



1.4 Welfare expenditure

The Australian and state and territory governments contribute to welfare spending, as do non-government organisations and individuals. The Australian Government primarily contributes through cash payments relating to its areas of responsibility, as defined in the Australian Constitution (which include family allowances, unemployment benefits and pensions), although it also contributes some expenditure on welfare services. The states and territories focus more on providing welfare services. Government expenditure on cash payments and welfare services is reported in this article as welfare expenditure.

Both the Australian Government and state and territory governments often choose to provide welfare services by funding organisations in the non-government sector to deliver them. The non-government sector also contributes some welfare services expenditure from its own sources, including fees charged to individuals. However, there are limited data available on expenditure by the not-for-profit non-government sector (see Box 1.4.4) and the for-profit non-government sector, such as aged care providers. Expenditure on welfare services by the non-government sector from its own sources (including expenditure by individuals) is therefore not included as welfare expenditure in this article.

At the time of writing, the most recent welfare expenditure data available for state and territory governments and for Indigenous Australians was for 2012–13, as published in the *2014 Indigenous expenditure report* (SCRGSP 2014), and in *The health and welfare of Australia's Aboriginal and Torres Strait Islander peoples: 2015* (AIHW 2015). State and territory data were estimated for 2011–12 and for 2013–14 to 2015–16 using available trend data. Based on the estimated data, in 2015–16, state and territory governments spent \$17.8 billion on welfare, all on services with no expenditure on cash benefits (42.1% of government expenditure on welfare services and 11.3% of government expenditure on welfare overall). This outlay is similar to the proportions in 2012–13, when data sourced from the *2014 Indigenous expenditure report* indicated proportions of 44.4% and 11.7%, respectively. (See also Chapter 7.5 'Income and employment for Indigenous Australians' for more details on the number of Indigenous Australians who receive income support payments and other benefits from the Australian Government.)

Where possible, the welfare expenditure estimates have been developed to be consistent with the AIHW's Welfare Expenditure Series of publications, in which welfare expenditure was last reported in full for the 2005–06 financial year (AIHW 2007). This has been done to maintain a consistent time series with data from 2005–06 and before. As a result, however, these estimates of welfare expenditure may not match the coverage of 'welfare' in other sections in this report or in other AIHW publications.

Cash payments covered are those provided by the Australian Government to assist 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 Box 1.4.2).

Welfare services covered 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 (see Box 1.4.3).





This article covers the amounts spent on financial assistance and welfare services; however, it does not assess the adequacy or effectiveness of this expenditure.

Expenditure is reported in constant prices (that is, adjusted for inflation) except where noted (see Box 1.4.1).

Box 1.4.1: Current and constant prices

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

'Constant price' estimates in this article indicate what the equivalent expenditure would have been had 2015–16 prices applied in all years; that is, it removes the inflation effect. The phrase 'real terms' is often used where constant prices are referred to. Constant price estimates for expenditure have been derived using deflators produced by the Australian Bureau of Statistics (ABS). The Consumer Price Index was used for cash payments and the government final consumption expenditure implicit price deflator was used for welfare services.

Trends in welfare expenditure

In 2015–16, expenditure by Australian and state and territory governments on welfare was \$157.2 billion, up from \$116.8 billion in 2006–07 (constant prices—see Box 1.4.1 for information). It included 66.8% (\$105.1 billion) in cash payments for specific populations (not including unemployment benefits), 26.9% (\$42.2 billion) in welfare services and 6.3% (\$9.9 billion) in unemployment benefits (Figure 1.4.1).

Welfare expenditure increased between 2006–07 and 2015–16, with an average annual growth rate of 3.4% in real terms. There was a notable increase in 2008–09, when the Australian Government implemented several initiatives as part of a response to the Global Financial Crisis (GFC). These initiatives increased expenditure substantially in that year.

Expenditure grew faster than the population, which grew at an average of 1.7% a year over the 10-year period. This resulted in per person expenditure rising an average of 1.7% a year over the 10-year period in real terms (from \$5,663 to \$6,566 per Australian resident) (Supplementary Table S1.4.4).

