



## Budget Review 2009–10

### Introduction

The second Rudd Government Budget, handed down on 12 May 2009, was framed amid a sharply deteriorating world economy and the first serious downturn in Australian economic activity since the early 1990s. This challenging global economic environment is creating anxiety among government policy makers around the globe as the appropriateness of the various policy responses are being openly debated in parliaments and through the media.

To assist parliamentarians in these demanding times, the Parliamentary Library is once again producing a *Budget Review* that examines the key features of a selection of crucial measures contained in the Budget. The first article, *Budget 2009–10: Key features*, provides a macroeconomic analysis and commentary of the Budget including the assumptions underpinning the Government's fiscal policy and the main spending and taxing features contained in the Budget. The remaining articles examine the impact of Budget measures on a broad range of specific issues and initiatives.

The *Budget Review 2009–10* has necessarily been prepared under time pressure with a view to making it available to parliamentarians as soon as possible. While great care has been taken to ensure that these articles are accurate and balanced, they are written using information publicly available at the time of production. It is not the intention of these documents to make value judgements about the relative importance of different measures or to provide a comprehensive overall assessment of the Budget.

Parliamentarians are invited to raise points requiring amplification or clarification directly with the research specialist concerned and any general comments on papers are also welcome. Any other feedback should be forwarded to me. Clients are also reminded that in addition to the Budget Review the Library publishes the *Opinion and analysis of the Budget in the media* page on our website.

**Roxanne Missingham**  
Parliamentary Librarian

May 2009



# Contents

## **Budget 2009–10 overview**

Budget 2009–10: key features.....	1
Budget transparency—Operation Sunlight .....	16

## **Climate change, energy and the environment**

Climate change and energy .....	18
Environment.....	32
Water .....	35

## **Defence**

Defence .....	40
---------------	----

## **Federal–state relations**

GST transitional assistance to expire .....	49
---------------------------------------------	----

## **Foreign affairs**

Department of Foreign Affairs and Trade (DFAT).....	50
Official Development Assistance (ODA) .....	53

## **Housing**

First Home Owners Boost extension.....	56
----------------------------------------	----

## **Infrastructure**

Infrastructure overview .....	58
Broadband and Telecommunications .....	61

## **Legal issues and the Attorney–General's portfolio**

Introduction .....	67
Access to Justice .....	67
Alcopops Customs and Excise Tariffs .....	69
Australian Securities and Investments Commission and Financial Regulation.....	70
Courts .....	72
Information Commissioner .....	74

Insolvency and Trustee Service Australia.....	75
National Capital Authority .....	75
National product safety regulation .....	76
National Security Legislation Monitor.....	79
Unit Pricing .....	79
<b>Australian Public Service</b>	
Australian Public Service .....	81
<b>Rural affairs</b>	
Drought assistance .....	90
Land and Water Australia .....	93
<b>Science and innovation</b>	
Science and innovation .....	95
<b>Superannuation</b>	
Superannuation.....	100
<b>Taxation</b>	
Business tax measures.....	104
Personal Income Tax.....	106
Fairness and integrity in the tax system .....	109
<b>Workplace relations</b>	
Workplace relations .....	113
<b>Social policy</b>	
Social policy overview .....	115
<b>Broadcasting and the arts</b>	
Arts .....	117
Digital radio and television .....	118
Public broadcasting .....	120
<b>Education</b>	
Education overview .....	123

Higher education .....	124
Schools .....	131
Vocational education and training.....	133
<b>Health and ageing</b>	
Health overview.....	136
Aged care.....	136
Health infrastructure .....	138
Medicare .....	140
Pharmaceutical benefits scheme .....	143
Private health insurance.....	147
Health Workforce .....	150
<b>Immigration</b>	
Abolition of the 45 day rule.....	154
Border protection and combating people smuggling.....	155
Community care and case resolution.....	157
Migration and humanitarian programs .....	159
<b>Indigenous affairs</b>	
Indigenous affairs .....	162
Reform of family payments.....	167
Paid parental leave.....	169
<b>Welfare payments</b>	
Reforms to pensions .....	170
Student income support .....	179



## Budget 2009–10: key features

Scott Kompo-Harms  
Economics Section

### Introduction

The second Rudd Government Budget was handed down on 12 May 2009. The Budget was framed amid a sharply deteriorating world economy and the first serious downturn in Australian economic activity since the early 1990s. The Government has changed the methodology for its forecasts and projections in order to provide a more realistic indication of the Budget position in future years. Considerable attention has been paid to the impact of discretionary fiscal stimulus on the economy and declining revenues as a result of the recent decline in commodity prices. The Government is forecasting real Gross Domestic Product (real GDP) to be stagnant in 2008–09 and to decline by ½ of a per cent in 2009–10. Employment is forecast to fall by ¼ of a per cent in 2008–09 and by 1½ per cent in 2009–10. This is expected to result in a peak unemployment rate of 8½ per cent in the June quarter 2011.

The Government is forecasting an underlying cash deficit of \$57.6 billion (and a fiscal deficit of \$53.1 billion) in 2009–10. The (estimated) underlying cash balance for 2008–09 has gone from a forecast surplus of \$21.7 billion in May 2008, to a forecast surplus of \$5.4 billion in November 2008, to a forecast deficit of \$22.5 billion in February 2009 and finally to a deficit of \$32.1 billion for the 2008–09 financial year.<sup>1</sup> The Budget is not expected to return to balance during the next four years.

Key announcements in the Budget were:

- an increase in some pension rates for singles and couples, along with changes to eligibility conditions in future years
- a number of infrastructure projects, particularly metropolitan road and rail facilities
- introducing means-testing to the private health rebate and increasing the Medicare levy surcharge for higher income earners
- changes to tax concessions related to superannuation contributions
- changes to indexation arrangements and thresholds for family payments
- a national paid maternity leave scheme, and
- initiatives for clean energy and energy efficiency along with the establishment of Renewables Australia.

---

1. Australian Government, 'Statement 3: Fiscal Strategy and Outlook', *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 3–11.

From a macroeconomic perspective, media commentary since the Budget was handed down has focussed on the forecasts and projections produced by Treasury. A number of commentators have questioned whether the projected growth path of the Australian economy is too optimistic. Prior to the Budget there had also been much debate about the effectiveness of the Government's fiscal stimulus measures.

This brief contains a summary of key economic and budget aggregates, a comparison with other economic forecasts from a range of sources, as well as a critical appraisal of the new methodology applied by the Government to produce budget forecasts and projections in light of the global recession. A few comments on the economic modelling used by Treasury to produce the Budget forecasts are also presented. Finally, the brief considers major revenue and spending aspects of the Budget.

## **The economic outlook**

'Statement 2: Economic Outlook' in *Budget Paper No.1 2009–10* details the economic outlook that underpins the budget aggregates presented in: 'Statement 3: Fiscal Strategy and Outlook'; 'Statement 5: Revenues' and 'Statement 6: Expenses and Net Capital Investment'. The Australian Government has decided to implement a new methodology for producing their forecasts and projections over the forward estimates period. Traditionally, the Government has issued **forecasts** for the current financial year (in this case, 2008–09), and the Budget year (2009–10) and **projections** for a further three years. In the 2009–10 Budget, forecasts are presented for an additional year (2010–11) and projections are presented for two years beyond the forecast period (2011–12 and 2012–13), with different assumptions used for those projections than those used in the past. In essence, projections have previously been predicated on the assumption that the economy will return to its long-run average growth rate. The traditional approach is likely to give a misleading picture of the true budget position, hence the new methodology.

'Statement 4: Assessing the Sustainability of the Budget' is a detailed feature article containing analysis and longer term projections about the future path of the Budget given the deterioration in revenues and discretionary fiscal response to the downturn in real GDP growth. Statement 4 also covers the effects of discretionary fiscal policy on the economy and discusses evidence from the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD).

## **The international outlook**

The current recession has been caused entirely by factors outside of Australia. The financial crisis in the United States that started in 2007 has spread around the globe, seizing up credit markets, which in turn has curtailed global economic activity. Most countries have experienced significant asset price declines. The global nature of this recession means the Government's view of the global economy is crucial to the domestic economic outlook. The Australian Treasury's international economic outlook is summarised and compared to IMF forecasts in Table 1. As can be seen from the table IMF and Treasury forecasts are reasonably close for most countries and regions with the exception of the Newly Industrialised Asian economies and the Association of South East Asian Nations group of five, given that Treasury rounds their forecasts to the nearest quarter of a percentage point.



**Table 1: International real GDP growth rates – IMF and Australian Treasury forecasts**

	Actual		Forecasts					
	2008		2009		2010		2011	
	IMF	Treasury	IMF	Treasury	IMF	Treasury	IMF	Treasury
United States	1.1	1.1	-2.8	-3	0.0	1/4	N/A	1 3/4
Euro area (a)	0.9	0.7	-4.2	-4	-0.4	0	N/A	1 1/4
Japan	0.6	-0.7	-6.2	-6	0.5	1/2	N/A	3/4
China (b)	9.0	9.0	6.5	6 1/4	7.5	8	N/A	8 1/2
NIEs (a)(c)	1.5	1.6	-5.6	-4 3/4	0.8	2 3/4	N/A	3 1/4
ASEAN-5 (a)(d)	4.9	4.6	0.0	-1 1/4	2.3	2 1/2	N/A	3 3/4
India (b)	7.3	7.4	4.5	4	5.6	4 3/4	N/A	5 3/4
Major trading partners (a)	N/A	2.7	N/A	-2	N/A	2 1/2	N/A	3 1/4
Advanced economies (a)(e)	0.9	0.9	-3.8	-3 3/4	0.0	1/2	N/A	1 3/4
World (a)	3.2	3.2	-1.3	-1 1/2	1.9	2 1/4	N/A	3 1/2

(a) World, euro area and advanced economies growth rates are calculated using GDP weights based on purchasing power parity (PPP), while growth rates for major trading partners, NIEs and ASEAN-5 are calculated using export trade weights.

(b) Production-based measures of GDP.

(c) The Newly Industrialised Economies (NIEs) are Hong Kong, South Korea, Singapore and Taiwan.

(d) The Association of Southeast Asian Nations group of five (ASEAN-5) comprises Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

(e) Composed of the 33 industrialised economies classified as advanced by the IMF.

Sources: ‘Statement 2: Economic outlook’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, p. 2–10; IMF, *World Economic Outlook*, April 2009, pp. 12, 65 and 73.

### The domestic outlook

This section looks at Treasury’s forecasts for major economic aggregates for the domestic economy that have generated much media and political debate and summarises some of the research underlying this debate. It also outlines some of the key underlying assumptions and compares the Treasury forecasts with those from other sources. Table 2 below summarises Treasury’s forecasts for major economic aggregates and a more detailed summary of forecasts is presented in Appendix A.

**Table 2: Major economic aggregates – forecasts and projections<sup>2</sup>**

	Forecasts			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13
Real GDP	0	-1/2	2 1/4	4 1/2	4 1/2
Employment	-1/4	-1 1/2	1/2	2 1/2	2 1/2
Unemployment rate	6	8 1/4	8 1/2	7 1/2	6 1/2
CPI	1 3/4	1 3/4	1 1/2	2	2 1/2
Nominal GDP	5 3/4	-1 1/2	3 3/4	6 1/4	6 3/4

Source: ‘Statement 1: Budget overview’, Budget strategy and outlook: Budget paper No. 1: 2009–10, p. 1–7.

### Key assumptions underlying the domestic outlook

Treasury outlines the technical assumptions used to produce the domestic economy forecasts:

The exchange rate is assumed to remain around its recent average level — a trade-weighted index of around 59 and a United States dollar exchange rate of around 72 US cents. Interest rates are assumed to move broadly in line with market expectations. World oil prices (Malaysian Tapis) are assumed to remain around US\$56 per barrel. The farm sector forecasts are based on an assumption of average seasonal conditions in the future, but account for current low water storage levels.<sup>3</sup>

In previous years, budget forecasts have been based on unchanged interest rates whereas in this Budget, it is assumed that interest rates ‘move broadly in line with market expectations’.

### The debate on the Budget projections

In particular, the projections in the years 2011–12 and 2012–13 that show real GDP growing at 4½ per cent per year have been questioned as to their realism. Treasury have exercised their judgement, based on the historical experience of the last two Australian recessions as to the path out of the current recession.

However there is the argument that these recessions may not be an accurate guide to the future, as the circumstances surrounding those recessions were different from that of today. In particular, this recession has been preceded by a massive financial crisis that emanated from the centre of the world financial system, the United States, and very quickly spread to other economies in the ‘centre’, particularly the UK and European economies. This financial crisis has then spread to peripheral countries as well, including Australia. The main channels for contagion to Australia have been equities markets and the costs of credit intermediation. In addition, the downturn in economic activity has been highly synchronised across the globe. These two factors lead some economists to the conclusion that this global recession is likely to be drawn out and recovery slower than ‘normal’. Carmen M. Reinhart and Kenneth S.

2. Real and nominal GDP parameters are year average. CPI and employment are through the year growth to the June quarter. The unemployment rate is the rate in the June quarter.

3. Australian Government, ‘Statement 2: economic outlook’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 2–6.

Rogoff (in three separate papers), examine episodes of past financial crises in detail and compare the current crisis to those precedents.<sup>4</sup>

In their latest paper, they conclude:

An examination of the aftermath of severe financial crises shows deep and lasting effects on asset prices, output and employment. Unemployment rises and housing price declines extend out for five and six years respectively. On the encouraging side, output declines last only two years on average. Even recessions sparked by financial crises do eventually end, albeit almost invariably accompanied by massive increases in government debt ...

Since the onset of the current crisis, asset prices have tumbled in the United States and elsewhere along the tracks laid down by historical precedent. The analysis of the post-crisis outcomes ... for unemployment, output and government debt provide sobering benchmark numbers for how the crisis will continue to unfold. Indeed, these historical comparisons were based on episodes that, with the notable exception of the Great Depression in the United States, were individual or regional in nature. The global nature of this crisis will make it far more difficult for many countries to grow their way out through higher exports, or to smooth the consumption effects through foreign borrowing. In such circumstances, the recent lull in sovereign defaults is likely to come to an end ... [D]efaults in emerging market economies tend to rise sharply when many countries are simultaneously experiencing domestic banking crises.<sup>5</sup>

The IMF refers to its own research in its most recent *World Economic Outlook* and concludes:

Recessions that are associated with both financial crises and global downturns have been unusually severe and long-lasting. Since 1960, there have been only 6 recessions out of the 122 in the sample [considered by the IMF researchers] that fit this description ... On average, these recessions lasted almost two years ... Moreover, during these recessions GDP fell by more than 4¾ per cent. Reflecting in part the severity of these recessions, recoveries from synchronised recessions are weak.<sup>6</sup>

#### Other forecasts

The Reserve Bank of Australia (RBA) has recently issued their own set of domestic forecasts in their latest *Statement on Monetary Policy*.<sup>7</sup> In addition, Access Economics, ANZ Bank,

---

4. The three papers are: CM Reinhart and KS Rogoff, 'Is the 2007 financial crisis so different? An international historical comparison', *Working paper 13761*, National Bureau of Economic Research, Cambridge, Massachusetts, January 2008; CM Reinhart and KS Rogoff, 'Banking crises: An equal opportunity menace', *Working paper 14587*, National Bureau of Economic Research, Cambridge, Massachusetts, December 2008; and, CM Reinhart and KS Rogoff, 'The aftermath of financial crises', *Working paper 14656*, National Bureau of Economic Research, Cambridge, Massachusetts, January 2009.

5. Reinhart and Rogoff, 'The aftermath of financial crises', pp. 11–12.

6. International Monetary Fund, *World economic outlook*, April 2009, p. 119.

7. Reserve Bank of Australia, *Statement on monetary policy*, 8 May 2009, p. 69, viewed 13 May 2009, [http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/Statements/statement\\_on\\_monetary\\_0509.pdf](http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/Statements/statement_on_monetary_0509.pdf)

National Australia Bank (NAB) and Westpac Bank have all issued their own forecasts. These are all summarised in tables 3a and 3b below. Unfortunately the two tables are not directly comparable as the RBA forecasts are expressed as percentage changes in the year to the quarter while the other forecasts are compiled on the same basis as those in the Budget (percentage change on previous year).

However, the RBA has stated:

In year-average terms, GDP is forecast to decline by ½ per cent in 2009/10 before growing by 2 ¼ per cent in 2010/11.<sup>8</sup>

Thus, when expressed in the same terms, the RBA forecasts are the same as the Treasury forecasts. The private forecasts in Table 3b are also broadly in line with the Budget forecasts.

**Table 3a: RBA forecasts – Statement of Monetary Policy, May 2009**

	Dec	June	Dec	June	Dec	June	Dec
	2008	2009	2009	2010	2010	2011	2011
Real GDP	0.3	-1¼	-1	½	2	3¼	3¾
CPI	3.7	1½	2¼	2½	2	1½	1½

Actual data to December 2008. For the forecast period, technical assumptions include A\$ at US\$0.75, TWI at 61, cash rate at 3.00 per cent, and WTI crude oil price at US\$65 per barrel and Tapis crude oil price at US\$67 per barrel.

Percentage change over year to quarter shown

Source: RBA, Statement of Monetary Policy, p. 69.

**Table 3b: Other private forecasts**

	2008-09 Estimates				
	Access	ANZ	NAB	Westpac	Budget
<b>Real GDP</b>	0.1	1/4	¼	0.2	0
<b>Employment</b>	1.4	1	½	1.1	-1/4
<b>Unemployment rate</b>	4.9	5 3/4	5 ¾	5.8	6
<b>CPI</b>	3.6	3	1 ¾	3.2	1 3/4
<b>Nominal GDP</b>	5.4	5 3/4	N/A	6	5 3/4
	2009-10 – Forecasts				
	Access	ANZ	NAB	Westpac	Budget
<b>Real GDP</b>	-0.2	- 3/4	- ½	-0.2	-1/2
<b>Employment</b>	-1	-1 1/4	-2 ½	-1.7	-1 1/2
<b>Unemployment rate</b>	7.3	8	7 ½	8.5	8 1/4
<b>CPI</b>	2.1	2	2 ½	1.8	1 3/4
<b>Nominal GDP</b>	-1	-2	N/A	-2.3	-1 1/2

8. Reserve Bank of Australia, p. 68.

	2010-11 – Forecasts				
	Access	ANZ	NAB	Westpac	Budget
<b>Real GDP</b>	2.4	2 1/4	N/A	2.5	2 1/4
<b>Employment</b>	0.1	1/4	N/A	-0.3	1/2
<b>Unemployment rate</b>	8.4	8 1/4	N/A	8.7	8 1/2
<b>CPI</b>	2.8	2 1/2	N/A	2.3	1 1/2
<b>Nominal GDP</b>	4.1	4 1/2	N/A	3	3 3/4

Sources: Access Economics, ANZ, NAB, Westpac, Treasury.<sup>9</sup>

### Fiscal policy

Another issue that has been politically contested has been the effect of the Government's stimulus measures. In the budget papers Treasury has presented a summary of the discretionary fiscal policy measures taken since the September quarter of 2008 and the so-called 'multipliers' they have applied when estimating the impact of those measures. An interesting feature is that OECD multipliers for direct government consumption are slightly higher than those for transfers to liquidity constrained households, particularly for the first year. Estimates from the OECD and IMF were used as a guide to validate the decision of Treasury to apply multipliers of between 0.5 and 1. These are shown in Table 4 below. Note that these multiplier estimates were released after the initial October 2008 *Economic Security Strategy*, but the IMF estimates were available before the release of the *Nation Building and Jobs Plan*. The OECD estimates were only released after both of the abovementioned stimulus packages were announced.

**Table 4: OECD and IMF estimates of fiscal multipliers**

	OECD - Australia		OECD - US		IMF - G-20
	Year 1	Year 2	Year 1	Year 2	
<b>Spending measures</b>					
Infrastructure	0.9	1.1-1.3	0.9	1.1-1.3	0.5-1.8
Government consumption	0.6	0.7-1.0	0.7	0.8-1.1	
Transfers to households	0.4	0.7-0.8	0.5	0.8-0.9	
<b>Revenue measures</b>					
Personal income tax cuts	0.3-0.4	0.4-0.8	0.3-0.5	0.5-0.9	0.3-0.6
Indirect tax cuts and other	0.2-0.3	0.3-0.5	0.2-0.3	0.3-0.5	

Sources: 'Statement 4: Assessing the Sustainability of the Budget', *Budget strategy and outlook: Budget paper no. 1: 2009–10*, p. 4-6; IMF; OECD.<sup>10</sup>

9. Access Economics, *Commonwealth Budget monitor*, Issue 75, Canberra, Australia, 11 May 2009; ANZ Bank, *ANZ Federal Budget report*, Melbourne, Australia, 13 May 2009; National Australia Bank, *2009–10 Federal Budget report*, Sydney, Australia, 12 May 2009; Westpac Banking Corporation, *Australian Federal Budget 2009/10*, Sydney, Australia, 12 May 2009.
10. OECD, 'Chapter 3: The effectiveness and scope of fiscal stimulus', *Interim economic outlook*, Paris, March 2009; and, IMF, 'Group of Twenty', paper prepared by the staff of the IMF for the G20 meeting of deputies, London, 31 January–1 February 2009.

Treasury has also presented some medium-term projections regarding the sustainability in government finances in the medium-term. The ability for government finances to return to a sustainable footing is critically dependent upon two factors, the extent to which medium-term projections of Australian economic growth eventuate and policy choices that are made over the same timeframe. One critical assumption is that real growth in spending will be held to 2 per cent per annum, once the economic growth is above-trend, until the Budget returns to surplus.<sup>11</sup>

### Economic modelling and its limitations

Treasury uses the TRYM macro-econometric model, in conjunction with sectoral and other economic models to inform the Government about the likely path of the economy over the budget forecast period. There are good reasons to view the budget results cautiously to the extent they are derived from the TRYM model.

First, these are not ‘normal’ economic times and thus, given the econometrically estimated nature of the TRYM model, it would be imprudent to uncritically rely on forecasts that are based on data that are at the extremes or outside of the ranges of the sample used to estimate equations contained in the model. This is because the estimated behavioural relationships are likely to have changed in such circumstances.

Second, in terms of the results presented in Statement 4 of *Budget Paper No. 1* on fiscal policy and the effect on real GDP (and therefore on employment growth and the unemployment rate), it should be noted that the TRYM model is structured in such a way that fiscal policy is *assumed* to have a short-run impact on the economy.<sup>12</sup> The economy is then usually assumed to return to a long-run trend growth path. In the case of this year’s Budget, the above-trend trajectory of recovery is also assumed. Treasury states, in terms of macroeconomic theory:

Overall, the TRYM model can be characterised as being broadly Keynesian (demand driven) in the short run, but having a neo-classical (supply driven) long run.<sup>13</sup>

Another reason for caution is that Treasury have not provided any indication of forecast errors of major economic parameters that underlie the Budget. Presentation of forecast error bands would at least reinforce the notion that these forecasts are not iron-clad statements of fact when it comes to the future evolution of the Australian economy, but that they are subject to various (known and unknown) sources of error that arise for a variety of reasons (such as sampling and measurement errors), and that forecast errors increase the further that forecasts are extended into the future.

---

11. Australian Government, ‘Statement 4: Assessing the sustainability of the Budget’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 4–10.

12. Australian Government, ‘Statement 4: Assessing the sustainability of the Budget’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 4–4 to 4–8.

13. P Downes, ‘An introduction to the TRYM model: applications and limitations’, Paper presented to the International Federation of Automatic Control (IFAC) Symposium: Modelling and Control of National and Regional Economies, Gold Coast, 2–5 July 1995, p. 8.

A rather simple and effective way of presenting forecast error bands is through the use of fan charts. These charts show historical data and also forecasts, however, the forecasts are presented as probability distributions, rather than point estimates. This would enable readers of the budget papers to perform some objective *ex post* assessment of the forecasts. Fan charts also allow the incorporation of subjective judgements about the future risks to those forecasts through the use of asymmetric probability distributions. The Bank of England uses fan charts for their forecasts of inflation and other economic variables and they provide a good discussion of how fan charts are derived and interpreted.<sup>14</sup>

Clearly if actual outcomes were consistently above or consistently below the central forecast or were continually on the outer extremes of previous forecasts, then one could conclude that there are problems with the model(s) used to derive them. They would also serve to illuminate researchers as to the nature of potential problems they should focus on when trying to improve their modelling.

Treasury notes the limitations of the TRYM model:

... to be useful control ultimately has to be applied to a forecasting baseline.<sup>15</sup> The accuracy of the forecast baseline not only depends on knowledge of the true parameters of the economy (such as the [Non-Accelerating Inflation Rate of Unemployment] ... ) but also requires projections for exogenous variables which are difficult to forecast, such as commodity prices and rainfall, and must be based on survey data which is incomplete, contains substantial survey errors and is subject to revision. As a result the accuracy of forecasts for most target variables even for the first year out is relatively low.<sup>16</sup>

In the case of this Budget the ‘pre-stimulus’ baseline scenario is that no stimulus had been applied, compared with a ‘post-stimulus’ scenario which includes all of the Government’s discretionary fiscal stimulus actions taken since the September quarter of 2008. In short this does not constitute empirical ‘evidence’ of the effectiveness (or the degree of effectiveness, let alone desirability) of discretionary fiscal stimulus in ameliorating the effects of recession. It reflects more the judgement exercised by the Treasury which is informed by macroeconomic theory and based on considerable experience and research.<sup>17</sup> One could also mount an argument as to whether the ‘no stimulus’ baseline is the appropriate basis for comparison.

---

14. <http://www.bankofengland.co.uk/publications/quarterlybulletin/qb980101.pdf> viewed 22 May 2009.

15. Control in this context refers to optimal control. In essence, it refers to the method used to obtain a solution for the model.

16. Downes, p. 11.

17. Some economists such as Associate Professor Steve Keen (University of Western Sydney) are sharply critical of the macroeconomic theory and methodology used by Treasury to produce forecasts of the economy. An example of this criticism that specifically relates to this year’s Budget can be found at: Steve Keen’s Debtwatch, ‘Budget 2009: let’s assume we can have an opener’ viewed 18 May 2009, <http://www.debtdeflation.com/blogs/2009/05/13/budget-2009-lets-assume-we-have-a-can-opener/>

Indeed the empirical literature on the effectiveness of discretionary fiscal policy is quite ambiguous as to the effects of various types of stimulus measures.<sup>18</sup> Part of this stems from econometric problems associated with identifying ‘discretionary’ changes in fiscal policy, but it is also partially due to assumptions about the behaviour of agents in the economy. The use of different data-sets, definitions of discretionary measures, time periods and econometric methods can produce starkly different results. Economists also struggle with the difficulty of not being able to conduct controlled experiments, therefore eliminating the ability to precisely replicate previous research.

Econometric modelling, particularly at a high level of aggregation, is more art than science, with a considerable amount of subjective judgement being applied. It should be seen as indicative in nature only, and results should not be interpreted as precise statements of fact. The intention of these comments is not to cast doubt on the accuracy of Treasury’s forecasts or their assertions that discretionary fiscal stimulus will have an impact on the economy (as can be seen above, forecasts presented in the Budget match forecasts from other sources quite well). Rather, they are merely to provide some background as to how these forecasts/judgements are formed, their limitations; and also to reinforce the point that the economics profession as a whole does not have a conclusive answer to the question of the effectiveness of discretionary fiscal stimulus.

The Minister for Finance, Lindsay Tanner MP acknowledges the imprecise nature of forecasting in a recent interview on the 7.30 report. In response to a question from the host, Mr Kerry O’Brien, he replied:

Well, Kerry, given that we're talking about the years ahead, we can't really base it on much other than forecasts and promises. The forecasts tell us where Treasury believes the economy is heading and the promises indicate the disciplines we are imposing upon ourselves and how we are gonna deal with the challenges that we confront. And people will then have to judge the outcomes. Keep in mind that these will change as time unfolds. So, inevitably, what happens every year and indeed every six months is that Treasury updates the forecasts and they will change to a degree over time as a result of those processes. But we have to make forecasts and we have to indicate a strategy as to how we are going to build the nation for the future, get through the current recession and get into recovery and return the budget to surplus.<sup>19</sup>

## Revenues and expenses

As will be seen below, the budget position has deteriorated significantly since May 2008. The Budget has deteriorated so dramatically that the Government even took the unusual step of issuing an *Updated Economic and Fiscal Outlook* in February 2009 after the release of the *Mid-Year Economic and Fiscal Outlook* in December 2008. The Budget has deteriorated even further since February 2009. This underscores the fragile nature of macroeconomic forecasts, even over the course of a single year as outlined in the previous section, especially around turning points in the economy. Treasury have presented an appraisal of their

---

18. Stimulus measures include various types of tax cuts, direct government consumption, government spending on infrastructure or cash transfers to liquidity constrained households.

19. <http://www.abc.net.au/7.30/content/2009/s2576476.htm> viewed on 22 May 2009.



forecasting accuracy for revenues, although a similar analysis has not been performed for expenses.

Most of the deterioration in the fiscal balance is due to a dramatic fall in taxation revenues, but also a rise in expenses arising from the government policy response to the downturn in economic activity as a result of the global financial crisis.

## Revenue

Table 5 below shows the variations to revenues since the 2008–09 Budget. It is clear that most of the turnaround in revenues has been driven by parameter variations, which are essentially unexpected gains or losses due to incorrect forecasts of revenue. Between the 2008–09 and 2009–10 budgets, \$23.5 billion worth of revenue expected in 2008–09 never materialised. Nearly 98 per cent of the difference is accounted for by parameter variations. From 2008–09 to 2011–12, parameter variations equate to a total loss of \$175.4 billion worth of estimated revenue.

**Table 5: Revenue—Policy decisions and parameter variations**

	Estimates			Projections
	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
<b>Revenue at 2008-09 Budget</b>	<b>319,464</b>	<b>336,920</b>	<b>350,862</b>	<b>366,922</b>
Changes between 2008-09 Budget and MYEFO				
Effect of policy decisions	-100	-87	-23	0
Effect of parameter and other variations	-6,114	-12,488	-14,286	-11,382
Total variations	-6,214	-12,575	-14,309	-11,382
<b>Revenue at 2008-09 MYEFO</b>	<b>313,250</b>	<b>324,345</b>	<b>336,552</b>	<b>355,540</b>
Changes between MYEFO and UEFO				
Effect of policy decisions	-449	-1,102	5,611	5,437
Effect of parameter and other variations	-8,840	-19,241	-23,172	-24,354
Total variations	-9,289	-20,343	-17,561	-18,918
<b>Revenue at 2009 UEFO</b>	<b>303,960</b>	<b>304,001</b>	<b>318,991</b>	<b>336,621</b>
Changes between UEFO and 2009-10 Budget				
Effect of policy decisions	-2	-256	-4,990	-631
Effect of parameter and other variations	-8,019	-13,133	-19,159	-15,214
Total variations	-8,021	-13,389	-24,149	-15,845
<b>Revenue at 2009-10 Budget</b>	<b>295,939</b>	<b>290,612</b>	<b>294,841</b>	<b>320,776</b>

Source: 'Statement 5: Revenue', *Budget strategy and outlook: budget paper no. 1: 2009–10*, p. 5–14.

## Revenue Forecasting Performance

Treasury discusses the three main sources of error in forecasting revenue in Appendix D of ‘Statement 5: Revenue’, *Budget paper no. 1*.<sup>20</sup>

- errors in forecasts of the economy underpinning the forecasts the revenue forecasts
- errors in translating the economy to revenue forecasts and
- miscellaneous factors including (but not limited to) post-budget policy decisions, court decisions regarding tax law interpretation and revisions to historical economic data.

Treasury describes revenue estimates as being produced using a ‘base plus growth’ methodology. In highly simplified terms, the ‘growth’ part of the methodology is derived from the economic growth forecasts. Thus, economic growth forecasts are crucial to the outlook for revenues (see discussion of economic modelling above). Treasury shows a chart (chart D2) which examines taxation revenue forecast errors versus nominal non-farm GDP growth forecasting errors. The chart contains a range that implies that if revenue forecasts are within it, then the forecast is acceptable in terms of accuracy. The range essentially implies a 0.5 per cent margin for error if economic forecast errors were zero. In other words, this chart abstracts from errors in economic forecasts as a source of error. In the eight year period considered, there are four years within the range (2001–02, 2003–04, 2005–06 and 2006–07) and four above the range (2000–01, 2002–03, 2004–05 and 2007–08), implying that revenue had been underestimated in those years, relative to economic forecast errors. There is a general tendency for revenues to be underestimated in times of economic expansion and overestimated in times of contraction.

As noted in last year’s *Budget Review* in the ‘Key Features’ brief, the budget papers have not forecast any of the recessions Australia has experienced since the early 1950s.<sup>21</sup> This both highlights the difficulties of forecasting and suggests that any improvements that Treasury could make in forecasting the economy could yield significant gains in terms of budget predictability.

## Expenses

In contrast to revenues, changes in expenses have been overwhelmingly dominated by policy changes since the last budget. In 2008–09, policy changes worth \$33.8 billion have been offset by a fall in expenses due to parameter variations of \$1.9 billion. From 2008–09 to 2011–12, policy changes have resulted in \$98.2 billion worth of extra expenses.

---

20. Australian Government, ‘Statement 5: Revenue’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 5–50 to 5–52.

21. S Kompo-Harms and D Richardson, ‘Budget 2008–09: Key Features’, *Budget review 2008–09*, Parliamentary Library, Canberra, 26 May 2008, viewed 20 May 2009, <http://www.aph.gov.au/library/pubs/rp/2007-08/08rp31.pdf>; See also: D Richardson, *Official economic forecasts: how good are they?*, Current issues brief, no. 17, 2000–01, Parliamentary Library, Canberra, 26 June 2001, viewed 20 May 2009, <http://www.aph.gov.au/library/pubs/CIB/2000-01/01cib17.htm>

Table 6a: Expenses – Policy decisions and parameter variations

	Estimates			Projections
	2008-09	2009-10	2010-11	2011-12
	\$m	\$m	\$m	\$m
<b>2008-09 Budget expenses</b>	<b>292,470</b>	<b>310,513</b>	<b>323,083</b>	<b>339,241</b>
Changes between 2008-09 Budget and MYEFO				
Effect of policy decisions(a)	11,413	1,172	743	842
Effect of parameter and other variations	-258	58	456	-297
Total variations	11,154	1,230	1,200	544
<b>2008-09 MYEFO expenses</b>	<b>303,624</b>	<b>311,742</b>	<b>324,283</b>	<b>339,785</b>
Changes between MYEFO and UEFO				
Effect of policy decisions(a)	19,158	18,618	17,071	10,775
Effect of parameter and other variations	-464	1,688	3,288	4,303
Total variations	18,694	20,306	20,360	15,078
<b>2009 UEFO expenses</b>	<b>322,317</b>	<b>332,047</b>	<b>344,641</b>	<b>354,862</b>
Changes between UEFO and 2009-10 Budget				
Effect of policy decisions(a)	3,294	8,123	2,054	4,941
Effect of economic parameter variations				
Total economic parameter variations	-39	1,495	2,214	-40
Unemployment benefits	-285	1,067	2,551	1,494
Prices and wages	141	313	-460	-1,663
Interest and exchange rates	104	114	122	129
Public debt interest	177	1,038	1,907	3,205
Program specific parameter variations	3,546	5,708	3,438	2,333
Slippage in 2008-09 Budget decisions	0	1	1	1
Other variations	-4,852	-10,199	-9,727	-8,914
Total variations	2,126	6,165	-113	1,525
<b>2009-10 Budget expenses</b>	<b>324,443</b>	<b>338,213</b>	<b>344,528</b>	<b>356,388</b>

(a) Excludes the public debt net interest effect of policy measures.

Source: 'Statement 6: Expenses and Net Capital Investment', *Budget strategy and outlook: budget paper no. 1: 2009–10*, p. 6–4.

Please note that the table above incorporates changes made via the corrigendum issued to *Budget paper no. 1*.

**Table 6b: Expenses – Share of total expenses by function**

	Estimates		Projections		
	2008-09	2009-10	2010-11	2011-12	2012-13
	% of total	% of total	% of total	% of total	% of total
General public services	5.52	5.25	5.44	5.50	5.41
Defence	5.78	6.19	5.81	5.64	5.30
Public order and safety	1.14	1.15	1.10	1.05	1.03
Education	6.63	10.41	9.31	8.03	7.97
Health	15.22	15.15	15.44	15.61	15.37
Social security and welfare	38.50	32.82	33.82	33.83	33.06
Housing and community amenities	1.36	2.69	1.62	1.20	1.07
Recreation and culture	0.92	0.92	0.87	0.82	0.79
Fuel and energy	1.94	2.48	2.29	1.98	1.72
Agriculture, forestry and fishing	1.01	1.01	0.81	0.80	0.78
Mining, manufacturing and construction	0.59	0.50	0.57	0.55	0.51
Transport and communication	2.15	1.62	1.64	1.88	1.82
Other economic affairs	2.17	2.42	2.32	2.20	1.99
Other purposes	17.08	17.39	18.97	20.91	23.20
<b>Total expenses</b>	100	100	100	100	100

Sources: ‘Statement 6: Expenses and Net Capital Investment’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, p. 6–7; Parliamentary Library calculations.

This table shows the shares of total expenses for each portfolio area. The largest movers, in terms of shares of expenses, are: education, which increases its share from 6.63 per cent to 10.41 per cent in the year to (end) 2009–10; and social security and welfare from 38.50 per cent to 32.82 per cent. Focussing on 2009–10, increased shares of expenses also occur for defence, public order and safety, housing and community amenities, fuel and energy, other economic affairs and other purposes.

A more expansive coverage of individual revenue and expense measures are contained in the Parliamentary Library’s other *Budget Review 2009–10* briefs.

## Appendix A: Detailed Treasury estimates and forecasts: Economic Aggregates

Table A1: Detailed Treasury estimates and forecasts (a)

	Estimates	Forecasts	
	2008-09	2009-10	2010-11
<b>Panel A - Demand and output(b)</b>			
Household consumption	1	-1/4	1 3/4
Private investment			
Dwellings	-2 1/2	0	11 1/2
Total business investment(c)	2 1/2	-18 1/2	3 1/2
Non-dwelling construction(c)	1/2	-26	3
Machinery and equipment(c)	3	-16 1/2	4
Private final demand(c)	1/2	-4	2 3/4
Public final demand(c)	5	7 3/4	-1/2
Total final demand	1 1/2	-1 1/4	2
Change in inventories(d)	-1 1/2	1/4	3/4
Gross national expenditure	1/4	-1 1/4	2 1/2
Exports of goods and services	-1/2	-4	4 1/2
Imports of goods and services	-1 1/2	-6 1/2	6 1/2
Net exports(d)	1/4	3/4	-1/2
Gross domestic product	0	-1/2	2 1/4
Non-farm product	-1/4	-1/2	2 1/4
Farm product	13	1	0
Nominal gross domestic product	5 3/4	-1 1/2	3 3/4
<b>Panel B - Other selected economic measures</b>			
External accounts			
Terms of trade	8 3/4	-13 1/4	0
Current account balance (per cent of GDP)	-3	-5 1/4	-5 3/4
Labour market			
Employment (labour force survey basis)(e)	-1/4	-1 1/2	1/2
Unemployment rate (per cent)(f)	6	8 1/4	8 1/2
Participation rate (per cent)(f)	65 1/4	64 3/4	64 1/4
Prices and wages			
Consumer Price Index(e)	1 3/4	1 3/4	1 1/2
Gross non-farm product deflator	5 3/4	-1	1 1/2
Wage Price Index(e)	4 1/4	3 1/4	3 1/4
<p>(a) Percentage change on previous year unless otherwise indicated.</p> <p>(b) Chain volume measures except for nominal gross domestic product which is in current prices.</p> <p>(c) Excluding second-hand asset sales from the public sector to the private sector.</p> <p>(d) Percentage point contribution to growth in GDP.</p> <p>(e) Through the year growth rate to the June quarter.</p> <p>(f) Estimate for the June quarter.</p>			

Source: 'Statement 2: Economic outlook', *Budget strategy and outlook: budget paper no. 1 2009–10*, p. 2–6.

## Budget transparency—Operation Sunlight

Richard Webb  
Economics Section

The Budget papers for 2009–10 contain changes to the presentation of information. The changes were foreshadowed in [Operation Sunlight](#). According to the Department of Finance and Deregulation website:

Operation Sunlight is the Government’s reform agenda to improve the openness and transparency of public sector budgetary and financial management and to promote good governance practices.<sup>22</sup>

Perhaps the most praiseworthy change is the presentation of information at the program level in [Portfolio Budget Statements](#).<sup>23</sup> In the past, some agencies provided information at the program level but others did not. Now, not only is information provided at the program level but the Portfolio Budget Statements include the three forward estimates years at the program level. This is in addition to information for the previous and current budgets as has been provided in the past. For years, Members of Parliament have sought information at the program level and program funding over the forward estimates years. One wonders why this information was not provided before since the information obviously existed.

A second change is the revision of outcomes. A criticism of some outcomes is that they were too vague. On the one hand, this allowed flexibility as to where funds could be allocated. On the other hand, this limited parliamentary scrutiny of spending. The Department of Finance and Deregulation, in conjunction with agencies, has reviewed all outcomes. Readers will judge how successful this exercise has been. One problem that arises when outcomes are revised is that it might be difficult to obtain comparable data for earlier years.

A third change is that Budget Paper no. 4 includes a detailed table listing all special accounts authorised under the *Financial and Management Accountability Act 1997*. The table shows, by portfolio and entity, estimated balances and flows for the budget year and for the previous year. Again, this is a worthwhile addition.

The presentation of income statements in 2009–10 has changed to show the ‘net cost of services’. The net cost of services is derived by deducting from an agency’s expenses its ‘own source income’. This is income in the forms of revenue from the sale of goods and services, profits from the sale of assets etc. The money appropriated by government is then deducted from the net cost of services to derive the agency’s surplus or deficit, as the case may be.

The rationale for the change is that the net cost of services:

---

22. Australian Government, ‘Operation Sunlight’, Department of Finance and Deregulation website, viewed 18 May 2009, <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/operation-sunlight/index.html>

23. Australian Government, ‘Portfolio budget statements’, Budget 2009–10 website, viewed 18 May 2009, <http://www.budget.gov.au/2009-10/content/pbs/html/index.htm>

... recognises the nature of public sector activity and the emphasis on the net cost of services to Government.<sup>24</sup>

It is true that the presentation of accounting data as used by the private sector, especially the concept of profit and loss, is not very meaningful for government agencies that are funded mainly by government appropriations. The net cost of services recognises this by highlighting the contribution that agencies can make from their own resources to funding their activities on the one hand, and the contribution from government on the other hand.

It is questionable whether the adoption of net cost of services really adds much. While some readers of budget papers may be interested to know the net cost of services, it is probably of little interest to most readers. Many readers, especially those with no accounting knowledge, would not have any familiarity with the concept. Finally, the revised presentation is complicated compared with the straightforward presentation of

---

24. Australian Government, *Operation Sunlight: enhancing budget transparency*, Australian Government, December 2008, p. 18, viewed 18 May 2009, <http://www.finance.gov.au/financial-framework/financial-management-policy-guidance/operation-sunlight/docs/operation-sunlight-enhancing-budget-transparency.rtf>

## Climate change and energy

Dr Julie Styles and Anita Talberg  
Science, Technology, Environment and Resources Section

[Overview of climate change programs](#)

[Carbon Pollution Reduction Scheme](#)

[Clean energy measures](#)

[Energy efficiency measures](#)

[Climate change research and education funding](#)

### Overview of climate change programs

The Government announced that it will provide \$15 billion to implement a comprehensive strategy to address climate change.<sup>25</sup> Underpinning its strategy is the Carbon Pollution Reduction Scheme, the legislation for which was introduced into Parliament on 14 May 2009. In addition, the Government is investing substantially in complementary measures to facilitate development and uptake of renewable and clean energy technologies, and to improve energy efficiency across the economy.

The \$15 billion is slated for expenditure over ten years from 2008–09. The total includes \$2.3 billion provided in the 2008–09 budget for climate change programs, with additional funding announced since then of over \$8 billion, and new funding of \$4.8 billion provided in this year's Budget.<sup>26</sup> Approximately \$2.4 billion has been allocated since the February 2009 [Updated Economic and Fiscal Outlook](#) (UEFO) over the five-year budget forecast period from 2008–09 to 2012–13, with the remainder of the new funding to be spent in later years. The new and revised measures are summarised in Table 1 below and described in the following sections. Table 1 includes measures in addition to those in the budget tables provided in the [Ministerial Statement on Climate Change](#) that have here been identified as directly relating to climate change. The estimates in Table 1 refer only to changes since the UEFO.

The Budget also contains savings from the termination of many climate change programs. In February 2008, the Government initiated the [Strategic Review of Australian Government Climate Change Programs](#) (the Wilkins Review). The Wilkins Review, published in July 2008, stated that a broad-based and perfectly operating emissions trading scheme would not require any complementary measures. However, it noted that the requirement of a transitional period and limitations of market ability to deliver equitable solutions would necessarily mean that inefficiencies in the system must be addressed through complementary measures. The Wilkins Review made specific recommendations with regard to complementarity of existing programs, as well as general policy recommendations. The Government laid out its [response](#)

---

25. P Wong (Minister for Climate Change and Water), *Australian Government climate change strategy*, media release, 12 May 2009, viewed 14 May 2009, <http://www.environment.gov.au/minister/wong/2009/budmr20090512.html>

26. Australian Government, *Budget statements 2009–10: climate change*, Commonwealth of Australia, Canberra, 2009, p. 5, viewed 17 May 2009, [http://www.budget.gov.au/2009-10/content/ministerial\\_statements/climate\\_change/download/ms\\_climate\\_change.pdf](http://www.budget.gov.au/2009-10/content/ministerial_statements/climate_change/download/ms_climate_change.pdf)



[to the Wilkins Review](#) on 12 May 2009, which included identification of programs to continue as complementary or transitional to the CPRS, and programs to cease. Savings from those to cease are also listed in Table 1.

**Table 1: Climate change budget measures in the 2009–10 budget**

Agency	Initiative	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)	2011-12 (\$m)	2012-13 (\$m)	Total (\$m)
	<b>New, revised or expanded programs</b>						
DCC	CPRS - revised implementation	-	-	1650.0	-505.0	-885.0	260.0
DCC	Australian Carbon Trust establishment	-	28.8	37.5	6.9	1.8	75.0
DCC	CPRS - Climate Change Action Fund - additional funding and re-phasing	1.0	-100.0	-400.0	-	100.0	-399.0
DEWHA	CPRS - Climate Change Action Fund - additional funding and re-phasing	1.5	-	-	-	-	1.5
DCC	CPRS - Global Recession Buffer	-	-	-	70.0	210.0	280.0
DCC	CPRS - National Carbon Accounting Toolbox	-	4.0	4.0	4.0	4.0	16.1
DRET	Clean Energy Initiative	-	300.0	200.0	200.0	200.0	900.0
DIISR	Clean Energy Initiative	-	100.0	100.0	100.0	100.0	400.0
Australian Trade Commission	Australian Trade Commission - Clean Energy Trade and Investment Strategy	-	4.9	5.0	5.0	-	14.9
DEWHA	National Energy Efficiency Initiative - establishment	-	100.0	-	-	-	100.0
DEWHA	Heating, Ventilation and Air Conditioning High Efficiency Systems Strategy - contribution	-	0.7	0.7	0.7	-	2.1
DEWHA	NSEE - Building Code of Australia requirements for commercial buildings - enhancement	-	1.5	0.8	0.5	0.5	3.3
DEWHA	NSEE - commercial building energy efficiency - mandatory disclosure	-	1.5	1.5	1.3	1.1	5.4
DEWHA	NSEE - commercial building rating tools - enhancement	-	0.7	0.7	0.6	0.5	2.5
DEWHA	NSEE - energy efficiency labelling - enhancement	-	4.2	4.7	4.8	4.6	18.3
DEWHA	NSEE - energy efficiency requirements for residential buildings - enhancement	-	2.9	2.0	1.7	2.1	8.7
DEWHA	NSEE - minimum performance standards for appliances and equipment - expansion	-	4.1	4.1	4.2	4.2	16.6

Agency	Initiative	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)	2011-12 (\$m)	2012-13 (\$m)	Total (\$m)
DEWHA	NSEE - residential building energy efficiency - mandatory disclosure	-	2.4	1.9	1.6	1.8	7.7
DEWHA	Solar Homes and Communities Plan - additional funding	-	245.3	-	-	-	245.3
DEEWR	Skills for the Carbon Challenge	-	8.3	7.0	5.6	6.0	26.9
DIISR	EIF - Super Science - Marine and Climate	8.0	71.0	116.0	105.0	57.0	357.0
CSIRO	EIF - Maintaining Australia's Marine National Facility	-	6.8	5.7	7.3	9.8	29.6
DIISR	EIF Round 2 - Centre for Climate Change and Energy Research	-	40.0	-	-	-	40.0
DIISR	EIF Round 2 - Building the Sydney Institute of Marine Science	-	10.5	6.0	3.0	-	19.5
DIISR	EIF Round 2 – Institute for Marine and Atmospheric Studies	-	45.0	-	-	-	45.0
DEEWR	EIF Round 2 – Skillsets for a Low Carbon Economy		Break-down not available				5.0
DEEWR	EIF Round 2 – Rural VET infrastructure to ensure social inclusion, sustainable land use, lower carbon agriculture and efficient water use		Break-down not available				5.5
DEEWR	EIF Round 2 – Learning centre at Energy Australia		Break-down not available				25.0
Treasury	Liquified Petroleum Gas (LPG) Vehicle Scheme - reduced rebate for post-factory conversions	-	8.0	17.2	21.9	22.8	69.9
DIISR	Liquified Petroleum Gas (LPG) Vehicle Scheme - reduced rebate for post-factory conversions	-	48.8	26.7	-4.1	-27.5	43.9
DCC	Department of Climate Change - base departmental funding	-	-1.5	-0.7	-0.3	4.7	2.2
DCC	Department of Climate Change - accommodation fit-out	-	11.8	-	-	-	11.8
	<b>Total expenditure new measures</b>	<b>10.5</b>	<b>949.7</b>	<b>1790.8</b>	<b>34.7</b>	<b>-181.6</b>	<b>2639.7</b>
	<b>Reduced program</b>						
DEWHA	Green Loans Program - better targeting	-8.5	-20.9	-39.8	-39.8	-16.7	-125.7
	<b>Terminated programs - deemed not complementary to CPRS</b>						
DCC	Greenhouse Action in Regional	-	-3.9	-3.9	-3.9	-3.9	-15.6

Agency	Initiative	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)	2011-12 (\$m)	2012-13 (\$m)	Total (\$m)
	Australia - termination						
DEWHA	Coal Mine Methane Reduction Program - termination	-	-	-2.1	-2.1	-	-4.2
DEWHA	Greenhouse Challenge Plus - termination	-	-2.9	-2.9	-2.9	-2.9	-11.6
DEWHA	Greenhouse Gas Abatement Program - termination	-	-1.7	-	-	-	-1.7
DEWHA	Local Greenhouse Action - termination	-	-3.4	-3.4	-3.0	-3.0	-12.8
DEWHA	Low Emissions Technology and Abatement - termination	-	-5.0	-2.0	-	-	-7.0
DEWHA	Small Business and Household Initiative - termination	-	-5.9	-0.5	-0.4	-	-6.8
DEWHA	Strategic National Response - termination	-	-1.2	-1.2	-1.2	-1.2	-4.8
	<b>Terminated programs – replaced by NSEE measures</b>						
DEWHA	Action on Energy Efficiency - termination	-	-6.9	-6.9	-6.0	-6.0	-25.8
DEWHA	Energy Efficiency of Electrical Appliances - termination	-	-4.1	-4.0	-3.9	-	-12.0
DEWHA	Phase-out of Inefficient Light Bulbs - termination	-	-2.0	-1.9	-0.5	-	-4.4
	<b>Total savings</b>	<b>-8.5</b>	<b>-57.9</b>	<b>-68.6</b>	<b>-63.7</b>	<b>-33.7</b>	<b>-232.4</b>
	<b>Total (net) expenditure all measures</b>	<b>2</b>	<b>891.8</b>	<b>1722.2</b>	<b>-29</b>	<b>-215.3</b>	<b>2407.3</b>

Notes: Revenue, expense and capital measures have been combined. Budget amounts are for measures or changes to measures since the February 2009 UEFO. A minus sign before an estimate indicates a reduction in expenses, no sign before a measure indicates an increase in expenses. Totals may differ slightly from estimates in other sources due to rounding errors. CPRS is the Carbon Pollution Reduction Scheme; NSEE is the National Strategy on Energy Efficiency; EIF is the Education Investment Fund.

Sources: Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009; Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.14: Innovation, Industry, Science and Research Portfolio*, Commonwealth of Australia, Canberra, 2009.

As mentioned above, the main instrument of the Government's climate change strategy is the Carbon Pollution Reduction Scheme (CPRS). However, there are a number of other measures that the Government is funding to facilitate the transformation of industries and communities to a carbon-constrained economy in the transitional period, as the CPRS becomes fully functional and compensation and assistance measures are phased out. The Government is also supporting research into climate change science, and programs to contribute to the realisation of a global solution. Such measures that will receive continued support (but whose funding where applicable is already included in the forward estimates) include:

- an expanded [Renewable Energy Target](#) (RET), to ensure that 20 per cent of Australia's electricity is generated from renewable energy sources by 2020

- the [Australian Climate Change Science Program](#) (\$31.2 million over four years) to continue to enhance understanding of climate change processes and impacts
- adoption of the [Australian Climate Change Science Framework](#), which sets national climate change science priorities for the next decade and
- \$12.0 million over four years for continued support for Australia’s engagement in international climate change activities, including meeting its obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol and enhancing strategic relationships. Further funding to support international climate change functions is provided in the Department of Climate Change’s base funding.<sup>27</sup>

New measures announced in this Budget in relation to the CPRS and to support clean energy, energy efficiency and climate change research are detailed in separate sections below.

### Carbon Pollution Reduction Scheme

The introduction of an emissions trading scheme is the Government’s major instrument to drive reductions in greenhouse gas emissions. The proposed approach was released for consultation in the July 2008 Carbon Pollution Reduction Scheme (CPRS) Green Paper, and the Government’s position was outlined in the December 2008 White Paper. After releasing exposure draft legislation in April 2009, the Government revised some of the major elements and introduced the Carbon Pollution Reduction Scheme Bill 2009 and related bills into the Parliament on 14 May 2009.

Essentially, the scheme sets a cap on the total amount of carbon emissions allowed by the included sectors, then issues permits up to the cap. Liable facilities that emit carbon or other greenhouse gases must hold a permit for every tonne emitted, and surrender these at the end of each financial year. The permits become a market commodity traded between firms at the going price. Firms need to choose between reducing their emissions and purchasing permits, so the price of permits sets the level of incentive to adopt low-carbon technologies.

