



## Appropriation (Economic Security Strategy) Bill (No. 1) 2008-09

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## Appropriation (Economic Security Strategy) Bill (No. 1) 2008-09

**Date introduced:** 11 November 2008

**House:** House of Representatives

**Portfolio:** Finance and Deregulation

**Commencement:** On Royal Assent

**Links:** The [relevant links](#) to the Bill, Explanatory Memorandum and second reading speech can be accessed via BillsNet, which is at <http://www.aph.gov.au/bills/>. When Bills have been passed they can be found at ComLaw, which is at <http://www.comlaw.gov.au/>.

### Purpose

To appropriate money for the ordinary annual services of government as part of the government's Economic Security Strategy.

### Background

On 14 October 2008, the Rudd Government [announced](#) its Economic Security Strategy.<sup>1</sup> The context for the announcement is what may be the most severe downturn in the world economy since the Second World War. The downturn has inevitably affected Australia, which faces the prospect of a sharp decline in economic growth if not a recession. To try to counter the slowdown, the government announced a discretionary fiscal stimulus package known as the Economic Security Strategy. The Appropriation (Economic Security Strategy) Bill (No. 1) 2008-09 (the Bill) seeks funding for those elements of the Economic Security Strategy which are classified as ordinary annual services of government. Two related Bills—the Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09 and the Social Security and Other Legislation Amendment (Economic Security Strategy) Bill 2008—respectively seek funding for services other than ordinary annual services and for various social welfare measures.<sup>2</sup>

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1. Hon. Kevin Rudd (Prime Minister) and Hon. Wayne Swan (Treasurer), 'Economic Security Strategy', *media release*, Canberra, 14 October 2008, at [http://pm.gov.au/media/Release/2008/media\\_release\\_0550.cfm](http://pm.gov.au/media/Release/2008/media_release_0550.cfm). Accessed 12 November 2008.
  2. Paragraph 2 at page 1 of the Explanatory Memorandum explains the Constitutional reasons for having two separate bills, one for ordinary annual services and the other bill for other services. The Explanatory Memorandum is at

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## Economic Security Strategy

The Economic Security Strategy (the Strategy) is costed at \$10.44 billion, and covers the three years beginning 2008-09.<sup>3</sup> The bulk of the proposed spending—\$9.65 billion—is concentrated in 2008-09. The Strategy has six components. This Bill seeks to appropriate \$146 million in 2008-09, to be distributed as follows:

- an expansion in the number of places in the Productivity Places Program, costing approximately \$117 million;
- administrative costs of implementing the one-off payments detailed in the Social Security and Other Legislation Amendment (Economic Security Strategy) Bill 2008:
  - departmental expenses of \$16.5 million for the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and \$0.64 million for the Department of Veterans Affairs; and
  - administered expenses of \$11.55 million for FaHCSIA to conduct a public information campaign, to inform eligible recipients of their entitlements under the Strategy.

Other elements of the Strategy are contained in the other two Bills currently before the Parliament. The following measures are contained in the Social Security and Other Legislation Amendment (Economic Security Strategy) Bill 2008:

- a one-off pension payment;
- a one-off carers payment;
- a one-off seniors payment to holders of Seniors Cards and eligible Veterans' Affairs Gold Cards; and
- a Family Tax Benefit payment of \$1000 per eligible child.

The final component of the Strategy is contained in Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09 which increases subsidies to first home buyers.

### Position of significant interest groups/press commentary

#### Industry associations

Generally, business groups have welcomed the strategy.

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[http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4005\\_ems\\_3ddfde4e-e6a3-4dcb-b49d-6f7c46742995/upload\\_pdf/320968.pdf;fileType%3Dapplication%2Fpdf](http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r4005_ems_3ddfde4e-e6a3-4dcb-b49d-6f7c46742995/upload_pdf/320968.pdf;fileType%3Dapplication%2Fpdf).  
Accessed 12 November 2008.

