

BUDGET SPEECH 2005-06
DELIVERED ON 10 MAY 2005 ON THE SECOND
READING
OF THE APPROPRIATION BILL (NO. 1) 2005-06
BY
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TREASURER OF THE COMMONWEALTH OF
AUSTRALIA

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

INTRODUCTION

The Budget I announce tonight is framed for the future – the future opportunities of our young people, the future care of our aged, the future health services that our citizens will need and demand, the security of the nation, and the future growth of the Australian economy which is necessary if we are going to realise these goals.

The economic management of the Australian Government affects the lives of all our citizens. Economic management matters because the lives of our citizens matter – the decisions we make affect their mortgages, their businesses, and whether they can find a job.

I bring this Budget down at a time when more Australians are in work than ever before. Our unemployment rate has fallen to a low unmatched for 28 years.

This is not an accident. This is not a fluke. This is the outcome of sound economic management. Things could have been very different. But the aim of economic policy is to grow an economy and create jobs.

We should now aim for an economy where every Australian who wants work can find it.

At a time when more Australians are participating in work than ever before we want to spread that participation further. We want to encourage more people to join the workforce. Tonight I announce the largest ever programme designed to assist those on welfare move out of welfare and into work.

Although in the short term it will cost money, in the long term it will strengthen our economy.

And the Budget includes measures to prepare our country for the great demographic change now taking place that will reshape our society over the next 10, 20 and 30 years.

Tonight I announce details of the Future Fund – an investment fund – which will help us prepare for the coming changes.

Also tonight I will announce tax cuts for business and tax cuts for individuals to drive growth in our economy.

Mr Speaker this is the 10th Budget I have presented to this House. Before that the last Budget of the Labor Government was in deficit – a deficit of 2 per cent of GDP – around \$19 billion in today's terms. The Budget I announce tonight is in surplus – a surplus of 1 per cent of GDP – \$8.9 billion. It is the eighth surplus Budget I have presented.

Ten years ago the Australian Government carried net debt of \$96 billion. By 30 June next year we will have reduced that net debt by \$90 billion. We are paying off Labor's debt and soon we can begin saving – saving for the future, saving for the ageing of the population, saving the opportunities of future generations.

WELFARE TO WORK

Over the last nine years, unemployment has fallen far in Australia but we still have many people of working age, under 65, who are not in the workforce.

Unemployed people looking for work are entitled to the unemployment benefit called Newstart. But there are many other people of working age who receive income support without any obligation to look for work.

And the number of people on these benefits is growing very fast. For example the number of people on a Disability Pension is about 6.5 per cent of the Australian workforce. The number increased by around 21 per cent over the five years to June 2004. The number of people on Parenting Payment for single parents is around 4.3 per cent of the workforce. The number increased around 18 per cent over the same period.

People who are unable to find work deserve support from the taxes paid by those who are working. But those who are working deserve to know that others capable of work are at least looking for work in return for their income support.

If more people are able to move from welfare to work then this will help them with higher incomes and better participation in mainstream economic life. It will also reduce the obligation on other taxpayers whose taxes pay for the welfare support.

Our proposal for reform announced tonight is to start on 1 July 2006. From 1 July 2006 those on Parenting Payment will be expected to look for at least part-time work when their youngest child turns six and is ready for school.

Tonight I am announcing a massive increase in outside school hours child care which will assist those parents.

Of course if they are unable to find work they will keep their payment. Those on Parenting Payment at present will keep it. Those coming on to Parenting Payment after 1 July 2006 will continue to receive it while their youngest child is under six and then move to enhanced Newstart when that youngest child turns six.

Changes to Disability Support Pensions will also come into effect on 1 July 2006. Those on Disability Pensions at present will not be affected by any of these changes.

But from 1 July 2006 a person capable of part-time work will no longer be entitled to a Disability Pension if they are capable of working more than 15 hours a week at award wages. The object of these changes is to protect the genuinely disabled but to encourage those capable of part-time work to look for it.

