

# **2004 UPDATE OF THE MIGRANTS' FISCAL IMPACT MODEL**

**REPORT BY  
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**FOR**

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MULTICULTURAL AND INDIGENOUS AFFAIRS  
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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>i</b>
<b>1. Introduction</b>	<b>1</b>
<b>2. Overview of the Migrants' Fiscal Impact model</b>	<b>2</b>
2.1 Features .....	2
2.2 Visa categories .....	3
<b>3. Migrant characteristics</b>	<b>5</b>
3.1 Number by visa category .....	5
3.2 Age profile .....	6
3.3 English proficiency .....	9
<b>4. Expenses</b>	<b>11</b>
4.1 Health .....	11
4.2 Education .....	12
4.3 Social security .....	13
4.4 Settlement services .....	15
4.5 Labour market services .....	16
4.6 General revenue assistance .....	17
4.7 Broader expenses .....	17
<b>5. Revenues</b>	<b>19</b>
5.1 Direct tax .....	19
5.2 Indirect tax .....	20
5.3 User charges .....	22
5.4 Broader revenues .....	22
<b>6. Net operating surplus</b>	<b>24</b>
6.1 Results on a per 1,000 migrants basis .....	24
6.2 Results for the planned 2004-05 Migration and Humanitarian programs .....	26
<b>7. Changes to the Migrants' Fiscal Impact model for the 2004 update</b>	<b>28</b>
7.1 Health price indices .....	28
7.2 Adult Migrant English Program .....	29
7.3 Commonwealth-State Public Housing Agreement .....	29
7.4 Social security payments .....	29
7.5 Personal income taxes .....	30
7.6 Model restructure .....	30
<b>8. Comparison with previous results</b>	<b>31</b>





## EXECUTIVE SUMMARY

The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) Migrants' Fiscal Impact Model ('the Model') estimates the future impact of new permanent migrants on the Australian Government (Commonwealth) Budget. The additional migrants arrive in Year 1 (which is configured to a base year of 2004-05), and the Model tracks those migrants over a period of 20 years. There are no additional flows of migrants in future years.

Access Economics has been commissioned by DIMIA to update, extend and improve the Model in a number of respects (the 2004 update). The update included incorporating three additional visa categories into the Model – the provisional Business Skills category, the provisional Skilled Independent Regional category, and the Family Contributory Parents category.

The characteristics of migrants in the first two of these categories in the Model are assumed to be similar to the previous permanent Business Skills category and the Skilled Independent category respectively, with onshore applicants assumed to dominate the provisional Independent category. However, for provisional migrants access to some services and benefits is only available once a permanent visa has been issued. The Family Contributory Parents is similar to the Family Parents category, but has a different age profile and includes up-front contributions towards the future costs of government services provided to them.

Table 1 presents the estimates of the **impact on the Australian Government Budget per 1,000 new migrants** by visa category using characteristics of migrants from the 2002-03 Migration and Humanitarian programs. Results are presented under the standard **direct attribution setting**, which includes revenues and expenses which can be 'directly attributed' to migrants, either because their presence leads to higher receipts or outlays, or because such receipts or outlays are specifically related to increases in the population or client group and that effect occurs quickly.

**TABLE 1: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	-2.9	-2.4	-2.5	-2.8	-7.3	-5.8
Family - Parents Contributory	21.9	-0.8	-1.4	-1.7	-6.7	-6.3
Family - Partners and Other	0.4	1.8	3.2	5.5	6.1	7.1
<i>SAS</i>	1.8	3.0	4.6	4.8	4.8	5.2
<i>Business Skills</i>	3.4	3.4	4.4	5.7	6.9	6.2
<i>2 year provisional Business Skills</i>	4.2	4.2	4.6	5.7	6.9	6.2
<i>ENS</i>	7.4	7.9	8.7	7.9	8.5	9.2
<i>Independent</i>	4.8	5.1	7.3	7.9	8.1	8.7
<i>2 year provisional Independent</i>	5.6	6.1	6.6	7.4	7.4	7.8
Humanitarian	-10.9	-4.9	-2.2	-0.8	1.6	4.5
Total	1.7	3.0	4.7	5.8	6.4	7.3

Table 1 shows that new migrants provide a substantial contribution to the Australian Government Budget initially, and that this contribution grows over time in real terms.

Initially the highest contributions to Commonwealth revenues come from principal applicants under the **Skill categories**, particularly **ENS** and **Independent**. This reflects the high labour force participation and high personal incomes for many



migrants in these categories. **Business Skills** migrants also have high initial incomes, although this category has a relatively higher number of dependants. Compared to other Skill Stream migrants, **SAS** migrant incomes are a little lower.

The net operating surplus for the **provisional Independent** category is initially higher than the Independent category, reflecting limited access to services and benefits for provisional migrants. Once permanent residence is achieved, the provisional category is estimated to have a lower net operating surplus. That reflects the assumption of a high proportion of this category coming from overseas students studying onshore and then applying for a visa. The lower salaries (based on survey information) of this group reflects less experience in the labour market relative to offshore applicants.

The differences between the **provisional Business Skills category** and the permanent Business Skills category are more modest. With the age profile assumed to be identical for these categories, differences in net operating surplus stem from accessibility to social security benefits and health services which is more limited for migrants in the provisional category, hence the marginally higher net operating surplus.

For the **Family-Partners and Other** visa category, benefits to the Australian Government Budget are more modest at first, although they do grow strongly over time. This reflects the growing workforce of this category (both from net labour force entry and movements higher in participation rates), while significant expenditures associated with the effects of ageing don't appear over the model's 20 year timeframe for this visa category.

For the **Family-Parents** visa category the contribution to the Australian Government Budget remains negative over time. This category has low labour force participation and is affected by the costs of ageing to the public sector. These are notable after Year 10 (when the waiting period on the age pension elapses). For the **Family-Parents Contributory** category the initial upfront visa charges go some way to offsetting the costs which follow.

**Humanitarian** migrants have low labour force participation and high expenses initially, but over time labour force participation improves (partly as this category, which includes a number of children, ages) and expenses fall (partly due to improved English proficiency). Net fiscal contribution turns positive in Year 12.

Net operating surplus results are similar in Year 1 under the **broader budget setting**, which attributes to migrants a share of all other Budget outlays and revenues on a per capita basis. Over time, the positive contribution to the Australian Government Budget becomes larger than under the direct attribution setting, with broader budget revenues assumed to grow at a faster rate than expenses.

In terms of the **planned 2004-05 migrant intake** in total, the Model under the direct attribution setting estimates that in the first year the Australian Government Budget will benefit by some \$314 million. That level of benefit grows steadily over time, to reach \$908 million by Year 20, in 2004-05 prices.

Table 2 provides a **comparison with results from the 2003 update** of the bottom line net operating surplus from the Migrants' Fiscal Impact Model. The 2004 update reports a net operating surplus a little lower throughout. This is largely due to the inclusion of an allowance for tax rebates, and over the longer term an allowance for health costs to increase at greater than the rate of inflation.



**TABLE 2: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
2004 update (2004-05 prices)	1.7	3.0	4.7	5.8	6.4	7.3
2003 update (2002-03 prices)	2.4	3.4	5.1	6.2	7.2	7.9
Difference	-0.7	-0.4	-0.4	-0.4	-0.8	-0.6

While the reported net operating surplus is generally a little lower in comparison with the 2003 update, there have been a range of both updated information and different treatment of some factors in the Model which have affected estimates in both directions (lower and higher net operating surplus), discussed in Chapter 8.

Many of the **assumptions** used in the Migrants' Fiscal Impact model are conservative ones. For example, the take-up rate by migrants for many social security benefits and public housing are assumed to converge to the Australian average by Year 20, yet the bulk of migrants under the Skill Stream have participation and employment rates in excess of the Australian average, and are therefore unlikely to reach Australian average take-up rates.

The Model now also allows for health costs to grow at a rate in excess of the rate of inflation (consistent with assumptions in the Australian Government's 2002 *Intergenerational Report*). Migrant wages, however, grow in line with general wage growth (using the Budget benchmark of 3.75% per annum for wages growth). No additional account is taken of migrant wage increases over time due to promotion or increased work experience. Direct tax revenues in the Model beyond Year 4 also make no allowance for 'bracket creep', which is also likely to under-estimate migrant revenues over time.

While such assumptions are deliberately conservative in a default setting, the user of the model can change them to test other views or perform 'what if' analysis.

## Access Economics 9 July 2004





### 1. INTRODUCTION

The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) Migrants' Fiscal Impact Model ('the Model') estimates the future impact of new permanent migrants on the Australian Government (Commonwealth) Budget. Access Economics has been commissioned by DIMIA to update, extend and improve the Model in a number of respects (the 2004 update).

The update of the Model involves incorporating the latest Australian Government Budget information, so that it is based in 2004-05 prices and includes unit costs and other information from the 2004-05 Budget. The update also involves incorporating migrant profile data from the 2002-03 Migration and Humanitarian programs. This 2004 update has included incorporating several improvements to the Model. These are discussed in more detail in Chapter 7. In brief, they include:

- ❑ Addition of new health indices to apply across different components of the Model (rather than one aggregate index),
- ❑ Adjustment to the modelling of the Adult Migrant English Program (AMEP) to be based on enrolment rates,
- ❑ Specific modelling of the Commonwealth-State Public Housing Agreement,
- ❑ Incorporation of additional social security payments into the Model, including carer payments, carer allowance and mobility allowance, and
- ❑ Adjustment of personal income tax calculations to allow for tax rebates and incorporate the 2004 tax cuts and bracket adjustments.

The 2004 update also includes the addition of three further visa categories within the Model:

- ❑ the provisional Business Skills category,
- ❑ the provisional Skilled Independent Regional category, and
- ❑ the Family Contributory Parents category.

The characteristics of migrants in the first two of these categories in the Model are assumed to be similar to the previous permanent Business Skills category and the Skilled Independent category respectively, with onshore applicants assumed to dominate the provisional Independent category. However, for provisional migrants access to some services and benefits is only available once a permanent visa has been issued. The Family Contributory Parents is similar to the Family Parents category, but has a different age profile and includes up-front contributions towards the future costs of government services provided to them.

The remainder of this report is organised as follows. Chapter 2 provides an overview of the Migrants' Fiscal Impact Model, while Chapter 3 discusses characteristics of the 2002-03 migrant intake, used within the Model. Chapter 4 discusses the key Australian Government expense items examined in the Model, while Chapter 5 examines key revenue items. Chapter 6 presents an estimate of the impact on Australian Government net operating surplus on a per 1,000 migrants basis, and for the planned 2004-05 Migration and Humanitarian programs. Chapter 7 examines the key changes to the Migrants' Fiscal Impact Model undertaken for the 2004 update, while Chapter 8 compares results in this report with those from the 2003 update.



