



Parliament of Australia
Parliamentary Budget Office

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Senator Richard Di Natale
Leader of the Australian Greens
Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Reducing income inequality* (letter of 27 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

29 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Reducing income inequality
Summary of proposal:	<p>This proposal has a number of components, with components 1 and 2 being increases to income support payments, component 3 being a reversal of earlier cuts to income support payments, and components 4 to 7 being a range of policies intended to strengthen the social safety net.</p> <p><u>Component 1: Increase the rates of Newstart Allowance and Youth Allowance for single people</u></p> <ul style="list-style-type: none">• Increase the single rates of Newstart Allowance (NSA) and independent Youth Allowance (YA) by \$55 a week.• Change the indexation arrangements for these payments from the Consumer Price Index (CPI) to the higher of the CPI, Male Total Average Weekly Earnings (MTAWE), or Pensioner and Beneficiary Cost of Living Index (PBCLI).• Decrease the eligibility age to access NSA from 25 years to 22 years of age. <p><u>Component 2: Increase the Parenting Payment (Single)</u></p> <ul style="list-style-type: none">• Increase the Parenting Payment (Single) (PPS) qualifying age of the youngest dependent child from eight to 16 years of age. <p><u>Component 3: Reverse Budget measures</u></p> <ul style="list-style-type: none">• Reverse the 2014-15 Budget measure <i>Apply the One-Week Ordinary Waiting Period to all Working Age Payments</i> and the related 2015-16 Budget measure <i>Exclude Widow Allowance from the One-Week Ordinary Waiting Period for all Working Age Payments</i>.• Reverse the relevant parts of the 2015-16 Budget measure <i>Youth Employment Strategy – revised waiting period for youth income support</i> to abolish the four week waiting period for young people to receive youth income support payments.

	<ul style="list-style-type: none"> • Reverse the 2014-15 Budget measure <i>Maintain Eligibility thresholds for Australian Government payments for three years</i>. (This includes the pause in indexation of the income threshold for PPS) • Reverse in full the 2014-15 Mid-Year Economic and Fiscal Outlook (MYEFO) measure <i>Cessation of social security benefits for certain people confined in a psychiatric institution</i>. <p><u>Component 4: Develop a National anti-poverty strategy</u></p> <ul style="list-style-type: none"> • Provide funding of \$12 million over three years (indexed by the CPI) to develop a national anti-poverty strategy. <p><u>Component 5: Abolish Work for the Dole</u></p> <ul style="list-style-type: none"> • Abolish Work for the Dole and redirect the savings to community based initiatives. <p><u>Component 6: Improve access to community services</u></p> <ul style="list-style-type: none"> • Provide an additional \$200m over four years to boost funding to community services. • Provide \$304 million over four years to offset the reduced funding from the 2014-15 Budget measure <i>Discretionary Grant Programme Reform</i>. • Provide \$10.1 million over the forward estimates period to prepare a national access plan, including the mapping of services to community needs. <p><u>Component 7: Establish an Equity Commission</u></p> <ul style="list-style-type: none"> • Establish an ongoing Equity Commission (the Commission) consisting of approximately 30-36 staff. The Commission would provide public advice to Government and the Parliament on living costs for various groups and household types - in particular, for income support recipients. <p>All components of this proposal would have effect from 1 September 2016.</p>
<p>Person/party requesting costing:</p>	<p>Senator Richard Di Natale, Australian Greens</p>
<p>Date of public release of policy:</p>	<p>10 June 2016</p> <p>http://rachel-siewert.greensmps.org.au/content/media-releases/everyone-deserves-fair-access-social-services-0;greens.org.au/inequality</p>

Date costing request received:	27 June 2016
Date costing completed:	29 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by \$10,815.0 million over the 2016-17 Budget forward estimates period. This impact reflects an increase in expenses of \$11,175.0 million and an increase in revenue of \$360.0 million over this period.

Components 1, 2, 3, and 7 would have ongoing financial impacts that extend beyond the 2016-17 Budget forward estimates period. These impacts would increase at a similar rate to the growth across the 2016-17 Budget forward estimates period.

A detailed breakdown of the financial impacts of this proposal over the 2016-17 Budget forward estimates period for the total (Table A1) and by component (Tables A2-A8) is provided at [Attachment A](#).

Components 1 to 3 are considered to be of medium reliability as the Parliamentary Budget Office (PBO) has made assumptions about future growth in the number of income support payment recipients, their income, and other characteristics.

Components 4 to 6 are considered to be of high reliability as they are based on a specified capped amount or a reallocation of existing administered funding.

Component 7 is considered to be of medium reliability due to uncertainty surrounding whether the staffing resources are adequate to undertake the work of the Commission.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-2,624.0	-2,746.0	-2,712.0	-2,733.0	-10,815.0
Underlying cash balance	-2,624.0	-2,746.0	-2,712.0	-2,733.0	-10,815.0

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

Components 1-2

- The PBO has assumed that all single, principal carers currently receiving NSA would transfer to PPS.

Component 7

- Staff of the Commission would progressively join the organisation, resulting in a half year impact on average in 2016-17.
- Set-up costs for the Commission of \$1.5 million would be required in 2016-17.

Methodology

Component 1-2

Administered expenses for this component of the proposal were calculated by estimating changes in the number of recipients of affected entitlements (including NSA, PPS and YA) and multiplying this by the estimated change in payment rates under the proposal.

Departmental expenses were estimated based on the changes in the number of new recipients accessing the payments multiplied by the unit cost of administering the payments.

The change in recipients includes the transfer of all single, principal carers currently receiving NSA to the PPS.

Estimates of administered expenses and revenue have been rounded to the nearest \$5 million. Departmental expenses have been rounded to the nearest \$1 million.

