

BUDGET SPEECH 2003-04

**DELIVERED ON 13 MAY 2003 ON THE SECOND
READING**

OF THE APPROPRIATION BILL (NO. 1) 2003-04

BY

THE HONOURABLE PETER COSTELLO, M.P.

**TREASURER OF THE COMMONWEALTH OF
AUSTRALIA**

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

When I brought down last year's Budget we announced a major upgrade of Australia's defence and security.

We decided to make that investment because our security situation had changed, the threat of terror had become more direct, and closer to home.

We did not know how close to home the threat would come. The tragic events in Bali on 12 October last year saw 88 innocent Australians die at the hands of criminal terrorists.

We cannot take our security for granted. Tonight I will announce further measures to upgrade Australia's security and border protection.

At the time of last year's Budget I reported to the House on the deployment and funding of Australian forces engaged in the War on Terror. At that time our Defence Force personnel were engaged in Afghanistan.

Since then, the brave men and women of the Australian Defence Forces have again served in theatres of war, this time in Iraq and the Persian Gulf. This Budget provides funding to cover that commitment. And tonight I will announce further measures to upgrade our defence capacity.

This year we were tested by terror and war overseas. And this year we were tested at home with the most extensive drought recorded in Australian history. And bushfires savaged life and property.

This year we were tested again as the international economy turned down, making it harder for our economy.

We have been knocked around by some of these events. We have been tested. But we are resilient.

And the Australian economy is resilient. The international body, the OECD, says Australia is "...notably resilient to shocks, both internal and external."

We have put in some hard work to get to this point. And that has given us a lot of insulation against these kinds of shocks. We will need it again for the shocks that will come in the future.

I do not pretend that things will be easy in the next year. But I do believe that Australia will weather the shocks much better than comparable countries.

We want to keep our Budget in surplus. Tonight I announce the sixth surplus of this Government. In 2003-04 the Commonwealth Budget will be in surplus — a surplus of \$2.2 billion.

We want to invest in priority areas, defence, security, education, and health.

And consistent with those objectives we want to keep our taxes as low as possible. That is why tonight I am announcing an income tax cut for every Australian taxpayer.

CUTTING PERSONAL INCOME TAX

Mr Speaker, on 1 July 2000 the Government introduced the largest income tax cut Australia has ever had. From 1 July this year, three years later, income tax will be cut again.

This will be done in two ways. For low income earners, the low income tax offset will be increased. For other taxpayers, income tax thresholds will be lifted.

The upper income limit for the 17 per cent rate will be raised from \$20,000 to \$21,600, the upper income limit of the 30 per cent rate will be raised from \$50,000 to \$52,000, and the upper income limit of the 42 per cent rate will be raised from \$60,000 to \$62,500.

The low income tax offset will rise from \$150 to \$235. The low income tax offset currently phases out at four cents in the dollar for every dollar over \$20,700. This limit will be lifted and aligned with the other changes so that withdrawal will occur with each dollar earned over \$21,600. As a result of these changes the offset will phase out completely at \$27,475.

This means that taxpayers earning between \$20,000 and \$27,475 will get the benefit of both increased thresholds and increased tax offset. Some will get tax cuts up to \$329 per annum or a tax saving of 10.7 per cent on their current tax bill.

A taxpayer on \$45,000 will receive a tax cut of \$208, a taxpayer on \$55,000 will receive a tax cut of \$448 and a taxpayer on \$65,000 will receive a tax cut of \$573.

The measures I am announcing tonight cut income tax for 9 million Australians. The tax cut will amount to \$2.4 billion in 2003-04 and \$10.7 billion across the forward estimates.

STRONG DEFENCE

Mr Speaker, the security of our people and our nation is the Government's first priority. Today we are faced with the dangers of rising international terrorism and weapons of mass destruction. The Government is committed to confronting these threats to our security and defending our values and our way of life.