The initial proposal for the CPRS outlined an emissions reduction target of five to fifteen per cent below 2000 levels by 2020. Around 1000 entities, responsible for about 75 per cent of Australia’s emissions, would be included in the scheme. A free allocation of around 25 per cent of permits would go to emissions-intensive, trade-exposed industries. According to the Government, ‘every cent raised from the Carbon Pollution Reduction Scheme will be used to help Australians—households and business—adjust to the scheme and to invest in clean

---

27. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 131; P Wong (Minister for Climate Change and Water), *Shaping an international solution to climate change*, media release, 12 May 2009, viewed 16 May 2009, <http://www.environment.gov.au/minister/wong/2009/budmr20090512a.html>

energy options’.<sup>28</sup> As such, the expectation is that ‘the net impact of the Scheme on the budget will be neutral over the forward estimates from 2008–09 to 2011–12.’<sup>29</sup>

On 4 May the Government announced revisions to the CPRS, including a delay of the start date to 1 July 2011; allowance for a more ambitious emission reduction goal of 25 per cent below 2000 levels by 2020 (contingent on a similar international commitment); a one-year transition concession fixing permits at \$10; a provision for a ‘Global Recession Buffer’ to assist emissions-intensive, trade-exposed industries; and funding for energy efficiency measures.<sup>30</sup>

This Budget does not offer a complete design of the Government’s allocation of funds towards operation of the CPRS. The Government still suggests that the measure is essentially budget neutral, costing only \$260 million over three years from 2010–11.<sup>31</sup> Revenues and expenses associated with the scheme prior to the amendments were outlined in the White Paper in December, and final costs were to be published in this year’s budget. However, because of the late changes announced on 4 May, it appears that the budget removes original estimates to the Contingency Reserve in anticipation of revised calculations, and no such final estimates have been provided:

...updated expense and revenue estimates associated with the revised implementation of the Scheme have been included in the Contingency Reserve.<sup>32</sup>

Although the Contingency Reserve is designed to serve such a purpose (amongst other functions), the lack of itemisation makes it difficult to determine how much the Government will invest in the CPRS and over what time-frame.<sup>33</sup> At least one reporter has referred to this budget’s contingency reserve as ‘secretive’.<sup>34</sup>

The Government states that the changes to the CPRS have significantly affected revenue estimates since the UEFO:

- 
28. Australian Government, *Households and the scheme*, fact sheet, July 2008, viewed 18 May 2009, <http://www.climatechange.gov.au/greenpaper/factsheets/pubs/fs7.pdf>
  29. Australian Government, *Budget impact of the Carbon Pollution Reduction Scheme*, fact sheet, December 2008, viewed 18 May 2009, <http://www.climatechange.gov.au/whitepaper/factsheets/pubs/029-budget-implications.pdf>
  30. P Wong (Minister for Climate Change and Water), *New measures for the Carbon Pollution Reduction Scheme*, media release, 4 May 2009, viewed 20 May 2009, <http://www.environment.gov.au/minister/wong/2009/mr20090504.html>
  31. *Budget measures: budget paper no. 2: 2009–10*, p. 7.
  32. Australian Government, ‘Statement 6: Expenses and Net Capital Investment Appendix B’, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 6–53.
  33. For further information on the Contingency Reserve see R Webb, *The Commonwealth budget: process and presentation (updated Jan 2009)*, Research Paper, 2009–10, Parliamentary Library, Canberra, 2009, (forthcoming).
  34. D Crowe, ‘Depleted cash cache will need a \$27bn top-up’, *Australian financial review*, 14 May 2009.

Policy decisions since the 2009 UEFO are expected to decrease revenue by \$256 million in 2009–10. In 2010–11 and 2011–12, policy decisions detract a further \$5.6 billion from revenues, before increasing revenues by \$3.2 billion in 2012–13. These fluctuations in the impact of policy decisions are mainly due to the change in the timing of the introduction of the Carbon Pollution Reduction Scheme (CPRS).<sup>35</sup>

It is estimated that in 2011–12, revenue from the CPRS's fixed \$10 carbon permit will be around \$4.5 billion. In 2012–13, when the permit price is capped but not fixed, the revenue is expected to climb to around \$13.0 billion.<sup>36</sup> Note that these estimates are for revenue recorded for accrual purposes, regardless of whether the permits are auctioned or freely allocated.<sup>37</sup> Under accrual accounting, the freely allocated permits are presumably recorded as an expense, but at this stage it seems this expense is included in the Contingency Reserve and has not been explicitly provided.

As noted above, the Government has stated it will reinvest every cent of revenue from the sale of permits under the CPRS back into the community to offset increased fuel and energy costs passed on by liable emitters. In line with this commitment, the excise for petrol and diesel will be reduced from the current 38.143 cents per litre to 35.688 cents per litre on 1 July 2011. The excise will be further adjusted every six months for two years from 1 July 2012 to ensure a 'cent-for-cent' offset of the impact of the CPRS on fuel prices. The fuel tax adjustment will cause a loss in revenue of \$1.1 billion in 2011–12, \$3.5 billion in 2012–13 and \$3.9 billion in 2013–14, at which time the adjusted excise will become permanent and no further adjustments will be made in response to impacts of the CPRS.<sup>38</sup>

The Government has stated that it has provided \$11.8 million in this budget for the continued development and implementation of the CPRS. A time-frame is not provided.<sup>39</sup> Also in this Budget, to facilitate the operation of the CPRS, to provide transitional assistance, and to enhance community involvement in the CPRS, the Government has announced that it will:

- establish a **National Carbon Accounting Toolbox** (\$16.1 million over four years). The tool will assist in the accounting and reporting of carbon emissions and removals in the forestry and agriculture sectors under the CPRS, and will build upon the existing [National Carbon Accounting System](#) and associated toolbox<sup>40</sup>
- establish the **Australian Climate Change Regulatory Authority** (ACCRA). The purpose of ACCRA will be to manage the calculation, allocation, and auction of permits, plus all

---

35. Australian Government, 'Statement 5: Revenue', *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 5–15.

36. 'Statement 5: Revenue', *Budget strategy and outlook: budget paper no. 1: 2009–10*, p. 5–33.

37. 'Statement 5: Revenue', *Budget strategy and outlook: budget paper no. 1: 2009–10*, Box 5, p. 5–35.

38. Explanatory Memorandum, Carbon Pollution Reduction Scheme (CPRS fuel credits) Bill 2009 and related bills, p. 8.

39. Department of Climate Change, *Climate change budget overview 2009–10*, Commonwealth of Australia, Canberra 2009, p 9.

40. *Budget measures: budget paper no. 2: 2009–10*, p. 129.

promotion, compliance and enforcement of the CPRS.<sup>41</sup> The existing Office of Renewable Energy Regulator and its functions will be incorporated into ACCRA.<sup>42</sup> Although the Government has announced \$81.9 million for the establishment of ACCRA,<sup>43</sup> including \$76.7 million in 2009–10,<sup>44</sup> there is no explicit financial breakdown in further years. The Government states that final funding for 2009–10, 2010–11 and onwards is expected to be finalised in the 2009–10 Additional Estimates process<sup>45</sup>

- provide a **Global Recession Buffer** (\$1.065 billion over five years). This was announced as part of the 4 May amendments to the CPRS to further assist emissions-intensive, trade-exposed industries in the transition to priced carbon emissions. The assistance increases each year from \$70 million in 2011–12 to \$290 million in 2015–16.<sup>46</sup> The assistance is to be granted through free allocation of permits, and though the funding is explicitly provided under the expense measures in Budget Paper No. 2 and the climate change Portfolio Budget Statement, the Ministerial Statement on the climate change Budget states that all provision for this funding has been made in the Contingency Reserve.<sup>47</sup> This apparent discrepancy may be a reflection of the last-minute nature of revised calculations for expense measures under the revised CPRS
- increase funding for the **Climate Change Action Fund (CCAF)**. The CCAF was proposed in the White Paper to assist industries, businesses and communities in the transition to a low-carbon economy through the provision of information, grants and incentives. The Budget provides further funding for the CCAF of \$300 million in addition to the \$2.45 billion announced in the White Paper, bringing the total to \$2.75 billion over five years.<sup>48</sup> Some funding has been deferred due to the delayed start of the CPRS, and provision for the measure from 2010–11 onwards is included in the contingency reserve. The remaining funding for the measure in 2009–10 is \$200 million and
- establish the **Australian Carbon Trust** (\$75.8 million over five years), an initiative to encourage individual and community involvement in the CPRS and to assist businesses to implement energy efficiency measures.

The CCAF funding will provide four streams of assistance, outlined in the White Paper and with expenditure in 2009–10 announced in the Budget as follows:<sup>49</sup>

---

41. *Climate change budget overview 2009–10*, p. 11.

42. *Budget statements 2009–10: climate change*, p. 28.

43. *Climate change budget overview 2009–10*, p. 11.

44. Explanatory Memorandum, Carbon Pollution Reduction Scheme Bill 2009, p. 24.

45. Explanatory Memorandum, Carbon Pollution Reduction Scheme Bill 2009, p. 24.

46. *Budget measures: budget paper no. 2: 2009–10*, p. 128.

47. *Budget statements 2009–10: climate change*, footnote c, p. 41.

48. *Climate change budget overview 2009–10*, p. 13.

49. Department of Climate Change, *Carbon Pollution Reduction Scheme: Australia's low pollution future: white paper*, Commonwealth of Australia, December 2008, pp. 18–4 to 18–10.

- the information stream, with funding of up to \$130 million over five years (\$20.0 million in 2009–10), will focus on informing businesses and communities about the operation of the CPRS and advice on management of its expected financial impacts
- the energy efficiency and low–emissions technologies stream, with funding of up to \$1.4 billion over five years (\$180.0 million in 2009–10), will provide grants and incentives for businesses and community groups to invest in energy efficiency and low–emissions technologies
- the structural adjustment stream, with provisional funding of \$200 million, will provide assistance to workers and communities disproportionately impacted by the CPRS and
- the coal sector adjustment stream, with \$500 million over five years in the form of cash payments for existing coal mines with high emissions, and \$250 million over five years for coal mine abatement activities.

The additional \$300 million announced in the budget for the CCAF is to provide further support for businesses, communities, workers and regions to assist their transition to a low–carbon economy (presumably falling under the first three of the four streams noted above).

The Australian Carbon Trust consists of two initiatives:

- the Energy Efficiency Trust has been allocated \$50 million over two years to promote and showcase energy efficiency opportunities in businesses and organisations. It will fund energy efficiency improvements in the private sector, which will be repaid by recipients as cost savings from the improvements are realised and
- the Energy Efficiency Savings Pledge Fund has been allocated \$25.8 million over five years for its establishment, and for the creation of web–based tools allowing individuals to calculate savings from their energy efficiency actions and contribute these savings to the fund for purchase and cancellation of carbon permits. This in theory sends a price signal through the carbon market and applies pressure on liable entities to reduce emissions (note though, that permit prices will be fixed for the first year and capped for the following four years).

## Clean energy measures

### Clean Energy Initiative

The Government announced in the Budget a \$4.5 billion Clean Energy Initiative, including \$3.5 billion of new funding, that will be provided over nine years to support innovation in clean energy and low–emissions technologies.<sup>50</sup> The investment will include:<sup>51</sup>

---

50. P Wong (Minister for Climate Change and Water), P Garrett (Minister for the Environment, Heritage and the Arts), M Ferguson (Minister for Resources and Energy) and K Carr (Minister for Innovation, Industry, Science and Research), *\$4.5 billion clean energy initiative*, media release, 12 May 2009, viewed 19 May 2009  
<http://www.environment.gov.au/minister/wong/2009/budmr20090512g.html>



- \$2.425 billion over nine years for the **Carbon Capture and Storage (CCS) Flagships program**, including \$2.0 billion in new funding, for development of low-emissions coal technologies and to support two to four industrial-scale CCS projects. The program aims to create 1000 MW of low-emissions fossil fuel power generation
- \$1.6 billion over six years for the **Solar Flagships program**, including \$1.365 billion of new funding, for development of solar technologies. The program will support up to four solar power generation projects of capacity comparable to standard coal-fired power stations, to create an additional total solar generation capacity of 1000 MW and
- \$465 million to establish **Renewables Australia**, including \$100 million in new funding, to support development, commercialisation and deployment of renewable energy technologies.

The bulk of the new funding for the Clean Energy Initiative is to be met through the redirection of \$2.5 billion that had been set aside for the [Education Investment Fund \(EIF\)](#).<sup>52</sup> The Nation Building Funds Amendment Bill 2009 is to implement the redirection, repealing the crediting of \$2.5 billion from the 2007–08 budget surplus to the EIF, and reducing the funds in the EIF to \$6.5 billion.<sup>53</sup>

Apparently in addition to the \$2.5 billion transfer from the EIF, the Budget states that the new flagship funding includes \$400 million over four years from the EIF to support the research infrastructure component of the programs.<sup>54</sup> Proponents of bids will be expected to partner with an eligible research institution with relevant expertise to ensure their project is founded upon rigorous research. Projects under the two flagships are expected to commence construction from 2012, with commissioning from 2015.

The CCS Flagships program will be supported by the [Global Carbon Capture and Storage Institute \(GCCSI\)](#) that was launched by Prime Minister Kevin Rudd on 16 April 2009. The GCCSI will facilitate international cooperation and shared knowledge in the development and commercialisation of CCS technologies to which the program will contribute.

- 
51. Department of Resources, Energy and Tourism, *Clean energy initiative*, fact sheet, Department of Resources, Energy and Tourism, 2009, viewed 15 May 2009, [http://www.ret.gov.au/Department/Documents/CEI%20Fact%20Sheet%20\(13%20May%2009\).pdf](http://www.ret.gov.au/Department/Documents/CEI%20Fact%20Sheet%20(13%20May%2009).pdf)
  52. Explanatory Memorandum, Nation-Building Funds Amendment Bill 2009, p. 2.
  53. R Webb, *Nation-Building Funds Amendment Bill 2009*, Bills digest, 2009–10, Parliamentary Library, Canberra, 2009, (forthcoming).
  54. The Government announced a special \$650 million Sustainability Round of the Education Investment Fund dedicated to projects that support sustainable design, energy efficiency and build capacity for climate change research. The \$400 million investment in infrastructure for the Clean Energy Initiative was awarded as part of this round, with an additional \$250 million to fund vocational and higher education and research infrastructure related to climate change and sustainability activities. See J Gillard (Minister for Education), *Budget 2009–10: investing in tertiary education and research infrastructure*, media release, 12 May 2009, viewed 18 May 2009, [http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article\\_090512\\_182419.aspx](http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article_090512_182419.aspx)

Under the Solar Flagships program, \$135 million has been transferred from the \$435 million [Renewable Energy Demonstration Program](#) (REDP). The first round of applications for the REDP closed in April 2009, and the projects that will be assessed for the remaining \$300 million of funding will now be limited to non-solar technologies, namely ocean, geothermal and biomass energy. The solar applicants to the REDP will be eligible for funding under the Solar Flagships program. The [Australian Solar Institute](#) will facilitate national and international cooperation and shared knowledge in the development and commercialisation of solar thermal, photovoltaic and energy storage technologies that will be pursued by the program.

Renewables Australia will take over responsibility for management of funds for the REDP, the [Geothermal Drilling Program](#), and the [Second Generation Biofuels R&D Program](#). It will be established in 2009–10 and its activities are expected to include:

supporting focused, collaborative, high-priority technology research with the ultimate aim of progressing new technologies and lowering the cost of existing technologies in the market place;

supporting and advising government, industry and the community in the promotion, development and implementation of renewable technologies and relevant research and development in essential renewable-related systems; and

supporting growth in skills and capacity in renewable technologies for the domestic and international markets.<sup>55</sup>

The Clean Energy Initiative has had a mixed reception. It was welcomed by the Clean Energy Council, Engineers Australia and the World Wide Fund for Nature Australia.<sup>56</sup> The Climate Institute called it ‘a smart and strategic investment in Australia’s comparative advantages of bountiful sun and resource industry research, skills and technologies’, but expressed disappointment that there were not additional incentives under the energy efficiency measures.<sup>57</sup> The Australian New Zealand Solar Energy Society (ANZSES) has welcomed the Solar Flagships initiative. It said that the initiative may help to drive the costs of future medium scale solar installations down, noting that the size of the projects to be funded will represent a ‘leap in capacity’, being hundreds of times larger than existing systems in Australia.<sup>58</sup> The Australian Coal Industry said the funding for CCS ‘will go a long way to making Australia a world leader in developing the technology that will substantially reduce global greenhouse gas emissions’.<sup>59</sup> However, the Australian Greens, NSW Greens,

---

55. Department of Resources, Energy and Tourism, *Clean energy initiative*.

56. Clean Energy Council, Budget cashes in on Australia’s clean energy surplus, media release, 13 May 2009; Engineers Australia, Budget clean energy initiative is a positive for climate change, media release, 12 May 2009; WWF, Clean energy commitment welcome but species losses likely to continue, media release, 12 May 2009.

57. The Climate Institute, *Budget boost for clean energy solutions: vital and smart investment in Australian clean energy solutions*, media release, 12 May 2009.

58. Australian New Zealand Solar Energy Society, *Budget solar initiative welcomed*, media release, 13 May 2009.

59. Australian Coal Association, *Coal industry welcomes new funding for carbon capture and storage*, media release, 12 May 2009.

Australian Conservation Foundation and Greenpeace have criticised the weighting of support given to the coal industry relative to development of renewable energy.<sup>60</sup>

#### Other clean energy measures

In addition to the new measures under the Clean Energy Initiative, the [Solar Homes and Communities Plan](#) will receive additional funding of \$245 million in 2009–10 but the program will then be terminated when the expanded Renewable Energy Target commences, which will introduce [solar credits for small generation units](#).<sup>61</sup>

The Budget also provides \$14.9 million over three years for the Clean Energy Trade and Investment Strategy to promote export opportunities and inward investment in the clean energy sector, delivering the Government's election commitment to establish a clean energy export strategy.<sup>62</sup> The initiative in part addresses the September 2008 findings of the [Review of Export Policies and Programs](#) (the Mortimer Review), which recommended enhancement of Australia's export capacity and performance in knowledge-intensive sectors where Australia has existing and emerging strengths, including the clean energy sector. The initiative is complementary to the \$20 million [Clean Energy Innovation Centre](#), which was launched in April 2009 and provides Australian small and medium-sized clean energy companies with benchmarking services, prototyping and testing facilities and other assistance to help them become competitive exporters.

#### Energy efficiency measures

The Budget contains two new funding commitments to improve energy efficiency in energy delivery and use:

- 
60. B Brown (Australian Greens Leader), *Green opportunity missed in budget 2009*, media release, 12 May 2009; L Rhiannon (NSW Greens), *Federal budget backs coal industry, kills off tens of thousands of jobs in Hunter*, media release, 13 May 2009; Australian Conservation Foundation, *Federal budget 2009: green stimulus welcome*, media release, 12 May 2009; Greenpeace, *Massive polluters' welfare crushes hopes for 'green' budget*, media release, 13 May 2009.
61. P Wong (Minister for Climate Change and Water), *Government response to recommendations of the strategic review of Australian Government climate change programs*, 12 May 2009, viewed 16 May 2009, <http://www.environment.gov.au/minister/wong/2009/wilkinsresponse.html>
62. *Budget measures: budget paper no. 2: 2009–10*, p. 253; S Crean (Minister for Trade), *\$14.9 million for clean energy trade and investment*, media release, 12 May 2009, viewed 18 May 2009, [http://www.trademinister.gov.au/releases/2009/sc\\_090512\\_budget1.html](http://www.trademinister.gov.au/releases/2009/sc_090512_budget1.html); K Carr, S Crean and P Garrett, *Labor's commitment to make Australia the clean energy hub of the Asia-Pacific region*, media release, 5 September 2007, viewed 18 May 2009, <http://pandora.nla.gov.au/pan/22093/20071124-0102/www.alp.org.au/media/0907/msCCindra050.html>

- \$100 million in 2009–10 for the establishment of a new **National Energy Efficiency Initiative** (NEEI), in partnership with the energy sector.<sup>63</sup> The initiative aims to develop and utilise technology to improve the efficiency of the energy network and
- \$64.6 million over four years in additional funding for the **National Strategy on Energy Efficiency** (NSEE), to improve the energy efficiency of residential and commercial buildings.<sup>64</sup>

The initiatives are intended to build upon the Government's \$3.9 billion [Energy Efficient Homes Package](#), which was funded as part of the \$42 billion February stimulus package (the Nation Building and Jobs Plan). The Energy Efficient Homes Package provides rebates and subsidies for installation of ceiling insulation in homes and solar hot water systems to replace electric hot water systems.<sup>65</sup>

The NEEI will support implementation of 'smart grid' technology in the energy distribution network, and 'smart meters' in homes, in a regional city of at least 25 000 people. Smart grids help to integrate distributed, intermittent and peak energy sources into the grid more efficiently, including solar and wind power, by monitoring electricity supply and demand. The technology requires efficient communication networks and the NEEI will examine links with the National Broadband Network to capitalise its capabilities including roll-out of smart grid networks across the country.<sup>66</sup> Smart meters installed in households allow real-time feedback and analysis of energy use within homes to help householders monitor and adjust their energy use. The provision of this information through smart metering has been shown to alter behaviour to reduce household energy use.<sup>67</sup>

The NSEE includes a number of measures to improve energy efficiency of appliances, homes, and commercial buildings (listed in Table 1). The package of measures was developed in response to the recommendations of the Strategic Review of Australian Government Climate Change Programs (mentioned above).<sup>68</sup> Many existing energy efficiency programs are to be terminated and replaced by the new measures (also listed in

---

63. *Budget measures: budget paper no. 2: 2009–10*, p. 199.

64. *Budget measures: budget paper no. 2: 2009–10*, pp. 202–204.

65. See R Webb, S Kompo-Harms and J Styles, *Appropriation (Nation Building and Jobs) Bill (No. 1) 2008–09*, Bills digest, no. 95, Parliamentary Library, Canberra, 2008–09, viewed 17 May 2009, <http://www.aph.gov.au/library/pubs/bd/2008-09/09bd095.pdf>

66. P Garrett (Minister for the Environment, Heritage and the Arts), S Conroy (Minister for Broadband, Communication and the Digital Economy) and M Ferguson (Minister for Resources and Energy), *New national energy efficiency initiative*, media release, 12 May 2009, viewed 17 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512h.html>

67. 'Smart approaches to electricity use', *ECOS*, vol. 135, Feb–Mar 2007, p. 12, viewed 21 May 2009, [http://www.ecosmagazine.com/?act=view\\_file&file\\_id=EC135p12.pdf](http://www.ecosmagazine.com/?act=view_file&file_id=EC135p12.pdf)

68. P Wong (Minister for Climate Change and Water), L Tanner (Minister for Finance and Deregulation) and P Garrett (Minister for the Environment, Heritage and the Arts), *Streamlining the Australian Government's climate change programs and making energy efficient choices even easier*, media release, 12 May 2009, viewed 17 May 2009, <http://www.environment.gov.au/minister/wong/2009/budmr20090512h.html>

Table 1). For example, the [phase-out of inefficient light bulbs](#) has been terminated, replaced by the enhancement of energy efficiency labelling. The replacement measure in this case appears to be an incentive measure rather than a regulatory measure, and may therefore not be as effective in ensuring full replacement of inefficient light bulbs.

One program that was identified in the Strategic Review of Australian Government Climate Change Programs as transitional to the CPRS (and should therefore continue during the transitional period) that has been substantially scaled back in this Budget is the [Green loans program](#). The number of subsidised low-interest loans under the program has been reduced from 200 000 to 75 000 over five years, achieving a savings of \$126 million. The Government states that increased availability of rebates provided through other previously announced initiatives, particularly the Energy Efficient Homes Package, will reduce demand for the Green loans.<sup>69</sup> This reduction has been criticised by the Opposition as renegeing on a major election promise.<sup>70</sup>

### Climate change research and education funding

The **Super Science Marine and Climate** initiative will provide \$387.7 million over five years for infrastructure to support research into the ocean–land–climate system to improve understanding and projections of climate change. It will include:<sup>71</sup>

- \$120 million for a new state-of-the-art deep water research vessel, Australia's [Marine National Facility](#), to replace the current ageing vessel *RV Southern Surveyor*
- \$29.6 million for maintenance of the *RV Southern Surveyor* over the next three years while the new vessel is being built
- \$52 million to extend the [Integrated Marine Observing System](#) (IMOS) network
- \$55 million for additional infrastructure at the [Australian Institute of Marine Science](#) (AIMS) facilities in Townsville and Darwin
- \$80 million for infrastructure to support research into terrestrial ecosystems, groundwater depletion, and water and energy use in built environments (specific allocations were not explicitly stated but this appears to include funding for the [Terrestrial Ecosystem Research Network](#) – \$35 million, facilities to enhance understanding of urban resource use and management – \$20 million, the [Climate Geoscience Platform](#) – \$15 million, and the [Population Health Research Network](#) – \$10 million) and

---

69. *Budget measures: Budget paper no. 2: 2009–10*, p. 196.

70. G Hunt (Shadow Minister for Climate Change), *Rudd breaks key environment election promise on green loans*, media release, 8 May 2009, viewed 16 May 2009, <http://www.greghunt.org/Pages/Article.aspx?ID=1343>

71. K Carr (Minister for Innovation, Industry, Science and Research), *Super science—marine and climate*, media release, 12 May 2009, viewed 15 May 2009, <http://minister.innovation.gov.au/Carr/Pages/SUPERSCIENCEMARINEANDCLIMATE.aspx>

- \$50 million for [new supercomputing infrastructure](#) for modelling climate change, earth systems and water management.

Many of these infrastructure investments come under the Government's [National Collaborative Research Infrastructure Strategy](#), which was established to provide researchers with major research facilities, infrastructure and networks to support world-class research in Australia. The above projects were identified as priorities in the [Strategic Roadmap for Australian Research Infrastructure](#), published in August 2008.<sup>72</sup>

Additional funding that will enhance climate change research and education has been provided under Round 2 of the [Education Investment Fund](#) (EIF) as listed in Table 1.<sup>73</sup>

In the area of vocational education and training, the budget includes a \$26.9 million investment over four years in **Skills for the Carbon Challenge**, which is to promote the development of training programs and resources that incorporate sustainability principles and green skills in various industries.<sup>74</sup> The initiative is a response to an idea that emerged at the [2020 Summit](#) that by 2020 Australia should be the world's leading green and sustainable economy, and that equipping workers and businesses with sustainability skills will be essential to pursue this goal.

## Environment

Louise Emmett and Bill McCormick  
Science, Technology, Environment and Resources Section

[Caring for our Country](#)  
[National Heritage](#)  
[National Parks](#)  
[Commonwealth Environment Research Facilities Program](#)

### Caring for our Country

The Department of the Environment, Water, Heritage and the Arts (DEWHA) *Portfolio Budget Statements 2009–10* includes a budget measure indicating that there has been a

---

72. Department of Innovation, Industry, Science and Research (DIISR), *Strategic roadmap for Australian research infrastructure*, DIISR, Canberra, 2008, viewed 21 May 2009, <http://www.innovation.gov.au/ScienceAndResearch/Documents/Strategic%20Roadmap%20Aug%202008.pdf>

73. For further information see J Gillard (Minister for Education), *Budget 2009–10: investing in tertiary education and research infrastructure*, media release, 12 May 2009, viewed 18 May 2009, [http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article\\_090512\\_182419.aspx](http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article_090512_182419.aspx)

74. J Gillard (Minister for Education), *2020 summit: skills for the carbon challenge*, media release, 23 April 2009, viewed 18 May 2009, [http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article\\_090423\\_091944.aspx](http://www.deewr.gov.au/Ministers/Gillard/Media/Releases/Pages/Article_090423_091944.aspx)

reallocation of \$32.4 million over each of the next four years. This was not included in *Budget Paper No. 2* because this is a reclassification of administered funding under Caring for our Country to the departmental expenses of DEWHA (\$25.3 million) and the Department of Agriculture, Fisheries and Forestry (\$7.1 million), amounting to a total of \$129.6 million over four years. Such a transfer of a significant amount of funding is relatively rare and there have to be very good reasons for making the transfer.

(2) Amounts relating to these measures reflect a reclassification of administered funding under Caring for our Country to DEWHA departmental expenses. Funding will continue to be spent on core departmental activities and administration of the *Environment Protection and Biodiversity Conservation Act 1999*, as it was when it was previously part of Caring for our Country. Under this reclassification, \$7.1 million per annum will also be appropriated to the Department of Agriculture, Fisheries and Forestry. These measures do not appear in Budget Paper No. 2.<sup>75</sup>

Under the reclassification, \$12.9 million per annum is allocated to DEWHA core funding and \$12.4 million per annum allocated to activities under the *Environment Protection and Biodiversity Conservation Act (1999)*. These activities have previously been delivered through these two departmental areas within DEWHA but were paid for from the Natural Heritage Trust funds until the end of 2007–08 and Caring for our Country funds through 2008–09.

### National Heritage

Starting in 2010–11, the provision of \$5 million per year for three years for the protection and conservation of historic built properties on the National and Commonwealth Heritage Lists will fill the gap left by the cessation of a similar program, the National Heritage Investment Initiative (NHII) this financial year. The NHII was a \$10.5 million competitive grants program that ran from 2005–06 through 2008–09. However due to limited funding there were no funding rounds in 2008–09.<sup>76</sup>

The gap in funding between the last round of the NHII in 2007–08 and the start of National and Commonwealth historic built heritage program in 2010–11 will be partly filled in 2009–10 by \$6 million from the Government's Jobs Fund for the conservation of National-listed and Commonwealth-listed historic built heritage sites.<sup>77</sup>

---

75. Australian Government, *Portfolio budget statements 2009–10: budget related paper no.1.6: Environment, Water, Heritage and the Arts Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 30, viewed 20 May 2009, <http://www.environment.gov.au/about/publications/budget/2009/pbs/pubs/pbs-2009-10.pdf>.

76. Department of the Environment, Water, Heritage and the Arts, 'National Heritage Investment Initiative' viewed 14 May 2009, <http://www.environment.gov.au/heritage/programs/nhii/index.html>

77. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no.2: 2009–2010*, Commonwealth of Australia, Canberra, 2009, p 191, viewed 20 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2.pdf)

## National Parks

Management of Commonwealth terrestrial reserves will be provided with an additional \$26.0 million over four years (including capital funding of \$5.5 million over two years). These reserves include Booderee National Park, Christmas Island National Park, Kakadu National Park, Norfolk Island National Park, Pulu (Keeling) National Park and Uluru–Kata Tjuta National Park. Funding will be used for purposes such as to remove or treat asbestos in a number of park buildings, manage historic sites in Kakadu National Park, and to upgrade assets in Commonwealth parks and reserves.<sup>78</sup> The measure aims to create job opportunities, enhance the quality of Commonwealth parks and help build sustainable long-term growth in remote Australia for nature-based tourism markets.<sup>79</sup>

There will also be a continuation of the supplementary funding of \$7.6 million over four years to the Director of National Parks specifically for Kakadu National Park. This supplementation was initiated to compensate park management for the loss of revenue from the abolition of park entry fees in December 2004.<sup>80</sup> In October 2008 Environment Minister Peter Garrett accepted the recommendation of the Director of National Parks to reinstate park use fees in Kakadu National Park from 1 April 2010, with a full exemption for Northern Territorians. The fees are expected to generate \$4.5 million in net revenue from the 85 per cent of visitors who travel from interstate or overseas. Traditional owners of Kakadu National Park will receive 38.8 per cent of the fee revenue.<sup>81</sup> The supplementary funding will cover the cost of the ongoing fee exemption for Northern Territorians and will be targeted to protect biodiversity, control weeds and feral animals and manage visitor facilities.<sup>82</sup>

Over the next five years \$69 million is being made available under the Working for Country program to create 210 new environmental jobs for Indigenous rangers in remote and regional Australia.<sup>83</sup> The initiative will provide funding for 100 Indigenous rangers, as well as 60

---

78. *Budget measures: budget paper no. 2: 2009–2010*, p. 195.

79. P Garrett (Minister for Environment, Heritage and the Arts), *\$74.9 million for heritage projects to support local jobs*, media release, Canberra, 12 May 2009, viewed 15 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512c.html>

80. G Hunt (Parliamentary Secretary to the Minister for the Environment and Heritage) and D Tollner, *Kakadu free from December 20 2004*, media release, 2 December 2004, viewed 19 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FOXLE6%22>

81. P Garrett (Minister for the Environment, Heritage and the Arts), *Kakadu fees in 2010*, media release, 30 October 2008, viewed 19 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F6EZR6%22>

82. P Garrett (Minister for the Environment, Heritage and the Arts), *More than \$33 million in new funding for national parks*, media release, 12 May 2009, viewed 19 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512c.html>

83. W Snowdon, (Minister for Defence Science and Personnel), *Federal budget delivers on the NT environment*, media release, Canberra, 12 May 2009, viewed 15 May 2009, <http://www.warrensnowdon.com/media/090512b.htm>



flexible part-time or seasonal positions, and 50 trainee positions.<sup>84</sup> While some funding details for this commitment are given (\$16.8 million over four years) in the Department of Environment, Water, Heritage and the Arts Portfolio Budget Statements 2009–10,<sup>85</sup> the remainder is included with a much larger funding total under the Closing the Gap program in the Department of Families, Housing, Community Services and Indigenous Affairs.<sup>86</sup>

### Commonwealth Environment Research Facilities Program

Savings of \$10 million over three years are to be redirected from the Commonwealth Environment Research Facilities (CERF) Program to offset measures in the DEWHA portfolio.<sup>87</sup> CERF was a five year \$100 million program established in 2005–06 of which \$40 million was provided for a Marine and Tropical Sciences Research Facility and the remaining \$60 million used to fund additional environmental research, to be allocated nationally on a competitive tender basis in rounds in July 2006 and July 2008.<sup>88</sup>

To date, \$56.5 million of the \$60 million of the Nation-wide research component has been allocated.<sup>89</sup> However it is not clear how much of the \$40 million funding for the Marine and Tropical Sciences Research Facility has been allocated.

The savings from the CERF program will be over the three year period from 2011–12 through 2012–13. Although it was originally a five year program, DEWHA has advised that the Howard Government decided to change the program to ongoing funding. It is not clear what the level of remaining ongoing funding for the program will be over the next four years.

## Water

Bill McCormick and Louise Emmett  
Science, Technology, Environment and Resources Section

Five of the six 2009–10 budget measures related to water were the result of agreements negotiated to facilitate the passage of the Nation Building and Jobs Plan in February 2009— with the Greens the bioremediation and revegetation trials, and with Senator Xenophon the accelerated water buy-backs for the Murray–Darling Basin, national stormwater funding,

---

84. P Garrett (Minister for the Environment, Heritage and the Arts), *\$69 million for more indigenous rangers working on country*, media release, 12 May 2009, viewed 19 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512e.html>

85. *Portfolio budget statements 2009–10: Environment, Water, Heritage and the Arts Portfolio*, p 25.

86. *Budget measures: budget paper no. 2: 2009–2010*, p. 211.

87. *Budget measures: budget paper no. 2: 2009–2010*, p. 194.

88. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no.2: 2005–2006*, Commonwealth of Australia, Canberra, 2005, p. 151, viewed 20 May 2009, <http://www.budget.gov.au/2005-06/bp2/download/bp2.pdf>

89. Department of the Environment, Water, Heritage and the Arts, 'Nation-wide research', viewed 20 May 2009, <http://www.environment.gov.au/programs/cerf/research.html>

local plans for a future with less water and the small block irrigators exit grant package expansion.

### **Driving reform in the Murray–Darling Basin**

The funds from the Driving Reform in the Murray–Darling Basin component of the Water for the Future package have been reallocated. This budget measure transfers \$185.3 million over eight years from the \$12.9 billion Water for the Future package in the Department of the Environment, Water, Heritage and the Arts (DEWHA) to the Murray–Darling Basin Authority, along with \$7.5 million to the National Water Commission and \$3.4 million to the Australian Competition and Consumer Commission, both over two years.<sup>90</sup>

This measure will enable these agencies to undertake new responsibilities arising from amendments to the *Water Act 2007* and the signing of the Intergovernmental Agreement on Murray–Darling Basin Reform on 3 July 2008.<sup>91</sup>

The reallocation will involve a net decrease in funding to the Water for the Future package over 2009–10 and 2010–11, providing savings of \$16.4 million.

### **Bioremediation and revegetation trials**

The Greens negotiations resulted in \$10 million in funding in 2008–09 through 2010–11 for bioremediation and revegetation trials around Lake Alexandrina and Lake Albert. This is intended to result in ecosystem stability and resilience; as well as stabilise sand, soil and dust movement.<sup>92</sup>

### **Accelerated water buy-backs for the Murray–Darling Basin**

The negotiations with Senator Xenophon resulted in the acceleration of the Government's program of buying back of water entitlements for return as environment flows within the Murray–Darling Basin. A total of \$500 million that was to be spent in 2013–14 through 2015–16 will be brought forward four years to 2009–10 through 2011–12, including \$250 million in 2009–10.<sup>93</sup> Shadow Parliamentary Secretary for Water Resources Mark Coulton was critical of this proposal.

It is staggering that while Senator Wong continues to sit on almost \$6 billion that was allocated for water infrastructure by the Coalition Government she has chosen to forge ahead with the misguided approach of buying up water entitlements.

---

90. Australian Government, *Budget measures: budget paper no. 2: 2009–2010*, Commonwealth of Australia, Canberra, 2009, p. 208, viewed 20 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2.pdf)

91. *Budget measures: budget paper no. 2: 2009–2010*, p. 208.

92. Australian Government, *Portfolio budget statements 2009–10: budget related paper no.1.6: Environment, Water, Heritage and the Arts Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 20, viewed 20 May 2009, <http://www.environment.gov.au/about/publications/budget/2009/pbs/pubs/pbs-2009-10.pdf>.

93. *Budget measures: budget paper no. 2: 2009–2010*, p. 412.

The Government has allocated an additional \$250 million to buy back water entitlements over the next three years, but it has failed to mention the targets it has in terms of how much water they expect to purchase.

There is also a complete omission of exactly where the Government will purchase this water.<sup>94</sup>

### National stormwater funding

Stormwater harvesting was to be funded under the \$1 billion National Urban Water and Desalination Plan outlined in the 2008–09 Budget.<sup>95</sup> However, after negotiations with Senator Xenophon the Government agreed to fund stormwater harvesting as a new component under the Plan with at least \$200 million of the \$1 billion to fund projects over the next four years that use urban stormwater to reduce demand on potable water supplies.<sup>96</sup> The guidelines under the Plan were expanded to make it easier for smaller project proponents to apply.<sup>97</sup> Government funding can be up to 50 per cent of project costs, to a maximum of \$20 million. In order to increase opportunities for smaller towns and cities to participate, the minimum cost of an eligible project has been reduced from \$30 million to \$4 million.<sup>98</sup>

### Local plans for a future with less water

Under a new initiative agreed with Senator Xenophon, local municipalities in the Murray–Darling Basin can apply for grants for use in planning for future water constraints and to invest in associated local water savings initiatives. There is no additional cost for this three–year \$200 million measure, which will be funded from within the existing resources of the \$5.8 billion [Sustainable Rural Water Use and Infrastructure](#) program.<sup>99</sup> No information is available about the guidelines or other parameters of these grants on the DEWHA website.

### Small block irrigators—exit grant package—expansion

Eligibility for exit grants of up to \$150 000 available under the \$57.1 million Murray–Darling Basin Small Block Irrigators Exit Grant Package was originally limited to farms less than 15 hectares (ha) and was to end on 30 June 2009. From 13 February 2009, this eligibility

---

94. M Coulton, *Failed water buy-backs again favoured in Budget*, media release, 13 May 2009, viewed 21 May 2009, <http://www.nationals.org.au/news/default.asp?action=article&ID=5893>

95. L Emmett, L Nielson and A Talberg, *Budget 2008–09: environmental and scientific issues*, Parliamentary Library, Canberra, 2008, viewed 21 May 2009, [http://www.aph.gov.au/library/pubs/rp/BudgetReview/Environment\\_Issues.htm](http://www.aph.gov.au/library/pubs/rp/BudgetReview/Environment_Issues.htm)

96. *Budget measures: budget paper no. 2: 2009–2010*, p. 208.

97. M Abraham and D Bevan, ‘Interview with Penny Wong’, *ABC Radio 891*, transcript, Australian Broadcasting Corporation (ABC), 24 March 2009, viewed 21 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FQILT6%22>

98. *Budget measures: budget paper no. 2: 2009–2010*, p. 208.

99. *Budget measures: budget paper no. 2: 2009–2010*, p. 207.

criterion was amended to allow farms of up to 40 ha to apply.<sup>100</sup> These exit grants are to allow small block irrigators with permanent water entitlements of at least 10 megalitres who wish to cease irrigation farming to sell their water entitlements to the Australian Government.<sup>101</sup> Senator Xenophon negotiated the increase in eligible block size as well as an increase in the taxable grants available for the removal of irrigation plantings and infrastructure from ‘up to \$10 000’ to ‘up to \$20 000’. As a result of these changes funding of the scheme has increased by \$45.4 million and the funding extends through 2009–10. *Budget Paper No. 2* indicates that the total program funding is \$107 million.<sup>102</sup> Within this total, funding of \$4.0 million was provided after the 2008–09 Budget to Centrelink to deliver the program as well as \$0.5 million to the Department of Agriculture, Fisheries and Forestry.<sup>103</sup> As with the Local plans budget measure above, this additional funding will also be met from the \$5.8 billion Sustainable Rural Water Use program.<sup>104</sup>

The Federal Member for Mallee, John Forrest, and the State Member for Mildura, Peter Crisp, had concerns that the complexities of the package could see growers, who wanted to leave horticulture, being unable to qualify:

Mr Forrest said selling water out of an irrigation district attracted significant fees which could devalue the package substantially, and there was no co-ordination between selling the water and receiving the \$150,000 grant.

“An applicant might sell the water, remove the farm infrastructure and then be advised they don’t qualify for the grant,” Mr Forrest said. In addition, all permanent plantings must be removed before the grant can be paid.”

...During the five years after grant payment, applicants named in the grant are disqualified from inheriting any tradeable water entitlement. In addition, the loss of tradeable water in the system would impact on remaining farmers who needed to buy temporary water to get a crop in times of low allocation.<sup>105</sup>

- 
100. Department of the Environment, Water, Heritage and the Arts, ‘Murray–Darling Basin small block irrigators exit package’, viewed 21 May 2009, <http://www.environment.gov.au/water/programs/entitlement-purchasing/small-block-irrigators.html>
  101. P Wong, *Small block irrigators exit grant package expanded*, media release, 24 April 2009, viewed 21 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/2GET6/upload\\_binary/2get60.pdf](http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/2GET6/upload_binary/2get60.pdf)
  102. *Budget measures: budget paper no. 2: 2009–2010*, p. 87.
  103. Australian Government, *Mid-year economic and fiscal outlook 2008–09*, Commonwealth of Australia, Canberra, 2008, p 145, viewed 22 May 2009, [http://www.budget.gov.au/2008-09/content/myefo/download/MYEFO\\_2008\\_09.pdf](http://www.budget.gov.au/2008-09/content/myefo/download/MYEFO_2008_09.pdf)
  104. *Budget measures: budget paper no. 2: 2009–2010*, p. 87.
  105. J Forrest, *Small irrigator exit package must be modified*, media release, 16 February 2009, viewed 21 May 2009, <http://www.nationals.org.au/news/default.asp?action=article&ID=5576>

## Adelaide desalination plant expansion

The Government's commitment for \$228 million from the National Urban Water and Desalination Plan to fund a potential expansion of the Adelaide Desalination Plant at Port Stanvac from 50 gigalitres (GL) to 100 GL per year is not a new budget measure.<sup>106</sup> The promised funding is in addition to the \$100 million already committed for the 50 GL plant. South Australian Premier, Mike Rann has welcomed the additional commitment stating that South Australia will match the Federal Government's allocation to double the capacity to 100 GL per year and commented that this will mean an end to water restrictions.<sup>107</sup> Senator Sarah Hanson-Young was critical of this:

The news of the extra \$228 million in Budget funds for Adelaide's desalination plant was promptly received by the South Australian Premier as a sign that Adelaide's water supply would be guaranteed 'for decades to come', as he irresponsibly stated, signalling 'the end of household water restrictions'.

Even the subsequent qualification that Premier Rann meant 'punitive' water restrictions does not unuddle the mixed messages coming out of the State and Federal Governments about the need for all to be water-wise for a sustainable future.

The Federal Government must make it clear to the South Australian Government that its Budget funds were not provided so that Adelaide could splash around its new, expensive, energy-intensive, effluent-producing water supply, especially given the growing challenges presented by climate change.<sup>108</sup>

- 
106. P Wong (Minister for Climate Change and Water), *Additional \$228 million to help secure Adelaide's water supply*, media release, 12 May 2009, viewed 21 May 2009, <http://www.environment.gov.au/minister/wong/2009/budmr20090512f.html>
107. S Morris, 'Funds boost desalination fix for parched capital', *Australian financial review*, 13 May 2009, viewed 18 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/A4JT6/upload\\_binary/a4jt60.pdf](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/A4JT6/upload_binary/a4jt60.pdf); G Kelton, C Russell and T Zed, 'Water bans to end', *Advertiser*, 14 May 2009, viewed 18 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/45KT6/upload\\_binary/45kt62.pdf](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/45KT6/upload_binary/45kt62.pdf); H Gout, 'Money flowing like desalinated water', *Independent weekly*, 15 May 2009, viewed 18 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/BJKT6/upload\\_binary/bjkt60.pdf](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/BJKT6/upload_binary/bjkt60.pdf)
108. S Hanson-Young, *Mixed messages on water from Govts muddle SA's water future*, media release, 19 May 2009, <http://sarah-hanson-young.greensmps.org.au/content/media-release/mixed-messages-water-govts-muddle-sa%E2%80%99s-water-future>

## Defence

Laura Rayner and Steve Dyer  
Foreign Affairs, Defence and Security Section

Taxpayers and their elected representatives should have a clear idea of where their defence dollars are going and how the Government plans to manage strategic risks in the years ahead.<sup>109</sup>

### Introduction

Total Defence funding in the 2009–10 Budget will be somewhat over \$26.641 billion compared to \$22.690 billion allocated in the 2008–09 Budget, and the estimated actual for 2008–09 of \$23.169 billion. Total Defence funding over the forward estimates shows a relative decline from \$27.028 billion in 2010–11 to \$27.001 billion in 2011–12 then to \$26.337 billion in 2012–13. Against a promise of three per cent real growth until 2017–18, and 2.5 per cent indexation, this apparent decline requires some further analysis. As will be outlined, there are other factors at play, including the requirement for Defence to find substantial savings over the forward estimates, and delaying the application of the calculated indexation over the same period.

The information on the future funding of the defence function in the recently released Defence White Paper, *Defending Australia in the Asia Pacific Century: Force 2030*, was criticised for its brevity.<sup>110</sup> The Government's financial plan for defence rated only a page and a half but the Minister for Defence promised the 'fine detail' would be in the Budget.<sup>111</sup> As in most years, the devil is in the detail in the Defence budget, but the fine detail of how Defence is to achieve up to \$20 billion gross savings over the next decade was absent, with one commentator who examined how Defence would achieve its savings target describing the budget papers as notable for their 'paucity of useful information'.<sup>112</sup> The Minister is reported to have 'pledged further details in the coming months', with 'plenty of transparency'.<sup>113</sup> The

---

109. Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030*, [Department of Defence, Canberra], 2009, p. 17, viewed 19 May 2009, [http://www.defence.gov.au/whitepaper/docs/defence\\_white\\_paper\\_2009.pdf](http://www.defence.gov.au/whitepaper/docs/defence_white_paper_2009.pdf)

110. P Murray, 'Danger in defence plan is the missing funding', *West Australian*, 5 May 2009, p. 20, viewed 19 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FBDGT6%22>

111. 'The Oakes interview: Joel Fitzgibbon', *TODAY on Sunday*, Nine Network, 4 May 2009, viewed 18 May 2009, <http://news.ninemsn.com.au/newsroom/oakes/809267/the-oakes-interview-joel-fitzgibbon>

112. M Dodd, 'Reform program "short on details"', *The Australian*, 14 May 2009, p. 8, viewed 15 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FT4KT6%22>

113. J Pearlman, 'Where's the detail, asks defence adviser', *Sydney morning herald*, 14 May 2009, p. 9, viewed 15 May 2009,

details may be presented in the eight companion reviews commissioned with the White Paper, or in the independent audit of the defence budget conducted for the Defence Minister by George Pappas, a former senior vice president of Boston Consulting Group. However none of these documents have yet been publicly released.

The 2009 Defence White Paper set the Defence future funding parameters (independent of internal savings and funding for major overseas operations) as:

- 3 per cent real growth in the Defence budget to 2017–18
- 2.2 per cent real growth in the Defence budget from 2018–19 to 2030 and
- 2.5 per cent fixed indexation to the Defence budget from 2009–10 to 2030.

### Real growth

Confirming what was in the recently released Defence White Paper, the Budget has promised that Defence is to get three per cent ‘real growth’ until 2017–18, after which ‘real growth’ will be pegged to 2.2 per cent until 2029–30. It must be noted, however, that the authors of the White Paper did not promise three per cent real growth ‘per annum’. Nor did the Defence Portfolio Budget Statement commit the Government to three per cent each year—the term used is ‘average real growth’. Combined with the other two elements of the new funding arrangement described below, this means that the Defence budget will not see a steady annual rise, but actually will rise only marginally over the forward estimates, with more money being promised from 2015–16 onwards. Thus both the White Paper and the Budget presuppose that whichever government follows the Rudd Government will continue with the same funding arrangements, and that this will be financially possible. As one commentator has noted, ‘[t]hat requires faith beyond scepticism’.<sup>114</sup>

### Indexation

The second element of the new funding model for Defence, announced in the White Paper and implemented in the Budget is the move to a new method of calculating price indexation supplementation. The Government will no longer use the Non-Farm GDP Implicit Price Deflator which has been the method of Defence indexation since 2000 used to compensate Defence for price increases. The 2009 White Paper abandoned this because the global economic crisis had subjected that index to ‘substantial fluctuations’.<sup>115</sup> Instead, for the next twenty years Defence will be tied to a fixed indexation of 2.5 per cent.

The explanations for fixing on 2.5 per cent are somewhat confusing. The White Paper, Budget Papers No.1 and No. 2, and the Minister’s press release all refer to 2.5 per cent as the

---

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FHYYJT6%22>

114. G Barker, ‘No defence for secrecy’, *Australian financial review*, 13 May 2009, p. 27, viewed 19 May 2009,

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FRZIT6%22>

115. Department of Defence, *Defending Australia in the Asia Pacific Century: Force 2030*, p. 127.

target for consumer price inflation agreed to the Australian Government and the Reserve Bank of Australia.<sup>116</sup> The Defence Portfolio Budget Statement, however, says that ‘the 2.5 per cent fixed price indexation is consistent with the long-term Non-Farm GDP Implicit Price Deflator’.<sup>117</sup>

Given that the average increase in both the consumer price index and the Non-Farm GDP Implicit Price Deflator over the last twenty years has been 3.2 per cent, 2.5 per cent fixed indexation for the next twenty years might not cover Defence’s price increases. This could have the effect of eroding the ‘real growth’ that has been promised in the White Paper and the Budget for this period.

To complicate matters further, the Budget changed the timeframe of the White Paper’s application of indexation. The Budget provides that the 2.5 per cent is ‘to be calculated from 2009–10 but applied from 2013–14’.<sup>118</sup> In other words the money will not be available for use until 2013–14.

In addition there will be an ‘extension of the efficiency dividend of one per cent of the administrative activities for the life of the White Paper’.<sup>119</sup> The effect of the one per cent efficiency dividend is not clear because of the undefined nature of the ‘administrative activities’ to which it applies.

Another consequence of the change in indexation method would appear to be the demise of the defence operations reserve which was established only in last year’s Budget—to be set up with the ‘windfall’ Defence received from increased non-farm prices. The impact of the global financial crisis on this ‘windfall’ meant that this source of funding for the reserve was short-lived and Defence will go back to being supplemented for the cost of these operations—\$1.7 billion in 2000–10 and \$2.1 billion over the four years.

## Savings

The third element of the new Defence funding package is the ambitious savings program referred to above, with an agreement that Defence will be able to reinvest all the savings from the White Paper’s Strategic Reform Program (SRP), ‘a program of reform, efficiencies and savings that will generate around \$20 billion worth of savings over 10 years’.<sup>120</sup> The Portfolio

---

116. Department of Defence, *Defending Australia in the Asia Pacific century: Force 2030*, p. 138; Australian Government, *Budget strategy and outlook: budget paper no. 1: 2009–2010*, Commonwealth of Australia, Canberra, 2009, p. 6–16; Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 135; J Fitzgibbon (Minister for Defence), *Budget 2009–10: defence budget overview*, media release, 12 May 2009, viewed 19 May 2009, [http://www.defence.gov.au/budget/09-10/pbs/releases/07909\\_BudgetOverview.pdf](http://www.defence.gov.au/budget/09-10/pbs/releases/07909_BudgetOverview.pdf)

117. Australian Government, Portfolio budget statements 2009–10: budget related paper no. 1.4A & 1.4C: Defence Portfolio, Commonwealth of Australia, Canberra, 2009, p. 15.

118. *Portfolio budget statements: Defence portfolio*, p. 15.

119. *Portfolio budget statements: Defence portfolio*, p. 15.

120. J Fitzgibbon (Minister for Defence), *Budget 2009–10: defence budget overview*, media release, 12 May 2009.



Budget Statement refers to a ‘\$45 billion savings program across the decade’.<sup>121</sup> This is a misnomer—what does exist is a *funding program* to that value, of which a savings program is a significant part.

The defence savings initiatives over the forward estimates period (2009–10 to 2012–13) comprise:<sup>122</sup>

- the SRP
- further savings initiatives and
- reprogrammed funds.

The source and value of the ‘further savings initiatives’ are not identified, and appear to have been included in the savings of \$4.404 billion recorded under ‘reprogramming’.

Reprogramming, defined as ‘reprogramming of funds to future years’ produces only notional ‘savings’ to the ongoing Defence budget—the spending has been postponed, not cancelled.<sup>123</sup>

Under the SRP heading the Budget states that the SRP will ‘fundamentally overhaul the entire organisation, driving efficiency and creating over \$3 billion of savings across the Budget and Forward Estimates’.<sup>124</sup>

The Minister has broadly outlined the reforms which the Government expects will generate savings:

- reforming ‘the design of the military support backbone’ (efficiencies supply chain and inventory management and military equipment maintenance): savings amount to approximately \$1.5 billion across the forward estimates and \$5.5 billion across the decade
- creating ‘more efficient enterprise support functions’ (centralised support to the ADF, reducing contractor numbers): savings amount to approximately \$0.5 billion across the forward estimates and \$3.5 billion across the decade
- rebalancing the Defence workforce (converting contractor positions to Australian Public Service positions; focussing military personnel on military tasks): savings amount to approximately \$0.5 billion across the forward estimates and \$2 billion across the decade
- reducing ‘input costs to doing business’ (including non-equipment procurement such as making greater use of videoconferencing rather than single-day travel): savings amount to approximately \$1 billion across the forward estimates and \$4.5 billion across the decade

---

121. *Portfolio budget statements: Defence portfolio*, p. 16.

122. *Portfolio budget statements: Defence portfolio*, p. 16.

123. *Portfolio budget statements: Defence portfolio*, p. 15.

124. *Portfolio budget statements: Defence portfolio*, p. 12.

- other initiatives including the implementation of Mortimer Review: savings amount to approximately \$1.5 billion across the forward estimates and \$5 billion across the decade
- total savings across the forward estimates amount to \$5 billion
- total savings across the decade amount to \$20.5 billion.<sup>125</sup>

The savings totals appear to have been derived from ‘Table 3: White Paper Savings and Initiatives’ in the Defence *Portfolio Budget Statements* (shown below). This shows gross forward estimates savings of \$4.966 billion (less \$1.436 billion cost of savings equals \$3.503 billion net savings); and gross savings across the decade of \$20.682 billion (less \$2.444 billion cost of savings equals \$18.237 billion net savings).<sup>126</sup>

**Table 3: White Paper savings and initiatives**

	2009-10 to 2012-13 estimate \$m	2009-10 to 2018-19 estimate \$m
<b>Funding Available</b>		
<b>Savings</b>		
Gross Savings	4,966.5	20,682.2
Cost of Savings	-1,463.2	-2,444.3
<b>Net Savings</b>	<b>3,503.3</b>	<b>18,237.9</b>
Reprogramming	4,404.6	7,852.9
New Budget Funding	1,626.6	18,796.3
<b>Total Funding Available</b>	<b>9,534.5</b>	<b>44,887.1</b>
<b>Initiatives</b>		
<b>Remediation</b>		
Defence Capability Plan	750.6	5,970.4
Budget Provisions	4,058.6	17,647.6
Enterprise Backbone	1,449.8	5,721.4
<b>Total Remediation</b>	<b>6,258.9</b>	<b>29,339.4</b>
Other Defence Initiatives	1,275.6	13,909.4
<b>Reprofiled Savings</b>		
\$2bn Saving	2,000.0	2,000.0
Payback of \$2b Saving	–	-361.7
<b>Total Reprofiled Savings</b>	<b>2,000.0</b>	<b>1,638.3</b>
<b>Total Initiatives</b>	<b>9,534.5</b>	<b>44,887.1</b>

(Source: Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.4A & 1.4C: Defence Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 16.)