## 2. OVERVIEW OF THE MIGRANTS' FISCAL IMPACT MODEL

### 2.1 FEATURES

The Migrants' Fiscal Impact Model provides an estimate of the impact an additional 1,000 migrants have on the Australian Government Budget, in terms of expenses and revenues.

The additional migrants arrive in Year 1 (which, following this update, is configured to a base year of 2004-05), and the Model tracks those migrants over a period of 20 years. There are no additional flows of migrants in future years.

The migrant cohort ages over time, and thus moves into and out of education and the workforce, with differing impacts on the Australian Government Budget over time. Given the 20 year timeframe of the Model, the death of migrants is allowed for over time (which helps to present a more realistic picture of demand for services). The Model also only examines the first generation of migrants (that is, the impact on the Australian Government Budget from any children of the migrant group born after arrival in Australia is not considered).

The Migrants' Fiscal Impact Model is based largely on information from the second Longitudinal Survey of Immigrants to Australia (LSIA2). This survey was conducted on migrants arriving from offshore in the one year period from September 1999 to August 2000. Information from the LSIA is the main information source on migrant incomes (scaled to 2004-05 dollars and used for estimating tax payments) and the take up of many Australian Government funded services (affecting expenses).

The Model estimates the direct effect on the Australian Government Budget resulting after the arrival of new migrants. These are revenues and expenses which can be 'directly attributed' to migrants, either because their presence leads to higher receipts or outlays, or because such receipts or outlays are specifically related to increases in the population or client group and that effect occurs quickly.

Examining only those revenues and expenses which can be directly attributed to a particular population or client group leaves out a significant proportion of the Australian Government Budget, such as expenditure on public goods or infrastructure. New migrants would share the benefit of such expenses, so examining the Australian Government Budget from a 'benefit' or 'welfare' point of view should take into account such items.

This is particularly appropriate over a longer timeframe (beyond the standard Budget projection period), where such expenses may change indirectly with changes in total population or economic growth (variables affected by the arrival of new migrants). The Model includes a mechanism which allows for such a 'broader budget' analysis.<sup>1</sup>

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<sup>1</sup> The broader revenue share of total Budget revenue is 37.1%, while the broader expenditure share of total Budget expenditures is equal to 35.0% as per the 2004-05 Australian Government Budget.



The Migrants' Fiscal Impact Model has been configured with a series of base assumptions. These project the likely net impact on the Australian Government Budget of additional migration. These assumptions can be changed by the user to provide alternate projections. They can also be changed to conduct scenario or 'what if' analysis. The Model can be examined in current or constant prices (with results in this report in constant 2004-05 prices).

## 2.2 VISA CATEGORIES

Migrants are classified according to broad visa categories. The Model includes seven visa categories where migrant characteristics are estimated largely on the basis of LSIA data. These categories are:

- Family-Parents
- Family-Partners and other
- Skilled Australian Sponsored (SAS)
- Business Skills
- Employer Nomination Scheme (ENS)
- Independent
- Humanitarian.

The Model now also includes a further three visa categories which did not exist as separate categories when the last LSIA was undertaken. In the Model, migrant characteristics in these three new categories are generally the same as the characteristics of migrants in the broader categories they stem from, with a few key differences discussed below.

The **provisional Business Skills** category stems from the broader Business Skills visa category. This visa category commenced on 1 March 2003. The entrance requirements are very similar to Business Skills but, instead of receiving permanent residence on arrival, most migrants receive a provisional visa valid for up to four years. Once migrants have provided satisfactory evidence of a specified level of business or investment activity, they can then apply for and receive permanent residence.<sup>2</sup>

In many respects the new provisional Business Skills Stream is the same as the permanent equivalent. The provisional visa may not become permanent until certain conditions are met. Equally, however, permanent visa holders could have their visa cancelled if they do not meet certain requirements. The key difference is that the two year waiting period for most social security benefits only starts with permanent residence. The typical provisional Business Skills visa holder needs to wait for four years to access many social security benefits, rather than two, though the Model allows for some variation around this. In the Model it is assumed that 5% of the population in the provisional Business Skills category are granted permanent residence immediately (the share of this category nominated by a State or Territory government). A further 25% are assumed to be granted a four year provisional visa and can only apply for permanent residence after four years. Of the remaining 70%, 85% are assumed to

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<sup>2</sup> This transfer to permanent residence is likely to be more automatic than for provisional Business (457) visa holders, where transfer to permanent residence over time is more the exception rather than the rule.



apply for and be granted permanent residence after two years, with the remaining 15% of this category granted permanent residency after 3 years.

The time at which social security benefits can be accessed is the only source of difference shown in the Model between the provisional Business Skills category and the permanent Business Skills category. Over time, as more information is gathered on the characteristics of migrants under this category, characteristics such as age profile or rate of attrition (departure) will be able to be incorporated into the Model.

The **provisional Skilled Independent Regional** category is to commence from 1<sup>st</sup> July 2004. Entrance requirements are similar to the Independent category, with three year provisional visas granted, with the ability to apply for permanent residence after two years. Over this time the visa holder must commit to living and working in regional Australia.

As with the provisional Business Skills category, one difference in the Model from the broader Independent category is a further two or three year waiting period on a range of social security benefits. In the Model it is assumed that 85% of migrants in this category apply and are granted permanent residency after two years, with the remaining 15% gaining permanent residence at the end of their third year.

The characteristics of migrants in the provisional Skilled Independent Regional category are assumed to largely reflect characteristics of onshore applicants, with overseas students who are studying in Australia in particular seen as likely to account for a large share of applicants. The Model assumes that 70% of migrants in this category are from onshore applicants, with the remaining 30% from offshore applicants (the permanent Skilled Independent category is assumed to have a 30/70 split – 30% are from onshore applicants and 70% from offshore applicants).

Separate age and gender profiles are used for onshore and offshore applicants. LSIA data is used to approximate other characteristics for the offshore applicants, while a range of data is used for the onshore applicants. Notably, preliminary information from a 2004 DIMIA survey of skilled migrants who were recently students and are new to the labour force was used in estimating incomes, labour force participation rates and unemployment rates. Allowance is made for the incomes of these new labour force entrants to rise for a period (based on Household Expenditure Survey data), reflecting seniority/promotion.

The **Family contributory parents** category commenced on 1 July 2003, with estimated places of 3,500 applicants in 2004-05. This category is similar to the Parent component of the Family Stream, except that applicants pay a significant up-front fee as a contribution towards their likely future health and other costs.

The Model shows these fees as being fully received in the first year for 75% of migrants in this category. It is assumed that 25% of migrants in this category will enter under a provisional visa option where they pay \$15,000 initially, with the balance of the fee paid when they apply for permanent residence, which is assumed to be after two years. Under this option, access to some social security benefits is delayed for two years, reflecting the period of time before permanent residence is granted.

The other difference in the Model from the Family-Parents category is that the age and gender profile used is that from a backlog of applicants for such visas.

### **3. MIGRANT CHARACTERISTICS**

The 2002-03 migrant profile is used in the Migrants' Fiscal Impact Model as the basis for a number of characteristics for permanent migrants – the number of migrants (split into principal applicants and others) by visa category, the age and gender profile of those migrants, and the English proficiency of those migrants.

The profile information covers both migrants arriving from offshore, as well as those already in Australia (often under a Temporary visa) when receiving a permanent residency visa.<sup>3</sup> The LSIA was conducted only on offshore arrivals, so this analysis largely assumes the characteristics evident from the LSIA would apply equally to those already onshore when granted permanent residency. This may be a conservative assumption for the purposes of estimating the impact on the Australian Government Budget, as those who have already been onshore for a period of time may be better acclimatised to Australia (for example, they may have established networks, improved English skills, and better understand the labour market).

#### **3.1 NUMBER BY VISA CATEGORY**

Chart 1 shows changes in the Australian migrant intake by visa category over time. The key trend in the number and share of migrants by visa category has been a notable increase in the Skill Stream, particularly the Independent visa category. The Skill share of migrants was 42% in 1998-99, but by 2002-03 had grown to 56% of the Migration and Humanitarian program.

The Migrants' Fiscal Impact Model indicates that Skill Stream migrants generally deliver a stronger fiscal benefit to the Australian Government, so the shift in favour of Skill Stream migrants in recent years is a positive one in terms of net revenue to the Australian government.

The number of migrants in the Family Stream has been steadily increasing over recent years, although at a lower rate of growth than the total migrant intake, so the Family Stream's share of the Migration and Humanitarian program has been gradually falling.

Due to their generally older age, migrants in the Family - Parents category tend to be a net cost to the Australian Government, largely via health expenses and, after a ten year waiting period, the age pension. The 2003-04 and 2004-05 Migration and Humanitarian programs have flagged a marked increase in the number of parent visas (from just over 500 in 2002-03 to provision through a contingency reserve for up to 7,000 in 2003-04, and an allocation of 4,500 places in 2004-05). The bulk of these will come in under the Contributory Parents category, where a significant up-front fee makes some contribution towards likely future health and other costs.

The number of Humanitarian migrants coming to Australia has remained roughly steady over the past six years, although the increase in the overall intake means that

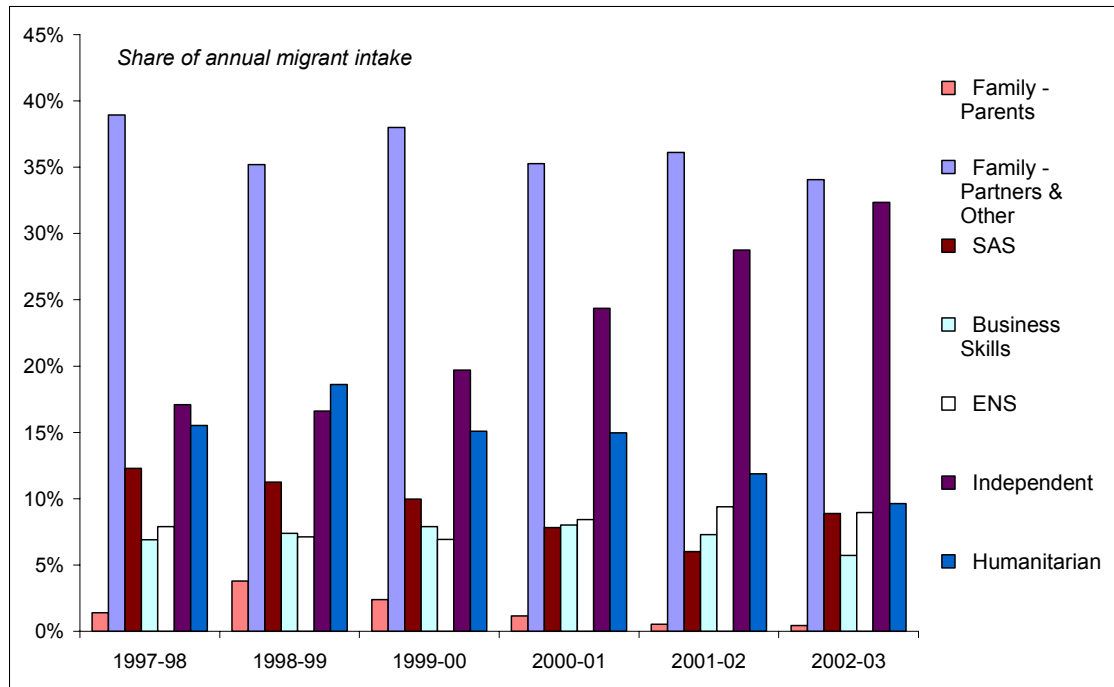
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<sup>3</sup> An exception is Humanitarian migrants, where characteristics of those onshore when granted visas are not used, given the expected provisional stay and volatility in the number of such migrants over time. As discussed in the previous Chapter, a separate profile of onshore applicants is used in deriving a profile for permanent and provisional Skilled Independent migrants.



