Westacott, says the Budget balances spending restraint with new initiatives to improve the nation's economic growth prospects and improve education outcomes. There are welcome structural savings, including changes to superannuation tax, and the ten-year enterprise tax plan, which will provide relief for small and medium businesses while signalling to big businesses that their investment will be more competitive in the future. Education measures reflect the government's commitment to preparing young people for the jobs of the future and deal with unsustainable funding problems in the tertiary system. Infrastructure planning will continue to support higher productivity and better lifestyles for many Australians, and continued implementation of the innovation agenda will strengthen Australia's comparative advantage as a trusted place to do business. The BCA voiced support for multinational company tax avoidance measures and will encourage members to adopt the voluntary Tax Transparency Code.[57]

National Farmers Federation

National Farmers' Federation President, Brent Finlay, has welcomed key Budget measures that will benefit agriculture, including new initiatives that build on last year's Agricultural Competitiveness White Paper and the easing of tax burdens on small business. However, he is angered by the failure to address damage from the controversial backpacker tax, which will affect the backpacker workforce on which the agricultural and tourism industries rely. While Mr Finlay approved of the cash injection for the Inland Rail, he considered it fell short of the funding needed to break ground on the project.[58]

56. I Willox (Chief Executive, Australian Industry Group), *A good for business Budget*, media release, 3 May 2016.

57. J Westacott (Chief Executive, Business Council of Australia), *BCA statement on the 2016-17 federal Budget*, media release, 3 May 2016.

58. B Finlay (President, National Farmers' Federation), *NFF angered by budget inaction on backpacker tax*, media release, 3 May 2016.

Broadcasting licence fees

Dr Rhonda Jolly

Broadcasting licence fees reduction

Under the *Television Licence Fees Act 1964* commercial television broadcasters are required to pay a proportion of their gross earnings as fees for using the scarce public asset of radio spectrum.[59] From 2010, there have been a number of reductions in these fees, the last being in 2013 when the maximum rate of fees was reduced from nine to 4.5 per cent. The argument for reducing fees in 2013 was that it would help counter 'the significant financial pressures faced by commercial television stations as a result of emerging and convergent technology' and an 'increasingly challenging operating environment'.[60]

The free-to-air networks have not been satisfied with licence fee reductions; they consider that 'onerous and restrictive licence fees' should be removed completely as they consider this will deliver a fairer competition environment and give them capability to invest in Australian jobs and production. [61] In support of its position, Nine Entertainment has argued that currently multinational content companies, such as Netflix, pay no licence fees and do not invest in Australian content, talent or production staff. On the other hand, Nine argues, free-to-air television directly employs over 7,000 people and contributes $4.7 billion in direct value to the Australian production industry.[62]

In arguing for the removal of licence fees, Seven West Media has noted that Australia's licence fees are substantially more than those paid in other countries. [63] In Britain, for example, licence fees are 0.18 per cent of broadcasters' revenues.[64] In addition to this, Seven West Media has claimed that Australia's content obligations are greater than those imposed by many international regimes.[65]

Commercial Radio Australia (CRA), the industry body for commercial free-to-air radio broadcasters, which also pay licence fees to enable their use of spectrum, has maintained that radio broadcasting licence fees are higher than their overseas counterparts. [66] In response to the recent review of spectrum by the Department of Communications, CRA has argued that it was important that the pricing of spectrum for commercial free-to-air radio is considered in the context of 'heavy regulation, local and Australian music content requirements, advertising restrictions and mandatory tags required of radio broadcasters, as well as the key role of radio in emergency situations'.[67]

This Budget has provided fora reduction in the amount of licence fees free-to-air television and radio broadcasters will be required to pay, but fees will not be abolished. Instead, they will be reduced by approximately 25 per cent from the 2015–16 licence period. This measure is expected to have an impact of $163.6 million over the forward estimates.[68] The Government stated in the budget papers that it will continue to consider licence fees 'as part of broader reforms to broadcasting and spectrum policy'.[69]

Reaction

Free-to-air television broadcasters appear not entirely happy with the licence fee concession, given their efforts to have fees abolished and the possibility that other media reform—to the 75 per cent reach rule and the two out of three ownership rule—may be at least temporarily forestalled until after the 2016 election.[70] However, as

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59. *Television Licence Fees Act 1964*.
60. Explanatory Memorandum, Television Licence Fees Amendment Bill 2013, p. 2.
61. For example, the Nine Entertainment, Submission to Senate Environment and Communications Legislation Committee, *Inquiry into the Broadcasting Legislation Amendment (Media Reform Bill) 2016*, March 2016, p. 4. Submission cites information from Deloitte Access Economics, *Economic contribution of the film and television industry in Australia*, [report for] Australian Screen Association, February 2015.
62. Ibid., p. 5.
63. Seven West Media, Submission to Senate Environment and Communications Legislation Committee, *Inquiry into the Broadcasting Legislation Amendment (Media Reform Bill) 2016*, March 2016, p. 13.
64. Ibid., Appendix 5.
65. Ibid.
66. *Radio Licence Fees Act 1964*, accessed 4 May 2016 and Commercial Radio Australia(CRA), *Commercial radio industry welcomes Government response to Spectrum Review*, media release, 25 August 2015.
67. Ibid. See also Spectrum Review, at: Spectrum Branch, *Spectrum review*, Department of Communications March 2015
68. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 8..
69. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 8.
70. The 75 per cent rule (audience reach rule) states that a person, either in his or her own right or as a director of one or more companies, must not be in a position to exercise control of commercial television broadcasting licences which have a combined licence area population that

one industry source remarked in 2015, licence fees are the priority issue for free-to-air broadcasters and the issue is entirely separate from any consideration of media ownership rules'.[71] This is most likely because the broadcasters believe, as Seven West Media's Tim Worner has claimed, that abolishing licence fees may do more to assist them to remain financially viable than removing cross ownership and reach rules.[72]

Chairman of the television lobby group Free TV, Harold Mitchell, however, has called the cut in this budget measure 'disappointing'.[73] While the lobby group appreciates the 'modest first step', according to Mr Mitchell the change does not acknowledge that in the new media environment, action needs to be taken urgently 'to make sure broadcasters can continue to invest in great Australian programming and in transforming [commercial free-to-air broadcasting] businesses'.[74]

Commercial Radio Australia's Chief Executive Officer, Joan Warner, considers the licence fee cut 'a welcome relief', but adds that the radio industry body is similarly disappointed that 'the relief is not greater', given that commercial radio needs 'to be able to better compete against global players who are largely unregulated and do not carry the many costs, obligations and restrictions that local radio broadcasters do'.[75]

The reduction in licence fees has disappointed the subscription television industry. In the opinion of the Australian Subscription Television and Radio Association (ASTRA) lobby group, the licence cut in the Budget amounts to a 'taxpayer-funded gift'.[76] ASTRA Chief Executive Officer, Andrew Maiden, denies the free-to-air television broadcasters' argument that they face significant financial pressures, contending that the licence fees they pay 'reflect the value of unusually significant protections and privileges enjoyed by the major broadcasters, rendering invalid any comparison with fees paid by their international peers'.[77] According to Mr Maiden, in exchange for paying licence fees, free-to-air broadcasters 'enjoy a legislated ban on competition, guaranteed access to broadcasting spectrum and the world's most protected market for sports broadcast rights'.[78]

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exceeds 75 per cent of the population of Australia. The two out of three rule (cross-media ownership rule) states that a person can only control two of the regulated media platforms (commercial television, commercial radio and associated newspapers) in a commercial radio licence area.

71. D White, 'Malcolm Turnbull expected to play hard ball on TV licence fee cuts', *Sydney Morning Herald* (online), 22 July 2015.
72. D Crowe and J Mitchell, 'Forces massing to fight Fifield's media reforms', *The Australian*, 2 March 2016, p. 6.
73. FreeTV,*Budget licence fee change*, media release, 3 May 2016.
74. Ibid.
75. Commercial Radio Australia, *Commercial radio welcomes licence fees cut in Federal Budget*, media release, 3 May 2016.
76. Australian Subscription Television and Radio Association (ASTRA), *Taxpayers foot $150 million handout to 'free' television*, media release, 3 May 2016.
77. Ibid.
78. Ibid.

Public broadcasting

Dr Rhonda Jolly

Budget measures

The new triennial funding agreement for the Australian Broadcasting Corporation (ABC) was announced in the 2016–17 Budget. The ABC is to receive revenue of $3.1 billion in base operating funding over the three years to 2018–19.[79]

In addition to this funding, the Budget extends a 2013–14 Budget measure, which was provided to support ABC local news and current affairs services, particularly those services outside capital cities, for three years from 2016–17.[80] Funding over this period will be $41.4 million.[81] Previous funding for this measure was $67.6 million over four years, plus $1.8 million for capital expenses.[82]

Base funding for Special Broadcasting Service (SBS) is also included in the Portfolio Budget Statements. The broadcaster will receive $271.9 million in 2016–17, $269.8 million in 2017–18 and $272.4 million in 2018–19.[83]

An additional Budget measure provides funding to SBS following a $28.5 million funding cut imposed in the 2015–16 Budget in anticipation of the passage of legislation to allow the broadcaster to increase revenues raised by the sale of additional advertising and sponsorship.[84] This legislation was not passed and in the 2015–16 Additional Estimates SBS received an additional $4.1 million in compensation.[85] The Budget has provided a further $6.9 million for the 2016–17 financial year only, which may indicate that the Government is contemplating re-introducing legislation intended to increase advertising on SBS. At the same time, the Save Our SBS group has said that it understands that for each future year the additional advertising legislation is not introduced into law the Coalition Government will, on a year-by-year basis, give SBS compensatory funding.[86]

A further measure gives additional funding of $8.3 million over three years from 2016–17 to SBS to maintain the quality and delivery of its television, radio and online services—what this budget has labelled the SBS funding adequacy program.[87]

Reaction

The ABC noted in its response to the Budget that it will seek to maintain as many of its news initiatives as possible and it will focus on delivering services to Australians in regional and outer-suburban areas. It has added, however, that ‘there will necessarily be some changes to staffing and programming’ in line with what it says is a reduced allocation of funding.[88] The online journal *Crikey* has noted this point and revealed that the new managing director of the ABC, Michelle Guthrie, has confirmed that the need to find savings will inevitably result in job losses.[89]

SBS has welcomed its additional $15.1 million in funding in the 2016 Budget, on top of its base funding allocation over the next three years. An SBS media release states that the broadcaster considers the Budget recognises the value of SBS’s role in ‘collective efforts to promote social cohesion, and the changing media landscape in which SBS operates’.[90]

The Media, Entertainment and Arts Alliance (MEAA) considers public broadcasting has been ‘shortchanged’ in this Budget.[91] With regards to the ABC in particular, the MEAA argues that while base funding to the ABC has

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79. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 70.
80. Australian Government, *Budget measures: budget paper no. 2: 2013–14*, 2014, pp. 98–106.
81. *Budget paper no. 2: 2016–17*, p. 70, op. cit.
82. *Budget paper no. 2: 2013–14*, op. cit.
83. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.3: Communications and Arts Portfolio*, p. 318.
84. Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015
85. Australian Government, *Portfolio Additional Estimates Statements 2015-16: Communications and the Arts Portfolio*, p. 53.
86. Save Our SBS, *SBS funding business as usual*, media release, 3 May 2016.
87. *Portfolio budget statements 2016–17, Communications and Arts Portfolio*, p. 323, op. cit.
88. Australian Broadcasting Corporation (ABC), *ABC 2016-2019 funding*, media release, 3 May 2016.
89. C Knowlton, *ABC cuts to come from budget?*, *Crikey*, 4 May 2016.
90. Special Broadcasting Service (SBS), *Australian audiences to benefit from SBS’s triennial funding outcome*, media release, 3 May 2016.
91. Media, Arts and Entertainment Alliance, *Budget 2016: arts and public broadcasting funding crisis continues as government maintains damaging course*, media release, 3 May 2016.

been maintained, there has been nothing done to restore previous ‘damage’ done in recent Budgets. It stresses also that the special funding measure for news services provides less funding with expectations that existing services can continue to be delivered.[92]

Andrew Dodd from the Swinburne University of Technology commented on the reduction in funding for news services, noting that the ABC’s Enhanced Newsgathering Program received $20.2 million in the last financial year of the Budget measure as introduced in 2013–14 compared with the funding now allocated for three years. However, according to Associate Professor Dodd, the ABC ‘can take some comfort from the fact that it’s not in the government’s sights for another ideologically driven round of major cuts’.[93]

Friends of the ABC labelled the Budget cuts as ‘severe’ and its National Spokesperson, Ranald Macdonald believed the broadcaster was suffering a ‘death by a thousand cuts’.[94]

92. Ibid. The Budget cuts referred to by the MEAA included the 2014 Budget cuts for base funding through a one per cent efficiency saving for each broadcaster which amounted to approximately $35.5 million for the ABC and $8.0 million for SBS.

93. Federal budget 2016: political experts react, ***The Conversation*, 3 May 2016.**

94. ABC Friends National, *$50m Budget cuts over 3 years*’, media release, 3 May 2016.

Clean energy support

Kai Swoboda and Sophie Power

On 23 March 2016, the Government announced that it would establish a $1 billion Clean Energy Innovation Fund (CEIF) to 'support emerging technologies make the leap from demonstration to commercial deployment'.[95] Importantly, the Government noted how this policy was related to broader efforts to reduce greenhouse gas emissions:

> [T]he changes announced work hand in hand with the Emissions Reduction Fund, the Renewable Energy Target, the National Energy Productivity Plan and our broader support for clean energy to reduce emissions and drive productivity across the energy sector.[96]

Clean Energy Innovation Fund

The CEIF will be administered by the existing Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Authority (ARENA). This is interesting because the government scheduled those two agencies for abolition in the 2013–14 Mid-Year Economic and Fiscal Outlook and in the 2014–15 Budget respectively. However, without sufficient parliamentary support, the government has now reversed the intended abolition.[97] Now the agencies will play a significant new role through their involvement with the new CEIF.

Key features related to the establishment of the CEIF include:

- ARENA will continue to manage its existing portfolio of grants and deliver the announced $100 million large-scale solar round, and will be given an expanded focus beyond renewable energy to enable energy efficiency and low emissions technology. However, once the $100 million large-scale solar round is complete, ARENA will move from a grant-based role to predominantly a debt and equity basis under the Clean Energy Innovation Fund.
- The CEIF will be established from within the CEFC's $10 billion allocation, which will make available $100 million each year for ten years.
- The CEIF is expected to be formally established on 1 July 2016 by amending the CEFC's investment mandate.[98]
- ARENA and the CEFC will jointly manage the CEIF, allocating up to $100 million each year to commercialise innovative renewable energy projects using equity and debt instruments.[99]

Although the details are yet to be fully worked out, it appears that under the joint administration arrangements for the CEIF, ARENA will assess project proposals and make recommendations for funding to the CEFC, which will make the final approval decision.[100]

Funding for the emissions reduction fund

The 2014–15 Budget provided $2.55 billion to establish the Emissions Reduction Fund (ERF) from 1 July 2015.[101] Administered by the Clean Energy Regulator (CER), the ERF is used to purchase certain greenhouse gas emission abatement activities by auction. The Government describes the ERF as the 'centrepiece' of its policy suite to reduce greenhouse gas emissions.[102]

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95. M Turnbull (Prime Minister of Australia) and G Hunt (Minister for the Environment), *Turnbull Government taking strong new approaches to clean and renewable energy innovation in Australia*, joint media release, 23 March 2016.

96. Ibid.

97. Australian Government, *Mid-Year Economic and Fiscal Outlook: 2013–14*, p. 145; Australian Government, *Budget measures: budget paper no. 2: 2014–15*, p. 163. There were three separate Bills to abolish the CEFC with the final Bill, the Clean Energy Finance Corporation (Abolition) Bill 2014, lapsing at the prorogation of Parliament on 15 April 2016. There was one Bill to abolish ARENA, the Australian Renewable Energy Agency (Repeal) Bill 2014, which also lapsed at the prorogation.

98. The investment mandate is a non-disallowable legislative instrument made under section 64 of the *Clean Energy Finance Corporation Act 2012.* The Explanatory Memorandum to the Clean Energy Finance Corporation Bill 2012 states that this 'is consistent with Ministerial directions issued to statutory bodies like the Future Fund' (Explanatory Memorandum, Clean Energy Finance Corporation Bill 2012, p. 10).

99. M Turnbull (Prime Minister of Australia) and G Hunt (Minister for the Environment), op. cit.; Australian Renewable Energy Agency (ARENA), 'About ARENA', ARENA website.

100. Australian Renewable Energy Agency (ARENA), 'About ARENA', ARENA website.

101. Australian Government, *Budget measures: budget paper no. 2, 2014–15*, pp. 102–103.

102. Department of the Environment, 'Emissions Reduction Fund', Department of the Environment website.

Since the establishment of the ERF, the CER has conducted three auctions to purchase emissions:

- 15/16 April 2015—107 contracts to deliver a total of 47,333,140 tonnes of abatement with a total value of contracts awarded of $660,471,500. The average price per tonne of abatement was $13.95 with contract lengths ranging between three and 10 years.[103]
- 4/5 November 2015—129 contracts to deliver 45,451,010 tonnes of abatement with a total value of contracts awarded of $556,875,549. The average price per tonne of abatement was $12.25.[104]
- 27/28 April 2016—73 contracts to deliver 50,471,310 tonnes of abatement with a total value of contracts awarded of $516,177,598. The average price per tonne of abatement was $10.23.[105]

The decline in the average price paid per tonne for the last auction was largely attributed to the success of lower cost 'mega projects' accounting for a large share of emissions purchased at the auction.[106]

Based on the auction results to date, ERF expenditure commitments have totalled around $1,733 million, leaving $816 million in funds not yet allocated.[107]

The Government made no announcements in the 2016–17 Budget in relation to additional funding for the ERF. Further funding for the ERF will apparently 'be considered in future budgets'.[108]

Funding for programs that support reducing emissions in the energy sector

The 2016–17 Budget also includes measures that reduce funding to programs that support activities to reduce emissions in the energy sector. The Government will save $27.4 million over two years from 2015–16 from the Carbon Capture and Storage Flagships Programme and the National Low Emissions Coal Initiative, which are already closed to new projects.[109]

The Carbon Capture and Storage (CCS) Flagships Programme was established in May 2009 to support the construction and demonstration of CCS projects in Australia. The program aimed to promote the wider dissemination of CCS technologies by supporting a small number of demonstration projects designed to prevent emissions to the atmosphere by capturing and storing carbon dioxide that would otherwise be emitted from industrial processes. Five projects have been funded under the program.[110]

The National Low Emissions Coal Initiative was established in 2008 to help to accelerate the development and deployment of technologies to achieve reductions in greenhouse gas emissions from coal usage. The remaining projects funded under this initiative are scheduled to conclude by July 2016.[111]

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103. Clean Energy Regulator (CER), 'Auction – April 2015', CER website.
104. Clean Energy Regulator (CER), 'Auction – November 2015', CER website.
105. Clean Energy Regulator (CER), 'Auction – April 2016', CER website.
106. Reputex, ''Mega projects' drive ERF close to floor, but price rebound ahead? | Behind the numbers', Reputex website.
107. Clean Energy Regulator (CER), 'Auction – April 2016', CER website.
108. Department of the Environment, 'About the Emissions Reduction Fund', Department of the Environment website.
109. Australian Government, *Budget Measures: budget paper no. 2: 2016–17*, p. 130; Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.12: Industry, Innovation and Science Portfolio*, pp. 31–32.
110. Department of Industry, Innovation and Science, 'Carbon Capture and Storage Flagships program' [sic], Department of Industry, Innovation and Science website.
111. Department of Industry, Innovation and Science, 'National Low Emission Coal Initiative', Department of Industry, Innovation and Science website.

Environment

Bill McCormick

Most of the Budget measures for the environment do not involve additional funding. In fact, the Environment Portfolio expenses will contract by 17.1 per cent in real terms over the four years from 2016–17.[112] New initiatives are paid for by 're-profiling funds', using funding 'already included in the forward estimates' but where 'the expenditure profile varies', or they will be 'met from existing resources of the *National Landcare Program*'.[113] In addition, some funds come from other agencies.

Commonwealth Marine Reserves—implementation

The Commonwealth Marine Reserves Network, with 44 new marine reserves covering 2.34 million km^2, was proclaimed In November 2012 for the North-west, North, Temperate East and South-west Marine Regions, as well as the Coral Sea Commonwealth Marine Reserve.[114] The management plans for these reserves were tabled in 2013 and were due to come into operation on 1 July 2014.[115]

However, in December 2013, the Governor-General 'reproclaimed' these reserves, thus invalidating the management plans, and enabling the incoming Government to implement its election policy and establish a Marine Reserves Review to 'consider what management arrangements will best protect marine ecosystems and accommodate the many industries and recreational fishers that use our oceans'.[116] The Government response to this review will be released in the second half of 2016.[117] Management plans will then have to be developed and the marine reserves managed accordingly.

Funding of $56.1 million over four years, already included in the forward estimates, will be for fisheries adjustment assistance, marine user engagement and the ongoing management of these reserves. The Director of National Parks will receive $27.8 million of this to develop the management plans during 2016–17, among other things.[118] Out of the $56.1 million, therefore, there will remain a maximum of $28.3 million available for fisheries adjustment assistance, only about a quarter of the original package of $100 million for assistance promised by the previous government in 2012.[119] This could be an indication that commercial fishing is to be permitted in more zones of the marine reserves than was the case under the original management plans.[120] From 2020–21, ongoing funding of $5.3 million/year will be provided for reserve management, offset by an equivalent reduction to the Natural Heritage Trust component of the *National Landcare Program*.

Reef 2050 Plan and Reef Trust—additional contribution

The $140 million Reef Trust was established to assist delivery of the Reef 2050 Plan and was to provide $56 million over the four year period 2015–19 'towards improved management practices for sugarcane farmers, reduced erosion in grazing lands and improved water quality in grains, dairy and horticulture'.[121]

The Reef 2050 Plan is implemented through an Implementation Strategy that is updated every six months. The most recent one has 97 immediate priority actions, 26 medium priority actions and 28 future priority actions. Of these, 62 actions are fully funded, including actions to improve water quality, further improve port management and develop regional waterway health partnerships.[122] The implementation of the Plan is funded not only from the Reef Trust but also from other Commonwealth programs such as the National Landcare Program. An additional $70 million will go to the Reef Trust over the three years from 2019–20 ($40 million/year in 2019–20

112. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, pp. 1–9.
113. The budget figures have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*.
114. T Burke (Minister for Sustainability, Environment, Water, Population and Communities), *Gillard government proclaims final network of Commonwealth marine reserves*, 16 November 2012
115. T Burke (Minister for Sustainability, Environment, Water, Population and Communities), 'Marine Park Management Plans finalised', media release, 12 March 2013.
116. G Hunt (Minister for the Environment) and R Colbeck (Parliamentary Secretary to the Minister for Agriculture), 'Supporting recreational fishing while protecting our marine parks' , media release, 14 December 2013.
117. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 90.
118. Ibid., p. 90; Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.7: Environment Portfolio*, pp. 201, 205.
119. T Burke, op. cit., 2012.
120. N. Hasham, 'Fishing, mining plans raise fears for reserves', *Canberra Times*, 25 September 2015, p.4.
121. Department of the Environment, 'Reef Trust investment strategy phase II', Department of the Environment website.
122. Australian Government, *Reef 2050 Plan—Implementation Strategy*, *Edition 2*, December 2015, p. 7.

and $15 million/year in the next two years). There will be $101 million funding for the Reef 2050 Plan, $8.9 million/year allocated for 2016–17 through 2019–20 and funding for 2020–21 and 2021–22 rising almost four fold to $32.7 million/year.[123] This funding will come from the National Landcare Program.

The Australian Conservation Foundation (ACF), noting this year's worst ever coral bleaching event on the Great Barrier Reef, criticised the Government for a lack of substantial funding.[124] The Australian Marine Conservation Society also mentioned the bleaching and considered the reef funding insufficient.[125]

National Carp Control Plan

Carp (*Cyprinus carpio*) have become established as a major pest species throughout the Murray-Darling Basin, and in other states. These fish prefer slow-moving rivers and lakes and tolerate poor water quality and low oxygen levels.[126] They have a detrimental impact on native aquatic plants and animals and general river health, in part due to their destructive feeding habits.[127]

Numerous control methods have been tried to reduce carp numbers to levels that minimise damage to the environment, including a number of different fishing techniques, lowering water levels and trapping. To date none have been used successfully on a wide scale. There has been research into the use of carp herpesvirus (CyHV-3) as a biological control agent for carp in Australia. This water-borne, contagious virus causes 70-100 per cent mortality in carp.[128] The virus first appeared in the 1990s and has spread to most areas of the world except Australia, New Zealand and South America.[129] There is no evidence that the virus can multiply in other fish species, and research has shown that thirteen native fish species along with rainbow trout and a variety of animals that might live in, or drink, virus-infected water are not affected, or infected, by the virus.[130] Before the virus can be released as a biological control agent it must go through a formal evaluation process which will require more detailed scientific assessment and the development of a release and monitoring strategy.

On 1 May 2016, the government announced it was investing $15 million to develop a National Carp Control Plan to undertake further research, approvals, and consultation to develop a comprehensive plan for a potential release of carp herpesvirus by the end of 2018.[131] This $15 million in new funding is being delivered by the Department of Agriculture and Water Resources ($10.2 million), the Department of the Environment ($0.5 million) and the Department of Industry, Innovation and Science ($4.2 million).

The National Irrigators' Council welcomed the initiative but said that it will be critical to restock the river systems with native fish species after the carp kill.[132] The ACF supported the proposed release of the virus and also called for support for native fish recovery measures that are currently underfunded, along with rehabilitation of riverbanks and the release of environmental flows.[133]

123. *Portfolio budget statements 2016–17: budget related paper no. 1.7: Environment Portfolio*, op. cit., p. 25.
124. Australian Conservation Foundation, *Turnbull's first Budget continues the environmental neglect of his predecessor*, media release, 4 May 2016.
125. Australian Marine Conservation Society, *Federal government funding activities that will damage the Great Barrier Reef*, media release, 4 May 2016.
126. Invasive Animals Cooperative Research Centre, *PestSmart Factsheet: Carp,* November 2011.
127. A Norris, M Hutchinson, K Chilcott and D.Stewart, *Effectiveness of carp removal techniques: options for local governments and community groups*, Report prepared for the Invasive Animals Cooperative Research Centre, 2014.
128. Invasive Animals Cooperative Research Centre, *Carp herpesvirus as biological control agent for carp*, Carp Factsheet, March 2016, p. 1.
129. Ibid.
130. Ibid.
131. Department of Agriculture and Water Resources (DAWR), 'National Carp Control Plan', DAWR website; B Joyce (Minister for Agriculture and Water Resources), *Cleaning up Australia's waterways*, media release, 1 May 2016.
132. National Irrigators' Council, *Carp control a necessary step*, media release, 1 May 2016.
133. Australian Conservation Foundation, *Carpe diem! Govt moves to control notorious fish*, media release, 1 May 2016.

Science and Innovation

Kate Loynes

The 2016–17 Budget provides funding for long term science initiatives and maintains support for science in general, supporting commitments made in the National Innovation and Science Agenda (NISA), launched in December 2015. The stated purpose of NISA is to promote investment over the long term in research infrastructure, to support collaboration between industry and research, and to place 'innovation and science at the heart of policy making'.[134] NISA contains funding for science infrastructure and for new research centres and collaborations. The Australian Academy of Science has welcomed the focus on science infrastructure and long term research programs in the 2016–17 Budget.[135]

Investment in infrastructure

The Australian Government will directly fund the Australian Synchrotron from July, as announced in NISA last December, replacing its existing mix of Commonwealth, Victorian and university support with a federal commitment of $520 million over the next 10 years.[136] The Synchrotron is used to image the structure of materials down to the atomic level, and is a useful tool for many areas of science, attracting international researchers. The budget announcement resolves funding uncertainty for the facility; the Government had to step in last year with $13 million to keep it open.[137] ANSTO also receives additional departmental funding; its precise allocation is unstated but funds will go towards increased nuclear medicine production, as well as extended nuclear waste storage.

The Government is also providing $294 million to the Square Kilometre Array (SKA) radio telescope over the next ten years. The SKA is an internationally significant, multinational project which is building the world's largest and most sensitive radio telescope. In addition, the Government will extend funding for the Australian Astronomical Observatory into 2019–20. The NISA initiative will also strengthen Australia's capability in quantum computing research, with $20 million over four years to the Centre for Quantum Computation and Communication Technology to develop a silicon quantum circuit computer system.

Focus on resources

Of the six Industry Growth Centres in NISA, two have a focus on mining and fossil fuels. National Energy Resources Australia, which is responsible for delivering the activities of the Oil, Gas and Energy Resources Growth Centre, will connect industry and researchers, reduce regulatory barriers and 'foster community support through further understanding the social, environmental, economic and operational consequences of industry activity'.[138] The Mining Equipment, Technology and Services Growth Centre will foster collaboration between businesses and will sponsor a mentorship program in the sector.[139] These two centres will share in the $248 million over the next four years for the six new Industry Growth Centres.

The Government's interest in resources is also demonstrated by $100.5 million in funding over four years for Geoscience Australia to model the mineral, petroleum and groundwater resources in regions of northern Australia and South Australia, so as to support new mining site exploration.[140]

Long term research

Over the next three years, $49.05 million will be restored to the Cooperative Research Centre (CRC) Programme,[141] which lost $107 million in the last two budgets, leading to a cancellation of the 2015 funding

134. Australian Government, *National Innovation and Science Agenda Report*, December 2015.
135. Australian Academy of Science (AAS), 'Academy welcomes funding boost for Antarctic Science and Geoscience Australia', AAS website, 3 May 2016.
136. The current budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Portfolio Budget Statements 2016-17 Budget Related Paper No. 1.12: Industry, innovation and science portfolio*, 2016; Australian Government, *National Innovation and Science Agenda Report*, December 2015
137. Australian Synchrotron, 'Australian Synchrotron Development Plan' Australian Synchrotron website; Australian Government, *Portfolio budget statements 2015-16: budget paper no 1.12 Industry and science portfolio*, 2015, p. 101.
138. Australian Government, 'Oil, Gas and Energy Resources Growth Centre', Australian Government Business website.
139. Australian Government, 'Mining Equipment, Technology and Services Growth Centre', Australian Government Business website.
140. Australian Government, *Budget Measures: Budget Paper No. 2 2016–17*, p. 129
141. Australian Government, *Portfolio Budget Statements 2016-17 Budget Related Paper No. 1.12: Industry, innovation and science portfolio*, p. 30, 2016.

round.[142] CRCs are collaborations between private research companies and universities, and are funded for 10–15 years.

Funding for the Australian Research Council has not changed significantly. However, the Linkage Projects scheme, which funded over $180 million in research grants in 2014–15,[143] will change from a rounds-based application system to accepting continuous applications in an attempt to increase commercial returns from research.

Australia's presence in Antarctica has been funded until 2050 with $496.2 million to maintain our environmental, economic, scientific, security and strategic interests on the continent. This is in line with the *Australian Antarctic Strategy and 20 Year Action Plan*,[144] released recently. In the short term no additional money has been provided over the forward estimates for the Antarctic program, and any additional funding up until 2019–20 will be redirected from the Department of Environment or Defence.[145] An extra $75.1 million in funding has been provided to upgrade and modernise infrastructure in Hobart and Antarctica prior to the launch of the new icebreaker research vessel in 2020.[146]

Trends in science funding

In 2015–16, government research and development (R&D) funding, as a percentage of Gross Domestic Product (GDP), increased for the first time in five years to 0.59%.[147] The percentage of GDP going to government R&D for 2016–17 will only be accurately determined when the 2016–17 *Science, Research and Innovation Budget Tables* are published in a few months.

Five Year Trend: Total net resourcing ($'000)

	2012–13 actual[148]	2013–14 actual[149]	2014–15 actual[150]	2015–16 est. actual	2016–17 estimate
CSIRO	1,633,696	1,311,098	1,248,688	1,616,633	1,511,247
ANTSO	354,086	416,218	368,848	312,480	330,688
Geoscience Australia	185,756	201,343	277,098	252,506	248,047
Australian Institute of Marine Science (AIMS)	109,021	90,606	95,887	97,301	97,436

Source: Parliamentary Library

Five Year Trend: Average staffing level

	2012–13 est. actual[151]	2013–14 est. actual[152]	2014–15 est. actual[153]	2015–16 est. actual	2016–17 estimate

142. J Rice, 'Australian science is no better off after the 2015 budget', *The Conservation*, 18 May 2015; Australian Government, 'Previous selection rounds', Australian Government Business website.
143. Australian Research Council (ARC), *Annual Report 2014–15*, ARC, 2015.
144. Australian Government, *Australian Antarctic Strategy and 20 Year Action Plan*, 2016.
145. Australian Government, *Budget Measures: Budget Paper No. 2 2016–17*, p. 88.
146. Australian Government, *Portfolio Budget Statements 2016–17: Budget Related Paper No. 1.7: Environment Portfolio*, p. 24.
147. Research and Development spending figure for 2015–16 taken from *The Australian Government's 2015–16 Science, Research and Innovation Budget Tables* and GDP for 2015–16 calculated from real GDP forecast in *Budget strategy and outlook: budget paper no. 1 2016–17*, following methodology in ABC Fact Check, 'Fact check: Science, research and innovation spending cut to 'historic low', ABC FactCheck website, 7 October 2014.
148. Australian Government, *Portfolio budget statements 2013–14: budget related paper no. 1.16: Resources, energy and tourism portfolio*; Australian Government, *Portfolio budget statements 2013–14: budget related paper no. 1.12: Industry, innovation, climate change, science, research and tertiary education portfolio*.
149. Australian Government, *Portfolio budget statements 2014–15: budget related paper no. 1.12: Industry portfolio*.
150. Australian Government, *Portfolio budget statements 2015–16: budget related paper no. 1.12: Industry and science portfolio*.
151. Australian Government, *Portfolio budget statements 2013–14: budget related paper no. 1.16*. Australian Government, *Portfolio budget statements 2013–14: budget related paper no. 1.12*.
152. Australian Government, *Portfolio budget statements 2014–15: budget related paper no. 1.12*.

CSIRO	5,715	5,523	4,970	5,056	5,078
ANTSO	1,224	1,267	1,227	1,257	1,257
Geoscience Australia	690	716	602	584	590
AIMS	202	204	210	208	207

Source: Parliamentary Library

Looking at agency resourcing and staffing, over the last five years CSIRO has had a decline in funding and staff, although funding for the organisation has rebounded somewhat over the last two years. Over the same period, Geoscience Australia has benefited from the focus on energy and resources, gaining significant funding for supporting mining and petroleum exploration both on and offshore. However, it has not received a proportionate increase in staff.

153. Australian Government, *Portfolio budget statements 2015–16: budget related paper no. 1.12*.

Resourcing of the Australian Securities and Investments Commission

Kai Swoboda

On 20 April 2016, the Government announced additional resources for the Australian Securities and Investments Commission (ASIC), comprising:

- $61 million to 'enhance ASIC's data analytics and surveillance capabilities as well as modernise ASIC's data management systems'
- $9 million to ASIC and the Treasury to 'ensure they can implement appropriate law and regulatory reform' and
- $57 million to 'enable increased surveillance and enforcement on an ongoing basis in the areas of financial advice, responsible lending, life insurance and breach reporting'.[154]

The budget papers confirm the allocation of this funding and provide some additional information about how this increased funding will be applied. In broad terms, the $127 million included in the April 2016 announcement is divided into funding to ASIC of $121 million (comprising capital funding of $39 million and operational funding of $82 million) and $6 million to the Treasury.[155]

ASIC resourcing over time

There are a number of ways to examine how resources are allocated to a government agency over time. For ASIC, the most relevant information on resourcing includes changes in ASIC's programme expenses, changes in staffing levels and the impact of budget measures over time.

Programme expenses

ASIC is responsible for delivering two programmes under the outcome budgeting framework: one related to detecting, understanding and responding to misconduct; and one related to the administration of unclaimed money from banking and deposit taking institutions and life insurance institutions.[156] For the purposes of examining the resources allocated to market surveillance activities, only the first programme needs to be considered, as the unclaimed money function is broadly an administrative function that receives monies from financial institutions which are then paid out to individuals as required.

The four year allocation to ASIC for market surveillance functions reached a high point in the 2013–14 Budget (Figure 1).While the allocation included in the 2016–17 Budget, in both real and nominal terms, represents an increase on the previous Budget, the quantum of funds available is broadly comparable to that provided to ASIC in the 2014–15 Budget.