Under ‘Initiatives in ‘Table 3: White Paper Savings and Initiatives’, which appears to identify the purposes to which the overall \$45 billion funding program will be put, a sum of \$2 billion appears as ‘Reprofiled Savings’.<sup>127</sup> The implication is that \$2 billion of the net \$3.503 billion saved over the forward estimates through the SRP will not immediately be available to

125. J Fitzgibbon (Minister for Defence), *Budget 2009–10: defence savings initiatives*, media release, 12 May 2009, viewed 19 May 2009, [http://www.defence.gov.au/budget/09-10/pbs/releases/08109\\_DefenceSavingsInitiatives.pdf](http://www.defence.gov.au/budget/09-10/pbs/releases/08109_DefenceSavingsInitiatives.pdf)

126. *Portfolio budget statements: Defence portfolio*, p. 16.

127. *Portfolio budget statements: Defence portfolio*, p. 16.

Defence. This is confirmed under the heading ‘Savings and Initiatives’, where the Budget states that \$2 billion of the savings over the forward estimate years will be returned to Defence after 2015–16 ‘in line with revised funding requirements’.<sup>128</sup>

These projected savings across the Budget and the forward estimates seem to indicate that the bulk of the \$20 billion planned savings will occur after 2012–13, with any savings achieved only being available for reinvestment in Defence in the years beyond the forward estimates.

Data provided for the SRP identifies net savings of \$3.503 billion over the four years of the Forward Estimates, an average of \$875.8 million per annum, to be reinvested in Defence. The savings estimate over the ten years to 2018–19 is \$18.237 billion. How the savings for the final six years, which average out at \$2.455 billion per annum, are to be achieved and calculated is unclear given that many programs would already have had savings extracted in the first four years.

### **New project proposals**

Defence has agreed that, in relation to new projects:

Government approval of major Defence projects should occur through a tailored application of the two-pass process. For simple acquisitions where project definition is complete, Government may decide that Defence Capability Plan entry satisfies first pass requirements. If the complexity or cost of a project is high or project definition is uncertain, a minimum of two passes should be employed.<sup>129</sup>

In the corrected Portfolio Budget Statement 14 ‘Significant Defence Capability Plan projects’ for second pass approval in 2009 are listed.<sup>130</sup> Nine of these were not in the most recent public version of the Defence Capability Plan (2006–2016). Four of the nine were not referred to directly in the 2009 Defence White Paper:

- AIR 5440 Phase 1, C-130J Block Upgrade Program 7.0 was partially approved by the Government in 2007–08, with the Defence annual report for that year indicating that the remainder of the project would be ‘approved later’
- AIR 9000 SCAP1, Seahawk Capability Assurance Program 1. AIR 9000 is a broad program to provide the ADF with an appropriate mix of helicopters. SCAP was identified in the Defence annual report in 2007–08 as a measure to ‘ensure the current level of

---

128. *Portfolio budget statements: Defence portfolio*, p. 15.

129 Department of Defence, *The response to the report of the defence procurement and sustainment review: Mortimer review*, Canberra, n.d., p. 20, viewed 19 May 2009, [http://www.defence.gov.au/publications/Mortimer\\_Review\\_Response.pdf](http://www.defence.gov.au/publications/Mortimer_Review_Response.pdf)

130 Department of Defence, *Portfolio budget statements 2009–10, corrections*, Table 33, viewed 19 May 2009, [http://www.defence.gov.au/budget/09-10/pbs/2009-2010\\_Defence\\_PBS\\_09\\_corrections.pdf](http://www.defence.gov.au/budget/09-10/pbs/2009-2010_Defence_PBS_09_corrections.pdf)

Seahawk antisubmarine warfare capability [is maintained] until introduction of the Future Naval Aviation Combat System through Project AIR 9000 Phase 8 mid–next decade<sup>131</sup>

- JP 154 Phase 1, Joint Counter Improvised Explosive Device. Defence has previously been reported as collaborating with others on such technologies<sup>132</sup>
- JP 2008 Phase 3H, Military Satellite Capability Ground Stations will relay communications from satellites to ADF assets operating in a network enabled environment.

In addition, two projects were listed in the original Portfolio Budget Statement, but were removed in the corrections issued subsequently.<sup>133</sup> Both were absent from the most recent public version of the Defence Capability Plan (2006–16):

- JP 3027 Phase 1, Joint Direct Attack Munition Enhancement and
- LAND 121 Phase 5A , Overlander—Field Vehicles & Trailers.

The corrected Portfolio Budget Statement also includes 15 projects to be considered for first pass approval in 2009–10.<sup>134</sup> Of these, 14 were foreshadowed in the most recent public version of the Defence Capability Plan (2006–2016). The additional project is phase 4 of JP 2044 Digital Topographical Systems Upgrade, (Defence GEOINT Capability).

In addition, four projects for first pass approval were listed in the original Portfolio Budget Statement, but not in the corrected one.<sup>135</sup> Three of these were already in the 2006–2016 Defence Capability Plan: AIR 5431 Phase 1: Future Air Traffic Control Surveillance Systems; SEA 1778 Phase 1: Deployable MCM—Organic Mine Counter Measures; and AIR 8000 Phase 2: Battlefield Airlift: Caribou replacement. The Caribou were removed from service recently.

The remaining program, JP 2110 Phase 1B, Chemical, Biological, Radiological, Nuclear Defence is a new phase of a project listed for first pass approval in the 2008–09 Defence Portfolio Budget Statement.

---

131. Department of Defence, *Annual report 2007–08*, Vol 1, p. 55, [http://www.defence.gov.au/budget/07-08/dar/2007-2008\\_Defence\\_DAR\\_13\\_v1\\_full.pdf](http://www.defence.gov.au/budget/07-08/dar/2007-2008_Defence_DAR_13_v1_full.pdf)

132. ‘2009/10 Defence budget analysis’, Australian defence business review 2009/10 post-Budget brief, [May 2009].

133. *Portfolio budget statements: Defence portfolio*, p. 77.

134. *Portfolio budget statements 2009–10, corrections*, Table 34, viewed 19 May 2009, [http://www.defence.gov.au/budget/09-10/pbs/2009-2010\\_Defence\\_PBS\\_09\\_corrections.pdf](http://www.defence.gov.au/budget/09-10/pbs/2009-2010_Defence_PBS_09_corrections.pdf)

135. *Portfolio budget statements: Defence portfolio*, p. 78.

## Capability

### B737 Wedgetail airborne early warning & control aircraft

In Table 27: Air Force Deliverables there is the prediction that five of the six Wedgetail aircraft will be in service in 2009–10 with the last aircraft delivered in 2010–11, ‘subject to delivery schedule’.<sup>136</sup> This is a prudent caveat because, to date, the program is running three years late. Press reports also suggest that it is possible that bringing the aircraft into service may not initially generate any operational capability. These press reports indicated that the first aircraft, now due in November 2009, would have ‘limited capability suitable for training, not operations’.<sup>137</sup>

On 16 April 2009, Warren King of the Defence Materiel Organisation (DMO) gave evidence to the Joint Standing Committee on Foreign Affairs, Defence and Trade on the progress of the project, saying ‘[t]here is no doubt about the fact that the program remains challenged’.<sup>138</sup> DMO has contracted the services of Massachusetts Institute of Technology Lincoln Laboratory to look at the likely performance and soundness of the radar. At the time of Mr King’s evidence, DMO was awaiting the Lincoln Laboratory report and Mr King stated that ‘[i]f it has no future there is no point in going forward with it’. More recent reports indicate that the Lincoln Laboratory assessment did not find any fundamental problems with the phased array radar that would place the project in jeopardy.<sup>139</sup> Additionally, Wedgetail is reported to have performed well in flight tests over the Northern Territory in early May 2009.<sup>140</sup>

## Submarines

### Fleet availability

The Navy routinely puts three submarines to sea,<sup>141</sup> against an operational requirement ‘generally set at two’.<sup>142</sup>

---

136. *Portfolio budget statements: Defence portfolio*, p. 51.

137. ‘Fitzgibbon stands by Wedgetail aircraft’, *The age*, 12 April 2009, viewed 13 May 2009, <http://news.theage.com.au/breaking-news-national/fitzgibbon-stands-by-wedgetail-aircraft-20090412-a3ro.html>

138. W King, Defence Materiel Organisation, evidence to Joint Standing Committee on Foreign Affairs, Defence and Trade Defence Subcommittee, Inquiry into *Department of Defence Annual Report 2007–08*, 16 April 2009, viewed 20 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22committees%2Fcommjnt%2F11876%2F0002%22>

139. P Walters, ‘Flying colours for Wedgetail’, *The Australian*, 19 May 2009, p. 2, viewed 20 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FTGLT6%22>

140. P Walters, ‘Flying colours for Wedgetail’.

141. Chief of Navy, evidence to Senate Standing Committee on Foreign Affairs, Defence and Trade, Inquiry into estimates (supplementary budget estimates), Defence Portfolio, 22

Against an average of 923 unit ready days for the submarine fleet over the previous five years, the budget predicts an increase from 762 in 2008–09 to 916 in 2009–10. During this time two submarines will be in full cycle docking all year and one other will complete full cycle docking in late 2009. One will be alongside in a training role from late 2009. Both of the remaining two have short maintenance periods scheduled in 2009–10.

In 2009–10 the Navy also aims to continue to increase the size of submarine crews from 46 to a total of 58. This will give it three enlarged crews by the end of 2010–11, and a fourth by the end of 2011–12.<sup>143</sup>

Over the same period the submarine fleet's unit ready days will decline from 916 in 2009–10 to 820 in 2010–11 and further to 733 in 2011–12. An increase to 781 days is forecast for 2012–13.

#### Delivering the defence White Paper's 'future submarines'

Defence expects an 'increase in the number of submarines from 2030'.<sup>144</sup> Currently the submarine fleet comprises six Collins Class, so the fleet will be seven from 2030. There is no indication of the composition of this force—seven of the White paper's 'Future Submarines' or six Collins Class plus one 'Future Submarine'.

---

October 2008, p. 71, viewed 19 May 2009,  
<http://www.aph.gov.au/hansard/senate/commtee/S11361.pdf>

142. Chief of Navy, evidence to Senate Standing Committee on Foreign Affairs, Defence and Trade, Inquiry into Estimates (budget estimates), Defence Portfolio, 4 June 2008, p. 157, viewed 19 May 2009, <http://www.aph.gov.au/hansard/senate/commtee/S10871.pdf>

143. Department of Defence, *Navy's response to the submarine workforce sustainability review*, April 2009, pp. 17–18, viewed 19 May 2009,  
<http://www.defence.gov.au/publications/SubmarineWorkforceSustainability.pdf>

144. *Portfolio budget statements: Defence portfolio*, p. 12.

## GST transitional assistance to expire

Richard Webb  
Economics Section

Under existing arrangements for the payment of GST revenue to the states, it is possible that some states will be worse off than if the pre-GST arrangements had continued to apply.

When the Howard Government introduced the GST, it pledged that no state would be worse off under the new arrangements compared with the former arrangements. The pledge was that if a state's GST entitlement was less than the amount it would have received under the former arrangements—the guaranteed minimum amount—the Federal government would top up that state's GST entitlement with budget balancing assistance. This pledge was initially due to expire on 30 June 2006. The Howard Government subsequently extended this transitional period to 30 June 2009.

The strong growth in GST revenue meant that for the period 2004–05 to 2007–08, the Federal government did not have to pay any budget balancing assistance. However, *Budget Paper No. 3* indicates that the Federal government will have to pay budget balancing assistance of \$261 million in 2008–09.<sup>145</sup> But with the pledge to provide budget balancing assistance due to expire on 30 June 2009 and the future level of GST payments uncertain, some states might receive less GST than their guaranteed minimum amounts in 2009–10 and beyond. Some states could therefore be worse off than if the pre-GST arrangements had continued to apply.

---

145. Australian Government, *Australia's federal relations: budget paper no. 3: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 116.

## Department of Foreign Affairs and Trade (DFAT)

Nina Markovic

Foreign Affairs, Defence and Security Section

In contrast to the last financial year, the [Department of Foreign Affairs and Trade](#) (DFAT) has received an increase in funding for 2009–10. Total net resourcing available to the DFAT portfolio in the 2009–10 Budget is \$1.99 billion.<sup>146</sup> This represents an increase of \$409.2 million or 25.8 per cent from the actual available net resourcing for DFAT in 2008–09.

The departmental estimate for 2009–10 shows an increase of \$299.1 million or 33.5 per cent—compared with the actual available appropriation for 2008–09. However, this estimate includes \$215.44 million that was appropriated in 2008–09 and carried forward, as well as an increase of \$88.8 million.

One of the new measures in the 2009–10 Budget comprises additional resourcing of \$9.7 million over two years (including \$1.1 million in capital funding in 2009–10) towards the Department's anti-smuggling activities. This measure includes the establishment of new diplomatic positions in Australia's embassies in Indonesia, Malaysia, Pakistan, and Sri Lanka.<sup>147</sup> In addition the 2009–10 Budget allocated \$106.5 million over four years for strengthening the Department's contribution to [national security](#) which includes funding for additional staff and resources at a number of overseas posts and in Canberra.<sup>148</sup>

The Government has allocated \$11.2 million over two years in advance preparation for Australia's bid for a non-permanent two-year [seat on the UN Security Council in 2013–14](#).<sup>149</sup> The Budget also provides \$106 million for the strengthening of Australia's diplomatic relations with Afghanistan, Pakistan, India, Africa and Latin America. The Shadow Minister for Foreign Affairs, Julie Bishop, has focused on the African and Latin American component of this measure suggesting that it is connected to Australia's bid for a UN Security Council

---

146. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.9: Foreign Affairs and Trade portfolio*, Commonwealth of Australia, Canberra, 2009, pp. 16–17, viewed 13 May 2009, [http://www.dfat.gov.au/dept/budget/2009\\_2010\\_pbs/2009-10\\_DFAT.pdf](http://www.dfat.gov.au/dept/budget/2009_2010_pbs/2009-10_DFAT.pdf)

147. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, viewed 13 May 2009, [http://www.budget.gov.au/2009-10/content/bp2/html/bp2\\_expense-15.htm](http://www.budget.gov.au/2009-10/content/bp2/html/bp2_expense-15.htm)

148. S Smith (Minister for Foreign Affairs), *Foreign Affairs and Trade portfolio – budget 2009–10*, media release, 12 May 2009, viewed 13 May 2009, [http://www.foreignminister.gov.au/releases/2009/fa-s090512\\_budget1.html](http://www.foreignminister.gov.au/releases/2009/fa-s090512_budget1.html)

149. Australian Government, *Australia: United Nations Security Council Candidate 2013–14*, Department of Foreign Affairs and Trade, viewed 15 May 2009, <http://www.dfat.gov.au/un/unga.html> Another measure for 2009–10 includes a continued funding for Australia's 'Asia Pacific Community' proposal—which is intended to draw all major players from the Asia Pacific region into a broadly encompassing dialogue on regional issues.



seat.<sup>150</sup> She has criticised the Budget on the grounds that it focuses too much on winning the UN Security Council seat, instead of keeping its focus predominantly on the Asia Pacific region.

### Changes in departmental outcomes and staffing numbers

Following a review announced in the [2008–09 Budget](#), DFAT's departmental outcomes have been streamlined from four into three in the 2009–10 Budget.<sup>151</sup>

A revised **outcome one** for the Department comprises 'the advancement of Australia's international strategic, security and economic interests' through a range of bilateral, multilateral and regional engagement measures.<sup>152</sup> Public information services and public diplomacy have been combined to form program 1.3 under outcome one, and funded with \$60.21 million in 2009–10.<sup>153</sup> This amount includes funding for the Australia Network as well as the International Relations Grants Program, but excludes funding for the Shanghai World Expo 2010, which is funded through other accounts.<sup>154</sup>

The Budget predicts that in 2009–10, the staffing levels for outcome one will be increased by 62.<sup>155</sup> The estimated expenses regarding payments to international organisations will increase by about 13 per cent, from an estimated \$292.6 million in 2008–09 to an estimated \$330.7 million in 2009–10.<sup>156</sup> The revised outcome one in the 2009–10 Budget also provides a definition of Australia's national interests, which includes promoting 'international strategic, security and economic interests' as the central objective of Australian diplomacy.

**Outcome two** comprises 'the protection and welfare of Australians abroad and access to secure international travel documentation' through the Department's travel advice and consular and passport services.<sup>157</sup> Under outcome two, the Government has separated consular and passport services into two programs. In departmental expenses the Budget allocated \$81.01 million to the consular services program in 2009–10, and \$187.65 million to the passport services program—an increase of \$5.1 million for the latter.<sup>158</sup> The staffing levels for this outcome have essentially remained constant, with one less staff member envisaged in 2009–10.

---

150. J Bishop (Shadow Minister for Foreign Affairs), *Taxpayer funds wasted in pursuit of temporary seat on UN Security Council*, media release, 15 May 2009, viewed 18 May 2009, <http://www.liberal.org.au/news.php?Id=3121>

151. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 18.

152. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 5.

153. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 34.

154. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 23.

155. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 26.

156. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 26.

157. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 5.

158. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 39.

**Outcome three**—formerly outcome four—was revised to include, apart from the ‘efficient management of the Commonwealth overseas owned estate’, an element of national security. It also includes ‘a secure Australian Government presence overseas’ through a range of measures.<sup>159</sup> The Budget for 2009–10 provided additional capital funding of \$87.5 million over five years and \$269.5 million over six years for enhanced security arrangements at the Australian embassies in Bangkok and Jakarta, respectively.<sup>160</sup> The Government also allocated \$3 million in departmental expenses for 2009–10 towards a feasibility study and planning work for a more secure Australian embassy in Kabul. The staffing levels have, correspondingly, increased by 41 for this outcome.

DFAT’s total staffing levels will increase by 102, from an estimated 3461 to an estimated 3563 in 2009–10.<sup>161</sup> It is likely that DFAT will open new positions in Canberra and overseas during 2009–10.

### Middle East

With Australia’s planned withdrawal of combat troops from Iraq in July 2009, the Government’s focus is now on Afghanistan with \$4.1 million being allocated towards increased non-military assistance for Afghanistan.<sup>162</sup> This is in line with recent analysis that supports the need for more funding for diplomatic initiatives and public diplomacy in the Middle East due to this region’s relevance to Australia’s long-term security interests and to counter people smugglers. This case was recently put in a detailed study commissioned by the Lowy Institute for International Policy—the Blue Ribbon Panel Report.<sup>163</sup>

### Other funding initiatives

In line with the Government’s priorities, the 2009–10 Budget also announced the following funding initiatives for DFAT:

- \$28.1 million from 2010–11 for [counter-terrorism activities](#), predominantly in Southeast Asia<sup>164</sup>
- \$54.21 million over four years, including \$18.7 million in capital funding, to enhance security at Australian diplomatic and consular overseas missions—in particular, in Thailand and Indonesia<sup>165</sup>

---

159. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 5.

160. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 19.

161. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, pp. 26, 39, 46.

162. *Portfolio budget statements 2009–10, Foreign Affairs and Trade portfolio*, p. 21.

163. A Gyngell, ‘Rudd erodes diplomacy’, *The Australian*, 18 March 2009, p. 14, viewed 14 May 2009, <http://www.lowyinstitute.org/Publication.asp?pid=997> Blue Ribbon Panel Report, ‘Australia’s diplomatic deficit. Reinvesting in our instruments of international policy’, *Lowy Institute for International Policy*, March 2009, viewed 14 May 2009, <http://www.lowyinstitute.org/Publication.asp?pid=998>

164. M Dodd, ‘Increased visa fees to fund embassy makeovers’, *The Australian*, 13 May 2009, p. 10; *Budget measures: budget paper no. 2: 2009–10*, p. 257

- \$9.2 million over two years for the International Commission on Nuclear Non-Proliferation and Disarmament—which is expected to complete its work in 2010, when the universal [Non-Proliferation Treaty Review Conference](#) will take place,<sup>166</sup> and
- \$9.7 million over two years, including \$1.1 million in capital funding, towards the implementation of the whole-of-government approach to people smuggling. This measure includes funding for a full-time Ambassador for People Smuggling Issues, continued funding for the Bali Process, and funding for the establishment of new positions in Jakarta, Colombo, Islamabad and Kuala Lumpur to increase engagement with those countries which serve as a transit point for people smugglers.<sup>167</sup>

For more specific measures on people smuggling see the ‘Immigration’ section of this *Budget Review*.

## Official Development Assistance (ODA)

Dr Ravi Tomar  
Foreign Affairs, Defence and Security Section

According to the [Budget Statement](#) Australia’s Official Development Assistance (ODA) budget for 2009–10 is \$3818.8 million, \$29.2 million more than the 2008–09 expected outcome of \$3789.6 million.<sup>168</sup> This represents a 2 per cent increase over the expected outcome for 2008–09. The ODA/Gross National Income (GNI) ratio will increase from 0.33 per cent in 2008–09 to 0.34 per cent in 2009–10.

The statement recognises the global effects of recession:

The past year has seen a dramatic change in the prospects of developing countries due to the effects of the global recession. Declines in foreign direct investment, export revenue, remittances, tourism and other adverse impacts of the recession will reduce economic growth and, in turn, may unravel progress towards the Millennium Development Goals (MDGs)...

---

165. *Budget measures: budget paper no. 2: 2009–10*, p. 265.

166. *Budget measures: budget paper no. 2: 2009–10*, p. 258. United Nations, ‘Preparatory Committee for the 2010 Nuclear Non-Proliferation Treaty Review Conference’, viewed 15 May 2009, <http://www.un.org/disarmament/WMD/Nuclear/NPT2010Prepcom/PrepCom2009/index.html>

167. *Budget measures: budget paper no. 2: 2009–10*, p. 254.

168. Unless otherwise indicated, all information is derived from the statement by The Hon. Stephen Smith, Minister for Foreign Affairs and The Hon. Bob McMullan, Parliamentary Secretary for International Development Assistance, Australian Government, *Budget statements 2009–10: Australia’s International Development Assistance program: a good international citizen*, Commonwealth of Australia, Canberra, 12 May 2009, [http://www.apf.gov.au/budget/2009-10/content/ministerial\\_statements/ausaid/download/ms\\_ausaid.pdf](http://www.apf.gov.au/budget/2009-10/content/ministerial_statements/ausaid/download/ms_ausaid.pdf)

The impacts on growth will vary across the developing world but overall will have an enormous human cost. Poverty reduction gains will be substantially lower as a result of the recession.<sup>169</sup>

There is also an acknowledgement of its effect on the Australian economy:

Economic circumstances require some small adjustment to previous plans for scaling up ODA in the near term. Despite this, the Government expects to increase Australia's ODA levels to equivalent to 0.35 per cent of GNI in 2010-11, 0.37 per cent of GNI in 2011-12, and 0.40 per cent of GNI in 2012-13. Increased Australian aid will be directed first to achieve faster progress towards the internationally agreed MDGs.<sup>170</sup>

This contrasts with the projected increases forecast in the [Budget Paper No. 2, 2008–09](#) in which the amounts were provided:

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>171</sup>

There is also a reiteration of the government's commitment to increase Australia's ODA to 0.5 per cent of GNI by 2015–16.

Sectoral allocation of the AusAID administered ODA budget and new initiatives in these sectors are as follows:

- expenditure on rural development is expected to be \$230 million in 2009–10, approximately six per cent of total ODA
  - a new initiative costing \$464.2 million over four years to strengthen the ability of certain countries in Africa and the Asia-Pacific region to address food insecurity.
- expenditure on infrastructure and water and sanitation will be \$560 million in 2009–10, approximately 15 per cent of total ODA
  - a new initiative costing \$454 million over four years to improve infrastructure in East Asia and PNG.
- outlay in the education sector will be some \$690 million, approximately 18 per cent of total ODA.

---

169. *Budget statements 2009–10: Australia's International Development Assistance program*, p. 11.

170. *Budget statements 2009–10: Australia's International Development Assistance program*, p. 16.

171. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no. 2: 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 186.

- expenditure for the health and HIV sector will be over \$595 million, approximately 16 per cent of ODA
  - the government will cancel up to \$75 million in debt owed by Indonesia provided the latter invests \$37.5 million in the Global Fund to Fight AIDS, Tuberculosis and Malaria for tuberculosis programs.
- expenditure in the governance sector will be about \$820 million, some 22 per cent of total ODA
  - a new initiative costing \$138.6 million over four years to ‘improve the effectiveness of government and accountability to citizens’ in East Timor and the Pacific
  - after a two-year trial, it is proposed to invest \$336.1 million over four years ‘to enable the inclusion of significant performance-linked aid elements within the new Pacific Partnerships for Development’ and the expansion of existing arrangements in Asia.
- expenditure in the environment and climate change sector in 2009–10 will be some \$170 million, about five per cent of total ODA.

In terms of the geographical distribution of ODA, Africa has seen a large increase in allocation by AusAID—a total outlay of \$163.9 million for 2009–10, up from \$116.4 million in 2008–09. In addition, the [Attorney-General’s Department](#) ‘will provide \$17.3 million over four years to assist African countries to develop effective law and justice frameworks’.

Another budget initiative will boost Australia’s non-military ODA to Afghanistan and Pakistan to over \$500 million over four years.

Given that the overall increase in the ODA budget from 2008–09 is just 2 per cent, the projected increase in the aid budget as foreshadowed in Budget Paper No. 2, 2008–09 has effectively been put on hold in 2009–10.

## First Home Owners Boost extension

Peter Hicks  
Economics Section

Funding of \$539 million over three years is provided in the 2009–10 Budget for a six month extension to the First Home Owners Boost (FHOB). The FHOB was announced by the Government in its October 2008 Economic Security Strategy.<sup>172</sup>

The FHOB provides eligible first home buyers with \$7000 for the purchase of an established home and \$14 000 for the purchase of a new home. These amounts are in addition to the \$7000 available under the ongoing First Home Owners Grant (FHOG).

When announcing the FHOB, the Government stated all contracts entered into by 30 June 2009 would be eligible and estimated that over 150 000 first home buyers would benefit. The expected cost was put at around \$1.5 billion over 2008–09 and 2009–10.<sup>173</sup>

Under the extension to the FHOB announced in the 2009–10 Budget there will be no change to the amounts for eligible first home buyers entering into contracts between 1 July 2009 and 30 September 2009. However for contracts between 1 October 2009 and 31 December 2009, there will be a halving of the amounts available to eligible first home buyers. During this period, the FHOB will provide \$3500 for those purchasing established homes and \$7000 for buyers of new homes.

The FHOG was established via agreement between the Commonwealth and states and territories and came into effect on 1 July 2000. It was developed as part of the arrangements for implementing the new tax system and designed to offset the impact of the introduction of the GST.

The arrangements with the FHOB parallel the Additional First Home Owners Scheme which first applied between March 2001 and 31 December 2001 when an additional \$7000 grant was available to first home owners building or purchasing new homes. The Additional First Home Owners Scheme was then extended but at the lower amount of \$3000 for new homes built or purchased between 1 January and 30 June 2002.<sup>174</sup>

Payments under the FHOG have averaged close to \$1 billion annually and expenditure under the Additional First Home Owners Scheme totalled almost \$0.5 billion. With the announced extension, total outlays under the FHOB will be about \$2.1 billion. This means that by the

---

172. K Rudd (Prime Minister) and W Swan (Treasurer), *Economic security strategy*, media release, 14 October 2008, viewed 19 May 2009,

[http://www.pm.gov.au/media/release/2008/media\\_release\\_0550.cfm](http://www.pm.gov.au/media/release/2008/media_release_0550.cfm)

173. K Rudd and W Swan, *Economic Security Strategy*.

174. A brief history of first home buyers schemes is provided in: P Hicks, S Kompo-Harms and R Webb, *Appropriation (Economic Security Strategy) Bill (No. 2) 2008–09*, Bills digest, no. 61 2008–09, Parliamentary Library, Canberra, 2008, viewed 15 May 2009, <http://www.aph.gov.au/Library/pubs/bd/2008-09/09bd061.pdf>

end of 2009–10, total direct budgetary outlays to first home buyers since 1 July 2000 is likely to be approaching \$13 billion.<sup>175</sup>

The following table shows both the number of first home buyers and their average loan size since January 2008. Substantial increases have been recorded for both these measures since October 2008 although at least part of the surge in the number of first home buyers, especially in March 2009, can be attributed to the pull forward effect of the measure which at that stage was being scheduled to end in June 2009.

#### Recent first home buyers—number and loan size

Month	No.	Average new loan size (a) (\$'000)
Jan-08	10 441	231.8
Feb-08	10 667	227.9
Mar-08	9 265	230.0
Apr-08	9 814	237.0
May-08	9 643	243.1
Jun-08	8 805	243.1
Jul-08	9 879	246.4
Aug-08	8 818	250.8
Sep-08	9 372	260.9
Oct-08	9 910	264.5
Nov-08	11 775	269.4
Dec-08	14 413	269.8
Jan-09	12 514	268.0
Feb-09	14 321	281.7
Mar-09	17 652	286.0

(a) – excludes alterations and additions

Source: Australian Bureau of Statistics (ABS), *Housing Finance*.<sup>176</sup>

175. Hicks, Kompo-Harms and Webb, p. 4.

176. Australian Bureau of Statistics (ABS), 'Table 9a', *Housing Finance*, cat. no. 5609.0, (electronic version), ABS, Canberra, 2009, viewed 14 May 2009, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Mar%202009?OpenDocument>

## Infrastructure overview

Richard Webb  
Economics Section

A feature of the Budget was the announcement of the financing of investment in infrastructure. In the Budget speech, the Treasurer, Wayne Swan announced funding of \$22 billion over four years for infrastructure.<sup>177</sup> The largest component is for transport (funding is also available for the Clean Energy Initiative, education and health). Of the 15 transport projects announced by the Minister for Infrastructure, Transport, Regional Development and Local Government, the Commonwealth's total funding commitment amounts to \$8.5 billion.<sup>178</sup> Of this, \$8.1 billion will come from the Building Australia Fund.

The 15 projects include seven of the nine projects that Infrastructure Australia assessed as meeting its criteria (the seven projects are listed in Table 1).<sup>179</sup> The government also announced funding for six projects which, while on Infrastructure Australia's list of 28 projects with 'real potential', have nonetheless not been fully assessed by Infrastructure Australia.<sup>180</sup> The basis on which the government selected the six projects is unclear. In addition, the government announced funding for two other projects. One was \$618 million for the Kempsey bypass on the Pacific Highway in NSW. The other was \$61 million for the O-Bahn track extension in South Australia.

- 
177. W Swan (Treasurer), *Budget Speech 2009–10*, Commonwealth of Australia, Canberra, 12 May 2009, viewed 18 May 2009, <http://www.budget.gov.au/2009-10/content/speech/download/speech.pdf>
178. A Albanese (Minister for Infrastructure, Transport, Regional Development and Local Government), *Investing in the nation's infrastructure priorities*, media release, 12 May 2009, viewed 18 May 2009, [http://www.minister.infrastructure.gov.au/aa/releases/2009/May/budget-infra\\_01-2009.htm](http://www.minister.infrastructure.gov.au/aa/releases/2009/May/budget-infra_01-2009.htm). This press release does not include \$61 million for the O-Bahn track extension.
179. The nine projects can be found in: Infrastructure Australia, 'Table 2', *National Infrastructure Priorities*, Commonwealth of Australia, May 2009, pp. 10–11, viewed 18 May 2009, [http://www.infrastructureaustralia.gov.au/files/National\\_Infrastructure\\_Priorities.pdf](http://www.infrastructureaustralia.gov.au/files/National_Infrastructure_Priorities.pdf)
180. The six projects are the Darwin Port expansion, Oakajee Port, the Cooroy to Curra section of the Bruce Highway, the Brisbane Inner City rail Capacity project, the West metro in Sydney, and the Northbridge rail link.



**Table 1: Infrastructure Australia-approved projects funded in the 2009–10 Budget**

Project	State	Funding (\$ million)
Hunter Expressway (F3 to Branxton)	NSW	1451
Ipswich Motorway	QLD	884
Gawler rail line	SA	294
East-West tunnel	VIC	40
Gold Coast light rail	QLD	365
Regional Rail Express	VIC	3200
Noarlunga to Seaford rail	SA	291

Source: Minister for Infrastructure 2009–10 Budget media releases.

Victoria emerges as the main beneficiary of the 15 projects, with \$3.476 billion. This is followed by NSW with \$2.209 billion, Queensland with \$1.757 billion, South Australia with \$644.7 million, Western Australia with \$339 million, and the Northern Territory with \$50 million.

A feature of the announcement is the emphasis given to rail, with \$4.6 billion of the \$8.4 billion for rail. Most of this is for public transport, with the regional rail express project in Victoria the single largest project involving total Commonwealth funding of \$3.2 billion. Two ports are also scheduled to be funded: \$339 million for the Oakajee Port Common User Facilities in Geraldton WA, and \$50 million for the expansion of Darwin Port. This is the first direct Commonwealth funding of ports for a long time. Ports have traditionally been the preserve of state governments and to a lesser extent, the private sector. The Commonwealth, has however, funded projects that indirectly affect ports. An example is access to Port Botany, which will be improved by the completion of the south Sydney dedicated rail freight line.

The funding of infrastructure is designed, in part, to help stimulate the economy. Some projects are scheduled to start in 2009 and so should provide relatively rapid stimulus. Ongoing spending on these projects together with the coming-on-stream of projects with later start dates will spread the stimulus over a number of years.

Future funding of the announced projects is likely to be a major issue. KPMG estimates that the total cost of the announced projects is possibly close to \$80 billion.<sup>181</sup> With the Building Australia Fund depleted by the funding of roads, rail and ports of \$7.7 billion and by funding of the National Broadband Network, and with the government having pledged to return the Budget to surplus over time, the government's room for manoeuvre is limited. This suggests that it will have to look to state governments and the private sector to help fund projects. One estimate of the additional funding needed for the 15 projects is in the order of \$27 billion.<sup>182</sup>

181. KPMG Australia, *22 billion x 4 is the true picture for infrastructure*, media release, KPMG Australia, 13 May 2009, viewed 18 May 2009, <http://www.kpmg.com.au/Default.aspx?tabid=214&kpmgarticleitemid=3661&frompress=true>

182. A Ferguson, 'PM plan to raid super for projects', *Weekend Australian*, 16 May 2009, p. 1.

Budget announcements from different sources lead to some confusion about the level of funding. For example, the Minister for Infrastructure, Transport, Regional Development and Local Government announced **road** funding over the six years 2008–09 to 2013–14 will be \$28 billion.<sup>183</sup> However, the Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG) [website](#) (dated 13 May 2009) shows **land** transport funding for the six years at \$27 billion.<sup>184</sup> But **land** transport includes **rail** as well as road funding.

Nor is the funding for 2009–10 clear. In 2009–10, responsibility for funding land transport will be shared between DITRDLG and the Department of the Treasury under the revised arrangements for federal financial relations that came into effect on 1 January 2009. The DITRDLG *Portfolio Budget Statements* (PBS) show DITRDLG funding for infrastructure investment in 2009–10 under the Nation Building Program to be \$892 million and for the Department of the Treasury, \$3375 million amounting to a total of \$4267 million.<sup>185</sup> However, the DITRDLG [website](#) shows land transport funding in 2009–10 as being \$4427 million.<sup>186</sup> Further, the Department of the Treasury PBS shows Treasury as appropriating \$3323 million on behalf of the DITRDLG for the Nation Building Program, a difference of \$51 million compared with the \$3375 million accounted for in the DITRDLG PBS.<sup>187</sup>

Still, it seems that land transport infrastructure funding in 2009–10 will be lower by about \$455 million than in 2008–09 as shown in Table 2. This seems to be at odds with the government's policy of providing fiscal stimulus to the economy during the recession.

- 
183. A Albanese (Minister for Infrastructure, Transport, Regional Development and Local Government), *Federal road investment program steps up a gear*, media release, 12 May 2009, viewed 18 May 2009, [http://www.minister.infrastructure.gov.au/aa/releases/2009/May/budget-infra\\_02-2009.htm](http://www.minister.infrastructure.gov.au/aa/releases/2009/May/budget-infra_02-2009.htm)
  184. Australian Government, 'Land transport funding allocations consolidated', DITRDLG website, viewed 13 May 2009, [http://www.nationbuildingprogram.gov.au/funding/allocations/funding\\_allocations\\_consolidated.aspx#2008\\_to\\_09](http://www.nationbuildingprogram.gov.au/funding/allocations/funding_allocations_consolidated.aspx#2008_to_09)
  185. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.13: Infrastructure, Transport, Regional Development and Local Government portfolio*, Commonwealth of Australia, Canberra, 2009, p. 34, viewed 18 May 2009, [http://www.infrastructure.gov.au/departments/statements/2009\\_2010/budget/files/DITRDLG\\_Budget\\_2009-10\\_PBS.pdf](http://www.infrastructure.gov.au/departments/statements/2009_2010/budget/files/DITRDLG_Budget_2009-10_PBS.pdf); *Portfolio budget statements 2009–10: Infrastructure, Transport, Regional Development and Local Government portfolio*, p. 24.
  186. DITRDLG website, viewed 13 May 2009, [http://www.nationbuildingprogram.gov.au/funding/allocations/funding\\_allocations\\_consolidated.aspx#2008\\_to\\_09](http://www.nationbuildingprogram.gov.au/funding/allocations/funding_allocations_consolidated.aspx#2008_to_09)
  187. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.17: Treasury portfolio*, Commonwealth of Australia, Canberra, 2009, p. 31, viewed 18 May 2009, [http://www.treasury.gov.au/documents/1539/PDF/Treasury\\_portfolio\\_budget\\_statements\\_2009\\_10.pdf](http://www.treasury.gov.au/documents/1539/PDF/Treasury_portfolio_budget_statements_2009_10.pdf)

**Table 2: Land transport funding 2008-09 and 2009-10 (\$ million)**

Nation Building Program	2008–09			2009–10
	DITRDLG	Treasury	Total	Total
Investment a	2553.3	450.3	3003.6	2951.4
Roads to recovery	355.6		355.6	350.0
Strategic regional	99.7		99.7	
Strategic regional: supplementary b	79.1		79.1	125.1
Black spots	144.7		144.7	119.5
Boom gates for rail crossings	50.0		50.0	100.0
Heavy vehicle safety	10.0		10.0	20.0
Improving local roads b	83.8		83.8	0.0
Improving the national network b	834.5		834.5	265.5
Off-network roads	0.2		0.2	281.9
Building Australia Fund special account c	1005.0	32.0	1037.0	1055.0
ARTC equity injection	422.0		422.0	678.0
<i>Subtotal</i>	5637.9	482.3	6120.2	5946.4
<b>Other</b>				
Untied local road grants	722.7		722.7	442.3
Additional funding to SA	14.3		14.3	14.8
Federation Fund		1.0	1.0	0.0
<i>Subtotal other</i>	737.0	1.0	738.0	457.1
<b>Total</b>	<b>6374.9</b>	<b>483.3</b>	<b>6858.2</b>	<b>6403.5</b>

a Treasury payment in 2008-09 is a bring forward of funding from 2009-10 for a number of key projects

b Accrual expenses relating to prepayments made in 2006 and 2007.

c Includes equity payments in 2009–10

Sources: DITRDLG PBS 2009–10 pp. 20, 24, 34, 89 and 107 and DITRDLG website

The budget papers do not show funding for rail and road separately. Given that Members of Parliament frequently respond to public interest in road funding, it would be useful if this information were included in future budget papers.

## Broadband and Telecommunications

Jonathan Chowns  
Economics Section

There were no new high value initiatives announced in the 2009–10 Budget for broadband and telecommunications. Whilst there are a few new low value initiatives, the Budget is mainly concerned with adjustments to the funding of existing programs. The most significant initiative—taking cost as a measure of significance—the fibre to the home (FTTH) national broadband network (NBN), was announced prior to the Budget on 7 April 2009.

This Budget Review brief focuses on the Government's new proposal to build a national broadband network. Some notable lower value initiatives are mentioned briefly at the end.

## National Broadband Network

### The first national broadband network – fibre to the node

The early history of the Government's first proposal to build a fibre to the node (FTTN) National Broadband Network was described briefly in last year's *Budget Review*.<sup>188</sup>

To continue that chronology, the deadline for requests for proposals was extended from 25 July 2008 to 26 November 2008. Six proposals were received including one from Telstra. On 15 December 2008, Telstra's proposal was determined to be non-compliant and ineligible for further consideration.<sup>189</sup> In early to mid January 2009, the Australian Competition & Consumer Commission (ACCC) gave its report on the remaining proposals to the expert panel.<sup>190</sup> Around 20 January 2009, the expert panel gave its report to the Government.<sup>191</sup> On the morning of 7 April 2009, the Government announced that the request for proposals (RFP) process had been terminated as no proposal met the Government's requirement for value for money.

### The second national broadband network – fibre to the home

Later on 7 April 2009, the Government announced a new proposal for the establishment of a new company to build and operate national fibre-to-the-home network. The main elements of the proposal as originally announced are:<sup>192</sup>

- The new network will reach 90 per cent of homes, schools and workplaces with fibre to premises and will provide speeds of up to 100 megabits per second. It will reach the

---

188. J.Chowns, 'Budget 2008–09: economic issues', *Budget review 2008–09*, Parliamentary Library, Canberra, 2008, viewed 21 May 2009, [http://www.aph.gov.au/library/pubs/rp/BudgetReview/Economic\\_Issues.htm](http://www.aph.gov.au/library/pubs/rp/BudgetReview/Economic_Issues.htm)

189. F Layden, 'Conroy cuts Trujillo out of broadband tender; Telstra dives', *Herald sun*, 16 December 2008, p. 49, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FNXDS6%22>

190. M Bingemann, 'ACCC lodges broadband report', *The Australian*, 14 January 2009, p. 19.

191. S Conroy, (Minister for Broadband, Communications and the Digital Economy), *Expert panel submits report on National Broadband Network submissions*, media release, 22 January 2009, viewed 21 May 2009, [http://www.minister.dbcde.gov.au/media/media\\_releases/2009/001](http://www.minister.dbcde.gov.au/media/media_releases/2009/001)

192. K Rudd, (Prime Minister), W Swan (Treasurer), L Tanner (Minister for Finance and Deregulation), S Conroy (Minister for Broadband, Communications and the Digital Economy), *New National Broadband Network*, media release, 7 April 2009, viewed 21 May 2009, [http://www.minister.dbcde.gov.au/media/media\\_releases/2009/022](http://www.minister.dbcde.gov.au/media/media_releases/2009/022); and, K Rudd (Prime Minister), W Swan (Treasurer), L Tanner (Minister for Finance and Deregulation), S Conroy (Minister for Broadband, Communications and the Digital Economy), *Prime Minister press conference about the National Broadband Network*, transcript of press conference, 7 April 2009, viewed 21 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22emms%2Femms%2F133523%22>

remaining premises using wireless technologies with speeds of 12 megabits per second. It will be a wholesale only open-access network

- The proposal also involves the provision of transmission links ('backbones') to major regional centres and rural towns which are inadequately served by commercially viable transmission services
- The Government will commence an implementation study to determine the operating arrangements and network design for the upgraded network
- The Government's plan is to begin to upgrade the network in Tasmania first and to begin negotiations with the Tasmanian Government immediately
- The network will take eight years to build and will 'support' 25 000 jobs on average for the length of the project, peaking at 37 000
- The Government estimates that the network will cost up to \$43 billion.

With regard to the broadband network company proposed in the 7 April 2009 announcement:

- The Commonwealth will have the majority ownership in the company. The government intends to sell down the Commonwealth's interest in the company within five years after the network is built and fully operational, 'consistent with market conditions and national and identity security considerations'
- Private sector involvement is expected by, for instance, direct investment in the company or by the contribution of network assets
- The Government will make an initial investment in the network of \$4.7 billion, this being the amount previously intended for the earlier FTTN proposal and will come 'primarily from the Building Australia Fund'
- In addition to its initial \$4.7 billion investment in the network, the government will probably issue bonds ('[Aussie infrastructure bonds](#)') to pay for at least part of its 51% interest in the company.<sup>193</sup> The mix of debt and equity in the Government's investment in the company will be worked out over time
- It is expected that the company itself will be able to borrow in its own right.

On 7 April 2009, the Government also released a discussion paper entitled [National Broadband Network: Regulatory Reform for 21st Century Broadband](#).<sup>194</sup> This raises the

---

193. 'Aussie bonds commercial [1980s]', YouTube website, viewed 21 May 2009, [http://www.youtube.com/watch?v=93q5\\_8olpPs](http://www.youtube.com/watch?v=93q5_8olpPs)

194. Department of Broadband, Communications and the Digital Economy, *National Broadband Network: Regulatory reform for 21st Century broadband – discussion paper*, Commonwealth of Australia, Canberra, April 2009, viewed 21 May 2009, [http://www.dbcde.gov.au/\\_data/assets/pdf\\_file/0006/110013/NBN\\_Regulatory\\_Reform\\_for\\_the\\_21st\\_Century\\_Broadband\\_low\\_res\\_web.pdf](http://www.dbcde.gov.au/_data/assets/pdf_file/0006/110013/NBN_Regulatory_Reform_for_the_21st_Century_Broadband_low_res_web.pdf)

possibility of changes to the structure of Telstra and wide ranging reforms to the regulation of telecommunications in Australia.

The NBN company (ACN 136533741) was established under the Corporations Act on 9 April 2009.

Also on 9 April 2009, the Government released a [Request for Expression of Interest number DCON/09/23 for Provision of Lead Advisory Services relating to the Implementation Study for the National Broadband Network](#).<sup>195</sup>

On the 23 April 2009 the Government released the [Regional Backbone Blackspots Program Stakeholder Consultation Paper](#) with submissions due by 12 May 2009.<sup>196</sup>

### **NBN related matters in the Budget**

Where is the money going?

The Government says it will make an initial investment of \$4.7 billion towards an enhanced NBN. In addition to this, the Budget makes provision for new funding of \$54 million to develop an implementation plan for the NBN.<sup>197</sup>

Of the \$4.7 billion, \$250 million is new funding for the previously announced regional backbone blackspots program.<sup>198</sup> The other \$4.45 billion will be divided in an unspecified manner between the contribution of equity in the NBN company and direct investment in the upgrade of the network in Tasmania.<sup>199</sup> The Budget papers indicate that the expenditures for these two purposes are expected to be \$30 million in 2008–09, \$750 million in 2009–10 and \$3670 million in 2010–2011.<sup>200</sup> The Budget Papers do not state how much represents initial equity in the company and how much represents direct investments in the Tasmanian network

---

195. Department of Broadband, Communication and the Digital Economy, Request for expression of interest number DCON/09/23 for provision of lead advisory services relating to the implementation study for the National Broadband Network, Canberra, April 2009, viewed 21 May 2009,

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjrnart%2F2LMT6%22>

196. Department of Broadband, Communication and the Digital Economy, *Backhaul blackspots initiative: stakeholder consultation paper*, Canberra, April 2009, viewed 21 May 2009

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjrnart%2F6KMT6%22>

197. Australian Government, 'Part 2: expense measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 118, viewed 21 May 2009,

[http://www.budget.gov.au/2009-10/content/bp2/html/bp2\\_expense-07.htm](http://www.budget.gov.au/2009-10/content/bp2/html/bp2_expense-07.htm)

198. Australian Government, 'Part 3: capital measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 410, viewed 21 May 2009,

[http://www.budget.gov.au/2009-10/content/bp2/html/bp2\\_capital-04.htm](http://www.budget.gov.au/2009-10/content/bp2/html/bp2_capital-04.htm)

199. 'Part 3: capital measures', *Budget measures: budget paper no. 2: 2009–10*, p. 409.

200. 'Part 3: capital measures', *Budget measures: budget paper no. 2: 2009–10*, p. 409.

(although it is likely that the assets that result from those direct investments will be acquired by the company at a later stage).

Where is the money coming from?

The 4.7 billion initially pledged by the Government to this new proposal is the same as the maximum amount that it committed to its first broadband network proposal in 2007. Those funds were to come from the Building Australia Fund (BAF) which was set up by the *Nation Building Funds Act 2008*.<sup>201</sup> The *Explanatory Memorandum* to the National Building Funds Bill 2008, at page 60, says:<sup>202</sup>

The Government has committed an amount of up to \$4.7 billion for proposals relating to the NBN. Such proposals will be disbursed solely through the appropriation made by the BAF Special Account.

Although the amounts of the old and the new NBN proposals are the same, the source of funding is not. First, the \$4.7 billion includes new funding of \$250 million as mentioned. Second, only about \$3.1 billion is coming from the BAF: at 30 March 2009, the BAF had \$2.49 billion.<sup>203</sup> Before 30 June 2009, the BAF will receive \$1.5 billion from the Telstra Sale Special Account and \$7.5 billion from the 2007–08 Budget surplus giving a total of about \$11.5 billion.<sup>204</sup> A total of \$10.7 billion will be drawn from the BAF for ‘nation-building investments’.<sup>205</sup> Of this, \$7.6 billion will fund the roads, rail and ports infrastructure projects listed on page 1-20 of *Budget Paper No. 1* (excluding the Bruce Highway, O–Bahn track extension, the Brisbane inner city rail feasibility study and Northbridge rail link).<sup>206</sup> About \$3.1 billion will fund the Commonwealth’s initial investment in the NBN.<sup>207</sup> This figure is not expressly mentioned in the Budget papers.

The Budget papers also do not expressly state where the balance of the committed funds—\$1.35 billion—will come from (that is, the difference between \$4.45 billion and the \$3.1 billion from the BAF). However, the Budget papers do raise the *possibility* that the difference will be funded by a bond issue or from the contingency reserve:

- 
201. *Nation Building Funds Act 2008* (Cth), viewed 21 May 2009, [http://www.comlaw.gov.au/ComLaw/Legislation/Act1.nsf/0/BDB9356B2BB3A6C6CA2575260076DEB9/\\$file/1542008.pdf](http://www.comlaw.gov.au/ComLaw/Legislation/Act1.nsf/0/BDB9356B2BB3A6C6CA2575260076DEB9/$file/1542008.pdf)
  202. Explanatory Memorandum, Nation-Building Funds Bill 2008, viewed 21 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r3099\\_ems\\_10c2d65d-497d-40a3-aea6-8bd2540b0b72/upload\\_pdf/321025.pdf;fileType=application/pdf](http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r3099_ems_10c2d65d-497d-40a3-aea6-8bd2540b0b72/upload_pdf/321025.pdf;fileType=application/pdf)
  203. Australian Government, ‘futurefund’, viewed 21 May 2009, [www.futurefund.gov.au](http://www.futurefund.gov.au)
  204. Australian Government, *Budget measures: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 7–5, viewed 21 May 2009, [http://www.budget.gov.au/2009-10/content/bp1/html/bp1\\_bst7-01.htm](http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst7-01.htm)
  205. *Budget measures: budget paper no. 1: 2009–10*, p. 7–5.
  206. Personal communications with officer from Department of Finance, 21 May 2009.
  207. Personal communications with officer from Department of Finance, 21 May 2009.

The Contingency Reserve also includes provisions for future equity investments in the National Broadband Network. This is subject to the outcome of the implementation plan and subsequent commercial negotiations and, accordingly, is not disclosed.<sup>208</sup>

The Government's investment in the National Broadband Network company will, in part, be funded through the issuance of Aussie Infrastructure Bonds (AIBs). AIBs will provide an opportunity for households and institutions to invest in the National Broadband Network.<sup>209</sup>

## Australian Broadband Guarantee

Funding for the [Australian Broadband Guarantee](#) (ABG) will be reduced over the next three financial years.<sup>210</sup> The ABG is a program which provides subsidies to enable the provision of broadband services to those who do not otherwise have access to broadband of an equivalent standard to metropolitan areas.

Funding over the next three years will be reduced by about \$11 million in 2009–10, \$9 million in 2010–11 and \$3 million in 2012–13.<sup>211</sup> However, funding over the next four years, including 2008–09, still amounts to \$250.8 million.<sup>212</sup> The funding reductions are due to the expansion of metropolitan–equivalent services and the resultant decline in eligibility and demand.

## ABC, SBS, Digital television and broadcasting generally

These are dealt with in the [Public broadcasting](#) section of this *Budget Review*.<sup>213</sup>

---

208. *Budget measures: budget paper no. 1: 2009–10*, Appendix B, p. 6–53,

209. *Budget measures: budget paper no. 1: 2009–10*, p. 7–8.

210. Australian Government, 'Australian Broadband Guarantee', Department of Broadband, Communications, and the Digital Economy website, viewed 21 May 2009, [http://www.dbcde.gov.au/communications\\_for\\_business/news\\_and\\_events/australian\\_broadband\\_guarantee](http://www.dbcde.gov.au/communications_for_business/news_and_events/australian_broadband_guarantee)

211. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.3: Broadband, Communications and Digital Economy portfolio*, Commonwealth of Australia, Canberra, 2009, p. 26, [http://www.dbcde.gov.au/\\_data/assets/pdf\\_file/0019/112258/2009-2010\\_DBCDE\\_PBS\\_02\\_The\\_Department\\_of\\_Broadband\\_Communications\\_and\\_the\\_Digital\\_Economy\\_Section\\_1.pdf](http://www.dbcde.gov.au/_data/assets/pdf_file/0019/112258/2009-2010_DBCDE_PBS_02_The_Department_of_Broadband_Communications_and_the_Digital_Economy_Section_1.pdf)

212. *Portfolio budget statements 2009–10: Broadband, Communications and Digital Economy portfolio*, p. 22.

213. R Jolly, 'Budget 2009–10: broadcasting and the arts', *Budget review 2009–10*, Parliamentary Library, Canberra, 2009, viewed 21 May 2009, <http://www.aph.gov.au/library/pubs/RP/BudgetReview2009-10/Broadcasting.htm>



## Legal issues and the Attorney-General's portfolio

### Introduction

Roy Jordan

Law and Bills Digest Section

The Attorney-General's portfolio is responsible for legal issues, such as Commonwealth courts and prosecutions, the Australian Federal Police, aspects of national security, customs and border control, as well as coordination of emergency services and responsibility for Commonwealth territories.

According to *Budget Paper No. 1*, the Attorney-General's portfolio will experience an estimated decline in staff of 300 (from 18 947 to 18 647), with the Department dropping in number by 159 (from 1 478 to 1 319).<sup>214</sup>

### Access to Justice

Maira Coombs

Law and Bills Digest Section

#### Indigenous Justice and the Northern Territory Emergency Response

The Government has announced major new resources in the area of Indigenous justice of \$80.2 million over four years under the Northern Territory Emergency Response (NTER). This funding will continue the following services:

- Night patrols
- Increase the capacity of the Northern Territory Aboriginal Interpreter Service and Aboriginal legal aid services, and the
- Welfare Rights Outreach project.<sup>215</sup>

In 2008–09 *Budget Paper No. 2*, the Government in connection with the NTER and the 'Closing the Gap' funding initiatives, provided an allocation of \$0.8 million to continue Indigenous interpreter services, \$2 million for additional legal aid services and \$17.7 million for night patrol services. It was stated that ongoing requirements in these areas would be reviewed prior to the 2009–10 Budget and would be based on the evaluation.<sup>216</sup> The

---

214. Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, Commonwealth of Australia, Canberra, p. 6–66, viewed 18 May 2009, <http://www.budget.gov.au/2009-10/content/bp1/html/index.htm>

215. Australian Government, *Portfolio budget statements, 2009–10: budget related paper no. 1.2: Attorney-General's portfolio*, Commonwealth of Australia, Canberra, 2009, p. 14.