Humanitarian migrants have been declining as a share of the total Migration and Humanitarian program.

**CHART 1: AUSTRALIAN MIGRATION AND HUMANITARIAN PROGRAMS BY VISA CATEGORY<sup>4</sup>**



The Model reports migrants' fiscal impact on a per 1,000 migrants basis. It also reports a weighted average total migrant impact based on the number of migrants in 2002-03. With the three new visa categories not in full operation over that time, they do not contribute to this weighted average total impact.

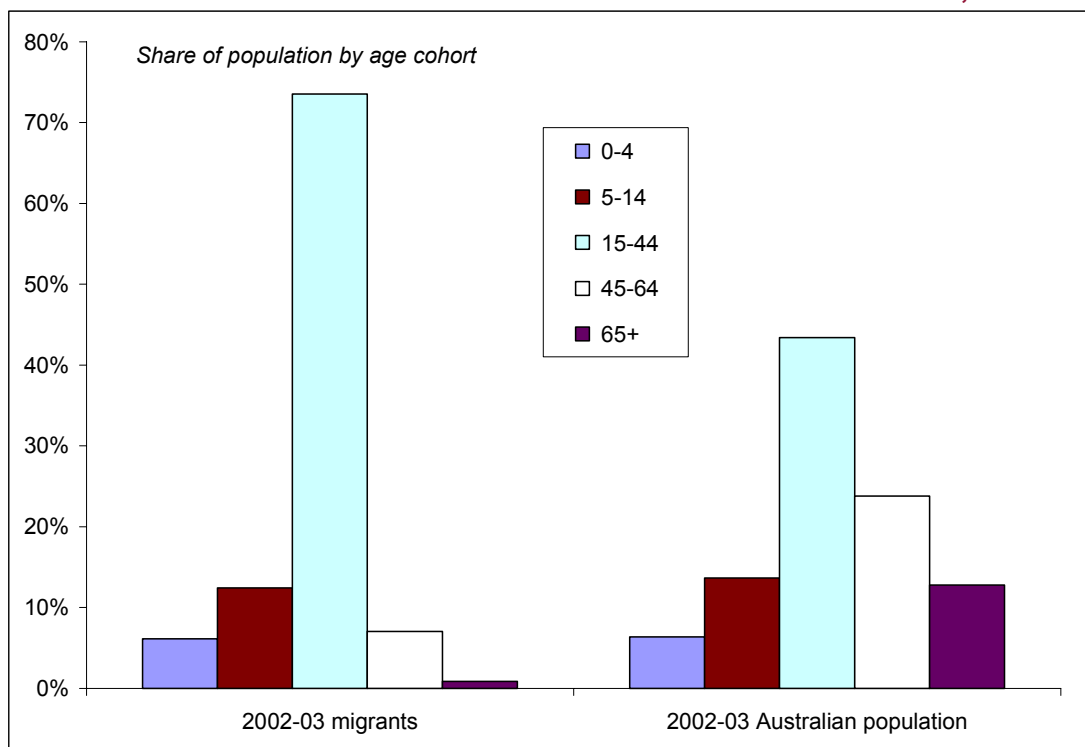
### 3.2 AGE PROFILE

Chart 2 shows the age structure of the 2002-03 migrant intake by broad age cohort compared to that of the Australian population. Nearly three quarters of the migrant intake (including both principal applicants and others in the migrating unit) are in the 15-44 age cohort, compared to 43% of the Australian population as a whole. In terms of life cycle impacts on the Australian Government Budget, this is the age range where people will make the greatest fiscal contribution – education expenses are winding down, tax revenues are high (given a high rate of participation in the workforce), while it is in the older age cohorts where health expenses are greater.

On both sides (younger and older) of this middle age bracket, the migrant share is under-represented relative to the national average. However for 0-4 and 5-14 year olds, the under-representation is marginal, while in the older age brackets there are few migrants. Just 8% of the migrant intake are 45 or over, compared with 37% of the Australian population.

<sup>4</sup> The visa category of Distinguished Talents/Special Talents has been included within ENS. Visa categories of 1-November and Special Eligibility are not included.

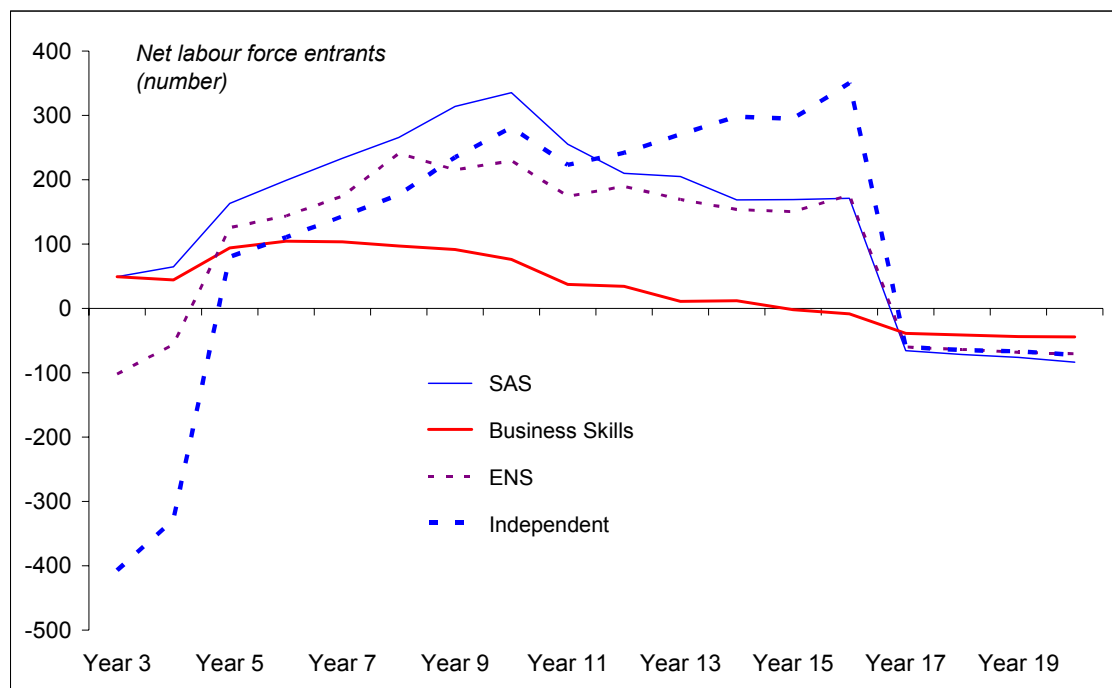
**CHART 2: AGE PROFILE OF MIGRANT INTAKE AND AUSTRALIAN POPULATION, 2002-03**



The age profile of the 2002-03 migrant intake suggests that more of the new migrant group will enter the workforce than will exit it over coming years, and it is while in the workforce that people make the greatest contribution to the Australian Government Budget.

The estimated net labour force entry profile (new participants less those retiring or otherwise leaving the labour force) of the 2002-03 migrant intake is shown in Chart 3 and Chart 4. The charts reflect the total number of migrants in the 2002-03 intake, rather than being shown on a per 1,000 migrants basis.

**CHART 3: NET LABOUR FORCE ENTRY (NEW PARTICIPANTS LESS RETIREES) FROM TOTAL 2002-03 MIGRANT INTAKE – SKILL STREAM**



The charts show that new labour force entrants will exceed retirees across all visa categories for most of the period examined, a trend that in the main delivers a positive contribution to the Australian Government Budget.

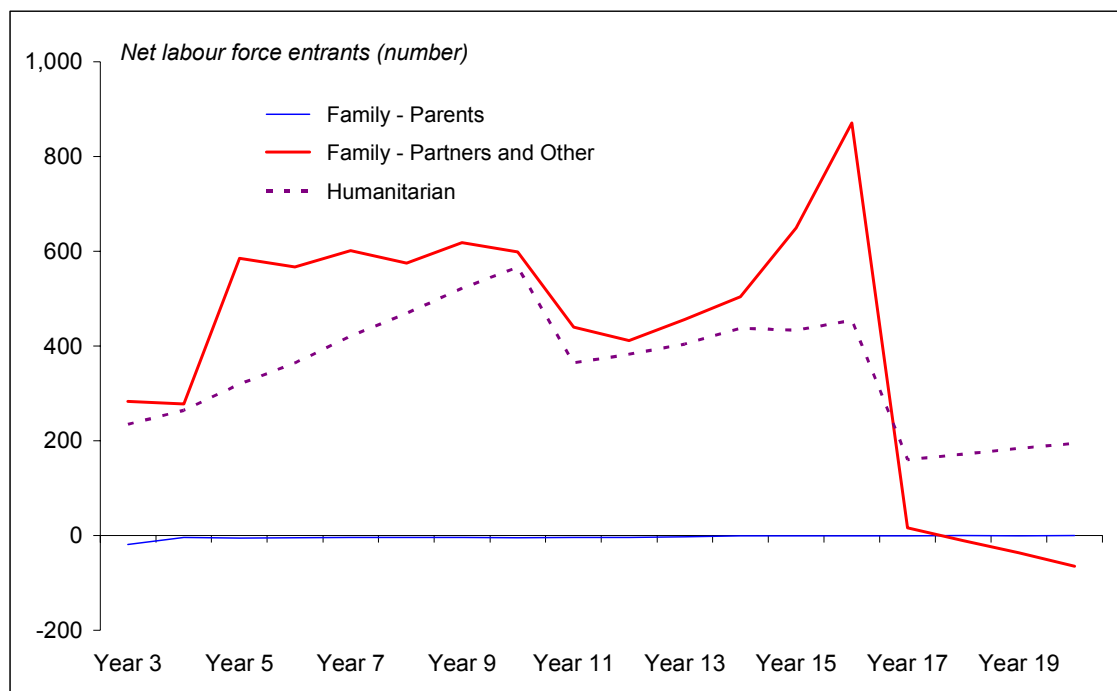
For the Independent category in Years 3 and 4 there is a notable negative net labour force entry. This effect is driven by labour force participation rates from the LSIA data, the particular age of Independent migrants in the 2002-03 intake, and Model assumptions. The Model reports labour force participation rates for those entering the labour force (age cohort of 15-24) and those of prime working age (age cohort of 25-54). For the Independent category, the LSIA data reports a *higher* participation rate for principal applicants in the first group (aged 15-24) than the second group (aged 25-54). There are also a large number of migrants aged 22 and 23 on arrival – hence by Year 3 and 4, the Model suggests some of these will have left the labour force (as they move into an age cohort where there is lower participation on average). Labour force participation rates are also assumed to move over time towards Australian average rates (a lowering of participation rates in each age cohort over time for the Independent category).

