

# Chapter 10

## Welfare expenditure

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# 10 Welfare expenditure

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## At a glance

### How much is spent?

- In 2010–11, Australian Government and state and territory government welfare spending was estimated at \$119.4 billion—\$90.0 billion (75%) was in cash payments (including unemployment benefits) and \$29.4 billion (25%) was for welfare services.
- Between 2001–02 and 2010–11, government welfare spending increased on average by 3.1% per annum after adjusting for inflation.
- Over the decade to 2010–11, the percentage of gross domestic product spent annually on welfare ranged from 8.4% to 9.6%. The exception was the 10.4% recorded in 2008–09, which coincided with the Australian Government's Economic Security Strategy in response to the global financial crisis.
- Non-government community service organisations play an important part in the delivery of welfare services. However, non-government expenditure is not included in the estimates presented in this chapter, primarily due to the difficulties in obtaining comprehensive data. Government funding to non-government organisations is included.
- The Australian Government Treasury estimates that \$36.6 billion in revenue was forgone through welfare tax deductions and concessions in 2010–11. This amount is not included in the estimates of total welfare expenditure. The majority of the foregone revenue (\$28.2 billion, or 77%) was for superannuation concessions.

### Where does it go?

- Of the \$90.0 billion in cash payments, \$36.3 billion was for older people and \$25.5 billion was for families and children.
- The average amount spent by governments on welfare services per Australian resident in 2010–11 was \$1,308.

### How does Australia compare?

- Australia's per person welfare expenditure (including both government and non-government expenditure) in 2009 was higher than the OECD average in the areas of 'families' and 'incapacity', and below the OECD average for 'survivors', 'old age' and 'unemployment'.



## 10.1 Introduction

This chapter examines what governments spend on welfare (including both cash payments and welfare services), how this spending has changed over the 10 years from 2001–02 to 2010–11, what the main areas of spending are and how this spending fits into the wider picture of expenditure in the economy.

## 10.2 What is welfare expenditure?

Australia's welfare services, programs and payments aim to assist people to participate fully in society and support those in need, thereby improving 'the lives of Australians by creating opportunities for economic and social participation by individuals, families and communities' (FaHCSIA 2011) and 'increasing national prosperity through improvements to productivity, participation and social inclusion' (DEEWR 2011).

Welfare expenditure broadly comprises spending on cash payments (that is, social security) and welfare services. Welfare-related objectives are also achieved by forgoing revenue, such as tax concessions and deductions.

The Australian Government is responsible for payments such as pensions, benefits and allowances. It is also responsible for financial assistance for recovery from disasters, and various payments to the states and territories, such as the National Disability Specific Purpose payment and National Partnership payments for pensioner concessions.

State and territory governments fund a range of welfare services, including:

- child protection
- child care
- disability support
- services and concessions for older people.

Where possible in this chapter, expenditure on both cash payments and welfare services has been reported by the groups the payments or services are targeting. The target groups are those in the ABS Government Purpose Classification (GPC) for financial transactions for welfare services (ABS 2005):

- Family and child welfare services
- Welfare services for the aged
- Welfare services for people with a disability
- Welfare services not elsewhere classified.

These categories specifically exclude employment services, which are in 'Other labour and employment affairs', except for those that support specific welfare groups such as people with disability. Support and services provided to people who are homeless are included in welfare services, such as those aimed at youth homelessness and supported accommodation (see Chapter 7). The Commonwealth Rent Assistance income supplement (see Chapter 3) is included in estimates of cash payments.

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Although many services and payments related to housing can be considered to have a welfare focus, these are generally classified in separate categories and are not included in the ABS GPC welfare categories or in these estimates. One example is social and public housing, which provides housing for low- to moderate-income families and individuals, particularly those who have difficulty accessing accommodation in the private market. The National Partnership Agreement on Nation Building and Jobs Plan provided \$6 billion for the construction of new social housing from 2008–09 to 2011–12 and \$400 million for the refurbishment of public housing to 2008–09 (Treasury 2011a). The National Partnership Agreement on Social Housing provided \$400 million for the construction of new social housing from 2008–09 to 2009–10 (Treasury 2011b). See Chapter 3 for more information on these agreements and housing programs in general.