3. Hon. Kevin Rudd (Prime Minister) and Hon. Wayne Swan (Treasurer), *Economic Security Strategy*, op. cit.

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*Australian Industry Group:*

The Government's \$10.4 Billion Economic Security package provides timely insurance for the local economy against the risks from the global crisis and equally timely support against the impacts of flat and weakening domestic economic activity. These spending measures will complement the recent interest rate reductions and steps to underwrite confidence in our banking system.<sup>4</sup>

*Business Council of Australia:*

This package contains all three ingredients to have maximum impact. It is well-timed, well-targeted, and temporary...The package is well-timed. It provides fiscal stimulus that will be delivered when the economy is likely to be at its weakest point, with the impact of the global slowdown hitting hardest. The package is well-targeted. It targets the people most likely to spend it, and most likely to need it – that is, lower-income households. And the package is temporary. This is vital. By providing one-off and time-limited payments, Australia keeps the capacity to return to budget surpluses again once this emergency is over. The payments in this package meet that criteria and avoiding building continuing obligations into the Budget.<sup>5</sup>

*Australian Retailers Association:*

Retailers applaud any move to reinvigorate consumer sentiment and start the upwards trend for consumer spending in time for the 2008 Christmas season. Prime Minister Rudd's plans for a Christmas bonus is great news for consumers who look forward to enjoying the gift giving tradition of Christmas - and even better news for retailers hard hit by months of reduced consumer demand.<sup>6</sup>

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4. Australian Industry Group, 'Economic security package: timely, targeted and temporary', *Media Release*, 14 October 2008, at <http://www.aigroup.asn.au/scripts/cgiip.exe/WService=aigroup/ccms.r?pageid=4563>. Accessed 21 November 2008.
  5. Business Council of Australia, '\$10 billion package is well-timed, well-targeted and temporary', *News Release*, 14 October 2008, at <http://www.bca.com.au/Content/101496.aspx>. Accessed 21 November 2008., Accessed 21 November 2008.
  6. Australian Retailers Association, 'Retailers welcome Rudd's early Christmas present', *Media release*, 14 October 2008, at [http://www.retail.org.au/index.php/news/Retailers\\_welcome\\_Rudd%27s\\_early\\_Christmas\\_present](http://www.retail.org.au/index.php/news/Retailers_welcome_Rudd%27s_early_Christmas_present). Accessed 21 November 2008.

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*Australian Chamber of Commerce and Industry:*

However, the Australian Chamber of Commerce and Industry believes that additional measures are required beyond those contained in the Strategy:

The Australian Chamber of Commerce and Industry says that economic measures directed at lifting productivity such as taxation reform and cutting back on non-productive government expenditure are still needed to complement [*the*] economic stimulus package...

Our best response to minimise job losses in an economic downturn is to take cost pressure off businesses, including small business, and increase national productivity. This is unfinished work, which still needs attention. Difficult balances need to be made between savings and spending in these times. Committing so much of the surplus to injecting cash into households leaves less to finance other necessary structural reforms like taxation reform that have a more lasting effect on productivity.

Today's commitment to additional training places will be welcomed by business and is well targeted to include a wider range of skills needed by employers.<sup>7</sup>

Other significant interest groups

Seniors groups have also welcomed the package, particularly the assistance directed to pensioners.

*Council on the Ageing (COTA) Over 50s:*

Pensioners have been quite rightly identified as well deserving beneficiaries of the Rudd Government economic stimulus package designed to shield Australia from the global financial crisis. We know that financial support to pensioners will stimulate the local economy. Pensioners spend on basic needs at their local shops, not on luxury imports.<sup>8</sup>

*National Seniors Australia:*

[*National Seniors Australia are*] very pleased. The government has listened to the concerns of our most vulnerable older Australians and they've come to the table. This means single age pensioners in particular, who usually barely scrape by, will have

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7. Australian Chamber of Commerce and industry, 'Further measures needed beyond stimulus package' *Media Release*, 14 October 2008, at [http://www.acci.asn.au/text\\_files/media\\_releases/2008/107-08.pdf](http://www.acci.asn.au/text_files/media_releases/2008/107-08.pdf). Accessed 21 November 2008.
  8. COTA, 'Good news for pensioners', *Press Release*, 14 October 2008, at <http://www.cotaover50s.org.au/news.php?item.143.1>. Accessed 21 November 2008.