216. Australian Government, *Budget measures, 2008–09: budget paper no. 2*, Commonwealth of Australia, Canberra, 2009, pp. 309, 317–8.

evaluation was set up in June 2008 by the Government and a Review Board appointed to conduct an independent and transparent review of the first 12 months of the NTER. Its purpose was to assess its progress in improving the safety and wellbeing of children and to assist residents of remote communities of the Northern Territory to a better future. The report was released in October 2008.<sup>217</sup>

### Legal Aid Payments to the States and Territories

Payments made to the States for legal aid are now being made under the new framework for Federal Financial Relations for the payment of specific purpose payments. The new Federal Financial Relations framework is being implemented in stages from 1 January 2009 and combined monthly payments will be made from the Commonwealth Treasury to and through State and Territory Treasuries. It will no longer be the responsibility of the Attorney-General's Department.<sup>218</sup>

### Legal Aid

Prior to the Budget a joint press release was issued by the Attorney-General Robert McClelland and Minister for Home Affairs Bob Debus announcing the provision of one-off funding for legal assistance programs focussing on early intervention and alternative dispute resolution. The following additional one-off funding was provided for the following legal services:

- \$10.1 million for Commonwealth legal aid services;
- \$4 million for Community Legal Centres;
- \$6.2 million for Aboriginal and Torres Strait Islander Legal Services.<sup>219</sup>

Press reports considered that the Budget figures for legal aid 'failed to support access to justice, with no new ongoing funding for legal aid ...'.<sup>220</sup> The Law Council of Australia's president John Corcoran was reported as saying 'the Government's lack of support for the legal assistance sector was disappointing, as demand for legal services soared'.<sup>221</sup>

---

217. Northern Territory Emergency Response Review Board, *Report*, Commonwealth of Australia, 2008, viewed 19 May 2009, [http://www.terreview.gov.au/docs/report\\_nter\\_review/docs/Report\\_NTER\\_Review\\_October\\_08.pdf](http://www.terreview.gov.au/docs/report_nter_review/docs/Report_NTER_Review_October_08.pdf)

218. *Portfolio budget statements, 2009–10: Attorney-General's portfolio*, p. 24.

219. R McClelland (Attorney-General) and B Debus (Minister for Home Affairs), *Funding for legal assistance services*, media release, 9 May 2009, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FSGIT6%22>

220. N Berkovic, 'No extra funds for wanderers in court maze', *The Australian*, 15 May, 2009, p. 28.

221. N Berkovic, p. 28

## Alcopops Customs and Excise Tariffs

Kirsty Magarey  
Law and Bills Digest Section

The ‘alcopops’ customs and excise tariffs have been a topic of recent controversy.<sup>222</sup> These duties are now being collected by the Government under new tariff proposals, commencing on 14 May 2009.<sup>223</sup> Earlier tariff proposals operated from 27 April 2008 and enabled the Government to collect customs and excise duties on alcopops. The legislation designed to enshrine the increased rates was defeated in the Senate when it was first introduced.<sup>224</sup>

The increased excise duty had enabled the collection of \$394 million (this figure included the customs equivalent) on beverages falling within that definition of ‘other excisable beverages’ (which includes alcopops) between May 2008 and October 2008.<sup>225</sup>

The Excise Tariff Validation Bill 2009 and the Customs Tariff Validation Bill 2009 passed through both houses of Parliament on Tuesday 12 and Wednesday 13 May 2009. These Bills ensured that the monies collected under the first tariff were validly collected, and now constitute actual revenue.

- 
222. Alcopops are ready-mixed drinks and fall under the ‘other excisable beverages not exceeding 10% by volume of alcohol’ schedule of the *Excise Tariff Act 1921*. ‘Other excisable beverages’ are defined as any beverage containing more than 1.15% alcohol by volume, excluding beer, brandy or wine. (Schedule 1 of the Excise Tariff Act: Excise Duties item 2 and definitions given in the Schedule).. See further M Thomas and P Pyburne, *Excise Tariff Amendment (2009 Measures No. 1) Bill 2009, Customs Tariff Amendment (2009 Measures No. 1) Bill 2009*, Bills Digest No. 100–101, Parliamentary Library, Canberra, 2009, viewed 13 May 2009, <http://www.aph.gov.au/library/pubs/bd/2008-09/09bd100.pdf>. See also K Magarey *Alcopops makes the House see double: ‘the proposed law’ in section 57 of the Constitution*, Research paper, no. 32, 2008–09, Parliamentary Library, Canberra, 2009, viewed 15 May 2009, <http://www.aph.gov.au/library/pubs/rp/2008-09/09rp32.pdf>
223. These were both motions by the Minister for Health and Ageing, Nicola Roxon: Excise Tariff Proposal (No. 1) 2009, [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Ftariffs%2Ftariffs\\_7ef56995-41da-4872-b57c-f5057377af4a%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Ftariffs%2Ftariffs_7ef56995-41da-4872-b57c-f5057377af4a%22) and Customs Tariff Proposal (No. 3) 2009 [http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Ftariffs%2Ftariffs\\_a4eaec1-cfa8-436e-b4ca-25f2d81bbe6e%22](http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Ftariffs%2Ftariffs_a4eaec1-cfa8-436e-b4ca-25f2d81bbe6e%22)
224. Customs Tariff Amendment (2009 Measures No. 1) Bill 2009, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fr4040%22>; Excise Tariff Amendment (2009 Measures No. 1) Bill 2009, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2Fr4039%22>. Both Bills were introduced on 11 February 2009 and were defeated in the Senate on 18 March 2009.
225. S Conroy (representing the Treasurer), ‘Answer to Question on Notice no. 1214’, Senate Debates, 13 May 2009, p. 138, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansards%2F2009-05-13%2F0209%22>

The second alcopops tariff proposals are now being used as a basis for revenue collection and, barring a successful challenge to this form of revenue raising, will need to be validated by legislation before 14 May 2010.

The collection of alcopops revenue was challenged in the case of *Suntory (Aust) Pty Ltd v Commissioner of Taxation*.<sup>226</sup> The general practice of revenue collection without legislative authority was not directly under attack because the case was concerned with the collection of revenue after the proposed validating legislation had been rejected. Nevertheless the submissions made some comments which call into question the collection of revenue in this manner. In particular there were criticisms made of the Excise Tariff Act's general practice of collecting revenue without a sufficient legislative basis, and also on section 114 of the Excise Tariff Act, which protects the actions of officials collecting the excise.<sup>227</sup>

The *Suntory* case was stayed and listed to be considered after the first Tariff proposal fully 'expired' on 13 May 2009. The introduction of new tariff proposals with the resultant extension of section 114's protections could serve to delay further the hearing of the case.

## Australian Securities and Investments Commission and Financial Regulation

PaoYi Tan  
Law and Bills Digest Section

Kali Sanyal  
Economics Section

The 2009–10 Budget allocates \$63.2 million over four years to the Australian Securities and Investments Commission (ASIC) to meet the costs of additional specialists and staff, legal and forensic resources, and support for three new Commissioners recently appointed to ASIC.<sup>228</sup>

ASIC staff numbers are set to grow by 174 in the 2009–10 financial year, bringing staff numbers from 1806 to 1980.<sup>229</sup> This signifies the largest staff increase of any organisation or body under the Treasury portfolio for 2009–10.

---

226. *Suntory (Aust) Pty Ltd v Commissioner of Taxation* [2009] FCA 348, 15 April 2009, viewed 20 April 2009, <http://www.austlii.edu.au/cgi-bin/sinodisp/au/cases/cth/FCA/2009/348.html>

227. See further K Magarey, *Alcopops makes the House see double: 'the proposed law' in section 57 of the Constitution*, viewed 18 May 2009, <http://www.aph.gov.au/library/pubs/rp/2008-09/09rp32.pdf>

228. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 379, viewed 18 May 2009, <http://www.budget.gov.au/2009-10/content/bp2/html/index.htm>

229. Australian Government, *Budget strategy and outlook: budget paper: no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 6–70, viewed 18 May 2009, <http://www.budget.gov.au/2009-10/content/bp1/html/index.htm>

The increase in staff numbers (and increased monitoring and enforcement activities) can be largely attributed to a recent structural makeover of the organisation, the result of a strategic review of ASIC undertaken in 2008. ASIC's new structure became operational on 1 September 2008. The Chairman of ASIC, Mr Tony D'Aloisio, described the key differences that the restructure aimed to achieve:

- Clearer vision against which ASIC tests and explains its' intervention or commencement of proceedings
- Clearer priorities which are framed more narrowly around issues of importance (for instance, capital markets and market integrity, retail investors, financial consumers and global capital flows), and
- Greater investment in the development of staff, and an increased number of leaders to take on responsibilities.<sup>230</sup>

Staffing increases are attributable to a several notable changes, such as:

- Support staff required for the new Commissioners which were appointed to ASIC in December 2008, bringing the number of Commissioners to six. The increase in the size of the Commission was designed to ensure ASIC remains best placed to deal with the fallout from the global financial crisis and its new role as the national consumer credit regulator.<sup>231</sup>
- Increased resources towards regulation of exchange-traded products and markets.<sup>232</sup>
- The creation of a new structure that is outwardly market focused—12 stakeholder teams (industry based) and eight deterrence (enforcement) teams.<sup>233</sup>

Additionally, ASIC will require resources and staffing for the anticipated Commonwealth takeover of the national consumer credit regulatory regime. The transfer of consumer credit responsibilities from the States to the Commonwealth arose from an agreement of the

---

230. T D'Aloisio (Chairman, Australian Securities and Investments Commission), *The new ASIC: addressing today's challenges and building for the longer term*, Speech, 7 November 2008, p. 6, viewed 15 May 2009, [http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/new-asic-7-11-2008-ACLA.pdf/\\$file/new-asic-7-11-2008-ACLA.pdf](http://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/new-asic-7-11-2008-ACLA.pdf/$file/new-asic-7-11-2008-ACLA.pdf)

231. N Sherry (Minister for Superannuation and Corporate Law), *New commissioners appointed to the Australian Securities and Investments Commission*, media release, 15 December 2008, viewed 15 May 2009 <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/094.htm&pageID=003&min=njs&Year=&DocType>

232. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.17: Treasury Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 162, viewed 18 May 2009, [http://www.treasury.gov.au/documents/1539/PDF/Treasury\\_portfolio\\_budget\\_statements\\_2009\\_10.pdf](http://www.treasury.gov.au/documents/1539/PDF/Treasury_portfolio_budget_statements_2009_10.pdf)

233. T D'Aloisio, *The new ASIC*, p. 6.

Council of Australian Governments (COAG).<sup>234</sup> The legislation enabling this, the National Consumer Credit Protection Bill 2009, is due for introduction into Parliament in the 2009 winter sitting period. Under the proposed new consumer credit regime, ASIC will be responsible for licensing and supervision of the consumer credit industry.<sup>235</sup>

## Courts

Morag Donaldson  
Law and Bills Digest Section

### Restructure of the federal courts

On 5 May 2009, the Attorney-General, Robert McClelland announced plans to dismantle the Federal Magistrates Court (the FMC) and merge its operations and caseload into the Family Court of Australia and the Federal Court of Australia.<sup>236</sup> The FMC was created by the Howard Government in 2000 in an attempt to provide litigants with quicker and cheaper access to justice than litigating in either the Family Court (family law matters) or the Federal Court (other federal law matters, such as bankruptcy). However, the FMC has not been as successful as hoped. As identified in a report commissioned by the Attorney-General's Department in late 2008, the FMC suffers from inefficient and costly administration and there is widespread confusion among litigants about whether it or the Family Court (or the Federal Court) is the more appropriate venue to resolve their disputes.<sup>237</sup>

Under the new plans, all family law matters will be heard by the Family Court (which will be restructured to have two tiers). Existing magistrates will generally hear and determine matters in the second (bottom) tier, and existing judges will generally hear and determine appeals and complex matters. All other federal law matters will be transferred to the Federal Court, where a similar two-tier system will also be adopted.<sup>238</sup> Apparently, Chief Justice Michael Black

---

234. Council of Australian Governments, Meeting, 2 October 2008, *Communiqué*, viewed 18 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-10-02/index.cfm](http://www.coag.gov.au/coag_meeting_outcomes/2008-10-02/index.cfm)

235. N Sherry (Minister for Superannuation and Corporate Law), *Australia to get world-leading credit licensing regime*, media release, 27 April 2009, viewed 15 May 2009 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F7GGT6%22>

236. R McClelland (Attorney-General), *Rudd Government to reform federal courts*, media release, 5 May 2009, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressrel%2F7WGT6%22>

237. Attorney-General's Department, *Future governance options for federal family law courts in Australia: striking the right balance*, August 2008, released to the public in November 2008, viewed 14 May 2009, [http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(3A6790B96C927794AF1031D9395C5C20\)~Report+on+future+governance+of+federal+family+courts+in+Australia+-+November+2008.pdf/\\$file/Report+on+future+governance+of+federal+family+courts+in+Australia+-+November+2008.pdf](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(3A6790B96C927794AF1031D9395C5C20)~Report+on+future+governance+of+federal+family+courts+in+Australia+-+November+2008.pdf/$file/Report+on+future+governance+of+federal+family+courts+in+Australia+-+November+2008.pdf)

238. R McClelland (Attorney-General), *Rudd Government to reform federal courts*, media release, 5 May 2009, viewed 14 May 2009,

(Chief Justice of the Federal Court) opposes the restructure on the grounds it is ‘bad policy’ and will threaten the Federal Court’s ‘high reputation’.<sup>239</sup> However, the Attorney-General has suggested that the Chief Justice will have a right of veto over any appointment to the second tier to protect the culture and competence of the judiciary.<sup>240</sup>

Although the Government has not made it clear, presumably legislation will be required to give effect to the proposed restructure.<sup>241</sup> The Government has nominated a start date for the restructured courts of 1 January 2010, but this is likely to be subject to the successful passage of any Bill required to give effect to the plans.

The initiative will save \$7.8 million over four years, largely by reducing duplicated administrative costs. Of these savings, \$1.5 million will be redirected to the provisions of enhanced family support (including access to family consultant services) to assist families to resolve disputes in a non-adversarial way.<sup>242</sup> Revenue for the FMC has decreased by \$38.308 million for 2009–10, with \$28.531 million transferred to the Family Court and the Federal Court and some savings being retained by Government. The FMC is budgeting on an operating loss of \$5 million, largely attributable to the cost of transcript, family reports and interpreters.<sup>243</sup>

### Extra funding for the High Court of Australia

The High Court of Australia will receive additional funding of \$9 million over four years, including capital funding of \$5.5 million.<sup>244</sup> For 2009–10 the additional funding is just under \$2.4 million, with the total net resourcing for 2009–10 being \$22.12 million.<sup>245</sup> The

---

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressrel%2F7WGT6%22>

239. M Pelly, ‘Quick, cheap agenda for courts’, *The Australian*, 8 May 2009, p. 27, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressclp%2FCLHT6%22>
240. M Pelly, ‘Quick, cheap agenda for courts’.
241. M Pelly and N Berkovic, ‘Barrier to federal courts restructure’, *The Australian*, 14 May 2009, p. 2, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressclp%2FH0KT6%22>
242. R McClelland (Attorney-General), *Rudd Government to reform federal courts*, media release, 5 May 2009, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressrel%2F7WGT6%22>
243. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.2: Attorney-General’s Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 357, viewed 14 May 2009, [http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/\(084A3429FD57AC0744737F8EA134BACB\)~18+PBS+09\\_10+FMC\\_web+Final.pdf/\\$file/18+PBS+09\\_10+FMC\\_web+Final.pdf](http://www.ag.gov.au/www/agd/rwpattach.nsf/VAP/(084A3429FD57AC0744737F8EA134BACB)~18+PBS+09_10+FMC_web+Final.pdf/$file/18+PBS+09_10+FMC_web+Final.pdf)
244. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, Commonwealth of Australia, Canberra, 2009, p. 366.
245. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, pp. 366–367.

additional funding is for ‘security, preventative maintenance, electronic legal subscriptions, library acquisitions and [a new corporate information] technology infrastructure’.<sup>246</sup> In last year’s annual report, Chief Justice Robert French highlighted the urgent need for capital funding to improve the ‘deteriorating’ building and surrounds that are not presently ‘capable of being utilised to their full potential’.<sup>247</sup> His Honour argued that the ‘financial and infrastructure issues referred in this Report and the special position of the Court under the Constitution show up the need for a comprehensive reassessment of the basis upon which it is resourced’.<sup>248</sup>

## Information Commissioner

Mary Anne Neilsen  
Law and Bills Digest Section

The Government will provide \$20.1 million (including \$2.5 million in capital funding) over four years from 2009–10 to 2012–13 for the establishment of the Office of the Information Commissioner. The establishment of the Office will include the appointment of an Information Commissioner and a Freedom of Information (FOI) Commissioner. The existing Office of the Privacy Commissioner will also be incorporated into the new agency.<sup>249</sup> As a result, information policy, privacy protection and FOI functions will be combined in one agency. The legislation to establish the new Office will also contain reforms to the *Freedom of Information Act 1982*.

Exposure draft legislation to introduce these changes was released in March 2009 and the Government proposes the Bills be introduced into the Parliament later this year and be operational by January 2010.<sup>250</sup>

The proposed changes are part of the Government’s response to its 2007 election policy that it would reform the FOI Act with the principal objects of promoting a pro-disclosure culture across Government and building a stronger foundation for more openness in government.<sup>251</sup>

---

246. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, p. 366.

247. High Court of Australia, *Annual report 2007–08*, p. 12, viewed 14 May 2009, [http://www.hcourt.gov.au/annual\\_reports/2008annual.pdf](http://www.hcourt.gov.au/annual_reports/2008annual.pdf)

248. High Court of Australia, *Annual report 2007–08*, p. 13.

249. Along with a range of other agencies within the Prime Minister and Cabinet portfolio, the Government will reduce funding for the Office of the Privacy Commissioner by \$0.1 million each year for the next four years. Savings will be achieved through reductions in non-essential agency operating expenditure.

250. Information Commissioner Bill 2009 (Exposure draft 24/3/09); Freedom of Information Amendment (Reform) Bill (Exposure draft 24/3/09). Department of the Prime Minister and Cabinet website, viewed 18 May 2009, [http://www.dpmc.gov.au/consultation/foi\\_reform/index.cfm](http://www.dpmc.gov.au/consultation/foi_reform/index.cfm)

251. J Faulkner (Cabinet Secretary), *Freedom of information (FOI) reform: companion guide*, March 2009, viewed 18 May 2009, [http://www.dpmc.gov.au/consultation/foi\\_reform/docs/Companion\\_Guide.pdf](http://www.dpmc.gov.au/consultation/foi_reform/docs/Companion_Guide.pdf)



The Companion Guide to the exposure draft legislation provides further detail on the changes.<sup>252</sup>

## Insolvency and Trustee Service Australia

Morag Donaldson  
Law and Bills Digest Section

Insolvency and Trustee Service Australia (ITSA) is responsible for the administration and regulation of the personal insolvency system in Australia. Its purpose is to ‘provide a personal insolvency system that produces equitable outcomes for debtors and creditors, enjoys public confidence and minimises the impact of financial failure on the community’.<sup>253</sup> Among other activities, ITSA maintains the bankruptcy registry, regulates bankruptcy trustees, exercises Official Trustee powers (including the administration of proceeds of crime property), oversees insolvencies and debt agreements, and investigates offences under the *Bankruptcy Act 1966*. Its workload has increased about seven per cent on average over the past 20 years, but recently its workload has increased ‘well in excess’ of this figure, largely due to an increased number of bankruptcies, insolvency and debt agreements attributed to the impact of the global financial crisis.<sup>254</sup>

ITSA will receive increased funding of \$14.3 million over two years to enable it to deal with its increased level of work. This brings its total available annual appropriation to an estimated \$45.211 million for 2009–10.<sup>255</sup> Further, ITSA operates under cost recovery arrangements on a fee or charge for service basis. Such fees and charges (last reviewed in June 2008) are expected to amount to \$2.2 million in 2009–10, and are returned to the Consolidated Revenue Fund.<sup>256</sup>

## National Capital Authority

Diane Spooner  
Law and Bills Digest Section

The National Capital Authority (NCA) does not have any new Budget measures.<sup>257</sup> In terms of the 2009-10 Budget, the funding received from the Commonwealth for the NCA as

---

252. Faulkner, *Companion guide*.

253. Insolvency and Trustee Service Australia (ITSA), *Welcome to ITSA*, viewed 14 May 2009, <http://www.itsa.gov.au/>

254. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, p. 379

255. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, p. 380.

256. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, p. 384.

257. *Portfolio budget statements 2009–10: Attorney-General’s portfolio*, p. 405.

appropriation revenue will slightly increase from \$13.657 million to \$14.055 million.<sup>258</sup> The NCA will receive four more staff.

Since the last Budget, the Joint Standing Committee on the National Capital and External Territories tabled its report (on 16 July 2008) *The Way Forward : Inquiry into the Role of the National Capital Authority* to which the Government responded in December 2008.<sup>259</sup>

The report contains 22 recommendations, of which the Government accepted 13 in full, in part or in principle. Recommendation 22 was that the Commonwealth provide resources to the NCA to continue the development of a cost effective three-dimensional integrated plan in digital format which is available online for the purpose of gaining efficiencies in planning and enhancing consultation. The Government did not accept this recommendation and stated:

It will be open to the Authority, should it consider it appropriate, to seek funding for such a project within the normal Government fiscal and resource allocation processes.<sup>260</sup>

## National product safety regulation

Jonathan Chowns  
Economics Section

The Australian Competition & Consumer Commission (ACCC) is to be provided with \$24.8 million over five years to help it implement imminent reforms to Australia's consumer product safety framework. These reforms, when legislated, will create 'a single national product safety law with consistent enforcement by the Australian Government and state and territory regulators'.<sup>261</sup> Product safety is now regulated at the State, Territory and Commonwealth level giving nine different sets of substantive laws and enforcement regimes. The ACCC will have a prominent role in administering the new product safety framework which is the basis for this additional funding.

### Brief recent history of product safety regulation reform

On 27 August 2004, the Ministerial Council on Consumer Affairs (MCCA) released the discussion paper, [Review of the Australian Consumer Product Safety System](#).<sup>262</sup> This built on

---

258. *Portfolio budget statements 2009–10: budget related paper no. 1.2: Attorney-General's Portfolio*, p. 416.

259. Joint Standing Committee on National Capital and External Territories, *The way forward: Inquiry into the role of the National Capital Authority*, Commonwealth Australia, Canberra, 16 July 2008; B Debus (Minister for Home Affairs), *Government response*, Commonwealth Australia, Canberra, December 2008, both viewed 18 May 2009, <http://www.aph.gov.au/house/committee/ncet/reports.htm>

260. B Debus (Minister for Home Affairs), *Government response*.

261. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 380, viewed 21 May 2009, [http://www.budget.gov.au/2009-10/content/bp2/html/bp2\\_expense-23.htm](http://www.budget.gov.au/2009-10/content/bp2/html/bp2_expense-23.htm)

262. Ministerial Council on Consumer Affairs, *Review of the Australian consumer product safety system*, Canberra, August 2004, viewed 21 May 2009,

work done by the Standing Committee of Officials of Consumer Affairs (SCOCA), which consists of all chief executive officers of consumer protection agencies. SCOCA had identified two principal problems with the way in which product safety laws worked. Firstly, there is a perceived inability to operate swiftly and pro-actively. Secondly, the involvement of multiple jurisdictions causes inefficient use of government regulatory resources and imposes an excessive regulatory burden on business.<sup>263</sup> It is the second of these two problems which will eventually be addressed in the new product safety framework that the ACCC is being funded to administer.

In March 2005, the then Coalition Government asked the Productivity Commission (PC) to undertake a research study into Australia's consumer product safety laws and to examine the various reform options raised in the MCCA discussion paper of August 2004.<sup>264</sup> On 16 January 2006, the PC published its 500 page research report, *Review of the Australian Consumer Product Safety System*.<sup>265</sup> In this report, the PC 'argued that significant regulatory inconsistencies between governments reduce the overall efficiency and effectiveness of the system' and recommended improvements including 'introducing a single national product safety law administered by the ACCC or, if this is not achievable, harmonisation of core legislative provisions across jurisdictions'.<sup>266</sup>

On 11 December 2006, the then Treasurer, Peter Costello, asked the PC to inquire into Australia's consumer policy framework and its administration. The inquiry was to have regard to, but not replicate, the work previously done on the consumer product safety system.<sup>267</sup> The PC published its [report](#) on 30 April 2008.<sup>268</sup> In this report, it repeated the view expressed in its earlier report on the consumer product safety system that 'the Australian Government, through the Australian Competition and Consumer Commission (ACCC), should be responsible for enforcing the product safety provisions nationally, though possibly

---

[http://www.consumer.gov.au/html/Consumer\\_Product\\_Safety\\_Review/download/Consumer\\_Product\\_Safety\\_Review.pdf](http://www.consumer.gov.au/html/Consumer_Product_Safety_Review/download/Consumer_Product_Safety_Review.pdf)

263. *Review of Australian consumer product safety system*, p. 5
264. C Pearce (Parliamentary Secretary to the Treasury), *Productivity Commission consumer product safety system*, media release, 16 March 2005, viewed 22 May 2009, <http://parlsec.treasurer.gov.au/DisplayDocs.aspx?pageID=&doc=pressreleases/2005/008.htm&min=cjp>
265. Productivity Commission (PC), *Review of the Australian consumer product safety system*, PC, Canberra, 2006, viewed 22 May 2009, <http://www.pc.gov.au/projects/study/productsafety/docs/finalreport>
266. Productivity Commission (PC), *Review of Australia's consumer policy framework*, PC, Canberra, 30 April 2008, <http://www.pc.gov.au/projects/inquiry/consumer>
267. P Costello (Treasurer), *Productivity Commission inquiry into Australia's consumer policy framework*, media release, 11 December 2006, viewed 22 May 2009, <http://www.treasurer.gov.au/DisplayDocs.aspx?pageID=&doc=pressreleases/2006/133.htm&min=phc>
268. PC, *Review of Australia's consumer policy framework*.

with scope for states and territories to implement, time limited, interim product safety bans'.<sup>269</sup> It observed that:

Product safety issues are generally national in nature, with most products being imported and sold across Australia. Product safety problems can also have potentially severe consequences for some consumers if not promptly addressed. Hence, the risks to consumer wellbeing under a system that requires nine jurisdictions to take quick and effective action are likely to be higher than for other parts of the generic law. The case for making the Australian Government, through the ACCC, solely responsible for enforcing the product safety provisions of the new national generic law — as recommended in the Commission's recent study into Australia's consumer product safety system — is therefore much stronger than for the rest of the generic law.<sup>270</sup>

By the time of the PC's consumer policy framework report, COAG had, according to its [communiqué](#) of 23 March 2008, already agreed in principle to regulatory reform of the consumer product safety framework.<sup>271</sup> The nature of that reform was clarified in the COAG [communiqué](#) of 3 July 2008 which records that COAG had agreed that the Commonwealth will assume responsibility for the making of permanent product bans and standards under the *Trade Practices Act 1974* while the states will retain powers to issue interim product bans.<sup>272</sup>

On 17 February 2009, the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs released an information and consultation paper: [An Australian Consumer Law: Fair Markets – Confident Consumers](#).<sup>273</sup> The paper records that there will be a new national consumer law and that, as recommended by the PC, the law will include 'a new national legislative and regulatory regime for product safety'.<sup>274</sup> Responsibility for enforcing the consumer product safety provisions of the new law in all jurisdictions should be transferred to the Australian Government and undertaken by the ACCC.<sup>275</sup>

Legislation to implement reform to the product safety laws are expected to be finalised by 30 June 2010.<sup>276</sup>

---

269. PC, *Review of Australia's consumer policy framework*. p. 2

270. PC, *Review of Australia's consumer policy framework*. p. 23

271. Council of Australian Governments, *Communiqué of 23 March 2008*, Department of Prime Minister and Cabinet, 2008, p. 4, viewed 22 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-03-26/index.cfm](http://www.coag.gov.au/coag_meeting_outcomes/2008-03-26/index.cfm)

272. Council of Australian Governments, *Communiqué of 3 July 2008*, Department of Prime Minister and Cabinet, 2008, p. 3, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-07-03/docs/communiqué20080703.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2008-07-03/docs/communiqué20080703.pdf)

273. Australian Government, 'Consumer Policy', Department of Treasury website, viewed 22 May 2009, [http://www.treasury.gov.au/content/consumer\\_affairs.asp?ContentID=270](http://www.treasury.gov.au/content/consumer_affairs.asp?ContentID=270)

274. Treasury, *An Australian consumer law: fair markets — confident consumers*, Commonwealth of Australia, Canberra, 17 February 2009, p. 1, viewed 22 May 2009, [http://www.treasury.gov.au/documents/1484/PDF/An\\_Australian\\_Consumer\\_Law.pdf](http://www.treasury.gov.au/documents/1484/PDF/An_Australian_Consumer_Law.pdf)

275. *An Australian consumer law: fair markets*, p. 6.

276. *An Australian consumer law: fair markets*, p. 11.

## National Security Legislation Monitor

Monica Biddington  
Law and Bills Digest Section

The Government will provide \$1.4 million over four years to establish the Office of the National Security Legislation Monitor in the Department of the Prime Minister and Cabinet, to review the operation of counter-terrorism and national security legislation. The legislation required to establish the Office is likely to be introduced in the Winter Sittings.

The cost of this measure will be met from within the existing resourcing of the Attorney-General's portfolio, with the funding being transferred from that portfolio to Prime Minister and Cabinet.<sup>277</sup> As a comparison, the establishment of this Office is not a significant financial output when compared with the Office of the Information Commissioner which is to be \$20.1 million over 4 years.<sup>278</sup>

The establishment of the Office of National Security Legislation Monitor will also coincide with a Council of Australian Governments (COAG) review of the operation of terrorism-related laws that were introduced in 2004.<sup>279</sup> If COAG proceeds with this agreement, this review would therefore be scheduled to start in December 2010 and would cover the laws in the *Crimes Act 1914* and the *Criminal Code Act 1995* allowing broader police powers, control orders, preventative detention orders, as well as the definition of terrorist organisation and terrorist financing provisions. Depending on how any comprehensive review of terrorism laws might progress, the Government might choose to delegate the undertaking of this review to the new Office of Security Legislation Monitor.

## Unit Pricing

PaoYi Tan  
Law and Bills Digest Section

The Government has announced funding of \$2.2 million over two years to the Australian Competition and Consumer Commission (ACCC) to establish a unit pricing code for retail supermarkets.<sup>280</sup>

Unit pricing refers to the system of pricing goods on the basis of a cost per unit of measure. It requires supermarket retailers to display prices of products according to cost per unit (for example, the cost per 100 grams or per litre). This is in addition to displaying the total retail

---

277. Australian Government, *Portfolio budget statements 2009–10, budget related paper no.1.15A: Prime Minister and Cabinet Portfolio*, p. 25, viewed 18 May 2009, [http://www.dpmpc.gov.au/accountability/budget/2009-10/pbs/pbs\\_2009-10.pdf](http://www.dpmpc.gov.au/accountability/budget/2009-10/pbs/pbs_2009-10.pdf)

278. *Portfolio budget statements 2009–10: Prime Minister and Cabinet portfolio*, p.25.

279. Council of Australian Governments, Special Meeting on Counter-Terrorism, *Communiqué*, 27 September 2005, viewed 14 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2005-09-27/index.cfm](http://www.coag.gov.au/coag_meeting_outcomes/2005-09-27/index.cfm)

280. *Budget measures: budget paper no. 2: 2009–10*, p. 387.

price of a product. For example, unit pricing is currently used in Australia for certain prescribed products under State and Territory legislation, including loose fresh produce (such as fruit and vegetables) and some meat and cheese products.<sup>281</sup>

On 15 May 2008 Senator Fielding of the Family First Party introduced the Unit Pricing (Easy comparison of grocery prices) Bill 2008 into the Senate. The Bill was referred to the Standing Committee on Economics which tabled its report on 1 September 2008. The majority recommended that the Bill not be passed.<sup>282</sup> The Committee noted that the Australian Government had made a commitment to consider the best way to introduce a mandatory nationally-consistent unit pricing scheme.<sup>283</sup>

Subsequently, on 23 March 2009 the Minister for Competition Policy and Consumer Affairs, Chris Bowen, released a draft industry code ‘to implement a nationally-consistent unit pricing scheme’.<sup>284</sup> The code will take over the current State and Territory system of unit pricing, and expand it to include a wider range of grocery items, such as pre-packaged goods. It will be prescribed by the Trade Practices (Industry Codes – Unit Pricing) Regulations 2009 under section 51AE of the *Trade Practices Act 1974*, which are due to commence on 1 July 2009. It is anticipated that operation of the code will commence on 1 December 2009.<sup>285</sup>

The ACCC’s role will be to ‘provide industry and consumers with educative measures and be the agency responsible for the enforcement of the code’.<sup>286</sup>

---

281. For example, see section 26 of the Trade Measurement Act 1991 (ACT) or section 26 of the Trade Measurement Act 1995 (VIC).

282. Senate Standing Committee on Economics, *Unit Pricing (Easy comparison of grocery prices) Bill 2008*, Commonwealth of Australia, Canberra, 1 September 2008, p. 25, viewed 18 May 2009  
[http://www.aph.gov.au/senate/committee/economics\\_ctte/unit\\_pricing\\_08/report/index.htm](http://www.aph.gov.au/senate/committee/economics_ctte/unit_pricing_08/report/index.htm)

283. Senate Standing Committee on Economics, p. 25.

284. C Bowen, (Minister for Competition Policy and Consumer Affairs), *Draft code brings national unit pricing scheme one step closer*, media release, Canberra, 23 March 2009, viewed 14 May 2009  
<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query%3DId%3A%22media%2Fpressrel%2FWT3T6%22>

285. C Bowen, (Minister for Competition Policy and Consumer Affairs), *Australian consumers to save with unit pricing*, media release, Canberra, 8 January 2009, viewed 14 May 2009  
<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FU8JS6%22>

286. C Bowen, *Australian consumers to save with unit pricing*.

## Australian Public Service

Dr Nicholas Horne  
Politics and Public Administration Section

### Background

#### The efficiency dividend

Over the 2008–09 financial year the Government imposed a one-off 2 per cent efficiency dividend on the departmental funding of most agencies over and above the ongoing 1.25 per cent efficiency dividend.<sup>287</sup> The 2008–09 Budget estimated that the additional 2 per cent would yield approximately \$1.8 billion in savings over five years;<sup>288</sup> elsewhere it was estimated that over 2008–09 the total 3.25 per cent dividend would yield savings of approximately \$662 million.<sup>289</sup>

A number of agencies were exempted from the additional 2 per cent efficiency dividend or from both the additional 2 per cent and the ongoing 1.25 per cent efficiency dividend.<sup>290</sup> Some other agencies had a proportion of their funding subjected to, or exempted from, the efficiency dividend.<sup>291</sup>

In 2008 the Joint Committee of Public Accounts and Audit (JCPAA) conducted an inquiry into ‘the effects of the ongoing efficiency dividend on smaller public sector agencies’ (agencies with annual departmental funding of \$150 million or less).<sup>292</sup> A number of agencies

---

287. Australian Government, *Budget measures: budget paper no. 2 2008–09*, Commonwealth of Australia, Canberra, 2008, pp. 321, 348, viewed 18 May 2009, <http://www.budget.gov.au/2008-09/content/bp2/download/bp2.pdf>; see also L Tanner, *Labor delivers on savings*, media release, 22 November 2007, viewed 18 May 2009,

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FDM0P6%22>

288. *Budget measures: budget paper no. 2 2008–09*, pp. 321, 348.

289. Joint Committee of Public Accounts and Audit (JCPAA), *Report 413: The efficiency dividend and small agencies: size does matter*, JCPAA, Canberra, December 2008, p. 2, viewed 18 May 2009, <http://www.aph.gov.au/house/committee/jpaa/efficdiv/report/fullreport.pdf>

290. JCPAA, Report 413, pp. 2–3; Department of Finance and Deregulation (DoFD), Finance submission to the Joint Committee of Public Accounts and Audit inquiry into the effects of the ongoing efficiency dividend on smaller public sector agencies, JCPAA, Canberra, 2008, pp. 3–4, viewed 18 May 2009, <http://www.aph.gov.au/house/committee/jpaa/efficdiv/subs/sub25.pdf>

291. JCPAA, *Report 413*, p. 3; DoFD, *Finance submission*, pp. 3–4. For example, approximately 11.2 per cent of the ‘civilian and non-operational’ departmental funding of the Department of Defence was subject to the efficiency dividend over 2008–09: DoFD, *Finance submission*, p. 4.

292. JCPAA, *Report 413*, pp. xi–xii.

gave evidence to the JCPAA regarding the impact of the efficiency dividend on their operations.<sup>293</sup> In its December 2008 report the JCPAA concluded that:

... there is a definable group of agencies that are being placed in financial difficulty by the combined effect of the efficiency dividend, the indexation measures and the NPP [New Policy Proposal] process. This group is defined by their smaller size and their technical, well-defined roles.<sup>294</sup>

The JCPAA also observed more broadly in relation to the efficiency dividend that:

... it appears that current arrangements place the highest premium on ensuring that agencies do not build up fat and other risks are secondary ... What the Committee would prefer to see is a greater balance achieved between efficiency and effectiveness in the Budget process.<sup>295</sup>

The JCPAA made a number of recommendations, including that the Government:

... either: exempt the first \$50 million of all agencies' appropriations from the efficiency dividend, excluding departments of state (the preferred option); or exempt the first \$50 million of the appropriations of all agencies that have departmental expenses of less than \$150 million, excluding departments of state.<sup>296</sup>

There has been no government response to the JCPAA report to date, although in April 2009 it was reported that Finance Minister Lindsay Tanner had stated that impacts of the efficiency dividend raised in the JCPAA report 'would be dealt with case by case', and that 'there appears to be some case where there is a need for some remedial action'.<sup>297</sup> It was also reported that the Government was 'in discussions' with the Australian Bureau of Statistics regarding its budgetary situation.<sup>298</sup>

### Australian Public Service staffing

The 2008–09 Budget estimated that the total average staffing level (ASL) for Australian Government general government sector agencies in 2008–09 would be 246 993 ASL after

---

293. For example National Gallery of Australia, *Submission by the National Gallery of Australia*, JCPAA, Canberra, 2008, viewed 18 May 2009,

<http://www.aph.gov.au/house/committee/jpaa/efficdiv/subs/sub6.pdf>; Australian War Memorial, *Australian War Memorial Submission—Inquiry into the effect of the efficiency dividend on small agencies*, JCPAA, Canberra, 2008, viewed 18 May 2009, <http://www.aph.gov.au/house/committee/jpaa/efficdiv/subs/sub26.pdf>; National Library of Australia Council, *Submission by the National Library of Australia*, JCPAA, Canberra, 2008, viewed 18 May 2009, <http://www.aph.gov.au/house/committee/jpaa/efficdiv/subs/sub41.pdf>

294. JCPAA, *Report 413*, pp. 102–3.

295. JCPAA, *Report 413*, pp. 105–6.

296. JCPAA, *Report 413*, p. xvii.

297. M Ruffles, 'PS chiefs too eager on job cuts: feds', *Canberra times*, 4 April 2009.

298. M Ruffles, 'PS chiefs too eager on job cuts: feds'.



estimated staffing reductions of 1 224 ASL over 2008–09.<sup>299</sup> The 2009–10 Budget gives a revised 2008–09 ASL estimate for agencies of 250 566 ASL.<sup>300</sup>

In November 2008 the Government indicated that it would be continuing to seek efficiencies in government administration into the 2009–10 Budget period.<sup>301</sup> In April 2009 it was reported in the media that the Government had identified further savings but did not anticipate that the Budget would significantly affect Australian Public Service (APS) employment levels.<sup>302</sup>

In the lead-up to the 2009–10 Budget several agencies were the subject of media attention in relation to possible reductions in staffing levels:

- Prospective staffing reductions at the **Australian Bureau of Statistics** (ABS) (180 positions) and at **Geoscience Australia** (150 positions) were reported.<sup>303</sup> In addition, the conduct of the ABS in relation to its staffing reductions was the subject of legal action by the Community and Public Sector Union (CPSU) in the Australian Industrial Relations Commission (AIRC).<sup>304</sup> On 5 May 2009 the AIRC issued a number of orders to the ABS including that the ABS withdraw advice provided to staff concerning job suitability assessments, permit staff removed from normal duties to return, and not commence

---

299. Australian Government, *Budget strategy and outlook: budget paper no. 1 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 6–64, viewed 18 May 2009, <http://www.budget.gov.au/2008%2D09/content/bp1/downloads/bp1.pdf>

300. Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 6–70, viewed 18 May 2009, [http://www.budget.gov.au/2009-10/content/bp1/downloads/bp\\_1.pdf](http://www.budget.gov.au/2009-10/content/bp1/downloads/bp_1.pdf). The Budget notes that ‘ASL 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 the full-time equivalent. This also includes non-uniformed staff and overseas personnel’: Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, p. 6–70.

301. L Tanner (Minister for Finance and Deregulation), *Government to implement Gershon ICT review recommendations in full*, media release, 24 November 2008, viewed 18 May 2009, [http://www.financeminister.gov.au/media/2008/mr\\_372008.html](http://www.financeminister.gov.au/media/2008/mr_372008.html). For media comment see T Skotnicki, ‘Fears jobs at risk in second round of public service cuts’, *Canberra times*, 4 August 2008; L Dodson and D Crowe, ‘Tanner calls savings quest’, *Australian financial review*, 14 November 2008; M Franklin, ‘Razor gang to fund rescue’, *The Australian*, 22 December 2008; D Alexander, ‘Tanner’s razor gang accused of confusion’, *Canberra times*, 23 December 2008.

302. AAP, ‘Public service jobs safe’, *Australian financial review*, 4 April 2009; V Burgess, ‘Tanner’s point on efficiency dividend disappoints unions’, *Australian financial review*, 9 April 2009; M Franklin, ‘Razor gang hits savings of \$4bn’, *The Australian*, 15 April 2009.

303. For example M Mannheim, ‘Geology agency to slash 150 jobs’, *Canberra times*, 20 March 2009, ‘Executive stress as 180 ABS jobs to go’, *Canberra times*, 21 March 2009; L Andrews, ‘ABS blames pay rise for axing 31 staff, more jobs to go’, *Canberra times*, 18 April 2009.

304. M Mannheim, ‘ABS in court for ‘illegal’ sackings’, *Canberra times*, 23 April 2009.

employment termination processes. The AIRC also ordered the ABS to consult with the CPSU over proposed staff reductions.<sup>305</sup>

- It was reported that internal **Australian Taxation Office** (ATO) documents concerning a potential restructure identified the possibility of outsourcing around 3 800 full-time positions. The ATO stated that there were no plans to reduce staffing levels and that the documents were for discussion and were not ATO policy.<sup>306</sup>
- There was media speculation that the Budget would result in the loss of around 700 positions from the **Department of Immigration and Citizenship**.<sup>307</sup>
- It was reported that some 200 positions would be lost at **Land and Water Australia** and the **Rural Industries Research and Development Corporation**.<sup>308</sup> It was reported that Land and Water Australia would in effect be abolished.<sup>309</sup>

### Government ICT reform

APS resourcing will be affected by the Government's reform of its use of information and communication technology (ICT), upon which the government spent around \$5.3 billion in 2007–08.<sup>310</sup> In April 2008 the government announced a review of its use of ICT by a UK efficiency expert, Sir Peter Gershon.<sup>311</sup> Gershon completed his review in August 2008 and concluded that:

... the current model of very high levels of agency autonomy, including the ability to self-approve opt-ins to whole-of-government approaches in the ICT domain, leads to sub-

- 
305. CPSU, *the Community and Public Sector Union–PSU Group v Australian Bureau of Statistics*, Australian Industrial Relations Commission, Sydney, 5 May 2009, C2009/2429, viewed 18 May 2009, <http://www.airc.gov.au/awardsandorders/html/PR986874.htm>. See also M Mannheim, 'Statistics jobs saved by tribunal's ruling', *Canberra times*, 6 May 2009.
306. M Mannheim, 'Tax office staff rally against cuts', *Canberra times*, 8 May 2009.
307. J Topsfield, '700 jobs to go as Rudd's axe falls', *The Age*, 1 May 2009.
308. R Beeby, '200 jobs to go at research agencies', *Canberra times*, 7 May 2009.
309. R Beeby, '200 jobs to go at research agencies', 'Short-sighted axing a \$13m false economy', *Canberra times*, 7 May 2009; D Smith, 'Farmers furious as scythe swings through research', *Sydney morning herald*, 8 May 2009.
310. P Gershon, *Review of the Australian Government's use of information and communication technology*, Commonwealth of Australia, Canberra, August 2008, p. 46, viewed 18 May 2009, <http://www.finance.gov.au/publications/ICT-Review/docs/Review-of-the-Australian-Governments-Use-of-Information-and-Communication-Technology.pdf>
311. L Tanner (Minister for Finance and Deregulation), UK efficiency expert to lead review of Australian Government's use of information and communication technology, media release, 11 April 2008, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FCM5Q6%22>

optimal outcomes in the context of prevailing external trends, financial returns, and the aims and objectives of the current Government.<sup>312</sup>

Gershon recommended a significant programme of reform to improve the Government's use and management of ICT together with an implementation plan.<sup>313</sup>

In November 2008 the Government announced that it would implement all of the Gershon review recommendations. It stated that it would reduce the number of ICT contractors by 50 per cent over 2009–11 and that it expected to eventually realise savings of some \$400 million annually from agency ICT budget reductions, half of which would be reinvested.<sup>314</sup> The Government stated that ICT budget reductions 'averaging 15 per cent for larger agencies and 7.5 per cent for mid-sized agencies are expected and achievable'.<sup>315</sup>

## 2009–10 Budget measures

### Administrative efficiencies and Australian Public Service staffing

As the Government indicated in November 2008, it is pursuing further administrative efficiencies and savings in the 2009–10 Budget. The Government has stated that operational efficiency measures in the Budget will generate savings of \$1.1 billion over four years, and that 'This brings total savings from improving government efficiency under the Rudd Government to around \$5 billion over five years'.<sup>316</sup>

Although there is no mention of the efficiency dividend in the Budget papers, it appears that the additional 2 per cent efficiency dividend was indeed a one-off and will cease (the ongoing 1.25 per cent efficiency dividend, however, will presumably continue). Finance Minister Lindsay Tanner stated that:

In its first Budget, the Rudd Government delivered savings through the one-off 2 per cent increase in the efficiency dividend ... The 2009–10 Budget builds on these reforms and demonstrates the Government's ongoing commitment to improve its operations and deliver greater value to the taxpayer.<sup>317</sup>

---

312. P Gershon, *Review of the Australian Government's use of information and communication technology*, p. 2.

313. See P Gershon, *Review of the Australian Government's use of information and communication technology*, pp. 3–5 for key recommendations and the proposed implementation plan.

314. L Tanner (Minister for Finance and Deregulation), *Government to implement Gershon ICT review recommendations in full*.

315. L Tanner (Minister for Finance and Deregulation), *Government to implement Gershon ICT review recommendations in full*.

316. L Tanner (Minister for Finance and Deregulation), *Budget delivers over \$1 billion in efficiencies from government operations*, media release, 12 May 2009, viewed 18 May 2009, [http://www.financeminister.gov.au/media/2009/mr\\_282009.html](http://www.financeminister.gov.au/media/2009/mr_282009.html)

317. L Tanner (Minister for Finance and Deregulation), *Budget delivers over \$1 billion in efficiencies from government operations*. See also M Mannheim, 'Union boss no cheerleader for government', *Canberra times*, 13 May 2009; Community and Public Sector Union

The Government has confirmed that it ‘will cease funding for Land and Water Australia in 2009–10’ and that ‘Priority research activities currently being undertaken by Land and Water Australia will be transferred to other agencies’.<sup>318</sup>

Tanner has also stated that, as part of the Government’s ICT reform programme, ‘Over fifty of the largest Commonwealth agencies have identified annual savings totalling more than \$100 million to reduce their business-as-usual Information and Communication (ICT) expenditure’.<sup>319</sup>

For 2009–10 the Budget estimates the total ASL for Australian Government general government sector agencies to be 253 318 ASL.<sup>320</sup> This represents an overall estimated increase for agencies of 2 752 ASL on 2008–09 levels (250 566 ASL). The Budget also estimates overall ASL reductions for agencies of 1 316 ASL in 2009–10.<sup>321</sup> Estimated ASL changes in 2009–10 for each portfolio and estimated ASL changes for selected agencies, including those referred to above, are set out in Table 1 below.

### Senators’ and Members’ staff increase

The Budget provides \$34.2 million over four years (2009–2013) for an additional 44 government and non-government staff employed under the *Members of Parliament (Staff) Act 1984* (Cth).<sup>322</sup> The government has stated that:

The proposed increase in staffing is consistent with recommendations made by an independent review conducted by Mr Alan Henderson PSM and reflects the review’s assessment of the excessive demands on staff in the face of the challenges facing the Australian Government.<sup>323</sup>

It has been reported in the media that, of the 44 additional staff, 34 will be allocated to government ministers, seven to the Opposition, one to the Greens, one to Independent Senator Nick Xenophon, and one to Family First Senator Steve Fielding.<sup>324</sup>

---

(CPSU), *Budget 09 is a mixed bag for the APS*, CPSU, 13 May 2009, viewed 18 May 2009, <http://www.cpsu.org.au/campaigns/news/13207.html>

318. Australian Government, *Budget measures: budget paper no. 2 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 85, viewed 18 May 2009, [http://www.budget.gov.au/2009-10/content/bp2/download/bp\\_2.pdf](http://www.budget.gov.au/2009-10/content/bp2/download/bp_2.pdf)

319. L Tanner (Minister for Finance and Deregulation), *Budget delivers over \$1 billion in efficiencies from government operations*.

320. Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, p. 6–70. General government sector agencies are those which ‘provide non-market public services and are funded mainly through taxes’: Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, p. 9–35.

321. *Budget strategy and outlook: budget paper no. 1 2009–10*, pp. 6–66—6–70.

322. *Budget measures: budget paper no. 2 2009–10*, p. 250.

323. *Budget measures: budget paper no. 2 2009–10*, p. 250. Alan Henderson was engaged to conduct the review by the Department of the Prime Minister and Cabinet in December 2008.

324. N Berkovic, ‘Staff numbers up despite promise of axe’, *The Australian*, 14 May 2009.

The staff increase will constitute a partial reversal of the government's 30 per cent reduction in ministerial staff numbers in 2008 (the reduction amounted to some 119 ministerial staff positions from October 2007 to February 2008).

## Reaction to the 2009–10 Budget

There has been some media comment on prospective funding and staffing reductions across the APS over the forward four-year period.<sup>325</sup> In its *Updated Economic and Fiscal Outlook* of February 2009 the Government stated that, as the Australian economy returns to growth, the Government will 'review spending programs to reduce the levels of real growth in government spending to 2 per cent per annum' and will also 'continue its efforts to deliver greater efficiencies across the public sector'.<sup>326</sup>

Opposition Senator Gary Humphries was reported in the media as being gratified that the APS will not to be subject to wholesale staffing reductions, but also concerned at the estimated ASL reductions.<sup>327</sup> Family First Senator Steve Fielding labelled estimated funding and ASL increases for the Department of the Prime Minister and Cabinet as 'obscene' in the context of the economic downturn.<sup>328</sup>

The CPSU endorsed the cessation of the additional 2 per cent efficiency dividend and resourcing increases for particular agencies, but criticised the Government regarding the estimated ASL reductions.<sup>329</sup> The CPSU noted that, excluding forecast ASL increases for the Australian Broadcasting Corporation, the Special Broadcasting Service, and Defence military and reserves, the APS would increase by around 1 400 ASL.<sup>330</sup>

The reduction in funding for natural resource management research and the cessation of funding for Land and Water Australia has reportedly drawn widespread criticism from the National Farmers Federation and farm groups, scientists, academics, Indigenous leaders, the Coalition and the Australian Greens.<sup>331</sup>

---

325. D Uren, 'Years of tighter spending lie ahead', *The Australian*, 13 May 2009, 'Departments to cut spending, later', *The Australian*, 15 May 2009; P Maley, 'Job cuts only way to make savings', *Weekend australian*, 16 May 2009.

326. Australian Government, *Updated economic and fiscal outlook*, Commonwealth of Australia, Canberra, February 2009, pp. 38–39, viewed 18 May 2009, [http://www.budget.gov.au/2008%2D09/content/uefo/download/Combined\\_UEFO.pdf](http://www.budget.gov.au/2008%2D09/content/uefo/download/Combined_UEFO.pdf)

327. M Mannheim, 'Union boss no cheerleader for government'.

328. S Fielding, *Budget of broken dreams*, media release, 12 May 2009, viewed 18 May 2009, [http://www.stevefielding.com.au/images/press\\_room/SF471\\_051209.pdf](http://www.stevefielding.com.au/images/press_room/SF471_051209.pdf). See also B Nicholson and B Doherty, 'PM's office to get 65 more staff', *The Age*, 14 May 2009.

329. ABC News Online, 'Union gives Budget bare pass mark', ABC Online, 13 May 2009, viewed 18 May 2009, <http://www.abc.net.au/news/stories/2009/05/13/2568745.htm>; CPSU, *Budget 09 is a mixed bag for the APS*; M Mannheim, 'Union boss no cheerleader for government'.

330. CPSU, *Budget 09 is a mixed bag for the APS*.

331. R Beeby, '200 jobs to go at research agencies', 'Short-sighted axing a \$13m false economy'; D Smith, 'Farmers furious as scythe swings through research'; 'Farmers to fight cuts' (n.a.), *Daily telegraph*, 14 May 2009.

**Table 1: estimated portfolio and agency ASL changes 2009–10**

The following table, extracted from [Budget Strategy and Outlook: Budget Paper No. 1 2009–10](#), sets out the estimated ASL changes (reductions or gains) in 2009–10 for each portfolio along with estimated ASL changes for selected agencies. As the table indicates, ASL reductions and gains vary considerably among agencies and both within and across portfolios.

