

BUDGET SPEECH 2004-05
DELIVERED ON 11 MAY 2004 ON THE SECOND
READING
OF THE APPROPRIATION BILL (NO.1) 2004-05
BY
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TREASURER OF THE COMMONWEALTH OF
AUSTRALIA

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

INTRODUCTION

This Budget is designed to keep our economy strong:

- so that people can find work and keep jobs;
- so that interest rates for homebuyers are kept low;
- so that older Australians can look forward to dignity in retirement;
- so that families have more choices.

We can't do these things without a strong economy. If parents run the risk of being thrown out of work, they can't have confidence. If homebuyers have to pay double digit interest rates they can't feel secure. We want to deliver security for families so they can plan for the future. And a weak economy won't do it. A weak economy won't pay for the hospitals, the schools and the roads that we all want. And it won't assist our defence and national security effort.

Over the last eight years so many countries – countries much bigger than us – have gone into recession. We have been challenged by financial collapse in our region, by plagues like SARS, by terrorism and war, by an aching drought that still lingers. We have had many difficult challenges and we have come through.

But it would be foolish to think the challenges are over. Economic management requires careful planning, hard work, and sound choices in difficult situations. Economic management is not an accident or a fluke.

The Budget I am announcing tonight involves huge expenditures of nearly \$200 billion.

But for the seventh time since 1997 it will be in surplus.

We will keep to the principles that we laid down in previous Budgets:

- the Government will not spend money it doesn't have;
- after we fund our current spending we will continue to make repayments of Labor's debt.

In net terms we have now reduced that \$96 billion debt by \$70 billion. The Australian economy is much stronger.

But now we have new challenges. We must start preparing for the ageing of the population. Over the next forty years the number of Australians of working age will grow slightly. The number of Australians over 65 will more than double. Tonight I will announce measures that will work to address this fundamental shift in our society.

And to cope with that change we need to take measures which will help our economy grow to its maximum potential – to help more people into the workforce and make it easier for mothers who are juggling paid work, or part-time work, with the nurture and raising of children.

Tonight I will be announcing the largest package of measures ever to assist families who are juggling work and child-rearing.

And since we need to improve rewards for people who are working extra, looking for promotion, or working to upgrade their skills, tonight I am announcing new tax scales which will lower marginal tax rates for middle income earners.

MORE HELP FOR FAMILIES

Our plan: *More help for families* has five interwoven components:

- a \$600 increase in the level of payment per child under the Family Tax Benefit Part A;
- relaxing the income test for this benefit which will give more families access at higher rates;

- a change in the income test for the single income family benefit – FTB (B) – which will allow more mothers to access this payment while in part-time work;
- a new maternity payment – without qualification – for every mother on the birth of a child;
- a very substantial increase in childcare places.

The Family Tax payment, FTB (A), is paid to around two million Australian families. Tonight I am announcing an increase of \$600 in all levels of this payment. The base payment, per child, will increase from \$1,095 to \$1,695.

This new level is, in real terms, more than 100 per cent higher than the amount paid before this Government was elected in 1996.

This increase of \$600 will be available as a lump sum to families upon reconciliation of their 2003-04 entitlement, that is, when they file their tax return after 30 June this year and in every subsequent year.

And further to this, tonight I am announcing an immediate payment to all families eligible for the FTB (A) of \$600 to be paid before 30 June this year. As soon as Parliament enacts the legislation, eligible families will receive \$600. They will then be entitled to the further \$600 lump sum upon reconciling their current year entitlement after 30 June 2004. This means nearly all these families will be eligible for an additional \$1,200 per child in the next 12 months.

Second, the income test for this benefit will be eased. The phase out for the maximum payment (a sum which is increased to over \$4,000 tonight) will be softened so that a family with three children will still receive some part up to \$70,920. The cut-off income for a base payment for a family with three children will be raised to \$105,572.