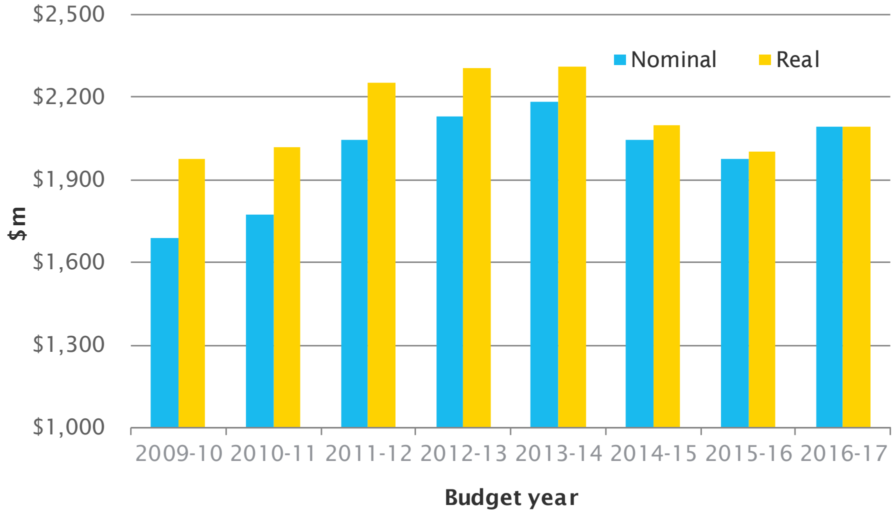
Budget measures from previous years related to ASIC

Some of the key changes in ASIC resourcing in previous years which partly explain the overall changes in resourcing have included:

- 2015–16 Budget—an increase of $19 million over four years for monitoring of market misconduct and implement and monitor a regulatory framework for crowd-source equity funding.[157]
- 2014–15 Budget—a reduction of $120.1 million over five years to be 'redirected by the Government to repair the Budget and fund policy priorities. A further $46.2 million in funding cuts over four years were applied through a temporary increase in the efficiency dividend rate.[158]
- 2012–13 Budget—an increase of funding of $129.3 million over four years for 'enhanced market supervision' and 'operational' funding.[159]

Figure 1 Nominal four-year ASIC programme expenses (excluding unclaimed money programme), $ million

154. S Morrison (Treasurer) and K O'Dwyer (Assistant Treasurer and Minister for Small Business), *Turnbull Government bolsters ASIC to protect Australian consumers*, media release, 20 April 2016.
155. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 148–149.
156. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.16: Treasury Portfolio*, pp. 137–142.
157. Australian Government, *Portfolio budget statements 2015–16: budget related paper no. 1.16: Treasury Portfolio*, p. 166.
158. Australian Government, *Budget measures: budget paper no. 2, 2014–15*, p. 214.
159. Australian Government, *Portfolio budget statements 2012–13: budget related paper no. 1.16: Treasury Portfolio*, p. 155.



Source: Parliamentary Library estimates based on Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.16: Treasury Portfolio*, p. 137 (and previous issues) and Australian Bureau of Statistics, *Consumer Price Index, Australia*, cat. no. 6401.0, Tables 1 and 2, CPI: All Groups, Index Numbers and Percentage Changes.

ASIC staffing levels

An analysis of average staffing levels included in the portfolio budget statements since 2008–09 shows that average staff levels for ASIC reached a peak of 2,040 staff in 2010–11, and then declined each year to reach 1,573 staff in 2015–16. Expected staffing levels for ASIC will now increase to 1,687 in 2017–18.[160]

ASIC capability review

The ASIC capability review, commissioned by the Government following a recommendation of the Financial System Inquiry, analysed annual revenues and expenditures and staffing for ASIC over the period 2004–05 to 2014–15.[161] This analysis shows resourcing at its peak (both financial as well as staffing) in 2009–10, with a fall each year since 2012–13.[162]

Changes to ASIC's funding model

The Government's 20 April 2016 announcement included a proposal to change ASIC's future funding mix, with the introduction of an industry-funded 'user pays' model for some of ASIC's functions, to commence from 2017–18.[163] This approach will implement a recommendation of the Financial System Inquiry.[164] While the ASIC activities to be funded by industry has been informed by an August 2015 Treasury consultation paper, there may be some activities, such as financial literacy education, that remain funded by government.[165] The budget papers confirm that the additional funding for ASIC totalling $121.4 million will be recovered by an increase in levies collected by the Australian Prudential Regulation Authority.[166] However, the amount which industry will fund for ASIC's activities from 2017–18 is not able to be clearly identified in the budget papers.

160. *Portfolio budget statements 2016–17: Treasury Portfolio*, op. cit., p. 138 (and previous issues).
161. ASIC Capability Review Panel, *Fit for the future: A capability review of the Australian Securities and Investments Commission, A Report to Government*, December 2015, pp. 36 and 137.
162. Ibid.
163. S Morrison (Treasurer) and K O'Dwyer (Assistant Treasurer and Minister for Small Business), op. cit.
164. Financial System Inquiry, *Final Report*, Treasury, November 2014, p. 250.
165. Treasury, *Proposed Industry Funding Model for the Australian Securities and Investments Commission: Consultation paper*, 28 August 2015, p. 6.
166. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 148–149.

Defence budget overview

David Watt

There is less mention this year of national security issues in the Government's budget documents than has been the case in recent years. Instead, emphasis is placed on what the Treasurer's budget speech describes as:

> A defence plan for local hi-tech manufacturing and technology.[167]

This draws out two of the Budget's major themes: support for industry and investing in regional growth.

The recently released 2016 Defence White Paper (2016 DWP) set out a long-term vision for Defence with the promise of an additional $29.9 billion in funding for Defence across ten years to 2025 and linked this to expenditure of $195 billion in defence capability across the same period. The Budget Overview document states that this will aid the creation of 3,600 Australian jobs as well as 'thousands more' in the supply chain.[168]

The Defence budget measures for 2016–17 are dominated by the $700 million in additional Defence White Paper funding and $615.8 million for military operations during 2016–17.[169]

Unsurprisingly, the Budget provides funding for Defence that is very much in line with the funding model set out in the 2016 DWP and the accompanying Defence Integrated Investment Program (DIIP). Both documents set out funding which aims to reach $42.4 billion by 2020–21, or 2 per cent of GDP based on current Treasury predictions.[170]

The total Defence funding for 2016–17 of $32.4 billion is close to the 2016 DWP's promise of $32.3 billion and the forward estimates are also aligned with their white paper counterparts. Of course, this does not cover the 10 year period envisaged in the 2016 DWP.

The Australian Strategic Policy Institute (ASPI) states that this year's funding is about the same in real terms as the current financial year and actually represents a slight fall in Defence's funding as a percentage of GDP.[171] As ASPI points out, this accords with the plan set out in the 2016 DWP which outlines modest funding in 2016–17 before the increased funding promised in future years. A further feature impacting next year's funding allocation is the rephasing of $500 million from 2016–17 to 2017–18.

The Budget documents also set out major defence capability already announced, such as the future submarines, offshore patrol vessels and future frigates. However, since each of these projects is relatively new, they have little effect on the 2016–17 Budget.

Defence's contribution to regional Australia

Defence has a prominent presence in the Government's statement *Investing in Regional Growth—2016–17.*[172] This includes:

- Defence assistance to the civil community in dealing with bushfires and cyclones
- Defence industry's role in regional Australia
- the Centre for Defence Industry Capability headquartered in Adelaide, but with services to be provided 'across the country'
- Defence Logistics Transformation Program which aims to modernise storage and transport facilities around the country
- Explosive Ordnance Logistics Reform Programs which seek to do the same for ordinance storage infrastructure
- Defence housing upgrades and

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167. S Morrison (Treasurer), *Budget speech 2016–17,* 2016.
168. Australian Government, *Budget 2016–17 overview,* 3 May 2016, p. 13.
169. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.4A: Defence Portfolio*, 2016, pp. 17–18.
170. Australian Government, *2016 Defence White Paper*, Department of Defence, pp. 177–180.
171. M Thomson, 'The no-surprises Defence budget', *The Strategist*, blog, Australian Strategic Policy Institute, 3 May 2016.
172. B Joyce (Minister for Agriculture and Water Resources) and F Nash (Minister for Regional Development), *Budget 2016–17: investing in regional growth—2016–17*, ministerial budget statement, 3 May 2016, pp. 34–43.

- United States Force Posture initiative.

Not all of these activities include new money (and some do not mention money at all), but they reinforce Defence's contribution to regional Australia.

Industry support

The *Budget Overview* document repeats the 2016 DWP commitment of $1.6 billion to build industry skills and competitiveness across the ten years between 2015–26. This was detailed in the Defence Industry Policy Statement (DIPS) that accompanied the 2016 DWP.[173] Activities in this area include:

- the Centre for Defence Industry Capability (CDIC) which the documents accompanying the 2016 DWP stated will be 'funded at around $230 million over the decade'. While funded by Defence, the CDIC will be administered by AusIndustry under a memorandum of understanding (as is the case with the Defence Industry Innovation Centre, the function of which will be subsumed by CDIC).
- the Next Generation Technologies Fund, which will receive around $730 million over the decade and
- a 'virtual' Defence Innovation Hub funded at around $640 million across the decade.

These do not form major initiatives in the 2016–17 Budget, but represent funding commitments for Defence across the decade.

While this is a budget delivered on the eve of an election campaign, and a number of the Defence initiatives no doubt form part of the federal government's re-election strategy, the industry announcements in particular should significantly improve the Australian Defence Force's capability.

173. Australian Government, *2016 Defence industry policy statement*, Department of Defence, 2016, pp. 69–73.

Defence personnel

Dr Nathan Church

The 2016 Defence White Paper, released on 25 February 2016, proposed that the Australian Defence Force (ADF) grow to approximately 62,400 personnel by 2026, which the white paper notes is around 2,500 more than previously projected.[174] This represents a 7.5 per cent increase over the next decade from its size in 2015–16 (see Table 1).[175] The 2016–17 Defence budget indicates that this target is certainly achievable, with an immediate increase of 1,188 ADF personnel in 2016–17 ahead of smaller but steady growth across the forward estimates.

Within the three services, many of the personnel increases will involve the Navy and Army, accounting for almost 90 per cent of the ADF growth out to 2020. This is possibly the result of the new, large-scale capabilities going to these services, including Landing Helicopter Docks and Air Warfare Destroyers for the Navy, and the extensive LAND 400 Program which will rejuvenate the Army's armoured fighting vehicles.[176]

Table 1: Defence workforce data 2011–12 to 2019–20

Average workforce full-time equivalents (FTE)

(APS = Australian Public Service)

	2011–12 (actual)	**2012–13 (act.)**	**2013–14 (act.)**	**2014–15 (act.)**	**2015–16 (est. act.)**	**2016–17 (bgt. est.)**	**2017–18 (fwd. est.)**	**2018–19 (fwd. est.)**	**2019–20 (fwd. est.)**
Navy	14,054	13,760	13,862	14,070	14,216	14,394	14,456	14,684	14,718
Army	29,697	28,928	28,568	29,366	29,640	30,430	30,891	30,907	30,966
Air Force	14,243	13,919	13,934	14,076	14,165	14,385	14,334	14,203	14,406
Total ADF	57,994	56,607	56,364	57,512	58,021	59,209	59,681	59,794	60,090
Change from prev. year		-1,387	-243	1,148	509	1,188	472	113	296
APS	21,818	21,534	20,496	19,342	18,100	17,950	18,200	18,200	18,200
Change from prev. year		-284	-1,038	-1,154	-1,242	-150	250	0	0
Total Defence	79,812	78,141	76,860	76,854	76,121	77,159	77,881	77,994	78,290

174. Department of Defence (DoD), *2016 Defence White Paper*, 25 February 2016, p. 146.

175. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.4A: Defence Portfolio*, pp. 25–26.

176. Royal Australian Navy (RAN), 'Amphibious Assault Ship (LHD)', RAN website; RAN, 'Air Warfare Destroyer (AWD)', RAN website; Australian Army, 'Project LAND 400', Australian Army website.

Change from prev. year		-1,671	-1,281	-6	-733	1,038	722	113	296

Source: Parliamentary Library estimate based on data derived from Department of Defence, *Annual reports*; Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.4A: Defence Portfolio*, p. 25.

The size of Defence's APS staffing level will continue to decrease in 2016–17, though at a much reduced rate compared to the previous three years. It is anticipated that the level of 17,950 APS employees in 2016–17 will be the low-point of staffing levels, with a stabilised rate of 18,200 personnel shown out to the forward estimates. This represents an increase of the previous year's Defence budget projections, which anticipated an ongoing level of 17,800 APS employees.

Within the ongoing APS workforce of 18,200 personnel, the 2016 Defence White Paper indicated that 800 new positions would be created in intelligence, space and cybersecurity, alongside 400 other new positions in IT support, simulation, support to Navy engineering and logistics, security, force design and analysis, and strategic and international policy.[177]

The Defence First Principles Review also proposed a reduction in management roles that had a limited span of control, and highlighted the fact that executive level APS officers often managed fewer than three staff.[178] The 2016–17 Defence budget shows that this reduction has commenced across APS executive level staff, with almost 500 positions to be removed by the end of 2016–17. This represents a reduction of almost eight per cent in two years and a third of the total reduction in APS employees since 2014–15.[179]

177. DoD, *2016 Defence White Paper*, op. cit., p. 150.

178. Department of Defence, *First principles review: creating one defence*, 1 April 2015, pp. 68, 60.

179. Australian Government, *Portfolio budget statements 2015–16: budget related paper no. 1.4A: Defence Portfolio*, p. 27.

School education

Marilyn Harrington

The 2015–16 Budget marks a significant change in the Government's policy on school education, not only in financial terms as a result of the proposed additional funding of $1.2 billion over four years, but also because of a proposed new level of involvement in school education as a result of the related conditions for funding.[180]

The other major school education budget measure is increased funding for students with disability, amounting to $118.2 million over two years. This is in addition to the current loading for students with disability.

Increased funding and indexation

The budget papers show increased funding of $927.6 million over three years—the remaining $272.4 million will likely be included in funding for 2020–21, which is beyond the Budget's forward estimates period.

This additional funding for school education is the result of proposed changes to the indexation arrangements for school funding.

Currently three indexation rates for Australian Government funding for schools apply, depending on their funding position relative to the Schooling Resource Standard (SRS), which is the benchmark for school funding.[181] The current indexation rate for those schools whose funding is below the SRS is 4.7%; for those schools at the SRS the rate is 3.6%; and for those schools above the SRS the indexation rate is 3.0%.[182]

The 2014–15 Budget proposed reducing these three indexation rates to a uniform indexation rate linked to the Consumer Price Index (projected at 2.5%) from the 2018 school year.[183] The result of this measure was estimated 'savings' of about $30.0 billion in school education expenditure by 2024–25.[184]

The 2016–17 Budget is now proposing a uniform indexation rate for all schools of 3.56%, with allowances for changes in the number of student enrolments. The Budget estimates that payments for non-government schools, for instance, will decrease by $87.0 million in 2016–17 (and by $740.0 million over the five years to 2019–20) as the result of 'a downward revision to enrolment projections and changes to school structures (opening and closing of schools)'.[185]

While the new indexation proposal is an increase on the CPI indexation formula, it may be seen as creating some inequity for less resourced schools compared to those schools that are currently funded above the SRS.[186]

National Partnerships

The Budget does not extend the National Partnerships for the School Chaplaincy Programme and Universal Access to Early Childhood Education.[187] Both of these are scheduled to expire at the end of the 2017–18 financial year.[188]

Funding for the School Chaplaincy Programme was extended in the *Mid-year Economic and Fiscal Outlook 2014–15*, with funding of $242.3 million over four years from 2014–15 to 2017–18.[189] The Early Childhood Education National Partnership was only recently extended with funding of $840 million provided for 2016 and 2017.[190] However, given the significance of these National Partnerships and the history of provision for them, funding may continue in future budget measures.

180. The budget information in this article has been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 80.
181. For further information about the current funding system, see: M Harrington, *Funding the National Plan for School Improvement: an explanation*, Background note, Parliamentary Library, Canberra, 26 June 2013.
182. Australian Government, 'Transitional recurrent funding for participating schools', *Guide to the Australian Education Act 2013.*
183. For further information, see: M Harrington, 'School education', *Budget review 2014–15*, Research paper series, 2013–14, Parliamentary Library, Canberra, 2014.
184. Ibid.
185. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, p. 3-30.
186. G Chan, 'Coalition announces $1.2bn for schools but Labor says funding "inadequate"', *The Guardian (Australia),* (online edition), 1 May 2016.
187. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, p. 5-20.
188. Australian Government, *Federal financial relations: budget paper no. 3: 2016–17*, pp. 32 and 34.
189. JB Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year Economic and Fiscal Outlook 2014–15*, p. 153.
190. Department of Education and Training, 'Universal access to early childhood education will continue', *News*, 25 February 2016.

Conditions for funding

The Government proposes that the additional funding for schools be contingent upon state and territory governments maintaining their funding effort and committing to specific education reforms.[191] The Government's proposal to tie school funding to a specific set of conditions is contrary to previous policy positions. The Coalition went into the 2013 election with the commitment that it would remove the 'command and control' features of the *Australian Education Act 2013* (the Act) that 'dictate' what state and territory governments (and non-government schools) do in their schools.[192] Although there was a 2014–15 budget commitment to give effect to this election promise, there have been no associated changes to the Act or the Australian Education Regulation 2013.[193] More recently, the Government's proposal to abrogate its role in providing for government school education as part of an offer to the states and territories to levy income tax on their own behalf was rejected by the Council of Australian Governments.[194]

The proposed new conditions for funding relate broadly to improving literacy and numeracy outcomes and the quality of teachers and teaching, including a focus on disadvantaged schools and science, technology, engineering and mathematics (STEM) subjects; providing more foreign language teachers and access to languages education; and establishing a new Career Education Strategy.[195]

There has been a mixed response to these proposed conditions. For example, Jennifer Buckingham from the Centre for Independent Studies has welcomed testing of Year 1 students' phonic skills, citing research by the London School of Economics showing that children exposed to phonics instruction achieved higher outcomes.[196] And the Career Industry Council of Australia has praised the reinstatement of a National Career Education Strategy.[197]

The proposal to link salary progression to demonstrated competency and achievement against professional standards as one of the conditions of funding is suggestive of performance pay. John Fischetti, Dean of the School of Education at the University of Newcastle, and the Victorian Minister for Education, James Merlino, are amongst many who are critical of performance pay for teachers, pointing to overseas experience that has shown that it does not improve student performance.[198] This is also corroborated by the finding of a 2012 Productivity Commission report on the schools workforce.[199]

Initiatives relating to the proposed conditions have already been endorsed by the Council of Australian Governments' (COAG) Education Council and are being implemented. At its December 2015 meeting, for example, the Education Council endorsed a national school education STEM strategy and revised accreditation standards, with an implementation schedule, for initial teacher education programs.[200] National literacy and numeracy tests for teachers have also been agreed to by education ministers.[201] Observations that the proposals do not appear to take account of developments such as these and what is already occurring in schools have been made. For example, the West Australian Education Minister, Peter Collier, has remarked that his state is 'leading reforms to improve teacher quality to ensure that performance was rewarded in the public sector' and, in response to the Year 1 testing proposal, it has been observed elsewhere that testing of students already occurs when they commence school.[202]

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191. M Turnbull (Prime Minister) and S Birmingham (Minister for Education and Training), *The quality reforms needed to get all Australian students ahead*, media release, 1 May 2016.
192. Liberal Party of Australia and the Nationals, *The Coalition's policy for schools: Students First*, Coalition policy document, Election 2013, p. 6.
193. Australian Government, *Portfolio budget statements 2014–15: budget related paper no. 1.5: Education Portfolio*, p. 45.
194. M Kenny, 'States roll PM's tax plan', *The Sydney Morning Herald*, 2 April 2016, pp. 1 and 8.
195. Ibid.
196. J Buckingham, 'Not before time, a phonics test in year 1', *The Australian Financial Review*, 2 May 2016, p. 11.
197. Career Industry Council of Australia, *CICA welcomes the announcement of a new National Career Education Strategy*, media release, 2 May 2016.
198. J Fischetti, 'Federal budget 2016: education experts react: new changes for teachers include linking pay to performance', *The Conversation*, 3 May 2016; G Chan, op. cit.
199. Productivity Commission (PC), *Schools workforce*, Research report, PC, Canberra, 2012, p. 31.
200. Council of Australian Governments Education Council, *Communique*, Education Council Meeting, 11 December 2015.
201. Council of Australian Governments Education Council. *Communique*, Education Council Meeting, 18 September 2015.
202. S Martin, 'PM's cash for "best" teachers, basic skills', *The Australian*, 2 May 2016; M Adoniou, 'What will schools get out of the budget? Just some more unwanted gift cards', *The Conversation*, 2 May 2016.

The future of school funding

While the proposed increased funding has been welcomed by the non-government schools sector, calls by state and territory governments and others involved with government school education for the 'last two years of Gonski' to be funded have not abated.[203] The Australian Labor Party has committed to funding years five and six of the Gonski school funding plan, which the Parliamentary Budget Office has estimated will cost $4.5 billion.[204] This amount is significantly more than the $1.2 billion committed in this budget.

There is a question about how state and territory governments will react to the proposed conditions for funding. The West Australian Education Minister, in an interview with the *Australian*, commented that he was 'philosophically' opposed to tied grants and encouraged the Government to consider doing so 'only as a last resort'.[205]

The major unresolved question, however, is how school funding will be apportioned after 2017. The Minister has made reference to the many funding agreements that exist and to continuing negotiations to reform the school funding system.[206]

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203. Australian Education Union, op. cit.; R Ballantyne, 'Govt pledges $1.2bn for schools…but there's a catch', *The Educator*, 2 May 2016; and T Dodd, 'Strings attached to school coffers boost', *The Australian Financial Review*, 2 May 2016, p. 5.

204. Australian Labor Party, *Your child our future: Labor's positive plan for schools*, Australian Labor Party policy document, 2016, [p. 14].

205. S Martin, op. cit.

206. S Birmingham (Minister for Education and Training), *Interview David Speers, Sky News, Turnbull Government's plan for student achievement; higher education reform*, transcript, 2 May 2016.

Tertiary education

James Griffiths and Marilyn Harrington

The 2016–17 Budget marks another step in the ongoing process of attempting to reform Australia's tertiary education sector.[207] Proposals for reform in the 2014–15 Budget have been extended and modified through successive negotiations and consultation processes, with the savings continuing to be accounted for in the Budget.[208] The 2016–17 Budget is an opportunity to assess which policy proposals remain.

Changing the structure of higher education funding

The main higher education changes in the 2014–15 Budget were a shift to a more user-pays, market-based model, with greater competition from private providers and changes to funding arrangements for universities and students.[209] The most contentious proposals were an average 20 per cent reduction in government subsidies to higher education providers for undergraduate student places under the Commonwealth Grants Scheme (CGS) and deregulating undergraduate student fees.

Many of these changes were to commence on 1 January 2016. However, neither these initial reforms nor later amendments were passed by Parliament.[210] The 2015–16 Budget did not address the 2014–15 reforms.[211]

As one of his first acts as Minister for Education and Training, Senator Birmingham announced in October 2015 that the remaining higher education reforms would be delayed until 2017 at the earliest and consultation would follow.[212] The *Mid-year Economic and Fiscal Outlook 2015–16* estimated the cost of this delay would be $331.2 million from 2015–16 to 2016–17.[213]

Budget measures

In the 2016–17 Budget, the Government has announced it will abandon its proposal to deregulate fees, resulting in estimated savings of $2.0 billion over five years from 2015–16. It is unclear how the $2.0 billion savings have been calculated, given the 2014–15 Budget did not account for any specific expenses associated with fee deregulation.[214] The 2016–17 Budget also identifies a cost to this measure of $596.7 million over five years in underlying cash balance terms.[215]

The Government proposes to retain the other features of its higher education reform package, including the reduction in CGS subsidies, the extension of CGS places to non-university providers and sub-bachelor qualifications, and the lowering of the Higher Education Loan Programme (HELP) repayment threshold. It is proposed that these remaining changes will now be implemented from 2018.

Future of the higher education sector

In conjunction with the 2016–17 Budget, the Government released a discussion paper presenting its case for change and setting out proposed reforms for the higher education sector.[216] A number of options are presented,

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207. Information and figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17.*
208. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, p. 5-19. For more detailed figures, see: Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.5: Education and Training Portfolio*, p. 46.
209. For more detailed analysis of the higher education reforms in the 2014–15 Budget, see: C Dow, 'Reform of the higher education demand-driven system (revised)', *Budget Review 2014–15*, Research paper series, 2013–14, Parliamentary Library, Canberra, 2014.
210. See: Parliament of Australia, 'Higher Education and Research Reform Amendment Bill 2014 homepage', Australian Parliament website; J Griffiths, *Higher Education and Research Reform Bill 2014*, Bills digest, 69, 2014–15, Parliamentary Library, Canberra, 2014; Parliament of Australia, 'Higher Education and Research Reform Bill 2014 homepage', Australian Parliament website. Both Bills were negatived on the second reading.
211. J Griffiths, 'Sustainability of HECS–HELP', *Budget Review 2015–16*, Research paper series, 2014–15, Parliamentary Library, Canberra, 2015.
212. S Birmingham (Minister for Education and Training), *The challenge of world-class higher education: opening keynote address: Times Higher Education (THE) World Academic Summit, University of Melbourne*, speech, 1 October 2015.
213. Department of Education and Training- funding only. See: 'Higher Education Reform –delay', in Expense measures: Appendix A: policy decisions taken since the 2015–16 Budget, S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*.
214. Of interest in this context is the Parliamentary Budget Office (PBO) estimate that fee deregulation accounts for $1.2 billion in projected Higher Education Loan Programme (HELP) costs from 2015–16 to 2025–26: PBO, *Higher Education Loan Programme – supplementary analysis*, supplement to report no. 02/2016, PBO, 2016, p. 2.
215. The savings and costs associated with this measure are expressed in fiscal balance and cash balance terms. For an explanation of these concepts, see: R Webb, *The Commonwealth budget: process and presentation (updated April 2010)*, Research paper, 16, 2009–10, Parliamentary Library, Canberra, 2010.
216. Australian Government, *Driving innovation, fairness and excellence in Australian higher education*, May 2016.

including reductions in government subsidies, changes to HELP and limited fee deregulation for specific 'flagship courses'. It rules out fee deregulation across the entire higher education sector.

The savings from the 2014–15 higher education budget measures have never been legislated, but they continue to appear in the budget forward estimates. While these original measures are considered in the discussion paper, other policy options that are presented suggest the future shape of higher education reform may change.

Other higher education budget measures

Ensuring informed choice for students

Many of the assumptions in the higher education reforms rely on informed choice. Research suggests that the more students pay, the more they focus on the quality of their education and the more discerning they are about provider choice.[217]

The 2016–17 Budget seeks to enhance informed choice for students by providing an additional $10.1 million over four years for the Tertiary Education Quality and Standards Agency (TEQSA). This funding will enable TEQSA to respond to the growth in provider registrations and course accreditations and build its capacity 'to investigate and respond to developments in the higher education sector'.[218]

The Quality Indicators for Learning and Teaching website will also be enhanced, with an additional $8.1 million over four years, to provide students with more information about higher education providers.

Quality teaching

Savings through 'efficiencies' of $20.9 million over four years have been identified for the Promotion of Excellence in Learning and Teaching in Higher Education program—a program designed to increase the quality of teaching in the higher education sector.[219] This amount is more than half the program's existing allocation. The higher education sector is concerned about this development because these funds are the sole financial incentive to improve the quality of university education.[220]

Access and equity in higher education

The 2016–17 Budget includes measures which will affect access and equity programs within the higher education sector.

Efficiencies of $152.2 million over four years have been identified for the Higher Education Participation Program.[221] Since the 2014–15 Budget, savings of $208.5 million have been made to this program, which funds higher education providers to better recruit and retain low socioeconomic status (SES) students who might otherwise not participate in undergraduate studies. [222]

There are also budget measures affecting support for Indigenous higher education. The Budget redirects $9.7 million from the Prime Minister and Cabinet Portfolio to the Education and Training Portfolio to consolidate funding for the Bachelor Institute of Indigenous Tertiary Education. Three existing Indigenous programs (the Commonwealth Scholar Program, the Indigenous Support Program, and the Indigenous Tutorial Assistance Scheme—Tertiary Tuition program) will be consolidated into one program. This does not appear to impact on the funding available under these programs—the measure is intended to allow more flexible and responsive support for Indigenous Australians in higher education.

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217. R de la Bedoyere, '2014 Student Lifestyle Survey shows how increased debt is changing student attitudes', Complete University Guide website.

218. Australian Government, *Budget measures: budget paper no. 2: 2015–16*, p. 80.

219. For further information about the program, see: Other Grants guidelines (Education) 2012, made under the *Higher Education Support Act 2003*.

220. See M Gardner, 'Australia's declining investment in quality university teaching', *The Conversation*, 23 June 2015; C Nicoll, 'Canberra hasn't learned its lesson', *The Australian*, 27 April 2016, p. 32.

221. For further information about the program, see: Department of Education and Training (DET), 'Higher Education Participation and Partnerships Program (HEPPP)', DET website.

222. Australian Government, *Budget measures: budget paper no. 2: 2015–16*, p. 76; Australian Government, *Budget measures: budget paper no. 2: 2014–15*, p. 84.

Vocational education and training

There is no new money for vocational education and training (VET) in the 2016–17 Budget. As TAFE Directors Australia has noted, 'investment in skills education is largely ignored or deferred indefinitely'.[223]

VET expenses under the Education function are estimated to decline from $1.9 billion in 2016–17 to $1.5 billion in 2019–20—a decrease in real terms of 27.6 per cent.[224] This decline is mostly the result of the cessation of the National Partnership (NP) on Skills Reform.[225] The NP has been reviewed, but a new agreement has not been concluded.[226]

Funding for VET also appears under the 'Other economic affairs' sub-function. These expenses are expected to decline by 4.8 per cent in real terms from 2016–17 to 2019–20. This is largely the result of the redirection of $247.2 million over five years from the Industry Skills Fund, which supports the training needs of small and medium enterprises.[227]

The future of VET FEE-HELP, one of five loans available under the broader HELP scheme, is under consideration. Prior to the Budget, the Government released a discussion paper to guide its redesign.[228] The higher education discussion paper released with the Budget also considers VET FEE-HELP as part of its broader review of HELP.

223. TAFE Directors Australia, *Budget 2016 commentary*, media release, 4 May 2016.

224. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, pp. 5–19.

225. Ibid. For more information about the National Partnership, see: Australian Government, *Federal financial relations: budget paper no. 3 2016–17*, p. 36.

226. ACIL Allen Consulting, *Review of the National Partnership Agreement on Skills Reform: final report*, 21 December 2015; Australian Government, *Federal financial relations: budget paper no. 3 2016–17*, p. 36.

227. For further information about the Industry Skills Fund, see: Australian Government, 'Industry Skills Fund', business.gov.au website.

228. See Australian Government, *Redesigning VET FEE-HELP: Discussion Paper*, 27 April 2016. For media and Opposition commentary, see K Loussikan, 'Full extent of debt disaster will not be known for years', *The Australian*, 7 April 2016, p. 2; J Sloan, 'Vetting of landscape is recommended policy lesson', *The Australian*, 3 May 2016, p. 12;K Carr and S Bird, *Here's a three word slogan, Minister: Fix VET mess*, media release, 10 April 2016.

Foreign affairs and Official Development Assistance

Dr Geoff Wade and Dr Cameron Hill

The pronounced domestic focus of the 2016–17 Budget was reflected in a relatively unchanged profile for the Department of Foreign Affairs and Trade (DFAT). The departmental appropriation of $1.4 billion represents a slight increase (2 per cent) relative to the 2015–16 estimate. Staff levels are slated to rise from 5,700 to 5,760 (an increase of 1 per cent).[229]

DFAT's strategic direction statement offers little in the way of change. As in 2015–16, the 'Indo-Pacific' region remains the core focus of Australia's diplomacy.[230] According to DFAT, the continued engagement of the United States (US)—Australia's principal ally—'provides major security and economic benefits to the region'.[231] Links with Japan, China and the Republic of Korea (in that order) are to be further strengthened. Indonesia, India and Singapore form the next tier of relations, followed by the Pacific states and ASEAN. Relations with the countries of Europe and the Middle East are noted only after attention is given to regional engagements such as the East Asia Summit, New Colombo Plan, the Indian Ocean Rim Association and the 'MIKTA' grouping.[232]

Emphasis continues to be placed on 'economic diplomacy', including the Trans-Pacific Partnership and the three bilateral Free Trade Agreements (China, Japan and Korea) which recently came into force. The pursuit of another major trade agreement, the Regional Comprehensive Economic Partnership—which includes nine out of Australia's top 12 trade partners—continues.[233]

The prominence assigned to gender equality and women's empowerment within DFAT's strategic statement, and its Women in Leadership strategy, reflect recent innovations within the department.[234]

Australia's diplomatic footprint is being expanded slightly. An Austrade office in Tehran will be re-opened to take advantage of the changes in Iran's external economic relations.[235] An enhanced diplomatic presence in China is also slated as part of the economic diplomacy agenda.[236] Given that Australian consulates already exist in Shanghai, Chengdu and Guangzhou, the new consulate could well be in Wuhan or Shenyang, major economic centres where the US already has consulates.[237] The opening of a consulate in Lae in PNG is being resourced by redirecting funding originally intended for a consulate at Buka, in Bougainville.[238] The 2015 spat over the proposed Bougainville consulate appears resolved.[239]

The trade and tourism side of DFAT is pursuing new bilateral trade agreements with India and Indonesia, aiming to triple air service gateway capacity between Australia and China by the end of 2016, and to improve local tourism facilities. It has also installed investment attraction specialists in North America.[240] 'Landing pads' for Australian tech start-ups in overseas markets have been funded in Berlin and Singapore, in tandem with similar efforts in San Francisco, Tel Aviv and Shanghai.[241]

On the consular front, DFAT will 'remove consular assistance for dual nationals and permanent residents in the countries of which they are citizens'.[242]

229.Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.9: Foreign Affairs and Trade Portfolio*, 2016, pp. 20–1.

230.G Wade, 'Foreign affairs overview', *Budget review 2015–16,* Research paper series, 2014–15, Parliamentary Library, Canberra, 2015.

231. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.9: Foreign Affairs and Trade Portfolio*, op. cit., p. 13

232.Mexico, Indonesia, Republic of Korea, Turkey and Australia.

233.Department of Foreign Affairs and Trade (DFAT), 'Regional Comprehensive Economic Partnership', DFAT website.

234.DFAT, *DFAT launches women in leadership strategy*, media release, 23 November 2015; DFAT, Gender equality and women's empowerment strategy, 29 February 2016.

235.Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 97.

236.J Bishop (Minister for Foreign Affairs), *2016 Foreign Affairs budget,* media release, 3 May 2016.

237.US Department of State, China: US consulates, Department of State website.

238.Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit.

239.See, for example, K Aubusson, 'PNG imposes ban on Australians travelling to Bougainville', *Sydney Morning Herald,* 18 May 2015.

240.S Ciobo (Minister for Trade and Investment), *Free Trade Agreements and tourism to drive economic growth and jobs*, media release, 3 May 2016.

241.S Ciobo (Minister for Trade and Investment) and C Pyne (Minister for Industry, Innovation and Science), *Innovators to land in Berlin*, joint media release, 27 April 2016.

242. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, op. cit., p. 98.

With the implementation of a scheduled $224 million cut (around 7.5 per cent in real terms), Australia's $3.8 billion Official Development Assistance (ODA) budget for 2016–17 is a record breaker on several fronts.[243] According to the Australian National University's (ANU) Development Policy Centre, never before has the aid budget been cut four times in a row.[244] The cumulative 30 per cent reduction in aid over this period is another record.[245] Australia's aid generosity, measured in terms of ODA as a proportion of Gross National Income (GNI), will also hit a new low of 0.23 per cent, 'well below the global average—a touch over 0.3 per cent—something we used to try to at least match'.[246] Despite rising global ODA, Australia's development assistance is projected to fall to 0.21 per cent of GNI by 2019–20.[247]

Aid and community groups had urged the government not to proceed with the scheduled cut.[248] Despite these calls, the geographic allocations contained in a new budget summary document, known as the 'orange book', reinforce those set in 2015–16, when almost $1 billion was cut from annual aid. In terms of specific allocations:

- total estimated ODA to **PNG and the Pacific** increases slightly, rising from $1.119 billion in 2015–16 to $1.138 billion in 2016–17 and
- total estimated ODA to **South East and East Asia** (down from $909.5 million to $887.7 million), **South and West Asia** ($310.4 million to $282.8 million), **Africa and the Middle East** ($185.8 million to $184.9 million) and **Latin America and the Caribbean** ($13.4 million to $11.0 million) has largely stabilised in the wake of very large cuts in 2015–16.[249]

With these changes now embedded and little apparent scope for growth in country programs (see below), Australia's ability to leverage aid to influence development debates and outcomes is likely to be limited to its immediate neighbours for the foreseeable future. Any ambition to influence the agenda across the wider 'Indo-Pacific' will be heavily constrained by Australia's diminished aid footprint.