Estimates of expenditure on unemployment payments to individuals are included in AIHW's welfare expenditures series for the first time. There is some debate about whether payments to support people who are unemployed have a principal purpose of providing labour market support or income support. As this is the first time unemployment benefits are included, they are identified separately in some tables and graphs so the effect of their inclusion on the total estimates can be seen.

Only spending by the Australian Government and state and territory governments is included in this chapter. This includes funding provided to non-government service organisations that deliver a range of welfare services.

See Appendix C for the data sources used to compile the AIHW welfare expenditure database, from which the information shown in this chapter were drawn, as well as technical notes that describe the methods used.

### 10.3 How much is spent on welfare?

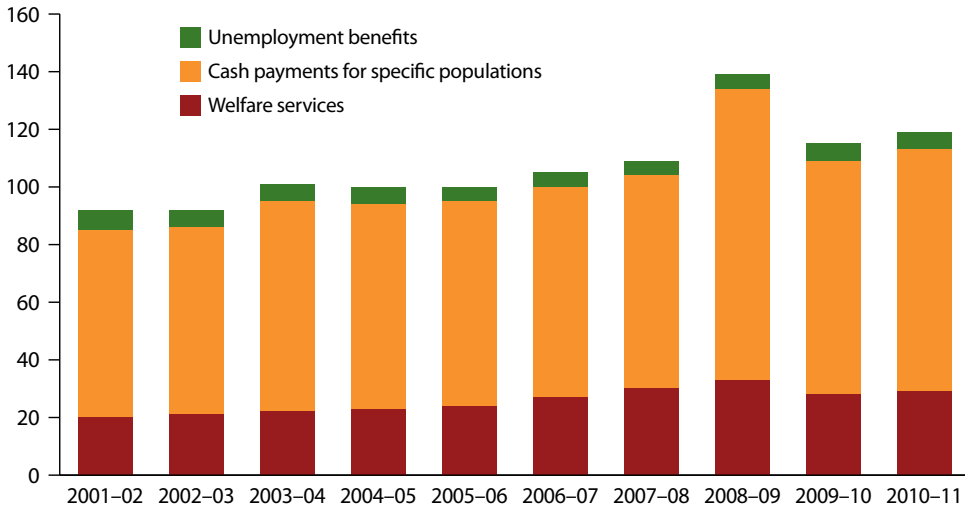
In 2010–11, government welfare expenditure was estimated at \$119.4 billion (Table A10.1). This was nearly 30% more than the \$90.1 billion that was spent by governments on health in the same year. Total health spending, including non-government expenditure, was estimated to be \$130.3 billion in 2010–11 (AIHW 2012). For international comparisons of welfare spending see Section 10.7.

Between 2001–02 and 2010–11, government welfare spending increased on average by 3.1% per annum (Table A10.1) after adjusting for inflation (Box 10.1). Government welfare spending was unusually high in 2008–09 (Figure 10.1), in large part due to the Australian Government's Economic Security Strategy in response to the global financial crisis, and payments to assist in disaster recovery due to, for example, bushfires in Victoria, and storms and floods in Queensland. Of the estimated \$119.4 billion welfare spending in 2010–11, \$90.0 billion was provided as cash payments (including unemployment benefits) and \$29.4 billion was spent on welfare services (Table A10.1).





\$ billion



Notes

1. Estimates for New South Wales, Queensland, South Australia and the Australian Capital Territory have been modelled for 2009–10 as these jurisdictions did not provide data (see Appendix C).
2. ‘Cash payments for specific populations’ includes Commonwealth Rent Assistance, as well as one-off payments made as part of the Economic Security Strategy in 2008–09.
3. Only expenditure on Newstart allowance is included in ‘Unemployment benefits’.
4. Constant price estimates are expressed in terms of 2010–11 prices (see Box 10.1).
5. Data for this figure are shown in Table A10.1.

Source: AIHW welfare expenditure database.

**Figure 10.1: Government welfare expenditure, by type of expenditure, constant prices, 2001–02 to 2010–11**

**Box 10.1: Current and constant prices**

‘Current price’ refers to expenditure reported for a particular year, unadjusted for inflation.

