

**THE IMPACT OF SPONSORED TEMPORARY
BUSINESS RESIDENTS ON THE COMMONWEALTH
BUDGET**

prepared for

**Department of Immigration and Multicultural and Indigenous
Affairs**

by

ACCESS ECONOMICS

Canberra

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Table of Contents

Executive Summary	1
1. Introduction	4
2. Background.....	5
3. Adaptation of the Commonwealth model	6
3.1. <i>Modifications to reflect sponsored temporary business residents</i>	6
3.1.1. Sources of data	6
3.1.2. Number of sponsored temporary business residents	8
3.1.3. Age distribution.....	8
3.1.4. Income distribution	9
3.1.5. Calculation of direct and indirect taxes	9
3.1.6. Entitlements to outlays	10
3.1.7. Share of sponsored temporary business residents who switch to permanent status	12
4. Key Results from the Commonwealth Budget Model.....	13
4.1. <i>Comparison of Results with Permanent Business Migrants</i>	13
4.2. <i>The Effect of ‘Attrition’</i>	14
4.3. <i>The Effect of the Feedback Channel on Public Debt Interest</i>	18
4.4. <i>Ageing Issues</i>	20
4.5. <i>Summary Table Results.....</i>	20

Executive Summary

The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) commissioned Access Economics to study the effects of the impact of sponsored temporary entry long-stay business residents (visa class 457) on the Budget and on Australia's living standards. This report considers Budget impacts, drawing on the framework of the Commonwealth Budget model updated by Access Economics in January 2001. Access Economics has adapted the Commonwealth model to study the effects of sponsored temporary long-stay business residents (hereafter referred to as sponsored temporary business residents).

In brief, higher incomes and lower eligibility ensure that sponsored temporary business residents have the most beneficial Budget impact of any of the sponsored temporary business residents or permanent migrant classes which Access Economics has examined using the Commonwealth model. The fiscal effect lasts for as long as sponsored temporary business residents are resident in Australia, and is more favourable than for permanent migrants entering Australia under the Family, Skilled Australian Sponsored (SAS), Business Skills, Independent or Humanitarian migration streams.

Sponsored temporary business residents generally have higher incomes than other permanent business migrants¹ because employers use the temporary visa facility to bring personnel with specialist managerial or technical expertise into Australia at short notice. These skilled employees are typically paid well because of their unique skills or familiarity with a particular corporate culture. Since principal applicant holders of temporary business visas enter Australia on the basis of a firm job offer, the group has full employment almost by definition.

Higher incomes and full employment add to the Budget revenues generated by sponsored temporary business residents. The corresponding growth in Government expenditure is proportionately lower because sponsored temporary business residents are ineligible for most of the services and benefits offered by the Commonwealth. Sponsored temporary business residents cannot claim social security benefits, Medicare reimbursements, assistance under the Pharmaceutical Benefits Scheme, or any other health care support, except where reciprocal agreements exist between Governments. In addition, sponsored temporary business residents have no entitlement to settlement services, (such as the Adult Migrant English Program, and Translation and Interpreter Services), and receive no labour market assistance or other form of payment from Centrelink.

For the proportion of sponsored temporary business residents who remain in Australia after an initial four years, the strong positive contribution to the Budget is sustained. The Budget impact remains favourable, even by comparison with permanent business migrants, because the high incomes of sponsored temporary business residents are maintained, while their demands on Government funded services such as health and education continue to be low.

Note also that results 'per thousand sponsored temporary business residents' in this report are affected by two features of the original Commonwealth Budget model, which were discussed in the January 2001 report. The first of these is 'attrition', whereby the Budget model applies estimated attrition rates to mimic the incidence of remigration. The second is the in-built feedback from Budget impacts to interest payments.

¹ The comparison between permanent business migrants and temporary business residents is based on a weighted average of permanent business skills and Employer Nomination Scheme migrants compared with only employer sponsored temporary business residents.

In the Commonwealth Budget impact model, attrition represented the gradual return of permanent migrants to their home countries, or third party countries, from Australia. Attrition rates were estimated using data from the Longitudinal Survey of Immigrants to Australia, (LSIA), which showed the share of the original permanent migrant group that did not participate in either the second or third wave of interviews. LSIA-related attrition was found to be quite low for most groups of permanent migrants in the survey, implying a loss of persons in the order of 2-3% per annum².

For sponsored temporary business residents, attrition rates of this magnitude were deemed to be too low. A comparison of 457 visa allocations over the past five years with a ‘snapshot’ of sponsored temporary business residents, known to be in Australia at 30 June 2001, suggested that sponsored temporary business residents have a significantly higher rate of remigration than their permanent counterparts. Accordingly, DIMIA estimated higher rates of attrition for 457 visa-holders, which Access Economics was then able to factor into the sponsored temporary business residents’ financial model.

In addition to those already departed, we conjectured that a high proportion of sponsored temporary business residents would leave Australia once their visas expired after four years. However, our assumption for modelling purposes was that 25% of the original group of sponsored temporary business residents would remain in Australia from the fifth year onwards. These persons would most probably transfer to permanent visa categories. To ensure that a quarter of sponsored temporary business residents remained in Australia from years 5 to 10 of the model, the estimated attrition rates from year 1 were adjusted so that temporary business resident numbers fell gradually towards 25%. The attrition rates were chosen to mimic actual migrant movements.

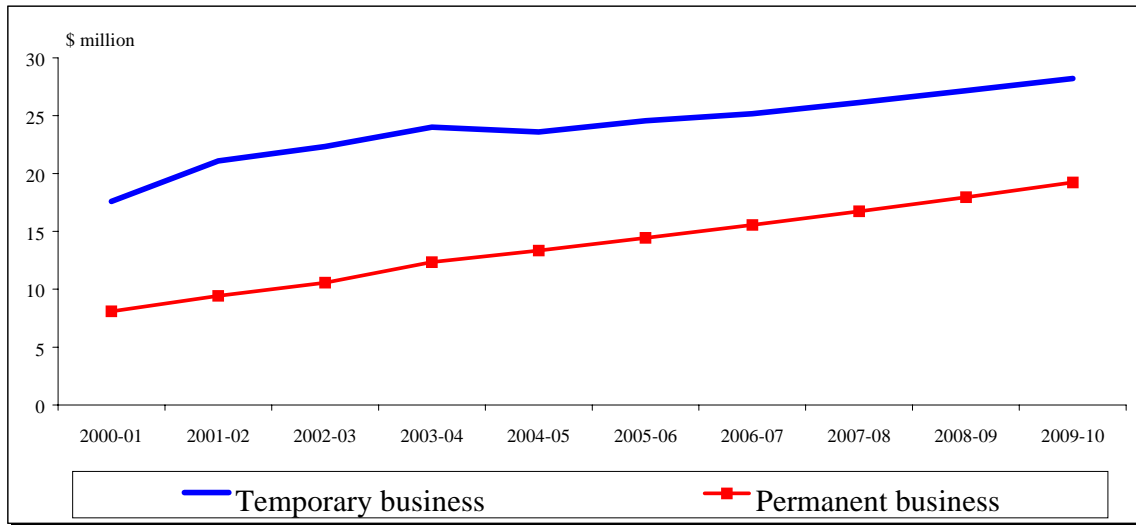
It is important to note that attrition drastically reduces the population of sponsored temporary business residents in Australia, and therefore lowers the net positive impact on the Commonwealth Budget.