Perhaps unsurprisingly, it is also clear that considerations of national interest and proximity, rather than performance, continue to dominate the geographic allocations.[250] In the 2014–15 'Performance of Australian Aid' report, the PNG and Pacific region was identified as the worst performing in terms of the proportion of program objectives (43 per cent) designated as 'at risk'.[251] In PNG, six out of eight country program objectives were designated 'at risk' and less than half of the program's performance benchmarks were fully achieved.[252]

Global programs have borne the brunt of this year's cuts, decreasing from $334 million to an estimated $199 million as a result of delayed payments to some international organisations. The need to honour these commitments in future years is likely to limit any future growth in country programs.[253] Other pending decisions, such as whether future contributions to the China-led Asian Infrastructure Investment Bank will come from the existing ODA budget, may also constrain future country program options.[254]

No out-year cuts were announced in the 2016–17 Budget and aid will increase in line with inflation over the forward estimates.[255] This returns some predictability after unprecedented funding reductions. Nevertheless, the Opposition has accused the Government of having 'trashed Australia's reputation as a good global citizen'.[256] It has pledged increases in humanitarian and non-government programs, as well as legislation to improve

243.DFAT, *Australian aid budget summary, 2016–17*, 2016, p. v.; M Dornan, 'Continuity with change: country allocations in the 2016-17 budget', *DevPolicy*, blog, Development Policy Centre, ANU, 4 May 2016.

244. S Howes, 'Scaled down. The last of the aid cuts?', *DevPolicy*, blog, Development Policy Centre, ANU, 4 May 2016.

245. Ibid.

246.Ibid.

247.R Davies and A Betteridge, 'The rise of global aid in 2015, and the fall of Australia', *DevPolicy*, blog, Development Policy Centre, ANU, 15 April 2016; Development Policy Centre, *Australian aid tracker*, website.

248.Australian Council for International Development (ACFID), *ACFID submission to the 2016-17 federal Budget*, February 2016.

249.DFAT, *Australian aid budget summary*, op. cit., pp. 7–8.

250.The Government has stated previously that 'performance will be a key criteria *[sic]* used to determine future budget allocations'. See: DFAT, *Making performance count: enhancing the accountability and effectiveness of Australian aid*, June 2014, p. 16.

251.DFAT, *Performance of Australian aid 2014–15*, February 2016, p. 24.

252.Ibid., p. 28.

253.S Howes, op. cit.

254.R Davies, 'Under pressure: calls on Australia's 2016 aid budget', *DevPolicy*, blog, Development Policy Centre, ANU, 3 March 2016.

255.Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.9: Foreign Affairs and Trade Portfolio*, op. cit., p. 28.

256.T Plibersek (Shadow Minister for Foreign Affairs and International Development) and M Thistlethwaite (Shadow Parliamentary Secretary for Foreign Affairs and Immigration), *Liberals' budget: cuts aid, consular help—passport fees up*, joint media release, 4 May 2016.

transparency and accountability, should it be elected in 2016.[257] Labor has not re-committed to the 0.5 per cent ODA/GNI target adopted by the Rudd and Gillard governments. The World Vision Chief Executive, Tim Costello, stated 'this latest round of cuts puts lives and futures at risk as well as regional and global security and prosperity; it's both unwise and unworthy of our nation'.[258]

257.Ibid.

258. World Vision, *Tim Costello calls for an end to aid cuts madness*, media release, 3 May 2016.

Aged care

Alex Grove and Anna Dunkley

The 2016–17 Budget tightens funding for residential aged care providers, but provides some extra funding for regional aged care and the My Aged Care contact centre. The combined effect of aged care measures in the Budget is a reduction in expenditure of $902.7 million over five years.[259]

Changes to aged care provider funding

The Budget includes savings of $1.2 billion over four years through changes to the Aged Care Funding Instrument (ACFI) used by residential aged care providers to determine the base funding for each resident.[260] This is in addition to the $472.4 million savings over four years through changes to the ACFI scoring matrix that were announced in the *Mid-Year Economic and Fiscal Outlook 2015–16* (MYEFO).[261]

The ACFI is a tool used to assess the care needs of permanent residents through a series of questions that determine funding across three domains: Activities of Daily Living (ADL), Behaviour and Complex Health Care (CHC). The greater the assessed need in each domain, the higher the basic subsidy for the resident. This basic subsidy (determined by the ACFI) accounted for the majority of the funding ($9.7 billion out of $10.6 billion) the Australian Government paid for residential care subsidies and supplements in 2014–15.[262]

The Australian Government controls the number of subsidised aged care places.[263] Despite this, residential aged care funding can still exceed forecasts because ACFI assessments completed by individual providers affect the level of subsidy that each place attracts. The Government is concerned by higher than expected growth in ACFI expenditure, particularly in the CHC domain, which it believes cannot be explained by an increase in the frailty of residents (as the other two domains have not grown at the same rate).[264]

The savings will be achieved by changing the scoring matrix that determines a resident's classification for each of the three ACFI domains, as well as reducing the indexation of the CHC component of the basic subsidy by 50 per cent in 2016–17.[265] The Government will establish a $53.3 million transitional assistance fund to support providers and consult the sector on future options for determining aged care funding, including the possibility of having ACFI assessments done by an independent party rather than providers.[266]

This is not the first time ACFI has been revised due to concerns about excessive growth. For example, the Gillard Labor Government tightened ACFI assessment criteria in 2012 in order to redirect funding to its *Living Longer. Living Better* aged care reform package.[267] This led to a debate between the Government and providers on whether ACFI funding reflected the actual costs of providing care.[268]A similar debate ensued when the current Government announced changes to ACFI in the 2015–16 MYEFO.[269]

The 2016–17 Budget also has $102.3 million in increased funding over four years for regional aged care providers through changes to the viability supplement. The supplement is paid to eligible rural and remote aged care services to assist with the extra cost of delivering services in those areas.[270] The Government will update the geographical classification model used to determine eligibility for the supplement, and increase the

259. Department of Health (DoH), *Health 2016–17 Budget at a glance*, DoH website.

260. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, pp. 101–102, 109.

261. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-Year Economic and Fiscal Outlook 2015-16*, p. 172

262. DoH, *2014–15 Report on the operation of the Aged Care Act 1997*, DoH, Canberra, 2015, pp. 53–55.

263. Department of Social Services (DSS), '5.3.2 How does the Commonwealth plan its allocation of places?', *Guide to aged care law*, version 1.09, released 4 January 2016, DSS website, last reviewed 19 September 2014.

264. DoH, *Aged care provider funding – further revision of the Aged Care Funding Instrument*, Health Budget 2016–17 fact sheet, 3 May 2016.

265. *Budget measures: budget paper no. 2: 2016–17* , op. cit., p. 101. The ACFI scoring matrix is set out in the Classification Principles 2014. The dollar value of basic subsidy attached to each ACFI domain category is set out in the Aged Care (Subsidy, Fees and Payments) Determination 2014.

266. *Budget measures: budget paper no. 2: 2016–17* , op. cit., p. 101; DoH, *Aged care provider funding – further revision of the Aged Care Funding Instrument*, op. cit.

267. Australian Government, *Budget measures: Budget Paper No. 2: 2012-13*, p. 184.

268. J Gillard (Prime Minister) and M Butler (Minister for Health and Ageing), *More choice, easier access and better care for older Australians*, media release, 20 April 2012; K Curtis, 'Enough ACFI anger', Australian Ageing Agenda website, 10 July 2012.

269. D O'Keeffe, 'Government clamps down on ACFI claims', Australian Ageing Agenda website, 17 December 2015.

270. *2014–15 Report on the operation of the Aged Care Act 1997*, op. cit., p. 57.

supplement rate for some residential aged care services.[271] These changes are expected to benefit around 250 residential services, many in or near outer regional towns, as well as a number of multi-purpose and Indigenous services and around 7,000 home care package recipients. Grandfathering arrangements will apply to ensure that no service or care recipient is worse off as a result of the change in model.[272]

This measure is in keeping with the finding from a recent Aged Care Financing Authority (ACFA) report that although 'the Viability Supplement is assisting providers and generally appears well targeted with payments predominantly to the rural and remote group … its classification system is dated and may not best target funding in all cases.'[273]

More funds for aged care contact centre

The My Aged Care call centre and website provide aged care information and serve as the primary contact point for people seeking subsidised aged care. Contact centre staff screen and assess clients over the phone, and can then refer them to a face-to-face assessor to determine their eligibility for services such as home support, home care or residential care.[274]The Budget includes an additional $136.6 million over four years to support the operation of the contact centre. The contact centre received around 1,280,000 calls in 2015–16, but this is expected to increase by 41 per cent in 2016–17.[275]

Reaction

The 2016 Budget has been described by key stakeholder, Catholic Health Australia (CHA), as a 'mixed bag' for aged care.[276] Provider peak bodies have criticised the cuts to ACFI funding. CHA believes they will have a negative impact on budgeting for nursing and personal care, as well as on investment in the industry.[277] Leading Age Services Australia (LASA) believes the Government 'is in denial about the true cost of providing complex care'.[278] Health peak bodies are similarly concerned. Alzheimer's Australia (AA) acknowledges that the Government 'may have had little choice but to cut ACFI due to projections of unsustainable expenditure', but argues that ACFI is a flawed funding tool.[279] Palliative Care Australia is concerned that cuts will lead to aged care residents missing out on high quality care at the end of life.[280]

Extra funding for rural and remote services has been welcomed by provider peak bodies Aged and Community Services Australia (ACSA), CHA and LASA, although LASA has questioned if it will lift the financial viability of many providers in the face of other cuts.[281] Increased funding for the My Aged Care call centre has been widely welcomed by consumer and provider groups including ACSA, CHA, AA and COTA Australia (formerly Council on the Ageing).[282] Both COTA Australia and CHA remarked on one omission from the Budget: a clear signal on the Government's plans for future reform of the aged care system.[283]These plans may be revealed in the forthcoming election campaign.

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271. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.10: Health Portfolio*, p. 140.
272. DoH, *Aged care provider funding – improving the targeting of the viability supplement for regional aged care facilities*, Health Budget 2016–17 fact sheet, 3 May 2016.
273. Aged Care Financing Authority (ACFA), *Issues affecting the financial performance of rural and remote providers, both residential and home care providers*, Department of Health, February 2016, p. vi.
274. *2014–15 Report on the operation of the Aged Care Act 1997*, op. cit., pp. 20,25.
275. DoH, *My Aged Care – consumer access*, Health Budget 2016–17 fact sheet, 3 May 2016.
276. Catholic Health Australia (CHA), *Aged Care Budget is a 'mixed bag'*, media release, 3 May 2016.
277. Ibid.
278. Leading Age Services Australia (LASA), *Devastating cuts to direct aged care services continue*, media release, 4 May 2016.
279. Alzheimer's Australia (AA), *Budget shortfall for dementia*, media release, 3 May 2016.
280. Palliative Care Australia (PCA), *Health budget needs close monitoring*, media release, 3 May 2016.
281. N Egan, 'Budget: windfall for remote providers', Australian Ageing Agenda website, 4 May 2016.
282. N Egan, 'Budget: boost for My Aged Care', Australian Ageing Agenda website, 4 May 2016.
283. *Aged Care Budget is a 'mixed bag'*, op. cit.; COTA Australia, *Budget 2016: some great news, some missed opportunities, some concerns*, media release, 3 May 2016.

Dental health

Amanda Biggs

Child and Adult Public Dental Scheme (caPDS)

On 23 April 2016, the Minister for Health Sussan Ley announced the establishment of a new Child and Adult Public Dental Service (caPDS) to replace existing Commonwealth-funded dental arrangements from 1 July 2016.[284] The caPDS will be established under a five year National Partnership Agreement (NPA) to be negotiated with the states and territories, worth $2.1 billion.[285] The Budget allocates $1.7 billion over the first four years of the scheme from 2016–17.[286] Funding of $415.6 million is allocated for 2016–17, with state allocations being finalised when the NPA is agreed.[287]

The NPA will replace two existing programs: the one year National Partnership on Adult Public Dental Services which provided $155 million in 2015–16 to the states and territories but only for adult concession card holders, and the means-tested Child Dental Benefits Schedule (CDBS).[288] The CDBS provides eligible children aged 2 to 17—receiving Youth Allowance, ABSTUDY or other government benefits or whose family is in receipt of Family Tax Benefit A—with a voucher entitling them to dental benefits, capped at $1,000 over two years, for basic dental services. The CDBS was introduced by the former Labor Government as part of a dental health reform package and following advice from National Advisory Council on Dental Health.[289] Until recently, the CDBS had been supported by the Coalition, so this announcement represents a significant shift in their view.[290]

The caPDS is intended to provide expanded access to state-run public dental services for all children under 18 as well as to adult concession card holders. States and territories will also contribute funding.

The Commonwealth contribution to the caPDS will be calculated at 40 per cent of the national efficient price (NEP) for dental services provided under the scheme, until 2019–20.[291] The states and territories will meet the cost of the remaining 60 per cent. The NEP is also used as the basis for calculating the Commonwealth's contribution to public hospitals. From 2019–20, the funding methodology will change and indexation of the scheme will be capped at growth in the consumer price index (CPI) and population.

The budget papers show savings in the first three years due to the closure of the CDBS.[292]

An independent review 'noted the success of the CDBS in targeting the oral health of young Australians at an age where preventative measures can be most effective'.[293] In its first full year of operation (2014–15), 898,797 children (or 29.4 per cent of those eligible) accessed services and $312.5 million in benefits was paid. Services were primarily delivered by private dentists, although in South Australia and Tasmania a majority of services were delivered in the public sector. Ninety seven per cent of children were bulk billed, meaning they paid nothing for the service. Lower than forecast uptake was acknowledged by the review. To address this it recommended greater promotion of the scheme.[294] Problems with low uptake were also noted in a separate Australian National Audit Office (ANAO) review, which recommended improvements in communication and promotion.[295] The low uptake led to pre-budget speculation that the Government might move to close the CDBS.[296]

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284. S Ley (Minister for Health), *Turnbull govt to double public dental investment*, media release, 23 April 2016.
285. Ibid.
286. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 102.
287. Australian Government, *Federal financial relations: budget paper no. 3: 2016–17*, p. 27.
288. Australian Government, *Federal financial relations: budget paper no. 3: 2015–16*, p.26; Department of Health, 'Child Dental Benefits Schedule', webpage.
289. T Plibersek (Minister for Health), *$4 billion dental spend on children, low income adults and the bush,* media release, 29 August 2012. National Dental Advisory Council, *Report of the National Advisory Council on Dental Health*, 2012.
290. P Dutton (Minister for Health), *Shorten lies defy dental facts too*, media release, 16 May 2014.
291. Efficient growth is explained in the National Health Reform Agreement at clause A3. Efficient growth consists of the national efficient price for any changes in the volume of services provided the growth in the national efficient price of providing the existing volume of services. Council of Australian Governments (COAG), *National Health Reform Agreement*, 2011.
292. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 102.
293. Department of Health, *Report on the third review of the Dental Benefits Act 2008*, Commonwealth of Australia, 2016, p. ix.
294. Ibid., p. 23.
295. Australian National Audit Office (ANAO), *Administration of the Child Dental Benefits Schedule,* ANAO report no. 12 2015–16, 2015, p.39.
296. J Power, 'Free dental scheme under threat despite glowing review', *Sydney Morning Herald,* 30 March 2016.

Poor oral health impacts on overall health and wellbeing and can lead to poor nutrition, discomfort and pain. If oral disease is left untreated it can result in infection and even hospitalisation. Although there have been improvements in recent decades, some Australians still experience poor oral health with three out of ten adults experiencing untreated tooth decay and 40 per cent of young children having had tooth decay. Dental conditions were the third leading cause of preventable hospitalisations in 2013–14, with more than 63,000 Australians hospitalised in 2013–14. [297]

Response

Labor claims the announcement represents a $1 billion cut to health services and that few children will benefit under the new scheme.[298] The Greens, who supported the introduction of the CDBS and want to see it expanded, have stated they reject the plan.[299] The Australian Dental Association (ADA) described the proposal as a 'back of the envelope approach' which will leave many patients 'high and dry' and called for the expansion of the CDBS.[300]

Some have welcomed the increased funding for public dental services. The Australian Healthcare and Hospitals Association (AHHA) endorsed the Government's commitment to support public dental services, but voiced concern that the funding is 'not as generous as suggested' and 'won't underpin equitable access to care'.[301] The National Oral Health Alliance (NOHA) supports the move to legislate the scheme, but claims the funding 'represents a cut, not an increase'.[302]

Wait times for public dental services across jurisdictions can be long. In Victoria wait times for general treatment are 12.6 months (although emergencies are prioritised under a triage system).[303] The public dental workforce represents only a small proportion of working dentists. The vast majority of dentists (85 per cent nationally) work in private practice.[304] The Minister indicated in her press release that where service gaps exist, arrangements for accessing private dental services will be allowed.[305] However, the majority of private dentists work in metropolitan areas, so service gaps in rural and regional areas are likely.[306]

While the adequacy of funding levels and the capacity of the public dental workforce to absorb additional demand remain key concerns, others may emerge. For example, services currently provided under the CDBS reflect its focus on prevention (44 per cent of services) and early diagnosis of dental disease (37 per cent of services).[307] It is not yet clear if the new NPA will require public dental services to dedicate sufficient resources to ensure the continuation of such services, or how they will address the specific needs of children.

The closure of the CDBS requires the passage of legislation. The Dental Benefits Amendment Bill 2016 was introduced on 5 May 2016.[308] It contains provisions that would close off the use of CDBS vouchers after 30 June 2016. There are also provisions that would establish that the Commonwealth can make capped grants to the states and territories for the provision of dental services. However, with an election announcement imminent it would seem unlikely that the Bill will have time to progress.

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297. Australian Government, *Healthy mouths, healthy lives: Australia's National Oral Health Plan 2015–24*, COAG Health Council, Adelaide, 2015, p. ix.
298. C King (Shadow Minister for Health), *Turnbull Government cuts another $1 billion from kids dental care*, media release, 23 April 2016.
299. Australian Greens, *Liberal's dental shocker undermines universal care*, media release, 23 April 2016.
300. Australian Dental Association, *New Dental Scheme. Was it given a moments thought?*, media release, 23 April 2016.
301. Australian Healthcare and Hospitals Association, *Bipartisan support for dental care welcome; but devil is in the detail*, media release, 23 April 2016.
302. National Oral Health Alliance, *New Federal plan is trying to do dental care using smoke and mirrors*, media release, 24 April 2016.
303. Department of Health (Victoria), 'Statewide - average time to treatment for general dental care - quarterly data,' Victorian Health Services Performance webpage.
304. Australian Institute of Health and Welfare, *Oral health and dental care in Australia: key facts and figures 2015,* AIHW, 2016, p. 67.
305. S Ley, op. cit.
306. Australian Institute of Health and Welfare, op. cit., p. 67.
307. Department of Health, op. cit., p 26.
308. Dental Benefits Amendment Bill 2016 (Cth).

Hospital funding

Amanda Biggs

The 2016–17 Budget re-affirms commitments for public hospital and public health funding made by the Commonwealth at the Council of Australian Governments (COAG) meeting on 1 April 2016 and contained in the Heads of Agreement (the Agreement).[309] The Budget provides up to $2.9 billion over three years in additional hospital funding to the states and territories commencing in 2017–18.[310] The Agreement committed the Commonwealth to meet 45 per cent of the efficient growth[311] in the cost of hospital services for the period 2017–2020 (capped at 6.5 per cent growth in Commonwealth funding per annum) and retained activity based funding (ABF) and the National Efficient Price (NEP) as the basis for hospital funding for this period.

The Budget indicates that the Commonwealth's contribution to public hospitals will be $17.9 billion in 2016–17, rising to $21.1 billion by 2019–20.[312]

ABF is a key component of the National Health Reform Agreement (NHRA) signed in 2011.[313] ABF applies a funding methodology based on the level of hospital activity and the complexity of cases (case-mix) using the NEP to calculate the cost of these. Since 2014 most public hospitals have been funded using ABF although some smaller or regional hospitals have continued to receive block grant funding. In the 2014–15 Budget it was announced that the ABF methodology would be abolished from 2017 onwards and replaced with a formula using population growth and movements in the Consumer Price Index (CPI).[314] The Agreement has effectively reversed this earlier budget decision. The Commonwealth has also agreed to meet 45 per cent of the efficient growth in block grant funding for smaller or regional hospitals. Payments for public health activities for the period will be consistent with the process as outlined in the NHRA. The Agreement will be the basis for an addendum to the NHRA to be negotiated with the states and territories before commencement on 1 July 2017.

This NHRA addendum anticipates the development of a longer-term public hospital funding agreement to commence from 1 July 2020. This longer-term agreement will be developed by the Commonwealth and all jurisdictions and be considered by COAG before September 2018.

The abolition of some key agencies supporting ABF that was announced in the *Mid Year Economic and Fiscal Outlook (MYEFO) 2015–16*, will not proceed. [315] The National Health Funding Body (NHFB) and the Administrator of the National Health Funding Pool (NHFP), which administers and makes payments from the NHFP, will receive $8.5 million over three years from 2017–18 to continue operating.[316] The operational functions of the Independent Hospital Pricing Authority (IHPA)—an independent agency which determines the NEP and resolves disputes over cost-shifting and cross-border issues—will be transferred to the Department of Health from 1 July 2016.[317]

The Agreement also committed all parties to begin to implement a range of reforms designed to improve health outcomes for patients and decrease potentially avoidable demand for public hospital services. This includes initiatives to support coordinated care and flexible funding models for patients with complex and chronic conditions, including implementation of a pilot of Health Care Homes (HCH) in selected Primary Health Networks (PHN).[318]

309. Council of Australian Governments (COAG), *Heads of Agreement between the Commonwealth and the States and Territories on Public Hospital Funding*, 1 April 2016.
310. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 117.
311. Efficient growth is explained in the National Health Reform Agreement at clause A3. Efficient growth consists of the national efficient price for any changes in the volume of services provided the growth in the national efficient price of providing the existing volume of services. Council of Australian Governments (COAG), *National Health Reform Agreement*, 2011.
312. Australian Government, *Federal Financial Relations: budget paper no. 3: 2016–17*, 2016, p. 13. These figures are indicative only until the efficient price growth funding is determined. The figures include allocations for public health services as well.
313. COAG, op. cit., clause 3(a).
314. Australian Government, *Budget measures: budget paper no. 2: 2014–15*, p. 126.
315. Australian Government, *Mid-Year Economic and Fiscal Outlook 2015–16*, p. 183.
316. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 117.
317. Australian Government, *Portfolio Budget Statements 2016–17: budget related paper no. 1.10: Health portfolio*, p.328.
318. See separate Budget Review 'Medicare' article for an overview of this measure.

Reaction

The COAG announcement followed a concerted campaign by the states and territories to oppose the 2014–15 budget changes, supported by the Australian Medical Association (AMA), the Australian Healthcare and Hospitals Association (AHHA), consumer health groups and other stakeholders.

There was a broadly positive response when the COAG Agreement was announced, although some state governments argued that the amount of funding still fell short of what was needed. The Queensland Government described the funding as a 'small first step in addressing the funding gap created by the Federal Government's 2014–15 Budget'.[319] The AMA went further, stating that 'the COAG agreement is an inadequate short-term public hospital funding down-payment to appease desperate States and Territories ahead of the Federal election' which 'will not be sufficient to meet current and future demand'.[320] The AHHA described the Agreement as a 'partial turnaround from the $57 billion cuts to health funding imposed in the 2014 Budget', and strongly welcomed the continuing commitment to ABF.[321]

The initial response to the Budget announcement has been similar, with both the AMA and AHHA welcoming the confirmation of hospital funding, although both expressed the view that it remained insufficient. The AMA characterised the funding as a 'down-payment only', while the AHHA argued 'it returns less than half of the expected funding that was removed'.[322] At this stage, the Library is not aware of any comments made by state and territory governments. However, the transfer of the IHPA's functions to the Department of Health may raise questions over its capacity to remain independent.

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319. Queensland Government, Submission to Senate Finance and Public Administration Committee, *Outcomes of the 42nd meeting of the Council of Australian Governments held on 1 April 2016 Inquiry*, 27 April 2016.
320. Australian Medical Association, Submission to Senate Finance and Public Administration Committee, *Outcomes of the 42nd meeting of the Council of Australian Governments held on 1 April 2016 Inquiry*, April 2016.
321. Australian Healthcare and Hospitals Association, 'Hospital funding agreement welcome; more support needed for primary care', media release, 1 April 2016.
322. J Doggett (ed), 'Health Budget 2016 – the reaction', *Croakey,* 4 May 2016.

Medicare

Amanda Biggs

Coordinated care for people with chronic conditions

In March 2016, the Government announced the *Healthier Medicare* package that will allow patients with complex and chronic conditions to enrol with a Health Care Home (HCH) which will then be responsible for managing and coordinating their care.[323] This budget provides funding of $21.3 million over four years to trial this model with 65,000 patients from 1 July 2017.[324]

One in five Australians has multiple chronic conditions like heart disease, diabetes, arthritis, respiratory disease and mental illness.[325] *Healthier Medicare* is based on recommendations of the Primary Health Care Advisory Group (PHCAG). HCHs will develop tailored care plans and coordinate all treatment needs for patients, whether provided by Medicare, state and local governments or the community sector. A risk stratification tool will be developed to identify eligible patients and new payments models tested.[326]

Trials involving 200 HCHs and 65,000 patients will test alternatives to traditional fee for service payments, such as bundled and upfront quarterly payments. Alternative payment models have the potential to encourage HCHs to be more innovative and flexible in how they deliver care, and improve health outcomes for patients.[327] Expenditure will be redirected from fee for service chronic disease management (CDM) Medicare items as these would no longer be accessed by participants in the trial. PCHAG found that CDM items could be better structured to support more tailored and flexible patient care.[328]

A public hospital funding Heads of Agreement signed in April 2016 by the Council of Australian Governments committed all jurisdictions to support initiatives to reduce hospitalisations such as coordinated care and flexible funding models for patients with complex and chronic conditions. The Agreement included a specific commitment to implement a pilot of HCH.[329]

Models similar to HCHs are used overseas. The United States adopted Patient Centered Medical Homes for children and families. These offer holistic person-centred primary care designed to improve quality by emphasising integrated, team-based care.[330] Ontario in Canada has also adopted this model.[331] Patient enrolment with a chosen primary care practice is also used extensively in New Zealand.[332] Recent reviews of this model of care reveal mixed results, but overall are generally positive.[333]

Improving coordination of care for patients with chronic conditions has been trialled previously in Australia with mixed results. The 2011–12 Budget provided $30.0 million over four years to trial coordinated diabetes care.[334] It involved conducting a randomised control trial (RCT) of 7,781 diabetes patients across 184 general practices to test care components across two intervention groups, including flexible funding payments. It ran for 18 months. An evaluation found only small improvements achieved in the intervention groups compared to the control and reported it would be unlikely it would be cost-effective to roll out that funding model more broadly.[335]

However, the evaluation noted there were lessons for the development of similar programs in the future. These should 'incorporate flexible funding for registration with a health care home, payment for quality and funding

323. S Ley (Minister for Health), *Health care homes to keep chronically-ill out of hospital*, media release, 31 March 2016.
324. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 105.
325. S Ley, op. cit.
326. S Ley (Minister for Health), *New Medicare payment model for chronically-ill patients,* media release, 31 March 2016.
327. Primary Care Health Advisory Group (PCHAG), *Better Outcomes for People with Chronic and Complex Health Conditions*, 2015, p. 38,.
328. Ibid., p. 39.
329. Council of Australian Governments (COAG), *Heads of Agreement between the Commonwealth and the States and Territories on Public Hospital Funding,* 1 April 2016.
330. Department of Health and Human Services (US), 'What is a medical home? Why is it important?', Department of Health and Human Services website.
331. W W Rosser, et al., 'Progress of Ontario's Family Health Team Model: A Patient-Centered Medical Home', *Annals of Family Medicine,* vol 9(2), 2011, pp. 165–171.
332. F Goodyear-Smith, et al., 'International Learning on Increasing the Value and Effectiveness of Primary Care (I LIVE PC) New Zealand', *Journal of the American Board of Family Medicine,* vol. 25(S1), 2012, S39–S44.
333. J A Alexander, et al., 'Implementation of Patient-Centered Medical Homes in Adult Primary Care Practices', *Medical Care Research and Review,* vol. 72(4), 2015, p. 440.
334. Australian Government, *Budget measures: budget paper no.2: 2011–12*, 2011, p. 215.
335. McKinsey and Company, *Evaluation report of the diabetes care project*, p. 3.

for care facilitation, targeting resources where they can realise the greatest benefit', eHealth and better integration of primary and secondary care to reduce hospital costs.[336]

The *Healthier Medicare* package has met with qualified support. The Consumers' Health Forum (CHF) described it as 'promising' but warned that the funding level may be insufficient.[337] The Australian Healthcare and Hospitals Association (AHHA) agreed with the need to improve coordination of patient care, but predicted the HCH will only partly address this.[338] Academic Stephen Leeder from Sydney University noted that trials of similar programs show they have 'the capacity to improve care and decrease the need for hospital stays'. [339] But others have pointed to challenges ahead. Economist Peter Sivey from La Trobe University cautioned that trying to reduce hospital admissions through improvements in primary care is 'notoriously difficult'.[340] Other uncertainties include the location and oversight of the trials and the evaluation process. If private health insurers become involved in the trials, as envisioned by PCHAG, this may also prompt further debate.[341]

It is not clear if legislative amendments will be required to commence trials.

Other measures

A number of measures aimed at making substantial savings from Medicare are included in the Budget. The pause in indexation for a number of health programs will be extended, with savings of around $1.9 billion expected. Medicare Benefits Schedule (MBS) fees for services provided by GPs, specialists, allied health and other practitioners will be paused for a further two years to June 2020, with savings of $925.3 million forecast.[342] The pause on indexation of income thresholds used to determine the Medicare Levy Surcharge and the Private Health Insurance Rebate will also be extended with savings of $744.2 million over three years.[343] In addition, savings of $182.2 million will come from the Health Flexible Funds, including by extending the indexation pause for a further two years, and reducing uncommitted funds.[344] Stakeholders, including doctor and consumer groups have generally responded negatively to these measures.[345]

Activities to improve compliance were also announced in the Budget. These include using advanced data analytics to better target providers who are non-compliant with claiming rules, and improve debt recovery arrangements. Savings of $66.2 million over four years are forecast. Funding of $12.0 million is allocated for the measure in 2016–17.[346]

A number of obsolete services will be removed from the MBS in line with the recommendations of the *Medicare Benefits Schedule (MBS) Review*, realising savings of $5.1 million over four years.[347]

336. Ibid.
337. J Doggett (ed), 'Health budget 2016—the reaction' *Croakey,* 4 May 2016.
338. Ibid.
339. P Sivey, S Leeder, L Russell, 'Hospital funding deal: experts respond', *Conversation,* 1 April 2016.
340. Ibid.
341. PCHAG, op. cit. p. 9.
342. Australian Government, *Budget measures: budget paper no. 2: 2016–17,* op. cit., p 108. The existing pause (first announced in the 2014–15 Budget) was due to expire in 2018.
343. Ibid., p. 113.
344. Ibid. p. 103.
345. For an overview of stakeholder responses see J Doggett, op. cit.
346. Ibid., p. 104.
347. Australian Government, *Budget measures: budget paper no. 2: 2016–17,* op. cit. p. 104.

Tobacco excise increase

Dr Matthew Thomas

The Budget provides for an annual increase in tobacco excise and excise equivalent customs duties of 12.5% on 1 September of each year from 2017 to 2020.[348] The increases will raise the excise on a cigarette to around 69% of the average price of a cigarette, close to the World Health Organisation (WHO) recommendation of 70%. The Government has also reduced the duty free tobacco allowance from 50 cigarettes to 25 cigarettes, or equivalent, from 1 July 2017.[349] Combined, these measures are expected to realise additional revenue of $4.7 billion over the forward estimates period.

Background

On 1 August 2013, the Rudd-Gillard Government announced its intention to introduce an annual increase of 12.5% in tobacco excise over the subsequent four years. This was to 'battle smoking-related cancer and help return the Federal Budget to surplus in 2016–17'.[350] The first of the four increases was implemented on 1 December 2013, the second on 1 September 2014, and the third on 1 September 2015. The fourth increase is to take effect from 1 September 2016. These increases are in addition to twice-yearly indexation of excise on tobacco products based on average weekly ordinary time earnings and the Goods and Services Tax (GST) imposed at a rate of 10%.[351]

On 24 November 2015, Shadow Treasurer Chris Bowen and Shadow Minister for Health Catherine King announced that a Shorten Labor Government would continue the 12.5% annual increase in tobacco excise for a further four years, from 1 July 2017.[352] Mr Bowen and Ms King argued that this staged increase would raise tobacco taxes in Australia to more than 75% of the retail price of tobacco products by 2020, in line with WHO recommended best practice.[353] Excise currently accounts for around 63% of the price of a packet of cigarettes.[354]

Based on costings undertaken by the Parliamentary Budget Office (PBO), Labor expected that the continued excise increases would raise an additional $3.8 billion over the current forward estimates period and $47.7 billion over the next decade.[355]

In the lead-up to the Budget, there were a number of reports that these revenue figures would be unlikely to be realised.[356] Indeed, based on a recent Treasury downgrade of expected tobacco excise revenue, it has been claimed that the staged increases proposed by Labor would raise only $28.2 billion over 10 years—some $19.5 billion less than the PBO modelling indicated.[357] It is not clear whether the downgrade is a result of the Treasury having used updated figures on tobacco consumption or different assumptions about the impact of the excise increases.

Whatever the case, it is worth noting that to some extent such discrepancies in modelling figures are to be expected due to the complexities associated with estimating the impact of excise increases.

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348. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 16.
349. Ibid.
350. C Bowen (Treasurer) and T Plibersek (Minister for Health; Minister for Medical Research), *Government to increase tobacco excise*, media release, 1 August 2013. The proposed rise followed the Rudd-Gillard Government's 29 April 2010 increase in tobacco excise of 25%. See Australian Government, *Budget measures: budget paper no. 2: 2010–11*, 2011, p. 51. Prior to this increase, the last general increase in tobacco excise was a 10% increase in the 1995–96 Budget. For a brief analysis of the tobacco excise increase and other tobacco measures introduced as part of the 2010–11 Budget, see M Thomas, 'Tobacco excise increase', *Budget review 2010–11*, Research paper, 17, 2009–10, Parliamentary Library, Canberra, May 2010, p. 188.
351. In Australia, tobacco excise is charged on a per-stick basis for cigarettes with a tobacco content that does not exceed 0.8 grams per cigarette. All other tobacco products, including cigarettes that contain more than 0.8 grams of tobacco, loose tobacco and cigars, are taxed on a per kilogram basis. Currently, the rates are $0.53733 per stick and $671.68 per kilogram. Australian Taxation Office, Excise rates for tobacco. The rates, along with product definitions and descriptions, are set out in the Schedule to the *Excise Tariff Act 1921*.
352. C Bowen (Shadow Treasurer) and C King (Shadow Minister for Health), *Labor steps up efforts to reduce tobacco consumption*, media release, 24 November 2015. See also Labor, *A healthier Australia through best practice tobacco policy*, Labor policy document.
353. The WHO has recommended that excise should make up at least 70% of the final consumer price of tobacco products. See World Health Organisation (WHO), Technical Manual on Tobacco Tax Administration, WHO, Geneva, 2010, p. 104.
354. Labor, *A healthier Australia through best practice tobacco policy*, Labor policy document.
355. C Bowen and C King, op. cit.
356. See J Greber, 'Labor tobacco modelling doesn't include effect of Treasury downgrade', *Financial Review*, 3 May 2016, and G Hutchens, 'Labor spending plans suffer $20bn blowout on eve of Coalition budget', *The Guardian*, 3 May 2016.
357. D Crowe, 'Labor funds for Gonski up in smoke', *The Australian*, 3 May 2016, p. 1.