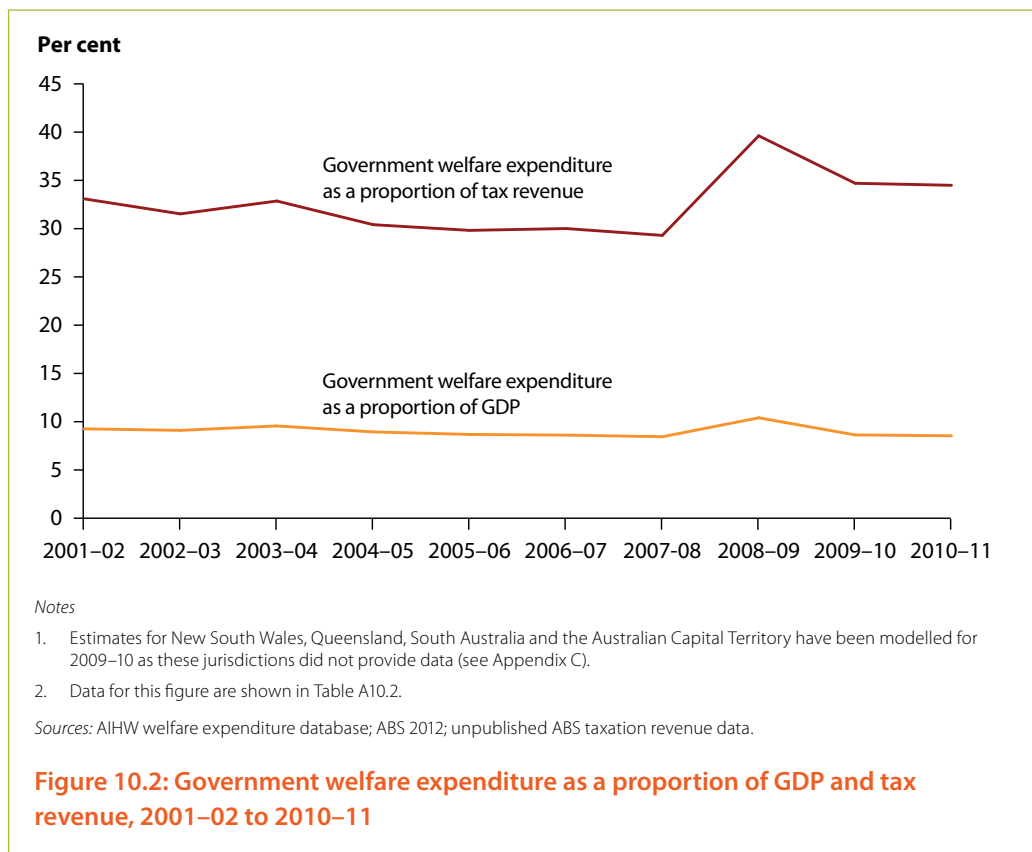
‘Constant price’ estimates in this chapter indicate what the equivalent expenditure would have been had 2010–11 prices applied in all years; that is, it removes the inflation effect. Constant price estimates for expenditure have been derived using deflators produced by the ABS. The consumer price index was used as the deflator for cash payments and the government final consumption expenditure implicit price deflator was used for welfare services.

**How does welfare expenditure compare with GDP and tax revenue?**

In 2010–11, 8.5% of GDP was spent on welfare by governments. Over the decade, the percentage of GDP spent on welfare, with the exception of 2008–09, ranged within a relatively narrow band of a low of 8.4% (in 2007–08) to a high of 9.6% (in 2003–04) (Figure 10.2).



Tax revenues more directly represent the income available for governments to draw on to fund welfare expenditure. Over the decade, with the exception of 2008–09, the percentage of tax revenue spent on welfare ranged from 29.3% in 2007–08 to 34.5% in 2010–11 (Figure 10.2). The higher percentages of welfare spending against both GDP and tax revenue in 2008–09 (10.4% and 39.6% respectively) coincided with the Economic Security Strategy provided in response to the global financial crisis.