In contrast, the feedback from interest payments on the Budget surplus has a countervailing effect to attrition. Sponsored temporary business residents contribute to a Budget surplus for each year that they are in Australia, while the accumulated interest earnings on the surplus add to the net positive impact. The interest revenue stream continues after many individuals from the original group of sponsored temporary business residents have left Australia, thus ensuring ongoing favourable budgetary effects for the proportion of those who remain.

As attrition and interest earnings have largely opposing effects, they do not materially alter the conclusion of this report, which is that the impact of sponsored temporary business residents on the Commonwealth Budget is a clear positive. The chart below shows the Budget impact of the 457 visa group ‘per thousand initial sponsored temporary business residents’, and compares it against the yardstick of permanent business migrants.

² Note that the estimates of attrition could have been affected by the simple inability of the survey interviewers to make contact with previous rounds of respondents. In the Commonwealth model, LSIA attrition applied from years 1 to 5, reflecting the five-year duration of the three waves of the Longitudinal Survey.

Commonwealth Budget Impact of Sponsored Temporary Business Residents and Permanent Business Migrants



1. Introduction

The Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) commissioned Access Economics to study the financial and economic effects of long-term temporary entry to Australia. We were asked to examine the impact of sponsored temporary business residents (visa class 457) on:

- (i) the Commonwealth Budget, and
- (ii) Australia's living standards.

This report responds to the first of the above reporting requirements, drawing on the framework of the Commonwealth Budget model updated by Access Economics in January 2001.

In conducting this analysis, Access Economics allowed for the following:

- (i) Some characteristics of 457 sponsored temporary business residents closely resemble the characteristics of permanent migrants who come to Australia under the Employer Nomination Scheme (visa sub-classes 121/805). In particular, principal applicants in this group enter on the basis of a firm job offer. *That adds to the Budget revenues generated by sponsored temporary business residents.*
- (ii) All sponsored temporary business residents who come to Australia under visa class 457 are not eligible for:
 - all social security benefits;
 - Medicare and other health care costs (as all applicants and their dependants under this visa class must have private health insurance) except where there are reciprocal agreements (but the numbers are relatively few);
 - Settlement services (eg AMEP and TIS); and
 - Centrelink payments and other labour market payments.

Those eligibility restrictions *reduce the Budget expenses generated by sponsored temporary business residents.*

- (iii) Details concerning the access by sponsored temporary business residents to education, and the cost of that education for dependants, vary between individual states.
- (iv) Sponsored temporary business residents also attract financial assistance grants and any other Commonwealth grants to the States that are based on the estimated resident population.
- (v) All sponsored temporary business residents who come to Australia under visa class 457 are required to pay any direct taxes (such personal income tax) as well as indirect taxes such as the GST during their stay in Australia. Sponsored temporary business residents are required to pay the Medicare levy since they are treated as Australian residents for tax purposes.

2. Background

On 29 January 2001 Access Economics reported to DIMIA the results of its review of the 'Commonwealth model'³. The report shows the impact on the Commonwealth Budget of migration by different classes of permanent migrants.

Not surprisingly, that review found that the skilled stream of migrants provided a greater boost to the Budget, per head, than either the family stream or the humanitarian stream. Within the skilled stream, permanent business migrants provided an above average return to the Budget.

The current report examines the impact of 457 visa holders (sponsored temporary business residents) on the Commonwealth Budget. As sponsored temporary business residents tend to have higher incomes than permanent business migrants, and are also ineligible for a number of services for which permanent business migrants do have entitlements, it should also be no surprise that this report finds that sponsored temporary business residents provide a larger boost to the Budget bottom line than do permanent business migrants.

³ The report of the permanent migrants' model is described in the *Impact of Migrants on the Commonwealth Budget, 2000-01 Update*, prepared for DIMIA by Access Economics, January 2001.

3. Adaptation of the Commonwealth model

3.1. Modifications to reflect sponsored temporary business residents

The modelling of the Budget impact of sponsored temporary business residents built off previous work using the ‘Commonwealth model’. The new version of that model developed for this report preserved a great deal of the original overall structure of the Commonwealth model so as to benefit from the effort that had been previously been expended in developing and updating it.

The Commonwealth model gives a reasonably accurate representation of the impact of permanent migrants, in different visa groups, on the Commonwealth Budget. The visa groups which are explicitly considered in the model are:

- Family (formerly known as preferential family);
- Skilled; and
- Humanitarian.

The skilled migrant stream is further sub-divided into three categories, which are also identified separately in the financial model. These are:

- ‘Skilled-Australian Sponsored’ or SAS (formerly known as ‘Skilled-Australia Linked’, and prior to that as ‘concessional family’);
- Skilled-independent; and
- Skilled-other, or ‘business skills’, with the latter term being in common usage.

Migrants in each of the three categories are treated distinctly in the original model because of their varying backgrounds and characteristics, which result in them having different budgetary impacts. Other than for skilled sub-groups, the model is not sufficiently detailed to allow the identification of results for migrants by visa category, where that category is a three-digit level of the classifications used by DIMIA and referred to in the Longitudinal Survey of Immigrants to Australia (LSIA).

3.1.1. Sources of data

The data sources provided for this study were as follows:

- Information on visa grants for sponsored temporary business residents (visa class 457) in 1999-00 and 2000-01. This showed the number of immigration visas issued by each DIMIA office, whether at an overseas consulate or in Australia. Visas were divided into primary and secondary groups, corresponding to principal applicants and other members of their family or migrating unit, respectively.
- The age distribution of sponsored temporary business residents and their families. This information was sourced from DIMIA’s overseas arrivals and departures (OAD) database, which is compiled from landing cards filled in by arriving passengers. The OAD statistics are based on a full enumeration of permanent movements and movements with a duration of stay amounting to one year or more. Short-term movements with an intended period of stay of less than one year are sampled. The sampling may give rise to some inaccuracies and a degree of bias. However, temporary 457 business visas are issued for a period of four years, and so sponsored temporary business residents whose visas were issued offshore are likely to be fully enumerated. The OAD data for visa class 457 shows the age distribution of primary applicants and other persons, and is divided into arrivals

declared as short term and those stated as being long term in nature. Information on the age distribution of sponsored temporary business residents whose visas were granted onshore is not available, and the age structure was therefore assumed to be the same as that of the offshore entrants.

- Information on the occupation of sponsored temporary business residents as submitted to DIMIA by employers on nomination forms. The occupations were shown at the detailed 6-digit Australian Standard Classification of Occupations (ASCO) level of disaggregation. However, the data is available only for principal applicants, since the employment status of spouses and other adults in the migrating unit is not recorded. Spouses and other adults are eligible to seek employment.
- Data on salaries of sponsored temporary business residents as provided to DIMIA by employers. There is no classification of salaries by occupation, but an extensive list of salaries ranked in ascending order, together with the number of sponsored temporary business residents whose earnings were at or near specified salary points.
- Information on the State-based provisions governing access to primary and secondary school education. Some States impose a charge for the use of Government schools by sponsored temporary business residents, and their families or dependants, while in other States access to primary and secondary education is fee-free.
- Data showing the number of sponsored temporary business residents who applied for permanent status in 2000-01, and the type of permanent visa subsequently granted.
- Data series covering the visas held by onshore sponsored temporary business residents immediately prior to their application for a temporary business permit.

