STATEMENT 1: BUDGET OVERVIEW

This statement provides an overview of the economic and fiscal outlook, summarises the Government’s fiscal strategy and outlines the key budget priorities.

Consumer price inflation has intensified over the past two years, reaching 4.2 per cent in the year to March 2008. As a result of slower global growth, tighter credit conditions and higher interest rates, economic growth is forecast to moderate to 2¾ per cent in 2008-09. With the economy slowing and tight monetary and fiscal policies in place, inflation is expected to ease to 3¼ per cent by mid 2009.

Powerful countervailing forces are confronting the Australian economy. Slower growth in advanced economies and greater global financial market turbulence could slow growth in the Australian economy. Counteracting this, robust growth in emerging economies is expected to lead to further large rises in Australia’s terms of trade, which will boost income and increase upward pressure on prices. Through this Budget, the Government is putting downward pressure on inflation and helping to keep the economy strong in the face of difficult global financial conditions.

The Government understands that working families are under pressure from the rising cost of living. This Budget implements election commitments to ease pressure on working families by cutting income tax, reducing the costs of educating and looking after children, and making housing more affordable. In particular, the Government is making substantial cuts to income tax, providing eligible parents with a 50 per cent Education Tax Refund, and increasing the Child Care Tax Rebate from 30 to 50 per cent.

The 2008-09 Budget also demonstrates the Government’s commitment to Australia’s future by implementing far-sighted initiatives to strengthen education and skills, infrastructure, health, environmental sustainability and innovation. The Government has re-prioritised spending and taxation to these areas and will invest most of the 2007-08 and 2008-09 Budget surpluses in three new funds for education, health and infrastructure for long-term investment to build a modern nation.

Through a genuine commitment to fiscal responsibility, the Government has ushered in a new era of responsible economic management.

An underlying cash surplus of $21.7 billion (1.8 per cent of GDP) is expected in 2008-09 — the largest surplus as a proportion of GDP since 1999-00 — with further strong surpluses projected in the following three years. The Government has invested responsibly, with every dollar of new spending in 2008-09 on election commitments and other priorities offset by spending cuts. Over four years, the Government has achieved total savings from spending cuts and revenue measures of $33.3 billion, which more than offsets new spending of $27.4 billion.
STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

This Budget delivers for working families, and assists them in dealing with rising costs of living. The Government is meeting the commitments it made to the Australian people in the 2007 election. The Budget outlines far-sighted steps to address the long-term challenges of education and skills, infrastructure, health and climate change. It is an economically responsible budget, delivering a strong surplus of 1.8 per cent of GDP in 2008-09, to put downward pressure on inflation and help build a strong economy in the face of difficult global financial conditions.

ECONOMIC OUTLOOK

Consumer price inflation has intensified over recent years, reaching 4.2 per cent through the year to March 2008. Powerful countervailing forces are confronting the Australian economy. As a result of slower growth in advanced economies and tighter credit conditions, economic growth is forecast to moderate to 2¼ per cent in 2008-09. This, combined with higher interest rates, is expected to lead to a moderation in employment growth and gradually ease price pressures.

Counteracting this, robust growth in emerging economies is expected to lead to further large rises in Australia’s terms of trade, which are already at levels not seen since the early 1950s. Strong rises in the terms of trade will boost income and increase upward pressure on prices. As a result, nominal GDP growth is expected to accelerate to 9¼ per cent in 2008-09, notwithstanding the slowing in real activity. If realised, this would be the fastest rate of growth since the late 1980s. Consumer price inflation is forecast to be 4 per cent through the year to June 2008 and 3¼ per cent through the year to June 2009.

The major economic parameters used in preparing the Budget are contained in Table 1.

Table 1: Major economic parameters

<table>
<thead>
<tr>
<th></th>
<th>Forecasts</th>
<th>Projections</th>
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<tbody>
<tr>
<td></td>
<td>2007-08</td>
<td>2008-09</td>
</tr>
<tr>
<td>Real GDP</td>
<td>3 1/2</td>
<td>2 3/4</td>
</tr>
<tr>
<td>Employment</td>
<td>2 1/2</td>
<td>1 1/4</td>
</tr>
<tr>
<td>Wage Price Index</td>
<td>4 1/4</td>
<td>4 1/4</td>
</tr>
<tr>
<td>CPI</td>
<td>4</td>
<td>3 1/4</td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>7 3/4</td>
<td>9 1/4</td>
</tr>
</tbody>
</table>

(a) All parameters except the CPI are year average percentage changes. The CPI is through the year growth to the June quarter. As in previous budgets, projections assume a two-year step down in non-rural commodity prices. Source: Treasury.
FISCAL STRATEGY

Current economic conditions require a strong budget surplus, in order to:

• bear down on the inflationary pressures in the economy by reducing public demand;

• provide funding through current and future budget surpluses for future capital investment in the infrastructure, education, health and hospital needs of the nation; and

• ensure a strong financial position at a time of heightened uncertainty in the international economy.

Given these conditions, the fiscal strategy for the 2008-09 Budget year honours the Government’s commitment to:

• achieve a budget surplus of at least 1.5 per cent of GDP;

• ‘bank’ rather than spend revisions to tax receipts; and

• reorient spending and taxation arrangements so that new spending is fully offset by savings in existing programs.

The fiscal strategy for the 2008-09 Budget year is consistent with the Government’s medium term strategy of ensuring fiscal sustainability by:

• achieving budget surpluses, on average, over the medium term;

• keeping taxation as a share of GDP on average below the level for 2007-08; and

• improving the Government’s net financial worth over the medium term.

FISCAL OUTLOOK

The Government has achieved the fiscal strategy for the 2008-09 Budget that it promised the Australian people. The 2008-09 Budget:

• delivers a budget surplus of 1.8 per cent of GDP, up from the 1.2 per cent surplus forecast in the Pre-Election Economic and Fiscal Outlook 2007 (2007 PEFO);

• banks all tax receipt windfalls since the election, adding $3.0 billion to the surplus in 2008-09;
Statement 1: Budget Overview

- reins in growth of new spending in 2008-09 to 1.1 per cent in real terms, the lowest rate of growth in nine years. This has been achieved by reprioritising spending so that all new spending in 2008-09 on election commitments and other priorities is offset by spending cuts;

- achieves total cash savings of $7.3 billion from spending cuts and revenue measures in 2008-09 and $33.3 billion over four years, that more than offset new measures over the four years;

- reprioritises spending to achieve the Government’s promise to deliver for working families and to meet the Government’s commitment to Australia’s future by addressing education, infrastructure, health and hospital needs; and

- reduces taxation as a share of GDP from 24.7 per cent in 2007-08 to 23.8 per cent in 2008-09.

An underlying cash surplus of $21.7 billion is expected in 2008-09 compared with an estimated surplus of $14.3 billion at the 2007 PEFO. In accrual terms, a fiscal surplus of $23.1 billion is estimated for 2008-09 compared to $13.6 billion at 2007 PEFO. The fiscal outlook is for continuing underlying cash and fiscal surpluses in the forward years.

Table 2: Budget aggregates

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Underlying cash balance ($b)(a)</td>
<td>17.2</td>
<td>16.8</td>
<td>21.7</td>
<td>19.7</td>
<td>19.0</td>
<td>18.9</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>1.6</td>
<td>1.5</td>
<td>1.8</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Fiscal balance ($b)</td>
<td>17.2</td>
<td>20.4</td>
<td>23.1</td>
<td>22.4</td>
<td>23.3</td>
<td>22.6</td>
</tr>
<tr>
<td>Per cent of GDP</td>
<td>1.6</td>
<td>1.8</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
</tr>
</tbody>
</table>

(a) The 2006-07 figures have been adjusted to reflect the recognition of GST as an Australian Government tax.

Source: Data are for the Australian Government general government sector, sourced from Statement 9.

Budget Priorities and Overview

The key priorities in the 2008-09 Budget are to:

- deliver on the Government’s commitment to help working families cope with day-to-day cost of living pressures through the Government’s Working Families Support Package;

- meet the Government’s commitment to Australia’s future by investing now in education and skills, infrastructure, health and environmental sustainability;
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- invest budget surpluses in three new nation building funds — the Education Investment Fund, the Building Australia Fund and the Health and Hospitals Fund. From 2009-10, these funds will finance ongoing critical investment in higher and vocational education facilities, transport and broadband infrastructure, and hospitals and medical research facilities and projects; and

- usher in a new era of economic responsibility, to deliver a strong budget surplus and reprioritise spending to put downward pressure on inflation and secure the economy against current economic uncertainties.