## 10.4 Cash payments

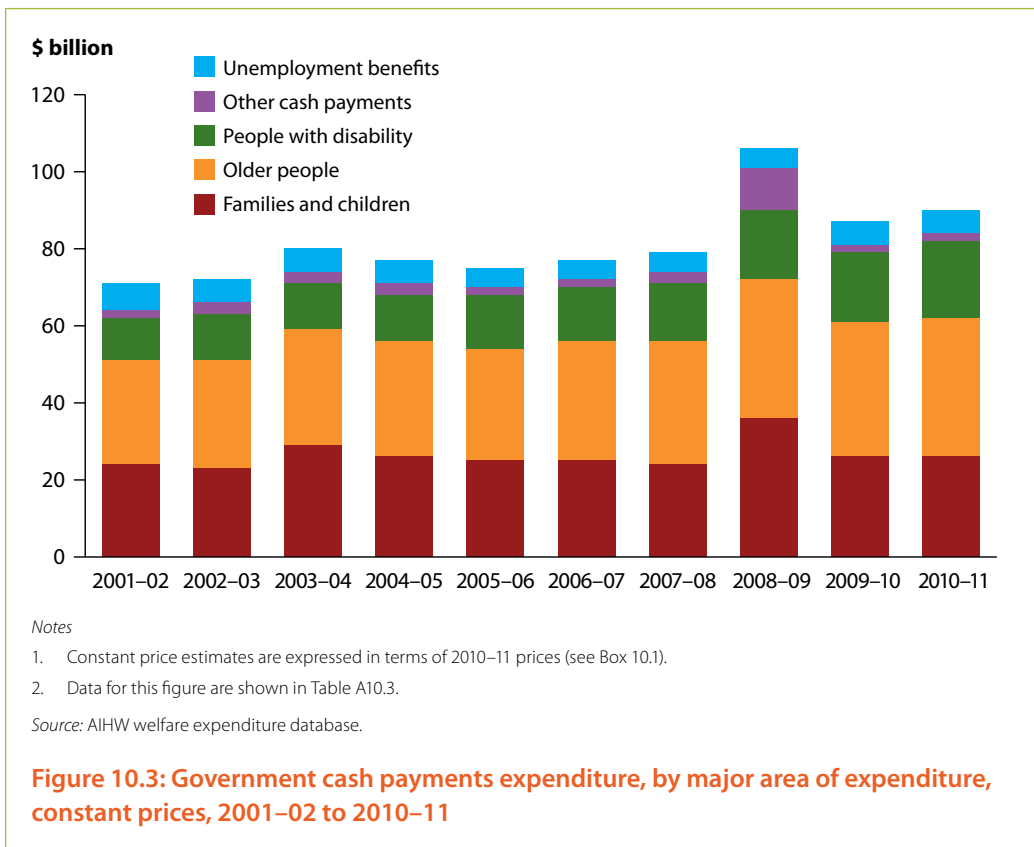
Cash payments include pensions, carer allowances and parenting payments that provide income support for single parents, older people, people with disability, people who provide care for others, families with children, war veterans and their families, and people who are unemployed. See Table 2.9 for information on the number of recipients of major income support and other Australian Government payments. All the payments listed in Table 2.9 are included in these estimates of cash payments with the exceptions of Youth Allowance, Austudy and ABSTUDY (see Box 10.2). The estimates also include other supplements, one-off payments and bonuses

(for example, Seniors Supplement and the Child Disability Assistance Payment). To maintain comparability over time, the Child Care Benefit and Child Care Rebate are included in the estimates of welfare services (rather than cash payments) since historically these payments were paid to the service providers rather than directly to households.

## Cash payments for specific populations

In 2010–11, the total amount spent by governments on cash payments, excluding unemployment benefits, was estimated at \$83.9 billion, up from \$81.3 billion in the previous year (Table A10.1). In both these years, spending on these cash payments represented 70% of total government welfare spending, similar to the average proportion over the decade of 71%. Of the estimated \$83.9 billion, the greatest amount was for older people (\$36.3 billion), followed by spending on families and children (\$25.5 billion). People with disability received \$20.1 billion and \$2.0 billion was provided for ‘other’ cash payments (Figure 10.3).

Over the decade to 2010–11, payments for people with disability had the highest average annual growth of 6.6%. Payments for older people grew by 3.3% and those for families and children by 0.7%, while average annual expenditure for recipients of ‘other’ cash payments fell by 2.3% (Table A10.3).