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little reason to do without this Christmas. In a real sense, it means being able to buy presents for their grandchildren, have ham on the table or fix that leaky roof.<sup>9</sup>

*Australian Council of Social Services:*

However, whilst the *Australian Council of Social Services (ACOSS)* supports the assistance given to pensioners and carers, they have criticised the package for not providing any additional support to the unemployed:

ACOSS welcomes the Government's measures to assist pensioners, carers and families while also reducing the risk of a serious economic downturn. Groups such as disability support pensioners and sole parents, who have previously missed out on benefits like the Utilities Allowance, will be financially better off. However, unemployed people, who will be most affected in the event of an economic downturn, have missed out on financial assistance.<sup>10</sup>

Media, academic and specialist commentary

A number of economists have been quoted on their thoughts about the Strategy in the *Sydney Morning Herald* on 14 October 2008. The following comments are relevant to this Bill:<sup>11</sup>

*Shane Oliver, AMP Capital:*

It's a 50-50 call whether we'll see [a recession] or not - the risk is the December quarter or the first six months of next year. Whether it helps to stop a recession remains to be seen. There's no doubt it will help minimise the severity of recession.

*Alan Oster, National Australia Bank:*

The current spending initiatives for low income families and pensioners should provide a significant boost to household consumption by over one per cent around the end of 2008 and in the first half of 2009 given that the majority is likely to be spent.

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9. National Seniors Australia, 'Christmas comes early for pensioners', *Press Release*, 14 October 2008, at <http://www.nationalseniors.com.au/ebiz/Downloads/News/2008/Oct08%20EarlyXmas.pdf> Accessed 21 November 2008.
  10. Australian Council of Social Service, 'Stimulus package: unemployed people miss out', *ACOSS News*, 14 October 2008, at <http://www.acoss.org.au/News.aspx?displayID=99&articleID=5203>. Accessed 21 November 2008.
  11. 'Stimulus plan to reduce recession risk', *Sydney Morning Herald*, 14 October 2008, at <http://news.smh.com.au/business/stimulus-plan-to-reduce-recession-risk-20081014-50db.html>. Accessed 21 November 2008.

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*Riki Polygenis, ANZ Bank:*

Not only is this package much larger than earlier speculated, but it has been constructed to get the maximum economic impact for the dollars spent. It is largely directed to people who are likely to spend them and the largest impact will be in the December quarter when the negative effects of the financial crisis are likely to be greatest.

Wolfgang Munchau (*Financial Times*, quoted on [www.businessspectator.com.au](http://www.businessspectator.com.au)) has outlined a theoretical case for fiscal stimulus, not just in Australia, but globally. He believes that monetary policy will be ineffective as long as money markets are 'clogged':

The Bank of England's extraordinary 1.5 percentage point interest rate cut to 3 per cent is scary, justified and irrelevant. It is scary because it confirms the British economy may be headed for one of the biggest slumps since the second world war. It is justified in the sense that falling inflation rates give central banks sufficient room for manoeuvre. But unfortunately, it will not make much difference to the prospects of an economic recovery...The reason is that the channels through which monetary policy affects the real economy are still clogged. There are several such channels, including ones for bank lending. But most of them go through the money market, as neither companies nor households have direct access to central bank money. To the extent that the money markets are not working properly, monetary policy is correspondingly ineffective.<sup>12</sup>

*Institute of Public Affairs:*

Alan Moran of the Institute of Public Affairs disagrees with the need for both monetary and fiscal stimulus, saying that instead of being encouraged to spend, households need to repair their balance sheets.