A responsible budget

Strong inflationary pressures have emerged in the Australian economy in recent years, leading to a tightening of interest rates. Fiscal policy has an important role in supporting monetary policy to bring inflation back under control.

The Government has been highly disciplined in spending, with increases in spending in 2008-09 on election commitments and other priorities more than offset by savings, through cutting inefficient and wasteful programs and delivering administrative efficiencies. Important initiatives are taken in this Budget to restore fairness and integrity to the tax and transfer systems, to ensure that welfare payments are targeted to where they are needed most, and to underpin the sustainability of public finances.

Building productive capacity

The supply capacity of the economy has not kept pace with strong demand in the face of a surge in the terms of trade. This has been reflected in a build up in inflationary pressures.

The Government is addressing the challenge of high inflation by lifting productivity, expanding participation and investing in infrastructure. Productivity in the market sector has averaged 1.4 per cent per year over the past five years, lower than in any other five-year period since the early 1990s. By putting in place education, skills and innovation policies that lift productivity, the Government can help ease pressure on inflation, lift Australia’s economic growth in the medium term and sustain prosperity into the future.

The Government’s practical initiatives to expand participation in the workforce include reducing income tax, improving access to lower cost and better quality child care, improving fairness in the workplace, helping people build up their education and skills, and increasing skilled migration.

The Government is also working with business and the States to take immediate action to expand infrastructure to ease capacity constraints and invest in a better, faster broadband network.
Rewarding working families

This Budget ensures that working families are rewarded for their effort and helps ease cost of living pressures. The Government is helping working families by cutting income tax and reducing the costs of looking after and educating children. The Government is implementing a housing affordability package which makes it easier for families to buy their first home and boosts the supply of affordable housing for rent and purchase. The Government is also taking practical steps to make sure that grocery and petrol prices are competitive.

The Government values the contribution made by older Australians and carers, and is providing much-needed financial relief to them, including by making payments before 30 June 2008. The Government is also working to close the gap on Indigenous disadvantage, to support the homeless, and to increase overseas development assistance.

Investing in our future

The Government will establish three new nation building funds — a Building Australia Fund (BAF), an Education Investment Fund (EIF) and a Health and Hospitals Fund (HHF). Subject to final budget outcomes, the Government intends to make initial contributions to these funds from the 2007-08 and 2008-09 Budget surpluses, once realised. Including transfers from the Higher Education Endowment Fund and Communications Fund, which will be absorbed into the EIF and BAF respectively, this will provide in the order of $40 billion for future capital investment in infrastructure, higher and vocational education and health to modernise and reinvigorate the Australian economy. This meets the Government’s commitment to invest in a National Broadband Network with disbursements dependent on the final outcome of the recently commenced Requests for Proposals process and the Government’s consideration of the Glasson Review.

Both the capital and earnings of these funds will be available over time to finance appropriate projects. All projects financed from the funds will need to satisfy rigorous evaluation criteria assessed by independent bodies. Provision for financing such projects has been incorporated into the budget aggregates from 2009-10 onwards. The Government will make further contributions from future surpluses as appropriate.

Where funds are used to finance projects with the States, they will be channelled to the States through a new Council of Australian Governments (COAG) Reform Fund. The COAG Reform Fund will also channel funding provided in future budgets to the States for recurrent expenditure in areas of COAG national reforms through National Partnership payments.

To ensure that total spending from the funds is consistent with the Government’s macroeconomic goals, the Loan Council will provide advice to Governments on whether the proposed spending envelope from the funds each year can be delivered in
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the prevailing economic conditions without prejudicing the Government’s inflation target. The Loan Council will not approve or advise on individual infrastructure projects.

The Government will make an early start to identify suitable projects by funding infrastructure feasibility studies in 2007-08 with the States on high-priority projects, with the intention of improving major transport networks and easing congestion.

The creation of the new funds does not prejudice the objectives of the Future Fund, which remains on track to fully fund superannuation liabilities for Australian Government employees by the target date of 2020. The Future Fund Board of Guardians will also manage these three new funds.

The 2008-09 Budget lays the foundation for a more modern Australian economy. With major initiatives in education and skills, infrastructure, health and environmental sustainability, the Government is investing in Australia’s future prosperity.

Making federalism work

Cooperative federalism is an important element of responsible economic management in Australia. Through COAG, the Government is now working closely with the States to deliver better services and produce the right outcomes on matters that affect the daily life of Australians – health and ageing, education and training, climate change and water, infrastructure, business regulation and competition, housing, and Indigenous disadvantage.

The Government is restructuring the system of payments from the Commonwealth to the States, streamlining specific purpose payments and creating new National Partnership payments.

Working Families Support Package

The Government is delivering its commitment to help working families cope with day-to-day cost of living pressures through its Working Families Support Package. In this Budget, the Government is helping working families by cutting income tax, reducing the costs of educating and looking after children, making housing more affordable, and making sure that grocery and petrol prices are competitive.

Personal income tax cuts

The Government will deliver its election commitment to cut personal income tax over the next three years. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce.
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From 1 July 2008, the 30 per cent threshold will increase from $30,001 to $34,001, the 40 per cent threshold will increase from $75,001 to $80,001, and the 45 per cent threshold will increase from $150,001 to $180,001. In addition, from 1 July 2009, the 30 per cent threshold will be further increased to $35,001 and the 40 per cent tax rate will be reduced to 38 per cent. From 1 July 2010, the 30 per cent threshold will be increased again to $37,001 and the 38 per cent tax rate will be reduced to 37 per cent.

Table 3 outlines the personal tax rates and thresholds over the next three years.

**Table 3: Personal tax rates and thresholds**

<table>
<thead>
<tr>
<th>Taxable income ($)</th>
<th>Rate (%)</th>
<th>Taxable income ($)</th>
<th>Rate (%)</th>
<th>Taxable income ($)</th>
<th>Rate (%)</th>
<th>Taxable income ($)</th>
<th>Rate (%)</th>
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<tbody>
<tr>
<td>0 - 6,000</td>
<td>0</td>
<td>0 - 6,000</td>
<td>0</td>
<td>0 - 6,000</td>
<td>0</td>
<td>0 - 6,000</td>
<td>0</td>
</tr>
<tr>
<td>6,001 - 30,000</td>
<td>15</td>
<td>6,001 - 34,000</td>
<td>15</td>
<td>6,001 - 35,000</td>
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<td>6,001 - 37,000</td>
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<td>30,001 - 75,000</td>
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<td>30</td>
<td>30,001 - 80,000</td>
<td>30</td>
<td>37,001 - 80,000</td>
<td>30</td>
</tr>
<tr>
<td>75,001 - 150,000</td>
<td>40</td>
<td>80,001 - 180,000</td>
<td>40</td>
<td>80,001 - 180,000</td>
<td>40</td>
<td>80,001 - 180,000</td>
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</tr>
<tr>
<td>150,001 +</td>
<td>45</td>
<td>180,001 +</td>
<td>45</td>
<td>180,001 +</td>
<td>45</td>
<td>180,001 +</td>
<td>45</td>
</tr>
</tbody>
</table>

LITO $750 $1,200 $1,350 $1,500
Effective tax free threshold $11,000 $14,000 $15,000 $16,000

Low and middle income earners will be further assisted through an increase in the low income tax offset (LITO). From 1 July 2008, the LITO will increase from $750 to $1,200. It will continue to be withdrawn from an income level of $30,000. Those eligible for the full LITO will not pay tax after assessment until their annual income exceeds at least $14,000 (up from the current level of $11,000). Further increases in the LITO, to $1,350 from 1 July 2009 and to $1,500 from 1 July 2010, will mean that the effective tax free threshold will increase further to at least $15,000 in 2009-10 and $16,000 in 2010-11.

Given the large increase in the amount of the LITO, new withholding schedules will be created so that low and average income earners will receive half of the benefits of the LITO through their regular pay, rather than receiving the total as a lump sum when their income tax returns are assessed. This will bolster participation incentives by allowing people to gain sooner the rewards from work.

