

BUDGET SPEECH 2007-08
DELIVERED ON 8 MAY 2007 ON THE SECOND
READING
OF THE APPROPRIATION BILL (NO. 1) 2007-08
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

Australia is different to the way it was 10 years ago.

Our economy is about 1½ times larger than it was back in 1996.

We have another 2 million Australians who have found jobs since then. And average wages have increased 20 per cent in real terms.

In the decade before 1996 inflation averaged 5 per cent a year. Since then inflation has halved, averaging the low and stable rate of 2½ per cent a year.

Ten years ago the Australian Government owed a net debt of \$96 billion. The Government was paying an interest bill of \$8.5 billion a year. Today we are debt free in net terms. And our net interest payments are zero. This is saving taxpayers \$8.5 billion a year.

Back in 1996 the Budget was in deficit. We were living beyond our means. Today we are living within our means. For the 10th time, I am outlining a Budget that will be in surplus.

We have come a long way and made a lot of progress. This year's Budget has been framed to lock in that progress:- to keep people in jobs; to keep our living standards

up. We don't want to lose all that we have achieved over the last 10 years. We want to lock in the gains and move forward.

The next decade will bring challenges all of its own – the ageing of the population, health care, aged care, the emergence of climate change, the instability of our region and the global shocks which can threaten our economy.

If we lock in the achievements of the past this will help us with the challenges of the future. We want to meet and deal with future challenges from a position of strength. This is a Budget which will build our economic capacity and give us that strength.

Tonight I will explain how we will invest for the future.

I will outline steps which will grow our economy.

I will introduce measures to give a helping hand to those who are struggling.

I will detail proposals to improve and conserve our natural environment – our water and our riverways.

And this Budget will fund the national security and defence preparedness we need to protect our country.

Two years ago I announced the Government would establish a Future Fund to invest now for liabilities that are falling due for payment in the years which lie ahead. The Fund is established and is well on its way. It will help pay entitlements to our soldiers, navy and air force personnel which must be honoured after they have retired and finished their service to the nation. The Fund operates as an accumulation fund and reinvests its earnings. It aims to meet its target by 2020.

If you rob capital or earnings from the Future Fund, taxpayers will have to make up the difference. You are passing our bills, our obligations, from our generation to the next. This will limit their future. We will strongly oppose any irresponsible attempt to raid this national investment for cheap political advantage.

HIGHER EDUCATION ENDOWMENT FUND

We do not want to limit the future chances of young Australians, we want to build them. So tonight I announce another investment in the future. For the first time ever, the Australian Government will establish an endowment fund – the Higher Education Endowment Fund (HEEF) – as a perpetual fund to generate earnings for capital works and research facilities in our institutions of higher learning.

The initial investment of \$5 billion out of this year's Budget surplus will broadly double all the existing financial investments and endowments currently held in the total university sector.

The capital will not be spent. It will be invested. And, what is more, we will add further capital from future Budget outcomes to this perpetual fund.

Individuals who wish to contribute to this visionary initiative will be able to make tax deductible gifts to be managed along with the Government endowment. The Endowment will be managed by the Guardians of the Future Fund.

The earnings generated by this investment will be dedicated to building first class institutes of learning – first class by world standards – and put our Institutes of Higher Learning on a secure footing for ever.

In addition to this, tonight I announce a plan to improve the education system so as to help all young people achieve their full potential.

This \$3.5 billion plan called *Realising Our Potential* has three components. At the school level it means improving numeracy and literacy. At the training level it means better vocational education and more apprenticeships. At the tertiary level it means better universities which are more responsive to student needs.

IMPROVING SCHOOL OUTCOMES

Every parent is entitled to expect that their child will receive a high quality education and develop the basic skills they need in later life. If children fall behind early they find it very hard to catch up.

From 1 January next year we will help those children who do not achieve national literacy and numeracy benchmarks in Years 3 and 5 and 7 by providing a voucher to their parents for extra tuition outside of school. The voucher will be for \$700. It can only be used for tuition. It is designed to give those children who need it specialized, personal, assistance.

If we want to improve literacy and numeracy we also need to recognise and reward those teachers and those schools that do well in teaching our children.