Net labour force entry turns negative (more retirees than labour force entrants) for Business Skills in Year 16, and for the other Skill categories in Year 17, since the youngest dependants of the original migrant intake are by then active participants in the labour force. From these points there are very few new labour force entrants from the original migrant intake.

Chart 4 shows there is little net labour force entry for the 'Family-Parents' visa category, reflecting both the small number of migrants in this category and low labour force participation. Net labour force entry is mostly positive for the remainder of the Family stream and Humanitarian category, reflecting the skewing of the age profile towards children for these categories.

In the Family-Partners and Other category there is a high number of persons less than one year old in Year 1, which explains the surge in labour force participation in Year 16.

**CHART 4: NET LABOUR FORCE ENTRY (NEW PARTICIPANTS LESS RETIREES) FROM TOTAL 2001-02 MIGRANT INTAKE— FAMILY AND HUMANITARIAN STREAMS**



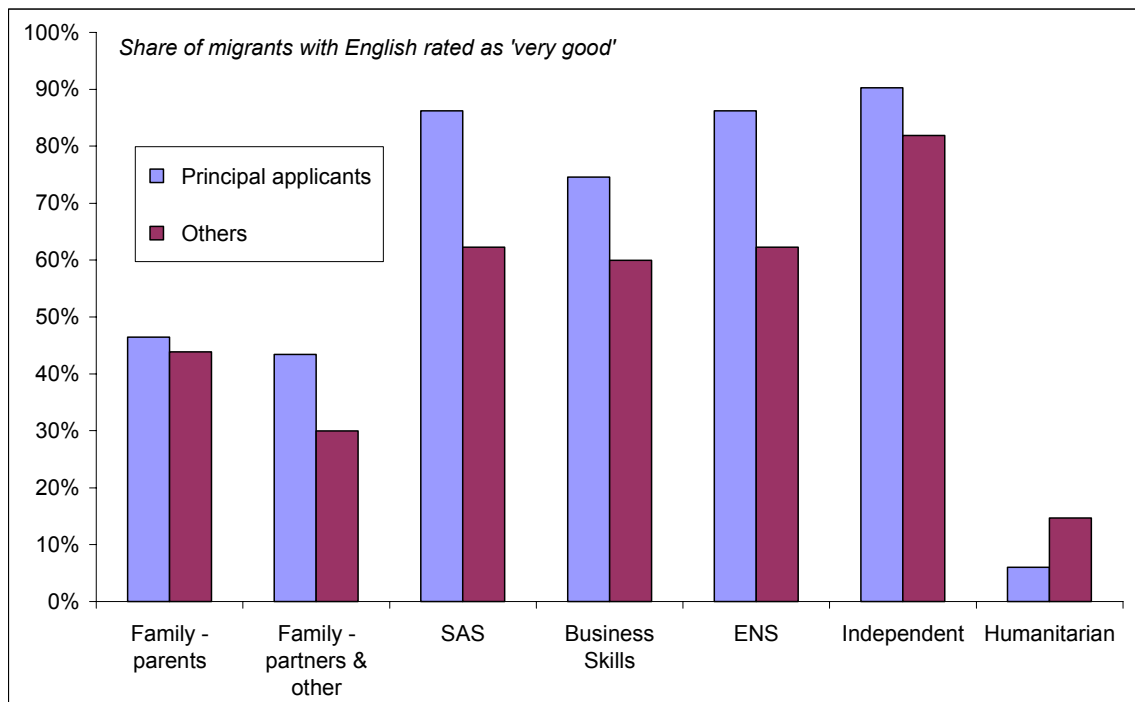
### 3.3 ENGLISH PROFICIENCY

Chart 5 shows the English proficiency of the 2002-03 migrant intake by principal applicants and others in the migrating unit. English skills are defined on a self-assessment basis, with those who class their English skills as very good assumed in the Model to be English proficient, while the remainder may make use of Commonwealth-funded services such as English as a Second Language in schools, the Adult Migrant English Program (AMEP), or the translation and interpreting service.

Chart 5 shows that new migrants in the Skill Stream have a high level of English proficiency, while Family migrants, and particularly Humanitarian migrants, are likely to make far more use of relevant Commonwealth services. In all visa categories except Humanitarian the principal applicants have better English skills than the other members of the migrating unit.



### CHART 5: ENGLISH PROFICIENCY OF 2002-03 MIGRANT INTAKE, PRINCIPAL APPLICANTS AND OTHERS



## **4. EXPENSES**

Expenses shown in the Migrants' Fiscal Impact Model under its default setting are those where there would be direct additional expense to the Australian Government as a result of the additional migrants, as well as those areas of expenditure where additional demands are generated by the additional migrants (though programs may be cash limited in the short term).

The following discusses the main expenses by type recorded in the Migrants' Fiscal Impact Model, and the sources used to estimate migrant usage of such services. Generally estimates of migrant use of services either stem from the Longitudinal Survey of Immigrants to Australia (LSIA) or are assumed to be the same as the Australian population's average usage, adjusted for age and gender where appropriate and feasible.

The unit costs of providing services are generally derived from published budget information. For future years, the nominal price of most services is linked to the CPI (which has a default growth rate of 2.5% per annum), with exceptions for health costs (as discussed in Section 7.1) and some social security payments, which are indexed to wage growth.

### **4.1 HEALTH**

Additional migration imposes a cost to the Australian Government via provision of Medicare benefits, pharmaceutical benefits, funding to the States under Australian Health Care Agreements (public hospitals) and aged care services (residential aged care and Health and Community Care (HACC)). Funding for these health services is not cash limited (that is, the fiscal cost grows as the eligible population grows).

The estimate of migrant usage of Medicare, public hospital and aged care services (via grants to the States) is based upon the age and gender of the migrant cohort, and information on average usage by age and gender for the general population. For Medicare services, per capita usage tends to increase gradually with age and tends to be significantly higher for females than for males. For public hospitals, per capita funding increases with age, is higher for females than males for ages 20-40, but beyond age 60 is higher for males than females. The usage of aged care services is obviously highly concentrated in those aged over 65. Even within that group, both costs and usage rise as people get older.

The estimate of usage of pharmaceutical benefits in the Model is also based on Australian average information (though not age-weighted), with the cost to the Australian Government depending on the number of concessional patients, an estimate of which for the migrant intake is obtained from LSIA information on social security take-up rates.

It is possible that, after allowing for age and gender differences, new migrants may have a different rate of usage of health services than the general population. Such specific usage data is not available from the LSIA. Some data may be available for 'overseas born' though the characteristics of new migrants may be quite different from this group, as the nature of the migration program has changed over time, with a greater emphasis on the Skill Stream. Given that the Model estimates migrant usage over 20 years, an assumption of (age and gender weighted) Australian average usage



may be quite appropriate, particularly for those migrants who are young on arrival and so have grown up in Australia. This issue, however, could benefit from further data collection and analysis.

Table 3 shows that migrants in both elements of the Family-Parents category are estimated to have a much higher usage of health services than all other migrant categories, reflecting the considerably older age profile of these categories (the average age of Contributory Parents, taken from a backlog of applications, is not quite as old as the average age in the existing Parents category, taken from actual visa grant data in 2002-03).

Provisional migrants are unable to access health services (other than on a fee for service basis) until permanent residence is achieved. Hence there are no health outlays for the first two years for provisional Independent migrants, and only a small outlay for provisional Business Skills migrants (reflecting a small share of this group assumed to receive permanent residence immediately).

The allowance for health care prices to rise at a faster rate than general prices (as assumed in the Australian Government's 2002 *Intergenerational Report*) is a key factor behind the growth in expenses over time, along with the relative 'ageing' of the migrant groups, with more health services being used as people get older. The fall in health expenses over the first four years is attributable to the increasing employment levels at this time and the consequently lower numbers of concessional patients under the Pharmaceutical Benefits Scheme.

**TABLE 3: HEALTH EXPENSES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	2723.2	2610.9	2633.2	3176.6	3481.9	3107.1
Family - Parents Contributory	1462.0	1399.3	1913.8	2476.8	2895.1	3018.9
Family - Partners and Other	833.5	780.9	784.8	919.2	1109.6	1344.9
<i>SAS</i>	687.9	619.4	620.1	797.7	994.0	1241.1
<i>Business Skills</i>	650.2	606.0	601.1	856.1	1090.7	1397.9
<i>2 year provisional Business Skills</i>	32.5	30.3	450.8	856.1	1090.7	1397.9
<i>ENS</i>	666.9	608.5	578.4	787.9	985.3	1235.3
<i>Independent</i>	664.7	633.6	595.3	725.5	896.5	1107.1
<i>2 year provisional Independent</i>	0.0	0.0	610.2	716.9	877.5	1083.4
Humanitarian	897.0	820.6	813.5	960.4	1176.7	1424.3
Total	754.8	705.2	690.6	844.0	1034.8	1267.2

## 4.2 EDUCATION

Additional migration imposes a cost to the Australian Government via use of schools, vocational education, tertiary education (universities) and study assistance. Expenses for vocational education and some schools funding is cash limited, while for other areas of education it is not.

Migrant enrolments in school are age based, with enrolments in Year 11 and 12 modified by the Australia-wide Year 12 retention rate. Funding for the 'English as a second language' (ESL) program is based on the share of new migrants deemed to be not proficient in English.

Tertiary education (university) take up rates are also estimated on the basis of migrant age, with just under 60% of tertiary education students between the ages of 15 and 24. The LSIA is used for vocational education enrolments, where there is both a much



broader age spread and less good data on usage by age cohort. Over time usage is assumed to converge to the Australian average.

In the same manner as the discussion under Section 4.1 for health, the assumption of Australian average usage of education services is also one which could benefit from further data collection and analysis, though may be a reasonable proxy, particularly over time for those migrants who are young on arrival and so have grown up in Australia.