Senior Australians will also benefit from these changes. Senior Australians eligible for the senior Australians tax offset (SATO) and the LITO currently do not pay tax until they reach an annual income of at least $25,867 for singles and $21,680 for each member of a couple. As a result of the Government’s tax plan, from 1 July 2008 these income levels will be lifted to $28,867 for singles and $24,680 for each member of a couple. By 2010-11, the income levels will be $30,685 for singles and $26,680 for each member of a couple.
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Chart 1 shows the 2008-09 tax cuts as a per cent of taxable income.

![Chart 1: Tax cut as a per cent of taxable income](chart)

Source: Treasury.

Aspirations for the tax system

The Government has a goal over the next six years that by 2013-14 the personal income tax system will have the following features:

- a reduction in the number of marginal tax rates from four to three;
- a reduction in the current 45 per cent rate to 40 per cent; and
- a reduction in the current 40 per cent rate (which by 2010-11 will be 37 per cent) to 30 per cent.

The Government also has a goal of increasing the LITO to $2,100 by 2012-13 so as to create an effective tax free threshold of $20,000. The effective tax free threshold for senior Australians eligible for the SATO will increase commensurately. The fringe benefits tax rate will be reduced reflecting reductions in the top marginal tax rate.

Achieving this six year goal will depend on economic conditions and the need to maintain fiscal responsibility.

The Government has taken the first steps towards achieving this goal by delivering the planned tax cuts in 2008-09 to 2010-11 and by making an initial provision to enable further tax cuts to be delivered from 2011-12.
Helping families meet the cost of caring for and educating their children

The 2008-09 Budget includes initiatives to help families cover the cost of caring for and educating their children.

Helping families meet the cost of caring for their children

The Government will increase the Child Care Tax Rebate from 30 per cent to 50 per cent at a cost of $1.6 billion over four years. This will ensure that in addition to any Child Care Benefit payable, half of a family’s total out of pocket child care costs will be met each year. The cap on the amount that can be paid will also be lifted from the current amount of $4,354 to $7,500 per child. In addition, the Government will pay the 50 per cent Child Care Tax Rebate every three months, instead of once a year, providing support to families closer to when costs are incurred.

Helping families meet the cost of educating their children

From 1 July 2008, the Government will provide eligible parents with an Education Tax Refund. Parents who receive Family Tax Benefit Part A and have children undertaking either primary or secondary school studies or whose school children receive Youth Allowance or a related payment will be able to claim a 50 per cent refund every year on eligible educational expenses.

The amount that can be claimed is up to:

- $750 for each child undertaking primary school studies, giving a refund of up to $375 per child, per year; and
- $1,500 for each child undertaking secondary school studies, giving a refund of up to $750 per child, per year.

The Education Tax Refund is expected to cost $4.4 billion over four years.

These changes will make a genuine difference to the daily lives of working families. Chart 2 shows the increase in disposable income from 2007-08 to 2008-09 that a couple with one child in long day care and one child in primary school could expect to receive under the new tax, child care and education arrangements. The example shows the gains in family disposable income for a family with the primary earner on $40,000 and the secondary earner on $30,000 when full-time, at different days worked for the second earner.
Improving housing affordability

The Government recognises that rising interest rates and house prices are making it difficult for families to buy their own home and that rental costs have been increasing strongly. This Budget includes significant measures to assist home buyers and renters and to drive reforms that boost housing supply. The Budget provides $2.2 billion of assistance over four years to help make housing more affordable.

One of the greatest obstacles to buying a first home is saving for a deposit. The Government recognises that home ownership is important to the wellbeing of Australians and will introduce enhanced low tax First Home Saver Accounts to assist first home buyers in meeting this challenge. These Accounts will also encourage households to increase their own saving by providing significantly higher after-tax returns than conventional savings accounts.

The first $5,000 of individual contributions to First Home Saver Accounts each year will now attract a Government contribution of 17 per cent. Earnings will be taxed at a low rate of 15 per cent, and withdrawals will be tax-free if used to purchase or build a first home in which to live. The rate of Government contribution has been changed to a flat 17 per cent in order to increase assistance to low and middle income earners. Other changes have been made to simplify the operation of the Accounts for both providers and users. This initiative will help strengthen a savings culture. The Government will provide $1.2 billion for the Accounts over the first four years.
To encourage construction of affordable rental housing for households with limited means, the Government will provide $623 million over four years for a National Rental Affordability Scheme. The Scheme will provide incentives for investors to build up to 50,000 new rental properties by 2011-12 to be rented at least 20 per cent below market rates. Subject to market conditions, the Government will expand the Scheme to build a further 50,000 new dwellings from 2012-13.

The Government will also introduce a Housing Affordability Fund worth $500 million over five years to increase the supply of housing and reduce final costs to home buyers. The fund will help reduce the costs of providing new housing related infrastructure and improve development approval processes, to generate savings for home buyers. The Fund will commit up to $30 million to roll out the Electronic Development Assessment project across the country to help speed up planning processes.

The Government will also establish a National Housing Supply Council to assess the adequacy of housing supply over the next 20 years, and will be identifying surplus Commonwealth land that could be developed into additional new housing.

To help Australians experiencing rental or mortgage stress, the Government is increasing funding for financial counselling services. Funding for Centrelink’s Financial Information Service will be increased by $10 million over four years, and funding for the Commonwealth Financial Counselling program will be doubled, bringing it to $10 million over four years. This funding is aimed at improving financial literacy and management skills in the community, particularly in those areas with little or no access to financial counselling services. The extra funds will be used for practical tools and resources to provide individuals and families with support and information to better manage their personal financial affairs, including coping with increased mortgage payments.

**Fair and competitive grocery and petrol prices**

The Government recognises that families face significant cost of living pressures caused by rising grocery and petrol prices. The Government has undertaken practical initiatives to help ensure all Australians do not pay more than they have to for groceries and petrol.

**Groceries**

The Government is committed to doing all it can to ensure that prices at the supermarket are fair.

The Australian Competition and Consumer Commission (ACCC) has been directed to undertake an inquiry into the competitiveness of grocery prices in Australia and report its findings by 31 July 2008. The Government wants to ensure consumers have access to a more competitive market for basic food items and has instructed the ACCC to take
Statement 1: Budget Overview

a broad approach to its inquiry so that all aspects of the grocery supply chain are included — from the farm gate to the checkout counter.

The Government has also directed the ACCC to undertake a monthly survey of grocery prices for a typical basket of groceries (for example, meat, vegetables and dairy products) across Australia, and establish a dedicated website for grocery prices. Consumers will benefit as they will be able to determine which supermarket chain in their region provides the lowest price for different baskets of goods.

The Government has also made it easier for foreign supermarket chains to enter the Australian market by relaxing restrictions that previously limited their capacity to acquire and hold vacant land to build new supermarkets. Foreign retailers had advised that previous arrangements were limiting their ability to plan new developments in growth areas.

Petrol

The Government understands the pressures that high petrol prices place on the family budget and is determined to ensure competition and transparency in Australia’s retail petrol market.

The ACCC has been given tough new powers to conduct formal monitoring of the prices, costs and profits relating to the supply of unleaded petrol products in the petroleum industry, and to provide an annual report of its findings. This will help improve retail price transparency and understanding of retail price movements. In addition, the Government has also asked the ACCC to renew its focus on informal monitoring of liquefied petroleum gas (LPG) and diesel prices to determine whether any further powers for the ACCC in this area are appropriate.

The Government has created the new position of Petrol Commissioner at the ACCC. The Petrol Commissioner is responsible for overseeing the ACCC’s formal monitoring of unleaded petrol prices in Australia and the establishment of a National FuelWatch Scheme.

The National FuelWatch Scheme

The Government will introduce a National FuelWatch Scheme on 15 December 2008 that is designed to promote competition and improve price transparency in the Australian retail petrol market.

The National FuelWatch Scheme will require petrol stations to notify the ACCC of their next day’s prices by 2 pm each day and to maintain this advised price for a 24 hour period. It will apply to fuel products, including unleaded petrol, premium unleaded petrol, LPG and diesel. The National FuelWatch Scheme will ensure that consumers are able to make an informed decision about where to buy the cheapest petrol in their area.
The Government will review the effectiveness of the National FuelWatch Scheme 12 months after its commencement.

Supporting older Australians and carers

The Government values the important contribution made to our community by older Australians and carers, and is committed to providing both groups with ongoing support.