Simply reducing interest rates does not solve the problem, which is that assets are overvalued - and some financial businesses that have highly leveraged loans are holding some assets that are worthless. Nor are cash handouts or other such measures in the Government's \$10.4 billion program a solution. As ever, the problem is not a shortage of demand. It is that people have become overextended and, with assets overvalued, they have to repair their real levels of savings. Disposing of the budget surplus in a spending spree means releasing funds that previously were locked up in forced savings by taxpayers.

If pushing \$10.4 billion into the economy to promote consumer spending was going to do the trick why not increase the largesse tenfold? There is no documented case of handouts averting a recession. Unless the productive potential is there, more money will not bring increased output. And Australia's productive potential has been

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12. Business Spectator, at <http://www.businessspectator.com.au/bs.nsf/Article/Fiscal-policy-is-our-best-weapon-L&RUD?OpenDocument&src=srch>. Accessed 21 November 2008. This website requires the reader to register although registration is free.

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diminished in recent years by wasteful investments and by regulatory impediments. While we should release funds that have been taken from the community in over-taxation, we must simultaneously remove many other inflexibilities that have diverted savings from productive venues. Above all, we must recognise that assets are not worth as much as we thought they were. Having done so, we have to allow asset prices to fall to their underlying market value.<sup>13</sup>

## Financial implications

The Bill proposes additional expenditure of \$146,054,000 for the ordinary annual services of government in 2008-09.

## Key issues

Macroeconomic policy levers – working together?

### Monetary Policy

Monetary policy has moved into an aggressive easing cycle, with the RBA's cash rate target (the 'cash rate') being dramatically cut by two full percentage points since the cash rate peaked at 7.25 per cent prior to the September 2008 RBA Board meeting (after the 12 rises of 25 basis points each that occurred from May 2002 to March 2008). The cash rate is now at the same level it was between December 2003 and March 2005. Clearly, interest rates have recently been cut to expansionary levels and this looks set to continue for the immediate future. Thus, monetary policy is moving in the same direction as the Economic Security Strategy.

### Fiscal Policy

Quite obviously, as discussed by others above (and assuming successful passage of this Bill), a significant fiscal stimulus will be introduced into the economy by the Commonwealth. The magnitude of the stimulus package is roughly 1 per cent of real Gross Domestic Product (GDP). The extent to which this actually feeds into real GDP growth depends on the propensities of each of the groups that are being targeted with the Strategy to consume their present income. In terms of the one-off payments to pensioners, carers, seniors and families, the first three of these four demographic groups would be likely to spend a considerable portion of the bonus payments they receive. With the fourth group, the effect is uncertain. Individual households all face different financial

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13. Alan Moran, 'Depression logic pushes fast cash into the economy', Institute of Public Affairs, 23 October 2008, at <http://www.ipa.org.au/news/1709/depression-logic-pushes-fast-cash-into-the-economy>. Accessed 21 November 2008.

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circumstances and so the impact on both immediate and long-term consumption from a temporary increase in income is ambiguous.

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The key factors in determining the marginal propensities to consume out of current income are:

- whether a household is a net borrower or saver and their current levels of ‘financial wealth’,<sup>14</sup>
- access to credit markets
- percentage of income spent on essential items, like food, shelter, energy and transport, and
- the amount of debt/savings relative to present income.

If households are neither savers nor borrowers (nor have any significant holdings of assets) and are unable to borrow money at similar rates to the interest they would receive on highly liquid assets, such as savings deposits (i.e. they face ‘liquidity constraints’), then it may be optimal for them to consume all of the windfall change to their current income and not ‘smooth’ their consumption over their lifetime. It is likely that a significant percentage of the groups that are targeted in the Strategy would be liquidity-constrained, so these measures are more likely to induce additional consumption than, say a lump-sum subsidy to all households or income tax cuts.

As the payments are lump-sum in nature, the percentage increase in current income for households will vary by their existing income levels. Low-income households will see a larger percentage change to their income than high-income households. Given that low-income earners are more likely to spend the extra income on essentials, rather than spend it on luxuries or save it, it is probable that low-income households will spend the bulk of their additional payments as a result of the Strategy.