Access Economics did not remove the sections of the model pertaining to visa groups, which were not the subject of this study. The parts of the model dealing with disaggregated inputs for humanitarian, family and other migrants were therefore retained, as were the associated calculations and intermediate worksheets.

The intention was to preserve the integrity of the permanent migration model, and thus ensure that the impact of sponsored temporary business residents was evaluated in the context of an existing migration program rather than in isolation. Another reason for measuring the impact of sponsored temporary business residents alongside that of other types of migrants was to ensure that the costs of fixed assets were spread over both sponsored temporary business residents and permanent migrants rather than just a single group of entrants, thus ensuring that depreciation was allocated more evenly.

The Commonwealth model was switched to its mode of measuring the impact of new migrants on an 'average cost' rather than 'avoided cost' basis. An average cost basis apportions all relevant costs over all migrants+ and can be used to analyse any change in the level of migration (not just an additional 1,000 migrants). An avoided cost basis shows the effects on the Commonwealth Budget of a marginal increase in migration, where cash limited programs do not get extra funds. For those programs with funding which is effectively fixed for particular years, recurrent spending is distributed over a wider base which may result in 'rationing' of a particular service, declines in quality, and so on. An avoided cost basis is more useful as a short-term measure of the impact of new migrants on the Commonwealth Budget.

The Commonwealth model was also operated on a current price basis, as is the norm.⁴

As discussed in the introduction, sponsored temporary business residents are similar as a group to permanent migrants who come to Australia under the Employer Nomination Scheme (visa sub-classes 121/805). One of the important characteristics of sponsored temporary business residents is that principal applicants enter on the basis of a firm job offer. The Commonwealth model's business skills sub-group is comprised of three visa categories including the Employer Nomination Scheme (ENS). The other two categories are the Regional Sponsored Migration Scheme (RSMS) and the Regional Established Business in Australia (REBA).

Since both of these latter categories are relatively small, the permanent business migration sub-group can be regarded as being primarily comprised of employer-sponsored business migrants. This sub-group therefore provides a suitable proxy for analysis of the impact of sponsored temporary business residents.

A number of modifications were made to the permanent migration sub-group so as to ensure that it mirrored more closely the temporary business typology. These changes are discussed in the following sections.

3.1.2. Number of sponsored temporary business residents

The Commonwealth model was previously calibrated to evaluate the impact of 1,000 permanent migrants entering Australia under different visa groups. For the analysis of sponsored temporary business residents, Access Economics was interested in examining the effects of an entire annual intake of sponsored temporary business residents. The number of sponsored temporary business residents who were granted visas to enter Australia in 2000-01 was 37,082. This was made up of 21,207 principal applicants, and 15,875 spouses and other family members, including dependants. The number includes onshore and offshore applicants. For modelling purposes, it was assumed that all sponsored temporary business residents arriving in Australia in 2000-01 had been granted a 457 visa that year.

3.1.3. Age distribution

Access Economics did not have precise data about the age structure of sponsored temporary business residents, and therefore inferred an age distribution from the short and long-term arrivals data. As previously mentioned, this data source is derived from the overseas arrivals and departures collection, which is based on a full enumeration of long-term arrivals and sampling of short-term arrivals. A weighting process is applied so as to ensure that the sampled results match the expected profile of the population of short-term arrivals. However, the sampling process itself may be subject to bias, thus introducing an element of uncertainty into these calculations.

The overseas arrivals and departures data excludes sponsored temporary business residents who apply for their visas onshore (unless their visas are traced when they make return visits). The subset of the data which we considered was for first entry principal applicants and total persons by age (in five-year age groups) and sex for 2000-01. Access Economics notes that the standard errors of the estimates were fairly high, particularly in younger age groups and

⁴ This was achieved by inserting a zero in cell C5 of the '*parameters*' worksheet, which contains a switch to move all aggregates onto a constant price basis. Changing cell C5 from a '0' to a '1' divides all outlays and revenues by the CPI or general deflator on line 13 in the '*parameters*' sheet, thus presenting all outlays and revenues on the summary sheets in constant 2000-01 prices.

for children. The number of sponsored temporary business residents (classified as either primary or secondary applicant) aged 0-4 years, and 5-9 years was not large.

The multiple entry data for sponsored temporary business residents was disregarded. The number and composition of permanent business migrants in the Commonwealth model was modified to reflect Access Economics' analysis and findings. The worksheets that were changed included '*migrant profiles*' and '*input population*'. Since Access Economics did not have precise data as to the number of spouses vis a vis other adults, it was necessary to estimate the distribution based on the proportions recorded for business migrant units in the LSIA.

3.1.4. *Income distribution*

The employer nomination results provided to Access Economics by DIMIA indicated that the number of principal applicants for whom visas were sought and granted in 2000-01 was approximately 23,001. Not all of the positions sought by employers would have been filled during the financial year, hence the number of nominations exceeds the actual number of principal applicant visas taken up (21,207). The occupational data was supplied at the 6-digit ASCO level.

Access Economics used unpublished ABS data on incomes by occupation to derive an approximate income distribution for principal applicants. The ABS data was provided at a detailed 2-digit level and was compiled from the *Employment and Earnings Survey*, May 2000.

The incomes of principal applicants were then divided into quintiles, with the overall average individual income being recorded as \$53,299 for all sponsored temporary business residents. This was based on an assumption of full-time employment.

The incomes data provided to DIMIA by employers was also analysed to obtain a comparative income distribution. One of the features of that distribution is that there were large numbers of income-earners with salaries at or around \$10,000. We presumed that the low salary amounts were simply a result of salary packaging, and that employers were offering more generous overall packages to their staff. These packages might have consisted of payments made overseas as well as significant benefits in-kind, such as housing assistance and health benefits. At the upper end of the scale, there were also a number of sponsored temporary business residents on fairly high incomes. The mean of the income distribution from employer nomination forms was estimated at \$79,355. Sponsored temporary business residents were arranged into quintiles and the mean income in each quintile was then calculated.

The results revealed a wider distribution of incomes than that obtained using the data on employment by occupation. The problem of under-reporting in the first and second income quintiles was resolved by substituting the averages from the occupationally-based income classification for the averages based on income declarations. Hence, an integrated income distribution series was obtained, with the first two quintiles representing the lower income quintile averages from the income-by-occupation by series, while the third, fourth and fifth quintiles were derived from the migrant-specific income distribution. The underlying assumption was that persons in low-income quintiles were more likely to be employed in comparatively low-paying occupations.

3.1.5. *Calculation of direct and indirect taxes*

It was important to make adjustments to the incomes data in the Commonwealth model because sponsored temporary business residents have higher average incomes than other

groups of migrants, including, on the basis of the evidence presented, permanent business migrants. The data on average incomes by quintile was used in the computation of indirect taxes in the indirect tax worksheet of the Commonwealth model.

To estimate household incomes by quintile, we used the incomes of principal applicants as evaluated in section 3.1.4, together with imputed incomes for spouses and other household members. The imputations were based on the LSIA data for permanent business migrants, which showed average incomes for spouses and adult dependants. These estimates were indexed to 2000-01 and then applied to temporary business resident households. The data on household size and structure was similarly inferred from the LSIA results for permanent business migrants.

