



## Budget Review 2008–09

### Introduction

For the first time in twelve years we have, not only a new parliament, but a new government. This year's Budget is a central document for establishing the policy directions of the recently elected Rudd Labor Government. The purpose of the *Budget Review 2008–09* is to assist Senators and Members by considering a selection of measures contained in the Budget. It is not the intention of this document to make value judgements about the relative importance of different measures. Rather, it provides an overall examination of the Budget and some detailed analysis in selected areas.

The briefs are organised according to the subject matter discussed and the perspective adopted in the analysis. The opening feature article in the Economic Issues section provides a macroeconomic analysis and commentary of the Budget including the key assumptions underpinning the Government's fiscal policy and the main spending and taxing features contained in the Budget. The article also provides a discussion on a range of economic indicators and forecasts and an overview on a range of international issues impacting on this year's Budget. The remaining articles are more tightly focussed and examine the impact of the Budget across a broad range of specific issues and initiatives.

The *Budget Review 2008–09* has necessarily been prepared under time pressure with a view to making it available to parliamentarians as soon as possible after the handing down of the Budget on 13 May. Great care has been taken to ensure that this paper is accurate and balanced. It is written using information publicly available at the time of production.

Clients of the Library are invited to raise any points requiring amplification or clarification directly with the research specialist concerned. Authors will also welcome general comments on papers. Any other feedback should be forwarded to me.

I hope, as with all our publications, that you find this a useful contribution from the Library.

Roxanne Missingham  
Parliamentary Librarian  
May 2008

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## Budget 2008–09: key features

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Economics Section

### Introduction

This Budget is the first under the Rudd Government and the first delivered by the new Treasurer, Wayne Swan. It is the first Budget brought down by a Labor Government since Ralph Willis' last Budget in 1995. The main changes between the last Howard Government Budget and the first Rudd Government Budget are discussed below.

This Budget has been framed in a challenging environment for economic policy makers. On the one hand the Australian economy is operating at, or very close to, capacity, creating domestic inflationary pressures. The unemployment rate and participation rates are both hovering around three-decade lows and underlying inflation, now well outside the Reserve Bank of Australia (RBA) target range of 2 to 3 per cent, has accelerated in recent quarters. On the other hand, the global financial system is experiencing the fallout from the US sub-prime crisis, resulting in tighter credit conditions which are expected to slow growth in the advanced economies over the forward estimates period. In his speech, the Treasurer described the Budget in the following terms:

This Budget is designed to meet the big challenges of the future. It is a Budget that strengthens Australia's economic foundations, and delivers for working families under pressure. It is the responsible Budget our nation needs at this time of international turbulence, and high inflation at home. A Budget carefully designed to fight inflation, and ensure we meet the uncertainties of the future from a position of strength. A Budget with a \$55 billion Working Families Support Package at its very core. A Budget that begins a new era of strategic investment in Australia's future challenges and opportunities. And a Budget that helps plan, finance and secure Australia's long-term national security and defence needs. These are the commitments the Government gave to the Australian people at the election. Mr Speaker, this Budget honours those commitments. The Government has made sure every single cent of new spending for the coming year has been more than met by savings elsewhere in the Budget. Our commitments have been honoured by redirecting spending. Difficult spending cuts have helped fund our Working Families Support Package and our new priorities for the nation.<sup>1</sup>

These comments reflect the uncertainty for economic policy makers going forward, but nonetheless reveal a commitment from the government to implement their election promises in a disciplined manner. They also reflect the government's desire to contain spending to combat domestic inflationary pressures.

Most of the major items in the Budget had been revealed prior to its release. These included: personal income tax cuts; changes to the excise on 'other excisable beverages', known as 'alcopops'; introduction of, or changes to existing, means-tests for Family Tax Benefit – Part B, the Baby Bonus and the Medicare levy; increases in the Child Care Rebate; and tax refunds for educational expenses. In general, the Budget contained no real 'surprises'.

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1. W. Swan, *Budget Speech 2008–09*, Commonwealth of Australia, Canberra, 2008, pp. 1–2.

In the immediate aftermath of the Budget, the main focus of much of the media was on the tax cuts, the three ‘nation-building’ infrastructure funds and the degree of fiscal restraint exercised.<sup>2</sup> The issue of whether fiscal settings are tight enough to have any impact on inflation tended to dominate the headlines. For example, on the morning of 14 May 2008 the headlines said:

- ‘Swan Lite on Inflation’ in *The Australian*
- ‘Swan’s Nip and Tuck Budget’ in the *Australian Financial Review*
- ‘It’s a Highwire Act - \$41 billion for nation building but risk of pressure for inflation’ in the *Sydney Morning Herald*, and
- ‘Softly, softly: Labor’s cautious first steps’ in *The Age*.

This brief succinctly covers some of the main features of the Budget by examining the economic forecasts contained in the Budget as well as the outlook for other macroeconomic aggregates, including inflation, unemployment, the current account and interest rates. It then discusses the main revenue and spending aspects of the Budget.<sup>3</sup>

## The Economic Outlook

‘Statement 2: Economic Outlook’ in *Budget Paper No. 1 2008–09* details estimates (2007–08), forecasts (2008–09) and projections (2009–10 to 2011–12) of the main macroeconomic aggregates that underpin the revenue and expenses figures presented in ‘Statement 3: Fiscal Strategy and Outlook’, *Budget Paper No. 1 2008–09*.<sup>4</sup> In a time of uncertainty given the countervailing forces that exist, both internationally and domestically, these numbers assume a greater importance to the future Budget outlook. First, Statement 2 provides an overview of the parameters that underpin the Budget. Second, it provides an indication of the government’s expectations of the state of the global economy up to the end of 2009. Third, Statement 2 provides a detailed outlook for the domestic economy. This section of the brief provides an analysis of the government’s forecasts, as well as comparing the outlook in the Budget to key economic forecasts from other sources.

## The Domestic Outlook

Table 1 from the Statement 2 examines the major economic aggregates, estimates and forecasts (see Table 1 below).

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2. For a detailed listing of post-Budget media coverage, see:

<http://libauth1/library%5Fservices/budget%5Flibrary/>

3. Sections of this brief draw on discussion from previous Parliamentary Library Budget Briefs, in particular D. Richardson, *Budget 2006-07: Background Note* and D. Richardson, *2005–06 Budget — Main Features*.

4. Australian Government, ‘Statement 2: Economic Outlook’ and ‘Statement 3: Fiscal Strategy and Outlook’, *Budget Paper No. 1 2008–09*, Commonwealth of Australia, Canberra, 2008.

Table 1: Major Economic Aggregates, Estimates and Forecasts—annual percentage change <sup>5</sup>

|   | Estimates 2007–08 | Forecasts 2008–09 |
|---|-------------------|-------------------|
| <b>Demand and Output</b>                  |                   |                   |
| Household consumption                     | 4½                | 2¾                |
| Dwelling investment                       | 2½                | 2                 |
| Business investment                       | 9½                | 8½                |
| Private final demand                      | 5¼                | 4                 |
| Public final demand                       | 4¾                | 3                 |
| Total final demand                        | 5¼                | 3¾                |
| Changes in inventories <sup>6</sup>       | ¼                 | -¼                |
| <i>Gross National Expenditure</i>         | 5½                | 3½                |
| Exports                                   | 3                 | 6                 |
| Imports                                   | 11                | 9                 |
| <i>Net exports</i> <sup>7</sup>           | -2                | -1                |
| <i>Real gross domestic product</i>        | 3½                | 2¾                |
| Non-farm product                          | 3¾                | 2¼                |
| Farm product                              | 2                 | 20                |
| <i>Nominal gross domestic product</i>     | 7¾                | 9¼                |
| <b>Other Selected Economic Measures</b>   |                   |                   |
| <b>External Accounts</b>                  |                   |                   |
| Terms of trade                            | 4¾                | 16                |
| Current account balance (per cent of GDP) | -6¼               | -5 <sup>8</sup>   |
| <b>Labour Market</b>                      |                   |                   |
| Employment <sup>9</sup>                   | 2½                | 1¼                |
| Unemployment rate (per cent)              | 4¼                | 4½ <sup>10</sup>  |
| Participation rate (per cent)             | 65¼               | 65¼ <sup>11</sup> |
| <b>Prices and Wages</b>                   |                   |                   |
| Consumer Price Index                      | 4                 | 3½                |
| Gross non-farm product deflator           | 4                 | 6¼                |
| Wage Price Index                          | 4¼                | 4¼                |

Source: Statement 2, *Budget Paper No. 1 2008–09*, p.2–6.

From these figures, it can be seen that the government expects economic growth to slow to slightly below its long-run average at 2¾ per cent, down from an anticipated 3½ per cent in 2007–08. Notable aspects of these expectations include:

- a slowing of non-farm GDP, which will drive a moderation in price and wage pressures although this will be cushioned by a forecast rise in farm production, which is expected to add ½ percentage point to real GDP

5. All figures are in chain volume, or ‘real’ terms (with the exception of nominal gross domestic product) and are year-average percentage changes unless otherwise specified.

6. Percentage point contribution to GDP growth.

7. Percentage point contribution to GDP growth.

8. Forecast for June Quarter, 2009.

9. Labour force survey basis

10. Forecast for June Quarter, 2009.

11. Forecast for June Quarter, 2009.

- in line with the RBA forecasts, underlying and headline inflation are still forecast to be outside of the Bank’s 2–3 per cent target band by the end of 2008–09
- the Wage Price Index is also forecast to remain steady but at an elevated level
- the government is expecting that strong growth in the emerging economies will continue, with a forecast of an *incredibly* strong rise in the terms of trade of 16 per cent in 2008–09. This is coming off the back of levels not seen since the Korean War wool boom. The government stated that ‘over the 2008 calendar year, the terms of trade are forecast to rise by over 20 per cent which, if realised, would be the largest in a generation.’<sup>12</sup> This will lead to further strong growth in Australian domestic incomes, thereby exacerbating inflationary pressures, and
- the unemployment rate is forecast to rise slightly (from the lowest level in over 30 years) by the end of 2008–09.

### The International Outlook

In terms of the international outlook, the government expects a mild recession in the United States (US), driven by deteriorating consumer confidence as a result of the recent falls in US house prices and exacerbated by the recent stress in financial markets. The Federal Reserve has responded by sharply lowering interest rates in recent months and the US administration has implemented a fiscal stimulus package (of around 1 per cent of US GDP), targeted at boosting household consumption and business investment. The effects of these stimuli are expected to be felt during the second half of 2008. The US slowdown does imply that the US current account deficit should narrow, ‘... although the risk of a disorderly adjustment of current account imbalances remains a concern for the US economy and global outlook’.<sup>13</sup>

Other major advanced economies (Euro area and Japan) are also tipped to slow, although not to the same degree as the US. In sharp contrast, growth in emerging economies (particularly in Asia) has continued and is forecast to continue virtually unabated to the end of 2009. The Chinese economy is forecast to slow slightly, from a decade-high growth rate of 11.9 per cent at the end of 2007 to 9.5 per cent at the end of 2009. Indian growth is also tipped to slow slightly, from 9.1 per cent to 7.75 per cent over the same period. Other East Asian economies are expected to experience a moderation in growth through 2008 and a rebound in 2009.<sup>14</sup>

### Other economic indicators and forecasts

Other agencies and institutions also provide forecasts for economic activity. In this section Budget forecasts are compared with those made by the RBA, for the main economic aggregates of GDP, non-farm GDP, and CPI. The RBA also provides forecasts of underlying

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12. Australian Government, ‘Statement 2: Economic Outlook’, *Budget Paper No. 1 2008–09*, Commonwealth of Australia, Canberra, 2008, pp. 2–22.

13. op. cit., Statement 2, *Budget Paper No. 1 2008–09*, p. 2–9. This has potential implications for the oil price assumption, as oil is traded in US dollars. Any deterioration in the value of the USD will push up world oil prices.

14. Countries including Hong Kong, Korea, Singapore, Taiwan, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

inflation (although this is not included in the Budget). The RBA makes similar underlying assumptions to those made in the Budget (these assumptions are discussed in more detail in the section below). Table 2 below presents the RBA forecasts:

Table 2: RBA forecasts

|                      | Dec<br>2007 | Mar<br>2008 | June<br>2008 | Dec<br>2008 | June<br>2009 | Dec<br>2009 | Jun<br>2010 | Dec<br>2010 |
|----------------------|-------------|-------------|--------------|-------------|--------------|-------------|-------------|-------------|
| GDP                  | 3.9         | 3           | 2½           | 2¼          | 2¾           | 2½          | 2½          | 2¾          |
| Non-farm GDP         | 4.0         | 3           | 2¼           | 1¾          | 2¼           | 2½          | 2½          | 2¾          |
| CPI                  | 3.0         | 4.2         | 4¼           | 4½          | 3½           | 3¼          | 3           | 2¾          |
| Underlying inflation | 3.6         | 4.2         | 4¼           | 4           | 3½           | 3¼          | 3           | 2¾          |

(a) Actual GDP data to December 2007 and actual inflation data to March 2008. Underlying inflation refers to the average of trimmed mean and weighted median inflation. For the forecast period, technical assumptions include A\$ at US\$0.94, TWI at 71, cash rate at 7.25 per cent, and WTI crude oil price at US\$116 per barrel and Tapis crude oil price at US\$120 per barrel.  
Sources: ABS; RBA

Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 9 May 2008, p. 68.

These latest RBA forecasts are roughly in line with the Budget forecasts, although the RBA's forecasts, particularly for CPI inflation, tend to be a little more tilted to the upside (notwithstanding the different basis for comparing change over time – the Budget forecasts are performed on a year-average change basis, whereas the RBA uses year-to-quarter changes). However, it should be noted the RBA forecasts for non-farm GDP are well below that presented in the Budget. On inflation risks, the RBA states:

Risks to these forecasts can be identified in both directions. A further deterioration in the outlook for global growth would be the main source of downside risk to the forecasts for domestic activity. In particular, if the weakness in the major developed economies were to lead to a large moderation in growth in China and India, it is likely that the outlook for the Australian economy and commodity markets would deteriorate significantly...There are also upside risks to the domestic growth and inflation forecasts. It is possible that the recent weakness in consumer sentiment and domestic spending will prove to be mostly temporary, especially in light of the large boost to national income arising from the terms of trade. If demand were to be stronger than expected, the forecast moderation in the inflation rate would probably not eventuate. In addition, the persistence of inflation at relatively high rates for some time could result in inflation expectations becoming entrenched at higher than acceptable levels, which could feed back into wage- and price-setting behaviour.<sup>15</sup>

On the downside, the continuation of strong revenue gains as a result of strong terms of trade increases experienced in recent years depends heavily on whether domestic consumption and investment in emerging economies will fill the void left by flagging foreign demand from the major advanced economies. On the upside, if domestic demand does not moderate as expected, inflation is not likely to moderate posing serious risks to inflationary expectations which have remained well-anchored to date. In the short-term there is a risk that if domestic demand does not moderate as expected, yet a sudden and dramatic fall in commodity prices (and by implication the terms of trade) occurred, then at least for a short time (perhaps a few

15. Reserve Bank of Australia, *Statement on Monetary Policy*, 9 May 2008, p. 68.



months) inflation could rise sharply as the AUD would also tend to fall suddenly, raising the prices of imports (most importantly, the price of fuel). This would only be a temporary phenomenon of itself (and *usually* not much to worry about), but at a time of strong existing inflationary pressures, a sharp temporary surge in inflation could just be the trigger for inflationary expectations to surge and feed into wage-and price-setting behaviour.

The following section summarises estimates of the key economic aggregates from the four major banks (Table 3 below). Compared with Table 1 above, the Budget forecasts are also roughly in line with these private-sector forecasts.

Table 3: Economic forecasts, ANZ, CBA, NAB and Westpac

|                |                       | Financial years |         | Calendar years     |      |      |
|----------------|-----------------------|-----------------|---------|--------------------|------|------|
|                |                       | 2007–08         | 2008–09 | 2007 <sup>16</sup> | 2008 | 2009 |
|                |                       | %               | %       | %                  | %    | %    |
| <b>ANZ</b>     | Real GDP              | 3½              | 2½      | 3.9                | 2.5  | 2.4  |
|                | Employment            | 2¾              | 1¾      | 2.8                | 2.4  | 1.4  |
|                | Unemployment Rate (%) | 4¼              | 4¼      | 4.4                | 4.2  | 4.6  |
|                | WPI                   | 4¼              | 4¼      | 4.1                | 4.3  | 4.1  |
|                | CPI                   | 4               | 4       | 2.3                | 4.1  | 3.5  |
| <b>CBA</b>     | Real GDP              | 3.6             | 3.1     | 3.9                | 3.0  | 3.4  |
|                | Employment            | 2.5             | 2.0     | 2.8                | 2.2  | 2.1  |
|                | Unemployment Rate (%) | 4.3             | 4.6     | 4.4                | 4.5  | 4.5  |
|                | WPI                   | 4.2             | 3.9     | 4.1                | 4.1  | 3.9  |
|                | CPI                   | 3.1             | 3.0     | 2.3                | 3.5  | 2.8  |
| <b>NAB</b>     | Real GDP              | 3½              | 2½      | 4.0                | 2.8  | 2.8  |
|                | Employment            | 2¾              | 2½      | N/A                | 2¾   | 2    |
|                | Unemployment Rate (%) | 4¼              | 4½      | 4.4                | 4.3  | 4.7  |
|                | Average earnings      | 3¼              | 4       | N/A                | 4    | 4    |
| <b>Westpac</b> | CPI                   | 3               | 2¾      | 2.3                | 3.8  | 2.3  |
|                | Real GDP              | 3.5             | 3.0     | N/A                | N/A  | N/A  |
|                | Employment            | 2.7             | 1.8     | N/A                | N/A  | N/A  |
|                | Unemployment Rate (%) | 4.2             | 4.4     | N/A                | N/A  | N/A  |
|                | WPI                   | 4.3             | 4.4     | N/A                | N/A  | N/A  |
|                | CPI                   | 3.2             | 3.3     | N/A                | N/A  | N/A  |

Sources: ANZ - *Economic Outlook* (2 May 2008), ANZ – *Federal Budget Report* (14 May 2008), CBA Research - *Forecasts–Economic* (9 May 2008), NAB - *Monthly Business Survey* (8 April 2008), NAB - *2008/09 Budget Download* (14 May 2008), Westpac – *Australian Budget 2008/09* (14 May 2008).<sup>17</sup>

16. Actual figures—not a forecast.

17. ANZ material accessed on 16 May 2008 from:

Overall, private-sector bank economists expect the Budget's impact on inflation and interest rates to be neutral. For example, Saul Eslake, chief economist at ANZ stated:

The Budget embodies a very modest tightening of fiscal policy and as such is more appropriate for the circumstances than recent Budgets have been. It won't *add* [Eslake's emphasis] to upward pressure on interest rates as the previous government's last few budgets did – but nor can it really be said that the Budget exerts maximum *downwards* [Eslake's emphasis] pressure on interest rates.<sup>18</sup>

NAB Capital chief economist, Rob Henderson stated that the current Budget represented a structural tightening of fiscal policy, equivalent to ¼ per cent of GDP, but also reminds us that the 1996–97 Budget delivered a tightening of 1 per cent of GDP. According to Henderson, the tightening in the current Budget is:

[n]ot sufficiently frugal to represent a quantum change to the outlook.<sup>19</sup>

### Key Assumptions Underlying the Economic Outlook

It should be noted there are a number of underlying assumptions made when these forecasts are generated. For 2008–09, the key assumptions are:

- the bilateral AUD/USD exchange rate is assumed to be around 93 US cents, with a trade weighted index of around 71
- domestic interest rates are assumed to remain unchanged
- world oil prices (using the West Texas Intermediate benchmark) are assumed to be around US\$115 per barrel, and

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<http://www.anz.com/documents/economics/AEO%20Jun%2008.pdf> and  
<http://www.anz.com/documents/economics/Budget%20Report%202008-09.pdf>;

CBA material accessed on 16 May 2008 from:

[http://www.research.commbank.com.au/CBA\\_Research\\_Common\\_Functions/Display\\_Pdf/0,226,23857,00.pdf](http://www.research.commbank.com.au/CBA_Research_Common_Functions/Display_Pdf/0,226,23857,00.pdf);

NAB material accessed on 16 May 2008 from:

[https://www.nabcapital.com/downloads/protected/30011\\_0.pdf?SourcePage=/research/australia/economics.aspx](https://www.nabcapital.com/downloads/protected/30011_0.pdf?SourcePage=/research/australia/economics.aspx) and

[https://www.nabcapital.com/downloads/public/29765\\_0.pdf?SourcePage=/research/flagshippublications/nationalmonthlybusinesssurvey.aspx](https://www.nabcapital.com/downloads/public/29765_0.pdf?SourcePage=/research/flagshippublications/nationalmonthlybusinesssurvey.aspx) (free registration and login required for both publications);

Westpac material accessed on 16 May 2008 from:

[http://www.westpac.com.au/manage/wrap.nsf/vPdfUrls/9CA7E0A098DF643DCA2574480035E743/\\$File/er20080513AustralianBudget2008.pdf?OpenElement](http://www.westpac.com.au/manage/wrap.nsf/vPdfUrls/9CA7E0A098DF643DCA2574480035E743/$File/er20080513AustralianBudget2008.pdf?OpenElement).

18. S. Eslake et. al., '2008–09 Budget: A reasonable first effort', *ANZ Federal Budget Report*, ANZ, 13 May 2008.
19. NAB, 2008–09 Budget Download, 14 May 2008.

- farm sector forecasts assume average seasonal conditions but take account of low water storage levels.<sup>20</sup>

Were any of these assumption violated, the forecasts would need to be altered. Previous Budgets usually presented a table containing information on the impact of deviations from some assumptions on revenue and expenses—this budget does not contain such a table. Rather, the 2008–09 Budget presents two illustrative scenarios:

- a permanent decrease in commodity prices, consistent with a 1 per cent fall in nominal GDP, and
- a 0.5 per cent ongoing increase in both labour productivity and the participation rate, consistent with a 1 per cent increase in real GDP.

The scenarios reproduced below are presented as deviations from the baseline forecasts in the year after the change occurred.<sup>21</sup> The first scenario can be categorised as a negative demand shock, while the second scenario can be thought of as a positive supply shock, and thus, the opposite cases can also be considered (i.e. the sign of the estimated effects on receipts and payments will change).

Table 4a: Illustrative impact of a permanent commodity price fall consistent with a 1 per cent fall in nominal GDP (per cent deviation from baseline level)

|                       | Year 1 | Year 2 |
|-----------------------|--------|--------|
|                       | %      | %      |
| Real GDP              | 0      | -1/4   |
| Non-farm GDP deflator | -3/4   | -3/4   |
| Employment            | -1/4   | -1/2   |
| Wages                 | 0      | -1/4   |
| CPI                   | 0      | -1/4   |
| Company profits       | -3     | -3     |
| Consumption           | -1/4   | -1/2   |

Table 4b: Illustrative sensitivity of the budget balance to a 1 per cent reduction in nominal GDP due to a fall in the terms of trade

|   | Year 1      | Year 2      |
|---|-------------|-------------|
|   | \$b         | \$b         |
| <b>Receipts</b>                             |             |             |
| <i>Individuals and withholding taxation</i> | -0.5        | -1.9        |
| <i>Superannuation taxation</i>              | -0.1        | -0.1        |
| <i>Company tax</i>                          | -1.3        | -2.7        |
| <i>Goods and services tax</i>               | -0.1        | -0.2        |
| <i>Excise and customs duty</i>              | -0.1        | -0.1        |
| <i>Other taxation</i>                       | 0.0         | 0.0         |
| <b>Total Receipts</b>                       | <b>-2.0</b> | <b>-5.0</b> |
| <b>Payments</b>                             |             |             |
| Income support                              | 0.1         | 0.1         |
| Other payments                              | -0.2        | -0.3        |
| GST payments                                | -0.1        | -0.2        |
| <b>Total Payments</b>                       | <b>-0.2</b> | <b>-0.4</b> |

20 op. cit., Statement 2, *Budget Paper No. 1 2008–09*, p. 2–6.

21. op. cit., Statement 3, *Budget Paper No. 1 2008–09*, pp. 3–26 to 3–28.

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Interest change on surplus change     | -0.1        | -0.3        |
| <b>Underlying cash balance impact</b> | <b>-1.9</b> | <b>-4.8</b> |

Table 5a: Illustrative impact of an ongoing (equal) increase in both the participation rate and labour productivity consistent with a 1 per cent rise in real GDP (per cent deviation from baseline level)

|                       | Year 1         | Year 2         |
|-----------------------|----------------|----------------|
|                       | <b>%</b>       | <b>%</b>       |
| Real GDP              | $\frac{3}{4}$  | $\frac{3}{4}$  |
| Non-farm GDP deflator | $-\frac{1}{4}$ | $-\frac{1}{4}$ |
| Employment            | $\frac{1}{2}$  | $\frac{1}{2}$  |
| Wages                 | $\frac{1}{4}$  | $\frac{1}{4}$  |
| CPI                   | $-\frac{1}{4}$ | $-\frac{1}{4}$ |
| Company profits       | $1\frac{3}{4}$ | $1\frac{3}{4}$ |
| Consumption           | 1              | 1              |

Table 5b: Illustrative sensitivity of the budget balance to a 1 per cent rise in real GDP due to an ongoing (equal) increase in both the participation rate and labour productivity

|   | Year 1     | Year 2     |
|---|------------|------------|
|   | <b>\$b</b> | <b>\$b</b> |
| <b>Receipts</b>                             |            |            |
| <i>Individuals and withholding taxation</i> | 1.5        | 1.7        |
| <i>Superannuation taxation</i>              | 0.0        | 0.1        |
| <i>Company tax</i>                          | 0.8        | 1.6        |
| <i>Goods and services tax</i>               | 0.4        | 0.4        |
| <i>Excise and customs duty</i>              | 0.4        | 0.4        |
| <i>Other taxation</i>                       | 0.0        | 0.0        |
| <b>Total Receipts</b>                       | <b>3.0</b> | <b>4.1</b> |
| <b>Payments</b>                             |            |            |
| Income support                              | 0.0        | 0.1        |
| Other payments                              | -0.1       | -0.2       |
| GST payments                                | 0.4        | 0.4        |
| <b>Total Payments</b>                       | <b>0.3</b> | <b>0.3</b> |
| Interest change on surplus change           | 0.1        | 0.3        |
| <b>Underlying cash balance impact</b>       | <b>2.8</b> | <b>4.1</b> |

The most significant thing to note from these tables is that most of the action, in terms of impact on the underlying cash balance, occurs on the receipts side. The impact on payments is small. The government also states:

To the extent that the increase in productivity and participation are temporary rather than permanent, the impact on the economic and fiscal position would be more subdued.

As mentioned above, it is also possible to consider the reverse cases (i.e. a positive demand shock and a negative supply shock), merely by reversing the sign of the impacts on receipts and payments.

## Spending and Taxing: Main Features

This Budget forecasts ‘an underlying cash balance,’ or surplus, of \$21.7 billion for 2008–09 up from the estimated \$16.8 billion balance in the last Budget brought down by the former

treasurer, Peter Costello. It is also dramatically different from the last Keating Government budget brought down by Ralph Willis. That Budget produced a balance of minus \$11.1 billion or a deficit of 2.1 per cent of GDP.

As far as can be ascertained, all commentators have accepted that the surplus will be \$21.7 billion for 2008–09. However, when examining the historic series, we are told that the figure of \$21.7 billion does not include the earnings of the Future Fund. If we add that back into the surplus then the true figure is in fact \$25.2 billion. As a share of GDP, the figure would rise to approximately 2.3 per cent. There is no reason for excluding the earnings of the Future Fund from the budget balance and in other places in the Budget Papers it is added into the cash balance.<sup>22</sup> In most of what follows we continue to use the government's chosen figure (excluding Future Fund earnings) so as to enable cross checking with the Budget Papers.

Surpluses are projected to continue into the forward estimates at roughly the same value. The budget surpluses for 2008–09 and 2009–10 will be allocated towards three new funds: the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund. This Budget continues the recent trend towards allocating surpluses to specific purposes. Of course the allocation is largely notional, the presentation in the Budget Papers and the definitions of revenue, spending and balance remain the same.

The fiscal balance for 2008–09 is forecast to be \$23.1 billion up from \$20.4 billion in 2007–08.<sup>23</sup> The following table shows how that balance comes about.

Table 6: Budget revenue, expenditures and balance

|                        | 2007–08      | Budget Estimates<br>2008–09 | Increase    |
|------------------------|--------------|-----------------------------|-------------|
|                        | (\$b)        | (\$b)                       | %           |
| <b>Revenue</b>         | <b>303.8</b> | <b>319.5</b>                | <b>5.2</b>  |
| % GDP                  | 26.9         | 25.9                        | -3.7        |
| <b>Expenses</b>        | <b>280.6</b> | <b>292.5</b>                | <b>4.2</b>  |
| % GDP                  | 24.9         | 23.8                        | -4.4        |
| net capital investment | 2.8          | 3.9                         | 39.3        |
| <b>Fiscal balance</b>  | <b>20.4</b>  | <b>23.1</b>                 | <b>13.2</b> |
| % GDP                  | 1.8          | 1.9                         | 5.6         |

Source: Statement 3, *Budget Paper No. 1 2008–09*, p. 3–5.

There are a number of interesting features of this table. The table shows that revenue will increase from \$303.8 billion in 2007–08 to \$319.5 billion in 2008–09: an increase of 5.2 per cent. However, as a share of GDP, revenue falls from 26.9 per cent to 25.9 per cent. The reason for that is the large forecast increase in nominal GDP of 9.25 per cent. The forecast

22. For example, *Budget Paper No. 1 2008–09*, op. cit., p. 3–10 and p. 10–8.

23. The fiscal balance is the accrual equivalent of the cash balance.

increase in real GDP is more modest at 2.75 per cent but prices (using the gross non-farm product deflator) are expected to increase by 6.25 per cent.<sup>24</sup>

Expenses will increase from \$280.6 billion in 2007–08 to \$292.5 billion in 2008–09, an increase of 4.2 per cent.<sup>25</sup> Incidentally, the forecast increase in the consumer price index suggests there will be a very modest increase in real expenditure for 2008–09. The Budget Papers claim that spending growth has been held to a 1.1 per cent real increase.<sup>26</sup> As a share of GDP, those figures imply a fall in spending from 24.9 to 23.8 per cent of GDP in 2008–09.

This Budget introduces a new table that shows not only the effect of policy decisions on the budget balance but splits the decisions into spending and savings decisions.<sup>27</sup> This is a useful innovation; especially at a change of government when there will be interest in how the priorities are changing. The total effect of policy decisions since the Pre-Election Economic and Fiscal Outlook (PEFO) in October 2007 was to add \$1996 million to the cash balance for 2008–09. The new table shows us that this was made up of:

- new spending worth \$5274 million, offset by
- cuts to other spending of \$5338 million, plus
- new revenue measures costing \$13 million, offset by
- revenue increases worth \$1918 million.

While this breakdown is new and useful it does not extend to the forward estimates.

The government has stressed its preparedness to make savings to finance its new spending. In the Budget Speech the Treasurer said ‘[e]very single dollar of new spending is more than offset by savings. We have delivered our commitments by redirecting spending to more pressing priorities.’<sup>28</sup>

The government has grouped a large number of those savings measures together under the heading ‘Responsible Economic Management’. Those appear on pages 321 to 427 in Statement 2.<sup>29</sup> They are described there as measures that cut ineffective and wasteful programs, target welfare payments and realise efficiencies in the public sector. There is no equivalent heading for receipts ‘savings’ measures.

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24. Adding 6.25 and 2.75 brings us to a 9 per cent increase but the cross product brings us up to 9.25 with rounding.

25. ‘Expenses’ are basically government spending on current account.

26. op. cit., Statement 3, *Budget Paper No. 1 2008–09*, p. 3–6. This is based on CPI rather than GDP deflator or non-farm GDP deflator as has been the common practice in the past. See Statement 3, *Budget Paper No. 1 2008–09*, op. cit., pp.10–6 and 10–8 for further explanation.

27. ibid., Statement 3, *Budget Paper No. 1 2008–09*, Table 2, p. 3–6.

28. op. cit., W. Swan, *Budget Speech 2008–09*, p. 6.

29. op. cit., Statement 2, *Budget Paper No. 1 2008–09*, pp. 321–427.

In addition to the effect of policy decisions, the government also had the advantage of the ‘parameter and other variations’ that added \$5388 million since the PEFO. These are basically the effects of the economy doing much better than initially expected. Going back further it is useful to examine how we got from the last Costello Budget with its projection of a \$12.7 billion surplus for 2008–09 to the present estimate of \$21.7 billion. For that purpose we can also look at how the forward estimates are changed. Those figures are presented in the following table.

Table 7: Policy and parameter effects on the budget balance.

|  | 2008–09      | 2009–10      | 2010–11      |
|--|--------------|--------------|--------------|
| May 2007 Budget estimates: underlying cash balance | <b>12712</b> | <b>13812</b> | <b>12447</b> |
| Effect of policy decisions                         | -8897        | -13835       | -16157       |
| Effect of parameter and other variations           | 17889        | 19692        | 22706        |
| May 2008 Budget estimates: underlying cash balance | <b>21703</b> | <b>19669</b> | <b>18996</b> |

Source: Statement 3, *Budget Paper No. 1 2008–09*, p. 3–11.

It is interesting to note that the policy measures have a substantially greater effect in the out-years than they do in the budget year. The effect of policy decisions in 2010–11 is almost twice the effect in 2008–09. In each year the policy effects are clearly dominated by the effects of parameter and other variations. Those parameter and other variation effects have been particularly strong this year with a powerful effect on the expected cash balance going well into the future. Most of the impact is on the revenue estimates to which we return later in this brief.

### Comparing International budget balances

In the rest of the world there is a wide variety of experience so it is worth comparing Australia’s surplus with some other countries.

Table 8: International comparisons: Budget Balance as Percentage of GDP – 2008 Forecast

| Country   | Budget Balance<br>% of GDP | Country     | Budget Balance<br>% of GDP | Country      | Budget Balance<br>% of GDP |
|-----------|----------------------------|-------------|----------------------------|--------------|----------------------------|
| USA       | -2.4                       | Netherlands | 0.6                        | Hong Kong    | 3.0                        |
| Japan     | -2.9                       | Spain       | -0.7                       | India        | -3.1                       |
| China     | 0.5                        | Czech Rep.  | -2.5                       | Singapore    | 1.0                        |
| Britain   | -3.2                       | Denmark     | 3.6                        | South Korea  | 0.2                        |
| Canada    | 0.4                        | Hungary     | -4.1                       | Argentina    | 1.1                        |
| Euro Area | -0.8                       | Norway      | 17.5                       | Brazil       | -1.8                       |
| Austria   | -0.4                       | Poland      | -2.0                       | Chile        | 7.0                        |
| Belgium   | -0.4                       | Russia      | 2.5                        | Luxembourg   | 1.2                        |
| France    | -2.9                       | Sweden      | 2.4                        | New Zealand  | 3.1                        |
| Germany   | 1.0                        | Switzerland | 0.9                        | Saudi Arabia | 17.9                       |
| Greece    | -2.6                       | Turkey      | -2.0                       |              |                            |
| Italy     | -2.6                       | Australia   | 1.5                        |              |                            |

Source: *The Economist*, 16 May 2008

Australia is one of a hand full of surplus countries, some other high-income countries being Canada, Denmark, Germany, Netherlands, Norway, Russia and Sweden. Of course, other countries are at different stages in their economic cycles and are subject to a host of other influences. One important difference between Australia and many other countries is that they are experiencing the inverse of Australia's favourable terms of trade movements. Other notable countries are China and Saudi Arabia. China is interesting because of its importance for Australia and Saudi Arabia because it is a major resource-rich country. Saudi Arabia, like Norway, is one of the extreme outliers with a surplus approaching 18 per cent of GDP.

Other nations are running significant deficits at the moment. It is interesting to look at some of the absolute amounts of budget deficits throughout the world. This figure is available on a consistent basis in \$US from the International Monetary Fund World Economic Outlook database.<sup>30</sup> For all the countries we can measure, combined budget balance is a deficit of \$US867 billion forecast for 2008 of which the US alone accounts for \$US634 billion.

### Revenue issues

Budget surpluses are expected to continue into the future at least in part driven by revenue growth in the recent past which is expected to persist into the future. The following table projects the revenue figures into the future. It also includes the estimates and projections for GDP itself. The Budget Papers project revenue of \$366.9 billion in 2011–12 or 26.1 per cent of GDP. That is only marginally above the 25.9 per cent of GDP estimated for 2008–09.

Table 9: Revenue growth in the forward estimates.

|         | Revenue (\$b) | Increase % |
|---------|---------------|------------|
| 2006–07 | 278.0         | —          |
| 2007–08 | 303.8         | 9.3        |
| 2008–09 | 319.5         | 5.2        |
| 2009–10 | 336.9         | 5.4        |
| 2010–11 | 350.9         | 4.2        |
| 2011–12 | 366.9         | 4.6        |

Source: Statement 3, *Budget Paper No. 1 2008–09*, p. 3–5.

Australia's recent experience suggests a tendency for revenue to come in much higher than expected. There is even more reason than normal to think that the revenue growth in the 'out-years' (2009–10 to 2011–12) will exceed the Budget figures. The reasoning is simply that the revenue growth in these years is based on the projection assumption of 2.5 per cent growth in the CPI. The RBA has published inflation forecasts through to December 2010 which significantly exceed these projections. If the RBA is correct, then we would expect revenue projections are underestimated on that count. In addition, it is worth stressing that the forward projections for 2011–12 come in at roughly the same share of GDP as the 2008–09 estimate; 26.1 per cent and 25.9 per cent respectively. However, the scatter plot published in the Budget Papers shows that the elasticity of revenue with respect to GDP growth tends to exceed unity by a substantial margin.<sup>31</sup> If so, we would expect that estimates of revenue to

30. IMF, 'IMF Publications', <http://www.imf.org/external/pubind.htm>, accessed 21 May 2008.

31. op. cit., Statement 5, *Budget Paper No. 1 2008–09*, p. 5–46.



GDP would show an upward trend in the forward estimates, at least once the effects of new measures wash out of the system. On that ground, the figures given in the Budget could be substantial underestimates. On the other hand, the RBA forecasts a period of economic growth well below the projections in the Budget Papers. If this occurs it could produce a large downward movement in revenues as discussed earlier.<sup>32</sup>

This year the Budget Papers contain a good deal of discussion about the disappointing performance in forecasting government revenue.<sup>33</sup> The errors discussed there relate to recent years in which outcomes have been much greater than forecasts. A lot of the error is explained by underestimates in the forecast economic growth. When the economy is growing strongly there is a tendency to underestimate. If we look at the historic performance we find that when the economy is weak there is a tendency to overestimate economic growth—historically the Budget Papers did not forecast any of the recessions Australia has experienced since the early 1950s.<sup>34</sup> It might be hoped that economic forecasts would gradually improve. However, that may not be the case. The former Governor of the Reserve Bank of Australia, Mr Ian Macfarlane, in evidence to the House of Representatives Committee on Economics, Finance and Public Administration made the following point about economic forecasting:

Economic forecasting is a very imperfect art—I would not use the word 'science.' It, by and large, has not improved in 30 years. I have been through all the attempts to improve it—all the large econometric models, the small econometric models, the leading indicators, all the surveys of expectations—and basically it is about the same as it always was.<sup>35</sup>

## Tax Summit

Following the 2020 Summit the Prime Minister announced a tax summit. There were no details, just that bald statement. The 2008–09 Budget clarifies the nature of the review of the tax system.<sup>36</sup> Essentially the review will consider:

1. the 'balance of taxes on work, investment and consumption'
2. the role for environmental taxes
3. the interaction of the tax and social security system on affected people and families
4. taxes on savings, assets, investment income and company income

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32. The Budget projections are given in *Budget Paper No1*, Statement 1, op. cit., p. 1–3 while the Reserve Bank forecasts are given in the *Statement on Monetary Policy*, 9 May 2008, op. cit., p. 68.

33. 'Appendix D: Forecast performance', in *Budget Paper No. 1 2008–09*, Statement 5, p. 5–45.

34. See D Richardson, 'Official economic forecasts: how good are they?', *Parliamentary Library Current Issues Brief no. 17, 2000–01*, 26 June 2001.

35. I. Macfarlane, 'Reserve Bank of Australia annual report 1999-2000', *House of Representatives Standing Committee on Economics, Finance and Public Administration*, Hansard, 11 May 2008, Melbourne, p. 16, <http://parlinfoweb.parl.net/parlinfo//Repository/Committee/Commrep/Linked/1254-2.PDF>, accessed on 21 May 2008.

36. op. cit., Statement 1, *Budget Paper No. 1 2008–09*, p. 1–37.

5. taxation of consumption but excluding the GST
6. simplifying the total tax system at all levels of government, and
7. the interrelations between the various taxes and with the proposed emissions trading system.

A discussion paper is due to be released by the end of July 2008 and a final report is to be produced by the end of 2009.

### The 'China effect' on revenue

Treasury presents a useful discussion of the effects of the terms of trade increase on the tax revenue. Over recent years, there has been discussion to the effect that the resources boom has created windfall tax revenue that can disappear as quickly as it arrived. Hence, it is argued that the windfall tax should not add to recurrent spending levels that would be unsustainable when the resources boom dies down.

The Budget estimates that the terms of trade effect will have increased tax revenue by \$33 billion in 2008–09.<sup>37</sup> That may seem a large increase to be generated by mining which contributed a gross real value added of a modest \$65 billion in 2006–07, the latest full year figure available.<sup>38</sup>

The implication of the Budget Paper estimate seems to be that the resources boom has increased revenue by \$33 billion and, without any commensurate increase in spending, the surplus would have been higher by that amount. In other words, the resources boom has given the government another \$33 billion in new revenue to do with as they will. Certainly, that is the message from people such as Chris Richardson from Access Economics, a respected private consultancy company, although his own estimate differs from the latest Budget Paper figure.<sup>39</sup> However, this sort of approach may significantly overstate the effect of the resources boom on revenue. Before explaining that issue, it should be pointed out that the \$33 billion estimate of the effect of the resources boom is only ever mentioned in Box 2 on pages 5–14 and 5–15 in Statement 5 of *Budget Paper No. 1 2008–09*. That estimate is not referred to in commentary anywhere else in the Budget Papers. Perhaps the authors of the Budget Papers have provided that estimate as a service to readers but are not confident enough in the methodology to use it in their discussion. Nevertheless it is worth going through the exercise.

The effect of the resources boom on revenue is calculated by adjusting the national accounts magnitudes for the terms of trade effect. The Australian Bureau of Statistics (ABS) does that when they estimate the 'real net national disposable income'. The full account may be too technical, but essentially what they do is boost the export component by the amount export prices have exceeded import prices. That gives a measure of the extent to which the country is wealthier when Australia's exports can purchase more imports. That is the purpose of

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37. op. cit., Statement 5, *Budget Paper No. 1 2008–09*, Box 2, p. 5–14.

38. Figure taken from: ABS, *Australian National Accounts: National Income, Expenditure and Product, December 2007*, Cat no 5206.0, 5 March 2008. Incidentally, the real value is based on 2005–06 prices.

39. Access Economics, *Commonwealth Budget Monitor*, issue 73, May 2008.

making the calculations. However, this is a pure valuation effect. A simplified example is given in Appendix A.

To argue that taxes are higher as a result of these new valuations, it has to be admitted that the value of expenses must also have risen by a similar amount. In fact, what the ABS has done in calculating national accounts magnitudes is to revalue all of the magnitudes that are recorded in the national accounts. If the value of taxation has risen, then so too has the value of the unemployment benefit, the cost of infrastructure projects and many other items. There need not be any more resources available to government.

This is not to argue that the mining boom has not generated some windfall gain in revenue. Clearly it has and we can see that in the extraordinary increases in the profits being earned by BHP Billiton, Rio Tinto and other mining companies. Those profit increases have generated commensurate increases in company tax by those companies. However, the amounts are likely to be much more modest than the Budget Papers suggest.<sup>40</sup>

### The pattern of spending

This section examines the changing priorities in the new Government's spending initiatives. In the Budget Speech the Treasurer announced emphasis on the Working Families Support Package together with emphasis on the themes of education, health, climate change and others. The purpose in this section is to examine how those priorities affect the patterns of spending and taxing.

Table 10: Expenses by Function

|  | 2007–08       |               | 2008–09       |               | 2011–12       |               |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
|  | \$m           | % total       | \$m           | % total       | \$m           | % total       |
| General public services                | 16631         | 5.93          | 17261         | 5.90          | 19653         | 5.79          |
| Defence                                | 17366         | 6.19          | 17896         | 6.12          | 20274         | 5.98          |
| Public order and safety                | 3788          | 1.35          | 3807          | 1.30          | 3881          | 1.14          |
| Education                              | 18620         | 6.64          | 18764         | 6.42          | 21800         | 6.43          |
| Health                                 | 44455         | 15.85         | 46032         | 15.74         | 52190         | 15.38         |
| Social Security and Welfare            | 97230         | 34.66         | 102439        | 35.03         | 114077        | 33.63         |
| Housing and community amenities        | 3083          | 1.10          | 3197          | 1.09          | 2917          | 0.86          |
| Recreation and culture                 | 2826          | 1.01          | 2907          | 0.99          | 2736          | 0.81          |
| Fuel and energy                        | 5103          | 1.82          | 5574          | 1.91          | 6080          | 1.79          |
| Agriculture, forestry and fishing      | 4085          | 1.46          | 3058          | 1.05          | 3119          | 0.92          |
| Mining, manufacturing and construction | 1846          | 0.66          | 1834          | 0.63          | 1515          | 0.45          |
| Transport and communication            | 4486          | 1.60          | 4727          | 1.62          | 5265          | 1.55          |
| Other economic affairs                 | 6467          | 2.31          | 6770          | 2.31          | 6791          | 2.00          |
| Other purposes                         | 54564         | 19.45         | 58202         | 19.90         | 78942         | 23.27         |
| <b>total expenses</b>                  | <b>280551</b> | <b>100.00</b> | <b>292470</b> | <b>100.00</b> | <b>339241</b> | <b>100.00</b> |

Source: Statement 6, *Budget Paper No. 1 2008–09*, p. 6–5.

We have already noted that total spending will decline gradually as a share of GDP over the forward estimates. The following table is constructed to illustrate how the actual spending

40. According to their latest annual reports, Australian income tax collected from BHP Billiton and Rio Tinto was US \$2768 million and US \$1378 million respectively for the year 2006–07.

priorities have changed from the last Howard Government Budget to the first Rudd Government Budget as expressed in the estimates for 2008–09 and through to the end of the forward estimates period in the year 2011–12. That gives a total run of five years to observe the change in priorities.

Most of the categories here show a downward movement except for ‘other purposes’ which show an increase from 19.45 per cent of outlays in 2007–08 to 23.27 per cent in 2011–12. This is the only spending category to increase as a share of total expenses. The main reason is that ‘other purposes’ includes the payment of the GST revenue to the states and territories. Those GST payments will increase as a share of expenses only because they would be expected to grow at roughly the same rate as GDP, whereas total expenses are projected to fall as a share of GDP. The following table attempts to adjust for that bias by excluding ‘other purposes’.

Table 11: Expenses excluding ‘Other purposes’ as a share of the total

|  | 2007–08<br>% total | 2008–09<br>% total | 2011–12<br>% total |
|--|--------------------|--------------------|--------------------|
| General public services                | 7.36               | 7.37               | 7.55               |
| Defence                                | 7.68               | 7.64               | 7.79               |
| Public order and safety                | 1.68               | 1.63               | 1.49               |
| Education                              | 8.24               | 8.01               | 8.38               |
| Health                                 | 19.67              | 19.65              | 20.05              |
| Social Security and Welfare            | 43.02              | 43.73              | 43.83              |
| Housing and community amenities        | 1.36               | 1.36               | 1.12               |
| Recreation and culture                 | 1.25               | 1.24               | 1.05               |
| Fuel and energy                        | 2.26               | 2.38               | 2.34               |
| Agriculture, forestry and fishing      | 1.81               | 1.31               | 1.20               |
| Mining, manufacturing and construction | 0.82               | 0.78               | 0.58               |
| Transport and communication            | 1.99               | 2.02               | 2.02               |
| Other economic affairs                 | 2.86               | 2.89               | 2.61               |
| Subtotal                               | 100.00             | 100.00             | 100.00             |

Source: Parliamentary Library, calculations based on Table 10 above.

With those adjustments, we are able to more clearly see the changes in the pattern of expenses. We can appreciate that most of the changes are fairly moderate, even going from the last Howard Government Budget to the Rudd Government Budget four years out. The main commentary is developed in the specific issues briefs contained in this publication but some main points include:

- *General public services* shows a modest increase in its share of spending. That seems to be mainly a result of a new commitment to foreign aid reflecting the commitment to gradually increase aid to 0.5 per cent of Australia’s Gross National Income
- *Defence* was promised a guaranteed real increase of 3 per cent per annum in the ‘underlying funding base’ but that has not showed up as a major increase in defence as a share of the functions in Table 11. Rather defence increases its share by a modest 0.11 per cent

- *Public order and safety* actually shows a significant decline over the forward estimates. Expenditure in this category seems to have levelled out in nominal values
- *Education* shows a minor increase over the whole period but with a low in 2008–09 which seems to be mainly due to a gap between the end of the higher Education Special Projects scheme and the start of spending from the Higher Education Endowment Fund
- *Social Security and Welfare*, the biggest item by far, gets a boost mainly through family payments and the age pension
- *Housing and community amenities* experience a decline
- *Recreation and culture* experience a decline
- *Fuel and energy* increases slightly compared with the previous year but remains constant after that
- *Agriculture* experiences quite a reduction down to 0.58 per cent of spending, mainly because of the cessation of drought assistance
- *Mining, manufacturing and construction* experience a substantial fall due to the winding down of some assistance programs
- *Transport and communications* remain roughly constant, and
- *Other economic affairs* will see a decline, mainly as a result of the restructuring of labour market services.

The comments above do not take account of any of the major changes within the functional categories. The detail is left for the specific issues briefs below. In addition, our discussion here does not take account of any changes in tax expenditures which are similar to expenses in most respects. Tax expenditures receive only brief treatment in *Budget Paper No. 1 2008-09* in a two page appendix to Statement 5.<sup>41</sup> Note also that the tax expenditure statement is usually produced around six months after the Budget Papers.

### The pattern of revenue

Turning now to the revenue patterns, the following table simplifies some of the figures in the Budget Papers and gives the share of revenue raised by the various tax categories.

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41. op. cit., Appendix G, Statement 5, *Budget Paper No. 1 2008–09*, p. 5–61.

Table 12: Revenue by Function

|                                | 2007–08<br>% total | 2008–09<br>% total | 2011–12<br>% total |
|--------------------------------|--------------------|--------------------|--------------------|
| Individual and withholding tax | 41.6               | 39.8               | 39.9               |
| Fringe Benefits Tax            | 1.3                | 1.3                | 1.1                |
| Super funds                    | 4.0                | 3.1                | 3.4                |
| Companies                      | 21.2               | 22.9               | 23.3               |
| Petroleum Resource Rent Tax    | 0.6                | 0.8                | 0.8                |
| <b>Total income tax</b>        | <b>68.7</b>        | <b>67.9</b>        | <b>68.5</b>        |
| Sales tax (incl GST)           | 14.8               | 14.9               | 15.4               |
| Excise duty                    | 8.0                | 8.0                | 7.5                |
| Customs duty                   | 1.8                | 1.8                | 1.5                |
| other                          | 0.8                | 0.9                | 0.8                |
| <b>Total indirect tax</b>      | <b>25.5</b>        | <b>25.6</b>        | <b>25.2</b>        |
| Non tax receipts               | 5.8                | 6.5                | 6.3                |
| <b>Total</b>                   | <b>100.0</b>       | <b>100.0</b>       | <b>100.0</b>       |

Source: Statement 5, *Budget Paper No. 1 2008–09*, p. 5–44.

It has to be stressed first that this table examines tax shares while, as we saw above, total tax revenue is expected to decline as a share of GDP. The first interesting thing to note is that individual and withholding tax is forecast to decline significantly in 2008–09 as tax cuts are introduced but will remain approximately constant after that. This category remains just under 40 per cent over the forward estimates. The next biggest category is company tax which is expected to increase substantially in 2008–09 and slightly more through to 2011–12. That appears to reflect anticipated healthy company profits over the forecast period. The contribution from super funds is expected to decline in 2008–09 and bounce back slightly after that. Changes to the treatment of super funds announced in earlier budgets are still flowing through.

### Surpluses forever?

As noted above, the government has budgeted for a strong surplus for 2008–09 and into the future. According to the Budget Papers, the government’s strategy involves achieving budget surpluses over the medium term. The only attempt at justifying that is the sequitur that surpluses ‘contribute to a strong government balance sheet’.<sup>42</sup> This does not seem entirely consistent with the remark by the Treasurer in the Budget Speech that:

We have no intention of hoarding the strong surplus for its own sake. This money is not ours, it belongs to the Australian people.<sup>43</sup>

The government has put a strong argument for a *short-term* surplus strategy. It wants to make substantial contributions to the three new funds out of which spending will be made in the future. Second, a surplus now suits the strategy to moderate the growth in aggregate demand on macroeconomic grounds. It can be appreciated that the government has a difficult macroeconomic balancing act. Moderating aggregate demand may well ease the risk of

42. op. cit., Statement 3, *Budget Paper No. 1 2008–09*, p. 3–3.

43. op. cit., W. Swan, *Budget Speech 2008–09*, p. 10.

higher inflation and lessen the need for the RBA to take action. However, reducing aggregate demand will most likely reduce employment growth at a time when the unemployment rate is forecast to increase from the present 4.2 per cent to 4.75 per cent in the June quarter 2009. The macroeconomic aspects of the Budget are discussed in the Economic Outlook section above.

A consequence of the run of surpluses is that the net worth of the Australian Government is expected to increase by \$25.2 billion in 2008–09, equal to the real cash surplus in 2008–09 (when the Future Fund is added back). Net worth is expected to increase by similar amounts in the subsequent years.<sup>44</sup> By the end of 2012, it is anticipated that the government will hold financial assets with a gross value of \$283.6 billion or approximately 20 per cent of GDP.<sup>45</sup> That would be a significant share of the total capitalisation of the Australian stock market. At the moment the market capitalisation of the stock market is around 135 per cent of GDP. If that ratio is maintained then the government could be holding financial investments worth around 15 per cent of the companies listed on the stock exchange.

Governments from both sides of politics have in the past shed various businesses that they regarded as more appropriately owned and managed in the private sector. After two decades of selling assets to the market, we now have governments accumulating assets once more. That raises a series of awkward questions. Recently, there was a suggestion that Chinese interests might want to purchase a share of BHP Billiton (BHPB).<sup>46</sup> It is not inconceivable that soon the government may have to consider a foreign takeover submission for a company such as BHPB while at the same time it owns a large share in that company—leading to a real and perceived conflict of interest.

This illustrates the double-edged sword that the surpluses represent. To run persistent surpluses means acquiring claims on the private sector. The alternative is to buy back old government debt but that came to an end when the former government was able to announce zero Commonwealth debt.<sup>47</sup>

A further concern is that surpluses become a measure of the fiscal responsibility of the government no matter what else is happening. Not that long ago the Budget Papers had to argue the case for a stimulatory fiscal stance. If there is an economic downturn in Australia there could well be an end to surpluses on the present settings. The automatic stabilisers would kick in as tax revenue contracts and expenditures increase. The effect is to cushion any macroeconomic downfall. A commitment to continuing surpluses would be incompatible with the appropriate macroeconomic response to a downturn.