During the last few months Australia deployed more than 2,000 personnel as part of the international coalition to disarm Iraq. The deployment included a Special Forces Task Group, many of whom operated behind enemy lines, a squadron of F/A-18 Royal Australian Air Force Hornet Fighter aircraft, three Royal Australian Navy Frigates and transport and surveillance aircraft including Hercules and P-3C Orions. Our young Australians served with great distinction. They made a very significant contribution to the downfall of Saddam Hussein's regime and to the liberation of the Iraqi people. They have accomplished their mission. We salute their service.

The cost of this deployment and some contributions to rehabilitation activities such as the deployment of personnel to the Office of Reconstruction and Humanitarian Assistance, is budgeted to amount to \$645 million.

The Government has also committed a further \$100 million for urgent humanitarian relief and reconstruction for the Iraqi people.

This spending is over and above normal defence expenditure. It is in addition to the Defence White Paper which provides the most comprehensive upgrade of our defence capabilities in 25 years, increasing spending by \$27 billion over a decade.

And Australia continues its defence commitment to East Timor with a battalion of three rifle companies and around 1,000 personnel all up costing around \$500 million this year.

In total, tonight I am announcing new defence spending of \$2.1 billion over five years. Total defence spending will rise to \$15 billion in 2003-04.

In this Budget, additional funding of \$157 million will establish a Special Operations Command. This will deliver an additional 334 combat and support personnel to supplement Australia's existing special forces, including an additional commando company and a maritime terrorist capability in the 4th Royal Australian Regiment. This will increase Australia's capacity to respond to terrorism.

The Government will also provide an additional \$1.1 billion to augment logistics and support funding for a range of platforms and equipment, including the F/A-18 fighter aircraft; Hercules transport aircraft; Collins class submarines; and a range of transport vehicles. This funding is vital if the Australian Defence Force is to remain well equipped to cope with heightened levels of operation and respond to unforeseen events both at home and abroad.

It is, however, the quality of its people that has been the core strength of Australia's military forces. This has been clearly demonstrated in East Timor, Afghanistan and, most recently, in Iraq. Army and Air Force are presently experiencing better recruitment and retention rates with separations at ten year lows. To capitalise on this favourable recruiting environment, the Government will increase funding by \$103 million over three years, which will enable the ADF to exceed the personnel targets envisaged by the White Paper for this period. The White Paper target is 54,000 personnel by 2010.

ENHANCING AUSTRALIAN SECURITY

After the terrorist attacks on 11 September, the Government strengthened Australia's domestic security arrangements at a cost of \$1.3 billion over five years. These included measures to put Protective Services Officers on selected flights, doubling AFP strike team capability, a Regiment to respond to chemical, biological, radiological, nuclear and explosive incidents and a second Tactical Assault Group.

After the Bali atrocity, the Government commissioned a further review of security arrangements. As a result of this review, the Government announced further measures at a cost of around \$100 million over four years.

Let there be no doubt about our resolve to protect Australians against terrorist threats. This Budget commits an additional \$411 million over five years to continue the upgrade of our domestic security arrangements.

Critical security infrastructure at our shipping ports, airports, as well as our nuclear research and military facilities will be upgraded. The new international code of practice for maritime security will be introduced. More funding will be provided to increase the use of container X-ray facilities at Australian ports. The Government will enhance our border processing systems to identify and track persons of concern.

Intelligence that is timely and accurate is critical if we wish to prevent terrorist incidents. Our intelligence agencies must play an increased role in identifying and responding to possible risks to Australia and our interests.

This is why the Government is providing an additional \$152 million which will enhance Australia's intelligence capacity. Part of this funding will go to agencies such as the Australian Security and Intelligence Organisation and the Australian Secret Intelligence Service to enhance their counter-terrorism capabilities. The Office of National Assessments will receive more funding to work on terrorism through dedicated liaison capacity with counterpart agencies in Washington and London.

And, as a lasting legacy to those who lost their lives in the terrorist attack of October 2002, the Government is allocating \$10.5 million to be used to fund a new intensive care centre for the Sanglah Hospital in Denpasar, also to construct a community eye treatment centre in Bali, and to fund an ongoing medical and health scholarship programme. These initiatives are a practical living memorial to the victims of the tragedy.