Third, tonight I am also announcing enhanced benefits for single income families and families with a part-time second earner. Around 90 per cent of these families receive the additional \$600 per child I have just announced. From 1 July they will also receive a more generous income test and taper on the income of the second earner for FTB (B). At present these families lose the benefit when the second earner (with a child under five) returns to work and earns \$11,559. This can discourage mothers re-entering the workforce for part-time work. The more generous test will allow part of the benefit to continue until the second earner's income reaches \$18,600. And further, from 1 July 2005 where the mother returns to work, the income from employment will not be counted against the eligibility for her benefit already received. That is, the mother can keep the benefit she has already received when she re-enters the workforce.

Fourth, the Government will roll together the existing Maternity Allowance and the Baby Bonus into a new payment, a Maternity Payment, to be paid to all mothers on the birth of a child. The payment will be a lump sum of \$3,000 from 1 July and will rise to \$5,000 by 1 July 2008. Those who are receiving the current Baby Bonus will keep that entitlement where it is higher than this. The Maternity Payment recognises the cost of a new child and will assist all mothers many of whom leave the workforce and leave paid work at the time of the birth of their child.

Fifth, the Government will dramatically increase the availability of childcare places to help mothers balancing work and family commitments. In addition to announcements made in December, the Government will add another 30,000 outside-school-hours places and 1,500 family day care places to bring the total new places to 40,000 new outside-school-hours places and 4,000 new family day care places from 1 July 2004.

Allowing for these places means an overall increase in childcare places since the Government was elected of 85 per cent or around 250,000 places.

Taken together, these changes will increase family assistance by around \$50 per week for a family on average wages with a wife in part-time work and two children.

The family package will cost \$19.2 billion over five years.

INCOME TAX CUTS

Mr Speaker, our income tax rates should be kept as low as is consistent with our spending requirements. People on middle incomes should not face the top rate of income tax.

In 2000, income tax was cut by the largest amount ever and last year thresholds were changed to reduce income tax again. Tonight I am announcing new thresholds for marginal tax rates which will cut income tax by \$14.7 billion over the next four years.

The thresholds will be lifted in two stages. From 1 July 2004 the 42 per cent threshold will be increased from \$52,000 to \$58,000 and the 47 per cent threshold is to be increased from \$62,500 to \$70,000.

From 1 July 2005 the 42 per cent threshold will be further increased to \$63,000 and the 47 per cent threshold to \$80,000.

These tax cuts will mean that more than 80 per cent of taxpayers will have a top tax rate of 30 per cent or less over the forward estimates period. The overwhelming majority of taxpayers who earn between \$21,600 and \$63,000 will not face any increase in their tax rate as their income increases. This will improve rewards for those wanting to work overtime or upgrade their skills.

These changes improve the structure of Australia's income tax system. They make it more internationally competitive. They improve incentive. They will help those with skills receive better reward for effort. The tax cut for someone earning at the top threshold or above will be \$42.21 per week.

BOOSTING RETIREMENT SAVINGS

Mr Speaker, the Government believes there should be incentives for additional savings by those who want more retirement income than the superannuation guarantee and the age pension provides.

Against the wishes of the Opposition the Government has finally introduced a \$1 for \$1 co-contribution scheme for low income earners who make voluntary contributions to superannuation.

It is time to take this further. From 1 July the Government co-contribution will increase to 150 per cent of an employee's contribution up to a maximum of \$1,500. This means that if an eligible person pays \$1,000 into superannuation, the Government will match it with a \$1,500 contribution for that person in their fund. The lower income threshold, up to which the maximum co-contribution applies, will also be raised to \$28,000. Above this amount, the maximum co-contribution will reduce by five cents for each dollar of income to phase out completely at \$58,000. Currently the co-contribution phases out completely at \$40,000.

This will significantly boost superannuation incentives for low and middle income employees and boost their retirement incomes.