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44. op. cit., Statement 3, *Budget Paper No. 1 2008–09*, p. 3–18.

45. If the government continued to run surpluses indefinitely at 2 per cent of GDP while GDP itself is growing at 6 per cent of GDP in nominal terms, the ratio to GDP of the net financial assets held would asymptote to one third of GDP.

46. M. Vaughan, 'BHP, Rio fire up market', *The Australian Financial Review*, 15 May 2008, p. 1.

47. P. Costello, *Budget Speech 2006–07*, Commonwealth of Australia, Canberra, 2006.

## Appendix A: Adjusting national accounts magnitudes for the terms of trade effect

We can think of an economy producing 100 units of output of which 25 are exports. From the production of 100 units we all earn 100 units. We spend that on 75 units of home product and imports of 25 units of goods not available here.

Now, let the terms of trade double so that for every export we can now buy twice as many imports. We can still spend our 100 units on 75 units of home production and 25 units of imports. But we can buy twice the number of imports that we used to buy. So our spending is now the equivalent of 125 units if we calculate using the old import and export prices. That is true even though current production is unchanged at 100 units. We can now say the value of the economy is 25 per cent higher. The doubling of our terms of trade has now boosted our measure of well being by 25 per cent.

Now we can ask if there is any more tax revenue. Suppose we tax all Australians at 20 per cent raising 20 units so that the government can buy Australian products worth 20 units. Before and after the change in the terms of trade nothing has changed. We can now say that those taxes and spending are now worth 1.25 times 20 using the new valuation technique, but there is still nothing left over for the government as a surplus. A surplus would only arise if the government spent money on 20 units of imports and so did not need to spend as much after the doubling of the terms of trade.

We can take this example further and consider various other combinations but the point is made. Terms of trade effects themselves do not necessarily change the government tax take. However, it should be pointed out that the above example assumes the change is due to a fall in import prices which alters the terms of trade. But it would also apply to the case where export prices increase but the exchange rate and other adjustments are made so that the value of non-traded goods increases in line with export prices. The RBA Statement on Monetary Policy includes a graph that shows the real exchange rate has indeed closely tracked the terms of trade.<sup>48</sup>

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48. Reserve Bank of Australia, *Statement on Monetary Policy*, May 2008, p. 35.



## Communications, broadband and the digital economy

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There were few new communications initiatives announced in the 2008–09 Budget. The high value measures—such as the cancellation of the OPEL contract, the building of a national broadband network and the extension of the Australian Broadband Guarantee—were announced prior to the Budget.

### National Broadband Network

The Budget makes no allocation for the construction of the National Broadband Network (NBN) because the extent and timing of the Commonwealth's commitment will not be known until the procurement process for the NBN has been completed.<sup>49</sup> However, allowance for the NBN, and other measures, is made in a contingency reserve.<sup>50</sup> There is also provision for departmental expenses for managing the NBN process.<sup>51</sup>

The [election platform](#) of the Australian Labor Party in 2007 included an undertaking to contribute \$4.7 billion towards the building of a 'national broadband network'.<sup>52</sup> It is intended that the network will reach 98 per cent of households and businesses and will provide speeds of no less than 12 megabits per second. Labor promised that work would commence on the network before the end of 2008.

Of that funding, \$2 billion was to come from the [Communications Fund](#) which was set up provide an income stream to fund the previous government's response to the recommendations of the [Regional Telecommunications Independent Review Committee](#) (the RTIRC). The RTIRC is reviewing the adequacy of telecommunications services in regional, rural and remote parts of Australia.

The budget papers elaborate on the proposed method of funding for the NBN. The Commonwealth will set up the 'Building Australia Fund' (the BAF) which will be used to finance infrastructure projects, including the NBN and the government's response to the RTIRC recommendations. Amongst other funding, the BAF will receive the \$2.4 billion in the Communications Fund, which will then be closed. The BAF will also receive \$2.7 billion of the \$6.6 billion in final instalment payments from the most recent sale of the

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49 Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 99.

50. Australian Government, 'Statement No. 6: Expenses and Net Capital Investment', *Budget Paper No. 1: Budget Strategy and Outlook 2008–09*, Commonwealth of Australia, Canberra 2008, p. 6–34; Australian Government, 'Part 2 Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 99.

51. Australian Government, 'Part 2 Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 98.

52 K. Rudd (Prime Minister), *Building a National Broadband Network*, media release, Canberra, 21 March 2007, <http://www.alp.org.au/media/0307/pcl00210.php>, accessed on 21 May 2008.

Commonwealth's interest in Telstra (known as the T3 sale), which are due on 29 May 2008.<sup>53</sup>

On 11 March 2008, the Minister for Broadband, Communications and the Digital Economy [announced](#) the membership of the Expert Panel which was to determine the manner in which the request for proposals/tender (RFP/T) for the NBN would be conducted and to assess any proposals that are submitted.<sup>54</sup>

On 11 April 2008, the Minister [announced](#) the issue of the [request for proposals/tender](#) for the national broadband network and [called for submissions](#) on regulatory issues concerning the NBN.<sup>55</sup> Submissions on regulatory issues are due on 25 June 2008 and the RFP/T closes on 25 July 2008. The outcome of this process will inform the Commonwealth's consideration of scale and timing of its financial commitment.

### Cancellation of OPEL contract

The budget papers report savings of \$959.3 million over three years from the termination of the contract with OPEL Networks (a joint venture between Optus and Elders). This provided for the development of infrastructure to provide broadband services to about 3.7 million premises in rural and regional Australia. The contract had been entered into in June 2007, during the term of the previous government and the termination was [announced](#) on 2 April 2008.<sup>56</sup>

The funding was originally to be \$600 million but was extended, controversially, to approximately \$958 million prior to the contract being awarded. The original funding was from the \$600 million Broadband Connect infrastructure program (which in turn was part of the previous government's \$1.1 billion [Connect Australia](#) initiative which was [announced](#) by the previous government on 17 August 2005).<sup>57</sup>

From the time of the 2007 election, there had been speculation about whether the new government would continue with the OPEL contract because the Minister, when in opposition, had been critical of the wireless standard (WIMAX) that was to be used by

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53. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.8*, Finance and Deregulation portfolio, Commonwealth of Australia, Canberra, 2008, p. 16.

54. S. Conroy, Government announces Panel of Experts to assess National Broadband Network proposals, media release, 11 March 2008, [http://www.minister.dbcde.gov.au/media/media\\_releases/2008/government\\_announces\\_panel\\_of\\_experts\\_to\\_assess\\_national\\_broadband\\_network\\_proposals](http://www.minister.dbcde.gov.au/media/media_releases/2008/government_announces_panel_of_experts_to_assess_national_broadband_network_proposals), accessed on 21 May 2008.

55. S. Conroy, *Government invites National Broadband Network proposals*, media release, 11 April 2008, [http://www.minister.dbcde.gov.au/media/media\\_releases/2008/023](http://www.minister.dbcde.gov.au/media/media_releases/2008/023), accessed on 21 May 2008.

56. S. Conroy, *OPEL Networks Funding Agreement not to proceed*, media release, 2 April 2008, [http://www.minister.dbcde.gov.au/media/media\\_releases/2008/019](http://www.minister.dbcde.gov.au/media/media_releases/2008/019), accessed on 21 May 2008.

57. The elements of the \$1.1 billion Connect Australia package were \$878 million for Broadband Connect, \$113 million for Clever Networks, \$30 million for Mobile Connect and \$90 million for Backing Indigenous Ability.

OPEL, but he gave assurances that the contract would continue.<sup>58</sup> That assurance was honoured, but the [contract was terminated](#) on the basis that OPEL had failed to meet a particular contractual obligation concerning the area to be covered by the network extension.

## Extension of Australian Broadband Guarantee

On 13 May 2008, the Minister [announced](#) the continuation of the Australian Broadband Guarantee (ABG).<sup>59</sup> The ABG was an initiative of the previous government that was announced by the then Minister for Communications, Information Technology and the Arts on 7 March 2007.<sup>60</sup> The ABG evolved from the Broadband Connect incentive scheme (the other limb being the infrastructure scheme already mentioned). The ABG, like the Broadband Connect incentive scheme, provides broadband service subsidies (rather than infrastructure funding). The subsidies aim to provide metropolitan-comparable services to underserved areas until the NBN is built and for the remaining two per cent of the population outside the reach of the NBN. Some of the increased funding for the ABG is attributable to the termination of the OPEL contract which aimed to provide broadband services in regional and rural Australia within the period for which ABG funding has been increased.

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58. ABC television, 'Conroy discusses the state of play for broadband', *Inside Business*, 10 February 2008, <http://www.abc.net.au/insidebusiness/content/2007/s2158854.htm>, accessed on 21 May 2008.

59. S. Conroy, *Australian Broadband Guarantee funding until 2012*, media release, 13 May 2008, [http://www.minister.dbcde.gov.au/media/media\\_releases/2008/032](http://www.minister.dbcde.gov.au/media/media_releases/2008/032), accessed on 15 May 2008.

60. H. Coonan, *\$162.5 million for Australian Broadband Guarantee*, media release, 7 March 2007, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:S0IM6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:S0IM6%3B), accessed 15 May 2008.

## Personal income tax and personal capital gains tax

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In contrast to previous Budgets, this one was remarkable for not including further reductions in personal income tax. The government has also announced that it will extend the current Capital Gains Tax (CGT) small business concessions and provide CGT relief for shares received as the result of a demutualisation of health insurers. Additionally, the government will also alter the way receipts arising from the cancellation of interest in widely held entities are treated for CGT purposes.

There were initiatives to reduce the amount of personal income tax paid, but these initiatives were carefully targeted. Further, the income threshold for the payment of both the Medicare Levy and Surcharge were also increased. However, there were some significant changes in the eligibility for some personal income tax deductions for higher income earners. Following are further details of these changes.

### Personal Income Tax

The proposed reductions in personal income tax are contained in Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008, which is before the Senate as at the date of writing. In general, the Treasurer confirmed that the proposed reductions in personal income tax, and increases in the Low Income Tax Offset (LITO) would go ahead.<sup>61</sup> Table 1 summarises these changes for resident tax payers.

Table 1: Proposed changes in personal income tax rates and thresholds for resident tax payers

| From 1 July 2008 |               |                | From 1 July 2009 |               |                | From 1 July 2010 |               |                |
|------------------|---------------|----------------|------------------|---------------|----------------|------------------|---------------|----------------|
| Thresholds       |               | Rate           | Thresholds       |               | Rate           | Thresholds       |               | Rate           |
| 0                | 6 000         | 0              | 0                | 6 000         | 0              | 1                | 6 000         | 0              |
| 6 001            | <b>34 000</b> | 15             | 6 001            | <b>35 000</b> | 15             | 6 001            | <b>37 000</b> | 15             |
| <b>34 001</b>    | 80 000        | 30             | <b>35 001</b>    | 80 000        | 30             | <b>37 001</b>    | 80 000        | 30             |
| 80 001           | 180 000       | 40             | 80 001           | 180 000       | <b>38</b>      | 80 001           | 180 000       | <b>37</b>      |
| 180 001          | and over      | 45             | 180 001          | and over      | 45             | 180 001          | and over      | 45             |
| LITO value       |               | <b>\$1 200</b> | LITO value       |               | <b>\$1 350</b> | LITO value       |               | <b>\$1 500</b> |

Source Budget Paper No.2, 2008–09, p. 14.

### Impact of changes

Table 2 shows the amount of tax paid, at various income levels, taking into account the changes in the low income tax offset only. The figures in bold represent average weekly ordinary time earnings.

61. W. Swan, Treasurer, 'Second reading speech: Appropriation Bill No. 1 2008–2009', House of Representatives, *Debates*, 13 May 2008, p. 37.

Table 2: Tax paid and tax paid as a proportion of 2007–08 gross income 2006–07 to 2010–11.

| Annual Income   | <i>Tax payable, including low income tax offset</i> |                 |                 |                 |                 | <i>Tax as a proportion of base income</i> |               |               |               |               |
|-----------------|---|-----------------|-----------------|-----------------|-----------------|---|---------------|---------------|---------------|---------------|
|                 | 2006–07   | 2007–08         | 2008–09         | 2009–10         | 2010–11         | 2006–07                                   | 2007–08       | 2008–09       | 2009–10       | 2010–11       |
| \$10,000        | \$0   | \$0             | \$0             | \$0             | \$0             | 0.00%                                     | 0.00%         | 0.00%         | 0.00%         | 0.00%         |
| \$20,000        | \$1,500   | \$1,350         | \$900           | \$750           | \$600           | 7.50%                                     | 6.75%         | 4.50%         | 3.75%         | 3.00%         |
| \$30,000        | \$3,950   | \$2,850         | \$2,400         | \$2,250         | \$2,100         | 13.17%                                    | 9.50%         | 8.00%         | 7.50%         | 7.00%         |
| \$31,000        | \$4,290   | \$3,190         | \$2,590         | \$2,440         | \$2,290         | 13.84%                                    | 10.29%        | 8.35%         | 7.87%         | 7.39%         |
| \$32,000        | \$4,630   | \$3,530         | \$2,780         | \$2,630         | \$2,480         | 14.47%                                    | 11.03%        | 8.69%         | 8.22%         | 7.75%         |
| \$33,000        | \$4,970   | \$3,870         | \$2,970         | \$2,820         | \$2,670         | 15.06%                                    | 11.73%        | 9.00%         | 8.55%         | 8.09%         |
| \$34,000        | \$5,310   | \$4,210         | \$3,160         | \$3,010         | \$2,860         | 15.62%                                    | 12.38%        | 9.29%         | 8.85%         | 8.41%         |
| \$35,000        | \$5,650   | \$4,550         | \$3,500         | \$3,200         | \$3,050         | 16.14%                                    | 13.00%        | 10.00%        | 9.14%         | 8.71%         |
| \$40,000        | \$7,350   | \$6,250         | \$5,200         | \$4,900         | \$4,450         | 18.38%                                    | 15.63%        | 13.00%        | 12.25%        | 11.13%        |
| \$45,000        | \$8,850   | \$8,100         | \$6,900         | \$6,600         | \$6,150         | 19.67%                                    | 18.00%        | 15.33%        | 14.67%        | 13.67%        |
| \$50,000        | \$10,350  | \$9,600         | \$8,600         | \$8,300         | \$7,850         | 20.70%                                    | 19.20%        | 17.20%        | 16.60%        | 15.70%        |
| \$55,000        | \$11,850  | \$11,100        | \$10,300        | \$10,000        | \$9,550         | 21.55%                                    | 20.18%        | 18.73%        | 18.18%        | 17.36%        |
| <b>\$57,730</b> | <b>\$12,669</b>                                     | <b>\$11,919</b> | <b>\$11,228</b> | <b>\$10,928</b> | <b>\$10,478</b> | <b>21.95%</b>                             | <b>20.65%</b> | <b>19.45%</b> | <b>18.93%</b> | <b>18.15%</b> |
| \$60,000        | \$13,350  | \$12,600        | \$12,000        | \$11,700        | \$11,250        | 22.25%                                    | 21.00%        | 20.00%        | 19.50%        | 18.75%        |
| \$65,000        | \$14,850  | \$14,100        | \$13,500        | \$13,350        | \$12,950        | 22.85%                                    | 21.69%        | 20.77%        | 20.54%        | 19.92%        |
| \$70,000        | \$16,350  | \$15,600        | \$15,000        | \$14,850        | \$14,550        | 23.36%                                    | 22.29%        | 21.43%        | 21.21%        | 20.79%        |
| \$75,000        | \$17,850  | \$17,100        | \$16,500        | \$16,350        | \$16,050        | 23.80%                                    | 22.80%        | 22.00%        | 21.80%        | 21.40%        |
| \$80,000        | \$19,850  | \$19,100        | \$18,000        | \$17,850        | \$17,550        | 24.81%                                    | 23.88%        | 22.50%        | 22.31%        | 21.94%        |
| \$85,000        | \$21,850  | \$21,100        | \$20,000        | \$19,750        | \$19,400        | 25.71%                                    | 24.82%        | 23.53%        | 23.24%        | 22.82%        |
| \$90,000        | \$23,850  | \$23,100        | \$22,000        | \$21,650        | \$21,250        | 26.50%                                    | 25.67%        | 24.44%        | 24.06%        | 23.61%        |
| \$95,000        | \$25,850  | \$25,100        | \$24,000        | \$23,550        | \$23,100        | 27.21%                                    | 26.42%        | 25.26%        | 24.79%        | 24.32%        |
| \$100,000       | \$27,850  | \$27,100        | \$26,000        | \$25,450        | \$24,950        | 27.85%                                    | 27.10%        | 26.00%        | 25.45%        | 24.95%        |
| \$105,000       | \$29,850  | \$29,100        | \$28,000        | \$27,350        | \$26,800        | 28.43%                                    | 27.71%        | 26.67%        | 26.05%        | 25.52%        |
| \$110,000       | \$31,850  | \$31,100        | \$30,000        | \$29,250        | \$28,650        | 28.95%                                    | 28.27%        | 27.27%        | 26.59%        | 26.05%        |
| \$120,000       | \$35,850  | \$35,100        | \$34,000        | \$33,050        | \$32,350        | 29.88%                                    | 29.25%        | 28.33%        | 27.54%        | 26.96%        |
| \$130,000       | \$39,850  | \$39,100        | \$38,000        | \$36,850        | \$36,050        | 30.65%                                    | 30.08%        | 29.23%        | 28.35%        | 27.73%        |
| \$140,000       | \$43,850  | \$43,100        | \$42,000        | \$40,650        | \$39,750        | 31.32%                                    | 30.79%        | 30.00%        | 29.04%        | 28.39%        |
| \$150,000       | \$47,850  | \$47,100        | \$46,000        | \$44,450        | \$43,450        | 31.90%                                    | 31.40%        | 30.67%        | 29.63%        | 28.97%        |
| \$200,000       | \$70,350  | \$69,600        | \$67,000        | \$64,850        | \$63,550        | 35.18%                                    | 34.80%        | 33.50%        | 32.43%        | 31.78%        |

Notes: Tax payable demonstrates the tax liability for an individual on the specified income level, after the low income tax offset is applied

Tax as a proportion of the base income demonstrates the percentage of the specified income being paid out in taxation.

These data do not include the Medicare levy or Medicare levy surcharge

Source: Parliamentary Library

As can be seen, the overall tax burden rises with income in each year. However, this impost decreases over time. Table 3 shows the percentage decrease in overall tax paid, taking only the low income tax offset changes into account, compared to the 2007–08 financial year.

Table 3: Percentage reduction in tax paid compared to 2007–08

| <i>Annual Income</i> | <i>2008–09</i> | <i>2009–10</i> | <i>2010–11</i> |
|----------------------|----------------|----------------|----------------|
| <b>\$10,000</b>      | 0%             | 0%             | 0%             |
| <b>\$20,000</b>      | 33%            | 44%            | 56%            |
| <b>\$30,000</b>      | 16%            | 21%            | 26%            |
| <b>\$31,000</b>      | 19%            | 24%            | 28%            |
| <b>\$32,000</b>      | 21%            | 25%            | 30%            |
| <b>\$33,000</b>      | 23%            | 27%            | 31%            |
| <b>\$34,000</b>      | 25%            | 29%            | 32%            |
| <b>\$35,000</b>      | 23%            | 30%            | 33%            |
| <b>\$40,000</b>      | 17%            | 22%            | 29%            |
| <b>\$45,000</b>      | 15%            | 19%            | 24%            |
| <b>\$50,000</b>      | 10%            | 14%            | 18%            |
| <b>\$55,000</b>      | 7%             | 10%            | 14%            |
| <b>\$57,730</b>      | 6%             | 8%             | 12%            |
| <b>\$60,000</b>      | 5%             | 7%             | 11%            |
| <b>\$65,000</b>      | 4%             | 5%             | 8%             |
| <b>\$70,000</b>      | 4%             | 5%             | 7%             |
| <b>\$75,000</b>      | 4%             | 4%             | 6%             |
| <b>\$80,000</b>      | 6%             | 7%             | 8%             |
| <b>\$85,000</b>      | 5%             | 6%             | 8%             |
| <b>\$90,000</b>      | 5%             | 6%             | 8%             |
| <b>\$95,000</b>      | 4%             | 6%             | 8%             |
| <b>\$100,000</b>     | 4%             | 6%             | 8%             |
| <b>\$105,000</b>     | 4%             | 6%             | 8%             |
| <b>\$110,000</b>     | 4%             | 6%             | 8%             |
| <b>\$120,000</b>     | 3%             | 6%             | 8%             |
| <b>\$130,000</b>     | 3%             | 6%             | 8%             |
| <b>\$140,000</b>     | 3%             | 6%             | 8%             |
| <b>\$150,000</b>     | 2%             | 6%             | 8%             |
| <b>\$200,000</b>     | 4%             | 7%             | 9%             |

Source: Parliamentary Library

The above mentioned personal income tax changes appear to have the greatest impact on low income earners. That is, this group receives the greatest percentage reduction in terms of a reduction in tax paid.

Further, statistical analysis of the proposed tax changes can be found in the Parliamentary Library's Bills Digest on the [Tax Laws Amendment \(Personal Income Tax Reduction\) Bill 2008](#).<sup>62</sup>

62. B. Pulle, A. Makeham-Kirchner, & P. Darby, 'Tax Laws Amendment (Personal Income Tax Reduction) Bill 2008', *Bills Digest*, no. 60, Parliamentary Library, Canberra, 19 February 2008, Attachment A.

The proposed changes in personal income tax rates are consistent with the tax policy announced by the Australian Labor Party before the recent election.<sup>63</sup>

### Eligibility for deductions

A significant change in personal income tax arrangements is the denial of a tax offset in respect of various classes of dependents of taxpayers earning \$150 000 or more from 1 July 2008. The dependents in question are dependent spouses, housekeepers, child housekeepers, invalid relatives and parents/parents-in-law.

In addition, the definition of income, for dependency offset (as well as the Senior Australian's Tax Offset—SATO) purposes will, from 1 July 2009, include:

- net financial losses from investments, and
- net rental property losses.

Essentially, this means that losses arising from various negative gearing arrangements will be added into a person's assessable income for these purposes. This already occurs if a person is assessed for access to various social security and family tax benefits and allowances.<sup>64</sup>

### Political donations

In Schedule 1 of the Tax Laws Amendment (2008 Measures No. 1) Bill 2008 the government proposes to remove the current deduction for political donations. This Schedule is the subject of an inquiry by the Joint Standing Committee on Electoral Matters. The Bill is yet to be passed by the Senate, and savings arising from this measure are included in the forward estimates from the 2009–2010 year.<sup>65</sup>

### Tax offsets

Both the LITO and the SATO are further increased in this year's budget.

The maximum LITO is currently \$750, ceasing to apply where a taxpayer's assessable income is \$30 000 p.a. or more. From 1 July 2008, the maximum LITO will be \$1200 for those with annual assessable income of \$34 000 or more. For the 2008–2009 financial year a taxpayer with an assessable income of \$14 000 p.a. will pay no tax. This figure rises to \$16 000 in the 2010–2011 year as the LITO will increase in the following two years.<sup>66</sup>

The maximum SATO for a single eligible retiree is currently \$2230 p.a. When combined with the LITO single retirees with an assessable income of less than \$25 867 p.a. do not pay any tax. Under the proposed changes, from 1 July 2008 a single retiree's income would have to be

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63. K. Rudd & W. Swan, *A Tax Plan for Australia's Future*, media release, 18 October 2007, <http://www.alp.org.au/media/1007/msloo181.php>, accessed on 21 May 2008.

64. Australian Government, 'Part 1: Revenue Measures', *Budget Paper No. 2: Budget 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 30.

65. *ibid.*, p. 15.

66. *op. cit.*, 'Part 1: Revenue Measures', p. 14.

above \$28 867 before they paid income tax. They are not subject to the Medicare Levy until they commence to pay tax. Similar changes are foreshadowed for the following years. As noted above, the definition of income for SATO purposes is also to be amended.

Of particular interest is the income threshold at which the LITO ceases to apply. The following table indicates recent and prospective changes in this threshold.

Table 4: Changes in LITO Cutout threshold 2006–07 to 2010–10

| Year                     | 2006–07 | 2007–08 | 2008–09 | 2009–10 | 2010–11 |
|--------------------------|---------|---------|---------|---------|---------|
| Cutout threshold \$ p.a. | 40 000  | 48 750  | 60 000  | 63 750  | 67 500  |

Source: Parliamentary Library

### Education Tax Offset

The government has announced that an Education Tax Refund will be available from 1 July 2008 in respect of primary and secondary students. The edibility for this payment is based on a family's ability to qualify for a Family Tax Benefit. It is paid, if the taxpayer otherwise qualifies, irrespective for their income tax liability.<sup>67</sup> This means that it is paid even if the taxpayer has a zero tax liability. As such, despite its name, it appears to have little actual connection with the personal income tax system. This payment is further discussed in the education section of this series of briefs.

### Medicare Thresholds

Normally the Medicare low income thresholds are increased by the rate of annual increase in the Consumer Price Index. In 2006–07, these thresholds were \$16 740 (single) and \$28 240 (family). These thresholds were determined at the start of the 2007–08 financial year and relate to the previous financial year. The government has announced that these thresholds will be \$17 309 and \$29 207 respectively with effect from 1 July 2007. The increase is about 3.3 per cent and is greater than the percentage change in the CPI over the 2006–07 year (2.1%) but a little less than the current annual inflation rate of about 4.2 per cent.<sup>68</sup>

The most significant change is the increase of the income threshold for the payment of the Medicare Surcharge, from \$50 000 p.a. to \$100 000 for singles and from \$100 000 to \$150 000 for those who are members of a family.

This particular threshold had remained unaltered from the introduction of the Medicare Surcharge in 1997. Since that time average weekly wages have increased from about \$685 to \$1110, an increase of about 62 per cent.<sup>69</sup>

67. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 139.

68. Parliamentary Library, 'Table 2.4: Consumer Price Index', *Monthly Statistical Bulletin*, 2008 <http://www.aph.gov.au/library/pubs/MSB/24.htm>, accessed on 21 May 2008.

69. Average Weekly Earnings December 1997 and December 2007. Source: Australian Bureau of Statistics, *Average Weekly Earnings*, Cat No. 6302.0. ABS Canberra, 2007.



## Capital Gains Tax

The following changes to the CGT regime will have some impact on the tax paid by individuals.

### Extension of CGT small business concessions

The government has announced that it will enhance the small business CGT concessions. The proposed changes will allow a taxpayer who owns a CGT asset that is used in a business by an affiliate or a connected entity of the taxpayer, to access the small business CGT concessions through the \$2m aggregate turnover test. The \$2m per annum test will be applied to the entity owning the asset, its affiliates and connected entities (including the business entity).

This change will enable a wider range of entities, including a sole trader or a partnership, to access the small business CGT concessions.

There are four CGT concessions specifically for small business which apply to CGT events happening after 11.45 am EST on 21 September 1999. Briefly, these concessions are:

- (1) the small business 15-year asset exemption
- (2) the small business 50% active asset reduction
- (3) the small business retirement exemption, and
- (4) the small business asset roll-over.

For CGT purposes a small business is one that:

- carries on a business, and
- satisfies the \$2m aggregated turnover test.

This measure was first announced by the previous government and simply appears to be restated in the current budget.<sup>70</sup>

### CGT Demutualisation of health insurers

The government has proposed amendments to provide CGT certainty to policyholders of health insurers who receive shares as part of the insurer's demutualisation (effective 1 July 2007). The government proposes that shares received by post-CGT policyholders will have a cost base derived from their share of the insurer's net tangible assets. Shares received by pre-CGT policyholders would inherit a market value cost base. CGT was first introduced for assets acquired after 19 September 1985.

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70. P. Dutton, (former Minister for Finance and Assistant Treasurer), *Enhancing small business capital gains tax concessions*, media release, Canberra, 22 October 2007.

Demutualisation refers to the process by which a body corporate, such as a mutually owned health insurer, becomes a publicly owned company listed on the Australian Stock Exchange or overseas exchange. Again, this particular initiative was first announced by the former government.<sup>71</sup>

Currently, the Medical Benefits Funds of Australia (MBF) is subject to a takeover offer by a large UK based health insurer BUPA.<sup>72</sup>

#### CGT – cancellation of interests in widely held entities

The Budget papers also referred to changes in the way CGT was calculated in relation to receipts arising from the cancellation of shares or other interests in widely held entities. Briefly, this change means that the CGT is calculated on the basis of the actual receipt, rather than the market value of interest cancelled.

This change appears to be the same as amendments to tax law currently before Parliament in Schedule 3 of the Tax Laws Amendment (2008 Measures No. 2) Bill 2008.

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71. P. Costello, (former Treasurer), *Demutualisation of health insurers*, media release, Melbourne, 17 October 2007.

72. G. Winestock, 'MBF for-profit motives test mutual affection', *Australian Financial Review*, 9 May 2008, p. 73.

## Tax reform

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This paper deals with the proposals in the 2008–09 Budget for a comprehensive review of the Australian Tax System and the measures classified as fairness and integrity measures in Appendix F, titled ‘Major Savings in the 2008–09 Budget’, of the [Budget Overview 2008-09](#).<sup>73</sup>

### Comprehensive review of the Australian Tax System

The Treasurer in his [Budget Speech](#) on 13 May 2008 proposed ‘the most comprehensive review of Australia’s tax system since World War II’, the object of which was stated as follows.

We need a tax system that is fairer, that is simpler, that better rewards people for their hard work, that responds to our environmental and demographic challenges, that makes us internationally competitive, and that creates the incentives to invest in our productive capacity. One that supports national prosperity beyond the mining boom.<sup>74</sup>

[Budget Paper No. 2](#) at page 259 gave further details of the proposed review over the next two years which will encompass Australian Government and state taxes, except the GST, and interactions with the transfer system:

The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for: workforce participation and skill formation; individuals to save and provide for their future, including access to affordable housing; investment and promotion of efficient resource allocation to enhance productivity and international competitiveness; and reducing tax system complexity and compliance costs.<sup>75</sup>

Budget Paper No. 2 also indicated that the review process will be conducted in several stages and an initial discussion paper will be released by the end of July 2008. The review panel will provide a final report to the Treasurer by the end of 2009.

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73. Australian Government, ‘Appendix F: Major Savings in the 2008-09 Budget’, *Budget Overview*, Commonwealth of Australia, Canberra, 2008, p. 39, [http://www.aph.gov.au/Budget/2008-09/content/overview/html/overview\\_39.htm](http://www.aph.gov.au/Budget/2008-09/content/overview/html/overview_39.htm), accessed on 14 May 2008.

74. W. Swan, ‘Budget Speech 2008-09’, *Second Reading of Appropriation Bill (No. 1) 2008–09*, 13 May 2008, <http://www.aph.gov.au/Budget/2008-09/content/speech/html/speech-01.htm>, accessed on 14 May 2008.

75. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No. 2: Budget 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 259.

## Measures to improve fairness and integrity in the tax system

The following table lists savings from measures aimed at improving fairness and integrity in the tax system in Appendix F of the Budget Overview with links to press releases issued on Budget day, where available, and references to *Budget Paper No. 2 2008–09*.

### Fairness and Integrity in the Tax System

| Press Release in relation to each measure                             | Reference in Budget Paper No. 2      | 07–08 (\$m)  | 08–09 (\$m)   | 09–10 (\$m)   | 10–11 (\$m)   | 11–12 (\$m)   | Total (\$m)    |
|---|--------------------------------------|--------------|---------------|---------------|---------------|---------------|----------------|
| <a href="#">Personal Income Tax Cuts – better targeting</a>           | <a href="#">p. 14</a>                | -            | -             | 1,150         | 2,000         | 2,160         | <b>5310.0</b>  |
| <a href="#">Increased Tax on ‘Ready to Drink’ Alcoholic Beverages</a> | <a href="#">p. 22</a>                | 97.9         | 640.1         | 716.0         | 799.3         | 892.6         | <b>3145.9</b>  |
| <a href="#">Crude Oil Excise – Condensate Exemption</a>               | <a href="#">p. 19</a>                | 93.8         | 564.0         | 635.4         | 625.7         | 625.7         | <b>2544.6</b>  |
| ATO Compliance Dividend   | <a href="#">p. 12</a>                | -            | 105.0         | 295.0         | 785.0         | 795.0         | <b>1980.0</b>  |
| <a href="#">Depreciation Period for Computer Software</a>             | <a href="#">p. 20</a>                | -            | 15.0          | 300.0         | 681.0         | 318.0         | <b>1314.0</b>  |
| <a href="#">Fringe Benefits Tax – tighten exemptions</a>              | <a href="#">p. 22</a> (work-related) | -            | 50.0          | 140.0         | 205.0         | 255.0         | <b>650.0</b>   |
|   | <a href="#">p. 23</a> (joint assets) | -            | 4.0           | 15.0          | 15.0          | 15.0          | <b>49.0</b>    |
|   | <a href="#">p. 24</a> (meal cards)   | -            | 110.0         | 165.0         | 205.0         | 250.0         | <b>730.0</b>   |
| <a href="#">Increasing the Luxury Car Tax</a>                         | <a href="#">p. 26</a>                | -            | 130.0         | 140.0         | 140.0         | 145.0         | <b>555.0</b>   |
| Increase in the Passenger Movement Charge                             | <a href="#">p. 7</a>                 | -            | 106.3         | 111.2         | 117.7         | 124.1         | <b>459.3</b>   |
| <b>Total</b>  |                                      | <b>191.7</b> | <b>1724.4</b> | <b>3667.6</b> | <b>5573.7</b> | <b>5580.4</b> | <b>16737.8</b> |

Source: Adapted from ‘Appendix F: Major Savings in the 2008–09 Budget, *Budget Overview 2008–09*.’

The following comments on the above measures include extracts from *Budget Paper No. 2 2008–09*.

### Personal income tax cuts — better targeting

The Government will deliver in full the tax cuts it announced during the 2007 election campaign. These tax cuts included deferring the previously budgeted reductions in the top marginal tax rate for taxpayers on incomes of more than \$180,000 per annum until beyond 2010–11. The savings of \$5.3 billion over the forward estimates period will be diverted to the Government’s other spending priorities including the Education Tax Refund, reducing elective surgery waiting lists and to the budget surplus.

## Personal income tax changes

| Current             |          | From 1 July 2008        |          | From 1 July 2009       |           | From 1 July 2010       |           |
|---------------------|----------|-------------------------|----------|------------------------|-----------|------------------------|-----------|
| Taxable income (\$) | Rate (%) | Taxable income (\$)     | Rate (%) | Taxable income (\$)    | Rate (%)  | Taxable income (\$)    | Rate (%)  |
| 0 - 6,000           | 0        | 0 - 6,000               | 0        | 0 - 6,000              | 0         | 0 - 6,000              | 0         |
| 6,001 - 30,000      | 15       | 6,001 - <b>34,000</b>   | 15       | 6,001 - <b>35,000</b>  | 15        | 6,001 - <b>37,000</b>  | 15        |
| 30,001 - 75,000     | 30       | <b>34,001 - 80,000</b>  | 30       | <b>35,001 - 80,000</b> | 30        | <b>37,001 - 80,000</b> | 30        |
| 75,001 - 150,000    | 40       | <b>80,001 - 180,000</b> | 40       | 80,001 - 180,000       | <b>38</b> | 80,001 - 180,000       | <b>37</b> |
| 150,001 +           | 45       | <b>180,001 +</b>        | 45       | 180,001 +              | 45        | 180,001 +              | 45        |

Source: *Budget Paper No. 2 2008–09*, p. 14.

An article by Les Nielsen titled, *Personal Income Tax and Personal Capital Gains Tax*, in this Budget Review Brief gives further analysis of the proposed changes.

### Excise and customs duty—increased rates on ‘other excisable beverages’

The government proposes to increase the excise (and customs duty) on ready-to-drink alcoholic beverages, commonly called alcopops. This measure is expected to raise \$628 million in 2008–09, \$704 million in 2009–10, \$787 million in 2010–11 and \$881 million in 2011–12.

This proposal raises broader issues surrounding the taxation of alcoholic beverages. Alcohol is subject to three taxes. One is a ‘specific’ tax, namely, excise which is levied on a litre of alcohol basis. There are also two ‘value’ taxes: the wine equalisation tax (WET) and the GST. Wine is subject to the WET and GST, while beer and spirits are subject to excise and GST. Alcopops, being spirit based, are subject to excise and GST.

Alcohol is taxed for two main reasons: to raise revenue and to reduce the social costs of alcohol abuse. If the main purpose is to reduce social costs, it could be argued that the alcohol in all alcoholic beverages should attract the same amount of tax per unit of alcohol. From this perspective, the taxation of alcohol is riddled with inconsistencies because the amount of tax paid per litre of alcohol varies considerably.<sup>76</sup>

In the case of alcopops, the excise rate on the spirits in alcopops is \$39.36 per litre of alcohol whereas the general rate of excise on the alcohol in spirits (e.g., whisky and rum) is \$66.67 per litre of alcohol. When the effect of the GST is taken into account, the excise plus the GST on excise on the spirits in alcopops is \$42.30 (\$39.36 plus 10 per cent of \$39.36) while the amount on spirits is \$73.33 (\$66.67 plus 10 per cent of \$66.67). In other words, the amount for spirits is about 1.7 times the amount for alcopops. The resulting relative cheapness of the alcohol in alcopops compared with the alcohol in, say, whisky and rum is probably a factor behind the popularity of alcopops.

The proposed increase in the excise on alcopops would be likely to result in the substitution of other forms of alcohol for alcopops because alcopops would be relatively more expensive.

76. R. Webb, ‘Excise taxation: developments since the mid-1990s’, *Research Brief*, no. 15, Parliamentary Library, 2005–06.

## Crude oil excise—condensate

Condensate is light oil extracted from so-called ‘wet’ gas. It is processed primarily for use as petrol in motor vehicles. The government taxes profits from the extraction and production of condensate and other unprocessed petroleum products such as crude oil, liquid petroleum gas and, in certain cases, natural gas. Currently, the following categories of condensate enjoy tax-free status when it is:

- produced in a state or territory, or
- inside the outer limits of territorial sea, or
- marketed separately from a crude oil stream, or
- in the North West Shelf project area and therefore exempt from the crude oil excise.

This concession results in revenue forgone. Treasury estimates that the value of this concession is around \$320 million annually.<sup>77</sup>

The government proposes to abolish this concession with effect from midnight (AEST) on 13 May 2008.<sup>78</sup> Under the proposal, production from fields located in the North West Shelf project area and onshore areas will be subject to the same excise rates as those applicable to petroleum fields discovered after 18 September 1975. The government has introduced the Excise Tariff Amendment (Condensate) Bill 2008 and the Excise Legislation Amendment (Condensate) Bill 2008 to give effect to the proposal.

## Increased funding for the Australian Taxation Office compliance dividend

The Government will provide additional funding of \$256.9 million over four years from 2008–09 to the Australian Taxation Office (ATO) to allow it to enhance compliance activities, particularly for large businesses and high wealth individuals. This additional investment in ATO activities is expected to increase revenue by \$1,980 million over the forward estimates period.

The previous government had provided \$446 million over four years from 2008–09 to the ATO for additional staff to enhance compliance across all segments of the taxation system. According to the [Mid-Year Economic and Fiscal Outlook 2007–08](#), the increased investment in ATO activities was expected to increase revenue by \$3.7 billion over four years including \$1.8 billion in 2011–12.<sup>79</sup>

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77. Treasury, *Taxation Expenditures 2007*, Commonwealth of Australia, Canberra, 2007, p. 184.

78. Australian Government, ‘Part 1: Revenue Measures’, *Budget Paper No. 2: Budget 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 19.

79. Treasury, *Mid-Year Economic and Fiscal Outlook 2007–08*, Commonwealth of Australia, Canberra, October 2007, p. 82, [http://www.budget.gov.au/2007-08/myefo/html/05\\_appendix\\_a-01crev.htm](http://www.budget.gov.au/2007-08/myefo/html/05_appendix_a-01crev.htm), accessed on 14 May 2008.

It would appear that the present government has been more cautious in its estimate of returns from ATO compliance activity over the forward estimates years.

## Depreciation of computer software

The Government will increase the period over which capital expenditure on in-house computer software is depreciated from 2.5 years to 4 years. This will apply to expenditure incurred on or after 7.30 pm (AEST) on 13 May 2008. The measure reduces a tax concession and tax expenditure. Treasury estimates that the value of the tax expenditure will be about \$60 million in 2008–09.<sup>80</sup> The ongoing gain to revenue is estimated to be \$1.3 billion over the forward estimates period.

A four year depreciation period for expenditure on 'in-house computer software' is the same period as the Commissioner for Taxation's 'safe harbour' effective life for computer hardware.

## Fringe benefits tax

### Exemption for eligible work-related items

The Government will tighten the current fringe benefit tax (FBT) exemption for certain work-related items (including laptop computers, personal digital assistants and tools of trade) by ensuring the exemption only applies where these items are used primarily for work purposes. The FBT exemption will generally be limited to one item of each type per employee per year. The measure will apply to items purchased after 7.30 pm (AEST) on 13 May 2008. The measure reduces the FBT concession and tax expenditure for work-related items.

Apart from the ongoing gain to revenue which is estimated to be \$650.0 million over the forward estimates period, this measure is also expected to increase GST payments to the States by \$120.0 million over this period.

### Jointly held assets

The Government will amend FBT law to ensure that the full value of a benefit that has been provided to both an employee and an associate in relation to a jointly held asset will be subject to FBT. This tax integrity measure will have effect for new arrangements from 7.30 pm (AEST) on 13 May 2008. This measure will have an ongoing gain to revenue which is estimated to be \$49.0 million over the forward estimates period.

### Meal cards

Where a meal is provided to and is consumed by the employee at the employer's business premises at any time on a working day, the benefit may qualify as an exempt property benefit under section 41 of the *Fringe Benefits Tax Assessment Act 1986*.

The Government will tighten the FBT exemption that applies to the private use of business property on an employer's premises by excluding meals under a salary sacrifice arrangement, with effect from 7.30 pm (AEST) on 13 May 2008. The measure reduces the FBT concession

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80. op. cit., Taxation Expenditures 2007, p. 118.

and tax expenditure associated with property provided on the employer’s business premises. This measure will have an ongoing gain to revenue which is estimated to be \$730.0 million over the forward estimates period. This measure is also expected to increase GST payments to the states by \$120.0 million over this period.

### Increasing the luxury car tax

The Government will increase the luxury car tax rate (LCTR) from 25 per cent to 33 per cent, with effect from 1 July 2008. This brings the LCTR to the rate that prevailed under the wholesale sales tax (WST).

There will be no change to the luxury car tax threshold (currently \$57,123) from which the luxury car tax applies. This measure has an ongoing gain to revenue which is estimated to be \$555 million over the forward estimates period.

As luxury cars are predominantly imported cars, this measure may have an adverse impact on the importation of these cars and hence help the manufactured car industry in Australia,

### Increase in the passenger movement charge

The passenger movement charge (PMC)—commonly called the departure tax—was first introduced for persons departing Australia for another country. The PMC was introduced in July 1995 and replaced the former departure tax. The PMC is levied under the [Passenger Movement Charge Act 1978](#) and collected under the [Passenger Movement Charge Collection Act 1978](#). The PMC was introduced as a cost recovery measure to recoup the cost of Customs, Immigration and Quarantine processing of passengers entering and leaving Australia and the cost of issuing short-term visitor visas. In law, the PMC is a tax. The Australian Customs Service administers the PMC legislation.

Generally speaking, the PMC is payable by all passengers departing Australia by air and sea. Section 5 of the Collection Act contains a number of exemptions. The PMC is not levied on incoming passengers.

The PMC was increased to \$30 per passenger on 1 January 1999. In the 2001–02 Budget, the government announced that it would increase the charge by \$8 to \$38 to offset the increased cost of inspecting passengers, mail and cargo at Australia's international airports. While initially a cost recovery measure, the PMC became more controversial over allegations that it has become yet another general revenue raising measure.

The table shows revenue in millions of dollars.

### Passenger Movement Charge Revenue

| Year    | 1999–00 | 2000–01 | 2001–02 | 2002–03 | 2003–04 | 2004–05 | 2005–06 | 2006–07 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenue | 226.13  | 242.83  | 283.64  | 290.58  | 329.79  | 363.84  | 374.57  | 393.22  |

Source: Australian Customs Service annual reports

It is not clear whether the PMC is now over-recovering costs. The PMC has not been increased since 2001 so it’s real (that is, inflation-adjusted) value has fallen. Costs would have risen over the same period.



The government proposes to increase the PMC from 1 July 2008 by \$9 to \$47.<sup>81</sup> The increase is estimated to raise \$459.3 million over four years. According to the government, the increase will contribute to offsetting the cost of a range of aviation security initiatives that until now have not been cost recovered.

## Conclusion

The government has, over the forward estimate years, anticipated effecting a total saving of \$16.5 billion by the measures which it has categorised as directed at Fairness and Integrity in the Tax system. This is significant in relation to the anticipated budget surplus of \$21.7 billion as it represents 76 percent of the surplus for 2008–09.

As mentioned above under Personal Tax Cuts, deferring the previously budgeted reductions in the top marginal tax rate for taxpayers on incomes of more than \$180,000 per annum until beyond 2010–11 will effect savings of \$5.3 billion over the forward estimates period.

In effect, the government has been able to increase revenue by the other measures indicated in the above table by \$11.3 billion over the forward estimate years.

A question mark must hang over the anticipated \$1.98 billion additional revenue over the forward estimate years from ATO compliance activity if an attempt is made to identify and quantify the dividend from that activity at a future date. What is certain is that the launch of enhanced ATO compliance activity will have a direct and indirect impact on revenue. The direct impact is that those targeted for audit may end up paying additional tax and the indirect impact is that those who hear of the proposed ATO compliance activity may avoid the pitfall of non-compliance. The indirect impact of ATO compliance activity was described by the Commissioner of Taxation in relation to the outcome of Project Wickenby at the biannual appearance before the Joint Committee on Public Accounts and Audit on 30 April 2008 as follows:

**Mr D’Ascenzo**—The whole idea of Project Wickenby is basically to send a clear message to the community that the Commonwealth will act in a concerted way to ensure that the country’s tax and superannuation systems are not abused by the abusive use of tax havens. Over time we have done a lot of hard work in trying to get information, following up the information, getting cases from a criminal perspective on course and at the same time following up similar matters through the tax and ASIC powers. We are now at a stage where we are seeing the fruits of that work. As you can see from press reports, the people involved on the ground are saying that there is more to come. So it really is starting to send a good message. The anecdotal comments that people are making are that this is right, that a few people have been trying to get a free ride from the rest of the community and it is about time that they are brought to book. I think it is a good message.<sup>82</sup>

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81. op. cit. ‘Part 1: Revenue Measures’, 2008–09, p. 7.

82. M. D’Ascenzo, ‘Biannual hearing with Commissioner of Taxation’, *Joint Committee on Public Accounts and Audit*, Proof Committee Hansard, 30 April 2008, p. 11, <http://parlinfoweb.parl.net/parlinfo/Repository/Committee/Commjnt/Linked/5811-1.PDF> accessed on 12 May 2008.

## Innovation funding

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### Public support for research and development

Universally, governments seek to increase business investment in research and development (R&D) and encourage innovation.

Global competition and the under performance of manufacturing have generally been the catalysts for governments to offer tax and other incentives for business to increase R&D, especially in developed countries.

In the EU, new tax incentives have been introduced to stimulate investment in R&D, which are geared primarily to companies undertaking large-scale R&D projects and to small R&D-intensive start-ups. The EU aims to increase spending on R&D to 3 per cent of GDP by 2010, which compares to current spending on research in the United States and Japan of 2.85 per cent and 3.1 per cent of GDP respectively.

In China, the catalyst behind increased R&D has been China's target to raise R&D spending to 2 per cent of GDP by 2010. At present, 1.23 per cent of China's GDP is devoted to R&D, which is far below the standard of developed countries, while China's dependence on foreign technology exceeds 50 per cent. The target is to be achieved by establishing a national innovation system and enhancing innovation in key technologies in the resources and energy sectors.

The general trend in public support for R&D has been to recognise that improving the innovation and research capacity of the business sector is influenced by a spectrum of policies.<sup>83</sup> Consequently, the mix of mechanisms for supporting innovation comprises competitive and merit-based R&D grant programs and the more widely available tax incentives. However, support for venture capital and other programs that focus on growing exports sectors and R&D commercialisation are gaining ground.

### Innovation and economic growth

Public support and mechanisms for supporting R&D and innovation build on OECD findings that industry competitiveness and long-term employment growth are driven by innovation and technological change.<sup>84</sup>

There is extensive theoretical and empirical research on the aggregate or overall effects of innovation including R&D on productivity and economic growth. Briefly, R&D is a means

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83. See OECD, 'Improving the mix of mechanisms for financing business R&D', *Public and Private Financing of Business R&D*, DSTI/STP (2002) REV1, Paris, 2002, pp. 21–27.

84. OECD, *Technology and Industrial Performance*, Paris, 1996, pp. 130–131. See also OECD, 'Part II: Encouraging Innovation', *Economic Policy Reforms: Going for Growth 2006*, Paris, 2006.

by which businesses and firms accumulate knowledge and ideas to create new products and new processes. By drawing together suppliers, technology firms, R&D providers, research institutions and commercial participants on a national basis, firms influence the absorption and development of technology.<sup>85</sup> Economic models have been developed to explain how innovation emerges from the economic system to generate returns and drive continuing growth.<sup>86</sup>

Evidence shows that individual firms and the economy benefit from business R&D and that the social benefits of increased business R&D are wide-ranging. An OECD report found that:

Countries with large increases in the intensity of business R&D to GDP and in the share of business R&D in the total R&D, including Australia, Denmark, Finland, Ireland and Sweden, appear to have experienced a pick-up in [productivity] growth in the 1990's.<sup>87</sup>

The report also noted that links between innovation and economic growth were well established:

***R&D provides an important contribution to output and total factor productivity.*** The empirical evidence typically shows that a 1% increase in the stock of R&D leads to a rise in output of 0.05-0.15%. There is also evidence that R&D may play a different role in small and large economies (Griffith et al., 1998) ... in smaller ones, it primarily serves to facilitate technology transfer from abroad.

In Australia, various studies have estimated the rate of social return and the net benefits to a firm as a result of increased spending on R&D. The Productivity Commission listed these and similar studies that indicate a 'spillover rate' ranging from 50 to 300 per cent. However, the Commission settled for a more reasonable spillover rate for Australia of around 40 per cent.<sup>88</sup>

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85. For a discussion of the relationship between innovation and Australia's productivity growth in the 1990s, see D. Parham, *Sources of Australia's Productivity Revival*, Productivity Commission, 2003.

86. For a selection on the literature on the role of innovation in economic growth, see K.I. Carlaw, and R.G. Lipsey, "Productivity, technology and economic growth: what is the relationship?" *Journal of Economic Surveys*, Vol 17, No.3, 2003, pp. 457–95; and C. Jones, "R&D-Based models of economic growth", *Journal of Political Economy*, Vol 103, No. 4, 1995, pp. 759–84.

87. OECD, *A New Economy?: The Changing Role of Innovation and Information Technology in Growth*, Paris, 2000, p. 28.

88. Productivity Commission, *Public Support for Science and Innovation*, 9 March 2007, pp 128–131. The social rate of return is the ratio of net social benefit to revenue foregone, times 100. See R. Maddock, 'Social costs and benefits from public investment in innovation', *Melbourne Institute Quarterly Bulletin of Economic Trends*, 2000, pp. 17–20. Maddock estimated the rate of social return to business investment in R&D at nearly 40 per cent. A 2001 Productivity Commission Staff Paper estimated that a firm's participation in the R&D tax concession raised R&D by around 60 per cent. See J. Revesz & R. Lattimore, *Statistical Analysis of the Use and Impact of Government Business Programs*, Staff Research Paper, Productivity Commission, November 2001.

While empirical models confirm that R&D raises productivity, there is some doubt about the magnitude of the effects from Australian business R&D and overseas R&D.<sup>89</sup>

### Innovation policy over the past decade

The Coalition Government's policy framework was fashioned by the 1997 Mortimer Report, *Going for Growth: Business Programs for Investment, Innovation and Export*, and the December 1997 *Investing for Growth* industry statement.<sup>90</sup> Under the Mortimer strategy, the government continued to provide longstanding support to the two industries that traditionally were the most highly protected: the automotive industry and the textile, clothing and footwear industry. As well as focussing on sectoral support, the framework recognised that technology and science-based industries presented a potential area for export growth and an opportunity to expand Australia's manufacturing base.

The Coalition Government's follow-up statements, *Backing Australia's Ability* - Mark I in 2001 and Mark II in 2004 - gave a boost to business R&D and innovation via R&D Start (renamed the Commercial Ready Programme) and changes to the 125 per cent R&D tax concession to allow loss making start-ups to cash-out the concession and introduction of the 175 per cent premium tax concession. The policy framework of *Backing Australia's Ability* was aimed at leveraging new technologies and their commercialisation. The changes to the R&D tax concession were designed to raise business R&D intensity and business innovation which had declined as a result of the closure of syndication and abolition of the 150 per cent R&D tax concession.

The May 2007 *Industry Statement* continued the policy settings in *Backing Australia's Ability* but marked a shift in support to growing sectors like export services, improving business networking, collaborative research and technology commercialisation. Support continued to be provided to manufacturing, and the mechanisms for supporting business innovation (the Commercial Ready Program and R&D tax concession) were augmented to raise R&D in the target groups: public research spin-off companies and foreign-owned subsidiaries of multinationals. Another key change marking a shift in innovation policy was the creation of the Innovation Australia Board, formed by the merger of the Industry, Research and Development Board, which was responsible for administering R&D grants programs and the R&D tax concession, as well as the Venture Capital Registration Board.

### 2008–09 Budget measures to promote innovation

The current government's innovation policy is set to be framed by the innovation review which was announced on 22 January 2008. The review, chaired by Dr Terry Cutler, will be assisted by an international panel and is expected to release a Green Paper in July 2008, followed by a White Paper response by the government. Early indications are that there will

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89. S. Shanks, and S. Zheng, *Econometric Modelling of R&D and Australia's Productivity*, Staff Working Paper, Productivity Commission, Canberra, 2006.

90. D. Mortimer, *Going for Growth: Business Programs for Investment, Innovation and Export*, Commonwealth of Australia, 1997; Australian Government, *Investing for Growth: the Howard Government's Plan for Australian Industry*, Commonwealth of Australia, 1997.

be an intensification of policies promoting R&D and innovation both nationally and at the industry and small business level.<sup>91</sup>

In the meantime, the government has allocated in the 2008–09 Budget \$500 million for the Green Car Innovation Fund over five years commencing in 2011–12. It has also invested more than \$500 million in the research sector, primarily in academic research institutions, which was an area of identifiable systemic weakness in the innovation system.<sup>92</sup> Specifically, \$209 million has been allocated over four years for Australian Postgraduate Awards and \$326 million in Future Fellowships to attract and retain the best Australian researchers. Other innovation measures include \$240 million for new Clean Business Australia initiatives which comprises funding of \$75 million for the Climate Ready competitive R&D grants program.<sup>93</sup>

These Budget measures recognise that innovation is a key driver of productivity and economic growth, particularly for developed countries like Australia which has a declining manufacturing industry. For policies promoting innovation, initiatives such as the Green Car Innovation Fund, the doubling of the number of Australian Postgraduate Awards and the Climate Ready R&D grants give visibility to a more manufacturing and research sector-focussed approach to encouraging business R&D and innovation.