To quantify indirect tax payments per household, we initially used the Commonwealth model's estimates of average propensity to consume, derived from LSIA data. However, the estimated propensities for permanent business residents were deemed to be too high for sponsored temporary business residents in the context of goods and services subject to GST. In the lower income quintiles, the estimated propensities were over 100%, implying spending in excess of incomes, and short-term dissaving. The estimates seemed unrealistic for sponsored temporary business residents, given their observed higher incomes, and hence downward adjustments were warranted. The downward revisions were guided by average propensities to consume calculated separately by Access Economics using 1993-94 Household Expenditure Survey (HES) data.

The calculation of direct taxes was judged as being less reliant on the imputed income distribution. This is because direct taxes reflect what is actually earned in Australia rather than what is being spent by individuals, as is the case with indirect taxes. Hence it was not necessary to use a derived income series, and, instead, the declared incomes of principal applicant migrants were revised upwards marginally, reflecting the higher average earnings of sponsored temporary business residents compared to their permanent counterparts. Once again, the incomes of spouses were assumed to be similar to those of permanent business migrant spouses.

Sponsored temporary business residents were assumed to pay the Medicare levy because most are resident in Australia for durations exceeding six months. This also implies that they are able to claim the tax-free threshold. The calculations of direct tax previously undertaken for DIMIA by Access Economics as part of the Commonwealth model update were re-visited in light of the new income figures. Direct taxes for the principal applicant and the migrating unit spouse were re-estimated using the statutory tax rates, tax free thresholds and income brackets for 2000-01. The numbers derived were inserted into the financial model in place of the estimates for permanent business migrants.

3.1.6. Entitlements to outlays

The ineligibility of sponsored temporary business residents to access the following Commonwealth Government programs was registered in the model:

- Settlement services, including the Adult Migrant English Program;
- Post-secondary educations;
- Labour market assistance;
- Social security; and
- Medicare, pharmaceutical and hospital benefits.

The Commonwealth Government provides funding for primary and secondary education in the form of recurrent and capital grants for government and non-government schools. Hence, decisions taken by State authorities will have an impact on expenditure by the Commonwealth.

We received advice from DIMIA that the children of sponsored temporary business residents are exempted from paying school fees in government schools in Victoria, Queensland, South Australia and Western Australia. The other States, notably NSW, Tasmania, the ACT and the Northern Territory levy fees. In the latter group of States, the children of sponsored temporary business residents are excluded from annual returns submitted to the Commonwealth by State education authorities, and hence there is no reimbursement by the Federal Government.

The impact on Commonwealth Government expenditure will ultimately depend on the proportion of sponsored temporary business residents who settle in the fee-free States as against the fraction residing in the fee-paying jurisdictions. In order to assess where sponsored temporary business residents live in Australia, we made use of the data on onshore visa grants by Australian regional immigration office. We therefore derived a distribution by place of residence as summarised in Table 3.1.

Table 3.1: Assumed distribution of sponsored temporary business residents by State, 2000-01

	Onshore residents	Offshore residents (pro-rata)	Total	% distribution
NSW	15,187	9,327	24,514	66.1%
VIC	3,968	2,437	6,405	17.3%
QLD	1,537	944	2,481	6.7%
SA	627	385	1,012	2.7%
WA	1,331	817	2,148	5.8%
TAS	34	21	55	0.1%
NT	109	67	176	0.5%
ACT	180	111	291	0.8%
Total	22,973	14,109	37082	100.0%

Source: DIMIA visa grants official figures

There is clearly some uncertainty about offshore visa grants, however our best assessment is that NSW receives the highest proportion of sponsored temporary business residents to Australia. The presumption is that they settle in the State in which their visa application is lodged. Certainly, the majority of sponsored temporary business residents settle in NSW, Victoria and Queensland with only a small minority going to Tasmania, the Northern Territory and the ACT. We therefore deduced that approximately 32.5% of sponsored temporary business residents were settled in States where Government schooling was provided 'free of charge'. In those States, the Commonwealth Government would increase its spending, whether sponsored temporary business residents chose to attend government or private schools (since private schools receive a form of subsidy). In the fee-paying States, Commonwealth Government spending would only increase for the proportion of sponsored temporary business residents attending private schools.

We assumed that all of the children of sponsored temporary business residents in the 2000-01 intake would attend primary or secondary schools. The distribution between government and private schools was assumed to be the same as for permanent business migrants. It should be noted, however, that sponsored temporary business residents have relatively few children by comparison both with their permanent migrant counterparts and the general population.

3.1.7. Share of sponsored temporary business residents who switch to permanent status

DIMIA provided data showing that approximately 5,869 sponsored temporary business residents applied for permanent status in 2000-01. However, the duration of time that the 457 visa holders had been in Australia could not be established with any certainty. Most 457 visas are issued for a two to four-year duration, suggesting that those sponsored temporary business residents who sought permanent status could have been in Australia for any length of time up to and including four years.

For modelling purposes, we adopted the working assumption that 25% of the current intake of sponsored temporary business residents would apply for, and be granted permanent status by year 5. DIMIA provided estimates of attrition rates for sponsored temporary business residents in the first four years. The rates were adjusted to show a decline in temporary business resident numbers to the assumed one quarter of the original intake by year 5.

4. Key Results from the Commonwealth Budget Model

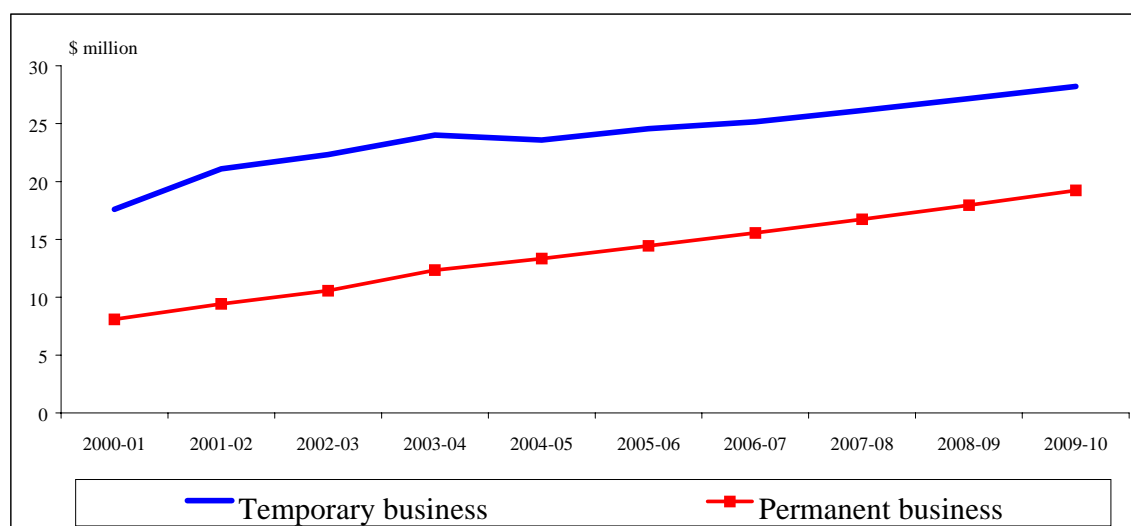
4.1. Comparison of Results with Permanent Business Migrants

Figure 4.1 compares the impacts on the net operating surplus of the Commonwealth Budget of two groups – sponsored temporary business residents and permanent business migrants. It does so using the most pure form of comparison between them, by examining the Budget impact of those two groups assuming:

1. That there is no attrition of any kind in the underlying numbers – that is, Figure 4.1 shows Budget impacts per thousand sponsored temporary business residents and migrants, where all those entrants remain resident in Australia, and
2. That there is no positive feedback through better Budget surpluses generating savings on Public Debt Interest payments by the Commonwealth Government.