Component 3

This component of the costing was estimated by reversing the impact of related measures in the 2014-15 and 2015-16 Budgets and the 2014-15 MYEFO.

Estimates of administered and departmental expenses have been rounded to the nearest \$5 million.

Component 4

Administered and departmental expenditure for this component of the proposal are as specified in the request.

Component 5

This component of the costing has been based on total funding for the Work for the Dole Scheme.

Component 6

Departmental expenditure estimates for preparing the National Access Plan were based on annual funding provided for the Australia's Future Tax System review (\$10 million) over four years using the net effect of the appropriate indexation parameter and the efficiency dividend.

Administered expenditure for increased funding for community grants is as specified in the request; \$504 million (\$200 million in additional funding plus \$304 million from redirected funding).

Departmental expenditure estimates relating to the additional community grants were estimated from similar programs and account for the net effect of indexation parameters and the efficiency dividend, in accordance with the Department of Finance costing practices.

Component 7

The PBO used a standard departmental costing model and published information on the remuneration of public office holders of the Productivity Commission to estimate the financial impact of this proposal.

Data sources

- Australian Bureau of Statistics, 2011-12 Survey of Income and Housing
- Treasury, CAPITA model
- Department of Human Services (DHS) Funding Model of Unit Prices for New Policy Proposals
- Department of Social Services (DSS) Payment Demographic Data as of December 2015 - retrieved from <https://data.gov.au/dataset/dss-payment-demographic-data>
- DSS provided administrative data on transfer payment recipients
- DHS provided the 2016-17 Budget Funding Model on Unit Prices for National Policy Proposals
- Department of Employment provided the jobactive costing model, including funding for Work for the Dole.
- Department of Finance provided 2016-17 Budget indexation and efficiency dividend parameters
- Policy details have been informed from the Australian Greens policy documents Lifting income support and Strengthening our social safety net available from <http://greens.org.au/inequality>

Attachment A: Reducing income inequality— financial implications

Table A1: Combined impact of all components—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Administered	-2,645.0	-2,770.0	-2,735.0	-2,760.0	-10,910.0
Departmental	21.0	24.0	23.0	27.0	95.0
Total	-2,624.0	-2,746.0	-2,712.0	-2,733.0	-10,815.0

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

Table A2: Component 1: Increase the single rates of Newstart Allowance and Youth Allowance—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Income tax	40.0	60.0	65.0	70.0	235.0
Administered	-1,975.0	-1,955.0	-1,950.0	-1,950.0	-7,830.0
Departmental	-7.0	-8.0	-8.0	-11.0	-34.0
Total	-1,942.0	-1,903.0	-1,893.0	-1,891.0	-7,629.0

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

Table A3: Component 2: Increase the Parenting Payment (single)—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Income tax	25.0	35.0	35.0	35.0	125.0
Administered	-465.0	-555.0	-570.0	-585.0	-2,175.0
Departmental	37.0	42.0	43.0	44.0	165.0
Total	-403.0	-478.0	-492.0	-506.0	-1,885.0

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(b) Figures may not sum to totals due to rounding.

Table A4: Component 3: Reverse Budget measures—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Administered					
Apply the One-Week Ordinary Waiting Period to all Working Age Payments	-50.0	-65.0	-70.0	-70.0	-255.0
Youth Employment Strategy – revised waiting period for youth income support	-45.0	-65.0	-65.0	-70.0	-245.0
Maintain eligibility thresholds for Australian Government payments for three years	-45.0	-90.0	-40.0	-55.0	-230.0
Cessation of social security benefits for certain people confined in a psychiatric institution	-10.0	-10.0	-15.0	-15.0	-50.0
Total - administered	-150.0	-230.0	-190.0	-210.0	-780.0
Departmental					
Apply the One-Week Ordinary Waiting Period to all Working Age Payments	4.0	2.0	2.0	2.0	9.0
Youth Employment Strategy – revised waiting period for youth income support	3.0	3.0	2.0	2.0	11.0
Maintain Eligibility thresholds for Australian Government payments for three years	1.0	2.0	1.0	1.0	4.0
Cessation of social security benefits for certain people confined in a psychiatric institution
Total - departmental	8.0	7.0	5.0	5.0	24.0
Total	-142.0	-223.0	-185.0	-205.0	-756.0

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

Table A5: Component 4: Develop a national anti-poverty strategy—Financial implications (outurn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Administered	-	-	-	-	-
Departmental	-4.0	-4.0	-4.0	-	-12.0
Total	-4.0	-4.0	-4.0	-	-12.0

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A6: Component 5: Abolish Work for the Dole—Financial implications (outurn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Abolish Work for the Dole	200.0	180.0	175.0	175.0	735.0
Funding for community based initiatives	-200.0	-180.0	-175.0	-175.0	-735.0
Total	-	-	-	-	-

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A6: Component 6: Improve access to community services—Financial implications
(outurn prices)^{(a)(b)}**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Administered					
Community Service Grants	-122.7	-122.7	-122.7	-122.7	-490.8
Departmental					
Community Service Grants	-3.3	-3.3	-3.3	-3.3	-13.2
National Access Plan	-4.1	-2.5	-2.0	-1.5	-10.1
Total - departmental	-7.4	-5.8	-5.3	-4.8	-23.3
Total	-130.1	-128.5	-128.0	-127.5	-514.1

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

**Table A6: Component 7: Establish an Equity Commission—Financial implications
(outurn prices)^{(a)(b)}**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Administered	-	-	-	-	-
Departmental	-5.3	-6.7	-6.7	-6.8	-25.5
Total	-5.3	-6.7	-6.7	-6.8	-25.5

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.