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91. K. Carr (Minister for Innovation, Industry, Science and Research), *Government Announces Review of National Innovation System*, media release, 22 January 2008; and K. Carr, *New Agenda for Prosperity*, speech delivered to The Australian/Melbourne Institute 2008 Economic and Social Outlook Conference, 28 March 2008.

92. J. Gans and R. Hayes, *Assessing Australia's Innovative Capacity: 2006 Update*, Melbourne Business School, University of Melbourne, December 2006, pp. 15–16.

93. See media releases: K. Carr, Budget delivers new directions for innovation, competitiveness and productivity; New innovation program to help make Australia Climate Ready; Government to give more postgraduates a head start; Future Fellowships for outstanding mid-career researchers; and Re-tooling Australian manufacturers to tackle climate change, media releases, 13 May 2008.

## Infrastructure

Richard Webb  
Economics Section

The government announced that it would establish the [Building Australia Fund](#) (BAF) to finance investment in economic infrastructure notably roads, rail, ports and broadband.<sup>94</sup> The government proposes to fund the BAF in three ways: from Budget surpluses in 2007–08 and 2008–09, and by transferring \$2.4 billion from the Communications Fund (which will be closed) and \$2.7 billion from the partial proceeds of the Telstra 3 sale. Areas identified for spending from the BAF are up to \$4.7 billion for the national broadband network, funding for regional telecommunications initiatives, and \$75 million in 2007–08 for infrastructure feasibility studies.

The projects to be investigated are: the upgrading of key sections of the Bruce Highway in north Queensland and the Gateway Motorway in southeast Queensland; upgrading of the M5 in Sydney and constructing the Western Metro rail link in western Sydney; upgrading the Western Ring Road and constructing designated projects in the East-West transport corridor in Melbourne; developing an integrated transport plan for Perth airport; and developing a transport sustainability study for Adelaide. The government has not provided any explanation as to why these projects are to be investigated at a time when there are other transport projects vying for funds. It is also noticeable that Tasmania, the Northern Territory and the Australian Capital Territory do not feature on the list. Nor is it clear how these studies will tie in with the proposed nationwide audit that Infrastructure Australia will undertake. Some of the nominated projects constitute a foray into the funding of urban passenger transport, which the Howard Government considered to be primarily the responsibility of the states.

The Commonwealth's intention to expand its funding of infrastructure investment is another example of how power over spending and policy-making is becoming increasingly [concentrated](#) in the Commonwealth, and how the Commonwealth is becoming increasingly involved in areas beyond those stipulated in the Constitution.<sup>95</sup> For example, the proposal to fund investment in ports is an extension of traditional transport funding practice. Likewise, the funding for the proposed broadband network is a major extension of Commonwealth funding of communications investment.

Commonwealth funding of infrastructure has implications for state budgets and creates new opportunities for 'cost-shifting'. The states, generally, are borrowing to fund infrastructure. But if the Commonwealth increasingly funds infrastructure, the states could respond by cutting their spending on infrastructure and/or by borrowing less. Attempts to shift costs

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94. A. Albanese (Minister for Infrastructure, Transport, Regional Development and Local Government), *\$20 Billion for Nation-Building Projects*, Media Release, 13 May 2008, [http://www.minister.infrastructure.gov.au/aa/releases/2008/May/budget-infra\\_15-2008.htm](http://www.minister.infrastructure.gov.au/aa/releases/2008/May/budget-infra_15-2008.htm), accessed on 14 May 2008.

95. S. Bennett and R. Webb, 'Specific purpose payments and the Australian federal system', *Research Paper*, no. 17, 2007–08, Parliamentary Library, Canberra, 14 January 2008. Accessed from <http://www.aph.gov.au/library/pubs/rp/2007-08/08rp17.pdf>

when the Commonwealth and the states share functions have long been a feature of Commonwealth–state financial relations.

The main form of economic infrastructure the Commonwealth funds is roads and, overall, it provides about 20 per cent of funding. [Table 2.2](#) of the Portfolio Budget Statements for the Department of Infrastructure, Transport, Regional Development, and Local Government shows land transport funding—mainly roads—of \$3.5 billion up from an estimated \$3.2 billion.<sup>96</sup> The Budget also allocates \$20 million over four years for the establishment of Infrastructure Australia.

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96. Australian Government, *Portfolio Budget Statements 2008-09: Budget Related Paper No. 1.13*, Infrastructure, Transport, Regional Development and Local Government portfolio, Commonwealth of Australia, Canberra, 2008, p. 30, [http://www.infrastructure.gov.au/department/statements/2008\\_2009/budget/pdf/2008-2009\\_DITRDLG\\_PBS.pdf](http://www.infrastructure.gov.au/department/statements/2008_2009/budget/pdf/2008-2009_DITRDLG_PBS.pdf), accessed on 14 May 2008.

## Accounting standards

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Economics Section

For the first time, the general government sector financial statements in *Budget Paper No. 1 2008–09* are presented in accordance with accounting standard AASB1049 *Whole of Government and General Government Sector Financial Reporting*.<sup>97</sup> In essence, the general government sector comprises agencies which are funded from the Budget and which provide services that are mainly non-market in nature, or entail the redistribution of income (for example, the age pension). The general government sector thus excludes bodies such as the Reserve Bank and government business enterprises such as Australia Post.

The [Charter of Budget Honesty Act 1998](#) requires that the budget financial statements be presented on the basis of external reporting standards. In the past, general government sector financial statements were presented using two different accounting standards: the Government Finance Statistics (GFS) standard, and Australian Accounting Standards (AAS).

The GFS framework is a specialised statistical system designed to assist economic analysis of the public sector. The GFS standard used in the Budget was based on the Australian Bureau of Statistics accrual GFS framework, which is consistent with international statistical standards (the *System of National Accounts 1993* and the International Monetary Fund's [A Manual on Government Finance Statistics 2001](#)).<sup>98</sup>

AAS are standards that specify a range of accounting practices and how financial information should be reported. AAS have two components. The first—the Australian Equivalents to International Financial Reporting Standards (AEIFRS)—are designed principally for the private sector. AAS statements for the general government sector were presented in accordance with the AEIFRS for the first time in Statement 10 of Budget Paper No. 1 2006–07. This followed from the decision that Australia would adopt international accounting standards. The second component—AAS No. 31, *Financial Reporting by Governments* (AAS 31)—is a standard specific to government. Agencies use AAS when reporting their financial statements.

The use of the GFS and the AAS was confusing, especially since the two standards could yield quite different results. Following a directive from the Financial Reporting Council, the Australian Accounting Standards Board (AASB) harmonised AAS—also known as Generally Accepted Accounting Principles—and GFS financial reporting. The harmonised standard is AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

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97. Australian Government, 'Statement 9: Budget Financial Statements', *Budget Paper No. 1: Budget Strategy and Outlook 2008-09*, Commonwealth of Australia, Canberra, 2008, [http://www.budget.gov.au/2008-09/content/bp1/html/bp1\\_bst9.htm](http://www.budget.gov.au/2008-09/content/bp1/html/bp1_bst9.htm), accessed on 14 May 2008.

98. International Monetary Fund, *A Manual on Government Financial Statistics*, (GFSM 1986), <http://www.imf.org/external/pubs/ft/gfs/manual/1986/eng/index.htm>, accessed on 14 May 2008.

OECD, The European Commission, United Nations, & International Monetary Fund, *System of National Accounts 1993*, United Nations, New York, 1994.



which, in effect, combines both AAS and GFS. On 10 October 2007, the AASB [announced](#) the approval of AASB 1049, which will come into effect on 1 July 2008.<sup>99</sup>

The adoption of AASB 1049 will have several consequences. On the one hand, it will reduce confusion by having only one set of accounts in Budget Paper No. 1. On the other hand, there are no AASB1049 data before 2007–08. The lack of comparable AASB1049 time series data limits transparency. For comparable data, it will be necessary to use ABS GFS data, but they are not available when the Budget is brought down.

Agencies will continue to present their financial statements using AAS while the AASB examines whether harmonisation should be pursued for agencies within the general government sector of the Australian government (and state and territory governments).

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99. Australian Accounting Standards Board, *AASB approves harmonisation of GAAP/GFS*, media release, 10 October 2007, [http://www.aasb.com.au/whatsnew/media\\_docs/MR-GAAP-GFS\\_harmonisation\\_10-10-07.pdf](http://www.aasb.com.au/whatsnew/media_docs/MR-GAAP-GFS_harmonisation_10-10-07.pdf), accessed on 14 May 2008.

## Workplace relations

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Budget allocations under the Education, Employment and Workplace Relations portfolio commence the implementation of the government's workplace relations policy, *Forward with Fairness* (April 2007).<sup>100</sup> The Parliament passed the government's Workplace Relations Amendment (Transition to Forward with Fairness) Bill on 17 March 2008 with these amendments taking effect in the *Workplace Relations Act* (WR Act) from 28 March 2008.

The amendments trigger an award modernisation process, terminate the making of new Australian Workplace Agreements (AWAs) and set in train the steps to create an employment regulator, Fair Work Australia (which will subsume many of the agencies cited below).

Award modernisation is placed under the responsibility of the Australian Industrial Relations Commission (AIRC). The AIRC has been allocated resources of \$55.25m in 2008–09 (2007–08: \$53.68m), which is part of an increase of \$13.2m over four years. The legislation which created the recently replaced 'fairness test', also created two agencies: the Workplace Authority (WA), formerly the Office of the Employment Advocate; and the Workplace Ombudsman (WO), formerly the Office of Workplace Services.<sup>101</sup>

Workplace agreements are lodged with the WA. The WA's budget was to increase by \$303.5m over four years from 2007. The 2008–09 Budget trims the WA allocations to \$113.13m in 2008–09 (2007–08: \$130.14m) reflecting the anticipated decreased use of individual agreements. Its budget will be further cut in 2009–2010 by \$106.2m as a prelude for its subsumption into Fair Work Australia. The WO was earmarked to gain an additional \$64.1m over four years from 2007 for its role in policing breaches of the WR Act such as forcing employees on to AWAs. Its budget for 2008–09 will be \$70.72m. (2007–08: \$69.7m).

The Australian Fair Pay Commission determines the minimum wage and pay scales (formerly known as award pay rates). It has had its funding reduced by about \$1m in line with the reduced functions prescribed under the amended WR Act, with a further \$1.3m reduction planned for 2009–10. Its 2008–09 budget is \$7.48m.

The Australian Building and Construction Commission polices industrial relations in the 'high rise' building industry. Its budget has been maintained in line with pre-election commitments. It will receive \$32.814m for 2008–09 (2007–08: \$29.596m).

Comcare is the authority which administers the Commonwealth's health and safety legislation and workers' compensation scheme. Comcare's responsibilities have increased as a result of legislation allowing certain private sector entities to seek Comcare workers compensation coverage for their workforces while allowing those businesses to come under Commonwealth health and safety laws (replacing applicable state laws). Comcare estimates

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100. Australian Government, 'Agency Resourcing', *Budget Paper No. 4: Agency Resourcing 2008–09*, Commonwealth of Australia, Canberra, 2008 pp. 36–42.

101. Workplace Relations Amendment (A Stronger Safety Net) Act 2007.

its workers compensation system coverage has increased by 20 per cent since May 2007.<sup>102</sup> The Budget does not increase allocations for Comcare, however its appropriations are likely to total about \$373m over 2008–09 by virtue of increased revenue from premiums and other sources of income such as license fees (matched by increased outlays).

The Budget also:

- provides \$4m over four years to help develop and promote accreditation of employers under the Homeworkers Code of Practice for the textile, clothing and footwear industry and the ‘No Sweat Shop’ label in Australia
- increases funding for secret ballots prior to industrial action with an extra \$100 000 p.a. for three years
- terminates the \$10m Employer Advisory Program, and
- introduces grants to small businesses to develop family-friendly practices and facilities of between \$5000 and \$15 000 under a \$3.6m program in 2008–09.

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102. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, Commonwealth of Australia, Canberra, 2008, p. 222.

## Health

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### Introduction

Broadly, this Budget is aimed at meeting election commitments, such as the funding of promised health and hospitals reform measures, the establishment of GP Super Clinics and a range of preventative health measures. To meet these election promises, funding has been drawn from future surpluses, the excise on so-called ‘alcopops’ (expected to generate \$3.1 billion) or redirected from programs funded by the previous government. This Budget also outlines significant changes to the framework in which future Commonwealth health funding will be provided to the states, by reducing the number of Specific Purpose Payments and introducing new national agreements.<sup>1</sup>

Although the proposed changes to the Pharmaceutical Benefits Scheme (PBS) failed to generate significant media attention, the shift towards full cost recovery for the listing of products on the PBS and the National Immunisation Program (NIP) represent a dramatic shift in government policy and how the PBS operates. Another under-reported shift in health policy is the means-testing of the subsidy for insulin pumps, to be used in the treatment of type 1 diabetes (T1D). This is the first time in the 60-year operation of the PBS that a listed item will be subject to means-testing. One of the implicit policy objectives of the National Medicines Policy and the PBS is universality of access on the basis of need, rather than capacity to pay.<sup>2</sup>

Given that a number of significant reports in recent times have emphasised the need for innovative thinking about ways to improve health workforce recruitment and retention, it is disappointing that the Budget did not make provision to explore such options.

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1. Australian Government, ‘Part 2: the COAG Reform Agenda,’ *Budget Paper No. 3: Australia’s Federal Relations 2008–09*, Commonwealth of Australia, Canberra, 2008.
  2. Maurice Rickard, ‘The Pharmaceutical Benefits Scheme: options for cost control’, *Current Issues Brief*, no 12, Department of the Parliamentary Library, Canberra, 2002, <http://www.aph.gov.au/library/pubs/cib/2001-02/02cib12.htm>, accessed on 15 May 2008.

## Savings and realignment of other funding

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A number of existing health programs identified as underperforming, duplicating or ‘not doing the job’ have had their funding significantly reduced in order to fund other budget initiatives.<sup>3</sup> Significant savings have been made in areas affecting general practice (\$244 million), the private health insurance rebate (\$299 million), clinical training for nurses (\$169.9 million) and advertising campaigns (\$50 million).

Arguably not all programs identified for savings are without merit. For example, the GP Immunisation Services Incentive Payment, identified as a saving of \$83.7 million, is paid to GPs as an incentive for the completion of a childhood immunisation. It has helped achieve immunisation rates of 90 per cent in general practices around Australia. The government argues that this incentive payment duplicates existing immunisation incentives and initiatives.<sup>4</sup> There may be a risk that by removing this duplication other immunisation efforts may be undermined. Some have also warned that the cuts to general practice programs such as this one may exacerbate tensions between the government and some doctors’ groups.<sup>5</sup>

## Health and Hospitals Reform

Significant reforms to health and hospitals were announced prior to the election, as part of Labor’s promise to end the ‘blame game’. Further funding announcements, notably \$600 million in funding to the states and territories to reduce elective surgery waiting times, and significant spending on the nursing workforce have been made in recent months. This Budget also announces the establishment of a \$10 billion Health and Hospitals Fund, to support investment in health infrastructure, medical equipment and research. The Health and Hospitals Fund, to be supported by budget surpluses and established by 1 January 2009, replaces and expands the previous government’s Health and Medical Infrastructure Fund.<sup>6</sup> Full details are yet to emerge as to how projects will be assessed for funding, other than as

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3. N. Roxon (Minister for Health and Ageing), *Delivering our election commitments*, media release, Parliament House, Canberra, 13 May 2008, [http://www.health.gov.au/internet/budget/publishing.nsf/Content/F27F848D9453F6D3CA25744600124099/\\$File/08\\_health002.pdf](http://www.health.gov.au/internet/budget/publishing.nsf/Content/F27F848D9453F6D3CA25744600124099/$File/08_health002.pdf), accessed on 19 May 2008.
  4. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008.
  5. E. Connors, ‘GPs to bear the brunt of balancing act’, *Australian Financial Review*, 14 May 2008, p. 20, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:YGFAQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:YGFAQ6%3B), accessed on 19 May 2008.
  6. N. Roxon (Minister for Health and Ageing), *Investing in a health system for the future*, media release, Parliament House, Canberra, 13 May 2008, [http://www.health.gov.au/internet/budget/publishing.nsf/Content/1A1A16A835BDAADACA257448002D6D07/\\$File/08\\_health001.pdf](http://www.health.gov.au/internet/budget/publishing.nsf/Content/1A1A16A835BDAADACA257448002D6D07/$File/08_health001.pdf), accessed on 19 May 2008.

part of each year's budget process. This lack of detail has raised some concerns that such a large fund could be used for other purposes, such as to fund future election commitments.<sup>7</sup>

## Preventative health and chronic disease initiatives

The Budget provides significant funding to meet a range of election commitments in the preventative health and chronic disease prevention areas. Significant funding has been allocated to: the Healthy Kids Check for all four-year-olds (\$25.6 million), cancer and cancer screening (\$173 million), a range of initiatives to tackle obesity (\$62 million), binge drinking (\$53.5 million) and tobacco (\$29.5 million), support for perinatal depression (\$55 million from the Commonwealth with \$30 million to be sought from the states and territories), closing the gap on Indigenous health (\$334.8 million) and support for dental health (\$780.7 million). The increased excise on so-called 'alcopops', expected to raise some \$3.1 billion in revenue, will help fund these initiatives, but the Coalition has claimed that the tax will fail to reduce binge drinking.<sup>8</sup>

## Dental initiatives

The dental health funding is significant as it marks a more direct role for the Commonwealth in funding dental health. During the 2007 election Labor promised to redirect funding from the existing Medicare Allied Health and Dental Care initiative for people with chronic conditions to two new dental programs and also to fund the James Cook University's dental school. This Budget allocates \$780.7 million for these initiatives. Funding of \$290 million over three years is to be provided to the states and territories to clear public dental waiting list backlogs (estimated at 650 000). Although priority is still to be given to patients with chronic conditions, the National Oral Health Plan specifies that equal priority be given to other disadvantaged or vulnerable groups.<sup>9</sup> One problem that may affect the capacity to reduce waiting lists is the shortage in the dentistry workforce, particularly the public dental workforce. It has been estimated that by 2010 there will be 1500 fewer oral health providers than will be needed just to maintain current levels of access.<sup>10</sup>

The Budget also provides \$490.7 million for the Teen Dental Plan, due to commence on 1 July 2008. This means-tested initiative, paid through Medicare, provides for up to 1.1 million eligible teenagers (aged 12 to 17 years) to receive assistance of \$150 per year for a dental

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7. N. Butterly and others, 'Funds seen as poll war chests', *West Australian*, 15 May 2008, p. 10, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:56GQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:56GQ6%3B), accessed on 19 May 2008.

8. L. Tingle, 'Coalition threatens budget showdown', *Australian Financial Review*, 15 May 2008, p. 1, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:4RFQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:4RFQ6%3B), accessed on 19 May 2008.

9. Australian Health Ministers' Conference, National Advisory Committee on Oral Health, *Healthy Mouths Healthy Lives: Australia's National Oral Health Plan 2004–2013*, Department of Health, [Adelaide], 2004, p. vii, [http://www.sadental.sa.gov.au/Portals/57ad7180-c5e7-49f5-b282-c6475cdb7ee7/Oral\\_Health\\_Care.pdf](http://www.sadental.sa.gov.au/Portals/57ad7180-c5e7-49f5-b282-c6475cdb7ee7/Oral_Health_Care.pdf), accessed on 19 May 2008.

10. *ibid.*, p. v.

checkup. While previous Medicare arrangements for dental services targeted specific population groups, the focus has remained firmly on clinical need, not socio-economic status. This means-tested application of Medicare represents a shift from a model that has previously provided universal access based on clinical need.

## Medicare levy surcharge changes

The Medicare Levy Surcharge (MLS) is an additional 1 per cent surcharge on top of the 1.5 per cent Medicare levy on taxable income which helps fund Medicare. Introduced in 1997, the MLS applies to those on incomes over \$50 000 (individuals) or \$100 000 (couples) without private health insurance. Some 465 327 individuals paid the surcharge in 2005–06, raising around \$289 million in taxation revenue.<sup>11</sup> The government proposes to raise the MLS thresholds (which have remained unchanged) to \$100 000 for singles and \$150 000 for couples. The measure is expected to generate savings in the form of reductions in government rebates for health insurance premiums, resulting in \$299.2 million in savings overall.<sup>12</sup>

The changes to the MLS have attracted criticism. The Australian Health Insurance Association (AHIA) and the Australian Medical Association (AMA) have expressed concerns that the changes will lead to an exodus of members from private health insurance and strain the already stretched public hospital sector.<sup>13</sup> Not all in the private sector agree; the Australian Private Hospitals Association described the likely effects of the proposed changes as ‘greatly exaggerated’.<sup>14</sup>

While the government has conceded that it expects some 485 000 people may elect to drop their private health insurance as a result of this measure, claims of a mass exodus and its

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11. Australian Taxation Office (ATO), *Australian Taxation Statistics 2005–06*, ATO, Canberra, 2008, Table 2.13, p. 20,

[http://www.ato.gov.au/content/downloads/00117625\\_2006CH2PER.pdf](http://www.ato.gov.au/content/downloads/00117625_2006CH2PER.pdf), accessed on 19 May 2008.

12. Department of Health and Ageing, *Health and Ageing: 2008–09 Budget at a Glance*, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2008-glance.htm>, accessed on 14 May 2008.

13. Australian Medical Association (AMA), *Budget private health changes will hurt*, media release, AMA, Barton, ACT, 14 May 2008, <http://www.ama.com.au/web.nsf/doc/WEEN-7EM4EC>, accessed on 19 May 2008; Australian Health Insurance Association (AHIA), *Hundreds of thousands to join public hospital waiting lists*, media release, AHIA, Deakin, ACT, 10 May 2008,

<http://www.ahia.org.au/media%20releases/AHIA%20Media%20Release%20-%20Hundreds%20of%20Thousands%20to%20Join%20Public%20Hospital%20Waiting%20Lists%2010May08.pdf>, accessed on 19 May 2008.

14. Australian Private Hospitals Association (APHA), *Don't risk waiting list lottery—private hospitals urge*, media release, APHA, Barton, ACT, 11 May 2008, <http://www.apha.org.au/read/2436178820.html>, accessed on 19 May 2008.

possible impacts on the public hospital system have been questioned for a number of reasons.<sup>15</sup>

First, the decision to purchase private health insurance is not based solely on avoiding a tax penalty. In addition to the MLS, there are other incentives that encourage private health insurance membership—notably Lifetime Health Cover and the Private Health Insurance Rebate. It has been pointed out that when the MLS was introduced in 1997 it failed to halt declining private health insurance membership. This decline was only reversed from 2000, following the introduction of the other two health insurance incentives.<sup>16</sup> Furthermore, other factors influence a decision to purchase health insurance, including personal preferences and incomes. According to one industry executive, ‘the most important drivers’ of private health insurance membership, along with government incentives, are rising incomes and falling confidence in public hospitals.<sup>17</sup>

Secondly, it has been argued that those who purchase health insurance to avoid the penalty of the MLS tend to be young and healthy. They purchase the cheapest products with high co-payments (or front-end deductibles) and continue to use public hospital services to avoid these high co-payments.<sup>18</sup> If so, this suggests that their opting out would not place an additional burden on the public hospital sector and therefore the negative impact may be less than some have claimed. Regardless, the assumption that the young will opt out may not be correct. Other penalties, such as the higher premiums for health insurance that are faced after the age of 31, may well prove a disincentive to dropping private cover for those aged over 30.

If there were to be a decline in membership of younger healthy members, it may add pressure to premiums as funds seek to reduce their costs. But, in an indication that the health insurance industry does not envisage any longer-term damage, the proposed acquisition by BUPA Australia of the health fund MBF is set to proceed, despite the announced changes to the MLS.<sup>19</sup>

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15. W. Swan (Treasurer), *Address to the National Press Club*, media release, Canberra, Parliament House, Canberra, 14 May 2008,

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2008/010.htm&pageID=005&min=wms&Year=&DocType=1>, accessed on 19 May 2008.

16. L. Russell, ‘Unclear bill of health in extra sticks and carrots’, *Canberra Times*, 13 May 2008, p. 13,

[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:RMEQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:RMEQ6%3B), accessed on 19 May 2008.

17. NIB Chief Executive, Mark Fitzgibbon, as reported in J. Breusch, ‘Industry mulls Labor surcharge shake-up’, *Australian Financial Review*, 22 November 2007, p. 17,

[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:CF0P6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:CF0P6%3B), accessed on 19 May 2008.

18. N. Miller and L. Shanahan, ‘600,000 may quit health insurance’, *The Age*, 13 May 2008, p. 2,

[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:2HEQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:2HEQ6%3B), accessed on 19 May 2008.

19. G. Winestock, ‘NIB ready to slash marketing’, *Australian Financial Review*, 13 May 2008, p. 53,



## Pharmaceutical Benefits Scheme

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Over the past 18 months, the operation of the Pharmaceutical Benefits Scheme (PBS) has undergone significant policy change. The previous government introduced the ‘PBS Reform Package’ in late 2006 with a staged implementation model (with Stage 2 to be implemented in August 2008). There are two budget measures which will be of particular significance to the operation of the PBS—the move to cost recovery for evaluation and listing on the PBS and the decision to reduce the funding for the generics medicines awareness campaign. Other PBS measures include the listing of several high cost drugs on the PBS and the subsidisation of insulin pumps, to be used in the treatment of type 1 diabetes (T1D).

### Cost recovery for listing of products on the PBS and NIP

The shift towards cost recovery of the administration of the Pharmaceutical Benefits Advisory Committee (PBAC), the Committee which advises which drugs should be subsidised, and the system of listing drugs on the PBS is expected to generate additional revenue of \$7 million over four years, with a net cost of \$2.2 million.<sup>20</sup>

This measure was first announced in the 2005–06 Budget, with a proposed implementation date of 2007–08 (later set for 1 July 2007 and then 1 January 2008). At the time, there was widespread concern about the introduction of this measure with concerns that it may undermine the independence of the Pharmaceutical Benefits Advisory Committee (PBAC) and possibly result in manufacturers declining to list products on the PBS (especially for low volume products).<sup>21</sup>

Although described in the budget papers as an election commitment, it has not been possible to locate the introduction of cost recovery to Pharmaceutical Benefits Advisory Committee (PBAC) processes in the ALP election platform or other health policy documents. Furthermore, during the parliamentary debate about the legislative change package associated with the introduction of the PBS Reform package in 2007, Nicola Roxon noted:

The PBAC needs to be independent of government and of industry, and we cannot see the justification for this move to the cost-recovery model.<sup>22</sup>

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[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:MMEQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:MMEQ6%3B), accessed on 19 May 2008.

20. Australian Government, ‘Part 1: Revenue Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2007, p. 9.
21. B. Grabau, ‘Cost-recovery drive could impact on sustainability on the PBS,’ *Canberra Times*, 18 May 2005, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:E32G6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:E32G6%3B), accessed on 19 May 2008.
22. Nicola Roxon, ‘Second reading speech: National Health Amendment (Pharmaceutical Benefits Scheme) Bill 2007’, House of Representatives, *Debates*, 31 May 2007, p. 10,

It would appear that the introduction of cost recovery arrangements therefore caught the pharmaceutical industry by surprise.<sup>23</sup> In addition, there are fears that this measure could undermine the independence of the PBAC and result in higher drug prices to consumers.<sup>24</sup> As it will be necessary for the industry to recoup these additional costs, it may lead to higher prices for pharmaceuticals and a subsequent increase in cost to government. This was acknowledged by senior Department of Health and Ageing (DoHA) officials during a Senate Estimates hearing in 2005.<sup>25</sup>

DoHA has argued that as the Therapeutic Goods Administration (TGA) operates under cost recovery arrangements, it is a 'logical extension' for the PBAC to operate under the same arrangements.<sup>26</sup> However, the TGA and PBAC have vastly different roles: the TGA determines whether a drug (or medical device) can be marketed in Australia whereas the PBAC recommends to the Minister which drug should receive public subsidy on the PBS and which vaccines should be publicly funded under the National Immunisation Program (NIP).

In this context, the role of cost recovery is questionable. Although cost recovery arrangements for the TGA and for the evaluation of prostheses for listing on the Medicare Benefits Schedule exist, it is difficult to compare these with the proposed arrangement for the PBS.

Cost recovery arrangements for prostheses were designed to reduce expenditure on prostheses which had been increasing significantly.<sup>27</sup> In this budget measure, cost recovery arrangements are being introduced to 'offset the additional costs' associated with evaluating and listing new products on the PBS.<sup>28</sup> Given these vastly different objectives, comparisons between the two are difficult, except to note that pharmaceuticals are widely used in the community and the PBS (including the listing process) is an integral part of the delivery of timely and affordable access to medicines.

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[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=hansardr&Criteria=DOC\\_DATE:2007-05-31%3BSEQ\\_NUM:17%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=hansardr&Criteria=DOC_DATE:2007-05-31%3BSEQ_NUM:17%3B), accessed on 19 May 2008.

23. Medicines Australia, *Medicines Australia surprised by PBAC measure*, media release, 13 May 2008, [http://www.medicinesaustralia.com.au/pages/view\\_news.asp?id=81](http://www.medicinesaustralia.com.au/pages/view_news.asp?id=81), accessed on 19 May 2008.
24. S. Ryan, 'Drug committee left to rely on industry funding', *The Australian*, 15 May 2008, p. 9, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:COGQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:COGQ6%3B), accessed on 19 May 2008.
25. Community Affairs Legislation Committee, Budget Estimates, 1 June 2005, CA125.
26. Cost recovery for evaluation and listing on the Pharmaceutical Benefits Scheme (PBS) and National Immunisation Program (NIP) – Frequently Asked Questions, [http://www.pbs.gov.au/html/healthpro/factsheet/view?date=20080501&type=XML&name=Health\\_Professional\\_Cost\\_Recovery\\_FAQ&folder=cost\\_recovery&area=professional](http://www.pbs.gov.au/html/healthpro/factsheet/view?date=20080501&type=XML&name=Health_Professional_Cost_Recovery_FAQ&folder=cost_recovery&area=professional), accessed on 13 May 2008.
27. Department of Health and Ageing, *Prostheses list—guide to listing and setting benefits for prostheses. Part 1: understanding the prostheses arrangements*, November 2007, <http://www.aph.gov.au/library/pubs/cib/2001-02/02cib12.htm>, accessed on 15 May 2008.
28. *Budget Paper No. 2*, op. cit., p. 9.

According to the Productivity Commission, cost recovery arrangements should only be introduced to ‘improve economic efficiency’ and ‘cost recovery should not be implemented where ... it would be inconsistent with policy objectives’.<sup>29</sup> This view is also echoed in the Australian Government Cost Recovery Guidelines.<sup>30</sup> Subjecting assessment of medicines to cost recovery in order to increase economic efficiencies may undermine government health policy objectives in relation to timely and affordable access to essential medicines. As the primary focus of the PBS is ‘timely and affordable access at a cost the community can afford’, charging companies for the products to be listed on the PBS may lead to delays in listings and higher drug prices for government.

Leaving aside the policy and regulatory arguments, the proposed implementation date of 1 July 2008 puts considerable pressure on DoHA, the pharmaceutical industry and the PBAC. Although DoHA has released a Frequently Asked Questions document explaining the changes, it has not released the associated charges or the proposed consultation strategy.

In addition, an unintended consequence of this policy may be that it will now become more difficult for non-industry bodies to apply for products to be listed on the PBS. There are no restrictions on who can make a submission to the PBAC. In order to be considered by the PBAC, submissions must fulfil the technical requirements. It may be difficult for clinicians or patient groups to raise the necessary funds to not only prepare the submission, but also to have it considered by the PBAC. The proposed cost recovery arrangements may therefore well act as a barrier to their applying.

### Generic medicines campaign

The PBS Reform package was expected to save the government more than \$580 million.<sup>31</sup> A key feature of the PBS Reforms, and indeed, a key factor in the predicted savings being realised was the increased usage of generics. It is with interest to note that the proposed generics medicine campaign designed to promote the use of generics to prescribers and consumers and to be implemented as part of the PBS Reform package will be reduced from \$20 million to \$5.1 million, to be spent before the end of this financial year.<sup>32</sup>

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29. Productivity Commission, *Cost recovery by Government agencies*, Report no.15, AusInfo, Canberra, 2001, p. 175.

30. Commonwealth of Australia, *Australian Government Cost Recovery Guidelines*, Canberra, 2005, p. 5, [http://www.finance.gov.au/finframework/docs/Cost\\_Recovery\\_Guidelines.pdf](http://www.finance.gov.au/finframework/docs/Cost_Recovery_Guidelines.pdf), accessed on 14 May 2008.

31. T. Abbott (Minister for Health and Ageing), *PBS Reform*, media release, Parliament House, Canberra, 2 May 2007, <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/health-mediarel-yr2006-ta-abb152.htm?OpenDocument&yr=2006&nth=11>, accessed on 15 May 2008.

32. This was based on analysis of the 2007–08 and 2008–09 budget papers. According to Budget Paper No. 2 of the 2007–08 Budget, there was \$15.2 million expenditure allocated in 2007–08 (p. 244). Budget Paper No. 2 of the 2008–09 Budget showed a saving of \$10.1million and no expenditure in the forward estimates period (p. 394). Thus, the expenditure available for the generics medicines campaign is \$5.1 million to be spent in the 2007–08 financial year.

When the government was first considering the generics awareness campaign it was ‘expected to comprise print, radio and television advertisements, which promote the safety, health and economic aspects of generic medicines’.<sup>33</sup> The decrease in funding will curtail the extent of the advertising campaign and potentially limit its effectiveness. It will also limit the information available to consumers about the benefits of generic medicines.<sup>34</sup> This may have flow-on effects to whether the full extent of the savings might be realised from the PBS Reform package and may result in unnecessary expenditure by consumers. It has been noted by the Generic Medicines Industry Association that last year consumers paid a premium for medicines which had a generic equivalent for over 28 million prescriptions.<sup>35</sup>

### New drug listings on the PBS

This Budget also extended the listings of many products that were already listed on the PBS, as well as introduced the listing of Naglazyme® (galsulfase) to assist patients with a rare, debilitating enzyme deficiency called Maroteaux-Lamy Syndrome. Notably, insulin pumps for young people with T1D will be subsidised on a means tested basis. As noted in other parts of this section, the means testing of subsidies is a shift away from universal access based on clinical need.

### Insulin pumps

The Budget provides \$5.5 million over four years for means-tested subsidies on a sliding scale towards the cost of insulin pumps for people with T1D under the age of 18. Those receiving the maximum subsidy of \$2500 will need to pay at least that amount again for the most basic model of insulin pump. The measure does not take into account other people who may have a clinical need for an insulin pump and need support, including young adults with T1D and women with gestational diabetes. The budget papers do not indicate how much of the funding will be provided to Centrelink to ‘administer the means testing’.<sup>36</sup>

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33. Department of Health and Ageing, ‘Pharmaceutical Benefits Scheme (PBS) Reform’, *Factsheet*, 2 February 2007,

[http://www.health.gov.au/internet/main/publishing.nsf/Content/pbs\\_reform\\_02feb07.htm](http://www.health.gov.au/internet/main/publishing.nsf/Content/pbs_reform_02feb07.htm), accessed on 14 May 2008.

34. Generic Medicines Industry Association (GMiA), Consumers the losers in budget decision to cut funding for generic medicines public information campaign, media release, GMiA, Sydney, 14 May 2008.

35. *ibid.*

36. *Budget Paper No. 2*, op. cit., p. 236.

## Aged Care

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The previous government introduced significant changes to the aged care sector as part of the 2007–08 Budget. Many of the changes, such as the Aged Care Funding Instrument, have been retained by the Rudd Government. This Budget announced a range of measures for the aged care sector including:

- additional transition care places
- increasing the level of the Conditional Adjustment Payment (CAP)
- \$300 million in zero interest real loans
- increasing the nursing workforce in residential aged care and
- a commitment to regularly reviewing the aged care planning ratios.

These budget measures have failed to generate significant commentary. The Aged Care Industry Council ‘expressed relief’ that there were no significant cuts to the aged care sector and were relieved that the CAP was extended.<sup>37</sup> Other peak lobby groups have focussed on the gaps between the cost of living and the aged pension rather than the budget measures per se.<sup>38</sup>

As has been a recurring theme in the analysis of the Budget, many of the aged care measures reflect either election commitments or announcements made prior to the Budget (for example, the Ministerial Council on Ageing, the appointment of an Ambassador for Ageing, zero real interest loans and additional transition aged care places).

Earlier commentary in this brief has noted that it is disappointing that this Budget did not make any meaningful contribution towards addressing the significant health workforce challenges. An extra (up to) 1000 nurses over five years in the residential aged care sector will do little to address the declining workforce and pay disparities in the sector or the broader challenges facing the aged care workforce.

This initiative is part of a broader measure to encourage 8750 qualified nurses to return to the workforce and to create 90 new Commonwealth supported university places in nursing in

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37. Aged Care Industry Council, ‘Older people escape the razor—for now’, *The National report*, issue 179, 13 May 2008, <http://www.agedcare.org.au/Publications/national-report-pdfs/ACSA%20Nat%20Rep%20Issue179-Budget-Edition-13May08.pdf>, accessed on 14 May 2008.

38. See Council of the Ageing (COTA) over 50s, *Budget ‘same old’ for older Australians*, media release, Canberra, 13 May 2008, <http://www.cotaover50s.org.au/news.php?item.75.1>, accessed on 19 May 2008; and Combined Pensioners and Superannuants Association (CPSA) *Wayne doesn’t get it: age and disability pensioners can’t wait another year*, media release, NSW, 15 May 2008, <http://www.cpsa.org.au/MAIN/srelease.php?id=49>, accessed on 19 May 2008.

2008 and 2009.<sup>39</sup> Unless these places are specifically quarantined, there is a danger that these places will become part of the allocation for the entire nursing sector and will not directly benefit the residential aged care sector.

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39. J. Elliot (Minister for Ageing), *New directions for older Australians*, media release, Parliament House, Canberra, 13 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:JJGQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:JJGQ6%3B), accessed on 14 May 2008.

## Health workforce

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Prior to the Budget the government made commitments to a number of health workforce initiatives. These included an announcement that up to 50 000 additional training places for allied health professionals, an area of the health workforce that has often been overlooked in workforce planning, would be introduced from January 2009.<sup>40</sup>

Budget press releases confirm the commitment to new allied health workforce places and introduce a number of other workforce measures. The only other measure to target allied health workers specifically, however, is minor. From 2009, allied health students will be able to apply for scholarships to undertake clinical placements in rural and remote areas. This program will receive \$2.5 million over a three year period from 2009. While this commitment does respond to concerns expressed by the allied health representative body about clinical training places, funding for the measure is far from substantial.<sup>41</sup>

As it is intended that allied health professionals are an integral part of the government's new Super Clinics strategy, it is surprising that allied health measures did not figure more prominently in the 2008–09 Budget. One such measure could well have been an education program to inform general practitioners about the allied health professions, the services they can offer and the health cost-effectiveness of many treatments delivered by allied health professionals.<sup>42</sup> Another measure might have been an incentives program to encourage allied health professionals to relocate to rural Super Clinics, given that there may be some resistance from these professionals (and nurses) to working in a general practice oriented setting as opposed to a community health or an autonomous practice environment.

The most significant health workforce budget measure is a commitment to funding of \$99.5 million over four years from 2008–09 for new Commonwealth supported university nursing places. Under this measure, 90 places will be available from July 2008 and a further 1170 in 2009. By increasing places in nursing and medicine, this measure complements recent efforts by the previous government to respond to predictions that student places were inadequate to meet future health demands.

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40. J. Gillard (Deputy Prime Minister) and N. Roxon (Minister for Health and Ageing), *COAG to deliver up to 50 000 more frontline health workers*, media release, Parliament House, Canberra, 28 March 2008, <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr08-nr-nr036.htm>, accessed on 14 May 2008.

41. Health Professions Council of Australia, (HPCA) *Solving the Crisis in Clinical Education for Australia's Health Professionals*, HPCA, Fitzroy, Vic., 2004, [http://www.shpa.org.au/pdf/whatsnew/hpca\\_clin.pdf](http://www.shpa.org.au/pdf/whatsnew/hpca_clin.pdf), accessed on 19 May 2008.

42. Allied Health Professions Australia (AHPA), *Allied Health Care Priorities for Health Care Reform: A Submission to the Health and Hospitals Advisory Group*, Australian Labor Party, AHPA, Melbourne, 2007, <http://www.aopa.org.au/Documents/AHPA%20submission%20to%20Health%20and%20Hospitals%20Advisory%20group.pdf>, accessed on 19 May 2008. .

Another measure which aims to increase nursing numbers involves the offer of cash bonuses to encourage some of the 30 000 qualified nurses currently not employed in the health and aged care sectors to return to their profession. This measure responds in part to Australian Nursing Federation (ANF) criticism in 2007 of the previous government's proposal to introduce hospital nursing schools. At that time the ANF argued that encouraging already trained nurses back into the profession was a more effective solution to nursing shortages than increasing the cohort of less skilled nurses.<sup>43</sup>

Bonuses under this return-to-nursing measure will be available to those nurses who have not been employed in the health workforce for a period of more than a year. Six months after their return to the hospital or residential aged care systems the nurses will receive \$3000, with a further \$3000 being paid after they have been employed for 18 months. Hospitals and aged care providers will receive \$1000 for each nurse who re-enters the workforce to assist with the re-training of these nurses. This measure will receive \$39.4 million over five years.

Other nursing initiatives in the Budget include: an additional \$35 million over four years to provide postgraduate scholarships for mental health nurses, funding for the creation of a Chief Nursing and Midwifery Officer position and funding of \$12 million to train specialist breast cancer nurses.

Given the ageing of the population, it is regrettable that the Budget did not provide more funding for specialist nursing training or support in areas such as geriatric nursing. As the Australian Nursing Federation response to the government's aged care funding announcements in the Budget points out, aged care nurses and carers are the worst paid in the health care industry.<sup>44</sup> However, apart from the cash bonuses incentive, nothing in the aged care package or in the Budget generally addresses this fundamental problem. Reports have consistently noted the shortage of nurses in aged care and pay and conditions are fundamental barriers to their recruitment and retention. The previous government provided funding to encourage more people to choose geriatric nursing as a career through a scholarship program which was allocated funding until 2010–11.<sup>45</sup> Further support could have been provided by supplementing this recruitment measure with a retention incentive program. Suggestions for

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43. Australian Nursing Federation, *ANF rejects Howard's hospital based training plan*, media release, Canberra, 14 September 2007,

[http://www.anf.org.au/02\\_anf\\_news\\_media/news\\_press\\_070914a.html](http://www.anf.org.au/02_anf_news_media/news_press_070914a.html), accessed on 14 May 2008.

44. Australian Nursing Federation, *\$407.6 million pot of gold for the aged care industry*, media release, Canberra, 13 May 2008, <http://www.anf.org.au/>, accessed on 14 May 2008.

45. K. Andrews (Minister for Ageing), *\$26.3 million for up to 1000 aged care nursing scholarships*, Parliament House, Canberra, media release, 28 August 2002, <http://www.health.gov.au/internet/wcms/publishing.nsf/content/health-mediarel-yr2002-ka-ka02077.htm>, accessed on 14 May 2008. This initial funding was extended in later budgets, most recently in 2007–08. For details see <http://www.budget.gov.au/2007-08/bp2/html/expenditure-20.htm>, accessed on 14 May 2008.



the introduction of nurse practitioner pilot programs for aged care could also have been taken up.<sup>46</sup>

Funding for medical workforce initiatives in the Budget is minimal. It does, however, include \$4.6 million over four years to expand the John Flynn Placement Program (formerly the John Flynn Scholarship Scheme). This program has been a long-term strategy of government to increase the number of doctors choosing to practice in rural and remote areas. It subsidises supervised placements for students in general practice, hospitals or other medical facilities in rural and remote communities for a minimum two-week period over a four year period. An additional 150 places will commence in the program over each of the four years of funding. These will double the total number of places from 600 in 2008 to 1200 in 2012.

Additional funding of \$12 million over four years will be given to the Medical Specialist Outreach Assistance Program which provides funding to support specialists who visit rural and remote areas and who provide support to rural and remote specialists and general practitioners. The Specialist Obstetrician Locum Scheme will also receive funding of \$7.9 million.

Understandably, pre-budget submissions from lobby groups, such as the Australian Medical Association (AMA) and the Royal Australian College of General Practitioners (RACGP), urged the government to concentrate its health workforce efforts on the medical workforce. The AMA called for funding to deliver training opportunities for doctors in the private sector and increased support for medical student clinical placements and the funding of pre-vocational medical student training placements in general practice.<sup>47</sup> The RACGP also sought funding for teaching practices and increased incentives to encourage doctors to take on more trainees. It also called for funding to be provided to improve the working, economic and social conditions available to overseas trained doctors, by giving these doctors access to benefits like educational support and Medicare.<sup>48</sup>

No funding was provided in the Budget for these measures, a number of which have potential to contribute to the government's overall objective of delivering responsible health spending. The pilot program suggested by the RACGP, which would assist overseas trained doctors to acquire Australian general practice fellowship qualifications, is an example of where a minimal budget outlay could potentially have delivered significant positive outcomes.

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46. Australian Nursing Federation, *Providing a nursing workforce for Australians into the future*, 2008–09 Australian Government pre budget submission, Canberra, January 2008, [http://www.anf.org.au/02\\_anf\\_news\\_media/news\\_press\\_070914a.html](http://www.anf.org.au/02_anf_news_media/news_press_070914a.html), accessed on 12 May 2008.

47. Australian Medical Association, *Federal Budget Submission 2008–09*, Canberra, p. 6, [http://www.ama.com.au/web.nsf/doc/WEEN-7B2VLX/\\$file/AMA\\_budget\\_submission\\_2008-09.pdf](http://www.ama.com.au/web.nsf/doc/WEEN-7B2VLX/$file/AMA_budget_submission_2008-09.pdf), accessed on 14 May 2008.

48. Royal Australian College of General Practitioners, *Federal Budget 2008: Giving GPs the support they need to deliver for the community: Providing better access to health for all Australians*, Canberra, 2008, [http://www.racgp.org.au/AM/Template.cfm?Section=search&section=Reports\\_submissions\\_and\\_outcomes2&template=/CM/ContentDisplay.cfm&ContentFileID=16974](http://www.racgp.org.au/AM/Template.cfm?Section=search&section=Reports_submissions_and_outcomes2&template=/CM/ContentDisplay.cfm&ContentFileID=16974), accessed on 13 May 2008.

Overall, in terms of health workforce planning, this Budget perhaps reflects that the government has had limited time in office to consider more comprehensive and subtle workforce planning apart from increasing training numbers. Given that training for any health profession takes time, allocating funding initially for training purposes is not a bad start. Within the wider health reform agenda, however, opportunities have already appeared that the government should seize on in thinking more creatively about the composition and structure of the future health workforce. One of these coincided with the announcement of the findings of a rural workforce audit on 30 April 2008. At that time the government committed to examining existing programs that support rural health professionals. This situation presents the opportunity to explore workforce options beyond traditional solutions to shortages and to more efficient delivery of services, such as the introduction of new health professionals or innovative approaches to the types of work undertaken by different health workers.<sup>49</sup> These types of options have been discussed for some time by health academics and practising professionals and they fit within the framework outlined by the government for long-term reform focused on delivering better health outcomes and sustainable improvements to the system.

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49. P. Brooks, 'The health workforce of the future—partnerships in health care', *Australian Health Consumer*, No. 2, 2005–2006, [http://www.chf.org.au/Docs/Downloads/AHC2005-2\\_Brooks.pdf](http://www.chf.org.au/Docs/Downloads/AHC2005-2_Brooks.pdf), accessed on 14 May 2008.

## Alcopop' tax

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As a part of its revenue measures, the government has increased the excise tax on 'other excisable beverages not exceeding ten per cent alcohol by volume'—a category that includes Ready to Drink alcohol products, or 'alcopops'—to match the tax rate for full-strength spirits. The measure increased the tax rate from \$39.36 to \$66.67 per litre of alcohol from 27 April 2008. This increase in excise has been presented by the government as a health measure, calculated to tackle the problem of binge drinking among young Australians, and especially young women. The measure was prompted, in part, by 2007 National Drug Strategy Household Survey figures, which indicate that a significant number of young women are drinking at risky levels.<sup>50</sup> 'Alcopops' are widely recognised as being young Australian women's drink of choice.

The Budget papers indicate that the Minister's original estimate of the amount of revenue likely to be raised as a result of the tax, \$2 billion, was understated. The ongoing gain to revenue of the measure from 27 April 2008 and over the forward estimates period is now expected to be \$3.1 billion.<sup>51</sup> This revision, when combined with the fact that 'alcopop' drinking levels are forecast to increase in spite of the tax rise, has led the Opposition and some other commentators to criticise the increase as a 'blatant tax grab'.<sup>52</sup> In response to such claims, the Treasurer, Wayne Swan, has defended the measure as a legitimate means to tackle the problem of teenage binge drinking, stating that 'all of the medical evidence and all of the scientific evidence and all of the behavioural evidence indicates that [young people] are responsive to price'.<sup>53</sup>

There is indeed such evidence. Treasury advice tabled in Parliament indicates that the tax change is anticipated to slow the consumption of 'alcopops' by 202.7 million bottles over the forward estimates period.<sup>54</sup> According to the World Health Organisation (WHO), increased

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50. Australian Institute of Health and Welfare, *2007 National Drug Strategy Household Survey First results*, AIHW, Canberra, April 2008. Dr Jeremy Sammut, a research fellow at The Centre for Independent Studies, has accused the government of skewing the 2007 National Drug Strategy Household Survey figures in order to justify its 'alcopop' tax hike. While Sammut questions the notion that binge drinking among young women has increased in recent years, he nevertheless observes that those women who do binge drink should be a matter of concern. See J. Sammut, 'Forget alcohol—the binge here is on taxing drinkers', *Daily Telegraph*, 1 May 2008, p. 27, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:WXAQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:WXAQ6%3B), accessed on 16 May 2008.

51. Budget Paper No. 2, op. cit.

52. See for example M. Franklin, 'Senate threat to alcopop 'tax grab'', *The Australian*, 15 May 2008, p.1, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:7UFQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:7UFQ6%3B), accessed on 16 May 2008.

53. *ibid.*

54. Treasury Executive Minute, 14 May 2008.

alcohol taxation has demonstrated evidence of effectiveness in reducing alcohol-related problems among young people. Because young people tend to be on limited budgets, the WHO notes that alcohol consumption amongst this demographic is more sensitive to price changes. And, where alcohol taxes have been increased in some developed countries, this has been found to have reduced among young people the harmful consequences associated with excessive drinking.<sup>55</sup>

Nevertheless, it should be noted that there is also some evidence that restrictions placed on the sale and availability of alcohol can increase the use of harmful alcohol substitutes among young people.<sup>56</sup> It is also the case that young people could avoid the tax by purchasing bottled spirits and soft drinks and mixing their own. Indeed, according to some reports, young people are already doing so.<sup>57</sup> Where this does occur, concerns have been expressed by Drug and Alcohol Services SA Executive Director, Keith Evans, that young people could mix drinks that have an alcohol content significantly higher than that of ‘alcopops’.<sup>58</sup> Alternatively, despite their preference for pre-mixed spirit drinks, young people could simply binge drink using alternative, cheaper alcoholic products, such as wine or beer.<sup>59</sup>

Given the multi-faceted nature of alcohol-related problems, broad-based policy approaches that employ different, but synergistic, strategies, rather than individual measures in isolation, are required to effectively tackle binge drinking.<sup>60</sup> This is where the National Binge Drinking Strategy measures, also introduced in the Budget, are intended by the government to come into play. The government has committed:

- \$19.1 million over four years to support early intervention and diversion programs for people under the age of 18 years who engage in binge drinking<sup>61</sup>

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55. D. Jernigan, *Global Status Report: Alcohol and Young People*, World Health Organisation, Geneva, 2001, pp. 41–2, [http://whqlibdoc.who.int/hq/2001/WHO\\_MSD\\_MSB\\_01.1.pdf](http://whqlibdoc.who.int/hq/2001/WHO_MSD_MSB_01.1.pdf), accessed on 19 May 2008.

56. D. Jernigan, op. cit.

57. See J. Vaughan, ‘Alcopops out, young now mix their own’, *Adelaide Advertiser*, 12 May 2008, p.7, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:PFEQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:PFEQ6%3B), accessed on 16 May 2008.

58. *ibid.*

59. See K. Hannon, ‘Generation Binge—is it possible to just say no’, *Canberra Times*, 3 May 2008, p.3, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:LOBQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:LOBQ6%3B), accessed on 16 May 2008.

60. World Health Organisation, *Global Status Report: Alcohol Policy*, World Health Organisation, Department of Mental Health and Substance Abuse, Geneva, 2004, [http://www.who.int/substance\\_abuse/publications/en/Alcohol\\_Policy\\_Report.pdf](http://www.who.int/substance_abuse/publications/en/Alcohol_Policy_Report.pdf), accessed on 19 May 2008.

61. Budget Paper No. 2, op. cit.

- \$20 million over two years towards an education and information campaign via television, the radio and the Internet that will confront people with the costs and consequences of binge drinking<sup>62</sup>
- a further \$14.5 million over four years to develop partnerships with community and sporting organisations to tackle binge drinking among young people.

Each of these measures is to be funded using existing resources. The government has been silent on the question of whether or not it intends to introduce restrictions on alcohol advertising to complement the National Binge Drinking Strategy measures.<sup>63</sup>

Based on a review of research and statistics from Member States, the WHO found that educational approaches to the prevention of alcohol problems among young people are of limited use, in and of themselves.<sup>64</sup> Moreover, it should also be noted that the education and information campaign will need to compete with the alcohol promotion and marketing activities of the alcohol industry, which frequently target young people. However, where the campaign is combined with the early intervention and diversion programs, and supported by the public and relevant stakeholders, it is possible, based on available evidence, that it may yield some results.<sup>65</sup>

It is worth noting that while the government has indicated that it is committed to investing a proportion of the revenue gained through the tax in preventative health initiatives, it provides no indication of how much this is to be.

On 15 May 2008, the ‘alcopop’ tax was referred to the Senate’s Community Affairs Committee.<sup>66</sup>

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62. *ibid.*

63. On 16 May 2008, Senator Bob Brown wrote to Prime Minister Kevin Rudd to call for a ban on alcohol advertisements that target young Australians, particularly advertisements that associate alcohol with sport. Brown also requested that a significant proportion of the \$3.1 billion to be raised through the ‘alcopop’ tax be spent on alcohol treatment facilities and programs, especially in Indigenous communities where they are urgently needed. See. B. Brown, *Brown to Rudd: use ‘Alcopops’ tax to tackle alcohol abuse*, media release, 16 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:QJGQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:QJGQ6%3B), accessed on 19 May 2008.

64. Jernigan, *op. cit.*, p. 39.

65. Recent research indicates that a majority (52 per cent of 1054 people surveyed) of Australians are in favour of increased alcohol taxes. These respondents were also in favour of the extra money gained through increased taxes being spent on reducing binge drinking. See Australian Broadcasting Commission, *Aust wants more alcohol taxes: survey*, ABC, 31 March 2008, <http://www.abc.net.au/news/stories/2008/03/31/2203673.htm>, accessed on 16 May 2008. The measure is also reported to have the support of the medical fraternity. See H. Aston, ‘Price rise in mix to deter kids’, *Herald Sun*, 19 April 2008, p.3, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:OQ7Q6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:OQ7Q6%3B), accessed on 16 May 2008.