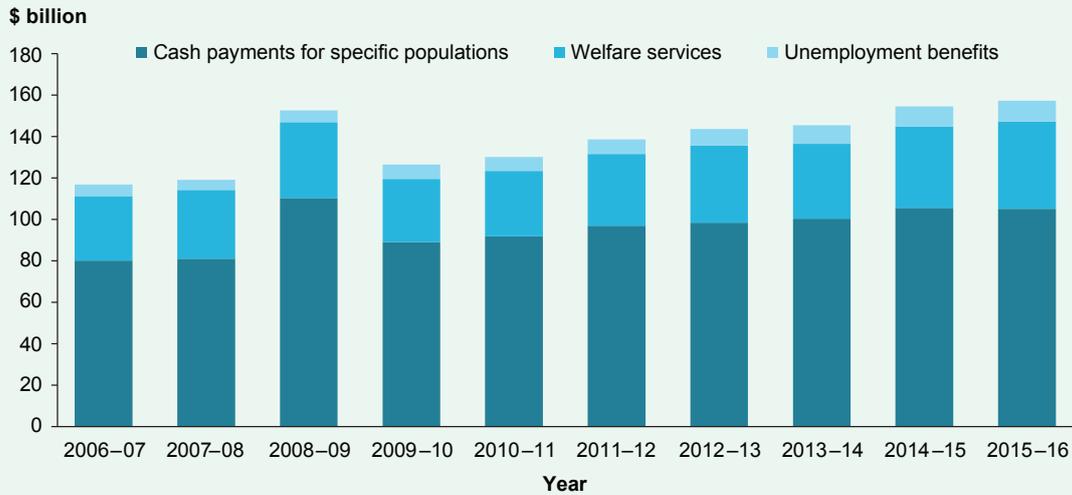
Welfare expenditure grew more quickly than the overall economy over the same period. Gross Domestic Product (GDP) grew by 2.7% in constant prices each year between 2006–07 and 2015–16, compared with 3.4% annual growth in welfare spending. As a result, welfare expenditure grew from 8.6% of GDP in 2006–07 to 9.5% in 2015–16 (Figure 1.4.2).

As a proportion of taxation revenue, government spending on welfare was 29.3% in 2006–07. It then rose in response to the GFC, contributed to by both increases in welfare spending and slow taxation revenue growth. The spending-to-revenue ratio remained higher in the following years, ending the period at 35.1% of revenue in 2015–16.





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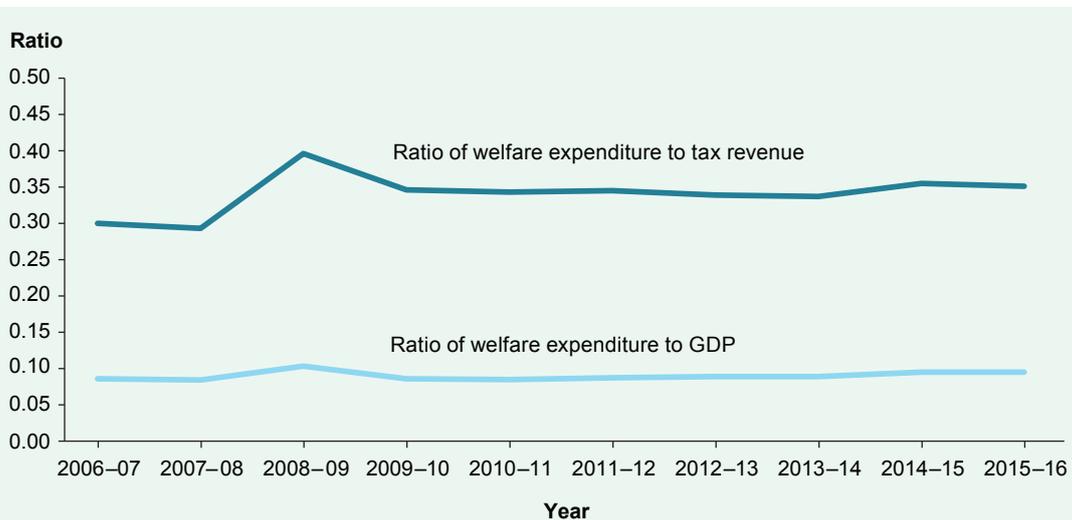


Notes

1. Estimates for states and territories have been modelled for 2011-12 and for 2013-14 to 2015-16.
2. 'Cash payments for specific populations' includes associated 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 and associated Commonwealth Rent Assistance is included in 'unemployment benefits'.
4. Constant price estimates are expressed in terms of 2015-16 prices (see Box 1.4.1).