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

**Table 1: Estimated portfolio and agency ASL changes 2009–10 (cont.)**

Portfolio / agency	ASL reductions	ASL gains
<b>Agriculture, Fisheries and Forestry portfolio</b>	<b>-312</b>	
—Department of Agriculture, Fisheries and Forestry	-250	
—Australian Fisheries Management Authority	-25	
—Land and Water Australia	-35	
—Rural Industries Research and Development Corporation	-6	
<b>Attorney-General's portfolio</b>	<b>-300</b>	
—Attorney-General's Department	-159	
—Australian Crime Commission	-35	
—Australian Customs and Border Protection Service	-220	
—Australian Security Intelligence Organisation		+203
—Commonwealth Director of Public Prosecutions	-27	
—CrimTrac Agency		+28
—Family Court of Australia		+62
—Federal Magistrates Court of Australia	-133	
<b>Broadband, Communications and the Digital Economy portfolio</b>		<b>+99</b>
—Department of Broadband, Communications and the Digital Economy		+43
—Australian Broadcasting Corporation		+33
<b>Defence portfolio</b>		<b>+1 733</b>
—Department of Defence—military		+653
—Department of Defence—civilian		+294
—Department of Defence—reserves		+604
—Department of Veterans' Affairs	-91	
—Defence Materiel Organisation		+268
<b>Departments of the Parliament portfolio</b>	<b>-42</b>	
Department of Parliamentary Services	-40	
<b>Education, Employment and Workplace Relations portfolio</b>	<b>-157</b>	
—Department of Education, Employment and Workplace Relations	-150	
—Australian Curriculum Assessment and Reporting Authority		+60
—Australian Fair Pay Commission Secretariat and Australian Fair Pay Commission	-34	
—Australian Industrial Relations Commission and Australian Industrial Registry	-232	
<b>Education, Employment and Workplace Relations portfolio</b>		
—Fair Work Australia		+360
—Office of the Fair Work Ombudsman		+900
—Office of the Workplace Ombudsman	-434	
—Workplace Authority	-658	
<b>Environment, Water, Heritage and the Arts portfolio</b>		<b>+236</b>
—Department of the Environment, Water, Heritage and the Arts		+150

Portfolio / agency	ASL reductions	ASL gains
—Bureau of Meteorology		+25
—Murray-Darling Basin Authority		+125
—Screen Australia	–34	
<b>Families, Housing, Community Services and Indigenous Affairs portfolio</b>		<b>+101</b>
—Department of Families, Housing, Community Services and Indigenous Affairs	–11	
—Indigenous Business Australia		+20
—Northern Land Council		+60
<b>Finance and Deregulation portfolio</b>		<b>+67</b>
—Department of Finance and Deregulation		+63
—ComSuper	–17	
—Future Fund Management Agency		+17
<b>Foreign Affairs and Trade portfolio</b>		<b>+89</b>
—Department of Foreign Affairs and Trade		+86
<b>Health and Ageing portfolio</b>		<b>+73</b>
—Department of Health and Ageing		+71
<b>Human Services portfolio</b>		<b>+1 347</b>
—Department of Human Services		+625
—Centrelink		+950
—Medicare Australia	–228	
<b>Immigration and Citizenship portfolio</b>	<b>–421</b>	
—Department of Immigration and Citizenship	–416	
<b>Infrastructure, Transport, Regional Development and Local Government portfolio</b>		<b>+27</b>
—Department of Infrastructure, Transport, Regional Development and Local Government	–108	
—Australian Transport Safety Bureau		+109
—Civil Aviation Safety Authority		+26
<b>Innovation, Industry, Science and Research portfolio</b>	<b>–43</b>	
—Department of Innovation, Industry, Science and Research		+47
—Australian Nuclear Science and Technology Organisation		+18
—Commonwealth Scientific and Industrial Research Organisation	–136	
—IP Australia		+18
<b>Prime Minister and Cabinet portfolio</b>		<b>+208</b>
—Department of the Prime Minister and Cabinet		+65
—Department of Climate Change		+140
—Australian Public Service Commission	–22	
<b>Resources, Energy and Tourism portfolio</b>	<b>–41</b>	
—Department of Resources, Energy and Tourism		+3
—Geoscience Australia	–46	
<b>Treasury portfolio</b>		<b>+88</b>
—Department of the Treasury		+61
—Australian Bureau of Statistics		+106
—Australian Competition and Consumer Commission		+28
—Australian Prudential Regulation Authority		+21
—Australian Securities and Investments Commission		+174
—Australian Taxation Office	–315	

Source: Australian Government, *Budget strategy and outlook: budget paper no. 1 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 6–66—6–70.

## Drought assistance

Peter Hicks  
Economics Section

Continued funding of longstanding measures which provide household and business support to primary producers and, more recently, small businesses is provided in the 2009–10 Budget. The major component of the measures is the Exceptional Circumstances (EC) provisions for income support to households – EC Relief Payments (RP) – and interest subsidies to businesses – EC Interest Rate Subsidies (IRS).

The announced funding is summarised in the following table. For some of the measures, expenditure is spread across several agencies however the Department of Agriculture, Fisheries and Forestry (DAFF) and Treasury account for the vast bulk of funds.

### Drought assistance measures 2009–10 Budget (\$m)

	2008-09	2009-10	2010-11	Total 2008-11
EC assistance for primary producers	4.3	422.2	0.1	<b>426.6</b>
EC assistance for small business	0.2	27.1	0.2	<b>27.5</b>
<b>Total EC measures</b>	<b>4.5</b>	<b>449.3</b>	<b>0.3</b>	<b>454.1</b>
Interim income support for primary producers	0.2	0.5	-	<b>0.7</b>
Interim income support for small business	-	-	-	-
Professional advice and planning	-	22.8	0.2	<b>23.0</b>
Re-establishment assistance	-	25.3	1.0	<b>26.3</b>
Transitional income support	-	-	-	-
Drought assistance for schools	-	26.0	-	<b>26.0</b>
Family support drought response teams	-	7.6	-	<b>7.6</b>
Continuation of rural support services	-	11.8	-	<b>11.8</b>
Mental health support for drought-affected communities	-	5.2	-	<b>5.2</b>
Assistance for isolated children	-	8.3	1.9	<b>10.2</b>
<b>Total drought assistance measures</b>	<b>4.7</b>	<b>556.8</b>	<b>3.4</b>	<b>564.9</b>

Source: Australian Government, *Budget measures: budget paper no. 2: 2009–10*.<sup>332</sup>

Under the new arrangements for federal financial relations that came into effect on 1 January 2009, EC IRS payments which are administered by the states will now be funded from Treasury not DAFF. EC IRS payments account for about half of total EC funding announced in the Budget. For some of the measures identified in the above table, Budget Paper no. 2 states that their cost in 2008–09 will be met in part or full from existing DAFF resources. In

332. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 81–85, 162, 228, 297, 327, viewed 14 May 2009, <http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm>



addition, DAFF will provide \$5.7 million in 2009–10 for transitional income support from existing resources.<sup>333</sup>

The above table shows that the budget measures provide a total of \$564.9 million in new drought support funding with \$556.8 million of this to be spent in 2009–10. According to the Minister for Agriculture, Fisheries and Forestry the Government ‘has allocated \$715.3 million in the 2009–10 Budget to continue support for drought affected farmers, farm families, small businesses and rural communities’.<sup>334</sup> This seems to indicate some \$150.4 million of drought support funding will come from existing DAFF resources and/or amounts budgeted for previously. The Budget does not provide further information on this matter.

EC support payments have increased sharply in recent years, reflecting the prolonged and widespread dry seasonal conditions in many of Australia’s agricultural regions. Between 1994–95 and 2004–05 annual payments did not exceed \$300 million and were well under \$200 million for most years during that period. In 2005–06 payments topped \$400 million. They reached \$800 million in 2006–07 and almost \$1 billion in 2007–08.<sup>335</sup>

The increase in EC expenditure is paralleled by an increase in the number of recipients of EC support as reported by the Productivity Commission in the following table.

#### Drought assistance recipients, 2002–03 to 2007–08

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Annual average 2003-08
<i>Farms on ECRP and/or ECIRS</i>	9 094	12 508	11 143	19 243	21 791	25 517	16 549 (32%)
<i>Farms in EC areas not on EC payments</i>	46 696	41 980	34 971	28 597	25 378	31 438	34 843 (68%)

Estimated number of broadacre and dairy farms. Horticultural and other farms are not included in totals.

Source: Productivity Commission, *Government Drought Support*, p. XXVI.<sup>336</sup>

333. *Budget measures: budget paper no. 2: 2009–10*, p. 85.

334. T Burke (Minister for Agriculture, Fisheries and Forestry), *Drought support continues for farming families*, media release, Canberra, 12 May 2009, viewed 15 May 2009, [http://www.maff.gov.au/media/media\\_releases/2009/may/drought\\_support\\_continues\\_for\\_farming\\_families](http://www.maff.gov.au/media/media_releases/2009/may/drought_support_continues_for_farming_families)

335. Productivity Commission (PC), *Government Drought Support*, Productivity Commission Inquiry Report, No. 46, Commonwealth of Australia, Melbourne, 27 February 2009, p. 101, viewed 15 May 2009, [http://www.pc.gov.au/data/assets/pdf\\_file/0010/86275/drought-support.pdf](http://www.pc.gov.au/data/assets/pdf_file/0010/86275/drought-support.pdf)

336. PC, *Government Drought Support*, p. XXVI.

## Drought policy review

In April 2008 the Minister for Agriculture, Fisheries and Forestry announced a review of drought policy ‘to help prepare farmers and local communities for climate change’, with the aim of having an improved drought policy in place by July 2009. The Minister advised the review would include:

- an economic assessment of current drought support measures by a Productivity Commission (PC) report
- an expert panel to assess the social impacts of drought
- a detailed scientific examination of likely future climate patterns and the current Exceptional Circumstances standard of a one-in-20-to-25-year-event undertaken by the Bureau of Meteorology and CSIRO.

He also noted:

If droughts become longer and more frequent, farmers may not qualify for drought support under the current definition of an exceptional event, because it may not be something that only occurs every 20-to-25-years.<sup>337</sup>

The scientific study and social impact report were finalised in July 2008 and September 2008 respectively and are available on the DAFF website.<sup>338</sup> The PC report was finalised in February 2009 and released in May 2009.

The report’s key points include:

- Most farmers are sufficiently self-reliant to manage climate variability ...
- The National Drought Policy’s (NDP) Exceptional Circumstance (EC) declarations and related drought assistance programs do not help farmers improve their self-reliance, preparedness and climate change management ...
- Governments need to commit to a long term reform path that recognises that the primary responsibility for managing risks, including from climate variability and change, rests with farmers.<sup>339</sup>

The Government is still finalising its proposed changes to drought policy.

---

337. T Burke (Minister for Agriculture, Fisheries and Forestry), *Drought policy for Australia's future*, media release, Canberra, 23 April 2008, viewed 15 May 2009 [http://www.maff.gov.au/media/media\\_releases/2008/april\\_2008/drought\\_policy\\_for\\_australias\\_future](http://www.maff.gov.au/media/media_releases/2008/april_2008/drought_policy_for_australias_future)

338. Australian Government, ‘National review of drought policy’, DAFF website, viewed 15 May 2009, [http://www.daff.gov.au/agriculture-food/drought/national\\_review\\_of\\_drought\\_policy](http://www.daff.gov.au/agriculture-food/drought/national_review_of_drought_policy)

339. PC, Government Drought Support, p. XX.

## Land and Water Australia

Louise Emmett and Bill McCormick

Science, Technology, Environment and Resources Section

Land and Water Australia (LWA) will be abolished, with funding reduced in 2009–10 and ceasing in 2010–11, saving \$45.9 million over the next four years.<sup>340</sup> In 2009–10 \$6.8 million will be provided to cover the costs of finalising existing research and transferring responsibilities to other agencies. Programs that will be transferred include Tropical Rivers and Coastal Knowledge, Managing Climate Variability, the current phase of the National Climate Change Research Strategy for Primary Industries, the National Program for Sustainable Irrigation and the Australian Agricultural Natural Resources Online.<sup>341</sup>

Numerous rural and green groups have criticised this measure. The National Farmers' Federation (NFF) response indicates their disappointment in the cessation of funding for LWA given that the productivity of Australia's farming has been built on the back of research and development.<sup>342</sup> The NFF specifically asked the Government to reverse the decline in agricultural research and development funding in its Budget Submission for 2009.<sup>343</sup> Don Henry, Executive Director of the Australian Conservation Foundation, called on this decision to be reversed.<sup>344</sup> Andrew Campbell, former executive director of LWA said this decision 'will save probably less than \$10 million a year, and will finish up costing way, way more than that'.<sup>345</sup> Environment Centre Northern Territory coordinator and LWA director Stuart Blanch said 'for the sake of saving \$13 million a year when we are going into debt of \$58 billion, the Federal Government has sacrificed arguably the best organisation in Australia for researching the sustainable use of land and water'.<sup>346</sup>

- 
340. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no.2: 2009–2010*, Commonwealth of Australia, Canberra, 2009, p. 85, viewed 20 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2.pdf)
341. Australian Government, *Portfolio budget statements 2009–10: budget related paper no.1.1: Agriculture, Fisheries and Forestry Portfolio*, Commonwealth of Australia, Canberra, 2009, pp. 189–202, viewed 21 May 2009, [http://www.daff.gov.au/\\_data/assets/pdf\\_file/0019/1115281/lwa.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0019/1115281/lwa.pdf)
342. C Burke, *Budget '09: farm sector to sustain nation through dark days*, media release, 12 May 2009, viewed 21 May 2009, <http://www.nff.org.au/read/2468752944.html>
343. National Farmers' Federation, *Federal budget submission 2009: feeding a hungrier world*, Canberra, National Farmers' Federation, 2009, viewed 21 May 2009, <http://www.nff.org.au/read/2464041730.html>
344. A Wahlquist, 'Farmers, green groups slam Government's funds axing', *Australian*, 16 May 2009, p. 6, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FTWK6%22>
345. Wahlquist, 'Farmers, green groups slam Government's funds axing'.
346. 'NT environment body cut off from funding', *Northern Territory news*, 14 May 2009, p. 4, viewed 21 May 2009, [http://parlinfo/parlInfo/download/media/pressclp/25KT6/upload\\_binary/25kt60.pdf](http://parlinfo/parlInfo/download/media/pressclp/25KT6/upload_binary/25kt60.pdf)

Shadow Minister for Justice and Customs, Sussan Ley, said the ‘axing of LWA represented Labor’s ignorance of the essential research into sustainable agriculture’ and that the savings of \$12 million from the Rural Industries Research and Development Corporation could be ploughed back into the sector.<sup>347</sup>

The Greens Senator Rachel Siewert has also criticised the decision:

Land and Water Australia are one of the very few sources of funding for essential research into tackling some of Australia’s biggest environmental problems and engaging farmers in managing the health of our soil, water and remnant native vegetation.

... Shutting down LWA will cut the legs out from under a whole string of ongoing research projects where LWA is one of the funding partners.<sup>348</sup>

The Government has indicated that in its view the functions of LWA are already catered for through the emergence of various other tertiary, public and private sector bodies for research and development in the area of natural resource management.

---

347. S Ley, *Budget 2009: Rural agriculture gutted by Rudd*, media release, 13 May 2009, viewed 21 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F56MT6%22>

348. R Siewert, *Greens blast move to shut down Land and Water Australia*, media release, 6 May 2009, viewed 21 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F4QHT6%22>

## Science and innovation

Matthew James and Louise Emmett  
Science, Technology, Environment and Resources Section

[Overview](#)

[Super Science Support](#)

[Innovation—Powering Ideas: an Innovation Agenda for the 21st Century](#)

[Bureau of Meteorology](#)

[Antarctica](#)

[Bushfire Cooperative Research Centre—extension](#)

### Overview

Scientists, particularly space scientists, astronomers and biologists, should be well pleased with the Budget's increased spending for support of technology, science and innovation. In general there is a 25 per cent increase for investment in these science sectors, focused on space and astronomy, marine research, molecular biology, and nanotechnology, all to facilitate technology creation and commercialisation. The Government announced a new Commonwealth Commercialisation Institute and establishment of the Royal Institution of Australia, along with the various initiatives above under a Super Science banner.<sup>349</sup> The [Science and Innovation Budget Tables](#) provide further breakdowns by agencies across portfolios.<sup>350</sup>

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) may have problems, while it gains a \$45 million increase in funding this year, there is a loss of \$180 million due to reductions in funding from private and other non-government players. Nonetheless, CSIRO may benefit from a large payout following its legal success in pursuing 14 computer companies over their unlicensed use of its patented wireless telecom technology. This will be accounted for in next year's CSIRO annual report as income from royalties.

### Super Science Support

#### Space Science and Astronomy

Space and astronomy receive an allocation of \$160.5 million including \$80.0 million in funds for a new astronomy-computing program, at an Australian National Centre of Square Kilometre Array (SKA) Science in Perth, in conjunction with the [SKA telescope project](#); \$20.9 million in extra funds for the Anglo-Australian Observatory, with Australia to take over sole responsibility for the facility, plus \$10.0 million in new instruments; a four year

---

349. K Carr (Minister for Innovation, Industry, Science and Research), *Super science initiative*, media release, 12 May 2009, viewed 19 May 2009, <http://minister.innovation.gov.au/Carr/Pages/SUPERSCIENCEINITIATIVE.aspx>

350. Department of Innovation, Industry, Science and Research, *The Australian Government's 2009–10 science and innovation budget tables*, Department of Innovation, Industry, Science and Research, Canberra 2009, viewed 18 May 2009, <http://www.innovation.gov.au/General/Corporate/Documents/2009-10SITables.pdf>

\$40 million Australian Space Research Program; and a \$8.6 million Space Policy Unit to coordinate national space policy.<sup>351</sup> The latter two initiatives can be seen as a response to the critical findings of the 2008 Senate Economics Committee's [Inquiry into the Current State of Australia's Space Science & Industry Sector](#).<sup>352</sup>

## Marine Science

As part of the Marine and Climate initiative (detailed further in the 'Climate change and energy' brief in this Budget Review), \$120 million is provided for CSIRO to build a new deep water research vessel to replace Australia's existing 38 year old craft which itself receives \$29.6 million for maintenance over three years while the new vessel is completed. As well, the Australian Institute of Marine Science (AIMS) has \$55 million in new infrastructure funding over three years to enable expansion of experimental seawater facilities at its Townsville headquarters.<sup>353</sup>

## Future Industries

This initiative provides \$504 million, including \$115 million for bio-molecular, drug and bioinformatics research facilities; as well as an \$8 million European Molecular Biology Laboratory Australia Partner Laboratory; a new National Enabling Technologies Strategy worth \$38.1 million; some \$62 million for the Australian Nuclear Science and Technology Organisation (ANSTO) neutron beam facilities; \$50 million in support for nanotechnology research; and \$182 million in funds for advanced Information and Communication Technology (ICT) platforms. The latter investment is at the National ICT Australia (NICTA) research and commercialisation facility which receives, in total, \$185.5 million over four years from the Department of Broadband, Communications and the Digital Economy and the Australian Research Council (ARC). The National Enabling Technologies Strategy funds new biotechnology and nanotechnology laboratories.<sup>354</sup>

## Fellowships

There is \$27.2 million over four years for 100 new Super Science Fellowships worth \$72 500 a year for early-career young researchers. These will be offered in space science and

---

351. K Carr (Minister for Innovation, Industry, Science and Research), *Super science – space and astronomy*, media release, 12 May 2009, viewed 19 May 2009, <http://minister.innovation.gov.au/Carr/Pages/SUPERSCIENCESPACEANDASTRONOMY.aspx>

352. Senate Standing Committee on Economics, *Inquiry into the current state of Australia's space science & industry sector*, Commonwealth of Australia, Canberra, 2008, viewed 18 May 2009, [http://www.aph.gov.au/Senate/committee/economics\\_ctte/space\\_08/info.htm](http://www.aph.gov.au/Senate/committee/economics_ctte/space_08/info.htm)

353. K Carr (Minister for Innovation, Industry, Science and Research), *Super science – marine and climate*, media release, 12 May 2009, viewed 19 May 2009, <http://minister.innovation.gov.au/Carr/Pages/SUPERSCIENCEMARINEANDCLIMATE.aspx>

354. K Carr (Minister for Innovation, Industry, Science and Research), *Super science – future industries*, media release, 12 May 2009, viewed 19 May 2009, <http://minister.innovation.gov.au/Carr/Pages/SUPERSCIENCEFUTUREINDUSTRIES.aspx>

astronomy, marine and climate science, and future industries in life sciences and nanotechnology.<sup>355</sup>

### Other Measures

An extra \$11.3 million for Questacon, Australia's National Science and Technology Centre will support its activities.<sup>356</sup> For the establishment of a Royal Institution of Australia, akin to the British Royal Institution national science exchange, there is \$15.0 million.<sup>357</sup> The Government will also provide \$50.0 million over four years for a competitive grant program for the bionic eye in Australia.<sup>358</sup> The program will be established under the ARC Special Research Initiatives Scheme. The Prime Minister's 2020 Summit identified the bionic eye as a significant opportunity to improve the quality of life for the vision-impaired.

### Innovation—Powering Ideas: an Innovation Agenda for the 21<sup>st</sup> Century

The Federal Government used the Budget to launch this new paper on innovation in response to the 2008 'Cutler' report *Venturous Australia: Building Strength in Innovation* and various related reviews of the industry and education sectors.<sup>359</sup> The *Powering Ideas* paper canvasses proposed improvements and incremental changes to the existing National Innovation System but does not link to significant Budget funding.<sup>360</sup>

There is \$52 million to establish a Collaborative Research Networks program to help smaller and regional universities develop their research capacity by partnering with other institutions.<sup>361</sup> Some \$196.1 million over four years is to foster a Commonwealth

---

355. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no.2: 2009–2010*, Commonwealth of Australia, Canberra, 2009, p. 362, viewed 19 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2.pdf)

356. Carr, Super science initiative.

357. *Budget measures: budget paper no. 2: 2009–2010*, p. 366.

358. *Budget measures: budget paper no.2: 2009–2010*, p. 364; K Carr (Minister for Innovation, Industry, Science and Research) and N Roxon (Minister for Health and Ageing), *2020 gives research boost for bionic eye*, media release, 22 April 2009, viewed 18 May 2009, <http://minister.innovation.gov.au/Carr/Pages/2020GIVESRESEARCHBOOSTFORBIONICEYE.aspx>; note that the latter source states that \$50.7 million will be provided while the budget papers allow only \$50.0 million. DIISR has advised that the additional \$700 000 is provided for as part of their departmental administrative expenses.

359. Cutler & Company Pty Ltd, *Venturous Australia: building strength in innovation*, report prepared for the Minister for Innovation, Industry, Science and Research, Canberra, 2008, viewed 18 May 2009, [http://www.innovation.gov.au/innovationreview/Documents/NIS\\_review\\_Web3.pdf](http://www.innovation.gov.au/innovationreview/Documents/NIS_review_Web3.pdf)

360. Department of Innovation, Industry, Science and Research, *Powering ideas: an innovation agenda for the 21<sup>st</sup> century*, Department of Innovation, Industry, Science and Research, Canberra, 2009, viewed 18 May 2009, [http://www.innovation.gov.au/innovationreview/Documents/PoweringIdeas\\_fullreport.pdf](http://www.innovation.gov.au/innovationreview/Documents/PoweringIdeas_fullreport.pdf)

361. K Carr ((Minister for Innovation, Industry and Science), *Collaborative research networks*, budget fact sheet, 12 May 2009, viewed 19 May 2009,

Commercialisation Institute as a means of commercialising Australian research and early stage company development.<sup>362</sup> Note that there are some funding increases under the program An Innovation and Higher Education System for the 21<sup>st</sup> Century for the Education Investment Fund, and the Sustainable Research Excellence in Universities that are shared between the Department of Education, Employment and Workplace Relations and the Department of Innovation, Industry, Science and Research portfolios.

## Bureau of Meteorology

Weather forecasting will be improved with the investment of \$94.7 million. The commitment provides \$30.5 million over five years (including \$5.1 million in 2013–14) for next generation weather forecasting and warning technology that will allow new seven-day forecasts to be available to 650 cities and towns across Australia via interactive maps on the Bureau's website.<sup>363</sup> The national roll-out will allow increased accuracy and responsiveness to the public and emergency services organisations during emergency events such as bushfires.<sup>364</sup>

Four new radars at Croker Island/Maningrida in the Northern Territory, Hobart, Mount Isa and Wollongong will be installed and integrated into the current radar network over a five year period from 2009–10 to 2012–13 at a total cost of \$48 million over seven years.<sup>365</sup> The new radars will address priority [radar coverage gaps](#). In addition, the Bureau will now retain revenue of \$16.1 million over four years from 1 January 2010 for providing specialised weather services to the aviation and defence sectors.<sup>366</sup>

## Antarctica

Funding for Australia's Antarctic science and research program is to be increased by an extra \$25.2 million over two years, provided to the Australian Antarctic Division.<sup>367</sup> In 2009–10 funding of \$11.7 million will continue the operations of the Airlink between Australia and Antarctica.<sup>368</sup> This funding underpins scientific research, maintenance of infrastructure at the

---

[http://www.innovation.gov.au/General/Corporate/Documents/collaborativeresearch\\_budgetfactsheet0910.pdf](http://www.innovation.gov.au/General/Corporate/Documents/collaborativeresearch_budgetfactsheet0910.pdf)

362. K Carr, (Minister for Innovation, Industry and Science), *Making ideas reality: Commonwealth Commercialisation Institute*, media release, 12 May 2009, viewed 19 May 2009, <http://minister.innovation.gov.au/Carr/Pages/MAKINGIDEASREALITYCOMMONWEALTHCOMMERCIALISATIONINSTITUTE.aspx>
363. P Garrett (Minister for the Environment, Heritage and the Arts), *\$94.7 million boost for Bureau of Meteorology*, media release, 12 May 2009, viewed 19 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512f.html>
364. *Budget measures: budget paper no. 2: 2009–2010*, p. 193.
365. *Budget measures: budget paper no. 2: 2009–2010*, p. 193.
366. *Budget measures: budget paper no. 2: 2009–2010*, p. 192.
367. *Budget measures: budget paper no. 2: 2009–2010*, p. 198.
368. *Budget measures: budget paper no. 2: 2009–2010*, p. 190.



three Antarctic stations, the Wilkins aerodrome and the station on Macquarie Island.<sup>369</sup> The Government committed \$46.3 million over four years in the 2005–06 Budget to construct a 3.6 kilometre glacial blue-ice runway at Wilkins aerodrome, 70 kilometres from the Casey station, and to fund the Airlink.<sup>370</sup> Funding for the Airlink program beyond 2009–10 will be considered after the 2009 flying season.<sup>371</sup>

### **Bushfire Cooperative Research Centre—extension**

As agreed with the Australian Greens during the Nation Building and Jobs Plan negotiations in February, the Government will provide \$15.0 million over three years from 2010–11 to the [Bushfire Cooperative Research Centre](#) (CRC) in Melbourne.<sup>372</sup> The CRC's previous funding of \$28.9 million covered 2003–2010. The CRC coordinates research on bushfires, focussing on prevention and suppression of bushfires, community awareness, and protection of life and property.

The Australasian Fire and Emergency Service Authorities Council (AFAC) and the Bushfire CRC are currently seeking partners in a bid to the Federal Government for long term funding.<sup>373</sup> Apart from \$15 million for the Bushfire CRC there is no additional funding for the [Cooperative Research Centres program](#)

---

369 Australian Antarctic Division, *\$36.9 million to keep Australia's Antarctic program on track*, media release, 13 May 2009, viewed 19 May 2009, <http://www.aad.gov.au/default.asp?casid=36333&source=17&rank=1>

370. Australian Government, *Portfolio budget statements 2005–06: fact sheet: Antarctic Air Link*, Commonwealth of Australia, 2005, viewed 19 May 2009, <http://www.environment.gov.au/about/publications/budget/2005/factsheet-airlink.html>

371 *Budget measures: budget paper no. 2: 2009–2010*, p. 190.

372. *Budget measures: budget paper no. 2: 2009–2010*, p. 364.

373. Bushfire CRC, 'Proposal for a new Cooperative Research Centre', Bushfire CRC website, viewed 19 May 2009, [http://www.bushfirecrc.com/rebid\\_section/index.html](http://www.bushfirecrc.com/rebid_section/index.html)

## Superannuation (revised 26 June 2009)

Les Nielson  
Economics Section

The 2009–2010 Budget contained several key changes to superannuation arrangements. Overall, the key theme for changes applying to individuals was to lower the impact on government finances of these arrangements and to restrict access to the most favourable concessions for high income earners. Another measure, the proposed extension of the reduced minimum drawdown requirements for superannuation-based income streams assists recipients of these payments with coping with the effects of the global financial crisis.

The Budget also contains several measures applying to superannuation funds. The major theme of these changes is to assist these entities in achieving economies of scale through mergers and reducing administrative burdens.

### Individuals

Briefly, for individuals the significant proposed changes are:

- a temporary reduction in the government superannuation co-contribution between 1 July 2009 and 30 June 2014<sup>374</sup>
- a 50 per cent reduction in the maximum amount of tax-deductible (or concessional) contributions made to a superannuation fund from 1 July 2009<sup>375</sup>
- a new method of calculating the cap on after-tax (or non-concessional) contributions to superannuation funds<sup>376</sup>
- a reduction in the minimum required amount paid from a superannuation pension for the 2009–2010 year,<sup>377</sup> and
- a trans-Tasman superannuation portability scheme.<sup>378</sup>

Another significant superannuation budget initiative for individuals is the transfer of small inactive superannuation accounts, and other unclaimed superannuation monies, to an unclaimed monies holding account maintained by the Australian Taxation Office.<sup>379</sup> For

---

374. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 391.

375. Australian Government, 'Part 1: Revenue measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 35.

376. 'Part 1: Revenue measures', *Budget paper no. 2: 2009–10*, p. 35.

377. 'Part 1: Revenue measures', *Budget paper no. 2: 2009–10*, p. 33.

378. 'Part 1: Revenue measures', *Budget paper no. 2: 2009–10*, p. 36.

379. 'Part 1: Revenue measures', *Budget paper no. 2: 2009–10*, p. 35–36.

further information on this measure, see the article in this Budget Brief on Tax Fairness and Integrity measures.

### **Government Superannuation Co-contributions**

Under current law the Government contributes a maximum of \$1.50 for each after personal income tax dollar contributed to a superannuation fund by eligible people within the income threshold. The maximum government contribution is \$1500 per year in response to a contribution of \$1000 or more, which decreases as income rises above the shade out threshold.

The Government proposes to reduce the maximum possible co-contribution amount as follows:

- a dollar for dollar contribution for amounts contributed from 1 July 2009 through to 30 June 2012, with the maximum annual co-contribution being \$1000 for those whose income is below the lower threshold (\$31 920 in 2009–2010), and
- a \$1.25 government co-contribution for every dollar contributed by a person whose income is below the lower threshold for contributions made between 1 July 2012 and 30 June 2014. The maximum amount contributed will be \$1250 in response to a contribution of \$1000 by a person whose income is below the lower threshold
  - From 2014–15 the maximum co-contribution amount will return to \$1500.

In the 2007–2008 financial year the total government co-contribution amount was about \$1.3 billion.

### **Concessional contributions**

Under current law a person may contribute, or have contributed for them, up to the following amounts of concessional contributions annually and claim the corresponding deduction from their personal tax assessable income:

- \$50 000 per annum (indexed) if they are under 50 years of age, and
- \$100 000 per annum (not indexed), for contributions made before 30 June 2012 if they are at least 50 years of age at the end of a financial year.

These amounts are taxed at 15 per cent once they enter the superannuation fund. Concessional contributions made above these thresholds are classed as excessive superannuation contributions and taxed at an additional 31.5 per cent so that the total tax withheld on these amounts is equal to 46.5 per cent, or the top marginal personal income tax rate plus the Medicare Levy.

In the 2009–10 Budget the Government proposes to reduce the maximum tax deductible contribution amounts to:

- \$25 000 per annum (indexed) for those under 50 years of age, and

- \$50 000 per annum (not indexed), for contributions made before 30 June 2012 if they are at least 50 years of age at the end of a financial year.

The \$25 000 base amount is indexed annually to movements in Average Weekly Ordinary Times Earnings (AWOTE), if the annual increase in AWOTE is large enough and is rounded down to the nearest multiple of \$5,000 to determine the concessional contribution cap for the financial year. The \$50 000 limit remains fixed until it no longer applies after 30 June 2012.

Generally, only higher income earners can afford to make the maximum concessional contributions to superannuation funds. It is argued that this particular measure will improve the equity of the current superannuation system. Certainly, it will reduce the forgone tax revenue lost through such deductions.

### **Non-concessional contributions**

Currently, a person may contribute up to \$150 000 per annum to superannuation, made up of amounts that have already been subject to personal income tax. These contributions are known as ‘non-concessional’ superannuation contributions. A person less than 65 on 1 July of a financial year can bring forward two years worth of non-concessional contributions which means they can contribute up to \$450 000. Annual non-concessional contributions above this threshold are taxed at a rate of 46.5 per cent.

From 1 July 2009, the non-concessional contribution cap for a financial year will be six times the relevant concessional contribution limit of \$25 000 (indexed) as discussed above. Effectively this means that the non-concessional contributions cap after 1 July 2009 will be \$150 000 (or six times the indexed concessional cap) per annum

These measures were implemented by Schedule 3 of *Tax Laws Amendment (Budget Measures No. 1) Act 2009*.

### **Required pension drawdown**

Normally, superannuation pensions paid from an accumulation style superannuation fund (one where the benefits are based on the contributions plus investment earnings only) must have an annual payment of between 4 and 14 per cent a year, depending on the age of the recipient.

During the 2008–2009 year, accumulation style superannuation funds experienced significant investment losses. The requirement to make the above-mentioned level of pension payments would have forced many of these funds to realize these losses, as assets would have to be sold to meet these requirements. On 18 February 2009, the Minister for Superannuation and Corporate Law announced that this requirement would be relaxed for the 2008–2009 financial year so that the minimum annual pension drawdown would be halved. The government now proposes to extend this decision to apply to the 2009–2010 financial year as well.

### **Trans-Tasman portability**

Briefly, a KiwiSaver account is a New Zealand retirement savings vehicle where the employee is required to contribute up to 4 per cent of their salary. The employee may choose to opt out of the scheme, or contribute a lesser amount.

The government proposes to allow the transfer of retirement savings between KiwiSaver accounts and Australian complying superannuation funds. As the government has, as yet, only agreed in principle to the signing of a memorandum of understanding with New Zealand, the final details of the scheme are still being settled.

### **Superannuation Funds**

The most significant budget initiative for superannuation funds is the extension of the ability to transfer (or rollover) capital gains losses to a new fund created out of the merger of two complying funds until 30 June 2011.<sup>380</sup> This concession will now be extended to pooled superannuation trusts having at least five members (they should not be confused with self managed superannuation funds or SMSFs) and the superannuation business of life insurance companies.

Small superannuation funds (not SMSFs) will benefit from the relaxed requirements for pay-as-you-go tax payments for small business entities for the 2009–2010 tax year.

---

380. 'Part 1: Revenue measures', *Budget paper no. 2: 2009–10*, p. 11.

## Business tax measures

Kali Sanyal  
Economics Section

On 12 May 2009, the Treasurer announced in the 2009–10 Budget important new measures to offer the small business sector a package of benefits and flexibility in dealing with tax issues, providing the sector with incentives to cope with the global financial crisis.

This paper discusses those initiatives in business tax system, mentioned in the 2009–10 [Budget Overview](#).

### R&D tax credit reform for business<sup>381</sup>

From 2010–11, the Government will introduce a simplified R&D tax credit in place of present R&D concessions to businesses. The complex ‘premium concession’ and ‘international premium’ will be abolished. The new tax credit will provide a 45 per cent refundable credit for firms with an annual turnover of less than \$20 million—equivalent to a tax concession of 150 per cent. This means that firms will receive a tax refund of 45 per cent of their R&D spending when they file their tax return.

The refundable credit will also be available to small companies in tax loss, with no limit on the level of R&D expenditure. It is estimated that around 5500 small firms stand to benefit under these new arrangements.

Businesses with a turnover of more than \$20 million will also benefit from the new scheme, with access to a 40 per cent non-refundable credit—equivalent to a tax concession of 133 per cent. Companies undertaking R&D in Australia where the intellectual property is held offshore will also be able to access the 40 per cent non-refundable credit.

As a transitional measure for 2009–10, the R&D expenditure cap for the existing R&D tax offset will be lifted from \$1 million to \$2 million. The cap is the maximum amount a firm can spend on R&D to be eligible for the tax offset.

The reform of the R&D tax concession is complementary to the new \$196.1 million Commonwealth Commercialisation Institute initiative.

---

381. W Swan (Treasurer) and K Carr (Minister for Innovation, Industry, Science and Research), *R&D tax credit to boost small business investment*, media release, Canberra, 12 May 2009, viewed 18 May 2009, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/062.htm&pageID=003&min=wms&Year=&DocType=0>

## Small business and general business tax break<sup>382</sup>

This measure will enable small businesses to claim a bonus tax deduction of 50 per cent—up from 30 per cent previously—of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.

The incentive:

- is expected to encourage small businesses to invest in new capital items, such as computer hardware and business vehicles, and to make capital improvements to existing machinery and equipment.
- will be available to small businesses with a turnover of less than \$2 million.

All other businesses will continue to access the tax break at 30 per cent for eligible assets contracted prior to 30 June 2009, and 10 per cent for eligible assets that they commit to investing in between 1 July 2009 and 31 December 2009.

The estimated cost of this incentive package will be \$141 million. For more detailed information about the tax break and the expansion for small business see the [media release](#) issued by the Treasurer and the Minister for Small Business on 12 May 2009.<sup>383</sup>

## Strategic compliance – supporting businesses and other taxpayers in financial distress<sup>384</sup>

The Government has allocated \$100 million to the Australian Taxation Office (ATO) over four years. With this allocation, the ATO will assist small businesses and other taxpayers experiencing financial distress to remain viable and stay engaged in the tax system.

The ATO will offer support to at-risk taxpayers, including early identification of those experiencing financial distress and continuing to provide flexible payment arrangements.

The measure has an estimated revenue outcome of \$56 million in the forward estimate period.

---

382. W Swan (Treasurer) and C Emerson (Minster for Small Business, Independent Contractors and the Service Economy), *Small business tax break boost*, media release, Canberra, 12 May 2009, viewed 18 May 2009, <http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/061.htm&pageID=003&min=wms&Year=&DocType=0>

383. Swan and Emerson.

384. Australian Government, 'Part 2: Expense measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, 2009, p. 390.

## Improving business cash flow<sup>385</sup>

This measure provides cash flow relief to small businesses by reducing PAYG instalments for the 2009–10 income year for all taxpayers who pay quarterly PAYG instalments based on their previous year's tax adjusted by GDP growth.

The GDP adjustment factor for calculating quarterly instalments under the GDP adjustment method currently in practice will be reduced from 9 per cent to 2 per cent.

This measure will apply to about 1.5 million eligible small businesses, individuals, and trusts, and complements the earlier guarantee of on-time payment for small business contracts as well as planned changes to business regulation which will help to reduce compliance costs.

The measure will have no net revenue implications over the forward estimates period.

## Personal Income Tax

Leslie Nielson  
Economics Section

There were several major developments in respect to personal income tax in the 2009–2010 budget:

- the previously legislated reductions in marginal personal income tax rates and the Low Income Tax Offset remained un-changed
- the tax rebate in respect to personal health insurance was reduced
- significant alterations in the tax treatment of employee share schemes were set up, and
- changes occurred to the tax treatment of income earned overseas.

### Personal income tax rates

The following table illustrates the personal income tax rates for the 2009–2010 tax year.

#### Marginal personal income tax rates 2009-2010

<b>Taxable Income \$ p.a.</b>	<b>Tax on Income \$ p.a.</b>	<b>Tax on excess (marginal rate) %</b>
Nil to 6000	0	15
35 000	4350	30
80 000	17 850	38
180 000	55 850	45

Source: CCH, Australian Master Tax Guide, 2009

385. Australian Government, 'Part 1: Revenue measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, 2009, p. 26.



In the 2010–2011 tax year the personal marginal tax rates will again reduce. The following table illustrates these rates at that time.

### Marginal personal income tax rates 2010-2011

Taxable Income \$ p.a.	Tax on Income \$ p.a.	Tax on excess (marginal rate) %
Nil to 6000	0	15
37 000	4650	30
80 000	17 550	37
180 000	54 550	45

Source: CCH, Australian Master Tax Guide, 2009

The major changes are the increase in the second marginal tax threshold from \$35 000 to \$37 000 and a reduction in the marginal tax rate beginning at the \$80 000 threshold from 38 to 37 per cent.

### Low Income Tax Offset

These changes will be accompanied by further reductions in the Low Income Tax Offset, including:

- for the 2009-2010 tax year the maximum offset will be \$1350. The effect of this offset is that no tax is payable on incomes up to \$15 000 in 2009–2010. This offset finally cuts out once a taxpayer's assessable income reaches \$63 750 in this tax year, and
- for the 2010–2011 year the maximum offset will be \$1500. The effect of this increase is that no tax is payable on income up to \$16 000 in 2010–2011. The Low Income Tax Offset is no longer available once the taxpayer's income reaches \$67 500 in this tax year.

The Low Income Tax Offset does not reduce a person's liability for the Medicare Levy.

### Personal health insurance tax rebate

Currently, a tax rebate (or offset) of 30 per cent of the annual premium paid is available to persons who take out complying health insurance. Those with taxable income (including reportable fringe benefits) over \$70 000 p.a. in 2008–2009 who do not take out health insurance are subject to the Medicare Levy Surcharge of 1 per cent of taxable income.

From 1 July 2010 the Budget proposes to introduce a three tier scheme, where the rebate varies according to assessable income for Medicare Levy purposes. The following table, from *Budget Paper No. 2: 2009–10*, illustrates the current and proposed changes.

## Projected and Proposed Private Health Insurance Rebates

	Current surcharge thresholds (projected 2010–11)	Tier 1	Tier 2	Tier 3
<b>Singles</b>	<b>\$0 - \$75,000</b>	<b>\$75,001 - \$90,000</b>	<b>\$90,001 - \$120,000</b>	<b>\$120,001+</b>
<b>Families</b>	<b>\$0 - \$150,000</b>	<b>\$150,001 - \$180,000</b>	<b>\$180,001 - \$240,000</b>	<b>\$240,001+</b>
Medicare levy surcharge	nil	1.00%	1.25%	1.50%
Private health insurance rebate				
Less than 65 years	30%	20%	10%	nil
65 to 69 years	35%	25%	15%	nil
70 years or over	40%	30%	20%	nil

Source: ‘Part 2: Expense measures’, *Budget Measures: Budget Paper No. 2: 2009–10*, p. 311.

These changes represent substantial cuts. For example, the current 30 per cent rebate is available to all high income earners. The proposed changes deny this rebate once a person’s or family’s income for Medicare Levy purposes goes above the thresholds.

In his speech in reply the Leader of the Opposition, Malcolm Turnbull, has proposed a substantial increase in tobacco excise in the place of the above proposed reduction in the private health insurance rebate.<sup>386</sup>

### Additional measures

From 1 July 2009 the Government also proposes to tighten

- the rules governing the use of non-commercial losses arising from unprofitable business to generate tax deductions
- eligibility to concession in employee share schemes
- tax exemption for income from foreign employment.

For further information see the section on ‘Fairness and Integrity Measures’ in this Budget Review.

386. M. Turnbull, ‘Second reading speech: Appropriation Bill (No. 1) 2009–2010’, House of Representatives, *Debates*, 14 May, 2009, pp. 81–85.

## Fairness and integrity in the tax system

Kali Sanyal  
Economics Section

On 12 May 2009, the Treasurer announced in the 2009–10 Budget important new measures to improve the integrity of the tax system and protect Commonwealth revenues in the face of the global recession. This paper discusses the proposals classified as fairness and integrity measures in ‘Appendix F: Major Savings in the 2009-10 Budget’ of the [Budget Overview 2009-10](#).<sup>387</sup>

The following table lists the savings from these measures and provides links to press releases issued on Budget day, where available, and references to *Budget Paper No. 2 2009–10*.

### Fairness and Integrity Measures in Budget 2009-10

Announced measure and linked media release	Budget paper no. 2	Revenue (\$m)					2012–13	Total
		2008–09	2009–10	2010–11	2011–12			
<a href="#">Tightening access to non-commercial business losses</a>	<a href="#">p. 20</a>	-	-	330.0	240.0	130.0	<b>700.0</b>	
<a href="#">Superannuation - payment of small and insoluble lost accounts to unclaimed monies</a>	<a href="#">p. 35</a>	-	-	183.7	36.1	9.7	<b>229.6</b>	
<a href="#">Promoting a level playing field for small business</a>	<a href="#">p. 390</a>	-	43.9	52.7	67.3	78.6	<b>242.5</b>	
<a href="#">Better targeting of income tax exemption for overseas workers</a>	<a href="#">p. 19</a>	-	-	215.0	225.0	235.0	<b>675.0</b>	
<a href="#">Better targeting the concessions of Employee Share Schemes</a>	<a href="#">p. 18</a>	-	10.0	90.0	60.0	40.0	<b>200.0</b>	
<b>Total</b>		<b>0.0</b>	<b>53.9</b>	<b>871.4</b>	<b>628.4</b>	<b>493.3</b>	<b>2047.1</b>	

Source: Adapted from ‘Appendix F: Major Savings in the 2009–10 Budget’, *Budget Overview 2009–10*, p. 39

The following notes on the above measures include extracts from *Budget Paper No. 2 2009–10*.<sup>388</sup>

387. Australian Government, ‘Appendix F: Major Savings in the 2009–10 Budget’, *Budget overview*, Commonwealth of Australia, Canberra, 12 May 2009, p. 39, viewed 13 May 2009, [http://www.budget.gov.au/2009-10/content/overview/download/Budget\\_Overview.pdf](http://www.budget.gov.au/2009-10/content/overview/download/Budget_Overview.pdf)

388. ‘Appendix F: Major Savings in the 2009–10 Budget’, *Budget overview*.

### **Tightening access to business losses<sup>389</sup>**

From 2009–10 the Government will tighten the application of the rules on the use of non-commercial losses to prevent high income individuals from offsetting excess deductions from non-commercial business activities, considered to be lifestyle choices or hobbies, against salary and other income.

The changes will lead to the following:

- taxpayers with an adjusted taxable income of over \$250 000 will instead have excess deductions quarantined to the business activity
- the existing rules will continue to apply to taxpayers with an adjusted taxable income of \$250 000 or less, and
- the measure will have an ongoing gain to revenue which is estimated to be \$700.0 million over the forward estimates period.

Taxpayers will still be able to apply to the Commissioner of Taxation for relief from the rules:

- if there are exceptional circumstances or
- because the nature of the activities means that a taxpayer is temporarily carrying on an uncommercial business but the activities they are undertaking are nonetheless independently assessed as commercially viable.

### **Superannuation – unclaimed monies<sup>390</sup>**

From 2010–11 superannuation providers will be required to transfer lost accounts which have balances less than \$200, or which have been inactive for five years and for which there are insufficient records to identify the owner of the account, to unclaimed monies held by the Australian Taxation Office (ATO).

The lost accounts will be able to be reclaimed by former holders.

The measure will result in an estimated gain to revenue of \$238.0 million and an expected increase to government expenditure of \$8.4 million over the forward estimates period.

---

389. Australian Government, 'Part 1: Revenue Measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 20.

390. 'Part 1: Revenue Measures', *Budget measures: budget paper no. 2, 2009–10*, p. 35.

### **Compliance activities<sup>391</sup>**

The Government will provide \$70.9 million over four years to the ATO for compliance activities aimed at ensuring small business and other taxpayers continue to meet taxation and other superannuation obligations during the global economic downturn.

The measure:

- will allow the early identification of and engagement with small businesses that may engage in cash economy activities, tax minimisation schemes and serial insolvency practices, and help maintain employee entitlements
- in fiscal balance terms, is estimated to result in an additional \$313.4 million in revenue over four years
- in underlying cash terms, the expected increase in receipts is \$216.7 million over four years.

The measure includes a \$4.6 million capital funding for the ATO to implement system changes.

### **Better targeting of income tax exemption for overseas workers<sup>392</sup>**

Currently some foreign employment income earned by Australians working overseas is exempt from income tax. The policy intent was to relieve double taxation, but in practice little foreign tax may be paid on these earnings.

From 1 July 2009, the exemption will be limited to income earned as an aid worker, a charitable worker, some types of government employment, or on projects of national interest. To relieve double taxation when it occurs, individuals will be entitled to a foreign income tax offset for any foreign tax paid on money earned.

The measure has an estimated gain to revenue of \$675 million over the forward estimate period.

### **Concessions for Employee Share Schemes<sup>393</sup>**

Eligibility requirements for the employee share scheme tax concessions to employees with an adjusted taxable income of less than \$60 000 have been changed from 7.30pm (AEST) on 12 May 2009.

Previously, an employee could elect to be assessed on discounts provided on shares or rights in the income year the shares or rights were acquired. If no election was made, the discount (which includes gains on shares or rights) was taxed at a later time (such as when restrictions

---

391. Australian Government, 'Part 2: Expense Measures', *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 390.

392. 'Part 1: Revenue Measures', *Budget measures: budget paper no. 2, 2009–10*, p. 19.

393. 'Part 1: Revenue Measures', *Budget measures: budget paper no. 2, 2009–10*, p. 18.

on the shares or rights are lifted). If an employee elected to be taxed upfront, they received a tax exemption of up to \$1 000 on the discount.

The proposed measure will:

- remove the existing election and assess discounts provided on shares or rights in the income year the shares or rights are acquired
- limit access to the upfront concession to employees with an adjusted taxable income of less than \$60 000.

This measure will have an ongoing gain to revenue which is estimated to be \$200.0 million over the forward estimates period.

## Reaction to the Budget measures

Over the forward estimate years, the Government anticipated a total savings of \$2.05 billion, an increase of revenue by other measures.

However, it is pertinent to note that the initiatives undertaken by the government on the employee share schemes drew some criticisms from business group and employees equally. On 15 May 2009, the *Australian Financial Review* disclosed that:

Leading chairmen and executives have lashed the Rudd government's assault on employee share schemes, as more companies moved yesterday to freeze or postpone their plans amid widespread outrage about the changes. Woolworths, Fairfax Media, OneSteel and Macquarie Group joined Wesfarmers and United Group yesterday in suspending or reviewing schemes, putting at risk the \$200 million in revenue the government planned to recoup from the move over the next four years. The changes, which force people earning more than \$60,000 to pay tax upfront on share and options packages, affect more than 4 million employees and many small companies that had introduced schemes to encourage share ownership.<sup>394</sup>

The article went on to say:

Assistant Treasurer Chris Bowen told *The Australian Financial Review* yesterday [14 May 2009] that the Rudd government supported employee share schemes but stood by the budget measure, despite the business backlash.<sup>395</sup>

---

394. P Durkin and A Hepworth, 'PM lashed on share scheme debacle', *Australian financial review*, 15 May 2009, p. 1, viewed 15 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/ABKT6/upload\\_binary/abkt60.pdf](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/ABKT6/upload_binary/abkt60.pdf)

395. Durkin and Hepworth, p. 1.

## Workplace relations

Steve O'Neill  
Economics Section

The Budget measures relating to the Education, Employment and Workplace Relations portfolio provide an ‘additional’ \$149.7 million over four years to implement the new workplace relations scheme.<sup>396</sup> The Government elsewhere reports that it will save \$197.9 million over four years by rationalising workplace agencies as part of its Fair Work (FW) initiative.<sup>397</sup> Savings from rationalising the Australian Industrial Relations Commission, the Australian Fair Pay Commission and the Workplace Authority into the new regulator Fair Work Australia may thus counter any additional spending in 2009–10. The tasks set for Fair Work Australia (including related agencies) comprise:

- processing of an increased number of collective agreements, including expired agreements expected to be renegotiated once the new legislation takes effect
- administration of an increased number of claims under the new unfair dismissal protection law (i.e. the *Fair Work Act 2009*)
- implementation of the 'better off overall' test to ensure that employees covered by an agreement are better off in comparison to the relevant awards
- increased information advisory services, including an information line that will integrate information services currently provided by existing agencies and support the volume of calls expected with the commencement of the new law
- education activities to assist employers and employees in understanding the new workplace relations legislation and
- an increased number of Fair Work inspectors who will assist employers, employees and organisations to comply with the new workplace relations laws.<sup>398</sup>

The Government discontinued funding for the Unlawful Termination Assistance Scheme, saving \$24.2 million over four years, and the Alternative Dispute Resolution Assistance Scheme, saving \$19.6 million.

The following table compares total resources for workplace relations agencies in 2008–09 with those in 2009–10, to reflect the shift in resources and priorities of the 2009 Budget. The Workplace Ombudsman is a clear winner, while the Workplace Authority and Australian Fair Pay Commission have their functions subsumed into Fair Work Australia—by mid year for the Australian Fair Pay Commission and by the end of the year for the Workplace Authority

---

396. Australian Government, ‘Part 2: expense measures’, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth Government, Canberra, 2009, pp. 165–6.

397. J Gillard (Minister for Employment and Workplace Relations), *Establishment of Fair Work Australia delivers efficiencies*, media release, 12 May 2009.

398. *Budget measures: budget paper no. 2: 2009–10*, pp. 165–6.

(allowing it to approve Individual Transitional Employment Agreements until the end of 2009). The Workplace Authority and Australian Industrial Relations Commission/Registry are therefore budgeted to operate for part of 2009–10. The table shows only a marginal aggregate increase in 2009–10 for the key agencies associated with the FW initiative.

<b>Workplace Relations Agencies</b>	<b>2008–09<sup>399</sup></b> <b>\$,000</b>	<b>2009–10<sup>400</sup></b> <b>\$,000</b>	<b>2009–10</b> <b>±/ASL<sup>401</sup></b>
Australian Industrial Relations Commission and Australian Industrial Registry	59 712	10 886	–232/0
Australian Fair Pay Commission	7 479	—	–34/0
Australian Building and Construction Commission	32 824	33 456	+15/155
Workplace Authority	116 560	20 364	–658/1
Workplace Ombudsman/OFWO <sup>402</sup>	71 076	154 741	+466/900
Fair Work Australia	—	73 516	+360/360
<b>Total: FW initiative Agencies</b>	<b>287 651</b>	<b>292 963</b>	<b>–83/1416</b>
Comcare <sup>403</sup>	368 880	328 285	+16/551
Seafarers' Safety Rehabilitation Authority	137	132	na

The General Employee Entitlements and Redundancy Scheme (GEERS) received additional funding in the economic stimulus legislation increasing the 2008–09 allocation from \$82 million by \$70 million, primarily to meet the employee entitlement costs of the ABC Learning insolvency.<sup>404</sup> GEERS funding for 2009–10 is set at \$106 million.

399. 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. 5.

400. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.5: Education, Employment and Workplace Relations portfolio*, Commonwealth of Australia, Canberra, 2009, pp. 6–7.

401. ASL: Average Staffing Level. Change calculated from previous year: 'Statement 6: expenses and net capital investment', *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 6–67.

402. The Workplace Ombudsman is to be replaced by the Office of the Fair Work Ombudsman.

403. Care should be taken in regard to the total resources made available to Comcare as the bulk of its allocation is derived from premiums paid by Commonwealth agencies for workers compensation cover for their employees.

404. Announced in the 'National Building and Jobs Plan' and passed via *Appropriation Act (No. 5) 2009*. J Gillard, *Government seeks additional \$70 million for redundant workers*, media release, 15 March 2009.



## Social policy overview

Dr Matthew Thomas and Dr Luke Buckmaster  
Social Policy Section

The task of managing Federal Government finances into the future is a difficult one, and one that has been further exacerbated by the global financial crisis, recession and increasing rates of unemployment. The Rudd Government is confronted with the need to keep spending under control and to increase the proportion of the population taking part in the labour market if it is to sustain economic growth. Without on-going high rates of economic growth, the nation will struggle not only to support an ageing population but also, according to economist Professor Bob Gregory of the Australian National University, a substantial increase in the number of people relying on income support. According to Gregory, based on his analysis of changes in the welfare population following the 1990–92 recession, the expected rise in unemployment is likely to be followed by increases in the number of people on disability and carer payments, and/or on sole-parent pensions.<sup>405</sup>

Early in its term, the Rudd Government signalled its intention to tackle the rising cost of social security benefits by, in part, winding back what has come to be known as ‘middle class welfare’.<sup>406</sup> In its first Budget, the Government introduced a new means test on the baby bonus, and limited access to Family Tax Benefit Part B to those earning less than \$150 000. In the lead-up to the 2009–10 Budget, the Government indicated that it would be introducing further measures to wind back middle class welfare.

Much of the commentary immediately following the Budget observed that the Government’s ‘attack’ on middle class welfare was not nearly as tough as was expected.<sup>407</sup> It is possible that this is at least partly due to the Government’s balancing the need to institute long-term cuts in welfare expenditure with the need to avoid measures that could further reduce economic demand. It may also be the case that the Budget signals ‘round one’ in the reforms to middle class welfare, with ‘round two’ to follow. It is anticipated that the Henry Review of the taxation system will examine instances in which tax benefit payments that advantage people on higher incomes could be reduced.

In the making of the 2009–10 Budget, the Government was also faced with balancing a number of other (potentially irreconcilable) objectives, including:

- making significant increases in expenditure, either as part of efforts to stimulate the economy or the implementation of policy commitments

---

405. Quoted in D Uren, ‘One in four workers to go on welfare’, *The Australian*, 31 March 2009, p. 4.

406. ‘Middle class welfare’ may be broadly described as welfare that may be accessed by people other than the poor. For an analysis of key issues in the debates about middle class welfare, see L Buckmaster, *Money for nothing? Australia in the global middle class welfare debate*, Research paper, no. 31, 2008–09, Parliamentary Library, Canberra, 2009, viewed 21 May 2009, <http://www.aph.gov.au/library/pubs/rp/2008-09/09rp31.pdf>

407. See for example, M Brissenden, ‘Budget fails to match tough talk’, *ABC 7.30 Report*, 13 May 2009, viewed 22 May 2009, <http://www.abc.net.au/news/stories/2009/05/12/2568529.htm>

- making significant reductions in some areas of expenditure in order to offset increases in other areas and
- embarking on significant (and potentially very expensive) policy reform in a range of areas, some of which were identified by the Government when it was in opposition.

