

BUDGET SPEECH 2002-03

DELIVERED ON 14 MAY 2002 ON THE SECOND
READING

OF THE APPROPRIATION BILL (NO. 1) 2002-03

BY

THE HONOURABLE PETER COSTELLO, M.P.,

TREASURER OF THE COMMONWEALTH OF
AUSTRALIA

Mr Speaker, I move that the Bill now be read a second time.

Mr Speaker, the past year has again reminded us all that world events can move dangerously and unpredictably.

Last year when I delivered the Budget we did not know that four months later our world would change in such a devastating way.

The terrorist attacks of 11 September shocked us all and showed that terrorism can strike even the most powerful of nations. We cannot take our security for granted. Tonight I will announce measures to upgrade Australia's security. Tonight I will announce measures to secure Australia's borders.

But developments in other parts of the world do not just affect our physical security. They can affect our economic security as well. Through last year country after country fell into recession. The events of 11 September made things worse. Our trading partners:- Japan, the United States and Europe all turned down. Australia found itself in a very difficult economic environment.

We were not untouched by the global slowdown. But tonight I can report to the House that Australia is strong. Other countries went into recession but our economy grew.

The hard work of the last six years helped to shield our country and keep people in work. It gave us the capacity to respond swiftly with measures to stimulate the economy like the additional First Home Owners Grant. It allowed us to respond swiftly with a major contribution to the War Against Terrorism.

But we must continue strong economic policy if we want to be able to respond to the unpredictable events of the future. Strong economic policy has been the hallmark of this government. By the end of this coming financial year we will have paid off \$61 billion of the Labor Government's debt. Our Budget for the year is in surplus, a surplus of \$2.1 billion.

The Budget will lay out a programme, not always easy, but fair, to sustain important health and welfare services into the future.

And this year we will fund measures to upgrade security, to secure our borders, to strengthen our defence forces and deliver all of the Government's election commitments in full, on time, on budget.

STRONG DEFENCE

Mr Speaker, last year I announced the largest and most comprehensive upgrade of our defence capabilities for any Australian government in over 25 years. Under that plan set out in a White Paper an additional \$1 billion is included in the 2002-03 defence Budget. But, the Government has added to that programme to fund the deployment of Australian troops in the War Against Terrorism.

The deployments are being carried out as part of our contributions to the US-led operation against international terrorism and the Gulf blockade in support of United Nations sanctions against Iraq. They involve around 1,100 Australian Defence Force personnel and comprise land, sea and air operations. The initial deployment includes:

- an Australian special forces task group and other personnel participating in operations in Afghanistan against the Taliban and Al Qaida networks;
- a naval task group of an amphibious landing ship (until mid 2002) and a frigate, and the continued presence of a guided missile frigate in the Persian Gulf to support the Multinational Maritime Interception Force; and
- an Air Force deployment of B707 tanker aircraft to support air-to-air refuelling operations and F/A-18 aircraft deployed to Diego Garcia until mid 2002 to support air defence of coalition forces.

The composition of the deployment is subject to strategic requirements and is continuously under review.

The additional funding over the base funding and over the White Paper for this deployment in 2001-02 and 2002-03 is around \$524 million.

UPGRADING DOMESTIC SECURITY

But as we have seen terror and crime can also strike at home. The Government's first responsibility is to defend our citizens and our national security assets. We must do it in a careful way hoping for the best, but preparing against the worst. In this Budget we are allocating an additional \$1.3 billion over five years to upgrade security within Australia.

Australia's airport security will be upgraded. Armed, plain clothed, Australian Protective Service officers now travel on selected flights. Additional Australian Protective Service officers provide heightened security at Australia's airports with enhanced capacity for detecting explosives.

The Budget provides an additional \$539 million to the Australian Federal Police, Australian Protective Service and Australian intelligence agencies to assist in identifying potential security threats. There will be increased screening of imported goods, enhanced cooperation with overseas law enforcement agencies, and improvements in screening arriving and departing international passengers.

The Government is also investing in the development of leading edge technology that has the potential to significantly improve passport verification processes. If successfully developed, a biometric identifier could record individual features on a magnetic strip on passports and provide distinctive matching for that individual at airports and other points of entry. This will be funded by an increase in the Passport Fee.

The Government will be improving the secure communications system of the Department of Defence and taking measures to protect our critical information infrastructure from attack.

