

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

After ten years of sound economic management the Australian Government has eliminated debt in net terms. The consequent reduction in debt servicing costs is producing on-going savings which can be applied to increased investment in physical and intellectual infrastructure.

The Future Fund is provisioning for the anticipated cost of the ageing of the population.

The Government will implement a further stage of tax reform that includes substantial cuts in personal taxes for low and middle-income earners, improvements to the international competitiveness of our top tax rates and enhancements to depreciation tax arrangements to improve business efficiency and competitiveness. In addition, a plan for substantial simplification and enhancement of Australia's superannuation system is being released.

The Government will continue its commitment to families through increasing the income test threshold for the maximum rate of Family Tax Benefit Part A to \$40,000 a year and extending eligibility for the Large Family Supplement to families with three children.

The Government is increasing its commitment to health and medical research by providing additional funding to the National Health and Medical Research Council, along with a number of medical research facilities, and establishing an Australian health and medical research fellowship scheme.

The Government will also provide significant additional funding for road and rail infrastructure of \$2.3 billion, including \$800 million to accelerate duplication of the Hume Highway in southern New South Wales.

The Australian economy is forecast to continue to grow solidly, with GDP growth forecast to strengthen from 2½ per cent in 2005-06 to 3¼ per cent in 2006-07. Moderate inflation, low unemployment and strong business investment will provide a sound basis for sustained economic growth.

An underlying cash surplus of \$10.8 billion is expected in 2006-07, with further surpluses projected for the three years following.

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FISCAL OUTLOOK

The fiscal outlook for Australia continues to remain sound, with the Government forecasting a ninth budget surplus in 2006-07.

Ten years of fiscal and economic achievement has led to the elimination of Government debt in net terms. The consequent reduction in debt servicing costs has produced on-going savings which can be applied to investment in physical and intellectual infrastructure. The 2006-07 Budget advances a number of major initiatives. These include substantial cuts in personal taxes for low and middle-income earners, improvements to the international competitiveness of top marginal income tax rates, enhancements to depreciation tax arrangements to improve business efficiency and competitiveness, and a plan for substantial simplification and enhancement of Australia's superannuation system. The budget also continues the Government's commitment to families through increasing the income test threshold for the maximum rate of Family Tax Benefit Part A, investing significantly in health and medical research and providing significant additional funding for road and rail infrastructure.

An underlying cash surplus of \$10.8 billion is expected in 2006-07 compared with an estimated surplus of \$9.7 billion at the *Mid-Year Economic and Fiscal Outlook 2005-06* (MYEFO). Underlying cash surpluses continue to be projected across the forward estimates, helping to contain inflationary pressures in the economy and adding to national savings.

Table 1: Budget aggregates

	Actual	Estimates		Projections		
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Underlying cash balance (\$b)(a)	13.6	14.8	10.8	10.6	11.2	12.0
Per cent of GDP	1.5	1.5	1.1	1.0	1.0	1.0
Fiscal balance (\$b)	10.8	16.0	10.3	9.9	10.6	13.0
Per cent of GDP	1.2	1.7	1.0	0.9	1.0	1.1

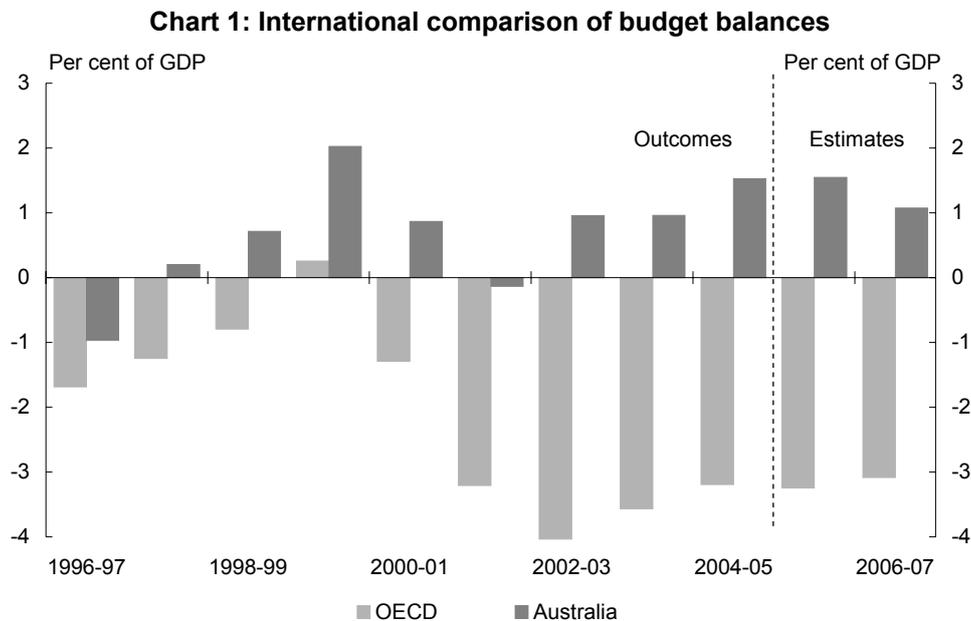
(a) Excludes expected Future Fund earnings from 2005-06 onwards.

In accrual terms, a fiscal surplus of \$10.3 billion is now expected for 2006-07, compared to a surplus of \$9.7 billion estimated at MYEFO.

Net debt has now been eliminated, after falling from a peak of 18.5 per cent of GDP (\$95.8 billion) in 1995-96. Net debt servicing costs have fallen by 1.5 per cent of GDP in this period. Net worth is projected to become positive in 2008-09.

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Australia's very strong fiscal position compared to OECD countries is highlighted in Chart 1. The fiscal position amongst OECD countries, on average, is expected to remain in deficit in 2006-07, notwithstanding strong global growth.



Source: OECD data are for the total general government sector and sourced from OECD Economic Outlook 78, December 2005. Australian data are for the general government sector and sourced from Statement 13.