**TABLE 4: EDUCATION EXPENSES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	84.2	54.9	46.1	23.9	9.3	5.0
Family - Parents Contributory	190.6	132.8	113.4	82.0	35.6	16.6
Family - Partners and Other	984.2	564.9	621.1	444.9	387.1	291.2
<i>SAS</i>	942.1	524.6	668.1	680.3	588.3	399.6
<i>Business Skills</i>	1396.3	699.9	663.5	735.5	490.5	266.5
<i>2 year provisional Business Skills</i>	1396.3	699.9	663.5	735.5	490.5	266.5
<i>ENS</i>	674.9	526.2	533.0	738.1	630.8	386.1
<i>Independent</i>	682.5	551.1	498.8	519.3	512.9	359.1
<i>2 year provisional Independent</i>	769.5	622.1	469.3	402.6	398.3	301.2
Humanitarian	2091.9	922.5	871.9	932.8	778.5	474.1
Total	981.6	593.4	601.9	577.9	509.5	346.2

Funding for ESL is shown to take place in Year 1, although actual program delivery to eligible students may occur over a number of years. Education expenses are initially highest for Business Skills and Humanitarian, reflecting high numbers of dependants of school age, with a high proportion of these qualifying for ESL.

The costs to the Australian Government for education expenses fall over time, as the original migrant group pass through school and university. There are still education expenses over the longer term, largely through vocational education and training. The latter is less skewed to younger people, and rises for some time with more people entering the labour force than exiting it.

### 4.3 SOCIAL SECURITY

Additional migration imposes a cost to the Australian Government via payment of benefits, pensions and allowances, as well as the administration of such payments through Centrelink.

The LSIA is used to estimate migrant take-up rates for a range of social security benefits. Most new migrants outside the Humanitarian category cannot receive a range of social security benefits for their first two years after arrival. Hence, social security take-up rates for those two years are often zero (reflecting the two year exclusion) or marginally above zero (representing some partial exemptions to the exclusion rules).

To estimate the take-up of benefits beyond the two year waiting period, data from the final wave of interviews under the first wave of the Longitudinal Survey of Immigrants to Australia (LSIA1) is used (which took place some 3½ years after the migrants arrived (September 1993 to August 1995); comparable data was not collected under LSIA2). Over time, the estimated take-up of social security payments converges to the Australian average.



Exceptions to the two year exclusion period include the age pension and disability support pension. These benefits are generally subject to a ten year exclusion period for new migrants, though some pensions are paid under an International Social Security Agreement (where Australia has a reciprocal social security arrangement with the migrant's country of origin). New migrants can receive the disability support pension if the disability was incurred post-arrival. The receipt of family payments (incorporating family tax benefits) and carer allowance is not subject to an exclusion period for migrants who have permanent residency.

This update has included specific allowance for some additional social security payments (at Australian average take-up rates) as well as changes to take-up rates over time for the age pension and disability support pension (discussed in Section 7.4). In addition, eligibility for partner allowance has been switched off for all visa categories, with recent changes to social security arrangements meaning no new claims for partner allowance are accepted after 20 September, 2003.

This update has also included specific allowance for the Australian Government contribution to the Commonwealth-State Housing Agreement, previously shown as part of broader Budget outlays (discussed in Section 7.3). Migrant usage of public housing is included within the total social security outlays shown in Table 5. Only Humanitarian migrants have a notable take-up rate for public housing (as estimated from LSIA data) in Years 1 and 2, with the take-up rate for all categories assumed to converge to the Australian average take-up rate by Year 20.

**TABLE 5: SOCIAL SECURITY EXPENSES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	572.2	610.6	1000.9	660.2	4641.8	3247.0
Family - Parents Contributory	340.1	390.8	827.2	678.3	5114.5	4420.4
Family - Partners and Other	578.6	933.0	1187.8	929.5	1579.7	1741.7
<i>SAS</i>	617.3	872.8	784.8	1269.8	1661.0	1620.3
<i>Business Skills</i>	176.5	256.4	314.6	1091.1	1880.6	2502.9
<i>2 year provisional Business Skills</i>	8.8	12.8	188.0	1091.1	1880.6	2502.9
<i>ENS</i>	402.9	462.3	299.6	1196.4	1668.9	1747.4
<i>Independent</i>	630.4	754.3	873.5	1015.4	1428.7	1327.3
<i>2 year provisional Independent</i>	0.0	0.0	694.8	885.3	1314.3	1264.1
Humanitarian	2117.4	2419.2	2609.6	2863.1	2648.3	2317.5
Total	708.2	930.8	1057.1	1205.7	1679.3	1702.9

The costs to the Australian Government for social security expenses are subject to a variety of influences. As new migrants gain employment and improve their incomes after arrival they become less reliant on social security. This is most notable for Humanitarian migrants, who start off with high social security dependency, but whose dependency falls over time.

For non-Humanitarian migrants however, there is the two year waiting period on a range of social security benefits – hence the increase in expenses in Table 5 from Year 2 to Year 4 for many visa categories. This is most notable for Family migrants, as they show higher unemployment rates and lower incomes than migrants in the Skill Stream. Social security benefits paid rise again after Year 10 as the age pension and disability support pension become available for non-Humanitarian migrants (with typically an additional two years wait for provisional migrants).



Recorded social security expenses fall over time on family-type benefits (family payment and parenting payment), as children from the original migrant group age and become adults (leaving their parents no longer eligible for such family-type payments). The Model only examines the first generation of migrants (that is, the impact on the Australian Government Budget from any children of the migrant group born after arrival in Australia is not considered).

For migrants in the provisional categories, their waiting period for many benefits does not commence until they have gained permanent residence. In the Model this length of time varies as discussed in Section 2.2, though the most common outcome is assumed to be two years before permanent residence is applied for and granted. For those benefits where there is a two year waiting period, that effectively means at least a four year period for provisional migrants without access to such benefits.

Once provisional Business Skills migrants become fully eligible for social security benefits, their take-up rates are assumed to be the same as their permanent category equivalents (for example, the Year 5 take up rate for those who become eligible for benefits in Year 5). For provisional Independent migrants, the default once eligible is a weighted average of LSIA information on permanent Independent migrants (30%) and Australia average take-up rates (70%), the latter reflecting onshore applicants.

These assumptions for the provisional categories are conservative given no actual information on such migrants' take-up of benefits. The extra two years these migrants have generally spent in Australia (without access to social security payments) may indeed leave them better placed not to require social security payments when they do become available.

#### **4.4 SETTLEMENT SERVICES**

Additional migration imposes a cost to the Australian Government via provision of settlement services for Humanitarian migrants, use of translation and interpreting services (TIS) and use of the Adult Migrant English Program (AMEP). The latter two recover some costs through charges. Charges for both TIS and AMEP are separately identified. These are shown on the receipts side of the Model, with gross costs on the expenses side.

The full amount of expenditure under the Integrated Humanitarian Settlement Strategy (IHSS) is assumed to be spent on the incoming group of migrants in the first year. New migrant take-up rates of TIS and AMEP are based on historic experience and the share of migrants with low English proficiency.



**TABLE 6: SETTLEMENT SERVICES EXPENSES PER 1,000 MIGRANTS, CONSTANT 2004-05  
PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	360.1	321.9	91.4	19.2	0.0	0.0
Family - Parents Contributory	359.1	323.7	93.4	21.1	0.0	0.0
Family - Partners and Other	355.0	334.1	97.9	23.3	0.0	0.0
<i>SAS</i>	139.5	176.1	49.2	5.9	0.0	0.0
<i>Business Skills</i>	138.7	168.7	49.4	8.1	0.0	0.0
<i>2 year provisional Business Skills</i>	138.7	168.7	49.4	8.1	0.0	0.0
<i>ENS</i>	132.2	168.8	45.5	3.7	0.0	0.0
<i>Independent</i>	132.9	169.6	45.6	3.2	0.0	0.0
<i>2 year provisional Independent</i>	133.4	169.8	45.8	3.3	0.0	0.0
Humanitarian	6397.0	1702.2	145.1	38.8	0.0	0.0
Total	813.7	374.3	73.7	14.1	0.0	0.0

Table 6 indicates that the costs to the Australian Government for settlement services are highest in Year 1. That reflects the IHSS being accounted for in the first year, which is for the benefit of Humanitarian migrants. Funding of the IHSS has escalated significantly between the Budget amount for 2002-03, that for 2003-04 and again for 2004-05.

Other than the IHSS, costs are related to the non-English proficiency of the new migrant intake, through AMEP and translating and interpreting services. The new migrant intake is assumed to no longer require the former after 5 years of residence and the latter after 10 years of residence.

#### **4.5 LABOUR MARKET SERVICES**

Additional migration imposes a cost to the Australian Government via the provision of labour market services. These are delivered largely via the Job Network program, but also via Work for the Dole and some other labour market service programs. Commonwealth funding for Job Network and other labour market services is distributed to a number of providers and is demand driven.

Information from the LSIA on the number of unemployment benefit recipients and the number of people on special benefit is used in estimating the number of people accessing labour market services. Migrants (except Humanitarian entrants) who are unemployed and do not receive income support are only eligible for job matching services for the first two years. If a migrant is unemployed and receives a special benefit, or is a Humanitarian entrant, or has been through the two year waiting period and qualifies for unemployment benefits (or four years for most provisional migrants), they are fully Job Network eligible, and can receive a wider range of services, which are also considerably more expensive for the Australian Government. Costs associated with Job Network eligible clients are tiered into a 'highly disadvantaged' rate, and a 'non-highly disadvantaged' rate.



**TABLE 7: LABOUR MARKET SERVICES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	2.9	38.7	121.0	13.6	7.4	6.7
Family - Parents Contributory	4.0	34.1	106.1	21.3	17.0	16.5
Family - Partners and Other	110.8	131.9	156.9	39.6	67.6	95.2
SAS	14.8	54.0	30.1	36.3	76.4	93.5
Business Skills	1.9	0.0	1.7	47.8	62.8	66.7
2 year provisional Business Skills	0.0	0.0	0.3	47.8	62.8	66.7
ENS	3.5	0.3	0.9	29.7	61.2	75.6
Independent	10.8	13.8	16.0	24.0	56.0	74.8
2 year provisional Independent	3.4	5.8	4.5	34.2	59.0	74.6
Humanitarian	179.9	119.3	71.4	212.2	226.6	167.6
Total	60.3	65.9	68.8	50.3	78.8	91.7

The costs to the Australian Government for labour market services remain reasonably steady from Years 1 to 4 as a lower unemployment rate for Humanitarian migrants balances greater accessibility to labour market services after Year 2 for other migrants.

Costs fall on average from Year 4 to Year 10, as unemployment rates in each visa category are assumed to converge towards the national average. For Humanitarian migrants, their unemployment rate is assumed not to converge to the national average until Year 20, while labour force participation steadily rises, which increases their demand for labour market services by Year 10. Beyond Year 10, the unemployment rate for Humanitarian migrants is assumed to continue to fall, leading to lower demand for labour market services. Demand from migrants in other visa categories gradually rises beyond Year 10, led by growth in the labour force (more people continue to enter the labour force than exit it for most of the time).