The Government will also reduce the superannuation surcharge for those on higher incomes at a cost of \$610 million over the next four years. The rate will reduce from its current level of 14.5 per cent to 7.5 per cent by 2006-07.

The cost of the total superannuation measures will be \$2.7 billion over four years.

INVESTING IN AUSTRALIA'S SECURITY

Mr Speaker, a strongly performing economy can best be sustained within a safe and secure community and nation.

The heightened threat posed by terrorism means the Government has had to move quickly to upgrade national security arrangements. In total, the Government has committed \$3.1 billion over seven years since 11 September 2001 to make Australia more safe and secure.

This includes a further \$755 million over the five years from 2003-04 in this Budget to continue to improve our national security arrangements.

Intelligence is one of our key weapons in combating terrorism. Our intelligence agencies are at the front line when it comes to gathering information to uncover would-be terrorists, assess the threats to our security, and advise the Government on security risks. These agencies will receive additional funding to ensure that they are well equipped to meet the challenges of the current security environment. The Government will provide \$270 million in additional resources for intelligence, mostly for the Australian Security Intelligence Organisation and the Australian Secret Intelligence Service. This means more intelligence officers, more checks, and more sharing of information with other intelligence agencies to close the net on would-be terrorists.

We are committing increased funding of \$207 million to upgrade protective security and more plain clothes sky marshals will travel on more international flights to more locations.

Protecting our nation's borders is a big part of providing a safe nation. The Government will allocate \$150 million for this purpose, including the development of biometric technology and an upgrade of visa processing systems, so that we lessen the risk of terrorists getting into this country.

AN ONGOING COMMITMENT TO STRONG DEFENCE

Mr Speaker, this Government has provided substantial new funding for a big step up in defence capabilities and levels of preparedness. Measures in this Budget exceed \$1.5 billion over five years, bringing to nearly \$40 billion the total amount of additional defence spending by the Government since 1996.

The Government will provide \$132 million for the Australian Defence Force contribution to Iraqi stabilisation and reconstruction. Australia will not cut and run from Iraq. This will continue the deployment through financial year 2004-05. The Government will also provide \$20 million for an expected extension of our contribution to the United Nations mission in East Timor.

More funding will be provided to ensure that our defence assets including F/A-18 fighter aircraft and Collins Class submarines operate at optimal levels. In this Budget, we will also provide \$458 million over the next four years for a range of personnel initiatives, including \$357 million to improve the quality and access of housing for members of the Australian Defence Force without dependents.

AFFORDABLE, HIGH QUALITY HEALTH SERVICES

Mr Speaker, Australians need high quality health services with access for all. Such services need very substantial funding. Since coming to office, the Government has doubled spending on health, from \$17 billion in 1996-97 to \$35 billion in 2004-05.

Recent improvements to Medicare have been announced to provide additional incentives for GPs to bulk bill consultations with children under 16 and concession card holders.

The Government's new Medicare safety net means that Australians are protected if they face significant medical bills. A Government rebate now pays 80 per cent of non-hospital costs above \$300 for those families eligible for Family Tax Benefit Part A and concession card holders. For all other individuals and families, 80 per cent of costs are paid once these costs rise above \$700 per year.

These changes represent the single largest improvement to Medicare since its inception. And this Government remains committed to the 30 per cent private health insurance rebate.

Tonight I am also announcing new measures to help people who find it difficult to control diabetes with injections. The use of new generation insulin infusion pumps allows these people to administer a steady flow of insulin through the day, without the need for injections. Currently the consumables associated with using these pumps cost around \$2,400 per year, which is paid by the person with diabetes. The Government will provide funding of \$15 million over four years, so that most users of the pump will now face costs of less than \$200 per year. This will particularly help children and pregnant women.

This Budget also aims to help children who are profoundly deaf who can be assisted by Cochlear implant speech processors. These processors need to be upgraded every few years to maintain performance. Currently around 130 children are waiting for an upgrade. The Government will provide funding of \$8 million over four years to virtually eliminate the current waiting list in 2004-05 and provide for around 230 upgrades each year thereafter. This will help deaf children get quicker access to this technology which can change their lives.