Because tobacco is an addictive substance, demand for tobacco products is less responsive to price increases than demand for many other consumer products. While there is some variation in estimates, most studies have found that the responsiveness (elasticity of demand) for tobacco products in developed countries such as Australia is around -0.4.[358] This means that a 10% increase in the price of tobacco products could be expected to produce a decrease in consumption of around 4% in the general population.[359] When combined with population growth and the indexation of tobacco excise, the fact that tobacco is addictive has resulted in tobacco excise having been a relatively stable source of revenue over time.[360]

However, according to the Treasury, the amount of tobacco excise revenue is in decline, both in real terms and as a proportion of government revenue.[361] This is to be expected, as tobacco consumption and rates of smoking in Australia are at record low levels and falling.

While tobacco sales data are not publicly available, Australian Bureau of Statistics (ABS) National Accounts figures indicate that total trend expenditure on consumption of tobacco and cigarettes in the December quarter of 2015 was $3.3 billion.[362] This is the lowest figure ever recorded, with expenditure estimates going back to 1959. These figures find support in National Drug Strategy Household Survey findings that show that rates of smoking in Australia are also at record low levels. In 2013, 12.8% of people in Australia aged 14 or older were daily smokers, declining from 15.1% in 2010.[363] Over the same period, the number of people smoking daily fell by around 200,000—from 2.7 million in 2010 to 2.5 million in 2013.

Based on the above figures and trends, tobacco excise revenue is likely to continue to decline, and this might be viewed as a positive outcome in overall terms.

Tobacco excise serves two main purposes. Firstly, it is a source of revenue that is justifiable due to the negative consequences that result from tobacco consumption. It has been estimated that tobacco consumption imposes costs of around $31.5 billion per year on the Australian community, chiefly through increased healthcare costs.[364] These costs are significantly higher than the excise imposed on tobacco. Secondly, tobacco excise helps to reduce the affordability of tobacco products, and to thereby decrease their level of consumption. Raising tobacco taxes has been found to be one of the most effective means for governments to reduce tobacco use and the associated negative health impacts of smoking.[365]

Hence, it can be expected that reductions in tobacco excise revenue will be accompanied by big savings in health and other costs over the longer term.

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358. The price elasticity of demand refers to the extent to which consumers' demand for a product changes in response to price change. To illustrate, if a price rise of 10% causes the quantity of the product demanded to fall by 5%, then the elasticity of demand is -0.5. The more price-responsive consumers are, the greater the elasticity of demand.
359. See World Bank, Curbing the epidemic: Governments and the economics of tobacco control, World Bank, Washington DC, 1999, pp. 37–45 and C Gallet and J List, 'Cigarette demand: meta-analysis of elasticities', *Health Economics*, 12/10, 2003, pp. 821–835. Because young people are on limited budgets, they exhibit a higher degree of price elasticity. According to a systematic review of studies of tobacco elasticities the average price elasticity for teenagers was -1.43 and -0.76 for young adults. As such, a 10% increase in tobacco price could be expected to decrease the tobacco consumption of teenagers by around 14%, and that of young adults by around 7.6%.
360. See Treasury, Issues in Tobacco Taxation.
361. Ibid.
362. Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product, Dec 2015*, cat. no. 5260.0, ABS, Canberra, 2016. See Table 8: Household Final Consumption Expenditure (HFCE).
363. Australian Institute of Health and Welfare (AIHW), *National Drug Strategy Household Survey detailed report 2013*, Drug Statistics Series no. 28, cat. no. PHE 183, AIHW, Canberra, 2014, p. 19.
364. D Collins and H Lapsley, *The costs of tobacco, alcohol and illicit drug abuse to Australian society in 2004/05*, Commonwealth of Australia, Canberra, 2008, p. 65. The costs presented by Collins and Lapsley are net costs. As such, they take into account tax revenue generated through tobacco excise and customs duty and reduced expenditure on aged care as a result of tobacco-related deaths, as well as the costs (tangible and intangible) of tobacco use.
365. See for example World Health Organisation (WHO), WHO Technical Manual, op. cit., and F Chaloupka, A Yurekli and G Fong, 'Tobacco taxes as a tobacco control strategy', *Tobacco Control*, 21, 2012, pp. 172–180.

Immigration and border protection overview

Harriet Spinks and Cat Barker

Migration and Humanitarian programs

A key Budget announcement in the Immigration and Border Protection portfolio each year is the planning figures for the coming year's Migration and Humanitarian Programs. In 2016–17 the size and composition of these programs will remain substantially unchanged from 2015–16. There will be 190,000 places made available to permanent migrants in the Migration Program—of these, 128,550 places will be set aside for skilled migrants, 57,400 for family stream migrants and 565 for migrants in the special eligibility stream (former residents who have maintained close ties with Australia).[366] These are exactly the same as last year's planning figures in terms of both the size of the total program and its composition.[367] The total planning figure of 190,000 places has remained the same since 2012–13.[368] The Migration Program planning figure has never exceeded 190,000 places, so this marks five years of the program being maintained at a record high level.[369]

The planning figure for the Humanitarian Program, under which Australia offers permanent protection to refugees and others in humanitarian need, also remains unchanged at 13,750 places.[370] The Humanitarian Program has remained at this level for several years, with the exception of a brief increase to 20,000 places in 2012–13.[371] The Government has committed to gradually increasing the size of the program so that by 2018–19 there will be 18,750 places available. However, this increase is not due to begin until 2017–18.[372] The Government is also making available an additional 12,000 places for humanitarian entrants from Syria.[373] These places, which were originally announced in September 2015, are additional to the annual allocation of 13,750 places under the Humanitarian Program.[374] Progress in processing refugees from Syria to fill this allocation has so far been slow, and the exact timeframe for filling the quota remains unclear—the Immigration Department advised a Senate Estimates hearing in February 2016 that 200 people had been granted a visa under this allocation, and only 26 had actually arrived in Australia.[375] This measure was allocated funding of $827.4 million over four years in the 2015–16 *Mid-Year Economic and Fiscal Outlook* (MYEFO).[376]

Adult Migrant English Program

The 2016–17 Budget includes a measure which will redesign the Adult Migrant English Program (AMEP), which offers English language training to newly arrived migrants and humanitarian entrants. There is very little funding associated with the redesign of the program—it is expected to incur savings of $0.9 million in 2017–18 and expenses of $0.8 million across 2018–19 and 2019–20.[377] However the redesign of the AMEP is a significant announcement and appears to align with the Government's focus on getting people into employment in this Budget. The stated purpose of the redesign is '… to improve client participation, English language proficiency, and employment outcomes'.[378] This announcement follows the release of an evaluation of AMEP in 2015, which suggested areas in which improvements could be made to the program.[379] Further details on the 'revised business model' for the AMEP, which will come into effect on 1 July 2017, have been published on the website of the Department of Education and Training.[380] Features of the reformed program will include access to additional

366. P Dutton (Minister for Immigration and Border Protection), *Budget 2016: Strengthening our borders and boosting jobs and growth*, media release, 3 May 2016.
367. H Spinks, 'Migration and humanitarian programs', *Budget review 2015–16*, Research paper series, 2014–15, Parliamentary Library, Canberra, 2015.
368. Ibid.
369. J Phillips, 'Migration program', *Budget Review 2012–13*, Research paper, 9,, 2011–12, Parliamentary Library, Canberra, 2012.
370. P Dutton, op.cit.
371. J Phillips and E Karlsen, 'Migration and Humanitarian Programs', *Budget review 2014–15*, Research paper series, 2013–14, Parliamentary Library, Canberra, 2014.
372. H Spinks, 'Migration and humanitarian programs', op. cit.
373. P Dutton, op. cit.
374. Department of Immigration and Border Protection (DIBP), 'Australia's response to the Syrian and Iraqi humanitarian crisis', DIBP website.
375. Senate Legal and Constitutional Affairs legislation Committee, *Proof committee Hansard*, 8 February 2016, p. 33.
376. *Mid-year economic and fiscal outlook 2015–16*, p. 190.
377. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 75.
378. Ibid.
379. ACIL Allen Consulting, *AMEP Evaluation*, final report to the Department of Education and Training, Melbourne, ACIL Allen Consulting, Melbourne, May 2015.
380. Department of Education and Training (DET), 'Revised business model for the Adult Migrant English Program', DET website.

hours of training for certain eligible clients, increased flexibility in curriculum choice and service delivery for providers, trialling a competitive model for AMEP providers, and increasing connections with other government employment and education services.

Also of note is the overall funding allocation for the AMEP in this Budget. The 2015–16 Budget allocated additional funding of $14.5 million to extend access to the program to holders of temporary humanitarian visas (Temporary Protection Visa, Safe Haven Enterprise Visa or Temporary (Humanitarian Concern) Visa).[381] This funding was announced as a one-off measure for 2015–16. Increased funding has been maintained for 2016–17 and across the forward estimates.[382] However, this increased funding is part of the additional funding announced in MYEFO for the additional humanitarian entrants from Syria, so whether funding is available to continue to provide access to AMEP for temporary humanitarian visa holders beyond 30 June 2016 remains unclear.

Detention and offshore processing

Of interest in the Immigration and Border Protection portfolio over the last several years has been funding for immigration detention and offshore processing of irregular maritime arrivals (IMAs). The detention and processing of IMAs, both onshore and offshore, has been increasingly expensive, with costs in this area tending to be difficult to accurately predict. Spending grew significantly between 2009–10 and 2013–14, although the Coalition Government forecast significant reductions in spending in the 2015–16 Budget.[383]

The 2016–17 Budget allocates an additional $61.5 million, in 2016–17 only, to support regional processing arrangements.[384] This builds on the additional funding of $342.1 million over two years that was provided in MYEFO for this purpose.[385] This additional funding, in MYEFO and in this Budget, illustrates the difficulty in accurately predicting costs in this area. The 2015–16 Budget provided for spending of $810.8 million for IMA Offshore Management in 2015–16.[386] However, the 2016–17 budget papers indicate that estimated actual spending in this area was almost $1.1 billion.[387] Nevertheless, the Government once again predicts that spending in this area will decline dramatically over the forward estimates, with budgeted spending down to $370.4 million by 2019–20.[388] It is unclear what impact the recent decision by the Supreme Court of Papua New Guinea (PNG) concerning the processing centre on Manus Island, and the PNG Prime Minister's subsequent announcement that the centre will be closed, will have on spending in this area.[389]

The 2016–17 Budget does anticipate savings in relation to onshore immigration detention, with the announcement that three onshore detention centres will be closed, resulting in savings of $68.2 million over five years.[390] There is also a revenue component to this measure arising from the planned sale of Commonwealth land at Maribyrnong and Villawood. However, the amount of revenue expected to be raised is commercial-in-confidence and therefore not for publication.[391] It is unknown exactly how much land at these sites will be sold, or when this is expected to happen. While ongoing savings will be made as a result of the closure of these three detention centres, additional money has been allocated to the onshore detention network to fund capital projects. The allocation of $80.1 million in capital funding over two years will go towards upgrading security and building additional accommodation at selected centres.[392]

Border protection

In what has become in recent years a regular feature of Commonwealth budgets, the 2016–17 Budget also includes mainly short-term extensions of funding for existing counter-people smuggling and maritime

381. H Spinks, 'Responding to unauthorised arrivals', *Budget review 2015–16*, Research paper series, 2014–15, Parliamentary Library, Canberra, 2014.
382. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.5: Education and Training Portfolio*, p.75.
383. H Spinks, 'Responding to unauthorised arrivals', op. cit.
384. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 125.
385. *Mid-Year Economic and Fiscal Outlook 2015–16*, op.cit., p. 188.
386. H Spinks, 'Responding to unauthorised arrivals', op.cit.
387. *Portfolio budget statements 2016–17: budget related paper no. 1.11: Immigration and Border Protection Portfolio*, p. 27.
388. Ibid.
389. P O'Neill (Prime Minister of Papua New Guinea), *Manus Regional Processing Centre will close*, media release, 27 April 2016.
390. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 123.
391. Ibid.
392. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 170.

surveillance activities.[393] The funding comprises $19.6 million over two years for the Department of Defence to cover the net additional cost of extending Operation Resolute (which includes support to Operation Sovereign Borders); $9.2 million over four years for the Department of Foreign Affairs and Trade to continue international engagement (redirected from a portfolio efficiencies measure); $9.1 million over two years to continue Australian Border Force postings in Indonesia, Malaysia and Sri Lanka; and $1.3 million annually from existing Department of Immigration and Border Protection resources to continue funding for the Bali Process Regional Support Office.[394]

393. C Barker, 'Border protection and counter-people smuggling measures', *Budget review 2015–16*, Research paper series, 2014–15, Parliamentary Library, Canberra, 2015.

394. *Budget measures: budget paper no. 2: 2016–17*, op. cit., pp. 74, 99, 122–25.

Indigenous Affairs

James Haughton

There is little new Indigenous-specific spending in the Budget. This is notable, given the recent Prime Minister's report indicating that little progress has been made in meeting the Closing the Gap targets.[395] A number of more general measures are likely to have significant impacts on Indigenous people, particularly measures affecting costs of and access to public services.

AIATSIS

The Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS) has been given $40.0 million over four years from 2016–17 to support the ongoing effort to preserve, restore, manage and digitise their collection of cultural and heritage material.[396] Funding for preserving AIATSIS' collection has previously been on a year-by-year basis, with one-year funding being provided in both the 2014–15 ($3.3 million) and 2015–16 ($5.0 million) budgets to address immediate risks.[397] This spending has been previously supported by the Labor party.[398] This new long-term commitment will be welcomed, particularly in the context of falling budgets for other cultural institutions.

Concessional Loan to the Indigenous Land Corporation

The government is making a concessional loan of up to $65.0 million to the Indigenous Land Corporation (ILC) in order to reduce the 'crippling' impact of interest on debt incurred when the ILC purchased the Ayers Rock Resort.[399] This will enable the ILC to refocus on its core business activities. The terms of the loan are commercial-in-confidence, so the amount is not included in the Budget.

Rum Jungle rehabilitation project extension

The Budget provides $10.8 million in 2016–17 to extend site study and management of the former Rum Jungle uranium mine in the Northern Territory. Pollution from the Rum Jungle mine has caused ongoing distress to the site's traditional owners, the Kungarakan and Warai people, who have refused to make a land claim on the site due to its polluted state.[400] Total site rehabilitation costs of Rum Jungle are estimated at $200.0 million.[401] None of the Federal Government, the Northern Territory Government or the site's former managers Rio Tinto have expressed willingness to assume this cost.

Towards constitutional recognition of Aboriginal and Torres Strait Islander peoples

The Budget notes previously announced funding of $14.6 million over two years from 2015–16 for the Referendum Council to support national consultation on constitutional recognition. This includes funding of $5.0 million to Reconciliation Australia for their Recognise campaign.[402]

Indigenous Business Australia business support arrangements

$23.1 million in 2016–17 is being redirected from Indigenous Business Australia (IBA) to the Department of the Prime Minister and Cabinet (PM&C)'s Indigenous Advancement Strategy. This will then be granted back to IBA, to enable IBA to conduct Indigenous business planning, advice, workshop and training activity that would otherwise be outside IBA's enabling legislation, with no net change in IBA's or PM&C's budget.[403]

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395. Department of the Prime Minister and Cabinet (PM&C), *Closing the Gap Prime Minister's Report 2016*, Canberra, 2016, pp. 5–7.
396. Australian Government, *Budget Measures: Budget Paper No. 2: 2016–17*, 2016, p.75.
397. Australian Government, *Budget Measures: Budget Paper No. 2: 2015–16*, 2015, p. 76; Australian Government, *Budget Measures: Budget Paper No. 2: 2014–15*, 2014, p. 88.
398. K Carr (Shadow Minister for Higher Education, Research, Innovation and Industry), *Labor welcomes AIATSIS funding*, media release, 29 April 2015.
399. N Scullion (Minister for Indigenous Affairs), *Better outcomes for First Australians*, media release, 3 May 2016; Budget Paper No.2 : 2016–17, op. cit., p. 136; Australian Government, *Portfolio budget statements 2016–17: Budget Related Paper No, 1.14: Prime Minister and Cabinet Portfolio*, p. 174.
400. D Margetts and M Lees, 'Indigenous Concerns', in *Minority report*, Senate Select Committee on Uranium Mining and Milling, The Senate, Canberra, 1997.
401. J Crothers, '$200m sought to rehabilitate former Rum Jungle uranium mine', ABC website, 31 October 2014.
402. Budget Paper No. 2: 2016–17, op. cit., p. 137.
403. Budget Paper No. 2 : 2016–17, op. cit., p. 136; N Scullion, op. cit.; *Portfolio budget statements 2016–17, Prime Minister and Cabinet Portfolio*, op. cit., p. 149; 159.

Health measures

There are a number of health measures which are particularly relevant for Indigenous Australians.

Fetal Alcohol Spectrum Disorders (FASD) are caused by alcohol consumption during pregnancy. They are increasingly recognised as a severe problem in Indigenous communities; the Lililwan Project found that 12 per cent of Aboriginal children born in 2002–03 in the Fitzroy Valley had FASD.[404] The Budget includes $10.5 million over four years to reduce FASD, focussing on prevention in high risk remote and rural communities, including diagnostic clinical support and working with communities. This builds on the *National Fetal Alcohol Spectrum Disorders Action Plan* announced in 2014.[405]

The Budget provides $4.5 million over four years to the Queensland Government to fund healthcare staff and workers to reduce the risk and prevalence of blood borne viruses (BBVs) and Sexually Transmitted Infections (STIs) in the Torres Strait. This is a high risk region due to the prevalence of Human Immunodeficiency Virus (HIV) and other STIs and BBVs in Papua New Guinea (PNG) and the Torres Strait, and the free flow of people between PNG and the Torres Strait.[406] The Budget also notes continuing funding for Torres Strait–Papua New Guinea Cross-Border Health Issues ($19.0 million over four years) and for controlling the Asian Tiger Mosquito, which can spread dengue fever, Ross River virus and chikungunya ($3.0 million over three years).[407]

There is also an additional $0.4 million, on top of $2.7 million announced previously, to extend the National Partnership Agreement on Rheumatic Fever Strategy into 2016–17.[408]

Other measures

Funding of $32.2 million from the Department of the Prime Minister and Cabinet's existing Indigenous Affairs Safety and Wellbeing program budget is being transferred to the Department of Social Security to partially offset new spending in domestic violence.[409] According to the Minister for Social Services, this new spending will 'provide targeted assistance for Indigenous and culturally and linguistically diverse women and their children'.[410] For more details, see the 'Domestic and family violence' brief in this *Budget Review*.[411]

Three Indigenous scholarship programs are being consolidated, and some funding is being transferred from the Department of Prime Minister and Cabinet to the Department of Education for the Bachelor Institute of Indigenous Tertiary Education. These measures are described in more detail in the 'Tertiary education' brief elsewhere in this *Budget Review.*[412]

Measures such as the Try, Test and Learn Fund for the long-term welfare dependent and the Youth Jobs PaTH can be expected to boost Indigenous employment if delivered appropriately.[413] Customised pre-employment training, non-standard recruitment strategies and wage subsidies have been shown to have good results for Indigenous employment in the past, when delivered in culturally appropriate ways.[414] As Indigenous employment is currently not on track to halve the gap by 2016, it is to be hoped that these programs will take Indigenous needs into account.[415]Funding of $5.1 million over four years is provided to fund two trials as part of the Third Action Plan under the National Framework for Protecting Australia's Children.[416] The trials to build

404. Australian Medical Association (AMA), 2015 AMA report card on Indigenous health: closing the gap on Indigenous imprisonment rates, AMA, Canberra, 2015, pp. 11–12.
405. Budget Paper No. 2, op. cit., p. 119.
406. Department of Health, *Budget 2016–17: National Partnership Agreement on specified projects – addressing blood borne viruses and sexually transmissible infections*, Public Health fact sheets, Department of Health website,2016.
407. Budget Paper No. 2 : 2016–17, op. cit., pp.109-112; S Kim, 'Asian tiger mosquito: Disease-carrying insect detected in Cairns, far north Qld', ABC website, 18 August 2015.
408. Budget Paper No. 2 : 2016–17, op. cit., p. 111.
409. Budget Paper No. 2 : 2016–17, op. cit., p. 141; Portfolio Budget Statements 2016–17, Prime Minister and Cabinet Portfolio, op. cit., p. 23.
410. C Porter (Minister for Social Services), *Ensuring the Government lives within its means: a targeted welfare safety net* , media release, 3 May 2016.
411. J Phillips and H Portillo-Castro, 'Domestic and family violence', *Budget Review 2016–17*, Research paper series, Parliamentary Library, Canberra, May 2016.
412. J Griffiths and M Harrington, 'Tertiary education', *Budget Review 2016–17*, Research paper series, Parliamentary Library, Canberra, May 2016.
413. Budget Paper No. 2 : 2016–17, op. cit., p. 85, 142.
414. M Gray, B Hunter and S Lohear, 'Increasing Indigenous employment rates', Issues Paper 3, Closing the Gap Clearinghouse, 2012.
415. *Closing the Gap Prime Minister's Report 2016*, op. cit., pp. 27–34
416. Budget Paper No. 2 : 2016–17, op. cit., p. 144.

capacity in parents of vulnerable children ($1.2 million) and assist children in out of home care transition to independent adulthood ($3.9 million) may assist Indigenous parents and Indigenous children in care – there is general agreement that investment in childhood is the most cost effective way to overcome Indigenous disadvantage.[417]

The government has previously announced that the Cashless Debit Card proposed by Andrew Forrest in his review of Indigenous Jobs and Training would be trialled at a third site.[418] This is noted in the Budget, although no money is yet specified as negotiations with commercial service providers are still taking place.[419] It appears likely that the trial site will be Geraldton.[420] Approximately 9.5 per cent of Geraldton's population are Indigenous.[421]

Indigenous sector reactions

Indigenous sector organisations and stakeholders have generally condemned the Budget as offering little or nothing for Indigenous Australians, although they have noted some positives such as the grant to AIATSIS, and non-Indigenous specific programs such as the Try, Test and Learn program, the trial to build capacity in parents, and the trial to assist children in care transition to independent adulthood.[422] Stakeholders called for the government to reverse the 2014 Budget's $534 million cut to the Indigenous sector, restore funding to the National Congress of Australia's First Peoples, reverse cuts to Aboriginal Torres Strait Islander Legal Services, continue funding for Aboriginal and Torres Strait Islander Child Care Centres, and act on Indigenous incarceration rates.[423] Indigenous Health stakeholders stated that the Medicare rebate freeze would place increasing financial pressure on Aboriginal Community Controlled Health Services, but welcomed the new FASD package and other health spending.[424]

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417. M Sims, *Early childhood and education services for Indigenous children prior to starting school*, Resource sheet no. 7, Closing the Gap Clearinghouse, 2011.
418. A Forrest, 'The Healthy Welfare Card', in Australian Government, *Creating parity: review of Indigenous jobs and training,* Department of the Prime Minister and Cabinet, 2014.
419. Budget Paper No. 2 : 2016–17, pp. 139–141.
420. R Shine, 'Cashless welfare trial: Goldfields shires 'desperate for change' plead case', ABC website, 7 April 2016
421. Calculation based upon Australian Bureau of Statistics, 'Geraldton: significant urban area', *2011 Census QuickStats*, 2012. 422. Oxfam, *Turnbull Government snubs Indigenous affairs*, media release, 4 May 2016; National Congress of Australia's First People (NCAFP), *The Pain Continues for Aboriginal and Torres Strait Islander Peoples*, media release, 4 May 2016; Secretariat of National Aboriginal and Islander Child Care, *Aboriginal and Torres Strait Islander issues conspicuous by their absence in Federal Budget*, media release, 4 May 2016.
422. Oxfam, *Turnbull Government snubs Indigenous affairs*, media release, 4 May 2016; National Congress of Australia's First People (NCAFP), *The Pain Continues for Aboriginal and Torres Strait Islander Peoples*, media release, 4 May 2016; Secretariat of National Aboriginal and Islander Child Care, *Aboriginal and Torres Strait Islander issues conspicuous by their absence in Federal Budget*, media release, 4 May 2016.
423. Australians for Native Title and Reconciliation (ANTaR), *Indigenous Affairs forgotten in the budget*, media release, 4 May 2016; Reconciliation Australia, *Consultation, long-term planning critical to Closing the Gap*, media release, 4 May 2016; National Aboriginal and Torres Strait Islander Legal Service (NATSILS), *Budget 2016-17 denies many Aboriginal and Torres Strait Islander people access to justice*, media release, 3 May 2016; National Family Violence Prevention Legal Services, *Action to combat violence against Aboriginal and Torres Strait Islander women invisible in the Budget*, media release, 4 May 2016.
424. Statements from Indigenous health peak bodies are collated at M Sweet, 'Federal budget fails to deliver for Indigenous health (to put it politely)', Croakey, blog, 5 May 2016.

Infrastructure expenditure

Rob Dossor

Infrastructure expenditure in Commonwealth Budgets is usually large and tends to attract attention.

This table sets out total payments to the states for infrastructure under the last two Budgets including $9.18 billion in this year's Budget for the coming financial year.[425]

Total payments to the states for infrastructure

$ millions	2015-16	2016-17	2017-18	2018-19	Total
2016-17 Budget	6,998.7	9,177.9	8,753.7	5,045.9	**29,976.2**
2015-16 Budget	6,823.2	9,244.8	7,436.0	4,860.5	**28,364.5**
Differences	175.5	-66.9	1,317.7	185.4	**1,611.7**

However, the presentation of the Budget documents can make it difficult to separate new and existing projects and ascertain whether expenditure is growing, or shrinking. The Parliamentary Library's assessment of several measures is set out below.

New money, new measures

The only new project that has new money is the Forrestfield Airport Link project in Western Australia which will receive $490 million. [426] This project is to compensate Western Australia for its low share of GST revenue.[427]

New money, existing measures

An additional $119 million is allocated, over 2016–17 and 2017–18, for two existing measures; Keys2drive (a learner driver education program) and the Badgerys Creek Airport.[428]

Old money, new measures

A number of projects were announced as 'new'.

These include Stage 2 of the Perth Freight Link for which $261 million was allocated from the existing resources of the *Infrastructure Investment Programme* and the Ipswich Motorway in Queensland for which $200 million is allocated from the same source.[429]

Four states have (or will), receive funds from the existing Asset Recycling Initiative (ARI).[430] The ARI was originally included in the 2014–15 Budget and funded through the sale of Medibank Private.[431] Both the Sydney and Melbourne Metro rail projects have (or will) received these funds. While the Budget does not contain details about which projects will receive funding through the ARI, media reports state that the Melbourne Metro will receive $857 million, and the Sydney Metro $1.7 billion.[432]

In June 2014, Victoria received a grant from the Commonwealth of $1.5 billion for the construction of phase one and two of the East West Link road.[433] Following the 2014 Victorian election, the newly elected Labor government cancelled the East West Link project, but retained the $1.5 billion payment from the Commonwealth.[434]

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425. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Federal Financial Relations: budget paper no. 3: 2016–17*, 2016, pp. 48–56.
426. Ibid., p. 150.
427. Australian Government, *Budget paper no. 2: 2016–17,* 2016, pp. 150.
428. Australian Government, *Budget measures: budget paper no. 2: 2008–09*, 2008, p. 267 and *Budget paper no. 2: 2016–17*, op. cit., p. 132.
429. Australian Government, *Budget Measures: budget paper no. 2: 2016–17*, 2016, pp. 131–2.
430. Australian Government, *Overview: budget 2016–17*, p. 22. For further details on the ARI, see R Dossor, *Asset Recycling Fund Bill 2014*, Bills digest, no. 90, 2013–14, Parliamentary Library, Canberra, 2014.
431. Australian Government, *Budget measures: budget paper no. 2: 2014–15*, 2014, p. 114 and 'Medibank Private sale earns Government more than $5.6 billion: proceeds to be reinvested in infrastructure', *ABC News*, 23 November 2014.
432. M Ludlow, 'Turnbull grabs leftover asset recycling funds', *Australian Financial Review*, 4 May 2016, p. 6.
433. Australian National Audit Office (ANAO), Approval and Administration of Commonwealth Funding for the East West Link Project, Audit report, 14, 2015–16, ANAO, Barton, ACT 2015, p. 7.
434. L Keen, 'Andrews government looks to road project in the west', *Australian Financial Review*, 23 April 2015, p. 5.

The 2016–17 Budget releases the Victorian Government from the obligation to apply these funds towards the East West link and re-allocates them to various new infrastructure projects including:

- $350 million for the Western Ring Road
- $220 million for the Murray Basin freight rail upgrade and
- $500 million for the Monash freeway.[435]

New money, capital measure

From 2017–18, the Australia Rail Track Corporation will receive additional money of up to $593.7 million over three years in the form of equity to progress the Inland Rail project, including for land acquisition.[436] This figure is not, however, included in the table above, or the chart below, as it is a capital measure and does not affect the underlying cash balance.

Savings

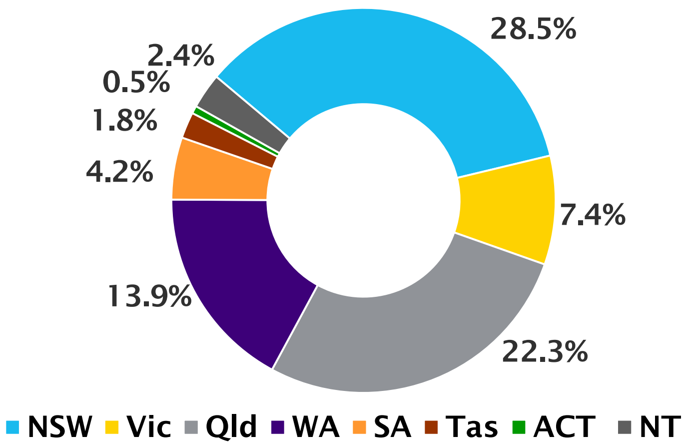
Two savings measures relating to infrastructure are contained in the 2016–17 Budget. The *Infrastructure Investment Programme* will achieve $162.7 million in 'efficiencies' over four years from 2016–17.[437] Savings will also be achieved from the $853.6 million in uncommitted funds from the ARI, which will close on 1 July 2016.[438]

Infrastructure Australia assessments

There has been considerable debate in the last few years about the need to depoliticise infrastructure decision making in Australia and to ensure objective assessments of projects are conducted.[439] However, it appears that some projects contained in the Budget have not been assessed by Infrastructure Australia (IA).[440] For example, the business case for neither the Victorian Monash Freeway nor the Victorian Western Ring Road projects has been assessed (although the IA Priority List, at May 2016, records the Western Ring Road proposal as a potential solution to an identified congestion problem and that a business case is being developed).[441]

State shares

Chart: State/Territory share of infrastructure spending 2016–17 Budget (per cent)



The chart shows infrastructure spending shares for each state and territory for 2016–17.

435. Ibid., p. 131.
436. Ibid., p 171.
437. Ibid., p. 131.
438. Ibid., p. 147.
439. For example see, M Terrill, *Roads to riches: Better transport investment*, Grattan Institute, Melbourne, April 2016 and R Dossor, Infrastructure Australia Amendment (Cost Benefit Analysis and Other Measures) Bill 2014, Bills digest, 28, 2014–15, Parliamentary Library, Canberra, 2014.
440. Infrastructure Australia (IA), 'Project Assessment', and 'Infrastructure Priority List – May 2016', IA website.
441 Ibid.

Infrastructure funding methods

Rob Dossor

Generally the Commonwealth funds infrastructure through the states and territories. Typically, this assistance is provided by grants or loans.

Grants

A longstanding arrangement is for infrastructure funds to be provided to states and territories for specific projects. These are known as 'specific purpose payments'.

Funds may also be made available generally to states and territories for projects that meet specific criteria. The Asset Recycling Initiative (ARI) is an example.

In the 2016–17 Budget, all infrastructure grants are made though the COAG Reform Fund Special Account.[442]

The ARI

The ARI provides states and territories with an incentive to 'recycle' (privatise) existing public assets, such as electricity distribution networks, and use the proceeds to fund new infrastructure. Under ARI, the Commonwealth will pay to the state or territory, as a grant, an amount equal to 15 per cent of that which the state or territory reinvests in infrastructure from the proceeds of privatisation or sale.[443]

The advantages of the ARI are:

- that the cost to the Commonwealth is small—being only 15 per cent of the amount reinvested by the state or territory, yet the potential impact, in terms of investment in infrastructure is large.
- that states and territories benefit because they can avoid taking on more, or substantially more debt, by using the equity of existing assets to invest in new infrastructure.
- that the Commonwealth will derive tax revenues from the assets once in private ownership.

A novel feature of the ARI is that it draws on existing, 'earmarked' funds and so has no impact on the underlying cash balance.[444] $5.0 billion of the $5.7 billion received from the sale of Medibank Private was, in effect, hypothecated to the ARI.[445]

Some payments that the Commonwealth will make through the ARI include:

- $1,466 million to NSW for its sale of TransGrid, Ausgrid and Endeavour Energy which NSW is re investing in the Sydney Rapid Transit project and the Western Sydney Rail Upgrade programme.[446]
- $58.9 million to the ACT for the sale of ACTTAB and various public properties (such as the Dame Pattie Menzies House, the Dickson Motor Registry and Macarthur House) which the ACT will re-invest in Capital Metro.[447]

Despite these advantages the sale of existing public assets aspect of this measure has been unpopular, with one commentator arguing that it was a key contributing factor to the LNP party's loss in the 2015 Queensland election.[448]

Loans

In the last two years, the Commonwealth has committed to provide some states and territories with loans to build particular infrastructure. Although the details of these arrangements are not available, it seems likely that

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442. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.16: Treasury Portfolio*, pp. 24–30.
443. R Dossor, *Asset Recycling Fund Bill 2014 [and] Asset Recycling Fund (Consequential Amendments) Bill 2014*, Bills digest, 90, 2013–14, Parliamentary Library, Canberra, 17 June 2014.
444. See Ibid. Note, the Asset Recycling Fund Bill was amended in the Senate. These amendments were not accepted by the House of Representatives and it lapsed when Parliament was prolonged in April 2016. Consequently, the Building Australia Fund and the Education Investment Fund were never abolished with the funds moved to the Asset Recycling Fund. Parliament of Australia, 'Asset Recycling Fund Bill 2014 homepage', Australian Parliament website.
445. Australian Government, *Budget measures: budget paper no. 2: 2014–15*, 2014, p. 216. 'Medibank Private sale earns Government more than $5.6 billion: proceeds to be reinvested in infrastructure', *ABC News*, 23 November 2014.
446. Council of Australian Governments (COAG), *National Partnership Agreement on Asset Recycling: New South Wales Asset Divestments and Projects*, COAG, 5 March 2015.
447. Council of Australian Governments (COAG), *National Partnership Agreement on Asset Recycling: Australian Capital Territory Asset Sales and Projects*, COAG, 17 February 2015.
448. A Ferguson, 'The brutal politics of privatisation', *The Age*, 3 February 2015, p. 21.

the attraction of these loans for the states and territories is that they will leverage the Commonwealth's AAA credit rating.

Concessional loans feature prominently in the 2016–17 Budget due to their minimal effect on the underlying cash balance. Their budgetary treatment differs from grants which are treated as an expense. Loans are treated as investments. The cost to the government, in terms of impact on the underlying cash balance, is the difference between the Commonwealth's cost of funds and the rate at which it lends funds to a state or territory.

The budgetary treatment of loans means that large outlays can be made with a much smaller impact on the underlying cash balance being recorded. For instance, for the $2.0 billion concessional loan for the WestConnex project the effect on the underlying cash balance is only $96.2 million (from 2014–15 to 2017–18).[449] Where there is no differential, no cost is recorded (such as for the National Water Infrastructure Loan Facility).[450]

Any loan, while treated as an investment in the budget, is also recorded as a contingent liability.

State and territory arrangements

It should be noted that state and territory governments also frequently raise their own finances to fund infrastructure. Commonwealth funding can add to the funding raised under these arrangements.

449. Australian Government, *Budget measures: budget paper no. 2: 2014–15*, 2014, p. 176.

450. Ibid.

Legal aid and legal assistance services

Jaan Murphy and Michele Brennan

Legal aid services: Commonwealth funded legal services are delivered by state and territory legal aid commissions through the National Partnership Agreement on Legal Assistance Services and the Expensive Commonwealth Criminal Cases Fund.

Legal assistance services: all of the sector-wide legal service providers, including legal aid commissions, community legal centres (CLCs), Aboriginal and Torres Strait Islander legal services and family violence prevention legal services.

Funding for legal assistance services in the 2016–17 Budget is generally consistent with recent trends. Funding for legal aid commissions returns to recent levels, after taking account of large (but temporary) additional funding provided in the 2011–12 to 2013–14 Budgets.[451] Determining the long-term trend in funding for Indigenous legal aid is difficult, due to program amalgamation and name changes.