INVESTING IN EDUCATION

Mr Speaker, tonight the Government is announcing far-reaching reforms to Australia's higher education system.

These reforms will free up universities, and allow them to build on their strengths. Universities will gain access to increased Commonwealth support and have more flexibility in setting course fees.

In total, the Government will commit an additional \$1.5 billion over the next four years to higher education. By 2009-10, with the reforms fully in place, there will be an extra \$870 million per year spent by the Commonwealth on higher education. This represents a real increase of 17 per cent over ten years.

Universities wishing to increase their research capacity will have greater scope to do so. Universities wishing to build teaching excellence will have greater scope to do so.

The Government will invest \$775 million over the next four years on extra Commonwealth grants for universities. This will include a 7½ per cent increase in base funding by 2007. The package will also provide new funding of \$123 million over four years towards the costs of education in regional campuses.

Our universities must provide the quality courses that our students want and our nation needs. And to ensure that students and the community get the best value from our investment, the Government will be seeking significant improvements in governance and workplace relations within the sector.

From 2005, universities will have flexibility in setting fees for Commonwealth supported places. They can cut them. Except for teaching and nursing, they can increase them to a maximum of 30 per cent above HECS. It is up to the institution whether it wants to attract students, and up to the student as to whether the course offers value. Universities will be able to specialise in their areas of strength.

The Government is also reforming the system of student loans so that all students will be able to study without the need to pay any up-front fees. A new comprehensive Higher Education Loans Programme called HELP will assist students from January 2005. Students will be able to access funds to meet their course fees by drawing on income-contingent loans, whether they are HECS or full fee-paying students.

For students in Commonwealth supported places, HECS will continue as part of the new HELP system. A new FEE-HELP programme will be introduced for students who pay full fees. A new OS(Overseas)-HELP programme will assist those students who need financial assistance to study overseas.

The Government expects these loan arrangements to generate an additional \$800 million for students to invest in their higher education.

At present students are required to make HECS repayments when their income reaches \$24,365 a year. From 2005 this threshold will be lifted to \$30,000.

To enhance access and participation by financially disadvantaged students in higher education, the Government will establish three new scholarship programmes costing \$162 million over 4 years.

There is a clear imperative to address the shortage of teachers and nurses in our schools and hospitals. The Budget will set aside an additional \$161 million over the next four years for teaching and nursing and other priorities. This includes at least 574 extra places in nursing by 2007.

Ensuring that all Australians have up to date vocational and educational training is a continuing priority for the Government. We will provide \$3.6 billion over the next three years for a new Australian National Training Authority Agreement with the States and Territories.

Australia has a quality education and training system. Over 200,000 international students recognise this by choosing to study here each year. They generate over \$5 billion in export earnings each year. The Government will build on our achievements in this area by providing an extra \$113 million over four years for quality assurance and the promotion of Australian education and training in overseas markets. This will largely be financed by extra charges for overseas students. It will develop a stronger educational system in Australia.

PROVIDING ACCESSIBLE AND AFFORDABLE HEALTH CARE

Mr Speaker, this Government is committed to ensuring Australia has a first rate health care system.

In 1995-96, Commonwealth spending on health amounted to around \$18½ billion. In 2003-04, we expect to spend over \$31 billion on health. Since coming to office, this Government has increased health spending by around 65 per cent. The Government has invested in strengthening public hospitals, enhancing Medicare, and providing financial assistance to Australians who take out health insurance.

Improvements to Medicare recently announced by the Prime Minister allocate new spending of \$917 million over five years to make Medicare services more affordable and accessible.

The reforms will provide more doctors where they are needed most, with an additional 150 GP trainee places each year targeted to rural and outer-metropolitan areas.

234 new medical school places each year will be bonded so that when their training has been completed, these doctors will start practising in areas of shortage.

The Government's spending on public hospitals will increase to record levels under the recently announced \$42 billion Australian Health Care Agreements. This is more than \$10 billion of additional funding for public hospitals over the current agreement – a growth of 29½ per cent over five years, or over 17 per cent in real terms. States and Territories that at least match the rate of growth in the Commonwealth's contribution and deliver on reporting commitments will receive the Commonwealth's maximum contribution.

