





### **Who we are**

ACOSS is the peak body of the community services and welfare sector and a national voice for the needs of people affected by poverty and inequality.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

### **What we do**

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

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## Table of abbreviations

ACOSS	Australian Council of Social Service
CCB	Childcare Benefit
CCR	Childcare Rebate
CPI	Consumer Price Index
DHS	Department of Human Services
DSP	Disability Support Pension
FASD	Foetal Alcohol Spectrum Disorder
FTB	Family Tax Benefit
FVPLS	Family Violence Prevention and Legal Services
GDP	Gross Domestic Product
GP	General Practitioners
JET	Jobs, Education and Training
LISC	Low Income Super Contribution
NATSILS	National Aboriginal and Torres Strait Islander Legal Services
NDIS	National Disability Insurance Scheme
NPA	National Partnership Agreements
NPAH	National Partnership Agreement on Homelessness
NRAS	National Rental Affordability Scheme
NSA	Newstart Allowance
PBS	Pharmaceutical Benefits Scheme
PPL	Paid Parental Leave
SIHIP	Strategic Indigenous Housing and Infrastructure Program
TTR	Transition to Retirement



# 1 Overview

## 1.1 Summary

The 2016-17 Budget comes at a challenging time for public policy. Economic growth remains sluggish as the economy transitions away from the mining boom. Governments face fiscal pressures both from this economic adjustment and from the ageing population. At the same time, core Government services and payments are not meeting the community's needs. Our health, education, disability, aged care and community services are under strain and the gaps in our social security system are leaving many vulnerable people exposed to poverty and financial stress.

Consistent with the consensus view emerging from last year's National Reform Summit, ACOSS believes the only fair and sustainable way to resolve this problem is to simultaneously raise revenue and improve the cost-efficiency of high-growth expenditure programs such as health care. The Budget cannot be restored by cutting expenditure alone, and it cannot be restored by shifting costs to people on low incomes and State and Territory Governments, as was attempted in the 2014 Budget, without severe and damaging economic and social impacts.

The new measures in the 2016-17 Budget have little overall impact on the bottom line over the next four years: they reduce revenue by \$1 billion and cut expenditure by \$3 billion. The biggest impacts come from measures announced in 2014 which this Budget 'locks in', including \$13 billion in unlegislated Commonwealth spending cuts, and cuts to health and schools funding that were originally estimated to cost the States and Territories \$80 billion over the next decade. The Budget confirms the Government's previous announcement that \$3 billion of the health cuts and \$1 billion of the schools funding will be restored over the next four years, but there is no commitment beyond the forward estimates on schools funding.

### The revenue side:

The Budget's economic centrepiece is a staged reduction in business income taxes – starting with small business and working upwards until the tax rate is reduced to 25% for all companies in a decade's time. Together with a personal tax cut for individuals earning more than \$80,000, these measures are estimated to reduce public revenue by \$9 billion over the next four years and over \$50 billion over the next 10 years. This is partly funded by \$3 billion in tax 'integrity' measures targeting tax avoidance by multinational companies and wealthy individuals.

ACOSS warned, prior to this Budget, that we cannot afford income tax cuts at this time. Our priority should be removing tax concessions and avoidance opportunities to secure





necessary revenue and make room to address bracket creep when this is affordable– and that remains our view<sup>4</sup>. The business income tax cuts are projected by Treasury to raise national income by 0.6% over the long term (for example, 20 years), but they will not ‘pay for themselves’ in the foreseeable future<sup>5</sup>. Moreover, the economic benefits of many of these measures (including the personal tax cut and lower tax rates for small companies) is doubtful.

The Budget is the first substantive outcome from the major tax review launched by the Government in February 2015. It is unacceptable that reforms to several major tax concessions, a priority for action agreed by the National Reform Summit, were either ruled out (in the case of capital gains and negative gearing) or ignored (for example, private trusts and companies). A firm position that the Budget would not increase overall revenue narrowed the scope of Budget announcements essentially to superannuation and to tax avoidance by multinational companies.

Nevertheless, the Government has made a strong start in those two areas of tax reform. The superannuation changes would improve its ‘fitness for purpose’ (adequate retirement incomes for all and reduced reliance on Age Pensions) in two ways. First, they would shift tax concessions for contributions from the top 4% of fund members towards the lowest 25%. Second, they would improve the integrity of the tax treatment of super post-retirement by removing the tax-free status of fund earnings (interest dividends and capital gains) where fund members have over \$1.6 million in super or are using ‘Transition to Retirement’ strategies. This would curb the use of superannuation as a wealth and estate management tool by people with high incomes.

The proposed ATO Tax Avoidance Task Force is projected to raise an extra \$3 billion, and the ‘diverted profits tax’, together with new financial disclosure rules, would make it harder for international companies to shift their profits to lower taxed jurisdictions.

The Budget also raises \$5 billion from increases in tobacco excise, which, although they disproportionately impact low income households, are likely to bring health benefits.

It is vital that these important Budget announcements are perceived as the first step, rather than the last, in comprehensive tax reform – including superannuation and business income tax. If major tax reform ends with this Budget, the public revenue base will be further eroded over the medium to long term, and opportunities to strengthen economic and jobs growth by taxing investments more consistently and moving away from inefficient taxes towards more efficient ones such, will be missed. Tax reform must include reform of the federation that puts funding for essential services on a sustainable path and underpins far reaching reform of State and Territory taxes.

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<sup>4</sup> ACOSS (2016) *Tax Talks 2 - Fuel on the fire: negative gearing, capital gains tax and housing affordability*. Available: [http://www.acoss.org.au/wp-content/uploads/2016/04/Fuel\\_on\\_the\\_fire\\_ACOSS.pdf](http://www.acoss.org.au/wp-content/uploads/2016/04/Fuel_on_the_fire_ACOSS.pdf)

<sup>5</sup> Treasury (2016): *Analysis of the long term effects of a company tax cut*. Treasury Working Paper 2016-2



## The expenditure side:

On the expenditure side, the Budget locks in \$13 billion (over the next four years) in previously announced spending cuts which have failed to pass the Parliament (see Appendix 1). Of particular concern are proposed reductions in unemployment and family payments, the extension of the pension age to 70, abolition of the Pensioner Education Supplement, youth income support waiting periods and cuts to paid parental leave benefits.

A further \$8 billion in major spending cuts were announced in the Budget (Table 5). Of particular concern here are the abolition of 'Energy Supplements' for people receiving social security payments, a further freeze on Medicare rebates, restricted access to public dental schemes, and further reductions in funding for Centrelink and community-based health services.

Some of these cuts are inappropriately linked to funding for the National Disability Insurance Scheme (NDIS) via an 'NDIS Savings Fund'. Among those that would have a harsh impact on the living standards of people at risk of poverty are the following:

- The social security component on the carbon compensation package, the 'energy supplement', would not be paid to new income support recipients, including people receiving pensions, allowances and family payments. This would result in income losses of \$4.40 a week for people receiving the unemployment payment, and \$7.10 a week for pensioners. In stark contrast, the tax cuts associated with the carbon compensation package are retained in the Budget.
- 90,000 people relying on the Disability Support Pension (DSP) would have their capacity to work reassessed, with a projected saving \$62 million over 4 years. Those assessed as no longer being eligible for the DSP would likely be transferred to the Newstart Allowance which is \$170 a week lower.

In addition to substantial funding cuts to essential services announced in the 2014 Budget, this Budget proposes to reduce funding further in the following critical programs:

- The new Child and Adult Dental Scheme represents a real funding cut for dental services and will place additional pressure on already overloaded State and Territory public dental systems.
- The freezing of Medicare rebates for a further four years would undermine access to primary health care by reducing bulk billing rates.
- Similarly, the freezing of health 'Flexible Funds' funding levels for another two years would further weaken the ability of community-based health services to assist and advocate on behalf of people facing financial disadvantage.



- Proposed administrative 'efficiencies' of \$80 million over four years in the Department of Human Services raise the prospect that already seriously inadequate Centrelink services will be further eroded.

In child care and higher education, the Budget defers final decisions on changes which attracted widespread concern. We urge that, if re-elected, the Coalition Government will take the opportunity to consult widely on these measures and remove elements (including the tighter 'work test' for access to subsidised child care) that would have regressive impacts.

The Budget includes some modest changes of direction in policy that have the potential to improve access to essential services and reduce poverty if adjustments to announced settings are made.

The most significant of these is the proposed Youth Jobs PaTH (Prepare-Trial-Hire) program that would partly replace the failed Work for the Dole scheme. ACOSS has welcomed the refocussing of employment assistance for young people away from the Work for the Dole towards work experience in regular jobs, a form of employment assistance which has the potential to substantially improve job outcomes for people who are unemployed long term. The expansion of wage subsidies for paid work experience (Phase Three) is particularly welcome.

The proposed internships extend the existing unpaid work experience programs from four to up to 12 weeks and add new elements including a \$100 per week supplement for participants and \$1,000 payment to sponsoring employers. Since they pose risks for unemployed people as well as the potential benefit of a new entry point to paid employment, we have not endorsed the internships in their present form.

To realise the potential of the Youth PaTH scheme, and protect against the risks associated with the internship component, ACOSS has argued that participants be paid at least the hourly equivalent of the relevant minimum or training wage, through capping working hours or increasing the \$100 payment. We have also advocated strict guidelines to prevent displacement of existing workers and 'churning' of participants through placements and to ensure workplaces are safe<sup>6</sup>. Participants and sponsoring employers should be mentored and participation should be genuinely voluntary. An option should be included allowing participants to exit a placement at any time without financial penalty.

Another two initiatives that receive modest start-up funding in the Budget have potential to make a difference to the lives of people in poor health or at risk of entrenched poverty:

- \$21 million to trial a 'Health Care Homes' model of health care for people with chronic illness;

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<sup>6</sup> ACOSS (2016): *Policy briefing on the Youth jobs PaTH program*. Available: [http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-policy-briefing\\_Youth-Jobs-PaTH-program\\_May-2016.pdf](http://www.acoss.org.au/wp-content/uploads/2016/05/ACOSS-policy-briefing_Youth-Jobs-PaTH-program_May-2016.pdf)





- \$96 million for a 'Try, Test and Learn Fund' to test new approaches to reducing long term reliance on income support.

This Budget increases grants to States and Territories for hospitals and schools, partly restoring funding cuts announced in the 2014 Budget in respect of the forward estimates period. However, commitments beyond that period remain well below the previous funding levels so that universal access to quality hospital care and schools remains in serious jeopardy.

- An additional \$1.2 billion over 2 years is allocated to continue the 'Gonski' package of schools funding but this is a fraction of funding cuts valued at \$30 billion over 10 years.
- An additional \$2.9 billion over 4 years is allocated for public hospitals but this goes little way to recoup the \$57 billion in cuts over 10 years announced in previous Budgets.

Finally, and perhaps most importantly, is the story of what was missing from the Budget.

The Budget does not reverse the funding cuts of previous Budgets to vital policy, advocacy and service delivery across social services, health and legal assistance, and in Aboriginal and Torres Strait Islander communities.

It does not increase inadequate social security payments including Newstart and Youth Allowance and Family Tax Benefit for families at risk of poverty (indeed a component of these and other payments would be reduced, as indicated).

There is no new investment in affordable housing programs, no increase in Rent Assistance payments, and the Government has ruled out curbs on negative gearing and Capital Gains Tax concessions that would, over time, improve housing affordability.

## The Budget's impact on households

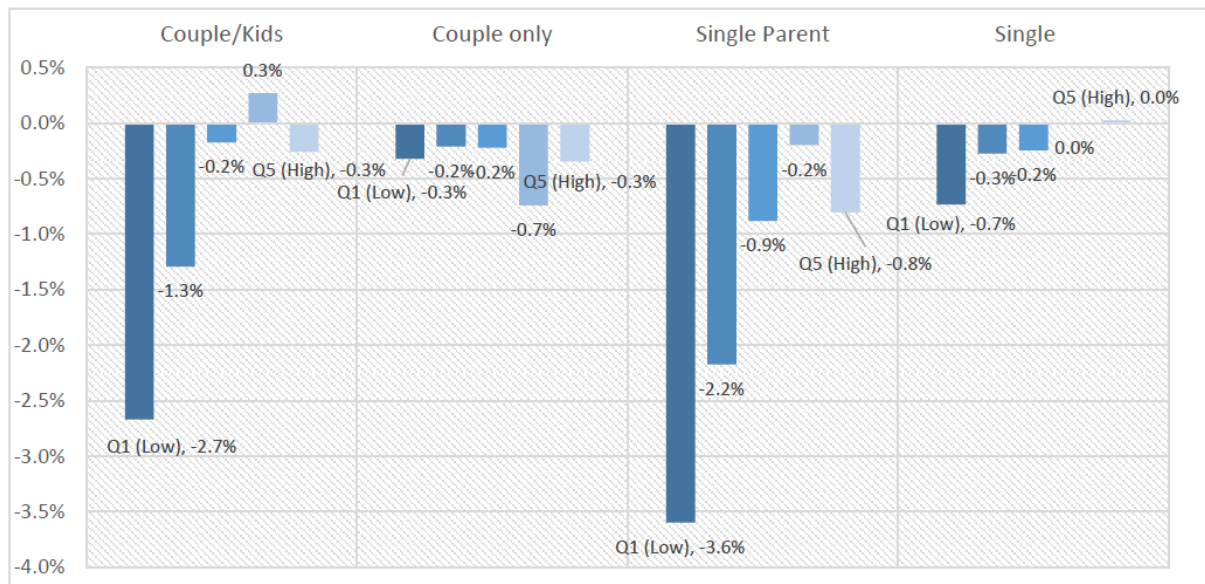
The Social Research Centre at the Australian National University has modelled the impact of twelve major Budget measures (including a number of the unlegislated measures from previous Budgets) on households of different kinds and different income levels. The key findings of this analysis include:

- The Budget changes modelled would reduce household income overall by an average of \$345 per year or 0.4% of average household disposable income.
- The overall impact would be regressive, with the lowest 20% of households losing an average of \$446 or 1.5% of household income; the middle 20% losing \$223 or 0.3% and the highest 20% losing \$434 or 0.2%.