In 2008 there will be a bonus up to \$50,000 available to schools that make significant improvements in the literacy and numeracy standards in their schools. This will reward school excellence.

The Government will also provide \$102 million from 2008 to establish Summer Schools for teachers to undertake professional development for teaching in the areas of Literacy and Numeracy, Australian History, Maths, Science and English. Teachers who

attend these summer schools in their own time, will receive a \$5,000 bonus from the Australian Government on completing the course.

The Government will also provide additional funding of \$77 million from 2008 to get more practical experience for those training to be teachers. We will pay Institutions to provide a minimum 120 days experience in schools for trainee teachers who are doing three and four-year degrees.

VOCATIONAL EDUCATION AND TRAINING

The Australian Government is a strong supporter of vocational education and training (VET). The recent *Skills for the Future* package committed \$837 million in new funding to support skills training in the sector. We need more tradesmen and women. We need to get more young people into apprenticeships.

That is why we will introduce a new tax exempt payment of \$1,000 to first and second year apprentices in skill-shortage trades to top up their wages. It will be for those under 30 years of age. It will give them better wages while they are training. First and second year apprentices in skill-shortage trades, regardless of age, will also be entitled to a voucher of \$500 which they can use to help offset course fees for their training. This will encourage more people to take up apprenticeships at a cost of \$549 million over four years.

An additional \$84 million over five years will be provided to establish three new Australian Technical Colleges in the Brisbane, Sydney and Perth areas; to add to the 25 being established around Australia.

HIGHER EDUCATION

The Budget also includes an additional \$768 million over four years to increase the capacity of universities to respond more flexibly to student demand:- allowing them to enrol more students in courses that students want to study and simplifying Commonwealth funding arrangements.

We will also provide an additional 3,500 Commonwealth Learning Scholarships for university study over four years.

These measures for primary education, for apprentices and for higher education will boost the skills of our workforce and expand Australia's productive capacity. More than ever Australia needs to be smarter and more productive to keep ahead of the pack.

INCOME TAX CUTS

Mr Speaker, if we want our economy to grow we must ensure there are strong incentives for people to join the workforce and reward them for better skills and better effort.

We commenced cutting personal income tax in 2000.

We have cut taxes in the last four Budgets.

Tonight I announce income tax cuts for the fifth year in a row. These tax cuts will take effect in two stages: from 1 July 2007 and 1 July 2008.

From 1 July this year, the 30 per cent tax rate will only apply to income over \$30,000:- up from the current threshold of \$25,000.

The low income tax offset will also rise from \$600 to \$750 and will begin to phase-out from \$30,000. This means that low income earners eligible for the offset will not pay tax until their annual income exceeds \$11,000.

For a person on average wages the tax cut I announce tonight will be around \$16 a week. For those below it can be more, for example, at \$30,000 the tax cut will be \$21 a week.

These tax changes provide further incentives for those outside the workforce to enter it and for those in part-time work to take additional hours.

Taxpayers earning \$30,000 paid \$6,222 in income tax in 1999. From 1 July 2007 they will only pay \$2,850 – a reduction of around 54 per cent.

From 1 July next year, we will increase the 40 per cent threshold from \$75,000 to \$80,000 and the 45 per cent threshold from \$150,000 to \$180,000.

These income tax changes will ensure that more than 80 per cent of taxpayers face a top marginal tax rate of 30 per cent or less across the forward estimates period. They mean the top tax rate only applies to around 2 per cent of taxpayers. Back in 1996 the top marginal rate – which was higher than it is today – applied from \$50,000. If that threshold had been indexed it would have stood below \$68,000 on 1 July next year. In fact it will be \$180,000.

Senior Australians who are eligible for the senior Australians tax offset will now pay no tax on their annual income up to \$25,867 for singles and up to \$43,360 for couples.

Our tax system exists to fund the decent services in health, education, aged care, and other services that Australians legitimately expect and are entitled to receive. If after

we provide for those services, invest for the future, and balance our Budget, we can reduce the tax burden, we should do so.

Tonight I am also announcing a programme to dramatically simplify income tax returns for the next financial year commencing on 1 July 2007.