66. R. Colbeck (Shadow Parliamentary Secretary for Health), media release, Parliament House, Canberra, 15 May 2008.

## Education

### Introduction

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Under the label *Education Revolution*, the Rudd Government has introduced a package of education expenditure measures in the 2008–09 Budget which totals \$13.5 billion over four years (a small amount of this has been expended in 2007–08). The Minister’s *Budget: Education Revolution 2008–09* statement estimates the commitment at \$19.3 billion over the next four years.<sup>67</sup> The main education innovation in this Budget is in the area of early childhood education (addressed in a separate section of this Budget Review) where the government’s aim is to provide universal access. In the school education, higher education and vocational education sectors the Budget focuses on meeting the government’s election commitments. The promises of retaining the current system of funding for non-government schools until 2012, phasing out domestic undergraduate full-fee paying places and replacing the Australian Skills Voucher program with a new program, the Priority Places program, are all met. However, in all three areas major systemic changes to funding arrangements are awaiting the outcomes of reviews and negotiations with the states and territories and other stakeholders.

As the alternate figures above would suggest, the funding figures do not explain fully the Government’s commitment to its ‘education revolution’. Despite apparent increases in expenditure by the Rudd Government in many areas, the Budget’s estimates of expenses by function show that total education expenditure of \$18.7 billion for 2008–09 varies little from the estimated expenditure for the 2007–08 year. Furthermore, there is little variation between the Rudd Government’s 2008–09 Budget projections for education expenses for 2010–11 and those projected in the Coalition Government’s 2007–08 Budget (\$20.7 billion and \$20.2 billion respectively). The 2008–09 Budget projections do, however, indicate an increase to \$21.8 billion in 2011–12.<sup>68</sup>

The way that expenditures are accounted for in the different budget documents is part of the reason why budget measures figures are hard to reconcile with estimates of expenses by function. For example, it is unclear whether the government’s new early childhood measures

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67. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 133; and J. Gillard, *Budget: Education Revolution 2008–09*, Commonwealth of Australia, Canberra, 2008, p. iii. The second figure, \$19.3 billion, is likely to include the commitment to allocate funds from the surplus for the new Education Investment Fund (EIF). While comparisons might be made with the Coalition Government’s *Realising Our Potential* increases to education expenditure in the 2007–08 Budget, which totalled \$3.5 billion over four years, it should be remembered that Coalition election promises involving additional education expenditure are not included in this figure.

68. Australian Government, ‘Statement 6: Expenses and Net capital Investment’, *Budget Paper No. 1: Budget Strategy and Outlook 2007–08 and 2008–09*, Commonwealth of Australia, Canberra, 2007 and 2008, p. 6-31 and p. 6-43 respectively.

(which are addressed in a separate section of this Budget Review) or the new Education Investment Fund (EIF) are accounted for in the expenses for the education function in *Budget Paper No. 1*. However, it is also likely that the apparently limited impact of this Budget on total expenses for the education function is in part accounted for by the Government's strategy for meeting the cost of its new commitments with offsets from savings identified under its *Responsible Economic Management* measures.<sup>69</sup> Therefore, measuring the extent of the 'education revolution' may well have to rely more on an assessment of the new policy priorities and programs, and of their effectiveness, than on the more often-used measure in political debate, the size of government expenditure.

## School education

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### Introduction

The 2008–09 Budget is a transition budget for school education, with elements of the former government's policies remaining or 'redirected' to fund the Rudd Government's budget measures, which are the result of election commitments. With legislation for the new schools funding quadrennium for 2009 to 2012 due this year, the schools funding agreements with the states and territories yet to be finalised, and the Rudd Government's commitment to retain the current system of funding for non-government schools until 2012, the future direction of Australian Government funding for schools remains to be seen.

### Schools funding

A note on Budget data

The Budget continues the pattern of Commonwealth support for schools. According to *Budget Paper No. 1*, of the estimated \$9.6 billion allocated to schools in 2008–09, 67 per cent will be provided to non-government schools.<sup>70</sup> The table of expenses by function and sub-function in *Budget Paper No. 1* provides an estimated \$6.4 billion for non-government schools and \$3.1 billion for government schools.<sup>71</sup> These figures vary slightly from those in *Budget Paper No. 3* which show \$3.5 billion for government schools and \$6.5 billion for non-government schools.<sup>72</sup>

It is not clear from the budget papers exactly how much money will be allocated for government and non-government schools by line item because the payments for schools for 2008–09 have yet to be determined. Hence, while the Portfolio Budget Statements (PBS) indicate a total of \$7.7 billion for General Recurrent Grants (GRGs), in Table B.3 in *Budget*

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69. *Budget Paper No. 2*, op. cit., pp. 326–27.

70. *Budget Paper No. 1*, op. cit., p. 6–43.

71. *ibid.*

72. Australian Government, 'Part 3: Payments for Specific Purposes', *Budget Paper No. 3: Australia's Federal Relations*, Commonwealth of Australia, Canberra, 2008, p. 101.

*Paper No. 3*, only \$985 million is apparently allocated for GRGs to government schools (compared to \$1.8 billion in 2007–08) and \$2.9 billion for non-government schools (compared to \$5.3 billion in 2007–08).<sup>73</sup> Similarly, for capital grants, the PBS indicates a total of \$473.5 million, while *Budget Paper No. 3* indicates an allocation of \$165 million in capital grants to government schools (compared to \$528.5 million in 2007–08) and \$93 million to non-government schools (compared to \$237.2 million in 2007–08).<sup>74</sup> Nevertheless, it should be expected that there will be some reduction in the capital funding line item because of the cessation of the Investing in Our Schools Programme. There is also a similar discrepancy in the figures for targeted programs; and the National Partnership Payments are not disaggregated by school sector.

There is also some confusion about the funding increase for schools as indicated by the figures in *Budget Paper No. 1* which appear to indicate that funding for schools is only increasing by 0.3 per cent from 2007–08 to 2008–09, compared to a percentage increase of 8.8 per cent for the previous financial year.<sup>75</sup> However, if the figures from the PBS are applied, the increase is in the order of 9.9 per cent.<sup>76</sup>

It should also be noted that the tabulations for estimated payments for education to the states for 2008–09 in Table B.3 of *Budget Paper No. 3* are incorrect because figures in the totals column have been counted twice.

#### Policy settings

The Rudd Government has committed to retaining the existing system of GRGs to non-government schools (the SES system) until 2012, but has promised to conduct a public review of its operation.<sup>77</sup> Meanwhile, in response to funding anomalies in the SES system, the Budget provides an additional \$16 million over four years from 2007–08 for Orthodox Jewish schools.<sup>78</sup>

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73. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, Commonwealth of Australia, Canberra, 2008, p. 43; and Australian Government, ‘Appendix B: Payments to the States’, *Budget Paper No. 3: Australia’s Federal Relations*, op. cit., pp. 100–101.

74. ‘Appendix B: Payments to the States’, *Budget Paper No. 3: Australia’s Federal Relations*, op. cit.

75. ‘Statement 6: Expenses and Net Capital Investment’, *Budget Paper No. 1*, op. cit.

76. *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, op. cit., pp. 43–44.

77. P. Kelly, ‘Gillard to end school inequality’, *The Australian*, 15 March 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:VLWP6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:VLWP6%3B), accessed on 15 May 2008.

78. S. Smith (Shadow Minister for Education and Training), *Federal Labor commits to address the funding needs of Jewish schools*, media release, Parliament House, Canberra, 10 August 2007, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:OBSo6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:OBSo6%3B), accessed on 15 May 2008. For an explanation of Australian Government GRGs for schools, see M. Harrington, *Australian Government General Recurrent Grants for Schools—A Brief Explanation*, Parliamentary Library, Canberra, 2007,



The government is also intent on determining the socio-economic status of government schools for funding purposes. The Council of Australian Governments has agreed:

... to the development of a national partnership agreement focused on the particular educational needs of low socio-economic status school communities. This partnership will form part of the national education funding agreement to be introduced at the beginning of 2009.<sup>79</sup>

Some stakeholders are disappointed about the funding for schools allocated in this Budget.<sup>80</sup> In particular, since 2001 four reports have drawn attention to the problems of primary school resourcing, for both government and non-government schools. Two of these reports concluded that many government and non-government primary schools, particularly those serving disadvantaged communities, did not have sufficient resources to meet the [National Goals for Schooling](#).<sup>81</sup>

The Australian Primary Principals Association has called for government primary school GRGs to be increased to the same percentage of Average Government School Recurrent Cost index (AGSRC) as government secondary school GRGs.<sup>82</sup> Currently, government primary schools are funded at 8.9 per cent of the primary AGSRC amount, compared to government secondary schools which are funded at 10 per cent of the secondary AGSRC amount. Based on 2007 government primary school enrolments and the 2007 primary AGSRC amount, such a proposed increase would amount to an estimated additional \$115 million dollars per annum.

Another funding need which has received some attention, and which has not been responded to in this Budget, is additional funding for students with disabilities. According to the Independent Schools Council of Australia, independent schools 'are not adequately resourced by governments to meet their legislated obligations' under the *Disability Discrimination Act 1992*.<sup>83</sup> The National Catholic Education Commission has called for more federal government funding for students with disabilities to ensure that all such students receive comparable funding 'irrespective of the school they attend'. It also advocated that, 'as an

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[http://libiis1/Library\\_Services/electoralatlas/SchoolGrants/Explanation.htm](http://libiis1/Library_Services/electoralatlas/SchoolGrants/Explanation.htm), accessed on 15 May 2008.

79. Communiqué, Council of Australian Governments' Meeting, 26 March 2008, p. 4, [http://www.mceetya.edu.au/verve/resources/Draft\\_Cominque\\_\(v5\).pdf](http://www.mceetya.edu.au/verve/resources/Draft_Cominque_(v5).pdf), accessed on 15 May 2008.
80. For example, see Australian Education Union, *Federal Budget fails test for public education*, media release, VIC, 13 May 2008, <http://www.aeufederal.org.au/Media/MediaReleases/2008/1305.pdf>, accessed on 15 May 2008.
81. Australian Primary Principals Association (APPA), *Delivering Better Educational Outcomes in Australian Primary Schools: Submission to the Commonwealth Minister for Education Regarding Quadrennial Funding for 2009–2012*, APPA, Kaleen, ACT, 2008, p. 1, <http://www.appa.asn.au/cms/uploads/reports/fundingpaper20080316.pdf>, accessed on 15 May 2008.
82. *ibid.*, p. 9.
83. Independent Schools Council of Australia, *Independent Update*, Issue 6, 2007, [http://www.isca.edu.au/html/PDF/Indep\\_Updates/IndUpdate%206-07%20-%20colour.pdf](http://www.isca.edu.au/html/PDF/Indep_Updates/IndUpdate%206-07%20-%20colour.pdf), accessed on 15 May 2008.

interim measure', funding of students with disabilities be equivalent to 65 per cent of the cost of educating such a student in a government school.<sup>84</sup> Primary school principals have also reported 'grossly insufficient' resourcing for students with disabilities and that many of these students do not qualify for disability funding.<sup>85</sup> In 2006 the previous government committed \$5.8 million for a project to investigate funding arrangements for student with disabilities—Investigating the Feasibility of Flexible Funding for Students with Disability. However, no information on the project's progress has yet been made available.<sup>86</sup>

### Schools Programs

The budget measures for schools programs reflect a shift in policy focus. The previous government introduced a range of programs that provided funding directly to individuals and school communities. These programs attracted criticism for various reasons because they bypassed state and territory education authorities, were considered as not addressing the total pedagogical needs of students or were too narrow in their application and benefit. The exception was the Investing in Our Schools Programme, which proved very popular with both government and non-government schools.<sup>87</sup>

Now these programs, either because they have ceased (such as the Investing in Our Schools Programme) or had their funds 'redirected' (for example, the National Literacy and Numeracy Vouchers Program, Summer Schools for Teachers and Rewarding Schools for Improving Literacy and Numeracy Outcomes), have given way in this Budget to broadly based programs that have been developed in partnership with the states and territories. These new programs include the Digital Education Revolution, the National Action Plan for Literacy and Numeracy and Trade Training Centres in Schools.

The future of some existing programs remains unclear, notably the Australian Technical Colleges.<sup>88</sup> The government is considering how such colleges will be integrated into the

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84. National Catholic Education Commission, What are Catholic School Communities Seeking from Political Parties in the 2007 Election?, [http://www.ncec.catholic.edu.au/pages/images/NCEC\\_election\\_flyer%202007%20-%20colour.pdf](http://www.ncec.catholic.edu.au/pages/images/NCEC_election_flyer%202007%20-%20colour.pdf), accessed on 15 May 2008.

85. M. Angus, H. Olney and J. Ainley, *In the Balance: The Future of Australia's Primary Schools*, Australian Primary Principals Association, 2007, p. xi, <http://www.dest.gov.au/NR/rdonlyres/99B2BFB1-FEB1-45BF-A89E-0575D1231705/18936/FinalSRAPS38Aug2007.pdf>, accessed on 15 May 2008.

86. For more information see the *Investigating the Feasibility of Flexible Funding for Students with Disability* website, [http://www.dest.gov.au/sectors/school\\_education/programmes\\_funding/programme\\_categories/special\\_needs\\_disadvantage/flexible\\_funding\\_students\\_with\\_disability.htm](http://www.dest.gov.au/sectors/school_education/programmes_funding/programme_categories/special_needs_disadvantage/flexible_funding_students_with_disability.htm), accessed on 15 May 2008.

87. For more information see the IOSP website, <http://www.investinginourschools.dest.gov.au/>, accessed on 15 May 2008.

88. For more information see the Australian Technical Colleges website, <http://www.australiantechnicalcolleges.gov.au/>, accessed on 15 May 2008.

education system once their current funding agreements expire at the end of 2009.<sup>89</sup> There is also some question about the future of Teaching Australia, established by the previous government to develop national professional standards.<sup>90</sup> The Budget contains an announcement that Teaching Australia will be reviewed and that, while the review is underway, its funding will be reduced and its activities ‘constrained’.<sup>91</sup>

In contrast to the other school education budget measures, the Education Tax Refund directly targets individuals. However it is not a true tax offset, whereby it would reduce the level of a person’s tax payable, as its name implies. Rather, it is considered a refundable tax offset and will apply to eligible applicants regardless of their tax liability. That is, it will also be paid if the person has no tax liability. While the rebate has been welcomed, there may be some question about its timing and delivery. The rebate applies to expenses incurred from 1 July 2008 and its first claiming is linked to assessment of a 2008–09 income tax return. There are problems in providing assistance by way of tax rebates and this delay may be problematic for some eligible disadvantaged families.<sup>92</sup> For example, it is for this reason that the Child Care Tax Rebate will in future be paid quarterly rather than annually.

## Higher Education

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In Opposition, the Australian Labor Party claimed that ‘no policy is more important than Australia’s investment in human capital—the education, skills and training of our workforce and our people’.<sup>93</sup> This emphasis on investing in education as the basis for productivity growth, overcoming individual disadvantage and social inclusion continues in government.<sup>94</sup> The education-related budget measures implement promises to increase investment in education; however, the focus is on early childhood measures rather than higher education.

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89. *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, op. cit., p. 47.

90. For more information see the Teaching Australia website, <http://www.teachingaustralia.edu.au/ta/go/home>, accessed on 15 May 2008.

91. *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, op. cit., p. 269.

92. For eligibility criteria, see J. Gillard (Minister for Education) and W. Swan (Treasurer), *\$4.4 billion to help families meet schooling costs*, media release, Parliament House, Canberra, 13 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:34GQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:34GQ6%3B), accessed on 19 May 2008.

93. K. Rudd and S. Smith, *The Australian economy needs an education revolution: new directions paper on the critical link between long term prosperity, productivity growth and human capital investment*, ALP, Canberra, 2007, p. 5, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=partypol&Criteria=CITATION\\_ID:181M6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=partypol&Criteria=CITATION_ID:181M6%3B), accessed on 19 May 2008.

94. *Budget: Education Revolution 2008–09*, op. cit.

This is not surprising considering that the government has announced a major Review of Australian Higher Education. This review is to:

... examine and report on the future direction of the higher education sector, its fitness for purpose in meeting the needs of the Australian community and economy, and the options for ongoing reform. It will inform the preparation of the Government's policy agenda for the decade ahead.<sup>95</sup>

The review will report by the end of 2008 and we might expect, as a result, more significant measures in the 2009–2010 Budget. Instead, this Budget fulfils the government's election promises in higher education to:

- fund increased university places in early childhood teaching, education, nursing, dentistry and medicine
- double the number of equity-based Commonwealth Learning Scholarships and introduce two new scholarship categories
- reduce Higher Education Loan Program (HELP) fees for mathematics and science graduates and
- replace domestic full-fee paying places with Commonwealth Supported Places.

The Budget also introduces a new Education Investment Fund (EIF) which will incorporate the existing Higher Education Endowment Fund (HEEF) and broaden disbursements to include vocational education and training providers.

Total higher education expenses for 2008–09 are \$6 billion, a slight decrease from the estimated \$6.3 billion for 2007–08. This decrease is due to the one-off 'Building Better Universities' measure of \$500 million announced in the Budget that will be allocated and accounted for in the 2007–08 financial year.<sup>96</sup>

### Education Investment Fund

The Education Investment Fund (EIF) is the major initiative in the higher education budget. It will incorporate the \$6 billion in the HEEF, a Coalition Government initiative from the 2007–08 Budget, and will receive a further \$5 billion from the estimated budget surplus of \$21.7 billion.<sup>97</sup>

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95. See DEEWR website, *Review of Australian Higher Education*, [http://www.dest.gov.au/sectors/higher\\_education/policy\\_issues\\_reviews/reviews/highered\\_review/](http://www.dest.gov.au/sectors/higher_education/policy_issues_reviews/reviews/highered_review/), accessed on 19 May 2008. See also J. Gillard (Minister for Education), *A Higher Education Revolution: Creating a Productive Prosperous Modern Australia: address to the Australian Financial Review's Higher Education Conference*, media release, Parliament House, Canberra, 13 March 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:LMXP6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:LMXP6%3B), accessed on 19 May 2008.

96. *Budget Paper No. 1*, op. cit., pp. 6–14.

97. *Budget Paper No. 2*, op. cit., pp. 184.

Like the HEEF, the new EIF's purpose is to fund capital and research infrastructure. However, unlike the HEEF, the EIF will be able to make disbursements from the fund's capital as well as the earnings. The HEEF expected to make annual disbursements of between \$300 million and \$400 million from the fund's earnings. Stakeholders had reservations that such earnings would be sufficient to meet the shortfall in infrastructure funding which they estimated at \$1.5 billion in 2005.<sup>98</sup> Unlike the HEEF there will be no cap on annual allocations from the EIF and disbursements will be allowed from the fund's capital.<sup>99</sup>

The HEEF was expected to allocate the first round of funding in 2008–09. However, the government has stated there will be no allocations from the EIF until 2009–10. The government has instead provided \$500 million in the current financial year, under the budget measure 'Building Better Universities', to improve university infrastructure. Funding will be allocated to all universities on a formula basis and there is no commitment to further funding under this measure beyond 2007–08.<sup>100</sup>

### Phasing out domestic undergraduate full-fee paying places

Since 1998, universities have been able to offer full-fee paying places to domestic students. Although the uptake of these places was initially small, it has increased since the introduction of income contingent FEE-HELP loans to full-fee students in 2005. Along with this increased uptake there has been an increase in the proportion of university income from domestic student fees. The ALP has opposed domestic full-fee places on the grounds that university access should be determined by merit rather than wealth, and has promised at every election since 1998 to phase them out.

Estimates of the required commensurate increase in Commonwealth funding to universities to compensate for the loss of full-fee paying students have varied widely from \$200 million to \$700 million. In opposition the ALP estimated that universities would forgo \$325 million in revenue in the years 2009 to 2011 and promised \$355 million to provide an additional 11 000 Commonwealth Supported Places (previously called HECS places) to replace the full-fee paying places.<sup>101</sup>

This Budget fulfils the promise to phase out full-fee paying places at public universities where such places will not be offered from 1 January 2009. However, the government, whilst still

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98. Group of Eight, *Historic Day for Australia's Higher Education sector*, media release, 16 August 2007; [Federation of Australian Scientific and Technological Societies \(FASTS\) submission](#) to the Senate Standing Committee on Employment, Workplace Relations and Education, Inquiry into the Higher Education Endowment Fund Bill 2007, [http://www.aph.gov.au/Senate/committee/eet\\_ctte/highered\\_endowment07/submissions/sub06.pdf](http://www.aph.gov.au/Senate/committee/eet_ctte/highered_endowment07/submissions/sub06.pdf), accessed on 19 May 2008.

99. J. Gillard (Minister for Education), \$11 billion Education Investment Fund to transform higher education and vocational education training, media release, Parliament House, Canberra, 13 May 2008.

100. Budget Paper No. 2: Budget Measures 2008–09, op. cit. p. 149; and Budget: Education Revolution 2008–09, op. cit., p. 47.

101. S. Smith (Shadow Minister for Education and Training), [Better access, a fairer system: Labor's full fee degree phase out](#), media statement, Parliament House, Canberra, 22 November 2007.

providing up to 11 000 new Commonwealth Supported Places, has revised the cost of this measure down to \$249 million. Other than a promise to target areas of national priority and skills shortage such as teaching, mathematics, science and engineering, the government has not provided details of the places to be offered and how they will be allocated. It seems likely that those universities with a large number of full-fee paying students in law, commerce and medicine will not be compensated for the loss of these places and will need to find alternative revenue means, possibly through an increased intake of overseas fee paying students.

## Scholarships

In 2003, the Coalition Government introduced an equity-based Commonwealth Scholarships Programme to assist students from low socio-economic backgrounds, especially those from regional and remote areas and Indigenous students, with costs associated with higher education. The program currently has two key components: Commonwealth Education Costs Scholarships (CECS) which assist students with general education costs and Commonwealth Accommodation Scholarships (CAS) which assist students from regional and remote areas who have to move to attend higher education and incur accommodation costs.

As an election commitment, under the *Scholarships for a Competitive Future* initiative, the government promised to double the number of Commonwealth Scholarships by 2012 from 44 000 to 88 000. The Budget provides \$238.5 million to meet this commitment. Two new categories of Commonwealth Scholarship will be introduced from 2009: National Priority Scholarships and National Accommodation Scholarships. Twenty nine thousand National Priority Scholarships will target undergraduate students enrolling in priority disciplines such as nursing, teaching, medicine, dentistry, allied health, maths, science and engineering. Fifteen thousand National Accommodation Scholarships will be available for students relocating interstate to study a specialist course not available near their home.<sup>102</sup>

## Conclusion

The Budget makes a modest move to increase the Commonwealth's proportional contribution to university revenue and ease the contribution of students. HECS and HELP fees, together with revenue from international students and domestic full-fee paying students, has seen the proportion of university revenue from student fees and charges rise to 38 per cent and Commonwealth payments as a proportion fall to 41 per cent in 2006.<sup>103</sup> In opposition the government was critical of the falling rate of public investment in Australian tertiary

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102. *Budget: Education Revolution 2008-09*, op. cit., p. 50. See also the discussion paper *Scholarships for a Competitive Future* released as part of the government's consultation process on the implementation of the initiative, [http://www.dest.gov.au/sectors/higher\\_education/policy\\_issues\\_reviews/key\\_issues/scholarship/Scholarships\\_Competitive\\_Future.htm](http://www.dest.gov.au/sectors/higher_education/policy_issues_reviews/key_issues/scholarship/Scholarships_Competitive_Future.htm), accessed on 19 May 2008.

103. In 2006, the share of overall institutional revenues derived from student contributions reached its highest level and the government share its lowest. Commonwealth payments accounted for 83 per cent of total higher education revenue in 1986, 57 per cent in 1996, and 41 per cent in 2006. Group of Eight, *Go8 Backgrounder No. 1*, October 2007, [http://www.go8.edu.au/policy/papers/2007/Go8\\_Backgrounder\\_No\\_1\\_Oct\\_2007.pdf](http://www.go8.edu.au/policy/papers/2007/Go8_Backgrounder_No_1_Oct_2007.pdf), accessed on 19 May 2008.

education, particularly when compared with other OECD countries.<sup>104</sup> The phasing-out of full-fee places, the funding of new Commonwealth Supported Places, the increased scholarships and the reduction in HELP fees for mathematics and science disciplines may assist in increasing the proportion of public investment in higher education.

Stakeholders have generally welcomed the Budget, but are disappointed that calls to increase the level of, and access to, student income support have not been addressed and that there was no commitment to increase Commonwealth funding per university place.<sup>105</sup> The \$560 million to reduce HELP fees for mathematics and science students will not increase the funding per place to universities and goes against recommendations made in the Australian Academy of Science's 2006 review of mathematics and statistics. These recommendations argued that the relative funding of mathematical sciences departments in universities is inadequate and that the emphasis should be placed on increasing the Commonwealth grant per place rather than reducing the student contribution.<sup>106</sup> Stakeholders are looking to next year's budget for significant funding increases and initiatives that should follow the Review into Australian Higher Education.

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104. K. Rudd and S. Smith, op. cit., pp. 15–16.

105. For example, Universities Australia has recommended the exclusion of all scholarships and bursaries (regardless of their source) from assessable income for purposes of student income support, and the reduction of the age of independence for Youth Allowance from the current 25 years to 18 years. Universities Australia, *Solutions for Building Australia's Human Capital through Universities*, provided to the Commonwealth Government by Universities Australia to inform 2008 Budget deliberations and beyond, Position Paper 1/08, Canberra, February 2008, <http://www.universitiesaustralia.edu.au/documents/publications/discussion/Building-Human-Capital-through-Unis.pdf>, accessed on 19 May 2008. See also: Senate Education Employment and Workplace Relations Committee, *Student Income Support*, Canberra 2005, [http://www.aph.gov.au/Senate/committee/eet\\_ctte/completed\\_inquiries/2004-07/studentincome04/report/index.htm](http://www.aph.gov.au/Senate/committee/eet_ctte/completed_inquiries/2004-07/studentincome04/report/index.htm), accessed on 19 May 2008; Universities Australia, 'Budget commitments to universities commended', media release, 13 May 2008, [http://www.universitiesaustralia.edu.au/documents/news/media\\_releases/2008/uniaus\\_media\\_13\\_08.pdf](http://www.universitiesaustralia.edu.au/documents/news/media_releases/2008/uniaus_media_13_08.pdf), accessed on 19 May 2008; S. Matchett, 'Budget 2008: \$11bn in unis cash bonanza', *The Australian*, 14 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:AAFQ6%3B;](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:AAFQ6%3B;), accessed on 19 May 2008.

106. Australian Academy of Science, *Mathematics and Statistics: Critical Skills for Australia's Future*, Canberra, December 2006, <http://www.review.ms.unimelb.edu.au/FullReport2006.pdf>, accessed on 19 May 2008. See also Science, Engineering and Technology Skills Audit, DEST, 2006, [http://www.dest.gov.au/sectors/science\\_innovation/publications\\_resources/profiles/science\\_engineering\\_technology\\_skills\\_audit\\_report.htm](http://www.dest.gov.au/sectors/science_innovation/publications_resources/profiles/science_engineering_technology_skills_audit_report.htm), accessed on 19 May 2008. The summary of submissions working paper noted views on the need to improve university enrolments in Science, Engineering and Technology. Most submissions concentrated on the need to attract more students to enabling subjects at school, quality of school teachers and the image of Science, Engineering and Technology careers. None discussed the student contribution rates (HECS) as being a deterrent, [http://www.dest.gov.au/NR/rdonlyres/E0CFEB21-72F7-41C8-90CB-C0608645763D/13054/summary\\_of\\_submissions.pdf](http://www.dest.gov.au/NR/rdonlyres/E0CFEB21-72F7-41C8-90CB-C0608645763D/13054/summary_of_submissions.pdf), accessed on 19 May 2008.

## Vocational Education and Training

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The Rudd Government's 2008–09 Budget, like the Coalition Government's budgets, provides no real growth in state and territory recurrent funding that would enable them to expand their own vocational education and training (VET) systems. Nevertheless, consistent with its promise that 'existing places will continue to be funded under existing arrangements', it maintains the real value of its grants to the states and territories by providing \$1.3 billion under the *Skilling Australia's Workforce Act 2005*.<sup>107</sup> The prime focus of Labor's election strategy to deal with skills shortages was to provide funding for new training places through a Commonwealth Government run program—subsequently labelled the Productivity Places program—not through additional direct grants to the states and territories for more training places in their Technical and Further Education (TAFE) institutes.

The Budget does, however, flag some likely changes to Commonwealth/State arrangements in the future, though details of their scope and whether additional funding will be involved is not provided. What we are told is that the Government's review of Specific Purpose Payments (SPPs) has determined that the VET SPP will remain as a stand-alone, and that 'the outcomes of the review will directly impact on the format of future arrangements for the sector'.<sup>108</sup> It may be expected that any changes will be announced when the negotiations with the states and territories for the new *Skilling Australia's Workforce Agreement* are completed later this year.

Despite the steady-state funding for the states and territories under the *Skilling Australia's Workforce Act 2005*, the Budget opens up another potential source of funds for the states and territories and their TAFEs. The new \$11 billion Education Investment Fund (EIF), which replaces the Coalition Government's \$6 billion Higher Education Endowment Fund (HEEF), is intended to fund capital expenditure and renewal for vocational institutions as well as higher education institutions. It is not clear at this stage whether this funding will be limited to public VET institutions. Under current Commonwealth/State funding arrangements Commonwealth funds provided for capital purposes to publicly funded VET totalled \$189.3 million in 2005.<sup>109</sup> Dependent on the arrangements that are put in place to access moneys from this fund and assuming the EIF adds to the current capital funding for public VET

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107. K. Rudd et al., *Skilling Australia for the future: Election 2007 policy document*, ALP, 2007, p. 17, <http://www.mskills.com.au/DownloadManager/Downloads/ALP%20Skills%20policy.pdf>, accessed on 15 February 2008.

108. *Portfolio Budget Statements 2008–09: Budget Related Paper No. 1.5*, Education, Employment and Workplace Relations Portfolio, op. cit., p. 79.

109. Department of education, Science and Training, *Annual National Report of the Australian Vocational and Technical Education System 2005*, Commonwealth of Australia, Canberra, 2006, p. 141, [http://www.dest.gov.au/sectors/training\\_skills/publications\\_resources/profiles/Annual\\_National\\_Report\\_Australian\\_VTESystem2005.htm](http://www.dest.gov.au/sectors/training_skills/publications_resources/profiles/Annual_National_Report_Australian_VTESystem2005.htm), accessed on 17 May 2008.



institutions, this could potentially be a significant development for the renewal of TAFE infrastructure.

The establishment of the EIF and the development of the Productivity Places program, continues the Commonwealth Government's preference for expanding its own programs over that of increasing its grants to the states, a direction clearly set by the previous Coalition Government.<sup>110</sup> There is, therefore, some expenditure growth in administered programs, primarily in the areas of Australian Apprenticeships and Workforce Skills Development (which includes the new places created under the Productivity Places program). The Budget provides funding of \$232.6 million for an estimated 110 000 new training places (\$1.9 billion over 5 years for 630 000 training places). The Budget also provides \$3 million for Skills Australia in 2008–09 (\$19.6 million over five years); a high-level board of seven experts, which is to provide independent advice and recommendations to government about Australia's skills needs.<sup>111</sup> It is on the basis of the advice received from Skills Australia that the Government allocates new training places directly to industry sectors. Funding for the places will be provided to Industry Skills Councils (ISCs) which are being strengthened and better resourced with an additional \$83.2 million over five years.<sup>112</sup>

However, these expenditures are being partially offset by savings made from abolishing the Coalition Government's Australian Skills Vouchers program which aimed to provide enabling skills through accredited literacy/numeracy and basic education courses and Certificate II courses. The Coalition would have provided 60 000 vouchers per year if it had won government.<sup>113</sup> Therefore, on account of these and some other minor savings, growth in total VET outlays has, to a certain extent, been contained. Growth in VET expenditures alone will therefore not serve as a measure of whether this program is successfully addressing skills shortages. Labor has promoted the superiority of its new program over that of the program it replaced, arguing that the training will be demand driven, that is driven by industry sector needs, and that it will deliver more training places and the higher level qualifications that the economy requires.<sup>114</sup> Only time is likely to provide an assessment as to whether the new program meets its targets in terms of training places and skills delivered. The Government has fast-tracked 20 000 Productivity Places, but there are initial reports of a low take-up.<sup>115</sup> It

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110. See K. Rudd, op. cit., for details on the commitment to a new program for creating and allocating new training places.

111. *Budget Paper No. 2*, op. cit., p. 136–7.

112. J. Gillard (Minister for Education), *Skilling Australia for the future*, media release, Parliament House, Canberra, 13 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:XBIQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:XBIQ6%3B), accessed on 19 May 2008.

113. The Coalition Government, *Election 2007 Policy: New Skills: Vouchers for Training*, <http://parlinfoweb.parl.net/parlinfo/Repository1/Library/partypol/HOQO62.pdf>, accessed on 15 May 2008.

114. For more background see Carol Kempner, '[Skills Australia Bill 2008](#)', *Bills Digest*, no.63, Parliamentary Library, Canberra, 2007–08, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=billsdgs&Criteria=CITATION\\_ID:X7PP6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=billsdgs&Criteria=CITATION_ID:X7PP6), accessed on 19 May 2008.

115. A. Symonds, '[Skills policy defended after poor take-up](#)', *Australian Financial Review*, 30 April 2008, p.4,

is, however, likely that, as with the Work Skills Vouchers that it replaced, the take-up rate will increase over time.<sup>116</sup>

Another growing area of expenditure worth noting is in the area of VET FEE-HELP, the income contingent loan for full-fee Vocational Diplomas, Advanced Diplomas, Graduate Certificates and Graduate Diplomas. When introduced in the 2007–08 Budget, projected expenditure for 2008–09 was \$3.4 million. The 2008–09 Budget estimate is for \$9.6 million. One of the reasons for introducing these loans into the VET sector was to establish parity with students doing the same qualifications in the higher education sector who had access to such loans. Expectations that providers will compete to attract students who can access loans for full-fee courses have led to concerns that limiting loans to full-fee courses might reduce the availability of publicly funded VET courses. The concern is that the publicly funded TAFEs, which already offer some full-fee courses, would increasingly substitute publicly funded courses with full-fee courses.<sup>117</sup> It is unclear how any resulting increase in full-fee paying courses in publicly funded TAFEs would be reconciled with the government's announcement in this Budget of the phasing out of full fee paying domestic undergraduate places at public universities. It may act as a further catalyst for the introduction of income contingent loans for publicly funded courses, an option that Victoria is currently considering and that is also being considered during the discussions for the new *Skilling Australia's Workforce Agreement*.<sup>118</sup> However, while this idea has been gaining some prominence it is not uncontested. One critic has said:

Given the sustained concern voiced by political and business leaders about current workforce participation levels and skills shortages, it seems clear that Australia needs to

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[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:5MAQ6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:5MAQ6), accessed on 19 May 2008.

116. A. Robb (Minister for Vocational and Further Education), *Labor's skills policy: smoke and mirrors*, media release, Parliament House, Canberra, 15 November 2007, <http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/R10P60.pdf>, accessed on 19 May 2008.
117. See Leesa Wheelahan's comments in L. White, '[FEE-HELP welcomed, but concerns over equity](#)', *Campus Review*, vol. 17, no. 34, 28 August, 2007, p. 12, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=jnart&Criteria=CITATION\\_ID:0V6O6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=jnart&Criteria=CITATION_ID:0V6O6), accessed on 19 May 2008.
118. The Victorian Government's discussion paper, [Securing our future economic prosperity: discussion paper on skills reform](#), April 2008, proposes introducing an income-contingent loan scheme as part of an overhaul of its vocational education system. It suggests that it could use pre-existing arrangements and would therefore need the support of the Commonwealth to do so, [http://www.otte.vic.gov.au/library/public/postcomp/5010\\_Skills\\_Reform\\_web.pdf](http://www.otte.vic.gov.au/library/public/postcomp/5010_Skills_Reform_web.pdf), accessed on 19 May 2008. In February 2008, the VET National Senior Official's Committee considered a discussion paper on how to proceed 'with the plan of action' proposed by a report commissioned by the Howard Government, '[Skilling Australia's Workforce 2005–08' Mid-Term Review](#)', The Boston Consulting Group, Department of Education, Science and Training, 2007, <http://mediacentre.dewr.gov.au/NR/rdonlyres/FAC260D8-3C93-4C88-8515-DC162800E7CC/0/FinalReport.pdf>, accessed on 2 May 2008. The paper is reported to have advised that administrators examine 'the place of income contingent loans, specifically the VET Fee-Help scheme'. See J. Ross, 'Foot comes off the throat of unis, put on TAFEs instead?', *Campus Review*, 11 March, 2008, pp.1–3.

establish financing and other policy settings which will increase participation in post-school vocational education to near universal levels. This requires measures which reduce, or at least contain, the real costs to individuals rather than simply making it (apparently) easier for them to bear a higher proportion of these costs.<sup>119</sup>

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119. M. Kinsman, [‘Taking the charge’](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=jnart&Criteria=CITATION_ID:0YLO6), *Campus Review*, vol. 17, no. 40, October 9, 2007, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=jnart&Criteria=CITATION\\_ID:0YLO6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=jnart&Criteria=CITATION_ID:0YLO6), accessed on 19 May 2008.

## Public housing and rental assistance

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### The housing affordability crisis

The main vehicle through which the Australian Government, along with the state and territory governments, provides funding for public housing is the Commonwealth-State Housing Agreement (CSHA). This joint agreement has helped to provide public and community housing to individuals and families in need since the late 1940s. The current CSHA commenced in 2003 and is effective until 30 June 2008.

In recent years it has been Australian Government policy to place a greater emphasis on Commonwealth Rent Assistance (CRA)—a payment to support eligible renters in the private rental market—than on the CSHA. As a result, Australian Government outlays on the CSHA have been declining in nominal and real terms since 1991–92, while CRA funding has been increasing. For example, in 1994–95, government expenditure for the CSHA was four per cent higher than for CRA. Between 1994–95 and 2003–04, an increase of nine per cent in CRA expenditure combined with a 31 per cent decrease for CSHA resulted in CRA expenditure surpassing CSHA expenditure.<sup>120</sup> In 2006–07, the Howard Government provided \$2.2 billion in CRA funding, as opposed to \$970.6 million in CSHA funding.

In terms of public housing, this shift in funding emphasis has meant that public housing stock has decreased as state and territory public housing authorities have been squeezed for funds. Through the CSHA, in 1996–97 the stock of public housing was around 375 000 dwellings, which was then about five per cent of Australia's total housing stock. In subsequent years, however, there was little or no growth in public housing stock and, as at 30 June 2007, the total number of public rental dwellings managed by state and territory housing authorities had fallen to 339 771.<sup>121</sup>

A reduction in the amount of public housing stock has resulted in a reduced capacity on the part of governments to provide affordable housing to those most in need. Waiting lists for public housing are increasing. As at 30 June 2007, 176 321 households were on waiting lists for public rental housing. Of these households, 11 700 were classified as being in 'greatest need'. This number represented seven per cent of all households on waiting lists.<sup>122</sup>

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120. The Australian Institute of Health and Welfare (AIHW) does, however, caution that the shift in expenditure should be interpreted with caution due to the differing nature of the programs. For further detail see Australian Institute of Health and Welfare, *Australia's Welfare 2007*, AIHW, Canberra, 2007, p. 222, <http://www.aihw.gov.au/publications/index.cfm/title/10527>, accessed on 16 May 2008.

121. Australian Institute of Health and Welfare, *Public rental housing 2006-07: Commonwealth State Housing Agreement national data report*, AIHW, Canberra, January 2008, p. x, <http://www.aihw.gov.au/publications/hou/prh06-07-cshandr/prh06-07-cshandr.pdf>, accessed on 16 May 2008.

122. *ibid.*

Increasingly, the public housing that is available is being used for emergency housing needs—to assist those estimated 100 000 Australians who are homeless on any given night and those individuals and households that are at risk of becoming homeless. In effect, public housing is becoming welfare housing.

At the same time, rents in the private market are increasing apace. Rents increased by an average of 12 per cent during 2006–07 and a recent major report has predicted rent rises of 50 per cent in major cities over the next four years.<sup>123</sup> Because there has been an upward shift in the distribution of private rental stock towards higher-rent properties, higher-income households have displaced lower-income households from more affordable housing in the private rental market.<sup>124</sup> While these lower-income households may be paid Commonwealth Rent Assistance, this assistance is capped and, once the maximum rate (which is indexed twice each year to reflect changes in the consumer price index) is reached, any rent increases are borne by CRA recipients. It should also be noted that CRA is paid at a universal rate across the country. This renders it a ‘blunt instrument’, and one that cannot take into account variations in rental prices across jurisdictions.

In sum, without a significant increase in the number of affordable rental properties, the situation for renters, and especially for those renters on low incomes, is expected to worsen dramatically.

## Budget measures

In this context, the government has announced a budget housing package of \$2.2 billion over the next four years for measures to address housing supply pressures. These measures include:

- the National Rental Affordability Scheme, which provides \$622.6 million over four years for the provision of up to 50 000 affordable rental properties across Australia. The properties are to be made available to low to middle income earners at 20 per cent below market price. Under the scheme, the Australian Government will provide to investors an annual incentive of \$6000 per property for up to ten years. This is to be augmented by a state or territory contribution (which may take the form of cash grants, concessions on stamp duty or the provision of discounted land) of \$2000 per property over the same period.<sup>125</sup>

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123. Australian Property Monitors, *Quarterly APM–Domain Rental Series–March*, media release, APM, 3 April 2008, [http://www.homepriceguide.com.au/media\\_release/APM\\_Rental\\_Market\\_Report\\_March2008\\_Quarter.pdf](http://www.homepriceguide.com.au/media_release/APM_Rental_Market_Report_March2008_Quarter.pdf), accessed on 16 May 2008 .

124. J. Yates et al., *Housing Affordability: a 21<sup>st</sup> century problem. National Research Venture 3: Housing affordability for lower income Australians*, Final Report no. 105, Australian Housing and Urban Research Institute (AHURI), September 2007, [http://www.ahuri.edu.au/downloads/NRV3/AHURI\\_Final\\_Report\\_No105\\_Housing\\_affordability\\_a\\_21st\\_century\\_problem.pdf](http://www.ahuri.edu.au/downloads/NRV3/AHURI_Final_Report_No105_Housing_affordability_a_21st_century_problem.pdf), accessed on 16 May 2008.

125. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008.

- A Place to Call Home, a strategy which will provide \$150 million over five years for the delivery of up to 600 homes across Australia for families and individuals who are homeless. The funding provided to the states and territories may be used either to construct or purchase new homes or to repair existing public housing stock. The Australian Government contribution is to be matched by the states and territories through the provision of funding or in-kind support including the provision of land.<sup>126</sup>

In order to coordinate the implementation of these measures and any other housing initiatives on a national basis, the government has provided \$3.7 million over five years to establish an Office for Housing within the Department of Families, Housing, Community Services and Indigenous Affairs.<sup>127</sup> The government has also provided \$10.2 million over five years to establish a National Housing Supply Council. This council is to advise the government and the Council of Australian Governments (COAG) on long-term housing and land supply trends.<sup>128</sup>

The Budget has introduced changes to the framework in which future Commonwealth housing funding is to be provided to the states and territories. The number of specific purpose payments has been reduced and bundled into the new affordable housing specific purpose payment.<sup>129</sup> This payment is supported by the new national affordable housing agreement. Under this agreement, the states and territories will have greater flexibility to target resources with the objective of improving the supply and effectiveness of affordable housing.

## Comment

It is generally agreed that supply-side responses to the current housing affordability crisis are essential. The reason being that focusing primarily on providing Commonwealth Rent Assistance to supplement private rental merely stimulates demand and increases housing rental costs. It has done nothing to increase the supply of affordable, public housing.

As noted above, in recent years Australian governments have, on the whole, been averse to expanding public housing. Such expansion is, in any case, a slow and expensive process. As a result, there is a need to strengthen financial incentives to encourage investors to provide affordable private rental properties. The National Rental Affordability Scheme aims to achieve this. It has, as a result, been widely acknowledged as a significant first step in addressing rental housing affordability.

Nevertheless, the scheme does not add to the publicly-owned housing supply and some commentators argue that without a sustainable public housing sector, the nation will fail to meet future demand for secure, low-cost housing.<sup>130</sup> While the A Place to Call Home strategy

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126. *ibid.*, p. 166.

127. *ibid.*, p. 173.

128. *ibid.*, p. 171.

129. Australian Government, 'Part 2: the COAG Reform Agenda', *Budget Paper No. 3: Australia's Federal Relations 2008–09*, Commonwealth of Australia, Canberra, 2008.

130. See, for example, S. Schrapel, 'Boost public housing to halt homes crisis', *Sunday Mail Adelaide*, 13 April 2008, p.75,

will provide for some increase to the overall public housing stock, this will not be by a significant amount.

Moreover, given that it is not only the size of public housing stock in Australia that has decreased, but also its quality—primarily because the amount of rent that can be charged increasingly disadvantaged public housing tenants, does not meet the direct cost of provision (that is, the market value)—the states and territories may, to a greater or lesser extent, be obliged to dedicate A Place to Call Home funds to stock refurbishment and replacement, rather than to increasing overall public housing stock.

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[http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:YQ5Q6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:YQ5Q6%3B), accessed on 16 May 2008; and Australian Council of Social Service, *Towards a Fairer Australia, ACOSS 2007 Election Statement*, Paper 151, October 2007, [http://www.acoss.org.au/upload/news/3391\\_Paper%20151%20Towards%20a%20fairer%20Australia.pdf](http://www.acoss.org.au/upload/news/3391_Paper%20151%20Towards%20a%20fairer%20Australia.pdf), accessed on 16 May 2008.

## Early childhood services

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### Introduction

The Minister's budget statement highlights the importance of the quality of the early childhood experience for not only the individual's future education and other life outcomes, but also the country's future economic prosperity.<sup>131</sup> The importance of these early years, particularly for children from disadvantaged backgrounds, is well-substantiated as the result of considerable research that continues to accumulate.<sup>132</sup> The Rudd Government is also concerned about the fragmented system of child care and early childhood education.

It is in this context that the government is now implementing a raft of election commitments designed to improve the overall quality and access of the early childhood sector. These commitments follow the 2007 resolution of the Council of Australian Governments to develop 'an intergovernmental agreement on a national approach to quality assurance and regulations for early childhood education and care.'<sup>133</sup>

The government's concern with the early childhood years has resulted in the concentration of early childhood programs in the education portfolio under the newly created Office of Early Childhood Education and Child Care with its own parliamentary secretary (Maxine McKew). Most of the early childhood budget measures emanate from the education portfolio, but there are also allied measures in other portfolios. These include health portfolio budget measures, such as the health checks for four-year-old children and the development of guidelines on healthy eating and physical activity for use by the early childhood sector. There are also other measures which, while not specifically early childhood, have obvious application to the sector. The development of a National Child Protection Framework in the Families, Housing, Community Services and Indigenous Affairs portfolio, which is discussed in more detail in this brief, is one example.

The Budget's early childhood measures are only the beginning of the government's plans for the sector. As yet, the government has not determined whether early childhood will be included in the schools agreement or funded through a separate agreement.<sup>134</sup> It is also not

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131. J. Gillard (Minister for Education), *Budget: Education Revolution 2008-09: Statement*, Commonwealth of Australia, Canberra, 2008, pp. 6–7.

132. For information about this research see M. Harrington, 'Preschool education in Australia', *Background Note*, Parliamentary Library, Canberra, 2008, <http://www.aph.gov.au/library/pubs/bn/2007-08/PreschoolEdAustralia.htm#HeaderDefinition>, accessed on 15 May 2008.

133. Council of Australian Governments, *Communique*, 13 April 2007, p. 4, <http://www.coag.gov.au/meetings/130407/docs/coag130407.pdf>, accessed on 15 May 2008.

134. Australian Government, 'Part 3: Payments for Specific Purposes', *Budget Paper No. 3: Australia's Federal Relations 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 39.



clear from the expenses by function and sub-function table in *Budget Paper No. 1* against which line item early childhood expenditure is accounted for.<sup>135</sup>

Provision of early childhood education and child care services are set to be transformed with the establishment of multifunctional Early Learning and Care Centres. This measure follows from the Prime Minister's proposal to combine maternal and child health and welfare, child care services and preschool at the one location, which was endorsed by the Australia 2020 Summit and the recent joint meeting of the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) and the Ministerial Council for Vocational and Technical Education (MCVTE).<sup>136</sup>

## Early childhood education

Marilyn Harrington  
Social Policy Section

The 2008–09 Budget represents the first part of a Rudd Government commitment to provide 'universal access by 2013 to quality early childhood education for all children in the year before formal schooling.'<sup>137</sup> Specifically, this commitment includes access for all Indigenous four-year-olds living in remote communities, the development and application of national standards and an Early Years Learning Framework. It is also supported by the provision of additional early childhood education university places to improve workforce standards.

In 2006–07, 248 172 children attended state and territory government funded and/or provided preschool services in Australia.<sup>138</sup> For various reasons, not all Australian four-year-olds attend preschool or are accounted for in the available preschool attendance data. There is also considerable variation in the provision of these services, variability in program structure and inequities in access and participation.<sup>139</sup>

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135. Australian Government, 'Statement 6: Expenses and Net Capital Investment', *Budget Paper No. 1: Budget Strategy and Outlook 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 6-43.

136. Australia 2020, *Australia 2020 Summit: Initial summit report*, p. 8, [http://www.australia2020.gov.au/docs/2020\\_Summit\\_initial\\_report.pdf](http://www.australia2020.gov.au/docs/2020_Summit_initial_report.pdf), accessed on 15 May 2008; and Communique, Joint MCEETYA/MCVTE Meeting, 17 April 2008, pp. 3–4, [http://www.mceetya.edu.au/verve/resources/Draft\\_Communique\\_\(v5\).pdf](http://www.mceetya.edu.au/verve/resources/Draft_Communique_(v5).pdf), accessed on 15 May 2008.

137. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.5*, Education, Employment and Workplace Relations portfolio, Commonwealth of Australia, Canberra, 2008, p. 30.

138. Steering Committee for the Review of Government Service Provision, 'Children's services', *Report on Government Services 2008*, The Committee, Melbourne, 2008, p. 3.8, [http://www.pc.gov.au/data/assets/pdf\\_file/0007/74644/chapter03.pdf](http://www.pc.gov.au/data/assets/pdf_file/0007/74644/chapter03.pdf), accessed on 15 May 2008.

139. For an overview of preschool education in Australia, see Harrington, *op. cit.*

The problems which confront the sector, and which were highlighted by a 2004 inquiry into preschool education, are considerable.<sup>140</sup> These problems include access (for example, geographic location and transport), affordability, the supply of qualified early childhood teachers, state and territory differences in administration, funding and curricula and the provision of preschool services for children with special needs, particularly children with disabilities and Indigenous children. Children of working parents have also been described as ‘trapped’ in long-day child care. The latter is not only symptomatic of the problem of program quality in childcare settings, but also the logistical difficulties for working parents of combining preschool with child care.<sup>141</sup> The challenge will be to make early childhood education, which is not compulsory, an attractive cost-effective option for all children and their families.

## Child care

Dale Daniels  
Social Policy Section

### Child care fee assistance

The Budget includes a number of changes to the Child Care Benefit (CCB) and the Child Care Tax Rebate (CCTR).

The headline measure is the fulfilment of the election promise to increase the CCTR from 30 per cent to 50 per cent of out-of-pocket child care expenses for approved child care. The maximum payment per child will therefore increase from \$4354 to \$7500 (indexed) per annum. This is partially offset by the abolition of the minimum rate of CCB for approved care for higher income families.

The CCTR was introduced in 2005 to address child care affordability concerns and head off pressure for full tax deductibility for child care fees. It has often been criticised for favouring higher income families. However, the CCTR has escaped the new ‘sudden death’ income tests that have been introduced for Family Tax Benefit Part B, the Baby Bonus and the Dependent Spouse Rebate. Its status as a refund of expenses incurred and its role in encouraging female workforce participation have saved it from being treated as undesirable middle class welfare.

The Budget also introduces quarterly payments for the CCTR. The timing of claims for the CCTR has been a long-running problem. Initially, it could only be claimed in the tax return for the year following the year in which the child care was used. So the delay between paying for care and receiving the CCTR could be as long as 18 months to two years. From the 2006–

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140. K. Walker, National Preschool Education Inquiry: For all Our Children: Report of the Independent Inquiry into the Provision of Universal Access to High Quality Preschool Education, Australian Education Union, Southbank, Vic., 2004, <http://www.aeufederal.org.au/Ec/ecfullreport.pdf>, accessed on 15 May 2008.

141. D. Gough, ‘Daycare stopping children going to kindergarten’, *The Sunday Age*, 22 July 2007, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:QAQN6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:QAQN6%3B), accessed on 15 May 2008.

07 Budget, this was changed so that CCTR could be claimed from Centrelink at the end of the year in which the child care was used. However, both of these arrangements resulted in long delays between paying for child care and receiving CCTR. This delay can be a work disincentive for primary carers in low income families in particular. Both parties addressed this issue during the election campaign last year. The Coalition promised to pay the CCTR fortnightly while the ALP opted for quarterly payments.

These measures will increase the cost of assistance by \$1.4 billion over four years. The CCTR changes are worth \$1.6 billion and the CCB savings total \$222.2 million.

There is also an increase in funding for the Jobs, Education and Training child care fee assistance (JETCCFA). An additional \$23.9 million over four years will provide extra assistance with approved child care for sole parents studying for up to two years.

### **Child care workforce**

Fees for TAFE students studying for Diplomas and Advanced Diplomas in children's services courses will have their fees removed from 2009 at the cost of \$60.3 million over four years. This is part of a broader package to foster an increase in the skilled early childhood workforce. The child care workforce has for many years suffered from a skilled staff shortage. This is partly due to a shortage of appropriately trained people, but also due to the low pay rates on offer. Many child care workers are paid not much more than the minimum wage.

### **Child care provision and quality of care**

A government election commitment to open 260 new child care centres has also been addressed with \$114.5 million for 38 new child care centres in areas of child care shortage to be operational by 2010. Six of these will be early intervention centres for children with autism. The remaining centres are to be delivered as part of an agreement with the states and territories.

A further measure involves the development of improved national quality standards for child care.

### **National Child Protection Framework**

Janet Phillips  
Social Policy Section

Child protection and support services aimed at preventing child abuse and helping children and families affected by child abuse are essentially a state and territory responsibility. The Commonwealth currently plays a relatively small direct role in child abuse prevention through the funding of the National Child Protection Clearinghouse, the collection of data and a few specific programs. In recent years, there has been a trend towards a more systematic and national approach with respect to child abuse issues and, as a consequence, the Commonwealth has moved towards becoming more involved in the area of child abuse prevention and child abuse monitoring.

On 30 January 2008, the Coalition of Organisations Committed to the Safety and Wellbeing of Australia's Children (formed in November 2007) met with the Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, to discuss the possible development of a National Child Protection Framework. At this meeting the Coalition was advised that a consultation process would commence between the government and relevant stakeholders. Recently, a discussion paper was circulated by the government to several NGOs and other stakeholders, inviting comments on a child protection framework.

In the 2008–09 Budget, the government confirmed it will commit to developing a National Child Protection Framework. The government has allocated funding of \$2.6 million to establish the framework in consultation with all levels of government, child protection workers and community stakeholders.