## Unemployment benefits

Only expenditure on Newstart allowance is included in the estimates of unemployment benefits, while expenditure on Youth allowance, Austudy and ABSTUDY are not included (see Box 10.2).

In 2010–11, the total amount spent on unemployment benefits was estimated at \$6.1 billion, a decline from \$6.4 billion the previous year. This represented 5% of total welfare expenditure in 2010–11, as well as in 2009–10 (Table A10.1).

Expenditure on unemployment benefits increased by 15% between 2007–08 and 2008–09 and by 22% between 2008–09 and 2009–10, coinciding with the global financial crisis. Over the decade to 2010–11, spending on unemployment benefits declined by an average of 0.7% per year (Table A10.3). Over that time, the unemployment rate also declined from 6.4% in 2002 to 5.1% in 2011 (Table A2.10). See Section 2.3 for more information about unemployment and labour force participation.

### Box 10.2 Youth allowance, Austudy and ABSTUDY

Youth allowance (student) is available to eligible young people aged 16 to 24. It provides assistance for students to participate in full-time education, training or apprenticeships. In 2010–11, \$2.6 billion was spent on Youth allowance for students.

Youth allowance (other) is available to eligible young people aged 16 to 20 who are seeking or preparing for paid employment or are undertaking study or training. In 2010–11, \$0.7 billion was spent on Youth allowance (other).

Austudy provides support to people aged 25 and over who are full-time students (\$0.4 billion in 2010–11) and ABSTUDY provides support to Aboriginal and Torres Strait Islander Australians who are studying or undertaking an apprenticeship (\$0.2 billion in 2010–11).

Estimates of these allowances are not included in the estimates in this chapter. For information on the number of recipients of these allowances, see Table 2.9.

Source: DEEWR 2011.

## 10.5 Welfare services

Welfare services encompass a range of services and programs to support and assist people and the community. These include supported accommodation, family support, early intervention programs, outreach services, counselling, youth programs, child care services, home and community care services for older people and specialist services for people with disability. In many instances, clients contribute to the costs of services by paying fees. Consistent with the ABS GPC categories, child care is included in these estimates. However, in some reports, such as the *Report on Government Services* (SCRGSP 2013), child care services are included in early childhood education services.