ECONOMIC OUTLOOK

Prospects for Australian economic growth remain sound, particularly with strong growth anticipated for the world economy. Global growth is driving robust demand for Australian commodities and producing high commodity prices. This is generating a significant boost to the economy, with business investment set to grow strongly over 2006-07 and export growth likely to improve markedly. These developments are benefiting Australian businesses and households by supporting growth in national income.

Australia's GDP is forecast to increase by 3¼ per cent in 2006-07, up from 2½ per cent in 2005-06. Moderate inflation, low unemployment and an expansion in Australia's productive capacity will provide a sound basis for sustained economic growth.

Table 2 presents the major economic parameters used in preparing the budget. The parameters for 2005-06 and 2006-07 are forecasts while those for 2007-08, 2008-09 and 2009-10 are projections.

Table 2: Major economic parameters^(a)

	Forecasts		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10
Real GDP	2 1/2	3 1/4	3 1/2	3 1/4	3 1/4
Employment	2	1	1 1/2	1 1/4	1 1/4
Wage Price Index	4	4	3 3/4	4	4
CPI	3	2 3/4	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 6202.0, 6401.0, 6345.0 and Treasury.

The projections from 2008-09 incorporate an employment growth assumption that has been adjusted down by ¼ of a percentage point to reflect the anticipated decline in labour market participation from the ageing of the population as identified in the *Intergenerational Report 2002-03*. The downward adjustment to employment brings projected real GDP growth down to 3¼ per cent from 2008-09.

Similar to the approach adopted for the 2005-06 Budget, the nominal GDP projections incorporate a technical assumption that iron ore and coal prices return progressively to their long-run average levels. The technical assumption has the effect of reducing nominal GDP growth in 2007-08 and 2008-09.

FISCAL STRATEGY

The Government's medium-term fiscal strategy is an integral part of the economic management framework designed to deliver sustainable economic growth, rising employment and higher living standards.

A medium-term approach to fiscal policy

The primary objective of the medium-term fiscal strategy is to maintain budget balance, on average, over the course of the economic cycle. This helps deliver macroeconomic stability, encourages private investment in a low interest rate environment, entrenches low public debt and ensures that, over time, the current account continues to reflect private, profit driven, saving and investment decisions.

The Government's medium-term fiscal strategy has a number of supplementary objectives, including: maintaining budget surpluses over the forward estimates period while growth prospects are sound; not increasing the overall tax burden from 1996-97 levels; and improving the Australian Government's net worth position over the medium to longer-term. The supplementary objective of no increase in the overall tax burden means that the Government achieves budget balance over the cycle through a disciplined approach to spending and not by recourse to increased taxation.

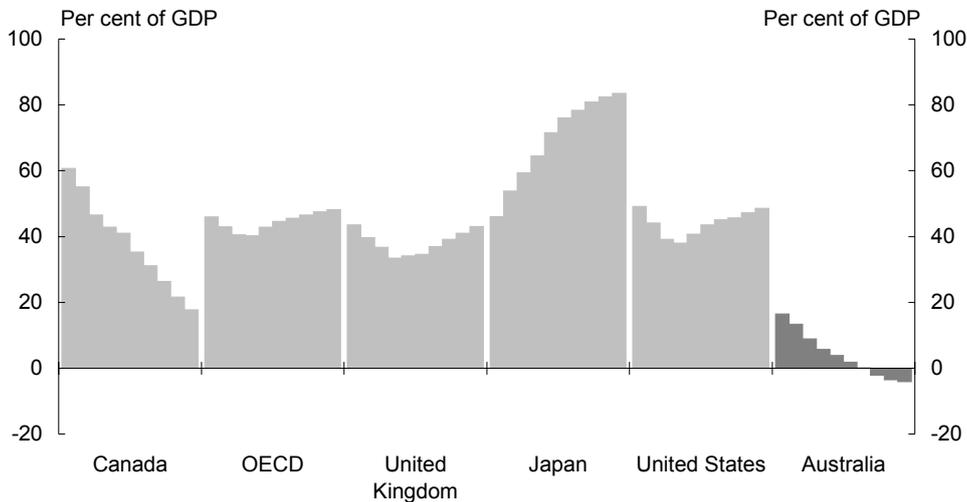
Consistent with the Government's fiscal strategy, this budget delivers a surplus in 2006-07 and surpluses over the medium-term. This will help contain inflationary pressures in the economy and will add to national savings. The fiscal strategy is

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complemented by a monetary policy framework which will continue to foster sustainable economic growth with low inflation and low interest rates into the future.

Sound economic management has seen the Australian economy enjoy output growth that has been one of the strongest and most stable on record. Since the recession of the early 1990s, Australia's GDP growth has averaged around 3¾ per cent per annum, having successfully navigated a number of major global shocks, including the east-Asian financial crisis in 1997, the global downturn in 2001, as well as severe drought conditions in Australia in 2002-03. During this period the Government has not only undertaken significant structural and taxation reform, but has also delivered a major reduction in the level of general government net debt. Australia is now one of only a few countries among the OECD with negative net debt (Chart 2).

Chart 2: General government net debt levels in selected countries (1998 to 2007)



Source: International data are sourced from OECD Economic Outlook 78, December 2005. Australian data are sourced from Statement 12. All data are for the total general government sector.

This transition to debt free status has enabled the Government to redirect expenditure away from interest payments on debt to spending on health, education and national security, while also investing for the future. Investing for the future has been a key theme of this Government. Central to this theme is the establishment of the Future Fund, in which funds will be gradually accumulated to meet the Commonwealth's superannuation liability – the largest liability on the Government's balance sheet, currently valued at around \$96 billion.

The Government has established the Future Fund with an initial capital injection of \$18 billion, with further contributions to be sourced from future budget surpluses and asset sales. In addition, Fund earnings are excluded from the underlying cash balance. These earnings will be retained within the Fund and hence are not available for

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recurrent Government spending. This means that fiscal policy will be tighter over future years than would otherwise be the case.