Helping seniors and carers make ends meet

To assist with the cost of household bills, the Government has increased the Utilities Allowance from $107.20 per year to $500 per year (with annual indexation) for those of age or service pension age in receipt of income support, and for people receiving the Mature Age Allowance, the Partner Allowance and the Widow Allowance. For the first time, eligibility for the Utilities Allowance has been extended to recipients of the Disability Support Pension and the Carer Payment, irrespective of age. Further, the Government has increased the Seniors Concession Allowance from $218 per year to $500 per year (with annual indexation) to assist self funded retirees with a Commonwealth Seniors Health Card. These payments are now being paid quarterly to better coincide with the arrival of household bills. The Government has also increased the Telephone Allowance from $88 to $132 per year for those with an internet connection. These increases took effect on 20 March 2008 and will cost $5.6 billion over five years.

The Government will provide a further $1.4 billion in lump sum payments to eligible seniors by 30 June 2008. A $500 bonus will be provided to every Australian over age-pension age (or service pension age, where qualifying) in receipt of an income support payment and recipients of the Seniors Concession Allowance, Mature Age Allowance, Partner Allowance, Widow Allowance, Widow B Pension and Wife Pension (see Chart 3).

In recognition of the concern by senior Australians that their cost of living can rise faster than the Consumer Price Index, the Government will introduce new indexation arrangements for the Age and Service Pensions. The Government will index these pensions to the highest of the Consumer Price Index, the Male Total Average Weekly Earnings benchmark or the Living Cost Index for Age Pensioner Households. These arrangements will ensure that the Age and Service Pensions keep pace with both increases in prices and improvements in community living standards.
Recognising and rewarding carers

The Government will provide a further $1.1 billion over five years to carers. This includes $239 million for extending eligibility for the Utilities Allowance to Carer Payment recipients and $15 million relating to the increase in the Telephone Allowance.

By 30 June 2008, the Government will provide $427 million in lump sum payments to eligible carers. A $1,000 bonus will be paid to all recipients of Carer Payment and a $600 bonus will be paid to recipients of Carer Allowance for each eligible person in their care. Recipients of both the Carer Payment and Carer Allowance will be eligible for both payments. These payments are in addition to the annual payment of $1,000 on 1 July to recipients of the Carer Allowance for each child being cared for under the age of 16 years.

Fairer assessment arrangements for accessing the Carer Payment (child) will apply from 1 July 2009, at a cost of $274 million over five years. As a result, an additional 19,000 carers of children with severe disabilities are expected to be able to access the Carer Payment (child) in 2009-10.

The Government will also provide $20 million over four years to help families adjust when a child has experienced a catastrophic event such as a severe illness, a major disability or an injury due to an accident.

Further, the Government will immediately provide an extra $100 million in capital funding to the States to build new supported accommodation for people with
disabilities. Up to 35 new facilities will benefit approximately 200 people who do not have access to appropriate accommodation or whose older carers can no longer provide long term care. This new housing will be supported by the Government’s election commitment to redirect $900 million over four years into the Commonwealth, State and Territory Disability Agreement.

**MEETING OUR COMMITMENTS TO AUSTRALIA’S FUTURE**

The Government is meeting its commitment to Australia’s future by investing in education and skills, infrastructure, health and hospitals and environmental sustainability.

**Funding for the future**

The Government will invest funds from the 2007-08 and 2008-09 surpluses in three nation building funds – the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund – to finance transport and broadband infrastructure, higher education and vocational education and training facilities, and health, hospitals and medical research facilities and projects.

**Education Revolution**

Education and training are crucial to Australia’s economic and social future. Targeted and sustained investment in high quality education contributes to improved economic growth. By helping lift productivity and participation in the economy, education also provides individuals with greater freedom and capacity to take up employment opportunities throughout their lifetime.

In recognition of the importance of education outcomes and the need to improve the quality of training and the skill level of the Australian workforce, the Government committed to an Education Revolution. This Budget implements a range of early actions to ensure a solid foundation for a long-term education reform agenda.

The Government’s plan to improve education and training covers the whole system, from early childhood education to universities. The Budget includes funding of $5.9 billion over five years, focusing on election commitments that will lift educational outcomes and ensure that all Australians have the opportunity to take up further education or training.

Key initiatives in this Budget include:

- $115 million over four years to build the first 38 of 260 planned child care centres in priority areas. The remaining 222 centres will form part of a National Partnership agreement with the States;
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- $534 million over five years to provide a universal preschool year for all four year old children. By 2013 all four year olds will have access to 15 hours a week of play based learning, delivered by a degree qualified early childhood teacher, for 40 weeks per year;

- $577 million over four years to improve literacy and numeracy outcomes for students in Australian schools, following the Government’s commitment for a National Action Plan for Literacy and Numeracy;
  - Details of supporting initiatives are to be finalised during 2008 with the States and non-government school systems;

- $1.2 billion over five years to provide up to $1 million per school to deliver computers and communications technologies to all students in Years 9 to 12, as part of the Government’s Digital Education Revolution;

- $2.5 billion over ten years to provide secondary schools with grants of between $500,000 and $1.5 million to build or upgrade trade training facilities to enhance vocational training for students in Years 9 to 12;

- $62 million over three years for the National Asian Languages and Studies in Schools Program;

- $1.9 billion over five years to deliver up to 630,000 additional training places in the vocational education and training sector to help address current and future skills shortages;

- $626 million over four years to reduce the cost of studying maths and science at university and provide a 50 per cent reduction in HECS repayments for new science and maths graduates who undertake work in a relevant field, such as maths or science teaching;

- $500 million of extra funding before 30 June 2008 to help universities upgrade and maintain teaching, research and other student facilities, to ensure needed capital funding is available in the lead up to financing from the Education Investment Fund;

- $249 million over four years to phase out full-fee paying domestic undergraduate places at public universities; and

- $239 million over four years to double the number of undergraduate Commonwealth scholarships from 44,000 to 88,000 by 2012.

These measures, along with the Government’s National Curriculum commitments, represent the first stages of the Education Revolution. The Government will continue to develop a long-term reform agenda, including with the States through COAG, and
through the Higher Education Review, to ensure that our education and training systems deliver the skills the economy and individuals need to continue to prosper.

**Education Investment Fund**

This reform will be underpinned by a new Education Investment Fund (which absorbs and extends the Higher Education Endowment Fund, HEEF). The Education Investment Fund will provide financing for capital investment in higher education and vocational education and training. Subject to final budget outcomes in 2007-08 and 2008-09, the Government will make an initial contribution to the fund of $5 billion, bringing its total to around $11 billion. The capital and the earnings of the fund will be drawn down over time to invest in the nation’s future education and training needs, with funding for specific projects subject to rigorous evaluation criteria assessed by an independent body. Under these arrangements, the amount of funds available for capital investment in higher education and vocational education and training in coming years will be substantially greater than under the previous arrangements for the HEEF. In the future, this fund could be extended to include schools infrastructure as further contributions are made to the fund.

**High quality health services for all Australians**

Health is a key economic and fiscal priority, particularly given Australia’s ageing population and the rising costs of new medical technologies. As the population ages, it will be essential to ensure that the workforce is as productive as possible. If, due to poor health, people are unable to contribute during their working years or their working years are shortened, wellbeing and economic growth will be reduced. In order to improve the nation’s health and reap efficiencies, the Commonwealth and the States need to plan and work cooperatively together for the future.

The Budget starts this process and focuses on rebuilding and strengthening public health services and improving preventative health care.

**Investing in our health and hospital system**

The Government has committed an immediate allocation of $1 billion to relieve pressure on public hospitals. Overall, this means an increase in Commonwealth funding for public hospitals between 2006-07 and 2008-09 of more than 10 per cent.

The Government will also spend $3.2 billion over five years on the *National Health and Hospitals Reform Plan*, addressing pressing needs of the public health system to ensure all Australians have access to high quality public health services. Funding includes:

- up to $600 million over four years to reduce elective surgery waiting lists, including $150 million to conduct an additional 25,000 procedures in 2008;
- $491 million over five years to assist families cover the cost of an annual preventative dental check-up for eligible teenagers aged between 12 and 17 years;
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- $290 million over three years to reduce public dental waiting lists by funding up to one million additional dental consultations through the Commonwealth Dental Health Program;
- $275 million over five years for GP Super Clinics, bringing GPs and allied health professionals together in the one place to improve chronic disease management;
- $249 million over five years for the Government’s comprehensive National Cancer Plan to foster a holistic approach to tackling the many aspects of this disease;
- $390 million over five years to invest in upgrading hospital and community health infrastructure and improving access to essential medical equipment; and
- $55 million over five years for the National Perinatal Depression Plan to improve the prevention and early detection of antenatal and postnatal depression, as well as improving treatment and support services.