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

The Australian Government provides funding to the states and territories for the delivery of ***legal assistance services*** for disadvantaged Australians through the National Partnership Agreement on Legal Assistance Services (NPALAS), which expires on 30 June 2020.[452] Unlike the previous Agreement, which only covered legal aid services, the current NPALAS also provides funding for CLCs.[453]

In 2016–17 the Australian Government will provide $257.1 million funding for legal aid services and legal assistance services through the NPALAS.[454] This is an increase of $6.2 million from 2015–16. The forward estimates indicate that funding will decrease by a total of $8.4 million over the 2016–17 Budget levels in 2017–18, before gradually increasing in 2018–19 and 2019–20 to a funding level $0.3 million less than that provided in the current budget for 2016–2017.[455]

Figure 1 below shows payments for the provision of legal aid services and community legal centres between 1999–2000 and 2019–2020.[456]

451. J Murphy, 'Legal aid and legal assistance services', *Budget review 2013–14*, Research paper, 3, 2012–13, Parliamentary Library, Canberra, 2013, p. 59; Australian Government, *Portfolio budget statements 2015–16: budget related paper no. 1.2: Attorney-General's Portfolio*, 2015, pp. 30-31; Australian Government, *Budget measures: budget paper no. 2: 2015–16*, 2015, p. 61.

452. Australian Government, *National Partnership Agreement on Legal Assistance Services*, clause 7; Australian Government, *Federal financial relations: budget paper no. 3: 2016–17*, 2016, p. 71.

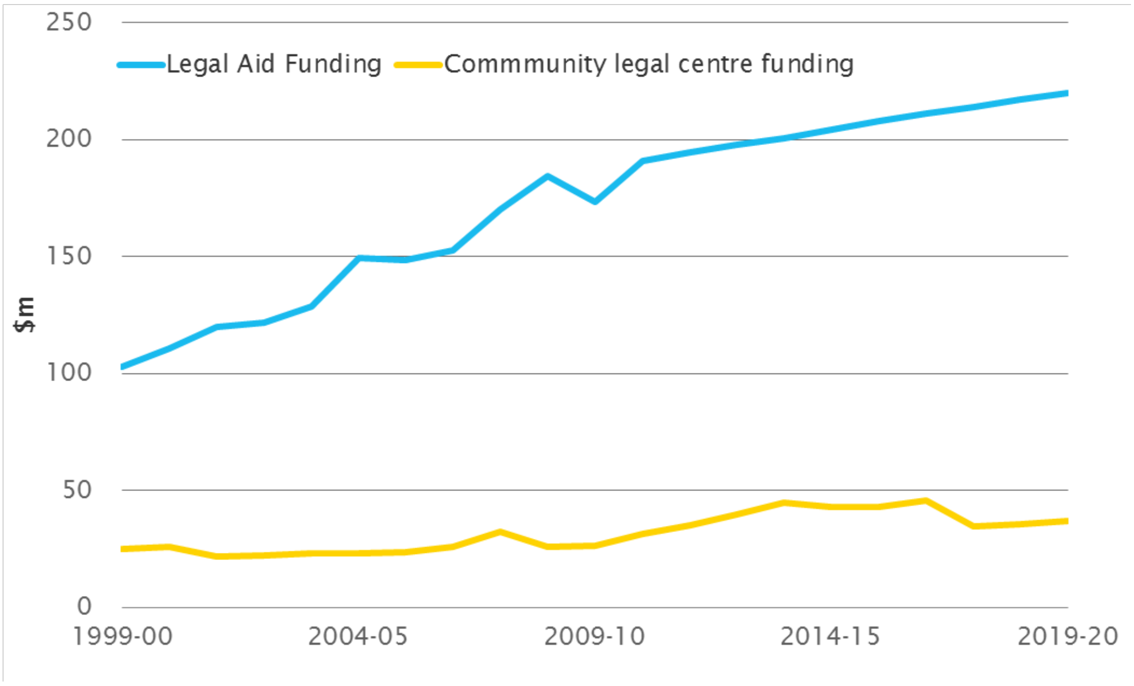
453. Budget paper no. 2: 2015–16, op. cit., p. 61; Australian Government, *Federal financial relations: budget paper no. 3: 2015–16*, 2015, pp. 3, 72; Australian Government, Budget paper no. 3: 2016–17, op. cit., p. 71.

454. Budget paper no. 3: 2016–17, op. cit., pp. 68, 71.

455. Ibid.

456. For consistency, figures for 1994–1995 to 2007–2008 were drawn from the relevant Portfolio Budget Statements: see Australian Government, *Portfolio budget statements 1995–1996: budget related paper no. 4.1: Attorney-General's Portfolio*, p. 75. The figures for 2008–09 to 2013–14 were drawn from the respective Final Budget Outcome papers, see Australian Government, *Final budget outcome 2013–2014*, p. 80. Figures from 2014–15 to 2018–19 were drawn from the respective Budget Measures paper, see *Budget paper no. 3: 2015–16*, op. cit., p. 72. Other sources provide figures that can differ substantially, see: J Murphy, 'Legal aid and legal assistance services', *Budget review 2013–14*, op. cit., p. 61.

Figure 1: payments for the provision of legal aid services to states and territories



Source: Parliamentary Library estimates (See footnote 6).

Funding for legal aid commissions, in addition to that provided in NPALAS, may be allocated through the Expensive Commonwealth Criminal Cases Fund (ECCCF) which is administered by the Attorney-General's Department (AGD).[457] This funding has increased by $0.81 million.[458] The funding provided in 2016–17 and over the forward estimates represents a return to levels similar to that provided prior to the 2011–12 Budget revisions (as discussed in *Budget Review 2014–15*)[459] as Table 2 below demonstrates.[460]

Table 1: Expensive Commonwealth Criminal Cases Fund amounts

(all figures in $'000)		2014-15 Budget	2015-16 Budget	2016-17 Budget	2017-18 Forward estimate	2018-19 Forward estimate	2019-20 Forward estimate
Expensive Commonwealth Criminal Cases Fund	2014-15 Budget	2,725	2,805	2,872	2,936	—	—
	2015-16 Budget	7,925*	3,794	3,853	2,915	2,956	—
	2016-17 Budget	—	3,794*	4,610	3,682	3,733	3,784
	Change: 2015-16 to 2016-17	N/A	+0	+757	+767	+777	—

*Estimated actual from relevant Portfolio budget statements.[461]

Source: J Murphy, 'Legal aid and legal assistance services', *Budget review 2014–15*, Research paper series, 2013-14, Parliamentary Library, Canberra, 2014.

In addition to general CLC funding, in 2015–16 and 2016–17 the NPALAS will also provide targeted funding totalling $37.6 million to specific CLCs.[462] This funding appears to reflect the Government's 26 March 2015 decision to reverse cuts to the legal assistance sector, which had been proposed in the 2014–15 Budget and

457. Attorney-General's Department (AGD), 'Expensive Commonwealth Criminal Cases Fund', AGD website. Under the ECCCF, the AGD has discretion to provide additional funding to legal aid commissions for specific, complicated Commonwealth criminal cases, such as drug importation or criminal conspiracy cases.

458. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.2: Attorney-General's Portfolio*, 2016, p. 19; Portfolio budget statements 2015–16, Attorney-General's Portfolio, op. cit., p. 30.

459. Jaan Murphy, 'Legal aid and legal assistance services', *Budget review 2014–15*, Research paper series, 2013–14, Parliamentary Library, Canberra, 2014, pp. 115–116.

460. For a discussion of the 2014–15 budget measure 'Legal aid—withdrawal of additional funding' see: J Murphy, 'Legal aid and legal assistance services', *Budget review 2014–15*, op. cit., p. 115.

461. Australian Government, *Portfolio budget statements 2014–15: budget related paper no. 1.2: Attorney-General's Portfolio*, p. 29; Portfolio budget statements 2015–16, Attorney-General's Portfolio, op. cit., pp. 30-31; Portfolio budget statements 2016–17, Attorney-General's Portfolio, op. cit., p. 19.

462. National Partnership Agreement on Legal Assistance Services, op. cit., Schedule C and Table 2, pp. 10–11.

were due to commence from 1 July 2015.[463] This additional funding will not continue past 30 June 2017, which will result in funding to CLC's under the NPALAS dropping from $45.9 million in 2016–17 to $34.5 million in 2017-18, a decrease of 25 per cent.[464] Over the three years 2017–18 to 2019–20, the funding decrease will see CLCs receive $30.6 million less than if funding was maintained at 2016–17 levels.

Indigenous legal assistance services

As noted in *Budget Review 2014–15*, changes to some Indigenous program names, their transfer to the Department of the Prime Minister and Cabinet, subsequent consolidation and the lack of detail in relevant portfolio budget papers makes assessing long-term funding trends difficult.[465]

The funding commitments for the Indigenous Legal Assistance Program (previously named the Indigenous Legal Aid Policy Reform Program[466]) are detailed in the following table:

Table 2: funding commitments for the Indigenous Legal Assistance Program

(all figures in $'000)		2014-15 Budget	2015-16 Budget	2016-17 Budget	2017-18 Forward estimate	2018-19 Forward estimate	2019-20 Forward estimate
Indigenous Legal Assistance Program	2014-15 Budget	74,311	66,552	67,599	68,780	—	—
	2015-16 Budget	74,311*	72,387	73,731	69,303	69,265	—
	2016-17 Budget	—	72,387*	73,585	69,099	68,992	69,890
	Change: 2015-16 to 2016-17	N/A	0	-146	-204	-273	—

* Estimated actual from relevant Portfolio budget statements.[467]

Source: J Murphy, 'Legal aid and legal assistance services', *Budget review 2015–16*, Research paper series 2014-15, Parliamentary Library, Canberra, May 2015.

This would tend to indicate that funding for at least some Indigenous legal aid programs will decrease slightly in 2016–2017, with further decreases from 2017–18 onwards. The estimated actual amount spent on the Indigenous Legal Assistance Program (then named the Indigenous Legal Aid Policy Reform Program[468]) in 2013–14 was $75 million.[469] Using that figure as a benchmark, funding will be 1.8 per cent less in 2016–17; 7.8 per cent less in 2017–18; eight per cent less in 2018–19 and 6.7 per cent less in 2019–20.

Domestic violence

In the Mid-Year Economic and Fiscal Outlook 2015–16, the Government announced the allocation of $101.2 million over four years for a Women's Safety Package, aimed at addressing family violence.[470] This funding has been placed in the Contingency Reserve.[471] The Attorney-General advised that $15 million of this funding would be used to set up Specialist Domestic Violence Units in 12 CLCs across the country. [472] Four of these CLCs will also establish Health Justice Partnerships, to allow legal advice to be provided at partnered hospitals or health centres.[473]

463. G Brandis (Attorney-General) and M Cash (Minister Assisting the Prime Minister for Women), *Legal aid funding assured to support the most vulnerable in our community*, media release, 26 March 2015; Portfolio budget statements 2014–15, Attorney-General's Portfolio, op. cit., p. 29. For a discussion of the 2014–15 budget measure 'Legal aid—withdrawal of additional funding' see J Murphy, 'Legal aid and legal assistance services', *Budget review 2014–15*, op. cit., p. 115.
464. National Partnership Agreement on Legal Assistance Services, op. cit., Table 2, pp. 10–11.
465. J Murphy, 'Legal aid and legal assistance services', Budget review 2014–15, op. cit., p. 116 and sources cited therein.
466. J Murphy, 'Legal aid and legal assistance services', Budget review 2015–16, Research paper series, 2014–15, Parliamentary Library, Canberra, 2015, p. 106 and sources cited therein.
467. Portfolio budget statements 2014–15, Attorney-General's Portfolio, op. cit., p. 32; Portfolio budget statements 2015–16, Attorney-General's Portfolio, op. cit., p. 33; Portfolio budget statements 2016–17, Attorney-General's Portfolio, op. cit., p. 20.
468. J Murphy, 'Legal aid and legal assistance services', Budget review 2015–16, op. cit., p. 106 and sources cited therein.
469. Portfolio budget statements 2014–15, Attorney-General's Portfolio, op. cit., p. 32.
470. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, December 2015, p. 218.
471. Senate Legal and Constitutional Affairs Legislation Committee, Budget Estimates 2015–16, 5 May 2016[http://www.aph.gov.au/Parliamentary_Business/Senate_Estimates/legconctte/estimates/bud1617/index to be published].
472. G Brandis (Attorney-General), *Women's safety package legal support providers*, media release, 16 October 2015.
473. Ibid.

In addition, the Government's decision to reverse cuts to legal aid and legal assistance services that had been proposed in the 2014–15 Budget (discussed above) focused on ensuring appropriate resourcing to assist survivors of family violence.[474]

In the current Budget, the Government announced that an additional $100 million of funding would be provided over three years to develop 'new initiatives to break the cycle' of domestic violence.[475] This additional funding is not allocated to the Attorney-General's portfolio and would therefore, on the face of the budget papers, appear not to include funding for legal assistance services. However, it has been reported that the Government has advised the National Association of Community Legal Centres that some of this funding may be allocated to the legal assistance sector, although the quantum and distribution of such funding has not yet been determined.[476] For further details please refer to 'Domestic and family violence' in this Budget Brief.

Access to justice arrangements inquiry

On 5 September 2014, the Productivity Commission (PC) released the report of its inquiry into *Access to Justice Arrangements*.[477] The PC recommended that government funding for civil legal assistance services 'should be increased by around $200 million'.[478] The Government's response to the PC report, released on 29 April 2016, does not respond to the recommendation to increase funding.[479] Accordingly, there is no additional funding provided in the Budget in response to the PC's recommendation.

Reaction from stakeholders

The Law Council of Australia (LCA) expressed concern with the legal assistance service funding in the 2016–17 Budget, stating that 'legal aid continues to be underfunded to the tune of hundreds of millions of dollars' and:

> The Law Council will now officially launch a campaign on legal aid funding, with rallies around the country during National Law Week (16-20 May).[480]

The LCA warned that 'budgetary inaction on legal aid was a false economy', pointing out that the PC report into access to justice arrangements had advised that 'money invested in legal aid would yield substantial economic savings, a finding which has not been heeded'.[481]

The National Association of Community Legal Centres (NACLC) also noted that the Budget was 'a missed opportunity to stop the funding cuts and ensure the most disadvantaged and vulnerable people across Australia have access to legal assistance'.[482] The NACLC welcomed the additional funding for family violence, but expressed disappointment that the 'funding does not include funding for legal assistance services'.[483]

The National Aboriginal and Torres Strait Islander Legal Service (NATSILS) is 'deeply concerned' about funding cuts to the Aboriginal and Torres Strait Islander Legal Services (ATSILS) and the Indigenous Legal Assistance Program.[484] NATSILS warned that the funding cuts will 'result in unavoidable withdrawals of frontline services' and 'impact the most vulnerable of the ATSILS' clients, including victims of family violence, children, clients in remote and rural areas, clients with mental ill-health and cognitive impairments'.[485]

474. G Brandis (Attorney-General) and M Cash (Minister Assisting the Prime Minister for Women), Legal aid funding assured to support the most vulnerable in our community, op. cit. See footnote 13 for further information.
475. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 141.
476. F Kelly, 'Glimmer of hope for Australia's community legal centres', *RN Breakfast*, Radio National, Australian Broadcasting Corporation (ABC), 5 May 2016.
477. Productivity Commission (PC), *Access to justice arrangements: inquiry report*, PC, Canberra, 5 September 2014.
478. Ibid., vol. 1, Recommendation 21.4, p. 38 and vol. 2, p. 741.
479. G Brandis (Attorney-General), *Response to the Productivity Commission's Report into Access to Justice Arrangements*, media release, 29 April 2016.
480. Law Council of Australia (LCA), *Budget does nothing to address crisis in legal aid*, media release, 3 May 2016.
481. Ibid.
482. National Association of Community Legal Centres, *Budget cuts to legal assistance services hit vulnerable hardest*, media release, 3 May 2016.
483. Ibid.
484. National Aboriginal and Torres Strait Islander Legal Service (NATSILS), *Budget 2016-17 denies many Aboriginal and Torres Strait Islander people access to justice*, media release, 3 May 2016.
485. Ibid.

Office of the Australian Information Commissioner: reinstatement of ongoing funding

Mary Anne Neilsen

A significant but relatively unpublicised budget announcement was the decision to not proceed with new arrangements for privacy and Freedom of Information (FOI) regulation including the proposed abolition of the Office of the Information Commissioner (OAIC). Accordingly *Budget Measures: Budget Paper No. 2: 2016–17* provides:

> The Government will provide $8.1 million over four years from 2016-17 to continue the operations of the Office of the Australian Information Commissioner (OAIC).
>
> Additionally, $6.7 million per year for privacy functions will be transferred to the OAIC from the Australian Human Rights Commission, and $0.6 million per year will be transferred from the Attorney-General's Department for Freedom of Information functions.[486]

The short history of the OAIC has been a rocky and controversial saga. Established as a statutory agency in 2010, the OAIC was part of a major reform of the Labor Government's information policy strategy and framework. The initial enthusiasm for the establishment of the OAIC as a facilitator of more open government waned to a degree during the Office's first years of operation, when problems of time delays and backlogs in processing review of FOI decisions became evident.[487] However despite the initial teething problems, the 2013 Hawke review into the 2010 changes to FOI laws reported positively on the OAIC, while raising questions about the efficiency of the two-tiered FOI review process.[488]

The Abbott Government announced the abolition of the OAIC in the 2014–15 Budget, with the measure forecast to produce a saving of $10.2 million over four years.[489] While promoted as part of its commitment to smaller government, the announcement was unexpected to the extent that the disbanding of the OAIC was not one of the National Commission of Audit recommendations.[490]

Under the 2014–15 measure, funding for the OAIC was provided until the end of 2014 and the new arrangements for privacy and FOI regulation were to commence from 1 January 2015, following passage of legislation to implement these changes. Funding transfers to the Australian Human Rights Commission and other agencies to facilitate these changes also occurred as part of the 2014–15 Budget.[491] However significant practical difficulties arose when in October 2014 the Government introduced into Parliament the Freedom of Information Amendment (New Arrangements) Bill 2014, being the legislative response necessary to implement these budget measures. It became apparent shortly after introduction that opposition from Labor, the Greens and several cross bench Senators would mean that the Senate would reject the Bill. While the Bill was passed by the House of Representatives, it effectively remained in limbo until it lapsed on prorogation on 17 April 2016. The failure to pass this Bill meant that the Government was left with an unanticipated arrangement whereby the legislation by which the OAIC has been created, and to which the Government remained bound, continued to operate but without funding to fulfil its operations. The unusual budgetary situation aroused controversy with

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486. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 69.
487. For further detail see M Neilsen, *Freedom of Information Amendment (New Arrangements) Bill 2014*, Bills digest, 44, 2014–15, Parliamentary Library, Canberra, 2014.
488. Ibid., p. 4.
489. Ibid.
490. Ibid.
491. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.2: Attorney-General's Portfolio* 2016, p.128, p. 261. An Office of the Privacy Commissioner was to be established as an independent statutory position within the Australian Human Rights Commission and be responsible for the exercise of statutory privacy functions. External merits review of FOI decisions, which was conducted by the AOIC, was to be transferred to the Administrative Appeals Tribunal (AAT) with a total of $1.8 million to be transferred to the AAT over four years to assist with the processing of FOI reviews. Other Information Commissioner functions related to FOI guidelines and FOI statistics would be administered by the Attorney-General's Department. Complaints about FOI administration would be directly dealt with by the Commonwealth Ombudsman. See M Neilsen, 'Law and Justice: Commissions', *Budget review 2014–15*, Research paper series, 2013–14, Parliamentary Library, Canberra, 2014.

concerns including the constitutional propriety of the government's actions in defunding the OAIC whilst the OAIC still remained a legal entity with statutory obligations.[492]

The practical effect of these budgetary arrangements was that the Canberra office of the OAIC was closed in December 2014. In terms of the three Commissioner positions within the OAIC, James Popple resigned as FOI Commissioner in December 2014, and the Information Commissioner, John McMillan in June 2015. From July 2015 onwards, the Privacy Commissioner, Timothy Pilgrim also performed the role of acting Information Commissioner for periods of three months with rolling extensions.

When Parliament's resistance to the Bill became clear, the Government reinstated sufficient funds through the 2015–16 Budget for the OAIC's functions to continue, although on a much reduced scale. At the same time some of the OAIC's functions were taken over by the Ombudsman and the Attorney-General's Department, as envisaged in the original plan for abolishing the OAIC.[493] Exercise of these functions was already within the power of those agencies and did not require enabling legislation.[494]

The uncertainty of these arrangements was considered unsatisfactory with the Acting Information Commissioner reported as saying that 'this uncertainty is far from an ideal situation and I hope that soon we will have some clarity about the future of the OAIC'.[495]

The 2016–17 Budget announcement of the reinstatement of funding for the OAIC has therefore been welcomed by the Acting Information Commission[496] and is likely to be welcomed by FOI advocates more widely. Academic Professor Richard Mulgan has recently argued FOI indeed needs an independent advocate in the immediate future, noting 'powerful enemies are circling' with the Public Service Commissioner, John Lloyd, and the Treasury secretary, John Fraser amongst others having 'publicly bemoaned the effects of FOI on the quality of written advice'.[497]

The decision to reinstate ongoing funding for the OAIC should also be welcomed as being a consistent and necessary as part of the Government's recent moves to join the Open Government Partnership global group on transparency in government.[498]

The Budget measure however does not completely return the OAIC to its prior position and funding does not match the amount allocated in 2013–14.[499] The Attorney-General's Portfolio Budget Measures in noting the change states:

> FOI funding is provided on the basis of the streamlined approach to FOI reviews adopted by the OAIC since the 2014–15 Budget. Accordingly, funding provided to the Administrative Appeals Tribunal in 2014–15 will remain with the tribunal on the basis that some matters may be considered by the tribunal, where the OAIC determines under section 54W(b) that it is in the interests of the administration of the FOI Act for this to occur.[500]

It is not clear how this 'streamlined approach to FOI reviews' will operate and how the division of external review work would be allocated between the OAIC and the AAT. It may be that a stronger emphasis on AAT review as opposed to OAIC review would require further legislative change.[501]

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492. R Mulgan, 'The gradual darkening of hard-won transparency', *The* Canberra Times, 1 September 2015. Note however this situation is not unique. For example, the Administrative Review Council remains on the statute books although now unfunded.
493. Ibid.
494. Ibid.
495. 'George Brandis continues uncertainty for information commissioner', The Mandarin, 20 January 2016.
496. Office of the Australian Information Commissioner (OAIC), 'OAIC forward funding in 2016-17 Federal Budget', OAIC website, 4 May 2016.
497. R Mulgan, op cit.
498. J Taylor, 'Turnbull delivers on transparency promise, with Information Commissioner saved', *Crikey*, 4 May 2016.
499. The OAIC appropriation for 2013–14 was $10.6 million. Quoted in M Neilsen, Law and Justice: Commissions, op. cit.
500. *Portfolio budget statements 2016–17: budget related paper no. 1.2: Attorney-General's Portfolio* op. cit., p. 261.
501. For an account of the existing external review procedures see M Neilsen, *Freedom of Information Amendment (New Arrangements) Bill 2014* op cit.

Law enforcement and crime prevention

Cat Barker

Australian Federal Police

The Australian Federal Police's (AFP) budget for federal policing is projected to (continue to[502]) decrease over the forward estimates and the average staffing level to fall from 5,507 in 2015–16 to 5,318 in 2016–17.[503] In January 2015, the Review of Australia's Counter-Terrorism Machinery recommended the efficiency dividend be removed from AFP operations from 2015–16.[504] The Government has not taken up that recommendation. The AFP has been blunt about the impacts of the efficiency dividend, stating: 'If it continues indefinitely, it will reduce the AFP's capacity to respond flexibly to Government priorities, and erode the AFP's core operational resources'.[505] It has also indicated the dividend cannot be met from non-staff costs alone, and that the resulting deferral of upgrades to IT systems increases the challenges already faced by the agency in keeping up with 'advanced criminal enterprises' that invest heavily in technology to evade detection.[506]

The Budget includes some additional funding for specific measures, many of which have already been announced throughout April 2016. However, several measures are to be fully or partially funded from existing resources.

The largest component is $148.5 million over five years for additional Protective Security Officers, additional physical and personnel security and a 'scoping study for enhanced protective technical capabilities'.[507] The funding includes $52.2 million in capital funding and $28.6 million drawn from existing agency resources. This follows the raising of the national terrorism threat level for all Australian police from medium to high in January 2015 (which took account of the stabbing of two police officers in Melbourne in September 2014 as well as recent overseas experience) and the murder of a police accountant in Sydney in October 2015.[508]

Other measures include:

- $14.7 million over three years from the Confiscated Assets Account (CAA) to support the AFP Fraud and Corruption Centre's 18 ongoing foreign bribery investigations and to fund three foreign bribery investigative teams[509]
- $3.3 million over two years from the CAA to establish a National Anti-Gang Squad strike team in South Australia (adding to those already established in Queensland, New South Wales, Victoria and Western Australia)[510]
- $20.4 million over four years to increase the AFP's capability to combat cybercrime, as part of a broader package to implement the revised *Cyber Security Strategy* released in April 2016.[511]

Some $32.6 million in existing agency resources will be used to fund the second phase of the AFP's new data strategy, specifically to complete transition of its data centre activities to meet the requirements of the Government's Data Centre Policy. This follows the $17.6 million of existing resources allocated for the first phase

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502. D Connery, 'Organised crime exacts too high a price to ignore', *Canberra Times*, 22 April 2016, p. 5; J Taylor, 'AFP can't spy, fight terrorism if govt keeps cutting its budget', *Crikey*, 30 September 2015.
503. Australian Government, *Portfolio budget statements 2016–17: budget-related paper no. 1.2: Attorney-General's Portfolio*, p. 96. This statement concerns Outcome 1 (federal policing) only. Outcome 2 concerns ACT Policing.
504. Department of the Prime Minister and Cabinet, *Review of Australia's counter-terrorism machinery*, Australian Government, Canberra, January 2015, pp. 36–42.
505. Senate Legal and Constitutional Affairs Committee, Answers to Questions on Notice, Attorney-General's Portfolio, Budget Estimates 2015–16, Question BE15-094.
506. Ibid.
507. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016 (quote from p. 68).
508. 'Terror threat for all police in Australia raised to high, in line with national alert level', *ABC News* (online), 20 January 2015; C Barker, J Mills and J Murphy, *Counter-Terrorism Legislation Amendment Bill (No. 1) 2015*, Bills digest, 80, 2015–16, Parliamentary Library, Canberra, 2016, p. 5.
509. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 66; M Turnbull (Prime Minister), G Brandis (Attorney-General) and M Keenan (Minister for Justice), *Boosting efforts to tackle foreign bribery*, media release, 23 April 2016.
510. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 66; M Keenan (Minister for Justice) and P Malinauskas (SA Minister for Police), *Dedicated strike team to target organised gangs in South Australia*, media release, 15 April 2016.
511. See further N Brangwin, 'Cybersecurity', *Budget review 2016–17*, Research paper series, 2015–16, Parliamentary Library, Canberra, 2016.

in the 2015–16 Budget.[512] A further amount of $15.4 million in existing agency resources will be used to fund the first phase of the AFP's Unified Operational Communications system, which will replace its current radio capabilities.

The AFP received $8.4 million over four years from the CAA in the 2015–16 Mid-Year Economic and Fiscal Outlook (MYEFO) towards upgraded surveillance equipment.[513]

Australian Crime Commission

The Australian Crime Commission's (ACC) funding is projected to continue to decrease over the forward estimates, though its average staffing level is expected to increase in 2016–17, partly due to the transfer of Australian Institute of Criminology staff.[514]

Like the AFP, the ACC will receive additional funding for upgraded physical and personnel security ($5.1 million over five years) and to increase its cybercrime capabilities ($16 million over four years). The ACC also received $18.1 million over four years in the 2015–16 MYEFO from the CAA to deliver the National Criminal Intelligence System ($9.8 million), strengthen anti-money laundering capabilities ($3.4 million) and undertake international secondments ($4.9 million).[515]

Australian Border Force

The Government will continue to increase tobacco excise from 2016–2017 to 2019–2020.[516] There are no official figures on the size of the illicit tobacco market in Australia, and different estimates vary significantly.[517] However, the former and current governments have taken measures to combat illicit tobacco smuggling in recognition of the potential for excise increases to lead to the illicit trade becoming more attractive and profitable.[518]

The Tobacco Strike Team was established in October 2015 to gather intelligence on groups involved in smuggling tobacco to Australia, work with domestic and overseas law enforcement agencies and to prevent and disrupt smuggling, with a particular focus on targeting organised criminal involvement.[519] No new funding was provided for the establishment of the Strike Team. The Budget includes funding of $7.7 million over two years to expand the Strike Team.

CrimTrac

CrimTrac's funding is projected to increase slightly overall over the forward estimates, with staffing remaining stable.[520] Amounts from CrimTrac's Special Account, its principal funding source, have been allocated in the Budget to a Biometrics Identification Service (BIS) to replace the National Automated Fingerprint Identification System ($28.9 million over three years) and update CrimTrac's network infrastructure ($6.8 million over two years). The remainder of the $52 million cost of the BIS ($23.1 million) will come from the agency's existing resources.

In the 2015–16 MYEFO, $5.3 million over two years was allocated from the Special Account to deliver the National Firearms Interface, which will provide a single database of all legal firearms in Australia.[521]

Victoria Police contribution to Task Force Trident

Victoria Police will receive $4 million over two years (from 2015–16) from the Confiscated Assets Account for phase two of Task Force Trident. This is one of three multi-agency taskforces comprising AFP, ACC, Australian Border Force, Australian Taxation Office and AUSTRAC officers, and officers from relevant state police and crime

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512. Australian Government, *Budget measures: budget paper no. 2: 2015–16*, 2015, p. 193.
513. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2015–16*, p. 148.
514. *Portfolio budget statements 2016–17: budget-related paper no. 1.2: Attorney-General's Portfolio*, op. cit., pp. 79, 143.
515. *Mid-year economic and fiscal outlook 2015–16*, op. cit.
516. See M Thomas, 'Tobacco excise', *Budget review 2016–17*, Research paper series, 2015–16, Parliamentary Library, Canberra, 2016.
517. C Barker, L Ferris and M Thomas, *Customs Amendment (Smuggled Tobacco) Bill 2012*, Bills digest, 28, 2012–13, Parliamentary Library, Canberra, 2012, pp. 8–9; Department of Immigration and Border Protection (DIBP), Submission to Parliamentary Joint Committee on Law Enforcement, *Inquiry into illicit tobacco*, n.d., p. 3.
518. Barker et al., *Customs Amendment (Smuggled Tobacco) Bill 2012*, op. cit.; DIBP, Submission, op. cit., p. 6.
519. DIBP, Submission, op. cit., p. 6; P Dutton (Minister for Immigration and Border Protection), *Record illicit tobacco seizure leads to new strike team*, media release, 16 October 2015.
520. *Portfolio budget statements 2016–17: budget-related paper no. 1.2: Attorney-General's Portfolio*, op. cit., p. 198.
521. *Mid-year economic and fiscal outlook 2015–16*, op. cit., p. 149.

commissions in New South Wales (Polaris), Victoria and Queensland (Jericho) that were established to combat serious and organised crime in the maritime sector.[522]

522. Australian Crime Commission (ACC), 'Waterfront task forces', ACC website.

Cybersecurity

Nicole Brangwin

Following the Australian Government's long-awaited release of Australia's Cyber Security Strategy (the Strategy), the Budget outlines the funding details for the cybersecurity initiatives identified in the Strategy.[523] Some of the initiatives featured in the Budget are new (for example, the establishment of centres of cybersecurity excellence) while others are pre-existing (the expansion of Australia's Computer Emergency Response Team—CERT), or rebadged (cybersecurity awareness campaign).[524]

The Strategy's funding of $230 million covers the next four years.[525] This is in addition to the $300–400 million, over the next ten years, which was recently announced in the 2016 Defence White Paper to improve Defence's cybersecurity capabilities.[526]

The funding allocations for the Strategy's five main themes announced by the Department of the Prime Minister and Cabinet on 1 May 2016 are:[527]

- $38.8 million for the 'national cyber partnership', which includes:
  - annual Prime Ministerial meetings with industry stakeholders, and 'streamlining' of government structures led by a new Minister assisting the Prime Minister on cybersecurity and a special advisor and[528]
  - relocation of the Australian Cyber Security Centre (ACSC) to 'a new more accessible location in Canberra that will make it easier for stakeholders to engage with' (*Budget measures: budget paper no. 2: 2016–17* suggests that the entire $38.8 million is to fund the relocation).[529]
- $136.1 million for improving cyber defences, which includes:
  - $15 million to allow small businesses to access cybersecurity testing
  - support for voluntary business cybersecurity governance health checks and
  - the development of a best practice guide on good cybersecurity.[530]
- $6.7 million for 'global responsibility and influence', including:
  - the establishment of Australia's new Cyber Ambassador and
  - capacity building with international partners towards greater cyber resilience.[531]
- $38 million for 'growth and innovation', which is funded through the National Innovation and Science Agenda (the Agenda) and includes:
  - the establishment of a Cyber Security Growth Centre that was announced in December 2015 as part of the Agenda and[532]
  - continuing research under the CSIRO's Data61 group towards commercialised solutions and education activities.[533]
- $10 million towards the 'cyber smart nation' initiative, which aims to:
  - address the cybersecurity skills shortage by encouraging a greater uptake of study in the fields of science, technology, engineering and maths

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523. The Strategy followed an 18-month review into Australia's cybersecurity. M Turnbull (Prime Minister), *Australia's cyber security strategy*, media release, 21 April 2016; Australian Government, *Australia's cyber security strategy: enabling innovation, growth & prosperity*, 21 April 2016.
524. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 134.
525. Ibid., p. 3.
526. Australian Government, *2016 Defence white paper*, white paper, 25 February 2016; Australian Government, *2016 integrated investment program*, p. 37.
527. L Connick (First Assistant Secretary of Cyber Policy and Intelligence), *Digital growth drives digital risk… and opportunity*, speech, 1 May 2016.
528. These measures are likely to be absorbed by the Department of Foreign Affairs and Trade.
529. L Connick, op. cit.; Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit., pp. 134–135.
530. Ibid.
531. Ibid.
532. Australian Government, 'Cyber Security Growth Centre', Business.gov.au website.
533. L Connick, op. cit.

- establish Academic Centres of Cyber Security Excellence at key education institutions and
- raise public awareness on cybersecurity issues.[534]

The implementation of Australia's Cyber Security Strategy appears as a line item in a number of portfolio areas. In the Defence *Portfolio Budget Statement 2016–17*, a reduction in Defence's appropriation allows the transfer of $122.2 million over four years to other portfolios.[535] This amounts to more than half of the Government's stated $230 million funding for the Strategy.

Defence is also expected to absorb $51.1 million which comprises the cost of: relocating the ACSC; conducting 'cyber security assessments for Commonwealth entities'; and identifying 'cyber vulnerabilities in the Commonwealth systems'.[536] Defence resources will also be used to fund other initiatives to 'complement' the 2016 Defence White Paper and implement the Strategy, including:

- $82.3 million over the forward estimates to the Attorney-General's Department for a number of new and existing (or expanded) activities, such as the establishment of Joint Cyber Threat Centres[537]
- $20.4 million to the Australian Federal Police and $16 million to the Australian Crime Commission to increase their cybercrime capabilities and[538]
- $3.5 million to the Department of Education and Training to establish 'six academic centres of cyber security excellence'.[539]

The Industry, Innovation and Science *Portfolio Budget Statement 2016–17* allocates $12 million over the next four years towards the Strategy's implementation.[540]

There is no new cybersecurity funding for the Department of the Prime Minister and Cabinet, the Department of Communications and the Arts, or the Department of Foreign Affairs and Trade (DFAT)—for example, the cost of creating the Cyber Ambassador role will be absorbed by DFAT's existing budget.[541] However, a number of cybersecurity related expense measures were announced in the Mid-Year Economic and Fiscal Outlook that included:

- $74.6 million over three years, from 2016–17, to fund the CSIRO's Data61 group which comprises:
  - 'Platforms for Open Data' using whole-of-government geospatial data and national mapping platforms for governments and business to access unconnected and unlockable sources of data
  - Australian industry cybersecurity protection business applications and 'advanced learning program'
  - 'Digital Innovation Marketplace' as an expertise-sharing program involving 'businesses and other organisations' and
  - 'Data Skilling Industry' to fast-track 'data analytics educational' programs within Australian industry.[542]
- $1.5 million for the Department of the Prime Minister and Cabinet.[543]

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534. Ibid.
535. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.4A: Defence Portfolio*, p. 18.
536. Ibid.; Australian Government, Budget measures: budget paper no. 2: 2016–17, op. cit., p. 134.
537. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.2: Attorney-General's Portfolio*, pp. 14–15; Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 134.
538. Australian Government, Portfolio budget statements 2016–17: budget related paper no. 1.2: Attorney-General's Portfolio, op. cit., pp. 76 and 93; Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 134.
539. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.5: Education and Training Portfolio*, pp. 14 and 20.
540. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.12: Industry, Innovation and Science Portfolio*, p. 33.
541. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 134.
542. Australian Government, *Mid-year economic and fiscal outlook 2015–16*, website.
543. Ibid.