Taxpayers will be able to go online to access an income tax return prepared by the Commissioner of Taxation, including income from salary and wages, interest, dividends, information on private health insurance, and any benefits paid from the Government, including the family tax benefit.

If the taxpayer is satisfied with this pre-prepared statement, they will be able to click online and file their return without any further action. If there is additional information to provide, this can be added to the pre-prepared return.

This will be available for the 9 million taxpayers who currently lodge their tax return electronically, either directly or through a tax agent. There are 10 million taxpayers in Australia.

IMPROVING CHILD CARE ARRANGEMENTS

Part of helping families to balance work and parenthood is to assist with child care. Government assistance for child care in 2007-08 will be \$3 billion, nearly three times the level in 1996-97.

From 1 July 2007, the rates of Child Care Benefit will increase by 10 per cent, on top of indexation. This will increase the maximum rate of Child Care Benefit from \$2.96 to \$3.37 per hour, meaning that a family on maximum rate assistance with one child in Long Day Care for 40 hours per week will be eligible for \$134.80 per week. This change will provide \$728 million in extra assistance to more than 700,000 families.

The Government will also reimburse 30 per cent of the remaining out-of-pocket expenses after the payment of the Benefit. From 1 July 2007, families will receive the 30 per cent Child Care Tax Rebate as a direct payment shortly after the financial year in which they incur out-of-pocket child care costs. Families who incur out-of-pocket child care costs in both 2005-06 and 2006-07 will receive two rebates in 2007-08 – one through the tax system under existing arrangements, and the other as a direct payment. The maximum payment will be \$4,096 per child in respect of 2005-06 and \$4,211 per child for 2006-07.

This reform will help mothers who want to take part in the paid workforce to do so.

BOOSTING INVESTMENT IN LAND TRANSPORT INFRASTRUCTURE

Mr Speaker, a high quality transport network underpins our nation's productivity, economic growth and prosperity.

The Government has a strategic plan to develop this network called AusLink.

We have invested \$15.8 billion in road and rail projects like the Pacific Highway, the Deer Park Bypass, and the Caboolture Motorway.

Tonight I am announcing that the Government will boost its investment in road and rail infrastructure with the second AusLink plan and total funding of \$22.3 billion over five years from 2009-10.

The National Network of road and rail is critical to our economy and provides the link between Australia's major population and economic centres. It is the link for our exports to the world.

AusLink 2 will help reduce accidents on Australian roads. The Black Spot Programme will increase to \$60 million per annum over the five years from 2009-10. The Roads to Recovery Programme constructs and maintains local roads and will be funded with \$1.8 billion. The Strategic Regional Programme supports the growth of regional industry and will be allocated \$300 million.

In order to bring forward construction of some of these strategic regional roads I am announcing tonight an additional \$250 million of supplementary funding to be paid to local councils before June 30.

SUPPORTING RETIREMENT SAVINGS

Mr Speaker, encouraging people to save for retirement is critical to meet the challenges posed by the ageing of the population.

In last year's Budget I announced the most comprehensive reform of Australia's superannuation system ever. Taxes on benefits paid from a taxed fund to those over 60 will be abolished from 1 July 2007 – no tax on pensions, no tax on lump sums.

Another superannuation incentive for people on low to middle incomes is the co-contribution scheme where the Government matches \$1.50 for each \$1.00 a person contributes from their own money to superannuation. In order to reward this saving further, the Government will pay an additional one-off to double the co-contribution in respect of the 2005-06 year.

This means an eligible person who contributed \$1,000 will receive a co-contribution of \$3,000 from the Government for that year.

This will boost the superannuation savings of low and middle income earners by \$1.1 billion.

REWARDING OLDER AUSTRALIANS

Mr Speaker, since this Budget will boost the take home pay of those in the workforce, we also want to assist older Australians of retirement age.

This year the Government will provide a one-off seniors bonus payment of \$500 to all individuals of Age or Service Pension age eligible for either the Utilities Allowance or the Seniors Concession Allowance as at 8 May 2007. This payment will also be made to all recipients of Mature Age Allowance, Widows Allowance and Partner Allowance as at 8 May 2007.