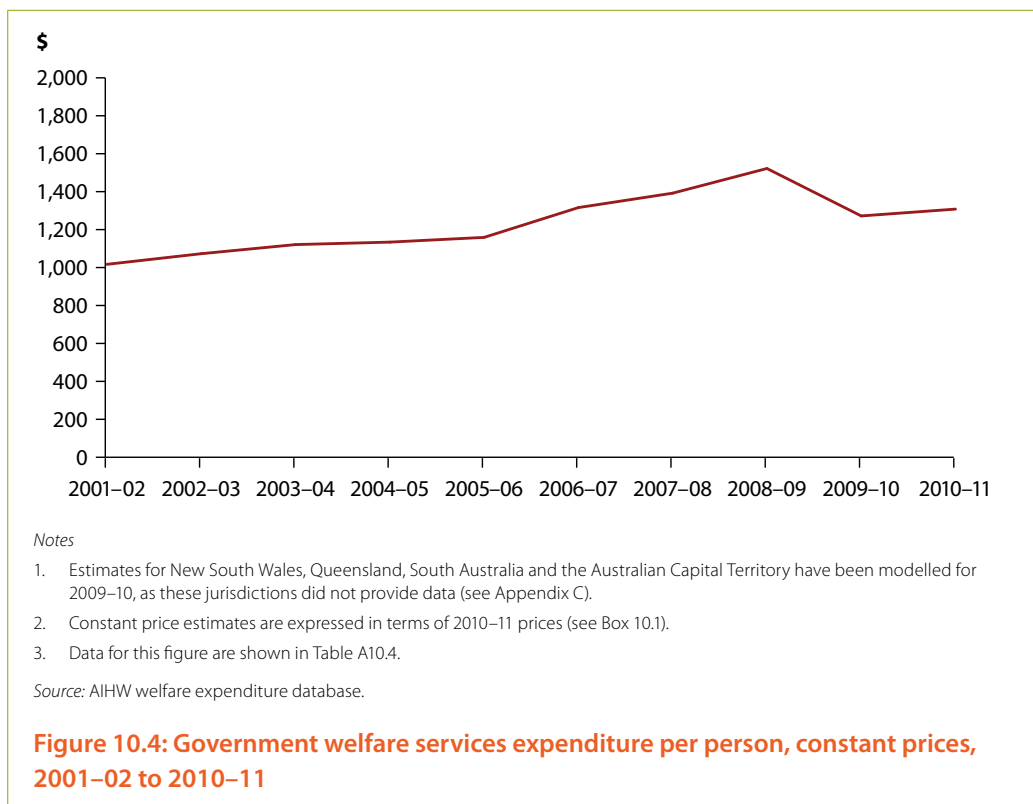




As noted earlier, this chapter estimates government welfare expenditure only. See Box 10.3 for more information about non-government expenditure, including that by households. Total spending — including government and non-government spending—on welfare services includes employee expenses, program costs, concessions and fees that clients paid. Welfare spending defined according to the four GPC welfare services categories (see Section 10.2) does not include all government spending on welfare services programs. For example, some programs relevant to people with disability are in the GPC categories of education, health or housing.

In 2010–11, the total amount spent by governments on welfare services was estimated at \$29.4 billion, up from \$28.2 billion in 2009–10 (Table A10.1). Most spending on welfare services is recurrent, and comprises payments for wages, salaries, operating expenses and running costs. The remainder is capital expenditure. Over the decade to 2008–09, government capital expenditure was less than 2% of total welfare services expenditure (AIHW 2011). An estimate of capital expenditure for later years is not available.

The average amount spent by governments on welfare services per Australian resident in 2010–11 was \$1,308, up from \$1,272 in 2009–10 and down from the peak of \$1,522 in 2008–09 (Figure 10.4). The cost per person represents overall costs for the provision of welfare services and is not meant to be indicative of spending for each eligible person.





### Box 10.3 Non-government expenditure

#### Non-government community service organisations

Non-government community service organisations (NGCSOs) play an important part in delivering welfare services. In 2008–09 (the latest year for which information are available), it was estimated that 59% (\$24.8 billion) of total expenditure on welfare services was administered through NGCSOs. In that year, 59% (\$14.5 billion) of NGCSO funding came from governments, 14% (\$3.6 billion) from the NGCSOs themselves and 27% (\$6.7 billion) from fees charged to service users (that is, clients) (AIHW 2011).

As noted, governments fund a large part of the services delivered by NGCSOs. This expenditure is included in the estimates in this report. NGCSO expenditure that comes through fees paid by clients or NGCSOs' own sources, such as fund-raising, is not included. As data were not obtained on this, NGCSO expenditure is not reported separately.

#### Clients

In addition to paying fees charged by NGCSOs, clients pay fees for services that governments provide directly. They also pay fees to people who provide services privately.

Estimates for 2008–09 suggest that client fees for welfare services were \$350 per person annually (AIHW 2011). Estimates of this expenditure for later years were not derived for this report.

Comprehensive information on NGCSOs' own source funding and client expenditure is not readily available in a way that is consistent and comparable with other information in this chapter.

#### Examples of funding sources for NGCSOs

Anglicare and The Smith Family are examples of large NGCSOs that provide a range of welfare services. In 2010–11, Anglicare's expenditure was around \$95 million, of which 26% was funded by clients, donations and legacies, and their shops (Anglicare 2011). In the same year, The Smith Family spent around \$69 million, of which fund-raising and bequests provided around 62% (The Smith Family 2011). Volunteers also contribute significantly to the delivery of services by these and other NGCSOs.

See Section 10.8 for further discussion about non-government expenditure estimates.