The largest category of disability at present is musculo-skeletal injury – principally bad backs. A person in this category may be unable to hold down a full-time manual job but they may be capable of part-time work, especially non-manual work. Of course if they are unable to find it they will continue to receive income support through enhanced Newstart. But they will have an obligation to look for work.

In order to assist people to look for work, rehabilitation services will be increased by 41,700 places. Education and training opportunities will be increased and schemes to assist employers to employ people with disabilities will be expanded.

More than \$2 billion will be spent on services over four years to assist these groups find work. The cost of these services will exceed the reduction in welfare support over the next four years.

But in the longer term as more people join the workforce it will make the economy significantly stronger.

In the future we are going to have proportionately fewer people of working age, under 65, compared to those of retirement age. We need to encourage as many people of working age as we can to join our workforce.

In order to improve incentives for people to move out of welfare into work, tonight I am announcing a tax cut for low income earners. The 17 cent tax rate which applies between \$6,000 and \$21,600 will be cut to 15 cents in the dollar. This change will take effect on 1 July 2005.

In addition, the rate at which a person in part-time work loses their entitlement to income support under Newstart will be reduced. Instead of 70 cents in the dollar withdrawal it will be 60 cents after they have earned \$250 per fortnight. This will introduce an enhanced Newstart.

For people with disabilities, we are introducing a new comprehensive work capacity assessment. And we will use it to refer them to the employment services they need. A new \$80 million Pre-Vocational Participation Account will support people with disabilities by providing services that will allow them to quickly become job ready.

For parents and mature aged job seekers, we are providing additional assistance through a new \$48 million Employment Preparation Service. This will allow Job Network providers to provide skills training to equip these clients for a job.

For the very long-term unemployed, there will be a new Wage Assist programme with wage subsidies to employers, delivered through Job Network. But those who have a pattern of job avoidance can be required to undertake full-time work for the dole.

SKILLS AND TRAINING

Mr Speaker, a skilled and adaptable workforce is critical to boosting the productive capacity of our economy in the years ahead.

Skills are not only important to business – they increase the ability of employees to find satisfying work. And the chances of doing that are better today than they have been for three decades.

As our economy changes the nature of work may change but a strong vocational and technical education system will better equip employees to upskill and adapt.

In this Budget I announce an extra 4,500 pre-vocational training places for people interested in a career in a traditional trade, and an additional 7,000 School Based New Apprenticeships so more students can begin their apprenticeship while continuing their school studies.

And as we promised during the election, this Government will establish 24 Australian Technical Colleges for 7,200 year 11 and 12 students. This will allow young Australians an opportunity to learn the best trade skills. It will enhance the prestige of technical education. We should value trade training as highly as any other form of post-secondary education.

At a time when we have low unemployment we will help meet immediate labour shortages by increasing our skilled migration intake by 20,000 places in 2005-06 to 97,500. Business will be supported in identifying their needs for skilled migration, and identifying those who can provide it.

Along with our \$5 billion investment through the vocational education and training agreements, these initiatives represent a comprehensive approach to meeting Australia's skills needs now and into the future.

A SUSTAINABLE FIRST-CLASS HEALTH SYSTEM

The Australian Government is budgeting to spend \$45 billion on health and aged care in 2005-06 compared to \$20 billion in 1995-96.

This funding includes Medicare rebates, the Medicare Safety Net, payments to the states for state hospitals, the Pharmaceutical Benefits Scheme, Home and Community Care and aged care.

As a result of scientific advance and the ageing of the population, no area of spending will grow faster than health in the coming decades.

Our population is entitled to first-class health services. But we will only be able to afford them if we get health costs on a sustainable financial basis.

Pharmaceutical and Medicare benefits

Mr Speaker, Australians continue to have access to new improved drugs under the Pharmaceutical Benefits Scheme. Over 70 new drugs have been listed since the last Budget, and access to a further 55 have been expanded. This Budget will continue special funding for the life-extending drug Herceptin to treat breast cancer – at a cost between \$50,000 and \$100,000 per patient per year.