It is likely that the new framework will focus on preventing child abuse through early intervention, better coordination of services and improved (nationally consistent) protection data reporting across jurisdictions—at present all the states and territories differ in their data collection methodology, making it difficult to compare data across jurisdictions.<sup>142</sup>

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142. J. Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *National framework for protecting Australia's children*, Budget 2008–09, media release, Parliament House, Canberra, 13 May 2008,

[http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08\\_children\\_13may2008.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08_children_13may2008.htm), accessed on 15 May 2008.

## Welfare

Peter Yeend  
Social Policy Section

### Better targeting and delivery of the Baby Bonus

The changes to the Baby Bonus announced in the Budget are intended to:

- Limit the Baby Bonus to families with an adjusted taxable income<sup>143</sup> of \$75 000 or less in the 6 months after the birth of a baby. This is the equivalent of an adjusted taxable income of \$150 000 a year or less and
- Pay the Baby Bonus in 13 fortnightly instalments, rather than as a lump sum.

These changes are to take effect from 1 January 2009.<sup>144</sup>

The budget papers indicate that the Baby Bonus will be increased from \$4258 to \$5000 from 1 July 2008. This change was provided for by the previous government in the amending act that introduced the original one-off \$3000 Baby Bonus payment from 1 July 2004.<sup>145</sup> That Act provided for the Baby Bonus amount to be \$3000 from 1 July 2004, an increase to \$4000 from 1 July 2006 and a further increase to \$5000 from 1 July 2008. The Act also provided for twice-yearly indexation of the Baby Bonus to movements in the Consumer Price Index (CPI). Consequently, the Baby Bonus is currently \$4258.

### Costs and savings

Income testing of the Baby Bonus is estimated to cost \$22.6 million in additional administrative expenses and will lead to savings of \$377.2 million in reduced payments. This will realise net savings of \$354.5 million over the next four years.<sup>146</sup>

### How many families will be affected?

In 2006–07, the Baby Bonus was paid in respect of 291 876 children, including 315 adopted children.<sup>147</sup> While the budget papers do not directly indicate how many families are expected

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143. Adjusted taxable income currently refers to net taxable income with employer provided fringe benefits, foreign income and negatively geared property losses added back in.

144. Australian Government, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, p. 370.

145. *Family Assistance Legislation Amendment (More Help for Families—Increased Payments) Act 2004*, [http://www.fedlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/D55B6ED42CDBFD5ECA25720A00253C1D/\\$file/FamilyAssLegAmendMoreHelpFamOneoffPay2004.pdf](http://www.fedlaw.gov.au/ComLaw/Legislation/ActCompilation1.nsf/0/D55B6ED42CDBFD5ECA25720A00253C1D/$file/FamilyAssLegAmendMoreHelpFamOneoffPay2004.pdf), accessed on 21 May 2008.

146. *Budget Paper No. 2*, op. cit., p. 370.

no longer to be eligible for the Baby Bonus from 1 January 2009, they give an estimate of the numbers of children and families to be paid the Baby Bonus in 2008–09. This is 285 000 children from 281 000 families. This figure includes 330 adopted children.<sup>148</sup> Jenny Macklin, the Minister for Families, Housing, Community Services and Indigenous Affairs, has indicated that some 16 000 high income parents will no longer be able to access the Baby Bonus.<sup>149</sup>

### The proposed Baby Bonus income test compared

Since its introduction from 1 July 2004, the Baby Bonus has not been subject to any means test. This contrasts with the Maternity Allowance that it replaced from 1 July 2004, which required the claimant to otherwise qualify for Family Tax Benefit Part A (FTB-A), which is income tested. In 2008, a family with one child aged from birth to 17 years can have an annual adjusted taxable income of up to \$97 845 and still receive some FTB-A. So, compared to FTB-A, the proposed income test of \$150 000 for the Baby Bonus is generous.

### Use of the adjusted taxable income test for Baby Bonus

The Baby Bonus budget initiative proposes to use adjusted taxable income as a means test. This makes administrative sense, as adjusted taxable income is also used as the means test for the Family Tax Benefit Part A and Part B and the Child Care Benefit. It is also the same test that is used in other government assistance access matters, such as for the Commonwealth Seniors Health Card and is the income test applied under the Child Support Scheme arrangements.

However, there are a number of other legitimate ways by which taxable income can be reduced, for example, by way of company or trust arrangements. So the use of adjusted taxable income might not in some cases provide for a proper test of a person's or family's means and need for support. This, in part, is reflected in the proposed adjustments to the measurement of income for government support purposes, also announced in this Budget and discussed in a later section of this brief. These proposed changes feature in respect of salary sacrifices to superannuation, net losses from investment and reportable fringe benefits.<sup>150</sup>

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147. Department of Families and Community Services and Indigenous Affairs, *2006-07 Annual Report*, Canberra, 2007, p. 169, <http://www.facs.gov.au/annualreport/2007/pdf.htm>, accessed on 18 May 2008.

148. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.7, Families, Housing, Community Services and Indigenous Affairs Portfolio*, Commonwealth of Australia, Canberra, 2008, p. 88, [http://www.fahcsia.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08\\_pbs.htm](http://www.fahcsia.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08_pbs.htm), accessed on 18 May 2008.

149. J. Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Simpler and Fairer Family Payments*, media release, Parliament House, Canberra, 13 May 2008, [http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08\\_family\\_13may08.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08_family_13may08.htm), accessed on 18 May 2008.

150. *Budget Paper No. 2*, op. cit., p. 29–31.

## Better targeting and delivery of Family Tax Benefit

The proposed change to the Family Tax Benefit Part B (FTB-B) income testing arrangements announced in the Budget limits access to FTB-B to families where the primary income earner has annual adjusted taxable income<sup>151</sup> of \$150 000 or less.<sup>152</sup>

### FTB-B– Origins and current arrangements

FTB-B was introduced, along with the two other main Commonwealth family income supplement payments (Family Tax Benefit Part A and Child Care Benefit), with the Goods and Services Tax (GST) and the A New Tax System (ANTS) arrangements that commenced from July 2000.<sup>153</sup>

FTB-B replaced a number of payments and income tax rebates for sole parents and single income couple families. The payments and assistance replaced were Guardian Allowance, Basic Parenting Payment, Family Tax Payment Part B, Family Tax Assistance Part B, Sole Parent Rebate and Dependent Spouse Rebate (with Children).

As with the payments and tax measures it replaced, the current FTB-B tests only one income in a family—the income of the lowest income earner. Where a claimant is a sole parent, there is an automatic entitlement to the full rate of the FTB-B, regardless of income. For partnered families, while there is no eligibility limit on the income of the primary earner, the amount payable under the FTB-B income test is based on the income of the lower earner. The rate payable is dependent on the actual income of the lower earner. On an income of up to \$4380 the full rate is paid. Payments are reduced by 20 cents for each dollar of income above that amount. In certain circumstances, the lower earner can earn up to \$22 302 and still be eligible for some FTB-B. This resembles the old Dependant Spouse Rebate, which was available to a person with a partner with low income, regardless of the amount of that person’s own taxable income.

### Are millionaire families receiving FTB-B?

Answers to questions on notice in Senate Budget Estimates have demonstrated that under the current FTB-B income test, some families with substantially high incomes can access the FTB-B. As the table below shows, access to FTB-B for partnered families with high incomes, where this income is received by one of the partners, has been in place since the FTB-B was introduced on 1 July 2000.

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151. See footnote No.1 for an explanation of adjusted taxable income.

152. *Budget Paper No. 2*, op. cit., pp. 370–371.

153. L. Lang, D. Daniels and P. Yeend, ‘A New Tax System (Family Assistance) Act 1999’, *Bills Digest*, No. 175, Department of the Parliamentary Library, Canberra, 1998–99, <http://www.aph.gov.au/library/pubs/bd/1998-99/99bd175.htm#Contact>, accessed on 18 May 2008.

## Adjusted Taxable income of customers entitled to Family Tax Benefit Part B 2004–05

The table below shows the distribution of actual adjusted taxable income of customers who were entitled to Family Tax Benefit Part B at any stage during 2004-05 and who have been reconciled as at 29 September 2006.

| Actual ATI for 2004-05 (\$)    | Number of customers who were entitled to FTB part B |
|--------------------------------|---|
| 0 to less than 20,000          | 525,380   |
| 20,000 to less than 40,000     | 445,714   |
| 40,000 to less than 60,000     | 292,416   |
| 60,000 to less than 80,000     | 183,592   |
| 80,000 to less than 100,000    | 75,828  |
| 100,000 to less than 120,000   | 27,225  |
| 120,000 to less than 140,000   | 12,374  |
| 140,000 to less than 160,000   | 6,369   |
| 160,000 to less than 180,000   | 3,714   |
| 180,000 to less than 200,000   | 2,334   |
| 200,000 to less than 300,000   | 4,712   |
| 300,000 to less than 400,000   | 1,182   |
| 400,000 to less than 500,000   | 445   |
| 500,000 to less than 600,000   | 199   |
| 600,000 to less than 700,000   | 117   |
| 700,000 to less than 800,000   | 80  |
| 800,000 to less than 900,000   | 56  |
| 900,000 to less than 1,000,000 | 33  |
| 1,000,000 or more              | 101   |
| <b>Total</b>                   | <b>1,581,871</b>                                    |

Source: Senate Supplementary Estimates, 2006–07. <sup>154</sup>

### The proposed FTB-B income test change

The proposed changes to the FTB-B income test are intended to limit eligibility to families where the main income earner has income of not more than \$150 000.

Therefore, in the case of sole parents, where they have income of more than \$150 000 there will be no access to FTB-B. Where sole parents have incomes of \$150 000 or less they will qualify for the full payment.

In the case of partnered families, where the main income earner has income of more than \$150 000, there will be no access to FTB-B. Where the main income earner receives \$150 000 or less, the rate of the payment will still be calculated on the basis of the earnings of the lower earner. Therefore, the limits that have applied to the income of the lower earner in a

154. Senate, 2006-07 Supplementary Estimates, Community Affairs Committee, Answer to Question on Notice No. 284 from Senator Chris Evans, Families, Community Services and Indigenous Affairs Portfolio, Canberra, 3 and 4 March 2007, [http://www.aph.gov.au/Senate/committee/clac\\_ctte/estimates/bud\\_0607/index.htm](http://www.aph.gov.au/Senate/committee/clac_ctte/estimates/bud_0607/index.htm), accessed on 18 May 2008.



two parent family under the income test that was put in place by the Coalition Government in July 2000, will continue to apply.

### How many families will be affected?

The government has indicated that the revised income testing for FTB-B will affect around 40 000 high income families.<sup>155</sup>

### Costs and savings

Extra funding is to be provided to Centrelink to undertake the additional income testing. This is \$0.5 million in 2007–08 and it is anticipated there will be savings thereafter from Centrelink of \$0.1 million in 2008–09, \$1.4 million in 2009–10, \$1.7 million in 2010–11 and \$2.1 million in 2011–12 as fewer families receive FTB-B.<sup>156</sup> The proposal is anticipated to realise net savings of \$543.8 million over 5 years.<sup>157</sup>

### Comment

The proposed \$150 000 income limit for the main income earner for FTB-B access is unusual in comparison to other income tests in the welfare system. This is because there is a ‘sudden death cut-off’. Those primary earners with an income up to \$150 000 qualify; those with an income of over \$150 000 do not qualify.

While the changes will, to a certain extent, means test the payment, the mechanism is crude. Unlike the income test for the FTB-A where the income of both parents in dual parent families is counted, the test for FTB-B will still not be based on total family income.

Therefore, while the main income earner may only earn up to the new limit of \$150 000 for a family to qualify, the rate at which the payment is made in a dual parent family will still be calculated on the earnings of lower earner. The upper limits to these earnings will continue to apply. This will mean that if the lower earner earns more than \$22 302, the family will not receive any FTB-B, regardless of whether the main earner, earns \$40 000 or \$150 000.

The following examples demonstrate the limitations of this form of means testing. A sole parent will attract the full benefit if they earn up to \$150 000. Dual parent families can attract some benefit even where their combined income is \$172 300, if for example the main income earner were to earn \$150 000 and the lower earner less than \$22 302. However, in the case of a dual parent family where one earns \$80 000 and the other \$50 000, the family would not receive a FTB-B payment, even though the parents’ combined income is less than \$150 000.

It is likely that some allowance for the secondary income has been maintained so as not to create a disincentive for secondary income earners to participate in employment. However, the changes do nothing to address the criticisms that were made of the Coalition Government’s Family Tax Benefit (FTB) regime, that in the case of two parent families, it

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155. Macklin, *op. cit.*

156. *Budget Paper No. 2*, *op. cit.*, pp. 370–371.

157. *ibid.*

favoured those with children and traditional gender-based divisions of labour. For example families where the income contribution ratio was 80:20 received a higher benefit than those families where the income contribution was 50 per cent each. It has therefore been argued that providing the maximum rate to those families where the ‘primary earner’ contributes a much larger percentage of the income than the ‘secondary earner’ ‘formalises the notion of “primary” and “secondary” earner [and] within its structure underwrites weak labour force attachment by women with children and effectively entrenches the status of mothers as secondary earners and primary carers’.<sup>158</sup>

## Means-testing of government support – expanded definitions of income

### Background

The government announced changes in the Budget to the income definitions it uses to measure access to some assistance programs. These changes refer to the use of taxable income to arrive at a level of income. The changes will modify the taxable income of claimants to add back amounts to their net taxable income. The amounts to be added back are amounts salary sacrificed into superannuation, net losses from investments and reportable fringe benefits.<sup>159</sup> This initiative has parallels with the proposed Budget amendments to the income test for the Commonwealth Seniors Health Card in which the income test is to be modified to add back in gross amounts received from a taxed superannuation source and also amounts salary sacrificed into superannuation.<sup>160</sup>

### Use of adjusted taxable income

The government uses adjusted taxable income<sup>161</sup> in several forums to determine access to assistance and also to determine a level of income for a claimant. The test is used for the three main family assistance payments—Family Tax Benefits Part A and Part B and the Child Care Benefit. The test is also used for the measurement of payer and payee parents’ incomes for the Child Support Scheme maintenance formula calculations. The income assessments for the Commonwealth Seniors Health Card, which can be provided to retired aged persons not on a government income support payment, with annual incomes below \$50 000 (single) or \$80 000 (partnered combined), also uses the adjusted taxable income test (it is proposed that this test will also be modified).<sup>162</sup>

The reason for adjusting taxable incomes of claimants by adding back negatively geared property losses, foreign income and employer provided fringe benefits, is because allowable

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158 P. Apps, ‘The New Discrimination and Childcare’, paper presented at Academy of the Social Sciences in Australia workshop, *Childcare: A Better Policy Framework for Australia*, The University of Sydney, 13-14 July, 2006, cited by E. Hill, ‘[Budgeting for work-life balance: the ideology and politics of work and family policy in Australia](#)’, *Australian bulletin of labour*, v.33, no.2, 2007, pp. 234–7, accessed on 21 May 2008.

159. *Budget Paper No. 2*, op. cit., pp. 29–31.

160. *ibid.*, pp. 381–382.

161. See footnote No. 1 for an explanation of adjusted taxable income.

162. *Budget Paper No. 2*, op. cit., pp. 381–382.

tax deductions may not result in an appropriate indicator or real income or means. The changes proposed in the Budget to expand/modify the adjustments indicate that there is recognition that the use of this test needs further refinement.

There are advantages both to government and to claimants in using adjusted taxable income as an income measure. Firstly, the most recent tax assessment can be used and this removes the need for a separate income measurement and assessment. This results in a reduced cost to government. There are also savings for claimants from not having to provide documents and evidence necessary for a separate income test. The only readily available alternative to using adjusted taxable income is to use the income test applied for pension and allowance income support payments under the *Social Security Act 1991* (SSA). This test is tighter and does not permit as many of the tax deductions allowed under the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* to reduce income, thereby achieving better targeting. However, the use of the SSA to measure and test income is administratively more expensive, as it often requires an extra and separate measurement and assessment of income.

#### Certain 'salary sacrificed' contributions to superannuation

This budget proposal involves adding back in the amounts salary sacrificed into superannuation which are currently taken out of gross salary income before tax liability is assessed.

#### Estimated savings

The measure is estimated to save \$6.7 million in 2008–09, \$156.8 million in 2009–2010, \$135.8 million in 2010–2011 and \$145.5 million in 2011–2012. This is a total of \$430.2 million over four years.<sup>163</sup> Close to two thirds of these substantial savings will be realised in the Families, Housing, Community Services and Indigenous Affairs portfolio. These savings therefore would mainly refer to the adjusted taxable income tests that are applied to Family Tax Benefit Part A and Part B and to the Child Care Benefit, being the nominally lower income targeted family assistance programs. There would also be further but less significant savings to this portfolio associated with its application to the Commonwealth Seniors Health Card.

#### Net losses from investments

This budget proposal is intended to expand the adjustments made to calculations of adjusted taxable income to include losses from investments, and where appropriate, to include negatively geared property losses. In many cases, negatively geared property losses are already included in the calculation of adjusted taxable income in the welfare payments area, but not so much in the taxation area.

#### Estimated savings

The estimated savings to be achieved over four years for this proposal is \$38 million. There is an administrative cost to government in the taxation portfolio area of \$10.8 million over four

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163. *Budget Paper No. 2*, op. cit., p. 29.

years associated with the extra administrative task of counting these sorts of losses and adding them back on to taxable income amounts.<sup>164</sup>

### Reportable fringe benefits

This proposal is to add back in reportable fringe benefits in the calculation of taxable income when calculating access to the dependency tax offset, the seniors' Australian tax offset and the pensioner tax offset.<sup>165</sup> Currently, the counting of taxable income to determine access to these tax offsets does not adjust for reportable fringe benefits. The adjusted taxable income test applied for welfare payment purposes does already adjust for employer provided fringe benefits.

### Estimated savings

The savings to government revenue are estimated to be \$18.5 million over four years in the taxation area.<sup>166</sup>

### Comment

The proposals to make adjustments for the calculations of taxable income and adjusted taxable income for both welfare and tax purposes raise the issue of the appropriateness of using taxable income as a base to determine access to government assistance. As there are many legitimate ways taxable income can be reduced or offset, it is problematic to use it as a true reflection of the need for support in some cases. In addition, taxable income, or even adjusted taxable income, arbitrarily disadvantages those in employee pay-as-you-go tax arrangements, as their opportunities to reduce their taxable income is less than others in self-employed, company, or family trust tax arrangements.

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164. *ibid.*, pp. 30–31.

165. Reportable fringe benefits are those provided by an employer to an employee or their spouse or child, because of employment, for example a work car, subsidised loan, private health insurance, cleaning services for a private residence, mobile phone, a salary sacrifice arrangement..

166. *Budget Paper No. 2*, op. cit., p. 31.

## Disability and caring support

### Disability support

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With negotiations currently in progress for a new Commonwealth State Territory Disability Agreement (CSTDA), there is very little that this Budget could commit to disability funding other than redirecting and redistributing existing funds to the CSTDA.

The CSTDA provides the national framework for the delivery, funding and development of specialist disability services for people with disabilities. The Commonwealth's main areas of responsibility in this area include most disability related payments and allowances and the provision of employment services for people with disabilities along with some generic services and support (such as rehabilitation and various health programs). The states and territories are responsible for most other areas of support including accommodation, community access services and respite as well as disability related support in schools. Some areas are shared between the Commonwealth and the states such as health funding and the Home and Community Care Program (HACC).

Until a new agreement is negotiated, most of the ongoing issues for the disability sector, such as unmet need for disability accommodation, must wait. However, recent government announcements, for example, that there will be a new National Disability and Mental Health Employment Strategy, a National Disability Strategy and a Disability Investment Inquiry, have raised hopes that the new CSTDA will include significant additional funding to honour government commitments and to address stakeholder concerns of unmet need.<sup>167</sup>

Disability related initiatives in this Budget include:

- Confirmation that the government will honour an election commitment to develop a National Disability Strategy, although there was no additional funding allocated in the Budget. This commitment will be met within the existing resources of the Department—\$7.7 million over four years from 1 July 2009.<sup>168</sup>

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167. For further stakeholder comment see National Disability Services (NDS), *2008–09 Federal Budget delivers little that was not expected*, media release, 13 May 2008, <http://www.nds.org.au/national/default.htm>, accessed on 15 May 2008. For detailed analysis of unmet demand see the Senate Community Affairs Committee report, *Funding and operation of the Commonwealth State/Territory Disability Agreement*, February 2007, [http://www.aph.gov.au/senate/committee/clac\\_ctte/cstda/report/index.htm](http://www.aph.gov.au/senate/committee/clac_ctte/cstda/report/index.htm), accessed on 15 May 2008.

168. J. Macklin (Minister for Families Housing Community Services and Indigenous Affairs) and B. Shorten (Parliamentary Secretary for Disabilities and Children's Services), *The way forward: a National Disability Strategy*, Budget 2008–09, media release, 13 May 2008, <http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITA>

- A range of measures to support carers, including \$100 million for supported accommodation for people with a disability with older carers. This will allow some ageing carers to plan for alternative accommodation arrangements for their children.<sup>169</sup> See the carer section of this review for details on the carer bonus and carer payments.
- \$25.7 million over four years for disability employment support through the Business Services Wage Assessment Tool (BSWAT) program. Access to BSWAT, which was due to expire in June 2008, is provided by the Commonwealth Rehabilitation Service (CRS), allowing businesses to calculate wages for supported employees. Further disability employment support measures will emerge once the National Mental Health and Disability Employment Strategy is finalised.<sup>170</sup>
- On 3 October 2007, the Coalition Government announced details of its *Helping children with autism* package, delivering \$190.7 million in funding over five years. In this Budget, the government has announced funding for six autism-specific child care centres as part of this package.<sup>171</sup>

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[TION\\_ID:AEFQ6%3B](#), accessed on 15 May 2008 and Australian Government, 'Part 2: Expense Measures', *Budget Paper no. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 170.

169. Budget Paper no. 2, op. cit., p. 175.

170. J. Macklin (Minister for Families Housing Community Services and Indigenous Affairs) and B. Shorten (Parliamentary Secretary for Disabilities and Children's Services), *Employment support for people with a disability*, Budget 2008–09, media release, Parliament House, Canberra, 13 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:WEFQ6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:WEFQ6); accessed on 15 May 2008.

171. J. Macklin (Minister for Families Housing Community Services and Indigenous Affairs) and B. Shorten (Parliamentary Secretary for Disabilities and Children's Services), *Supporting children with autism*, media release, Parliament House, Canberra, 10 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION\\_ID:6CEQ6](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressrel&Criteria=CITATION_ID:6CEQ6); accessed on 15 May 2008.

## Carers

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Social Policy Section

### Carer Payment eligibility for those caring for children with disabilities

In March 2007, the Carer Payment (child) Review Taskforce headed by Anthony Blunn was set up by the Howard Government to examine how effective carer payment was as a safety net for carers of children with a profound disability or severe medical condition.<sup>172</sup> The taskforce reported on 8 February to the Rudd Government and this budget measure is the Government's response.

The taskforce took the view that:

... the objective of Carer Payment (child) is to enable carers to provide the care and attention required by children diagnosed with severe disability or medical conditions. For a carer to qualify for Carer Payment (child), the care provided must be significantly more than the care required by a child of comparable age who does not have severe disability. The need for care must be continuous and the provision of care must be constant. The caring load must be such that carers are unable to support themselves through substantial workforce participation.<sup>173</sup>

The taskforce concluded that:

... the payment is not an effective safety net in capturing all carers of children with severe disability or medical conditions who require access to income support.<sup>174</sup>

This budget measure provides for a new assessment process based on the care required by the child rather than the specifics of the child's condition or behaviour.<sup>175</sup> This provides a considerable relaxation of the eligibility criteria that were previously quite restrictive. The new criteria will see greatly expanded access to Carer Payment for those caring for children. The extent of this expansion can be gauged from the expected increase in the numbers eligible. In June 2007, there were 3570 Carer Payment (child) recipients. The Budget

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172. Carer Payment (child): A New Approach—Report of the Carer Payment (child) Review Taskforce, 8 February 2008, [http://www.facs.gov.au/internet/facsinternet.nsf/disabilities/carers-review\\_carer.htm](http://www.facs.gov.au/internet/facsinternet.nsf/disabilities/carers-review_carer.htm), accessed on 16 May 2008.

173. Carer Payment (child): A New Approach—Report of the Carer Payment (child) Review Taskforce, Executive Summary, 8 February 2008, [http://www.facs.gov.au/carers/carers\\_payment\\_review\\_report/](http://www.facs.gov.au/carers/carers_payment_review_report/), accessed on 16 May 2008.

174. *ibid.*

175. For the present eligibility requirements see Department of Families, Housing, Community Services and Indigenous Affairs, *Guide to Social Security Law*, version 1.136, 5 May 2008, 'Section 1.1.C.146, Child with a Profound Disability (CP (child))', [http://www.facs.gov.au/guides\\_acts/ssg/ssguide-1/ssguide-1.1/ssguide-1.1.c/ssguide-1.1.c.146.html](http://www.facs.gov.au/guides_acts/ssg/ssguide-1/ssguide-1.1/ssguide-1.1.c/ssguide-1.1.c.146.html), accessed on 16 May 2008.

provides for funding for this payment to continue beyond the original cut off date of 30 June 2008.<sup>176</sup>

### Bonus payments for carers

The Budget contains a one-off lump sum bonus payment to carers who are already in receipt of the Carer Payment and the Carer Allowance. The bonus is in recognition of their contribution to caring for people with disabilities. Carer Payment recipients will receive \$1000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. Those in receipt of both payments on 13 May 2008 will receive both lump sum payments.

One-off cash payments for carers have become a regular feature of recent budgets. Starting in 2004–05 they have been provided each year. Recent controversy over the suggestion that these bonuses were likely to be scrapped showed the sensitivities around the issue of assistance for carers and the political capital to be gained by supporting them.<sup>177</sup> However, this Budget makes no move towards providing legislative arrangements that would provide for them on an ongoing basis. Carers Australia argues that assistance for carers in Australia is inadequate. It was stunned that the government had not acted to make the bonus payments permanent, with CEO Joan Hughes concluding in her press release—‘This government likes to talk about supporting working families. Carers do work – they just aren’t paid for it’.<sup>178</sup>

While not a bonus payment, a precedent for building lump sum payments into the social security system was established with the Child Disability Assistance payment. The Howard Government introduced the Child Disability Assistance payment, a lump sum payment, to provide additional support for carers of children with a disability. It provides an annual \$1000 lump sum for people receiving Carer Allowance for children each July. The Rudd Government has not yet followed this precedent with the carer bonus payments announced in this Budget.

On 14 May 2008, Jenny Macklin, the Minister for Families, Housing, Community Services and Indigenous Affairs, asked the House Standing Committee on Family, Community,

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176. For more information see the Budget Review 2007–08, *Research Brief*, no. 12, Parliamentary Library, 21 May 2007, [http://www.aph.gov.au/Library/pubs/RB/BudgetReview/IncomeSupport\\_FamAssist.htm](http://www.aph.gov.au/Library/pubs/RB/BudgetReview/IncomeSupport_FamAssist.htm), accessed on 15 May 2008.

177. See for example D. Shanahan, ‘How a pensioner put Canberra on the run’, *The Australian* 14 March 2008, [http://parlinfoweb.parl.net/parlinfo/view\\_document.aspx?id=1439333&table=PRESSCLP](http://parlinfoweb.parl.net/parlinfo/view_document.aspx?id=1439333&table=PRESSCLP), accessed on 16 May 2008.

178. For commentary on the Budget from Carers Australia see Carers Australia, *Little support for the hardest working families of all*, media release, 13 May 2008, <http://www.carersaustralia.com.au/images/stories/20080513%20-%20Little%20support%20for%20the%20hardest%20working%20families%20of%20all.pdf>, accessed on 16 May 2008.



Housing and Youth to inquire into and report on better support for carers.<sup>179</sup> This inquiry may produce further reforms for carers in the future.

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179. House of Representatives Standing Committee on Family, Community, Housing and Youth, *Better care for our carers: a new parliamentary inquiry announced*, media release, Parliament House, Canberra, 14 May 2008, <http://www.aph.gov.au/house/committee/fchy/carers/index.htm>, accessed on 15 May 2008.

## Employment services

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### Introduction

The Job Network has provided employment placement assistance to unemployed job seekers in receipt of Australian Government income support payments for over a decade. When the Job Network was introduced by the Coalition Government in 1998, unemployment was around double its current rate, and this was reflected in the system's original design.

Australia has enjoyed strong economic growth for the past 17 years and unemployment is at its lowest level in around 30 years. In this context, job seekers with minimal barriers to employment tend to find work readily, with little or no assistance from Australia's main employment service provider, the Job Network. An increasing proportion of the Job Network's clients are now long-term unemployed and people with significant barriers to employment; that is, those people who have been 'left behind'. At the same time, the nation is experiencing widespread skilled workforce shortages. What is now required is an employment services system that is able to assist job seekers with significant labour market disadvantage to gain the skills required by themselves, employers and the nation as a whole.

In recognition of the Job Network's no longer being appropriate for current requirements, the government has developed a proposed major reconfiguration of this system. A broad outline of the proposed changes is presented in a fact sheet that was included in the 2008–09 budget press releases for the Education, Employment and Workplace Relations portfolio.<sup>180</sup> Subsequently, the government has released a discussion paper that solicits views on the future framework for employment services in Australia and how best to implement it.<sup>181</sup> Australia-wide consultation sessions on the proposed new model of employment assistance commenced on 19 May 2008. Following consultation on the proposed new model and its implementation, the government envisages that the new system will commence on 1 July 2009.

The proposed new model of employment assistance aims to better cater to the needs of disadvantaged job seekers and the skills needs of employers. At the same time, it seeks to address a number of limitations identified in the Job Network. These limitations include the system's fragmented and complex nature, inflexibility where it comes to dealing with the needs of different job seekers, failure to target resources at the most disadvantaged job seekers, lack of emphasis on skills development and training, ineffective and counter-

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180. Department of Education, Employment and Workplace Relations, *The Future of Employment Services in Australia*, Discussion Paper Fact Sheet, 13 May 2008, <http://www.deewr.gov.au/deewr/Publications/Budget/2008-09/>, accessed on 19 May 2008.

181. Department of Education, Employment and Workplace Relations, *The Future of Employment Services in Australia: A Discussion Paper*, May 2008, <http://www.workplace.gov.au/NR/rdonlyres/002400C9-E034-4C88-90D1-ABB7F3C590EF/0/DiscussionPaperWEB.pdf>, accessed on 19 May 2008.

productive compliance regime and excessive administration, which is hampering the flexibility and scope for innovation required by Job Network providers.<sup>182</sup>

The main features of the proposed new model are:

- a revised contact arrangement that allocates job seekers to one of four different assistance streams, based on their assessed level of disadvantage
- a new Employment Pathway Fund that will, unlike its predecessor Job Seeker Account, be available to provide assistance to the most disadvantaged of job seekers
- the opening of employment assistance services to people currently on the Participation Support Program waiting list, who did not previously have access to mainstream employment assistance services
- 238 000 training places that focus on the development of skills in areas of workforce shortage
- a \$41 million Innovation Fund to enable employment services providers to develop projects in partnership with training and community organisations and the private sector for the most significantly disadvantaged job seekers and
- the establishment of an external reference group that will assist in the development of a new performance management system appropriate to the changed nature of the system.

The following comments identify some perceived merits of the proposed new model and flag various issues and points of concern.

## Funding

The government proposes to spend \$3.7 billion over three years from 1 July 2009 on revised employment assistance services.<sup>183</sup> This funding may not, in fact, amount to an increase in spending by the government on employment services for unemployed job seekers over the amount that would otherwise have been spent on the Job Network arrangements. Forward estimates for the Job Network in the 2007–08 Budget were \$1.16 billion in 2006–07 and \$1.21 billion in 2007–08.<sup>184</sup>

It is also not clear precisely to whom employment assistance services are to be provided: are they to be made available to all unemployed people or only to those who are in receipt of income support?

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182. For a brief review and critique of the Job Network see M. Thomas, '[A review of developments in the Job Network](#)', *Research Paper*, no. 15, Parliamentary Library, Canberra, 2007–08.

183. Department of Education, Employment and Workplace Relations, *The Future of Employment Services in Australia*, Discussion Paper Fact Sheet, op. cit.

184. Australian Government, *Portfolio Budget Statements 2007–08: Budget related paper No. 1.6*, Employment and Workplace Relations portfolio, Commonwealth of Australia, Canberra, 2007, <http://www.dewr.gov.au/dewr/Publications/Budget/2007-08/DEWR/Section3-Agencyoutcomes.htm>, accessed on 19 May 2008.

## Jobseeker streaming and the Job Seeker Classification Instrument

Unemployed jobseekers are to be streamed into four different pathways based on their assessed level of disadvantage. Stream one is to be reserved for those jobseekers who are the most ‘job ready’ and thus in a position to be assisted with job search skills, the preparation of a resume, skills assessment and training. The other three streams are to be employed for those jobseekers whose pathway to employment will be protracted as a result of their need for assistance in overcoming personal and vocational barriers before moving into employment.

The streaming decisions are to be made using the current, but revised, Job Seeker Classification Instrument (JSCI) and, where necessary, a Job Capacity Assessment (JCA). The JSCI is currently used for streaming new entrants into the Job Network. It is mainly used to identify the most disadvantaged of new job seekers, who are to be provided with Intensive Assistance immediately. Other job seekers usually have to spend three or six months on income support before gaining access to Intensive Assistance.

The JSCI is essentially a computer-driven assessment tool, which compiles a ‘picture’ of the job seeker based on their responses to questions about their work and education history and attainments. The JSCI has been criticised in the past for its being too blunt an instrument for effective screening. A review of the JSCI’s effectiveness, appropriateness and efficiency is currently being undertaken.<sup>185</sup> A review of JCA processes is also underway.<sup>186</sup>

Accurate streaming will be vital if the new model is to prove successful. If jobseekers are directed to an inappropriate stream, then this could be wasteful not only in terms of time and potential job opportunities lost, but also in terms of training and other assistance not provided. While there is a certain amount of flexibility where it comes to movement between streams (unlike the rigid continuum of present arrangements), this movement is still determined by individual need as measured by the JSCI or, where appropriate, JCA.<sup>187</sup> Thus, much will depend on the quality of these assessment tools.

## Compliance

Under the proposed new model, the jobseeker compliance requirements are largely the same as the requirements that were instituted under the Welfare to Work arrangements from 1 July 2006. Non-payment periods will apply for the number of days of non-compliance; and the sanction of an eight-week non-payment period applies in the case of a third instance of job seeker non-compliance. There is a slight watering down of this sanction under the proposed new arrangements; it is to be applied on a discretionary basis by employment service providers in instances of wilful non-compliance. There will also be the option for jobseekers to not have an eight week non-payment period applied where they are undertaking intensive activities. Needless to say, all job seekers are likely to take this option.

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185. Department of Education, Employment and Workplace Relations, *The Future of Employment Services in Australia: A Discussion Paper*, op. cit.

186. *ibid.*

187. *ibid.*

## **Employment Pathway Plans**

Under the proposed new model, all job seekers are required to work with their employment services provider on the development of an Employment Pathway Plan (EPP). This plan is similar to the Preparing for Work Agreement that is used under current Job Network arrangements. Employment service providers will need to be sufficiently resourced for the preparation of these plans in order for them to prove effective in identifying and meeting the needs of job seekers.

## **Training places**

An additional 238 000 training places are to be made available under the proposed new model, at a cost of over \$880 million over five years. This is a welcome initiative, as it is generally acknowledged that the Job Network, as it stands, fails to provide sufficient support for job seeker training. That the additional training places are to focus on areas of skills shortage is also a positive innovation, as this both increases the likelihood that quality, sustainable employment outcomes will be secured for job seekers and ensures that tax payers' dollars are well spent. However, it should be noted that if the training places are to succeed in realising these objectives they will not only need to address the needs of employers, but also need to be clearly linked with jobs. Support may also need to be provided for disadvantaged job seekers who are placed in these positions.

## **Performance management**

The proposed establishment by the Department of Education, Employment and Workplace Relations (DEEWR) of an external reference group to assist in the development of a robust performance management system for the new model of employment assistance is essential, especially given the changed emphasis of the new model. It is to be hoped that external involvement in assessment of the new model's performance will be extended in the future through making publicly available, in a timely fashion, the maximum amount of performance data. At present, external assessments of the Job Network are seriously limited, partly as a result of the commercial-in-confidence provisions that apply to Job Network provider operations.

## **Employment Pathway fund**

The government's decision to replace the Job Seeker Account (JSA) with a more flexible and accessible Employment Pathway fund is a welcome revision. That the fund will be available for use for the most disadvantaged of job seekers—including those on the Personal Support Program (PSP) waiting list who were previously quarantined from mainstream services—is a particularly constructive change. The revised fund has the potential to encourage employment service providers to invest in disadvantaged job seekers in a way that has not been encouraged under existing Job Network arrangements.

## **Innovation fund**

The Innovation Fund is a similarly positive change. This fund should enable employment service providers the scope to develop in cooperation with other services, both public and private, original enterprises that provide support and training for significantly disadvantaged

job seekers. The Brotherhood of St Laurence has recently had some success with such projects.<sup>188</sup> While the fund itself is certainly a step in the right direction, it should be noted that \$41 million over three years is not a significant amount of funding. The same could be said of the proposed employment brokerage program which seeks to develop job seekers' skills in the areas of greatest workforce need—and the \$6 million allocated for this plan.

## Administration and red tape

Generally speaking, the proposed model's focus on reducing red tape and the administrative demands placed on employment service providers, freeing them up to focus on meeting the needs of job seekers and employers, will be welcomed. The proposal to combine the contracts for major employment programs should save a significant amount of time and resources. While it remains to be seen whether or not red tape will reappear in other areas under the new model's arrangements, it should be noted that it is better that where additional requirements are placed upon employment service providers this should be in areas that really count, such as the assessment of job seekers for streaming purposes.

## Summary

On the face of it, and in the absence of further detail, the proposed new model of employment assistance represents a significant improvement over current arrangements and is necessary to meet the changed needs. The new model should provide substantially more flexibility and options for employment service providers. It should also encourage the investment of significantly more time and resources in disadvantaged job seekers. Much of the success or otherwise of Australia's future employment services will depend on the skills of providers, their knowledge of local employment markets and whether the proposed new measures are sufficiently well-resourced.

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188. See, for example, P. Temby, G. Housakos and S. Ziguras, *Helping Local People Get Jobs: Insights from the Brotherhood of St Laurence Experience in Fitzroy and Collingwood*, Brotherhood of St Laurence, Fitzroy, Vic., 2004, p. 2, [http://www.bsl.org.au/pdfs/Helping\\_local\\_people\\_get\\_jobs\\_paper.pdf](http://www.bsl.org.au/pdfs/Helping_local_people_get_jobs_paper.pdf), accessed on 19 May 2008.

## Indigenous affairs

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There is a new rhetoric in the area of Indigenous affairs. Key words are ‘New Partnership’ and ‘Closing the Gap’. These terms were used in the [communiqué from the Council of Australian Government’s meeting on 20 December 2007](#), where there was a commitment to:

- clarifying the roles and responsibilities of different levels of governments
- closing the life expectancy gap within a generation
- halving the gap in mortality rates for Indigenous children under five within a decade, and
- halving the gap in reading, writing and numeracy achievements within a decade.<sup>189</sup>

The words were used again in Prime Minister Rudd’s [National Apology speech](#) on 13 February 2008:

Our challenge for the future is to embrace a new partnership between Indigenous and non-Indigenous Australians. The core of this partnership for the future is closing the gap between Indigenous and non-Indigenous Australians on life expectancy, educational achievement and employment opportunities.<sup>190</sup>

They were used again in the [Closing the Gaps, Indigenous Health Equality Summit, Statement of Intent](#) which the Commonwealth signed on 20 March 2008, and they have been used throughout the government’s Indigenous affairs related 2008 Budget statements and media releases.<sup>191</sup>

The language used is different from that of the previous government and the present government has broken with the previous government on such matters as an apology, narrowing of the Northern Territory permit system and ending all remote Northern Territory Community Development Employment Projects (CDEP). Despite this, the programs and level of funding supported in the recent budget are not very different from those of the previous government. Indeed, for each of the last few years each of the Budget Portfolio Statements (PBS) has included, unless not relevant, ‘Australian Government Indigenous Expenditure’ (AGIE). The total of the 2007 Budget PBS AGIE figures for 2007–08 (that is,

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189. Council of Australian Governments, *Meeting Outcome*, 20 December 2007, <http://www.coag.gov.au/meetings/201207/index.htm>, accessed on 18 May 2008.

190. K. Rudd (Prime Minister), *Apology to Australia’s Indigenous Peoples*, media release, Parliament House, Canberra, 13 February 2008, [http://www.pm.gov.au/media/Speech/2008/speech\\_0073.cfm](http://www.pm.gov.au/media/Speech/2008/speech_0073.cfm), accessed on 16 May 2008.

191. Indigenous Health Equality Summit, *Statement of Intent*,: *Close the Gap*, Canberra, 20 March 2008, [http://www.hreoc.gov.au/Social\\_Justice/health/statement\\_intent.pdf](http://www.hreoc.gov.au/Social_Justice/health/statement_intent.pdf), accessed on 16 May 2008 and J. Macklin (Minister for Families, Housing and Community Services), *Closing the Gap for Indigenous Australians*, media release, Parliament House, Canberra, 13 May 2008, [http://www.facs.gov.au/budget/ministerial\\_statement/](http://www.facs.gov.au/budget/ministerial_statement/), accessed on 18 May 2008.

before the Northern Territory Intervention) was \$3.2 billion. The total of the 2008 Budget PBS AGIE figures for 2007–08 (that is, post both the Howard Government’s Northern Territory Intervention commitments and the Rudd Government’s post-election but pre-budget commitments) is \$3.85 billion. The total of the 2008 Budget PBS AGIE figures for 2008–09 is \$3.86 billion.

It is also the case that this Budget continues the previous government’s focus on improving the situation in the Northern Territory—a focus some argue is inappropriate when the needs in Aboriginal Australia are so widespread. The degree to which the present Budget’s commitments might be judged as appropriate to ‘a new partnership’ and ‘closing the gap’ may be judged in the context of the nationwide shortfall in the area of Indigenous housing having been estimated as \$3.5 billion and in health as between \$350 and \$500 million per annum.<sup>192</sup>

The government has totalled its ‘new and redirected funding following the 2007 election’ as \$580 million and indigenous relevant 2008–09 Budget Measures as \$425.3 million—giving a total of \$1.2 billion with the period covered by individual commitments varying from one to five years. A full break down with forward estimates can be found in the ‘[Whole of Government](#)’ section of *Budget Paper No.2*, and in the 2008–2009 [Indigenous Budget at a Glance](#).<sup>193</sup> The commitments included the following:<sup>194</sup>

**With respect the Northern Territory (NT)**—a total of \$666.1 million, consisting of:

- \$168 million for employment and pre-employment services—including \$75.4 million over two years to [enhance employment services](#) such as those offered to people previously on Remote Area Exemptions and those offered by Community Employment Brokers and \$5.8 million to [enhance Centrelink Agent services](#)
- \$154.2 million to expand educational opportunities—including \$98.8 million over five years for 200 [additional teachers](#) and \$28.9 million to build and operate three [new boarding colleges](#), \$19.1 million to [enhance school education](#) in the NT, and \$7.4 million for the [School Nutrition Program](#)<sup>195</sup>

192. John Gardiner-Garden, Indigenous socioeconomic indicators, *Background Note*, Parliamentary Library, Canberra, 11 February 2008, [http://www.aph.gov.au/library/pubs/BN/2007-08/Indigenous\\_socioeconomic\\_indicators.htm](http://www.aph.gov.au/library/pubs/BN/2007-08/Indigenous_socioeconomic_indicators.htm), accessed on 16 May 2008.

193. Australian Government, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008 and Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, *2008–09 Indigenous Budget at a Glance*, [http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08\\_indigenous\\_at\\_a\\_glance.htm](http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08_indigenous_at_a_glance.htm), accessed on 19 May 2008.

194. The links provided in the text are to various Family and Community Services and Indigenous Affairs [Indigenous Budget Fact Sheets](#) indexed at [http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08\\_indig\\_factsheets.htm](http://www.facs.gov.au/internet/facsinternet.nsf/aboutfacs/budget/budget2008-08_indig_factsheets.htm) accessed on 19 May 2008.

195. J. Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Closing the Education Gap between Indigenous and Non Indigenous Australians*, media release, Parliament House, Canberra, 13 May 2008,



- \$78 million for community safety and policing—including \$17.7 million to continue the operation of [night patrols](#), \$11.6 million (ongoing) to [support additional police and enforce new alcohol and pornography laws](#), \$9.8 million to [support safe houses and expand child protection services](#) (the ‘family support package’)
- \$75 million for welfare reform—including \$69.2 million to continue the implementation of [income management](#) in the NT where 50 per cent of income support and family payments being quarantined for priority items such as food, clothing and shelter, involves the introduction of [debit cards](#) and also involves financial education and training and crisis support<sup>196</sup>
- \$113.3 million for health services—including \$99.7 million over two years to [expand Indigenous primary health care services in the NT](#) and \$13.6 million for [follow-up medical treatment for children](#) who have received health checks<sup>197</sup>
- \$74.2 million for leadership and governance—includes \$30.8 million to employ 65 [Government Business Managers](#) and \$32.4 million to provide and co-ordinate [logistical and administrative support for the Northern Territory Emergency response](#)
- \$3.4 million for early childhood development services including five playgroups and 10 crèches.

**With respect to Australia as a whole**—a total of \$554 million, consisting of:

- \$160 million over five years for the ‘Land and Sea Country Indigenous Partnership’—includes \$90 million to train and employ 300 additional [Indigenous rangers](#), \$50 million to support the management of the [Indigenous Protected Areas](#) and \$10 million to support indigenous land manager’s engagement with [emissions trading](#) markets
- \$56 million over four years for an [expansion of literacy and numeracy programs](#)
- \$122.7 million to improve specific health services—including \$90.3 million over five years for [child and maternal health services](#)<sup>198</sup>

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[http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08\\_i-education\\_13may08.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08_i-education_13may08.htm), accessed on 16 May 2008.

196. J. Ludwig (Minister for Human Services) and J. Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Debit Card to Improve Income Management*, media release, Parliament House, Canberra, 13 May 2008. <http://www.humanservices.gov.au/dhs/media/media-releases/2008/may/080513-joint-release-debit-card-to-improve-income-mgmt.html>, accessed on 16 May 2008.

197. J. Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs) and N. Roxon (Minister for Health and Ageing), *Closing the Gap in Indigenous Health*, media release, Parliament House, Canberra, 13 May 2008. [http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08\\_i-health\\_13may08.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/budget08_i-health_13may08.htm), accessed on 16 May 2008.

198. *ibid.*

- \$49.3 million to expand Indigenous drug and alcohol serviced—including \$9.5 for [youth alcohol diversionary activities](#)
- \$33.5 million to address drivers of chronic disease and build a stronger Indigenous health workforce—including \$19 million over three years to a National Indigenous Health Workforce Training Plan to encourage and support more Indigenous people taking up careers as health professionals
- \$10 million over three years for travelling [indigenous mother’s accommodation](#)
- \$15.7 million for Bringing them Home counsellors and Link Up service
- \$16.6 million over four years for additional early childhood and parenting services. These will be offered in child care centres and play group settings and involve assisting families in meeting the health, education and nurturing needs of young children
- \$41.6 million for Cape York Welfare Reform Trial
- \$29 million for additional infrastructure in the Anangu Pitjantjatjara Yankunytjatjara lands and the Kimberley
- \$7.6 million for the National Arts and Craft Industry Support Programme, which directs funding to Indigenous Arts Centres and advocacy organisations
- \$5.5 million for additional funding for native title claims
- \$6.1 million to continue the [Australian Public Services Indigenous Employment Strategy](#).

The new government appears to not have had enough time to promise more than discussions with stakeholders on such matters as how to form a new national indigenous representative body, how to accommodate the United Nations’ Declaration on the Rights of the Indigenous People, how to frame a new Indigenous Economic Development Strategy, how to reform the CDEP and where to go later this year (after the promised 12 month review) with the Northern Territory Emergency Intervention.

## Immigration

### The Immigration Program

Adrienne Millbank  
Social Policy Section

The immigration program is an ongoing program, and it is normally announced prior to the Budget. For the first time, the announcement of the annual program numbers has occurred within the context of the release of the Budget. The clearly stated objective of the 2008–09 permanent immigration program is to ‘help ease Australia’s skills shortage and help fight inflation’.<sup>199</sup> Reflecting this priority concern of the Rudd Government, the immigration (non-humanitarian) program is the largest ever, with the largest skilled component. The planning level is for 190 300 places—133 500 skilled (independent and employer-sponsored) and 56 500 family reunion. The humanitarian program has been set at 13 500 places. The 2007–08 program was set at up to 158 800 places—108 500 skilled and 50 000 family. The 2007–08 humanitarian program was set at 13 000 places.

For the first time the impact of the migration program on the Budget—direct costs and benefits—is being reported.<sup>200</sup> Because the program is currently heavily balanced in favour of skilled migration it has a positive impact: taxes paid by migrants outweigh the costs of settlement services, welfare, health care and education. The Minister’s budget press release advises that the increase of 31 000 skilled, 6500 family and 500 refugee places in 2008–09 will, over four 4 years, cost an additional \$1.4 billion and bring in revenues of \$2.9 billion, resulting in a net benefit to the Commonwealth of \$1.9 billion, and extra GST payments to the states and territories of \$1 billion.<sup>201</sup>

These estimates appear to be based on as yet unpublished research conducted by the consultancy firm Access Economics. Access Economics was commissioned by the Howard Government to examine the impact of the migration program on the Federal Budget, following the government’s success after 1996 in reorienting the program towards skills, and thus its economic and labour market objectives.<sup>202</sup> The 1995–96 migration (non-humanitarian) program ‘outcome’ comprised 24 100 skilled stream migrants compared with

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199. C. Evans (Leader of the Government in the Senate and Minister for Immigration and Citizenship), *Record skilled migration program to boost economy*, media release, Parliament House, Canberra, 13 May 2008.  
<http://parlinfoweb.parl.net/parlinfo/Repository1/Library/Jrnat/3ODQ61.pdf>, accessed on 21 May 2008.

200. Australian Government, *Budget Paper No.2: Budget Measures, 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 4 and p. 257.

201. Evans, op. cit.

202. Access Economics, *2004 Update of the Migrants’ Fiscal Impact Model*, report for Department of Immigration and Multicultural and Indigenous Affairs (DIMIA), 9 July 2004, <http://www.immi.gov.au/media/publications/pdf/migrants-fiscal-impact-july-2004.pdf>, accessed on 19 May 2008.

56 700 family stream migrants. The 1995–96 humanitarian program comprised 16 250 refugee, humanitarian and ‘special assistance category’ migrants.

Issues:

- Rising levels of temporary migrant workers are foreseen. There are currently around 500 000 temporary entrants with work rights in Australia (mainly ‘457’ visa holders, students and working holiday-makers).
- House prices are a key driver of inflation. Large increases in migrant numbers will add to housing demand pressures.
- While there are sufficient skilled applicants in the pipeline for 2008–09, it is not clear whether a permanent skilled migration target in the order of 133 500 places will be achievable in future years. There is increasing international competition for skilled migrants.
- A recent study has found only a minority of recently arrived skilled migrants from non-English speaking countries, especially from the rapidly growing overseas student component, are finding employment consistent with their professional qualifications, because of their inadequate English skills.<sup>203</sup>
- The Minister has indicated that low-skilled and unskilled entry is being considered for future years.<sup>204</sup> Large-scale intakes of non-English speaking, low-skilled migrants poses risks for social cohesion, especially should levels of unemployment rise.

Other immigration measures in the Budget include giving effect to the ALP’s election commitments to extend the Adult Migrant English Program (AMEP) and to end the Coalition Government’s Temporary Protection Visa (TPV) regime.

## Adult Migrant English Program

Harriet Spinks  
Social Policy Section

The Adult Migrant English Program (AMEP) provides basic English language tuition to eligible adult migrants and humanitarian entrants to assist them to settle in Australia. The 2008–09 Budget commits \$49.2 million for the ‘extension and enhancement’ of the AMEP.<sup>205</sup> This appears intended to address the concern expressed by the Australian Labor

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203. B. Birrell and E. Healy, ‘How are Skilled Migrants Doing?’, *People and Place*, vol. 16, no. 1, 2008, p. 1,  
<http://parlinfoweb.parl.net/parlinfo/Repository1/Library/Jrnat/3ODQ61.pdf>, accessed on 21 May 2008.

204. P. Kelly, ‘Open Door’, *The Australian*, 17 May 2008,  
[http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_3/ISGQ60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_3/ISGQ60.pdf), accessed on 21 May 2008.

205. Australian Government, *Portfolio Budget Statements 2008–09, Budget related Paper No. 1.12, Immigration and Citizenship portfolio*, Commonwealth of Australia, Canberra, 2008, p. 20.

Party in 2007 that many new arrivals were completing the course without achieving an adequate level of English and that the program was not meeting clients' needs.<sup>206</sup>

Funding for the AMEP has increased steadily in recent years, and concerns that it is under funded, and that tuition entitlements are not meeting clients' needs, are not borne out by research into the program's performance. An Australian National Audit Office (ANAO) audit report found in 2001 that the primary issue of concern within the AMEP has not been that of unmet demand by the client target group, it has rather been that of encouraging eligible clients to take up and complete their tuition entitlement.<sup>207</sup> Client satisfaction surveys commissioned by the Department of Immigration and Citizenship (DIAC) indicate a high level of satisfaction amongst AMEP clients. Yet evidence presented by DIAC to a Supplementary Budget Estimates hearing in October 2006 indicated that few clients complete the hours of tuition for which they are eligible. This was not, however, because the program does not meet their needs—reasons included gaining employment, family commitments, and moving, through Job Network, to other Commonwealth funded English language programs, such as the Language Literacy and Numeracy program managed by the Department of Education, Science and Training.

The new funding comprises \$40 million for an Employment Pathways Program and \$9.2 million for Traineeships in English and Work Readiness. The detail of these programs is not made clear in the Budget announcement. What does seem clear, however, is that the programs represent a move towards using the AMEP as a pathway to employment for new arrivals, rather than simply an on-arrival settlement program aimed at assisting migrants and humanitarian entrants to settle into Australian society more generally.

## Temporary Protection Visas

Adrienne Millbank  
Social Policy Section

The government is providing \$4.2 million over five years to make legal and administrative changes and cover extra Centrelink and settlement services costs involved in abolishing Temporary Protection Visas (TPVs). The Minister's press release describes the TPV regime as 'one of the worst aspects of the Howard Government's punitive treatment of refugees'.<sup>208</sup>

Under the TPV regime 'unauthorised' entrants, mainly boat people, who were determined to be refugees under the terms of the 1951 UN Refugee Convention, were, as a disincentive,

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206. T. Burke, 'Labor will teach English, not just test it', *Fact sheet*, 31 July 2007, <http://www.alp.org.au/media/0707/msicit310.php>, accessed on 21 May 2008.

207. Australian National Audit Office, *Management of the Adult Migrant English Program Contracts*, ANAO, Canberra, 2001, [http://www.anao.gov.au/uploads/documents/2000-01\\_Audit\\_Report\\_40.pdf](http://www.anao.gov.au/uploads/documents/2000-01_Audit_Report_40.pdf), accessed on 21 May 2008.