The reasons for the two caveats above are explained more fully below. For the moment, note that sponsored temporary business residents have a better Budget bottom line effect than do the permanent business migrants used as a yardstick here.

Figure 4.1: Commonwealth Budget Impact, zero attrition or remigration



Note that there is a minor reduction in the gap between the two groups in year 5. In the latter year, a proportion of sponsored temporary business residents effectively become permanent, and is able to access a number of government services for which they were previously ineligible. The results for years 4 and 5 in Table 4.1 give some indication of the range of government programs which these new migrants are now able to access, with resulting impacts on Commonwealth spending.

Table 4.1: Budget revenues and expenses per thousand sponsored temporary business residents. Assumed zero interest rates and no attrition.

	Year 4	Year 5
Per thousand sponsored temporary business residents	\$ million	\$ million
Taxation revenues		
Direct tax	23.89	24.84
Indirect tax	1.74	1.81
Total taxes	25.62	26.65
Outlays		
Settlement services	0.00	0.00
School education	0.03	0.08
Post-secondary	0.00	0.45
Labour market assistance	0.00	0.04
Social security	0.00	0.11
Health	0.00	0.68
Public administration	0.00	0.01
Recurrent grants	1.59	1.68
Total outlays	1.62	3.05
Estimated Budget Surplus	24.00	23.59

Source: Sponsored temporary business residents Commonwealth Budget Impact Model. Conditions of zero attrition (no return migration) and no interest rate effects. 'Health' is comprised of Medicare payments, Pharmaceutical Benefits and Hospital Grants.

In year 4 the expenses are confined to the cost of higher recurrent grants to the States (on the back of the higher population in those States with temporary business resident populations), as well as a small amount of education spending (linked to those States which do allow the financing of some services for sponsored temporary business residents in the area).

In year 5, however, the list of expenditure effects is more extensive, because entitlements become more extensive in that year. Note also that, despite the eligibility of temporary business and permanent business migrants becoming more standardised in year 5 and beyond, sponsored temporary business residents retain a substantial advantage over permanent migrants in terms of the Budget bottom line shown in Figure 4.1. In the main that is because the higher incomes of sponsored temporary business residents adds to the revenue collected, while the smaller number of dependent school age children also keeps the gap between these two groups relatively large.

4.2. The Effect of 'Attrition'

The 29 January 2001 report has two features, which become rather more important in the context of sponsored temporary business residents.

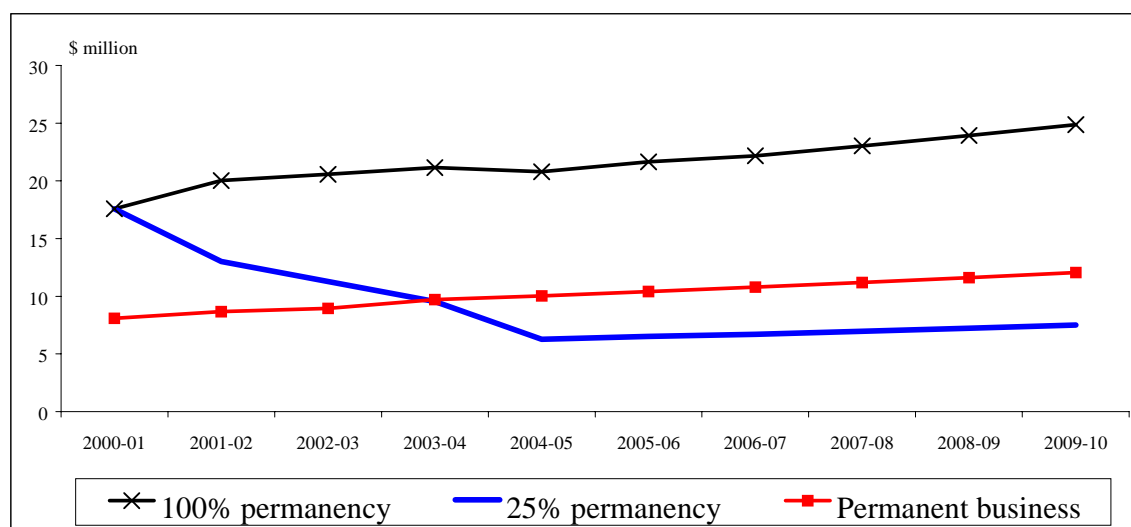
The first of these is 'attrition'. The permanent migrants Commonwealth Budget impact model applies estimated attrition rates for the five visa groups from Wave 1 to Wave 2 and from Wave 1 to Wave 3 of the LSIA. The attrition rates provide information about the incidence of return migration.

Accordingly, when results are quoted in the permanent migration model report as ‘per thousand migrants’, these actually need to be interpreted as ‘per thousand initial migrants, a proportion of whom have since remigrated’.

In the case of the migrant categories examined in the Commonwealth model and discussed in the 29 January 2001 report, rates of remigration are low, and the above distinction has little quantitative impact.

However, as Figure 4.2 shows, allowing for attrition/remigration with respect to sponsored temporary business residents has a rather larger impact. This is because the estimated rates of attrition are significantly higher for sponsored temporary business residents.

Figure 4.2: Commonwealth Budget Impact, assuming attrition or out-migration



While attrition rates vary for principal applicants, spouses, other adults and child dependants, DIMIA presented us with weighted averages. The estimated attrition rates, based on the number of sponsored temporary business residents present at the start of the year, were 40% for year 1, 20% for year 2, 22% for year 3, and 34% for year 4. Attrition takes place gradually over the course of a year, but because the sponsored temporary business residents’ model was constructed using annual data, it was assumed that attrition actually occurred towards the end of each year.

In Figure 4.2, the line labelled ‘25% permanency’ shows the effect of the loss of sponsored temporary business residents from year 1, with a full 75% having left by the end of year 4. The results are therefore based on a quarter of sponsored temporary business residents becoming permanent in year 5.

Table 4.2: Budget revenues and expenses per thousand sponsored temporary business residents. Assumed zero interest rates, plus in-built attrition.

	Year 4	Year 5
Per thousand initial sponsored temporary business residents	\$ million	\$ million
Taxation revenues		
Direct tax	9.50	6.61
Indirect tax	0.70	0.49
Total taxes	10.19	7.09
Outlays		
Settlement services	0.00	0.00
School education	0.01	0.02
Post-secondary	0.00	0.12
Labour market assistance	0.00	0.01
Social security	0.00	0.03
Health	0.00	0.18
Public administration	0.00	0.00
Recurrent grants	0.64	0.45
Total outlays	0.65	0.82
Estimated Budget Surplus	9.54	6.27

Source: Sponsored temporary business residents Commonwealth Budget Impact Model. Normal attrition of sponsored temporary business residents based on rates observed for permanent business residents in the LSIA. In addition, 75% of sponsored temporary business residents leave at the end of year 4. 'Health' is comprised of Medicare payments, Pharmaceutical Benefits and Hospital Grants.