- Low income families with children, especially single parents, are particularly severely impacted.
- These results are mainly driven by the social security and family payment cuts and tobacco excise increases affecting low income households and the personal income tax cuts affecting high income households (offset in part by the progressive impact of the superannuation changes).

The results for different family types and income levels are summarised in the chart below.

Figure 1: Average impact of modelled Budget measures on households at different income levels (% change in disposable income in 2018-19)



Source: Philips, B. (2016): *Distributional Modelling of Federal Budget 2016-17* ANU Centre for Social Research and Methods.

The Budget measures modelled were:

- 1) Removal of FTB (Family Tax Benefit) part A and B supplements net of a \$10 per fortnight increase in maximum rates of payment for FTB A;
- 2) Reductions in FTB part B for single parents with youngest children aged 13 and over. This is a net reduction in the family based payment of around \$1,730 per year by 2018-19;



- 3) An increased FTB part B payment for eligible families with a child under the age of 1 (\$1,000 per family per year);
- 4) Removal of the energy payment for new recipients only;
- 5) Increase in youth allowance payments for 'at home' recipients to align with FTB A maximum rates of payment;
- 6) Tobacco excise increase from July 1 2017 at 12.5% per annum above usual indexation arrangements. The distribution of tobacco expenditure in the ABS Household Expenditure Survey 2009-10 is aligned with the Budget revenue projections for 2018-19;
- 7) Personal income tax cuts – increasing the \$80,000 threshold for the 37 per cent taxation rate to \$87,000;
- 8) The proposed childcare package to be introduced in 2018-19 (a delay on the previous Budget of one year);
- 9) Increase the unincorporated small business tax discount (-\$150 million revenue in 2018-19);
- 10) A maximum of \$1.6 million in concessional treated superannuation transfers;
- 11) Reintroduction of a low income tax offset; and
- 12) Lowering of the income caps for concessional treatment of superannuation contributions.

Altogether, the changes modelled save a total of \$3 billion dollars for the Budget.

The modelling shows that families with children will be worst affected, particularly single parents, from the combined effects of savings measures in the last 3 budgets. This is likely to contribute to an increase in child poverty in Australia. These measures are proposed at a time when we know that at least 600 000 children are already living below the poverty line.

## 1.2 Budget strategy

The Government remains committed to delivering a Budget surplus of at least 1% of Gross Domestic Product (GDP) "as soon as possible", and the Budget is projected to return to balance by 2020-21.

## 1.3 State of the economy

Gross Domestic Product is estimated to grow by 2½% in 2016-17. The unemployment rate is expected to increase to 5¾% in June 2016 before falling to 5½% by June 2017, while the inflation rate for 2016-17 is estimated to be 2½%.

Table 1: Domestic economy forecasts

	Outcomes(b)	Forecasts		
	2014-15	2015-16	2016-17	2017-18
<b>Real gross domestic product</b>	<b>2.2</b>	<b>2 1/2</b>	<b>2 1/2</b>	<b>3</b>
Household consumption	2.7	3	3	3
Dwelling investment	7.9	8	2	1
Total business investment(c)	-6.2	-11	-5	0
<i>By industry</i>				
Mining investment	-17.3	-27 1/2	-25 1/2	-14
Non-mining investment	1.2	-2	3 1/2	4 1/2
Private final demand(c)	1.0	1/2	1 1/2	2 1/2
Public final demand(c)	0.0	2 1/4	2 1/4	2
Change in inventories(d)	0.2	0	0	0
Gross national expenditure	0.9	1	1 3/4	2 1/2
Exports of goods and services	6.5	6	5	5 1/2
Imports of goods and services	0.0	0	2 1/2	3
Net exports(d)	1.4	1 1/4	3/4	3/4
Nominal gross domestic product	1.6	2 1/2	4 1/4	5
<b>Prices and wages</b>				
Consumer price index(e)	1.5	1 1/4	2	2 1/4
Wage price index(f)	2.3	2 1/4	2 1/2	2 3/4
GDP deflator	-0.6	0	1 3/4	1 3/4
<b>Labour market</b>				
Participation rate (per cent)(g)	64.8	65	65	65
Employment(f)	1.6	2	1 3/4	1 3/4
Unemployment rate (per cent)(g)	6.1	5 3/4	5 1/2	5 1/2
<b>Balance of payments</b>				
Terms of trade(h)	-10.3	-8 3/4	1 1/4	0
Current account balance (per cent of GDP)	-3.7	-4 3/4	-4	-3 1/2

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data unless otherwise indicated.

(c) Excluding second hand asset sales from the public sector to the private sector.

(d) Percentage point contribution to growth in GDP.

(e) Through the year growth rate to the June quarter.

(f) Seasonally adjusted, through the year growth rate to the June quarter.

(g) Seasonally adjusted rate for the June quarter.

(h) The forecasts are underpinned by spot prices of \$55 (\$US/t, FOB) for iron ore; \$91 (\$US/t, FOB) for metallurgical coal and \$52 (\$US/t, FOB) for thermal coal.

Note: The forecasts for the domestic economy are based on several technical assumptions. The exchange rate is assumed to remain around its recent average level — a trade weighted index of around 64 and a \$US exchange rate of around 77 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\$43 per barrel.

Source: ABS cat. no. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0, unpublished ABS data and Treasury.

Source: Australian Treasury (2016): Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1  
Commonwealth of Australia



## 1.4 State of the Budget

The Budget remains in deficit in 2016-17 by \$37.1 billion or 2.2% of GDP. A deficit of \$18.7 billion or 1% of GDP is budgeted for 2017-18.

Table 2: Australian Government Budget revenue, expenses and balances

	Actual	Estimates			Projections		Total(a)
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	
	\$b	\$b	\$b	\$b	\$b	\$b	\$b
<b>Receipts</b>	<b>378.3</b>	<b>388.0</b>	<b>411.3</b>	<b>437.4</b>	<b>469.9</b>	<b>500.7</b>	<b>1,819.3</b>
Per cent of GDP	23.5	23.5	23.9	24.2	24.8	25.1	
<b>Payments(b)</b>	<b>412.1</b>	<b>425.0</b>	<b>445.0</b>	<b>459.9</b>	<b>481.5</b>	<b>502.6</b>	<b>1,889.0</b>
Per cent of GDP	25.6	25.8	25.8	25.5	25.4	25.2	
Net Future Fund earnings	4.1	3.0	3.3	3.6	3.8	4.1	14.9
<b>Underlying cash balance(c)</b>	<b>-37.9</b>	<b>-39.9</b>	<b>-37.1</b>	<b>-26.1</b>	<b>-15.4</b>	<b>-6.0</b>	<b>-84.6</b>
Per cent of GDP	-2.4	-2.4	-2.2	-1.4	-0.8	-0.3	
<b>Revenue</b>	<b>380.7</b>	<b>396.4</b>	<b>416.9</b>	<b>449.5</b>	<b>484.4</b>	<b>515.1</b>	<b>1,865.8</b>
Per cent of GDP	23.7	24.0	24.2	24.9	25.5	25.9	
<b>Expenses</b>	<b>417.9</b>	<b>431.5</b>	<b>450.6</b>	<b>464.8</b>	<b>489.3</b>	<b>511.6</b>	<b>1,916.3</b>
Per cent of GDP	26.0	26.1	26.2	25.7	25.8	25.7	
Net operating balance	-37.2	-35.1	-33.7	-15.3	-5.0	3.5	-50.5
Net capital investment	2.7	4.4	3.4	3.4	4.9	5.5	17.2
<b>Fiscal balance</b>	<b>-39.9</b>	<b>-39.4</b>	<b>-37.1</b>	<b>-18.7</b>	<b>-9.8</b>	<b>-2.1</b>	<b>-67.7</b>
Per cent of GDP	-2.5	-2.4	-2.2	-1.0	-0.5	-0.1	
<i>Memorandum item:</i>							
Headline cash balance	-38.9	-51.5	-53.4	-34.2	-23.9	-14.4	-126.0

(a) Total is equal to the sum of amounts from 2016-17 to 2019-20.

(b) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

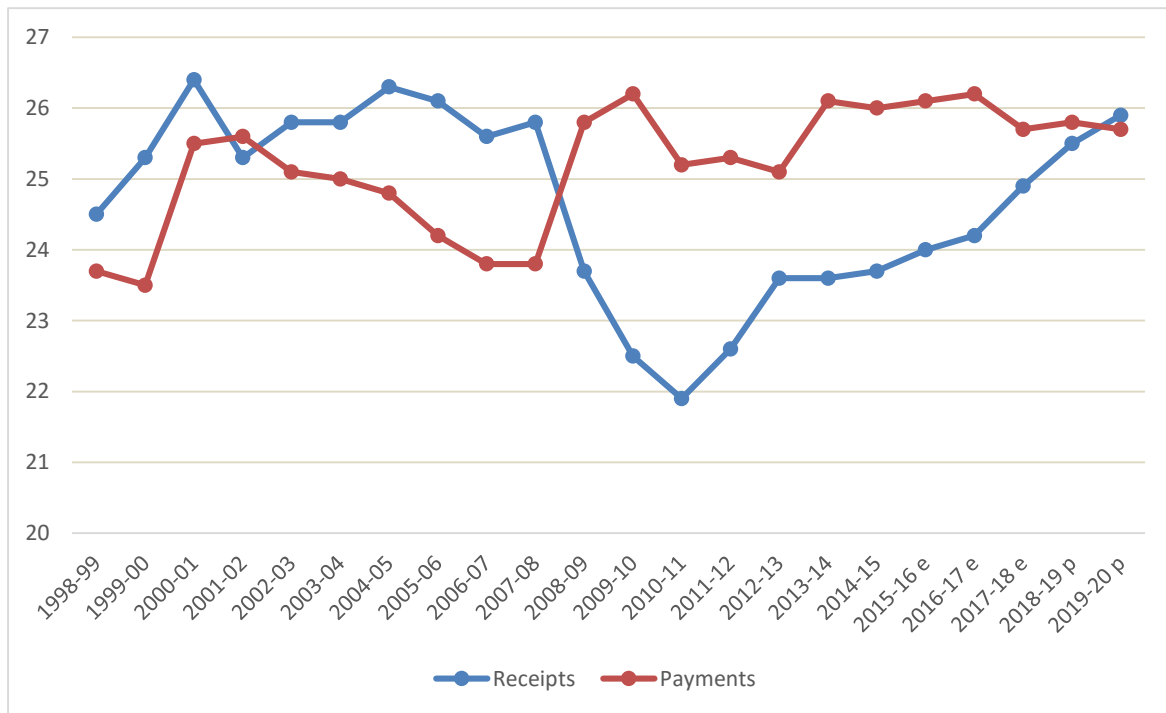
(c) Excludes net Future Fund earnings.

Source: Australian Treasury (2016): *Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1*  
Commonwealth of Australia

The following figure shows trends in Government revenue and expenditure (in proportion to GDP) between 1998 and 2015, *before* the Budget changes.



Figure 2: Australian Government revenue and expenditure (% of GDP)



Source: Australian Treasury (2016): *Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia

Note: e = Estimates; p=Projections

ACOSS estimates that three fifths of the deterioration in the Budget from 1998 to 2013 was due to lower revenues (including eight successive income tax cuts) and two fifths was due to higher expenditures. The measures announced in this Budget do little to restore public revenue. Revenue is estimated to rise to 24.2% of GDP in 2016-17, and to 24.9% in 2017-18, mainly due to economic recovery and the effects of income tax 'bracket creep'. Any further tax cuts would jeopardise this outcome.

The following table shows that expenditure is projected to fall from 26.2% of GDP to 25.7% at the end of the four year forward estimates period. This Budget continues the trend set by the previous two Budgets in reducing the future size and capacity of Government to meet public needs, though from 2013 to 2016 growth in expenditures has 'plateaued' rather than declined.