I also announce tonight, for the fourth consecutive year, that recipients of the Carer Payment will receive a bonus of \$1,000 and recipients of the Carer Allowance a bonus of \$600 for each eligible person in their care. These are people who look after others with a disability and help those unable to fully care for themselves. They deserve this support.

Both the seniors and the carers bonuses will be paid by 30 June 2007. These payments will be tax-free and not treated as income when calculating social security payments. These measures will cost \$1.7 billion in 2006-07.

These bonuses show we can extend the benefits of a strong economy to those outside the workforce. It recognises the contribution older Australians have made to building our economy. It lends a helping hand to our carers.

The Government will also increase the Special Rate and Intermediate Rate Veteran disability pensions by \$50 and \$25 per fortnight respectively, with effect from July 2007.

ACCESSIBLE AND AFFORDABLE HEALTH CARE

Mr Speaker, the Government is committed to ensuring Australia's health care system remains accessible and sustainable into the future.

In 2007-08 the Government will spend \$51.8 billion on health and aged care, up from \$20 billion in 1996-97.

Our medical scientists have made Australia a world leader in health and medical research. Building on previous Budget investment in this area, tonight I announce the Government will provide \$486 million in grants this year to construct further world-class health and medical research facilities. Our scientists are among the best in

the world. We want to support their work to unlock treatments to deal with debilitating and degenerative diseases.

And the Budget funds new pharmaceuticals to deal with conditions like diabetes that affect so many Australians. By keeping our PBS competitive we can give access to new treatments.

Being overweight or obese is a major risk factor for chronic diseases including diabetes, heart disease and stroke. This Budget provides an additional \$150 million over four years for a package of measures to improve nutrition and encourage physical activity, including structured physical activity for children after school. This will encourage them to adopt healthier lifestyles.

Mr Speaker, while primary responsibility for dental care lies with State and Territory governments, the Australian Government has responsibility for funding dental training and funding general health services through Medicare.

This Budget provides funding of \$65 million over four years to establish a new regional dental school, with 60 additional dentistry places in regional centres. The Government will also provide \$12.5 million over four years to create more opportunities for city dental students to undertake dental training in regional settings.

And tonight I am announcing additional Medicare funding of \$378 million over four years for patients whose dental health is impacting on a chronic medical condition. A Medicare benefit up to \$2,125 per year will be available for their dental treatment in the private sector as referred by a doctor.

MEETING THE CHALLENGE OF CLIMATE CHANGE

Mr Speaker, one of the great challenges we have is to maintain the beautiful, diverse and precious natural environment we have in Australia.

Our responsibility is to manage the environment for future generations. One of the serious long term threats is global warming.

Since 1996, the Government has invested \$2 billion to develop practical responses to counter and reduce climate change.

The Government's \$500 million Low Emissions Technology Demonstration Fund is already driving the development of solar and clean coal technologies that are vital in this regard.

We want to encourage homeowners to install solar panels across Australia. The current rebates will be doubled so that households will receive up to \$8,000 for installing an

average system, which costs around \$14,000, a rebate of over 50 per cent. Grants of up to \$12,000 will be available for solar panels in schools and community buildings.

Forests play a key role in reducing greenhouse gases. Tonight I announce that the costs of establishing qualifying carbon sink forests will be tax deductible with immediate deductibility for five years commencing 1 July 2007 and concessional depreciation arrangements after that.

This Budget provides \$197 million over five years for the Global Initiative on Forests and Climate. This initiative will assist developing countries to manage and maintain – rather than slash and burn – their precious tropical forests.

And this will be complemented by the establishment of partnerships with developing countries to support water management, energy efficiency and alternative energy initiatives.

A new Australian Centre for Climate Change Adaptation will be established. The CSIRO will be allocated \$103 million for Climate Change and Energy Research. All this work will help Australia respond to the great challenge of global warming.

A NATIONAL PLAN FOR WATER SECURITY

Mr Speaker, water is one of Australia's most precious resources.

The Government's \$10 billion National Plan for Water Security is intended to place rural water use on a sustainable footing over the next decade. This plan includes \$5.9 billion to increase the efficiency of water use in irrigation and \$3.1 billion to address over-allocation of water.