Maintaining budget surpluses over the forward estimates while our growth prospects remain sound represents a prudent response to an uncertain outlook, particularly in relation to the strength of the contribution provided by the terms of trade boost to revenues. This approach helps guard against the risks associated with a rapid unwinding of our fiscal position associated with a sharp fall in the terms of trade, by saving some of the additional income Australia is earning from the rest of the world. This fiscal policy approach also ensures that our public finances will be well positioned to meet future challenges flowing from demographic change and increasing demand for high quality health care.

BUDGET STRATEGY AND PRIORITIES

The last ten years of sound economic and fiscal management has delivered greater wealth, higher living standards and unprecedented prosperity to all Australians.

Ten years of fiscal and economic achievement provide the Government with the opportunity to implement a further stage of tax reform, along with new spending in a number of high priority areas including family assistance, mental health services, health and medical research, programmes for Indigenous Australians, road and rail infrastructure, national security and defence.

The tax reforms included in the budget include substantial cuts in personal taxes for low and middle-income earners, improvements to the international competitiveness of our top tax rates, enhancements to depreciation tax arrangements to improve efficiency and competitiveness and a plan for substantial simplification and enhancement of Australia's superannuation system.

Personal income tax reform

The Government will reduce personal income tax by \$36.7 billion (including the reduction in the fringe benefits tax rate) over four years. The tax cuts will increase disposable incomes for all Australian taxpayers, provide further incentives for individuals to participate in the workforce and improve the international competitiveness of Australia's tax system. This builds on the substantial tax reform delivered in previous years' budgets and provides households with the capacity to consolidate their financial position.

From 1 July 2006, the following changes will be made to the personal income tax scales:

- the 30 per cent threshold will increase to \$25,001;

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- the 42 per cent marginal tax rate will be cut to 40 per cent and the threshold will increase to \$75,001; and
- the top marginal tax rate will be cut from 47 per cent to 45 per cent and the threshold will increase to \$150,001.

Table 3: New personal tax rates

Current tax thresholds Income range (\$)	Tax rate %	New tax thresholds from 1 July 2006 Income range (\$)	Tax rate %
0 - 6,000	0	0 - 6,000	0
6,001 - 21,600	15	6,001 - 25,000	15
21,601 - 63,000	30	25,001 - 75,000	30
63,001 - 95,000	42	75,001 - 150,000	40
95,001 +	47	150,001 +	45

Low income earners will be further assisted through a substantial increase in the low income tax offset (LITO). From 1 July 2006, the LITO will increase from \$235 to \$600 and will begin to phase-out from \$25,000. Those eligible for the full LITO will not pay tax until their annual income exceeds \$10,000 (up from \$7,567). Combined with the increase in the 30 per cent threshold to \$25,001, this will improve the rewards from working for low income earners.

The Medicare levy low income phase-in rate will be reduced from 20 per cent to 10 per cent, ensuring more low income taxpayers pay a reduced rate of Medicare levy.

The fringe benefits tax rate will be reduced from 48.5 per cent to 46.5 per cent, effective from 1 April 2006.

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 an annual income of \$21,968 for singles and \$36,494 for couples (depending on the income received by each member of the couple). The tax cuts lift these income levels to \$24,867 for singles and \$41,360 for couples. The Medicare levy thresholds that apply to senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.

The 2006-07 Budget tax cuts ensure that more than 80 per cent of taxpayers face a marginal tax rate of 30 per cent or less. The increase in the top marginal tax rate threshold to \$150,001 in 2006-07 will mean that around 2 per cent of taxpayers will be subject to a marginal tax rate of 45 per cent. Taxpayers will not reach the highest marginal tax rate until they earn more than three times average weekly earnings.

The 2006-07 Budget tax cuts build on the reform delivered in *The New Tax System* and the 2003-04, 2004-05 and 2005-06 Budgets. The overall effect has been to deliver a significant reduction in tax for all Australian taxpayers.

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- Taxpayers earning \$25,000 paid \$4,522 in income tax prior to *The New Tax System* (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2006, only pay \$2,250; a reduction of around 50 per cent.
- Taxpayers on \$65,000 paid \$21,152 in income tax prior to *The New Tax System* (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2006, only pay \$14,850; a reduction of around 30 per cent.
- Taxpayers on \$100,000 paid \$37,602 in income tax prior to *The New Tax System* (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2006, only pay \$27,850; a reduction of around 26 per cent.

Chart 3 shows the percentage reductions in tax delivered by the Government, over a range of taxable incomes. In percentage terms the greatest tax cuts have been provided to low income earners.