The Government has a proud tradition of respect for the health and welfare of our veterans. The Budget includes a significant increase in funding of \$158 million, so that veterans on gold and white cards are able to see specialists when they need to.

SCHOOLS — INVESTING IN THE NEXT GENERATION

Mr Speaker, in this Budget we are making another substantial investment in our schools. This builds on the reforms and additional funding announced last year for the higher education sector.

Over the next four years, the Government will increase funding for schools by over \$8 billion to \$32 billion in total. This will provide additional funding for both government and non-government schools.

Our substantial increase is conditional on the States agreeing to implement national standards designed to help students and to assist their parents. Parents have a right to know how their child is doing at school.

All schools will be required to make information about their performance public. This information may include average academic outcomes, improvements on previous years, school leaver destinations, teacher qualifications, staff retention rates and absentee rates.

The Government will work with State and Territory Governments and local communities to develop a *National Values Framework*. To assist with this process I am announcing tonight that \$35 million will be provided for values, civics and citizenship education initiatives in our schools. Every school in Australia will receive an average of \$1,600 to conduct forums with students, parents, and teachers on values and educate children on things like the danger of drugs. We hope every Australian child will learn of the damage that drugs will do to them.

INVESTING IN AUSTRALIA'S INFRASTRUCTURE — AUSLINK

Mr Speaker, the provision of quality physical infrastructure is crucial to increasing efficiency and productivity in the economy. In this Budget, the Government will introduce a new land transport infrastructure programme — *AusLink*.

Over the next five years, \$3.1 billion will be provided to upgrade Australia's road and rail systems on top of the \$5.6 billion in base funding which covers the National Highway System and Roads of National Importance like the Scoresby Freeway. The additional funding includes \$810 million over three years redirected from the Fuel Sales Grants Scheme as announced in January.

With a vibrant and growing economy, the fast movement of freight is paramount. To assist in this task, the Government will pay \$450 million in June this year to the Australian Rail Track Corporation, to upgrade its network of rail track. This will allow work like straightening the track on lines from Northern New South Wales to Brisbane to allow faster movement of freight, with wide ranging benefits for producers.

In January this year, the Government announced the extension, for four years from 2005-06, of the Roads to Recovery programme costing \$1.2 billion. This funds local roads. Part of this funding will be available to Councils for local land transport projects, such as those which encourage tourism or help get products to markets faster.

Taken together, this significant new investment will position Australia to cope with an expected doubling of the land freight task over the next 20 years.

RECOGNISING THE CONTRIBUTION OF CARERS

Mr Speaker, carers who look after those with disabilities are unsung heroes.

Carer Payment is paid to those on low incomes who provide constant care for a disabled person or child. Carer Allowance is paid to those who live with and provide daily care and attention to a person with a disability.

We deeply value the work these people do.

Tonight I announce that around 80,000 people on a Carer Payment will receive an additional one-off payment of \$1,000 and around 300,000 recipients of Carer Allowance will receive a payment of \$600 before 30 June. These people are devoted to those who need help to look after themselves. We can afford to pay it. And they deserve it. It will cost \$255 million.

At the moment, carers who do not live with the person they are caring for are not eligible for Carer Allowance. The Government will change this. \$107 million will be allocated from 1 April 2005, to enable carers who provide substantial levels of personal care per week, but who do not live with the care recipient, to receive the payment. This will benefit around an additional 13,000 carers.

Carers are on duty all the time. They give of themselves in a selfless way in demanding circumstances. Recognising this, the Budget includes \$99 million to expand the access of carers to respite services. Ageing parents caring for adult children will be entitled to up to four weeks respite a year. We will ask the States to match funding for this initiative.