## 10.6 Tax concessions

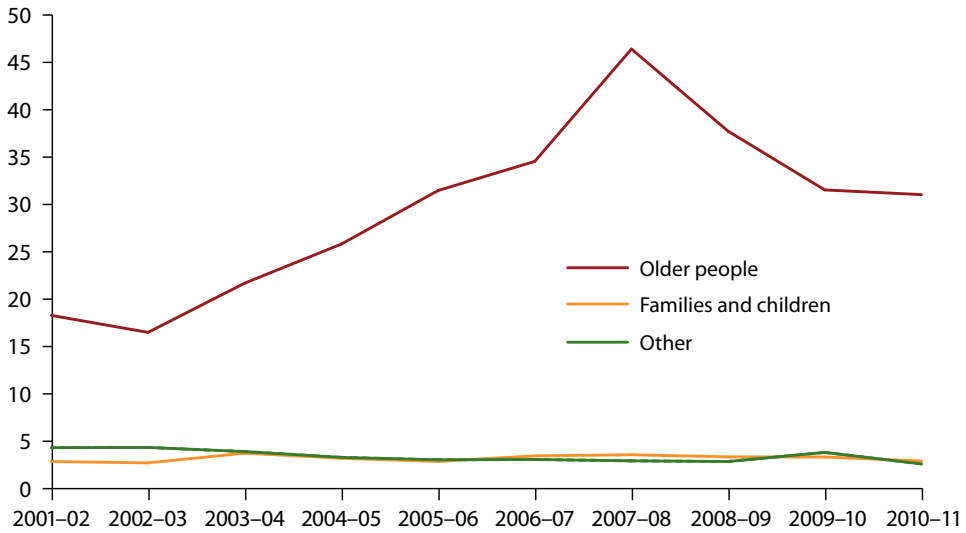
Various tax exemptions, deductions, offsets, concessional rates and deferral of tax liabilities are provided for welfare purposes. The Australian Government Treasury estimated that tax expenditure or concessions for welfare amounted to \$36.6 billion in 2010–11. This amount is not included in the estimates of total welfare spending. The majority (\$28.2 billion, or 77%) was for concessions for superannuation, which aims to assist people in their retirement, while \$2.9 billion (8.0%) was for families and children (Table A10.5).

Australian Government tax concessions for welfare peaked in 2007–08 (Figure 10.5). The declines in 2008–09 and 2009–10 are mainly a result of the global financial crisis, in particular because of the slower growth in superannuation returns (Treasury 2012).





\$ billion



Notes

1. 'Other' refers to welfare-related concessions expenditure not specifically targeted to families and children, or older people.
2. Constant price estimates are expressed in terms of 2010-11 prices (see Box 10.1).
3. Data for this figure are shown in Table A10.6.

Sources: Treasury 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 2011c and 2012.

**Figure 10.5: Tax concessions by the Australian Government for welfare, by type of concession, constant prices, 2001-02 to 2010-11**

## 10.7 International comparisons

Australia's total welfare expenditure (government and non-government) as a proportion of GDP was estimated at 13.3% in 2009 which is lower than the OECD average of 16.3%. Australia's per person expenditure was higher than the OECD average in two areas (namely, families and incapacity), and below the OECD average in four areas (old age, survivors, unemployment and 'other'). See Box 10.4 for details.





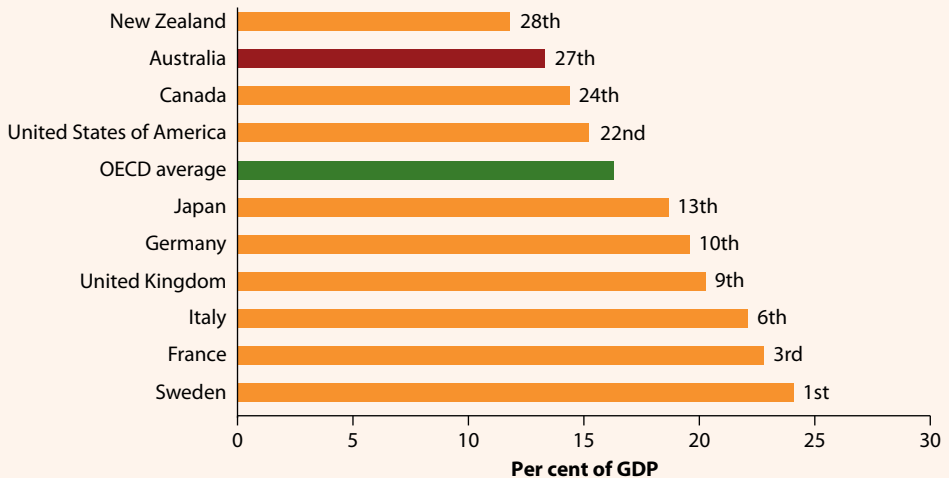
### Box 10.4: International comparison of welfare expenditure



Australia's welfare expenditure can be compared internationally by using OECD data that are grouped according to the OECD Social Expenditure Classification (OECD 2013). That classification includes nine social or welfare expenditure categories, six of which correspond to Australia's welfare expenditure data: old age, survivors (spouse or dependent of a deceased person), incapacity-related, family, unemployment and 'other'. Other categories are not included (see Appendix C).