208. C. Evans (Leader of the Government in the Senate and Minister for Immigration and Citizenship), *Rudd Government scraps Temporary Protection visas*, media release, Parliament House, Canberra, 13 May 2008,

<http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/4JGQ60.pdf>, accessed on 21 May 2008.

only given temporary visas. Neither permanent residence nor special services are required under the terms of the 1951 Refugee Convention. These TPV holders were not able to sponsor family members into Australia, and did not have access to the special settlement services available for permanent humanitarian migrants, including free English language tuition and assisted accommodation.

There are currently about 1000 TPV holders in Australia, down from over 9000 in 2002–03. There have been few boat arrivals since 2001, and the former government was progressively granting permanent visas, after reassessing protection claims. TPV holders were also able to apply for any other sort of resident visa. The measure will grant all TPV holders, provided they meet security and character requirements, permanent protection visas without the need to have further claims assessed. Australia's direction on this issue would appear not to be in tune with policies in other comparable countries. In the UK, for example, all asylum seekers determined to need protection are initially accorded only five-year resident visas.

Issue:

- The Opposition's spokesman has expressed concern that providing refugees with permanent visas, regardless of their mode of arrival, will send a clear message to people smugglers that Australia's borders 'are open for business'.<sup>209</sup>

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209. C. Ellison (Shadow Minister for Immigration and Citizenship), *Immigration Minister sends a welcome message to people smugglers*, media release, Parliament House, Canberra, 15 May 2008, <http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/BNGQ60.pdf>, accessed on 21 May 2008.

## Media and communications

Dr Rhonda Jolly  
Social Policy Section

### Cyber Safety

Recognition of the power and reach of the Internet and its largely unregulated nature have increasingly concerned governments across the world. In particular, attention has focused on the protection of children from internet predators and material that is obscene or portrays excessive violence and/or racial vilification. In late 2007, in an attempt to deal with this situation, the previous government announced the introduction of an internet filtering scheme which initially was primarily to rely on free internet software filters to block unwanted material for individual computers.

During the election campaign, Labor argued that the Howard Government's plans would not provide adequate cyber safety for children.<sup>210</sup> While it acknowledged the merit of protecting children, it argued that the personal computer filtering program was ineffective and that existing blacklisting of sites was inadequate. It promised therefore to improve internet filtering by introducing filtering by Internet Service Providers (ISPs) who would be required to filter out prohibited content identified by the Australian Communications and Media Authority (ACMA).

The government's Cyber-safety Plan provides \$125.8 million over four years to deliver on this election commitment. Funding for the plan has been provided from savings of \$160 million gained from the government's cancellation of the previous government's internet safety initiative.

The Cyber-safety Plan involves a number of aspects, including instituting an education program and specific research projects relating to cyber safety and the establishment of a dedicated website for children. An existing consultative group will be expanded to provide advice to the government on cyber safety issues and a new group will be set up to assist the government to formulate age-appropriate measures to protect children.<sup>211</sup> Following the Budget, the Minister for Broadband, Communications and the Digital Economy, Senator Stephen Conroy, announced the new composition of this consultative group.<sup>212</sup>

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210. S. Conroy (Shadow Minister for Communications and Information Technology), *Labor's Plan for Cyber-safety*, [http://www.alp.org.au/download/now/labors\\_plan\\_for\\_cyber\\_safety.pdf](http://www.alp.org.au/download/now/labors_plan_for_cyber_safety.pdf), accessed on 12 May 2008.

211. *ibid.*

212. S. Conroy (Minister for Broadband, Communications and the Digital Economy), *Consultative working group to improve cyber safety*, media release, Parliament House, Canberra, 15 May 2008, [http://www.minister.dbcde.gov.au/media/media\\_releases/2008/035](http://www.minister.dbcde.gov.au/media/media_releases/2008/035), accessed on 15 May 2008.

Indicative of the government's commitment to cyber safety and in keeping with its comments during the election that this issue transcends party politics, the government also intends to set up a Joint Parliamentary Standing Committee to investigate and report on cyber safety.<sup>213</sup>

The measure will also provide funding for ACMA to develop a comprehensive 'blacklist' of inappropriate sites. Funding will be provided under the measure to the Australian Federal Police and to the Office of the Director of Public Prosecutions for the investigation and prosecution of incidents of child sexual exploitation.

A significant amount of the funding under this measure has been allocated in 2009-10 to ISPs, who will receive a one-off subsidy towards the costs of installing ISP level filters.<sup>214</sup>

This budget measure will be welcomed by groups such as Childwise, whose Chief Executive Officer in January 2008 called on all Australians to support the government's mandatory ISP filtering initiative noting that:

It may not be a perfect system but at least it will block access to thousands of child pornographic sites, reduce the demand and protect many hundreds of thousands of children from being exploited in [the] insidious global child sex trade.<sup>215</sup>

The imperfection point needs to be stressed continually to parents, but to date the various cyber safety schemes mostly highlight their possible benefits and not their shortcomings. Whatever the system adopted to filter the Net, whatever the composition or extent of blacklists of unacceptable sites, it is highly unlikely that they will be exhaustive, given the ever-evolving and changing nature of the Net.

Labor's election proposal to address cyber safety also attracted criticism. Prior to the Budget it was argued that it would be ineffective in blocking content and that it would be likely to increase costs and to slow broadband speeds.<sup>216</sup> This comment has resurfaced with the announcement of this budget measure. The Electronic Frontiers Australia (EFA) lobby group arguing from this perspective, has commented that in a time when the government is cutting some services to fight inflation, it is bewildering that millions of dollars have been committed to this program before feasibility trials have reached a conclusion on the effectiveness of the proposed plan.<sup>217</sup>

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213. Labor's Plan for Cyber-safety, op. cit.

214. It is expected that funding will largely occur in 2009-10. New providers will be eligible for the funding in following years, however.

215. B. McMenamin, 'Filters needed to battle child porn', *The Australian*, 8 January, 2008.

216. P. Sweeney, 'ISP content filtering still on the agenda', *Whirlpool*, 13 May 2008, <http://whirlpool.net.au/>, accessed on 15 May 2008.

217. Electronic Frontiers Australia, 'EFA decries money wasted on Internet filtering', Electronic Frontiers Australia website, 15 May 2008, <http://www.efa.org.au/2008/05/15/efa-decries-money-wasted-on-internet-filtering/>, accessed on 15 May 2008. Note the government awarded a contract for a laboratory test of internet filters to the Enex TestLab in January 2008. Enex is currently conducting trials in conjunction with ACMA.



While there is clear support for policy that attempts to keep the Internet safe for children, the questions raised by critics of this particular policy should not be overlooked by the government in refining the measure. One of the most important of these is emphasised by one commentator who notes that a disturbing implication of ISP filtering is that ‘it creates the potential for governments and security agencies to add to website blacklists without public discussion or comment’.<sup>218</sup> This measure has been on the government’s agenda for some time, yet there has been no attempt to provide details of how a blacklist will be compiled, its extent or whether the list can be challenged. Making this information public as a priority, as the government has in other instances, may possibly have allayed some concerns about the measure.

Perceptions are that censorship of this type can only occur in repressive regimes, but it nevertheless remains that this measure should be subject to scrutiny in its development to ensure that the right balance of freedom of access and protective restriction is achieved.

## Transition to digital radio and television

Like most developed nations Australia has begun the process of converting television and radio broadcasting from analogue service to digital. Both digital television and radio will deliver substantial benefits for consumers, which include better quality sound and pictures, interactive features and greater listening and viewing choices. The conversion will also free up valuable spectrum resources.

Progress towards digital conversion has been made since the early 1990s. Digital television services have been transmitting since 2001 and digital radio trials have been conducted since 2003. In 2006 the previous government introduced a formal plan for a final switchover from analogue services to digital for television.

The government rejected much of this plan and resolved to abolish Digital Australia, the organisation set up to assist in the digital transition process. In March 2008 it announced its own million digital transition strategy to complete the switchover to digital-only broadcasting by December 2013.

This budget measure provides \$37.9 million funding for the switchover strategy. A government Digital Television Switchover Taskforce funded under the measure will coordinate and oversee the transition from analogue to digital television. The Taskforce is to work with stakeholders, including the Australian Communications and Media Authority (ACMA) which is to undertake technical projects and assessment of transmission and reception throughout Australia. It will also cooperate with an Industry Advisory Group set up to develop a detailed switchover timetable and reliable information for consumers about the purchase of digital equipment. A ‘Digital Tracker’ will be implemented in 2008–09 to assess public perceptions of the digital transition, including public awareness and intention by households to convert and actual conversion rates.

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218. ‘Flawed plan for internet control’, *The Canberra Times*, 3 January 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:40CP6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:40CP6%3B), accessed on 15 May 2008.

Some critics have harshly labelled parts of this measure as shifting deck chairs on the Titanic. The new Digital Television Switchover Taskforce, for example, is seen as simply a name change for the previous government's Digital Australia.<sup>219</sup> Similarly, critics have concluded that the funding allocated to this measure will not be sufficient to ensure a smooth transition to digital. One makes the point that:

[United Kingdom] taxpayers are in the process of spending \$2 billion to assist the conversion of television from analogue to digital ... in the end the Government will just have to fork out to buy some people a free TV because they can't afford it, and their sets will go black just as the fireworks are starting on New Year's Eve 2013, which would be a serious bummer. And as the date looms there will have to be a lot more money spent on advertising the switch-over than is currently being budgeted. Industry sources suggest the total cost will be more like \$200 million than \$37.9 million.<sup>220</sup>

In contrast to the digital television funding measure, the government expects that funding savings will be achieved under its digital radio measure. These will be achieved by amending the *Broadcasting Services Act 1992* (the BSA) to extend the legislated timetable which requires commercial broadcasters to commence digital radio broadcasting on 1 January 2009. An extension will be sought for a six-month period. This amendment is not intended to prevent commercial, community or national broadcasters from commencing digital radio earlier, subject to necessary regulatory approvals being in place.

Some commentators have suggested, however, that this seemingly uncomplicated move to extend the introduction of digital radio may prompt broadcasters to lobby for more changes to the BSA than is anticipated in this measure. Community radio may, for example, seek changes which will allow it to own digital radio infrastructure.

Despite such comments and concerns that the funding allocated for digital conversion will need to be supplemented in a number of budgets to come, these measures largely represent a positive step towards full digital implementation.

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219. A. Kohler, 'Digital dallying', *Business Spectator*, 27 March 2008, <http://www.businessspectator.com.au/bs.nsf/Article/Digital-dallying-D4QTR?OpenDocument>, accessed on 15 May 2008.

220. *ibid.*

## Arts

John Gardiner-Garden  
Social Policy Section

The 2008 Budget included large commitments in three different areas of the arts.

The first area of major commitment is film. In February and March 2008 the Government followed up on its election commitment to give the National Film and Sound Archive its own statutory base, by introducing and passing the National Film and Sound Archive Bill 2008.<sup>221</sup> At the same time it followed up on the previous government's commitment to amalgamate the Australian Film Commission, the Film Finance Corporation and the Film Australia Commission and introduce a new film financing arrangement, by introducing and passing the Screen Australia Bill 2008.<sup>222</sup>

In this Budget it was announced that the National Film and Sound Archive will receive \$105.2 million over four years, including \$25.2 million in 2008–09. Screen Australia is to start operating from July 1 and will receive almost \$103 million in 2008–09. The total funding is less than the total amount provided for the bodies that are being amalgamated in the 2007–08 Budget. However, the legislation has introduced a new 40 per cent producer rebate for qualifying productions which might make the industry a little less reliant on direct funding. Peter Garrett, the Minister for Environment, Heritage and the Arts, declared that the commitments 'will provide the screen industry with certainty and confidence' and are 'a critical step in ensuring a sustainable and successful local industry'.<sup>223</sup>

The second area is that of resale royalty rights for Australia's visual artists. The introduction of a scheme to realise such rights has been called for by many reports, been sketched out in two Private Members Bills introduced by Federal Labor MPs (Kate Lundy in 2003 and Bob McMullan in 2005) and has been part of recent ALP policy.<sup>224</sup> The Access Economics

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221. See J. Gardiner-Garden and P. Pyburne, 'National Film and Sound Archive Bill 2008', *Bills Digest*, no. 77, Parliamentary Library, Canberra, 2007–2008, <http://www.aph.gov.au/library/pubs/bd/2007-08/08bd077.pdf>, accessed on 15 May 2008.

222. See J. Gardiner-Garden and J. Tomaras, 'Screen Australia Bill 2008', *Bills Digest*, no.84 Parliamentary Library, Canberra, 2007–2008, <http://www.aph.gov.au/library/pubs/bd/2007-08/08bd084.pdf>, accessed on 15 May 2008.

223. P. Garrett (Minister for the Environment, Heritage and the Arts), *Securing the future for Australian screen industry*, media release, 13 May 2008, <http://www.environment.gov.au/minister/garrett/2008/pubs/budmr20080513g.pdf>, accessed on 15 May 2008.

224. For example, the Australian Copyright Council report, *The Art Resale Royalty & Its Implications For Australia*, February 1989; the [Our Culture Our Future: A Report On Australian Indigenous Cultural And Intellectual Property Rights](#), Aboriginal and Torres Strait Islander Commission, Canberra, September 1999; the report of the [Contemporary Visual Arts & Craft Inquiry](#) ('The Meyer Report'), Commonwealth Department of Communications, Information Technology and the Arts, Canberra, 2002; and D. Throsby & V. Hollister, [Don't Give Up Your Day Job: an economic study of professional artists in Australia](#), Australia Council, Sydney, 2003.

report, [Evaluating the Impact of an Australian Resale Royalty on Eligible Visual Artists](#), October 2004, did not, however, express full confidence that a scheme would actually deliver the increase in the visual artists' net income.<sup>225</sup> Minister Garrett announced that the scheme will bring Australia into line with similar resale royalty arrangements operating in the United Kingdom and Europe', but the Access Economics report had found some of these arrangements are unnecessarily complex and not always benefiting those intended.<sup>226</sup> The Minister promised, however, that 'the scheme would reflect the particular characteristics of the Australian art market and maximise the benefits to artists'. He anticipated that an open tender process would be conducted in the second half of 2008 to select an organisation to set up the collecting agency.<sup>227</sup>

The third major area of new commitments was that of increasing youth participation in the arts. To this end, over the next four years, the Australia Council will receive \$6.6 million to increase opportunities for young and emerging artists, and \$5.2 million to fund professional artists' residencies in schools and universities. The Minister has said that these measures would 'expand the opportunities for young people to experience the arts and create new opportunities for the next generation of ... artists'.<sup>228</sup> The money follows, however, a period in which the Australia Council was obliged to make \$2.0 million in operational savings to satisfy a 2 per cent efficiency dividend. The Budget, moreover, did not support the more robust strengthening of arts education in schools which had been called for in the November 2005 report of the [National Review of School Music Education](#)<sup>229</sup>, in the August 2006 workshop convened following that report, in the ALP's 2004 and 2007 election policy documents, and in the Towards a Creative Australia sessions at the recent the 2020 Summit.

The above sum of just over \$1 million a year for the artist in residencies program does not compare favourably with the £332 million committed in November last year by the U.K. government to support a national commitment to better music education in schools. The latter included money for free music tuition for every primary school child for at least a year, children's choirs, orchestras and other ensembles, banks of new musical instruments, a programme to put singing back into the classroom, projects to involve children in deprived

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225. Access Economics, *Evaluating the impact of an Australian resale royalty on eligible visual artists*, 2004, [http://www.dbcde.gov.au/data/assets/pdf\\_file/0015/16026/Viscopy\\_Access\\_Economics.pdf](http://www.dbcde.gov.au/data/assets/pdf_file/0015/16026/Viscopy_Access_Economics.pdf), accessed on 15 May 2008.

226. P. Garrett (Minister for the Environment, Heritage and the Arts), *Resale royalty rights for Australia's visual artists*, media release, 13 May 2008, <http://www.environment.gov.au/minister/garrett/2008/pubs/budmr20080513i.pdf>, accessed on 15 May 2008.

227. *ibid.*

228. P. Garrett (Minister for the Environment, Heritage and the Arts), *New initiatives for a creative Australia*, media release, 13 May 2008, <http://www.environment.gov.au/minister/garrett/2008/pubs/budmr20080513h.pdf>, accessed on 15 May 2008.

229. R. Pascoe et al., *National Review of school music education*, Department of Education, Science and Training, Canberra, 2005, [http://www.dest.gov.au/NR/rdonlyres/C9AFAE54-6D72-44CC-A346-3CAF235CB268/8944/music\\_review\\_reportFINAL.pdf](http://www.dest.gov.au/NR/rdonlyres/C9AFAE54-6D72-44CC-A346-3CAF235CB268/8944/music_review_reportFINAL.pdf), accessed on 19 May 2008.

areas in music (based on highly successful Venezuelan project, El Sistema) and for extending the partnership work that has made the Music Manifesto initiative a success.<sup>230</sup>

Beyond the above three major areas of announcement, the 2008 Budget also provided for the following:

- \$7.6 million (already announced in February) over four years to support the already existing National Arts and Crafts Industry Support Program through which funding is directed to Indigenous art centres and advocacy organisations
- \$11.8 million over four years for the Regional Arts Fund Program to support sustainable cultural development in regional and remote Australia. This represented a slight fall on previous year's commitments, but the Budget also committed \$10 million over four years for a not unrelated program to be called [Creative Communities](#)<sup>231</sup> promised during the 2007 Election as a response to the Australia Council's [Community Partnerships Scoping Study Report 2006](#)<sup>232</sup>.
- \$2.4 million over four years to support contemporary Australian music through the [Australian Music Radio Airplay Project](#) (AMRAP)—a program which commenced operation in 2000 with \$1.5 million in federal funding provided to the Community Broadcasting Foundation.<sup>233</sup>

The 2008 Budget offered no support for improved access for artists to social security (the so-called 'ArtStart' program) which Peter Garrett as Shadow Minister for the Arts flagged in a paper entitled [New Directions for the Arts](#) in September 2007 and which was part of the Australian Labor Party's 2007 election policy.<sup>234</sup> The promise was to harmonise Australia Council, Centrelink and the Australian Tax Office rules and determine the most equitable way to treat earnings and royalty payments for artists currently receiving welfare.

It is also noteworthy that collecting agencies such as the National Library and National Museum received effective funding cuts. The National Library's budgeted income for 2008–09 (\$71.3 million) is only \$1.3 million more than estimated actual income for 2007–08

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230. (U.K.) Department for Children, Schools and Families, 'Every primary school to become a musical school' press notice, 21 November 2007, [http://www.dfes.gov.uk/pns/DisplayPN.cgi?pn\\_id=2007\\_0216](http://www.dfes.gov.uk/pns/DisplayPN.cgi?pn_id=2007_0216)

231. Australian Labor Party, 'Fresh ideas for the arts', *Election 07 fact sheet*, <http://www.petergarrett.com.au/resources/1/pdfs/creativecommunities.pdf>, accessed on 19 May 2008.

232. Australia Council, *Community Partnerships scoping study: creative communities*, 2006, [http://www.australiacouncil.gov.au/\\_data/assets/pdf\\_file/0019/1882/cp\\_scoping\\_study.pdf](http://www.australiacouncil.gov.au/_data/assets/pdf_file/0019/1882/cp_scoping_study.pdf), accessed on 19 May 2008.

233. See the AMRAP page on the Community Broadcasting Foundation web-site: [http://www.cbf.com.au/Content/templates/cbf\\_funded\\_projects.asp?articleid=17&zoneid=6](http://www.cbf.com.au/Content/templates/cbf_funded_projects.asp?articleid=17&zoneid=6)

234. P. Garrett, *New directions for the arts: supporting a vibrant and diverse Australian arts sector*, Australian Labor Party, 2007, [http://www.alp.org.au/download/now/new\\_directions\\_for\\_the\\_arts.pdf](http://www.alp.org.au/download/now/new_directions_for_the_arts.pdf), accessed on 19 May 2008.

because detracting from a projected (mostly interest) revenue increase of \$2 million, is a \$0.6 million efficiency dividend. Similarly, the National Museum of Australia's budgeted income for 2008–09 of \$45.6 million is \$1.6 million less than the estimated actual of \$47.2 million for 2007–08. This is not only because of some one-off funding received during 2007–08, but also because the efficiency dividend, in the absence of any funding increase, will reduce revenue from the government by \$0.5m.

## Sport

Dr Rhonda Jolly  
Social Policy Section

Prior to the Budget, the government withdrew \$25 million funding support to the Australian Rugby Union for redevelopment of Ballymore Oval and \$10 million in funding support for Rugby League's centenary celebrations.<sup>235</sup>

The Budget also rescinded a number of other proposed sporting measures including the Fishing Hall of Fame and the establishment of a National Training Centre for Aerial Skiing. It has reduced funding for an advertising and information campaign on illicit drugs in sport considering that this has been addressed through existing drug campaigns.

There is, however, a considerable amount of funding for sporting programs and infrastructure in this Budget.

A balance appears to have been struck between funding for elite sports, sporting events and promoting 'grass roots' participation. Funding has been provided, for example, for the upgrade of a number of sporting venues such as the Campbelltown Sports Stadium (\$8 million over two years) and the Penrith Valley Sports Hub (\$5 million in 2008–09). While these venues are used for elite sporting competition, as the government notes, improvements to these grounds will also facilitate greater use by community and other sporting groups.

The government has also provided \$20.8 million to a diverse range of smaller community sports projects. It notes that providing this budget funding delivers on a number of election commitments and the development of accessible community facilities is part of its strategy to increase participation in sport.

A local sporting champions' measure will receive \$6.4 million over four years. This measure will provide grants to junior athletes to participate in sporting events that require them to travel more than 250 kilometres to compete. The program is intended particularly to assist young people from rural and remote areas participate.

Funding of \$16 million over two years will be provided to the Football Federation of Australia for a number of purposes such as support to establish a football facilities fund to deliver grants to local football clubs and to provide support for coaching and other referee programs. It is interesting to contrast this with Netball Australia which will only receive \$2.4 million over three years. This funding is intended to assist in the establishment of a new national netball league, an Indigenous netball strategy and a junior participation program. Both netball and football (soccer) are amongst Australia's most popular sports, so it could be

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235. S. Mascord and J. Geddes, 'Rugby codes reel it as Rudd slashes funding', *Heraldsun.com.au*, 7 February 2008, <http://www.news.com.au/heraldsun/story/0,21985,23171967-11809,00.html>, accessed on 15 May 2008.

argued that such budget incongruities perhaps reflect the lobbying abilities of the sports promoters and not the actual needs of the particular sports.<sup>236</sup>

Two specific measures have been funded to assist participation in sports by people with a disability. The Australian Paralympic Committee will receive \$22.8 million over five years and Special Olympics Australia has been given \$1.2 million over four years. Funding of \$2.3 million over four years has been provided to assist RecLink to expand sport and cultural programs for homeless people and people suffering from drug and alcohol abuse and mental illness.

The government has provided extra funding (\$7.6 million over five years) to the Australian Sports Commission (AIS) so that, unlike other agencies which will be affected by a two per cent efficiency dividend imposed in the Budget, the AIS will continue a similar level of grants funding to various sporting organisations.<sup>237</sup>

The government will contribute to the staging of international events with contributions of \$8.5 million towards the World Masters Games in Sydney in 2009 and \$8.6 million to assist Western Australia to stage the 2011 World Sailing Championships.

Another interesting incongruity is that while funding for some elite sports has been rejected, other sports have been well served by the Budget. Funding was cut for a Rugby League Hall of Fame in the League's centenary year, yet \$6.5 million was provided to expand cricket's Bradman Museum. Funding for the development of Ballymore Oval was also cut, but \$17.5 million was provided for the redevelopment of the Cricket Australia Centre of Excellence in Brisbane.

An amount of funding (\$4.4 million) will be provided to the Australian Sports Anti-Doping Authority in 2008–09 for education programs and its drug testing regime. This will facilitate compliance with the World Anti Doping Code. The government has announced that funding for these purposes will be reassessed following a review of cost recovery by the anti-doping authority.

There has been little comment on the Budget sports measures, probably because significant cuts had been previously announced. Another reason that sport funding in the Budget most probably does not elicit much comment is that in general, Australians support funding for both grass roots and elite sports. Yet another reason may be that as funding arrangements for most sports are assessed and administered by the AIS, funding of individual sports is to some

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236. According to the Australian Bureau of Statistics (ABS), in 2005–06 of all sports and physical recreation undertaken in an organised capacity, the activity most commonly participated in by Australians 15 years and over, was aerobics/fitness. Netball was the next most popular organised sport followed by tennis and soccer (outdoor). For more detail see the ABS website paper, *Participation in sports and physical recreation, Australia 2005–06*, <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/4177.0Main%20Features22005-06?opendocument&tabname=Summary&prodno=4177.0&issue=2005-06&num=&view=>, accessed on 15 May 2008.

237. See AIS current sports grants, [http://www.ausport.gov.au/\\_data/assets/pdf\\_file/0007/143692/NSO\\_grants\\_2007-08\\_for\\_web-Dec\\_07.pdf](http://www.ausport.gov.au/_data/assets/pdf_file/0007/143692/NSO_grants_2007-08_for_web-Dec_07.pdf), accessed on 15 May 2008.



extent divorced from the Budget process if funding for that sport's national body is seen to be adequate. One commentator does, however, argue that funding for sport could be provided by corporate sponsors rather than government and that the savings should then be transferred to other areas.<sup>238</sup> Such a view devalues the contribution sport and physical activity make to the overall health and well being of society; a reality which all governments in Australia continue to acknowledge.<sup>239</sup>

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238. R. Beeby, 'Poor showing for science', *Canberra Times*, 15 May 2008, [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:71GQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:71GQ6%3B), accessed on 15 May 2008.

239. See World Health Organisation, *Health and development through physical activity and sport*, 2003, [http://whqlibdoc.who.int/hq/2003/WHO\\_NMH\\_NPH\\_PAH\\_03.2.pdf](http://whqlibdoc.who.int/hq/2003/WHO_NMH_NPH_PAH_03.2.pdf), accessed on 15 May 2008.

## Climate Change

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On 3 December 2007, Prime Minister Rudd signed the instrument of ratification of the Kyoto Protocol. Supporting this commitment, the Government's Climate Change strategy is built on three priorities: reducing Australia's greenhouse gas emissions; adapting to those impacts of climate change that we cannot avoid; and helping to shape a global solution. Expenditure totals \$2.3 billion over four years with the majority of programs honouring election promises. Expenditure breakdown under revenue and expense measures by Department is available in Budget Paper No.2 pp. 105–107.

Budget commitments such as the renewable energy fund of \$500 million and the \$90 million Green Building Fund have generally been well received, although organisations such as the Climate Institute and the Australian Conservation Foundation said the Federal Government should have gone further by cutting tax subsidies for polluting activities such as car use.<sup>1</sup>

The Opposition has claimed that spending on climate change programs over the next two years has actually been reduced and that no provision has been made for [the introduction of an emissions trading scheme](#).<sup>2</sup> In fact, the Budget makes clear that money has been set aside for the implementation of such a scheme, as explained shortly.

There has also been criticism of the delay in expenditure in Climate Change programs which, it is claimed, will give the impression that there is no need for immediate action.<sup>3</sup> For example, under the Renewable Energy Fund less than half the funds will be spent by 2012. As well, critics have noted that funding for Clean Coal technology is much larger than for renewables<sup>4</sup> and starts immediately even though, they claim, the technique of carbon capture and storage remains speculative. They also argue that this technology should be funded by major polluters rather than by government.<sup>5</sup> Other commentators have noted that while many

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1. WME Environment Management News Wednesday, 14 May 2008, <http://www.environmentalmanagementnews.net/StoryView.asp?StoryID=220405>, accessed 23 May 2008.

2. [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:GZFQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:GZFQ6%3B)

3. [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:R9FQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:R9FQ6%3B)

4. [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:5YFQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:5YFQ6%3B)

5. [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:VYEQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:VYEQ6%3B)

departments have been cut, including Prime Minister and Cabinet which loses 22 positions, the Department of Climate Change, not surprisingly, increases by 140 to 250.<sup>6</sup>

**Table 1** summarises expenditure under Tackling Climate Change 2007–08 to 2011–12.

In Budget 2008–09, the Government has invested \$21.8 million in the establishment of the new [Department of Climate Change](#). The new department will coordinate the Government's response to climate change, including development of an Emissions Trading Scheme, increased activity following the ratification of the Kyoto Protocol, and participation in ongoing international climate change negotiations.

The Government will provide \$68.8 million over five years to design and implement a domestic [emissions trading scheme](#) in Australia. Most such schemes are of the 'cap and trade' variety in which the total emissions of a particular area or set of industries are limited and the scheme participants are issued with permits to emit certain quantities. Those participants with emissions that are less than their permitted amount can sell their unused permits to others. Those participants emitting more than their permitted amounts must buy extra permits. The European Unions' Emissions Trading Scheme is the most prominent example of the cap and trade approach.

The Minister for Climate Change, the Hon. Penny Wong MP, has stated that Australia will have a national cap and trade emissions trading scheme starting in 2010. Such schemes are complex and require careful design and planing. The above funds are necessary to ensure that the design of an effective Australian emissions trading scheme takes place

The Government will provide \$2.3 million over two years to the [Garnaut Climate Change Review](#) to examine the impacts of climate change on the Australian economy. The review is due to report to governments by 30 September 2008.

### **Sustainable Homes**

The Government has provided funding for a series of programs to help make Australian homes more environmentally sustainable. The Government will provide \$300 million over five years (including \$46.3 million in 2012–13) under the [Green Loans](#) program to subsidise the provision of low interest loans, of up to \$10,000 per home, for the installation of "green" technologies to improve water and energy efficiency including solar hot water, insulation, rainwater tanks and grey water recycling. Funding also covers refunds for home energy and water audits and free 'green renovation packs'.

The Government will provide \$7.9 million over four years for the [Hot Water System Phase Out](#) of inefficient hot water systems and the development of nationally consistent greenhouse performance standards for domestic hot water products. The cost of this measure will be met by the Department of the Environment, Water, Heritage and the Arts.

The Government will bring forward funding of \$45 million from 2010–11 (\$27.4 million) and 2011–12 (\$17.7 million) to 2008–09 (\$25.6 million) and 2009–10 (\$19.4 million) to meet

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6. [http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION\\_ID:N1FQ6%3B](http://parlinfoweb.aph.gov.au/piweb/TranslateWIPILink.aspx?Folder=pressclp&Criteria=CITATION_ID:N1FQ6%3B)

the increased demand for household rebates under the [Solar Homes and Communities Plan](#), formerly known as the Photovoltaic Rebate Program. This provides for rebates of up to \$8,000 for the installation of solar power panels in homes and grants for up to half the cost of a 2 kilowatt system for up to 400 community buildings a year.

The [Lower Emission Plan for Renters](#) program will provide \$150 million over five years (including \$2 million in 2012–13) to provide partial rebates to owners of private sector rental homes for the cost of installing insulation.

To help Australians implement practical actions to save water and reduce greenhouse emissions the Government will provide \$3 million over three years to establish a [One Stop Green Shop](#). The aim of the initiative is to link schools, businesses and families to all Commonwealth, State and local government household energy, water and other resource efficiency programs.

The Government will provide \$14 million over four years to the [Energy Efficiency of Electrical Appliances](#) program. This measure expands the current 6-star Energy Rating Label to a 10-star system and introduces Greenhouse and Energy Minimum Standards.

### **Sustainable Communities**

To encourage local communities to be more sustainable, the Government will provide funding under four programs. An additional \$25 million will be provided over four years to extend the [Solar Cities](#) program by three years. The Solar Cities program is designed to trial alternative energy options – in particular, solar power. It is a partnership approach that involves all levels of Government, the private sector and the local community. Solar Cities consortia are working with industry, businesses and their local communities to rethink the way they produce and use energy.

The existing Solar Cities are **Adelaide, Townsville, Blacktown, Alice Springs and Central Victoria**. During 2007 the ALP made an election commitment to expand the Solar Cities program to include **Perth and Coburg**.

The additional funding will provide \$13.9 million to set up a “solar city” in Perth and \$4.9 million to do the same for Coburg, Victoria. As new funding, \$6.2 million will be provided under this program to contribute to the new \$15 million **Green Precincts** program. (A further \$8.8 million from Water for the Future-National Water Security Plan for Cities and Towns brings the total for Green Precincts to \$15 million.)

Australian schools will receive assistance under the [National Solar Schools Program](#) to install solar panels and for energy and water efficiency improvements. The Government will provide \$480.6 million over eight years to provide grants of up to \$50,000 to all Australian schools. Funding for this measure will be provided in part from the redirection of funds from the Green Vouchers for Schools program (See: Responsible Economic Management-Green Vouchers for Schools in Budget Paper No. 2 p. 350). This measure will provide savings of \$334.3 million over four years to partially offset the Government’s election commitment National Solar Schools Plan. The Government will also provide \$250,000 in 2008– 09 from

the Department of the Environment, Water, Heritage and the Arts for the installation of solar water heating panels for the [Deception Bay Pool](#) in Caboolture Shire, Queensland.

### **Clean Businesses**

Four programs totalling \$260 million are providing financial assistance to businesses to implement energy efficiencies. Over four years, \$90 million will be provided under the [Green Building Fund](#) to assist Australian business by subsidising 50 per cent of the cost of retro-fitting and retro-commissioning existing commercial office buildings, up to a maximum of \$200,000 per building. Priority is to be given to large buildings (over 5000m<sup>2</sup>) and funds will be awarded on a competitive basis.

Australian manufacturers will be assisted by \$75 million over four years under the [Retooling for Climate Change](#) program to improve their production processes, energy and water efficiency and to reduce their carbon emissions. Up to a third of the cost of each project will be provided through grants of between \$10,000 and \$500,000 to small and medium-sized companies.

Under the [Climate Ready Program](#), \$75 million is provided over four years in a new competitive grants program to assist small and medium enterprises to develop and bring to the market new products that save energy and water and reduce pollution.

The [Clean Energy Innovation Centre is a sector specific centre of the Enterprise Connect network](#)- \$20 million is provided to assist small and medium businesses to improve services in the clean energy sector.

### **Clean Energy**

The Government will not proceed with the introduction of the Clean Energy Target announced in the Mid-Year Economic and Fiscal Outlook 2007–08. Instead, the original target (of 30,000 gigawatt-hours of electricity a year generated from low emissions sources by 2020) will be replaced with the expanded Renewable Energy Target of 45,000 gigawatt-hours of electricity a year from renewable sources by 2020.

Under the [Renewable Energy Target – Expansion](#) program, the Government will provide \$15.5 million over five years for the Office of the Renewable Energy Regulator to expand the current Mandatory Renewable Energy Target to reach the level of 45,000 gigawatt-hours of electricity a year to be generated from renewable energy sources by 2020. The target is in addition to a baseline level of renewable energy generation estimated to be around 16,000 gigawatt-hours annually. The target will assist in the transition towards an Emissions Trading Scheme and will be phased out between 2020 and 2030 as the Emissions Trading Scheme matures.

The Government is developing the [Emissions Trading Scheme](#) in cooperation with states and territories through the Council of Australian Governments (COAG) Working Group on Climate Change and Water. The Office of the Renewable Energy Regulator will also work with the states and territories in order to introduce a national approach to feed-in tariffs.

Under the [Energy Innovation Fund](#) the Government will provide \$150 million over four years to support the development of clean energy technologies. This includes \$50 million for the

Australian Solar Institute in Newcastle, \$50 million for photovoltaic research and development, and \$50 million for general clean energy research and development.

Support of \$500 million over eight years will be provided for a [National Clean Coal Fund](#). Initiatives in this include:

- \$50 million for a national carbon mapping and infrastructure plan;
- \$75 million for a National Clean Coal Research Program;
- \$50 million for a pilot coal gasification plant in Queensland;
- \$50 million to demonstrate carbon capture and storage;
- \$50 million for a large scale post combustion capture plant in the Latrobe Valley in Victoria;
- \$15 million to fund Australia's involvement in the FutureGen Alliance; and
- \$20 million for the Australia-China Clean Coal Co-ordination Group.

Provision of \$499.7 million over seven years is made to establish a [Renewable Energy Fund](#) (including \$101.0 million in 2012–13, \$100.9 million in 2013–14 and \$70.3 million in 2014–15). The Fund will provide grants, on a competitive basis, of between \$10 million and \$75 million to develop, commercialise and deploy renewable energy in Australia. This measure includes \$15 million over four years for the Second Generation (Gen 2) Biofuels Technology Research and Development program.

The Government will provide \$500 million over five years from 2011–12 to establish a [Green Car Innovation Fund](#) for the development and manufacture of low emission vehicles. A total of \$2 billion in investment will be generated through industry matching the Government's contribution on a one-to-three dollar basis.

The Government will provide \$150 million over three years (including \$0.4 million in capital funding in 2008–09) to the [Adaption to Climate Change](#) program, focusing on countries in Australia's region where communities are at risk from the impacts of climate change. Funding of \$15 million in 2008–09 will be met from within the existing resourcing of AusAID.

The Government will provide \$0.2 million in 2000–09 to fund the application of Climate Change Adaptation Strategies in the Serpentine Jarrahdale Shire and the City of Mandurah, Western Australia. This project will act as a pilot for other local government areas across Australia looking for ways to deal with the impact of climate change.

## Farming

The Government will provide \$60 million over four years under the [Climate Change Adaptation Partnerships Program](#) to assist farmers in responding and adapting to the impacts of climate change, and preparing for an emissions trading scheme. Provision of \$55 million over four years is made under the [Climate Change Adjustment Program](#) to assist farmers to

respond to climate change through the provision of professional advice and training grants. Re-establishment grants will also be available to eligible farmers who choose to leave their farm and \$10 million for the Rural Financial Counselling Service.

## Forestry

Funding totalling \$20 million will be directed to five priorities to assist in securing the future of Australia's forestry industry: addressing forestry skills shortages; boosting the export of forest products; building a forestry industry database; addressing the importation of illegally logged timber; and preparing forest industries for climate change.

The Forestry Adaptation Action Plan receives \$8 million to enable it to assess the capacity of forests to sequester carbon.

## Savings and Cancellations

In Budget Paper No.2, under the heading "Responsible Economic Management", the Government has listed the following redirection of funding and savings. These include:

[Asia-Pacific Partnership on Clean Development and Climate](#). The Government will not proceed with funding for the Asia-Pacific Partnership on Clean Development and Climate program. The Budget includes \$0.2 million in capital savings in 2007–08 and savings of \$50 million over four years Budget Paper No. 2 p. 341.

[Green Vouchers for Schools](#) funding will be redirected to the new National Solar Schools Plan savings of \$334.3 million over four years. Budget Paper No. 2 p. 350.

[Greenhouse Gas Abatement Program](#) \$4.2 million will be re-directed the new *Renewable Energy, Clean Business, Energy Innovation and National Clean Coal Funds*. The Government will also reprofile \$4.2 million in funding from 2007–08 into 2010–11 and 2011–12 (\$2.1 million in each year), to align with the funding requirements of the *Australian Coal Mine Methane Reduction Program*, which is funded from the *Greenhouse Gas Abatement Program*. This measure will provide savings of \$4.2 million over two years from 2008–09. Budget Paper No. 2 p. 351.

[Asia-Pacific Network for Energy Technology](#) The Government will not proceed with funding announced in the *Mid-Year Economic and Fiscal Outlook 2007–08* providing savings of \$5 million. Budget Paper No. 2 p 380.

[Low Emissions Technology and Abatement](#) program funding is reduced provide savings of \$2.2 million in 2007–08. Budget Paper No. 2 p 401.

[Low Emissions Technology Demonstration Fund](#) Savings of \$90 million over 12 years will be provided under this program through reductions from 2007–08 to 2018–19. The Government will fund the previously announced projects, but any new projects in this sector will be funded through the National Clean Coal Fund or the Renewable Energy Fund. .

Funds will also be moved across years to better reflect the profile of expected expenditure in this program. \$410 million over 12 years remains in the program to meet expected grant

payments for the six announced projects. Responsibility for the program has now been transferred to the Department of Resources, Energy and Tourism. Budget Paper No 2 p. 402.

[Renewable Remote Power Generation Program](#) funding will be reduced in 2007–08 and 2008–09, providing savings of \$42 million. Budget Paper No. 2 p. 420.

[Sustainable Regions Program](#) Offsetting savings of \$23.3 million over two years will be redirected from the Sustainable Regions program. Funding for the program was scheduled to cease in 2008–09. Budget Paper No. 2 p. 422.



Table 1. Tackling Climate Change

| Program  | 2007–08<br>(\$m) | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | Total<br>(\$m) |
|--|------------------|------------------|------------------|------------------|------------------|----------------|
| Adaptation to Climate Change   | 0                | 20.7             | 49.4             | 65.0             | 0                | 135.1          |
| Australia's Farming Future—<br>Climate Change Adaptation<br>Partnerships Program   | 0                | 15.0             | 15.0             | 15.0             | 15.0             | 60.0           |
| Australia's Farming Future—<br>Climate Change Adjustment<br>Program  | 0                | 15.0             | 15.0             | 15.0             | 10.0             | 55.0           |
| Climate change adaptation<br>strategies for the Serpentine<br>Jarrahdale Shire and the City of<br>Mandurah (Peel-Kwinana Growth<br>Corridor), Western Australia—<br>contribution | 0                | 0.2              | 0                | 0                | 0                | 0.2            |
| Climate Change and Productivity<br>Research Program  | 0                | 6.0              | 5.0              | 4.0              | 0                | 15.0           |
| Clean Business Australia—<br>Climate Ready Program   | 0                | 13.1             | 22.6             | 23.8             | 15.5             | 75             |
| Clean Business Australia—Green<br>Building Fund  | 0                | 22.5             | 37.5             | 15.0             | 15.0             | 90.0           |
| Clean Business Australia—<br>Retooling for Climate Change  | 0                | 10.9             | 21.8             | 24.5             | 17.8             | 75.0           |
| Deception Bay Pool—contribution  | 0                | 0                | 0                | 0                | 0                | 0              |
| Department of Climate Change—<br>establishment   | 0                | 5.5              | 5.4              | 5.4              | 5.5              | 21.8           |
| Emissions Trading Scheme—<br>design and implementation   | 12.4             | 16.0             | 15.6             | 15.5             | 9.4              | 68.9           |
| Energy Efficiency of Electrical<br>Appliances  | 0                | 2.0              | 4.1              | 4.0              | 3.9              | 14.0           |
| Energy Innovation Fund   | 0                | 40.9             | 51.2             | 36.3             | 21.7             | 150.1          |
| Green Car Innovation Fund  | 0                | 0                | 0                | 0                | 100.0            | 100.0          |
| Green Loans  | 0                | 17.4             | 60.2             | 88.1             | 87.9             | 253.6          |
| Hot Water System phase out—<br>development and implementation  | 0                | 0                | 0                | 0                | 0                | 0              |
| Low Emission Plan for Renters—<br>establishment  | 0                | 10.5             | 37.5             | 50.0             | 50.0             | 148            |
| National Clean Coal Fund   | 15.0             | 34.8             | 108.6            | 124.5            | 97.8             | 380.7          |
| National Solar Schools Plan  | 9.0              | 74.6             | 119.7            | 107.2            | 50.8             | 361.3          |
| One Stop Green Shop—<br>establishment  | 0                | 1.0              | 1.0              | 1.0              | 0                | 3              |
| Renewable Energy Fund  | 0                | 0                | 55.5             | 71.0             | 101.0            | 227.5          |
| Renewable Energy Target—<br>expansion  | 1.3              | 5.7              | 8.4              | 8.7              | 10               | 34.1           |
| Solar Cities and Green Precincts   | 1.0              | 8.0              | 8.0              | 8.0              | 0                | 25             |
| Solar Homes and Communities<br>Plan  | 0                | 25.6             | 19.4             | -27.4            | -17.7            | -0.1           |

| Program  | 2007–08<br>(\$m)                          | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | Total<br>(\$m) |
|--|---|------------------|------------------|------------------|------------------|----------------|
| Garnaut Climate Change Review—contribution             | 1.6                                       | 0.7              | 0                | 0                | 0                | 2.3            |
| Preparing Australia’s Forestry Industry for the Future | 0   | 5.9              | 6.9              | 7.2              | 0                | 20.0           |
| Climate Change and Forestry Adaptation Action Plan     | \$8.0 million over three years unprofiled |                  |                  |                  |                  | 8.0            |
| Clean Energy Innovation Centre                         | \$20 million over four years unprofiled   |                  |                  |                  |                  | 20.0           |
| <b>TOTAL</b>   | <b>\$68.30</b>                            | <b>\$380.0</b>   | <b>\$695.8</b>   | <b>\$689.8</b>   | <b>\$621.60</b>  | <b>2343.5</b>  |

Source: Budget Paper No.2, pages 108–119.

## Caring for our Country

Louise Emmett

Science, Technology, Environment and Resources Section

The *Caring for our Country* Program was announced on 14 March 2008 in a joint media release by the Hon Peter Garrett MP, Minister for the Environment, Heritage and the Arts and the Hon Tony Burke MP, Minister for Agriculture, Fisheries and Forestry. The program will deliver an integrated approach with \$2.25 billion over five years to restore Australia's environment and build on improved land management. The new program covers four previously existing programs: the National Heritage Trust, the National Landcare Program, the Environmental Stewardship Program and the Working on Country program. Regional bodies are guaranteed only 60 per cent of historical average funding under this new program.

The Shadow Minister for Environment, Heritage, the Arts and Indigenous Affairs, Dr Sharman Stone has criticised the cuts in funding saying that the total catchment and regional focus will contract back to a piecemeal approach.<sup>7</sup>

In February 2008, the Auditor General found that the information reported on the Natural Heritage Trust was insufficient to make an informed judgement as to the progress of the programs towards outcomes. The Auditor General found that there was little evidence as yet that the programs are adequately achieving the anticipated national outcomes or giving sufficient attention to the 'radically altered and degraded Australian landscape' highlighted in the 1996 *Australia State of the Environment Report*.<sup>8</sup> He found that achievement of some outcomes would be a long term process – potentially over two hundred years at current progress.<sup>9</sup>

Table 1 Expenditure for this measure

| Program                | 2007–08<br>(\$m) | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | 2012–13<br>(\$m) | Total<br>(\$m) |
|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| Caring for our Country | 0                | 428.2            | 440.1            | 465.7            | 453.5            | 459.3            | 2246.8         |

Source: Derived from data in Australian Government, 'Part 2 Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra 2008, p. 163.

Six national priorities are covered by the new program:

- Australia's national reserve system
- Biodiversity and natural icons (including weeds, feral animals and threatened species)

7. The Hon Dr Sharman Stone MP, *Caring for our Country on a shoe-string*, media release, 14 March 2008 accessed on 22 May 2008.

<http://www.sharmanstone.com.au/Pages/Article.aspx?ID=567>

8. The Auditor General, 'Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality *Audit Report No.21 2007–08 Performance Audit* p 16. [http://www.anao.gov.au/uploads/documents/2007-08\\_Audit\\_Report\\_21.pdf](http://www.anao.gov.au/uploads/documents/2007-08_Audit_Report_21.pdf).

9. *ibid.*, p. 20.

- Coasts and aquatic habitats
- Sustainable farm practices and Landcare
- Natural resource management in remote and northern Australia and
- Community skills, knowledge and engagement.

*Caring for our Country* is targeted to:

- rescue the Great Barrier Reef (\$200 million over five years) and the endangered Tasmanian Devil (\$10 million over five years)
- protect and repair Australia’s fragile coastal ecosystems (\$100 million over five years)
- improve water quality in the Gippsland Lakes (\$5.3 million over three years)
- fight the Cane Toad menace (\$2 million over two years)
- implement the Tuggerah Lakes Estuary Management Plan (\$20 million over five years)
- employ additional Indigenous Rangers (\$90 million over five years)
- expand the Indigenous Protected Areas network (\$50 million over five years) and
- assist Indigenous Australians enter the carbon trading market (\$10 million over five years).

This measure will provide savings of \$15 million in 2008–09 and \$13 million in 2009–10 from the amalgamation of previous programs, and will provide additional funding of \$7 million in 2011–12 and \$12 million in 2012–13 for the program. Net savings of \$9 million have been identified over the five years from 2008–09 to 2012–13 (see Table 2).

Provision for *Caring for our Country* was included in the forward estimates under the existing Natural Heritage Trust, National Landcare Program, Environmental Stewardship Program and Working on Country program.

Table 2 Expense (\$m)

| Program                | 2007–08<br>(\$m) | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | Total<br>(\$m) |
|------------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| Caring for our Country | 0                | -15.0            | -13.0            | 0                | 7.0              | - 21.0         |

Source: Australian Government, ‘Part 2 Expense Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra 2008, p. 163

## Water for the Future

Louise Emmett & Anita Talberg

Science, Technology, Environment and Resources Section

The Government's \$12.9 billion 10-year water plan identifies securing water supplies and taking early action on the Murray-Darling as key priorities (see Tables 1 and 2).

The [Water for the Future](#) Program was announced at the 4<sup>th</sup> Annual Australian Water Summit, Sydney Convention and Exhibition Centre, 29–30 April 2008. *Water for the Future* identifies four key priorities: taking action on climate change, using water wisely, securing water supplies and supporting healthy rivers.

As part of this funding, the 2008/09 Budget will provide:

- \$1 billion for the National Urban Water and Desalination Plan
- \$250 million for the National Water Security Plan for Cities and Towns and
- \$250 million for the National Rainwater and Greywater Initiative.

Outlays on these programs will be low at first – the National Urban Water and Desalination Plan will start with just \$14 million next year and then grow to a total of \$808 million over the four budget years. (It will reach one billion two years after that.) Likewise there will be a slow start on the National Rainwater and Greywater Initiative, with just \$19 million to be spent next year and \$176 million over the four years. Savings and redirection of funds include the reprofiling<sup>10</sup> of \$45 million for the Murray-Darling (Table 2), deferral of \$5 million from 2007–08 to 2016–17 for the Bureau of Meteorology (Table 3), the cessation of funding from 2008–09 for the Community Water Grants program worth \$74 million over four years (Table 4), and rainfall enhancement technology.<sup>11</sup> Critics have commented on the subsidisation of state desalination plants<sup>12</sup> and have asked for more detail and further funding for infrastructure, particularly for irrigation.<sup>13</sup>

### National Urban Water and Desalination Plan

In towns or cities with more than 50,000 inhabitants, desalination, water recycling and stormwater harvesting will be encouraged by the provision of \$1.0 billion over six years (including \$192 million in 2012–13). The funds will be provided through grants and

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10. The Department of Environment, Water, Heritage and the Arts (DEWHA) has advised that reprofiling means that the total funding for the program remains the same but the funds have been moved between years.

11. [Australian Government, 'Part 2 Expense Measures', Budget Paper No. 2: Budget Measures 2008-09, Commonwealth of Australia, Canberra 2008](#), p. 416.

12. K. Davidson, '[The time was right, conditions were right, but the Government blew its lines](#)' *The Age*, 14 May 2008, p. 11.

13. S. Morris '[Push for climate adaptation](#)' *Australian Financial Review*, 15 May 2008 p. 19.

refundable tax offsets of up to 10 per cent of project costs, capped at a maximum of \$100 million per project.

This measure includes funding for a Centre of Excellence in desalination technology in Perth (\$20 million), a Centre of Excellence in water recycling in Brisbane (\$20 million), the Glenelg to Adelaide water recycling project (\$30.2 million) and the Geelong Shell water recycling project (\$20 million).

### **National Water Security Plan for Cities and Towns**

The program will provide \$254.8 million over five years for governments and local water authorities to minimise water loss, invest in more efficient water infrastructure, refurbish older pipes and water systems, and fund practical projects to save water.

### **National Rainwater and Greywater Initiative**

This initiative will provide \$250 million over six years (including \$50 million in 2012–13 and \$24 million in 2013–14) to provide rebates of up to \$500 for up to 500,000 homes towards the cost of installing rainwater tanks or new piping for greywater use. Funding of \$3 million will also be made available in 2008–09 to provide up to \$10,000 to every surf life saving club in Australia for the installation of a rainwater tank, or as a contribution towards a larger water saving project.

### **Murray-Darling—Taking early action**

The Murray-Darling Basin is seen as a major priority in this year's Budget. The Government will bring forward \$400 million in funding to take urgent action in the [Murray-Darling Basin](#) through water efficiency measures in irrigation systems and increasing funds available to purchase water for environmental flows. The \$400 million is part of the Government's \$12.9 billion *Water for the Future* program and includes \$177.2 million for water buybacks and \$222.8 million for urgent infrastructure projects. In the *Water for the Future* statement on 29–30 April 2008, the Government has announced that it will invest at least \$3 billion in restoring the balance in the Murray Darling Basin. The Government intends to purchase water to put back in the rivers.

### **Water Efficiency—Western Australia**

The Government will bring forward \$35 million to 2007–08 (from 2011–12) to make an initial contribution to the Harvey Water Piping Project in Western Australia. The remaining contribution of \$14 million is expected to be provided in 2008–09, from within existing funding for the Program.

Table 1 Expenditure for Water for the Future

| Program   | 2007–08<br>(\$m) | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | Total<br>(\$m) |
|---|------------------|------------------|------------------|------------------|------------------|----------------|
| National Rainwater and Greywater Initiative       | 0                | 19.0             | 38.0             | 59.0             | 60.0             | 176            |
| National Urban Water and Desalination Plan        | 0                | 14.0             | 158.0            | 244.0            | 392.0            | 808            |
| National Water Security Plan for Cities and Towns | 10.0             | 39.8             | 55.0             | 75.0             | 75.0             | 254.8          |
| Taking early action                               | 96.2             | 110.0            | 193.8            | 0                | -400             | 0.0            |
| Water efficiency—Western Australia                | 35.0             | 0                | 0                | 0                | -35.0            | 0.0            |
| <b>TOTAL</b>                                      | <b>141.2</b>     | <b>182.8</b>     | <b>444.8</b>     | <b>378</b>       | <b>92</b>        | <b>1238.8</b>  |

Source: [Australian Government, 'Part 2 Expense Measures', Budget Paper No. 2: Budget Measures 2008–09, Commonwealth of Australia, Canberra 2008](#), p 159–161.

In Budget Paper No.2, under the heading 'Responsible Economic Management', the Government has listed the following redirections of funding and savings:

### Murray-Darling

The Government will re-profile<sup>14</sup> \$45 million in funding from 2007–08 to 2016–17, and \$26 million in funding from 2008–09 to 2015–16, to reflect the expected changes to expenditure arising from delays in establishing the Murray-Darling Basin Authority. The new Authority was originally scheduled to be established in 2007–08, but will now be established in 2008–09. The final arrangements for bringing together the Authority and the Murray-Darling Basin Commission will be considered by COAG in July 2008.

Table 2 Expense (\$m)

| Program                        | 2007–08<br>(\$m) | 2008–09<br>(\$m) | 2009–10<br>(\$m) | 2010–11<br>(\$m) | 2011–12<br>(\$m) | Total<br>(\$m) |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|----------------|
| Murray Darling Basin Authority | -45.0            | -26.0            | 0                | 0                | 0                | -71.0          |

Source: [Australian Government, 'Part 2 Expense Measures', Budget Paper No. 2: Budget Measures 2008–09, Commonwealth of Australia, Canberra 2008](#), p. 426

### Bureau of Meteorology

From 2007–08 to 2016–17, \$5 million from previously committed funding will be deferred to reflect the change in expenditure arising from delays in the Bureau of Meteorology establishing its water functions under the *Water Act 2007*. The Bureau was scheduled to receive a \$28.8 million (including \$5.1 million in capital) increase in funding in 2007–08 to meet the Government's commitments on water. Implementation delays have reduced the necessary amount by \$5 million.