Health and Hospitals Fund

The Government will establish a Health and Hospitals Fund for capital investment in health facilities, including renewal and refurbishment of hospitals, medical technology equipment and major medical research facilities and projects. Subject to final budget outcomes, the Government will make an initial contribution of around $10 billion from the 2007-08 and 2008-09 Budget surpluses, once realised. Both the capital and the earnings of the fund will be fully drawn down over time after specific capital projects are identified. All spending on specific projects will be subject to rigorous evaluation criteria assessed by an independent body. This arrangement ensures that substantial funding is available for worthwhile capital investment in health and hospitals over the next few years.

Boosting the health workforce

The Government will spend $39 million over five years to bring nurses back into the workforce. Financial incentives will be provided to nurses who are currently working outside the nursing profession and agree to return. Incentives will also be provided to hospitals to assist with the re-skilling of returned nurses. As announced under the Government’s Skilling Australia for the Future package, up to 50,000 additional health vocational training places will be created in areas of chronic shortage, including dental health, nursing and indigenous health.

To build the rural health workforce, the Government will expand the Specialist Obstetrician Locum Scheme, increase assistance to the Medical Specialists Outreach Assistance Program, establish the rural and remote placement scheme for allied health students, and double the number of John Flynn Scholarships available to medical students to train in rural and remote practices.
In addition, $35 million over four years will be provided to fund training subsidies for mental health nurses and psychologists. This measure will assist in addressing the nurse workforce shortage, particularly in the mental health sector.

Preventative health care
The Government is determined to improve preventative health.

Addressing binge drinking
The Government’s new national strategy to address the problem of binge drinking by young Australians includes bringing the tax treatment of ready-to-drink alcoholic beverages into line with full-strength spirits. This measure addresses a distortion in the tax treatment of spirits and will discourage the consumption of these beverages by some young people. It is expected to increase revenue to the Government by $3.1 billion over five years. A proportion of this revenue will be redirected to preventative health following the development of the National Health Prevention Strategy, and in conjunction with the States through the COAG process.

The Government will also spend $19 million in early intervention programs that assist young people to assume responsibility for their binge drinking. This initiative targets people under the age of 18 who have been involved in an episode of alcohol abuse and will require participants to undertake educational activities.

These initiatives are in addition to the $35 million previously announced for communities to confront the culture of binge drinking particularly around sporting activities, and to ensure young people are informed about the costs and consequences of binge drinking.

Cancer, obesity and diabetes
This Budget introduces measures to tackle obesity, improve early detection of bowel cancer, improve management of type 1 diabetes, and develop the National Preventative Health Care Strategy. For example, to tackle the growing number of overweight or obese Australians, the Government is fostering healthy eating habits among children, spending $26 million over four years to conduct a basic health assessment of all children starting school and $3 million over two years for the Healthy Habits for Life Guide for parents.

Further, the Government is committing $5 million over four years towards insulin pump subsidies of up to $2,500 for type 1 diabetes sufferers under 18 years of age. These pumps replace frequent insulin injections and greatly enhance the ease and degree of control patients and their parents have over the condition. The risk of the many complications tied to type 1 diabetes will be significantly reduced for the almost 700 young people expected to benefit from this scheme.

As part of the National Cancer Plan, the Government will invest $87 million to expand the National Bowel Cancer Screening Program to screen all 50 year old Australians,
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thereby improving early detection and reducing pressure on hospitals. This program will continue to screen all Australians turning 55 and 65 years of aged from 2008 to 2010.

The Government has appointed a taskforce to develop a National Preventative Health Care Strategy, the first of its kind in Australia, to ensure that preventative health is given the attention required to improve wellbeing and protect the future economy from the costs of chronic disease.

Aged care assistance

The Government will increase the conditional adjustment payment from 7.0 per cent to 8.75 per cent of the recurrent basic subsidy, delivering $408 million to providers of residential aged care. This increase in funding is in addition to annual indexation of the subsidy and will contribute to maintaining the financial viability of aged care providers.

The Government will also fund the States to operate 2000 new transition care places by 2012 to help care for older Australians who are currently waiting in hospitals to be moved to an aged care facility. This measure will free up hospital beds and enable these older Australians to access more appropriate care in a nursing home, at a cost of $293 million over four years.

Fairer private health insurance arrangements

In 1997, the Medicare Levy Surcharge was introduced to encourage high income earners to purchase private health insurance. The income thresholds have not been changed since 1997 but incomes have, resulting in people on average wages now becoming liable for the surcharge. To make the surcharge fairer, the Government will increase the income thresholds from $50,000 to $100,000 a year for singles and from $100,000 to $150,000 a year for couples. As a result, around 400,000 people currently paying the surcharge will no longer be liable.

Prepared for pandemics

The Government will replace expiring stock in the National Medical Stockpile at a cost of $167 million over two years. The replenished stock, consisting largely of anti-viral medicines and pre-pandemic H5N1 vaccines, will maintain the capacity of the health system to respond to communicable disease outbreaks and bioterrorism events.

Closing the gap in Indigenous disadvantage

Indigenous Australians face significantly worse outcomes including in areas such as education and health compared to non-Indigenous Australians. The Government is committed to using Australia’s prosperity to close the gap in Indigenous disadvantage. The Commonwealth is working closely with the States through COAG to achieve this goal.
Specifically, COAG has agreed to:

• close the 17 year life expectancy gap between Indigenous and non-Indigenous Australians within a generation;

• halve the gap in mortality rates between Indigenous and non-Indigenous children under five within a decade;

• halve the gap in reading, writing and numeracy achievement between Indigenous and non-Indigenous students within a decade;

• halve the gap in employment outcomes and opportunities between Indigenous and non-Indigenous Australians within a decade;

• provide all four-year-olds in remote communities with access to early childhood education within five years; and

• at least halve the gap for Indigenous students in Year 12 or equivalent attainment rates by 2020.

A key platform for improved Indigenous outcomes will be the objectives and outcomes for each of the new COAG national agreements in health, early childhood development and schools, vocational education and training, disability services, and affordable housing. This will be complemented by reforms in areas such as service delivery and workforce planning, protective security, alcohol and substance abuse and economic participation and active welfare.

The Government will invest an additional $90 million over five years to provide child and maternity health services to Indigenous Australians; $56 million over four years for an expansion of evidence-based literacy and numeracy programs; $75 million over two years to further expand welfare and employment reform in the Northern Territory; $99 million over five years for additional teachers to teach the children not currently enrolled in school in the communities involved in the Northern Territory Emergency Response; and $29 million over four years for three new secondary boarding colleges in the Northern Territory. This Budget supports the continuation in 2008-09 of measures initiated under the Northern Territory Emergency Response with overall funding of $321 million. An independent 12 month review of the Response will be conducted in the second half of 2008, following which the Government will make further decisions on the future direction of the intervention.

**Tackling climate change**

Climate change is one of the most fundamental economic and environmental challenges facing Australia and the world today. The costs of inaction on climate change far outweigh the costs of action. The Government recognises the seriousness of this challenge and the importance of the global community working together to
address this issue. Ratifying the Kyoto Protocol was the first official act of the Government, and Australia will play an important role in the post-2012 international negotiations.

The Government is moving quickly to implement its comprehensive framework for tackling climate change. The 2008-09 Budget includes measures costing $2.3 billion over five years from 2007-08 to help reduce Australia’s greenhouse gas emissions, adapt to unavoidable climate change, and ensure that Australia shows global leadership in the transition to a low-emissions economy.

The central component of this framework is the introduction of a broad based emissions trading scheme by 2010. Emissions trading, together with complementary measures, is the least cost mechanism for achieving the Government’s goal of reducing greenhouse gas emissions by 60 per cent on 2000 levels by 2050. The Government intends to release final scheme design details, including targets and trajectories, by the end of 2008.