Figure 4.2 shows that the net operating surplus per thousand *initial* sponsored temporary business residents falls sharply from 2000-01 to 2004-05 as a high proportion of the original group returns to host countries. The reduction in the budget surplus attributable to sponsored temporary business residents is commensurate with the decline in the number of sponsored temporary business residents remaining from the first year's intake.

Table 4.2 provides a breakdown of the fall-off in the net operating surplus. Continued remigration in year 4 results in a decline in revenue collections in year 5.

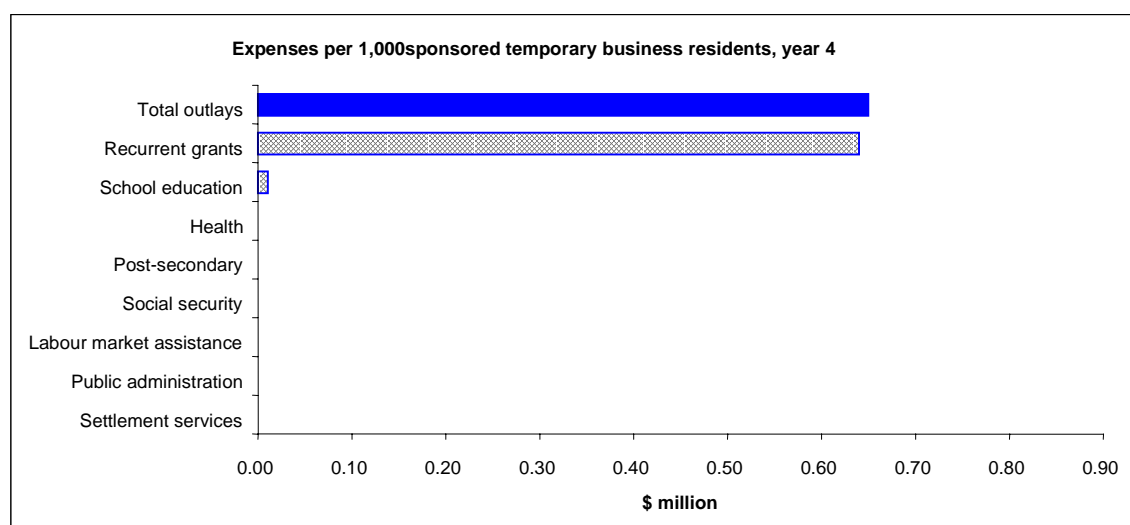
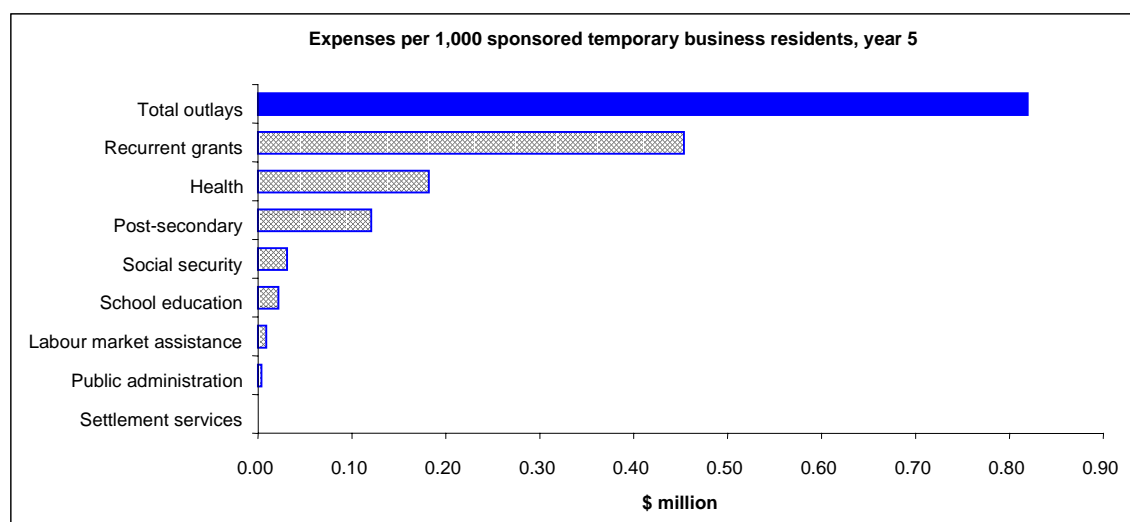
Figure 4.3: Impact on Commonwealth Budget expenses, year 4 with attrition**Figure 4.4: Impact on Commonwealth Budget expenses, year 5 with attrition**

Figure 4.3 and Figure 4.4 show the shift in expenses between the years. The graphs indicate that eligibility criteria for certain government services are satisfied in year 5 and that, other things being equal, this adds to expenses. However, the growth in expenses is of lesser magnitude than the reduction in taxation revenues resulting from the withdrawal of 75% of sponsored temporary business residents from the Australian labour market. The latter, naturally enough, has an impact on the overall level of expenses generated by sponsored temporary business residents.

(Note that the Commonwealth model assumes immediate adjustment of the level of grants to the States based on migrant populations. The matching State model is more sophisticated in its analysis of grants by assuming an institutional lag).

As a result, Figure 4.2 appears to suggest that one thousand sponsored temporary business residents contribute slightly more to the Budget than permanent business migrants in year 4, but rather less in year 5. However, the outcome is a consequence of the measurement convention of 'one thousand *initial* sponsored temporary business residents', which causes the

slope of the line to turn sharply downwards when attrition is built into the model, and an assumed 75% of sponsored temporary business residents leave the country by year 5.

4.3. The Effect of the Feedback Channel on Public Debt Interest

The second feature of the 29 January 2001 report which becomes rather more important in the context of sponsored temporary business residents is the allowance for feedback effects via Public Debt Interest. In brief, if a given group adds to the Budget surplus in year 1, then part of its Budget impact in year 2 consists of the interest earned on the extra funds generated in year 1. That has the effect of creating a virtuous circle by adding to surpluses for those migrant classes which create surpluses, and a vicious circle by adding to deficits for those migrant classes which contribute to deficits.

In the context of sponsored temporary business residents, the interest earnings feedback achieves particular prominence. In the first four years, sponsored temporary business residents add substantially to Budget surpluses, and that in turn reduces Public Debt Interest obligations. In year 5, when the base case assumes that the bulk of sponsored temporary business residents remigrate, the interest savings generated in earlier years loom larger for those who remain.

The latter effect explains the difference between Figure 4.2 and Figure 4.5.