14. As advised by DEWHA, \$45 million has been moved from 2007-8 to 2016–17 and \$26 million has been moved from 2008-09 to 2015–16.

Table 3 Expense (\$m)

| <b>Program</b>        | <b>2007–08<br/>(\$m)</b> | <b>2008–09<br/>(\$m)</b> | <b>2009–10<br/>(\$m)</b> | <b>2010–11<br/>(\$m)</b> | <b>2011–12<br/>(\$m)</b> | <b>Total<br/>(\$m)</b> |
|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| Bureau of Meteorology | -5.0                     | 0                        | 0                        | 0                        | 0                        | -5.0                   |

### Community Water Grants

Funding for the *Community Water Grants* program will cease from 2008–09 resulting in savings of \$73.6 million over four years. New measures, such as the *National Rainwater and Greywater Initiative*, and *Green Loans* will help households with water-saving and energy-saving projects.

Table 4 Expense (\$m)

| <b>Program</b>         | <b>2007–08<br/>(\$m)</b> | <b>2008–09<br/>(\$m)</b> | <b>2009–10<br/>(\$m)</b> | <b>2010–11<br/>(\$m)</b> | <b>2011–12<br/>(\$m)</b> | <b>Total<br/>(\$m)</b> |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|------------------------|
| Community Water Grants | 0.0                      | -41.5                    | -26.5                    | -1.9                     | -3.7                     | -73.6                  |

Source: [Australian Government, 'Part 2 Expense Measures', \*Budget Paper No. 2: Budget Measures 2008–09\*, Commonwealth of Australia, Canberra 2008](#) p. 382



## Agriculture

Nilufar Jahan  
Economics Section

Economic viability and competitiveness are major concerns for agricultural producers in Australia. This paper outlines the measures proposed in the 2008–09 Budget intended to guide Australian agriculture to meet future challenges.<sup>15</sup> See Appendix A for discussion on these challenges.

### Measures to assist farmers to adopt and mitigate the effect of climate changes

The government will provide \$130 million over four years to the Australia’s Farming Future initiative to facilitate farmers in adapting and mitigating the effect of climate change.<sup>16</sup> The initiative aims to deliver three programs:

- Climate Change Adaptation Partnership Program (\$60 million over four years)—this program will develop practical demonstrations to improve the sector’s response to climate change
- Climate Change and Productivity Research Program (\$15 million over four years)—this program will finance research on managing emissions and adaptation, and
- Climate Change Adjustment Program (\$55 million over four years)—this program intends to provide professional advice, training and re-establishment grants to primary producers.

The government has also allocated a further \$69 million, including around \$31 million in additional funding for designing and implementing an environmentally effective and economically responsible greenhouse gas emissions trading scheme.

Another \$20 million has been provided over four years for forest industries on climate change adaptation, boosting exports and to address industry specific issues.

### Transitional Income Support Program

The Budget also introduces a Transitional Income Support Program that is expected to commence on 16 June 2008 and would continue until 30 June 2009 at an estimated cost of

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15. Australian Government, *Portfolio Budget Statements 2008 – 09: Budget Related Paper No. 1.1*, Department of Agriculture, Fisheries and Forestry, Commonwealth of Australia, Canberra, 2008, [http://www.daff.gov.au/about/budget/budget\\_2008-2009/portfolio\\_budget\\_statements\\_2008-2009](http://www.daff.gov.au/about/budget/budget_2008-2009/portfolio_budget_statements_2008-2009), accessed on 19 May 2008.

16. A. Albanese (Minister for Infrastructure, Transport, Regional Development and Local Government), T. Burke (Minister for Agriculture, Fisheries and Forestry), & G. Gray (Parliamentary Secretary for Regional Development and Northern Australia), *Strengthening Rural and Regional Australia*, media release, Canberra, 13 May 2008. [http://www.budget.gov.au/2008-09/content/ministerial\\_statements/download/rural\\_regional.pdf](http://www.budget.gov.au/2008-09/content/ministerial_statements/download/rural_regional.pdf), accessed on 19 May 2008.

\$14.5 million over three years.<sup>17</sup> This income support is designed to support farm families who are in financial difficulty and to assist those who are considering leaving agricultural farming – anticipating that farmers may consider changing to other businesses. This Transitional Income Support Program will complement the \$5500 Climate Change Adjustment Program Advice and Training Grant.

### **Regional Food Producers Innovation and Productivity Program**

The government announced a new \$35 million Regional Food Producers Innovation and Productivity Program, to assist Australia’s regional food producers in becoming more competitive through productivity and innovation improvements. In response to a growing global food crisis, the Budget attempts to meet the challenging future by assisting Australian agriculture to be more competitive in terms of innovation. The Budget also provides more than \$168 million to the Commonwealth’s rural research and development corporations and a further \$15 million for the National Weeds and Productivity Research Program for farm productivity.

The forestry value adding industries are expected to be provided with \$9 million to continue their investment programs. The government will provide an additional \$4.4 million over the next three years for the Fisheries Research Program, with \$1.9 million invested in 2008–09.

The government, in partnership with industry, will develop new technologies, processing or production methods and boost export market development. Regionally based food processors will receive assistance that includes dollar-for-dollar grants and support to help the processed food industry become globally competitive.

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17. The apparent discrepancy between the program’s stated life cycle (until 30 June 2009) and its funding schedule (\$14.5 million over three years) could not be resolved prior to publication.

## Appendix A: Future Challenges

The Budget proposal may be viewed against the following background of the challenges to be faced in the future:

- Productivity growth in Australia's broadacre (1.5 per cent per annum) and dairy industries (1.2 per cent per annum) is highly variable on a year-to-year basis<sup>18</sup>
- Globally, agricultural commodity prices started rising in 2006 and the trend continued in 2007 and 2008. The surge in prices has been led primarily by dairy and grains, but prices of other commodities, with the exception of sugar, have also increased significantly.<sup>19</sup> High price events, like low price events, are very usual in agricultural markets, but what distinguishes the current rise is rather the concurrence of the hike in all over the world prices
- Further, the Australian Bureau of Agriculture and Resource Economics (ABARE) reported that due to future climate changes, production could decline by 2 to 6 per cent by 2030 and by 5 to 11 per cent by 2050, relative to 2006 output.<sup>20</sup> These forecasted changes are expected to have significant implication for key agricultural trade and rural Australia. The most recent drought in 2006 still continues to affect large parts of rural Australia, and some farmers may be relying on Exceptional Circumstances assistance to keep afloat, and
- International prices of cereal have risen, fuelling domestic food price inflation in many parts of the world, including Australia.

These facts show that Australia's agricultural sector faces a number of pressures and challenges, including climate variability, declining terms of trade, rising fuel prices, appreciating Australian dollar and increasing international competition. Continual empirical research which links primary producers, researchers and policy makers is required if Australia is to remain internationally competitive in this sector. The \$35 million Regional Food Producers Innovation and Productivity Program will assist in this regard by emphasizing the related process of industrialisation, product differentiation and increased vertical integration in agriculture.

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18. S. Zhao, K. Nossal, P. Kokic, and L. Elliston, 'Productivity growth Australian broadacre and dairy industries', *Australian Commodities*, vol. 08.1, Australian Bureau of Agricultural and Resource Economics, Canberra, 2008.
  19. FAO, *Food outlook: Global market analysis*, Food and Agricultural Organisation, Rome, Italy, November 2007, <http://www.fao.org/docrep/010/ah876e/ah876e00.htm>, accessed on 19 May 2008.
  20. D. Gunasekera, Y. Kim, C. Tulloh, and M. Ford. 'Climate change: impacts on Australian agriculture', *Australian Commodities*, vol 07.4, ABARE, Canberra, 2007.

## Science Funding

Matthew James

Science Technology Environment and Resources Section

### Introduction

Scientists do not seem to have done very well out of the Budget. The word ‘science’ does not appear in the Budget speech, although ‘innovation’ does in an emphasis on wider issues. While science agencies face tighter times, there have been a few new programs announced to favour those organisations that may have previously faced budget restrictions. The Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the Australian Nuclear Science and Technology Organisation (ANSTO) see a modest reduction in their allocations, but there is a separate new program to retain mid-career scientists in Australia through the Australian Research Council (ARC).

According to the [2008–09 Science and Innovation Budget Tables](#), Australian Government support for the sector through the budget and other appropriations has risen from \$6203 million in 2007–2008 to \$6371 million in 2008–2009, but drops as a percentage of total government expenditure from 2.63 to 2.56 per cent. In January, the Minister for Innovation, Industry, Science and Research, [Senator Kim Carr, announced](#) a wide ranging review of Australia's national innovation system. The Review is being conducted by an Expert Panel.

In its response to the Budget, the [Australian Academy of Science](#) says that:

There must also be intellectual infrastructure developed so that we are equipped to produce the new technologies required by future generations. The Education Fund of \$11 billion has the potential to provide that in part, but only if the other research and development sectors such as CSIRO, Geoscience Australia, ANSTO etc. are kept strong.<sup>21</sup>

The [Federation of Australian Scientific and Technological Societies](#) (FASTS) states that:

A few days ago the Prime Minister said, ‘to boost our global economic competitiveness we must simultaneously boost long-term productivity growth. That is our central narrative on the economy.’ But no narrative on long-term productivity growth is credible without reinvigorated policy and funding in higher education, research, knowledge transfer and science and mathematics teaching at all levels.<sup>22</sup>

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21. K. Lambeck, President of the Australian Academy of Science, ‘Budget 2008/09 response’, Australian Academy of Science, Canberra, 14 May 2008, <http://www.science.org.au/reports/14may08.htm>, accessed on 23 May 2008.

22. K. Baldwin, ‘Brief comment on budget 2008 for *The Australian Higher Education Supplement*, Tuesday 13th of May, 2008’, Federation of Australian Scientific and Technological Societies, Canberra, <http://www.fast.org/images/news2008/fast%20budget%20op%20ed.pdf>, accessed on 25 May 2008.

## Science Agency Funding

### Commonwealth Scientific and Industrial Research Organisation

CSIRO funding is set to change from \$663.160 million in 2007–2009 to \$675.790 million in 2008–2009, a rise of just 1.9 per cent and below the CPI. Under the budget measure of ‘Responsible Economic Management’, the agency receives a cut of \$9.486 million in 2008–2009 followed by similar amounts over the next three years, to total \$39.813 million over the full period.<sup>23</sup> With external income, the total CSIRO budget will rise 16.1 per cent from \$1030.1 million to \$1196.3 million in 2008–2009. Also affected with cuts are the Healthy Active Australia program (\$1.2 million) and the Research Vessel Southern Surveyor (\$3 million). CSIRO staffing will drop from 5700 to an estimated 5615 in the year ahead. If combined with \$23.6 million under the increased efficiency dividend, CSIRO faces a loss of \$63 million over the next four years.

The CSIRO [National Research Flagships](#) program is to continue to expand, although no specifics are stated in the Budget. A further thrust is building major partnerships through targeted partnering, alliances and ventures, along with developing science hubs through co-locations. CSIRO remains involved in several American legal proceedings concerning wireless technology licensing and the Budget statements says that the revenue and costs concerned are considered unquantifiable.

### Australian Nuclear Science and Technology Organisation

Annual appropriations for ANSTO fall from \$185.714 million in 2007–2008 to \$174.715 million, but cash reserves increase net resourcing by almost 46 per cent. ANSTO loses \$7.315 million under ‘Responsible Economic Management’ and a further \$11.3 million of the former Nuclear Collaborative Research Program.<sup>24</sup> Shortly after the Budget, ANSTO announced a restructure and the confirmed loss of around 80 staff in the future.<sup>25</sup>

Perhaps not coincidentally, but on the day of the Budget, [ANSTO announced](#) the re-commissioning start of the new OPAL research reactor, following a ten-month long unexpected shut down. ANSTO attributes the embarrassing problem to a combination of factors including inadequate design and fuel manufacturing techniques.

### Australian Research Council

Establishment of the Future-Fellowships scheme sees an initial budget measure provision of \$10.7 million, set to substantially rise in the subsequent three years to reach in total \$326.207 million over the full period.<sup>26</sup> At the same time, the new government has acted to cancel the

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23. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No.2: Budget Measures 2008–2009*, Commonwealth of Australia, Canberra 2008, p. 381.

24. *ibid* p. 368 and p. 408.

25. ‘ANSTO to restructure’, *Media Release*, Australian Nuclear Science and Technology Organisation, 19 May 2008.

26. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No.2: Budget Measures 2008–2009*, Commonwealth of Australia, Canberra, 2008, p. 271.

Research Quality Framework management program and redirect funds to an [Excellence in Research Australia](#) (ERA) initiative. The Australian Government announced on 21 December 2007 that it would not be proceeding with the former Government's Research Quality Framework (RQF) project. The RQF aimed to rate all publicly funded research institutions and award block grants according to a new formula. The ERA initiative will assess research quality using a combination of metrics and expert review by committees comprising experienced, internationally-recognised experts. ARC programs see a slight budget rise.

There is also an allocation of \$209 million over four years to double the number of Australian Postgraduate Awards for PhD or Masters by Research students. However, there is no increase in the value of scholarships for students, despite [claims](#) that the support level is set too low.<sup>27</sup>

### [Cooperative Research Centres \(CRCs\)](#)

The CRC resource budget rises from \$126.755 million in 2007–2008 to \$182.782 million in 2008–2009. However, in the previous Budget the expected 2007–2008 estimate was \$212.288 million, indicating that the allocation was seriously underspent in this past year.<sup>28</sup>

### [IP Australia \(IPA\)](#)

The intellectual property protection agency sees a healthy 9.8 per cent increase in funding from \$5.638 million to \$6.191 million which, when combined with special accounts, sees total net resourcing rise from \$213.079 million to \$245.432 million in 2008–2009.<sup>29</sup> Staff numbers at IPA should rise from 910 to 968 during the financial year ahead.

### [Australian Institute of Marine Science \(AIMS\)](#)

AIMS has obtained a significant contract with a future income stream for a study of marine eco-systems in northwest Australia, that will increase its revenue, staff numbers and expenditures. Its appropriation from government will increase from \$26.6 million to \$27.7 million in the year ahead but, despite that, its total funding falls from \$30 million to \$27.7 million because of reduction in other income sources.<sup>30</sup>

### [Geoscience Australia \(GA\)](#)

GA's budget for 2008–2009 will decrease by \$10.1 million to \$166.4 million, mainly owing to decreased funding from prior year budget measures, i.e. pre-competitive data and petroleum promotion \$3.1 million; carbon capture and storage (CCS) \$0.4 million; and a

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27. J. Hinde, 'Helping hand for cash-strapped grads', *Weekend Australian*, 7 July 2007, p. 2.

28. Australian Government, *Portfolio Budget Statements 2007–08: Budget related paper No. 1.5*, Education, Science and Training portfolio, Commonwealth of Australia, Canberra, 2007, p. 104.

29. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.14*, Innovation, Industry, Science and Research portfolio, Commonwealth of Australia, Canberra, 2008, p. 169.

30. *ibid* p. 83.

decrease in Section 31 receipts of \$3.8 million.<sup>31</sup> The agency's role in CCS was outlined in the 2007–2008 Budget, when \$9.3 million was provided over four years to implement a national regulatory and legislative framework for CCS, and for regulatory oversight.<sup>32</sup>

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31. Australian Government, *Portfolio Budget Statements 2008–09: Budget related paper No. 1.16*, Resources, Energy and Tourism portfolio, Commonwealth of Australia, Canberra, 2008, p. 57.

32. Australian Government, *Portfolio Budget Statements 2007–08: Budget related paper No. 1.14*, Industry, Tourism and Resources portfolio, Commonwealth of Australia, Canberra, 2007, p. 141.

## Health and Food Security Issues

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### Introduction

Overall, health research funding increased by \$123 million in the Budget. At the same time, there was little attention paid in the Budget to novel sciences of emerging importance to food production and health, namely nanotechnology, biotechnology and gene technology. Indeed, there were cuts made to some areas, such as the cancellation of the National Nanotechnology Strategy and the scheduled closure of the Australian Office of Nanotechnology in June 2009. The novel sciences will be catered for, in part, within various departmental programs, CSIRO and research grants schemes. For example, the Office of the Gene Technology Regulator comes under the Department of Health and Ageing portfolio. See the science funding section for more detail.

Matters related to food security also attracted the Rudd Government's attention. There will be new funding allocated for weeds research and a fruit fly strategy. The 'alcopops' excise for 'ready to drink' beverages containing spirits carries the intention to reduce health problems associated with binge drinking. See the health and tax reform sections of this brief for further discussion of the 'alcopops' tax.

### NHMRC

The Budget increased the [National Health and Medical Research Council's](#) administered appropriation for research by \$123 million in the last financial year to \$617 million. Additionally, there is \$3.8 million non-research funding allocated for The National Institute of Clinical Studies. The government's 'efficiency dividend' of \$1.147 million will not result in staff redundancies.<sup>33</sup>

Activities during 2008–09 will include the establishment of a permit system for the import and export of human embryonic stem cell lines developed from human embryo clones. This will be a cooperative project with the Australian Customs Service. Measures that demonstrate the benefits of health research to society will also be developed and ethics assessment in multi-centre research facilities will be harmonised.

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33. 'Update on the 2008–09 Federal Budget and its impact on the National Health and Medical Research Council', *NHMRC newsletter*, 14 May 2008, p. 1, <http://nhmrccommunications.createsend4.com/viewEmail.aspx?cID=C0D87FBD45E2EBF8&sID=40F1B28829C283A27DE5A425CEFC6E66&dID=5CB9CB5A1CE688CE>, accessed on 22 May 2008.



## The National Nanotechnology Strategy

The [National Nanotechnology Strategy](#), established by the Howard Government in July 2007, will cease on 30 June 2009. This will save the government \$11.7 million.<sup>34</sup>

[Australian trade unions](#) have expressed concerns about the safety of items produced by nanotechnology.<sup>35</sup> The [OECD](#) recently reported on risks arising from nanoparticles, which are superfine particles, the largest being a billionth of a metre wide.<sup>36</sup> Nanoparticles are used in various foods, packaging, health products, cosmetic preparations and other consumer goods with little or no regulatory oversight. Under the National Nanotechnology Strategy, a [Health, Safety and Environmental \(HSE\) Working Group](#) was to be set up so as to coordinate regulatory issues relating to nanotechnology.<sup>37</sup> With the demise of the strategy, it is yet to be established how such functions will be managed by the government. A Friends of the Earth (FoE) report recommended the oversight of health and environmental aspects of nanotechnologies.<sup>38</sup> In March 2008 it was reported that the Minister for Innovation, Industry, Science and Research, [Kim Carr](#), had undertaken to develop a regulatory framework for nanotechnology.<sup>39</sup>

The Shadow Minister for Innovation, Industry, Science and Research, Eric Abetz, protested about the end of the strategy, in a January 2008 press release '[Labor slashes nanotechnology research](#)'.<sup>40</sup>

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34. Department of Innovation, Science and Research, *National Nanotechnology Strategy*, Canberra, 2007, <http://www.innovation.gov.au/Section/Innovation/Documents/NNSFeb08.pdf>, accessed on 22 May 2008.
  35. S. Ryan, 'Big cut for science of the small', *Australian*, 14 January, 2008, p. 2, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_2/DHEP60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_2/DHEP60.pdf), accessed on 22 May 2008.
  36. *Small sizes that matter: Opportunities and risks of nanotechnologies. Report in co-operation with the OECD International Futures Programme*, OECD and Allianz, n.d., <http://www.oecd.org/dataoecd/37/19/37770473.pdf>, accessed on 22 May 2008.
  37. Australian Office of Nanotechnology, *What is nanotechnology and why is it important?*, Canberra, Department of Innovation, Industry, Science and Research, (last reviewed 30/04/2008), <http://www.innovation.gov.au/Section/Innovation/Pages/AustralianOfficeofNanotechnology.aspx>, accessed on 22 May 2008.
  38. G. Miller and R. Senjen, *Out of the laboratory and on to our plates. Nanotechnology in food and agriculture*, (2nd. ed.), Friends of the Earth Australia, Friends of the Earth Europe and Friends of the Earth United States, 2008, <http://nano.foe.org.au/filestore2/download/227/Nanotechnology%20in%20food%20and%20agriculture%20-%20web%20resolution.pdf>, accessed on 22 May 2008.
  39. L. Dayton and S. Ryan, 'Pledge on regulation of nano products', *Australian*, 11 March 2008, p. 5, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_5/VVUP60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_5/VVUP60.pdf), accessed on 22 May 2008.
  40. E. Abetz, 'Labor slashes nanotechnology research', *Liberal Party of Australia News Centre*, 14 January, 2008, [http://www.liberal.org.au/info/news/detail/20080114\\_LaborslashesNanotechnologyresearch.php](http://www.liberal.org.au/info/news/detail/20080114_LaborslashesNanotechnologyresearch.php), accessed on 22 May 2008.

There have also been concerns expressed by scientists about the cancellation of the nanotechnology strategy. [Mike Ford](#), associate director of the University of Technology Sydney's Institute for Nanoscale Technology, said the decision could leave Australia 'out of the game' on nanotechnology compared to the US, Europe and Japan.<sup>41</sup>

## Biotechnology

The [National Biotechnology Strategy](#), which was established in July 2000, was funded by the Howard Government until 2007–08. No further funding has been identified for the strategy in the *Portfolio Budget Statements 2008–09* for the Department of Innovation, Industry, Science and Research.<sup>42</sup> In July 2004, \$20 million was provided for both the strategy and Biotechnology Australia up to and including 2007–08. The peak biotechnology body, [AusBiotech](#), argues in its submission to the current National Innovation System Review:

... the national coordinating biotechnology agency should be strengthened to give it decision-making responsibilities, its own budget and dedicated, senior staff. As well as providing a coherent policy framework across government, this would also ensure that government funding programs are channeled appropriately through to the industry.<sup>43</sup>

An evaluation of both the strategy and of Biotechnology Australia is awaiting government consideration. [The green paper](#) arising from the review is not due for completion until July 2008.<sup>44</sup> The white paper arising from the review is due in October 2008 and an industry spokesperson from [AusBiotech](#) stated in response to the Budget that the paper would inform the government's direction on innovation for the 2009–10 Budget and that 'AusBiotech was disappointed with the government's decision to discontinue the Commercial Ready and Commercial Ready Plus programs'.<sup>45</sup> There remains, however, provision for biotechnology related matters in programs in the Department and other portfolios.

Funding for the National Stem Cell Centre was allocated up to 2010–11 by the Howard Government. The Rudd Government's total estimate of available resources for the Centre in

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41. S. Ryan, 'Big cut for science of the small', *Australian*, 14 January 2008, p. 2, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_2/DHEP60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_2/DHEP60.pdf), accessed on 22 May 2008.
  42. *National Biotechnology Strategy*, Canberra, Biotechnology Australia, 2008, (Last reviewed 22 April 2008), <http://www.biotechnology.gov.au/index.cfm?event=object.showContent&objectID=538B635B-BCD6-81AC-1E1B66BB24EA3184>, accessed on Date 22 May 2008.
  43. AusBiotech Ltd., *Submission to the Review of the National Innovation System*, Malvern, Vic., 2008, <http://www.ausbiotech.org/data/downloads/AusBiotech%20Submission%20-%20National%20Innovation%20System%20Review%2030%20April%202008.pdf>, accessed on 22 May 2008.
  44. C. Johnstone, 'Biotech industry will have to wait for tax concessions', *Courier Mail*, 8 May 2008, p. 70, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_3/MIGQ60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_3/MIGQ60.pdf), accessed on 22 May 2008.
  45. AusBiotech, *Biotech banking on future initiatives after Budget shock*, media release, Malvern, Vic., 14 May 2008, <http://www.ausbiotech.org/data/downloads/May%2014%20-%20Budget%20outcome.pdf>, accessed on 22 May 2008.

2008–09 is \$226 774 compared to \$240 797 in 2007–08. The anticipated target for activity for the Centre is that it undertakes five commercial agreements, including Centre-owned intellectual property.

## Food

The [alcopops excise measure](#), *Excise and customs duty – increased rates on ‘other excisable beverages’*, was introduced from 27 April 2008.<sup>46</sup> By applying the same excise as spirits, that is, \$66.67 per litre of alcohol content, the government anticipates \$3.1 billion will be raised for preventative health investments. The states are estimated to gain \$281.5 million from GST payments. However, similar drinks [containing wine](#) have not attracted budgetary attention.<sup>47</sup> The measure has proved controversial, with some people asserting that it is primarily a revenue-raising device. On the other hand, Health Minister Roxon has argued the excise is part of the government’s strategy to tackle harm caused by excessive alcohol consumption. It remains to be seen whether legislation supporting this measure will be passed, given that the [Opposition Leader Dr Nelson](#) has vowed to block it.<sup>48</sup>

The ‘alcopops’ increase in excise is [but one strategy](#) being examined to remedy concerns about youth drinking.<sup>49</sup> For example, the [Health Ministers](#) resolved on 2 May 2008 to ask FSANZ to consider the provision of warning labels on packaged alcohol, mindful of new alcohol guidelines to be issued by the National Health and Medical Research Council. FSANZ has carriage for developing food standards, alcohol being regulated as a food in the Australia New Zealand [Food Standards Code](#).<sup>50,51</sup> COAG will receive a response in December 2008. In 2000, FSANZ rejected an application, A359, for warning labels to be mandatory on alcohol products on grounds that actions already in place, namely, controlling prices, advertising and availability, were effective and that Australian alcohol mortality rates

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46. ‘Notice of intention to propose customs tariff alterations’, *Commonwealth of Australia Gazette Special*, No. S 88, 26 April 2008, <http://parlinfoweb.parl.net/parlinfo/Repository1/Library/miscitem/JSAQ6.%202%20880.pdf>, accessed on 22 May 2008.

47. M. Schubert and L. Shanahan, ‘Battle of bowsers and boozers. Nelson pledge to block alcopops tax, slash petrol’, *Age*, 16 May 2008, p. 1, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_0/0BGQ61.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_0/0BGQ61.pdf), accessed on 22 May 2008.

48. *ibid.*

49. S. Dunlevy, ‘Restrict takeaway sales to curb binge drinking. PM plans to hit the bottle’, *Daily Telegraph*, 28 February 2008, p. 11, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_4/QORP60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_4/QORP60.pdf), accessed on 22 May 2008.

50. Australia and New Zealand Food Regulation Ministerial Council, *Food Ministers agree to a strategic vision for Australian and New Zealand food regulation system*, Joint Communiqué, 2 May 2008, <http://www.foodstandards.gov.au/newsroom/mediareleases/mediareleases2008/2may2008jointcommuni3906.cfm>, accessed on 22 May 2008.

51. ‘Part 2.7 Alcoholic Beverages’, *Food Standards Code*, <http://www.foodstandards.gov.au/thecode/foodstandardscode.cfm>, accessed on 22 May 2008.

were decreasing in the 1990s. The Senate Standing Committee on Community Affairs is currently examining the Family First Bill, [The Alcohol Toll Reduction Bill 2007](#).<sup>52</sup>

FSANZ will be resourced at \$26.2 million in 2008–09. Its Science Strategy 2006–09 will continue to review risk assessment processes and collection of data. Its average staffing complement will remain the same.

### Weeds and Food Security

The Shadow Minister for Environment, Heritage, the Arts and Indigenous Affairs recently asked in a press release [‘Got any money for weeds man?’](#) The Budget answered with \$15.3 million allocated to address this problem.<sup>53</sup> This funding consists of \$0.3 million for fireweed research over two years and \$15 million over four years for general weed reduction within the new *National Weeds and Productivity Research Program* measure. The fireweed research funding was found by cancelling the *Defeating the Weed Menace* program which had this same amount allocated to it for 2007–08. Now these monies will be spread over two years for the new program.

The Rudd Government was fulfilling [an election promise](#) against a backdrop of the [CRC of Australian Weed Management](#) failing to secure funding from the Howard Government in 2006 to continue to secure its operations after June 2008.<sup>54,55</sup> The CRC will close, the Rudd Government preferring to establish a new nationwide program. It has been estimated that weeds cost Australia \$4 billion each year, much of this comes from their effect on agricultural productivity and hence Australia’s food security.

### Biosecurity and Food Security

The [Quarantine Research and Preparedness Plan](#) provides \$5.4 million over four years for activities such as a model for on-farm biosecurity planning, enhancement of diagnostic capabilities for plant pests and diseases, and plans for dealing with pests, diseases and contaminants in agriculture, fisheries and forestry.<sup>56</sup> The plan also includes funds for the establishment of a national fruit fly strategy. There is, however, no mention of any provision

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52. Senate Community Affairs Committee, *The Alcohol Toll Reduction Bill 2007*, [http://wopared.parl.net/Senate/committee/clac\\_ctte/alcohol\\_reduction/index.htm](http://wopared.parl.net/Senate/committee/clac_ctte/alcohol_reduction/index.htm), accessed on 22 May 2008.

53. S. Stone, *Got any money for weeds man?*, media release, Parliament House, Canberra, 1 May 2008, <http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/04BQ60.pdf>, accessed on 22 May 2008.

54. L. Skuthorp and K. Smith, ‘Labor’s \$15m weeds plan’, *The Land*, 8 November 2007, p. 10, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_0/5IZO60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_0/5IZO60.pdf), accessed on 22 May 2008.

55. CRC Weed Management, ‘Weeds CRC to end June 2008. Website to shut down’, CRC Weed Management website, <http://www.weeds.crc.org.au/overview/index.html>, accessed on 22 May 2008.

56. Australian Government, ‘Part 2: Expense Measures’, *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 78.

in the Budget for funding dung beetle research and thereby help to control bush fly populations.

Some dung beetle funding has been provided in the past by the Commonwealth under the Natural Heritage Trust and the National Landcare Program. The current drought, however, has reduced dung beetle populations, thereby increasing bush fly numbers. A 1990s analysis calculated that for every dollar spent on dung beetle programs \$112 was saved through production that would otherwise have been lost. Bush flies can be a significant problem for agriculture.<sup>57</sup> There is also a link between bush flies and trachoma in Aboriginal children.<sup>58</sup>

Budgeting for a *National Fruit Fly Strategy* is particularly welcome this year, as Victoria has suffered the highest recorded number of fruit fly incursions. There are fears that Victoria could lose its fruit fly-free status and this could curtail Australian trade in Asian markets.<sup>59</sup> A draft National Fruit Fly Strategy was prepared by Plant Health Australia, an industry-government consortium, in 2007 and is awaiting consideration by the Primary Industries Ministerial Council.<sup>60</sup> Their national committee for the fruit fly strategy project finalised its recommendations in December 2007.<sup>61</sup> The Commonwealth's Office of the Chief Plant Protection Officer stock-take had estimated that from 2003–08 \$128 million had been spent on fruit fly-related activities and projects.<sup>62,63</sup> This figure did not include costs incurred by farmers. The committee was mindful of the influence of climate change on fruit fly populations and the likelihood that two important post-harvest disinfestation treatments—fenthion and dimethoate—would no longer be used. Both are currently being reviewed by the Australian Pesticides and Veterinary Medicines Authority (APVMA) under their Existing Chemicals Review Program to address safety concerns where used in food-producing applications.<sup>64,65</sup> The national fruit fly strategy committee, chaired by Professor Nairn, had

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57. 'State won't back a new dung beetle war on flies', *The West*, 29 January, 2008, <http://www.thewest.com.au/default.aspx?MenuID=146&ContentID=56247>, accessed on 23 May 2008.
  58. *Guidelines for treatment of trachoma in the Northern Territory*, Darwin, Centre for Disease Control, 1998, p. 3, [http://www.nt.gov.au/health/cdc/treatment\\_protocol/trachoma.pdf](http://www.nt.gov.au/health/cdc/treatment_protocol/trachoma.pdf), accessed on 23 May 2008.
  59. 'Victoria is under siege from fruit fly', *The Weekly Times*, 23 April 2008, p. 11.
  60. *National Fruit Fly Strategy* Priorities Project website, <http://www.planthealthaustralia.com.au/FruitFly/public.asp?pageID=243>, accessed on 22 May 2008.
  61. D. Cussons, 'National Fruit Fly Strategy', *ABC Rural*, 29 January 2008, pp. 1–2, <http://www.abc.net.au/rural/wa/content/2006/s2149238.htm>, accessed on 22 May 2008.
  62. Department of Agriculture, Fisheries and Forestry, *National fruit fly-related activities stocktake 2003-2008*, Canberra, n.d., [http://www.daff.gov.au/\\_data/assets/pdf\\_file/0011/146891/fruit\\_fly\\_background\\_paper.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0011/146891/fruit_fly_background_paper.pdf), accessed on 22 May 2008
  63. Plant Health Australia, *National program to coordinate fruit fly fight*, media release, Canberra, 20 July 2007.
  64. Australian Pesticides and Veterinary Medicines Authority, *Fenthion Review history and regulatory outcomes*, Canberra, n.d. <http://www.apvma.gov.au/chemrev/fenthionHistory.shtml>, accessed on 22 May 2008.

recommended that a further \$5 million per year be spent and that this was shared equally by the Commonwealth, state governments and industry. This spending will be in addition to the estimated \$25 million spent by governments and industry on fruit fly projects per year.<sup>66,67</sup>

Under the Securing the future: protecting our industries from biological, chemical and physical risks – continuation measure \$4.9 million has been allocated for 2008–09 only.<sup>68</sup> The 2007–08 budget estimate was \$2.97 million. The measure pertains to both entry point quarantine control and post border control. The purpose is to ‘to minimise the costs to industry and governments caused by established pests and disease incursions’. The funding covers a member contribution to Plant Health Australia, national preparedness, intelligence gathering and to improve responses to risks. Findings by the Australia’s Quarantine and Biosecurity Review panel which must report to the Minister of Agriculture Fisheries and Forestry by 30 September 2008 may influence next year’s funding for this important area.<sup>69</sup>

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65. Australian Pesticides and Veterinary Medicines Authority, *Dimethoate*, Canberra, n.d., <http://www.apvma.gov.au/chemrev/dimethoate.shtml>, accessed on 22 May 2008.

66. Cussons, op. cit.

67. *ibid.*

68. Budget Paper No.2., op. cit., p. 83.

69. ‘*Quarantine and Biosecurity Review*’, Canberra, *The Review*, 2008, <http://www.quarantinebiosecurityreview.gov.au/>, accessed on 22 May 2008.

## Attorney General's Portfolio

### Indigenous law programs

Sharon Scully  
Law and Bills Digests Section

The Government has announced funding of \$17.7 million in 2008–2009 to continue night patrol services in the Indigenous communities identified by the Northern Territory Emergency Response (NTER).<sup>1</sup> This is in addition to the \$3.9 million that the Attorney-General's Department has already committed to night patrols services since the 2007–2008 Budget.<sup>2</sup>

It should be noted that prior to the Government's announcement of the NTER on 21 June 2007<sup>3</sup>, the Attorney-General's Department had been funding night patrol services for several Indigenous communities and town camps in the Northern Territory since 2004–2005.<sup>4</sup>

The amount allocated to night patrols services in this year's Budget is an increase from the 2007–2008 Budget estimates for the Attorney-General's Department, where approximately \$13.3 million was committed to the Department's prevention, diversion, rehabilitation and restorative justice services for Indigenous Australians, of which night patrols were a part.<sup>5</sup>

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1. The Hon. Jenny Macklin MP (Minister for Families, Housing, Community Services and Indigenous Affairs) and the Hon. Bob Debus MP (Minister for Home Affairs), '[Making Indigenous Communities Safer](http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Budgets_Budget2008_MediaReleases_MakingIndigenousCommunitiesSafer)', *Media Release*, 13 May 2008, [http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications\\_Budgets\\_Budget2008\\_MediaReleases\\_MakingIndigenousCommunitiesSafer](http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Budgets_Budget2008_MediaReleases_MakingIndigenousCommunitiesSafer), accessed on 14 May 2008.
  2. Attorney-General's Department, [Portfolio Additional Estimates Statements 2007-08](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(084A3429FD57AC0744737F8EA134BACB)~PAES+07-08_BOOK_FINAL_Feb12_small.pdf/$file/PAES+07-08_BOOK_FINAL_Feb12_small.pdf), Commonwealth of Australia, 2008, p. 32.  
[http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(084A3429FD57AC0744737F8EA134BACB\)~PAES+07-08\\_BOOK\\_FINAL\\_Feb12\\_small.pdf/\\$file/PAES+07-08\\_BOOK\\_FINAL\\_Feb12\\_small.pdf](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(084A3429FD57AC0744737F8EA134BACB)~PAES+07-08_BOOK_FINAL_Feb12_small.pdf/$file/PAES+07-08_BOOK_FINAL_Feb12_small.pdf), accessed on 17 May 2008.
  3. See Department of Families, Housing, Community Services and Indigenous Affairs, [Emergency Response to protect Aboriginal children in the NT](http://www.facsia.gov.au/nter/), <http://www.facsia.gov.au/nter/>, accessed on 14 May 2008.
  4. See Attorney-General's Department, [Night Patrol Services – Frequently Asked Questions](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(3A6790B96C927794AF1031D9395C5C20)~Night+Patrol+Services+FAQs+14+March+2008.DOC/$file/Night+Patrol+Services+FAQs+14+March+2008.DOC), [http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(3A6790B96C927794AF1031D9395C5C20\)~Night+Patrol+Services+FAQs+14+March+2008.DOC/\\$file/Night+Patrol+Services+FAQs+14+March+2008.DOC](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(3A6790B96C927794AF1031D9395C5C20)~Night+Patrol+Services+FAQs+14+March+2008.DOC/$file/Night+Patrol+Services+FAQs+14+March+2008.DOC), accessed on 14 May 2008.
  5. Australian Government, Portfolio Budget Statements 2007-08: [Budget related paper No. 1.2](http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument), Attorney-General's portfolio, Commonwealth Australia, Canberra, 2007. <http://www.ag.gov.au/www/agd/agd.nsf/AllDocs/A47E49EA0B93FFE8CA2572D50006682E?OpenDocument>, accessed on 15 May 2008.

The NTER involves several government departments and its aims include protecting children from abuse and ensuring the safety of families in remote communities. Night patrol services aim to break the cycle of violence by measures such as:<sup>6</sup>

- moving a person from a situation of risk to a safe place
- diffusing situations involving violence, and
- providing advice, information and referral to other services, such as counselling.

Expenses for the program are provided for 2007–08 and 2008–09 only, with future funding subject to consideration in the 2009–10 Budget (following an evaluation of the Northern Territory Emergency Response).<sup>7</sup>

For further information regarding budget measures relating to the Indigenous community, please refer to ‘Indigenous Affairs’ by John Gardiner-Garden in the Social Policy section of the *Budget Review 2008–09*.

## Public Order and Safety: Legal Aid

Diane Spooner  
Law and Bills Digests Section

Allocation of legal aid payments to the States and Territories falls within ‘payments for specific purposes’ in ‘National Partnership payments’. As part of the Commonwealth’s support for public order and safety services, the following existing payments will continue to be paid from 1 January 2009 as part of the National Partnership payments:

\$159.4 million in 2008–09, to the States’ legal aid commissions for the provision of legal assistance in Commonwealth matters.<sup>8</sup>

For the 2008–09 Budget year, New South Wales, Victoria and Queensland are included in the National Partnership payments with the other States and Territories. Prior to this, payments towards legal aid for these three States were classified as Australian Government own-purpose expenses.<sup>9</sup>

Expenses for the overall ‘public order and safety’ function comprise support for the administration of the federal legal system and the provision of legal services, which includes legal aid to the community. The expenses also include law enforcement and intelligence

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6. Attorney-General’s Department, Night Patrol Services – Frequently Asked Questions, op. cit.
  7. Australian Government, ‘Budget Strategy and Outlook 2008-09’, *Budget Paper No. 1*, Commonwealth of Australia, Canberra, 2008, pp. 6–13.
  8. Australian Government, ‘Australia’s Federal Relations’, *Budget Paper No. 3*, Commonwealth of Australia, Canberra, 2008, p. 52.
  9. *ibid*, Table B.8: Estimated payments to support other state services, by year and State, pp. 117, 118 and 121 (footnote (a)).



activities, in addition to the protection of Government property.<sup>10</sup> The total amount allocated for public order and safety increases from \$3,788 million in 2007–08 to \$3,807 million in 2008–09.<sup>11</sup>

The Government will also provide \$11.0 million over three years from 2007–08 to 2009–10 for the Expensive Commonwealth Criminal Cases Fund.<sup>12</sup> This will allow the state-based legal aid commissions to meet trial costs in relation to national security trials running in Victoria and New South Wales, without loss to their usual allocation of funding for their other legal aid functions and services.

As part of the ‘Closing the Gap’ measures set out in the Budget, the Attorney-General’s Department has been allocated \$2.0 million in 2008–09 to continue funding for additional legal aid services in support of the Northern Territory Emergency Response. On-going funding needs in this area will be reviewed before the next Budget.<sup>13</sup>

## Funding for the Natural Disaster Mitigation Program

Sharon Scully  
Law and Bills Digests Section

The Government has announced funding of \$19.2 million in 2008–2009 to continue the Natural Disaster Mitigation Program (the NDMP).<sup>14</sup>

Under the previous Government, the NDMP was funded by what had then been the Department of Transport and Regional Services (renamed the Department of Infrastructure, Transport, Regional Development and Local Government).<sup>15</sup>

The NDMP is a national program, which aims to identify and deal with natural disaster risk priorities.<sup>16</sup> Funds are made available, through the NDMP, for projects that mitigate the

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10. Australian Government, ‘Budget Strategy and Outlook 2008-09’, *Budget Paper No. 1*, op. cit., pp. 6-13.

11. *ibid.*, Table 6: Summary of expenses, pp. 6–13.

12. Australian Government, ‘Budget Measures 2008-09’, *Budget Paper No. 2*, Commonwealth of Australia, Canberra, 2008, p. 92.

13. *ibid.*, p. 317.

14. The Hon. Robert McClelland MP (Attorney-General), ‘[Building More Resilient Communities To Meet The Challenges Of the 21<sup>st</sup> Century](http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Budgets_Budget2008_MediaReleases_BuildingMoreResilientCommunitiestoMeettheChallengesofthe21stCentury)’, *Media Release*, 13 May 2008, [http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications\\_Budgets\\_Budget2008\\_MediaReleases\\_BuildingMoreResilientCommunitiestoMeettheChallengesofthe21stCentury](http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_Budgets_Budget2008_MediaReleases_BuildingMoreResilientCommunitiestoMeettheChallengesofthe21stCentury), accessed on 14 May 2008.

15. See Attorney-General’s Department, *Portfolio Additional Estimates Statements 2007–08*, Commonwealth of Australia, 2008, pp. 24, 25. See also Department of Infrastructure, Transport, Regional Development and Local Government, *Portfolio Additional Estimates Statements 2007–08*, [http://www.infrastructure.gov.au/departments/statements/2007\\_2008/paes/part\\_c.aspx](http://www.infrastructure.gov.au/departments/statements/2007_2008/paes/part_c.aspx), accessed on 15 May 2008.

impact of natural disasters in Australia.<sup>17</sup> These projects encompass pre-disaster and post-disaster management measures and may include:<sup>18</sup>

- risk management studies
- disaster mitigation strategies
- warning systems, and
- community awareness and readiness measures.

The NDMP is funded by State, Territory and Commonwealth Governments, as well as local agencies and contributors from the private sector, with the Commonwealth Government contributing up to a third of approved costs.<sup>19</sup>

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16. See Emergency Management Australia, *About the Natural Disaster Mitigation Program*, [http://www.ema.gov.au/agd/ema/emainternet.nsf/Page/Communities\\_Natural\\_Disasters\\_NDM\\_P\\_About\\_the\\_NDMP](http://www.ema.gov.au/agd/ema/emainternet.nsf/Page/Communities_Natural_Disasters_NDM_P_About_the_NDMP), accessed on 14 May 2008. ‘Natural disasters’ include floods, bushfires and cyclones.

17. Australian Government, ‘Budget Measures 2008-09’, *Budget Paper No. 2*, op. cit., p. 94.

18. The Hon. Jim Lloyd MP (Minister for Local Government, Territories and Roads), *Lessons from the past, lessons for the future*, speech given at Annual Conference of the NSW Floodplains Management Authorities, 23 February 2005.

19. Emergency Management Australia, *About the Natural Disaster Mitigation Program*, op. cit.

## National Capital Authority

Angus Martyn  
Law and Bills Digests Section

The Australian Labor Party's desire to make substantial funding cutbacks to the National Capital Authority (NCA) was foreshadowed by Lindsay Tanner in March 2007.<sup>20</sup> Subsequently, the Rudd Government reversed a decision of the Howard Government to provide funding towards the redevelopment of Canberra's Constitutional Avenue as part of the 'Griffin Legacy'.<sup>21</sup> The withdrawal of funding for this project resulted in a forecast saving of \$46.5 million over 2007–2011.<sup>22</sup>

In terms of the 2008–09 Budget, the funding received from the Commonwealth for NCA departmental items has fallen to \$13.657 million as compared to \$18.750 million for 2007–08, a reduction of over 25 per cent.<sup>23</sup>

The Joint Standing Committee on the National Capital and External Territories is currently holding an inquiry into the role of the NCA, with a reporting date of 30 June 2008.<sup>24</sup> The NCA was also the subject of a recent report published by the Australian National Audit Office.<sup>25</sup>

## Australian Federal Police and national security

For information regarding budget measures relating to the Australian Federal Police and national security, please refer to the section on security and policing by Nigel Brew, Foreign Affairs, Defence and Security in the *Budget Review 2008–09*.

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20. Lindsay Tanner MP (Shadow Minister for Finance), '[Labor's \\$3 Billion saving plan](http://www.lindsaytanner.com/media/070302_3Billion_Savings.shtm)', *Media release*, 2 March 2007, [http://www.lindsaytanner.com/media/070302\\_3Billion\\_Savings.shtm](http://www.lindsaytanner.com/media/070302_3Billion_Savings.shtm), accessed 16 May 2008.
  21. The Hon. Lindsay Tanner (Minister for Finance), '[Government details initial round of savings measures to assist inflation fight](http://www.financeminister.gov.au/media/2008/mr_062008.html)', *Media release*, 6 February 2008, [http://www.financeminister.gov.au/media/2008/mr\\_062008.html](http://www.financeminister.gov.au/media/2008/mr_062008.html) accessed 16 May 2008.
  22. *ibid.*
  23. Australian Government, Portfolio Budget Statements 2008-09: [Budget related paper No. 1.2](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(084A3429FD57AC0744737F8EA134BACB)~20+pbs08-09_NCA_final.pdf/$file/20+pbs08-09_NCA_final.pdf), Attorney-General's portfolio, Commonwealth Australia, Canberra, 2008, p. 330, [http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(084A3429FD57AC0744737F8EA134BACB\)~20+pbs08-09\\_NCA\\_final.pdf/\\$file/20+pbs08-09\\_NCA\\_final.pdf](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(084A3429FD57AC0744737F8EA134BACB)~20+pbs08-09_NCA_final.pdf/$file/20+pbs08-09_NCA_final.pdf), accessed 16 May 2008.
  24. *ibid.*, p. 321.
  25. Australian National Audit Office, [The National Capital Authority's Management of National Assets](#), Audit Report No.33 2007–08, May 2008, accessed 16 May 2008.

## Consumer Protection Laws and Corporations Laws

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The Commonwealth Government announced in the Budget 2008–09 a new framework for federal financial relations, with a commitment to provide the foundation for far-reaching economic and social reforms to be undertaken as part of the Council of Australian Governments' (COAG's) work program.

In March 2008, COAG committed to a comprehensive new economic reform agenda for Australia, with a particular focus on healthcare, water resources, regulatory and competition reform and the broader productivity agenda. The measures are intended to address issues concerning the productive capacity of the economy, sustainability of the natural environment and the social inclusion of disadvantaged people.

### Focus of the reform agenda<sup>26</sup>

The entire framework largely focuses on committed working arrangements to improve governance and funding between the federal and state governments. A key decision in this regard was to change the framework in order to modernise payments for specific purposes.

The new framework for federal financial relations will commence on 1 January 2009 (the reform of healthcare funding will commence on 1 July 2009), with all aspects actively monitored by COAG. A new Intergovernmental Agreement will be developed to underpin the new framework and entrench the concept and practice of cooperative working relationships between governments.

### A multi-jurisdictional approach to economic and social reform

#### Reform of Consumer Protection Laws

Currently, Australia hosts a costly and untidy web of state, territory and federal consumer protection laws. In order to streamline the process, the Productivity Commission (the Commission) was commissioned to review Australia's consumer policy framework in December 2006. It published a draft report in December 2007.

Conflicting state and federal consumer protection laws tend to cost the economy up to \$4.5 billion each year. Consumer protection laws so far are covered by national laws, yet overlapped by separate and discontinuous state fair trading provisions, leading to uncertainty and unjustified costs to business and unfairness for consumers. The simplified rules—for example, product recall laws for unsafe toys and other consumer goods—are expected to prove to be a good cooperative arrangement between federal and state agencies.

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26. Australian Government, 'Part 2: The COAG Reform Agenda', *Budget Paper No. 3: Australia's Federal Relations*, Commonwealth of Australia, Canberra, 2008, pp. 11–27, [http://www.budget.gov.au/2008-09/content/bp3/html/bp3\\_coag.htm](http://www.budget.gov.au/2008-09/content/bp3/html/bp3_coag.htm), accessed 14 May 2008.

In its final report, the Commission said on 8 May 2008:

‘... though only very broad quantification is possible, the Commission's reform package could provide a net gain to the community of between \$1.5 billion and \$4.5 billion a year.’<sup>27</sup>

While accepting the recommendations, the government observed that the report provided a unique opportunity to examine Australia's approach to consumer policy and ensure that the legal and regulatory framework provides the best outcomes possible for Australian consumers.<sup>28</sup>

The government will now consider the recommendations and, as agreed by COAG, respond formally at the end of October 2008.

According to a media report, the state and federal ministers had reached a broad in-principle agreement to proceed with changes that have been on the policy agenda for more than a decade, which would represent a significant breakthrough to make consumer protection more efficient.<sup>29</sup>

### Reform of Corporations Laws

In the background of the sub-prime crisis in international financial markets, a few Australian companies are exposed to credit risk. In the final week of April this year, Geelong-based Chartwell Enterprises collapsed, allegedly owing 80 investors about \$70 million. The demise of Chartwell Enterprises follows the Opes Prime and LIFT Capital collapses. The Minister for Corporate Law, Nick Sherry, acknowledged that these crises, and the volatile international economy, prompted the government to take appropriate reform measures in the federal corporate regulatory regime.<sup>30</sup>

Accordingly, a greater vigilance regime by federal regulators is proposed. The key issue around financial disclosure on covered short selling in the financial markets, and pertinent state and Commonwealth powers on the matter, is now on the agenda of COAG. The general disclosure documentation that individual investors rely on is simply too complicated. As

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27. Productivity Commission, ‘Review of Australia’s Consumer Policy Framework’, *Productivity Commission Inquiry Report*, No. 45, 30 April 2008, <http://www.pc.gov.au/inquiry/consumer/docs/finalreport>, accessed 14 May 2008.

28. C. Bowen (Assistant Treasurer), *Review of Australia’s Consumer Policy Framework – Release of the Productivity Commission Final Report*, media release, 8 May 2008, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/031.htm&pageID=003&min=ceb&Year=&DocType=0>, accessed 14 May 2008

29. D. Crowe & A. Hepworth, ‘National Laws to Protect Consumers’, *Australian Financial Review*, 8 May 2008, p.1, [http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper\\_1/A2DQ60.pdf](http://parlinfoweb.parl.net/parlinfo/Repository1/Media/npaper_1/A2DQ60.pdf), accessed 14 May 2008

30. N. Sherry (Minister for Superannuation and Corporate Law), *Interview with Mark Colvin*, media release, Radio National, 24 April 2008, <http://minscl.treasurer.gov.au/DisplayDocs.aspx?doc=transcripts/2008/005.htm&pageID=004&min=njs&Year=&DocType=>, accessed on 16 May 2008.

such, work began on simplification of disclosure documentation, particularly around identifying risk. Difficulties with state and territory regulation (such as complexity and overlap regarding financial services), should be regulated nationally.

In its present form, the Corporations Act is deficient in respect to covered short selling in the financial markets.<sup>31</sup> The Australian Security and Investment Commission (ASIC) in some areas of financial services regulation can not act on matters relating to the legislations embedded in state laws. The federal government thus wants to introduce a change in the federal state reform measures for the purpose of seeking the transfer of some state powers on financial services into the Commonwealth jurisdiction. Most of those powers would fall within the remit of ASIC after the transfer of power.

## Budget Allocation

Prior to the Budget 2008–09, the government announced such reform measures in consumer protection laws and corporations laws by resolving the differences with the state governments. Consequently, these initiatives have featured into an expanded COAG reform agenda, which the government allocating an amount of \$25.2 million over five years.<sup>32</sup>

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31. In finance, short selling or ‘shorting’ is the practice of selling securities the seller does not then own, in the hope of repurchasing them later at a lower price. This is done in an attempt to profit from an expected decline in price of a security, such as a stock or a bond, in contrast to the ordinary investment practice, where an investor ‘goes long’, purchasing a security in the hope the price will rise. The covered short selling has thus been a practice of financial transactions between two independent entities, apparently to hide the transactions from the disclosure regime.
  32. D. Kitney, ‘Rudd makes all the right noises’, *Australian Financial Review*, 14 May 2008, p. 72, [http://parlinfoweb.parl.net/parlinfo//Repository1/Media/npaper\\_2/C3FQ60.pdf](http://parlinfoweb.parl.net/parlinfo//Repository1/Media/npaper_2/C3FQ60.pdf), accessed on 14 May 2008.

## Defence<sup>1</sup>

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This year's Defence Budget provides a total defence package of \$22.69 billion which is \$690 million more than last year's budget. However, the defence budget as a proportion of gross domestic product has actually dropped from 2 per cent to 1.8 per cent and departmental funding is actually \$966 million (or 4.1 per cent) less than the estimate for the year provided by the previous Howard Government. In 2008–09, as part of its program to implement efficiencies and identify savings of up to \$10 billion over 10 years, Defence has redirected savings of \$477 million to other areas, such as partially offsetting the cost of Australian Defence Force (ADF) operations.<sup>2</sup>

### Outcomes and Outputs structure

The government says that it is implementing a new outcome and output framework for Defence to 'increase the Government's and the community's visibility of what Defence delivers'.<sup>3</sup> Last year's *Portfolio Budget Statements 2007–08* signalled that the outcomes and outputs arrangement against which Defence would report would be revised, with the number of outcomes dropping from seven to three. With some changes to outputs, this is how the structure now appears in the *Portfolio Budget Statements 2008–09*. This change to outputs reflects the current organisational arrangement and appears to better align with 'Defence's internal resource allocations and accountabilities'.<sup>4</sup> Time will tell whether these changes do actually make Defence budgets more transparent.

However, transparency and clarity in the Defence Budget is not aided by apparent inconsistencies in the *Portfolio Budget Statements 2008–09*. For instance, are the resources available within the Defence portfolio for 2008–09 really \$36 billion—the total given in 'Table 1—Portfolio resources made available in the Budget year'?<sup>5</sup> Or does this \$36 billion include intra-departmental transfers made to the Defence Materiel Organisation (DMO) and Defence Housing Australia? Have some funds in this table been double-counted?