Households with large debts, all else being equal, are more likely to save, rather than consume their windfall gain. One would suspect that eligible recipients of the family payments would be more likely to be paying a mortgage than the other targeted groups (given that a lot of people who are currently raising children are at an earlier stage of the lifecycle than most pensioners and seniors) and so there is a greater chance that this group would, as a whole, have a lower marginal propensity to consume than the other groups targeted by the Strategy.

Another key factor in determining the total effect of the Strategy is the degree to which consumption is directed to Australian-made goods and services, rather than imports. Whilst there will still be some stimulus to the domestic economy (as a result of the value being added by the retail industry), all else being equal, the greater the proportion spent on imports, the lower the stimulus to the domestic economy.

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14 Financial wealth includes bank deposits and other highly liquid assets/investments.

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Finally, the degree to which state and territory finances deteriorate, and the choices made by state and territory governments to deal with that situation will also have a bearing on the effectiveness of the strategy. Any fiscal stimulus from the Commonwealth could be offset by fiscal tightening at the state and territory level.

Therefore, one can conclude that in broad terms, fiscal and monetary policy are both moving in an expansionary direction, although the precise effect of the fiscal stimulus package is uncertain.

## Main provisions

For the most part, the Bill's provisions are identical to those in Appropriation Act (No. 1) 2008-09, which appropriates funds for ordinary annual services. The Bill differs from *Appropriation Act (No. 1) 2008-09* in that certain provisions in *Appropriation Act (No. 1) 2008-09* are not relevant to the Bill (for example, those relating to the advance to the Finance Minister) or have been rendered redundant by subsequent legislation (for example, those relating to section 31 agreements).

### Part 1—Preliminary

**Clause 3** contains definitions. Most definitions are identical to those in *Appropriation Act (No. 1) 2008-09*. However, **clause 3** expands the definition of 'Portfolio Budget Statements' to mean not only the Portfolio Budget Statements for the Bill but also the Portfolio Budget Statements for *Appropriation Act (No. 1) 2008-09* and *Appropriation Act (No. 2) 2008-09*.

**Clause 3** defines Portfolio Supplementary Estimates Statements to mean the Portfolio Supplementary Estimates Statements that were tabled in the Senate or the House of Representatives in relation to the Bill for this Act and the Bill for the *Appropriation (Economic Security Strategy) Act (No. 2) 2008-2009*.

**Clause 4** deals with 'portfolio statements'. **Clause 4** provides that the Portfolio Budget Statements and Portfolio Supplementary Estimates Statements are relevant documents for the purposes of section 15AB of the *Acts Interpretation Act 1901*.<sup>15</sup>

### Part 2—Appropriation items

**Clause 6 Summary of appropriations** states the total of the items specified in **Schedule 1** is \$146,054,000. **Schedule 1** lists all the agencies that are to be funded, the amount of funding, and whether the item is departmental or administered.

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15. The Explanatory Memorandum explains the significance of section 15AB at paragraph 4, page 3.

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**Clause 8** deals with ‘administered items’. In essence, these are the costs of programs such as aged and disability pensions.<sup>16</sup> **Clause 8** is identical to that in *Appropriation Act (No. 1) 2008-09* except that **subclause 8(2)** includes the additional words ‘or Portfolio Supplementary Estimates Statements’. **Subclause 8(1)** confirms that if an amount is specified as an administered item for an outcome, then money can be expended to achieve that outcome. **Subclause 8(2)** provides that where the Portfolio Budget Statements or Portfolio Supplementary Estimates Statements indicate an activity is for an outcome, the amount in the administered item is taken to contribute towards the achievement of that outcome.

**Clause 9** deals with CAC Act body payments. A CAC Act body is a Commonwealth authority or company within the meaning of the *Commonwealth Authorities and Companies Act 1997* (the CAC Act). **Clause 9** deals with a ‘CAC Act body payment item’. This is the total amount set out in **Schedule 1** of the Bill in relation to a CAC Act body under the heading ‘Administered Expenses’. For example, for the Defence portfolio, **Schedule 1** shows a payment to the Australian War Memorial—a CAC Act body—of almost \$39 million.