To sustain the affordability of new drugs the Government will ensure significant price reductions when the first new brand of an existing medicine is added to the PBS.

At present no matter the cost of a prescription drug the price charged to a concession-card holder is \$4.60 and to general patients \$28.60. Some of these pharmaceuticals cost hundreds of dollars, some cost thousands. After 52 scripts in a year the concession-card holder is entitled to free scripts for the rest of the year.

Sometimes this has led to hoarding. So from 1 January 2006 the PBS Safety Net will increase by two scripts per year each year until 2009. For general patients, the Safety Net threshold increases will be the dollar equivalent of 2 prescriptions per year.

Mr Speaker, the Government will also raise the Medicare Safety Net thresholds to the levels the Government originally proposed. Setting the thresholds at these levels will help ensure the sustainability of this important Government initiative.

It is only under this Government that a Safety Net will exist at all, covering 80 per cent of out-of-pocket, out-of-hospital Medicare costs over the thresholds.

The Medicare Safety Net is expected to pay over \$1.1 billion in benefits over the next four years. Around 1.5 million Australians are expected to receive benefits in 2006.

The Government has also made significant investments in Medicare, which have made GP services more accessible and affordable, and sustained an increase in bulk-billing rates across the country. The Medicare rebate for GP services was increased to 100 per cent of the schedule fee on 1 January 2005 at a cost of \$2.3 billion over five years.

The changes I announce tonight ensure that future generations can continue to receive first-class health care services. Small steps taken today will help to put the health system on a sustainable basis for the future.

Mr Speaker, in this Budget the Government is providing new investment to tackle cancer and dementia.

Cancer

Cancer is a cruel disease. We all know someone who has it, or has died from it. It is the largest underlying cause of death in Australia.

Mr Speaker, this Budget includes a major package to improve cancer care through bowel cancer screening, dedicated cancer research, training of cancer nurses, and increased funding for palliative care.

However the best way to beat cancer is to prevent it. Screening and prevention initiatives are therefore an important element of funding in this Budget. The Government will provide \$5.5 million over two years to raise national awareness of skin cancer and encourage action to prevent it.

And we all know that smoking causes cancer and heart disease. While smoking rates have declined in recent years, far too many young Australians continue to smoke — with 43,000 teenagers becoming regular smokers each year. Tonight I am announcing a new Youth Campaign, which will commit \$25 million over four years to help discourage young Australians from taking up smoking.

Dementia

Mr Speaker this Budget makes dementia a National Health Priority. The \$321 million package will enhance the quality of life of dementia sufferers and their carers. It includes 2000 new Extended Aged Care at Home places dedicated to people with dementia, which will provide them with individually planned and coordinated nursing care and support services to help them remain living at home for longer, in familiar surroundings.

As life expectancy increases, dementia will become more common. Accordingly the package will offer more opportunities for dementia-specific training for carers, community and residential care workers, and people working in services such as the police, transport and emergency services.

RECOGNISING THE CONTRIBUTION OF CARERS

Carer Payment is available to a person on low income providing constant care for a person with a disability or a child with a profound disability. Carer Allowance is available where a person provides daily care to a person with a disability.

In recognition of the contribution these people make, tonight I announce as I did last Budget an additional \$1,000 to be paid to those 90,000 people on the Carer Payment and an additional \$600 payment to those 300,000 receiving Carer Allowance. These are people helping those who cannot look after themselves. We value the work they do. They deserve this recognition. It will cost \$317 million in this year. It will not affect the carer's social security entitlements and it is tax-free.

SUPERANNUATION SAVINGS

Mr Speaker, this Government is committed to providing Australians with greater choice and flexibility in their retirement income arrangements.

Last year I announced a new scheme for low and middle income earners under which a Government co-contribution of \$1.50 would be paid into superannuation for each after tax dollar a qualifying person contributed themselves. I also announced a plan to reduce the superannuation surcharge for middle and upper income earners.