This Budget is setting aside \$253 million over five years for a Pathways Home Initiative to help people discharged from hospital, particularly the elderly, to make a smooth and easy transition back home.

The \$42 billion in public hospital funding is on top of the contribution the Commonwealth is making to take pressure off the public hospital system by increasing the coverage of health insurance. Private health insurance has jumped from 30 per cent of Australians in January 1999 to 44 per cent in December 2002 as a result of the 30 per cent private health insurance rebate and other Government initiatives. More than 8.7 million Australians now have private health insurance cover.

Illegal drug use is an enormous burden on our society in terms of waste and cost to human life. We will continue to fight this menace. Since 1997, the Government has committed extensive resources to the Tough on Drugs Strategy. The challenges remain immense but there has been recent evidence of some success.

Enhancements to our law enforcement capabilities have been instrumental in detecting the smuggling of illicit drugs into Australia. They have resulted in several significant seizures, like the recent interception of the North Korean vessel the Pong Su, and its deadly cargo of heroin destined for Australian streets.

Tonight I announce measures that strengthen our ability to disrupt supplies of illicit drugs and prevent the production of illicit drugs on our shores. Additional funding will be provided to identify and seize the ill-gotten gains of those who have benefited from supplying drugs to our community. The new and continuing measures announced in this Budget will allocate \$316 million over the next four years for the Tough on Drugs Strategy.

On 8 April 2003 the Government gazetted Severe Acute Respiratory Syndrome (SARS) as a quarantinable disease. Border protection measures against SARS are an essential first line of defence, and will be maintained for as long as they are necessary. The Commonwealth is funding health personnel to detect possible cases of SARS at international airports at a cost of \$2.2 million over two years.

MORE HELP FOR PEOPLE WITH DISABILITIES AND THEIR CARERS

Mr Speaker, the Government understands that people with disabilities and their carers face special challenges in getting employment and participating fully in the community.

In this Budget, the Government will increase funding by \$135 million over four years to community organisations providing disability employment services. Grants will be larger according to the level of disability of the person they support in the workplace. It is expected this will help an extra 6,000 people have the opportunity of a job and the self respect that comes with it.

The Government will also spend \$25 million over three years to help organisations providing employment for people with disabilities. This funding will improve the viability of these organisations and support the payment of better wages to their employees.

Parents of children with ongoing high support needs will also benefit from the additional funds of \$26 million over four years to fund more carers. Around 1,250 extra families will be helped under this measure.

REBUILDING AFTER DROUGHT AND FIRE

Mr Speaker, the past year has seen many communities ravaged by the devastating effects of drought and fire. People have lost their lives, their homes, their livelihood. An institution of great importance to our heritage and scientific learning was lost in the ACT.

The Government expects to provide a total around \$740 million in 2002-03 and the next two years in assisting farmers, small businesses and regional communities through the most extensive drought ever recorded. This funding will provide direct income support, personal counselling, tax relief and interest rate relief for those in need.

In 2002-03, the Commonwealth spent over \$8 million helping the States and Territories with aircraft to battle terrible bushfires and will provide continuing support for aerial firefighting in the next fire season.

The Government is working with the States and Territories to establish a national approach to natural disaster mitigation including bushfires and floods. Conditional on States and Territories matching funding and the implementation of more effective land use and building controls, the Commonwealth will provide \$68 million over five years for this purpose.

The Government will also assist the rebuilding of the Mount Stromlo Observatory.

AUSTRALIA'S HERITAGE

Mr Speaker, the stories of our past, our people, their struggles, and the places, and anniversaries that make us Australians need to be preserved. It is important that these achievements are treasured and shared with future generations.

So tonight the Government is announcing the establishment of a National Heritage List which will identify Australia's places of national significance and preserve them so that future Australians will know of them, their history, and what they mean to us. Some of these places will be outside Australia like Anzac Cove, a place that helped to define our nationhood, our values, and holds a special place in the hearts of all Australians. Through partnerships between government, industry and the community these places will be kept as part of the Australian story forever. The programme is allocated \$52 million.