## 4.6 GENERAL REVENUE ASSISTANCE

The Model records GST revenue as accumulating to the Australian Government, with it then being distributed to the States in the form of general revenue assistance. In the Model, the dollar amount of these expenses is set to match the estimate of GST revenue collected from migrants. The Model incorporates a switch to allow for the inclusion or exclusion of GST from revenues and expenses. If GST revenue is excluded from the analysis, both gross revenues and expenses change but not the net impact on the Australian Government Budget.

## 4.7 BROADER EXPENSES

The Migrants' Fiscal Impact Model includes a 'switch' where both broader revenues and expenses (which cannot be directly attributed to new migrants) can also be included in the analysis, with these items attributed on a per capita basis.

Broader Australian Government expenses are included in the Migrants' Fiscal Impact Model via the following functional categories:

- General public services
- Defence
- Public order and safety
- Housing and community amenities
- Recreation and culture



- Fuel and energy
- Agriculture, forestry and fishing
- Manufacturing and mining
- Transport and communications
- Other economic affairs
- Other purposes
- Public health and research
- Assistance to the aged not elsewhere included
- Administration for programs included under direct attribution.

Many of these areas provide public goods, infrastructure or services of general public benefit. New migrants would share such benefits.

In Year 1 the cost per capita from these broader expenses is very similar to the per capita receipts from broader revenues, effectively cancelling each other out. Compared with previous reported results these broader expenses are lower, with funding for public housing being moved to a directly attributable outlay (it is included within the social security total in Table 5).

Over time, broader revenues exceed broader expenses given default assumptions for broader revenues to grow in line with wages growth and broader expenses to grow in line with general inflation.

## 5. REVENUES

Estimates of revenues in the Migrants' Fiscal Impact Model are driven by LSIA information on incomes (LSIA2 for Years 1 and 2, while the change in migrant incomes from Year 2 to Year 4 recorded in LSIA1 is applied to provide estimates for Year 3 and Year 4).

A wage index drives migrant incomes beyond Year 4 (the last year of LSIA information). Growth in this index is set at a base rate of 3.75% per annum, reflecting a projection of average economy-wide wage growth. This is the rate for medium term wage growth published in the 2004-05 Australian Government Budget.

### 5.1 DIRECT TAX

Additional migration delivers revenues to the Australian Government via personal income tax payments. These revenues are estimated on the basis of LSIA data which shows the personal incomes of principal applicants and migrating unit partners and adult dependants.

The estimation of direct tax payments involves tallying all forms of income (salary, business income, investments and social security benefits), allowing for an average rate of deductions and an average amount for tax rebates (as calculated from Australian Taxation Office data), and then applying current statutory tax rates to estimate the amount of personal income tax paid. This estimation incorporates changes to the tax system detailed in the 2004-05 Australian Government Budget, including changes to tax thresholds in 2004-05 and 2005-06 (year 2 in the Model).

The resultant tax estimates relate to labour force participation rates and the unemployment rate. The bulk of taxes are paid by those employed, but the Model also includes estimates for direct tax paid by those unemployed or not in the labour force.

The Model allows for labour force entry and exit over time as migrants age. Migrants who first enter the workforce while in Australia, rather than prior to arriving in Australia, are assumed to do so at the average Australian wage, rather than a migrant specific wage (though a switch in the Model allows this to be changed).

**TABLE 8: DIRECT TAX REVENUES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES  
(\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	265	579	674	444	295	249
Family - Parents Contributory	600	816	957	915	740	631
Family - Partners and Other	2,400	3,589	5,003	6,742	8,069	9,323
<i>SAS</i>	3,515	4,481	5,861	6,623	7,188	7,568
<i>Business Skills</i>	4,810	4,551	5,385	7,884	9,811	9,726
<i>2 year provisional Business Skills</i>	4,810	4,551	5,384	7,884	9,811	9,726
<i>ENS</i>	8,314	8,719	9,262	9,759	10,833	11,582
<i>Independent</i>	5,955	6,362	8,376	9,186	9,896	10,447
<i>2 year provisional Independent</i>	5,511	5,990	7,487	8,374	8,916	9,367
Humanitarian	476	606	1,768	3,644	5,866	8,218
<b>Total</b>	<b>4,121</b>	<b>4,779</b>	<b>6,243</b>	<b>7,532</b>	<b>8,683</b>	<b>9,611</b>



Table 8 shows that initially direct tax revenue is notably higher from the Skill Stream, particularly ENS and Independent, reflecting the high incomes the migrants in those categories command.

Incomes for provisional Independent migrants are lower than their permanent equivalents. Both are a weighted average of income estimates for offshore applicants (based on LSIA) and onshore applicants (based on preliminary information from a 2004 DIMIA survey of skilled migrants who were recently students and are new to the labour force). The latter group are estimated to have lower incomes, and the provisional category are assumed to have a higher share of onshore applicants – hence the lower direct tax estimate relative to permanent Independent migrants.

For all categories, revenues improve over time in real terms. That reflects productivity growth being compensated by real wage rises (the Model allows for real wage rises of 1.25% per annum, matching the gap between assumed wage growth and general price growth). The improvement over time also reflects lower unemployment rates, particularly for Family and Humanitarian migrants. For some time it also reflects net labour force entry – more of the new migrant group is joining the labour force than is exiting it (as shown in Chart 4 and Chart 5). Eventually net labour force growth turns negative, which means direct tax revenue plateaus and starts to fall (apparent for Business Skills in Table 8).

Note that in the Model for Years 1 to 4, statutory tax rates are applied to the estimate of personal income, which effectively includes proceeds from ‘bracket creep’, as people are pushed into higher income tax brackets. Beyond Year 4, where there is no longer any specific LSIA information, estimates of direct tax payments are assumed to grow in line with the average rate of wage growth.

This effectively assumes that beyond 2007-08 the Model has indexation of tax brackets to wages. To the extent there were to be any ‘bracket creep’ affecting average tax rates over time, estimates of migrant revenues would be underestimated.

(Note that the usual yardstick of tax indexation is to prices rather than wages. Accordingly, even if ‘tax indexation’ was introduced, average tax rates would tend to rise over time as a result of wages rising faster than prices. There is no such automatic tendency in the long run revenue estimates here.)

## 5.2 INDIRECT TAX

Additional migration delivers increased revenues to the Australian Government via indirect tax payments. These revenues are estimated on the basis of LSIA household income data, average propensity to consume taxed goods and services as estimated from the Household Expenditure Survey (HES), and the average tax rate applying to those goods and services. Household income data relates to all members of the household, whether or not they were in the migrating unit.

For the calculation of indirect tax payments, household income is preferable to personal income as it would be otherwise difficult to allocate spending across members of the household.

In the Model, indirect tax revenues cover customs duty and excise, which stay with the Australian Government, and GST, collected by the Australian Government but passed to the States (the Model separately shows Australian Government payments of this



GST revenue to the States). The inclusion/exclusion of GST in indirect tax calculations can be altered via a switch within the Model.

**TABLE 9: INDIRECT TAX REVENUES EXCLUDING GST PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	584	649	740	651	534	373
Family - Parents Contributory	584	654	760	717	646	533
Family - Partners and Other	925	968	1,109	1,180	1,237	1,290
<i>SAS</i>	652	824	955	1,018	1,071	1,120
<i>Business Skills</i>	595	602	616	653	680	701
<i>2 year provisional Business Skills</i>	595	602	616	653	680	701
<i>ENS</i>	911	926	939	1,002	1,052	1,098
<i>Independent</i>	925	959	991	1,059	1,117	1,173
<i>2 year provisional Independent</i>	969	1,006	1,034	1,104	1,165	1,226
Humanitarian	385	548	623	663	696	727
Total	827	886	966	1,028	1,080	1,128

The revenue numbers in Table 9 exclude GST revenue. Indirect tax revenue in the Model rises at a relatively steady pace over time, with migrants benefiting from real wage growth (reflecting productivity gains). Given the tendency to smooth consumption over time, household incomes (and indirect taxes) are not linked in the Model to changes in employment status.

Reflecting higher household incomes, indirect tax revenue is initially highest from the ENS and Independent categories, along with non-parent Family migrants. By Year 4 the highest indirect tax revenue comes from the non-parent Family groups. The revenue strength here reflects a much lower rate of attrition for Family-Partners and Other migrants as recorded in the LSIA (far fewer of the original migrant group depart Australia again compared with migrants under the Skill Stream). The younger age profile also assists indirect tax revenue collected from the Family-Partners and Other category, with fewer of the original migrant intake dying over the 20 year period.

The relatively low level of indirect tax revenue collected per migrant in the Business Skills categories reflects a higher number of people in the household unit as recorded from the LSIA (in comparison with other visa categories). The latter means that consumption per head is more diluted, and so indirect tax revenue per migrant is relatively lower.

HES data shows that households with the lowest recorded incomes tend to have very high propensities to consume. For the lowest income quintile in the HES survey, consumption is well over 100% of income. Consumption expenditure which is higher than income reflects a range of possible factors, including consumption being financed from wealth (which is common for the elderly), households which are increasing their debt, households whose consumption expenditure is reliant upon transfers from family or friends, or temporarily higher consumption or temporarily lower income.

As such, consumption growth tends to be smoother than income growth (and hence indirect tax collections are more stable than direct tax collections). Accordingly, the disparity shown in direct tax collections between migrants in the Skill Stream and Humanitarian migrants is visible to a much lesser extent for indirect tax collections.



### 5.3 USER CHARGES

User charges in the Model reflect three elements – service fees for translating and interpreting services, fees for the Adult Migrant English Program (AMEP), and the additional visa application charges applying to Contributory Parents.

The latter are particularly notable in Table 10, with the second instalment visa application charge being \$25,000 for most permanent Contributory Parents. There is also a provisional option for migrants in the Contributory Parents category, allowing an up-front payment of \$15,000 in Year 1 with the balance to be paid when the application for permanent residency is made (assumed in the Model to occur in Year 3). Fees are less for persons aged under 18 in this category, but there are few of those. The visa application charges are in effect a down-payment on the future costs to the Australian Government for providing health services and age pension payments (even after a waiting period of ten years) which, as highlighted in Table 3 and Table 5, are significant.

**TABLE 10: USER CHARGES PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES (\$'000)**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	32	30	14	12	-	-
Family - Parents Contributory	23,125	29	14	13	-	-
Family - Partners and Other	29	28	14	14	-	-
<i>SAS</i>	149	6	3	4	-	-
<i>Business Skills</i>	359	6	5	5	-	-
<i>2 year provisional Business Skills</i>	359	6	5	5	-	-
<i>ENS</i>	102	2	2	2	-	-
<i>Independent</i>	71	2	2	2	-	-
<i>2 year provisional Independent</i>	55	3	2	2	-	-
Humanitarian	87	72	19	24	-	-
Total	84	19	8	9	-	-

Other user charges relate to those migrants who require English language assistance. The AMEP user charge is an upfront fee for migrants under the Skill Stream who are not proficient in English. As it also forms part of a visa application charge, it is payable by all those migrant adults in the Skill Stream deemed to be not proficient in English, regardless of whether or not they eventually undertake the AMEP.