Source: AIHW welfare expenditure database.

Figure 1.4.1: Government welfare expenditure, by type of expenditure, constant prices, 2006-07 to 2015-16



Note: Estimates for states and territories have been modelled for 2011-12 and for 2013-14 to 2015-16.

Source: AIHW welfare expenditure database.

Figure 1.4.2: Ratio of government welfare expenditure to tax revenue and GDP, 2006-07 to 2015-16





Cash payments

In 2015–16, the total amount spent by governments on cash payments, excluding unemployment benefits, was estimated at \$105.1 billion, down slightly from \$105.5 billion the previous year but up from \$80.0 billion in 2006–07 (Figure 1.4.3). The contribution of cash payments to total welfare spending was 66.8% in 2015–16, which was relatively unchanged from 2006–07 when it was 68.6%.

Of the estimated \$115.0 billion spent on cash payments (including unemployment benefits) in 2015–16, \$46.4 billion was for older people, \$30.9 billion was for families and children, \$26.0 billion for people with disability, \$9.9 billion was spent on unemployment benefits, and the rest was on 'other' cash payments (Figure 1.4.3).

Between 2006–07 and 2015–16, spending grew at an average rate per year by 5.7% for people with disability, by 3.5% for older people and by 1.2% for families and children. Spending on 'other' cash payments fell by 3.6% on average per year (Table S1.4.3).

Box 1.4.2: Which cash payments are included?

The estimates of cash payments in this article include expenditure by the Australian Government, such as for the Age Pension, Disability Support Pension, Veterans' Affairs pensions and Carer Allowance.

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

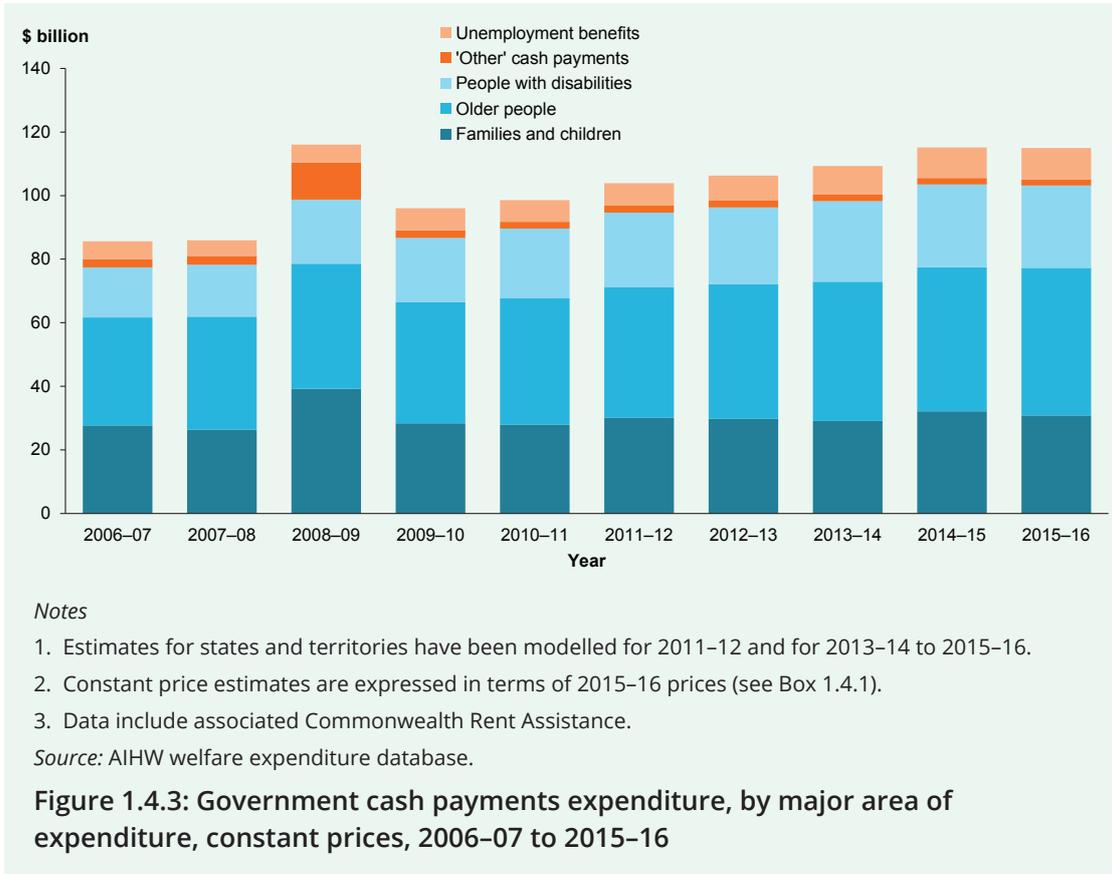
Also, to maintain comparability over time, Youth Allowance, Austudy and ABSTUDY are not included in the estimates in this article (although information on these allowances is included in Chapter 4.2 'Key employment trends').