Figure 4.5: Commonwealth Budget Impact, assuming attrition and interest rate effects

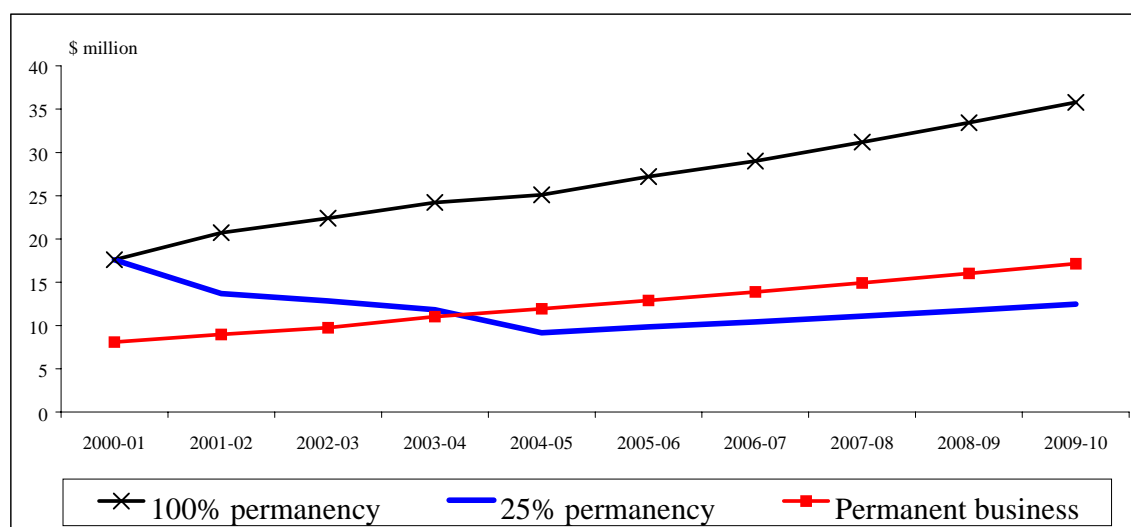


Figure 4.2 produces a picture which is artificially negative, as it compares the effect on Budget balances of a small group of sponsored temporary business residents and a large group of permanent business residents (the chart shows results 'per thousand', but many of the temporary residents leave in year 5).

Figure 4.5 partially offsets the artificial negative in Figure 4.2 by introducing an artificial positive. That is, the interest savings generated across a large (but diminishing) group of sponsored temporary business residents through to the end of year 4 are attributed to a rather smaller group of sponsored temporary business residents in year 5.

Figure 4.6 and Figure 4.7 illustrate these effects in play. Again, the difference between Figure 4.2 and Figure 4.5 is that the latter allows interest to accrue on Budget surpluses generated by sponsored temporary business residents. In year 4, shown in Figure 4.6, that has a noticeable

impact – indeed, by year 4 the interest effect is larger than the revenue raised from indirect taxes on sponsored temporary business residents.

In year 5, shown in Figure 4.7, not only is there a further year of accrual of interest savings, but they are allocated across the steadily smaller group of sponsored temporary business residents. Hence, the savings on interest payments appear artificially inflated, though not to the extent of dominating revenues raised from taxation. Note, however, that the interest earnings are in themselves larger than aggregate spending by the Commonwealth on the remaining sponsored temporary business residents.

Figure 4.6: Impact on Commonwealth Budget receipts, year 4 with attrition and interest rate effects

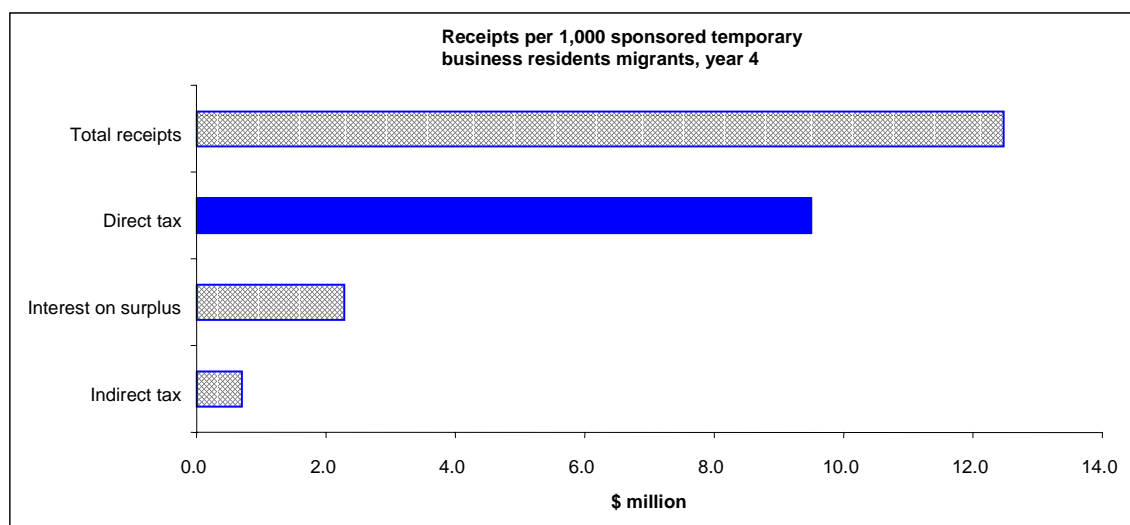
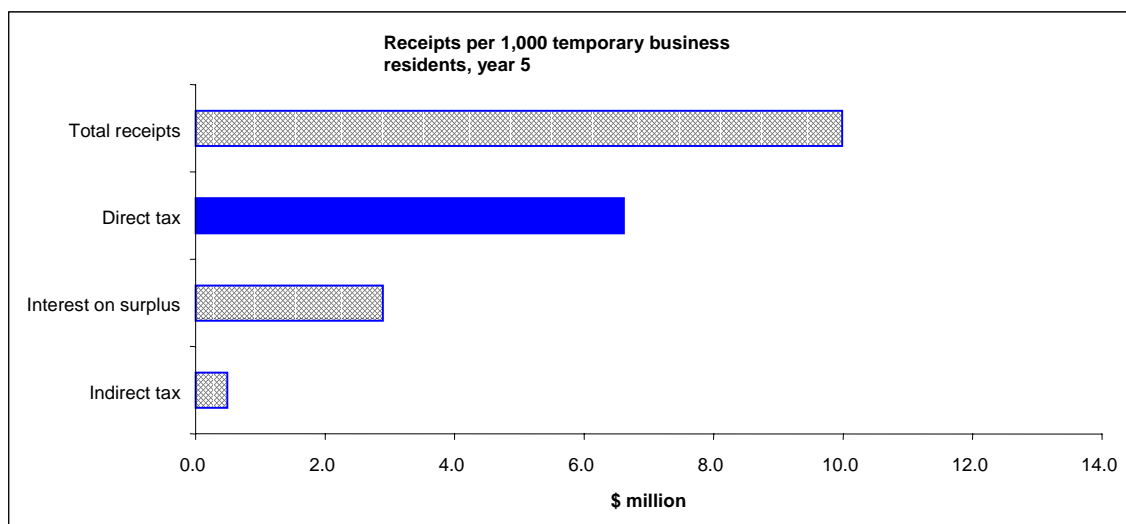


Figure 4.7: Impact on Commonwealth Budget receipts, year 5 with attrition and interest rate effects



The results shown in Figure 4.5 are clearly dissimilar to those in Figure 4.1, because attrition reduces the tax revenues accruing to the Commonwealth from sponsored temporary business residents. The erosion of the tax base is only partially offset by increases in interest income

from the accumulated surpluses of the earlier group of sponsored temporary business residents.