The Government has also committed to introducing a Renewable Energy Target to ensure that 20 per cent of Australia’s electricity supply is generated from renewable sources by 2020.

Measures to modernise the economy for the future and help reduce Australia’s greenhouse gas emissions include:

- $500 million over eight years for a National Clean Coal Fund to support projects and activities that accelerate the development and deployment of clean coal and low emission technologies;

- $500 million over six years for a Renewable Energy Fund to accelerate the development and commercialisation of renewable technologies in Australia and support the new Renewable Energy Target;

- $500 million over five years from 2011-12 for a Green Car Innovation Fund to promote the development and manufacture of low emission vehicles in Australia, promoting the long term sustainability of the Australian automotive industry;

- $150 million over four years for an Energy Innovation Fund to support the development of clean energy technologies in Australia including the establishment of the Australian Solar Institute; and

- $240 million over four years to support business in making the transition to a low-carbon economy through the Clean Business Australia program. This program will provide support to industry to implement cost-saving energy efficiency measures, reduce greenhouse gas emissions and develop products for market that save energy and water.
The 2008-09 Budget also includes measures to help families reduce emissions including:

- $300 million over five years for Green Loans to help Australian households to take practical action on water and energy efficiency at home;

- $150 million over five years for a Low Emissions Plan for Renters to accelerate the use of insulation in existing under-insulated rental homes; and

- $14 million over four years for the Energy Efficiency of Electrical Appliances program, to help families save on their energy bills. This will expand the current six-star Energy Rating Label to a 10 star rating system and will include a greater range of appliances.

The Government is committed to helping countries in our region respond to the challenges of climate change. The 2008-09 Budget includes $150 million over three years to assist countries in our region to prepare for and adapt to the effects of climate change. Australia is also committed to long term cooperation with Papua New Guinea (PNG) through the Australia PNG Forest Carbon Partnership aimed at reducing greenhouse gas emissions from deforestation and forest degradation.

**Securing our natural resources**

**Water for the Future**

Water scarcity poses a significant challenge for the economy and the environment. Many of our river systems are under significant stress and water restrictions in urban areas have become commonplace.

The Government’s new ten year $12.9 billion national water policy framework, *Water for the Future*, brings a strategic and coordinated approach to address the significant urban and rural water challenges facing the nation.

The 2008-09 Budget improves Australia’s water security by establishing:

- the $1 billion National Urban Water and Desalination Plan to attract up to $10 billion worth of investment in desalination, water recycling and major stormwater projects;

- the $255 million National Water Security Plan for Cities and Towns to work in partnership with government and local water authorities to minimise water loss, and invest in more efficient water infrastructure; and

- the $250 million National Rainwater and Greywater Initiative, which will provide rebates of up to $500 for up to 500,000 homes to encourage more households to install rainwater tanks and other household water saving measures.
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Recognising the urgent need to tackle the water crisis, the Government is also fulfilling its commitment to accelerate the provision of $400 million for water efficiency measures and buying water entitlements from willing sellers in the Murray-Darling basin.

Caring for our Country

Protecting the unique nature of Australia’s environment and improving the sustainable management of our natural resources is vital. The Government will provide $2.2 billion over five years for the Caring for our Country Program, an integrated approach to natural resource management that will rehabilitate, conserve and support our unique Australian environment.

The program will direct funding to six national priority areas through the continued engagement of landholders, local communities and regional groups. It will focus on achieving positive, targeted change such as repairing fragile habitats, improving sustainable land management practices, and enhancing the National Reserve System. Progress will be reviewed each year, and reported to the community through an annual report card.

Infrastructure investment to support growth

Australia needs to undertake further reform of investment, market and institutional arrangements for infrastructure to support future economic growth, particularly at a time when infrastructure bottlenecks are frustrating supply and putting upward pressure on prices. The Government is determined to lift Australia’s productive capacity by providing leadership in the planning, financing and provision of significant national infrastructure projects, which encourages private sector involvement, including the best international expertise.

Infrastructure Australia

Infrastructure Australia has been established to ensure there is national leadership on infrastructure development in Australia. It will develop a strategic blueprint for unlocking infrastructure bottlenecks and modernising the nation’s transport, water, energy and communication assets.

Infrastructure Australia is a statutory advisory council consisting of 12 members from industry and all levels of government chaired by Sir Rod Eddington. The Parliament has passed legislation establishing Infrastructure Australia (Infrastructure Australia Act 2008).

To ensure that investment in the nation’s future can start early, the Government is planning infrastructure feasibility studies with the States on high-priority projects, at a cost of $75 million in 2007-08. The studies will examine the feasibility of: upgrading key sections of the Bruce Highway in Far North and North Queensland and the Gateway Motorway in southeast Queensland; upgrading the M5 in Sydney and
constructing the Western Metro rail link in western Sydney; upgrading the Western Ring Road and constructing designated projects in the East-West transport corridor in Melbourne; developing an integrated transport plan for Perth airport; and developing a transport sustainability study for Adelaide.

These feasibility studies will feed into the National Infrastructure Audit to be completed by Infrastructure Australia by the end of 2008. The audit will develop an Infrastructure Priority List for consideration by COAG in March 2009. Infrastructure Australia will also develop best practice guidelines for public private partnerships for consideration by COAG by October 2008.

**Building Australia Fund**

The Government will establish a fund to raise Australia’s productive capacity — the Building Australia Fund (BAF). The BAF will help finance the current shortfall in critical economic infrastructure in transport and communications, such as road, rail, and ports facilities, to ease urban congestion and enable growth in trade, and broadband.

Subject to final budget outcomes, the Government will commit funds to the BAF from the 2007-08 and 2008-09 surpluses, once realised. Both the capital and earnings of the fund will be drawn down over time to finance specific infrastructure projects. This arrangement ensures substantial funding is available for capital investment in infrastructure over the next few years. Spending from the fund on specific projects will be subject to rigorous evaluation by Infrastructure Australia.

The BAF will receive, in instalments, an initial allocation of $20 billion, on current projections. The Communications Fund will be closed and its capital of $2.4 billion absorbed into the BAF, along with $2.7 billion from the partial proceeds of the T3 sale, to help finance the Government’s commitment to invest in a National Broadband Network and regional telecommunications initiatives. Disbursements from the fund on these will be subject to Government consideration of the outcomes of the National Broadband Network Request for Proposals process and the Glasson Review.

**National Broadband Network**

In preparing for future infrastructure needs, the Government has started the process to deliver a National Broadband Network (NBN), which will involve a Government investment of up to $4.7 billion. The NBN will be an open access, high-speed, fibre-based broadband network that is expected to deliver a minimum speed of 12 megabits per second and cover 98 per cent of Australian homes and businesses.

In April 2008, the Government released its request for proposals to roll-out and operate the NBN and expects to make a decision on the preferred proponent(s) in October 2008. Construction is expected to commence by the end of 2008.
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Road and rail infrastructure — AusLink 2

The Government continues to provide funding for key strategic transport programs through AusLink but with a sharper focus on achieving productivity gains. The Government will invest $22.3 billion in road and rail infrastructure over five years from 2009-10 to 2013-14 under a second AusLink national land transport plan (AusLink 2).

Specific projects of note include:

- $1.1 billion for the Ipswich Motorway Upgrade (Queensland);
- $2.5 billion to upgrade the Pacific Highway from Bulahdelah to the Queensland border; and
- $900 million for the Western Ring Road Upgrade (Victoria).

The Government has also commissioned a comprehensive scoping study for a new Melbourne to Brisbane inland rail link. An inland rail link has the potential to cut rail freight times between Melbourne and Brisbane by up to 15 hours, from 36 to 21 hours, which would result in significant productivity gains.

Energy

The Government continues to work closely with the States on energy market reform. These reforms are to ensure that Australia has reliable and efficient energy supplies into the future. In this Budget, the Government will provide $7 million to establish the Australian Energy Market Operator (AEMO). The AEMO will be the national market operator for both electricity and gas. It will also include a new national transmission network planning function to ensure a more coordinated approach to the development of electricity transmission networks. The costs of establishing AEMO will be recovered in later years through fees on market participants.

An innovative future for Australian industry

Innovation is a key driver of productivity and economic growth. The Government will introduce policies designed to encourage Australian business to become more innovative and internationally competitive.

