

Sensitive



Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator David Leyonhjelm
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *Permanent migration* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Gareth Tunks on (02) 6277 9550.

Yours sincerely

Phil Bowen

24 March 2017

Sensitive



Policy costing—outside the caretaker period

Name of proposal:	Permanent migration
Summary of proposal:	<p>This proposal would impose a new tariff for permanent migration which would replace existing charges and would not be applied to the humanitarian program. This option would only retain qualitative requirements relating to health, character and security.</p> <p>This proposal would require 10 years’ residence for a new migrant to be eligible for citizenship and would:</p> <ul style="list-style-type: none"> • limit eligibility for welfare – including public healthcare, education and housing – to citizens, except where reciprocal arrangements are in place • restrict eligibility for the age pension to require 20 years’ residence. <p>This proposal contains two options:</p> <p>Option 1: Homogenous tariff</p> <p>This option would impose a new tariff of \$45,000, indexed to the consumer price index (CPI), on all permanent migration types (excluding the humanitarian program).</p> <p>Option 2: Differentiated tariff</p> <p>This option would impose a new tariff of \$45,000, indexed to CPI, for permanent family migration and a new tariff of \$5,000, indexed to CPI, on permanent economic migration.</p> <p>This proposal would commence on 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	24 March 2017

Sensitive

Additional information requested (including date):	On 9 March 2017, Senator Leyonhjelm's office (the office) was contacted to clarify how aspects of the costing relating to state and territory government administered programs would be implemented.
Additional information received (including date):	On 9 March 2017, the office advised that these aspects of the costing would be implemented as reductions in funds provided from the Commonwealth Government to state and territory governments.
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal contains two options for reform of fees associated with permanent migration to Australia. The financial impact of both options incorporates a reduction in the number of permanent migration visa applications as a result of the increased tariff for applications and the reduced availability of services, welfare and citizenship.

Option 1: Homogenous tariff

This option would be expected to increase the fiscal balance by \$12,794.6 million and the underlying cash balance by \$12,799.9 million. In fiscal balance terms, this reflects an increase in revenue of \$7,122.1 million, a decrease in administered expenses of \$5,345.4 million and a decrease in departmental expenses of \$327.1 million.

Table 1: Option 1 – Homogenous tariff—Financial implications (outturn prices)^(a)

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	3,884.1	4,331.1	4,579.3	12,794.6
Underlying cash balance	-	3,886.1	4,332.7	4,581.1	12,799.9

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Option 2: Differentiated tariff

This option would be expected to increase the fiscal balance by \$6,210.3 million and the underlying cash balance by \$6,201.6 million. In fiscal balance terms, this reflects an increase in revenue of \$695.1 million, a decrease in administered expenses of \$5,312.2 million and a decrease in departmental expenses of \$203.1 million.

Sensitive

Table 2: Option 2 – Differentiated tariff—Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	1,640.8	2,089.4	2,480.2	6,210.3
Underlying cash balance	-	1,638.4	2,086.1	2,477.1	6,201.6

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

The impacts on the fiscal and underlying cash balances differ due to a lag between when services are provided and when payments are made or revenue is received.

This proposal would be expected to have a significant impact beyond the 2016-17 Budget forward estimates period. As requested, estimates of the financial implications have been provided over the period to 2026-27 at [Attachment A](#).

This costing is considered to be of very low reliability due to considerable uncertainty over the responsiveness of permanent migration applications to changes in price and the substitutability between Australia and other destinations.

Key assumptions

In costing this proposal it has been assumed that:

- there would be a reduction in economic migration applications of around 50 per cent for Option 1 and there would be no change in economic migration in Option 2, in which the tariff is set at \$5,000
- there would be a reduction in family migration applications of around 60 per cent in both options
- the economic and family migration streams are demographically consistent with the Australian population.

Methodology

The Department of Immigration and Border Protection (DIBP) provided historic numbers of applications, price of applications and costs associated with processing applications, by visa subclass. These were aggregated into family migration visas and economic migration visas, projected using the annual average growth in applications. The weighted average cost of processing the various visa types was derived from the aggregate data.

The assumed reduction in applications was applied to yield the number of applications under each option of the proposal. The cost of administration and revenue generated from the reduced migrant intake was calculated as the product of the reduced flow and the weighted average cost of processing applications and the prescribed price of applications respectively.

Estimates for the proposed changes in access to welfare payments over the 2016-17 Budget forward estimates period were calculated using the Policy Evaluation Model (PoEM) of the Australian personal income tax and transfer system. PoEM is a micro-simulation model based on Australian Government administrative data updated for population projections and other parameters as at the 2016-17 Budget. Variables not available in this model were imputed based on values from the 2014-15 Survey of Income and Housing.