The difficult nature of this challenge was nowhere more evident than in the area of social policy where, for example, the Government had the task of simultaneously increasing the pension, whilst reducing funding through a variety of mechanisms, such as eligibility changes, means testing and caps on welfare expenditure. At the same time, the Government was faced with implementing commitments to reform key social policy areas such as higher education, welfare payments, paid parental leave and health—that is, not simply spending more or less but changing overall policy frameworks.

Social policy contributions to this Budget Review examine the policy context for a range of measures in social policy-related portfolios in the budget. They seek to provide a clearer understanding of the background, rationale and policy direction for these measures and therefore a better understanding of the budget from a social policy point of view. In addition to the question of whether funding commitments are adequate, the types of issues examined include *how* funding will be spent, whether particular measures are consistent with previous approaches, the apparent rationale for particular measures and the likely success of particular measures.

Overall, the contributions highlight the tensions described above—that is, the tensions associated with combining increased expenditure in some areas with reduced expenditure in others, whilst also undertaking significant reform. The following points are particularly noteworthy:

- as indicated above, while the Government raised expectations about significant cuts to ‘middle class welfare’, changes to entitlements based on income were relatively modest. These included means testing of the Private Health Insurance Rebate, tightened indexation of Family Tax Benefit Part A and returning the pension taper rate to 50 cents in the dollar. However, critics have suggested that this has left a range of other areas of middle class welfare relatively untouched—for example, child care tax rebate, more stringent tightening of superannuation concessions and pension asset testing
- the Government has commenced significant structural reform through investments and/or administrative changes in some areas such as higher education, pensions and paid parental leave but not others such as health (where reform will probably have to wait until after the final report of the National Health and Hospitals Reform Commission has been released)
- a number of budget commitments continue changes in policy direction that have been ongoing since the Rudd Government came to office—for example, changes in areas such as immigration policy (abolition of the 45 day rule) and Indigenous affairs (funding aimed at forging ‘a new relationship with Indigenous Australians’) and the health workforce (making greater use of nurses through enabling nurse practitioners and midwives to access Medicare Benefits and the Pharmaceutical Benefits Scheme)

- there has been a continuation of the tendency for greater generosity towards some income support recipients than to others—for example, pensioners have gained an increase in their benefits, while similar increases in income support rates have not been passed on to sole parents, students or the unemployed and
- commencement of a number of measures has been deferred to a later date, such as increasing the age at which people can access the age pension and the introduction of demand-driven funding in higher education.

Generally speaking, from a social policy perspective, the 2009–10 Budget is a cautious one. Arguably, given the current economic circumstances and the complexity of the social policy environment, this is to be expected. While the Government has introduced some significant reforms, some tough decisions have yet to be made if the broad goal of shoring up economic growth and sustainability are to be realised.

Unfortunately for the Government, the 2009–10 Budget is a mid-term budget, where, arguably, opportunities for reform are typically greatest. As a result, it may be the case that the Government's strongest opportunity for major reform has been lost.

## Arts

John Gardiner-Garden  
Social Policy Section

In the area of arts policy, the 2009–10 Budget offered few surprises.<sup>408</sup>

Commitments to collecting institutions such as the National Library, National Film and Sound Archive, National Archives and National Museum of Australia were unexceptional and despite some discussion over the last year, these agencies remain subject to the 1.25 per cent efficiency dividend. The National Museum was given the go-ahead to explore ways to increase exhibition and storage space but no additional funding was committed. The National Library was granted \$805 000 for 2009–2010 to lead a project to find ways to digitise some of the National Library, National Film and Sound Archive and National Archive collections and collect digital material such as web-pages. Screen Australia had its 2009 Budget allocation reduced in the anticipation that the producer tax offset will increase other sources of revenue to the industry.

In two specific areas the Budget delivered on Labor Party commitments made prior to the 2007 election:

- in the area of Indigenous art, the Budget committed \$9.3 million through the National Arts and Craft Industry Support Program to expand support for the operations of art centres, ensuring appropriate staffing, training and salaries for art centres' employees, and addressing poor recruitment and retention rates in art centres in remote areas. \$600 000

---

408. See P Garrett (Minister for the Environment, Heritage and the Arts) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Strengthening Australia's Indigenous visual arts sector*, media release, Canberra, 12 May 2009, viewed 16 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512j.html>

was committed towards funding the implementation of a long discussed Indigenous art industry code of conduct<sup>409</sup>

- in the area of supporting young and emerging artists, the Budget committed \$9.6 million over four years to an Artstart program offering graduate artists in any discipline the opportunity to apply for one-off grants to assist them in starting their business as professional artists. The Budget also committed new money for bodies which are used as stepping-stones for young artists: \$5.4 million over four years to the National Institute of Dramatic Art (NIDA), Australian Ballet School, and Australian Youth Orchestra; \$100 000 to each of the Canberra and Darwin Symphony Orchestras; and \$1 million for the Australia Council to assist small to medium arts organisations.

The Budget also committed \$4 million over four years to support the touring of cultural collections across Australia and overseas and the bringing of international exhibitions to Australia. A new Australian Government International Exhibitions Insurance Program to replace the Art Indemnity Australia program (at a saving of \$15.8 million) was also announced.

The Budget offered continued support to the Books Alive promotion of reading and Australian authors (\$8 million over four years) and to the Melba Foundation's program of recordings of Australia's finest classical musicians (\$2.3 million over three years).

## Digital radio and television

Dr Rhonda Jolly  
Social Policy Section

Switchover from analogue to digital television is due to commence in regional Australia in the first half of 2010 in Victoria's Sunraysia region. It is expected that switchover will be complete by the end of 2013. The Budget has provided \$138.7 million over three years to assist regions in South Australia, Victoria and Queensland to undertake switchover.

Funding of \$119.7 million over three years has been provided to the Department of Broadband, Communications and the Digital Economy to deliver a digital television information and communications campaign. The Department will also be funded to work with industry to increase digital take up.

In addition, this funding will initiate a technical assistance program for eligible households in Victoria, South Australia and Queensland. There is no indication in the budget papers as to what the eligibility criteria for this program will be. However, the Government has previously announced that an assistance program for the Sunraysia area would be available to certain households. These would be where at least one resident is a recipient of the full aged or disability support pension, a carer's payment or equivalent payment from the Department of

---

409. P Garrett (Minister for the Environment, Heritage and the Arts), *\$62.3 million for arts and culture*, media release, Canberra, 12 May 2009, viewed 16 May 2009, <http://www.environment.gov.au/minister/garrett/2009/budmr20090512d.html>

Veterans' Affairs.<sup>410</sup> Assistance is likely to involve similar measures as have been introduced overseas, that is, giving pensioners set top boxes to convert their analogue television reception to digital and providing upgrades to cables or antennas.<sup>411</sup>

This type of program has proven to have its pitfalls overseas, not least of which has been the cost. A similar program in the United Kingdom for example has been allocated funding of £603 million.<sup>412</sup> An allocation of \$15.1 million has been provided over three years for Centrelink to work with the Department of Broadband, Communications and the Digital Economy in delivering assistance under this measure.

One consistent loser in recent budgets, especially in relation to the digital switchover saga has been the community broadcasting sector. This Budget provides a mixture of good and bad news for the sector.

Community broadcasters will welcome the funding of \$2.5 million over four years that has been provided to continue the community broadcasting National Training Program. This program involves the delivery of accredited management and broadcasting skills training to community broadcasters, particularly those in rural and remote areas. It also delivers special training in radio for the print handicapped and assistance for Indigenous and ethnic broadcasters.

The Government's commitment to infrastructure funding over four years of \$5.3 million, which will assist in the sector's transition to digital radio broadcasting, has also been seen as a positive development. The Community Broadcasting Association of Australia welcomed the assistance noting that community radio stations will now be able to confidently 'extend their unique and diverse services to their various communities'.<sup>413</sup>

The bad news for community broadcasters is that community television has received no assistance for it to convert to digital transmission. In 2001 the commercial free-to-air broadcasters were given access to spectrum at no cost to assist them with simulcasting arrangements during the switchover to digital, but community television was not included in the deal. One community broadcaster argues also that there has been significant funding already provided to the public broadcasters and that what is required for the community

---

410. S Conroy (Minister for Broadband, Communications and the Digital Economy), *Package to drive digital television transmission*, media release, 29 January 2009, viewed 15 May 2009, [http://www.minister.dbcde.gov.au/media/media\\_releases/2009/003](http://www.minister.dbcde.gov.au/media/media_releases/2009/003)

411. P Hudson, 'ABC the big winner as SBS gets the flick', *smh.com.au*, 13 May 2009, viewed 15 May 2009, <http://business.smh.com.au/business/federal-budget/abc-the-big-winner-as-sbs-gets-the-flick-20090512-b201.html>

412. (United Kingdom) Department for Culture, Media and Sport, *The Digital Switchover Scheme*, April 2008, viewed 18 May 2009, [http://www.culture.gov.uk/images/publications/The\\_Digital\\_Switchover\\_Help\\_Scheme.pdf](http://www.culture.gov.uk/images/publications/The_Digital_Switchover_Help_Scheme.pdf)

413. Community Broadcasting Association of Australia (CBAA), *Community radio set to go digital!*, media release, CBAA, 13 May 2009.

broadcasters to convert will be ‘peanuts’ in comparison.<sup>414</sup> All the sector is asking for is ‘a level playing field’.<sup>415</sup>

In March 2009, in conjunction with an announcement that community television stations would be included in the Freeview digital electronic program guide, the Government gave assurances that the sector would not be left behind in the migration to digital.<sup>416</sup> Prior to the Budget, the Opposition argued that there was ‘no valid excuse’ not to address the issues of support for community television and expectations in the sector that funding would eventuate were high.<sup>417</sup>

Following the budget disappointment for the sector, one community broadcaster argued:

This government is willing to pour money into schemes to try to convince the viewing public to convert to digital television, whilst overlooking the main driver of digital conversion: content. C31 Melbourne [Melbourne’s community television station] believes that making its wide array of unique locally-produced content available on digital would be an excellent stimulus to digital take-up.<sup>418</sup>

The sector has called for urgent meetings with the Government to discuss the long term future of community broadcasting.

## Public broadcasting

Dr Rhonda Jolly  
Social Policy Section

This Budget delivers \$2.1 billion in base funding for the Australian Broadcasting Commission (ABC) over three years from 2009–10 and \$362.6 million for the same period for the Special Broadcasting Service Corporation (SBS). This funding does not represent an increase in real base funding from that provided to both broadcasters under the previous Government.<sup>419</sup>

---

414. G Dee, ‘C31: Community television shafted by the government in the digital era’, *Crikey newsletter*, 13 May 2009.

415. G Dee.

416. S Jackson, ‘Community stations to get digital guide’, *The Australian*, 13 April 2009, viewed 18 May 2008, <http://www.theaustralian.news.com.au/business/story/0,28124,25324582-7582,00.html>

417. N Minchin, *Budget must end uncertainty for community television*, Liberal Party of Australia website, 10th May 2009, viewed 18 May 2009, <http://www.liberal.org.au/news.php?Id=3088>.

418. G. Dee.

419. Funding for the Australian Broadcasting Corporation (including only Commonwealth operating revenue) in 2006–07 was \$683.8 million and for the Special Broadcasting Corporation (including only Commonwealth operating revenue) in 2006–07 was \$182 million. See also R Jolly, *Funding of the Australian Broadcasting Corporation*, E-brief, November 2006, Parliamentary Library, Canberra, 2006, viewed 20 May 2009,

This Budget has, however, provided funding for the public broadcasters which is in addition to the base funding allocation. The ABC is to receive a further \$150 million over three years from 2009–10. The Government intends this funding to assist the ABC in establishing a digital children's channel. The funding is also to enable the ABC to increase the level of Australian drama content.<sup>420</sup> The ABC will also receive \$15.3 million over three years under the Rural and Regional National Broadband Network Initiative to deliver more than 50 enhanced ABC broadband hubs in regional Australia. The Government considers the latter funding will 'help establish community websites and portals and create "virtual town squares" for communities to share experiences'.<sup>421</sup>

The supplementary funding for these initiatives, according to the ABC, represents the biggest increase for the ABC since its incorporation in 1983, and an excellent outcome, given the tough economic times.<sup>422</sup> The funding was not unexpected, however, as the Government indicated in its response to the 2020 Summit that it was committed to a dedicated children's television channel and that it was open to the consideration of ideas about increasing the national broadcaster's capacity to deliver distinctive Australian content into the future.<sup>423</sup>

The multicultural broadcaster, SBS, will receive an additional \$20 million over three years. The Government intends that this will increase local content by an additional 50 hours per annum from 2011–12. But this funding is less than the \$70 million the multicultural broadcaster had sought. In response to the Budget, SBS Managing Director Shaun Brown considered that after 'years of financial neglect' the extra funding was most likely not enough to allow the broadcaster 'to continue to deliver the services Australian audiences expect and deserve'.<sup>424</sup>

Academic Jock Given considers that this Budget is a 'clear sign' that there is a new Government dealing with the public broadcasters. He argues that after a number of

---

<http://www.aph.gov.au/library/intguide/SP/fundingabc.htm> and R Jolly, *Special Broadcasting Service (SBS): operations and funding*, E-brief, March 2007, Parliamentary Library, Canberra, 2007, viewed 20 May 2009, <http://www.aph.gov.au/library/intguide/SP/SBS.htm>

420. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.3: Broadband, Communications and the Digital Economy portfolio*, Commonwealth of Australia, Canberra, 2008, p. 74.
421. S Conroy (Minister for Broadband, Communications and the Digital Economy), quoted in *ABC gets record funding boost*, ABCNews website, 13 May 2009, viewed 15 May 2009, <http://www.abc.net.au/news/stories/2009/05/12/2568513.htm>
422. Australian Broadcasting Corporation (ABC), *ABC funding boost 2009–12*, media release, ABC, 12 May 2009, viewed 15 May 2009, <http://www.abc.net.au/corp/pubs/media/s2568522.htm>
423. Australian Government, *Responding to the Australia 2020 Summit*, Chapter 8 'Towards a creative Australia', Department of Prime Minister and Cabinet, Canberra, 2009, viewed 15 May 2009, [http://www.australia2020.gov.au/docs/government\\_response/2020\\_summit\\_response\\_8\\_creative.pdf](http://www.australia2020.gov.au/docs/government_response/2020_summit_response_8_creative.pdf)
424. D Knox, *SBS: 'We will significantly scale back' future plans*, TVtonight website, 12 May 2009, viewed 15 May 2009, <http://www.tvtonight.com.au/2009/05/sbs-we-will-significantly-scale-back-future-plans.html>

beleaguered years in the funding wilderness, their moment to receive more funding has come.<sup>425</sup> This view may be a little optimistic but at the same time, it may be, as Given notes, not a bad time to be a media organisation that receives most of its money from the Government.<sup>426</sup>

---

425. J Given, 'The moment has come for Australia's beleaguered public broadcasters', Special Budget edition, *Crikey newsletter*, 12 May 2009.

426. J Given.



## Education overview

Marilyn Harrington  
Social Policy Section

### Introduction

For school education and vocational education and training (VET), the Budget mostly reflects the new federal financial relations framework previously set in place through the Intergovernmental Agreement on Federal Financial Relations. Also, for school education, additional infrastructure funding was provided by the Building the Education Revolution (BER) initiatives appropriated under the *Appropriation (Nation Building and Jobs) Act (No 2) 2008–2009*. It is higher education, the third tranche of the Government's promised 'education revolution', which is the education focus of the 2009–10 Budget. The higher education budget measures signal major structural reform for the sector, by encapsulating the Government's response to the Review of Australian Higher Education (the Bradley Review) and introducing new indexation arrangements.

Total education expenses are estimated to increase in real terms by 60.9 per cent in 2009–10. This increase is mostly accounted for by the BER initiatives, which are short-term, the higher education budget measures and the transfer of expenditure from the social security portfolio area to education as a result of reforms of student income support payments.<sup>427</sup> The latter will mean that, in future, budget figures for total education outlay over time will not be directly comparable. It is also worth noting that from 2009, as a result of the new federal financial relations framework, the payment arrangements for the government components of child care, school and VET programs are now managed by Treasury. Hence these expenses now appear in the Treasury Portfolio Budget Statements rather than the Education, Employment and Workplace Relations Portfolio Budget Statements.<sup>428</sup>

---

427. See the 'Welfare payments—student income support' section of this *Budget review* for information on these reforms.

428. For further information about these arrangements, see Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.5: Education, Employment and Workplace Relations portfolio*, Commonwealth of Australia, 2009, pp. 16–17, viewed 20 May 2009, <http://www.deewr.gov.au/Department/Publications/Documents/DepartmentofEducationEmploymentandWorkplaceRelationsAgencyOverview.pdf>

## Higher education

Dr Coral Dow  
Social Policy Section

In other years the \$5.7 billion commitment to higher education, innovation and research would be a Budget centrepiece but in 2009-10 it is overshadowed by larger commitments in other portfolios and by the debate on appropriate debt levels, budget deficits and the economic outlook. It should be noted that less than half of the additional funding (\$2.2 billion) will provide additional recurrent funding for university teaching, learning and research. The remainder will fund education and research infrastructure (including infrastructure in the vocational education and training sector) through funding from the Education Investment Fund (EIF) (\$2.1 billion) and the Super Science measure in the Innovation, Industry, Science and Research portfolio (\$1.1 billion).<sup>429</sup>

This brief focuses on the teaching and learning components of the budget measures as university research functions have moved to the Innovation, Industry, Science and Research portfolio. Significant changes to student income support are addressed in the Welfare payments section of this Budget review.

In contrast to some of the larger budget commitments, the higher education budget is accompanied by significant structural change and policy initiatives which implement the government's response to the recommendations in the Review of Australian Higher Education chaired by Professor Denise Bradley.<sup>430</sup> The policy reform is based on a number of key principles including:

- the importance of quality university education to the community and the individual
- broadening access to higher education (especially groups traditionally under represented), and
- basing access on merit not the ability to pay.

The Government has adopted two key targets recommended by the Bradley review. First, a national target of at least 40 per cent of 25 to 34-year-olds having attained a qualification at bachelor level or above by 2025 (Bradley recommended achieving the target by 2020). Second, that by 2020, 20 per cent of university enrolments at undergraduate level are for

---

429. Australian Government, 'Summary of measures', *Universities, innovation and education revolution*, Commonwealth of Australia, Canberra, May 2009, p. 19

430. Review of Australian Higher Education, *Final report*, (Professor Bradley, Chairperson), Department of Education, Employment and Workplace Relations, Canberra, December 2008, viewed 14 May 2009, <http://www.deewr.gov.au/HigherEducation/Review/Pages/ReviewofAustralianHigherEducationReport.aspx> For a list of the 46 recommendations made by the Bradley review and the government's response see: *Transforming Australia's higher education system*, Canberra, 2009, Appendix 3, Bradley recommendations table, pp 57–65, viewed 14 May 2009, [http://www.deewr.gov.au/HigherEducation/Documents/PDF/Additional%20Report%20-%20Transforming%20Aus%20Higher%20ED\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Additional%20Report%20-%20Transforming%20Aus%20Higher%20ED_webaw.pdf)

people from low socio-economic status (SES) backgrounds. The budget measures are targeted at realising these reforms through increased funding to student places, student income support, scholarships, institutional performance targets, and a new quality and regulatory agency.

### **Demand-driven funding**

The Government has accepted the Bradley review's recommendation to introduce an uncapped student demand-driven system for the funding of university undergraduate places. This is a major policy change to the allocation and funding of student places which to date have been funded through agreements with universities on a set or capped number of places. Over enrolments have been penalised and universities have resorted to uncapped overseas and domestic full fee places to meet demand and provide revenue.<sup>431</sup>

A student-centred (or student demand) system where funding follows the student is widely referred to as a 'voucher' system. All eligible students would receive an entitlement to a Commonwealth subsidised place and universities would decide their own entry standards, enrolment targets and discipline mixes. Proponents argue there are significant advantages to individuals and institutions. A demand driven system is predicted to increase participation because students will have a better chance of gaining their first-preference course and thus a greater incentive to enrol. In recent years unmet demand has been falling but in 2008, 61 per cent of applicants did not receive a first preference offer. Academic Andrew Norton in his submission to the Bradley review argued that this has costs for both individuals and the community: 'About a quarter of students who do receive an offer of a university place reject it. This is an under-studied group, but presumably disappointment at the offer actually received is a factor. The academic and career potential of these applicants is lost or delayed'.<sup>432</sup>

Proponents claim the deregulation of student places will give universities greater flexibility, incentives to expand and produce a more competitive system.<sup>433</sup> The Bradley review argued:

A demand-driven system could see a shift of students and funding toward those institutions that wish to grow and that can attract increased numbers of students. This is precisely what is intended: to allow funding to shift between institutions in response to student demand and to create a system in which each institution's funding is determined dynamically by the

---

431. In 2008 the Government announced the phasing out of domestic full fee places at public universities from 2009. Overseas enrolments are not capped. In 2007 15 per cent of total university revenue was from fee paying overseas students.

432. A Norton, Submission no. 91, Review of Australian Higher Education, p. 5, viewed 18 May 2009, <http://www.deewr.gov.au/HigherEducation/Review/Documents/Submissions2008/091ANorton.pdf>

433. A Trounson and B Lane, 'Vouchers can boost numbers', *The Australian*, 17 December, 2008, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FM9ES6%22>

quality of its performance rather than by an historically-based system of centrally-planned student load allocations.<sup>434</sup>

A significant issue with deregulation is the lack of protection to low demand universities leading to a furthering of the divide between elite universities and others, sometimes referred to as ‘third tier’ universities. The impact may be particularly hard on regional universities, some of which are now struggling to fill places. Australian Catholic University vice-chancellor Professor Greg Craven said vouchers would encourage predatory recruitment: ‘Every university will eye off its neighbour to figure out what it might want. There are a lot of quite vulnerable universities that it wouldn’t take much to knock off balance—I’m talking particularly about the regionals’.<sup>435</sup> Professor Bradley is reported as acknowledging this possibility for both regional and ‘third tier’ providers:

We know some of these recommendations will be quite difficult for newer institutions. But it is 20 years since they were formed. Either they are viable in a more competitive arena, or they’re not. There will be winners and losers if a deregulated system is put in place. But why would you force students to go to places that are losing. We need to shift our mind away from protecting institutions to protecting students.<sup>436</sup>

However Melbourne University academic, Simon Marginson, predicts elite universities will not take places from those universities currently in less demand. Instead he predicts elite universities will look to their large overseas enrolments to maintain funding, and that ‘less renowned universities would take up most of the increase in domestic student load’.<sup>437</sup>

A further criticism is that concentration on high demand and lucrative courses may result in a more ‘homogenised’ system producing a mismatch between what students demand and what the economy needs. This could be further exacerbated by universities concentrating on high demand/low cost courses, for example law and commerce at the expense of high cost courses such as engineering and science.

Other issues of a student demand-driven system involve the appropriate way to measure a student’s ability to undertake and complete a degree and the possibility that universities may lower standards and entry scores to attract students and meet performance targets.

The student-centred system is estimated to cost \$490.6 million over the next four years to fund a target of an additional 50 000 places by 2013.<sup>438</sup> However the new system will not be introduced until 2012. As an interim measure universities will be permitted to over enrol by ten per cent from 2010 with payments for over enrolments made in the relevant year and

---

434. Review of Australian Higher Education, *Final report*, p. 156.

435. J Ross, ‘It’s not just a matter of entitlement’, *Campus review*, 22 December 2008, viewed 18 May 2009, <http://www.campusreview.com.au/pages/section/article.php?s=News&idArticle=6159>

436. J Ross,

437. A Trounson and B Lane, ‘Euphoria recedes after reality check’, *The Australian*, 20 May 2009.

438. Australian Government, *Budget measures: budget paper no.2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 144; J Gillard (Minister for Education), *Student demand to drive university funding*, media release, Canberra, 12 May 2009.

adjustments for under enrolments made in the following year. The Government estimates over enrolments will cost \$36.4 million in 2010 and \$74.3 million in 2011. The next two years will provide evidence of the likely effects of the student demand system. A major factor in how the system will operate is the Government's reluctance to allow fee deregulation. Combined with no increase in funding per student place and historically imbalanced funding per discipline, universities will continue to rely on funding from overseas student fees and may focus on those courses which are less expensive to provide.<sup>439</sup>

Non funded Government commitments include two reviews: a review of the regional loading component of the Commonwealth Grants Scheme which provides extra funding towards the added costs of regional provision and a review of base funding for teaching and learning. Although the Government did not accept the Bradley review recommendation to increase the base funding for teaching and learning by 10 per cent from 2010, it has promised an independent review of base funding and discipline clusters costs which will report in 2011.<sup>440</sup>

Some of the impacts of the 'voucher' system will be addressed through the Government's new 'mission-based compacts'. Little detail is available on the compacts other than they will be in two parts: one for teaching and one research and they will define 'targets for improvement and reform which will trigger reward payments'.<sup>441</sup> Targets will relate to quality, attainment and participation by students from under-represented groups. Consultations on the compacts will take place in 2009 and will include the issue of appropriate indicators to measure an institution's performance.

The Government has funded a number of measures to assist in the implementation of the new system. These measures include \$402 million in structural adjustment funding, \$206.4 million for institutional performance targets, and \$436.9 million to support increased participation for low socio-economic status students and \$57 million for a new regulatory and quality assurance body: the Tertiary Education Quality and Standards Agency (TEQSA).

### Structural Adjustment Fund

Sixty-four million dollars in the existing Diversity and Structural Adjustment Fund will be redirected to establish the Structural Adjustment Fund at a cost of \$202.1 million. A further \$200 million will be added for capital components and will be funded by Round 3 (2009–10) allocations from the EIF. Funding will be available to institutions, both regional and metropolitan, to 'develop diverse missions', 'consider their strategic direction' and focus on 'achieving long-term sustainability'.<sup>442</sup> No further details are provided, but the Government is encouraging collaborative efforts, including those between universities and vocational education and training providers, and through possible mergers. Two million dollars is

---

439. For an analysis of per student funding rates see: A Norton, 'The gap between us', *The Australian*, 20 May 2009.

440. Australian Government, *Student centred funding system*, Canberra, 2009, viewed 20 May 2009, [http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-3\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-3_webaw.pdf)

441. *Transforming Australia's higher education system*, p. 47.

442. *Transforming Australia's higher education system*, p. 40.

allocated to a feasibility study for a possible merger of regional providers, Charles Sturt University and Southern Cross University.

### Performance funding

Three hundred and twenty-three million dollars will be redirected from the existing Learning and Teaching Performance Fund to fund new performance targets agreed to in compacts. Performance funding of \$206.4 million over two years will commence with the new system in 2012. In 2011 transitional payments will be made for agreeing to the first year of institutional targets but will be paid in 2012. The remaining funds from the existing Learning and Teaching Performance Fund will be directed to conditional funding under the revised indexation scheme (discussed below). The Government states that unlike the previous Teaching and Performance Fund, the new performance funding ‘will not be distributed on the basis of relative performance to allow all institutions to be rewarded for achieving improvements’.<sup>443</sup> TEQSA will assess if targets have been achieved.

### Equity funding

Four hundred and thirty-seven million dollars over four years (calculated as a percentage of teaching and learning grants) will reward universities that attract more students from low SES backgrounds, that assist those students once enrolled and to fund partnerships with schools and VET providers that will encourage retention of low SES students in pre-tertiary education. This is an important measure in the Government’s aim to boost participation of low SES students to 20 per cent of enrolments by 2020.<sup>444</sup> Academic Trevor Gale welcomes the new financial loading for achieving equity targets but suggests that there should also be direct penalties. He fears universities in high demand may meet their equity targets by:

Expanding their overall student intake and in the process effectively shift the “equity load” from their neighbouring institutions. Such a strategy would potentially enable them to meet their institutional equity targets, at least in the short term, but it is unlikely to do much for the sector’s target as a whole. And it will place affected neighbouring institutions in the position of having to attract and enrol other potentially less-prepared students in a context where the current demand for higher education is not that much greater than the current supply. In effect, the hard work of encouraging Australians currently<sup>445</sup> uninterested in attending university will be left to these less well-positioned institutions.

### New indexation arrangements

A major concern of the higher education sector has been the indexation formula used for teaching and research grants and student payments. The present formula was introduced in 1997 and, despite a review in 2005, has remained unchanged. Universities have lobbied for a new index in which the salary component of the index is changed from the present safety net

---

443. *Transforming Australia’s higher education system*, p. 33.

444. Since 1996 the rate has remained unchanged on 15 per cent.

445. T Gale, ‘Walking the talk’, *Campus review*, 18 May 2009, viewed 19 May 2009, <http://www.campusreview.com.au/pages/section/article.php?s=Comment&idArticle=7296>

adjustment to the Labour Force Index (Education), previously known as the Wage Cost Index (Education).<sup>446</sup>

In its submission to the Bradley review Universities Australia argued that ‘since 1989 the gap between actual and CPI-adjusted base funding has grown to around \$1.6 billion and for wage-cost adjusted funding around \$3.1 billion’.<sup>447</sup> Another estimate suggested that the wage component of the indexation formula had cost almost \$3 billion in Commonwealth funding between 1997 and 2003.<sup>448</sup>

The Bradley review recommended that the ‘Government maintain the future value of increased base funding for higher education by an indexation formula that is based on 90 per cent of the Labour Price Index (Professional) plus the Consumer Price Index with weightings of 75 per cent and 25 per cent respectively’ and estimated this would cost \$1.14 billion over the first four years.<sup>449</sup> The Government has promised the Safety Net Adjustment (SNA) index will be replaced with a wage price index discounted by 10 per cent that is comparable to the Labour Price Index (Professional). However the Government has committed less than Bradley estimated—\$578 million over four years—to fund the revised indexation, largely because the new indexation will be implemented from 2012.

## Conclusion

The budget has been widely welcomed by the higher education sector. In particular the sector has welcomed:

- the Government’s support for a majority of the Bradley review’s recommendations
- commitment to an improved indexation rate
- significant infrastructure spending from the EIF
- reform of student income support, and

---

446. See: Australian Vice-Chancellors Committee (AVCC), *Laying the foundations: AVCC submission to the Review of the Indexation of University Funding*, AVCC, Canberra, 2004, viewed 20 May 2009, <http://www.universitiesaustralia.edu.au/documents/publications/policy/submissions/IndexationSubmission.pdf>

447. Universities Australia, *Universities Australia submission to Review of Australian Higher Education*, Universities Australia, Canberra, July 2008, p. 16, viewed 21 May 2009, <http://www.universitiesaustralia.edu.au/documents/publications/policy/submissions/Bradley-Submission-July2008.pdf>

448. Group of Eight, *Position paper on the indexation of university grants*, Group of Eight, Canberra, December 2004.

449. Review of Australian Higher Education, *Final report*, pp 153–154

- the move to full funding of research (funded from the innovation, Industry, Science and Research portfolio).<sup>450</sup>

These measures will assist in improving the balance between public and private funding of the sector which since 1996 has seen a decrease in public funding and an increase in revenue from student fees.<sup>451</sup>

However concerns have been raised: some regarding funding commitments and others related to the structural reform of the sector. Criticisms centre on the Government's rejection of the 10 per cent increase in the base funding rate of student places recommended by the Bradley review, the failure to fully fund the reforms at the rates recommended by the review—some estimate that the funding commitment is as low as 30 per cent of the figure recommended in the review—and the delayed start to increased funding until 2012. As Simon Marginson describes it the 'budget is a feast of deferred gratification'.<sup>452</sup>

The budget has stimulated discussion of the policy reform issues and the ability to meet long-term targets. Demographer, Bob Birrell, claims Australia would need an additional 20 universities to meet the participation targets recommended by the review.<sup>453</sup> Professor Bradley is reported as rejecting this view and instead recommends collaboration between providers to solve infrastructure and program delivery needs.<sup>454</sup> The review recommended 'a more coherent approach to tertiary education provision' including 'flexible and collaborative delivery arrangements in partnerships with other providers such as TAFE'.<sup>455</sup> The Government has made no such commitment other than in encouraging funding for

---

450. Universities Australia, *Universities Australia applauds Federal Budget for higher education, research and innovation* media release, Canberra, 12 May 2009, viewed 20 May 2009, [http://www.universitiesaustralia.edu.au/documents/news/media\\_releases/2009/uniaus\\_media\\_05\\_09.pdf](http://www.universitiesaustralia.edu.au/documents/news/media_releases/2009/uniaus_media_05_09.pdf) Group of Eight, *Visionary road taken to university reform*, media release, Canberra, 12 May 2009, viewed 20 May 2009, [http://www.go8.edu.au/index.php?option=com\\_content&task=view&id=235&Itemid=180](http://www.go8.edu.au/index.php?option=com_content&task=view&id=235&Itemid=180)

451. See: 'University revenue and expenses by main source' Universities Australia, Funding and expenditure website: <http://www.universitiesaustralia.edu.au/content.asp?page=/publications/stats/fexp.htm>

452. S Marginson, 'A touch of the blues', *The Australian*, 20 May 2009, viewed 20 May 2009 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F80MT6%22>; see also: A Trounson and B Lane, 'Euphoria recedes after reality check', *The Australian*, 20 May 2009, viewed 20 May 2009, [http://parlinfo.parlInfo/download/media/pressclp/8ZLT6/upload\\_binary/8zlt60.pdf;fileType=application/pdf#search=%22australian%22](http://parlinfo.parlInfo/download/media/pressclp/8ZLT6/upload_binary/8zlt60.pdf;fileType=application/pdf#search=%22australian%22); A Norton, 'The gap between us', *The Australian*, 20 May 2009, viewed 20 May 2009 <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FYZLT6%22>; J Ross, 'The Pollyanna principle', *Campus review*, 18 May 2009; A Norton, 'A 5/10 budget for undergraduate teaching', Andrew Norton website, viewed 20 May 2009, <http://andrewnorton.info/2009/05/a-5-10-budget-for-undergraduate-teaching/>

453. B Birrell and D Edwards, 'The Bradley Review and access to higher education in Australia', *Australian universities review*, vol. 51, no. 1, 2009, pp 4–13.

454. A Trounson, 'Flexibility, not bricks and mortar, the key', *The Australian*, 11 March 2009.

455. Review of Australian Higher Education, *Final report*, recommendation 16, Chapter 3.7.



collaboration through the Structural Adjustment Fund. The student demand centred system will not be extended to TAFEs despite a number of them offering degree courses and a significant number providing degrees as third party providers to universities.<sup>456</sup>

Although there has been little support for Bob Birrell's claim for new universities there is an acknowledged need for infrastructure expansion. To date the EIF has been viewed as the source for funds but the Budget has thrown some doubt on the EIF's ability to fund the expected demands. The 2008 budget promise to transfer \$2.5 billion to the EIF will not occur if the proposals in the Nation-building Funds Amendment Bill 2009 are legislated. The Nation-building Funds Amendment Bill seeks to prevent the \$2.5 billion transfer and proposes using it instead to help fund the Clean Energy Initiative announced in the 2009–10 Budget.<sup>457</sup>

At 31 March 2009, the amount in the EIF was \$6.5 billion. Four billion dollars of EIF funding has been committed in the 2009–10 budget and in the nation-building package announced by the Prime Minister on 12 December 2008. The EIF balance will be \$2.4 billion plus investment earnings.<sup>458</sup> Dr Glenn Withers of Universities Australia criticised the decision to divert funds from the EIF to the Clean Energy Initiative saying the sector would need extra infrastructure funds to meet the expansion in student numbers. He is reported as saying that little of the money for the Clean Energy Initiative would go towards universities, vocational education and training or research institutes.<sup>459</sup>

## Schools

Marilyn Harrington  
Social Policy Section

The 2009–10 Budget cements the new Commonwealth financial and policy framework for school education, as forged through the Intergovernmental Agreement on Federal Financial Relations (including the National Education Agreement (NEA) and the National Partnerships for schools), the Building the Education Revolution (BER) initiatives and, for non-government schools, the *Schools Assistance Act 2008*.

---

456. For example: In 2007, 286 Charles Sturt University students were enrolled in nursing at Holmesglen TAFE. See also: J Ross, 'No place for TAFE in student-centred higher ed?', *Campus review*, 18 May 2009.

457. A Albanese, 'Second reading speech: Nation-building Funds Amendment Bill 2009', House of Representatives, *Debates* (Proof), 12 May 2009, viewed 22 May 2009, and Nation-building Funds Amendment Bill 2009, *Explanatory Memorandum*, p. 2, viewed 21 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4115\\_ems\\_95f1d64f-f2d5-494d-951a-86552f1dd6df/upload\\_pdf/329304.pdf;fileType=application%2Fpdf#search=%22nation-building%20funds%20amendment%20bill%202009%22](http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4115_ems_95f1d64f-f2d5-494d-951a-86552f1dd6df/upload_pdf/329304.pdf;fileType=application%2Fpdf#search=%22nation-building%20funds%20amendment%20bill%202009%22)

458. Of the \$4.1 billion, the 2009–10 Budget proposes spending of \$2.985 billion over the four years 2009–10 to 2012–13, see *Transforming Australia's Higher education system*, p. 50.

459. A Symonds, 'Education fund faces shortfall', *Australian financial review*, 20 May 2009, p. 10.

As a result of new indexation arrangements and increased funding for government primary schools under the NEA, the National Partnerships and the BER initiatives, in 2009–10, Commonwealth funding for government schools is set to exceed that for non-government schools, with government schools receiving 57.7 per cent of Commonwealth funding. However, by 2011–12, the balance of funding between the two school sectors is projected to return to its usual pattern, with non-government schools receiving the majority of Commonwealth funding once short-term initiatives such as the BER expire.<sup>460</sup> One mitigating factor may be the promised review of the socio-economic status (SES) funding system for non-government schools.<sup>461</sup>

It is difficult to reconcile the school education estimates in the budget papers, given these changes. The school education estimated expenses offered in Table 2.51 of Budget Paper No. 3 do not readily tally with the separate line items in Table 7 of Statement 6 in Budget Paper No. 1.<sup>462</sup> For instance, it is not clear exactly what is included in the government schools line item in Budget Paper No. 1 other than the National Specific Purpose Payment for government schools (\$3.3 billion) and the National Partnerships (including the Early Childhood Education National Partnership). It seemingly does not include the BER initiatives which are provided in a separate line item under ‘School education – specific funding’.<sup>463</sup> It also would appear that all the National Partnerships money has been attributed to the government school sector, which is correct in one sense given that all the money will be paid to state and territory governments. However, non-government schools will also have access to these funds through agreements with state and territory governments.

There are some new budget measures relating to school education. These measures include the abolition of the remnant National Projects component of the Teacher Quality Program (amounting to a saving of \$32.3 million over four years). This component has been overtaken by the Improving Teacher Quality National Partnership.<sup>464</sup> Another measure is the provision of \$50 million in 2011–12 for reward payments for states that meet Year 12 or equivalent attainment rates as agreed through the Youth Attainment and Transitions National Partnership. Through this National Partnership, the Commonwealth will contribute

---

460. Australian Government, *Budget strategy and outlook: budget paper no. 1: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 6–18, viewed 18 May 2009, [http://www.budget.gov.au/2009-10/content/bp1/html/bp1\\_bst6-02.htm](http://www.budget.gov.au/2009-10/content/bp1/html/bp1_bst6-02.htm)

461. A Patty, ‘Rudd to review school funding’, *The Sydney morning herald*, 12 February 2008, p. 2, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FTMMP6%22>

462. Australian Government, *Australia’s federal relations: budget paper no. 3: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 53, viewed 18 May 2009, [http://www.budget.gov.au/2009-10/content/bp3/html/bp3\\_payments-02.htm](http://www.budget.gov.au/2009-10/content/bp3/html/bp3_payments-02.htm); and *Budget strategy and outlook: budget paper no. 1: 2009–10*.

463. *Budget strategy and outlook: budget paper no. 1: 2009–10*, pp. 6–18–6–20.

464. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 180, viewed 18 May 2009, [http://www.budget.gov.au/2009-10/content/bp2/html/bp2\\_expense-11.htm](http://www.budget.gov.au/2009-10/content/bp2/html/bp2_expense-11.htm)

\$644 million over five years to improve young people’s education and training outcomes.<sup>465</sup> The Australian Education Union’s criticism that the Budget fails to provide adequately for this new Commonwealth-State initiative may be premature given that the details are still being finalised.<sup>466</sup>

Given the recent initiatives in school education, school sector interest groups were not expecting any further major announcements in the Budget. However, that is not to say that there are not other areas where the school sector wishes to see further investment. Chief amongst these is additional funding for students with disabilities, the subject of a lengthy lobbying effort by both the government and non-government school sectors.<sup>467</sup>

## Vocational education and training

Carol Kempner  
Social Policy Section

Vocational education and training (VET) policy has remained central to the Government’s response to the dramatic change in economic circumstances that has seen a shift from a labour market characterised by skilled labour shortages to one of rising levels of unemployment. In the light of these changing conditions the Government is realigning some of its VET programs to focus on skills maintenance through support for the unemployed, re-skilling of mature workers and the achievement of higher level qualifications that will be required for economic recovery. Some additional funding has also been provided to the VET sector through its nation-building package, the Productivity Places Program and the Education Investment Fund (EIF). In addition, by extending access to government provided income contingent loans (ICLs), the Commonwealth is increasing the opportunities to grow the number of VET places through private sources of funding.

The 2009–10 VET budget, however, held few surprises as the framework for new funding arrangements with the states and territories, including their funding levels, was put in place at the end of 2008. Measures to extend the availability of the relatively new ICLs for VET, known as VET FEE-HELP, had also been flagged in legislation currently before the Parliament.<sup>468</sup> The savings from the streamlining of Australian Apprenticeship incentive

---

465. For further information, see Council of Australian Governments (COAG), ‘Council of Australian Governments’ meeting 30 April 2009’, COAG website, viewed 18 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-04-30/index.cfm#jobs](http://www.coag.gov.au/coag_meeting_outcomes/2009-04-30/index.cfm#jobs)

466. Australian Education Union, *Federal Budget fails to deliver adequate education funding measures*, media release, 12 May 2009, viewed 18 May 2009, <http://www.aefederal.org.au/Media/MediaReleases/2009/1205.pdf>; *Budget measures: budget paper no. 2: 2009–10*, p. 177.

467. M Moscaritolo, ‘Investing in knowledge’, *Adelaide advertiser*, 12 May 2009, p. 30, viewed 18 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FITIT6%22>

468. The Higher Education Legislation Amendment (Student Services and Amenities, and Other Measures) Bill 2009 and the Higher Education Support Amendment (VET FEE-HELP and Providers) Bill 2009.

payments that will enable better targeting in response to changing economic circumstances and needs was however a new budget initiative. The following notes provide an overview of these changed arrangements and how they are presented in the Budget papers.

The Rudd Government's restructuring of federal financial arrangements under the *Intergovernmental Agreement on Federal Financial Relations* has resulted in changed arrangements for VET specific purpose payments (SPPs) to the states and territories to support them in the running of their VET systems.<sup>469</sup> These payments are now being made through what are generically known as National SPPs. The grants made under the Skills and Workforce Development SPP are governed by the new *National Agreement for Skills and Workforce Development* (the Agreement), which effectively replaces the former *2005–08 Commonwealth–State Agreement for Skilling Australia's Workforce*.<sup>470</sup> Formerly appropriated by the *Skilling Australia's Workforce Act*, these new SPPs are now provided for under the *Federal Financial Relations Act 2009*. They are consequently now accounted for under Program 1.7 in the Treasury's *Portfolio Budget Statements*. As determined by the Agreement, the Commonwealth will provide approximately \$1.3 billion in base funding for this VET SPP in 2009–10 and each of the out years.<sup>471</sup> The Rudd Government, like its predecessor, has merely continued to maintain funding for these grants in real terms.

An additional funding source for the states and territories is, however, provided by the Rudd Government's new National Partnership arrangements; also accounted for under the Treasury portfolio (Program 1.10). Under the *National Partnership Agreement on Productivity Places Program* the Commonwealth will provide approximately \$208 million to the states and territories in 2009–10.<sup>472</sup> This program, the cost of which was significantly offset by the abolition of the Coalition Government's Australian Skills Vouchers, has provided a mechanism for the Rudd Government to increase the number and determine the type of VET places in response to changing economic needs. Since the program began there have been several increases to the number of places being provided. The latest of these is the additional

---

469. See Council of Australian Governments (COAG), *Intergovernmental Agreement on Federal Financial Relations*, COAG, viewed 18 May 2009, [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/index.cfm](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/index.cfm)

470. COAG, *National Agreement for Skills and Workforce Development*, viewed 18 February 2009, [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/docs/IGA\\_FFR\\_ScheduleF\\_National\\_Skills\\_and\\_Workforce\\_Development\\_National\\_Agreement.pdf](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/IGA_FFR_ScheduleF_National_Skills_and_Workforce_Development_National_Agreement.pdf)

471. For National SPP base funding for 2009–10 and a state by state distribution of National SPP shares for the first five years see Schedule D of the *Intergovernmental Agreement on Federal Financial Relations: Payment Arrangements*, pp. D–3, D–8, D–9, viewed 20 February 2009, [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/docs/IGA\\_FFR\\_ScheduleD\\_Payment\\_Arrangements.pdf](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/IGA_FFR_ScheduleD_Payment_Arrangements.pdf)

472. For more information see COAG, *National Partnership Agreement for Productivity Places Program*, viewed 14 May 2009, [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/docs/national\\_partnership/national\\_partnership\\_on\\_productivity\\_places\\_program.pdf](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/national_partnership/national_partnership_on_productivity_places_program.pdf); COAG, *National Partnership Agreement for Productivity Places Program: Fact Sheet*, viewed 14 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-11-29/docs/20081129\\_productivity\\_places\\_factsheet.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2008-11-29/docs/20081129_productivity_places_factsheet.pdf)

funding of \$77.2 million in 2009–10, provided for in this Budget, for places at the Certificate III level or higher. This is estimated to increase the total number of places available during the five years of this program to approximately 711 000.<sup>473</sup>

The Commonwealth also continues to fund its own VET programs including Australian Apprenticeships (largely accounted for under the Department of Education, Employment and Workplace Relations' (DEEWR) 'Program 3.5: VET National Support'). The restructuring of the Australian Apprenticeship incentives will deliver savings in some areas enabling the Government to maintain expenditure levels by redirecting the savings toward selected trade and agricultural occupations and adults needing to re-skill to improve their employment prospects.

Expenditure under Program 3.5 has been primarily boosted in 2009–10 by the VET Training and Learning Capital Fund (TLCF (VET)) which was announced by the Prime Minister in December 2008 as part of the nation-building infrastructure package. The \$300 million DEEWR component of the \$500 million to be allocated under the TLCF (VET) during 2009–10, is comprised of \$200 million for 'Training Infrastructure Investment for Tomorrow' for eligible applicants, and \$100 million for 'Investing in Community Education and Training' for community education and training (CET) providers to develop or enhance their infrastructure.<sup>474</sup> The remaining \$200 million is being distributed to the states and territories by Treasury to improve infrastructure in TAFEs under the 'Better TAFE Facilities' National Partnership arrangement.

Other capital funding for VET providers has been made available under Round 2 of the Education Investment Fund (EIF). Twelve of the successful projects are for VET infrastructure totalling approximately \$132 million.

The VET FEE-HELP estimates in the budget relate to the extension of VET FEE-HELP to state-subsidised students in Victoria to support that state's VET reforms. VET FEE-HELP was originally limited to only full-fee places for specified higher level courses and where credit transfer to higher level courses was available. Extending availability in Victoria to state-subsidised students and relaxing the credit transfer requirements will lead to increased availability. Even before this expansion, it is worth noting that the 2008–09 Budget estimate of \$9.6 million has been significantly revised to \$22.5 million. Following the initiatives in this budget VET FEE-HELP expenditure is estimated to increase to \$72.9 million in 2009–10 and as VET FEE-HELP becomes more established expenditure is expected to increase even further to a high of \$110 million in 2011–12.

---

473. J Gillard (Minister for Education, Employment and Workplace Relations), *Immediate access to employment services to support retrenched employees*, media release, 12 May 2009, viewed 14 May 2009, [http://parlinfo.parlInfo/download/media/pressrel/ESJT6/upload\\_binary/esjt60.pdf;fileType=application%2Fpdf#search=%22productivity%20places%22](http://parlinfo.parlInfo/download/media/pressrel/ESJT6/upload_binary/esjt60.pdf;fileType=application%2Fpdf#search=%22productivity%20places%22)

474. Department of Education, Employment and Workplace Relations (DEEWR), 'Teaching and Learning Capital Fund (TLCF)', viewed 14 May 2009, <http://www.deewr.gov.au/skills/TLCF/Pages/TLCF.aspx>

## Health overview

Rebecca de Boer and Amanda Biggs  
Social Policy Section

Most responses to the health measures in the Budget have tended to focus on the proposed changes to the Private Health Insurance Rebate and the Medicare Safety Net. As well, nurses and midwives have been hailed as the ‘winners’ with the extension of prescribing rights and access to Medicare and the Pharmaceutical Benefits Scheme (PBS). Other notable measures include some savings to the PBS, more money for rural workforce, a relatively small amount of additional money for aged care and significant expenditure on the national cancer statement.

Some commentators have highlighted what they argue is the piece-meal approach of this budget.<sup>475</sup> Perhaps the most obvious underlying theme of the Budget is ‘savings’: many of the measures are intended to ‘reduce inefficiencies’ or remove duplication of effort. This may be a worthy task and may also be viewed as an interim step while the Government moves towards developing a clearer direction for health policy reform (for example, following the final report of the National Health and Hospitals Reform Commission).

## Aged care

Rebecca de Boer  
Social Policy Section

Apart from the increases to the pension and subsequent changes to the basic daily fee for aged care, the measures affecting aged care in the Budget failed to generate any significant media or stakeholder commentary. The changes to the pensions and their implications for residential aged care have been discussed elsewhere in this Budget Review.

The total budget allocation for aged care in 2009–10 is \$9.9 billion, with \$7.1 billion allocated for residential aged care. As was the case in the 2008–09 Budget, there was no significant investment in the aged care workforce. The return of 1000 nurses to the aged care sector by 2011–12 noted in the budget papers is part of a broader initiative announced by the Government on 15 January 2008.<sup>476</sup> Although this change could be considered to be an

---

475. See L Russell, ‘Missed chance to fund change’, *Canberra Times*, 15 May 2009, viewed 19 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F4FKT6%22>

476. Australian Government, *Portfolio budget statements 2009–10: budget related paper no.1.10: Health and Ageing Portfolio*, Commonwealth of Australia, Canberra, 2009, p. 158 and Department of Health and Ageing, (DOHA), ‘Bringing nurses back into the workforce’, DoHA website, viewed 18 May 2009, <http://www.health.gov.au/backtonursing>

investment in aged care, it is relatively small when compared with the overall shortfall in the aged care workforce.<sup>477</sup>

Both the Shadow Minister for Ageing, Margaret May, and the Aged Care Association of Australia (ACAA) have expressed their disappointment that this Budget did not include greater investment in aged care infrastructure.<sup>478</sup> The ACAA suggested that residential care providers can no longer afford to build replacement stock and new buildings.<sup>479</sup> While it is difficult to verify the claims made by the ACAA, there have been widespread calls for reform of aged care funding from a range of commentators and stakeholders.<sup>480</sup>

The recent Senate inquiry into residential and community care in Australia did not make any broad recommendations for aged care funding reform. However, it did recommend that the Government establish a benchmark for the costs of providing aged care in Australia, and that it review the funding arrangements for aged care.<sup>481</sup> Submissions to the inquiry supported the argument that reform to funding arrangements was needed, along with significant capital investment in aged care infrastructure.<sup>482</sup> Although the Government is yet to respond to the Committee's findings and recommendations, the issues raised by the Committee are not new. This Budget may well represent a missed opportunity to address the growing challenge of an ageing population through the improved provision of aged care services.

- 
477. B Martin and D King, *Who Cares for Older Australians? A Picture of the Residential and Community based Aged Care Workforce*, National Institute of Labour Studies, Flinders University, Adelaide, 2007, [http://www.socsci.flinders.edu.au/nils/assets/publications/NILS\\_Aged\\_Care\\_Final.pdf](http://www.socsci.flinders.edu.au/nils/assets/publications/NILS_Aged_Care_Final.pdf)
478. Aged Care Association of Australia, 'Aged care reform still on the backburner', media release, 12 May 2009, viewed 18 May 2009, <http://www.agedcareassociation.com.au/content/Final%20Budget%20Announcement%20Media%20Release%2012%20May%2009.pdf> and M May, 'Aged care crisis ignored again', media release 13 May 2009, viewed 18 May 2009, <http://www.margaretmaymp.com/media/portfoliomediareleases2008/ageing130509/tabid/594/Default.aspx>
479. Aged Care Association of Australia.
480. This was an overall theme of submissions made to Senate Standing Committee on Finance and Public Administration, *Inquiry into residential and community aged care in Australia*, Commonwealth of Australia, Canberra, April 2009, viewed 17 May 2009, [http://www.aph.gov.au/Senate/committee/fapa\\_ctte/aged\\_care/index.htm](http://www.aph.gov.au/Senate/committee/fapa_ctte/aged_care/index.htm). Chapters 3, 4 and 8 highlight concerns of stakeholders.
481. Senate Standing Committee on Finance and Public Administration, *Inquiry into residential and community aged care in Australia*, Commonwealth of Australia, Canberra, April 2009, viewed 17 May 2009, [http://www.aph.gov.au/Senate/committee/fapa\\_ctte/aged\\_care/index.htm](http://www.aph.gov.au/Senate/committee/fapa_ctte/aged_care/index.htm). Recommendations 3, 4, 9, 14, 15, 29 and 30.
482. Senate Inquiry, Chapter 4.

## Health infrastructure

Rebecca de Boer  
Social Policy Section

The Health and Hospitals Fund (HHF) was announced in the 2008–09 Budget to finance health infrastructure such as hospitals, medical technology, medical research facilities and projects.<sup>483</sup> Although subject to final budget outcomes, when the HHF was first announced the expected allocation was \$10 billion.<sup>484</sup> The first allocation to the HHF was \$5 billion from the 2008–09 Budget.<sup>485</sup>

The 2009–10 Budget announced a range of health infrastructure projects. These range from hospitals to support cancer services and medical research and amount to around \$3.2 billion dollars.<sup>486</sup> In terms of hospital infrastructure, the Budget announced 17 major projects which total \$1.5 billion.<sup>487</sup> This funding will be spent over seven years, with \$104.1 million to be spent in 2013–14, and \$10.0 million in 2014–15.<sup>488</sup>

Projects funded by the HHF were evaluated by the HHF Board, appointed by the Minister for Health and Ageing, Nicola Roxon, in November 2008. Applications opened on 19 December 2008 and closed on 19 January 2009. Preference was to be given to:

- projects that improved acute care facilities, including hospitals, paediatric and specialised mental health facilities and equipment
- health service infrastructure—primary and community care—focusing on facilities or equipment to support a more integrated approach. A balanced program including rural, Indigenous services and outer-metropolitan will be important
- workforce training infrastructure—to support innovative approaches to improve the health and medical workforce, to deal with the increase in numbers of people training to be health professionals and to assist in improving distribution

---

483. W Swan, (Treasurer), *Budget Speech 2008–09*, 13 May 2008, viewed 15 May 2009, <http://www.budget.gov.au/2008-09/content/speech/download/speech.pdf>

484. Swan.

485. R Webb, C Dow and R de Boer, *Nation building fund 2008*, Bills digest, no. 67, 2008–09, Parliamentary Library, Canberra, 2008, viewed 21 May 2009, <http://www.aph.gov.au/library/pubs/bd/2008-09/09bd067.pdf>

486. N Roxon (Minister for Health and Ageing), ‘Keynote address’, *Generic Medicines Australia Conference 2009*, Sydney, 19 May 2009.