### 5.4 BROADER REVENUES

Broader Australian Government revenues are included in the Migrants' Fiscal Impact Model via the following categories:

- Company taxes
- Superannuation surcharge
- Other superannuation revenues
- Petroleum resource rent tax
- Fringe benefits tax
- Other revenues.

These revenues provide an important offset to the inclusion of broader Australian Government expenses. Just as new migrants share the benefit of the suite of broader Australian Government expenses, they also post-arrival form part of the wider economy



which generates the above revenue items (and which were not included in the direct tax and indirect tax sections earlier).

As with expenses, broader Australian Government revenues are attributed on a per capita basis across the entire population including the new migrant group, with allowance within the Model for the user to apply revenues in greater or lesser proportions to new migrants.

As discussed in Section 4.7, in Year 1 broader revenues are estimated to almost exactly match broader expenses, with the two groups of items effectively cancelling each other out. Over time there is a positive margin, given default assumptions for broader revenues to grow in line with wages growth and broader expenses to grow in line with general inflation.



## 6. NET OPERATING SURPLUS

This chapter presents the estimates of the impact on the Australian Government Budget per 1,000 new migrants by visa category using characteristics of migrants from the 2002-03 Migration and Humanitarian programs.

Also presented is the estimated fiscal impact in total from applying the total expected number of migrants under the planned 2004-05 Migration and Humanitarian programs.

### 6.1 RESULTS ON A PER 1,000 MIGRANTS BASIS

Results are presented in Table 11 under the standard **direct attribution setting**. That setting is the most useful for short term analysis of actual Budget requirements and demands.

The total reported is a weighted average impact based on the number of migrants in 2002-03. With the three new visa categories not in full operation over that time, they do not contribute to this weighted average total impact.

**TABLE 11: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT 2004-05 PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	-2.9	-2.4	-2.5	-2.8	-7.3	-5.8
Family - Parents Contributory	21.9	-0.8	-1.4	-1.7	-6.7	-6.3
Family - Partners and Other	0.4	1.8	3.2	5.5	6.1	7.1
<i>SAS</i>	1.8	3.0	4.6	4.8	4.8	5.2
<i>Business Skills</i>	3.4	3.4	4.4	5.7	6.9	6.2
<i>2 year provisional Business Skills</i>	4.2	4.2	4.6	5.7	6.9	6.2
<i>ENS</i>	7.4	7.9	8.7	7.9	8.5	9.2
<i>Independent</i>	4.8	5.1	7.3	7.9	8.1	8.7
<i>2 year provisional Independent</i>	5.6	6.1	6.6	7.4	7.4	7.8
Humanitarian	-10.9	-4.9	-2.2	-0.8	1.6	4.5
Total	1.7	3.0	4.7	5.8	6.4	7.3

Table 11 shows that new migrants provide a substantial contribution to the Australian Government Budget initially, and this contribution grows over time in real terms. Base assumptions of 3.75% wage growth and 2.5% general price growth (higher for health costs and some social security outlays) reflect migrants delivering productivity improvements, compensated by real wage growth. Other things equal, this productivity improvement helps to deliver an improved bottom line to the Australian Government Budget over time.

The contribution is positive across all visa categories, with the exception of the Family-Parents categories, which remain negative, and Humanitarian, which is negative up to Year 12.

Initially the highest contributions to Australian Government revenues come from principal applicants under the Skill Stream, particularly ENS and Independent. That reflects the high labour force participation and high personal incomes for many migrants in these categories.

The net operating surplus for the provisional Independent category is initially higher than the Independent category, reflecting limited access to services and benefits for



provisional migrants. Once permanent residence is achieved, the provisional category is estimated to have a lower net operating surplus. That reflects the assumption of a high proportion of this category coming from overseas students studying onshore and then applying for a visa. The lower salaries (based on survey information) of this group reflects less experience in the labour market relative to offshore applicants.

The differences between the provisional Business Skills category and the permanent Business Skills category are more modest. With the age profile assumed to be identical for these categories, differences in net operating surplus stem from accessibility to social security benefits and health services which is more limited for migrants in the provisional category, hence the marginally higher net operating surplus.

For the Family-Partners and Other visa category, benefits to the Australian Government Budget are more modest at first, although they do grow strongly over time. This reflects the growing workforce of this category (both from net labour force entry and movements higher in participation rates), while significant expenditures associated with the effects of ageing don't appear over the model's 20 year timeframe for this visa category. This category also has a very low rate of attrition (new migrants subsequently deciding to leave Australia).

For the Family-Parents visa category the contribution to the Australian Government Budget remains negative over time. This category has low labour force participation and does suffer the costs of ageing – these are notable after Year 10 (when the waiting period on the age pension elapses). For the Family-Parents Contributory category the initial upfront visa charges go some way to offsetting the costs which follow.

Table 12 presents results under the **broader budget setting**, which attributes to migrants a share of all Budget outlays and revenues. This setting is more appropriate for longer term analysis of the implicit net contribution made by new migrants to the Australian Government Budget.

**TABLE 12: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS UNDER BROADER BUDGET SETTING, CONSTANT 2004-05 PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	(2.7)	(2.2)	(2.2)	(2.4)	(6.9)	(5.4)
Family - Parents Contributory	22.1	(0.7)	(1.2)	(1.7)	(7.0)	(7.1)
Family - Partners and Other	0.7	2.0	3.6	6.1	6.9	8.1
<i>SAS</i>	2.1	3.2	4.9	5.3	5.6	6.3
<i>Business Skills</i>	3.6	3.7	4.7	6.3	7.6	7.1
<i>2 year provisional Business Skills</i>	4.4	4.5	4.9	6.3	7.6	7.1
<i>ENS</i>	7.6	8.1	9.0	8.5	9.2	10.2
<i>Independent</i>	5.0	5.4	7.6	8.5	8.8	9.7
<i>2 year provisional Independent</i>	5.8	6.4	6.8	7.8	8.0	8.7
Humanitarian	(10.7)	(4.6)	(1.9)	(0.2)	2.4	5.5
<b>Total</b>	<b>1.9</b>	<b>3.2</b>	<b>5.0</b>	<b>6.4</b>	<b>7.2</b>	<b>8.3</b>

The 'switch' to the broader Budget setting makes little difference to Year 1 results, which are marginally stronger for all visa categories (with broader Budget revenues and expenses applying to all visa categories equally on a per capita basis).

Over time, the positive contribution to the Australian Government Budget becomes larger than under the direct attribution setting alone, with these revenues assumed to grow at a faster rate than expenses.



## 6.2 RESULTS FOR THE PLANNED 2004-05 MIGRATION AND HUMANITARIAN PROGRAMS

This Section presents the estimates of the impact on the Australian Government Budget for the planned 2004-05 migrant intake in total. Table 13 shows the planned intake under the Migration and Humanitarian Programs for 2004-05. The numbers for the Migration Program use the top of the Government's announced range of 110,000 to 120,000 for 2004-05. There is also a planned intake of 900 under the Special Eligibility category, and 200 under Distinguished Talent but the Migrants' Fiscal Impact Model does not report on these categories of migrants.

Table 13 includes a split of the allocation of 4,500 Parents visas, with 1,000 under the existing Parent category and 3,500 under the Contributory Parent category. The split of the planned 5,400 Business Skills migrants into permanent and provisional categories is also by assumption. The provisional Independent category commences on July 1 2004 with an initial intake of 9,000 migrants.

**TABLE 13: PLANNED 2004-05 MIGRATION AND HUMANITARIAN PROGRAM**

	2004-05
Family - Parents	1,000
Family - Parents Contributory	3,500
Family - Partners and Other	37,500
<i>SAS</i>	12,000
<i>Business Skills</i>	2,481
<i>2 year provisional Business Skills</i>	2,919
<i>ENS</i>	11,900
<i>Independent</i>	38,600
<i>2 year provisional Independent</i>	9,000
Humanitarian	13,000
<b>Total</b>	<b>131,900</b>

The key differences between the actual 2002-03 migrant intake and that planned for 2004-05 are a notable increase in the number of migrants under the Family-Parent categories, as well as a notable increase in Independent migrants under the Skill stream, with the addition to the program coming via 9,000 places under the provisional Independent category.

With migrants under the Independent category the most beneficial to the Australian Government Budget, and migrants under the Family-Parent category the most costly over time, this *change* in the structure of the migrant intake may to some extent cancel out, although there are more additional places in the independent stream which provide a stronger fiscal benefit. The bulk of the additional Parent migrants are also in the Contributory category, and so would deliver the Australian Government significant upfront revenue on arrival.

Table 14 shows the estimated effect on the Australian Government Budget from the planned 2004-05 migrant intake in total under the **direct attribution setting**, and suggests there will be a significant benefit in terms of net operating surplus.



**TABLE 14: NET OPERATING SURPLUS (DEFICIT) FOR PLANNED 2004-05 MIGRANT INTAKE, CONSTANT 2004-05 PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	(2.9)	(2.4)	(2.5)	(2.8)	(7.3)	(5.8)
Family - Parents Contributory	76.7	(3.0)	(4.7)	(5.8)	(23.5)	(22.2)
Family - Partners and Other	16.5	67.3	121.2	207.5	229.2	265.9
<i>SAS</i>	22.2	36.0	55.3	57.1	58.0	62.9
<i>Business Skills</i>	8.4	8.5	10.8	14.3	17.2	15.3
<i>2 year provisional Business Skills</i>	12.2	12.4	13.6	16.8	20.2	18.0
<i>ENS</i>	88.4	93.5	104.0	94.5	100.8	109.4
<i>Independent</i>	184.4	198.7	281.8	305.1	311.1	336.1
<i>2 year provisional Independent</i>	50.1	55.2	59.8	66.6	66.5	70.5
Humanitarian	(141.5)	(63.4)	(28.5)	(10.4)	21.0	58.1
<b>Total</b>	<b>314.4</b>	<b>402.7</b>	<b>610.6</b>	<b>742.8</b>	<b>793.2</b>	<b>908.2</b>

Table 14 shows that in the first year the Australian Government Budget is estimated to benefit by some \$314.4 million as a result of the planned 2004-05 migrant intake. Initially, this is dominated by migrants from the Independent category, given their strong individual contributions and their large share of the total program, while there is also a significant contribution in Year 1 from the visa application charges of the 3,500 Contributory Parents. Over time, a higher level of benefits flow from Family – Partners and Other migrants – which is a large stream – as their economic circumstances improve.

Table 15 presents the implicit net contribution to the Australian Government Budget under the **broader budget setting**, showing that the planned 2004-05 Migration and Humanitarian programs in aggregate provide a significant boost to the fiscal bottom line (some \$342 million in Year 1). With revenues growing at a faster rate than the cost of non-health services, this contribution builds over time.