New ideas and new technology

The Government will provide $251 million over five years to establish Enterprise Connect Innovation Centres. The centres will form an industry support network that will connect small and medium-sized businesses with new ideas, knowledge, and technology. The network is designed to help businesses apply this knowledge and technology to build their internal capacity and lift productivity.
The Government will also provide $42 million over four years to 36 Business Enterprise Centres to help them provide advisory services to business owners and managers engaged in starting, growing, or relocating a business.

**Support for research**

Recognising the link between research and innovation, the Government will introduce initiatives to boost Australia’s research capacity, including:

- $326 million over four years to fund four-year Future Fellowships valued at up to $140,000 a year for 1,000 of Australia’s top mid-career researchers; and

- $209 million over four years to double the number of Australian Postgraduate Awards for PhD or Masters by Research students.

**Reviewing existing policies**

The Government has initiated reviews of the national innovation system, the automotive industry and the textile, clothing and footwear industries. An objective of these reviews is to ensure that future policies underpin further innovation and productivity growth.

**Regional development for a sustainable future**

The Government has established Regional Development Australia to engage with local communities to deliver regional solutions. The Government has committed $176 million from 2007-08 over four years to implement its Better Regions initiative and will spend $130 million over four years assisting primary industries to adapt and respond to climate change. The Government’s Enterprise Connect Innovation Centres will assist small and medium businesses, including those in regional areas, become more productive. The Enterprise Connect Innovation Centres will include a $20 million Innovative Regions Centre in Geelong, and offices in regional Australia including Alice Springs and Mackay. The Government has also established a new Office of Northern Australia, with offices in Darwin and Townsville, to provide advice to the Government on issues relevant to northern Australia.

The Government will provide $271 million over four years to fund the Australian Broadband Guarantee. The guarantee provides equitable access to ‘metro-comparable’ broadband services in regional and remote communities and blackspot areas.

**Addressing skill needs with migration**

The Australian labour market is the tightest it has been in a generation, with skill and labour shortages pushing up labour costs and contributing to inflationary pressures. Immigration will continue to be an important contributor to labour supply, with skilled migration in particular helping to address Australia’s skill needs in the short-term while also delivering fiscal benefits.
In the medium to longer-term, the level of net overseas migration plays an important role in maintaining sustainable economic growth. Skilled migration helps assist in addressing Australia’s skill needs. Migration can reduce the rate of population ageing because new migrants are younger on average than the resident population.

The Government is committed to ensuring that skilled migration continues to contribute to the labour needs of the economy as part of a balanced migration program. To this end, the Government is increasing the Migration Program by 37,500 places from 2008-09, bringing the total program to 190,300. Of these additional places, 31,000 will be for migrants in the skilled stream, following on from a one-off increase of 6,000 places for skilled migrants in 2007-08.

The Government is also providing a one-off increase of 500 offshore refugee places to the Humanitarian Program in 2008-09 for Iraqis affected by the conflict in Iraq, taking the total program to 13,500 places in that year. In addition, the Government will provide up to 600 permanent visa places for Iraqi Locally Engaged Employees and their dependent family members who are at risk partially because of their work for the Australian Government. The Government will also provide an increase of 750 Special Humanitarian places from 2009-10, bringing the total program to 13,750 places.

Overall, the 37,500 additional Migration Program places, including 31,000 skilled migrants, are estimated to deliver $1.9 billion over four years in additional revenue (excluding $1 billion of GST revenue that will be paid to the States), more than offsetting the $1.4 billion cost of these additional places arising from increased demand for government services and benefits.

**Strengthening national security**

The Government is committed to strengthening Australia’s national security. Through the Australian Defence Force (ADF) and Australian Federal Police (AFP), the Government is making significant contributions to international security including in Afghanistan, the Middle East, Timor-Leste, and Solomon Islands. Australia is also increasing both the quantity and effectiveness of development assistance to countries afflicted by poverty, especially in the Asia-Pacific region.

**Defence and National Security**

The Government is delivering on its commitment to a modern and well equipped ADF by providing adequate funding and ensuring effective use of Defence dollars.

This Budget meets the Government’s commitment to provide 3 per cent real growth per year on average in Defence’s underlying funding base to 2015-16. To provide even greater funding certainty, the Government has extended this funding guarantee to 2017-18. Growth rates in total Defence spending vary between years due to slippage in acquisitions and other factors. Real growth in total Defence spending is expected to average 4 per cent per year over the next four years, as the Defence White Paper is implemented.
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The White Paper and an audit of the Defence budget will ensure best use of the growing Defence budget and better strategic capability planning into the future. This Budget also provides $5 million for annual independent checks of major acquisition projects.

The Government has committed to finding further efficiencies and savings and to reinvesting these in priority Defence projects, while ensuring no adverse impact on operational capacity. The Government has established an operations reserve to fund Defence’s overseas operations in 2008-09. The new reserve will be drawn from internal resources and funding, and demonstrates a responsible approach to Defence budget management.

Funding to Defence for ADF commitments in this Budget includes:

- $429 million over three years to extend Australia’s military involvement in Afghanistan to June 2009;
- $166 million over two years to extend our military presence in Timor-Leste to June 2009; and
- $14 million in 2008-09 to extend ADF support to the Regional Assistance Mission to Solomon Islands to June 2009.

The Government will meet its commitment to reduce Australia’s military presence in Iraq by withdrawing the main land combat force, beginning mid year, with other contingents to remain, at a total cost of $155 million over two years.

The Government will provide $12 million over four years to trial free provision of basic medical and dental care to ADF dependants in five locations. A further $2 million will be provided to improve prevention and early intervention on mental health issues for current and former ADF members, from recruitment through to rehabilitation and resettlement into civilian life. Both of these initiatives will be funded through the reinvestment of internal savings identified by Defence.

The AFP is also contributing to international security and regional stability. Funding to the AFP for Budget initiatives include:

- $53 million over two years for the AFP to assist Afghanistan’s police to strengthen counter-narcotics measures;
- $54 million over two years for the AFP to provide capacity building assistance to the Timor-Leste police; and
- $75 million over four years for AFP assistance to Pacific policing, including in Samoa, Nauru, and Papua New Guinea.
Overseas development assistance

In responding to the enormous challenge of global poverty, funding for overseas development assistance will increase to around $3.7 billion in 2008-09, from around $3.2 billion in 2007-08.

The Government has taken significant steps to deliver its long-term commitment to achieve a ratio of Official Development Assistance to Gross National Income of 0.5 per cent by 2015-16 by meeting its interim target of 0.35 per cent a year early in 2009-10 and setting the target for 2011-12 to 0.38 per cent. Furthermore, the Government is focused on ensuring the effectiveness of Australia’s aid program, signalled by the publication of Australia’s first Annual Review of Development Effectiveness in March 2008.

Australia’s overseas development assistance program assists developing countries to achieve long term sustainable growth. Economic growth is fundamental to reducing poverty and achieving the United Nations (UN) Millennium Development Goals (MDGs). By making greater use of multilateral organisations, the Government will strengthen its aid partnerships and improve the reach of Australia’s assistance. Reflecting these priorities, new initiatives include:

- $300 million for improving access to clean water and effective sanitation in the Asia Pacific region;
- $200 million to support UN agency leadership of the global efforts to achieve the MDGs, as strengthened UN agency led global responses provide the opportunity for coordinated global development efforts; and
- $127 million to establish a Pacific Region Infrastructure Fund to improve basic infrastructure in the Pacific, as reliable and effective infrastructure is fundamental to achieving economic growth.

Australia as a financial services hub

The Government is committed to securing Australia’s place as a financial services hub in the Asia Pacific region. To this end, the Government will improve the international competitiveness of Australian managed investment trusts by replacing the 30 per cent non-final withholding tax rate that applies to certain distributions with a reduced final withholding tax of 7.5 per cent.

In order to safeguard the integrity of the tax system, the new arrangements will be restricted to countries with which Australia has effective exchange of information (EOI) agreements. The arrangements will be phased in over three years. Foreign investors resident in EOI countries will be subject to a 22.5 per cent non-final withholding tax in the first income year, a 15 per cent final withholding tax in the second income year and 7.5 per cent final withholding tax in later income years. Foreign investors in countries without effective EOI arrangements will be subject to a
30 per cent final withholding tax. Consistent with the need for fairness and integrity in the tax system, this is a strong statement of Australia’s non-tolerance of international tax evasion and avoidance.