Table 3: Expenditure reconciliation

	MYEFO	Revised	Estimate		Projections	
	2015-16	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Total expenses (\$b)</b>	<b>432.2</b>	<b>431.5</b>	<b>450.6</b>	<b>464.8</b>	<b>489.3</b>	<b>511.6</b>
Real growth on						
previous year (%) (a)	1.5	1.8	2.5	0.9	2.9	2.0
Per cent of GDP	26.2	26.1	26.2	25.7	25.8	25.7

(a) Real growth is calculated using the consumer price index.

Source: Australian Treasury (2016): *Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1*  
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ACOSS believes that Australian Governments *should* be spending more on programs such as health, education, income support payments, child care, and areas of identified community need, provided they are targeted appropriately. Much more emphasis should be placed on restoring public revenue and targeting programs to those who need them than we have seen in this Budget.

## 1.5 Effects of Budget decisions on the bottom line

Policy decisions in this Budget reduce the deficit slightly over the next four years by \$1.7 billion due to:

- Expenditure reductions of \$3.1 billion;
- Partly offset by revenue reductions of \$1.3 billion.

All of the modest reduction in the deficit occurs on the spending side. Over the longer term, as indicated previously, the proposed tax cuts would reduce public revenue much more substantially.

Table 4: Reconciliation of underlying cash balance estimates: changes from 2015-16 MYEFO to 2016-17 Budget

	Estimates		Projections		2019-20	Total
	2015-16	2016-17	2017-18	2018-19		
	\$m	\$m	\$m	\$m	\$m	\$m
Effects of policy decisions						
Receipts	417	-1,670	225	-209	317	-1,338
Payments	611	1,400	-158	1,285	-5,578	-3,052
2016-17 Budget underlying cash balance (a)	39,946	-37,081	-26,123	-15,406	-5,955	-84,565

Source: Australian Treasury (2016): *Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1*  
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The following table lists the main *new* savings measures over the next four years.

Table 5: Savings measures

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	\$m	\$m	\$m	\$m	\$m	\$m
National Disability Insurance Scheme Savings Fund	72.0	162.4	408.5	-1,062.2	2,676.8	2,257.6
Higher Education Reform – further consultation	28.4	133.7	488.6	569.2	790.5	2,010.5
Public Sector Transformation and the Efficiency Dividend	0.0	0.0	298.6	510.5	614.6	1,423.8
Jobs for Families Package – deferred implementation	60.0	43.4	1,152.6	-7.3	-86.2	1,162.5
Aged Care Provider Funding– further revision of the Aged Care Funding Instrument	-0.2	119.0	229.5	339.5	463.9	1,151.7
Medicare Benefits Schedule– pause indexation	0.0	0.0	0.0	301.5	623.8	925.3
Asset Recycling Initiative – return of unallocated funds	0.0	452.7	307.4	93.5	0.0	853.6
Youth Employment Package – Work for the Dole – reform	0.0	128.1	120.7	123.0	122.5	494.2
Industry Skills Fund – efficiencies	24.6	55.8	55.6	55.6	55.6	247.2
Job Commitment Bonus – cessation	-0.4	45.8	66.1	65.5	65.0	242.0
Health Flexible Funds – pausing indexation and achieving efficiencies	-	-	31.9	57.8	92.4	182.1
Reforming the Visa and Migration Framework	-	-	20.0	70.0	90.0	180.0
Infrastructure Investment Programme – efficiencies	0.0	7.8	0.3	4.2	150.4	162.7
Higher Education Participation Programme – efficiencies	-	13.0	18.1	33.1	88.1	152.3
Department of Human Services – administrative efficiencies	-	20.0	20.0	20.0	20.0	80.0
A Streamlined Pathway to Permanent Residence for New Zealand Citizens	0.0	-2.1	9.3	24.4	33.5	65.1
Onshore Immigration Detention Network – consolidation	-1.6	-9.8	6.8	24.0	38.0	57.4
Child and Adult Public Dental Scheme	-4.1	60.6	50.5	32.8	-122.4	17.4

All figures are in net fiscal impact terms.

Source: Australian Treasury (2016): *Budget 2016-17, Budget Overview* Commonwealth of Australia

The Budget Papers highlight the impact of the failure to pass key savings measures from the 2014-15 Budget on the 2016-17 deficit. These measures are detailed in Appendix 1. Budget Paper No. 1 states:

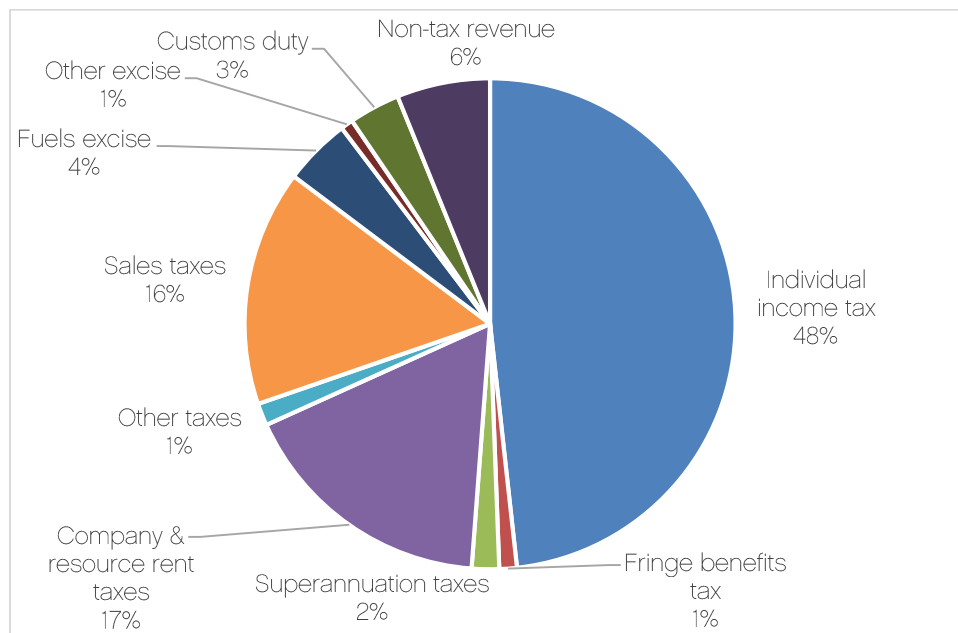
The Government remains committed to implementing reforms, which continue to be delayed in the Senate. At this Budget, the impact of delays in passing these reforms has deteriorated the bottom line by \$2.2 billion over the five years to 2019-20. Prior to the 2016-17 Budget, \$13 billion worth of expenditure savings and \$1.5 billion worth of revenue increases have not yet passed the Parliament.<sup>7</sup>

<sup>7</sup> Australian Treasury (2016): *Budget 2016-17, Budget Strategy and Outlook, Budget Paper No 1* Commonwealth of Australia, Section 3-25

## 1.6.1 Profile of Government revenue and expenditure and future growth in expenditure

The following charts profile major areas of revenue and expenditure, and projections of future growth in major expenditure programs.

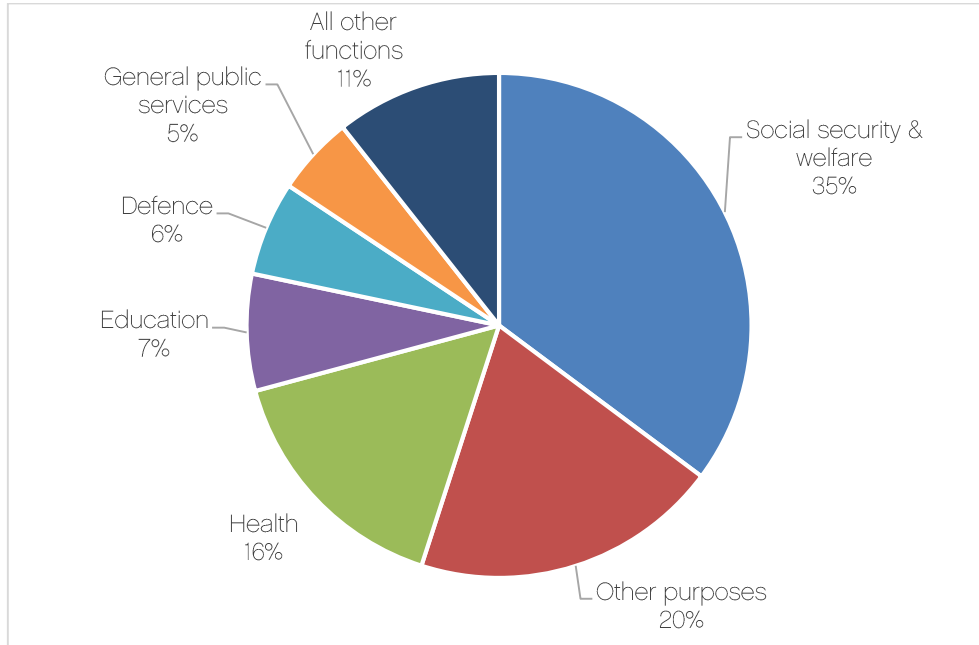
Figure 3: Government Revenue



Source: Australian Treasury (2016): *Budget 2016-17: Budget Overview* Commonwealth of Australia

As can be seen from the figure above, the majority of federal revenue (48%) comes from individuals' income tax.

Figure 4: Government spending



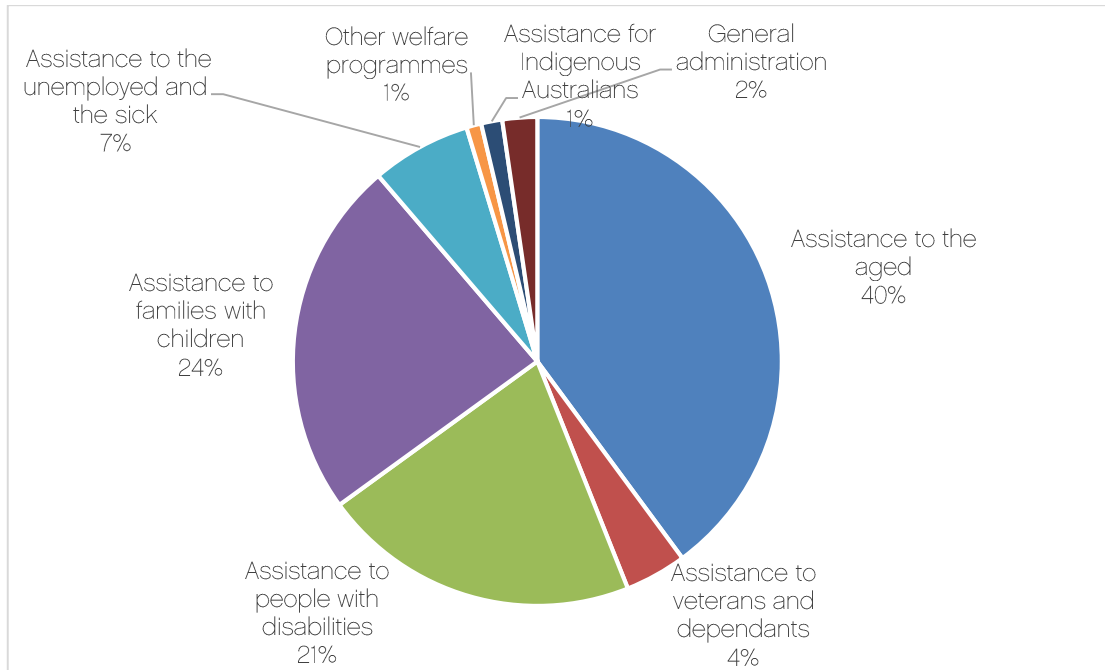
Source: Australian Treasury (2016) *Budget 2016-17: Budget Overview* Commonwealth of Australia

The largest expenditure items are 'Social security and welfare', 'All other functions', and 'Health'.