The surcharge was introduced in 1996 when Labor left a large Budget deficit. We have now paid off most of Labor's legacy. We have previously tried to reduce this surcharge but the Labor Party has blocked it, so tonight I announce the complete abolition of the surcharge from contributions and termination payments made or received from 1 July 2005. This measure will save taxpayers \$2.5 billion over the next four years.

INVESTING FOR THE FUTURE

Mr Speaker, through prudent management of the Budget the Government has been able to run a succession of Budget surpluses. This has allowed us to retire most of the \$96 billion debt we inherited on coming to office. Australia's performance in reducing debt is the envy of many countries around the world.

Our task now is to begin saving for the future to meet the costs of our ageing population. One way this saving will be done is through a Future Fund. It will begin to fund the liabilities we have already incurred but not yet made provision to pay for. Earnings will accumulate in this Fund and it will be safeguarded by legislation. Whilst the Fund will invest the money allocated to it, no Government will be able to draw money out of it until it is sufficient to meet all the unfunded liabilities to which it is dedicated. A statutory independent board will be created to manage the Fund.

FUNDING TRANSPORT LINKS

Mr Speaker, the availability, efficiency and cost effectiveness of infrastructure crucially affects the productivity of our businesses and contributes significantly to our overall wellbeing. Given the large distances between our major population centres, transport infrastructure is particularly crucial. It is an investment in our future.

Accordingly, in last year's Budget I announced AusLink, the national land transport infrastructure programme to upgrade Australia's road and rail transport systems. Since the last Budget the Government has announced an additional \$1.2 billion in funding, bringing the Government's total commitment to transport infrastructure to \$12 billion between 2004-05 and 2008-09.

Under AusLink the Government will spend \$815 million on the Hume Highway, \$765 million on the Pacific Highway, \$546 million on the Bruce Highway, \$186 million on the Geelong Bypass, \$94 million on the Port River Expressway in South Australia, and \$170 million on the Mandurah Bypass and Kwinana Freeway extension in Western Australia. We will also be committing \$755 million to rail lines along the Eastern Seaboard in conjunction with the Australian Rail Track Corporation.

We are also providing an additional \$150 million over 5 years to expand the Roads to Recovery Programme.

And to ensure that we minimise dangers on our roads, the Government will also provide \$90 million to continue the Road Safety Blackspot Programme.

MAKING BUSINESS COMPETITIVE

Mr Speaker, we have a strong economy. Businesses are growing.

As we go forward, we want our businesses to be as productive and competitive as they can be. And that means government — at all levels — should address impediments to business activity.

Tonight I announce \$1.8 billion of tax cuts to enhance the competitiveness of Australian business. From midnight tonight, the 3 per cent tariff on imported business inputs which do not have substitutes manufactured in Australia will be abolished. This will save business \$1.3 billion over five years.

And the Australian Government will continue to support business to get full relief from state government stamp duties and business taxes that were to be abolished by the GST.

I also announce changes to the tax treatment of certain legitimate business costs which are currently not recognised under the law. Allowing deductions for these so-called 'blackhole' expenditures from 1 July 2005 will cut tax by \$205 million over three years. These changes recognise pre-business expenses and encourage new investment.

PERSONAL TAX CUTS

Australians deserve the lowest possible taxes consistent with responsible budget management and the provision of efficient government services.

After we balance our budget, reduce Labor's debt, and fund our services we should reduce taxes as far as is prudent.

Mr Speaker, tonight I announce further personal income tax cuts worth \$21.7 billion over four years.

These tax cuts will assist low income earners, boost disposable incomes, reward participation and hard work. They build on the \$14.7 billion in income tax cuts provided in last year's Budget.

From 1 July this year, the 17 per cent marginal tax rate will be cut to 15 per cent.

The 42 per cent tax threshold will increase from \$58,000 to \$63,000 on 1 July 2005 and to \$70,000 on 1 July 2006.

From 1 July 2005, the 47 per cent threshold will increase from \$70,000 to \$95,000 and on 1 July 2006 increase again to \$125,000.