4.4. Ageing Issues

An issue with the Commonwealth Budget model, as it currently stands, is its inability to take account of the effects of population ageing. It assumes a fixed family composition over the ten-year period of the analysis. Note that the budgetary outcomes from sponsored temporary business residents would be somewhat less favourable (though still better than the results for permanent business residents) if the model were upgraded to allow the children of permanent migrants to gradually come of age, and therefore cease using primary and secondary schools. Their demands on the health system would also be lessened as they matured. At present, the Commonwealth model does not allow for a changing age dynamic over time. The age distribution of the migrant population is fixed over the ten-year period. Therefore, groups of permanent migrants with large numbers of children at the outset are assumed to have dependents over the ten-year period of the analysis, with the result that expenditures are overstated and budget surpluses are reduced.

4.5. Summary Table Results

Whether the model results here are judged on the basis of Figure 4.1 or Figure 4.5, the underlying intuition is the same – higher incomes and lower eligibility for Government-funded services ensure that sponsored temporary business residents have the most favourable Budget bottom line impact of any of the groups that Access Economics has examined using the Commonwealth model (that is, more favourable than any of Family, Skilled Australian Sponsored, Business Skills, Independent or Humanitarian).

Table 4.3: The budgetary impact of temporary and permanent business residents compared.

ALL SCENARIOS WITH LSIA-RELATED ATTRITION AND 6% INTEREST RATES										
<i>Business Skills per 1,000</i>	\$ million									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue	\$ 11.4	\$ 11.6	\$ 11.9	\$ 12.6	\$ 13.1	\$ 13.6	\$ 14.1	\$ 14.7	\$ 15.3	\$ 15.9
Expense	\$ 3.3	\$ 2.6	\$ 2.2	\$ 1.5	\$ 1.1	\$ 0.7	\$ 0.2	\$ (0.2)	\$ (0.7)	\$ (1.3)
Net Operating Surplus	\$ 8.1	\$ 9.0	\$ 9.7	\$ 11.0	\$ 11.9	\$ 12.9	\$ 13.9	\$ 14.9	\$ 16.0	\$ 17.1
% Change on Previous	na	10.9%	8.7%	13.3%	8.1%	8.1%	7.8%	7.5%	7.2%	7.0%
SCENARIO 1 - All temporaries stay on and become										
<i>Temporary business residents</i>	\$ million									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue	\$ 707.5	\$ 796.8	\$ 815.9	\$ 837.1	\$ 870.6	\$ 905.4	\$ 941.6	\$ 979.3	\$ 1,018.5	\$ 1,059.2
Expense	\$ 55.2	\$ 28.7	\$ (14.6)	\$ (60.6)	\$ (60.3)	\$ (103.1)	\$ (133.9)	\$ (176.9)	\$ (221.6)	\$ (268.0)
Net Operating Surplus	\$ 652.3	\$ 768.1	\$ 830.5	\$ 897.8	\$ 930.9	\$ 1,008.5	\$ 1,075.6	\$ 1,156.2	\$ 1,240.1	\$ 1,327.2
% Change on Previous	na	17.7%	8.1%	8.1%	3.7%	8.3%	6.6%	7.5%	7.2%	7.0%
No. of migrants	37,082	37,082	37,082	37,082	37,082	37,082	37,082	37,082	37,082	37,082
SCENARIO 2 - 25% of temporaries stay on and become										
<i>Temporary business residents</i>	\$ million									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue	\$ 707.5	\$ 518.0	\$ 447.6	\$ 378.0	\$ 263.0	\$ 273.6	\$ 284.5	\$ 295.9	\$ 307.7	\$ 320.0
Expense	\$ 55.2	\$ 9.9	\$ (28.4)	\$ (60.3)	\$ (76.6)	\$ (92.0)	\$ (101.6)	\$ (114.6)	\$ (128.1)	\$ (142.0)
Net Operating Surplus	\$ 652.3	\$ 508.0	\$ 476.0	\$ 438.3	\$ 339.6	\$ 365.6	\$ 386.1	\$ 410.5	\$ 435.9	\$ 462.0
% Change on Previous	na	-22.1%	-6.3%	-7.9%	-22.5%	7.6%	5.6%	6.3%	6.2%	6.1%
No. of migrants	37,082	22,232	17,807	13,976	9,285	9,285	9,285	9,285	9,285	9,285
<i>Temporary business residents per 1,000\$ million</i>	\$ million									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue	\$ 19.1	\$ 14.0	\$ 12.1	\$ 10.2	\$ 7.1	\$ 7.4	\$ 7.7	\$ 8.0	\$ 8.3	\$ 8.6
Expense	\$ 1.5	\$ 0.3	\$ (0.8)	\$ (1.6)	\$ (2.1)	\$ (2.5)	\$ (2.7)	\$ (3.1)	\$ (3.5)	\$ (3.8)
Net Operating Surplus	\$ 17.6	\$ 13.7	\$ 12.8	\$ 11.8	\$ 9.2	\$ 9.9	\$ 10.4	\$ 11.1	\$ 11.8	\$ 12.5
% Change on Previous	na	-22.1%	-6.3%	-7.9%	-22.5%	7.6%	5.6%	6.3%	6.2%	6.1%
COMPARING THE TWO SCENARIOS										
<i>Temporary business and permanent migrants, per 1,000</i>	\$ million									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Permanent	\$ 8.1	\$ 9.0	\$ 9.7	\$ 11.0	\$ 11.9	\$ 12.9	\$ 13.9	\$ 14.9	\$ 16.0	\$ 17.1
100%	\$ 17.6	\$ 20.7	\$ 22.4	\$ 24.2	\$ 25.1	\$ 27.2	\$ 29.0	\$ 31.2	\$ 33.4	\$ 35.8
25% permanency	\$ 17.6	\$ 13.7	\$ 12.8	\$ 11.8	\$ 9.2	\$ 9.9	\$ 10.4	\$ 11.1	\$ 11.8	\$ 12.5

*But results are calculated using the initial number of migrants only, as per

Source: Sponsored temporary business residents Commonwealth Budget Impact Model. Attrition of temporary residents from years 1 to 5 based on estimates provided by DIMIA. 'Business skills' refers to permanent business migrants who enter Australia under skilled migrant programs. The attrition of permanent migrants is based on a loss of respondents from waves 1 through to 3 of the LSIA. Given the measurement conventions (i.e. 'per thousand' initial migrants), actual budget outcomes are presented using the first year migrant numbers.

In Figure 4.5, the impact of sponsored temporary business residents appears to be less propitious than that of permanent business migrants from years 5 to 10, but that is a consequence of dividing the aggregate budget results by the first year number of migrants. The aggregate budget results are calculated using the underlying sponsored temporary business residents population numbers, adjusted for attrition from years 1 to 5. The convention of dividing by the number of migrant arrivals in the first year was established with the Permanent Migrants' Commonwealth Budget Impact model.

The broad conclusion that sponsored temporary business residents contribute to a strong fiscal surplus is shown in Table 4.3 above, which gives the results consistent with those shown in Figure 4.5, Figure 4.6 and Figure 4.7.