The Government will double the Australian Federal Police strike team capability, allowing for the rapid deployment of more than 200 federal agents around Australia dealing with crimes such as terrorism and politically motivated violence.

We will establish a permanent Australian Defence Force Tactical Assault Group on the east coast of Australia, to supplement the existing group on the west coast. The Tactical Assault Group is a special forces unit with specialist counter-terrorist training, including hostage recovery.

And we will establish within the Australian Defence Force a permanent Incident Response Regiment. This will be a highly trained group able to respond to chemical, biological, radiological, nuclear and explosive incidents. To support our capacity to respond to such an incident — one we hope will never occur — the Government has also authorised a national stockpile of chemical antidotes and vaccines.

SECURING AUSTRALIA'S BORDERS

Mr Speaker, Australia operates a substantial immigration programme which in the coming year will offer permanent migration places at a base level of 105,000 places. In addition we offer around 12,000 places under the humanitarian category for refugees. This is one of the largest offshore humanitarian programmes of any country in the world.

But to maintain the integrity of that programme humanitarian places should be reserved for those assessed as genuine refugees and those that have complied with Australia's offshore processing arrangements. The Government does not intend to allow people smugglers to determine the intake under this programme.

Last Budget we proposed spending \$1,635 million over five years on border security. The measures we have taken since, together with the measures I am announcing tonight, will increase that expenditure to \$2,872 million.

This will include \$219 million to construct and maintain a purpose built Reception and Processing Centre on Christmas Island which will allow downsizing of other centres at Curtin and Woomera. The Government has allowed \$455 million over the next four years for receiving and processing asylum seekers at the new facility on Christmas Island and, if necessary Cocos Island.

Mr Speaker, the Government has decided to double National Marine Unit surveillance, it has increased Coast Watch surveillance, and it has allocated additional funding to the Australian Defence Force to patrol Australia's northern waters to deter unauthorised boat arrivals.

Mr Speaker, it is also important to take steps to reduce the flow of unauthorised immigrants to these Australian waters. To this end, the Government has committed \$75 million to fighting people smuggling and unauthorised migration through the interception of unauthorised migrants in transit countries.

- The Government is increasing the capacity of authorities and international organisations in transit countries to detect and intercept illegal people movement.
- The Government is also increasing support to international organisations, such as the United Nations High Commissioner for Refugees and the International Organisation for Migration, for the detention, processing and subsequent removal of people in transit countries.

There is evidence that these comprehensive measures are showing results.

In August last year arrival numbers surged, with some 1,212 arriving in the first three weeks alone.

Since the introduction of the Government's strategy to secure our borders, there has been a dramatic slowdown in unauthorised arrivals. There have been no unauthorised boat arrivals to Australia since December 2001.

INTERGENERATIONAL REPORT

Mr Speaker, tonight, as part of the Budget, I am releasing the landmark Intergenerational Report. This is the first report of its kind and the first time any attempt has been made in the Budget to look across the generations and identify the challenges which lie ahead for our society and our governments. What challenges will our children and their children have to confront in forty years time? What shape will Australia's finances be in 2042 based on current policies? And what should we do now to prepare for the generations ahead?

One of the big changes to our society will be that the number of older people will increase, and with falling birthrates, the number of younger ones will not grow. The ratio of old to young in our society will increase.

The increase in medical science will make more and more treatments available and prolong our capacity to live longer.

Our strong Budget position means we are better placed than most other advanced societies to cope with these changes. But we must start now to put in place measures which will sustain a decent health system and aged care system into the future. If we ignore moderate changes now the challenges will only get greater, the decisions will get harder, and the solutions will slip outside our grasp.

MAKING THE PHARMACEUTICAL BENEFITS SCHEME MORE SUSTAINABLE

The cost of the Pharmaceutical Benefits Scheme is growing rapidly as medical science improves and we have a greater ability to treat more conditions. Since 1991 the cost of the Pharmaceutical Benefits Scheme has nearly quadrupled from \$1.2 billion to \$4.2 billion. The Intergenerational Report projects that the Pharmaceutical Benefits Scheme could be the most significant area of pressure in the health budget and in forty years time grow to around \$60 billion in today's dollars.

So the Government is taking some small steps to help put the Pharmaceutical Benefits Scheme on a more sustainable basis so it can deliver access to medicines at affordable prices over the longer term. These measures will ensure that consumers, industry, doctors and pharmacists all contribute to containing the rate of increase in the Pharmaceutical Benefits Scheme.