Public sector staffing and efficiencies

Philip Hamilton

Efficiency measures and targeted savings

In place for over 25 years, the efficiency dividend (ED) is an annual funding reduction for Australian government agencies, in general applied only to 'departmental' expenses. The ED has usually been applied at a rate of either 1.00 or 1.25 per cent; in some years governments have increased the rate, with the highest ED rate being four per cent.

The 2015–16 Budget applied the ED at a rate of 2.5 per cent for 2015–16[544] and indicated that, from 2017–18, the Government would return the ED to a base rate of one per cent, subject to ongoing monitoring.[545] The 2016–17 Budget changes this approach, stating that the ED will be maintained at 2.5 per cent through 2016–17 and 2017–18 before being reduced to two per cent in 2018–19 and 1.5 per cent in 2019–20. The Government acknowledges 'diminishing scope for new efficiencies as Australian Government agencies become leaner.'[546]

In a novel development for the ED, public sector agencies can anticipate, as part of the Government's 'transforming government' agenda, a re-investment of a portion of the projected savings ($500.0 million) for 'reforms which increase productivity and innovation … such as automation of public services and business re-engineering'. This will result in a total net ED saving of $1.4 billion over 2017–20.[547]

In addition to the ED, and continuing an approach in the 2014–15 and 2015–16 budgets, the 2016–17 Budget also specifies significant targeted savings measures including:

- $74.5 million over five years (including $1.8 million in 2015–16) within the Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade)
- $80.0 million over four years in the existing departmental funding of the Department of Human Services
- $66.2 million over four years from 2016–17 in the Department of Health by introducing an advanced data analytics capability in relation to Medicare providers
- $180.0 million over three years from 2017–18 in the Department of Immigration and Border Protection by reforming the visa and migration framework, improving automation in visa processing, providing self-service options and using more sophisticated assessment capabilities, and
- $21.8 million over four years by reducing stand alone and co-located Australian Taxation Office (ATO) shopfronts in favour of myGov shopfronts, which will actively promote digital service delivery.[548]

One notable funding *increase* is in relation to the Australian Electoral Commission (AEC), which, in line with the expected 2016 Federal Election and recent changes to the Senate voting system, will receive an estimated $30.6 million increase in departmental funding together with estimated total special appropriations of $83.0 million (up from a $9.7 million special appropriation in 2015–16).[549]

Functional and Efficiency Reviews

Functional and Efficiency Reviews provide the Government with advice on opportunities to remove inefficiency or reduce expenditure. To date, the Government has undertaken 12 Reviews of agencies, with reported administrative and program savings of about $2.7 billion.

In 2016–17, a further eight Reviews will examine the Department of the Prime Minister and Cabinet; the Department of Finance; the Treasury; the Australian Bureau of Statistics (ABS); the Department of Immigration and Border Protection; the Australian Federal Police; the Bureau of Meteorology; and the Murray Darling Basin Authority and water-related functions within other Government agencies. It is foreshadowed that

544. P Hamilton,'Australian Public Service staffing and efficiencies', *Budget review 2015–16*, Research paper, 2014–15, Parliamentary Library, Canberra, May 2015.
545. Australian Government, *Budget measures: budget paper no. 4: 2015–16*, p. 3.
546. The budget figures and information in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Agency resourcing: budget paper no. 4: 2016–17*, p. 2-5, 7, 11, 93, 131-133, 135-137, and 139-140.
547. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 71.
548. Ibid., pp. 21, 97 104, 140 and 149.
549. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.8: Finance Portfolio*, p. 78.

recommendations of past and upcoming Reviews may be considered in future budget processes, and may lead to reductions in staffing.

Organisational consolidations and abolitions

Agency Resourcing: Budget Paper No. 4: 2016–17 indicates a reduction of 34 Australian Government organisations, through consolidation or cessation, as at November 2015 and into 2016–17. However, the 34 organisations are not identified.

Reversing an earlier intention to abolish the Office of the Australian Information Commissioner (OAIC),[550] the agency has been funded through to 2020, with privacy and Freedom of Information functions to be restored to the OAIC.[551]

Property portfolio, lease holdings and procurement

In the 2015–16 Budget the Government committed to progressing property divestment 'where appropriate'.[552] This process will continue, with $2.6 million provided over three years from 2016–17 to extend the non-Defence property divestment program. The anticipated savings from this measure are not published in the Budget papers for commercial confidentiality reasons.

'Operation Tetris' requires public sector agencies to fill vacant leased office space in the ACT rather than entering into new leases or renewing expiring leases. The Government credits Tetris with ensuring that 'over 42,000 square metres of previously vacant leased office space in and around Canberra has been filled'; the measure is expected to deliver savings of almost $200 million over 2016–26. With approximately 55 per cent of Government leases scheduled to end over the next three years, Operation Tetris will be extended nationally.

The Government will provide $3.0 million in 2016–17 for the establishment of mandatory whole-of-government coordinated property procurement arrangements for Non-Corporate Commonwealth Entities.[553] The coordinated procurement arrangements will cover the leasing of office space, purchasing of property and facilities management, some capital works and utility services. The savings for this measure are not published in the Budget papers for commercial confidentiality reasons.[554]

Two measures arise out of Australia's participation in the Trans-Pacific Partnership (TPP). The Government will provide $12.4m over four years from 2016–17 to upgrade IT systems to support 'greater transparency in the reporting of procurements conducted by limited tendering', and $2.9 million has been allocated to enable the Federal Court of Australia to perform a role in relation to disputes over procurement decisions.[555]

Staffing

The Government will seek to maintain the size of the General Government Sector (GGS),[556] excluding military and reserves, around or below the 2006–07 level of 167,596 Average Staffing Level (ASL).[557] The GGS ASL for 2016–17 is estimated to be 166,155 (16,350 less than the peak of 182,505 ASL in 2011–12), but actual ASL may be lower depending on, for example, the outcomes of Functional and Efficiency Reviews. The estimated GGS ASL for 2015–16 (166,765) is very close to the projected ASL for 2016–17.

Significant reductions include 305 ASL at the Department of Immigration and Border Protection, 344 ASL at the Department of Social Services, and 810 ASL at the Department of Human Services. Following savings announced

550. M Neilsen,'Law and justice—Commissions', *Budget review 2014–15*, Research paper, 2013–14, Parliamentary Library, Canberra, May 2014.
551. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 69.
552. *Agency resourcing: budget paper no. 4: 2015–16*, op. cit., p. 4.
553. A Non-Corporate Commonwealth Entity (NCE) is a Commonwealth entity that is not a body corporate. Unlike, for example, statutory authorities and Commonwealth-owned companies, NCEs are not legally and financially separate from the Commonwealth. Department of Finance, 'Resource Management glossary - non-corporate Commonwealth entity (NCE)', Finance website.
554. *Budget measures: budget paper no. 2: 2016–17*, p. 11.
555. Ibid., p. 71.
556. The General Government Sector comprises departments and agencies that provide public services which are mainly non-market in nature, mainly for the collective consumption of the community, involving the transfer or redistribution of income and financed mainly through taxes and other compulsory levies. Australian Government, *Budget measures: budget paper no. 1: 2016–17*, 2016, p. 9-38.
557. Average Staffing Level (ASL is a method of counting that adjusts for casual and part-time staff in order to show the average number of full-time equivalent employees. ASL is almost always a lower figure than a headcount of actual employees so, when staff are shed, the number of individuals who leave the public service will often be higher than the ASL figure.

in March 2016,[558] four of Canberra's national cultural institutions will lose 63 ASL in 2016–17.[559] The AEC is projected to have a reduction of 18 ASL.

ASL at the ABS will reduce by 41, but both the ABS and the Department of Employment will have temporary increases in ASL to support investment in information technology systems at the ABS and to implement the Youth Employment Package. These temporary arrangements are to assist the agencies to 'implement policy changes and build infrastructure needed to achieve automation and other longer term efficiencies.'

There are some notable substantive staffing increases. ASL at the ATO is projected to increase by 539, which may be related to the establishment of a new Tax Avoidance Taskforce,[560] and the National Disability Insurance Scheme Launch Transition Agency (NDIA) is projected to increase by 646.

Looking beyond 2016–17, a key element in the Government's future strategy to contain staffing numbers is a decision that the number of permanent public service positions in the NDIA will not reach 10,595 in 2018–19 (as previously planned), but will be limited to a maximum of 3,000. Accompanying this new staffing profile is an intention to 'use more efficient non-government models to achieve the same outcomes.'[561]

Enterprise agreements

The salaries of the majority of public servants are determined in agency enterprise agreements. In general, agreements made in 2011 had a nominal expiry date of 30 June 2014,[562] and new workplace bargaining arrangements were released in March 2014.[563] Negotiations for new agreements have been protracted, and have included the issuing of a revised bargaining policy in November 2015.[564] On 18 April 2016, the Australian Public Service Commission announced that, to that date, 50 new enterprise agreements had been agreed to by agencies and their staff (19 of these in the preceding three months).[565] However, as at 3 May 2016 enterprise agreements were not in place at three agencies with significant numbers of employees, namely the Department of Human Services, the Department of Defence, and the Australian Taxation Office.[566]

558. H Belot, 'Cultural institutions forced to find extra $40m in savings', *The Age*, 29 March 2016, p. 5.
559. The four agencies are the National Film and Sound Archive, the National Gallery of Australia, the National Portrait Gallery, and the National Library of Australia, where the loss of 28 positions is attributed to a decline in revenue from external sources.
560. S Morrison (Treasurer) and K O'Dwyer (Assistant Treasurer), *A new Tax Avoidance Taskforce*, media release, 3 May 2016, and N Towell, 'No respite from the tough times', *The Canberra Times,* 4 May 2016, p. 3.
561. For additional background information, see M Fifield, 'Answer to Question without Notice: National Disability Insurance Scheme', [Questioner: Z Seselja], Senate, *Debates*, 18 August 2015, p. 5555.
562. Australian Public Service Commission (APSC), *Australian Public Service bargaining framework: supporting guidance*, APSC, Canberra, 2011, p. 8.
563. APSC, 'Australian government public sector workplace bargaining policy', APSC website.
564. APSC, 'Bargaining policy 2015', APSC website.
565. APSC, 'Bargaining milestone reached: 50 new enterprise agreements voted up', APSC website.
566. N Towell, 'Rejected workplace deal 'best on offer'', *The Canberra Times*, 15 March 2016, p. 1, and N Towell, 'Department of Defence staff reject revised enterprise agreement, again', *The Canberra Times*, 4 May 2016, p. 6.

Selected Government ICT projects

Philip Hamilton

One stated theme of the Budget—transforming government—has a focus on the anticipated benefits of Information and Communications Technology (ICT). In *Agency Resourcing: Budget Paper No. 4: 2016–17* the Government states it will 'increas[e] the focus on innovation and the modernisation of public services and on efficiencies achieved by maximising the opportunities of a digital dividend wherever possible'.[567]

The Budget features a range of ICT-related projects and procurements. The following projects of $10.0 million or more collectively represent a funding commitment of over $635.0 million, and have particular relevance to Whole-of-Government, Cross-portfolio, or Service Delivery issues. It is unclear whether a number of these projects are in fact new measures, as in a number of instances funding has either already been provided for by the Government or commenced in 2015–16. A number of measures are also stated to build on measures in previous budgets.

Various agencies (cross-portfolio)

- $12.4 million to upgrade IT systems 'to support greater transparency in the reporting of procurements conducted by limited tendering'. This measure is part of broader funding allocated for government procurement reform over 2016–20 ($15.6 million) in the context of the Trans-Pacific Partnership trade agreement.[568]

The Treasury; Australian Taxation Office

- A study 'into the costs and benefits of adopting electronic invoicing (eInvoicing) by the Australian Government' to 'identify the feasibility of eInvoicing' and its potential. No additional funding will be provided as the Tax Office will fund the costs of the study from its current resources.

Department of Education and Training; Department of Human Services; Department of Social Services

- $199.4 million over 2016–20 to fund 'the development of an [ICT] system and to support implementation of the child care measures announced in the *Families Package* in the 2015–16 Budget'. *Budget Measures: Budget Paper No. 2: 2016–17* states that funding has already been provided for this project and will be conditional on a second pass business case. *Portfolio budget statements 2016–17: budget related paper no. 1.5: Education and Training Portfolio* indicates that the measure was announced subsequent to the *Mid-Year Economic and Fiscal Outlook 2015–16*.[569]

Department of Health

- $178.3 million over five years **from 2015–16** to 'develop a National Cancer Screening Register to replace current State and Territory registers for the *National Cervical Screening Program* and the current register for the *National Bowel Cancer Screening Program*'. Only $29.9 million of this is new funding in the 2016–17 Budget;[570] *Budget Paper No. 2* states that the bulk of the funding ($148.4 million) has already been provided for and also indicates that the project builds on measures announced in the 2014–15 and 2015–16 budgets.[571]
- $136.6 million over 2016–20 to 'support the operation of the My Aged Care contact centre' to 'assist the… centre to meet the significant increase in demand for assistance from customers interacting with the aged care system'.

Digital Transformation Office (Prime Minister and Cabinet Portfolio)

- $50.5 million over five years **from 2015–16** for the Department of Human Services (DHS) and the Digital Transformation Office (DTO) to support myGov operations. This includes $45.1 million over four years for the

567. Australian Government, *Agency resourcing: budget paper no. 4: 2016–17*, p. 1.

568. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, pp. 62, 67, 71, 78, 109, 110, 134, 137, 150, 154, 166 and 167.

569. *Portfolio budget statements 2016–17: budget related paper no. 1.5: Education and Training Portfolio*, p. 19.

570. *Portfolio budget statements 2016–17: budget related paper no. 1.10: Health Portfolio*, p. 17.

571. The 2015–16 Budget indicated that work would 'commence to establish a single National Cancer Screening Register' in 2015–16 but did not specify funding: *Portfolio Budget Statements 2015–16: budget related paper no. 1.10: Health Portfolio*, p. 41.

'core operational component' of myGov and $5.4 million over two years for a joint multi-departmental team 'to identify future developments to meet user needs'.

CrimTrac (Attorney-General's Portfolio)

- $28.9 million in capital funding over three years **from 2015–16** for CrimTrac to 'establish a Biometrics Identification Services (BIS) system' to replace the existing national fingerprint identification system. Funding will come from both CrimTrac's existing resources and its Special Account. *Budget Paper No. 2* states that the BIS measure builds on a related measure in the 2015–16 Budget.
- $9.9 million for the 'development of a Domestic Violence Order (DVO) sharing system' (the National Order Reference System) by CrimTrac to 'strengthen the identification and development of DVOs across State and Territory borders for police, partner agencies and the courts'. Funding has already been provided for this measure: *Budget Paper No. 2* states that the DVO builds on the *Women's Safety Package* measure included the *Mid-Year Economic and Fiscal Outlook 2015–16*.

Department of Veterans' Affairs

- $24.8 million over two years **from 2015–16** for the development of a second pass business case to 'simplify and streamline the Department of Veterans' Affairs business processes and replace legacy [ICT] systems'.
- $23.9 million over 2016–18 to 'improve the operation and sustainability' of the department's existing ICT systems in collaboration with the DHS.

In addition, a number of broader measures in the Budget will almost certainly include ICT components such as the cyber security strategy ($230.0 million); a new biosecurity-related data analytics capability at the Department of Agriculture and Water Resources ($15.9 million over four years); and, for the Australian Federal Police, a radio communications replacement ($15.4 million for the first phase), and a new data centre ($32.6 million for the second phase).

Potential risks to monitor

A crucial aspect of ICT projects—implementation—carries a substantial risk profile. As such, the implementation of the Government's suite of ICT projects will require careful monitoring. The current Auditor-General for Australia, Grant Hehir, identified key factors that can derail implementation of an ICT-related project in his previous role as Auditor-General for NSW:

> The major causes of the cost increases and delays have been changes in business requirements and scope, high level of uncertainty in business cases, weaknesses in governance and insufficient program and contract management … The Department also underestimated the support [agencies] needed to successfully implement [the ICT-based program].[572]

Another significant risk factor in relation to government ICT projects is security. One prominent ICT academic and consultant has observed that:

> Once operational, the obvious risks to eGovernment relate to data confidentiality and information security. Having a major data breach as a result of a human error, an Edward Snowden-like event, or cyber crime is a real and present danger for individual's privacy and the potential integrity of the entire eGovernment.[573]

Livingstone further noted that 'it is imperative that governments internally retain the necessary levels of IT strategic expertise and process probity'.[574]

572. Audit Office of NSW, 'Learning Management and Business Reform (LMBR) program', Audit Office of NSW website, 16 December 2014.
573. R Livingstone, 'Digital by default – efficient eGovernment or costly flop?' *The Conversation* website, 5 May 2014.
574. Ibid.

Domestic and family violence

Janet Phillips and Helen Portillo-Castro

With an increased public and political focus on family and domestic violence, there have been calls for further funding measures to reduce the levels of this form of violence nationally.[575] On 24 September 2015, the Australian Government announced funding for a Women's Safety Package.[576] This Budget includes additional funding of $100.0 million over three years for women's safety initiatives.

Funding for anti-violence measures (which may be spread across multiple portfolios) is not always specifically identified in the Budget. The following outlines the Australian Government's measures included in the 2016–17 Budget that relate to women's safety or domestic and family violence.

New initiatives to break the cycle of violence

The Australian Government's main strategy to reduce the levels of domestic violence in Australia is outlined in the *National Plan to Reduce Violence against Women and their Children 2010–2022* (the National Plan).[577] Funding for the National Plan is included under a broader category of 'National Initiatives' within the Social Services Portfolio (Program 2.1: Families and Communities).[578] In the 2015–16 Budget, a total of $119.5 million over four years was allocated to National Initiatives.[579] The bulk of this funding (approximately $100.0 million) went to the National Plan.[580]

In September 2015, the Australian Government announced new funding for a Women's Safety Package that included a variety of measures.[581] The *Mid-year Economic and Fiscal Year Outlook 2015–16* (MYEFO) outlined further details about the allocation of $101.2 million over four years under this package, including $59.7 million for Safe at Home programs and counselling and technology trials; $36.5 million for integrated service models and other initiatives to improve support services; and $5.0 million for an expansion of the Safer Schools website promoting respectful relationships.[582]

The 2016–17 Budget allocates additional funding of $100.0 million over three years which will 'build on the $101.2 million that was provided in the Women's Safety Package'.[583] However, some $32.2 million of this funding is redirected from the Department of Prime Minister and Cabinet's Indigenous outcome (Program 2.3: Safety and Wellbeing).[584]

The measure will focus on prevention and access to services and support, including targeted assistance for Indigenous and culturally and linguistically diverse women and their children.[585] The measure will also 'draw on the recommendations of the Third Action Plan' (part of the National Plan), due for release in mid-2016.[586]

The Australian Government has committed $9.9 million for the development of a Domestic Violence Order sharing system, the National Order Reference System, which allows for police and partner agency cooperation

575. For background on the topic see: J Phillips, A Dunkley, D Muller and C Lorimer, *Domestic violence: issues and policy challenges*, Research paper series, 2015–16, Parliamentary Library, Canberra, 2015.
576. M Turnbull (Prime Minister), M Cash (Minister for Women, Minister for Employment, Minister Assisting the Prime Minister for the Public Service), G Brandis (Attorney-General), S Ley (Minister for Health), C Porter (Minister for Social Services), N Scullion (Minister for Indigenous Affairs), M Fifield (Minister for Communications) and S Birmingham (Minister for Education), *Women's safety package to stop the violence*, media release, 24 September 2015. Further details were provided in S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal year outlook 2015–16*, p. 218.
577. Department of Social Service (DSS), *The National Plan to Reduce Violence against Women and their Children 2010–2022*, DSS website.
578. DSS, 'Families and Communities Programme: National initiatives guidelines overview', DSS, Canberra, November 2014.
579. M Thomas and A Dunkley, 'Domestic violence', *Budget Review 2015–16*, Research paper series, Parliamentary Library, Canberra, May 2015.
580. S Morrison (Minister for Social Services) and M Cash (Minister Assisting the Prime Minister for Women), *Abbott Government delivers funding boost for 1800RESPECT*, media release, 17 May 2015.
581. M Turnbull (Prime Minister), *Women's safety package to stop the violence*, op. cit.
582. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal year outlook 2015–16*, op. cit.
583. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 141; C Porter (Minister for Social Services), *Ensuring the Government lives within its means: a targeted welfare safety net*, media release, 3 May 2016; and Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.15a: Social Services Portfolio*, pp. 14 and 64.
584. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.14: Prime Minister and Cabinet Portfolio*, p. 23; Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 141.
585. Australian Government, *Portfolio budget statements 2016–17: budget related paper no. 1.15a: Social Services Portfolio*, p. 14.
586. M Cash (Minister for Women), *Budget 2016: Budget delivers for Australian women*, media release, 4 May 2016.

across state and territory borders. This measure also 'builds on the Women's Safety Package', but this funding 'has already been provided for by the Government'.[587]

Legal assistance

The Australian Government provides funding to the states and territories for legal assistance services through the National Partnership Agreement on Legal Assistance Services. This assistance includes services provided by family violence prevention legal services.[588]

The Women's Safety Package announced in September 2015 included $15.0 million for specialist domestic violence legal support.[589] This amount was included, but not specifically identified, in the Women's Safety Package section of the 2015–16 MYEFO.[590]

Some stakeholders had argued that family violence prevention legal services specifically for Aboriginal and Torres Strait Islander people should be established as stand-alone services with a direct allocation of additional funding through five-year funding agreements.[591] There are no specific measures in the 2016–17 Budget that allocate additional funding for family violence prevention legal services, including Aboriginal and Torres Strait Islander legal services. However, it has been reported that the Government has advised the National Association of Community Legal Centres that some of the additional $100.0 million in funding for the Women's Safety Package may be allocated to the legal assistance sector, although the quantum and distribution of such funding has not yet been determined.[592]

For further detail about funding under the National Partnership Agreement on Legal Assistance Services see 'Legal aid and legal assistance services' in this Budget Review.

Commentary

In the lead-up to the Budget, many stakeholders commended the Australian Government for its commitment to reducing domestic violence through the implementation of the National Plan, but expressed concerns over gaps in funding for front line services which 'continue to struggle to meet rising demand'.[593] Many expressed concerns over inadequate or inappropriate services. For example, some stakeholders noted that many of the major domestic violence services are funded through homelessness programs, treating the issue as 'simply a crisis of accommodation' rather than 'an entrenched, ongoing social problem'.[594]

Calls for long-term, securely funded, targeted programs such as a 'Commonwealth/State Women's Refuges and Housing Program,' as suggested by the Women's Electoral Lobby, have not been provided in the 2016–17 Budget.[595] Subsequent stakeholder reaction has been largely critical with many arguing that front line domestic and family violence services remain under-resourced.[596]

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587. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p. 67.
588. J Murphy, 'Legal aid and legal assistance services', *Budget Review 2015–16*, Parliamentary Library, Canberra, May 2015.
589. G Brandis (Attorney-General), *$15 million for specialist domestic violence legal support*, media release, 24 September 2015.
590. S Morrison (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal year outlook 2015–16*, p. 218.
591. National Association of Community Legal Centres (NACLC), *Submission to Australian Government: Federal Budget 2016–2017*, NACLC.
592. F Kelly, 'Glimmer of hope for Australia's community legal centres', *RN Breakfast*, Radio National, Australian Broadcasting Corporation (ABC), 5 May 2016.
593. For example, see: Australian Women against Violence Alliance, *Pre-budget submission*, security4women.org.au website, 10 February 2016; and M Davey, 'Family violence royal commission leaves legal centres on "fiscal cliff", warns sector', *The Guardian (Australia)*, (online edition), 8 April 2016.
594. Women's Electoral Lobby (WEL), *2016–17 pre-budget submission of the Women's Electoral Lobby Australia*, WEL, February 2016; and WEL, *Support for a fairer Budget*, media release, 10 February 2016.
595. WEL, *Women and children's safety program—where is it? Government fails to fund essential services for women experiencing domestic and family violence*, media release, 3 May 2016.
596. National Family Violence Prevention Legal Services, *Action to combat violence against Aboriginal and Torres Strait Islander women invisible in the Budget*, media release, 3 May 2016; Australian Services Union, *Budget cuts hurt*, media release, 3 May 2016; and K Fitz-Gibbon, 'Budget fails women and child victims of domestic violence' in 'What political experts are saying about the 2016 budget', *The Conversation*, 4 May 2016.

Investment approach to welfare

Don Arthur

The Budget provides $96.1 million over four years for the next stage of the Priority Investment Approach to welfare—the Try, Test and Learn Fund.[597] This builds on the first stage of the investment approach that was announced in the 2015–16 Budget.[598]

The investment approach to welfare

Inspired by a similar initiative in New Zealand, the Priority Investment Approach to welfare is designed to reduce long-term reliance on income support by people of working age. The approach has three parts:

- *Actuarial valuation:* estimating the future cost to the income support system associated with people currently receiving working age income support payments. These valuations are produced annually to measure progress.
- *Predictive analytics:* using historical data to identify the client segments that make the largest contribution to future costs—those most at risk of remaining on income support for long periods of time.
- *Try, test and learn:* developing new measures designed to move at-risk income support recipients into employment, testing these measures by comparing the outcomes of those who received them to the outcomes of a comparable group of recipients who did not, and learning from the results.

The 2015–16 Budget included funding for the first two stages. In September 2015, Scott Morrison (then Minister for Social Services) announced that his department had awarded PricewaterhouseCoopers (PWC) a four-year contract to 'provide annual valuations which determine the estimated future costs of the welfare system, looking at past evidence and how people interact with welfare.'[599]

The Try, Test and Learn Fund

In this year's Budget the Government has announced funding for the third part of the approach:

> The Government's new $96.1 million 'Try, Test and Learn Fund' (the Fund) will finance innovative policies to help the Government identify groups at risk of long term welfare dependency and assist them to move off welfare to employment. This approach aims to ensure that the Government funds programmes that actually deliver outcomes and cease or reform programmes that are shown to be ineffective.
>
> The policies will be aimed at addressing barriers to participation and supporting people with the capacity to work to do so.[600]

This approach is sometimes known as 'rapid cycle evaluation'. [601] Unlike more conventional evaluation approaches it focuses on measures that produce outcomes quickly. As a result it is more useful for trialling and evaluating measures designed to increase the rate at which recipients are placed in jobs than on measures designed to develop skills and help recipients progress to better jobs and more stable employment.

The income support segments identified through predictive analytics will not necessarily be the same as the target groups currently used by program administrators. Predictive analytics can group recipients using any combination of variables in a government's databases—age, gender, education, location, number of dependents, age at which the person first started receiving income support or had a child, and so on. The analysis can also construct segments using rules that link variables together. [602]

It is not clear what kinds of measures the Government will trial using funds from the Try, Test and Learn Fund. The Minister for Social Services, Christian Porter, has said: 'The Education, Health, Social Services and

597. *Budget measures: Budget paper No. 2 2016–17*, p. 142.
598. D Arthur, 'Investment approach to welfare', *Budget review 2015–16*, Research paper series, 2014–15, Parliamentary Library, Canberra, 2015.
599. S Morrison (Minister for Social Services), '*Address to the Committee for Economic Development of Australia*, speech, 18 September 2015.
600. Australian Government, *Ensuring that the Government lives within its means: balancing the budget and reducing the burden of long term debt*, budget document, 2016.
601. S Cody and A Asher, 'Proposal 14: smarter, better, faster: the potential for predictive analytics and rapid-cycle evaluation to improve program development and outcomes', in M Kearney and B Harris, eds, *Policies to address poverty in America*, Brookings, Washington, D.C., 2014, pp. 147–155.
602. E Siegel, *Predictive analytics: the power to predict who will click, buy, lie, or die*, Wiley, New Jersey, 2016.

Employment portfolios will develop the policies with key input from external experts and the community sector'.[603]

A stronger outcomes focus

The investment approach has a strong focus on outcomes and represents a move towards targeting for impact.

Many older programs were not designed with a strong focus on outcomes. For example, 'work for the dole' was initially designed as a response to community concerns that young unemployed people should 'give something back' in return for income support payments.[604] In the past, participants in social policy interventions have been chosen because they are members of particular 'equity groups', such as youth, women or people with a disability. The focus has been on fair access to the program rather than on generating outcomes such as changes to future income support spending.

The investment approach adopts a different approach. Instead of using established equity groups or groups identified by stakeholders, it encourages policymakers to segment income support recipients by how likely they are to remain on payment and how well they respond to interventions. And instead of asking whether particular groups are getting their fair share of places on the program, it asks which groups are providing policymakers with the best return on investment.

Concerns about the investment approach

Stakeholders, interest groups and others may have a number of concerns about the Priority Investment Approach.

In New Zealand, there has been concern about the investment approach's exclusive focus on income support savings.[605] In Australia, Department of Social Services officials have indicated that their approach will look 'at a broader range of issues than just the impact on the welfare bill'.[606]

Because the investment approach allocates assistance according to expected return on investment rather than level of disadvantage, not all disadvantaged income support recipients will receive the same level of service. Just as analysis can show that some recipients represent a good return on investment, it can also indicate that others represent a poor return. This was a concern that surfaced during the late 1990s when the Howard Government was designing a new employment services system—Job Network. The Government's initial proposal for a 'capacity to benefit' test to exclude jobseekers who were unlikely to deliver employment outcomes met with opposition from non-government parties and the community sector.[607]

603. C Porter (Minister for Social Services), *Ensuring the government lives within its means: a targeted welfare safety net*, media release, 3 May 2016.

604. D Kemp, 'Second reading speech: Social Security Legislation Amendment (Work for the Dole) Bill 1997', House of Representatives, *Debates*, 26 May 1997, p. 4026.

605. New Zealand Productivity Commission, *More effective social services*, August 2015, pp. 225–29.

606. Senate Community Affairs Legislation Committee, *Official committee Hansard*, 4 June 2015, p. 104.

607. For example: J Macklin, 'Second reading speech: Commonwealth Services Delivery Agency Bill 1996', House of Representatives, *Debates*, 26 February 1997, p. 1380.

Welfare savings to fund the National Disability Insurance Scheme

Michael Klapdor

The Government will direct around $1.3 billion in net savings from social welfare payment expenditure towards the National Disability Insurance Scheme (NDIS) Savings Fund.[608] The welfare savings measures which will fund the contribution to the NDIS Savings Fund are:

- $1.4 billion from closing the Energy Supplement to new recipients of social security and family assistance payments from 20 September 2016 and closing the Single Income Family Supplement (SIFS) to new recipients from 1 July 2017
- $108.6 million from removing backdating provisions for new claims for Carer Allowance from 1 January 2017 and
- $62.1 million from reviewing 30,000 Disability Support Pension (DSP) recipients each year for three years and assessing their capacity to work.

Around $270.7 million arising from these savings will not be credited to the NDIS Savings Fund (the Fund)—they will be directed towards other unspecified priorities in the Social Services Portfolio.

Further to the welfare measures, the budget papers indicate that $711.2 million in savings from within the NDIS (from reduced net costs in transition agreements signed with the states and territories) will be credited to the Fund. This will result in an estimated $2.1 billion being credited to the Fund over five years, on top of the Fund's opening balance of $164.2 million, which was set aside in the *Mid-year Economic and Fiscal Outlook*.[609]

The NDIS Savings Fund is a special account which will collect underspends and identified savings to help meet the Australian Government's contribution to the NDIS from 2019–20.[610] The budget papers state that there will be a funding shortfall of $4.4 billion in 2019–20 when the NDIS is fully operational.[611] Savings from across the Government will be directed to the NDIS Savings Fund to help meet this shortfall. The Opposition has argued that there is no funding shortfall and savings measures announced in the 2013–14 Budget, on top of an increase in the Medicare levy, would help fund the full scheme.[612]

Closing carbon price compensation to new recipients

To offset the impact of the introduction of the carbon price in July 2012 on income support recipients and those on low incomes, the Gillard Government introduced the Clean Energy Household Assistance package. A key component of the package was the Clean Energy Supplement (now called the Energy Supplement), an additional amount paid to recipients of allowances, pensions and Family Tax Benefit (FTB) recipients set at around 1.7 per cent of the basic rate of these payments (the expected price impact of the carbon price—a 0.7 per cent increase—plus an additional one per cent buffer).[613] The SIFS, worth $300 per annum, was introduced at the same time and is for single income families where the single parent or main earner has income between $68,000 and $150,000. It was intended as compensation for those families who would receive little or no assistance from the tax changes introduced as part of the Household Assistance package.

During the 2013 election, the Coalition committed to abolishing the carbon price while keeping the compensation measures that formed part of the Household Assistance package.[614] However, after winning the election and repealing the carbon price in 2014, the Government made a number of changes to the package,

608. The budget figures in this brief have been taken from the following document unless otherwise sourced: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016.
609. M Cormann (Minister for Finance) and C Porter (Minister for Social Services), *New NDIS account to lock in funding*, media release, 16 March 2016.
610. See the 'Special Accounts overview' article in this Budget Review; and P Pyburne, *National Disability Insurance Scheme Savings Fund Special Account Bill 2016 [and] National Disability Insurance Scheme Amendment Bill 2016*, Bills digest, 44, 2015–16, Parliamentary Library, Canberra, 2016, p. 7.
611. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, p. 3-14.
612. J Macklin (Shadow Minister for Families and Payments and Shadow Minister for Disability Reform) and T Burke (Shadow Minister for Finance), *Pickpocket Porter steals NDIS money*, media release, 9 April 2016.
613. A supplement is also paid to Commonwealth Seniors Health Card holders. P Yeend and L Buckmaster, *Clean Energy (Household Assistance Amendments) Bill 2011*, Bills digest, 58, 2011–12, Parliamentary Library, Canberra, 2011, p. 14.
614. T Abbott (Leader of the Opposition), *Address to the NSW Liberal Party State Council Central Coast*, speech, 1 June 2013.

including renaming the Clean Energy Supplement the 'Energy Supplement', ceasing indexation of the payment and abolishing some minor supplementary payments.[615]

The budget measure will mean that any new recipients of pensions, allowances and FTB will no longer receive the Energy Supplement (worth $14.10 per fortnight for a single pensioner and $8.80 for a single Newstart recipient with no children). Current recipients of the Energy Supplement will be grandfathered and still receive the payment as long as they remain continuously eligible for a qualifying payment. The same applies to SIFS recipients—new claimants will be ineligible but current recipients continue to receive the payment as long as they continue to meet the eligibility criteria.

Minister for Social Services, Christian Porter, stated that compensation for higher electricity prices under the carbon price arrangements 'is no longer necessary for new entrants to the welfare system'.[616] Arguably, the Energy Supplement and SIFS are also no longer necessary for current recipients following the removal of the carbon price. However, Treasurer Scott Morrison stated that the compensation should not be removed for those who were promised it at the time and who have come to rely on it.[617]

The abolition of these payments comes on top of the Coalition Government's cuts to other supplementary amounts paid to certain benefit recipients. These include the Income Support Bonus and the Schoolkids Bonus (to be abolished from December 2016); the proposed phasing out of the FTB end-of-year supplement amounts; and the proposed abolition of the Pensioner Education Supplement and Education Entry Payment.[618]

Closing off the Energy Supplement will create two groups with notably different payments rates—annual differences for current and new payment recipients will range between $205 and $367 per annum depending on the payment received. Paradoxically, new payment recipients who will be ineligible for the Energy Supplement will actually have been better off had the carbon price compensation package never been introduced. At the time the Clean Energy Supplement was introduced, the basic payments the supplement is attached to were adjusted to ensure recipients would not be compensated twice (via the supplement and normal indexation to prices). This means that the basic rate for these payments is now lower than it would have been had the normal indexation process occurred.[619] For example, a single Newstart Allowance recipient would be receiving a basic rate more than $100 per annum higher than the current basic rate had the compensation package never been introduced.

Removing backdating provisions for Carer Allowance

Carer Allowance is an income supplement for people providing daily care to someone with a disability or medical condition or who is frail aged. It is a non-means tested payment and can be paid in addition to the means tested income support payment for carers—Carer Payment. The payment rate is currently $123.50 per fortnight.

Currently, payments for Carer Allowance may be backdated up to 12 weeks prior to the day of qualification or, if a claim is made more than 12 weeks after the day of qualification, the payment can be backdated up to 12 weeks prior the day the claim was made.[620] For Carer Allowance claimed in respect of an adult care-receiver, these backdating provisions only apply where the adult's disability is due to an acute event. For Carer Allowance claimed in respect of a child care-receiver, the backdating provisions will not apply where the claimant's qualification is based on them being qualified for Carer Payment.

