STATEMENT 1: BUDGET OVERVIEW

Recent natural disasters have had a significant impact on the Australian economy and the Government's fiscal position, but medium-term prospects are for strong economic growth, low and falling unemployment and rising incomes.

While the high Australian dollar and legacy effects from the global financial crisis are weighing particularly heavily on some sectors, the overall economy is expected to grow at an above-trend rate over the next two years.

Sustained high prices for our resources underpin record investment intentions in the mining sector and strong forecast growth in commodity exports.

With the unemployment rate already low, the unprecedented mining investment boom will stretch the economy's capacity over the coming years.

It is important that the Government does not compound these pressures, which is why it will return the budget to surplus in 2012-13 and beyond.

The Government is delivering this return to surplus by making difficult decisions to pay for its new spending, including the cost of the recent natural disasters, by making $22 billion in savings, around two thirds of which are from reductions in spending. The Government has made important structural savings that contribute to the sustainability of public finances and support Australia's capacity to respond to unanticipated shocks.

The return to surplus will be achieved before any major advanced economy through the implementation of the fastest fiscal consolidation in at least forty years. This is despite the impact of natural disasters and softer than expected revenues due to legacy effects of the global financial crisis.

This Budget delivers on the Government's fiscal strategy while also continuing to invest in the economy's productive capacity. It responds to Australia's workforce needs through better and more targeted skills and training, and new measures to boost participation. It also improves private sector opportunities to invest in infrastructure.

This Budget also delivers on key reforms to mental health services and makes important investments in education and families. It delivers on these priorities while rebuilding communities affected by natural disasters, and providing the opportunity for all Australians and regions to prosper from the resources boom.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The recent natural disasters have had a devastating impact on affected individuals and communities. They have also had a substantial impact on the Australian economy and the Government's fiscal position, although the economic impacts will be temporary.

Australia's medium-term prospects remain strong, with the economy expected to grow at an above-trend rate over the next two years, unemployment forecast to fall and the budget still on track to return to surplus in 2012-13.

While the high Australian dollar and legacy effects from the global financial crisis are weighing particularly heavily on some sectors, the overall growth outlook is strong.

Sustained high prices for our mineral resources underpin record investment intentions in the mining sector and strong forecast growth in commodity exports.

This is expected to drive strong growth in the overall economy and employment. With the unemployment rate already low, capacity pressures are expected to re-emerge.

It is important that fiscal policy doesn't compound these pressures, which is why the Government has delivered savings to pay for its new spending, including the cost of the recent natural disasters, and to return the budget to surplus.

The expected underlying cash deficit for 2011-12 is $22.6 billion (1.5 per cent of GDP), with a surplus of $3.5 billion (0.2 per cent of GDP) in 2012-13 (Table 1). The return to surplus in two year's time has been achieved despite the impact of natural disasters and a weaker near-term outlook for tax receipts.

Table 1: Budget aggregates

	Actual	Estimates			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Underlying cash balance($b)(a)	**-54.8**	**-49.4**	**-22.6**	**3.5**	**3.7**	**5.8**
Per cent of GDP	-4.3	-3.6	-1.5	0.2	0.2	0.3
Fiscal balance($b)	**-52.9**	**-45.7**	**-20.3**	**4.0**	**3.2**	**8.5**
Per cent of GDP	-4.1	-3.3	-1.4	0.3	0.2	0.5

(a) Excludes expected Future Fund earnings.

The Government has paid for its new spending, including the cost of the recent natural disasters, by making $22 billion in savings. This has provided scope for the Government to continue to expand the economy's productive capacity and to deliver reforms in a number of key areas.

The Budget responds to Australia's workforce needs through investments in skills and training that are more targeted to the needs of industry, and other measures to boost participation to ensure there are opportunities for all Australians to experience the benefits of work.

It delivers long-term reform to mental health to help those who have a mental illness get the care they need, and to support their families and carers. It also invests in services to support growth in our regions including health and hospital infrastructure.

It further strengthens the school system by recognising and rewarding great teachers and supporting all students, no matter where they live and what challenges they face, to achieve their best.

It builds on past initiatives to provide extra support for those families most in need, when they need it. It also contains measures to assist small businesses and manufacturers by providing more opportunities for them to prosper.

The Budget delivers on these priorities while supporting communities affected by the recent natural disasters, delivering on our election commitments and returning the budget to surplus in 2012-13.

ECONOMIC OUTLOOK

The severe weather events that hit Australia over the recent summer exacted a terrible toll on many communities, causing loss of life and damage to livelihoods. The macroeconomic impacts were also substantial, causing considerable destruction to private and public assets and directly resulting in around $9 billion of real production losses, predominantly in the resources and agriculture sectors. Indirect impacts continue to add to these losses.

The floods and cyclones in Australia were followed by the devastating New Zealand and Japanese earthquakes. Japan is Australia's second largest trading partner, taking around a quarter of our bulk commodity exports. Lower production and the destruction of productive capacity in Japan will see a decline in our exports to Japan in the near term.