INVESTING IN AUSTRALIA'S AGED CARE

Mr Speaker, as the population ages, the viability and the level of services in the aged care sector needs to be expanded. Acknowledging this importance, the Government tonight announces a massive new investment of \$2.2 billion over five years to ensure that the aged care sector is able to continue to provide affordable and quality aged care for the increasing number of older Australians.

A new Conditional Adjustment Payment for providers will be introduced, on top of the care subsidy the Government provides, which will deliver an extra \$878 million in resources for the aged care sector, conditional on providers meeting certain conditions such as encouraging staff training. This will mean that the average care subsidy provided by the Government will increase from \$30,500 per year for each resident to \$35,000 by 2007-08.

To ensure that we have a skilled and well trained aged care workforce, \$101 million will be provided for more trained nurses, including 15,750 vocational education and training places, and 400 new undergraduate nurse places in 2005.

Additional funding of \$58 million in 2006-07 and 2007-08 will also be provided to enable an increase to 108 aged care places for every 1000 Australians who are aged 70 years or over.

So that providers can expand and improve facilities, maximum accommodation charges for new high-care residents will be raised to \$16.25 per day. The Government will provide a corresponding increase in supplements on behalf of financially disadvantaged residents so they will not have to pay any additional cost. The new change will deliver an additional \$439 million in capital funding to the sector.

And tonight I am announcing a one-off payment to providers of \$3,500 per resident to be made before 30 June. Costing \$513 million, this measure will inject immediate capital to enable safety and building standards for aged care homes to be improved.

ASSISTING RURAL AND REGIONAL AUSTRALIA

Mr Speaker, we are all aware of the profound economic and social impacts that the drought has had over the last two years. In some areas recovery is underway, while in others the drought continues.

The Government will continue to provide support to drought affected farmers with \$73 million in Exceptional Circumstances assistance to areas declared eligible since December 2003, over the period 2003-04 to 2005-06. This assistance includes income support and interest rate subsidies. The Government expects to provide around \$1.1 billion in direct drought assistance to farmers and their communities over the period 2002-03 to 2005-06.

And in a measure to support Australia's wine industry, tonight I announce a tax rebate of \$290,000 in Wine Equalisation Tax to every wine producer on an annual basis. This initiative will particularly support small wine producers with domestic sales. It will replace cellar door rebates and reduce tax on the industry by \$338 million. This will effectively exempt 90 per cent of Australia's wine producers from the Wine Equalisation Tax.

ASSISTING SMALL BUSINESS

Mr Speaker, a big part of our resilient economy is our resilient small business. To reduce the compliance burden on small business, tonight I am announcing measures which will allow small businesses who are below the registration threshold and voluntarily registered for GST to report and pay GST annually, instead of quarterly.

These measures will benefit around 740,000 small businesses and 30,000 non-profit organisations that are voluntarily registered and currently pay on a monthly or quarterly basis.

As all GST revenue is paid to the States, their approval of these changes will be required. The Government will offer to compensate the States for the revenue deferred in this measure at a cost of \$330 million in 2004-05.

ECONOMIC OUTLOOK

Mr Speaker, the outlook for the Australian economy is for continued growth, with increasing employment and low inflation. A stronger world economy in 2004-05 should rebalance growth from domestic to external sources.

In year-average terms, GDP growth is forecast to moderate slightly from 3¾ per cent in 2003-04 to 3½ per cent in 2004-05. The recovery in farm production will continue, if there is a return to average seasonal conditions.

Unemployment is forecast to remain near 23-year lows during 2004-05. The combination of strong growth, low inflation and low unemployment puts Australia at the forefront of the economies of the developed world.

But we cannot rest. We cannot take this for granted. We must build on the work of the past to face the challenge of the future.

This is a Budget of reform. It contains initiatives carefully coordinated to meet the challenges for families, for our ageing population, for retirement incomes, and to improve incentives with a better tax structure.

I commend this Budget to the House.