From 1 August this year, co-payments for concession cardholders such as pensioners and Seniors Health cardholders will rise by \$1 to \$4.60 and co-payments for others will rise by \$6.20 to \$28.60 per prescription. While a concession cardholder will only pay \$4.60 for a prescription this is only a small part of the cost of many Pharmaceutical Benefits Scheme medicines.

- Humulin NPH, widely used in the treatment of insulin dependent diabetes costs \$229.13 per prescription.
- Avonex, a drug used for the treatment of multiple sclerosis costs \$1,090.81 per prescription. A patient on this drug would normally take 13 prescriptions per year.
- Zyban, used for the treatment of nicotine addiction, costs \$238.85 per prescription.

New drugs with high costs are coming on to the Pharmaceutical Benefits Scheme all the time.

Notwithstanding the cost of the prescription the co-payment will only be \$4.60 for concession cardholders.

Safety net arrangements will continue to protect people who need a large number of medicines. Consistent with the current arrangements, once concession cardholders have paid for 52 Pharmaceutical Benefits Scheme prescriptions in the year, they will receive further Pharmaceutical Benefits Scheme medicines free for the rest of the year. Non concession cardholders who pay \$874.90 in a year for their Pharmaceutical Benefits Scheme medicines will be eligible for further PBS medicines at the concessional rate for the rest of the year.

The Government is also introducing changes to ensure Pharmaceutical Benefits Scheme medicines are used appropriately.

- Doctors will be required to provide additional information about patient eligibility when they seek approval to prescribe particular drugs.
- The pharmaceutical industry will provide information about prescribing restrictions directly to doctors through the network of medical representatives employed by the industry.
- The Government will undertake discussions with individual manufacturers of generic medicines to secure a price reduction for products they have listed on the PBS. This price reduction will be in return for the Government facilitating greater use of generic medicines listed on the Pharmaceutical Benefits Scheme.
- The Government will also introduce further initiatives to identify and target fraud in the PBS system.

By making the Pharmaceutical Benefits Scheme more sustainable, the Government can continue to fund the listing of new, highly effective, but expensive medicines.

ASSISTING JOB SEEKERS

Mr Speaker, the Government has a policy of equipping our young in the best possible way for the workforce. That is why we invested in improving literacy and numeracy in the education system. That is why we revived the apprenticeship system. And in this Budget we will focus that further with an extra incentive of \$750 to employers willing to take on a new apprentice while he or she is still at school, and a bonus of \$750 to keep them after they have completed Year 12.

We will offer an incentive of \$1,100 to employers to take on a new apprentice in information technology. For mature age people we will offer training assistance of up to \$500 to attain basic skills in computers and information technology. One of the great barriers for mature age workers getting into the workforce is lack of computer skills. This training will be available to 11,500 people each year.

Our policy is to encourage people to get job ready so that as the growing economy creates more jobs, they have the chance to get those jobs and move into the mainstream of the Australian workforce.

The Government's Work for the Dole Scheme has been a very successful programme to develop work skills. At a cost of \$81.5 million over three years we will fund 8,500 additional Work for the Dole places.

NEXT STEPS IN WELFARE REFORM

Mr Speaker, in last year's Budget I announced a major programme to reform our welfare system called Australians Working Together.

We want to take the next steps in this programme. There are many people who are out of work and on a Disability Support Pension who have no support or encouragement to get back into employment. Since 1990, the number on Disability Support Pensions has doubled.

We want to take measures to encourage those who are capable of work, including part time work of more than 15 hours a week, to get back into the workforce. This will improve their esteem and self-reliance. At present eligibility for Disability Support Pension is assessed as the incapacity to work 30 hours per week. This will be reduced to 15 hours. Disability Support Pension rates and the means test are unchanged.

To provide people with greater opportunity to improve their work capacity 73,000 new training and work programme places will be created for those who are currently on Disability Support Pensions. This will cost additional money, but in giving people access to these services it is expected more people will re-enter the workforce and in the longer term it will save the taxpayer.

This new measure will apply to all new Disability Support Pension applicants from 1 July 2003. Those currently on Disability Support Pension (except those severely disabled with no work capacity or those who are within five years of Age Pension age) will be assessed under the new criteria within five years of implementation.