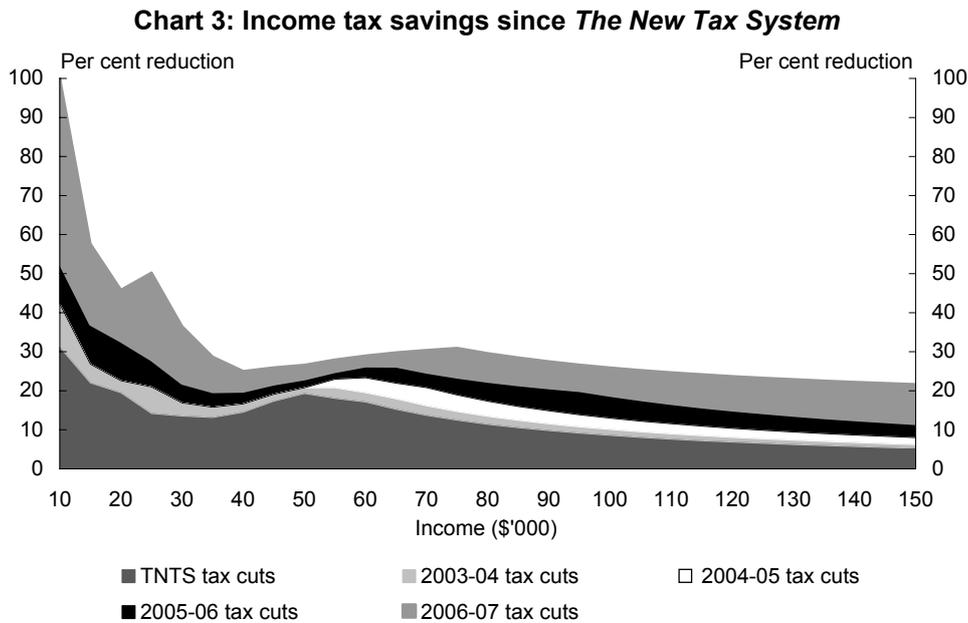
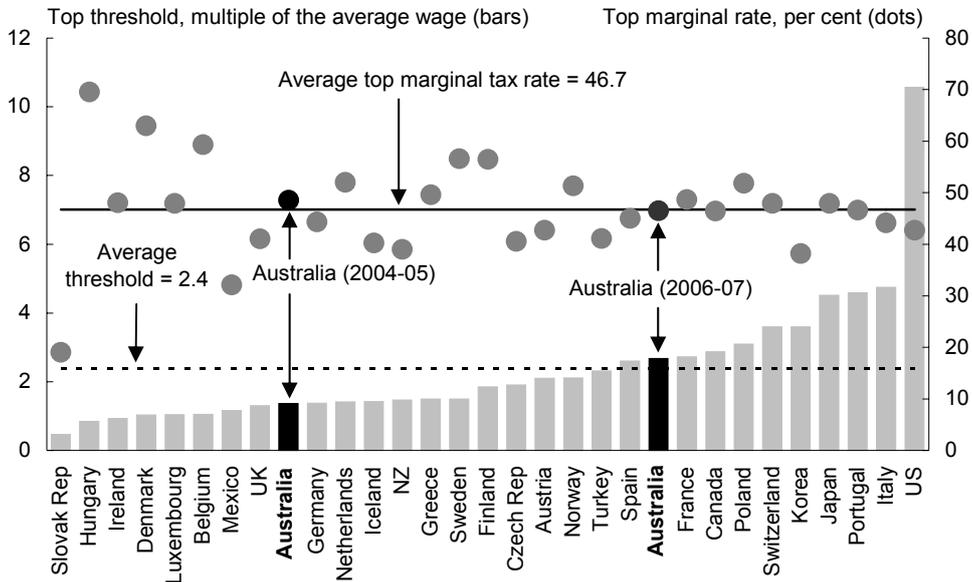


Chart 4 illustrates that the reduction in the top marginal tax rate and the increase in the threshold will improve Australia's competitiveness against other OECD countries. Australia's top marginal tax rate of 45 per cent, plus the Medicare levy, will be in line with the OECD average of 46.7 per cent and the increase in the top threshold will place Australia tenth highest in the OECD.

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Chart 4: Comparison of top tax rates and thresholds across the OECD^(a)



(a) The OECD average wage is for a worker engaged in full-time manual or non-manual labour across a range of industries.
Source: OECD Tax Database (preliminary data).

A plan to simplify and streamline superannuation

Australia’s superannuation system is complex. Complexity confuses retirement decisions, clouds the incentive to invest in superannuation and imposes unnecessary costs. The Regulation Taskforce in its report ‘Rethinking Regulation’ recommended that the Government give high priority to comprehensive simplification of the tax rules for superannuation.

The current superannuation system has different arrangements for tax on contributions, earnings and superannuation benefits. Superannuation benefits tax is by far the most complicated. For example, a lump sum superannuation benefit may include up to eight different parts which can be taxed in seven different ways. If people cannot understand what they will receive from their superannuation in retirement, they will not have confidence in the system.

In this budget the Government releases a plan to simplify and streamline superannuation which includes a number of proposals to dramatically simplify the tax arrangements and restrictions that apply to Australians’ superannuation benefits, encourage higher retirement savings and provide incentives to work.

Under this plan, Australians aged 60 and over who have already paid tax on their superannuation contributions and earnings would not pay tax on their superannuation benefits from 1 July 2007. The removal of benefits tax would sweep away the complexities retirees face when taking their benefits. Those contemplating retirement

would not have to worry about, or pay for, professional advice on the tax implications of their superannuation benefits. As superannuation benefits would no longer be assessable income, there would be an incentive to continue to work while drawing down on superannuation as people will pay less tax on their work income. The preservation age will not be changed and people could still access their superannuation benefits before age 60, although they would be taxed on their benefits under new simplified rules. The plan also abolishes reasonable benefit limits (RBLs), introduces new streamlined rules for contributions, and gives individuals greater flexibility as to how and when they wish to draw on their superannuation in retirement.

As part of the superannuation reform there would also be reform of the pension assets test taper rate which would reduce from \$3 to \$1.50 per fortnight for every \$1,000 of assets above the free area with effect from 20 September 2007. The current taper rate of \$3 means that a retiree loses more age pension than they earn on their additional savings if they do not achieve a return of at least 7.8 per cent a year. This is a large disincentive to save for retirement.

Enhancing opportunities for business

The Government is committed to ensuring a supportive environment for business. Providing tax relief and reducing tariffs help in better positioning Australian businesses to perform domestically and compete in the global market.

Business taxation reforms

The Government will increase the incentives for Australian businesses to undertake the investment in new plant and equipment that is necessary for them to keep pace with new technology and remain competitive. The diminishing value rate for determining depreciation deductions will be increased from 150 per cent to 200 per cent (referred to as 'double declining balance'). This will apply to all eligible assets acquired on or after 10 May 2006. This measure, which will cost \$3.7 billion over the next four years, will improve resource allocation by aligning depreciation deductions for tax purposes more closely with the actual decline in the economic value of assets. The changes will enhance the effectiveness of the uniform capital allowance regime introduced by the Government in 2001.