Combined, the disasters in Australia and overseas are expected to detract around ¾ of a percentage point from Australia's real GDP growth in 2010-11. While it will take many years for the affected communities to recover fully from the devastation caused by these disasters, the negative impacts on Australia's economic growth are expected to be temporary, with the resumption of activity and commencement of reconstruction expected to add to real GDP growth from 2011-12.

The Australian economy has confronted these natural disasters from a position of strength. Over 300,000 jobs have been created over the past year, the unemployment rate has fallen to around 5 per cent and underlying inflation has moderated to around 10-year lows.

Australia's medium-term prospects are strong, with the economy forecast to grow at an above-trend rate over the next two years, driven by an investment surge in the resources sector. Following 2¼ per cent growth in 2010-11, real GDP growth is forecast to increase to 4 per cent in 2011-12 and 3¾ per cent in 2012-13 (Table 2).

Table 2: Major economic parameters[(a)]

	Forecasts			Projections	
	2010-11	2011-12	2012-13	2013-14	2014-15
Real GDP	2 1/4	4	3 3/4	3	3
Employment	2 3/4	1 3/4	1 3/4	1 1/2	1 1/2
Unemployment rate	5	4 3/4	4 1/2	5	5
Consumer price index	3 1/4	2 3/4	3	2 1/2	2 1/2
Nominal GDP	8	6 1/4	5 3/4	5 1/4	5 1/4

(a) Real and nominal GDP are year-average growth. Employment and CPI are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.
Source: Treasury.

Sustained high prices for Australia's key commodity exports underpin record investment intentions in the mining sector and strong forecast growth in commodity exports. The mining industry is planning to invest $76 billion in 2011-12 — around eight times the annual level preceding the boom — led by the LNG sector. The volume of non-rural commodity exports is expected to rise by over 20 per cent over the next two years.

High prices for Australia's commodity exports have pushed the terms of trade towards historical highs. While the medium-term outlook is for Australia's terms of trade to decline as the global supply of iron ore and coal increases, the prospect that strong resource-intensive investment in China and India in particular will continue for many years underpins expectations that this fall will be gradual.

Australia's high terms of trade and strong growth in the resources sector are supporting incomes and activity in the broader economy. But while the resources sector is driving strong aggregate real GDP growth, conditions in other sectors are made more difficult by the related strength of the Australian dollar, tightened macroeconomic policy settings and increasing competition for labour and other inputs.

For some industries, these challenges are compounded by more cautious household spending behaviour and the increased difficulty that some businesses still confront in accessing credit following the global financial crisis. Accordingly, while the Australian economy in aggregate is expected to grow at an above-trend rate, conditions are likely to remain uneven across the economy.

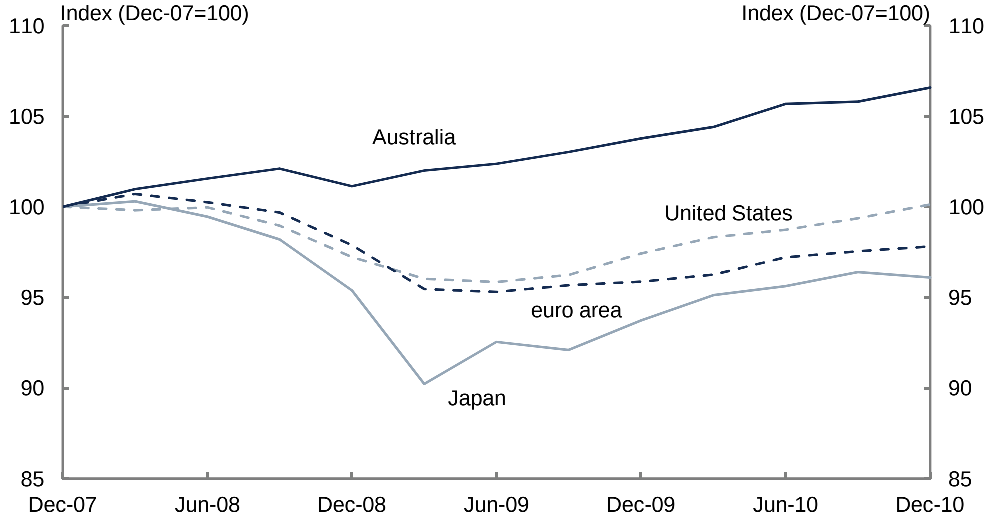
The unemployment rate is forecast to fall from around 5 per cent currently to 4¾ per cent in late 2011-12 and 4½ per cent in late 2012-13. Underlying inflationary pressures are expected to remain contained, but increase gradually as the labour market tightens and the economy approaches capacity. Headline inflation will be higher in the short term because of the increase in world oil prices and the temporary impact of the floods and Cyclone Yasi on fruit and vegetable prices.