Youth Allowance (Student) is available to eligible young people aged 16 to 24. It provides financial support for students to participate in full-time education, training or apprenticeships. In 2015–16, \$2.4 billion was spent on Youth Allowance for students.

Youth Allowance (Other) is available to eligible young people aged 16 to 21 who are looking for work or undertaking other activities to improve their employment prospects. In 2015–16, \$1.0 billion was spent on Youth Allowance (Other) (DSS 2017c).

Austudy provides financial assistance to full-time students and apprentices aged 25 and over (\$0.6 billion in 2015–16) and ABSTUDY provides support to Indigenous people who are studying or undertaking a full-time apprenticeship (\$0.3 billion in 2015–16) (DSS 2017a).





Unemployment benefits

Between 2006-07 and 2015-16, the total amount spent on unemployment benefits (Newstart Allowance) grew from \$5.6 billion to \$9.9 billion in real terms. There are two main contributing factors. Firstly, there was an increase in the number of unemployed persons; the average annual unemployment rate increased from 4.8% in 2006 to 5.8% in 2016 (See Chapter 4.2 'Key employment trends': Figure 4.2.1). Secondly, there was a large number of Parenting Payment recipients who transferred to Newstart Allowance between 2011-12 and 2013-14 (DSS 2017b) (Table S1.4.4). While it is difficult to directly track this shift in expenditure between categories, there were similar, (though not quite as large) decreases in cash payments to 'Families and children' and 'Other' cash payments in the corresponding period.

In real terms, spending per person on unemployment benefits increased from \$270 per Australian resident in 2006-07 to \$414 per Australian resident in 2015-16.





Welfare services

In 2015–16, the total amount spent by governments on welfare services was estimated at \$42.2 billion, up from \$31.2 billion in 2006–07 and \$39.4 billion in the previous year (Table S1.4.1). 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 on welfare services was less than 2% of total welfare services expenditure (AIHW 2011). An estimate of capital expenditure for more recent years is not available.

Due to a lack of state and territory spending data for recent years, it is difficult to be certain what proportion of spending on welfare services was by the states and territories as opposed to the Australian Government. Based on the modelled data, in 2015–16, it is estimated that the state and territory governments were responsible for 42.1% of government expenditure on welfare services.

Box 1.4.3: What does expenditure on welfare services cover?

Welfare services encompass a range of services and programs to support and assist people and the community, such as family support services, youth programs, child care services, services for older people, and services for people with disability.

Welfare services expenditure presented in this article is reported for the target groups specified in the ABS Government Purpose Classification for welfare service financial transactions:

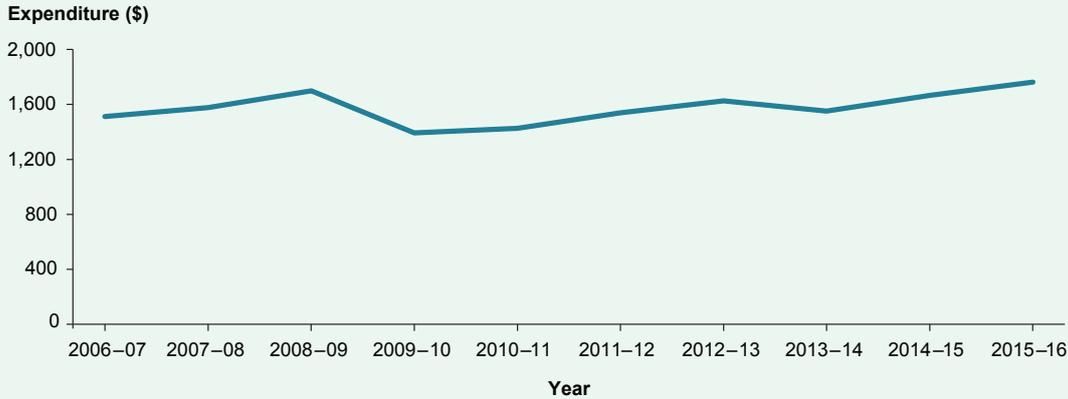
- family and child welfare services; for example, youth support services
- welfare services for the aged; for example, home and community care services
- welfare services for people with disability; for example, personal assistance
- welfare services not elsewhere classified (ABS 2005).

The welfare services estimates include government expenditure only (see Box 1.4.4 for information about non-government expenditure).

Welfare spending defined according to these four target groups does not necessarily include all government spending on services that may have a welfare benefit. For example, some programs relevant to people with disability—and that might be considered welfare services—are in the Government Purpose Classification categories of education, health or housing. Some types of welfare services that are covered elsewhere in this report (such as employment services) are also not included.

The average amount spent by governments on welfare services per Australian resident in 2015–16 was \$1,763, up from \$1,512 in 2006–07 and \$1,667 in 2014–15 (Figure 1.4.4). The per person cost represents total spending on welfare services per person in the population. It does not reflect spending for each eligible person or spending per recipient.





Notes

1. Estimates for states and territories have been modelled for 2011-12 and for 2013-14 to 2015-16.
2. Constant price estimates are expressed in terms of 2015-16 prices (see Box 1.4.1).

Source: AIHW welfare expenditure database.

Figure 1.4.4: Government welfare services expenditure per Australian resident, constant prices, 2006-07 to 2015-16

Box 1.4.4: Non-government community service organisations

Non-government organisations, particularly non-government community service organisations (NGCSOs), play an important part in delivering welfare services. As indicated earlier, governments fund a large part of the services delivered by NGCSOs. This expenditure is included in the analysis of welfare services expenditure in this article. NGCSO expenditure that comes through fees paid by clients or NGCSOs' own sources, such as fund-raising, is not included. This is because comprehensive information on those sources of funds is not readily available in a way that is consistent and comparable with other information in this article. The most recent year for which comprehensive data for NGCSOs are available was 2008-09 (AIHW 2011), though some data on not-for-profit NGCSOs is available for 2012-13 (ABS 2015).