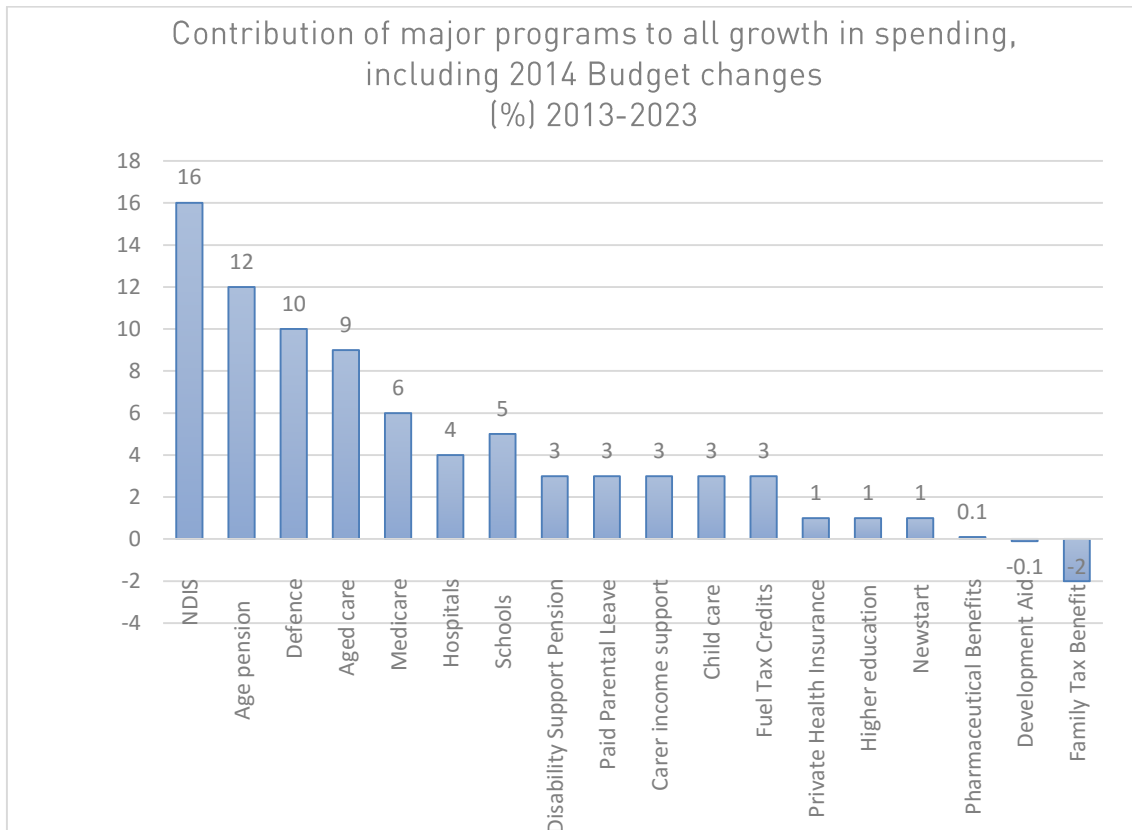


Figure 5: Social Security and Welfare Expenditure



The 'Social Security and Welfare' category includes much more than cash benefits. It extends to funding for social services such as childcare subsidies and the National Disability Insurance Scheme (NDIS). The main cash benefits are Age Pensions (40% of Social Security and Welfare spending) and Family Tax Benefits (24%). Contrary to media reports, unemployment benefits are a small fraction of overall social security and welfare spending (7%) and an even smaller fraction of overall expenditure (2%).

Figure 6: Future growth in major programs



Source: PBO 2014, Projections of Government spending over the medium term.  
 Note: Includes 2014 Budget measures, estimates were not subsequently updated.

The graph above shows the share of total projected growth in expenditure over the next decade that is due to growth in each of seventeen major programs. These programs are the source of 70% of all projected expenditure growth from 2013 to 2023. They are responsible for a major share of overall spending growth either because the programs are relatively large (for example Disability Support Pension) and/or because they are projected to grow relatively rapidly (for example child care).

These projections were prepared by the Parliamentary Budget Office in 2014 and take account of the 2014 Budget proposals for major expenditure cuts across many programs. Since not all of those measures were legislated and subsequent Budgets have increased or reduced spending on these programs, the analysis is not up to date. Nevertheless it still provides a useful guide to the main areas of future expenditure growth.



## 2 Analysis

### 2.1 The revenue Governments need to meet the community's needs

#### Key messages

- + Budget decisions reduce revenue by \$1.6 billion in 2016-17 and increase it by \$1.6 billion over 4 years, leaving income tax 'bracket creep' as the major contributor to Budget consolidation on the revenue side. Since this will only occur if there are no more tax cuts until at least 2020, this raises the risk of another round of social expenditure cuts.
- + The Budget included significant reforms to superannuation (detailed in Chapter 2.4, 'Retirement Incomes') and tax integrity measures to reduce multinational tax avoidance.
- + Company and personal income tax cuts will cost \$9.3 billion over the forward estimates in foregone revenue.

#### Analysis

The Government foreshadowed major announcements on tax reform in this Budget, after a tax reform 'Green paper' was abandoned. The tax reform process formally began in February 2015, alongside the already announced review of the federation<sup>8</sup>.

The federation review was subsequently discontinued, with work on federal-state fiscal reform to be 'progressed by the Council on Federal Financial Relations, and the Commonwealth, State and Territory Treasuries'<sup>9</sup>. They are reportedly exploring the option of offering a share of personal income tax revenue to States in return for cuts in tied grants.

Before the Budget, the Government ruled out an increase in the GST, along with increases in Capital Gains Tax (CGT) and curbs on negative gearing. A proposal to allow States to raise their own income taxes off the federal personal income tax base was withdrawn after it was rejected by a majority of States. This narrowed the options for major reform.

The Budget announced \$9.3 billion (over four years) in business and personal tax cuts. They include a progressive reduction of company tax to 25% over ten years, starting with small and medium sized businesses (under \$10million turnover). The personal tax cut comprises a lift in the 37% tax threshold from \$80,000 to \$87,000 (a tax cut of approximately \$6pw for the top 20% of income tax-payers).

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<sup>8</sup> See <http://bettertax.gov.au/> and <https://federation.dpmc.gov.au/>

<sup>9</sup> <https://federation.dpmc.gov.au/>



The previous 'Clean Energy Future' tax cuts, including the higher tax-free threshold, are retained.

Curbs on tax avoidance by multinational companies and other tax avoidance measures, including the establishment of a 'tax avoidance taskforce' within the ATO, are expected to raise \$3.3 billion.

As expected, tobacco excise will increase and this is expected to raise \$4.7 billion.

Substantial superannuation reforms were announced, which are detailed in Chapter 2.4 'Retirement incomes'.

Table 6: Revenue Measures

Revenue Measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Increase in revenue over four years (\$m)
<b>COMPANY TAX CUTS</b>				
Reduce company income tax to 27.5% by 2023 and 25% by 2026	Directly benefits foreign companies, indirectly impacts on productivity and wages (but over the long term) <sup>10</sup>	-400	-500	-2,650
Extend tax write-offs and other concessions to businesses up to \$10m	Economic benefits of lower company tax rate for smaller businesses are uncertain; write off brings forward investment with doubtful long run impact	-280	-700	-2,180
Increase tax discount for unincorporated small business from 5% to 16%	A lower tax rate for small business income than wages is difficult to justify	-	-150	-450
Reduce Capital Gains Tax for venture capital	Unlikely to boost innovation but high-risk of tax avoidance; 'innovation' very hard to define for tax purposes		-15	-45
<b>Total</b>		<b>-837</b>	<b>-1367</b>	<b>-5,318</b>

<sup>10</sup> A Treasury analysis estimates that over the long term (e.g. 20 years) national income would grow approximately 0.6% larger than it would without the company tax cuts. It is likely that this modest benefit would come mainly from increased investment by large foreign companies. This estimate assumes that the company tax cut is paid for by reducing public expenditure and that such spending is not beneficial for economic growth (an assumption which Treasury notes is unlikely to be accurate in many cases, e.g. education and public infrastructure). See: [http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Budget%20Modelling/Download/PDF/160503\\_Economy-wide%20modelling.ashx](http://www.treasury.gov.au/~media/Treasury/Publications%20and%20Media/Publications/2016/Budget%20Modelling/Download/PDF/160503_Economy-wide%20modelling.ashx)



Revenue Measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Increase in revenue over four years (\$m)
<b>PERSONAL TAX CUTS</b>				
<b>Increase \$80,000 tax threshold to \$87,000</b>	A \$6pw cut for top 20% earning >\$87,000 (fulltime average earnings - but note that half of income tax-payers earn <\$50,000) Any resulting rise in workforce participation is likely to be very small <sup>11</sup> .	-800	-950	-3,950
<b>TAX INTEGRITY MEASURES</b>				
<b>Tax avoidance taskforce</b>	More staff for ATO, focussing on wealthy individuals and large corporates	29	564	3,060
<b>Diverted profits tax</b>	More difficult for multinationals to shift profits to low tax countries	-	-	200
<b>Transfer pricing rules</b>	Tighter valuation of intangible expenses	-	-	-
<b>Disclosure of potential avoidance</b>	Earlier warning to ATO of potential for large scale avoidance'	-	-	-
<b>Total</b>		<b>29</b>	<b>564</b>	<b>3,260</b>
<b>OTHER</b>				
<b>Superannuation Reforms</b>	A detailed table with all superannuation measures is available on page 36	43	1,546	2,884
<b>Increase tobacco excise</b>	Mainly impacts on low income earners but brings health benefits	-3	690	4,707
<b>All measures</b>	Small loss of revenue in year 1, equally small boost over 4 years; 'bracket creep' will have much greater impact if no more tax cuts are awarded (but this is unlikely)	-1,573	490	1,599

\* not specified

<sup>11</sup> Most individuals in this income bracket are higher-income males already employed fulltime and their responsiveness to tax incentives to increase their paid working hours or seek promotions is known to be weak. See Treasury analysis at: <https://www.google.com.au/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=dandie%20tax%20incentives>





## 2.2 Employment services and opportunities for people at risk of poverty

### Key messages

- + The Budget sets a new youth employment policy direction, away from funding the ineffective Work for the Dole program to a new Youth Jobs PaTH Program involving training, internships and wage subsidies. While this change in direction is welcome, especially the wage subsidies, the internships in particular pose risks for young and disadvantaged unemployed people. The internship program would need to be adjusted, and carefully designed to maximise employment outcomes, including ensuring young people receive adequate income benchmarked to the minimum (or training) wage, adequate protections from exploitation are in place, and measures implemented to avoid displacement of existing workers.
- + The decision to abolish the Job Commitment Bonus program and divert funds is welcome.

### Analysis

The Budget includes a new \$751 million initiative to help 100,000 young people into jobs, called the Youth Jobs PaTH Program. The program is to be funded through changes to the current Work for the Dole program and savings from existing wage subsidy programs.

Key elements of the proposed new scheme, which is targeted to young people unemployed for six months or more, are:

- A compulsory six week pre-employment skills training program which is focused on general or 'soft' skills (stage 1, from 1 April 2017).
- A voluntary internship program with up to 120,000 placements over 4 years. The internship placements would be between four and 12 weeks with young people working 15-25 hours per week. Participants would receive an additional \$100 a week and participating employers would receive an upfront payment of \$1000.
- A Youth Bonus wage subsidy of between \$6,500 (for those who are most 'job ready') and \$10,000 (for those assessed as least 'job ready').

Most of the funding for the new program would come from redirecting current expenditure on compulsory Work for the Dole programs. Work for the Dole for unemployed people assessed within 'Stream A' (the most 'job ready') would commence after 12 months rather than six. The remaining funds would come from reducing expenditure on existing wage subsidy programs to reflect lower than anticipated demand and a reduced maximum duration of six months rather than twelve (a saving of \$204 million).

While the shift away from Work for the Dole towards a new approach is welcome, if re-



elected the Government must ensure that the PaTH program is well targeted, prevents young people from being exploited and leads to real employment outcomes. ACOSS has released a detailed analysis of the PaTH proposal which advocates the following supports, limitations and protections to minimise the risks and maximise the benefits of the scheme<sup>12</sup> :

- Internships under this scheme should only be available to young people who are unemployed for at least 6 months and disadvantaged in the labour market.
- Participants should receive at least the equivalent of the minimum hourly wage or a training wage where appropriate training is provided. This is a matter of basic fairness whether or not an employment relationship exists, and requires either a cap in the proposed working hours (under 21 hours for a young person on Newstart Allowance) or an increase in the proposed \$100 per week additional payment.
- Training should be relevant to the work experience placement and where possible integrated with it. While entry level positions are generally more likely to be suitable for people unemployed long term, training is still more likely to improve their future job prospects if it is accredited.
- Participants and sponsoring employers should be mentored to ensure that the placement benefits both parties and any problems are picked up early and resolved. Mentoring must be properly resourced.
- Participation in the internships should be truly voluntary, with participants able to opt out at any time without penalty.
- The health and safety of participants should be assured through work safety assessments, access to adequate insurance, and appropriate monitoring. 'Reasonable excuse' provisions should also apply so young people who are not able to attend the workplace due to illness or other reasonable circumstances are not penalised.
- Displacement of existing workers and the 'churning' of interns through the scheme by the same employer should be prevented, including by placing a limit on the number of placements that do not lead to ongoing employment and barring employers who have recently laid off workers from participation.
- Formal agreements with employers should be in place, monitored by mentors and the Department of Employment, including ensuring interns are fully informed of their rights and protections.
- An effective complaints process should be established and adequately resourced.

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<sup>12</sup> ACOSS 2016, 'Policy briefing on the Youth Jobs PaTH program' – see Appendix 2, page 52



In addition to the Youth PaTH program, the Budget included two significant new spending measures in the employment portfolio: the establishment of a new employment investment fund to 'reduce welfare dependency' and the expansion of the New Enterprise Incentive Scheme.

Currently the New Enterprise Incentive Scheme offers places for 6,300 people a year to obtain training, mentoring and support to start their own business. The Budget measure would create an additional 2,300 places a year and broaden access to the scheme for job seekers not on income support (including recently retrenched workers), making 8600 places nationally at a cost of \$88.6 million over 4 years.

The Budget also proposes to abolish the Job Commitment Bonus from 1 December 2016. The Bonus is currently paid to jobseekers for accepting and retaining paid work. Its abolition will save \$242 million over 5 years. ACOSS called for the abolition of the program in our submission to the 2016-17 Budget and proposed the diversion of resources to fund more effective employment programs.