487. N Roxon, (Minister for Health and Ageing), *Nation-building a hospital system for the future*, media release, 12 May 2009, viewed 14 May 2009, [http://www.health.gov.au/internet/budget/publishing.nsf/Content/33CC111799F2D03CCA2575B2003CBA5E/\\$File/hmedia07.pdf](http://www.health.gov.au/internet/budget/publishing.nsf/Content/33CC111799F2D03CCA2575B2003CBA5E/$File/hmedia07.pdf)

488. Australian Government, *Budget measures: budget paper no. 2:2009–10*, Commonwealth of Australia, Canberra, 2009, p. 279.



- specialised cancer care—development of integrated cancer care facilities, and
- research facilities that are integrated with improving clinical care and/or health workforce training.<sup>489</sup>

Other infrastructure funds have been criticised for a lack of transparency and for the failure to conduct a cost-benefit analysis.<sup>490</sup> The principles and evaluation criteria underpinning the HFF were made public at the time of application.<sup>491</sup> However, the absence of further relevant information means that it is not possible at this stage to evaluate the decisions made by the HFF Board.

The HFF will also fund \$1.3 billion over six years to deliver a ‘world class cancer system’ in Australia and \$430.3 million over six years to translate research into clinical practice in areas such as mental health and neurological disorders, child health, Indigenous health and medical bionics.<sup>492</sup> A complete list of projects funded by the HFF was not included in the budget papers or in the accompanying media briefing.<sup>493</sup>

Over the Forward Estimates period (until 2012–13), close to \$3 billion of the HFF will be spent. It is important to note that the HFF was funded from the surplus of the 2008–09 Budget and, although there is provision for additional money to be allocated to the HFF, this has not yet occurred. When the HFF was first announced, the Government indicated that the Fund could be worth up to \$10 billion, but that this would be dependent on future Budget surpluses. Given the current economic climate, it is unlikely that there will be a budget surplus in the near future. This makes critical evaluation regarding expenditure of the HFF essential.

---

489. Refer to ‘Health and Hospitals Fund’ on the Department of Health and Ageing website, viewed online 18 May 2009,

<http://www.health.gov.au/internet/main/publishing.nsf/Content/HHF>

490. G Milne, ‘Missing numbers from nation building plans’, *The Australian*, 18 May 2009, p. 8.

491. *Health and Hospitals Fund: funding application and guidelines*, viewed 18 May 2009, [http://www.health.gov.au/internet/main/publishing.nsf/Content/HHF/\\$file/Guidelines%20for%20Applicants%20final%20approved%2019%20Dec%202008.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/HHF/$file/Guidelines%20for%20Applicants%20final%20approved%2019%20Dec%202008.pdf)

492. *Budget measures: budget paper no. 2*, pp. 280–282

493. However, in a speech made the Minister for Health and Ageing, she noted that \$3.2 billion for health infrastructure had been allocated from the HFF – for 32 iconic projects. See N Roxon (Minister for Health and Ageing), ‘Keynote address’, *Generic Medicines Australia Conference 2009*, Sydney, 19 May 2009.

## Medicare

Amanda Biggs  
Social Policy Section

The Government is proposing a number of changes to Medicare in this budget. These are explained by the Government in terms of efforts to modernise and ensure the future sustainability of Medicare. These changes include capping some payments under the safety net, adjusting the schedule fee for some Medicare services and increasing bulk billing incentives for pathology and imaging.

### Sustaining Medicare—capping the Extended Medicare Safety Net

From 1 January 2010, the Government will introduce a ‘cap’ on Extended Medicare Safety Net (EMSN) payments for certain Medicare items with ‘excessive fees’. Safety net payments to be capped include: all assisted reproductive technology (or IVF) items, obstetric services including some ultrasound services, treatments for varicose veins, certain eye injection treatments, hair transplants and cataract surgery.<sup>494</sup> At the same time, the Government will increase the Medicare schedule fee for obstetric items with the intention of providing some financial relief to patients, particularly those in rural and regional areas. In 2007, the cost of the EMSN was \$414.1 million; these reforms are expected to result in net savings of \$451.6 million over four years.<sup>495</sup>

The Medicare safety net is intended to protect patients from high out-of-pocket medical costs. In the lead-up to the 2007 federal election, Labor committed to retain the EMSN, and has repeated this commitment on a number of occasions since.<sup>496</sup>

The current safety net arrangements include the original Medicare safety net—which covers the difference between the Medicare benefit paid and the schedule fee for out-of-hospital services—and the EMSN, which was introduced in 2004. Under the EMSN patients are

---

494. For full details of item numbers affected, see Department of Health and Ageing, ‘Changes to the extended Medicare Safety Net’, *Fact sheet*, viewed 19 May 2009, [http://www.mbsonline.gov.au/internet/mbsonline/publishing.nsf/Content/News-20090518-Extended-Medicare-Safety-Net\\_amendment](http://www.mbsonline.gov.au/internet/mbsonline/publishing.nsf/Content/News-20090518-Extended-Medicare-Safety-Net_amendment)

495. Net savings for obstetric services are estimated to be \$193.7 million, while savings for items with excessive fees are estimated to be \$257.9 million. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 290, viewed 13 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2\\_expense.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2_expense.pdf)

496. See for example, K Rudd and N Roxon, *Rudd Labor Government to retain Medicare Safety Net*, media release, Canberra, 22 September 2007, viewed 13 May 2009, <http://pandora.nla.gov.au/pan/22093/20071124-0102/www.alp.org.au/media/0907/mshealoo220.html>; N Roxon, ‘Look beyond the election: speech to the Annual Australian Health Insurance Association conference’, Melbourne, 10 October 2007, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FLHKO6%22>

reimbursed 80 per cent of their out-of-pocket costs for out-of-hospital Medicare services, once annual personal expenditure reaches a certain threshold. The current thresholds are set at: \$555.70 for families in receipt of the Family Tax Benefit Part A and concession card holders, and \$1111.60 for all others (indexed annually).

While EMSN payments have provided many with financial relief from significant out-of-pocket medical costs, a recent review of the EMSN cites evidence that those in greatest financial need may be missing out, and that some doctors have been charging excessive fees.<sup>497</sup> Concerns over the cost of the safety net and the charging of excessive fees by some doctors have been raised previously.<sup>498</sup> In 2005, the former Howard government raised the safety net thresholds in response to the high cost of the safety net.<sup>499</sup>

Some have welcomed the proposed changes to the EMSN, including Prue Power from the Australian Healthcare & Hospitals Association, and Robert Wells from the ANU who describes the changes as addressing ‘some of the outrageous rorts’ under the current safety net.<sup>500</sup> Others are worried the measure will undermine the affordability of certain services. Dr Andrew Pesce from the national body representing obstetricians and gynaecologists has expressed concern that capping the EMSN will adversely affect the affordability of private obstetric services and force women back into the public hospital system, ‘which is already crowded and under pressure’.<sup>501</sup> The proposed changes affecting assisted reproductive technology services have prompted some, such as AMA President Dr Rosanna Capolingua, to express concern that assisted reproductive services may become unaffordable, except for the ‘most well off’.<sup>502</sup>

- 
497. Centre for Health Economics Research and Evaluation (CHERE), *Extended Medicare safety net: review report 2009: a report by the Centre for Health Economics Research and Evaluation*, report prepared for the Department of Health and Ageing, University of Technology Sydney, Sydney, 2009, p. vi, viewed 13 May 2009, [http://www.health.gov.au/internet/main/publishing.nsf/Content/Review\\_%20Extended\\_Medicare\\_Safety\\_Net/\\$File/ExtendedMedicareSafetyNetReview.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/Review_%20Extended_Medicare_Safety_Net/$File/ExtendedMedicareSafetyNetReview.pdf)
498. A Pratt and L Buckmaster, ‘The health budget: a framework for sustainability?’, *Implications: budget 2005–06*, Parliamentary Library, Canberra, June 2005, viewed 15 May 2009, [http://libiis1/Library\\_Services/Implications/2005-06/HealthBudget.htm](http://libiis1/Library_Services/Implications/2005-06/HealthBudget.htm)
499. T Abbott (Minister for Health and Ageing), *Health budget 2005–06—health budget responsible and sustainable*, media release, Canberra, 10 May 2005, viewed 15 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/health-budget2005-hbudget-hmedia01.htm>
500. R Wells (Director Australian Primary Health Care Research Institute and the Menzies Centre for Health Policy), *Policy expert welcomes health reform*, media release, Canberra, 13 May 2009; P Power (Executive Director AHHA), *Mixed fortunes for hospitals*, media release, Canberra, 12 May 2009.
501. N Miller, ‘Mothers hit by \$550 birth hike,’ *The age*, 14 May 2009, p. 1, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F1WJT6%22>
502. Australian Medical Association (AMA), *This is no health budget for a recession*, media release, Canberra, 12 May 2009. Although partly funded by Medicare, assisted reproductive technology services in Australia are provided through private clinics.

## **‘Modernising’ Medicare**

The government is also proposing a series of measures intended to ‘modernise’ Medicare and improve quality, while also delivering significant savings. This includes breaking a commitment made in last year’s budget, to fund MRI scans requested by GPs, expected to generate \$15.3 million in savings, and adjusting a number of Medicare fees so that less complex procedures attract a lower fee, expected to generate savings of \$153.4 million over four years.<sup>503</sup> Services that will attract lower fees include those where improvements in technology mean procedures can be performed ‘more quickly and safely’, such as for cataract surgery and coronary angiography.<sup>504</sup>

In addition, remuneration for certain mental health services provided under the *Better Access to Psychiatrists, Psychologists and GPs through the Medicare Benefits Schedule* initiative will be dependent on providers continuing professional development. Allied mental health professionals, such as psychologists, social workers and occupational therapists who provide services under the Better Access initiative, will be ineligible to access Medicare items after June 2011 unless they have undertaken appropriate mental health training—it is estimated that 80 per cent have completed this training already. Those in rural areas will receive a supporting payment of \$200 to undertake the required training. Savings of some \$21.4 million over four years are expected. From July 2009, GPs providing Mental Health Care Plans will attract lower rebates if they have not undertaken appropriate mental health training. The Government intends this measure will encourage GPs to update their skills and generate savings of \$21.7 million over four years.<sup>505</sup>

The reaction to these measures so far has been mixed. The measure to lower fees for less complex procedures has been welcomed by some as a ‘genuine reform’ that recognises that some previously time consuming and complex procedures are now less so.<sup>506</sup> Others have criticised the Government for ‘pocketing the savings’ instead of using them to increase rebates for services for mental and preventive health.<sup>507</sup> It is notable that the Government expects significant savings from the requirement for training under the Better Access changes; in order for these savings to be realised, not all providers can be expected to undertake the appropriate training and be eligible for the higher rebate.

## **Pathology and diagnostic imaging**

The Government is also proposing reforms in the pathology and diagnostic imaging sector, where government outlays on benefits have grown strongly.<sup>508</sup> Measures proposed in this

---

503. Australian Government, *Budget measures: budget paper no. 2: 2008–09*, Commonwealth of Australia, Canberra, 2008, p. 237.

504. *Budget measures: budget paper no. 2: 2009–10*, pp. 295–296.

505. *Budget measures: budget paper no. 2: 2009–10*, p. 288.

506. R Wells.

507. A Cresswell, ‘Roxon a Robin Hood? No way’, *Australian*, 13 May 2009, p. 9.

508. For example, the Auditor General reported that from 2000–01 to 2006–07, the number of pathology services increased from 62.1 million to 87.5 million per year and Australian Government outlays/pathology benefits increased from \$1.2 billion to \$1.7 billion per year

budget include introducing bulk billing incentives for pathology and diagnostic imaging, costing \$948.4 million over four years, to be partly funded through savings of around \$763.4 million by lowering the collection fees—the fee paid for collecting pathology specimens—paid to pathology providers. In response, some pathologists have indicated they will increase patient co-payments to recover the loss in revenue from lower collection fees.<sup>509</sup>

In other reforms, the Government will introduce regular reviews of new Medicare Benefits Schedule (MBS) items; ensure patients can obtain pathology and diagnostic services from any accredited provider, rather than the one specified by their referring doctor; review funding arrangements for pathology and diagnostic imaging and consider the need for structural reform; educate referring clinicians on appropriate referring practices for pathology and diagnostic imaging; and, review diagnostic and imaging items listed on the Medicare Benefits Schedule.<sup>510</sup>

## Pharmaceutical benefits scheme

Rebecca de Boer  
Social Policy Section

It is rare a thing for a Federal Budget to not include measures affecting the Pharmaceutical Benefits Scheme (PBS). Whether it is the announcement of the listing of new products or changes to co-payment arrangements, the PBS rarely escapes the attention of those drafting the Budget. This year proved no exception with the announcement of the inclusion of several high-cost drugs to the PBS schedule, some of which had received a positive recommendation from the Pharmaceutical Benefits Advisory Committee (PBAC) almost twelve months ago. Other measures include improved access to the PBS for Aboriginal and Torres Strait Islanders in remote areas, additional funding for the National Prescribing Service and measures designed to maintain the sustainability of the PBS.

### Sustainability of the PBS

Two measures were introduced to enhance the sustainability of the PBS. The first was the creation of an additional therapeutic group for two statins and, the second was some changes

---

(an average annual growth rate of 7 per cent). See, Auditor General, *Administration of the Pathology Quality and Outlays Memorandum of Understanding*, Audit report no. 34, 2007–08 Performance Audit, Australian National Audit Office, Canberra, 2008, p. 37.

509. J Breusch and N Ahmed, 'Drip feed for moribund body', *Australian financial review*, 14 May 2009, p. 22, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F1VJT6%22>

510. N Roxon (Minister for Health and Ageing), *More support for bulk billing pathology and diagnostic imaging tests*, media release, Canberra, 12 May 2009, viewed 14 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2009-hmedia14.htm>; N Roxon (Minister for Health and Ageing) and L Tanner (Minister for Finance and Deregulation), *Increasing competition in pathology and diagnostic imaging*, media release, Canberra, 12 May 2009, viewed 14 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2009-hmedia15.htm>

to reference pricing arrangements to include non-exempt items. These measures combined are expected to generate savings of around \$175 million over four years.

The Government proposes to create a new therapeutic group for two statins (cholesterol lowering drugs), atorvastatin calcium (Lipitor) and rosuvastatin calcium (Crestor).<sup>511</sup> Previously, these products have not been included in existing therapeutic group arrangements for statins and will continue to remain separate. The therapeutic group arrangements ensure that the Government pays the same price for products that offer the same therapeutic outcome and the price paid by the Government is the lowest price of the group. When a generic version of either product is listed on the PBS, it will be subject to a 12.5 per cent statutory price reduction and the subsequent price will ‘flow on’ to all products in that therapeutic group. This will generate further savings to the Government that have not been included in this measure, as it is impossible to predict when a generic will enter the market (if at all) or the price that may be offered to government by generic manufacturer(s).

Currently, the cost to Government for atorvastatin is \$42.27 for a course of 10mg tablets and \$69.48 for a course of rosuvastatin 10mg tablets. As a result of this measure, it is likely that the price of rosuvastatin will be reduced. It is not clear from the Budget papers whether the Government will negotiate a price with the manufacturers of both products or if the price of rosuvastatin will be automatically reduced. It should be noted that the manufacturer does not have to accept the price paid by government and can charge a premium—known as a therapeutic group premium—which is borne by the consumer. This amount is not included towards the PBS safety net. It is possible for an exemption to be granted, but the prescriber needs to seek approval from Medicare Australia for this to take place.<sup>512</sup>

There are varying estimates for script volumes for atorvastatin and rosuvastatin. Data from the Pharmacy Guild indicating that in 2008, atorvastatin accounted for 10.5 million scripts and rosuvastatin 2.2 million scripts.<sup>513</sup> The most recent data from Government sources indicates that in the 12 months to June 2007, there were 9.4 million scripts dispensed for atorvastatin and 274 000 for rosuvastatin.<sup>514</sup> By any estimate, the script volumes for both products are significant.

---

511. This is in addition to the therapeutic group for statins already on the PBS which includes simvastatin and pravastatin.

512. Exemptions can be granted on the following grounds: adverse effects of base-priced drugs, interactions with base-priced drugs, interactions with expected base-priced drugs and where the switch to a base-priced drug is likely to cause confusion for the patient. See Australian Government, *Schedule of pharmaceutical benefits: May 2009*, Commonwealth of Australia, Canberra, 2009, p. 815, viewed 15 May 2009, <http://www.pbs.gov.au/html/healthpro/publication/view?date=20090501&type=FlashPaper&name=general-schedule>

513. Pharmacy Guild of Australia, *Pharmacy Guild budget brief 09*, media release, 13 May 2009, viewed 14 May 2009, [http://www.guild.org.au/uploadedfiles/National/Public/News\\_and\\_Events/News\\_Archive/Pharmacy\\_Guild\\_budget\\_brief\\_2009.pdf](http://www.guild.org.au/uploadedfiles/National/Public/News_and_Events/News_Archive/Pharmacy_Guild_budget_brief_2009.pdf)

514. Crestor was listed on the PBS in 2006–07 and the most recent data was for 12 months ending to 30 June 2007. See Department of Health and Ageing, *Expenditure and prescriptions to 30 June 2007*, Table 9 (a), p. 10, viewed 14 May 2009,

Both the Pharmacy Guild and Medicines Australia have indicated their willingness to cooperate with the Government in the implementation of this measure. However, Medicines Australia has commented that the ‘measure is regrettable’ and noted that the pharmaceutical industry is ‘confronting a very challenging operating environment’.<sup>515</sup> Despite these claims, it should be noted that recent PBS reforms have not been nearly as severe to the industry as they could have been. When the reforms were initially announced in 2006, it was anticipated that they would realise savings of \$580 million over four years. These anticipated savings have since been revised down to \$103 million over four years.<sup>516</sup> In the context of an almost \$8 billion dollar program and the revenues generated by most pharmaceutical manufacturers, it could be argued that the overall impact on the (branded) pharmaceutical industry is minimal. Evidence also suggests that the pricing of several generic medicines in Australia is higher in Australia than in the US, across a range of different products.<sup>517</sup>

One of the possible unintended consequences of this measure is that the manufacturer will charge a therapeutic premium which approximates the former price paid by government. If this occurred, this price would be borne by the consumer, and, where a therapeutic group premium exemption is granted, by the Government. Given the significant script volumes for both atorvastatin and rosuvastatin, it is likely that these numbers could be high potentially eroding the savings generated through the measure.

### Extension to reference pricing

The Budget includes another measure that is designed to correct some of the anomalies in the reference pricing system. The measure is expected to generate revenue of around \$61.2 million dollars. Although the budget papers note that this measure will extend the reference pricing policies to all ‘non-exempt pharmaceutical items in a therapeutic group’, there is insufficient detail in the budget papers to determine which drugs will be affected by the measure.<sup>518</sup> Reference pricing arrangements extend to seven groups of drugs on the PBS<sup>519</sup>

---

[http://www.health.gov.au/internet/main/publishing.nsf/Content/A58720844CBFCB47CA257218000D91C7/\\$File/pbpa%20annual%20report%202007.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/A58720844CBFCB47CA257218000D91C7/$File/pbpa%20annual%20report%202007.pdf)

515. Medicines Australia, *PBS cuts undermine commercial certainty*, media release, 12 May 2009, viewed 14 May 2009, [http://www.medicinesaustralia.com.au/pages/view\\_news.asp?id=134](http://www.medicinesaustralia.com.au/pages/view_news.asp?id=134)
516. Senate, Answers to Questions on Notice, Minister for Health and Ageing, 14 May 2009, Question Number 1360. These are net savings to Government which have, in part, been offset to payments made to pharmacists as part of the PBS Reform compensation package. PBS Reform has not had a uniform impact on the pharmaceutical industry – price cuts ranged from a one off cut of 25 per cent on 1 August 2008 to a 6 per cent price cut staged over three years, commencing on 1 August 2008. Price disclosure arrangements will further reduce the price paid by government for some medicines (namely generics) but the full impact of this will not be seen for several years.
517. L. Bulfone, ‘High prices for generics in Australia – more competition might help’, *Australian health review*, vol. 33 (2), 2009, pp. 200–214, viewed 22 May 2009, [http://www.aushealthreview.com.au/publications/articles/issues/ahr\\_33\\_2\\_0509/ahr\\_33\\_2\\_200.html](http://www.aushealthreview.com.au/publications/articles/issues/ahr_33_2_0509/ahr_33_2_200.html)
518. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, p. 303.

and presumably, the products affected by this measure are those which are not currently captured by these arrangements.

Reference pricing is one of the cornerstones of the PBS and has been in place since 1993. Under reference pricing, drugs that offer the same clinical outcome are reimbursed at the same price and drugs which offer a superior clinical benefit are often rewarded with a higher price.<sup>520</sup> However, this policy has meant that the Government has not always achieved significant savings when generic medicines entered the market. To address this, the Government introduced the 12.5 per cent price reduction policy in 2005 under which the first generic version of a PBS medicine was subject to an automatic (statutory) reduction of 12.5 per cent when listed. In the context of the PBS reform measures which commenced in 2008, both reference pricing and the 12.5 per cent price reduction policy still apply, but in much narrower circumstances.<sup>521</sup>

It has been suggested that the creation of an additional therapeutic group for atorvastatin and rosuvastatin is designed to ensure that the Government achieves as many savings as possible when a generic version of either product enters the market.<sup>522</sup> Although not directly commenting on the proposed budget measures, Deakin University academic, Liliana Bulfone has recommended that the Government foster increased competition in the generics sector by ceasing to disclose the price of generic medicines to competitors and introducing periodic price reviews as a way to achieve greater savings for generic medicines.<sup>523</sup>

The sustainability of the PBS and the pricing of generic medicines have long been of concern to Government.<sup>524</sup> The measures put forward in this Budget are expected to generate savings

- 
519. These are; Angiotensin converting enzyme (ACE) inhibitors, Angiotensin II receptor antagonists (ATRAAs), Calcium channel blockers (CCBs), H2-receptor antagonists (H2RAs), HMG Coenzyme A reductase inhibitors (statins), Proton Pump inhibitors (PPIs), SSRIs plus. A subgroup of antidepressants, including selective serotonin reuptake inhibitors (SSRIs) and other antidepressants that have been listed on a cost minimisation basis with the SSRIs. Refer to Pharmaceutical Benefits Pricing Authority, *PBPA policies, procedures and methods*, Section 2, viewed 22 May 2009, <http://www.health.gov.au/internet/main/publishing.nsf/Content/pbs-pbpa-policies-contents~pbs-pbpa-policies-ch2>
520. D Henry, 'Patients the losers and makers the winners in PBS tinkering', *The Australian*, 9 June 2007, viewed 22 May 2009, <http://www.theaustralian.news.com.au/story/0,20867,21872525-23289,00.html>
521. A Searles, S Jefferys, E Doran, D Henry. 'Reference pricing, generic drugs and proposed changes to the Pharmaceutical Benefits Scheme', *Medical journal of Australia*, vol. 184 (4), 2007, pp. 236–9, viewed 17 May 2009, [http://www.mja.com.au/public/issues/187\\_04\\_200807/sea10591\\_fm.html](http://www.mja.com.au/public/issues/187_04_200807/sea10591_fm.html)
522. N Lush, 'More to Budget than meets the eye?' *Pharma in focus*, 18–24 May 2009, viewed 18 May 2009, <http://www.pharmainfocus.com.au/opinion.asp?opinionid=258>
523. Bulfone, p.213.
524. For example, the response to both Intergenerational Reports, and the various budget measures over the past ten years were designed to reduce spending on the PBS. Comments made by Tony Abbott at the introduction of PBS Reform in 2006 noted that PBS reform was designed



of around \$175 million over four years. It remains to be seen whether these savings will be realised, and if the Government is able to achieve significant savings on generic medicines while also promoting increased competition in the Australian generic medicines sector.

## Private health insurance

Amanda Biggs  
Social Policy Section

The Government has proposed a number of changes to private health insurance in this Budget, intended broadly to make private health insurance ‘more sustainable’.<sup>525</sup> These include:

- removal or reduction of the private health insurance rebate for higher income earners purchasing private cover
- at the same time, the Medicare levy surcharge will be increased for those who do not purchase private cover
- Medibank Private will be changed from a ‘not for profit’ to a ‘for profit’ insurer, and
- regulatory changes will be made that affect how private health insurers can utilise surpluses.

### Private health insurance incentives/penalties

From July 2010, three new ‘tiers’ to the private health insurance rebate (PHIR) will be introduced. These will result in higher income earners—those on incomes over \$75 000 for singles and over \$150 000 for couples—progressively receiving a lower rebate until, for those on incomes over \$120 000 for singles and \$240 000 for couples, the rebate will be abolished.<sup>526</sup> At the same time, the Government will progressively increase the Medicare levy surcharge—a financial penalty applied only to high income earners who decline to take out private health insurance—from 1 per cent of taxable income up to 1.5 per cent for those in the

---

to address two problems; overpricing of generics to government and difficulties of reference pricing in a system of mandatory price cuts.

525. Australian Government, *Portfolio budget statements 2009–10: budget related paper no. 1.10: Health and Ageing Portfolio*, Commonwealth of Australia, Canberra, p. 257, viewed 19 May 2009, [http://www.health.gov.au/internet/budget/publishing.nsf/Content/2009-2010\\_Health\\_PBS](http://www.health.gov.au/internet/budget/publishing.nsf/Content/2009-2010_Health_PBS)
526. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 310–311, viewed 19 May 2009, [http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp\\_2\\_expense.pdf](http://www.aph.gov.au/budget/2009-10/content/bp2/download/bp_2_expense.pdf)

highest income bracket.<sup>527</sup> Those on lower incomes will continue to be able to access the rebates at the current amounts and will remain exempt from the Medicare levy surcharge.<sup>528</sup>

The PHIR subsidises the cost of purchasing a complying private health insurance product, making health insurance more affordable.<sup>529</sup> The cost of the rebate to the Australian Government has grown significantly from \$1.4 billion in 1999–2000 to \$3.8 billion in 2008–09.<sup>530</sup> The changes to the rebate and surcharge are expected to result in net savings of \$1.9 billion over four years.

The Rudd Government has previously committed to retain the rebate<sup>531</sup>; leading to claims the changes to the rebate amount to a broken promise.<sup>532</sup> Some have also argued that as a result of these changes people will abandon their private cover, leading to rises in private health insurance premiums as health insurers seek to rein in higher costs.<sup>533</sup> They have also argued that uninsured people will then seek treatment in the public system adding further pressure to public hospital waiting lists.<sup>534</sup> Others, who argue the rebate is poor policy, have broadly

- 
527. The Medicare levy surcharge is in addition to the 1.5 per cent Medicare levy. Higher income earners—over \$75,000 for singles and \$150,000 for couples— must pay an additional 1 per cent levy on taxable income if they choose not to take out private health cover.
528. The amount of the rebate is currently set at 40 per cent for those over 70, 35 per cent for those aged 65–69 and 30 per cent for all others.
529. A complying health insurance policy is one that provides hospital treatment, general treatment (previously called ancillary or extras) cover, or both. In addition, the health insurance policy must be with a registered health insurer. See Private Health Insurance Administration Council (PHIAC), *Insure? Not sure?*, PHIAC, Canberra, viewed 15 May 2009, <http://www.phiac.gov.au/insurenotsure/pdf/insure.pdf>
530. *Portfolio budget statements 2009–10: Health and Ageing portfolio*, p. 250.
531. See K Rudd and N Roxon, *New directions for Australian health: Taking responsibility: Labor's plan for ending the blame game on health and hospital care*, Australian Labor Party, August 2007, viewed 19 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fpartypol%2FGTIO6%22>
532. See for example, M Turnbull (Leader of the Opposition), *A sustainable health system for all Australians*, media release, Canberra, 15 May 2009, viewed 20 May 2009, <http://www.liberal.org.au/news.php?Id=3123>; Australian Health Insurance Association, *Rudd abandons private health*, media release, Canberra, 13 May 2009, viewed 20 May 2009, <http://www.ahia.org.au/media%20releases/AHIA%20Media%20Release%20-%20Rudd%20Abandons%20Private%20Health%2012May09.pdf>
533. N Ahmed, 'Cuts to raise health charges' *Australian financial review*, 13 May 2009, viewed 20 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FJCJT6%22>; also Australian Health Insurance Association.
534. N Ahmed; also Australian Health Insurance Association. This view is contested by others. For an overview of the debate that private health insurance membership reduces pressure on public hospitals, see A Pratt, *Public versus private? An overview of the debate on private health insurance and pressure on public hospitals*, Research note, no. 54, 2004–05, Parliamentary Library, Canberra, 2005, viewed 21 May 2009, <http://www.aph.gov.au/library/pubs/rn/2004-05/05rn54.pdf>

welcomed the proposed changes, albeit with some criticism that the savings could be modest, and should be re-directed to the under-resourced public health system.<sup>535</sup>

#### Medibank Private – change in status

This Budget also included an announcement that, towards the end of 2009, the Government will convert the status of Medibank Private from a ‘not for profit’ health insurer, to a ‘for profit’ health insurer—but will retain ownership in public hands.<sup>536</sup> Medibank Private is Australia’s largest private health insurer in Australia, providing health insurance to around 3.2 million Australians.<sup>537</sup>

The Government’s stated intentions are to ‘improve the competitive neutrality’ between Medibank Private and its ‘for profit’ competitors, by making Medibank Private liable to pay company tax and dividends which will help ‘drive future efficiency gains’.<sup>538</sup> As the payment of company tax and dividends is expected to be made to the Australian Government, some have suggested its change in status will make it a ‘cash cow’ for the government.<sup>539</sup> Although listed as a ‘revenue’ measure in the budget papers, the Government has not released estimates of the savings expected from the measure due to commercial sensitivities.

This measure has attracted much less commentary than the changes to the private health insurance rebate, but some pertinent issues have been raised. Some have pointed to the debate that ensued when the former Howard Government announced its intention to sell Medibank Private.<sup>540</sup> At the time, questions were raised over the right to ‘ownership’ of Medibank

---

535. See, for example, P Power (Australian Healthcare & Hospitals Association), *Mixed fortunes for hospitals*, media release, 12 May 2009, viewed 20 May 2009, [http://www.aushealthcare.com.au/news/news\\_details.asp?nid=13854](http://www.aushealthcare.com.au/news/news_details.asp?nid=13854); T Woodruff (Doctors Reform Society), ‘Health insurance rebate inefficient, inequitable’, letter, *The age*, 16 May 2009, viewed 20 May 2009, <http://www.theage.com.au/opinion/letters/health-insurance-rebate-inefficient-inequitable-20090515-b668.html>

536. *Budget measures: budget paper no. 2*, p. 8.

537. Market share is 28.7 per cent. Medibank Private, *Annual report 2008*, Medibank Private, 2008, p. 7. There are currently seven insurers that operate on a ‘for profit’ basis, see Private Health Insurance Administration Council, *Operations of the private health insurers annual report 2007–08*, PHIAC, Canberra, 2008, p.14.

538. *Budget measures: budget paper no. 2*, p. 8. See also, L Tanner (Minister for Finance and Deregulation), *Medibank Private to become a for-profit government owned business*, media release, 12 May 2009, viewed 19 May 2009, [http://www.financeminister.gov.au/media/2009/mr\\_272009.html](http://www.financeminister.gov.au/media/2009/mr_272009.html)

539. ‘Medibank motza’, *Daily telegraph*, p. 6, viewed 15 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2FR7JT6%22>.

540. T Abbott (Minister for Health and Ageing) and N Minchin (Minister for Finance and Administration), *More innovation, greater choice in private health*, media release, 26 April 2006, viewed 20 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2FOJGJ6%22>

Private's assets.<sup>541</sup> Although this budget measure does not propose proceeding to a sale of Medibank Private—this has been explicitly ruled out by the Government<sup>542</sup>—debate over the 'ownership' of assets and rights of policy holders may yet re-emerge. Further, it has been argued that changing the status of Medibank Private from a 'not for profit' to a 'for profit' may not be straightforward, and may be more complex than simply changing its constitution to allow for this.<sup>543</sup>

### Regulatory changes

The Government has also announced it intends to make legislative changes that would allow health insurers to 'spend surplus capital' to fund the provision of sporting and recreational activities for members and community-based health promotion activities.<sup>544</sup> Under current arrangements, assets of 'not for profit' health insurers can only be used to meet liabilities (such as the payment of benefits for complying health insurance products) or other expenses, or make certain investments. Health insurers that operate on a 'for profit' basis do not have the same restrictions on their 'surplus capital'; notwithstanding prudential and solvency requirements, they are free to allocate their profits where they choose.<sup>545</sup>

## Health Workforce

Rhonda Jolly  
Social Policy Section

Health workforce initiatives in the Government's first budget reflected that it had had little time to develop a comprehensive strategy to begin to address structural problems relating to the supply and distribution of health workers in Australia. Nevertheless, the 2008–09 Budget increased the number of training places for health professionals and further funding increases for training have been delivered since that time.<sup>546</sup>

---

541. Legislation allowing the sale of Medibank Private was passed in 2006, but the sale did not proceed. For an overview of the issues of the question of ownership see L Buckmaster and J Davidson, *The proposed sale of Medibank Private: historical, legal and policy perspectives*, Research brief, no. 2, 2006–07, Parliamentary Library, Canberra, 2006, viewed 20 May 2009, <http://www.apf.gov.au/library/pubs/rb/2006-07/07rb02.pdf>

542. *Budget measures: budget paper no. 2*, p. 8.

543. J Davidson and L Buckmaster, *Medibank Private Sale Bill 2006*, Bills digest, no. 47, 2006–07, Parliamentary Library, Canberra, 2006, pp. 6–7.

544. *Portfolio budget statements 2009–10: Health and Ageing portfolio*, p. 253.

545. See section 137 (10) of the Private Health Insurance Act 2007.

546. 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, 28 March 2008, viewed 13 May 2009, <http://www.health.gov.au/internet/ministers/publishing.nsf/Content/mr-yr08-nr-nr036.htm> and Council of Australian Governments meeting 29 November 2008, attachments to *Communiqué*, Attachment A, viewed 13 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2008-11-29/attachments.cfm#attachmenta](http://www.coag.gov.au/coag_meeting_outcomes/2008-11-29/attachments.cfm#attachmenta)

According to the 2009–10 Budget papers, the Government has developed an agenda for reform which will make the health system ‘more responsive, coherent and efficient’ by using the skills of all health workers better.<sup>547</sup> Despite this claim, while there are some workforce innovations in the Budget, it appears that many of the measures announced are about rearranging or continuing with current programs, sometimes in different guises.

The major workforce measure, the Rural Health Strategy for example, mostly involves either consolidation or reorganisation. The Registrars Rural Incentive Payments Scheme (RRIPS) and the Rural Retention Program (RRP) for general practitioners are to be consolidated into a General Practice Rural Incentives Program. The Budget papers claim this new program will provide incentives for relocation and retention—but these are already available under the existing schemes.<sup>548</sup> Almost \$100 million has already been spent on the RRP in the last five years. The \$64.3 million planned for the next four years is a continuation of this funding. Similarly, other measures in this package, such as the commitment to increase locum relief to doctors in rural and remote areas, are not substantially different to existing arrangements.

The other significant workforce initiative in the Budget extends access to the Medicare Benefits Schedule and Schedule of Pharmaceutical Benefits for nurse practitioners and midwives. From one perspective, it can be argued that this measure will be of great benefit to rural and remote communities, which often cannot access the services of medical practitioners. From this perspective, the measure not only reflects the reality that nurses and midwives are integral to the birthing experience; it is also an innovative use of alternative medical practitioners. It could be seen as indeed a first step in a structural reform of the health workforce, and as such, it could be argued that it is the most far-sighted health workforce measure in this Budget; one which one of the health professions considers a landmark reform.<sup>549</sup>

On the other hand, this measure raises a number of questions about what will be defined as the appropriate range of services for which Medicare benefits will be paid to nurse practitioners. Questions can also be asked about what will constitute subsidised medical indemnity for eligible midwives, how will eligibility be defined, what will the advanced midwifery credentialing framework noted in the Portfolio Budget Statements entail, and how will it differ from existing assessments.<sup>550</sup>

---

547. *Portfolio budget statements 2009–10: Health and Ageing portfolio*, Commonwealth of Australia, Canberra, 2008, p. 301.

548. Department of Health and Ageing, ‘Rural Retention Program’, viewed 13 May 2009, <http://www.health.gov.au/internet/main/publishing.nsf/Content/work-pr-rrp> and Department of Health and Ageing, ‘Registrars Rural Incentive Payment Scheme’, viewed 13 May 2009, <http://www.health.gov.au/internet/main/publishing.nsf/Content/work-pr-rrips>  
Note: the Registrars scheme only provides incentives for undertaking training in rural areas.

549. Australian Nursing Federation, *Patients and the community are the big winners in ground breaking health reform budget*, media release, 12 May 2009, viewed 14 May 2009, <http://www.anf.org.au/>

550. The Australian Nursing and Midwifery Council currently works in conjunction with state and territory nursing and midwifery regulatory authorities to produce national standards which are an integral component of the regulatory framework to assist nurses and midwives to deliver safe and competent care. Standards include national competency standards for registered

The nursing measure has been criticised in some quarters. For example, the Royal Australian College of General Practitioners (RACGP) has argued that, unlike funding for practice nurses, the \$59.7 million provided to support the expansion of the role of specialist nurse practitioners ‘does not meet the workforce needs of Australian general practice’.<sup>551</sup> This criticism is most likely based on the fact these practitioners work in independent practice and not as part of a team supervised by medical practitioners. This view illustrates one obstacle to any substantial health workforce reform. That is, that each of the health professions is protective of its traditional boundaries and reluctant to concede that alternative approaches may deliver more efficient and effective health outcomes.

There is little attention paid to the allied health workforce in this Budget. Announcements specifically related to the allied health workforce are targeted at rural areas. Dental students will receive \$4.1 million over four years for clinical training in rural areas and \$6.8 million will be provided under the University Departments of Rural Health program to encourage students in other health professions (including medicine) to practise in rural areas. Incentives offered to allied health workers (and to nurses) to work in rural and remote settings, however, are significantly less in comparison with those offered to medical practitioners.

The Budget allocates funding to the training of Indigenous health workers. This includes funding for 160 new Indigenous Outreach Workers and 75 allied health workers and practice managers to work in Indigenous health services and for the development of a National Indigenous Health Workforce Training Plan. In addition, the Government will continue to support the Puggy Hunter Memorial Scholarship Scheme to encourage more Aboriginal and Torres Strait Islander people to enter health professions.

A long-awaited and needed review of the Rural Remote and Metropolitan Area (RRMA) classification scheme, upon which qualification for a number of health programs has been based, took place before the Budget. This review appears to have influenced the Government to commit to moving qualification requirements to reflect the Australian Standard Geographical Classification, which is based on 2006 Census data. The Budget papers indicate that this move will deliver a bonus for medical practitioners, as 2400 more doctors will be eligible for rebates under the scheme. However, it remains unclear what advantages this change in program administrative arrangements will have for workforce outcomes. In addition, there is no guarantee that there will not be losers, in terms of rebates or qualification requirements.

Overall, this Budget does not provide a comprehensive health workforce reform package. However, it could be argued that the first steps towards such a package have been put in place and are currently being taken by bodies such as the National Health and Hospitals Reform Commission. This process will be advanced further by new agencies to be established as a result of the Council of Australian Government’s various national partnership agreements—

---

nurses, enrolled nurses, midwives and nurse practitioners and codes of professional conduct and ethics. These are available on the Council website, viewed 14 May 2009, [http://www.anmc.org.au/professional\\_standards/index.php](http://www.anmc.org.au/professional_standards/index.php)

551. Royal Australian College of General Practitioners, *Budget lacks recognition of the role of primary care*, media release, 12 May 2009, viewed 14 May 2009, <http://www.racgp.org.au/media2009/31787>

the outcomes of the process may deliver more comprehensive health workforce funding announcements in subsequent Budgets.<sup>552</sup>

---

552. Council of Australian Governments, *National Partnership Agreement on Health and Hospital Reform*, December 2009, viewed 14 May 2009, [http://www.coag.gov.au/intergov\\_agreements/federal\\_financial\\_relations/docs/national\\_partnership/national\\_partnership\\_on\\_hospital\\_and\\_health\\_workforce\\_reform.rtf](http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/national_partnership/national_partnership_on_hospital_and_health_workforce_reform.rtf)

## Abolition of the 45 day rule

Harriett Spinks  
Social Policy

The Budget provides \$5.4 million over four years to abolish the ‘45 day rule’. Under current arrangements, applicants for a protection visa who do not lodge their claim within 45 days of arriving in Australia are not permitted to work or access Medicare while their claim is being processed. This rule will be abolished so that protection visa applicants who hold a substantive visa at the time of lodging their claim will be permitted to work and access Medicare.<sup>553</sup> Applicants who do not hold a substantive visa will be permitted to work and access Medicare provided they ‘engage with the Department of Immigration and Citizenship and can demonstrate there is an acceptable reason for the delay in applying for protection’.<sup>554</sup> The funding for this measure comprises \$5.2 million over four years to the Department of Health and Ageing and \$0.1 million over four years to Medicare Australia. The administrative costs to the Department of Immigration and Citizenship will be fully offset by savings.

This represents a significant change in policy regarding the right of asylum seekers to work and access Medicare. The 45 day rule came into effect on 1 July 1997 in order to discourage people from making unfounded protection claims when other attempts to stay in Australia had been unsuccessful, or using the protection system to obtain work rights or access to healthcare.<sup>555</sup>

The 45 day rule has frequently been criticised by refugee and human rights advocates, as well as several academics, journalists and community organisations. Critics have argued that there are several legitimate reasons an asylum seeker might not lodge a protection claim within 45 days of arrival in Australia. These include being given the wrong information by family and friends, limited English language skills, and a lack of understanding of Australia’s immigration rules and processes. They have also argued that the 45 day rule leaves asylum seekers destitute, sick, and dependent on charities for their basic survival.<sup>556</sup>

---

553. A substantive visa is any visa other than a bridging visa, a criminal justice visa or an enforcement visa. This category of applicants will therefore cover any person who has entered Australia on a valid visa and that visa (or another substantive visa if they have changed visa categories after arrival) remains in effect.

554. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, 2009, p. 341.

555. For more background on the introduction of the 45 day rule see A Millbank, *Asylum seekers on Bridging Visa E*, Research brief, no. 13, 2006–07, Parliamentary Library, Canberra, 2007, pp. 9–10, viewed 15 May 2009, <http://www.aph.gov.au/library/pubs/rb/2006-07/07rb13.pdf>

556. For example, see Australian Catholic Social Justice Council, *Background paper on asylum seekers in Australia*, online only, 1 August 1999, viewed 14 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22library%2Fjournal%2FHUE16%22> and B Saul, ‘A visa that denies fundamental human rights’, *The age*, 26 May 2006, viewed 12 May 2009,



The abolition of the 45 day rule fulfils a commitment made by the Labor Party, prior to winning the 2007 election:

Labor recognises that the arbitrary 45-day-rule results in legitimate asylum seekers on bridging visas being unnecessarily denied the right to work while their claim is being processed ... Labor will work to develop guidelines based on merit so that frivolous or vexatious visa applications will be denied those rights, instead of applying an arbitrary 45-day-time limit.<sup>557</sup>

While the Opposition has not announced a policy position on the 45 day rule, it has been a vocal critic in the last 12 months of what it calls the Government's 'softening' of immigration laws and policy which it claims has led directly to the increase in unauthorised boat arrivals since September 2008. Such measures include the closure of offshore processing centres on Manus Island and Nauru, abolition of Temporary Protection Visas, and a move away from mandatory detention for unauthorised arrivals.<sup>558</sup> It is possible that the abolition of the 45 day rule might be similarly criticised by the Coalition as yet a further softening of Australia's policy towards asylum seekers.

## Border protection and combating people smuggling

Janet Phillips  
Social Policy Section

With a rise in the number of boat arrivals since September 2008, the Government has been under increasing pressure to address border security and people smuggling issues. According to the Minister for Home Affairs, Bob Debus, \$654 million has been allocated in this Budget across several portfolios 'to fund a comprehensive, whole-of-government strategy to combat people smuggling and help address the problem of unauthorised boat arrivals'.<sup>559</sup>

It is not clear from the Minister's press releases or budget papers where this funding has been allocated. However, it appears that much of it has been allocated to agencies within the Attorney-General's portfolio, mostly for coastal and maritime surveillance activities and

---

<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F2CRJ6%22>

557. Australian Labor Party, 'Respecting human rights and a fair go for all', *2007 National Platform and Constitution*, April 2007, pp. 222–3, viewed 14 May 2009, [http://www.alp.org.au/download/now/2007\\_platform\\_chapter13.pdf](http://www.alp.org.au/download/now/2007_platform_chapter13.pdf)
558. For example see S Stone (Shadow Minister for Immigration and Citizenship), *14<sup>th</sup> boat and still no response from Rudd*, media release, Canberra, 22 April 2009, viewed 15 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/0CCT6/upload\\_binary/0cct60.pdf;fileType=application/pdf#search=%22sharman%20stone%20boat%22](http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/0CCT6/upload_binary/0cct60.pdf;fileType=application/pdf#search=%22sharman%20stone%20boat%22)
559. B Debus (Minister for Home Affairs), *\$1.3 billion to combat people smuggling and strengthen Australia's national security*, media release, Canberra, 12 May 2009, viewed 14 May 2009, [http://www.ministerhomeaffairs.gov.au/www/ministers/ministerdebus.nsf/Page/MediaReleases\\_2009\\_SecondQuarter\\_12May2009-\\$1.3BilliontoCombatPeopleSmugglingandStrengthenAustraliasNationalSecurity](http://www.ministerhomeaffairs.gov.au/www/ministers/ministerdebus.nsf/Page/MediaReleases_2009_SecondQuarter_12May2009-$1.3BilliontoCombatPeopleSmugglingandStrengthenAustraliasNationalSecurity)

people smuggling investigations/prosecutions (to Customs, the Australian Federal Police and the Commonwealth Director of Public Prosecutions in particular).<sup>560</sup> An additional \$1.7 million has been allocated to the Defence portfolio for coastal surveillance to deter people smuggling.<sup>561</sup>

The remainder of the Government's whole-of-government border protection and people smuggling funding—a total of \$92.4 million—has been allocated to the Foreign Affairs and Trade portfolio, the Department of Immigration and Citizenship (DIAC) and the Department of the Prime Minister and Cabinet (PM&C) for combating people smuggling and strengthening 'engagement with our regional neighbours and international organisations'.<sup>562</sup>

Of the funding allocated to the Foreign Affairs and Trade portfolio (\$40.2 million), much of it has been allocated to improved intelligence on people smuggling in the region—\$30.5 million over four years goes to the Australian Secret Intelligence Agency (ASIS) as part of the Government's 'layered response to the resurgent maritime people smuggling threat'.<sup>563</sup> The remainder (\$9.7 million over two years) has been allocated for regional cooperation and engagement on people smuggling, including the re-establishment of an Ambassador for People Smuggling Issues.<sup>564</sup>

In addition, PM&C has been allocated \$2.8 million to manage border security and people smuggling issues, including the establishment of a Border Protection Committee consisting primarily of members of Cabinet.<sup>565</sup>

As part of its share in the \$92.4 million for border protection and combating people smuggling, DIAC has been allocated \$39.6 million—with a focus on 'preventive overseas interventions':

- \$14.3 million over two years for regional engagement with Indonesia, including additional funding to the International Organisation for Migration (IOM) for managing detention facilities in Indonesia and establishing temporary transit facilities
- \$16.4 million over two years to 'address irregular population flows' through the region, including funding to develop a regional framework for the resolution of the status of asylum seekers in cooperation with the United Nations High Commissioner for Refugees (UNHCR) and IOM and

---

560. B Debus The Minister includes figures in this budget media release of \$324 million and \$63 million (totalling \$387 million) for coastal and aerial surveillance activities.

561. Australian Government, *Budget measures: budget paper no. 2: 2009–10*, Commonwealth of Australia, 2009, p. 134, viewed 15 May 2009, <http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm>

562. B Debus

563. *Budget measures: budget paper no. 2: 2009–10*, p. 255.

564. *Budget measures: budget paper no. 2: 2009–10*, pp. 254–255.

565. *Budget measures: budget paper no. 2: 2009–10*, p. 370.

- \$8.9 million over four years for improved intelligence and compliance support at airports and seaports both offshore and onshore.<sup>566</sup>

Since the Budget announcements, some commentators have questioned whether the Government's people smuggling measures are in proportion to actual boat arrivals. One post-Budget press report questioned whether:

The politics of border protection have skewed the Rudd Government's national security priorities with the budget committing \$654 million to stop the flow of asylum seekers heading for Australian shores.<sup>567</sup>

The 'unauthorised' arrival of asylum seekers has raised concerns globally for many decades with most destination countries struggling to maintain a reasonable balance between attending to the needs of displaced people and protecting national borders. In the case of Australia, concerns over 'unauthorised' boat arrivals or 'boat people' have occupied successive governments since the 1970s. However, many argue that the numbers of boat arrivals in Australia are small in comparison to the significant flows of 'unauthorised' arrivals in other parts of the world over the last few decades and that the policy response by governments over the years to unplanned migration in Australia may be excessive.<sup>568</sup>

## Community care and case resolution

Harriet Spinks  
Social Policy Section

The 2009–10 Budget allocates \$77.4 million over four years for 'key immigration compliance and detention policy improvements in community care, status resolution and assisted voluntary returns'.<sup>569</sup> The cost of this measure will be fully offset by savings from within the Department of Immigration and Citizenship's existing funding for detention operations and contract management. The package provides funding for early intervention mechanisms and active case management to assist in achieving a timely resolution of people's immigration status, as well as a program of assisted voluntary returns for people who have no right to remain in Australia and choose to return to their country of origin. These programs are intended to allow for the management in the community of people who have no right to remain in Australia, rather than relying only on immigration detention.

---

566. *Budget measures: budget paper no. 2: 2009–10*, pp. 332–334.

567. P Dorling, 'Border politics drive up funding', *The Canberra times*, 13 May 2009, p. 22, viewed 15 May 2009, <http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressclp%2F7FJT6%22>

568. D McMaster, *Asylum seekers: Australia's response to refugees*, Melbourne University Press, Melbourne, 2001, pp. 9, 98, 125–126.

569. C Evans (Minister for Immigration and Citizenship), *New directions in detention*, media release, Canberra, 12 May 2009, viewed 18 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2009/ce01-budget-09.htm>

The Government has claimed these measures comprise part of a suite of changes it is making to the way immigration detention is used and managed in Australia, a policy agenda it has labelled ‘New Directions in Detention’.<sup>570</sup> However, the measures which will be funded under this allocation are not entirely new. They build on existing measures which were introduced under the previous Government in an attempt to more quickly resolve people’s immigration status and minimise both the likely risk of a person being detained, and the length of time spent in immigration detention.

The proposed Community Status Resolution Service and Assisted Voluntary Return Service, which will be funded under this measure, have developed from the Community Care Pilot, which was introduced in May 2006, and the Community Status Resolution Trial, an extension of arrangements under the Community Care Pilot which commenced in July 2007. The Community Care Pilot focused on providing immigration advice, information and counselling to vulnerable clients, while also addressing their health and welfare needs, to assist them in promptly reaching an immigration outcome and resolving their immigration status. Services were provided through the Australian Red Cross and the International Organization for Migration (IOM). The Community Status Resolution Trial was designed to complement the Community Care Pilot, providing assistance to clients who did not have health and welfare vulnerabilities who wished to depart Australia voluntarily. Clients were referred to the IOM for immigration counselling, information, and voluntary return services.<sup>571</sup>

While the measures being funded under this budget allocation were already being trialled, the funding represents a significant increase in the budgetary commitment to these programs—in both 2007–08 and 2008–09 the budget allocation for the case management and community care pilot was just \$5.6 million.<sup>572</sup>

---

570. See C Evans (Minister for Immigration and Citizenship), ‘New directions in detention—restoring integrity to Australia’s immigration system’, speech delivered at the Australian National University, Canberra, 29 July 2008, viewed 18 May 2009, <http://www.minister.immi.gov.au/media/speeches/2008/ce080729.htm>

571. For more information on the Community Care Pilot and Community Status Resolution Trial see Department of Immigration and Citizenship (DIAC), *Annual report 2007–08*, DIAC, Canberra, 2008, pp. 110–1.

572. Australian Government, *Portfolio budget statements 2007–08: budget related paper no. 1.13: Immigration and Citizenship portfolio*, Commonwealth of Australia, Canberra, 2007, p. 27; and Australian Government, *Portfolio budget statements 2008–09: budget related paper no. 1.12: Immigration and Citizenship portfolio*, Commonwealth of Australia, Canberra, 2007, p. 20.

## Migration and humanitarian programs

Harriet Spinks  
Social Policy Section

The Government has once again announced the migration program planning figures in the context of the Budget, continuing a trend begun in the Rudd Government's 2008–09 Budget. Prior to this, migration program figures were announced outside of the Budget context. The 2009–10 migration program will total 168 700 places, broken down into 108 100 skilled places, 60 300 family places and 300 places for special eligibility.<sup>573</sup> This represents a decrease from 2008–09 migration program planning levels, which were set at 171 800 places.<sup>574</sup>

As had been widely expected, the skilled migration program has been reduced for 2009–10, to 108 100 places. This follows cuts to the 2008–09 skilled migration program, from 133 500 to 115 000 places, announced in March 2009,<sup>575</sup> and brings the skilled migration program roughly back to 2007–08 levels, when 108 540 permanent skilled migration visas were granted. The cuts to the skilled migration program are a response to the current economic downturn and an expected increase in unemployment as the Australian economy slows.<sup>576</sup> However, the reduction in places for skilled migrants has been criticised by some business groups, who claim that it will slow Australia's recovery from recession, and deprive the economy of much needed skills, labour and ultimately revenue.<sup>577</sup>

The reductions will target the general skilled migration category, rather than the employer-sponsored component of the skilled migration program. The Government's intention is to shift the balance of the skilled migration program away from independent skilled migrants, who do not have a job lined up in Australia prior to migrating here, towards sponsored skilled migrants, who have already arranged employment prior to their arrival in Australia.<sup>578</sup> This helps to ensure that skilled migrants coming to Australia are being employed in industries

---

573. C Evans (Minister for Immigration and Citizenship), *Migration program: the size of the skilled and family programs*, media release, Canberra, 12 May 2009, viewed 14 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2009/ce02-budget-09.htm>

574. The actual number of people who came to Australia under the 2008–09 migration program will not be known until the end of the program year.

575. C Evans (Minister for Immigration and Citizenship), *Government cuts migration program*, media release, Canberra, 16 March 2009, viewed 14 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2009/ce09030.htm>

576. C Evans, *Migration program: the size of the skilled and family programs*.

577. P Maley, 'Cuts could hold back recovery', *The Australian*, 14 May 2009, viewed 18 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/RXJT6/upload\\_binary/rxjt60.pdf;fileType=application/pdf#search=%22budget%20migration%22](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/RXJT6/upload_binary/rxjt60.pdf;fileType=application/pdf#search=%22budget%20migration%22)

578. Department of Immigration and Citizenship (DIAC), *The 2009–10 skilled migration program*, fact sheet, Canberra, May 2009, viewed 18 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2009/2009-10-skilled-migration-program-factsheet.pdf>

that have the highest need, and are filling gaps that employers are struggling to fill locally. It also reduces the competition for jobs between Australian workers and independent skilled migrants who arrive in Australia without having employment already lined up.

In January 2009 the Government introduced changes to the skilled migration program for the second half of 2008–09 which meant that skilled migrants who were sponsored by an employer would be given higher processing priority than independent migrants. Priority processing was also introduced for people with skills considered to be in critical shortage in Australia, such as medical and some IT professionals, engineers and construction trade workers.<sup>579</sup> These arrangements will continue during 2009–10, in a further attempt to ensure that the skilled migration program is meeting the areas of most critical need in the Australian labour market.