**TABLE 15: NET OPERATING SURPLUS (DEFICIT) FOR PLANNED 2004-05 MIGRANT INTAKE UNDER BROADER BUDGET SETTING, CONSTANT 2004-05 PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
Family - Parents	(2.7)	(2.2)	(2.2)	(2.4)	(6.9)	(5.4)
Family - Parents Contributory	77.4	(2.4)	(4.3)	(6.0)	(24.5)	(24.8)
Family - Partners and Other	24.4	76.6	133.2	229.1	259.0	304.0
<i>SAS</i>	24.7	38.9	59.1	64.0	67.5	75.1
<i>Business Skills</i>	8.9	9.1	11.6	15.6	19.0	17.5
<i>2 year provisional Business Skills</i>	12.8	13.1	14.4	18.3	22.3	20.6
<i>ENS</i>	90.9	96.4	107.6	101.0	109.9	121.0
<i>Independent</i>	192.6	208.1	293.6	326.4	340.5	374.0
<i>2 year provisional Independent</i>	52.0	57.4	61.3	70.3	72.2	78.4
Humanitarian	(138.8)	(60.2)	(24.2)	(2.7)	31.7	71.8
<b>Total</b>	<b>342.2</b>	<b>434.7</b>	<b>650.2</b>	<b>813.6</b>	<b>890.8</b>	<b>1032.3</b>



## 7. CHANGES TO THE MIGRANTS' FISCAL IMPACT MODEL FOR THE 2004 UPDATE

This chapter discusses the major changes made to the Migrants' Fiscal Impact Model for the 2004 update.

### 7.1 HEALTH PRICE INDICES

The Model now allows for escalation of the cost of delivering health services at a rate faster than that of general inflation.

Previously, the Model had a single health cost index to capture future price movements. That has been replaced with separate indexes for Medicare, Pharmaceutical Benefits, public hospitals, and aged care services.<sup>5</sup>

The cost of delivering health care services has been rising at a faster rate than the general rate of inflation. This has been the case even on a per capita, and age-weighted per capita basis.

This real non-demographic growth is likely to continue in the future, and was incorporated in long-term budget modelling conducted for the Australian Government's 2002 *Intergenerational Report*. That report noted<sup>6</sup>:

*"Most of the projected growth in health spending reflects the increasing cost and availability of new high technology procedures and medicines, and an increase in the use and cost of existing services. Consumers have a high demand for more effective treatments, and expect these treatments will be provided to them soon after the technology first becomes available".*

The same real non-demographic growth rates used in the *Intergenerational Report* have been applied in the Migrants' Fiscal Impact Model over the next 20 years:

- ❑ 5.64% per annum for Pharmaceutical Benefits,
- ❑ 1.64% per annum for hospitals,
- ❑ 1.71% per annum for aged care, and
- ❑ a weighted average of 1.37% for Medicare.

These additional escalation rates mean that the Model reports notably higher health expenditures over time in comparison to previously reported results.

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<sup>5</sup> The private health insurance rebate is included as a tax offset on the revenue side of the Model.

<sup>6</sup> Commonwealth Treasury, *Intergenerational Report*, Budget Paper No. 5, 2002-03, p.38.



## 7.2 ADULT MIGRANT ENGLISH PROGRAM

The treatment of the Adult Migrant English Program in the Model has been changed to be based on actual rates of enrolment in courses rather than just registration. This is in relation to the costs of delivering the program.

The fees received for the Adult Migrant English Program are paid as part of a visa application charge. Therefore, the Model shows these as being paid by non-English speaking adult migrants on arrival, regardless of whether people subsequently enrol. Such fees only apply to migrants under the various Skill categories.

## 7.3 COMMONWEALTH-STATE PUBLIC HOUSING AGREEMENT

The Model now takes specific account of the Australian Government contribution to the Commonwealth-State Housing Agreement. This was previously shown in the Model as part of broader budget outlays (on a per capita basis).

The LSIA reports information on the share of migrants who rent their house from the government, which is used as the basis for migrant usage of public housing. Average usage of public housing by visa category is assumed to tend towards Australian average usage over the 20 year timeframe of the Model. This is a conservative assumption given the high incomes earned by many migrants in the Skill Stream.

Compared with previously reported results, this change in the treatment of public housing (from a broader budget item to a direct attribution item) raises direct attribution expenditures while reducing broader budget expenditures.

## 7.4 SOCIAL SECURITY PAYMENTS

The Model now shows by visa category outlays for carer payments, carer allowance, mobility allowance, and other payments (other social security payments not elsewhere included). No information on migrant usage of such benefits is available from the LSIA, so the Model applies Australian average take up rates by visa category for these payments.<sup>7</sup>

Of these additional outlays, carer allowance (like family payments incorporating the family tax benefit in the Model) can be received by all permanent migrants upon arrival. For the other payments, there is a two year waiting period for non-Humanitarian migrants. The two year waiting period for provisional migrants commences once they receive permanent residence (in the Model generally a further two years).

This update of the Model has also incorporated simplifying the age pension take-up rates in the Model. The LSIA based take-up rates have been re-estimated as a share of the 65+ age group by visa category (rather than expressing take-up rates as a share of the 15+ population, and then making an adjustment for the 65+ share of the 15+ population from the current migrant age structure). Following the ten year exclusion period (or generally 12 years for provisional migrants), take-up rates revert to

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<sup>7</sup> The Model assumes that take up rates are determined by the length of time the migrant has been onshore rather than the length of time since applying for permanent residency.



Australian average rates for all migrants over 65. Assumptions for the disability support pension have also been amended so that after the ten year exclusion period (or generally 12 years for provisional migrants), take-up rates are as per the Australian average for persons over 15. As with public housing, these assumptions are conservative in that the high incomes of Skill Stream migrants would suggest take-up rates for such might remain lower than the Australian average, even after a 20 year period in Australia.

### 7.5 PERSONAL INCOME TAXES

Direct tax estimates by visa category in the Model are based on LSIA income data. As in previous versions of the Model, the estimates are derived from individual migrant incomes, marginal tax rates, and information from the Australian Taxation Office (ATO) on average deductions by income ranges.

Previously not included was an adjustment for tax offsets (rebates), such as the 30% private health insurance rebate, tax offsets for low income earners and aged persons, and an allowance for imputation credits. This was because of the difficulty in determining eligibility for offsets from the LSIA data. Eligibility may depend on spouse income, for example; and in the case of imputation credits, depends on the credits 'earned' by the individual.

While these difficulties remain, this model update has applied Australian average tax offsets by income range (as estimated from 2000-01 ATO data) in the estimates of direct tax paid. The Senior Australians Tax Offset (SATO) was included in the 65+ age category only.

The revised direct tax estimates also allow for updated income tax thresholds and marginal tax rates, following the July 2003 tax cuts, the changes to take effect from July 2004, and the further changes to tax thresholds in July 2005 (year 2 in the Model). The adjustments have acted to reduce the Model estimates of direct tax collected in relation to previously reported results. A small partial offset to this reduction comes from inclusion of direct taxes paid by those not in the labour force. These were previously assumed to be zero, but estimates are available from the LSIA, and these have now been included in the Model.

### 7.6 MODEL RESTRUCTURE

In order to incorporate the three additional visa categories into the Migrants' Fiscal Impact Model, a substantial restructure of the Model in Microsoft Excel was undertaken.

The restructure allowed a more logical ordering of information within the Model, making it less susceptible to potential coding error, and easier for the user to follow in conducting 'what if' scenarios.

The new model layout and the operation of the Model will be described in a forthcoming comprehensive *User Guide to the Migrants' Fiscal Impact Model*.

## 8. COMPARISON WITH PREVIOUS RESULTS

This chapter compares the bottom line net operating surplus outcomes reported here with that reported in the 2003 update to the Migrants' Fiscal Impact Model. Key factors which have led to the differences are then listed.

Table 16 compares the respective net operating surplus results under the direct attribution setting.

**TABLE 16: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT PRICES, \$M**

	Year 1	Year 2	Year 4	Year 10	Year 15	Year 20
2004 update (2004-05 prices)	1.7	3.0	4.7	5.8	6.4	7.3
2003 update (2002-03 prices)	2.4	3.4	5.1	6.2	7.2	7.9
Difference	-0.7	-0.4	-0.4	-0.4	-0.8	-0.6

The 2004 update reports a net operating surplus a little lower throughout. This is largely due to the inclusion of an allowance for tax rebates, and over the longer term an allowance for health costs to increase at greater than the rate of inflation.

While the respective results have different price bases, that accounts for little difference. That is because the net operating surplus reports the difference between revenues and expenses, with both revenues and expenses scaled up to 2004-05 prices for the 2004 update, suggesting little change in the difference between the two on that account.

While the reported net operating surplus is on balance lower in comparison with the 2003 update, there have been a range of both updated information and different treatment of some factors in the Model which have affected estimates in both directions (lower and higher net operating surplus).

Factors apparent in the 2004 update which have led to a lower estimate of net operating surplus include:

- ❑ Escalation of health costs over time at greater than the general rate of inflation.
- ❑ A lower estimate of direct taxes due to the inclusion of average tax rebates in the estimation. Tax estimates also fall due to the inclusion of the revised tax rates and thresholds following tax cuts on 1 July, 2003 and those to take effect on 1 July 2004 and 1 July 2005. A small partial offset to these effects comes from inclusion of direct taxes paid by those not in the labour force, previously assumed to be zero.
- ❑ Inclusion of public housing costs in the direct attribution element of the Model (rather than within the broader budget setting).
- ❑ Inclusion of an additional small category social security outlays at Australian average take-up rates, which migrants were previously implicitly assumed not to access.
- ❑ A change in the default assumed take-up rate for Disability Support Pension, which is now assumed to be at the Australian average take up rate after the ten year exclusion period, the same as the assumption for the age pension, and consistent with other social security take-up rate assumptions which also move towards Australian average rates.



## 2004 Update of the Migrants' Fiscal Impact model

- ❑ Broadening of the coverage of the population base used to estimate education costs in the Model from principal applicants to all migrants (consistent with the treatment of similar expenses).

Factors apparent in the 2004 update which have partially offset the above and moved towards a higher net operating surplus include:

- ❑ A change in the wage growth assumption to 3.75% per annum (rather than the previous 3.5%), consistent with assumed wage growth over the medium term as stated in the 2004-05 Australian Government Budget papers.
- ❑ Inclusion of the upfront charges for the Contributory Parents category.
- ❑ A change to the Modelling of AMEP user charges, to reflect the practice that fees are collected through visa application charges, whether AMEP is actually accessed or not.
- ❑ A higher share of independent migrants within the 2002-03 migrant intake than there had been in 2001-02 (thereby raising the weighted average net operating surplus across all migrants).
- ❑ Consistent with the above point, a higher share of people aged 15-44 within the migrant intake (who generally have a higher fiscal contribution).

In summary, the former set of factors (lowering the net operating surplus) has been of a slightly higher magnitude than the latter set of factors (raising the net operating surplus).

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