Table 7: Employment measures

Employment measure	Impact	Cost (\$m in 2016-17)	Cost (\$m in 2017-18)	Cost over four years (\$m)
Youth Jobs PaTH scheme	New scheme to assist young people (under 25) who are unemployed for 6 months or more. Comprises pre-employment training; internships up to 12 weeks and wage subsidies up to six months. Funded through savings from Work for the Dole program and changes to existing wage subsidy programs.	7	70	154
Work for the Dole reform	Retargeting of Work for the Dole to Stream A (most job ready) jobseekers after 12 months with <i>JobActive</i> provider (instead of current 6 months).	-128	-121	-494
Expansion of New Enterprise Incentive Scheme	Additional funding for initiatives to support young unemployed people to become self employed e.g. workshops, starter packs and facilitators. Places and eligibility expanded by 8600 places to include people not on income support.	89	0	89
Abolish Job Commitment Bonus	Payments to long term unemployed people who obtain work will cease from 31 December 2016. Under current policy people can receive \$2,500 for obtaining a job and an additional \$4,000 if they remain in the job for 12 months.	-46	-66	-242



## 2.3 Payments for people of working age, families and older people

### 2.3.1 Working age payments

#### Key messages

- + The social security component on the carbon compensation package, termed the 'Energy Supplement', would not be paid to new income support recipients, including people receiving pensions, allowances and family payments. This would result in income losses of \$4.40 a week for people on the unemployment payment, and \$7.10 a week for pensioners. As noted above, the tax cuts associated with the carbon compensation package are retained in the Budget.
- + 90,000 people relying on the DSP would have their capacity to work reassessed, with a projected saving \$62 million over 4 years. Those assessed as no longer being eligible for the DSP will likely be transferred to the Newstart Allowance which is \$170 a week lower.
- + New applicants for the Carers Allowance would be eligible to receive the payment only from the date of application. Currently, new applicants can seek backdated payments for up to 12 weeks.
- + A 'Try, Test and Learn Fund' will be established at cost of \$96 million/4 years to test new approaches to reducing 'welfare dependency'.
- + Proposed further administrative 'efficiencies' of \$80 million over four years in the Department of Human Services raise the prospect that the already inadequate Centrelink services would be further eroded, making it harder for people at risk of poverty to secure the income support they need.

#### Analysis

The most significant Budget change to income support is the discontinuation of carbon compensation for new payment applicants. This will affect people of working age receiving pensions and allowances, families receiving Family Tax Benefit and older people receiving the Age Pension, amongst others. This will result in income losses of \$4.40 a week for people on the unemployment payment, \$9.23 a week for a single parent with two teenage children and \$7.10 a week for pensioners. The tax cuts associated with the carbon compensation package are retained in the 2016-17 Budget, meaning that people on higher incomes will continue to receive the benefits of the compensation. The savings from this and some other measures in this portfolio are earmarked for an 'NDIS savings fund'. ACOSS strongly opposes this measure, as it reduces the already seriously inadequate level of income support for people who are unemployed, in the face of repeated and widespread calls for a substantial increase in this payment level, including from the Henry Review, the



Business Council of Australia and other business, union and community sector members of the National Reform Summit and, most recently, KPMG.

There were also a number of changes to disability and carer payments announced in the Budget.

Following the 2014-15 Budget measure to reassess people receiving the DSP who were under 35 years of age, this Budget announced a further round of reassessments with no age restriction. Under the measure, 90,000 people currently receiving the DSP will have their 'work capacity' reassessed by a medical assessor. The estimated saving of \$62 million over 4 years anticipates that a significant proportion will be moved onto the lower unemployment payment (Newstart Allowance or NSA), currently \$170 less than the DSP. Some would move to other payments. Experience with past 'welfare to work' policies which shifted people with disabilities onto NSA suggests that few would transition from social security to a fulltime job.

ACOSS is also concerned by the pursuit of further efficiencies of \$80 million over 4 years from the Department of Human Services, which will affect front-line agencies especially Centrelink. Centrelink is already struggling to meet demand for its services in a timely way, with public attention recently drawn to lengthy phone and in person waiting times. In practice, administrative efficiencies are likely to lead to reductions in front-line staff. This will further restrict access to services and support and extend claim processing times for people already experiencing financial hardship.

The Budget also announced changes to eligibility for the Mobility Allowance, currently paid to people with a disability who cannot use public transport without substantial assistance and must travel to work or study. Under the changes, intended to align the payment with eligibility criteria under the NDIS, from 1 January 2017 new applicants for the Allowance would be eligible only if they are under 65 years of age with a 'significant or permanent disability' and 'engaged in work or vocational training' (the Allowance currently extends to those seeking work or engaged in voluntary activity). Existing recipients would be grandfathered, until the Allowance ceases entirely on 1 July 2020, when its funding is transitioned to the NDIS. This measure would also reduce the incomes of some people with disabilities affected by the above measure to divert people from the DSP to NSA.

New backdating provisions for applicants for Carer Allowance would mean that people could not claim back-payment for periods of care provided before the date of their claim. They are currently able to do so for up to 3 months if providing care during the period and the caring period was triggered by an acute event and where care is provided for an adult.

A 'Try, Test and Learn Fund' will be established at cost of \$96 million over 4 years to test the impact of new approaches to reducing 'welfare dependency'. This follows the McClure Review of the welfare system which recommended the adoption of an 'investment approach'





to reduce long term unemployment and reliance on income support, informed by the New Zealand experience<sup>13</sup>.

The new cashless debit card for income support recipients which is being trialled in Ceduna, South Australia and Kununurra/Wyndham in Western Australia will be extended to a third trial site. ACOSS continues to have serious concerns about this approach.

Table 8: Income support measures

Income support measure	Impact	Cost (\$m in 2016-17)	Cost (\$m in 2017-18)	Cost over four years (\$m)
Carbon compensation to be closed to new applicants	This means a loss of weekly income for people relying on social security and family payments. For example, a person relying on the Newstart Allowance would lose \$4.40 a week through loss of the Energy Supplement. Note total saving is over 5 years and to be directed to the 'NDIS Savings Fund'.	Not published	Not published	-1,400
Aligning backdating provisions for new Carer Allowance claims	From 1 January 2017, new claims can no longer be backdated for up to 3 months. Note total saving is over 5 years to be directed to the 'NDIS Savings Fund'.	Not published	Not published	-109
Review eligibility of 90,000 DSP recipients	30,000 people per year currently receiving the DSP would have their work capacity reassessed, with the risk of transfer to a lower payment. Saving is over 5 years and to be directed to the 'NDIS Savings Fund'.	Not published	Not published	-62
New investment fund to reduce 'welfare dependency'	Fund will be used to trial and test new 'innovative' approaches to assist groups identified as being at risk of 'long term welfare dependency'.	31	31	96
Continuity of Mobility Allowance during NDIS transition	Eligibility criteria will be changed to align with the NDIS during the transition phase, with the Allowance to cease entirely in 2020. Existing recipients will be grandfathered until this time.	3	4	47

<sup>13</sup> Reference Group on Welfare Reform (2015): *A New System for Better Employment and Social Outcomes* Available: [https://www.dss.gov.au/sites/default/files/documents/02\\_2015/dss001\\_14\\_final\\_report\\_access\\_2.pdf](https://www.dss.gov.au/sites/default/files/documents/02_2015/dss001_14_final_report_access_2.pdf)



Income support measure	Impact	Cost (\$m in 2016-17)	Cost (\$m in 2017-18)	Cost over four years (\$m)
Simplification of student payments	Means testing of different student payments to be aligned; Health Care Cards to be automatically issued to student payment recipients	2	-1	0
Funding of third 'cashless welfare' trial site	People affected in trial sites have 80% of payments quarantined, and can only access 20% as cash. Expenditure is not for publication due to ongoing commercial negotiations.	Not published	Not published	Not published
Administrative savings in Department of Human Services	Restricted access to front-line services such as Centrelink and increased waiting times, including for the processing of social security claims.	-20	-20	-80

## 2.3.2 Childcare and family payments

### Key messages

- + The Budget announced the deferral of the implementation of the Government's 2015-16 Budget child care package, citing the failure to pass cuts to family payments.
- + Family payment cuts remain in the Budget forward estimates as unlegislated measures.

### Analysis

The Government's childcare reform package formed a centrepiece of the 2015-16 Budget. It included substantial additional investment and a streamlined payment, as well as a tightening of eligibility for assistance for parents not in paid work and changes to eligibility and funding models for Aboriginal and Torres Strait Islander services. The Government has linked the additional funding required to cuts to family payments. These cuts have been before Parliament since 2014 in some form, and legislation remained before the Senate when Parliament was prorogued. The proposed cuts would severely affect single parents and other low income households through changes to eligibility for Part B for those with teenage children and the abolition of annual supplements. For example, the combined effect of the changes would be to reduce the weekly income of a single parent with two teenage children by \$60 per week.

While the announcement in 2015-16 of additional investment in child care and a streamlined subsidy was welcomed by ACOSS, we have serious concerns that the proposed policy



changes will adversely affect vulnerable children due to the tightening of the parental activity test and changes to the funding of Aboriginal and Torres Strait Islander services. We therefore welcome the opportunity that the deferral provides, should the Coalition Government be re-elected, to get the policy settings right and to de-link the package from family payment cuts which should be abandoned.

Commonwealth funding for the universal access to preschool National Partnership Agreement is due to expire in 2017 and no ongoing funding was announced in this Budget.

Table 9: 2016-17 changes to childcare and family payments

Childcare and Family Payments Measure	Impact	Cost (\$m in 2016-17)	Cost (\$m in 2017-18)	Cost over four years (\$m)
Deferral of the Jobs for Families package	Implementation of new streamlined child care subsidy delayed for another year (1 July 2018), explained by Government as due to failure to pass the cuts to family payments. The nanny pilot will be extended for 6 months and hourly fee cap increased to \$10.	-43	-1153	-1102
Child care ICT system	Funding provided for development of new ICT system but subject to second pass business case.	-	-	-

### 2.3.3 Retirement incomes

#### Key messages

- + Substantial superannuation reforms announced in the Budget would reduce tax concessions for the top 4% of fund members, reinstate a tax offset for low income earners (that prevents them being financially 'penalised' for their super contributions), and save a net \$2.9 billion over four years.
- + These include important integrity measures in the 'retirement phase' (where the cost of superannuation tax concessions is rising most rapidly), and the system is no longer 'fit for purpose'. That is, superannuation has become a wealth management tool rather than a system of ensuring an adequate retirement income for all while reducing dependence on the Age Pension.
- + However, the flawed and inequitable tax structure for superannuation – a flat 15% tax rate for contributions and the excessively generous tax exemption for fund earnings in the 'retirement phase' – would remain largely in place.



- + In addition, two new measures would exacerbate inequities in superannuation: a proposed tax deduction for personal contributions and a higher 'cap' for 'catch up contributions'. Both measures would disproportionately benefit high income earners.

## Analysis

The proposed reforms would improve equity by reducing tax concessions for the top 4% of fund members and removing a tax penalty for the lowest 25% of income earners (fund members below the tax-free threshold currently pay more tax on super contributions - 15% than they would otherwise pay on their wages which is zero).

The tax treatment of contributions would be made more equitable by extending the 30% tax rate on employer contributions for high income earners to individuals earning \$250,000 to \$300,000, and restoring the tax offset which prevents low income earners from being penalised by in effect paying 15% tax on their employer's contributions.

However, the flat 15% tax on employer contributions would remain, so even with these adjustments tax concessions for contributions would remain highly inequitable:

- For example, a fund member on \$20,000 would receive a tax concession of zero cents per dollar contributed compared with 34 cents for a member on \$200,000 (Figure 7).

Figure 7: Comparison of existing and proposed tax concessions for contributions (per dollar)



Note: Tax concession per dollar contributed by an employer under the 9.5% 'superannuation guarantee' Includes Low Income Super Contribution (LISC), Low Income Super Offset, and Medicare Levy.

Not shown in Figure 7 is the impact of the proposed lowering of the annual concessional contributions cap from \$30,000 to \$25,000 and the new lifetime cap of \$500,000 for non-



concessional contributions, both of which would improve equity. Only people who are relatively well off can afford to make contributions above these levels.

On the other hand, the proposed deduction for personal contributions would exacerbate existing inequities since individuals with higher marginal tax rates would benefit most. This would have a similar impact to the regressive 'salary sacrifice' arrangements for superannuation, under which high income earners avoid paying tax on a portion of their wage at the top marginal rate and instead pay a flat 15% when their employer contributes the same amount to super.