Tax concessions

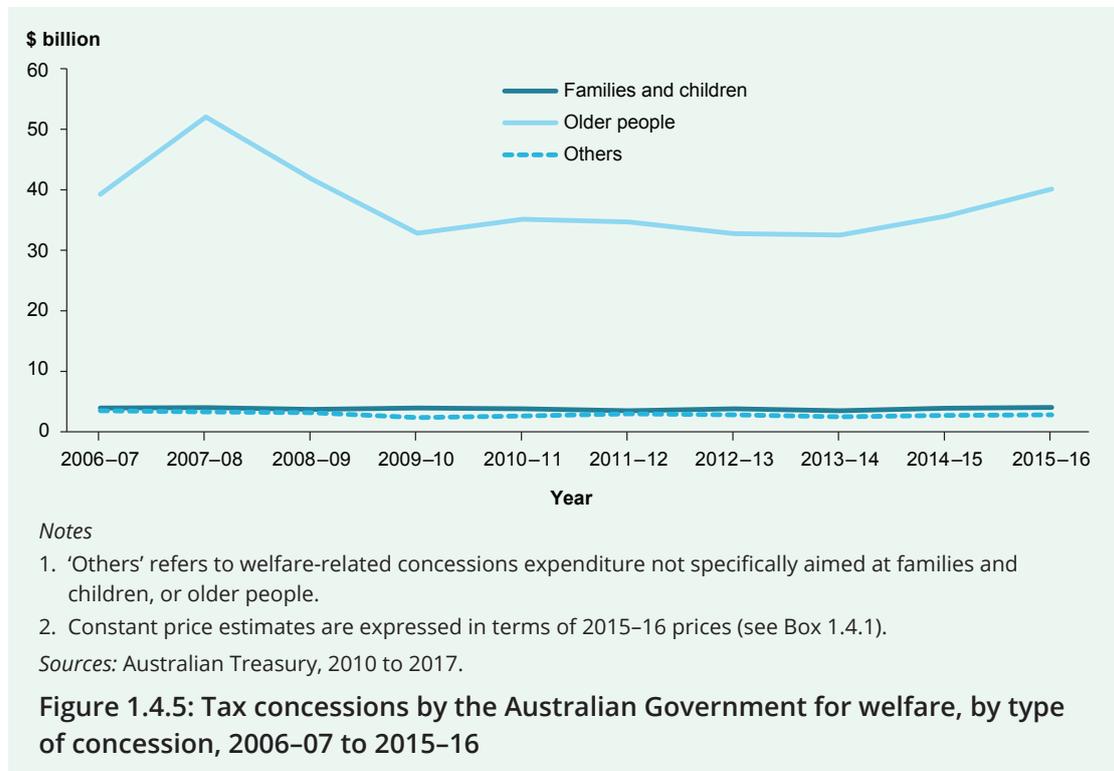
Various tax exemptions, deductions, offsets, concessional rates and deferral of tax liabilities are provided for welfare purposes. The Australian Government Treasury estimated that tax expenditure or concessions by the Australian Government for welfare amounted to \$47 billion in 2015-16. This does not include any tax expenditures by state, territory or local governments. This amount is not included in the estimates of total welfare spending in this article as it is generally in the form of foregone potential revenue rather than expenditure (Treasury 2017).

Most of the tax concessions total (\$35 billion, or 75%) was for concessions for superannuation, which aim to assist people to save for or fund their retirement. Of the remainder, \$4.0 billion (9%) was for concessions for families and children (Table S1.4.6). Tax concessions for families and children include exemption from taxation for disaster relief and child care assistance payments.





Australian Government tax concessions for welfare peaked in 2007–08 (Figure 1.4.5). The decline in concessions in 2008–09 and 2009–10 reflects the effects of the GFC, in particular, slower growth in the profits of superannuation funds (Treasury 2012).



International comparisons

There are many difficulties in comparing the welfare spending of different countries. Social support structures in many countries are complex, and not necessarily comparable. Systems generally involve mixtures of:

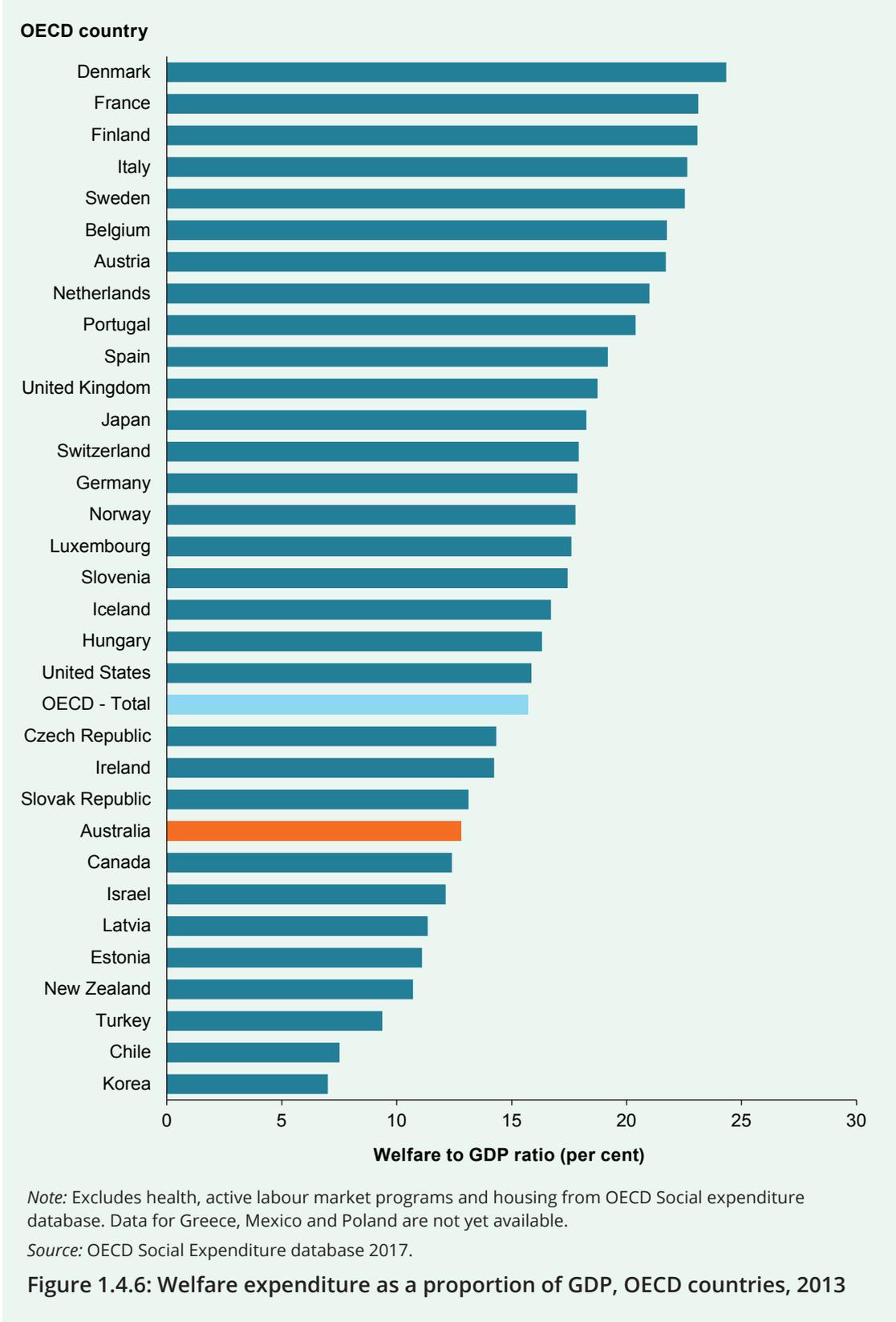
- government and non-government funding arrangements—including programs funded directly by governments, tax-based systems, employer-focused schemes and fee for service systems
- redistribution models—social support structures in some countries focus on redistribution between sections of the society at particular, but often differing, times. For example, in Australia, unemployment benefits transfer resources via the tax system from the employed to the unemployed. Other schemes act to redistribute resources over the life course (such as through savings and superannuation-based schemes)
- targeted versus non-targeted support arrangements—many countries use means testing to target support, but do it in different ways with different thresholds.

Organisation for Economic Co-operation and Development (OECD) data for 2013 show that welfare expenditure in Australia was 12.8% of GDP (using the OECD methods for calculating expenditure that differ from the methods used for estimates elsewhere in this article). This was lower than the OECD median of 17.1% (Figure 1.4.6) and puts Australia's welfare expenditure in the lowest third of all OECD countries (OECD 2017).





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The Australian social security system differs from those in most countries of Europe and in the United States in several ways, including:

- the benefits are generally more targeted through means testing than being based on factors such as past earnings (see Chapter 1.3 'Understanding welfare')
- the system is largely funded by general government revenue rather than by contributions by employers or insured employees
- benefits are not time limited.

Australia has a different demographic and employment structure than many other OECD countries. For example, the proportion of the population who are aged differs; so do unemployment rates. This drives differences in aged and unemployment pension structures. Whiteford (2014) argues that these differences contribute to making the Australian system relatively efficient in terms of the distribution of benefits to the most needy, suggesting that the below-average spending understates the impact of the spending in terms of its more targeted nature.

What is missing from the picture?

Estimates of non-government expenditure sourced through fees or fund-raising are an important information gap, as are estimates of expenditure on capital. For example, the currently available data do not allow analysis of how expenditure on welfare services by individuals has changed over time. It is unclear whether individuals are now paying a greater proportion of the cost of welfare services or less. It is also unclear how much is being spent on capital—infrastructure and equipment to support welfare provision—and who is paying. Some important disaggregations (such as between Australian and state/territory government expenditure) have not been included in this article due to a lack of up-to-date data.

Where do I go for more information?

More information can be found in *Welfare expenditure Australia 2005–06* and in the AIHW report: [The health and welfare of Australia's Aboriginal and Torres Strait Islander peoples: 2015](#).

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