The Government will reduce taxes on small business by \$435 million over four years. The changes will simplify and improve the alignment of thresholds and eligibility for a range of small business tax relief arrangements, including the Simplified Tax System, capital gains tax, the goods and services tax and pay as you go instalments. Changes to fringe benefits tax thresholds, at a cost of \$40 million over four years, will reduce business compliance costs further. The Government will improve access to the small business capital gains tax relief arrangements for the owners of small businesses by replacing the current 50 per cent controlling individual test with a 20 per cent significant individual test and by increasing the net assets threshold for the relief

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arrangements from \$5 million to \$6 million. These changes will reduce compliance costs and allow more taxpayers to be eligible for the small business tax relief arrangements.

Venture capital and innovation

This budget includes measures to support the venture capital sector and encourage investment aimed at commercialising Australian research and development.

The Government will introduce an early stage venture capital limited partnership (ESVCLP) investment vehicle to develop further Australia's early stage venture capital sector and increase the provision of start-up capital for small, innovative firms. Investors in an ESVCLP will be exempt from tax on capital and revenue gains derived from ESVCLP investments. Amendments will also be made to improve the operation of the venture capital limited partnership investment vehicle.

The Government is also providing \$200 million to establish up to ten new funds in a new Innovation Investment Fund programme round. Matching funding will be contributed by private investors. The new funds should assist in increasing the expertise of fund managers in the venture capital sector and provide more start-up capital to new companies, particularly those with a technology focus.

Heavy vehicle road user charge

The Government has decided not to proceed with an increase in the heavy vehicle road user charge recommended by the National Transport Commission. The recommendation to raise the charge reflected an increase in the National Transport Commission's estimate of the cost of road usage attributable to heavy vehicles. The Government's June 2004 *Securing Australia's Energy Future* statement assumed the charge would rise in line with road usage costs and this was reflected in the budget estimates. By not proceeding with the rise previously included in the estimates, the cost to the budget is \$1.2 billion over four years.

Reducing tariffs

The Government is extending the Enhanced Project By-law Scheme to allow eligible capital goods that will be used in the power and water sectors to be imported duty free from 1 July 2006. This will reduce business input costs, improve the competitiveness of Australian industry, and promote opportunities for Australian business participation in large capital projects.

Protecting tax system integrity

The Government will introduce further measures to protect the integrity of the Australian taxation system. These measures will increase revenue by around \$2.3 billion over four years.

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- The Government will prevent some public sector superannuation schemes from improperly using pre-1 July 1988 funding credits. This measure will ensure that pre-1 July 1988 funding credits can only be used by superannuation schemes in circumstances consistent with the original policy intent. This measure will increase revenue by around \$600 million over four years.
- The Government will require resident trustees to pay tax on distributions to non-resident trustee beneficiaries. This will ensure an appropriate amount of Australian tax is paid on such distributions and will increase revenue by around \$800 million over four years.
- The Government will provide the Australian Taxation Office (ATO) with \$81.6 million of additional resources over four years to maintain tax compliance by high wealth individuals and their associated entities. This is expected to increase revenue by \$615 million over four years.

In addition, the Government has provided \$305.1 million over seven years (\$272.8 million of which is in the next four years) for investigations and prosecutions related to operation Wickenby which addresses alleged tax fraud involving the use of offshore entities. This is expected to increase revenue by \$323 million over four years from active compliance and improved compliance behaviour by the relevant taxpayers.

Enhancing Defence capabilities

The defence of our country and its interests remains the highest priority of the Government.

In the Defence 2000 White Paper, the Government provided for around 3 per cent annual real growth in the Defence budget until 2010-11. Subsequently, this has been supplemented by additional funding for logistics and a range of other measures over recent years.

Consistent with the approach taken in the Defence 2000 White Paper, the Government will increase Defence spending by \$10.7 billion between 2011-12 and 2015-16. This will provide 3 per cent annual real growth over the period, providing a firm basis for continued long-term planning. It will allow the Australian Defence Force (ADF) to continue to improve its capabilities, including acquisition of air warfare destroyers, large amphibious ships and new combat aircraft.

In addition, further key measures in the 2006-07 Budget include:

- \$2.2 billion over six years to acquire new C-17 heavy airlift aircraft. These will enhance significantly the ADF's airlift capability, enabling rapid deployment of combat vehicles, helicopters and supplies. Australia's capacity to provide disaster relief will also be improved;

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- \$1.5 billion over ten years toward the development of a hardened and networked Army. This funding will be used to increase the size of the Army and to relocate a battalion to Adelaide. These initiatives will improve the sustainability of deployed land forces and enhance the Army's readiness for operations;
- \$249.6 million over four years to improve recruitment and retention arrangements for permanent and reserve members of the ADF. These measures will include targeted bonuses for permanent members, improved remuneration for reserves and provision for the establishment of a High Readiness Reserve;
- \$218.2 million over three years to provide an ADF contribution to a Netherlands-led Provincial Reconstruction Team (PRT) in Afghanistan. A further \$57.6 million will provide for the deployment of Chinook helicopters to support the Special Forces Task Group and the initial stages of the PRT; and
- \$392.7 million over three years to continue the ADF's contribution to stabilisation and reconstruction activities in Iraq.

National Security — Preventing Terrorism

As part of its broader national security strategy, the Government places a high priority on building the resources and capabilities of Australia's intelligence agencies. Airport and air transport security is also a particular focus for this budget, as is cooperation and capacity building with our neighbours.

Since 11 September 2001, the Government has made substantial investments in Australia's national security. Including measures in this budget, the Government has committed \$8.1 billion over nine years from 2001-02 to new national security initiatives.

This budget provides an additional \$1.5 billion over the five years to 2009-10 for intelligence, protective security, incident response capacity, regional cooperation and border security. A further \$176.3 million is provided for intelligence measures in 2010-11. The *National Security – Preventing Terrorism* package includes funding out to 2009-10 comprising:

- \$801.5 million for intelligence, including a commitment to increase staffing levels and technical capabilities for the Australian Security Intelligence Organisation, in response to the Taylor Review of that organisation's resources;
- \$431.6 million for protective security, delivering the major part of the Government's response to the Wheeler Report into airport security and policing arrangements;
- \$197.8 million for incident response capabilities, in particular to improve operational flexibility by funding Counter-Terrorism First Response teams at major Australian airports, as recommended by the Wheeler Report;

- \$92.6 million for further capacity building in regional law enforcement and border control and increased cooperation across a number of Australian and regional security agencies; and
- \$19.6 million for border security, including a further trial of unmanned aerial vehicles for Coastwatch.