These changes ensure that more than 80 per cent of taxpayers face a top marginal income tax rate of 30 per cent or less over the forward estimates period. And from 1 July 2006, the top marginal rate will apply to only 3 per cent of taxpayers.

If the threshold for the top marginal rate had been indexed to inflation since 1996, on 1 July 2006 it would have stood below \$64,000. Under the measures I announce tonight it will stand at \$125,000.

The cut in the lowest rate of tax benefits Seniors too and means that Senior Australians eligible for the Senior Australian Tax Offset will now pay no tax on their annual income up to \$21,968 for a single and no tax on equal incomes up to a joint \$36,494 for a couple.

INTERNATIONAL ENGAGEMENT

Mr Speaker, Australia's economic prosperity will be enhanced by the strength of the economies in our neighbourhood, and our effective integration and engagement with them.

We want to reduce remaining barriers to trade, including through free trade agreements. We have signed the historic agreement with the United States and other agreements are in prospect.

Mr Speaker, we have proven to be a good neighbour. Australians are a generous people. Australians responded in a typical spirit by opening their hearts and wallets to the victims of the Boxing Day tsunami. Many Australians were directly affected by it; we were all touched by the extent of human loss and devastation.

The Australian Government also contributed to the relief effort. Our \$1 billion aid contribution towards the economic and humanitarian rehabilitation of Indonesia is our largest ever single aid contribution.

Our assistance goes beyond the immediate reconstruction needs of Indonesia. It represents a programme of long-term sustained cooperation and capacity building between our two countries.

In light of the events of the tsunami, the Government will develop a Tsunami Warning System to provide 24 hour surveillance for accurate and early detection and warning in the event of a tsunami threatening the west or east coast of Australia or South West Pacific nations. This measure will cost \$68.9 million over the next four years.

Our involvement in Indonesia is part of the Government's commitment to our near neighbours and region. We remain active in ongoing programmes to restore law and order in the Solomon Islands and to improve governance in Papua New Guinea. Funding of more than \$840 million is committed for these purposes in this Budget.

Beyond the region, we remain committed to the stabilisation and reconstruction of Iraq. This Budget provides \$511 million over four years to continue Australia's contribution to this task.

NATIONAL SECURITY

Mr Speaker, this year's Budget continues the Government's strong commitment to Australia's national security. The attack on Australia's Jakarta embassy in September last year highlighted the need to protect our representatives overseas. We will provide \$522 million for protective security, including enhancements at Australia's overseas diplomatic missions.

We are also committing \$226 million to further enhance border protection, including new technologies such as ePassports and biometrics, to help border authorities to verify travellers' identities quickly and reliably.

We will also commit \$239 million to strengthen Australia's intelligence capabilities, in areas such as counter-terrorism investigations and language skills development.

Taking into account measures announced tonight, the Government will have committed \$5.6 billion over the eight year period from 2001-02 to improve security, both at home and in our region.

ECONOMIC OUTLOOK

Mr Speaker, the Australian economy is set to continue its impressive performance. Once again the outlook is for solid economic growth, low unemployment and moderate inflation.

In year-average terms, GDP growth is expected to be 3 per cent in 2005-06, after passing through a period of more modest growth in 2004-05.

The rebalancing of economic growth from domestic to external sources is expected to continue. Strong world demand for mineral exports has increased prices and delivered higher incomes to Australians. Significant investment by mining companies and strong world demand is expected to substantially boost export growth in 2005-06.

The unemployment rate is expected to remain around its 28-year low.

This strong economic performance is not an accident. It requires sound economic management and a commitment to ongoing reform. It requires businesses and consumers that are confident about Australia's future. And it requires prudent policies that lock in our achievements for future generations.

CONCLUSION

This Budget is about sharing the benefits of this strong economic management not just with *more* Australians, but with *all* Australians:-

- to increase their participation in the workforce;
- to build their skills;
- to reward their effort;
- to enhance their security; and
- to fund their future.

I commend the Bill to the House.