The Budget proposes to align the backdating provisions for new Carer Allowance claims with other social security payments—for most other social security payments there are no backdating provisions with the start date of the payment usually being the day a claim is made or the day the person becomes qualified for a payment. Backdating provisions can apply in specific circumstances, such as where a person's partner has made a claim for a payment at an earlier date or after childbirth.

615. *Social Services and Other Legislation Amendment (2014 Budget Measures No. 6) Act 2014*; *Social Services Legislation Amendment (Low Income Supplement) Act 2015*.

616. C Porter (Minister for Social Services), *Real money for a real commitment to the NDIS*, media release, 3 May 2016.

617. S Morrison (Treasurer), *Budget lock-up press conference*, transcript, 3 May 2016.

618. *Minerals Resource Rent Tax Repeal and Other Measures Act 2014*; M Klapdor, *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill (No. 2) 2015*, Bills digest, 65, 2015–16, Parliamentary Library, Canberra, 2016; D Arthur, *Social Services Legislation Amendment (Budget Repair) Bill 2015*, Bills digest, 78, 2015–16, Parliamentary Library, Canberra, 2016.

619. P Yeend and L Buckmaster, op. cit., p. 15.

620. Information about Carer Allowance is from: Department of Human Services (DHS), 'Eligibility for Carer Allowance', DHS website.

The measure will impact on carers who delay in contacting Centrelink to claim Carer Allowance. The $108.6 million in savings arises from reduced payments to these new Carer Allowance recipients. Carers Australia has criticised the measure being linked to NDIS funding, with Chief Executive Officer Ara Cresswell stating: 'Carers don't receive direct services under the NDIS, and savings from changes to the Carer Allowance could be better directed to the Government's Integrated Plan for Carer Support Services, which will provide specific carer support.'[621]

Disability Support Pension reviews

This $62.1 million savings measure will see an additional 90,000 medical reviews of DSP recipients over three years. Of these, 30,000 will include a Disability Medical Assessment conducted by a doctor contracted by the Department of Human Services (DHS).[622] The measure extends a 2014–15 Budget measure to review the work capacity of DSP recipients aged under-35 years and DHS's regular program of entitlement reviews.[623] The measure does not require legislation and the savings will derive from some DSP recipients having their payment cancelled and either moving onto a lower rate income support payment or off income support.

The reviews assess existing recipients against the current eligibility criteria for DSP rather than the criteria under which the recipient first claimed. In 2011, new criteria for assessing DSP claimant's work capacity were introduced and new criteria for assessing the impact of medical conditions and impairments were introduced in 2012. Some of those reviewed may not meet the new criteria, while some may have seen an improvement in their medical condition or work capacity so that they no longer qualify for DSP. The new criteria have restricted the number of new claimants and, together with reviews of existing recipients, have contributed to a decrease in the total number of DSP recipients—from around 832,000 people in December 2013 to around 797,000 people in December 2015.[624]

The reviews will be targeted at DSP recipients who 'may have some reasonable but limited capacity to work'.[625] As at January 2016, 20,521 people had been reviewed under the previous measure targeting additional reviews at under-35s. Of these, 2,986 had had their DSP cancelled with 2,464 not meeting the medical requirements. Of those cancelled, 75 per cent moved to another income support payment.[626]

Comment

Removing carbon tax compensation from new welfare recipients will deliver significant savings and, while running against the Coalition's 2013 election commitments, can be argued as reasonable given the abolition of the carbon price. However, the cut comes on top of a long list of benefit cuts and reductions over the last three years and will impact on those reliant on pensions and allowances. Some in this group will be the beneficiaries of the NDIS—as will those affected by the other two welfare measures. This raises the question of whether the services offered by the NDIS should be funded by the withdrawal of direct financial supports for people with disability and carers.

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621. Carers Australia, *Federal Budget: could be better, could be worse for carers*, media release, 3 May 2016.
622. Department of Social Services (DSS), *A sustainable disability welfare system*, budget factsheet, May 2016, p. 1.
623. DHS, 'Disability Support Pension—review recipients aged under 35 years', DHS website.
624. December 2013 and December 2015 data from DSS, 'DSS payment demographic data', data.gov.au website.
625. DSS, *A sustainable disability welfare system*, op. cit.
626. Senate Community Affairs Legislation Committee, Answers to Questions on Notice, Social Services Portfolio, Additional Estimates 2015–16, Question SQ16-000237. take link to the next page

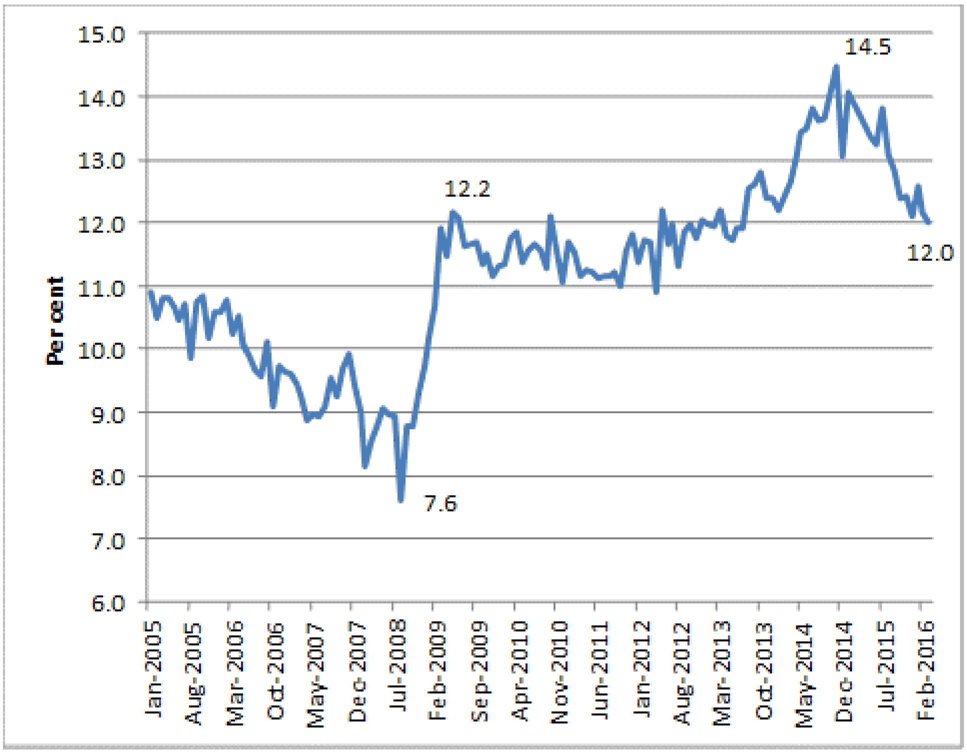
Youth employment measures

Dr Matthew Thomas and Geoff Gilfillan

Youth unemployment

The labour market for youth aged 15 to 24 years deteriorated substantially after the onset of the Global Financial Crisis in 2008 and has only recently shown signs of recovery. Australian Bureau of Statistics (ABS) data show that the youth unemployment rate rose sharply from its most recent low of 7.6 per cent in August 2008 (in seasonally adjusted terms) to 12.2 per cent in May 2009.[627] The youth unemployment rate then rose to 14.5 per cent in November 2014 but has since fallen to 12.0 per cent in March 2016. See graph below.

Unemployment rate for people aged 15 to 24 years (seasonally adjusted data)

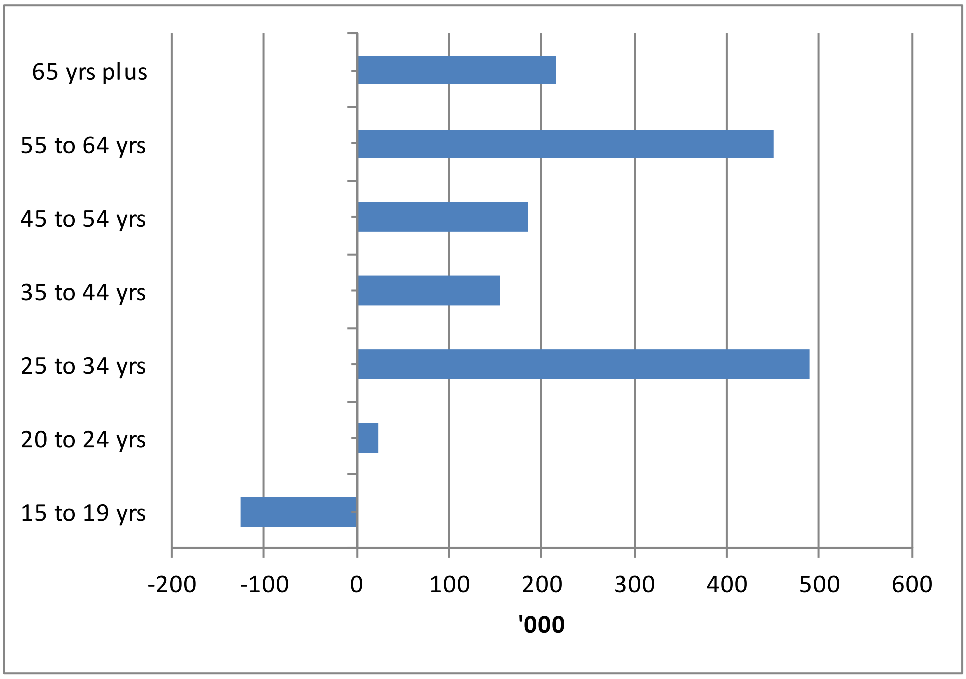


Source: Australian Bureau of Statistics (ABS), *Labour force, Australia*, cat. no. 6202.0, ABS, Canberra, March 2016.

Young people appear to have borne the brunt of softening in the labour market since early 2008. In contrast to people in other age groups, employment for people aged 15 to 19 years contracted by 125,000 between January 2008 and March 2016 and employment for those aged 20 to 24 years only grew by 23,000. See graph below.

627. The labour force data in this brief have been taken from the following product unless otherwise sourced: Australian Bureau of Statistics (ABS), *Labour force, Australia*, cat. no. 6202.0, ABS, Canberra, March 2016; ABS, *Labour force, Australia, detailed—electronic delivery*, cat. no. 6291.0.55.001, ABS, Canberra, March 2016.

Change in employment by age group (original data) — January 2008 to March 2016



Source: Australian Bureau of Statistics (ABS), ABS, *Labour force, Australia, detailed—electronic delivery*, cat. no. 6291.0.55.001, ABS, Canberra, March 2016.

Youth employment measures

In response to the problem of youth unemployment, the Government introduced a youth employment strategy as a part of the 2015–16 Budget.[628] This year's Budget includes a Youth Employment Package which consists of two major new youth employment measures and the revision of the Work for the Dole program. The Government has also abolished the Job Commitment Bonus. As such, the Government's strategy to tackle youth unemployment can be seen as being consistent with its stated general approach to social welfare, under which 'policies that are found to be effective will be continued or enhanced, while ineffective policies will be improved or ceased, with funding made available to new approaches'.[629]

The Job Commitment Bonus will cease from 31 December 2016, realising savings of $242.1 million over five years.[630] The Bonus, which was introduced by the Government as a part of the December 2013 *Mid-Year Economic and Fiscal Outlook* and legislated through the *Social Security Legislation Amendment (Increased Employment Participation) Act 2014*, was intended to provide an incentive for long-term unemployed job seekers to find and take up ongoing paid employment.[631] As was noted in the Bills Digest for the legislation that enabled the Bonus, the measure was an experimental one in Australian terms, and one for which the rationale and likelihood of success was unclear.[632]

628. For a brief description and analysis of the measures see M Thomas, 'Workforce participation measures', *Budget review 2015–16*, 2015–16, Parliamentary Library, Canberra, 2015, pp. 154–156.

629. C Porter (Minister for Social Services), *Ensuring the Government lives within its means: a targeted welfare safety net*, media release, 3 May 2016.

630. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 83.

631. J Hockey (Treasurer) and M Cormann (Minister for Finance), *Mid-year economic and fiscal outlook 2013–14*, pp. 135 and 137; *Social Security Legislation Amendment (Increased Employment Participation) Act 2014*.

632. M Klapdor and M Thomas, *Social Security Legislation Amendment (Increased Employment Participation) Bill 2014*, Bills digest, 48, 2013–14, Parliamentary Library, Canberra, 2014. According to an answer to a question on notice posed by Senator Sue Lines, 'as at 15 November 2014, 16,356 individuals were potentially tracking toward claiming the Job Commitment Bonus, that is, they were aged 18 to 30 while receiving Newstart Allowance or Youth Allowance (other) for 12 months or more, but now have left, and are still off, income support'. Senate Standing Committee on Education and Employment, Answers to Questions on Notice, Employment Portfolio, Supplementary Budget Estimates 2014–15, Question EM1632_15.

The Government has also made changes to the Work for the Dole Program that are anticipated to generate savings of $494.2 million over the forward estimates period.[633] Under the measure, the most job-ready job seekers (Stream A job seekers) will be required to participate in Work for the Dole after 12 months' participation in *jobactive* rather than six months.[634] This will give these job seekers a greater opportunity to gain employment or to participate in programs that may improve their employability before undertaking Work for the Dole, a program whose impacts in terms of employment outcomes is modest. According to the findings of a recent evaluation of the impact of the Work for the Dole program, conducted by researchers from the Australian National University's Centre for Social Research and Methods, participation in the program resulted in only a 1.9 percentage point increase in job seekers' prospects of gaining employment.[635]

The savings from the above measures are being redirected to 'repair the Budget and fund policy priorities'.

The centrepiece of the Youth Employment Package is the Youth Jobs PaTH program. This program, which is to be established at a cost of $751.7 million over four years from 2016–17, is intended to provide job seekers aged under 25 years who have been in receipt of *jobactive* services for at least six months with real work experience, and to maximise their prospects of subsequently gaining employment.[636]

Under the program, following training of up to 6 weeks in basic employability skills, up to 120,000 job seekers will be offered internship placements of 4 to 12 weeks over a four-year period. Participation in the program will be voluntary, with those job seekers who do take part working for 15 to 25 hours per week.[637] Job seekers will receive $200 a fortnight in addition to their income support payment and businesses will receive an up-front payment of $1,000 for hosting job seekers. If the host businesses (or any other employers of job seekers aged under 25 years and in receipt of *jobactive* services for at least six months) offer young job seekers a job, they will be eligible for a wage subsidy of up to $6,500 for job-ready job seekers and up to $10,000 for disadvantaged job seekers. Under the changed wage subsidy arrangements discussed below, the subsidies will be paid on a flexible basis.

As long as young people are provided with quality work experience and acquire skills for which there is likely to be employer demand, the program could prove successful. Australian Council of Social Service CEO, Dr Cassandra Goldie is reported as having argued that the program is more likely than Work for the Dole to help young people into paid employment, and emphasised that ACOSS supports the belief that work experience can improve job opportunities.[638]

While there has been some criticism of the program on the grounds that it involves businesses paying participants around $4 an hour, an amount that is substantially less than the minimum wage of $17.29, this does not account for the fact that the payment is in addition to the job seeker's income support payment.[639] That said, a number of commentators have also expressed concerns that without appropriate safeguards the program could be used by businesses to replace existing workers or as an alternative to recruiting young workers at the appropriate wage.[640] While, as noted above, ACOSS is generally supportive of the program, Cassandra Goldie shared these concerns, and observed that careful monitoring and protections would be needed to guard against the risks of worker displacement.[641]

633. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 86.

634. The measure will realise significant savings because there are far fewer eligible young job seekers at the 12 month point than at the six month point.

635. This was from a baseline of 14.1%. N Biddle and M Gray, *Evaluation of the impact of Work for the Dole 2014–15 in Selected Areas: Report to the Australian Government Department of Employment*, ANU Centre for Social Research and Methods, Research School of Social Sciences, 2016, p. 3.

636. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 85.

637. Australian Greens Senator Rachel Siewert has argued that while participation in the program has been presented as being voluntary, it has the potential to become compulsory, in effect: 'people shouldn't be fooled by the rhetoric that this is voluntary because if a job service provider puts it into a person's job plan it essentially becomes compulsory as penalties apply if someone doesn't support their plan'. K Silva, P McDonald and T Taylor, Budget 2016: jobseekers weigh up internship program but experts fear workers could be exploited, *ABC News*, 4 May 2016.

638. See A Patty, Budget 2016: without safeguards, internship program risks being a 'jobs destruction scheme', *The Sydney Morning Herald*, 5 May 2016.

639. A Patty, Budget 2016: without safeguards, internship program risks being a 'jobs destruction scheme', *The Sydney Morning Herald*, 5 May 2016.

640. Ibid.

641. Ibid.

It should be noted that it is difficult to tell from the budget papers how the Youth Jobs PaTH program will lead to a cost of $751.7 million, as the figures presented only add up to around $244 million.[642] The description of the wage subsidies component of the measure suggests that the remaining funding may be made up of existing wage subsidy funding, which has been reallocated from the *jobactive* program. If so, then the amount of the funding reallocated appears to be in the region of $300 million. The budget papers state that the Government will achieve savings of $204.2 million, and suggest that these will be gained as a result of the streamlining of wage subsidy payments, discussed below.

Under another of the Budget's measures, wage subsidies are to be made more flexible, with the subsidies to be paid earlier and in a manner that better suits businesses.[643] The reform of wage subsidy arrangements is likely to improve employer take-up of the subsidies, which can help to improve long-term employment outcomes for job seekers.[644] However, the changes may also increase the risk of some employers taking on job seekers for shorter periods while the subsidy is available, and then either putting them off or reducing their hours when the subsidies have run out. Typically, wage subsidies are either structured with a relatively small up-front payment and most of the subsidy paid at the conclusion of the payment period or paid in regular instalments so as to avoid this problem. As such, use of the new wages subsidy arrangements by employers will need to be monitored and reviewed.

The Budget provides $88.6 million over the forward estimates period for the expansion of the New Enterprise Incentive Scheme (NEIS) and initiatives to encourage and assist young people into self-employment.[645] Under the NEIS, a person is paid an NEIS allowance that is equivalent to the basic single rate of Newstart Allowance for up to 12 months free of any job search or mutual obligation requirements, as long as the recipient is establishing a new business. The expansion of the NEIS to 8,600 places per annum, and the inclusion of people not in receipt of income support, is a positive step.[646] A number of evaluations of the NEIS have been conducted over the years, and, generally speaking, the findings of these evaluations in terms of self-employment outcomes and flow-on effects have been positive.[647]

642. *Budget measures: budget paper no. 2: 2016–17*, op. cit., p. 85.

643. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 85 and Australian Government, *Sticking to our national economic plan*, budget statement, 2016, p. 22. Wage subsidies are funded through *jobactive*.

644. See J Borland, 'The Australian labour market: the more things change…', *Australian Economic Review*, 48/3, 2015, pp. 239–40.

645. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2016–17*, p. 84.

646. Under the Department of Employment's *Request for Tender (RFT) for Employment Services 2015–20*, the cap was fixed at up to 6,300 places per year.

647. For example: R Kelly, P Lewis, M Dockery and C Mulvey, Findings in the NEIS Evaluation: report prepared for the Department of Employment, Workplace Relations and Small Business, Centre for Labour Market Research, Murdoch University, 2001, pp. 62–3 and A Dockery, 'The New Enterprise Incentive Scheme: an evaluation and test of the Job Network', Australian Journal of Labour Economics, 5/3, 2002, pp. 351–71.

Changes to superannuation tax concessions and contribution arrangements

Kai Swoboda

Superannuation contributions, earnings and benefits are generally concessionally taxed.[648] Arguments to support superannuation tax concessions include compensating people because they are 'forced' to save through compulsory superannuation with access limited until retirement age, and to provide incentives for additional savings to reduce reliance on taxpayer support through the age pension.[649]

The 2016–17 Budget makes significant changes to both the rate at which superannuation is taxed and how much money can flow into, or be held in, the concessionally taxed superannuation environment. The main measures and the financial impact of the measures are presented in Table 1. Taken together, these measures are expected to provide additional revenue over the four years to 2019–20 of $3.2 billion.

The key budget measures that relate to superannuation tax concessions can be broadly characterised into three categories: those that limit tax concessions for higher income earners or with high balances; those that support the 'integrity' of superannuation tax concessions; and measures that provide for greater flexibility to make additional contributions for those who have been unable to do so.

Table 1 Key superannuation measures included in the 2016–17 Budget and budget impact, by type of measure

	Budget impact ($m)				
	2016-17	**2017-18**	**2018-19**	**2019-20**	**Total**
Measures impacting on higher income earners and those with a capacity to make additional contributions					
Introduce a $1.6 million cap on superannuation balances to limit tax-free investment earnings for those in the pension phase		550	700	750	2,000
Introduce a lifetime cap of $500,000 for non-concessional superannuation contributions	50	100	150	250	550
Apply a 30% tax on contributions for those earning $250,000 or more (current threshold $300,000) and reduce concessional contributions cap to $25,000 (currently $35,000 for those aged 49 and over and $30,000 for those aged less than 49)		500	800	1,150	2,450
'Integrity' measures					
Remove the anti-detriment provision in respect of death benefits from superannuation. This essentially provided for a refund of contributions tax paid in certain circumstances.			105	245	350
Remove the tax exemption on earnings of assets supporting Transition to Retirement Income Streams, which allows a tax-free drawdown from superannuation whilst continuing to work.		190	220	230	640
Measures supporting low income earners or allowing for limited additional or more flexible contributions arrangements					
Introduce the Low Income Superannuation Tax Offset to essentially continue the existing Low Income Superannuation Contribution scheme that compensates low income earners for the 15% contributions tax for those earning less than $37,000.			–600	–700	–1,300
Allow catch-up concessional contributions for individuals with unused amounts within their annual concessional contributions cap for those with a superannuation balance of less than $500,000			–100	–250	–350
Remove restrictions for those aged 65 to 74 from making superannuation contributions		–40	–40	–50	–130
Raise the threshold for the low income spouse contributions threshold from $10,800 to $37,000			–5	–5	–10
Remove restrictions to allow all individuals up to the age of 75 to claim an income tax deduction for contributions		350	–600	–750	–1,000
Net package total					**3,200**

Source: Australian Government, *Budget measures: budget paper no. 2: 2016–17*, pp. 25–29.

648. The general superannuation tax treatment for accumulation fund members is set out in the *Re:think tax discussion paper* (Australian Government, *Re:think tax discussion paper*, March 2015, p. 69).

649. Australian Government, *Re:think tax discussion paper*, March 2015, pp. 67–68; Grattan Institute, *Super tax targeting*, November 2015, pp. 16–17.

The Government has given these measures a broader context by setting out the objective of the superannuation system—as recommended by the Financial System Inquiry—'to provide income in retirement to substitute or supplement the Age Pension'.[650]

While most of these measures are proposed to commence from 1 July 2017, there is an element of retrospectivity in some of them. For example, the lifetime non-concessional cap will apply to contributions made from 1 July 2007, although payments made over the proposed $500,000 cap would attract no penalty and individuals would not be penalised or have to withdraw contributions if they have already exceeded the cap.[651]

The budget measures that reduce tax concessions for higher income earners and those with high superannuation balances and the measure that provides for a continuation of the existing low income superannuation contribution (LISC) arrangements, are broadly consistent with the Australian Labor Party's April 2015 superannuation policy announcements and its opposition to the repeal of the LISC during the 44th Parliament.[652] The measure to reduce tax concessions for those earning more than $250,000 also goes part way to meeting the Australian Greens' proposal to introduce a flat 15% contributions tax discount for all taxpayers with taxable incomes above the tax free threshold, based on the taxpayer's marginal rate[653]

The existing arrangements with regards to contribution limits generally apply to defined benefit funds. These mainly cover some Commonwealth and state government public servants. For defined benefits funds, however, the assessment of contribution limits is based on notional equivalent contributions so that the contribution limit outcomes for defined benefit fund members are broadly equivalent to those of members of accumulation funds. The Government has indicated that the proposed measures will include specific changes for defined benefit funds that replicate the changed taxation arrangements and contribution arrangements.[654]

In broad terms, superannuation interest groups have generally welcomed the continuation of the LISC (now in the form of the 'low income superannuation tax offset' (LISTO)) as well as the measures that provide flexibility in making additional contributions, although some groups are critical about the lowering of contributions caps.[655] Reaction to measures that apply to higher income earners has been mixed, with some groups welcoming the equity implications that flow from some of the changes, while other groups considered that tax changes should have been part of a broader review of the tax system.[656]

A number of the measures will be of assistance to some women in 'catching up' on their superannuation contributions (due to interrupted work patterns and generally lower lifetime earnings). These measures are likely to benefit women with higher incomes with women on lower incomes assisted by the LISTO.[657] Of the recommendations of a recent Senate Committee inquiry, the continuation of LISC was the most significant of the Committee's recommendations adopted by the Government in the 2016–17 Budget.[658]

650. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, pp. 1–13; Financial System Inquiry, *Final report*, November 2014, p. 95.

651. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, pp. 25–27.

652. Australian Labor Party (ALP), *Labor's fairer super plan*, ALP policy document, April 2015; C Bowen (Shadow Treasurer) and B Ripoll (Shadow Minister for Financial Services and Superannuation), *Labor welcomes support for low income superannuation contribution*, joint media release, 18 July 2014.

653. Australian Greens, *Progressive superannuation: a system for everyone, not just the rich*, Australian Greens' policy document, February 2015.

654. Australian Government, *Budget 2016 superannuation reform: changes to defined benefit schemes*, fact sheet, 3 May 2016.

655. For example, Association of Superannuation Funds of Australia, *Budget package has significant ramifications for super*, media release, 3 May 2016; and Financial Services Council, *FSC statement on superannuation tax changes*, media release, 3 May 2016.

656. For example, SMSF Association, *Super changes cause for concern for SMSFs*, media release, 3 May 2016; *Industry Super Australia, Budget 2016 – Rebalancing of Super Tax Concessions A Sensible Step In The Right Direction For 3 Million Lower Income Earners*, media release, 3 May 2016.

657. For example, Australian Institute of Superannuation Trustees, *Super measures will improve fairness and sustainability of super: AIST Budget commentary*, media release, 3 May 2016.

658. Senate Standing Committee on Economics, *'A husband is not a retirement plan': achieving economic security for women in retirement*, 29 April 2016, pp. xi–xv.

Corporate tax rate reduction – large businesses

Les Nielson

Proposed changes

Over a 10 year period, starting from 1 July 2016, the company tax rate for all companies is to be reduced to 25 per cent. This will be achieved by progressively lifting the aggregated turnover threshold at which the small company tax rate of 27.5 per cent applies (see separate brief - Small company tax rate reduction).[659] The 27.5 per cent rate will then apply to all companies at which point in time, in 2024-25, the overall company tax rate will progressively reduce to 25 per cent. Table 1 sets out this time line:

Table 1: Time line for reduction in large company tax rate

Year	Aggregated turnover threshold ($m)	Rate (%)
2016–17	10	27.5
2017–18	25	27.5
2018–19	50	27.5
2019–20	100	27.5
2020–21	250	27.5
2021–22	500	27.5
2022–23	1,000	27.5
2023–24	1,000	27.5
2024–25	All companies regardless of turnover	27.0
2025–26	All companies regardless of turnover	26.0
2026–27	All companies regardless of turnover	25.0

Source: Budget Paper No: 2[660]

Companies with an aggregated turnover above the relevant threshold in any one year would, until 2024–25, still be subject to a tax rate of 30 per cent.

International comparisons

Table 2 shows current and proposed corporate tax rates for selected OECD countries and Singapore:

Table 2: Current and future corporate tax rates, selected countries,

Country	Rate in 2015 (%)	Lowest future rate (%)
Australia	30.0	25.0 in 2026–27[661]
Canada	26.3	
France	34.43	
Germany	30.18	
Ireland	12.5[662]	
Japan	32.11	
Korea	24.2	
Luxembourg	29.22	26.08 in 2018[663]
Netherlands	20-25[664]	
New Zealand	28.0	

659. A company's aggregated turnover is defined as annual turnover of the business plus the annual turnover of an associated or affiliated business. According to Section 328–120 of the Income Tax Assessment Act 1997 'annual turnover for an income year is the total ordinary income that the entity derives in the income year in the ordinary course of carrying on a business'.

660. Australian Government, *Budget measures, budget paper no. 2: 2016–17*, 2016, p.41.

661. Ibid.

662. A 6.25% rate applies in company engaged in research and development. See M Noonan (Irish Minister for Finance), Financial Statement, 13 October 2015, Fostering Innovation.

663. PriceWaterhouseCoopers, Luxembourg Government announces 2017 tax changes, 29 February 2016, p. 1.

664. Actual rate depends on corporate taxable income, if taxable amount is less than €200,000, the tax rate is 20%.

Singapore	17.0[665]	
Spain	28.0	25.0 in 2016[666]
Sweden	22.0	
United Kingdom	20.0	17.0 in 2020[667]
United States	39.0[668]	

Source: OECD Tax Data Base[669]

The above table shows the combined corporate tax rate for central and sub-central governments, where the latter also imposes corporate tax. While is tempting to compare Australia's headline corporate tax rate with those of other countries, regard should be had to the existence of the dividend imputation system, which only Australia and New Zealand have full implemented, which dramatically lowers the total tax collected from corporate profits.[670] The future tax rates are those that have been publically declared to date. They are unlikely to be the only such reductions.

Economic impact

The government claims that a more competitive company tax rate will generate economic activity encouraging investment, raising productivity, increasing Gross Domestic Product (GDP) and, over time, raising real wages and living standards.[671]

Any relationship between corporate tax rates and economic benefits is complex. [672] Further, the research is not conclusive and support can be found for both sides. [673] To the extent that there are benefits to lowering the corporate tax rate, there is a question about the time they will take to materialise and whether that will occur over the timeframe indicated by the Government. The Parliamentary Library can provide members and Senators with information about the available research.

Cost

Over the forward estimates period (to 2019–20) the proposed changes are to cost about $2.7 billion.[674] Over the full ten-year phase-in period to 2026–27, the Treasury Secretary has estimated that the changes in the main corporate tax rate, together with all the changes flowing from lifting the small business entity threshold, will cost the Commonwealth Budget $48.2 billion in cash terms.[675]

665. Singapore Government, Inland Revenue Service, Corporate Tax Rates, Corporate Income Tax Rebates, Tax Exemption Schemes and SME Cash Grant, website.
666. PriceWaterhouseCoopers, Tax Summaries, Spain, 2016.
667. HM Revenue and Customs, and HM Treasury, Overview of Tax Legislation and Rates, March 2016, p. 10.
668. This is a maximum rate. However, actual rates may be less than this headline rate; through either the application of the alternative minimum tax or the progressive corporate tax scale at a federal level.
669. OECD Tax Database, Corporate Tax Rates.
670. See K Davis (reviewed by W Smith), 'FactCheck: Is Australia's corporate tax rate not competitive with the rest of the region', *The Conversation*, 10 February 2016.
671. Australian Government, op. cit. This view is supported by the Henry Tax Review, K Henry (Chair), H Ridout, G Smith, J Harmer, J Piggott, *Australia's future tax system Report to the Treasurer Part One Overview*, December 2009, p. 18 and p. 74 and by a wide range of neo-classical economic studies ,see W. McBride, What Is the evidence on taxes and growth, Review Article, Online Edition, (US) Tax Foundation, 18 December 2012.
672. J Freebairn, 'Explainer: how company versus personal tax cuts boost the economy', *The Conversation*, website, 21 March 2016.
673. J G Gravelle and D J Marples, 'Tax Rates and Economic Growth', Congressional Research Service , Report for Congress, 7-5700, R42111, 2 January 2014, p. 1. See also T L Hungerford, 'Taxes and the economy: An economic analysis of the top tax rates since 1945 (Updated)' Congressional Research Service, Report to Congress, 12 December 2012. See also D Richardson, 'Corporate tax avoidance', The Australia Institutes submission to the Senate Economic References Committee Inquiry into Corporate Tax Avoidance, February 2015, pp. 3 and following.
674. Australian Government, op. cit.
675. J Fraser (Treasury Secretary), *Opening statement, Senate Economics Legislation Committee—2016–17 Budget Estimates*, Treasury media release, 6 May 2016.

Implementing OECD taxation initiatives

Les Nielson

The Budget includes several tax integrity measures one of which is to implement two more components of the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting Project (BEPS)[676]. These are:

- eliminating hybrid mismatch arrangements and
- updating transfer pricing rules.[677]

What problems are being addressed?

A hybrid mismatch occurs where a company's financial instrument is treated as, say, debt, in one tax jurisdiction and as, say, equity, in another tax jurisdiction. The outcome can be double non-taxation of the cash flows associated with this instrument. These arrangements are wide spread and have resulted in 'substantial erosion' of countries' tax bases.[678]

Transfer pricing occurs where a company in a low or no tax country (the source country) charges an artificially high price for goods or services sold to an affiliate in a higher tax country (the destination country). The price to the affiliate in the destination country is an operating cost which reduces its profit and tax payable in the high tax destination country. The price to the company in the source country is recorded as revenue so that most of the profit is effectively transferred to that country where little or no tax is payable. Overall, tax is either minimised or eliminated altogether.

Transfer pricing can also work in reverse, where a source country company charges an affiliate an artificially low price for a commodity (say, iron ore) that the affiliate then sells for a much higher price in a low or non-tax jurisdiction. Such sales are suspected of occurring through Singapore-based commodity trading facilities by affiliates of major Australian resource companies.[679]

How are they being addressed?

The OECD has published substantial guidance on measures to address these issues, which Australia has undertaken to implement.[680] The Australian Board of Taxation has already reported to the Government on implementing the OECD's recommendations on the hybrid mismatch rules.[681] This Budget initiative undertakes to implement that report as well as take action on the transfer pricing issue.

Revenue effects

Measures to deal with hybrid mismatch arrangements will apply no earlier than1 January 2018 and changes to the transfer pricing rules from 1 July 2016[682]. The Government has not provided estimates of the revenue effects for either measure for the forward estimates.[683]

Background

Australia has been a strong supporter of the OECD's BEPS project.[684] This project is the most substantial renovation of the international tax standards in almost a century.[685] Its main output is fifteen 'Actions' or policy

676. Organisation for Economic Co-operation and Development (OECD), Base Erosion and Profit Shifting Project website.
677. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, pp.34 –35.
678. OECD, *Neutralising the effects of hybrid mismatch arrangements: Action 2: 2015 final report*, OECD, 5 October 2015, p. 11.
679. Senate Economics References Committee, *Corporate tax avoidance: Part I: You cannot tax what you cannot see*, The Senate, Canberra, August 2015, pp. 25–27. For example, BHP operates such a hub in Singapore and its associated profits are not taxed in that jurisdiction. BHP has paid additional Australian tax in respect of these operations under the Controlled Foreign Company Rules, but it has publicly acknowledged that it has a number of outstanding disputes with the Australian Tax Office over the operation of its Singapore marketing hub (p. 26).
680. OECD, *Neutralising the effects of hybrid mismatch arrangements*, op. cit.; OECD, *Aligning transfer pricing outcomes with value creation: Actions 8–10: 2015 final report*, 5 October 2015.
681. The Board of Taxation, *Implementation of the OECD hybrid mismatch rules*, Australian Government, March 2016.

682 Australian Government, op. cit. p. 34-35.

683 Ibid.

684. S Morrison (Treasurer), *Tougher measures to tackle tax evasion pass Parliament*, media release, 29 February 2016; J Hockey (Treasurer), *Global leaders tackle profit shifting and tax evasion*, media release, 20 September 2014; D Bradbury (Assistant Treasurer), *Address at the launch of the Tax and Transfer Policy Institute, Canberra: Supporting better tax policy for a stronger, smarter and fairer society*, media release, 27 June 2013.

recommendations that countries can implement in order to tackle multinational tax avoidance.[686] The view of the OECD is that it is preferable that these Actions be implemented in a coordinated fashion.[687] To date Australia has taken the following BEPS-consistent actions in relation to:

- stronger transfer pricing legislation[688]
- multinational anti-avoidance laws to ensure multinationals that make sales in Australia do not avoid tax by booking revenue offshore[689]
- implementation of OECD recommendations on country-by-country reporting, tax treaty abuse, harmful tax practices and exchange of rulings[690]
- exchange of information with other countries on activities of multinational corporations[691]
- new tax requirements on foreign investment applications to ensure multinational companies investing in Australia pay tax here on what they earn here[692] and
- introduction of legislation to remove the competitive tax advantage for overseas companies by applying the GST to digital product and other services sold overseas.[693]

What is the rest of the world doing?