Family assistance

Government spending on assistance to families with children has increased from \$14 billion in 1996-97 to an estimated \$28 billion in 2006-07 in recognition of the costs associated with raising children. Assisting families is an ongoing priority of the Government.

Families on lower incomes receive the highest rates of assistance. Through packages such as the \$19 billion *More Help For Families* included in the 2004-05 Budget, the Government has increased the maximum rate of family assistance per child by 75 per cent from about \$2,420 per child in 1996 to more than \$4,200 in 2006 under Family Tax Benefit Part A.

In this budget, the Government is expanding eligibility for the maximum rate of Family Tax Benefit Part A. Currently, families start to have the maximum rate reduced once they earn more than \$33,361 a year. The 2005-06 Budget provided an increase in this limit to \$37,500 from 1 July 2006. This budget includes \$993.3 million to further increase the limit to \$40,000 from 1 July 2006 and allows more families to receive higher payment rates. It is expected that this measure will assist almost half a million families annually and provide increased payments of up to \$9.62 a week. This means a single income family with two children will pay no net tax until their income rises above \$48,065, after taking into account Family Tax Benefits.

In addition, the Government will extend eligibility for the Large Family Supplement of \$248.20 to families with three children, with effect from 1 July 2006 at a cost of \$496.7 million over four years. Currently, eligibility is restricted to families with four or more children.

Child care assistance

The Government recognises the importance of child care in assisting families to balance work and family commitments and enabling participation in the labour market by parents.

Building on previous Government initiatives that have almost doubled the number of child care places over the last ten years, the Government is removing the cap on the number of outside school hours care and family day care places, at a cost of \$60.2 million. It is expected that this will generate an additional 25,000 places. This

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initiative brings outside school hours care and family day care into line with long day care, which is already uncapped.

New child care providers will be able to establish centres in areas of demand, without having to wait for a formal allocation of places, and existing providers will be able to expand more easily. This will make the child care sector more responsive to overall demand, and make it easier for parents to access child care places for their children.

Supporting older Australians and carers

The Government is committed to supporting older Australians and carers, recognising the important position they hold within our community.

To assist with the cost of household bills, the Government will provide by 30 June 2006 an additional one-off payment equal to the maximum rate of Utilities Allowance (\$102.80) to each household with a person of Age or Service Pension age eligible for Utilities Allowance on 9 May 2006. A \$102.80 payment will also be provided by 30 June 2006 to each self-funded retiree eligible for the Seniors Concession Allowance on 9 May 2006. This will cost \$192.5 million.

The Government will also extend eligibility for the Utilities Allowance to cover recipients of Mature Age Allowance, Partner Allowance and Widow Allowance. These recipients will be paid by 30 June 2006 the same one-off payment applying to those currently eligible for Utilities Allowance. They will then receive Utilities Allowance every six months from September 2006 and beyond. This will cost \$35.6 million.

The Government will provide \$358 million for a lump sum payment to eligible carers in recognition of their contribution in caring for those with disabilities. Carer Payment recipients will receive \$1,000 and recipients of Carer Allowance will receive \$600 for each eligible person in their care. Those in receipt of both payments will receive both lump sum payments. In addition, those who receive both the Carer Allowance and either the Wife Pension or Department of Veterans' Affairs Partner Pension will receive both bonus payments. The bonus payments will generally be paid by 30 June 2006, be tax free and not treated as income when calculating social security payments.

The Government will also increase access to the Age and Service Pension for people who live on large blocks of land, have a 20 year connection to that land and for whom it would be unreasonable to realise the value of the land by selling or leasing it. From 1 January 2007, people in these circumstances will be able to exempt the entire value of land on the same title as their home from the Age and Service Pension assets test. This will cost \$173.3 million over four years. Currently, only the home and an area up to two hectares is exempt.

Meeting our health care needs

In 2006-07, the Government will spend \$47.6 billion on health and aged care, up from \$20.2 billion in the Government's first budget in 1996.

Furthering the health and medical research effort

Health and medical research benefits all Australians through improved health outcomes. The Government is committed to continuing Australia's position as a world leader in this field. The Government's annual investment in health and medical research grants through the National Health and Medical Research Council (NHMRC) has more than tripled over the past decade, from \$126.5 million in 1995-96 to \$430.5 million in 2005-06. This budget provides an additional \$905 million to health and medical research comprising:

- \$500 million over four years for the NHMRC;
- \$235 million for a number of medical research facilities to further their research, development and expansion projects; and
- \$170 million to establish a new Australian health and medical research fellowship scheme, to attract and retain leading researchers and scientists.

This commitment will increase annual funding for health and medical research to over \$700 million by 2009-10.

Council of Australian Governments' Mental Health package

Mental health conditions, such as schizophrenia, bipolar disorder and depression, directly reduce the wellbeing of sufferers and their carers, and have a broader effect on the prosperity of the community including through reduced workforce participation and productivity.

This year's budget provides an additional \$1.9 billion over five years for a wide range of mental health services. Major elements include:

- an additional \$538 million for increased psychologist and psychiatric services, and better general practitioner services, through reforms to Medicare;
- funding of \$284.8 million for 900 new personal helpers and mentors to assist 53,000 people with a mental illness to navigate the health, welfare and employment systems;
- new respite care places to be delivered through the non-government sector, particularly for elderly parents who care for children with severe mental illness or an intellectual disability, at a cost of \$224.7 million;

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- funding of \$191.6 million for new specialist mental health nurses to coordinate clinical care for people with more severe mental illness who are managed in primary care and by psychiatrists; and
- funding of \$103.5 million for new tertiary education places and scholarships in mental health nursing and clinical psychology. The funding will also be used to increase mental health competencies and clinical training in mental health practice across the health workforce.