### Part 3—Adjusting appropriation items

Departmental items do not automatically lapse if they are not spent. A process exists whereby unspent and unwanted departmental items can be abolished. **Clause 10—Reducing departmental items**, contains this process. **Subclause 10(1)** specifies who can request reductions in departmental expenses. **Paragraph 10(1)(a)** enables the Minister for an agency to ask the Finance Minister to reduce a departmental item for that agency, while **paragraph 10(1)(b)** enables the Chief Executive of an agency, for which the Finance Minister is responsible, to ask the Finance Minister to reduce a departmental item for that agency. **Subclause 10(2)** specifies that the Finance Minister may make a determination reducing a departmental item by the amount in the request. **Subclause 10(3)** provides that the determination will be null and void if its effect is to reduce the departmental item below nil.

There is also a process for reducing administered items. This process differs from that for departmental items. **Clause 11—Reducing administered items** contains the process for administered items. **Subclause 11(1)** provides that if the amount shown in the financial statements of an agency’s annual report shows that the expensed amount of an administered item is less than the amount appropriated for that item, then the amount of the reduction is the difference between the appropriated amount and the amount in the annual report. **Subclause 11(2)** enables the Finance Minister to determine that an amount, published in the financial statements of an agency, is taken to be the amount specified in his or her determination, while **paragraph 11(2)(b)** ensures that the amount published in

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16. Paragraph 18 pp. 6–7 of the Explanatory Memorandum contains a fuller definition of administered items.

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the annual report can be corrected. **Subclause 11(3)** provides that the Finance Minister's determination, made under **subclause 11(2)**, is a legislative instrument, that section 42 (relating to disallowance) of the [Legislative Instruments Act 2003](#) applies to the determination, but that Part 6 (relating to sunset provisions) of the *Legislative Instruments Act 2003* does not apply to the determination. In brief, this means that the Minister's determinations are disallowable by Parliament, but once made, will not expire.

**Clause 12** contains the process for reducing CAC Act body payments. This is almost identical to that for departmental items. One difference is that whereas **paragraph 10(1)(b)** enables the Chief Executive of an agency, for which the Finance Minister is responsible, to ask the Finance Minister to reduce a departmental item for that agency, **paragraph 12(1)(b)** enables the Secretary of the Department for which the Finance Minister is responsible to request a reduction for a CAC Act body. The reason the Secretary of the Department is empowered to request a reduction follows from the fact that payments to CAC Act bodies are channelled through the relevant portfolio departments. **Subclause 12(2)** empowers the Finance Minister to make a determination reducing a CAC Act body payment by the amount requested. **Subclause 12(5)** provides that proposed **subsection 9(2)** does not limit the reduction of a CAC Act body payment under this section.

## Concluding comments

This Bill contains provisions for the Finance Minister to appropriate funds for an increase of 56 000 training places under the Productivity Places Program. The Bill also contains provisions to appropriate funds in order to implement other elements of the Economic Security Strategy, such as one-off payments to pensioners, carers and seniors (the funds for these payments are to be appropriated under the Social Security and Other Legislation Amendment (Economic Security Strategy) Bill 2008) and an increase in subsidies for first home buyers (these funds are to be appropriated under the Appropriation (Economic Security Strategy) Bill (No. 2) 2008-09).

If this Bill is passed, the Finance Minister will appropriate \$117 million to fund the additional 56 000 training places under the Productivity Places Program, administered by the Department of Education, Employment and Workplace Relations. The Finance Minister will also appropriate \$16.5 million for the Department of Families, Housing Community Services and Indigenous Affairs; and \$0.64 million for the Department of Veterans Affairs for administrative costs associated with implementing the payments to pensioners, families, carers and seniors. Finally, the Department of Families, Housing Community Services and Indigenous Affairs will also receive \$11.55 million to conduct a public information campaign to ensure eligible recipients under the Strategy are aware of their entitlements. The total financial impact of this Bill is estimated to be \$146 million.

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