Tonight I announce funding of \$201 million over six years to support the installation of water tanks and other water saving devices by schools and community organisations. We must capture as much of this precious resource as possible and use it carefully and wisely.

PROTECTING OUR NATURAL RESOURCES

The Government is further extending the Natural Heritage Trust until June 2013, with an injection of \$2 billion to support activities that improve water quality and reduce land degradation at the local, regional and national level. The Natural Heritage Trust is protecting wetlands, controlling salinity in the River Murray and dealing with nutrient run-off into the Great Barrier Reef.

Farmers and other private land holders are frontline environmental managers for around 77 per cent of Australia's land mass. Many of our rare and significant plants and animals are located on privately managed land.

Tonight I announce a new Environmental Stewardship Programme, an innovative long term initiative which will engage the Australian Government in partnerships with landowners to protect and improve environmental assets on private land.

The first of our natural assets to be targeted are the Box Gum Woodland areas that span inland from Queensland to Victoria. There is less than 5 per cent of this significant nationally endangered ecosystem left and much of it needs urgent work.

RURAL AND REGIONAL AUSTRALIA

Mr Speaker, large parts of our country are suffering badly from a once in a century drought which continues on with devastating effect to farmers and rural communities.

Australians believe we should give a helping hand to those who are struggling. Combining last year and this year around \$1.2 billion will be paid in exceptional circumstances drought assistance. Funding of \$688 million in assistance is expected to be provided in 2007-08.

Our assistance to drought affected farmers includes income support and loan assistance, counselling and support services.

Tonight I announce an additional \$205 million over four years to fund professional advice for farmers in severe difficulty, to subsidise management training and education and to provide re-establishment grants to assist those who wish to exit the industry.

DEFENCE AND NATIONAL SECURITY

Mr Speaker, the Government has no higher responsibility than the defence of Australia and its interests.

At present, members of the Australian Defence Force (ADF) are serving their country with distinction in difficult and dangerous theatres.

The Government recognises that improved recruitment and retention is necessary in order to ensure that we maintain the current high standards of our defence force and enable the ADF to grow to its intended strength of 57,000.

Tonight I announce additional funding of \$2.1 billion over ten years for a range of initiatives to further improve recruitment and retention, including an enhanced

Defence home ownership assistance scheme, incentives for young Australians to take up a Defence apprenticeship in a technical trade, and an expanded cadet programme for young people.

The Government is committed to ensuring our defence force is fully equipped to meet new and existing challenges. This Budget provides funding of \$6.6 billion over 13 years to acquire 24 F/A-18F Super Hornets to ensure Australia maintains air superiority in our region. The purchase will ensure a smooth transition to the F-35 Joint Strike Fighter and allow for the orderly retirement of the existing F-111 fleet.

And our Government is committed to addressing emerging threats to national security.

This Budget provides a further \$702 million over four years for national security initiatives to further safeguard against terrorism, including high-priority intelligence needs, an integrated e-security national agenda, and further strengthening of aviation security.

This brings to \$10.4 billion the additional funding the Government has committed to national security over the ten years to 2010-11.

ECONOMIC OUTLOOK

Australia has now recorded the longest economic expansion in its history. Unemployment is at a 30 year low.

I pay tribute to the enterprise of Australia's small business people and the hard work of employees who can share credit for this standout performance.

The orderly adjustment to the current strength in the terms of trade demonstrates the flexibility we have now built in the Australian economy.

As a result, inflation is forecast to be 2½ per cent in 2007-08.

Overall, GDP growth is forecast to be 3¾ per cent in 2007-08, reflecting an assumed return to average seasonal conditions in the farm sector and a partial recovery from the drought.

Business investment has grown strongly in recent years, and is now at its highest level as a share of GDP in 32 years. This will boost capacity in the years ahead.

This Budget – with its investment in education, skills, in road and rail, and sharper work incentives will add to that capacity. This investment will drive further economic growth.

We must now lock in the progress of the last decade if we want to keep our living standards high. From this position we can step out to meet the challenges of the future with purpose and confidence.

I commend the Bill to the House.