Investing in health care

The Government is investing in areas that underpin the health and aged care system to ensure Australians have access to high quality care. This includes funding the training of more doctors and nurses, prevention activities and the promotion of quality care for residents in aged care homes.

This budget provides:

- \$240.8 million over five years to train more doctors and nurses as part of reforms through the Council of Australian Governments (COAG). This includes 400 new medical school places a year, 1,000 new higher education nursing places a year, and an increase in the Government's contribution to the cost of nurse clinical training from approximately \$688 to \$1,000 a year per full-time student. The States and Territories are expected to match this commitment to further strengthen Australia's health workforce;
- \$79.5 million over five years for initiatives to address drug and alcohol abuse; and
- \$58.3 million over four years to increase innovation and choice in private health insurance, and to increase consumer awareness of the incentives and benefits associated with private health insurance.

These initiatives build on the Government's \$733.2 million commitment to the health system announced through COAG in February 2006, which includes a \$250 million investment in promotion of good health, disease prevention and early intervention.

Road and rail infrastructure

A high quality land transport infrastructure network underpins Australia's productivity by providing for quick and seamless movement of goods and services to markets. In recognition of this, the budget provides for an additional \$2.3 billion for roads and rail infrastructure. This new funding supplements the Government's \$12.7 billion investment in land transport infrastructure between 2004-05 and 2008-09 under the Government's national land transport plan, AusLink, bringing total investment over the period to \$15 billion. This compares with spending of \$8.5 billion over the period 1994-95 to 1998-99.

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The Government will provide \$800 million to the New South Wales Government to accelerate duplication of the Hume Highway in southern New South Wales. Together with existing commitments, this funding will accelerate completion of the majority of unduplicated sections between Albury and Coolac.

The Government will also provide to the Queensland Government an additional \$220 million for safety works on the Bruce Highway between Townsville and Cairns in support of far north Queensland's recovery from the effects of Cyclone Larry. The Government will also provide an extra \$48 million to supplement its existing \$80 million commitment to the Tully flood works project.

The Government will also provide:

- \$234 million to the Western Australian Government for the Great Northern Highway;
- \$160 million to the New South Wales Government for the Pacific Highway;
- \$100 million to the South Australian Government for the Sturt Highway;
- \$75 million to the Western Australian Government for further widening of the Eyre Highway;
- \$60 million to the Tasmanian Government for the upgrade of the East Tamar Highway north of Launceston to Bell Bay;
- \$30 million to the Northern Territory Government for the upgrade of the Victorian Highway to improve flood immunity; and
- \$14 million to the Western Australian Government for the Great Eastern Highway.

In addition, the Government will invest a further \$307.5 million in the Roads to Recovery Programme to improve the efficiency of Australia's regional road networks.

The Government will also invest an additional \$270 million in the Australian Rail Track Corporation to improve rail track quality on the North-South rail corridor through targeted concrete resleepering.

Murray-Darling Basin Commission — boosting capital works

The Government is committed to restoring the health of the Murray Darling Basin for the benefit of the environment, irrigators, industry and the towns in the Basin.

In this budget, the Government will contribute \$500 million to the Murray Darling Basin Commission. This funding will allow the Commission to:

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- accelerate its capital programme;
- undertake additional projects under the Living Murray Environmental Works and Measures Programme; and
- participate in the Living Murray Agreement to deliver 500 gigalitres per annum for environmental water flows.

The Australian Government expects that all Commission parties will at least maintain their contributions in real terms for the next five years. The Government will seek agreement from the Commission to provide an ongoing identification of how these funds are spent.

Securing Borders against Illegal Foreign Fishing

The Government is committed to maintaining the integrity of Australia's borders, through combating illegal fishing.

Illegal fishing can pose serious risks such as the depletion of fish stocks, including endangered species, quarantine threats and the harbouring of illegal immigrants and prohibited goods.

The budget provides \$388.9 million over four years to enhance Australia's surveillance and patrol capability in the exclusive economic zone of our northern waters. This increased capability will more than double the number of apprehensions each year and suppress the activities of vessels engaged in illegal fishing. The funding includes:

- \$209 million to apprehend illegal fishing vessels and to transport, detain and prosecute their crew in order to provide a strong deterrent against illegal fishing;
- \$64.4 million to construct dedicated facilities to destroy seized illegal fishing boats and properly manage the quarantine risks they pose;
- \$43.4 million to enhance helicopter transport capability to rapidly deploy officers from relevant agencies to the sites of illegal landings or abandoned vessels and for charting and surveying work necessary to allow patrol vessels to navigate the Torres Strait and the northern Great Barrier Reef;
- \$42.9 million to conduct surface and air surveillance over high risk areas and to engage Indigenous communities to report illegal fishing sightings;
- \$19.6 million to expand the Joint Offshore Protection Command Headquarters to provide a more holistic and integrated assessment of maritime security threats and for preventative action to deter illegal fishing at its source through cooperation with Indonesia and within the region; and

- \$9.6 million to enhance liaison, detection and response capabilities in Australia's northern waters.

In this budget, the Government is also committing \$44.1 million over three years to maintain and enhance border controls at Australia's ports in response to the increased risk of avian influenza to both humans and animals in our region.

Child Support Reforms

The Government has announced a number of fundamental changes to the Child Support Scheme so that it better reflects the needs of a changing Australian society. These changes are designed to encourage shared parenting and aim to reduce conflict between parents, building on the Government's recent reforms to the family law system. The total cost of the reforms will be \$877 million, with the first stage of reforms to commence from 1 July 2006.

The centrepiece will be a new formula to assess child support which better accounts for the capacity of both parents to meet children's needs, better reflects research on the costs of raising children and has greater regard to the costs of contact. The new formula will commence from 1 July 2008. The reforms also include revised Family Tax Benefit arrangements for separated parents.