While the current regulatory system has done well in the recent financial market turbulence, changes are required to ensure the integrity and stability of our markets. To maintain the attractiveness of Australia as an investment destination, the Government will ensure greater transparency of covered short selling and will review disclosure requirements for equity derivatives.

A NEW ERA OF RESPONSIBLE ECONOMIC MANAGEMENT

This Budget ushers in a new era of economic responsibility, delivering a strong budget surplus and reprioritising spending to sustain growth in the long term, to ensure that fiscal policy plays its part in putting downward pressure on inflation and to ensure a strong economy at a time of international economic uncertainty. The Government has achieved savings by cutting back inefficient and wasteful programs, better targeting income support to those who need it most, reducing distortions in the business tax system, and making government more efficient.

Reprioritising spending

The Government is reducing spending on programs that do not meet the Government’s objectives in the most cost-effective manner. For example, the Government is:

• abolishing Australian Industry Productivity Centres and replacing them with the Enterprise Connect Innovation Centres that will provide greater support to small and medium enterprises particularly in the manufacturing sector;

• closing the Commercial Ready program to avoid supporting projects that would have proceeded without public support and where the national benefits are uncertain, generating savings of $707 million over four years; and

• reforming the workplace relations system, resulting in savings of $394 million over five years.

– Fair Work Australia will replace a multitude of agencies from 1 January 2010 and the modernisation of the award system and the transition away from individual statutory contracts will result in a decreased workload.
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The Government has also reviewed spending within the health system to ensure that it is targeted towards better quality public health services. Savings measures include:

- $201 million over four years from reform of the Practice Incentive Payments Program;
- $105 million over four years from improving funding arrangements for chemotherapy drugs to reduce wastage;
- $103 million over four years from removing rebates for selected pathology tests and $18 million in 2008-09 for reductions in particular collection fees; and
- $70 million over four years from increasing compliance with the Medicare Benefits Schedule.

The Government is seeking greater efficiency across the public sector and has applied a 2 per cent efficiency dividend to most of its agencies to improve cost effectiveness, generating $1.8 billion of savings over five years.

Going forward, through the second stage of its comprehensive review of expenditure, the Government will continue to identify areas where there is scope to achieve further savings.

Employment Services Reforms

The Government is committed to assisting income support recipients improve their skills and move into sustainable employment. From 1 July 2009 the Government will implement a reformed employment services system, with total funding of $3.7 billion over three years. The reformed system will better target assistance to the most disadvantaged job seekers, improve linkages with education and training, create greater flexibility in service delivery and improve engagement with employers.

The reforms will achieve gross savings of $370 million over three years from a more integrated and efficient employment services model.

Pursuing cost-effective service delivery reforms

The Government will spend $10 million in 2008-09 to investigate wide-ranging options to improve the delivery of government services by Centrelink, Medicare Australia and other agencies in the Human Services portfolio.

Funding of $72 million in 2008-09 will also be provided to enable Centrelink to maintain service delivery standards, through more resources for call centres and additional funding to maintain Centrelink’s IT capabilities.

Centrelink compliance activities will be increased to maintain the integrity of the social security system, achieving net savings of $589 million over four years. The
Government has abolished the Access Card announced by the previous Government, which will provide savings of $1.2 billion over five years. The Access Card was a costly and complex project which was difficult to integrate with other key initiatives.

**Fairness and integrity in the transfer and tax systems**

The Government will put fairness and integrity back into the income tax and transfer systems by better targeting benefits to families, making income testing arrangements more comprehensive and tightening the fringe benefits tax and employee share scheme provisions. Fairer systems will generate budget savings and support the delivery of the Government’s broader economic and social policy in a fiscally responsible manner.

The Government will introduce a number of measures to improve the fairness and integrity of the tax and transfer systems. These measures are designed to target assistance to where it is needed most and improve the administration and delivery of payments. They include:

- introducing an additional income test on Family Tax Benefit Part B from 1 July 2008 so that it will only be available to families in which the principal earner has an annual income up to and including $150,000 per year;

- introducing an income test of $150,000 on the Dependent Spouse, Housekeeper, Child-Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets from 1 July 2008;

- from 1 July 2009, aligning the definition of income for income testing these offsets with that applying to family assistance;

- increasing the Baby Bonus to $5,000 from 1 July 2008 and reforming it from 1 January 2009 by introducing an income test so that it will only be available where family income is not greater than $150,000 per year (assessed as not more than $75,000 in the six months after the birth of a child), paying it in instalments over six months for all recipients, indexing it annually, and extending eligibility to parents who adopt children under 16 years of age;

- removing the minimum rate of Child Care Benefit for high income earners, while ensuring that previous minimum rate recipients maintain eligibility for the enhanced Child Care Tax Rebate; and

- improving the administration of family assistance by moving functions from the Australian Taxation Office to Centrelink.

The definitions of income used to income-test government financial assistance have not kept pace with the range of remuneration and investment structures now available to selected people in the workforce. This has enabled some high income earners to
structure their affairs to access financial assistance. The Government will improve fairness by broadening the definition of income to include certain salary sacrificed contributions to superannuation, net financial investment and rental property losses and reportable fringe benefits, amounting to $522 million of savings over four years.

In recent years, innovative tax planning arrangements and changes in technology have eroded the fringe benefits tax (FBT) base. The Government will restore fairness and integrity in the taxation of fringe benefits by subjecting ‘meal card’ type arrangements to FBT, restricting the FBT exemption for work-related items (such as laptops) to those used primarily for work-related purposes, and removing depreciation deductions to employees for FBT exempt work-related items. Closing these loopholes will save $1.4 billion in revenue over four years.

The Government will also amend the FBT law to restore equity between taxpayers who incur expenses on jointly held investments.

The Government supports employee share schemes as a means to promote increased workplace productivity, but this objective must be achieved in an equitable manner. To ensure integrity, the Government will tighten the rules for choosing the time of assessment for shares and rights to ensure that income is properly included in taxpayer assessments.

**Fairness and integrity in the business tax system**

As part of its broader review of expenditures, the Government has commenced a systematic examination of spending through the tax system to ensure tax concessions operate as intended and are consistent with the Government’s objectives of promoting equity and boosting productivity.

In addition to the FBT changes, the Government will abolish or improve the operation of other tax concessions. All together, this will reduce the drain on tax revenue overall by $8.7 billion over four years. Collectively, these measures will contribute to a fairer tax system, a more productive economy and a fairer return for the use of Australia’s non-renewable resources.

Reducing tax distortions to investment decisions fosters productivity and supports economic growth. Capital expenditure on computer software will now be depreciated over four years, which is the same period as computer hardware. To remove a bias in favour of capital protected investments, the interest expense apportionment rules will also be changed.

In addition, the Government will end the crude oil excise exemption for condensate—a light crude oil extracted from natural gas—increasing the return to the community from the use of this non-renewable resource.
Since 1979, successive Australian Governments have taxed ‘luxury’ vehicles more heavily than other vehicles. The Government believes that Australians who can afford luxury vehicles have the capacity to contribute to revenue at a higher rate than other car buyers. The Government considers it appropriate to increase the luxury car tax rate from 25 per cent to 33 per cent from 1 July 2008. The measure is expected to raise $555 million over four years.

**Australia’s Future Tax System**

A major theme of the 2020 Summit was ‘the need for a holistic tax system that is fair, simple and efficient. Australia needs a tax system that supports the global competitiveness of our economy, provides incentives, minimises distortions and supports fiscal responsibility.’

The Government has commissioned a comprehensive review of Australia’s tax system to create a tax structure that will position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The review will encompass Australian Government and State taxes, and interactions with the transfer system. It will reflect the Government’s policies not to increase the rate or broaden the base of the GST and to preserve the tax-free status of superannuation payments for those aged over 60. It will take into account the Government’s aspirational goals for the income tax scale.

The review will consider:

- the balance of taxes on work, investment and consumption and the role for environmental taxes;
- further improvements to the tax and transfer system facing individuals, working families and retirees;
- the taxation of savings, assets and investments, including the role and structure of company taxation;
- the taxation of consumption (excluding GST), and property and other State taxes;
- simplifying the tax system, including across the Australian Federation; and
- interrelationships between these systems as well as the proposed emissions trading system.

An initial discussion paper will be released by the end of July 2008 and a final report provided to the Treasurer by the end of 2009.