Data sources

DIBP provided historic information on visa applications, approvals, costs and existing fees for each parent visas by visa subclass and country of origin.

Departmental costing from historic migration intake measures from the:

- Department of Education and Training
- Department of Employment
- Department of Health
- Department of Human Services
- Department of Immigration and Border Protection
- Department of Social Services
- Department of the Treasury.

The Department of Finance provided appropriate indexation parameters.

Attachment A – Permanent migration—financial implications

Table A1: Permanent migration — Option 1: Homogenous tariff — Fiscal balance — Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenditure														
Administered	-	1,360.3	1,803.6	2,181.5	2,652.3	5,345.4	2,652.3	3,166.6	3,726.7	4,333.3	4,989.9	5,700.1	6,467.8	36,382.0
Departmental	-	89.4	114.5	123.2	141.5	327.1	141.5	156.1	172.0	189.5	208.3	228.5	250.3	1,673.2
Total expenditure	-	1,449.7	1,918.1	2,304.7	2,793.9	5,672.5	2,793.9	3,322.7	3,898.6	4,522.8	5,198.2	5,928.6	6,718.0	38,055.3
Revenue	-	2,434.5	2,413.1	2,274.6	2,305.8	7,122.1	2,305.8	2,336.0	2,365.0	2,392.6	2,418.7	2,443.1	2,465.5	23,848.8
Total	-	3,884.1	4,331.1	4,579.3	5,099.7	12,794.6	5,099.7	5,658.7	6,263.6	6,915.4	7,617.0	8,371.7	9,183.5	61,904.1

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Permanent migration — Option 1: Homogenous tariff — Underlying cash balance— Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenditure												
Administered	-	1,357.7	1,800.4	2,178.3	2,648.9	3,162.9	3,722.6	4,328.9	4,985.1	5,694.8	6,462.1	36,341.8
Departmental	-	89.4	114.5	123.2	141.5	156.1	172.0	189.5	208.3	228.5	250.3	1,673.2
Total expenditure	-	1,447.1	1,914.9	2,301.6	2,790.5	3,318.9	3,894.6	4,518.4	5,193.4	5,923.4	6,712.4	38,015.1
Revenue	-	2,439.0	2,417.9	2,279.5	2,311.2	2,341.9	2,371.5	2,399.7	2,426.4	2,451.4	2,474.5	23,912.9
Total	-	3,886.1	4,332.7	4,581.1	5,101.7	5,660.9	6,266.0	6,918.1	7,619.8	8,374.8	9,186.8	61,928.0

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A3: Permanent migration — Option 2: Differentiated tariff — Fiscal balance—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenditure													
Administered	-	1,314.2	1,781.4	2,216.7	5,312.2	2,747.1	3,326.2	3,957.2	4,640.7	5,380.4	6,180.1	7,044.3	38,588.2
Departmental	-	55.0	71.2	76.9	203.1	90.4	103.2	117.1	132.3	148.6	166.3	185.3	1,146.1
Total expenditure	-	1,369.1	1,852.5	2,293.6	5,515.2	2,837.5	3,429.4	4,074.3	4,773.0	5,529.0	6,346.3	7,229.6	39,734.3
Revenue	-	271.6	236.8	186.6	695.1	154.4	118.7	79.3	35.9	-11.8	-64.2	-121.5	885.7
Total	-	1,640.8	2,089.4	2,480.2	6,210.3	2,991.9	3,548.0	4,153.6	4,808.8	5,517.2	6,282.2	7,108.0	40,620.0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A4: Permanent migration — Option 2: Differentiated tariff — Underlying cash balance—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Expenditure													
Administered	-	1,310.2	1,776.4	2,211.9	5,298.5	2,742.0	3,320.5	3,951.0	4,634.0	5,373.0	6,172.1	7,035.7	38,526.8
Departmental	-	55.0	71.2	76.9	203.1	90.4	103.2	117.1	132.3	148.6	166.3	185.3	1,146.1
Total expenditure	-	1,365.2	1,847.6	2,288.8	5,501.6	2,832.3	3,423.7	4,068.1	4,766.2	5,521.7	6,338.4	7,220.9	39,672.9
Revenue	-	273.2	238.5	188.3	700.1	156.2	120.7	81.5	38.3	-9.2	-61.3	-118.4	908.0
Total	-	1,638.4	2,086.1	2,477.1	6,201.6	2,988.6	3,544.4	4,149.6	4,804.5	5,512.5	6,277.1	7,102.5	40,580.9

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.