The Government will continue its commitment to the most vulnerable and disadvantaged citizens in our society. A new five year Commonwealth State Disability Agreement is proposed with the Commonwealth providing the States an extra \$547.5 million over five years for unmet need. This Agreement funds the States and Territories to deliver Specialist disability services such as accommodation, community support and respite. This means the Commonwealth will allocate \$2.7 billion to the new Agreement — \$743 million more than the previous Agreement.

For their part, the States and Territories must at least match the Commonwealth's increase, including increases already announced in our disability employment services. They must also provide better accountability, quality, efficiency and effectiveness in the delivery of their services. Over the same five year period the Commonwealth intends to spend another \$2 billion in support of its responsibilities for employment support for people with disabilities.

SUPPORTING AUSTRALIAN FAMILIES

When Labor left office the home mortgage interest rate was 10½ per cent. Today it is 4¼ percentage points lower. Low interest rates have supported Australian families giving them reductions on their mortgage repayments and helping them to make ends meet.

The First Home Owners Scheme has helped many young Australians to buy their first home. This grant which continues at \$7,000 from 1 July will help thousands of young Australians buy a house for the first time. These grants are expected to total \$784 million in 2002-03.

And the Government is going to introduce new measures to help those starting a family. This is in addition to the higher payments of Family Tax Benefits which were introduced back in July 2000.

One of the financial pressures facing those who are starting a family is that they generally lose their second income as the mother goes out of the workforce to have the child. Our baby bonus is going to allow mothers who are out of the workforce with their first child to claim back tax they paid while they were in the workforce. The amount they can claim is up to \$2,500 per year for five years depending on the amount of tax they have paid before leaving the workforce. There is a minimum payment of \$500 per year for five years for low income parents.

It is expected that around 245,000 families will benefit from this initiative in the first year with 600,000 Australian families eventually benefiting.

Mr Speaker, we also know that access to health services is a major concern for families — particularly the families in the outer suburbs of our major cities.

That is why the Government has a plan to encourage an additional 150 doctors to work in the outer-metropolitan areas of the six State capital cities. Under this plan, doctors who agree to work in a designated outer-metropolitan area and register on an alternative pathway to achieve vocational registration will be eligible for higher Medicare rebates. Specialist trainees will be able to access Medicare provider numbers if they work in outer-metropolitan areas. In addition, doctors in the ‘general stream’ of the GP vocational training programme will undertake a supervised placement in an outer-metropolitan area. This is an \$80 million plan for more doctors for the families of the outer suburbs of our major cities.

And we want to make our public places safer for our children. So the Government will fund a strategy for the introduction of retractable needle and syringe technology into Australia. This means that exposed needles cannot be left lying around in public places or anywhere else where children are at risk from needle stick injuries.

HEALTH CARE IN THE REGIONS

In the Budget two years ago I announced a Regional Health Package designed to make a practical difference in improving health services to the regions and the bush. This year we want to add some additional practical, on the ground, services in regional Australia.

We want to build six new facilities, outside the capital cities, to improve patient access to radiation oncology services. A programme of \$72.7 million over four years to do this will include training staff to international best practice to operate these local services.

Another of the services that needs improvement in rural areas is the provision for aged care. Older Australians do not want to move away from their local communities in their twilight years. This Budget has a programme to upgrade or replace high care homes in rural, remote and urban fringe areas and also includes funding to encourage more people to take up aged care nursing with 250 aged care nursing scholarships at rural and regional university campuses.

BETTER CARE FOR OLDER AUSTRALIANS

Our Intergenerational Report shows that aged care will require increasing attention as the proportion of older people in the community increases. Again this year there are new measures — \$654 million over four years — to provide better care for older Australians.

- Subsidies for residential aged care will be increased to allow better pay rates to be offered to aged care nurses so providers can attract and retain more aged care nurses.

The Government's aged care policy is, whenever possible, to improve and expand community care services to enable older Australians to choose to stay at home and live as independently as possible in the community.

- The Government will provide an additional 6,000 Community Aged Care Packages over four years. These packages are tailored to meet the needs of frail older Australians who want to remain in their own homes, and can do so if they receive home help, laundry, meals and bathing.
- The Government will also provide funding to support the carers of older Australians, carers of people with dementia, and ageing carers of people with disabilities.

This Budget will also aim to improve the standard of palliative care offered in the community. Funding of \$55 million over four years will be provided for better coordination between hospital and community care; improved education and further support for general practitioners and other health professionals in palliative care; and further assistance for families of people who choose to spend their final years in their home setting.