Further changes to the skilled migration program to be phased in from 1 January 2009 affect those with trade level occupations applying under the independent (non-sponsored) skilled stream. The English language requirement these applicants must meet will increase from International English Language Testing System (IELTS) level five to IELTS level six (IELTS scores range from one being the lowest to nine being the highest). Additionally, from 1 January 2010 onshore applicants in this category will be required to undertake a job readiness test, in line with testing for offshore applicants. These measures are intended to ensure that independent skilled migrants have the skills required to compete in the Australian labour market.

The family stream of the migration program will be increased in 2009–10 by 3800 places, resulting in a total of 60 300 places being available for family migration. The increase is comprised of an additional 2500 places for partners, 1000 places for contributory parents, and 200 places for child visas. This relatively small increase is unlikely to result in any significant reduction in the long waiting periods experienced by many applicants for family migration, particularly as many of the family visa categories with the longest wait have not been allocated additional places. For example, the current waiting period for an applicant for a contributory parent visa is approximately 18 months to two years.<sup>580</sup> The additional 100 places allocated for this category will assist in reducing this waiting time. However, the current wait for a non-contributory parent visa is approximately 10 years, and no additional places have been allocated to help ease the pressure.<sup>581</sup> The increase in places for contributory parent visas is most likely intended to encourage more people to apply in this category, rather than the standard parent visa category. The difference between the two categories is cost—contributory parent visa applicants pay approximately \$30 000 more than applicants for a regular parent visa.<sup>582</sup>

---

579. C Evans (Minister for Immigration and Citizenship), *Migration program gives priority to those with skills most needed*, media release, Canberra, 17 December 2008, viewed 14 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2008/ce08123.htm>

580. DIAC, 'Parent visa processing priorities', viewed 15 May 2009, <http://www.immi.gov.au/migrants/family/parent-visa-processing-priorities.htm>

581. DIAC, 'Parent visa processing priorities'.

582. DIAC, 'Parent Visa Charges', viewed 15 May 2009, <http://www.immi.gov.au/allforms/990i/parent.htm>

The humanitarian program for 2009–10 will be set at 13 750 places, with 7750 of these going to the special humanitarian program, and 6000 to the refugee component.<sup>583</sup> This represents an increase of only 250 places from 2008–09 planning levels, far fewer than refugee advocates had been hoping for. The number of refugees worldwide is increasing, a fact which has been acknowledged by the Government in its attempts to explain the recent increase in the number of asylum seekers arriving in Australia by boat.<sup>584</sup> In this context, refugee advocates had hoped that the Government would significantly increase the number of resettlement places available to humanitarian entrants.<sup>585</sup>

The Government has also announced that it will introduce a formal system of complementary protection, for people who do not meet the definition of a refugee set out in the 1951 refugee Convention, but who are nonetheless at risk of significant human rights abuses should they be returned home.<sup>586</sup> No detail regarding the form the new complementary system will take, or when it will be introduced, has been given.

---

583. C Evans (Minister for Immigration and Citizenship), *Humanitarian program*, media release, Canberra, 12 May 2009, viewed 14 May 2009, <http://www.minister.immi.gov.au/media/media-releases/2009/ce03-budget-09.htm>

584. For example, see A Symonds, 'Rudd defends his asylum policy', *Australian financial review*, 25 April 2009, viewed 15 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/VBDT6/upload\\_binary/vbdt60.pdf;fileType=application/pdf#search=%22refugees%20worldwide%22](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/VBDT6/upload_binary/vbdt60.pdf;fileType=application/pdf#search=%22refugees%20worldwide%22)

585. T Arup, 'Boat puts pressure on visas' *The age*, 12 May 2009, viewed 15 May 2009, [http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/KMIT6/upload\\_binary/kmit60.pdf;fileType=application/pdf#search=%22humanitarian%22](http://parlinfo.aph.gov.au/parlInfo/download/media/pressclp/KMIT6/upload_binary/kmit60.pdf;fileType=application/pdf#search=%22humanitarian%22)

586. C Evans, *Humanitarian program*.

## Indigenous affairs

John Gardiner-Garden, Coral Dow and Michael Klappdor  
Social Policy Section

This year's budget measures continue the Government's commitment to 'closing the gap' between Indigenous and non-Indigenous Australians through targeted funding of \$1.3 billion over four years. A significant proportion—\$807.4 million—is directed to initiatives under the Northern Territory Emergency Response (NTER), now named Closing the Gap in the Northern Territory.

This is in addition to the Federal Government's \$3.6 billion contribution to the Council of Australian Governments' (COAG) National Indigenous Reform Agenda which is committed to achieving 'closing the gap' targets in all jurisdictions. Specifically, the COAG National Partnership Agreements are focussed on remote housing, health outcomes, early childhood development, economic participation and remote service delivery.<sup>587</sup>

The Rudd Government continues the previous Government's focus on achieving outcomes through 'practical measures'. However, the Government has significantly shifted the policy agenda to include a more rights based context beginning with the National Apology in February 2008; the statement of support for the United Nations Declaration on the Rights of Indigenous Peoples in April 2009; a commitment to introduce legislation in the Spring sittings of Parliament to lift the suspension of the *Racial Discrimination Act 1975*; and a commitment to establishing a National Indigenous Representative Body.<sup>588</sup>

### Budget measures

The \$1.3 billion in budget measures funded from all portfolios are classed in four broad categories: economic participation, a focus on remote Australia, Closing the Gap in the Northern Territory and resetting the relationship with Indigenous Australians.<sup>589</sup>

---

587. Australian Government, *Budget statements 2009–10: closing the gap between Indigenous and non-Indigenous Australians*, Commonwealth of Australia, Canberra, 2009, pp. 7–10 and Appendix B, pp. 41–42, viewed 19 May 2009, [http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09\\_10/indigenous/Documents/ClosingTheGap/closingthegap.pdf](http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/indigenous/Documents/ClosingTheGap/closingthegap.pdf) For a listing of measures by portfolio see Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), '2009–10 Indigenous budget at a glance', FaHCSIA website, viewed 20 May 2009, [http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09\\_10/indigenous/Pages/IndigenousBudgetataGlance.aspx](http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/indigenous/Pages/IndigenousBudgetataGlance.aspx)

588. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Resetting the relationship between Indigenous and non-Indigenous Australians*, media release, Canberra, 12 May 2009, viewed 20 May 2009, [http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/reset\\_relationship\\_12may2009.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/reset_relationship_12may2009.htm) and Australian Government, pp. 29–32.

589. *Budget statements 2009–10: closing the gap between Indigenous and non-Indigenous Australians*, pp. 35–40.



## Economic participation

The budget measures include a total of \$310 million to support Indigenous employment; including \$202.4 million in expenditure over five years funded from savings in Community Development Employment Projects program (CDEP) changes. This measure includes the abolition of CDEP in non-remote areas with established economies from July 1 2009. In communities with limited and emerging economies, CDEP will be restructured into a ‘Work Readiness Service’ stream that will provide a personal development pathway for jobseekers and offer employers wage subsidies to take them on, and a ‘Community Development’ stream funding projects to help people develop skills and communities build local capacity.

Savings from the CDEP program reform will also provide \$203.1 million over three years to ensure the sustainability of more than 1600 jobs created in the Northern Territory; \$190.6 million over five years to reform and expand the Indigenous Employment Program (IEP); \$53.6 million over four years for a new Indigenous remote workforce strategy; and, \$21.6 million over four years for the Workplace English Language Literacy program to support reforms of the IEP.

### A focus on remote Australia

This category includes a total expenditure of \$89.1 million, mostly in health measures, including:

- \$58.3 million over four years to improve eye and ear health services for Indigenous Australians, particularly in rural and remote areas, intended to help the 20 000 Indigenous children who suffer from middle-ear infections severe enough to cause hearing loss. The funding will provide at least 1000 extra operations to correct eye and ear problems, and allow more than 10 regional teams to help prevent cases of middle-ear infection in the Northern Territory
- \$11 million over four years to improve access to dental care services in priority areas. The Government says this is to address the ‘significantly worse’ oral health of Indigenous people. Mobile dental facilities will be tested in a trial program to deliver dental services to rural Indigenous communities. Indigenous people are generally 20 per cent less likely to visit a dentist and this gap widens if people are living outside capital cities and
- \$3.8 million over four years to improve pathology services for Indigenous patients.<sup>590</sup>

### Closing the Gap in the Northern Territory

As noted above, a total of \$807.4 million over three years has been committed to continue Closing the Gap in the Northern Territory measures.<sup>591</sup> This includes a commitment of \$34.6

---

590. N Roxon (Minister for Health and Ageing) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Over \$200 million for closing the gap in Indigenous health*, media release, 12 May 2009, viewed 16 May 2009, <http://www.health.gov.au/internet/budget/publishing.nsf/Content/budget2009-hmedia10.htm>

591. J Macklin, (Minister for Families, Housing, Community Services and Indigenous Affairs), *Closing the gap in the Northern Territory*, media release, 12 May 2009, viewed 16 May 2009,

million over three years to facilitate greater engagement with Indigenous leadership, increased communications with communities, and consultation prior to lifting the suspension of the operation of the *Racial Discrimination Act* (RDA).<sup>592</sup>

The Government has released a discussion paper outlining its proposals for changing or improving the initiatives introduced under the NTER so that they conform with the RDA.<sup>593</sup> Consultation on these proposals will inform new legislation to be introduced in October 2009. The discussion paper suggests a number of options for change including:

- individuals being able to apply for an exemption from income management based on their family situation, financial abilities or record of behaviour
- new licensing assessments for community stores
- amended legislation in relation to the five-year leases over Indigenous communities in the NT to clarify the purpose and operation of the leases, and
- allowing for community input and individual requests to be assessed in determining whether bans on alcohol and pornography should continue (as opposed to blanket bans).

Budget expenditure on Closing the Gap in the Northern Territory measures includes:

- \$156.6 million over three years to continue law and order activities, such as funding 60 Northern Territory police officers to replace Federal Police officers deployed under the initial NTER, five permanent and ten temporary police stations, as well as activities supporting alcohol and pornography restrictions
- \$131 million over three years to improve primary care services in remote Indigenous communities in the Northern Territory. The funding provides for follow-up treatments of children for ear, nose and throat conditions and dental problems identified through NTER; for the continuation of the Remote Area Health Corps which provides doctors, nurses and other health workers in remote areas; and the expansion of the existing outreach service that sends teams to treat children injured in abuse-related circumstances
- \$105.9 million, primarily in 2009–10, to continue income management and financial advice to income support recipients
- \$84.1 million to continue field operations, especially the presence of Government Business Managers and interpreter services

---

[http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/closing\\_gap\\_nt\\_1\\_2may2009.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/closing_gap_nt_1_2may2009.htm)

592. *Budget statements 2009–10: closing the gap between Indigenous and non-Indigenous Australians*, p. 32.

593. Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), *Future directions for the Northern Territory Emergency Response—discussion paper*, FaHCSIA, Canberra, 2009, viewed 21 May 2009, [http://www.fahcsia.gov.au/sa/indigenous/proserv/ntresponse/future\\_directions/Documents/discussion\\_paper\\_5.pdf](http://www.fahcsia.gov.au/sa/indigenous/proserv/ntresponse/future_directions/Documents/discussion_paper_5.pdf)

- \$80.2 million over three years to continue 81 night patrol services
- \$45.7 million over three years to continue and expand education initiatives
- \$37.5 million over three years towards the continuation of the School Nutrition Program
- \$32.9 million over three years to continue family support services that include a mobile child protection team and the operation of safe houses
- \$28.4 million over three years for youth diversionary services
- \$18.3 million over three years to continue maintaining and improving community stores
- \$11.2 million towards additional houses for teachers in Indigenous communities
- \$11 million over three years to continue whole-of-government co-ordination and program management and evaluation
- \$10 million for a Local Priorities fund and
- \$9.1 million over three years to fund eight new crèches.<sup>594</sup>

#### Resetting the relationship with Indigenous Australians

This category includes \$64.2 million in expenditure aimed at advancing what the Government describes as its ‘determination to forge a new relationship with Indigenous Australians based on trust and respect’.<sup>595</sup> This includes:

- \$26.6 million over four year for an Indigenous Healing Foundation to help members of the Stolen Generation suffering trauma
- \$13.8 million over four years to help members of the Stolen Generation find families and communities
- \$13 million over four years for the Indigenous Electoral Education Program to improve Indigenous participation in the electoral system and
- \$10.8 million to Reconciliation Australia for education and awareness programs.

#### Commentary

The Budget has won praise from stakeholders and commentators for its record level of funding commitments in Indigenous affairs with criticism focused primarily on the targeting of different measures and remaining funding shortfalls.<sup>596</sup> A key focus of responses to the

---

594. J Macklin, *Closing the gap in the Northern Territory*.

595. J Macklin, *Re-setting the relationship between Indigenous and non-Indigenous Australians*.

596. See, for example, C Graham, ‘A gap stalling budget’, *National Indigenous Times*, 13 May 2009, viewed 20 May 2009, <http://www.nit.com.au/news/story.aspx?id=17769>

Budget related to the continuing need for more funding to address Indigenous health issues. Social Justice Commissioner, Tom Calma, stated that the ‘sheer amount of resources needed by the NT alone highlights the fact that significant investment in Indigenous health across the country is still needed if health equality is to be achieved by 2030’.<sup>597</sup> Budget responses also called for greater participation by Indigenous community leaders in the design and implementation of programs.<sup>598</sup>

---

597. Australian Human Rights Commission, *Budget initiatives welcomed but real engagement crucial*, media release, 13 May 2009, viewed 20 May 2009,

[http://www.humanrights.gov.au/about/media/media\\_releases/2009/35\\_09.html](http://www.humanrights.gov.au/about/media/media_releases/2009/35_09.html)

598. Reconciliation Australia, *Good budget but more indigenous participation needed*, media release, 12 May 2009, viewed 20 May 2009,

<http://www.reconciliation.org.au/home/media/media-releases>

## Reform of family payments

Dale Daniels  
Social Policy Section

The following changes to the indexation of family payment rates were announced in the Budget:

- a longstanding linkage between the rate of Family Tax Benefit Part A (FTBA) and the rate of the pension will be removed so that FTBA will in future be increased in line with movements in the CPI and
- the upper income thresholds for FTBA, Family Tax Benefit Part B (FTBB), Baby Bonus (BB), the Dependant Spouse Rebate (DSR) and other dependency rebates will be frozen at their present levels until July 2012 when normal indexation will resume.<sup>599</sup>

All of these changes require legislative amendments to the family assistance and tax legislation before they can be implemented.

The Government rationale for these changes centres on improving the sustainability of family assistance in the midst of a global recession; improving the targeting of assistance to lower and middle income families; and improving incentives to participate in the workforce in conjunction with changes to the Low Income Tax Offset.<sup>600</sup>

### FTBA indexation

Indexation for family payments to movements in the Consumer Price Index (CPI) was introduced on 1 January 1990. Rates were also benchmarked to a proportion of the pension rate. The rate for a child aged 0 to 12 years was benchmarked to 15 per cent of the combined couple rate of the pension. The benchmark for 13 to 15 year olds was set at 20 per cent of the combined couple rate of the pension. These benchmarks were part of the Hawke Government policy announced in July 1987 to ensure that no child need live in poverty by 1990.<sup>601</sup>

This move ensured that ad hoc increases above normal indexation to the CPI in the pension rate provided by the Labor Government in 1990 and 1993 flowed through to family payments. These increases were delivered to keep the pension rate up with the 25 per cent of average weekly earnings benchmark originally announced by the Whitlam Government.

---

599. Australian Government, *Budget measures: budget paper no.2: 2009–2010*, Commonwealth of Australia, Canberra, 2009, pp. 238–239.

600. J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs) and W Swan (Treasurer), *Reform of Family Payments*, media release, 12 May 2009, viewed 20 May 2009, [http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/reform\\_family\\_payments\\_12may2009.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/reform_family_payments_12may2009.htm)

601. B Howe (Minister for Social Security), *A Fair Deal for Families: Economic Statement April 1989*, media release, 12 April 1989, p. 2.

Under the Howard Government pension indexation was changed from 1998 so that this 25 per cent benchmark for pensions was included in the Social Security Act. The decade after this change saw accelerated growth in average earnings and a lower rate of increase for the CPI. Pension rates more often than not increased in line with movements in average earnings rather than the growth in the CPI. By 2008, the annual pension rate had increased by around \$1500 more than would have been the case if indexed to movements in the CPI alone.<sup>602</sup>

Family payment rates also increased ahead of the growth in the CPI as a consequence of the benchmarks introduced in 1990. The benchmarks were updated with the introduction of the Family Tax Benefit in 2000. The benchmarks for 0 to 12 year olds and the 13 to 15 year olds increased to 16.6 per cent and 21.6 per cent of average earnings respectively. This ensured that the higher rates that came with FTBA were maintained.

Breaking the link with the pension is estimated to save over one billion dollars over the next four years. This estimate is based on the assumption that the CPI will grow less than average earnings. While this is probably a reasonable assumption in the short term, the history of these two measures by no means suggests that it will always be the case.

### **A freeze on upper income test thresholds**

This measure effectively reduces the access of higher income families to a range of family payments and tax rebates. In this respect it furthers the government push to rein in ‘middle class welfare’. Those affected will be families with incomes close to or above twice average weekly earnings. Average weekly ordinary time earnings in the December quarter of 2008 were slightly over \$60 000 per annum. The thresholds to be frozen are:

- \$150 000 per annum for FTBB and DSR
- \$75 000 in the six months after the birth of the child for BB and
- \$94 316 per annum for FTBA.

The first two thresholds are ‘sudden death’ thresholds. Those with income below get a payment and those above miss out. The FTBA threshold on the other hand is the point where the base rate of payment starts to be reduced by 30 cents per dollar of any income above the threshold. This effectively means that families on incomes above the threshold get a reduced payment up to income levels that vary according to the number and ages of the eligible children in the families. For example a family with two children aged under 18 years will get some payment up to an income of \$111 082 per annum.

The income level at which FTBA ceases to be paid is determined by the threshold (now to be frozen) and the rate of payment (now to be indexed at a reduced rate). So both measures will work together to limit access to FTBA to higher income families.

This measure will save nearly \$1.4 billion dollars over the next four years.

---

602. Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), *Annual Report, 2007–08*, FaHCSIA, Canberra, 2008, p. 137.

## Paid parental leave

Dale Daniels  
Social Policy Section

A scheme of paid parental leave (PPL) was announced in the Budget. It will begin on 1 January 2011. The scheme to be introduced is essentially the same as the model developed by the Productivity Commission after the Rudd Government commissioned them to inquire into the form a PPL scheme should take in 2008.<sup>603</sup>

The changes made to the Productivity Commission model are:

- primary carers who earn more than \$150 000 in the full financial year prior to the birth will not be eligible
- two weeks parental leave for the partner of the primary carer was not included in the scheme announced in the Budget but will be reconsidered in a review of the scheme in 2013and
- employers will not be required to pay superannuation guarantee contributions while employees are receiving PPL. This and related superannuation issues will be re-examined in the 2013 review of the scheme.

A booklet setting out the scheme details is available on the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) website.<sup>604</sup>

The introduction of PPL in Australia has been delayed over the last fifteen years by the difficulties associated with designing a scheme that works in the Australian setting. Unlike most OECD countries, Australia does not have a social insurance based welfare system that requires contributions from workers towards a range of benefits provided. Without these contributions from people in employment it has been difficult, on equity grounds, to justify setting up a scheme that basically pays benefits to new mothers in employment, but not to other new mothers.

As a substitute for PPL the Keating Government introduced a means tested lump sum Maternity Allowance in 1996. However, pressure for PPL continued and the Howard Government tried another substitute for PPL—the First Child Tax Offset or Baby Bonus introduced for births after 1 July 2001. It was designed as a refund of tax paid by new mothers in the year before the birth of their first child. This tax refund feature was used to justify the payment of up to \$2500 per annum for up to five years to mothers in employment.

---

603. Productivity Commission, *Paid parental leave: support for parents with newborn children*, Productivity Commission Inquiry Report, no. 47, Canberra, 28 February 2009, viewed 19 May 2009, <http://www.pc.gov.au/projects/inquiry/parentalsupport/report>

604. Department of Family, Housing, Community Services and Indigenous Affairs (FAHCSIA), *Australia's paid parental leave scheme*, FAHCSIA, Canberra, 2009, viewed 19 May 2009, [http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09\\_10/parental\\_leave/Pages/AustraliasPaidParentalLeaveScheme.aspx](http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/parental_leave/Pages/AustraliasPaidParentalLeaveScheme.aspx)

Mothers with no income could get a minimum payment of \$500 per annum for up to five years.

This Baby Bonus proved unsustainable due to an overly complex design and the community's inability to accept the proposition that new mothers with jobs and higher incomes deserved more assistance than mothers not in the workforce. In response, the Howard Government settled in the end for an enhanced Maternity Allowance. It was a simple, larger, un-means tested, lump sum payment called Maternity Payment (later renamed Baby Bonus). The designers of the PPL scheme announced in the Budget appear to have tried to avoid this equity issue by ensuring that stay at home mothers receive only a bit less than PPL mothers. How successful they have been, is yet to be seen.

## Reforms to pensions

Peter Yeend  
Social Policy Section

The Government presented several substantive reforms to the provision of income support to the retired aged (the age pension) and most other pension payment recipients in the 2009–10 Budget under the heading of 'Secure and Sustainable Pensions'.<sup>605</sup> These proposed measures are:

- a one-off increase in the single rate of pension of \$30 a week. The increase will apply to the Age Pension, Disability Support Pension, Service Pension, Carer Payment, Wife Pension, Widow B Pension and Income Support Supplement. The increase is not to be provided to Parenting Payment – Single (PPS) recipients
- a new Pension Supplement which replaces the current Utilities Allowance,<sup>606</sup> Pharmaceutical Allowance,<sup>607</sup> Telephone Allowance<sup>608</sup> and the Goods and Services Tax

---

605. Australian Government, *Budget measures, budget paper no. 2: 2009–10*, Commonwealth of Australia, Canberra, 2009, pp. 240–246, viewed 14 May 2009, <http://www.aph.gov.au/budget/2009-10/content/bp2/html/index.htm>

606. Utilities Allowance is paid quarterly to a person on a qualifying income support payment being Age Pension, Disability Support Pension, Carer Payment, Partner Allowance, Wife Pension, Widow B Pension, Bereavement Allowance or Widow Allowance. From March 2009 Utilities Allowance is \$259.40 per member of a couple and \$518.80 for a single annually.

607. Pharmaceutical Allowance (PhA) is paid fortnightly to a pension payment recipient, or an income support allowance payment recipient during a period of temporary illness or is aged 60 or more. From March 2009 PhA is \$3.00 per week for a single or \$3.00 per week for a couple combined.

608. Telephone Allowance is payable to a holder of a Pensioner Concession Card or a Commonwealth Seniors Health Card. From March 2009 the quarterly rates of Telephone Allowance are \$23.00 single or \$11.50 partnered each. A higher rate of \$34.60 single or \$17.30 partnered each is payable where the recipient has an Internet connection.



(GST) pension supplement.<sup>609</sup> The Pension Supplement is to also be paid to recipients of Widow Allowance, Partner Allowance and other income support payment recipients over Age Pension age

- an increase in the pension income test taper rate, for income in excess of the income test free area, from 40 cents in the dollar to 50 cents in the dollar
- a new income test treatment of earned income from employment. Only half of the first \$500 of fortnightly employment income will be included in the income test. Pensioners can get a maximum benefit of \$125 per fortnight under this Work Bonus
- the closure of the Pension Bonus Scheme
- the upgrading of the indexation requirements for the pension from the current 25 per cent of Male Total Average Weekly Earnings (MTAWE) to 27.7 per cent of MTAWE
- an increase in the qualification age for the Age Pension from age 65 to age 67 to be phased in from 2017 to 2023
- revised pension lump-sum advance payment arrangements allowing higher lump-sum payments amounts and more than one advance in a year
- a new seniors supplement payment for recipients of a Commonwealth Seniors Health Card<sup>610</sup> or Gold Card combining both the current Seniors Concession Allowance (SCA)<sup>611</sup> and the Telephone Allowance, and
- the development of the Pensioner and Beneficiary Living Cost Index (PBLCI).<sup>612</sup>

### Harmer review of pensions

There has been public agitation for increases in the rate of the pension, especially for age pensioners, for some time. The Government announced a general review of the tax system

---

609. The pension GST supplement was introduced as part of the 1 July 2000 Tax Reform Package. It was based upon 4 per cent of the then value of the basic rate of pension. After a deal with the Democrats, it was aimed at ensuring pensioners were not disadvantaged by the price increases resulting from the GST. The GST supplement is indexed to the CPI. From March 2009 the GST pension supplement is \$19.50 single or \$16.30 partnered each.

610. The CSHC is issued to persons over Age Pension age with annual adjusted taxable incomes of less than \$50,000 single or \$80,000 combined.

611. The Seniors Concession Allowance (SCA) is payable to a holder of a CSHC. The annual rate of SCA at 20 September 2008 is \$514.00 per year paid quarterly.

612. W Swan (Treasurer) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Secure and Sustainable Pension Reform: A pension that keeps up with the cost of living*, media release, Canberra, 12 May 2009, viewed 21 May 2009, [http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/pension\\_cost\\_living\\_12may2009.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/pension_cost_living_12may2009.htm)

on 13 May 2008.<sup>613</sup> As part of the review, the Minister for Families, Housing, Community Services and Indigenous Affairs, Jenny Macklin, announced that the Secretary of her portfolio department, Dr Jeff Harmer, would undertake a review of the pension system. The Pension Review (Harmer Review) undertook an investigation into measures to strengthen the financial security of seniors, carers and people with disabilities. The Government released the findings of the Harmer Review on 12 May 2009.<sup>614</sup> The key findings of the Harmer Review addressed through the pension reforms announced in the 2009–10 Budget are:

- single full rate pensioners should be a priority. The existing single rate of pension does not adequately recognise the costs for those wholly reliant on the pension to support them
- the relativity of the rate of pension for singles to that of couples is too low and should be in the range of 64 to 67 per cent. Currently it is around 60 per cent
- the payment of existing supplements and allowances could be simplified by integrating them into either a pension supplement or the base rate
- pension payments should be tied to changes in the actual cost of living faced by pensioners and
- there is scope to target pension increases to those who have little or no private means.

### **One-off increase in the single rate of pension of \$30 per week**

Finding number 3 of the Harmer Review stated:

The Review finds that, on the basis of its analysis of the outcomes achieved by pensioners, evidence provided in the consultations and its analysis of relative needs, the relativity of the rate of pension for single people living by themselves to that of couples is too low.<sup>615</sup>

There was no couple rate of pension from 1909 to 1961, just one rate paid to all persons who qualified. There was then a split to a lower partnered rate recognising that two persons sharing the same accommodation enjoyed some benefits and the costs were not double that of one person; for example, rates and the cost of utilities could be shared.

The Harmer Review also commented on the pension rate and adequacy issue:

Finding 6: The Review finds that, taking into account the totality of the package of the current pension base rates, supplements and the value of the Seniors Bonus, the rate of

---

613. W Swan (Treasurer), *Australia's future tax system*, media release, Canberra, 13 May 2008, viewed 19 May 2009,

<http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/036.htm&pageID=003&min=wms&Year=2008&DocType=0>

614. Australian Government, *Tax review report on the retirement income system*, Commonwealth of Australia, Canberra, 12 May 2009, viewed 19 May 2009,

[http://www.fahcsia.gov.au/about/publicationsarticles/corp/budgetpaes/budget09\\_10/pension/pages/pensionreviewreport.aspx](http://www.fahcsia.gov.au/about/publicationsarticles/corp/budgetpaes/budget09_10/pension/pages/pensionreviewreport.aspx)

615. *Tax review report on the retirement income system*, p. xiii.

pension paid to couples appears to be adequate for those pensioners living in their own homes or public rental housing, and without unusually high costs of health or disability.<sup>616</sup>

The Harmer Review concluded that, in the main, the totality of assistance to coupled pensioners was adequate. However, the Review's analysis did identify an additional group for whom the current rates of total assistance do not appear to be providing a basic acceptable standard of living, that is, pensioners who do not own their own homes and rent privately:

Finding 7: The Review finds that there is strong evidence that many pensioners in private rental housing face particularly high costs and have poor outcomes. Rent Assistance and social housing have complementary roles to play in addressing the financial security of these pensioners. The Review notes that the government has proposed an increased investment in social housing and considers that reforms to Rent Assistance would complement this.<sup>617</sup>

There are thus two main reasons for the one-off increase in the rate of the single pension. Firstly, its relativity to the combined partnered rate of pension. Secondly, the pension rate is inadequate for pensioners to live on against the increasing cost of living, where the pension is their only means of support. The current rates of pension from 20 March 2009 are \$569.80 per fortnight (pf) for singles and \$475.90 pf for each member of a couple.<sup>618</sup> The one-off \$30 per week increase plus the \$2.49 Pension Supplement will bring the single rate of pension to 66.3 per cent of the combined partnered rate of pension.

### **Pension rate increases against increases in the cost of living**

As a matter of legislative requirement, pension rates are indexed twice a year to either Consumer Price Index (CPI) increases or to 25 per cent of Male Total Average Weekly Earnings (MTAWE). Whichever factor provides the greater increase is the factor used. Since 1997, when it was made a legislative requirement, it has been the indexation to MTAWE that has in most cases provided for the pension rate increases, not the CPI increases. Prior to that the previous Hawke and Keating governments maintained the pension rate at 25 per cent of MTAWE as a matter of policy, providing for three separate one-off ad hoc increases above the CPI factor.

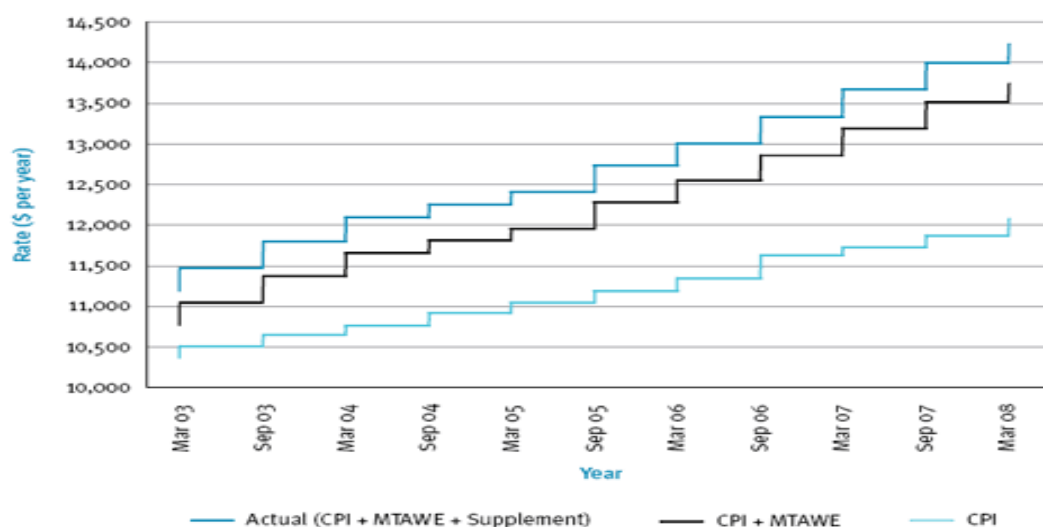
Table 1 tracks the relativity of pension rates to the CPI from March 2003 to March 2008.

---

616. *Tax review report on the retirement income system*, p. xiv.

617. *Tax review report on the retirement income system*, p. xiii.

618. These rates do not include PhA of \$6.00 per fortnight single and \$3.00 per fortnight partnered couple each.

**Table 1: Increases to the single pension rate under actual and alternative scenarios, March 2003 to March 2008**

Source: Department of Families, Housing, Community Service and Indigenous Affairs (FaHCSIA), *Annual report 2007–08*, Canberra 2008, p. 137, viewed 19 May 2009, <http://www.fahcsia.gov.au/about/publicationsarticles/corp/Documents/2008%20Annual%20Report/default.htm>

As can be seen, against cost of living increases (that is, the CPI) the pension rate has more than maintained its adequacy. This is due to its indexation against 25 per cent of MTAW. However, as the Harmer Review suggested, those in the private rental market have done less well. The Government has claimed the proposed single pension rate increase is to improve the financial security of pensioners.<sup>619</sup> It is aimed at addressing the problem of those in private rental. Table 2 demonstrates that age pensioners in private rental have done less well, in real terms, compared to those not in private rental.

**Table 2: Maximum payments to recipients of pension: index of real pension rates, June 2003 to June 2008**

	2003	2004	2005	2006	2007	2008
Age Pension—single	100.0	103.0	103.0	105.1	107.0	108.2
with Rent Assistance	100.0	102.5	102.5	104.2	105.8	106.8
Age Pension—couple	100.0	103.0	103.0	105.2	107.0	108.3
with Rent Assistance	100.0	102.7	102.7	104.6	106.3	107.4

Source: Department of Families, Housing, Community Service and Indigenous Affairs, *Annual report 2007–08*, Canberra 2008, p. 135, viewed 19 May 2009, <http://www.fahcsia.gov.au/about/publicationsarticles/corp/Documents/2008%20Annual%20Report/default.htm>

Other measures in the pension package are aimed at addressing the issue of the future maintenance of the rate of pension. These are the proposed new indexation factor of 27.7 per cent of MTAW and the new indexation benchmark, the PBLCI. From September 2009, the rate of pension will be indexed to three factors: movements in the CPI, 25 per cent of

619. *Budget measures: budget paper no. 2: 2009–10*, pp. 242–243.

MTAWE and the proposed new index for pensioners and beneficiaries, the PBLCI. There is no indication yet as to what factors the PBLCI will consist of.

### **Pension Supplement**

The pension changes presented in the 2009–10 Budget feature a collapsing of several supplementary pension payments into a new Pension Supplement. The Pension Supplement will be \$1462.76 a year for a single person or \$2199.60 for couples. For the 20 September 2009 rate increases, the Pension Supplement rate will increase the amounts provided to single pensioners by \$2.49 per week and \$10.14 per week (combined), or \$5.07 per week each, for partnered rate recipients.

The new Pension Supplement replaces the current Utilities Allowance, Pharmaceutical Allowance (PhA), Telephone Allowance and the Goods and Services Tax (GST) pension supplement. The Pension Supplement is to be paid fortnightly from 20 September 2009 and from 1 July 2010 pensioners will have the choice to be paid quarterly. The Pension Supplement is also to be accompanied by a Seniors Supplement which will combine both the current Telephone Allowance and the Seniors Concession Allowance for CSHC holders.<sup>620</sup>

#### **Pension Supplement income test**

The Pension Supplement, unlike the payments it is replacing, can be reduced by income. Currently, the supplement payments that are to be replaced are not income tested, with entitlement contingent only on a person being entitled to a qualifying pension or benefit payment. With the proposed new Pension Supplement, even were income reduces the qualifying pension or benefit payment to zero, the Pension Supplement can still be paid and then reduced by income. The reduction rate will be at the same rate as the proposed new pension income test taper rate, that is, 50 cents in the dollar for excess income over the free area. The Pension Supplement can be reduced to \$15.20 a week for a single or \$22.90 a week for couples before it is also not payable.

#### **Comment**

The Pension Supplement will enable the simplification and rationalisation of several different payments. Currently the PhA and the GST pension supplement are part of the pension rate but the Utilities Allowance and the Telephone Allowance are not part of the rate. For the first time, persons whose income exceeds the income test cut-off point for the basic pension may still be entitled to some supplement payment in the form of the Pension Supplement.

The pension rate increases and the Pension Supplement are not to be provided to recipients of the PPS. The PPS originated in 1973 as the Supporting Mother's Benefit, then later the Supporting Parent's Benefit and later the Sole Parent Pension. Since its inception, it has been paid at the pension rate of payment and using the pension means testing arrangements. Not including the PPS with the other pension payments in relation to the one-off \$30 increase and the increased income test taper rate, will indirectly create a new tier of income support. The

---

620. Seniors Concession Allowance is paid quarterly to holders of a CSHC and from 20 March 2009 is \$129.70.

PPS will be paid at a higher rate than the other allowance payments (such as Newstart Allowance) but at a lower rate than the other pension rate payments.

The increased taper rate of 50 cents in the dollar of excess income returns the pensions' income test taper rate back to the rate it was before July 2000. This was when it was reduced to 40 cents in the dollar under the compensation arrangements for the introduction of the Goods and Services Tax. A higher taper rate allows fewer people with higher incomes access to a pension. Under the proposed new income test rules, the income test cut-off limits will be reduced from \$47,444 to \$38,693 per annum and for couples, their combined income from \$72,423 to \$59,228. This targets the pension to those on lower incomes and will realise savings.

Some pensioners will benefit from transitional arrangements that will apply to those currently on a part-rate pension who would otherwise suffer a loss of payment rate under the new higher taper rate. Their rate will be preserved in real terms and they will also get the benefit of the new Pension Supplement until they are better off under the new rules. This is achieved by way of the pension rate increasing over time due to the indexation arrangements—see 'Pension rate increases against increases in the cost of living' above. Around 70 per cent of all existing pensioners will be immediately better off following the reforms and will move to the new system immediately. This includes around 93 per cent of all single rate pensioners.

The separate and new income test (Work Bonus) for earned income has the benefit of encouraging employment. However, it adds some complexity to the income test.

### **Change to nursing home daily care fee**

One of the concerns expressed about any increase in the pension rate has been the resultant increase in the daily care fee charged for persons in residential aged care. The *Aged Care Act 1997* (ACA) stipulates that the maximum amount of the daily care fee for a person in residential aged care is currently 85 per cent of the basic single rate of pension. A raising of the single rate of pension by \$30 per week would normally see 85 per cent of this increase added to the fee. The Government has announced that it intends amending the ACA to reduce the maximum fee amount down to 84 per cent of the basic single pension rate.<sup>621</sup>

### **Raising the age pension age to 67**

The 2009–10 Budget includes a proposal to gradually raise the Age Pension access age to age 67, commencing July 2017 and reaching age 67 from 2023. The Age Pension access age has been 65 since its inception in 1909. In fact, in 1909 the access age was 65 for both men and women, but it reduced to age 60 for women in 1910. The age pension access age for women has been incrementally raised from age 60 to 65 and this will be completed in 2014.

Life expectancy at birth in 1901–10 for males was 55.2 years; and for females, 58.8 years.<sup>622</sup> Life expectancy at birth in 2005–07 was for males, 79 years; and for females, 83.7 years.<sup>623</sup>

---

621. *Budget measures: budget paper no. 2: 2009–10*, pp. 317–318.

622. Australian Bureau of Statistics (ABS), *Australian historical population statistics, 2008*, cat. no. 3105.0.65.001, ABS, Canberra, 2008, viewed 20 May 2009,

Other countries have recently announced increases in their age pension access age. In the United Kingdom (UK), the Parliament is currently debating pension reforms presented in a 2006 White Paper. Reforms include taking into account increasing longevity and encouraging extended working lives. It is proposed that the State Pension age will rise gradually from age 65 (men and women) to age 68 by 2044. In the United States the access age is being incrementally raised to age 67 by 2027. In Germany, between 2012 and 2029, the normal pensionable age will rise from age 65 to age 67 with eligibility requiring at least 5 years contributions from employment income into their personal pension fund amount. In Germany for persons born after 1964, the pensionable age is 67. From 2012, the full pension is payable at 65 with at least 45 years contributions.

Table 3 outlines how the proposed Australian changes will affect different age groups.

**Table 3: Proposed raising of the age pension age in Australia: who will be affected**

Date	New age pension age	Affects people born	When group reaches new age pension age
1 July 2017	65 years & 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
1 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
1 July 2021	66 years & 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
1 July 2023	67 years	From 1 January 1957	From 1 January 2024

Source: J Macklin, (Minister for Families Housing, Community Services and Indigenous Affairs), *Secure and sustainable pension reform: Age Pension age*, media release, Canberra, 12 May 2009, viewed on 21 May 2009,

[http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/age\\_pension\\_12may2009.htm](http://www.jennymacklin.fahcsia.gov.au/internet/jennymacklin.nsf/content/age_pension_12may2009.htm)

### The Pensioner Beneficiary Living Cost Index

The establishment of a new and extra indexation factor for the pension rates, the PBLCI, was announced in the Budget.<sup>624</sup> It will be interesting to see whether such a pensioner/beneficiary specific price index will realise a different factor for indexation. The argument has been made that the basket of goods used for the CPI is not representative of the spending of aged pensioners. This may equally be true for other population groups. However, the ABS has constructed several population sub-group specific indices, the earliest going back to 1981 and

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3105.0.65.0012008?OpenDocument>

623. Australian Bureau of Statistics (ABS), *Deaths, Australia, 2007*, cat. no. 3302, ABS, Canberra, 2008, viewed 20 May 2009,

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/C67A858BA00CB846CA2568A9001393C6?OpenDocument>

624. W Swan (Treasurer) and J Macklin (Minister for Families, Housing, Community Services and Indigenous Affairs), *Secure and Sustainable Pension Reform: A pension that keeps up with the cost of living*.

latest covering the period 1998 to 2005.<sup>625</sup> All of this work has shown that these specific indices (and there is one for aged pensioners) are changing at virtually the same rate as the overall CPI.

Using the latest example, over the period June 1998 to June 2005, the ABS' aged pension household specific index rose by 23 per cent while the All Groups CPI rose by 22.6 per cent. What this means is that the basket of goods and services that aged pensioners are buying rises in price (inflates) at around the same rate as the basket of goods used to calculate the All Groups CPI.

### Cost of the age pension

The tables below set out the cost of the age pension since the 1996–97 Budget.

**Table 4: Costs of the age pension 1996–97 to 2007–08 (\$ billion)**

Payment name	1996-97	1997-98	1998-99 (a)	1999-00	2000-01	2001-02
Age pension	13.03	13.11	13.57	14.15	15.69	16.65

Payment name	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Age pension	17.77	19.02	19.88	20.67	22.83	24.67

(a) The 1998–99 Budget saw the change from cash accounting to accrual accounting. All amounts from the 1998–99 Budget onwards are accrual. All amounts up to the 1997–98 Budget are cash.

Source: Parliamentary Library—data compiled from Portfolio Budget Statements 1996–97 to 2007–08.

The Age Pension cost estimates as presented in the 2009–10 Budget are outlined in Table 5, below:

**Table 5: Budgeted expenses for income support for seniors**

	2008-09 Revised budget \$'000	2009-10 Budget \$'000	2010-11 Forward year 1 \$'000	2011-12 Forward year 2 \$'000	2012-13 Forward year 3 \$'000
Special Appropriations:					
<i>Social Security (Administration) Act 1999</i>					
Age Pension	28,080,203	29,193,728	31,574,317	33,674,697	36,049,698
Widow B Pension	7,998	7,695	7,733	7,525	7,455
Wife Pension (Age)	157,217	139,731	126,105	118,767	109,189
Program Support <sup>1</sup>	346,214	19,241	19,013	19,049	17,444
<b>Total program expenses</b>	<b>28,591,632</b>	<b>29,360,395</b>	<b>31,727,168</b>	<b>33,820,038</b>	<b>36,183,786</b>

Source: Australian Government, Portfolio budget statements 2009-10: budget related paper no. 1.7: Families, Housing, Community Services and Indigenous Affairs portfolio, Commonwealth of Australia, Canberra, 12 May 2009, p. 91, viewed 19 May 2009, [http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09\\_10/Pages/PortfolioBudgetStatements2009-10.aspx](http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget09_10/Pages/PortfolioBudgetStatements2009-10.aspx)

625. Australian Bureau of Statistics (ABS), *Analytical living cost indexes for selected Australian household types: update to June 2005*, cat. no. 1350.0, ABS, Canberra, 31 August 2005.



The Age Pension is the single biggest program item cost in the Federal Budget. The following points help to place the proposed changes into some perspective.

- cost of the Age Pension for 1996–97 was \$13.03 billion which was 10 per cent of then total Commonwealth outlays of \$129.68 billion for that year
- the estimated cost of the Age Pension for the 2009–10 year is \$29.2 billion, which is 8.6 per cent of estimated total Commonwealth outlays of \$338.2 billion
- the estimated cost of the Age Pension for 2012–13 is \$36 billion, which is 9.6 per cent of estimated total Commonwealth outlays of \$375 billion for that year
- the cost of providing the Age Pension at about \$30 billion is a large amount for any single program, especially when compared to the whole of the Defence budget, which in the 2009–10 year is estimated to be \$20.9 billion. Therefore, any Government is likely to proceed carefully with any policy decision to increase the rate of the Age Pension, let alone all pensions. Despite the decline in Age Pension expenditure as a proportion of total Commonwealth outlays, \$30 billion remains a very large amount.

## Student income support

Michael Klapdor and Dr Matthew Thomas  
Social Policy Section

Concerns over the adequacy of student income support and the equity and efficiency of the higher education student income support system have been mounting for some time. For a number of years, students, student representative bodies, universities and the Australian Vice-Chancellors' Committee (now Universities Australia) have been calling for more generous support for students, and for changes to the income support system that would reflect changing higher education student profiles.<sup>626</sup>

In 2005, the Senate Employment, Workplace Relations and Education References Committee tabled the report of its inquiry into student support measures.<sup>627</sup> In this report, the Committee was critical of the inadequacy of student income support. Among other things, it found fault with the harshness of Youth Allowance eligibility criteria relating to the age of independence and the parental income test threshold. These failings, the Committee argued, both penalised those students who were most in need of financial assistance and had a detrimental impact on these students' academic participation rates and success.

The Committee's findings found support in the *Review of Australian Higher Education* (the Bradley Review), released in December 2008.<sup>628</sup> The main conclusion of the Bradley Review

---

626. Students are coming from increasingly diverse social backgrounds and are working more hours than was previously the case.

627. Senate Employment, Workplace Relations and Education References Committee, *Student income support*, Commonwealth of Australia, Canberra, June 2005.

628. Department of Education, Employment and Workplace Relations (DEEWR), *Review of Australia higher education: final report*, D Bradley (chair), DEEWR, 2008, pp. xi–xii.

was that there is a need for an increased number of people with high-level skills in order to ensure Australia's competitiveness into the future. If this goal is to be achieved and progress made towards the goal of a just and equitable society, the Review argued, then this necessitates the increased participation in higher education of people from disadvantaged groups, including Indigenous people, people with low socio-economic status and those from regional and remote areas.<sup>629</sup> These people are currently under-represented in Australia's higher education system. A significant barrier to the higher education participation and success of people from disadvantaged groups is these people's economic circumstances. While government income support for students in higher education is currently available in the form of Youth Allowance, Austudy, ABSTUDY and various Commonwealth scholarships, the level of support provided through these programs has been criticised as insufficient and the eligibility requirements for some support too restrictive.

The student income support measures contained in the Budget may be interpreted as seeking to address some of these issues and to provide increased support for those students most in need.

### Key measures

#### Reducing the age of independence

The age of independence is the age at which young people are automatically considered to be financially independent from their parents for the purpose of determining income support payment rates. The current age of independence is 25 years. Young people can be considered independent at an earlier age if they meet certain criteria establishing that they should not be considered to be dependent upon or able to receive assistance from their parents. Under this measure, young income support recipients will automatically be considered independent if they are aged 24 years in 2010, 23 years in 2011 and 22 years from 2012 onwards. The changes are expected to benefit around 24 000 new and existing recipients over the next four years.<sup>630</sup>

#### Parental income test

The parental income test threshold will be increased to match that of Family Tax Benefit A (FTB-A). The parental income test is applied to all students receiving Youth Allowance or ABSTUDY who are not considered independent. The income test threshold (the parental income amount that can be reached before payment is affected) will be increased from the current rate of \$32 800 to \$42 559. This represents a considerable increase of almost 30 per cent. Under the current arrangement, the parental income test threshold is increased for each additional child. The new arrangements will simplify this system by instituting a single

---

629. DEEWR, *Review of Australia higher education: final report*.

630. DEEWR, *Student income support – age of independence*, fact sheet, DEEWR, viewed 14 May 2009, [http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-16\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-16_webaw.pdf). It is worth noting that the Bradley Review estimated that 64 000 new and existing Youth Allowance recipients would benefit in the first year if the age of independence was lowered to 22 immediately rather than gradually. The reason for the discrepancy between the Government's and the Bradley Review's figures is not clear. DEEWR, *Review of Australia higher education: final report*, p. 247.

threshold, but one that has a lower taper rate. The taper rate at which the income support payment is reduced will be lowered from 25 cents to 20 cents for every dollar that is earned over the threshold.

According to the Government's estimates, around \$507 million of the \$1.07 billion cost of the parental income test measures over four years will come from the redirection of funding that would otherwise have gone towards FTB-A payments. It is estimated that as a result of the changes an additional 67 800 young people will be able to access income support and that 34 600 existing income support recipients will have their payments increased.<sup>631</sup>

#### Personal income test

Under current arrangements, personal income above \$236 per fortnight result in 50 cents in the dollar being deducted from Youth Allowance and ABSTUDY payments, and amounts earned over \$316 results in 60 cents in the dollar being deducted. Over the three years from 2010–2011 to 2012–2013, the personal income test free area for students will increase from \$236 per fortnight to \$400 per fortnight. The first \$80 earned over \$400 will incur a reduction in students' income support payments of 50 cents in every dollar. Any amount earned over \$480 will result in 60 cents in every dollar being deducted. Thus, this measure will enable students to earn much more from work to supplement their Youth Allowance and ABSTUDY payments.

#### Abolishing two of the workforce participation criterion for early independence

A key finding of the Bradley Review was that student income support was being paid to students living in high income households. Forty-nine per cent of Youth Allowance recipients who are living at home are living in households with incomes over \$80 000.<sup>632</sup> Under the current work participation requirements for independence, a person must have:

- worked full-time (at least 30 hours a week) for at least 18 months in the previous 2 years, or
- worked part-time (at least 15 hours a week) for at least 2 years since leaving school, or
- have been out of school for at least 18 months and earned at least 75 per cent of the maximum rate of pay under Wage Level A of the Australian Pay and Classification Scale (that is, \$19 532 in 2009) in an 18 month period.

Under this measure, the second and third of the above criteria will be abolished, preventing many young people who previously took 'gap' years or who were employed after finishing school from claiming independence and escaping the parental income test on their payments. Young people will still be able to claim independent status after working 30 hours a week for at least 18 months in a two year period, or if they meet any of the other non-work related criteria. The Government estimates that around 30 700 of current prospective recipients will

---

631. DEEWR, *Student income support – parental income test*, fact sheet, DEEWR, viewed 14 May 2009, [http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-15\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-15_webaw.pdf)

632. DEEWR, *Review of Australia higher education: final report*, p. 53.

be affected by this measure, and that it will save \$1.8 billion over four years.<sup>633</sup> Generally speaking, the measure will result in some prospective recipients receiving a lower amount of income support than they would have received under the current arrangements. Other prospective recipients will lose their entitlement to Youth Allowance at an independent rate, altogether.

#### Student start-up scholarship

A new start-up scholarship has been introduced for all university students in receipt of student income support. The scholarship, which is to commence from 1 January 2010, will be paid at a rate of \$2254 in 2010, and then adjusted on an annual basis by the Consumer Price Index (CPI). The Government has allocated \$1.3 billion towards this measure over the forward estimates period.

#### Comment

The rate of Youth Allowance has not changed (apart from indexation increases) since it was introduced in 1998. The decision not to increase the rate of Youth Allowance as a part of the Budget means that many students will be obliged to continue to balance work with study in order to make ends meet. Given that the highest rate of payment that can be attained by singles on Youth Allowance (\$371.40 per fortnight) currently falls well short of Newstart Allowance for singles (\$453.30 per fortnight), it may be argued that this discrepancy provides a disincentive for young people (and especially disadvantaged people) to participate in higher education rather than seeking full-time employment.

A Universities Australia survey conducted in 2006 indicated that the average undergraduate student receives \$2170 a year in income support.<sup>634</sup> Thus, while the student start-up scholarships will make a considerable difference to these students' total income, the level of support provided to students nevertheless falls short of that provided under other benefits.

The changes to the eligibility criteria for proof of independence for the purposes of determining income support will have major implications for many prospective students.<sup>635</sup>

---

633. DEEWR, *Student income support – workforce participation criterion*, fact sheet, DEEWR, viewed 14 May 2009,

[http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-22\\_webaw.pdf](http://www.deewr.gov.au/HigherEducation/Documents/PDF/Pages%20from%20A09-303%20Budget%20Fact%20Sheets-22_webaw.pdf); Australian Government, *Budget measures: budget paper no. 2: 2009–10*, p. 159.

634. Universities Australia, *Australian university student finances 2006*, Universities Australia, August 2007, p. 5, viewed 15 May 2009,

<http://www.universitiesaustralia.edu.au/documents/publications/policy/survey/AUSF-Final-Report-2006.pdf>

635. Those most obviously affected are the estimated 30 700 people who deferred a place at university this year in order to meet the existing independence criteria. These people will not have qualified before the January 2010 cut-off date. Senator Gary Humphries is reported as having called on the Government to delay the commencement date of the measure until July 2010 to ensure that those people currently taking a 'gap' year will not be adversely affected. Based on a report of Minister Julia Gillard's response to such a request in the *Canberra Times* of 15 May, it would appear that the Government is reluctant to do so. Minister Gillard is reported as having stated that 'many of the students who would have gained eligibility

Although the measure is primarily aimed at reducing access to income support for those living in high income households, it will also affect many students from families on middle incomes and students who move away from home in order to study. Students may delay tertiary study for at least 18 months in order to meet the full-time work criterion for independence. This could prove to be a difficult task in what is a highly competitive job-market for low-skilled workers. Others may be forced to remain at home in order to reduce costs for their families, and this could limit their study opportunities, especially in the case of young people in rural and regional areas. A large number of students currently taking a ‘gap’ year in order to meet the criteria for independence face an uncertain future and potentially difficult choices; they need to determine how they are going to support themselves whilst studying, whether or not to delay their studies and whether or not they wish to, or are able to, remain dependent on their families. These disincentives to pursue tertiary studies would appear to run counter to the stated aims of the Government in increasing participation in higher education.

Overall, the measures will help to provide greater assistance to those students who are most in need through more progressive targeting of those students who require support. The measures will also allow students to supplement their student income support payments with more income from work, and the new scholarships will be especially welcomed. There is, however, a large pool of students from middle income families who will be negatively affected by the independence requirements. The measure will affect this group in terms of their ability to demonstrate independence from their families, their freedom to move away from home in order to study the course of their choice and their being forced to compete in the job market so as to qualify as independent for the purposes of income support, when they decide to study.

It is worth noting that it is unclear just how the new ‘Jobs and Training Compact with Young Australians’ measure will interact with the student income support measures.<sup>636</sup> Under the compact, those students who choose to delay tertiary study and compete in the job market will no longer be entitled to Youth Allowance whilst they are unemployed. The stricter independence requirements will also mean that many of those who take up one of the training places being offered under the compact will remain dependent on their families for support.

---

through the old independence criterion will automatically be eligible as a result of the increases to the parental income test’. E Macdonald, ‘Youth Allowance concern mounts’, *Canberra Times*, 15 May 2009, p. 5.

636. See Council of Australian Governments, *Communiqué*, Hobart, 30 April 2009, p. 3, viewed 15 May 2009, [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-04-30/docs/20090430\\_communique.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2009-04-30/docs/20090430_communique.pdf)

---

© Copyright Commonwealth of Australia

This work is copyright. Except to the extent of uses permitted by the *Copyright Act 1968*, no person may reproduce or transmit any part of this work by any process without the prior written consent of the Parliamentary Librarian. This requirement does not apply to members of the Parliament of Australia acting in the course of their official duties.

This work has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Parliamentary Library, nor do they constitute professional legal opinion.

Feedback is welcome and may be provided to: [web.library@aph.gov.au](mailto:web.library@aph.gov.au). Any concerns or complaints should be directed to the Parliamentary Librarian. Parliamentary Library staff are available to discuss the contents of publications with Senators and Members and their staff. To access this service, clients may contact the author or the Library's Central Entry Point for referral.

---