### Funding of operations

In the 2008–09 Defence Budget, ADF operations, such as Operation Slipper (Afghanistan) and Operation Catalyst (Iraq), will be funded from the defence operations reserve. This

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1. For the purposes of brevity, the focus of this brief has been restricted to certain key issues. It is not intended as a comprehensive analysis of the entire Defence budget.
  2. Geoffrey Barker, '[Budget 2008: Shaved, saved and delayed](#)', *Australian Financial Review*, 14 May 2008, p. 25.
  3. Australian Government, *Portfolio Budget Statements 2008–09: Budget Related Paper No. 1.4A & 1.4C*, Defence portfolio, Commonwealth of Australia, Canberra 2008, p. 19.
  4. *ibid.*
  5. *ibid.*, p. xvi.

reserve will be made up of funds taken from the Department's price indexation supplementation (\$826.5 million) and from the Savings and Efficiency Program (\$209.4 million). It would appear, therefore, that unlike the funding provided for previous operations, Defence will actually be paying for its military operations from funds originally earmarked for training and sustaining the ADF. As one analyst has suggested, 'the use of inflation supplements and administrative savings to help fund operations sits oddly' with the government's claim that it has 'no higher priority than defence and security'. Rather, it suggests the government's main concern is 'bringing defence spending under much tighter control'.<sup>6</sup>

The increase in the price indexation supplementation has been described as 'an unprecedented billion-dollar windfall' for Defence, coming from the commodities boom.<sup>7</sup> If it is a windfall and outside Defence's budget requirements should Defence be getting it? If it is not a windfall, then Defence will have a legitimate need for the funds. The Defence Department has a legitimate call on Treasury funds to cover known and binding increased contract costs brought on by allowable increases in costs (and separately, variations in foreign exchange). It is unclear which parts of the portfolio the use of price indexation supplementation for operations will affect. If it includes price indexation supplementation paid to Defence to cover contractual obligations to suppliers, Defence will presumably have to find the money to fulfil these obligations from elsewhere in its budget. Funding operations this way would seem to be another way of forcing savings in the Defence Budget. However, unlike the Savings and Efficiency Program, the origin of the operational funds taken from price indexation supplementation is not identified within the Defence Budget, and thus such savings are not transparently being achieved only from non-operational areas or areas which support operations.

## Acquisitions

The Defence Materiel Organisation's (DMO) share of the 2008–09 Budget is \$9.6 billion. DMO is responsible for the management of 236 major projects with a value of over \$20 million each, and more than 180 minor projects.

Once again, as in previous years, Defence has large amounts of money for the acquisition of military hardware which it will be unable to spend and will have to reprogram to spend in later years. The 2008–09 Defence Budget has reprogrammed \$1.066 billion of the Approved Major Capital Program to later years because of 'unanticipated contractor delays'.<sup>8</sup>

In a [speech on 15 May 2008](#), the Parliamentary Secretary for Defence Procurement, Greg Combet analysed the reasons for the delays, attributing approximately:

- 53 per cent to industry delays—'including an inability to meet contracted milestones by payment dates'

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6. Geoffrey Barker, *op. cit.*

7. Patrick Walters, '[Military budget going great guns thanks to China](#)', *Australian*, 17–18 May 2008, p. 11.

8. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, p. 19.



- 12 per cent to DMO processes—‘including administrative and contracting requirements’
- 28 per cent to issues related to the United States Military Sales System
- 4 per cent to ‘the unavailability of platforms for upgrades or work needed’, and
- 3 per cent to ‘cost savings’.<sup>9</sup>

Mr Combet cited industry’s overestimation of its ability to meet schedules as a cause for some of the delays, but he also pointed to ‘significant capacity constraints within the economy’, specifically ‘in the area of skills and infrastructure’.<sup>10</sup> Given that 80 per cent of the ADF’s warfighting assets will be replaced within the next decade, and that 65 per cent of the acquisition and sustainment budget of more than \$100 billion will be spent in Australia, it is likely that reprogramming due to contractor delays will be a feature of Defence acquisition for the foreseeable future, as it has been in the past.

### Delayed projects

The government has singled out four ‘projects of concern’ which have been experiencing industry delays.<sup>11</sup>

#### Wedgetail (Project AIR 5077—Airborne Early Warning and Control)

Project Wedgetail involves the acquisition and introduction into service of six aircraft, designed as ‘the [cornerstone](#)’ of Australia’s surveillance, early warning and detection capability. It was considered to have been ‘[a model acquisition project](#)’ until the Howard Government became aware in 2006 that it was [behind schedule](#). A contract was signed with Boeing in December 2000, and the first aircraft was to be in-service by early 2007. Boeing has attributed the delay to difficulties in integrating complex onboard electronics. DMO’s [Annual Report 2006–07](#) stated that the delay had escalated to over two years. In June 2006, the Howard Government [announced](#) that it would reserve its contractual rights in regard to liquidated damages. In February 2007 Boeing announced that the program had slipped two years. The new Labor Government has warned Boeing and other Wedgetail contractors that they need to meet production and cost deadlines.<sup>12</sup> In the *Defence Portfolio Budget Statements 2008–09*, DMO has signalled that there is ‘still residual technical and schedule risk’ which could threaten Boeing’s current plans to deliver the first aircraft in March 2009.<sup>13</sup>

#### Tiger Armed Reconnaissance Helicopters (Project AIR 87)

Twenty-two Tiger Armed Reconnaissance Helicopters with associated support facilities are being acquired for the Australian Army from Australian Aerospace, a subsidiary of

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9. Greg Combet, [Speech by the Parliamentary Secretary for Defence Procurement: 2008 Defence Budget Briefing](#), 5 May 2008.

10. *ibid.*

11. *ibid.*

12. Dennis Shanahan, ‘[Defence talks tough on US suppliers](#)’, *Australian*, 27 February 2008, p. 5.

13. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, pp. 174–75.

Eurocopter. Operational capability has slipped by two years, due to delays in the parent Franco-German program. On 1 June 2007, DMO [stopped payment](#) to Australian Aerospace, and Defence has also claimed more than \$10 million in [liquidated damages](#) for the [late delivery](#) of training devices. The Defence *Portfolio Budget Statements 2008–09* report that as at 21 April 2008, eleven helicopters and some associated facilities and systems had been accepted by the Commonwealth. The Commonwealth and the contractor, Australian Aerospace, entered into a formal dispute resolution process in October 2007 which is expected to achieve a resolution through a Contract Change Proposal and the resumption of payments by July 2008.<sup>14</sup> On 22 May 2008, Mr Combet announced that a Deed of Agreement had been signed, resolving contractual issues between the Commonwealth and the contractor. This new Deed of Agreement ‘contains the basis for a Contract Change Proposal that transitions the current support contract to a performance based structure, to reduce cost of ownership to the Commonwealth over time’.<sup>15</sup> All deliveries should be complete by the end of 2009.

#### Tactical UAVs ([Project JP 129 Airborne Surveillance for Land Operations](#))

In December 2005 the then Minister for Defence, Senator Robert Hill, [announced](#) that Boeing Australia had been selected as the preferred tenderer to provide the IAI (Israeli Aircraft Industries) I-View 250 UAVs (Unmanned Aerial Vehicles) because it ‘offered the best value for money’. In mid-2006, the project reported that the in-service date was to be the [‘latter half of 2008’](#). The [contract was signed](#) in December 2006. The \$145 million project will provide two Tactical UAV (TUAV) systems each of which comprise ‘four I-View 250 UAVs, two ground control stations, four remote video terminals and associated tactical support system’.<sup>16</sup> The initial operating capability for the first TUAV is now planned for 2011.<sup>17</sup> The project is now reportedly two years behind schedule and it has been suggested that ‘a deadline has been set of the end of next month [June 2008] for the problems to be addressed, otherwise the project will be scrapped’.<sup>18</sup>

#### Guided Missile Frigate upgrade (Project SEA 1390 - FFG UP)

The original scope of the FFG project was to upgrade all six FFG-7 Adelaide Class frigates. In mid 2006 the scope of the original 1999 contract was reduced from six ships to four. The project was the subject of a [critical report](#) by the [Australian National Audit Office](#) (ANAO) in October 2007 which estimated that the delivery of the last ship will be delayed by four and a half years, until June 2009. The ANAO report ‘highlighted the ongoing difficulties caused by a prime contract which has limited the technical involvement of the Project Authority [DMO] and failed to sufficiently specify test procedures’.<sup>19</sup>

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14. *ibid.*, p. 180.

15. Greg Combet (Parliamentary Secretary for Defence Procurement), [Progress on Project AIR 87 – Tiger Armed Reconnaissance Helicopters](#), media release, Canberra, 22 May 2008.

16. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 173.

17. *ibid.*

18. Mark Dodd, [‘Spy plane joins list of troubled projects’](#), *Australian*, 17–18 May 2008, p. 2.

19. Julian Kerr, [‘FFG upgrade takes ANAO flack’](#), *Australian Defence Magazine*, Vol. 16(1), December 2007 / January 2008, p. 14.

## Major Projects Report

DMO will produce the first of its planned annual ‘Major Projects Reports’ at the end of 2008. These reports will contain ‘data and analysis on the schedule, cost and capability of up to 30 major defence equipment projects’.<sup>20</sup> The first report will be limited to nine selected projects, hopefully those of greatest concern. The *Portfolio Budget Statements* do not specify whether the projects will be assessed before or after final government approval (‘second pass’). In some cases, analysis of a project by ANAO before government makes its final decision might be quite useful. The production of a ‘Major Projects Report’ on Australian projects is very similar to the [United Kingdom \(UK\) Government’s approach](#), where the Ministry of Defence provides project summary sheets on 20 of the top approved defence equipment projects and the ten largest projects which are still in their assessment phases. These projects are then analysed by the UK National Audit Office on the basis of cost, time and performance.

## Recruitment and retention

### Targeted recruitment

Defence is facing continuing shortages of skilled military personnel who are being lost to the private sector, especially the booming mining and resources industry.<sup>21</sup> ADF ‘... enlistment needs to increase from approximately 4670 per annum to 6500 ...’<sup>22</sup> The ADF profile currently does not represent the broader Australian community, with women and indigenous and ethnic communities under-represented.<sup>23</sup> Defence Science and Personnel Minister Warren Snowden has said that the ADF needs to be ‘... more representative of wider Australia ...’, pointing to the fact that ‘the ADF tends to attract young Caucasian males’.<sup>24</sup>

Despite stating that the skills shortage is Defence’s biggest challenge, the Minister for Defence hinted in January this year that the money provided for recruitment and retention in the 2008–09 Budget would not amount to big figures when he said that ‘... success won’t so much be determined by the size of the spend but how well we spend’.<sup>25</sup> In the end, the size of the spend will be \$148.7 million for Defence Force Recruiting programs and operations. It includes targeting ‘Generation Y’, women and indigenous and ethnic communities as a source of new recruits.<sup>26</sup> However, it is unclear from the *Portfolio Budget Statements 2008–09* just how this money will be allocated.

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20. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 155.

21. Cameron Stewart, ‘[Y, your country needs you](#)’, *Australian*, 10 April 2008, p. 11.

22. Mark Dodd, ‘[Enlisting for country, career and a cheap loan](#)’, *Australian*, 14 May 2008, p. 11.

23. Brendan Nicholson, ‘[Ethnic background? Uncle Kevin wants you to join up now](#)’, *Age*, 13 March 2008, p. 8.

24. ‘[Military ethnic push](#)’, *Canberra Times*, 9 May 2008, p. 4.

25. Joel Fitzgibbon, MP, Minister for Defence, [Speech to open the Pacific Maritime Congress and Exposition](#), Sydney, 29 January 2008.

26. Warren Snowden, MP (Minister for Defence Science and Personnel), *Meeting the ADF recruitment and retention challenge*, media release, Canberra, 13 May 2008.

The only portion of the \$148.7 million readily identifiable in the budget papers is \$3.381 million for Indigenous Expenditure.<sup>27</sup> There are currently approximately 700 indigenous soldiers in the Australian Army, a number which equates to 1.4 per cent of their force.<sup>28</sup>

An ADF report to federal government in 2001 ‘recommended that women be admitted to combat roles, if their fitness and medical standards were the equivalent of male employees’.<sup>29</sup> And while, after a directive late last year, Australian women are now allowed to serve in the Artillery for the first time, women still cannot be employed in direct combat roles—‘jobs that have the potential to expose them to direct combat, including field artillery, infantry, clearance divers and defence guards’.<sup>30</sup> Female officers are well aware that combat roles assist officers to move up the chain and to ultimately become chiefs of service.<sup>31</sup> While Defence has ruled out women serving as front-line infantry, if the government is serious about increasing the recruitment of women, further incentives need to be rolled out, including possibly ‘assigning a female mentor to each new recruit and implementing flexible working arrangements’.<sup>32</sup>

The government wants to talk to ‘Generation Y’ ‘... in their language, through the mediums they rely upon for their information ...’<sup>33</sup> Recruitment websites give ‘glowing descriptions of lifestyle, sporting facilities, food and opportunities for travel’.<sup>34</sup> A variety of other initiatives ‘... is being introduced to lure Generation Y, including interactive recruiting centres in capital cities’.<sup>35</sup>

### Mental health initiative

In 2007, the media reported that [121 ADF personnel](#) were ‘... discharged for mental illnesses, including anxiety and depression, after serving in the Middle East’.<sup>36</sup> The government has allocated \$3.8 million from the Defence budget, over four years, for the introduction of a set of nine strategic mental health initiatives. The package is aimed at improving access to mental health services for current and former ADF members and active reserve personnel. In the continuation of the new government’s apparent strategy of funding budget measures from within Defence’s existing resourcing, the government has allocated \$2.2 million to the

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27. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 116.

28. Jonathon Pearlman, [‘Smoking ceremony for ADF parades’](#), *Sydney Morning Herald*, 8 April 2008, p. 3.

29. Sharri Markson, [‘Women wanted in combat’](#), *Daily Telegraph*, 2 March 2008.

30. [‘Artillery jobs for women a blast’](#), *Newcastle Herald*, 15 May 2005, p.11 and Sharri Markson, *ibid.*

31. Sharri Markson, op. cit.

32. *ibid.*

33. Joel Fitzgibbon, op. cit.

34. Cameron Stewart, op. cit.

35. *ibid.*

36. Mark Dunn and Neil Wilson, [‘Our lost diggers’](#), *Herald Sun*, 20 March 2007, p. 3.

Department of Veterans' Affairs and the remaining \$1.6 million for the mental health initiative will have to be met from within existing resourcing of the Department of Defence.<sup>37</sup>

The package '... aims to enhance psychological resilience among serving members, ensure successful transition into civilian life and provide effective rehabilitation and support'.<sup>38</sup> This initiative cannot come soon enough for many Defence personnel suffering with mental illness—some complain they have been denied adequate support and have faced 'bullying' and 'bastardisation' when they sought help for mental health problems.<sup>39</sup> Professor Mark Creamer, the director of the Australian Centre for Post-Traumatic Mental Health, has estimated that '... 10 per cent of Iraq or Afghanistan veterans have mental health problems ...' and said the ADF's mental health resources '... are massively under-resourced'.<sup>40</sup>

The government will also provide \$1.5 million over four years to the Department of Veterans' Affairs to provide '... training and workshops for community mental health workers who treat veterans ... [to] help improve practitioners' ability to identify and treat service-related mental health problems'.<sup>41</sup>

### ADF family medical and dental care trial

The government's 2008–09 Budget has allocated \$12.2 million over four years to trial the provision of free basic GP services and limited dental care to families of ADF members in the rural and remote areas of Singleton (NSW), Katherine (NT), East Sale (Vic), Cairns (QLD) and Karratha/Pilbara (WA). The amount allocated for 2008–09 is \$2.4 million.

Aspects of these budget measures on ADF family health which the government has linked to Labor's election commitments differ from statements made during the election campaign which clearly identified the policy as a retention initiative. The Labor Party's defence policy document, [Labor's plan for defence](#), released during the 2007 election campaign, said:

#### *Free medical and dental care for ADF families*

ADF families can face significant difficulties obtaining access to general medical and dental care for dependants, especially in regional and remote localities.

Posting to a remote location can mean that ADF families struggle to access the sort of health care that Australians enjoy.

A Rudd Labor Government will progressively extend free health care currently provided to ADF personnel to ADF dependent spouses and children.

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37. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 294.

38. *ibid.*

39. Nick McKenzie, '[Mentally ill troops tell of bullying and neglect](#)', *Age*, 21 April 2008, pp. 1 and 8.

40. Editorial: '[What we owe to those we send to fight our wars](#)', *Age*, 10 March 2008, p. 10.

41. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2*, *op. cit.*

Labor will begin this with a \$33.1 million investment starting at 12 Defence Family Health Care Clinics, with a focus on remote bases locations and major regional centres.

On [12 November 2007](#) Mr Rudd identified Lavarack Barracks in Townsville and Robertson Barracks in Darwin as the location of two of the clinics. A media statement, [‘Federal Labor’s Plan for Defence Families – free Health and Dental Care’](#), released by Mr Rudd and Mr Fitzgibbon also on 12 November 2007, set out further details of the commitment. This explained that Labor would invest \$33.1 million in a four year plan to extend basic medical care to 12 000 ADF spouses and children and saying ‘Federal Labor’s 12 Defence Family Healthcare Clinics will extend the free GP and dental care currently available to ADF personnel to their dependant spouses and children.’

In contrast, the 2008–09 Budget limits the program to \$12.2 million over four years and also limits dental care to \$300 per dependant per annum. Only five of the 10 rural and remote defence locations are mentioned, and rather than Defence families attending Defence Family Healthcare Clinics at these locations, families will now ‘select the doctor or dentist of their choice’.<sup>42</sup> Changes to the commitment to provide Defence Healthcare Clinics in Townsville and Darwin are also reportedly being considered, with the possibility that the two Defence Family Healthcare clinics promised in the campaign at Lavarack Barracks in Townsville and Robertson Barracks in Darwin will be replaced by defence families accessing Health Department GP Super Clinics in Darwin and Townsville.<sup>43</sup>

## White Paper

The Defence *Portfolio Budget Statements 2008–09* describe the process which Defence is undertaking to produce a new Defence White Paper, including the production of a Force Structure Review which will ‘take a top-down approach to analysing the force structure and capabilities priorities needed out to 2030’.<sup>44</sup> The White Paper will form the foundation of Australia’s future defence capabilities. The process of developing the new White Paper includes a number of companion reviews into: workforce sustainment; the Defence Capability Plan (which sets out plans for defence equipment acquisition); facilities investment; information technology requirements; defence industry; defence science and technology; and logistics.

The government will conduct consultations on the White Paper with state and territory governments, industry and the general public. Also integrated into this process will be an audit of the Defence Budget. To accommodate changes in Defence policy flowing from the White Paper process, the next Defence Capability Plan, the public version of which would ordinarily be released in 2008, will now not be released until 2009.<sup>45</sup>

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42. Tony Raggatt, [‘Defence clinic axed: election promise ditched’](#), *Townsville Bulletin*, 15 May 2008, p. 2.

43. *ibid.*

44. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, p. 35.

45. Peter La Franchi, [‘DCP release deferred until 2009’](#), *Asia-Pacific Defence Reporter*, March 2007, Vol. 34(2), p. 13.

One outcome of the White Paper process is the need to reprogram \$45.0 million of spending from 2008–09 to 2013–14 due to the deferral of some first and second pass project approvals in the Defence Capability Plan until after the Defence White Paper is finalised.<sup>46</sup> Additionally, the Departmental Income Statement points to a budget adjustment of minus \$139.7 million because of the need to reprogram ‘net operating costs due to the expected reduction in capabilities entering service until finalisation of the new Defence White Paper’.<sup>47</sup>

As one analyst has said about the Defence Budget, ‘[t]he solution is not necessarily to throw more money at defence. A key part of the next white paper will be to align means and ends. In the process, it will be important to look closely at defence efficiency’.<sup>48</sup>

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46. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 19.

47. *ibid.*, p. 121.

48. Mark Thomson, [‘Balancing interests a tough act’](#), *Australian*, 8 December 2007, p. 3.

## Security and policing

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In contrast to previous budgets under the Howard Government, national security is not a major feature of this year's Budget—the Rudd Government's first. Most of the funding in the area of national security is intended to continue or enhance existing programmes, rather than initiate any new ones, with some of the funding already provided by the forward estimates. This perhaps reflects both an acceptance of the previous government's security initiatives and a decreased focus on terrorism and security issues. Much of the cost will be met from within the existing resourcing of relevant departments and agencies—essentially representing a cut to their current budgets. This means that those affected will most likely have to cease or cut back existing activities to find the necessary savings. Many of the Budget's funding measures specifically address the government's election commitments.

### Office of National Security and the Asia-Pacific Centre for Civil-Military Cooperation

There are, however, two major new initiatives which stand out—the establishment of an Office of National Security within the Department of Prime Minister and Cabinet (PM&C), and the establishment of the Asia-Pacific Centre for Civil-Military Cooperation, both of which were election commitments.

Having all but abandoned the concept of a US-style Department of Homeland Security, the Rudd Government has committed to establishing an Office of National Security, headed by a National Security Adviser.<sup>49</sup> The role of the Office will be to 'develop, advise on and coordinate whole-of-government national security policy'.<sup>50</sup> The government is providing funding of \$5.2 million over five years, with part of the cost to be met from the existing budgets of the Australian Federal Police (AFP), the Australian Security Intelligence Organisation (ASIO), the Department of Defence, the Attorney-General's Department and the Department of Foreign Affairs and Trade.<sup>51</sup> The new Office of National Security has, however, been described by one critic as a 're-badging [of] the old national security division' that already exists within PM&C and which should instead be established as a 'separate, statutory authority'.<sup>52</sup>

The Asia-Pacific Centre for Civil-Military Cooperation will be established to 'provide training and ... liaise with Australian and international government and non-government organisations to help Australia to develop future responses to stabilisation, reconstruction and

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49. The [Homeland and Border Security Review](#) being conducted by Ric Smith (and funded for the remainder of this financial year with an allocation of \$0.1 million) will be examining all of Australia's homeland and border security arrangements and is due to report by 30 June 2008.

50. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 277.

51. *ibid.*

52. Dr Carl Ungerer, '[A new agenda for national security](#)', *Special Report—Issue 15*, Australian Strategic Policy Institute, Canberra, April 2008, p. 9.



peace building needs in the Asia-Pacific region'.<sup>53</sup> The government has allocated \$5.1 million over four years to the project (commencing 2007–08), the entire cost of which is to be met from within the existing resourcing of the Department of Defence.<sup>54</sup>

## Policing

Another new initiative is the provision of \$25 million over five years to develop a recruitment and retention programme within the AFP to assist it in meeting its recruitment targets and to 'improve the retention of existing staff'.<sup>55</sup> That the government has funded a specific programme to address the issue at an annual cost of \$5 million hints at the possible extent of the problem.

Related to this measure is the government's undertaking to fund an additional 500 sworn AFP officers at a cost of \$191.9 million over five years to work on 'high-impact' criminal investigations.<sup>56</sup> The government claims this delivers on an election commitment. However, as the Opposition has pointed out, only \$36.7 million of this funding is due to be spent before the next scheduled election in 2010 and the budget papers do not indicate just how many additional officers of the promised 500 are expected to be recruited before then.<sup>57</sup>

The government has also funded several policing and law enforcement initiatives as part of its overseas aid programme and these are covered in the section on Official Development Assistance.

Previous funding for the AFP which has been deferred, reduced or withdrawn includes:

- half of the funding for the AFP's airport liaison officer network, which will now be provided from within the AFP's existing budget, generating savings for the government in 2008–09 of \$1.5 million.<sup>58</sup>
- funding to maintain a surge capacity in the AFP, which will instead now be provided from within the AFP's existing budget, providing savings of \$2.5 million in 2008–09.<sup>59</sup>
- half of the funding for the AFP's regional rapid deployment teams (to deal with security incidents at regional Australian airports), which will now be provided from within the AFP's existing budget, generating savings for the government in 2008–09 of \$2.2 million.<sup>60</sup>

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53. Australian Government, 'Part 2: Expense Measures', Budget Paper No. 2, op. cit., p. 120.

54. *ibid.*

55. *ibid.*, p. 84.

56. *ibid.*, p. 89.

57. The Hon. Christopher Pyne, MP, [\*More cops on the beat just a confidence trick\*](#), media release, Canberra, 14 May 2008.

58. Australian Government, 'Part 2: Expense Measures', Budget Paper No. 2, op. cit., p. 367.

59. *ibid.*

60. *ibid.*, p. 407.

- funding for an increase in the staffing of the AFP's International Deployment Group (IDG), which has been deferred by one year, providing savings of \$10 million in 2008–09.<sup>61</sup> The government considers it likely that the IDG will have sufficient capacity during 2008–09 to undertake its mission.

#### Other security-related funding measures

Funding measures which continue or enhance existing programmes or capabilities include:

- \$8.4 million over four years for the continued provision of intelligence support to Australia's response and law enforcement operations against illegal foreign fishing in the Southern Ocean (to be met from within the existing budgets of the Department of Defence, the Office of National Assessments, the Australian Secret Intelligence Service and the Australian Customs Service). The government claims this measure will yield savings of \$3.3 million over four years.<sup>62</sup>
- \$1.1 million in 2008–09 for the Australian Customs Service (Customs) to continue its aerial surveillance of Australia's northern waters to deter unauthorised arrivals.<sup>63</sup> This funding serves as a 'top-up' to that already provided in the forward estimates and will be reviewed in next year's Budget. The government has also committed \$35.7 million over two years (from the forward estimates and commencing in 2007–08) to keep the Customs vessel *Triton* on patrol in Australia's northern waters.<sup>64</sup>
- \$1.3 million already provided in 2007–08 to deploy the Customs vessel, *Oceanic Viking*, to monitor Japanese whaling activities in the Southern Ocean.<sup>65</sup> The government also provided \$0.7 million in 2007–08 to conduct aerial surveillance of Japanese whaling fleet activities in the Southern Ocean during the 2007–08 whaling season.<sup>66</sup>
- \$16 million over four years for Customs to increase its inspection and examination of containers in Launceston, Darwin, Townsville and Newcastle.<sup>67</sup>
- \$58 million over four years from within the existing resourcing of the Department of Defence to allow Defence to maintain its capacity to provide threat analysis and assessment in support of Australia's counter-terrorism efforts.<sup>68</sup>
- \$23.8 million over four years from within the existing resourcing of the Department of Defence to enhance its ability to meet 'high-priority intelligence requirements'.<sup>69</sup>

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61. *ibid.*, p. 399.

62. *ibid.*, p. 125.

63. *ibid.*, p. 91.

64. *ibid.*, p. 94.

65. *ibid.*, p. 84.

66. *ibid.*, p. 162.

67. *ibid.*, p. 86.

68. *ibid.*, p. 126

- \$2.4 million over four years from within the existing resourcing of the Department of Defence to maintain its contribution to the National Threat Assessment Centre located within ASIO.<sup>70</sup>
- \$8.7 million over two years to enhance the Australian Secret Intelligence Service's strategic intelligence gathering capability.<sup>71</sup>
- \$8.4 million in 2008–09 (from the forward estimates) for the continuation of the Air Security Officer programme.<sup>72</sup>
- \$34.1 million over four years (from the forward estimates) to maintain the AFP's rapid response capability for dealing with terrorist attacks in the region.<sup>73</sup>
- \$8.8 million in 2008–09 to continue the critical infrastructure protection programme, \$1.5 million of which will be met by the Department of Defence from its existing budget.<sup>74</sup> The remainder has already been included in the forward estimates. Another \$23.4 million over four years will enable the continued development of the Critical Infrastructure Protection Modelling and Analysis programme. Of this funding, \$9.2 million is new, \$6 million for the Attorney-General's Department and \$0.8 million for Geoscience Australia has already been included in the forward estimates, and \$7.4 million will be absorbed by the Department of Defence from within its existing resourcing.<sup>75</sup>

## Health security

In keeping with World Health Organization advice that pandemic influenza remains a threat, the government has announced funding of \$166.5 million over two years for the Department of Health and Ageing (DOHA) to replenish the National Medical Stockpile.<sup>76</sup> This will ensure that expiring pharmaceuticals and equipment that might be needed in the event of a pandemic or a chemical, biological or radiological incident are replaced and the Stockpile's readiness maintained. The government has also allocated \$4.7 million over two years from DOHA's existing budget to ensure a whole-of-government approach to pandemic preparedness.<sup>77</sup>

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69. *ibid.*, p. 127.

70. *ibid.*

71. *ibid.*, p. 199.

72. *ibid.*, p. 92.

73. *ibid.*, p. 93.

74. *ibid.*

75. *ibid.*, p. 94.

76. Australian Government, 'Part 3: Capital Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 438.

77. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2*, *op. cit.*, p. 281.

The government has also announced that it will no longer fund the purchase of deployable mortuaries which instead will be provided through a service agreement with a commercial supplier. This is expected to provide savings of \$1.6 million over two years.<sup>78</sup> Similarly, the government will no longer be funding rapid deployment teams for thermal scanning at airports, generating savings of \$5.8 million over two years.<sup>79</sup> The measure will, however, still proceed, with costs to be met from within the existing budget of the Department of Agriculture, Fisheries and Forestry.

## Conclusion

With the exception of a couple of significant administrative initiatives, the national security budget this year appears largely to be designed to maintain the status quo. While this perhaps indicates a tacit acceptance of the previous Howard Government's security regime, the major difference is that the Rudd Government now requires departments and agencies to fund many of the existing measures from their own budgets. This has had the effect of generating millions of dollars worth of savings, but undoubtedly places greater pressure on key agencies, such as the Australian Federal Police, to maintain their current level of service. Although the Opposition (and others) has portrayed this as an unjustified gamble with the country's national security and described it as 'very dangerous politics', just what effect this has on Australia's national security apparatus overall in the short to medium term remains to be seen.<sup>80</sup>

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78. *ibid.*, p. 375.

79. *ibid.*, p. 409.

80. The Hon. Christopher Pyne, MP, [\*National security to take a budget hit\*](#), media release, Canberra, 13 May 2008.

## Official Development Assistance

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According to the [Budget Statement](#) Australia's Official Development Assistance (ODA) budget for 2008–09 is \$3.66 billion, \$488.1 million more than the 2007–08 expected outcome of \$3.17 billion.<sup>1</sup> This represents an increase of 8.4 per cent over the expected outcome for 2007–08.

To put this increase in context, two points need to be considered. Firstly, the 2008–09 Budget includes the 'final tranche' of debt relief for Iraq, estimated at \$238.2 million, 'scheduled to be recognised' during the year. This reduces the actual outlay for 2008–09 to \$3.42 billion or a 7.3 per cent increase over the previous year. Secondly, the [Budget Statement 2007–08](#) had already indicated an expected outlay of \$3.5 billion for 2008–09.

In other words, while there has been an increase in the aid budget for 2008–09, most of this increase had already been included in the forward estimates last year. However, as the [Budget Paper No. 2, 2008–09](#) indicates:

The 2008–09 Budget provides \$1.3 billion of new initiatives over four years. It is expected that the ratios of Australia's ODA to GNI will be 0.35 per cent in 2009–10 (a year earlier than originally targeted), 0.37 per cent in 2010–11, and 0.38 per cent in 2011–12. These ratios correspond to amounts of \$4.2 billion, \$4.6 billion and \$5.0 billion in 2009–10, 2010–11 and 2011–12 respectively.<sup>2</sup>

In keeping with the government's ODA policy priorities, the 2008–09 Budget Statement by ministers Smith and McMullan also indicates a shift in focus:

Consistent with the Government's intention to increase the focus of the development assistance program on practical development outcomes, including faster progress towards the Millennium Development Goals, funding will be substantially increased for health, education, water supply and sanitation and basic infrastructure...Environmental issues are a particular priority, with a major multiyear budget initiative to address adaptation to climate change. The 2008–09 Budget also provides an opportunity to re-invigorate our relationship with multilateral development institutions, through a major four year core funding partnership with effective UN agencies. Increased support will also be provided for countries in transition from conflict, in particular Afghanistan and Iraq, and in support of new Pacific Partnerships for Development.<sup>3</sup>

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1. Unless otherwise indicated, all information is derived from [Australia's International Development Assistance Program 2008–09](#), Statement by The Hon. Stephen Smith, Minister for Foreign Affairs and The Hon. Bob McMullan, Parliamentary Secretary for International Development Assistance, 13 May 2008.
  2. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 186.
  3. Australia's International Development Assistance Program 2008–09, op. cit., p. 9.

New AusAID funded initiatives announced in the budget include:<sup>4</sup>

- \$300 million over three years, with \$8 million in 2008–09, to improve access to clean water and effective sanitation.
- \$150 million over three years, with \$35 million in 2008–09, ‘to meet high priority climate adaptation needs in vulnerable countries in our region.’ The primary geographic focus will be Australia’s neighbouring countries.
- \$54 million over four years, including \$6.5 million in 2008–09, to protect customary land rights and reduce the potential for land-related conflict in Pacific countries.
- \$107 million over four years, with \$6 million in 2008–09, to strengthen public sector administration in Pacific countries.
- \$127 million over four years, including \$5.5 million in 2008–09, to improve basic infrastructure facilities in Pacific countries.

As part of Australia’s ODA, the Attorney-General’s Department has announced a new Pacific Police Development Program involving an expenditure of \$5.1 million over four years. Some \$2.5 million over two years will be spent on capital expenditure related to the Timor-Leste Police Development Program.

New initiatives by the Australian Federal Police include:

- \$47 million over two years (including capital funding of \$9 million) to deploy up to 12 officers to Afghanistan to assist the Afghan National Police with counter narcotics and police reform.
- \$13.7 million over three years, including \$5.8 million in 2008–09, to support international efforts to develop a more effective Iraqi Police Service. Some 240 Iraqi Police personnel will receive training in Australia over the next three years under this program.
- expenditure of \$51.2 million over two years, including \$16.5 million in 2008–09, on the Timor-Leste Police Development Program.
- expenditure of \$75 million over four years, including \$13.3 million in 2008–09, on the Pacific Police Development Program.

The Department of Immigration and Citizenship will provide an additional \$10 million in 2008–09 to assist displaced Iraqis in the Middle East. The funding will be administered through the UN High Commissioner for Refugees and Care Australia.

An additional 500 visa places exclusively for Iraqis, including locally engaged employees, will be provided in 2008–09 under the Humanitarian Migration Program.

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4. Further information on these initiatives is available in Australian Government, *Budget Paper No. 2*, op. cit., pp. 186–199.

## Conclusion

There is little ‘new’ money over the outlay already indicated in the forward estimates for 2008–09. Some new initiatives will be funded using existing resources of AusAID. A number of projects have been given a sectoral focus to align them closer to the Millennium Development Goals, and progress towards them will be used as an indicator of Australia’s contribution towards poverty alleviation in developing countries.

## Department of Foreign Affairs and Trade (DFAT) budget

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The federal government has allocated \$821.935 million to DFAT in 2008–09, which represents a decrease of \$5.9 million of the estimated actual budget for 2007–08.<sup>5</sup> The changes in this year's budget in comparison with the previous 2007–08 Budget; the estimated actual budget for 2007–08; and the forward estimates for 2008–09 are represented in the following table:

Table 1: comparison of DFAT Budget between 2007–08 and 2008–09

| Year                                       | Total resources for DFAT proposed at budget (\$) | Departmental appropriations—government (\$) | Departmental appropriation—total (\$) (incl. Bill No. 1 and 2 and revenues) | Administered appropriations (\$) |
|--|--|---|---|----------------------------------|
| PBS 2008–09 <sup>6</sup>                   | 1.234b   | 821.935m                                    | 920.186m  | 328.970m                         |
| PBS 2007–08 <sup>7</sup>                   | 1.167b   | 810.425m                                    | 909.257m  | 245.307m                         |
| Estimated actual for 2007–08 <sup>8</sup>  | —  | 827.860m                                    | 926.035m  | 845.395m                         |
| Forward estimates for 2008–09 <sup>9</sup> | —  | 827.788m                                    | 926.072m  | 832.817m                         |

Source: Table compiled by author

The Department of Foreign Affairs and Trade (DFAT) has \$67.1 million more in total resources for 2008–09 than in the 2007–08 Budget.<sup>10</sup> This includes additional appropriation funding of \$20.7 million (excluding capital funding) in 2008–09.<sup>11</sup> As shown in Table 1, the federal government has provided DFAT with \$83 million more in administered appropriations than the Howard Government did in the 2007–08 Budget.

5. Australian Government, *Portfolio Budget Statements 2008–09, Budget Related Paper No. 1.9*, Foreign Affairs and Trade Portfolio, Commonwealth of Australia, Canberra, 2008, p. 49.

6. *ibid.*, pp. 7 and 49.

7. Australian Government, *Portfolio Budget Statements 2007–08, Budget Related Paper No. 1.11*, Foreign Affairs and Trade Portfolio, Commonwealth of Australia, Canberra, 2007, pp. 23 and 59.

8. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, p. 49.

9. Australian Government, *Portfolio Budget Statements 2007–08*, *op. cit.*, p. 59.

10. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, p. 7 and Australian Government, *Portfolio Budget Statements 2007–08*, *op. cit.*, p. 23. The provision of an equity/capital injection of \$35.6 million to the department under Appropriation Bill No.2 does not seem to appear in the 2008–09 Budget, but it seems that this money will appear in the estimates for future years.

11. Australian Government, *Portfolio Budget Statements 2008–09*, *op. cit.*, p. 47.



The federal government said it will provide a further \$12 million in 2008–09 to DFAT, pending the outcomes of a departmental review.<sup>12</sup> The federal government funding for DFAT is at its lowest level in relation to the country's gross domestic product (GDP) since 1999–2000, amounting to 0.067 per cent of Australia's GDP in 2008–09.

According to the forward estimates, DFAT's funding is set to decrease for the 2009–10 and 2010–11 financial years. It will then increase again in 2011–12 prior to the launch of the post-2012 global agreement on climate change, and Australia's expected final round of bidding for the non-permanent place on the United Nations Security Council in 2013–14.

### New portfolio and agency measures

The [portfolio](#) of Foreign Affairs and Trade now has three Parliamentary Secretaries with responsibilities for [Trade](#), [Pacific Island Affairs](#) and [International Development Assistance](#). The position of Parliamentary Secretary to the Minister of Foreign Affairs has been abolished.

The responsibility for development and coordination of international climate change policy and negotiations was transferred from DFAT to the Department of Climate Change (within the Prime Minister and Cabinet portfolio), resulting in the reallocation of \$0.364 million in the forward estimates from the 2007–08 Budget.<sup>13</sup> Moreover, the Australian Trade Commission (Austrade) took over the function of 'investment promotion' and responsibility for delivery of the [Global Opportunities Program](#) from the Department of Innovation, Industry, Science and Research (DIISR), resulting in the transfer of \$11 million to Austrade from DIISR in 2008–09.<sup>14</sup>

### New budget measures for DFAT

#### *Outcome One*

- \$25.6 million in additional funding over two years for the continuation and expansion of Australia's diplomatic presence in Afghanistan, \$6.9 million of which is capital funding for the purchase of security and communications equipment and office fit-out.<sup>15</sup> This brings the government's total contribution to \$39.3 million.<sup>16</sup>

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12. *ibid.*, p. 22.

13. Australian Government, *Portfolio Budget Statements 2007–08*, op. cit., p. 35.

14. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 73.

15. Australian Government, 'Part 2: Expense Measures', *Budget Paper No. 2: Budget Measures 2008–09*, Commonwealth of Australia, 2008, p. 199.

16. *ibid.*

### *Outcome Two*

- the 2008–09 Budget increased DFAT’s departmental resources for the provision of consular and passport services by \$14.806 million, or 6.5 per cent above the 2007–08 estimated actual.<sup>17</sup>
- increase in passport fees.

### *Outcome Three*

- provision of \$61 million over three years towards Australia’s participation in the [Shanghai World Expo 2010](#) of urban living and innovation. About \$20.3 million has been allocated by the government towards the construction and operation of the Australian pavilion and the management of associated programs during Australia’s six-month participation. The government is also seeking a minimum of \$22 million from the private sector for this measure.

### *Outcome Four*

- total resources for this outcome increased by \$15.8 million to the total of \$376.9 million and four additional staff in comparison with the estimated actual for 2007–08.<sup>18</sup>

DFAT Budget documents also indicate that:

- Australia will step up its diplomatic efforts towards obtaining a non-permanent seat at the United Nations Security Council in 2013–14.<sup>19</sup>
- payments to international organisations will increase by \$44.5 million to a total of \$258.9 million from the estimated actual for 2007–08 in the new financial year.<sup>20</sup> This is partially to support the government’s longer-term objective of enhancing the Asia-Pacific Economic Cooperation (APEC) forum and the APEC Secretariat.<sup>21</sup>
- Australia will adopt a new whole-of-government strategy towards the Pacific Island countries, including preparations for negotiating a comprehensive Free Trade Agreement (FTA) with these countries.<sup>22</sup>

In light of these developments, which fall under Outcome One, and in the face of an apparent decline in both domestic and overseas diplomatic positions to support this outcome, it is imperative for the future of Australia’s international diplomacy that DFAT is well-resourced and prepared to deal with the emerging challenges.

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17. This calculation is based on the figures presented in Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 34.

18. *ibid.*, p. 42.

19. *ibid.*, pp. 15 and 26.

20. *ibid.*, p. 25.

21. Australian Government, *Additional Estimates Statements 2007–08*, op. cit., pp. 12 and 18.

22. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., pp. 16 and 28.

## DFAT staffing numbers

The average number of staff for DFAT as a whole has increased by 17 staff. However, 20 overseas positions have been abolished and the abolition of an additional [five overseas positions](#) is under consideration. One position was also culled from the Australia–China Free Trade Agreement negotiations, as part of an overall decrease in federal government funding for this measure.<sup>23</sup>

Staffing levels for Outcome Two increased by 82 more than the estimated actual number for 2007–08.<sup>24</sup> This will probably assist the Department in:

- managing the pressures associated with increasing numbers of passport applications<sup>25</sup>
- meeting the growing demands of consular casework<sup>26</sup>
- accommodating DFAT’s major projects under Outcome Two in 2008–09, such as the establishment of temporary consular offices in remote locations in case of an emergency
- putting contingency arrangements in place for the 2008 Olympics in Beijing.

## Increase in passport fees

In line with a 2005 decision by the Howard Government to index the cost of passports according to the Consumer Price Index, passport fees have increased by \$8, with effect from 1 July 2008.<sup>27</sup> A standard adult passport will now cost \$208 and passports for children and seniors will cost \$104, up from \$100.

## Australia’s ‘soft power’ weakened?

The \$24 million funding for the ‘Australia on the World Stage’ program—a Howard Government measure—has been discontinued in 2008–09.<sup>28</sup> This move has the potential to weaken Australia’s ability to promote its diverse cultural exports and artists overseas. Priority has instead been given to the [World Expo](#) in Shanghai 2010. This measure has been continued from the previous budget with an initial seven-fold increase of \$10 million in the government’s appropriation funding for 2008–09.<sup>29</sup>

The *Australia Network* of television services, which focuses on the Asia-Pacific region, is also a measure that has been continued from the previous budget, receiving \$18.8 million in

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23. Australian Government, *Additional Estimates Statements 2007–08*, op. cit., p. 15.

24. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 34.

25. *ibid.*, p. 17.

26. *ibid.*, p. 33.

27. [Australian Passports Act 2005](#), ‘Indexing of passports’, available at: [http://www.austlii.edu.au/au/legis/cth/num\\_act/apfa2005397/s6.html](http://www.austlii.edu.au/au/legis/cth/num_act/apfa2005397/s6.html) [Accessed in May 2008].

28. Australian Government, *Additional Estimates Statements 2007–08*, op. cit., p. 15.

29. Australian Government, *Portfolio Budget Statements 2008–09*, op. cit., p. 38.

2008–09. However, in terms of ‘soft diplomacy’ more funding for Australia’s public diplomacy in the Middle East—our major theatre of military operations—might have been more beneficial for the advancement of Australia’s global image and protection of the country’s vital national interests abroad. As an actively engaged middle power with global interests, Australia should perhaps be investing more in public and cultural diplomacy.

## Australian Public Service

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### Introduction

During the 2007 federal election campaign the Australian Labor Party announced, as part of its savings strategy, that it would impose a one-off two per cent efficiency dividend on most government agencies. This would be in addition to the existing 1.25 per cent efficiency dividend resulting in an efficiency dividend of 3.25 per cent for the 2008–09 financial year.<sup>1</sup>

The then Shadow Minister for Finance, Lindsay Tanner, also announced that the base for the efficiency dividend would exclude the operational areas of the Department of Defence and ‘agencies specifically affected by other Labor savings proposals’. Mr Tanner noted that ‘current vacancy rates, turnover, and attrition will ensure that redundancies will not be necessary to achieve these efficiency savings’.<sup>2</sup>

During the preparation of the 2008 Budget, statements by the Government on the need to find budget savings led commentators to predict that large spending cuts would be made which could have an impact on government programs.<sup>3</sup> There was also speculation that the budgets of a number of small cultural institutions, such as the National Library of Australia, the National Gallery of Australia and the National Museum of Australia, would be severely affected by the additional efficiency dividend.<sup>4</sup>

The predicted size of the budget cuts and the possible loss of talent from the Australian Public Service (APS) were compared by some with the severity of public sector cuts introduced in the early Coalition Government budgets.<sup>5</sup> The first Coalition Government Budget forecast that the average staffing level (ASL) would decline by 1737 in 1996–97 and that:

... it is expected that the total number of people employed (full-time and part-time and temporary staff) under the Public Service Act will decline by some 10,500 between 30 June 1996 and 30 June 1997.<sup>6</sup>

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1. Lindsay Tanner, [‘Labor delivers on savings’](#), *media release*, 22 November 2007.
  2. *ibid.*
  3. See, for example, Steve Lewis, [‘Rudd’s razor horror’](#), *Daily Telegraph*, 27 February 2008; Lindsay Tanner, Stephen Jones and Peter Dutton, *PM program*, ABC Radio, 6 February 2008.
  4. For example, James Massola, [‘Culture vultures: Rudd razor gang targets Canberra’s cultural institutions’](#), *Canberra Times*, 21 February 2008.
  5. For example Michelle Grattan, [‘The PM sees public service in brighter light’](#), *Age*, 2 May 2008; Matthew Franklin, [‘Hundreds of PS jobs will go’](#), *Australian*, 7 May 2008.
  6. Australian Government, ‘Part 1: Budget outlays overview’, *Budget Paper No. 1 1996–97*, p. 3-42.

Australian Public Service Commission (APSC) figures show that during 1996–97 the separation of permanent APS staff totalled 15 471—the two major types of separation being resignations (4135) and retrenchments (10 070).<sup>7</sup>

## 2008–09 Budget measures

The Budget forecasts that the application of the additional one-off two per cent efficiency dividend to the departmental funding of most Government agencies will generate savings of \$1.8 billion over five years.<sup>8</sup> The effect of these savings on individual departments and agencies is considered in other sections of this Budget Brief.

Budget estimates of average staffing levels<sup>9</sup> of agencies in the Australian Government general government sector show a total reduction of 1224 staff across Australia.<sup>10</sup> There is speculation that approximately one third (or 400) of these staff are based in Canberra.<sup>11</sup>

The total ASL for all general government sector agencies for 2008–09 is 246 993 compared with 248 217 for 2007–08.<sup>12</sup>

The following is a select list of ASL changes forecast for departments and agencies. It should be noted that departments and agencies determine their own staffing levels subject to resourcing requirements. At the time of writing, departments and agencies are still considering how to implement the efficiency dividend.<sup>13</sup> The following figures should be read in the context of the total ASL for departments and agencies.<sup>14</sup>

### Reductions in ASL in departments and agencies 2008–09

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7. Australian Public Service Commission, [Australian Public Service statistical bulletin 2006-07](#), Commonwealth of Australia, Canberra.
  8. Australian Government, 'Part 2: Expense measures', *Budget Paper No 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2007, p. 321.
  9. Note that average staffing level figures reflect the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show full-time equivalent. This also includes non-uniformed staff and overseas personnel.
  10. Australian Government, 'Statement 6: Expenses and Net Capital Investment', *Budget Paper No 1: Budget Strategy and Outlook 2008–09*, Commonwealth of Australia, Canberra, 2007, p. 6–64.
  11. See Mark Uhlmann, '[ACT public sector job losses "may reach 1100"](#)', *Canberra Times*, 15 May 2008.
  12. General government sector encompasses agencies that provide public services that are mainly non-market in nature and are either for collective consumption by the community (for example, defence and law and order) or redistribute income (for example, social security payments), and are financed mainly by taxes.
  13. For example Budget Paper no. 1 forecasts that the Australian War Memorial (AWM) will lose eight ASL. The AWM confirmed that it will look at its core activities but not to the detriment of staff. See ABC News Online, 'Institutions come to terms with budget cuts', <http://www.abc.net.au/news/stories/2008/05/14/2244308.htm>, accessed on 16 May 2008.
  14. *Budget Paper no. 1 2008–09*, op. cit., pp. 6–60 – 6–64.

- Department of Defence (civilian 474)
  - Defence Materiel Organisation (210)
  - Department of Veterans’ Affairs (195)
  - Australian War Memorial (8)
- Department of Education, Employment and Workplace Relations (213)
- Department of Families, Housing, Community Services and Indigenous Affairs (269)
- Department of Health and Ageing (179)
- Department of Human Services including the Child Support Agency (445)
  - Centrelink (200)
  - Medicare Australia (171)
- Department of Immigration and Citizenship (221)
- Department of Innovation, Industry, Science and Research (142)
  - Commonwealth Scientific and Industrial Research Organisation (85)
- Department of Infrastructure, Transport, Regional Development and Local Government (50)
- Department of the Treasury: Australian Taxation Office (1137)
  - Australian Bureau of Statistics (166)

#### Increases in ASL in departments and agencies 2008–09

- Attorney-General’s Department (50)
  - Australian Security Intelligence Organisation (186)
  - Australian Customs Service (146)
- Department of Agriculture, Fisheries and Forestry (70)
- Department of Defence: military (1591) and reserves (385)
- Department of the Prime Minister: Department of Climate Change (140)<sup>15</sup>

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15. The ASL figures for the Department of the Prime Minister and Cabinet do not reflect the [administrative changes](#) announced by the Special Minister of State, Senator John Faulkner, on 1 May 2008. The National Archives of Australia and Old Parliament House will move to the portfolio as executive agencies.

- Department of the Treasury: Australian Competition and Consumer Commission (89)

## Budget reaction

Argument has centred on whether the total number of APS staff cuts of 1224 is misleading. The Australian Financial Review comments that:

The civilian job cuts spread across portfolio departments and key agencies amount to more than 4100, offset by gains in some departments and agencies.<sup>16</sup>

Senator Gary Humphries (Lib, ACT) suggests that the loss of public service jobs is higher than the Budget forecast:

Overall, the Government has cut more than 3,000 public service jobs, yet by adding some extra uniformed personnel to Defence, they have been able to pretend the net loss is only 1,224. This is obviously false, because project managers, communications officers and HR people can't just put down their pens and take up heavy artillery. These new Defence jobs are not ones that can be filled by retrenched public servants, they will have to be filled from outside the service. Therefore the overall number of jobs to be lost is far higher than the Government would have us believe.<sup>17</sup>

The Community and Public Sector Union suggests that '3200 non-defence Australian public service positions will be lost'. The CPSU also criticises the application of the efficiency dividend across all public sector agencies:

Some savings can be found, but the blunt, one-size-fits all 'efficiency dividend' is not useful in building a dynamic, creative public service needed to deliver for Australia's long term challenges.<sup>18</sup>

Senator Humphries has also attacked the imposition of the 3.25 per cent efficiency dividend:

There is also the imposition of the two per cent efficiency dividend on government agencies. It is worth remembering that Labor, when in opposition, said that the efficiency dividend of 1¼ per cent was lazy budgeting, it was badly targeted, and it did not give people the chance to distinguish good programs from poorly run programs. Labor have now upped it to 3¼ per cent. How does that work out?<sup>19</sup>

The ACT Chief Minister, Jon Stanhope, supports the Budget ASL estimates and suggests that the Budget cuts have not hit the ACT as hard as had been expected. He said:

We've come out of it far better than we were lead to believe we would. I don't believe the stringencies here in the ACT are nearly as tough as some of the rhetoric we faced in the lead

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16. Verona Burgess, '[Bureaucrats adjust to slimming cure](#)', *Australian Financial Review*, 15 May 2008.

17. Senator Gary Humphries, '[Canberra foots the bill for Swan's spend-a-thon](#)', media release, 14 May 2008.

18. Community and Public Sector Union, '[Budget 2008](#)', *CPSU media release*, 14 May 2008.

19. Senator Gary Humphries, 'Matters of Public Interest: Budget 2008-09', Senate, *Debates*, 14 May 2008, p. 43.



up to the delivery of this budget, so discussions of meat axes and massive job losses simply haven't come to pass.<sup>20</sup>

Mr Stanhope anticipates that the ACT Public Service will absorb many of the APS redundancies.

## Career Transition and Support Centre

On 28 March the Special Minister of State, Senator Faulkner, announced the establishment of a Career Transition and Support Centre (CTSC) to assist agencies manage staff reductions. The Minister stated that the government wanted to ensure that excess staff are provided with opportunities to stay in the Public Service, enable the Public Service to retain experienced and qualified staff and redeploy them to areas of need and minimise the requirement for compulsory retrenchment.<sup>21</sup>

The Government has provided \$2.5 million over two years to the Australian Public Service Commission (APSC) to establish and operate the CSTC. The funding includes \$0.1 million in capital funding. The Centre acts as both a referral and a recruitment agency. It is to operate on a partial cost-recovery basis, with agencies paying a standard referral fee of \$2200 for each employee. The APSC estimates that there will be 350 cases in 2008–09.<sup>22</sup>

The CSTC will work with agencies to provide advice on implementing the Redeployment Principles, which are aimed at ensuring a consistent whole-of-government approach to managing excess staff across the Public Service.<sup>23</sup> By the establishment of the CTSC the Government aims to reduce the adverse effects of the Budget measures and show its commitment to the retention of skills and experience in the APS.<sup>24</sup> The Government's approach to managing staff reductions and redeployment has been welcomed by the Community and Public Sector Union.<sup>25</sup>

The Career and Support Centre commenced operations on 1 May 2008.

## Ministerial and Opposition staff

In line with its election commitment, the Rudd Government has reduced the number of ministerial and opposition personal staff by 30 per cent.<sup>26</sup> This move will result in savings of

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20. ABC News Online, 'Stanhope sigh of relief over Budget', <http://www.abc.net.au/news/stories/2008/05/14/2244199.htm>, accessed on 16 May 2008.

21. Senator Faulkner, Special Minister of State, '[APS career Transition and Support Centre](#)', media release, 28 March 2008.

22. Australian Government, Portfolio Budget Statement 2007–08: Budget Related Paper No. 1.15A Prime Minister and Cabinet portfolio, p.112.

23. Australian Public Service Commission, '[Services for agencies: redeployment arrangements](#)'

24. Senator Faulkner, Special Minister of State, '[APS Career Transition and Support Centre](#)', media release, 13 May 2008.

25. Andrew Fraser, '[Moves to dull razor gang's pain](#)', *Canberra Times*, 2 April 2008.

26. Lindsay Tanner, '[Address to the National Press Club](#)', media release, 8 August 2007.

\$126.3 million over five years.<sup>27</sup> The number of ministerial staff had increased from 294 in May 1996 to 445 in 2006. The reduction in staff will result in a return to 1996 staffing levels.

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27. Australian Government, 'Part 2: Expense measures', *Budget Paper No 2: Budget Measures 2008–09*, Commonwealth of Australia, Canberra, 2007, p. 355.