Note that the estimates used for international comparisons of Australia's welfare expenditure include non-government expenditure and thus are not directly comparable with estimates presented elsewhere in the chapter. The latest year for which internationally comparable data are available is 2009.

Australia's total welfare expenditure (government and non-government) as a proportion of GDP using the six OECD categories was estimated at 13.3% in 2009 (Figure 10.6). This is lower than the OECD average of 16.3%, with Australia ranking 27th out of 33 countries. Australia's per person expenditure was higher than the OECD average in the areas of families and incapacity, and below the OECD average for old age, survivors, unemployment and 'other' (Table A10.7).



*Notes*

1. Welfare expenditure estimates in this table are based on the OECD Social Expenditure Classification to enable international comparisons to be made. Therefore, these estimates are not directly comparable with expenditure estimates elsewhere in this chapter.
2. Includes public, mandatory private and voluntary private social expenditure.
3. Excludes health, active labour market programs, and housing expenditure. Includes superannuation payments (both lump sum and pension).
4. Based on 33 OECD countries with complete data.
5. Data for this figure are shown in Table A10.7.

Source: OECD 2012.

**Figure 10.6: Welfare expenditure as a proportion of GDP, selected OECD countries, 2009**

(continued)



### Box 10.4 (continued): International comparison of welfare expenditure



Thirteen of the 15 countries with the highest welfare expenditure as a proportion of GDP are members of the European Union. This includes the three countries that ranked the highest—Sweden, France and Italy. In 2009, the welfare expenditure of these three countries as a proportion of GDP was estimated at 22% or higher (Table A10.7).

When considering the data for Australia with that of other countries, caution should be applied since Australia's social security system differs significantly from those of many other OECD countries. In Australia, social security is largely financed through progressive taxation, with low-income earners paying relatively little tax compared with other OECD countries, and social security payments tend to be means-tested. As such, the Australian system tends to be more targeted and redistributes a greater proportion of the benefits to the poorer groups than in other OECD countries (Whiteford 2010).

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## 10.8 Where to from here?

There is currently no dedicated routine monitoring of total welfare expenditure, comprising government and non-government spending, in Australia.

Previously, the AIHW published national welfare expenditure data from 1995 to 2007, covering data from 1987–88 to 2005–06, in the *Welfare expenditure Australia* series of reports (for example, AIHW 2007). The series included both government and non-government welfare expenditure and some analysis of expenditure on particular target groups.

While some of these data have been updated with estimates of government expenditure for the purposes of this chapter, estimates of non-government expenditure sourced through fees or fund-raising remain an important gap. Most recently, estimates of non-government expenditure were calculated using proportions from the ABS 2008–09 Community Services Survey (ABS 2010) and before 2005–06, from a combination of sources, including information from the annual reports of non-government service organisations and surveys by the Australian Council of Social Services. Since the 2008–09 Community Services Survey is the latest available in the series, it was not possible for the AIHW to collate updated data and develop new estimates of NGCSO expenditure that comes through fees or fund-raising. Data available from the new Australian Charities and Not-for-profits Commission may be a source of useful information in the future (ACNC 2012).

The *2012 Indigenous expenditure report* includes estimates of government welfare expenditure for Indigenous and non-Indigenous Australians (IERSC 2012). Those estimates differ slightly to the estimates presented in this chapter due to different data collection methodologies (see Appendix C). The *2012 Indigenous expenditure report* is much broader in scope than welfare expenditure, as it includes health and other types of expenditure. It does not include non-government expenditure.

In addition, the Australian National Audit Office report, *Australian Government coordination arrangements for Indigenous programs* (ANAO 2012), identified monitoring of expenditure on Indigenous programs, including welfare programs, as an ongoing gap.



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