VETERANS

Mr Speaker, over the years this Government has taken major decisions to recognise the contribution made by our veterans. Tonight, we want to go further. The Government is extending eligibility for the war veterans' Gold Card (which provides comprehensive free health care) to Australian veterans aged 70 years and over who have qualifying service from post World War II conflicts.

In this Budget we are introducing twice-yearly indexation of the ceiling rate of the Income Support Supplement for War Widows. The ceiling rate will be increased by the same percentage as the age or service pension. This increase in income support for our war widows is expected to cost \$85 million over four years.

A BETTER SUPERANNUATION SYSTEM

Mr Speaker, the Intergenerational Report projects that over the next 40 years the number of people of Age Pension age will grow from 2.7 million to 6.3 million. This is expected to create a significant Budget pressure from age pension outlays.

This Budget provides a number of incentives to encourage individuals to improve their retirement incomes by making greater contributions to superannuation.

From 1 July 2002, the Government will make a matching superannuation co-contribution of up to \$1,000 per year for qualifying low income earners who make personal undeducted superannuation contributions. Individuals with assessable incomes and reportable fringe benefits up to \$20,000 per annum will be eligible for the maximum \$1,000 co-contribution and those individuals with incomes between \$20,000 and \$32,500 will be eligible for a reduced co-contribution. This initiative will replace the existing maximum \$100 rebate for personal superannuation contributions made by low income earners.

In each of the next three years, the Government will reduce the superannuation and termination payments surcharge rates by one-tenth of their current levels. This will reduce the maximum surcharge rate from 15 per cent to 10.5 per cent in 2004-05.

From 1 July 2002, self-employed and other eligible people will be able to claim a full tax deduction for up to \$5,000 of superannuation contributions, compared to \$3,000 currently. Contributions above the new higher threshold will continue to be 75 per cent tax deductible, with a maximum deduction equal to the taxpayer's age based limit.

The Superannuation Guarantee system will also be improved by requiring employers to make at least quarterly Superannuation Guarantee contributions on behalf of employees. This will reduce the potential loss of superannuation benefits in the event of bankruptcy or insolvency.

The Government is also introducing measures to make superannuation contribution arrangements more family friendly. From 1 July 2003, members of accumulation funds will be allowed to split future superannuation contributions with their spouse. The Government will also allow parents, relatives and friends to make superannuation contributions on behalf of children and is increasing from 70 to 75 the age up to which working members of superannuation funds can make personal superannuation contributions.

SUSTAINABLE REVENUES

The Budget surplus announced tonight has not required any major new tax initiatives nor an increase in the overall tax burden. The Government's tax reforms have secured the tax base, proving one of the keys to the strengthening of Australia's economic foundations.

The Government remains committed to its tax reform strategies and will press ahead with the business tax reform agenda, including a review of international tax arrangements.

ECONOMIC OUTLOOK

The Australian economy is expected to continue its strong performance in the year ahead, with robust economic growth of around 3¾ per cent forecast for 2002-03. This is higher than forecast growth for any of the major developed (G7) economies of the world and reflects Australia's sound economic fundamentals.

Business investment is expected to grow very strongly in 2002-03, to be a key driver of overall economic growth. Household consumption is also expected to remain strong.

In line with the outlook for robust economic growth, the unemployment rate is forecast to decline gradually to 6 per cent in the June quarter of 2003. An unemployment rate below 6 per cent would be achievable over the next couple of years, provided that economic growth remains strong and progress is maintained on labour market and welfare reforms. Since the Government came to office over 900,000 jobs have been created in the Australian economy. We expect over one million jobs to have been created by Christmas.

With only moderate increases in wage costs and continued strong productivity growth, inflation is expected to be around 2¾ per cent in 2002-03 and 2½ per cent by the June quarter 2003, within the medium-term inflation target band. Largely reflecting the strength of the domestic economy, the current account deficit is expected to increase slightly to around 4 per cent of GDP, which is below the average over the 1990s.

CONCLUDING COMMENTS

Mr Speaker, the last year has been difficult in an uncertain world, with a global economic downturn. But Australia has emerged much stronger than comparable countries.

This Budget is designed to meet the continuing challenges of today, and to project forward so we can set ourselves a path that will address the challenges of the future.

This is a Budget to keep Australia safe, our borders secure, and to keep our economy strong.

I commend this Budget to the House.