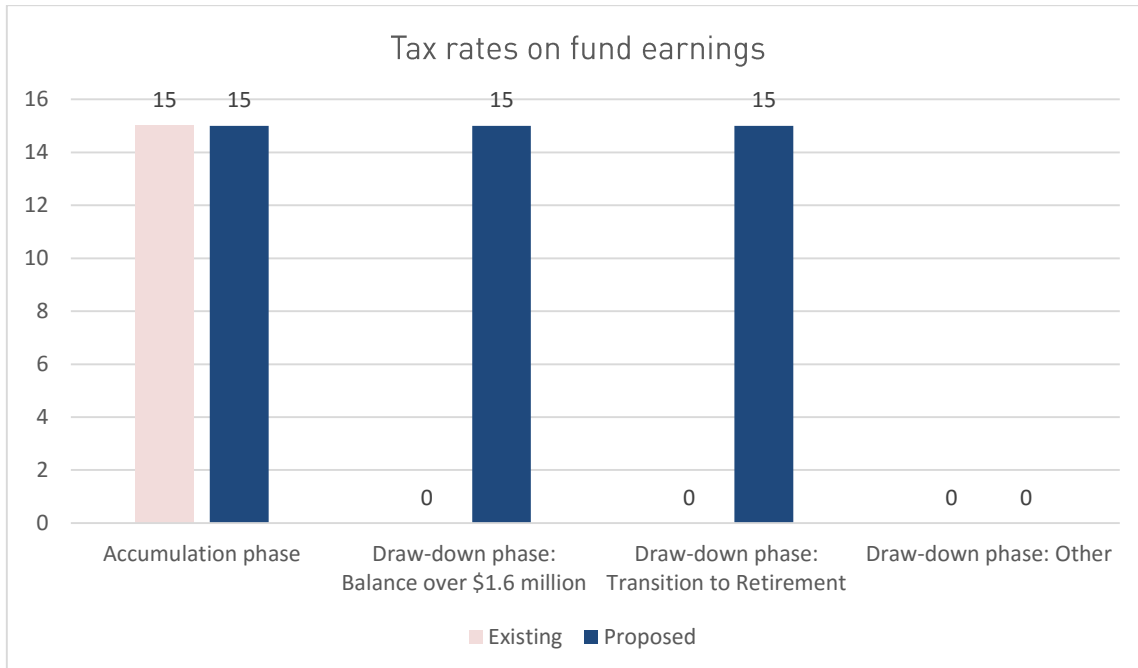
The proposed changes to the tax treatment of fund earnings in retirement would greatly improve the integrity of superannuation by curbing its use as a wealth and estate management tool by high income earners - who do not need tax support to secure a decent retirement income and will not rely on the Age Pension in any event.

As shown in Figure 8 below, these proposals would extend the existing 15% tax on fund earnings (such as interest and dividends) which applies to accounts in the 'accumulation phase' to accounts in the 'draw-down phase' (those paying a superannuation pension) in cases where:

- the fund member has large superannuation assets (generally over \$1.6 million); or
- they are using a 'Transition to Retirement' scheme in which they contribute to and withdraw from super at the same time.

Currently, fund earnings in the draw-down phase (along with benefit payments) are untaxed.

Figure 8: Comparison of existing and proposed tax rates for fund earnings



Note: 'Fund earnings' refers to interest, dividends, capital gains and other income received by the fund. This is not the same as superannuation benefit payments (lump sum or pension), which are generally tax-free.

'Accumulation phase' refers to a super account for a member who has not yet reached the preservation age or is not paying a pension; 'Draw-down phase' refers to an account that is paying a pension (whether or not the recipient is still in paid employment).

As a matter of policy principle, the case for a tax exemption for fund earnings in the draw-down 'phase' has never been properly made. This tax treatment is more generous than for virtually any other investment except owner-occupied housing, and it will prove very costly to future Budgets as the population ages<sup>14</sup>. The distinction between 'accumulation' and 'draw-down' phases is also arbitrary (since fund members can now contribute and withdraw from their super accounts simultaneously once they reach 55 years). It will become even less meaningful if the Budget proposal to allow individuals to contribute up to the age of 75 years is implemented.

<sup>14</sup> ACOSS has called for a consistent tax rate on fund earnings, as did the Henry Report. This would be much simpler than the status quo, and if that tax rate was 15% it would raise revenue that could be used to help meet the growing costs of health and aged care services. See: [http://www.acoss.org.au/wp-content/uploads/2015/08/ACOSS-submission-to-retirement-incomes-review\\_Tax-Talks-4\\_Final.pdf](http://www.acoss.org.au/wp-content/uploads/2015/08/ACOSS-submission-to-retirement-incomes-review_Tax-Talks-4_Final.pdf)

Table 10: Measures affecting retirement incomes

Retirement income revenue measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Increase in revenue over 4 years (\$m)
<b>SUPERANNUATION REFORMS</b>				
Reduce concessional contributions cap from \$30,000 to \$25,000	Only affects top 3% of fund members by income, who will pay tax on contributions above the cap at their marginal rate	-	500	2,443
Extend 30% tax rate to contributions for those earning >\$250,000 (currently \$300,000)	Only affects top 1% of fund members, who will pay 30% instead of 15% tax on contributions			
Low income Super Tax Offset	Replaces the Low Income Super Contribution, which removes the 15% tax 'penalty' for contributions for people <\$37,000 (but they still receive no tax break)	-	-103	-1,605
Deductions for personal contributions	Will mainly benefit high earners, and benefit them disproportionately	-	-350	-1,000
'Catch up' contributions: Extend unused concessional caps for 5 years	Will mainly benefit older high income earners (most of whom are men)	-	-	-350
Lifetime cap of \$500,000 for non-concessional contributions	Reduces capacity for very high earners (top 1%) to shift assets into super where fund earnings are often untaxed <sup>15</sup>	50	100	550
Allow contributions by 65-74 year olds	Improved flexibility for older people but mainly benefits higher earners under existing rules	-	-40	-130

<sup>15</sup> Non concessional contributions of up to \$180,000 per year are currently permitted.





Retirement income revenue measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Increase in revenue over 4 years (\$m)
Extend spouse contribution rebate	Mainly benefits high income couples, but this is little used	-	-	-10
Extend 15% fund earnings tax to transfers over \$1.6m	Removal of tax exemption for fund earnings after retirement, for very large fund balances. Affects top 1% of fund members	-4	550	1,996
Extend 15% fund earnings tax to 'Transition to Retirement' (TTR) account balances	Removal of tax exemption for fund earnings for people over 54 years who are still employed and receive super pensions via the TTR scheme	-	190	640
Remove some exemptions from the 17% tax on benefits paid to deceased estates	Contributions tax is no longer refunded in respect of deceased fund members	-	-	350
<b>Total</b>		<b>43</b>	<b>1,546</b>	<b>2,884</b>

## 2.4 Availability and affordability of essential services

### 2.4.1 Health and Aged Care

#### Key messages

- + The Budget contains a mixture of measures affecting the health portfolio, many of which will adversely affect people living on low incomes. As in previous years, the Government continues to focus its investment in health services on acute and hospital care, while at the same time eroding support for community-based and preventative programs.
- + The partial reversal of funding cuts to public hospitals (\$2.9 billion over 4 years) is welcome but does not guarantee additional funding beyond the forward estimates. As a result, it goes little way to replace the large cuts to hospital funding delivered in the 2014-15 and 2015-16 Budgets (estimated at \$57 billion over 10 years).
- + The new Child and Adult Dental Scheme represents a real funding cut for dental services and will place additional pressure on already overloaded State and Territory



public dental systems. It will further weaken access to dental services for people living on the lowest incomes, particularly those living in rural and regional areas.

- + The freezing of Medicare rebates for a further four years would undermine access to primary health care by reducing bulk billing rates.
- + Similarly, the freezing of health 'Flexible Funds' funding levels for another two years would further weaken the ability of community-based health services to assist and advocate on behalf of people facing financial disadvantage.
- + The 'Health Care Homes' model which the Government proposes to trial holds promise as a means to improve the coordination of care to up to 65,000 people with chronic illness.

### Analysis

The key health measure in the 2016-17 Budget is the partial reversal of changes to the indexation of Commonwealth funding provided to State and Territory Governments for public hospitals under Activity Based Funding and the National Efficient Price. This measure, agreed by the Coalition of Australian Governments (COAG) in April 2016, commits the Commonwealth to fund 45% of growth in hospital services for 3 years from 2017-18 (with growth in its contribution capped at 6.5% per year).

However, the COAG agreement expires in 2020 with no provision for the future of hospitals funding beyond June of that year. This new investment represents a small fraction of the \$57m in projected cuts to Commonwealth funding for public hospitals over 10 years arising from changes announced in the 2014-15 Budget.

The Budget announced the abolition of the Child Dental Benefits Scheme and the National Partnership Agreement for Adult Public Dental Services (the commencement of which had been delayed in the 2015-16 Budget), replacing them with the 'Child and Adult Public Dental Scheme'. This has been publicly presented as a spending measure worth \$1.7 billion over the forward estimates, including an extension of eligibility under the scheme to 10.5 million low and middle income earners. However, this figure should be put in the context of the \$3.1 billion over 5 years that was previously in the forward estimates for the Child Dental Benefits Schedule, representing an effective cut.

The extension of the 'freeze' of Medicare rebates until June 2020 would affect the ability of GPs, medical specialists, allied health and other health services to bulk-bill, further eroding universal access to primary health care in Australia, especially for people on low incomes. This would be likely to shift costs to the hospitals sector.



Effective funding cuts (through continuing the freeze on indexation) and the pursuit of further efficiencies from the health Flexible Funds will continue to erode the core capacity of community-based, preventative health work, including policy advice and advocacy.

ACOSS opposes these cuts in their entirety. Each measure will disproportionately affect people on low incomes and further reduce their access to quality health services, including dental health, primary health and community-based health programs.

Welcome measures include:

- Additional investment in programs to reduce the occurrence in Foetal Alcohol Spectrum Disorder in remote communities (\$10.5 million over 4 years);
- \$21 million over 4 years to fund a trial of the Health Care Homes model, which will enable primary health care providers to deliver coordinated care to up to 65,000 people;
- The establishment of the Private Health Sector Reform Committee to advise on the design and implementation of private health insurance reforms aimed at reducing the cost and improving the value of private health insurance for consumers; and;
- Additional funding for the Aged Care Viability Supplement for regional aged care providers and the My Aged Care contact centre.



Table 11: Health measures

Health and Aged Care	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over 4 years (\$m)
Additional funding to the States and Territories for Public Hospitals	Revises changes to indexation of public hospital funding in the 2014-15 Budget over the forward estimates, but does not provide long term funding certainty. Only a small fraction of the \$57 billion over 10 years cut from this sector in that Budget is restored.	-	477	2,851
Establish the Child and Adult Public Dental Scheme in place of the Child Dental Benefits Scheme and the National Partnership Agreement for Adult Public Dental Services	Under the new scheme all child and adult concession card holders would be eligible, expanding its reach to 10.5 million low and middle income earners. However, the scheme provides 33% less funding per year than the current Child Dental Benefits Scheme.	-61	-51	-21
Pause indexation and make efficiencies in the health 'Flexible Funds'	Indexation of health Flexible Funds frozen for a further 2 years and a reduction in uncommitted funds provided. This follows substantial funding cuts to health Flexible Funds in the 2014-15 Budget and will further undermine core capacity of community-based health services, including policy advice and advocacy.	-	-32	-182
Extend the pause on indexation of Medicare Benefits Schedule (the Medicare Rebate)	The pause would be extended until June 2020, affecting all services provided by GPs, medical specialists, allied health and other health practitioners. This is likely to undermine bulk billing and increase the gap fees charged to patients, reducing affordability and accessibility for people on low incomes and shifting costs to hospitals.		-	-302
Additional funding for the Aged Care Viability	To better target the Supplement to areas of greatest need by replacing	15	28	102



Health and Aged Care	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over 4 years (\$m)
Supplement for regional aged care facilities	the current remoteness classification system .			
Additional funding to support the My Aged Care contact centre	To meet increased demand for advice on aged care options.	30	31	137
Further revision of the Aged Care Funding Instrument and reducing indexation of the Complex Health Care component	To curb higher than expected growth in aged care subsidies. Savings will be redirected to fund the Government's health policy priorities. However no new measures to ensure access to a home care package or bed as recommended by the Government's 'Aged Care Community Sector Road Map'	-119	-230	-1,200

## 2.4.2 Education

### Key messages

- + The commitment to fund additional years of the 'Gonski' package is welcome, but does not extend beyond the forward estimates period. The investment of \$1.2 billion over 2 years represents a fraction of the cuts valued at \$30 billion over 10 years delivered in 2014-15 and 2015-16.
- + This under-investment in education will continue to erode access to high-quality school education, particularly for children from families living on low incomes, increase educational inequality and do little to halt a decline in educational outcomes compared with other OECD countries.

### Analysis

The key education measure in the 2016-17 Budget is the commitment to fund the final years of the 'Gonski' package of education reforms from 2018 to 2020, with the distribution of additional funds to be 'needs-based, stable, fair and transparent.' Total school funding for the period to 2020 will be indexed at 3.56% (an education-sector specific index). The funding is contingent on financial contributions from States and Territories and efforts by all sectors to pursue education reforms that improve literacy and numeracy, teaching standards and student outcomes.



The Budget also provides \$118 million over two years in additional funding for school students with a disability, which will be targeted to schools with the greatest need.

The Budget confirmed the Government's intention not to pursue plans to deregulate university fees announced in the 2014-15 Budget and has delayed the implementation of further higher education reforms by a year to allow more time for consultation. This is estimated to cost \$597 million over five years in 'underlying cash' terms.