Strengthening Indigenous Communities

The Government will support a range of new initiatives to help address the needs of Indigenous Australians. These include:

- \$116 million over four years to improve Indigenous health. This includes an additional \$55.2 million to help combat substance abuse, in particular petrol sniffing through the continued roll-out of Opal non-aromatic fuel, and additional funding of \$39.5 million to expand access by Indigenous people to appropriate primary health care services;
- \$126.5 million over four years to support compulsory Job Network registration for participants in the Community Development Employment Projects (CDEP) programme living in urban and regional areas and a time limit of one year's participation for new CDEP participants in urban and regional areas;
- \$66.9 million over five years to improve education opportunities for Indigenous Australians, including through expanding the Indigenous Tutorial Assistance Scheme to include Year 9 students and vocational education and training students;
- \$28.1 million over four years to improve the governance of Indigenous corporations and an additional \$23 million to strengthen Indigenous community leadership and to assist communities to identify priorities and negotiate Shared Responsibility Agreements with the Government; and

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- \$20 million in capital to the Home Ownership Programme (enabling housing loans to be made to an additional 140 Indigenous families) and a further \$107.5 million over four years for housing on Indigenous land, in support of proposed reforms to land tenure arrangements in the Northern Territory.

Better and fairer delivery of social services

A new health and social services access card

The Government distributes over \$100 billion in health and social services benefits to more than 6.5 million individuals each year.

To ensure that those eligible are able to obtain Government benefits and services in a convenient, reliable and efficient manner, the Government has committed around \$1.1 billion over four years to simplify service delivery through the introduction of a new access card for health and social services.

The new access card system, which will utilise smart card technology, will replace 17 existing health and social services cards and vouchers, including Medicare, Veterans' and Centrelink cards, and will reduce the need for people to go to offices, fill out forms and queue for service. Moreover, the new system will mean people no longer have to provide multiple identity documents each time they wish to apply for a different benefit. A one-off registration process will validate the identity of the applicant.

In addition to improving service delivery, the access card system is expected to deliver savings going forward as a result of reduced identity fraud and concession abuse, as well as reduced administration costs.

The access card will be phased in over two years, commencing in 2008. From early 2010, people will require an access card to obtain Government health and social services benefits.

Fraud and Compliance

This budget also includes a package of measures to minimise the risk of incorrect payments and reduce fraudulent activities, to protect the integrity of the social security system. The package, involving additional funding of \$282.3 million over five years to assist service delivery agencies, builds on the existing fraud and compliance framework and is expected to lead to savings of \$548.4 million, delivering net savings of \$266 million over five years. Key elements of the package include:

- expanding the number and scope of investigations that can be undertaken by Centrelink officers to detect cases of serious social security fraud;
- strengthening information sharing and data-matching arrangements between agencies to prevent and detect fraud across multiple Government programmes;

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- bolstering internal review activities to identify new and emerging compliance risks, and ensuring that the overall compliance framework is targeted correctly; and
- expansion of compliance activity in relation to the Child Care Support Programme and Child Care Benefit payment.

Investing in education

A high quality and responsive education system is vital to increasing skills which, in turn, boost labour force participation and productivity. In this year's budget the Government is delivering a range of initiatives to further improve Australia's education system.

Major additional initiatives in the 2006-07 Budget are:

- an extra \$95.5 million over four years to increase capital funds for universities through the Capital Development Pool. This is in addition to specific funding in 2005-06 of \$125 million for capital works at the Australian National University, including for the John Curtin School of Medical Research, and \$12 million to expand the Centre for Transnational Crime Prevention at the University of Wollongong;
- raising the FEE-HELP loan limit for eligible full fee-paying students. For medicine, dentistry and veterinary science the limit will be increased to \$100,000. For other courses the limit will be increased to \$80,000;
- increased funding to New Apprenticeships Centres of \$106.7 million over four years to enable increased contact by New Apprenticeships Centres with apprentices and their employers;
- an extra \$34.9 million over four years to extend the Partnership Outreach Education Models pilot to offer national coverage. This will assist up to 3,000 disadvantaged young people with education, training or work annually; and
- an additional \$40.8 million over four years to expand the eligibility criteria for the English as a Second Language – New Arrivals Programme.

Improving assistance for sport

The Government continues to provide significant assistance for sport.

This year's budget includes a further \$54.3 million over four years for the Australian Institute of Sport. The measure will fund additional high performance coaching, better talent identification and development and new scholarship programmes, underpinned by improved sports science and medicine. This is in addition to the \$52.3 million provided to the Australian Sports Commission in the 2005-06 Budget to support elite

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sport. These measures will help sustain Australia's international sports competitiveness and prepare Australian athletes for the 2008 Beijing Olympics.

Promoting sustainable development in the Asia-Pacific region

On 26 April 2006 the Government released the Aid White Paper, providing the strategic framework for Australia's overseas development assistance over the next decade. It follows the announcement of the Government's goal to increase development assistance to about \$4 billion by 2010, conditional on strengthened governance and reduced corruption in recipient countries.

The Aid White Paper demonstrates the Government's commitment to poverty reduction, sustainable development and progress toward the Millennium Development Goals. It reaffirms the focus on the Asia-Pacific region and outlines several new initiatives for ensuring that Australia's aid dollars are effective in promoting sound economic development. In particular, the Government will work with developing countries through whole of government country development strategies and establish a new Office of Development Effectiveness.

In 2006-07, the Government will spend approximately \$3 billion on official development assistance. This includes an additional contribution of \$136 million to meet the costs of cancelling the debts of some of the world's poorest countries as part of the Multilateral Debt Relief Initiative. Australia is one of only a few countries to make an upfront financial contribution to the Initiative.

In addition, the Government will provide \$442.5 million of new funding over five years for the Australian Scholarships programme. This increase will bring total programme funding to nearly \$1.4 billion over five years providing more than 19,000 scholarships. A new component, the Australian Leadership Awards, will target future leaders in the Asia-Pacific region for advanced study. These scholarships will promote political and economic reform in the region and enable regional leaders to develop enduring connections with Australia.