BUILDING SUSTAINABLE INDUSTRY

Mr Speaker, the Government is encouraging Australian industry to be internationally competitive, laying the foundation for more jobs and higher living standards.

The five-year \$3 billion Backing Australia's Ability package, announced in January 2001, demonstrates this Government's commitment to pursuing excellence through innovation.

To facilitate long-term projects this Budget allocates continuing funding into 2006-07 for the R&D Start Programme, the Australian Research Council, and the Cooperative Research Centre programme.

In addition, a further \$20 million in funding in 2003-04 is allocated to support the Commonwealth Scientific and Industrial Research Organisation's (CSIRO) Flagship Programme. The Flagships are a partnership of leading Australian scientists, research institutions and commercial companies undertaking research to advance new industries and jobs, healthier and more productive lives and better use of environmental resources.

The Government is finalising the White Paper on our innovative land transport package, AusLink. AusLink will improve planning for the Land Transport network, result in more private investment and better transport links. Funding has been provided in this budget to progress the development of the programme.

ENERGY REFORM

Mr Speaker, the Government is making an announcement tonight about the long-term tax treatment of alternative fuels to petrol and diesel.

A substantial transitional period is provided for producers and consumers to adjust to the new arrangements which will be fully effective by 2012. This will provide certainty for investment decisions.

Tonight I am announcing a package of measures to encourage the early supply and take-up of cleaner diesel and petrol. A significant improvement is the ongoing reduction of sulphur in diesel. This will facilitate the adoption of new engine technologies with further reductions in harmful vehicle emissions.

REFORM OF INTERNATIONAL TAXATION

Mr Speaker, to maintain Australia's status as an attractive place for business and investment, the tax system needs continually to adapt to the international business environment.

Tonight I announce the outcome of the Government's review of Australia's international tax arrangements.

The Government will implement a balanced package of reforms to help Australian companies compete better overseas and encourage foreign companies to establish regional headquarters in Australia. We want these companies to provide job opportunities for Australians.

The Government will simplify the application of the controlled foreign company and foreign investment fund rules. It will also modernise Australia's tax treaty network, and reduce taxes on certain forms of business income earned by Australian companies offshore.

ECONOMIC OUTLOOK

Mr Speaker, despite a weak global economy, heightened international tensions and the most extensive drought ever recorded, Australia has proved very resilient over the past year. Growth was solid, investment surged and over 230,000 new jobs were created.

Looking forward, there is a larger than usual element of risk surrounding the near-term outlook for Australia. While our fundamentals are sound, the international outlook is difficult. There are looming problems in the major economies, as well as heightened international tensions, including the Korean Peninsula, and the risk of the further spread of SARS.

Nonetheless, there remain good reasons to be positive about Australia. Productivity growth will continue and prospects for business investment look strong.

Economic growth is forecast to be $3\frac{1}{4}$ per cent in 2003-04, and inflation is expected to ease to $2\frac{1}{4}$ per cent through the year, within the Government's medium-term target band of 2-3 per cent.

The unemployment rate is expected to remain steady at around 6 per cent. Moderate wage pressures and the tax cuts announced tonight should assist further jobs growth in the future.

CONCLUDING REMARKS

Since coming to office, this Government has implemented economic policies providing for strong and sustainable growth. By June this year we will have reduced Labor's net debt by around \$63 billion.

Interest rates are at around their lowest levels in 30 years. Unemployment is around its lowest rate in 10 years. More than 1 million jobs have been created since March 1996.

Our continued resilience and prosperity rely on our ability to plan today to confront the challenges of tomorrow. And, while the current uncertain global outlook calls for continued careful economic management, we cannot let this near-term outlook distract us from the need to work on important reforms to ensure our future prosperity.

The tax reductions announced tonight will assist families working hard on their own budgets. The reforms I have announced tonight in education, in health, in energy and tax will make Australia stronger in the years ahead. This Budget is a further step on the journey to secure Australia's future.

I commend this Budget to the House.