Additional measures related to early childhood education and care, and education programs targeting recently arrived migrants are discussed elsewhere in this Analysis.

Table 12: Education measures

Education	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over four years (\$m)
Achieving efficiencies from the Higher Education Participation Program		-13	-18	-152
Additional funding for Government and non-Government schools for the 2018-2020 school years.	The extends funding to implement the 'Gonski' reforms for another two years, with no specific commitment beyond that, except that the future distribution of funding will be 'needs-based'. This represents a fraction of the education funding cuts in the 2014 Budget (\$30bn over 10 years)	-	102	1,200
Additional funding for students with a disability in 2016-17 and 2017-18.	Additional support for school students with a disability, targeted to schools with greatest need	87	32	118

### 2.4.3 Aboriginal and Torres Strait Islander Programs

#### Key messages

- + The virtual absence of measures addressing the needs of Aboriginal and Torres Strait Islander people and communities is deeply concerning, especially against the backdrop of almost \$500 million in cuts to Aboriginal and Torres Strait Islander programs announced in the 2014-15 Budget and the discontinuation of funding for the National Congress of Australia's First Peoples.



- + Many of the cuts announced in the 2014-15 Budget come into effect from 2017-18 and beyond. These will have a significant impact the capacity of already under-resourced community-based, Aboriginal-controlled organisations to provide critical services to their communities, including legal and domestic and family violence services.
- + The announcement of funding to help preserve Aboriginal and Torres Strait Islander cultural heritage, and modest additional funds to prevent Foetal Alcohol Spectrum Disorder (FASD) in high-risk remote communities is welcome.

## Analysis

The key measure in the 2016-17 Budget is the provision of \$40 million over four years to the Australian Institute of Aboriginal and Torres Strait Islander Studies to preserve Aboriginal and Torres Strait Islander cultural heritage, including through the digitisation of the Institute's document collection.

The Government will provide \$15 million over 2 years to fund consultations by the Referendum Council in advance of the planned referendum on constitutional recognition of Aboriginal and Torres Strait Islander people.

The Government will also invest \$11 million over 4 years on initiatives to reduce the prevalence of FASD in high-risk remote communities.

While welcome, these measures should be viewed in light of the massive cuts to services for Aboriginal and Torres Strait Islander people and communities as a result of the 2014 Indigenous Advancement Strategy, including to community-based and Aboriginal-controlled health care services.





Table 13: Measures affecting Aboriginal and Torres Strait Islander people

Aboriginal and Torres Strait Islander measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over four years (\$m)
Additional funding for the Australian Institute of Aboriginal and Torres Strait Islander Studies (AIATSIS)	To help preserve Aboriginal and Torres Strait Islander culture and heritage, including through digitisation.	10	10	40
Funding to support consultation activities by the Referendum Council towards Constitutional recognition of Aboriginal and Torres Strait Islander people		-	-	15
Taking more action to prevent Foetal Alcohol Spectrum Disorder	Funds targeted to high-risk remote communities.	3	3	11

## 2.4.4 Community services

### Key messages

- + The Budget does not reverse the severe funding cuts to vital policy, advocacy and service delivery across social services, health and legal assistance and in Aboriginal and Torres Strait Islander programs in previous years. This will further weaken the community sector's capacity to deliver services and to advocate for policies and programs that alleviate poverty and disadvantage in the community.
- + The major measure affecting the community services and disability portfolio is the establishment of the NDIS Savings Fund, to which the Government will contribute \$2.1 billion over the forward estimates. The Government's plans to partly fund its contribution to NDIS with savings achieved in essential programs such as income support is of concern. For example, it is neither appropriate nor fair to finance the NDIS by restricting access to the DSP.

### Analysis

The centrepiece of the 2016-17 Budget with respect to the community services is the establishment of the 'National Disability Insurance Scheme Savings Fund' to help meet the future costs of the NDIS. The Government will credit \$2.1 billion to the fund over the forward estimates, comprising unspent funds from current NDIS transition agreements with the States and Territories (\$711 million over 5 years) and \$1.3 billion in savings generated from



reductions in social security expenditure. The Budget provides \$47 million over 4 years to continue the Mobility Allowance during the transition to the NDIS, as noted above.

While we support the full roll-out of the NDIS, this should not be paid for at the expense of people who rely on social security. We are particularly concerned that savings generated from the reassessment of 90,000 DSP recipients, estimated to save the Government \$62 over 3 years by forcing more people onto the lower Newstart Allowance will be used for this purpose. Funding a scheme designed to deliver more control to people with a disability over the services they receive by reducing access to the DSP is inconsistent and inequitable.

Despite the failure to reverse deep cuts to critical front-line community-based social and welfare services delivered in 2014-15 and 2015-16, the Budget contains some welcome measures including additional funding for domestic and family violence services under the National Plan to Reduce Violence Against Women and Their Children and The National Framework for Protecting Australia's Children; and support for the integration of community-based asylum seekers and recently arrived migrants and refugees.

However, we share concerns raised by others in the community sector about the lack of targeted funds to address domestic and family violence within Aboriginal and Torres Strait Islander communities, including through adequate funding for Family Violence Prevention Legal Services. While additional funds for financial counselling services are also welcome, they should be viewed in light of large cuts in funding to this sector in the 2014-15 Budget.

Table 14: Community Services Measures

Community Services Measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over four years (\$m)
Establish the National Disability Insurance Scheme Savings Fund to assist with future costs of the NDIS	The Government will credit \$2.1bn to the fund, comprising \$711m over 5 years in reduced NDIS transition funds and \$1.3bn over 5 years from social security savings (outlined elsewhere in this Analysis).	95	156	2,100
Redesigning the Strengthening Communities Grants program	The program will be redesigned within the current Budget envelope to have 'greater focus on building strong, resilient, cohesive communities.	-	-	-



Community Services Measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over four years (\$m)
Redesigning the Adult Migrant English Program to focus on jobs and social cohesion outcomes		-	-1	-1
Building social cohesion for recently arrived migrants	To provide additional support to recently arrived humanitarian migrants, particularly the \$12,000 additional entrants from Syria	4	4	11
Additional funding for Asylum Seeker support	To fund the provision of assistance to eligible community-based asylum seekers (excluding boat arrivals)	40	-	40
Additional funding for initiatives to address domestic and family violence under the National Plan to Reduce Violence Against Women and their Families	The initiatives will be drawn from recommendations from the Third Action Plan 2016-19. The funding is in addition to the Women's Safety Package announced in MYEFO.	33	23	100
Implementing two new trial programs under the Third Action Plan 2015-18 of the National Framework for Protecting Australia's Children: Protecting Children is Everyone's Business 2009-2020	One program to build parenting skills during a child's first 1000 days and another to provide intensive case management to support young people to transition from out of home care to independent living.	2	2	5
Additional funding for financial counselling for gamblers with financial problems		7	-	7



## 2.6 Affordable housing

### Key messages

- + The 2016-17 Budget does not contain any new initiatives to mitigate Australia's growing housing affordability crisis.
- + With funding for the current National Partnership Agreement on Homelessness due to expire in June 2017, the future of funding for homelessness services remains uncertain.
- + Total funding cuts to housing and homelessness programs across the last three Budgets amount to \$674 million over 4 years.<sup>16</sup>
- + The sole housing specific measure in the Budget is the establishment of a Compulsory Rent Deduction Scheme.

### Analysis

Despite calls for action to address the growing housing affordability crisis, the Budget contained no major housing or homelessness initiatives.

The sole housing-specific measure in this year's Budget is the establishment of a Compulsory Rent Deduction Scheme. Under the Scheme, public housing and some community housing tenants in receipt of income support or family payments will have their rent deducted automatically from their payments. While designed to reduce evictions and provide a more stable income flow to housing providers, this will also constrain individual budgetary decisions. The measure is subject to negotiation with the States and Territories, with the result that expenditure is not for publication.

No action was taken in the Budget to address the shortfall of affordable rental housing supply, either by boosting the adequacy of funding to the State and Territory Governments or creating new mechanisms to attract private investment at scale following the discontinuation of funding for the National Rental Affordability Scheme in the 2014 Budget (institutional financing mechanisms are currently being considered by the Council on Federal Financial Relations Affordable Housing Working Group). The future of the Remote Indigenous Housing Agreement also remains uncertain, with funding to expire in 2018 and no commitment beyond that in this Budget. As noted above, reform of housing tax concessions was ruled out in advance of the Budget.

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<sup>16</sup> This includes the discontinuation of the National Rental Affordability Scheme (NRAS, \$235/4 years); \$44 million per annum reduction in funding under the National Partnership Agreement on Homelessness between 2014 and 2017 (NPAH, \$132 million), and the abolition of the Housing Help for Seniors Pilot (\$173 million/4 years) and the First Home Saver Accounts Scheme (\$134 million/4 years).



Table 15: Housing Measures

Housing measure	Impact	Increase in revenue (\$m in 2016-17)	Increase in revenue (\$m in 2017-18)	Cost over four years (\$m)
Establish a Compulsory Rent Deduction Scheme	<p>Automatic deduction of rent from income support or family payments for social housing tenants.</p> <p>Cost is 'not for publication' as it is subject to negotiation with the States</p>	Not published	Not published	Not published



APPENDIX 1: Table of unlegislated measures from the 2014-15 and 2015-16 Budgets, carried forward. Underlying cash balance impact over medium term.

	2 0 1 5 - 1 6	2 0 1 6 - 1 7	2 0 1 7 - 1 8	2 0 1 8 - 1 9	T o t a l i t o 2 0 1 8 - 1 9	2 0 1 9 - 2 0	2 0 2 0 - 2 1	2 0 2 1 - 2 2	2 0 2 2 - 2 3	2 0 2 3 - 2 4	2 0 2 4 - 2 5	2 0 2 5 - 2 6	T o t a l i t o 2 0 2 5 - 2 6	Original measure
Pharmaceutical Benefits Scheme — increase in co-payments and safety net thresholds <sup>a</sup>	-	139	298	362	799	443	483	491	498	506	514	521	4,256	2014–15 Budget Paper 2, p.140
Maintain eligibility thresholds for Australian Government payments for three years <sup>b</sup>	2	54	41	65	161	70	70	70	74	74	75	78	671	2014–15 Budget Paper 2, p.204
Increasing the age of eligibility for Newstart Allowance and Sickness Allowance <sup>c</sup>	-10	142	161	166	460	163	157	161	166	172	180	189	1,647	2014–15 Budget Paper 2, p.203
Australian Renewable Energy Agency — cessation	-	-	354	223	578	456	125	131	-	-	-	-	1,290	2014–15 Budget Paper 2, p.163
Pensioner Education Supplement — cessation	-	44	82	83	209	85	86	87	89	90	91	93	830	2014–15 Budget Paper 2, p.206
Apply the One-Week Ordinary Waiting Period to all Working Age Payments <sup>c</sup>	-3	60	59	60	177	62	63	63	64	67	69	72	637	2014–15 Budget Paper 2, p.191
Education Entry Payment — cessation	-	10	19	19	48	19	20	20	20	21	21	21	191	2014–15 Budget Paper 2, p.197
Veterans' Disability Pensions — commencement of payments from date of claim	-	10	10	10	29	10	10	10	10	10	10	11	99	2014–15 Budget Paper 2, p.221
Higher Education Support Act 2003 — efficiency dividend	-	96	255	323	674	335	347	359	371	384	398	413	3,281	2013–14 Budget Paper 2, p.217
A sustainable Higher Education Loan Programme — HECS-HELP benefit — cessation <sup>d,e</sup>	-	8	9	9	26	11	13	16	18	21	24	28	157	2014–15 Budget Paper 2, p.77
A sustainable Higher Education system — Australian Research Council — efficiency dividend <sup>d</sup>	-	24	25	25	75	26	27	27	28	28	29	29	269	2014–15 Budget Paper 2, p.78
Expanding opportunity — a more effective Higher Education Participation Programme	-	12	16	16	44	17	17	18	18	19	20	20	173	2014–15 Budget Paper 2, p.84
Expanding opportunity — Higher Education Indexation — revised arrangements	-	69	107	137	313	165	190	226	259	295	332	351	2,131	2014–15 Budget Paper 2, p.85
Expanding opportunity — FEE-HELP and VET FEE-HELP loan fee cessation <sup>d,e</sup>	-	-3	-19	-48	-71	-98	-160	-234	-321	-420	-528	-643	-2,474	2014–15 Budget Paper 2, p.85
Higher Education — structural adjustment fund	-	-27	-42	-31	-100	-	-	-	-	-	-	-	-100	2014–15 MYEFO, p.150
A sustainable Higher Education Loan Programme — repayment thresholds and indexation <sup>d,f</sup>	-	-2	-1	-1	-3	-1	-1	-1	-1	-1	-1	-1	-9	2014–15 Budget Paper 2, p.77
Expanding opportunity — expansion of the demand driven system and sharing the cost fairly <sup>d,f,g</sup>	-	365	808	924	2,097	935	876	761	627	471	296	108	6,171	2014–15 Budget Paper 2, p.84
Higher Education Reforms — amendments <sup>d,h</sup>	..	..	-4	-10	-14	-12	-23	-39	-48	-75	-93	-111	-414	2014–15 MYEFO, p.151