As mentioned, it is desirable that the BEPS package is implemented in a coordinated way. To this end, the OECD has established a co-ordination mechanism for participating countries to do just that. There are far more countries participating in the BEPS process than there are members of the OECD.[694]

In addition, BEPS-consistent actions have already been undertaken by a number of countries. For example:

- a large number of countries (including Australia) have entered into agreements for the automatic exchange of tax information, particularly information on multinational corporations[695]
- the UK government is legislating the BEPS hybrid mismatch rules, in particular, and is undertaking work on legislating other BEPS Actions and[696]
- Japan has introduced legislation to:
  - impose a consumption tax for the provision of cross-border digital services (Action 1: Address tax challengers of digital society)
  - eliminate dividend exclusion for hybrid arrangements (Action 2: Neutralise the effects of hybrid mismatch arrangements) and
  - introduce an exit tax for individuals (Action 6: Prevent treaty abuse).[697]

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685. OECD, *Neutralising the effects of hybrid mismatch arrangements*, op. cit.
686 OECD, Action Plan on Base Erosion and Profit Shifting, 2013, p. 13.
687. For further information see OECD, 'OECD/G20 Base Erosion and Profit Shifting Project: Explanatory statement: 2015 final reports', OECD, 2015.
688. *Tax Laws Amendment (Cross-Border Transfer Pricing) Act (No. 1) 2012*; *Tax Laws Amendment (Countering Tax Avoidance and Multinational Profit Shifting) Act 2013*.
689. *Tax Laws Amendment (Combating Multinational Tax Avoidance) Act 2015*.
690. Ibid; *Tax Laws Amendment (Implementation of the Common Reporting Standard) Act 2016*; M Konza (ATO Deputy Commissioner, International), *Address to the Tax Institute NSW 7th Annual Tax Forum: BEPS Action Plan Update*, transcript, 22 May 2014. See also Australian Government, *Budget measures: budget paper no 2: 2015–16*, p. 15–16.
691. S Morrison (Treasurer) and K O'Dwyer (Assistant Treasurer), *Coalition bolsters ATO in fight against multinational tax avoidance*, media release, 28 January 2016.
692. S Morrison, *Tougher measures to tackle tax evasion pass Parliament* op. cit.
693. Tax Laws Amendment (Implementation of the Common Reporting Standard) Act 2016, op. cit.; S Morrison (Treasurer), *OECD report supports Australian Government action on multinational tax avoidance*, media release, 6 October 2015; S Morrison, *Tougher measures to tackle tax evasion pass Parliament* op. cit.
694. OECD, 'Background brief: Inclusive framework for BEPS Implementation', OECD, March 2016.
695. OECD, *Kenya becomes the 94th jurisdiction to join the most powerful multilateral instrument against offshore tax evasion and avoidance*, media release, 8 February 2016; OECD, *Bermuda joins agreement to automatically share BEPS country-by-country reports*, media release, 20 April 2016.
696. HM Treasury, *Business tax road map*, UK Government, March 2016, pp. 21–23 (Box 2B), 25.
697. Zeirishi-Hojin PricewaterhouseCoopers, 'Changes in the Japanese tax laws following the OECD BEPS proposals – The 2015 Tax Reform Proposal', *BEPS News*, Zeirishi-Hojin PricewaterhouseCoopers, 25 February 2015.

Diverted profits tax ('Google tax')

Les Nielson

A proposed new tax

On 1 July 2017, the Government proposes to apply a diverted profits tax (DPT) (popularly known as a 'Google tax'). This will apply where companies shift profits offshore through arrangements with related parties in jurisdictions with lower corporate tax rates than apply in Australia. Broadly based upon similar legislation introduced in the UK in 2015 (see below), this new tax will apply to large companies with global revenue of $1 billion or more where their tax arrangements:

- result in less than 80 per cent tax being paid overseas than would otherwise have been paid in Australia
- are reasonably viewed as being designed to secure a tax reduction and
- do not have sufficient economic substance.[698]

The proposed penalty tax rate is 40 percent. This is substantially above both the current and proposed final Australian corporate tax rates[699] (30 and 25 percent respectively; see separate Budget Brief on *Corporate Tax Rate Reduction – Large Businesses*). This suggests that the proposed tax is aimed at diverting previously unassessed profits into the normal corporate tax system. Other proposed features are that the DPT will:

- provide the ATO with more options to reconstruct the alternative arrangement on which to assess the diverted profits where a related party transaction is assessed to be artificial or contrived;
- impose a liability when an assessment is issued by the ATO (that is, it will not operate on a self-assessment basis);
- require upfront payment of any DPT liability, which can only be adjusted following a successful review of the assessment; and
- put the onus on taxpayers to provide relevant and timely information on offshore related party transactions to the ATO to prove why the DPT should not apply.[700]

The measure is expected to yield $200 million over the period of the forward estimates.[701]

Background

This new tax comes in the wake of several legislative initiatives[702] and public inquiries[703] concerning tax avoidance, along with substantial policy development work by the Organisation for Economic Cooperation and Development (OECD).[704] The public is concerned about this issue, and both the government the ATO have identified further action against multinational tax avoidance as a high priority.[705]

The United Kingdom DPT

The proposed Australian DPT was inspired by the United Kingdom legislation, under which a DPT was implemented, from 1 April 2015, at a rate of 25 per cent (the current UK corporate tax rate being 20 per cent).[706]

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698 Australian Government, *Budget measures: budget paper no. 2: 2016–17*, p.31.

699. ibid.

700. Treasury, *Implementing a Diverted Profits Tax*, Consultation paper, Treasury, Canberra, May 2016, p. 3.

701 Australian Government, ibid.

702. See Tax Laws Amendment (Cross-Border Transfer Pricing) Bill (No. 1) 2012, Tax Laws Amendment (Countering Tax Avoidance and Multinational Profit Shifting) Bill 2013, Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill 2015 and Tax Laws Amendment (Implementation of the Common Reporting Standard) Bill 2015. This is not an exhaustive list of recent legislative initiatives in this area.

703. Senate Economics References Committee, *You cannot tax what you cannot see*, Corporate Tax Avoidance: part I, The Senate, Canberra, August 2015; Senate Economics References Committee, *Gaming the system*, Corporate Tax Avoidance: part II, The Senate, Canberra, April 2016.

704. OECD, 'Base erosion and profit shifting', OECD website.

705. ATO, *ATO warns against profit-shifting arrangements*, media release, 26 April 2016; S Morrison (Treasurer), *Tougher measures to tackle tax evasion pass Parliament*, media release, 29 February 2016.

706. J Hockey (Treasurer), Doorstop interview, transcript, Canberra, 9 December 2014. An excellent guide to the UK's Diverted Profits Tax is S Picciotto, The UK's Diverted Profits Tax: an admission of defeat or a pre-emptive strike?, *Tax Notes International*, 77(3), 19 January 2015, p. 239 and following. See also L Nielson, 'The UK "Google tax": a model for Australia to follow?', FlagPost, Parliamentary Library blog, 23 December 2014 for details of how the UK tax is assessed and applied. See also HM Revenue and Customs (HMRC), *Diverted Profits Tax: guidance*, HMRC, 30 November 2015.

Like the UK tax, the proposed design of the Australian version employs a 'pay first and argue later' approach.[707] The UK DPT is designed to change the behaviour of companies so that they pay more tax on their UK profits rather than risk paying a higher rate of DPT.[708]

Effectiveness of the UK tax

The UK Government issued a consultation draft on the proposed DPT prior to the introduction of the Finance Bill 2015.[709] It forecast that in 2015-16 the DPT would raise £25m rising to £270m in 2016-17.[710] It is too early for the actual full year DPT revenues to have been released.

In any case, in assessing the effectiveness of the UK DPT, the traditional measures, such as the amount of revenue collected by the DPT, are of little use, as the main purpose of the tax is to 'divert' previously unassessed profits into the regular UK tax system. However, one indication of the UK DPT's effectiveness may be to ascertain if it has been subject to substantial amendment since its introduction. The UK Finance Bill 2016 contained no such amendments. This lack of amendment may indicate that the UK DPT is working well, or it may simply indicate that it is too early to assess the effectiveness of the UK arrangements.

Available academic comment on the UK DPT is scant, though one recent commentator has noted:

> The diverted profits tax is controversial on a number of grounds. For example, some question its reliance on broad economic substance-type principles. The lack of clear guidelines might end up either impeding effective implementation, or promote uncertainty if it does indeed end up being a key feature of U.K. tax law on the ground. Critics have also questioned its compatibility with tax treaties, with the ongoing BEPS [OECD Base Erosion and Profit Shifting] process, and with the U.K. government's asserted "open for business" message to overseas investors.
>
> Yet, however one views these issues, two aspects of the diverted profits tax clearly weigh in its favour – at least as guidance to other countries that they might choose, if they like, to implement quite differently. The first is that, by addressing profit-shifting outside the CFC [Controlled Foreign Company] rules, and also by backstopping the PE [Permanent Establishment] rules, it avoids creating tax incentives to expatriate, or more generally to invest in the United Kingdom via foreign rather than domestic multinationals. In this regard, the diverted profits tax may reinforce the U.K.'s worldwide debt cap as a countermeasure to profit-shifting by all large multinationals. Second, if viewed as mainly a response to aggressive transfer pricing (at least for companies that have an acknowledged U.K. PE), it may cleverly make up, through its use of an effective penalty along with less than crystal-clear boundaries, for the fact that such transfer pricing may be harder to second-guess directly than the aggressive use of debt.[711]

The design of the Australian DPT has yet to be finalised but Treasury have begun the consultation process, with submissions due by 17 June 2016.[712]

Reactions to the proposal

Prominent academic commentator on multinational Corporate Tax Avoidance, Associate Professor A Ting has recently observed:

> If properly designed, the new DPT is likely to have strong deterrent effect. This is because its tax rate is 40%, which is 10% higher than the standard corporate tax rate in Australia. The experience in the UK with its version of the DPT suggests that this penalty rate will be an important factor for MNEs to consider before entering into aggressive tax avoidance structures.
>
> The new DPT is a welcome move by the government to combat tax avoidance by multinationals.[713]

707. Treasury, *Implementing a Diverted Profits Tax*, ibid, pp. 1-3.

708. HMRC, HMRC and multinational corporations, fact sheet, 9 February 2016.

709 United Kingdom government, Consultation draft on diverted profits tax

710 United Kingdom government, Consultation draft on diverted profits tax

711. D Shaviro, *The crossroads versus the seesaw: getting a "fix" on recent international tax policy developments*, New York University Law and Economics Working Paper, 408, New York University School of Law, 2015, p. 40.

712 Treasury, *Implementing a Diverted Profits Tax*, Consultation paper, op. cit.

713. A Ting, 'Will there be a new Australian Google tax to crack down on tax avoidance?', in H Hodgson, A Ting, J Freebairn and M Vine, Government pitches for 'integrity' in tax and super: experts respond, *The Conversion*, 3 May 2016.

The Corporate Tax Association has estimated that about 50 per cent of related party transactions undertaken by companies operating in Australia would potentially be assessable under the proposed Australian DPT.[714]

714. J Mather, 'Budget 2016 – Tax Crackdown will be far reaching', *Australian Financial Review*, 5 May 2016, p. 17.

Small business company tax rate changes

Les Nielson

Proposed changes

Currently the corporate tax rates are 30 per cent for companies with an annual aggregated turnover[715] of more than $2 million and 28.5 per cent for companies with an annual aggregated turnover below this figure.[716]

From 1 July 2016, the government proposes to change these rates to:

- 30 per cent for companies with an annual aggregated turnover greater than $10 million (but this rate is scheduled to fall to 25 percent over 10 years)[717]; and
- 27.5 per cent for companies with an annual aggregated turnover of less than$10 million.[718]

Number of companies possibly affected

The focus of these changes is squarely on small and medium enterprises (SMEs). It is estimated that on the basis of the 2013–14 taxation statistics about 792,000 companies could benefit from the proposed change to the small company tax rate.[719] These companies comprised about 91 per cent of all companies and yielded about 22 per cent of the total company tax collected in 2013–14. About 734,000 companies were subject, in 2013–14, to the 28.5 per cent rate.[720]

International comparison of company tax rates

Table 1 provides both the overall corporate tax rate and the small business tax rates for selected countries who are members of the Organisation for Economic Cooperation and Development (OECD) and that have a differential corporate tax rate regime, and also for Singapore, which is not an OECD member.

Table 1: Main and small business corporate tax rates, 2015 (%)

Country	Main Rate	Small Business Rate[721]
Australia	30	28.5
Belgium	33.99	24.98
Canada	26.3	15.19
France	34.43	15
Hungary	19	10
Japan	32.11	21.42
Luxembourg	29.22	28.15
Singapore	17	8.5[722]
Spain	28	25
United States	39	19.92

Sources: OECD Tax Database and Singapore government[723]

715. A company's aggregated turnover is defined as annual turnover of the business plus the annual turnover of an associated or affiliated business. Section 328–120 of the *Income Tax Assessment Act 1997* provides this definition: 'annual turnover for an income year is the total ordinary income that the entity derives in the income year in the ordinary course of carrying on a business'.
716. The 28.5 per cent rate was introduced by the *Tax Laws Amendment (Small Business Measures No. 1) Act 2015*. For background, see K Swoboda, *Tax Laws Amendment (Small Business Measures No. 1) Bill 2015*, Bills digest, 116, 2014–15, Parliamentary Library, Canberra, 2015.
717. See L Nielson, Corporate Tax Rate Reductions: Large Business, *Budget review 2016-17.*
718. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p.41.
719. Australian Taxation Office, *Taxation statistics 2013–14*, 2016, Summary Table 5.13.
720. Australian Taxation Office, *Taxation statistics 2013–14*, 2016, Summary Table 5.13.
721 Note that the criteria for 'small business' varies across jurisdictions and can include staff levels, capital, turnover and taxable income measures.
722. The first S$100,000 profit is tax free. The 8.5 per cent applies to profits between S$100,001 and S$300,000.
723. OECD Tax Database, Corporate Tax Rates; Singapore Government, Inland Revenue Service, Corporate Tax Rates, Corporate Income Tax Rebates, Tax Exemption Schemes and SME Cash Grant, website. In this table both the main corporate tax rate and the small business tax rate are the overall rate imposed by both the central and sub-central governments.

Table 1 does not give a full picture of corporate tax rates. For example, Luxembourg plans to reduce its combined corporate tax rate to 19 percent in 2017 and further reductions thereafter.[724] In addition, Singapore, Luxembourg and Ireland have special tax rates applying to companies in particular circumstances.

Arguments for and against

There are a number of benefits from promoting the SME sector:

> SMEs are crucial to the social and economic health of local, regional and national communities. As the mining boom naturally evolves from investment to production, SMEs will increasingly drive future economic growth. Their adaptability and flexibility allows the exploitation of niche markets and embrace of new technology. SMEs can enter and exit markets more nimbly in response to fluctuations of price and demand, thereby boosting competition, increasing choice, delivering value and forcing existing firms to improve.[725]

There are several arguments in favour of concessional tax treatment for small business.

A 2009 review by the OECD noted that the main arguments in favour of this concessional treatment were:

- positive externalities (such as higher employment, faster growth, higher rates of innovation and high rates of involvement in export markets, greater economic development in regional areas[726]) whereby small businesses generate benefits greater than those accruing to private investors
- the need to overcome capital market imperfections resulting from less information about small companies being held by lenders, compared to the information being held on larger company borrowers, as well as small company borrowers not having as much information about sources of finance compared to large company borrowers (information asymmetries)[727]; and
- to overcome impediments to small business creation and growth created by 'normal' tax arrangements that apply to small businesses. These include the relatively high compliance burden, taxes on the sale or inheritance of small businesses, and limited loss offsets that discourage risk taking.[728]

The arguments against preferential tax treatment for small businesses include:

- uncertainties about the extent to which positive spill-over benefits are particularly associated with small businesses
- whether asymmetric information problems noted above may in some cases result in overinvestment, rather than underinvestment
- practical implementation of such measures, which may lead to efficiency losses (through inadequate targeting of government assistance measures) and
- whether a tax intervention is the best way to achieve a certain outcome.[729]

The application of differential company tax rates is a temporary measure, with increasing numbers of companies being subject to the 27.5 per cent tax rate up to 2024–25, after which all companies will have the same tax rate applied.[730]

724. PriceWaterhouseCoopers (PWC), *Luxembourg Government announces 2017 tax changes*, 29 February 2016, p. 1.

725. B Billson (Minister for Small Business), Address to the G20 Agenda for Growth: Opportunities for small and medium enterprises conference, Melbourne, 20 June 2014.

726. A Tan, P Brewer, P Liesch, and L Coote, 'Commitment to internationalisation : an extension of the internationalisation process model' in *Institutions, organisations and markets: new international business research opportunities*, University of Auckland, New Zealand, 2014; J Freeman, C Styles and M Lawley, 'Does firm location make a difference to the export performance of SMEs?', *International Marketing Review*, 29 (1), 2012, p. 88; C Graves and YG Shan, 'An empirical analysis of the effect of internationalization on the performance of unlisted family and nonfamily firms in Australia'[abstract], *Family Business Review*, August 2014, pp. 1-19; V Le and A Valadkhani, 'Are exporting manufacturing SMEs more efficient than non-exporting ones? Evidence from Australia's business longitudinal database, [abstract], *Economic Analysis and Policy*, 44 (3), 2014, pp. 310-317; Export Finance and Insurance Corporation (Efic), *SME Exporter Index*, September 2014, p. 17.

727. OECD, *Taxation of SMEs: key issues and policy considerations*, OECD Tax Policy Studies, 18, 2009, p. 84 and pp. 94–95.

728. Ibid.

729. Ibid.

730. See, L Nielson, Corporate Tax Rate Reductions: Large Business, *Budget review 2016-17.*

Personal income tax changes

Les Nielson

What are the proposed changes?

Table 1 shows both the current and proposed personal income tax rates for Australian tax residents.

Table 1: Current and proposed personal marginal income tax rates, $p.a.

Current Taxable Income	Rate %	From 1 July 2016 Taxable Income	Rate %
0–18,200	Nil	0–18,200	Nil
18,201–37,000	19	18,201–37,000	19
37,001–80,000	32.5	37,001–87,000	32.5
80,001–180,000	37	87,001–180,000	37
180,001 and over	45	180,001 and over	45

Sources: ATO[731] and Budget Paper No:2[732]

The above table does not include the Medicare levy and the two per cent Temporary Budget Repair levy for taxable incomes over $180,000.

Table 2 shows examples of tax payable at various income levels under both the current and proposed resident personal income tax rates.

Table 2: Tax paid, by gross taxable income, current and proposed tax rates, $ p.a.

Annual Income	Current Tax Amount	Proposed Tax Amount	% Change
20,000	342	342	-
60,000	11,047	11,047	-
100,000	24,947	24,631	0.013
190,000	59,047	58,731	0.005

Calculations by Parliamentary Library

Table 2 does not include the Medicare Levy and the Temporary Budget Repair levy.

As can be seen, the proposed personal income tax reductions for higher income earners are quite modest on an annual basis.

Those affected

The proposed changes will affect those in different personal income tax brackets. Table 3 shows the number of taxpayers, by their top marginal personal income tax bracket in 2013–14:

Table 3: Selected Personal Income Tax Statistics, 2013–14

Tax Bracket ($p.a.)	Number of Taxpayers	% of Total	Net Tax $m	% of Total Net Tax Paid
0–18,200	2,484,095	19.2	76	0.05
18,201–37,000	3,106,352	24.0	4,190	2.5
37,001–80,000	4,840,065	37.3	47,764	28.7
80,001–180,000	2,157,515	16.6	64,616	38.9
180,001 and over	376,267	2.9	49,551	29.8

731 Australian Taxation Office website, Individual income tax rates

732. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p.42.

Source: ATO Taxation Statistics[733]

The proposed changes would, on the basis of latest available figures, affect about 19.5 per cent of taxpayers in the two highest personal income tax brackets. These account for 68.7 per cent of personal income tax paid, based on 2013–14 figures. The government notes that this measure will ensure that around 500,000 taxpayers, whose top marginal rate is 37 cents in the dollar, will not be subject to the next highest tax bracket in the next three years.[734] The likelihood of this outcome will depend on wages growth, which is projected to be modest, at best.[735]

Proposed thresholds and inflation/average wage increases

The current personal income tax scales have remained unchanged since 2008–09. Since then the Consumer Price Index has increased by 18 per cent, and average weekly ordinary time earnings have increased from $1119.60 to $1500.50 in November 2015 (equivalent to about $78,026 per year); an increase of 34 per cent).[736] Taking into account that the current rates and thresholds have not changed since 2008–09 (setting aside the various budget repair and disaster levies) these figures underscore the extent of bracket creep since that time.

The economic impact

Prominent Australian economist, Professor John Freebairn has recently observed that:

> Lower personal income tax rates provide incentives for a more productive economy and higher living standards through two main mechanisms. Lower marginal income tax rates increase the incentive for, and the rewards from, joining the workforce, working more hours, and putting more into education and skill acquisition. These incentives are especially important for women with children and older workers.
>
> Also, lower personal income tax rates reduce distortions to household decisions on how much to save and where to invest savings in owner occupied homes, other property, financial deposits, shares, superannuation and other options.[737]

Doubtless the extent to which the above economic impacts occur depend on the size of the personal income tax cuts. Eventually, these impacts may reduce over time, while a corporate tax cut may produce longer lasting benefits (see Corporate tax rate reduction: large companies).

Savings verses consumption

An important influence on any boost that the proposed tax cuts give to the economy is what the taxpayer actually does with the additional disposable income. Overall, the household savings ratio has increased steadily since 1990.[738] Generally, it appears likely to be the case that higher income households will save rather than spend a tax cut.[739] To the extent that this occurs, it limits any immediate economic boost from a personal income tax cut.

733. Australian Taxation Office, *Taxation Statistics 2013-14*, Summary-Table 5.10, Number of Individuals and Net Tax, by Tax Bracket, 2013-14 Income Year.

734. *Budget paper no. 2 2016–17*, op. cit., p. 42.

735. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2016–17*, 2016, pp. 1-7.

736. Figures sourced from Monthly Statistical Bulletin, Parliamentary Library, Canberra, 2016.

737. J Freebairn, 'Explainer: how company versus personal tax cuts boost the economy', *The Conversation*, 21 March 2016.

738. A Duncan and R Cassells, 'Australians are saving more, but are more comfortable with debt', *The Conversation*, 17 June 2015.

739. R Finlay and F Price, 'Household saving in Australia', Research Discussion Paper, 2014-03, Reserve Bank of Australia, April 2014; L Berger-Thomson, E Chung and R McKibbin, 'Estimating marginal propensities to consume in Australia using micro data', Research Discussion Paper, 2009-07, Reserve Bank of Australia, November 2009.

Tax integrity package—establishing the tax avoidance taskforce

Kali Sanyal

Introduction

On 4 April 2016, global news agencies, including the Australian Broadcasting Corporation (ABC), released a series of reports on the offshore financial schemes under the banner 'The Panama Papers'. 'The story was based on 11.5 million leaked records from a Panamanian law firm, 'Mossack Fonseca', a firm that creates offshore shell companies on an industrial scale. Some 214,000 companies, trusts and foundations were created over the years.'[740]

Australian Taxation Office (ATO) action on 'Panama Papers'

In a statement released on 4 April 2016, the ATO stated that they had received data in relation to 'Mossack Fonseca' containing names of a significant number of Australian residents, of which over 800 individual taxpayers were identified. After scrutiny of the papers the ATO linked over 120 of them to an associated offshore service provider located in Hong Kong.[741] There are around 80 names that matched with the Australian Crime Commission's crime intelligence database.[742]

The ATO further revealed that ATO intelligence on tax evasion comes from a variety of sources, including from concerned citizens, advisers, partner agencies and international bodies. For example the ATO has raised tax liabilities of around $400 million from data supplied by confidential informants.[743]

In a Senate Committee inquiry hearing on 21 April 2016, the Commissioner of Taxation, Mr Chris Jordan acknowledged that '(t)he sheer size of the data release means that no single jurisdiction can tackle this challenge alone'.[744]

The 2016–17 Budget measures

Against the backdrop of the 'Panama Papers', the 2016–17 Budget enhances the role of the Australian Taxation Office (ATO) in targeting tax evasion and avoidance. The Government announced that the ATO will receive $679 million over four years to establish a Tax Avoidance Taskforce. The Taskforce is expected to recover $3.7 billion in tax liabilities over four years. It is intended that the Taskforce will also deter taxpayers from attempting to avoid and evade their tax obligations.[745]

The objective is to enhance the ATO's current compliance activities targeting large multinationals, private groups and high-wealth individuals, and extend the activities to 30 June 2020. The suggested operational framework allows the ATO to work closely with partner agencies including the Australian Crime Commission (ACC), the Australian Federal Police (AFP), the Australian Securities and Investments Commission (ASIC) and the Australian Transaction Reports and Analysis Center (AUSTRAC). Similar to 'Operation Wickenby', the Taskforce will also investigate alleged breaches of taxation law involving deliberate tax evasion and avoidance. The Government tasked the Commissioner of Taxation to provide regular progress reports, with the first report to be provided before the end of 2016.

As part of the reviewing the work of the group, a panel of external experts, including a number of eminent former judges will review proposed settlements with the ATO in order to ensure that they are fair and appropriate.

740.. M Wilkinson (Journalist, Four Corners, Australian Broadcasting Corporation), Evidence to Senate Economics References Committee, Inquiry into Corporate tax avoidance, 21 April 2016, pp. 1–3.

741. Australian Taxation Office (ATO), ATO Statement regarding release of taxpayer data, media release, 4 April 2016.

742. Australasian Lawyers, Panama Papers: ATO talks Aussie links, *Blogpost*, 22 April 2016,

743. Ibid.

744. C Jordan (Commissioner, ATO), Evidence to Senate Economics References Committee, Inquiry into Corporate tax avoidance, 21 April 2016, p. 22.

745. Australian Government, *Budget measures 2016-17 — part 1: revenue measures, budget paper no. 2: 2016–17* , p. 33.

Past tax evasion and avoidance programs

Operation Wickenby

Beginning in the second half of 2005, under the codename Operation Wickenby (later named Project Wickenby), the ATO worked with other agencies to detect fraud and crime in offshore tax evasion and tax avoidance arrangements.

On 8 February 2006, the then Coalition Government provided the ATO with extra funds to combat tax scams. At the time, the Government provided an additional $305 million over the next six years, to further resource a multi-agency operation directed at promoters of and participants in off-shore tax schemes and fraud.[746]

Project Wickenby focused on tackling offshore tax evasion and crime, and concluded in June 2015.

On 4 April 2016, the ATO disclosed that on the successful completion of the Project Wickenby last year, the Government could raise $2.3 billion in tax liabilities and had 46 criminal convictions.[747]

Project DO IT

After the successful completion of Project Wickenby, the ATO embarked on an agency initiative in 2014 entitled Project DO IT. On 27 March 2014, the ATO announced that the project was a one-off opportunity to allow eligible taxpayers to come forward and voluntarily disclose unreported foreign income and assets pursuant to certain undertakings by the ATO.[748] The ATO emphasised that it would use powers it has under bilateral or multilateral agreements between Australia and other countries to exchange information about hidden or undisclosed offshore income and assets. Project DO IT offered the most generous terms ever announced by the ATO for making a voluntary tax disclosure.

Under this scheme disclosures about offshore income and assets were required to be made by 19 December 2014 in order for taxpayers to take advantage of the terms offered under the initiative. Taxpayers making disclosures would be assessed only for the last four years, be liable only for a maximum shortfall penalty of 10 per cent, and would not be referred for criminal investigation.[749]

Under the project, an undisclosed number of disclosures have been lodged and concluded by way of settlement deed with the ATO.[750]

Serious Financial Crime Taskforce

Since the completion of Project DO IT, the ATO has bolstered its compliance work and has coordinated with other agencies. The project may refer some cases to the Serious Financial Crime Taskforce (SCFT)—which is an offshoot of Project Wickenby.[751] The SFCT is a multi-agency taskforce that forms part of the Australian Federal Police led Fraud and Anti-Corruption Centre [752] and started operation on 1 July 2015.

While Project Wickenby focused on tackling offshore tax evasion and crime, the SFCT will have a broader remit to target the highest priority serious financial crimes.

The 2015–16 Budget provided $127.6 million over four years to fund the new SFCT to ensure Commonwealth financial crimes are disrupted and deterred.[753]

The Taskforce has been operational since 1 July 2015 and by the middle of October 2015 there were eight new matters under investigation involving serious financial crime. Further, more than 580 tax audits were undertaken and more than $85 million in liabilities raised.[754]

The priorities for the Taskforce include investigations into serious international tax evasion and criminality related to trusts and phoenix activity.

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746. P Costello (Treasurer), Government provides extra funds to combat tax scams, media release, 8 February 2006.
747. Australian Taxation Office, ATO Statement regarding release of taxpayer data, media release, 4 April 2016.
748. ATO, *Australians with undisclosed offshore income urged to come clean*, media release, 27 March 2014.
749. ATO, *Project DO IT - the deadline is fast approaching*, media release, 10 December 2014.
750. G Stein, A Noolan and S Howari, Australia: Disclosing your offshore income-Project Do It-today!, Mondaq website, 2 November 2015.
751. ATO, *ATO Statement regarding release of taxpayer data*, media release, 4 April 2016.
752. Australian Federal Police (AFP) Fraud and Anti-Corruption Centre, AFP website.
753. K O'Dwyer (Minister for Small Business and Assistant Treasurer), *Government multi-agency approach to fight serious financial crimes*, media release, 14 October 2015.
754. Ibid.

OECD Common Reporting Standard

The Common Reporting Standard (CRS) is the single global standard for the collection, reporting and exchange of financial information on foreign tax residents. Under the CRS, banks and other financial institutions collect and report to the ATO financial information on non-residents. The ATO will exchange this information with the participating foreign tax authorities of those non-residents. In parallel, the ATO will receive financial information on Australian residents from other countries' tax authorities. This will help ensure that Australian residents with financial accounts in other countries are complying with Australian tax law and act as a deterrent to tax evasion.[755]

The *Tax Laws Amendment (Implementation of the Common Reporting Standard) Act 2016*[756] received Royal Assent on 18 March 2016 and will take effect on 1 July 2017. The first exchange of information will occur in 2018.[757]

In relation to corporate tax avoidance, the ATO has implemented other measures. For example, the ATO has strengthened the transfer pricing rules to OECD best practice and the tightened thin capitalisation rules.

755. ATO, Common reporting standard for the automatic exchange of financial account information, ATO website.
756. Australian Government, Federal Register of Legislation, *Tax Laws Amendment (Implementation of the Common Reporting Standard) Act 2016 (Cth)*
757. ATO, Common reporting standard for the automatic exchange of financial account information, ATO website, op. cit.

Wine equalisation tax rebate changes

Rob Dossor

Wine is taxed differently to other alcoholic beverages in Australia. It has its own tax, the Wine Equalisation Tax (WET).[758] The WET is imposed at the rate of 29 per cent on the wholesale value of wine.[759] All other alcoholic beverages are taxed on their alcohol content.[760] This generally makes the tax on wine, on a 'standard drink' basis, less than other alcoholic beverages.[761]

The WET is designed to be paid at the last wholesale point of sale, which is usually the sale by the wholesaler to the retailer.[762]

The WET is also unusual due to the large, widely available rebate for eligible wine producers. [763] Eligible producers must:

- manufacture the wine from grapes, other fruit, vegetables or honey they produce or purchase
- provide the grapes, other fruit, vegetables or honey to a contract winemaker to be made into wine on their behalf or
- subject their wine to a process of manufacture—for example, manufacturing finished wine from raw wine, or blending wines to make a commercially distinct wine.[764]

Exported wine is now liable for the WET.[765]

Producers can currently claim a rebate of up to $500,000.[766] The rebate is estimated to have cost the budget $330 million in 2016.[767]

Some commentators are concerned that the WET rebate is being rorted.[768] The ATO has conducted a number of investigations into rorting but no changes to the rebate have been made (other than to increase the rebate level).[769]

In March 2015 the Government released the Re:think tax discussion paper.[770] Several submissions to the discussion paper called for reforms to the WET rebate (as well as the WET generally).[771] In August 2015, the Government released the Wine Equalisation Tax Rebate discussion paper which sought to 'better inform discussion and analysis of the WET rebate as part of the Tax White Paper process and ongoing government policy development'.[772]

Criticisms of the WET rebate

The Winemakers Federation of Australia (WFA) is a vocal critic of the WET rebate and calls for it to be reformed.[773] The WFA is concerned that the WET rebate is compromised 'on three fronts', including:

- the ability of brokers, intermediaries and uncommercial arrangements to access the entitlement

758. Australian Taxation Office (ATO), 'Wine Equalisation Tax', ATO website.
759. Ibid.
760. ATO, 'Excise rates for alcohol', ATO website.
761. A Mitchel, 'The case builds for alcohol tax reform', *The Financial Review*, 30 June 2014, p. 26.
762. ATO, 'Wine Equalisation Tax', op. cit.
763. ATO, 'Producer rebate', ATO website.
764. Ibid.
765. ATO, 'Wine Equalisation Tax', op. cit.
766. Ibid.
767. Treasury, *Tax Expenditures Statement 2015*, Canberra, January 2016, p. 102.
768. P Dutton (Minister for Revenue and Assistance Treasurer), *Government introduces further improvements to the tax system*, media release, 25 May 2006; and S Evans and E Tadros, 'Policy to investigate wine tax rorts', *Australian Financial Review*, 1 February 2014, p. 4.
769. Ibid.
770. Australian Government, 'Re:think: tax discussion paper'.
771. R Dossor, 'Wine taxation', Flagpost, Parliamentary Library blog, 3 August 2015.
772. Australian Government, 'Wine equalisation tax rebate', discussion paper, August 2015, p. 1.
773. C England, 'Wine rebate's bad taste: industry fears over WET 'exploitation'', *Adelaide Advertiser*, 16 January 2016, p. 65.

- the role of the rebate in delaying the correction of the supply/demand imbalance by underpinning the conversion of uncommercial grapes into bulk wine and ultimately low-equity cleanskins and home brands and
- the ability of New Zealand entities to access the entitlement on unfair preferential terms.[774]

The WFA made a number of recommendations including:

- that the rebate should stop going to unintended recipients
- remove the eligibility of bulk and unbranded wine to gain access to the WET rebate over four years
- abolish the application of the scheme to New Zealand producers and
- encourage consolidation by introducing transitional rebate measures to allow the second rebate on mergers of two businesses entitled to the rebate.[775]

Senate inquiry

A Senate inquiry into the Australian grape and wine industry was established in March 2015 to look into, among other things, the impact and application of the WET rebate on grape and wine industry supply chains.[776] The Committee heard evidence from a large number of sources that the WET rebate is working against the profitability of the Australian wine industry and agreed that reform is urgently required.[777]

In its report, the Committee agreed that widespread rorting and misapplication of the WET rebate was also taking place.[778] The Committee recommended 'that the Government phase out the current [WET] rebate over five years, allocating the savings to a structural adjustment assistance program for the industry including an annual grant to genuine cellar door operators to support their continued operation'.[779]

2016–17 Budget changes

The WET rebate measures announced in the 2016–17 Budget are modest. They will:

- reduce the WET rebate cap from $500,000 to $350,000 on 1 July 2017, and to $290,000 on 1 July 2018.
- better target assistance and reduce distortions in the wine industry and
- provide $50 million over four years to the Australian Grape Wine Authority (AGWA) to promote tourism within Australia, and Australian wine overseas.[780]

Importantly, the WET rebate changes will tighten eligibility criteria, making it a requirement that producers must either own a winery or have a long-term lease over a winery, and sell packaged, branded wine domestically.[781] It is estimated that these measures will have a $250 million gain to the budget over the forward estimate period.[782] Amendments will be required to legislation to give effect to the change in the WET rebate cap and the eligibility criteria.

The Government says it will prioritise the introduction of additional WET rebate integrity measures.[783] No further details are available around the proposed changes at this stage.

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774. Wine Federation of Australia and Wine Grape Growers Australia, Submission to wine equalisation tax rebate, discussion paper, September 2015, p. 3.
775. Ibid.
776. Senate Rural and Regional and Affairs and Transport Committee, *Inquiry into the Australian grape and wine industry*, The Senate, Canberra, February 2016, p. 1.
777. Ibid., p. 34.
778. Ibid.
779. Ibid.
780. Australian Government, *Budget measures: budget paper no. 2: 2016–17*, 2016, p. 43.
781. K O'Dwyer (Minister for Small business and Assistance Treasurer) and A Ruston (Assistance Minister for Agriculture and Water Resources), *Wine equalisation tax rate–improving integrity and growing exports*, media release, 3 May 2016.
782. Australian Government, *Budget paper no. 2: 2016–17*, op. cit., p. 43.
783. Ibid.