	2015-16	2016-17	2017-18	2018-19	Total to 2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Total to 2026	Original measure
Simplifying Medicare safety net arrangements <sup>l</sup>	-	61	114	116	291	118	120	121	123	125	126	128	1,152	2014–15 Budget, p. 145
Increasing the Age Pension qualifying age to 70 years <sup>l</sup>	-	-	-	-	-	-	-	-	-	-	-	950	950	2014–15 Budget, p. 202
Fair Entitlements Guarantee - aligning redundancy payments to national employment standards <sup>i</sup>	-	26	30	32	87	34	36	39	41	44	47	50	378	2014–15 Budget, p. 95
Abolish the Seafarer Tax Offset <sup>l</sup>	-	4	4	4	12	4	4	4	5	5	5	5	44	2014–15 Budget, p. 212
Family Payment Reform — a new families package <sup>l</sup>	-16	223	640	1,063	1,910	1,955	2,021	2,085	2,146	2,206	2,268	2,329	16,920	2015–16 MYEFO, p. 211-212
Remove Double-Dipping from Parental Leave Pay <sup>j,k</sup>	-7	250	334	354	931	363	372	380	394	408	423	437	3,709	2015–16 Budget, p.168
Research and Development Tax Incentive — reducing the rates of tax offsets	160	220	220	240	840	250	250	270	280	290	300	310	2,790	2014–15 Budget Paper 2, p.18
Impact of unlegislated measures on the underlying cash balance <sup>l</sup>	126	1,785	3,518	4,143	9,572	5,409	5,104	5,066	4,864	4,742	4,605	5,387	44,749	
Impact of unlegislated measures on the underlying cash balance (% of GDP)	..	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
A sustainable Higher Education Loan Programme — HECS-HELP benefit — cessation	-	..	1	2	4	4	6	8	11	14	17	21	85	
Expanding opportunity — FEE-HELP and VET FEE-HELP loan fee cessation	-	-3	-12	-24	-39	-52	-84	-122	-164	-210	-261	-316	-1,247	
Expanding opportunity — expansion of the demand driven system and sharing the cost fairly	-	-4	-21	-53	-79	-138	-265	-437	-648	-891	-1,165	-1,471	-5,095	

SOURCE: Parliamentary Budget Office (2016): [Unlegislated measures carried forward in the Budget estimates – February 2016 update \[Revised 10 March 2016\]](#).

## Notes to tables

1. This measure is unlegislated and savings from it are included in the current 2015–16 MYEFO Budget forward estimates, although the Government has announced that it will not proceed.
2. This measure was amended in the 2015–16 Budget to exclude certain payments including the Age and DSPs and Carer payments and further in the 2015–16 MYEFO to exclude FTB payments. The impacts of these changes are reflected in the figures against this measure presented in the table above.
3. This measure was amended in the 2015–16 Budget. The impact of this change is reflected in the figures against this measure presented in the table above.





4. This measure was amended by the 2015–16 MYEFO measure *Higher Education Reform – delay*. The impact of this change is reflected in the figures against this measure presented in the table above.
5. This measure includes PDI associated with loans through HELP which is disaggregated in the memorandum items to this table.
6. This measure was amended by the 2014–15 MYEFO measure *Higher Education Reforms – amendments*. The impact of this amendment is reflected in the figures against this measure in the table above.
7. This measure includes PDI associated with loans through HELP which is disaggregated in the memorandum items to this table. The inclusion of PDI significantly reduces the savings impact over the period 2016–17 to 2024–25 for this measure which would grow into the future. In 2025–26, the inclusion of PDI results in the measure having a negative impact on the fiscal balance.
8. Residual of the 2014–15 MYEFO measure *Higher Education Reforms – amendments* after adjusting for amendments to 2014–15 Budget measures, *A Sustainable Higher Education Loan Programme – repayment thresholds and indexation* and *Expanding Opportunity – expansion of the demand driven system and sharing the cost fairly*. The residual figures presented against this measure in the table above largely represent the impact of pausing indexation of HELP debts for primary carers with children under five.
9. This measure has been added to the list of unlegislated measures since the September 2015 publication.
10. This measure has been added to the list of unlegislated measures since the September 2015 publication. It replaces three 2014–15 Budget family payment reform measures: *Revise Family Tax Benefit end-of-year supplements*, *Maintain Family Tax Benefit payment rates for two years*, and *Limit Family Tax Benefit Part B to families with children under six years of age*. The associated legislation for it was removed from the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2015* in order for this bill to pass in November 2015.
11. This measure was amended by the 2015–16 MYEFO measure *Parental Leave Pay – revised arrangements*. The impact of this change is reflected in the figures against this measure presented in the table above.
12. Totals may not add due to rounding.



## APPENDIX 2: ACOSS policy analysis of the Youth PaTH program, May 2016

### Key messages

- + There are currently 130,000 young people who are unemployed and over half a million people of all ages who are unemployed long-term. ACOSS' goal is to prevent people disadvantaged in the labour market from being locked out of employment.
- + The evidence shows that work experience in regular jobs, supported by relevant training, can improve outcomes for unemployed people who have not had paid work for some time, or (in the case of many young people) are searching for their first job.
- + Current policy settings require young people who are unemployed for more than six months to participate in Work for the Dole or another approved activity for up to 25 hours per week for 6 months of the year. Participants receive just \$10.40 a week on top of their income support payment for participating. Work for the Dole programs have been demonstrably ineffective at getting people into paid work and we have advocated for their roll-back. A recent official evaluation found that this \$300 million program improves the probability of paid employment by just 2%.
- + The Budget sets a new youth employment policy direction, diverting funding from Work for the Dole programs to a new 3 stage youth employment program involving six weeks of work preparation training, 'internships' of up to 12 weeks, and wage subsidies of up to six months.
- + The change in direction is welcome, especially the expansion of wage subsidies, but the internship component must be carefully designed to protect young people from exploitation and maximise employment outcomes.
- + Specifically, the number of hours in internships should be capped, or the \$100pw 'incentive' payment increased, to ensure that the combination of income support and incentive payments provides the equivalent of a minimum hourly wage or training wage (if accredited training is provided);
- + Participants in internships should be mentored, and protections put in place to prevent exploitation and ensure their health and safety are not compromised.
- + Participation in an internship must be genuinely voluntary, with the option to leave without penalty at any stage.
- + Safeguards should also be in place to prevent 'churning' of people through internships, and displacement of existing workers.



## Summary of the proposed PaTH program

The Budget includes a new \$751.4 million initiative to help 100,000 young people into jobs, called the Youth Jobs PaTH program ('Prepare, Trial, Hire'). The program is to be funded through changes to the current Work for the Dole program and savings from existing wage subsidy programs.

Key elements of the proposed new scheme include:

- + A compulsory pre-employment skills training program which is focused on general skills including working with a team, IT and job preparation (stage 1, from 1 April 2017).
- + An internship program with up to 120,000 placements/4 years for jobseekers registered with a JobActive provider for more than 6 months. The Government's intention is for jobseekers to work with employers to design internship placements of between 4 and 12 weeks with jobseekers working 15-25 hours per week. Participants would receive an additional \$200 a fortnight and participating employers would get an upfront payment of \$1000. Despite the description of the measure as 'voluntary' in the budget papers, penalties may apply for non-participation if the internship forms part of an Employment Pathway Plan.
- + A Youth Bonus wage subsidy of between \$6500 (for the most job ready jobseekers) and \$10,000 (for those assessed as least job-ready) for jobseekers under 25 years, to provide paid work experience for up to six months..

Most of the funding for the new program would come from redirecting current expenditure on compulsory Work for the Dole programs. Under the proposed policy, Work for the Dole would be restricted to Stream A jobseekers (those assessed as being the most job ready or least disadvantaged in the labour market) who have been with a JobActive provider for 12 months (i.e. long-term unemployed). The remainder of the funds will be derived from reducing funding to the existing wage subsidy program by paying subsidies for 6 instead of 12 months and through reduced estimates of demand (saving of \$204.2 million).



## **Our assessment**

The shift away from the ineffective Work for the Dole program towards a new approach is welcome. However, the Government must ensure that the PaTH program is well targeted, prevents young people from being exploited and leads to real employment outcomes. This applies especially to the internship component

### **Training should be linked to work experience**

Policy settings should ensure that the compulsory training stage is useful and linked to real job opportunities. Ideally, it should be designed in dialogue with the young person and employer and connected with work experience.

### **Payment during internships should be adequate**

Participants should be paid the hourly equivalent of the minimum wage, or where appropriate training is provided, the National Training Wage. This could be achieved either by capping the weekly hours of the internship or by increasing the proposed \$100pw payment for participants.

The Budget papers indicate that the Government intends for young people to participate in internships for 15-25 hours per week. The national minimum wage is currently \$17.29 per hour or \$656.90 per 38 hour week (before tax). Lower rates apply to young people under 21 years. For example for a 19 year old the national minimum is 82.5% of this or \$14.26 per hour.<sup>17</sup>

- + A young person receiving Youth Allowance (Other) and living at home, who participates in the internship phase would receive their base income support payment (\$142.60 a week) and the proposed \$100 incentive payment (a total weekly income of \$242.60). This would provide the equivalent of 17 hours a week at the minimum wage.<sup>18</sup>
- + A young person receiving Youth Allowance (Other) and living away from home, who participates in the internship phase would receive their base income support payment (\$216.60 a week) and the proposed \$100 incentive payment (a total weekly income of \$316.20). This would provide the equivalent of 22 hours a week at the minimum wage.<sup>19</sup>
- + For young people receiving the Newstart Allowance (on current policy settings, for those above 22 years of age, \$263.80 per week) and the \$100 per week incentive payment, total income would be equivalent to \$364 a week, or 21 hours a week at the minimum wage.

### **Internships should be voluntary**

The internships should be genuinely voluntary so that if a young person decides that an internship is not useful for them, they can discontinue without additional financial

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<sup>17</sup> Youth minimum rates vary according to age and the particular Award that applies. The rate quoted here is for a 19 year old employed in a job for which no specific Award applies.

<sup>18</sup> This will vary up or down depending on the age of the young person.

<sup>19</sup> This will vary up or down depending on the age of the young person.



penalties (beyond the cessation of the additional \$100 a week payment for participation), even if the activity is agreed in their Employment Pathway Plan.

### **The risk of exploitation or harm should be minimised**

Importantly, funding for the internships program should not be used to support long, unpaid internships that do not lead to permanent jobs for disadvantaged young people. To ensure this, as well as the capping of hours, the following safeguards should also apply:

- + Appropriate payment for participants (discussed above)
- + Employers who are 'churning' people through internships or not regularly converting internships into paid employment opportunities should be barred from the program;
- + Occupational health and safety protections should apply to young people participating in internships as well as protections against bullying and harassment,
- + Interns and sponsoring employers should be properly mentored, and this function should be properly resourced. Mentors would play a role in monitoring the above requirements;
- + Reasonable excuse provisions should apply so that young people who are unable to attend the workplace during their internship phase due to sickness are not penalized;
- + JobActive providers must be adequately resourced and incentivised to support young people to negotiate and participate in the internship process; and
- + An effective complaints process should be established and adequately resourced and appropriate remedies available for young people who are being exploited in the program.
- + Exclusion of employers from the program where they have recently reduced their workforce or the risk of displacement of existing workers is high (discussed below)

### **Adverse impacts on the labour market should be minimised**

Under current policy settings, unemployed people registered with JobActive providers can participate in unpaid work experience placements for up to 4 weeks, with employers who offer ongoing work potentially eligible for a wage subsidy. Employers are excluded from participating in the scheme if they have downsized their workforce in the previous 12 months or plan to do so during the placement or if the placement would result in the replacement of existing workers or a reduction of their hours. Similar safeguards should apply to the proposed internship program. Providing 30,000 places a year, places in the PaTH program fall far short of the number of young unemployed people (there are currently 137,000 young people receiving unemployment payments). This means it is unlikely to have a major impact on reducing youth or long term unemployment in isolation, but the limited scope of the program also reduces the risk of labour displacement. The risks of labour



displacement in low-skilled work posed by currently uncapped backpacker visas (240,000 last year) is far greater than those posed by the PaTH program.

Finally, we are concerned that while the Government is moving away from Work for the Dole approaches under its PaTH program for young people, the policy would remain in place for those in remote Aboriginal communities under the Community Development Program and for jobseekers registered with JobActive providers for more than 12 months. The Community Development Program legislation remains before the Senate and would require people in certain remote areas (mainly Aboriginal and Torres Strait Islander peoples) to participate in 25 hours per week of compulsory Work for the Dole activities and outsource social security functions to employment providers, instead of Centrelink. ACOSS remains strongly opposed to this proposal.

### **Conclusion**

The youth PaTH program sets a positive new direction but consultation with key stakeholders, including unions, welfare and youth organisations, employers and jobseekers, should be undertaken to ensure we get the policy settings right so that the potential benefits are maximised and the risks are kept to a minimum.



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