The favourable outlook for the Australian economy is supported by a strengthening global economy, although the recovery from the global financial crisis remains uneven and subject to significant risks. The strong growth in emerging market economies that drove the initial phase of the global recovery is expected to moderate to more sustainable rates, while the recovery in major advanced economies is expected to become more self-sustaining. Following 5 per cent growth in 2010, the global economy is forecast to grow 4¼ per cent in 2011 and 4½ per cent in 2012.

Still, substantial risks remain, with rising world oil prices and greater economic uncertainty in Japan following the recent earthquake compounding existing fragilities. Sovereign debt concerns remain a key source of weakness in a number of advanced economies, particularly in the euro area periphery. Failure to develop a credible medium-term response to the unsustainable US fiscal position would also pose a threat to the sustainability of the global recovery. Inflationary pressures continue to build in emerging market economies, driven by reduced spare capacity and compounded by rising food and oil prices. Further sustained increases in world oil prices would pose significant risks to global growth.

Whereas a number of advanced economies are yet to return to the levels of output reached prior to the global financial crisis (Chart 1) and continue to experience high unemployment rates, the Australian economy is approaching full capacity.

Chart 1: Level of real GDP in selected advanced economies



Source: ABS cat. no. 5206.0, national statistical agencies, Thomas Reuters and Treasury.

FISCAL STRATEGY AND OUTLOOK

The Government will deliver a surplus in 2012-13, despite the recent natural disasters and the weaker near-term outlook for tax receipts making the return to surplus more difficult.

Returning the budget to surplus will ensure the Government does not draw on resources needed to support the unprecedented mining investment boom. It will also contribute to the sustainability of public finances and support Australia's capacity to respond to unanticipated shocks, including those related to the uncertain global economic outlook.

The Government is achieving the return to surplus by:

- paying for new spending, including the cost of the recent natural disasters, by making $22 billion in savings;
- restraining real growth in spending to an average of around 1 per cent per year over the forward estimates, the lowest five year period of growth since the 1980s; and
- allowing the natural increase in tax receipts associated with a strengthening economy in future years to flow through to the budget.

This tough stance on spending goes beyond the requirements of the fiscal strategy and reflects the Government's commitment to returning the budget to surplus as prudently and as quickly as possible.

Fiscal strategy

The Government's fiscal strategy is designed to ensure fiscal sustainability, while providing the necessary flexibility for the budget position to vary in line with economic conditions.

The medium-term fiscal strategy, which has remained unchanged since the Government's first budget in 2008-09, is to:

- achieve budget surpluses, on average, over the medium term;
- keep taxation as a share of GDP, on average, below the level for 2007-08 (23.5 per cent); and
- improve the Government's net financial worth over the medium term.

To ensure a timely return to surplus, the Government further committed, in the *Updated Economic and Fiscal Outlook* released in February 2009, to:

- allow the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and
- hold real growth in spending to 2 per cent a year once the economy is growing above trend until the budget returns to surplus.

The Government will build growing surpluses by retaining the 2 per cent limit on annual real spending growth, on average, until the budget surplus is at least 1 per cent of GDP, and while the economy is growing at or above trend.

Fiscal outlook

The recent natural disasters in Australia are expected to result in around $6.6 billion in payments over six years to assist affected communities with the costs of rebuilding, over one-half of which will occur in 2010-11.

In addition, tax receipts have been revised down since the *Mid-Year Economic and Fiscal Outlook 2010-11* by a total of $16.3 billion in 2010-11 and 2011-12. The downward revisions to tax receipts reflect the influence of a number of important factors including:

- more subdued short term economic conditions with growth in 2010-11 impacted by natural disasters, more cautious behaviour on the part of consumers, and a strong dollar; and
- larger than anticipated losses accumulated during the global financial crisis.

The impacts of natural disaster spending and the weaker near-term outlook for tax receipts have contributed to an underlying cash deficit of $49.4 billion or 3.6 per cent of GDP in the current year and $22.6 billion or 1.5 per cent of GDP in 2011-12.

Return to surplus

Disciplined spending and responsible savings have ensured that the budget remains on track to return to surplus in 2012-13, notwithstanding the near-term challenges from the natural disasters and reduced tax receipts.

An underlying cash surplus of $3.5 billion (0.2 per cent of GDP) is expected for 2012-13, with this surplus expected to grow to $5.8 billion (0.3 per cent of GDP) in 2014-15.

A surplus will be achieved through the implementation of a very rapid fiscal consolidation — 3.8 per cent of GDP (or $52.9 billion) over the two years from 2010-11.

The budget is projected to return to surplus only three years after the deficit peaked during the global financial crisis, despite the challenges faced this year and next. This would be the fastest return to surplus in the 44 years for which comparable data is available, and before any major advanced economy (Chart 2).

The Government is delivering the return to surplus by making difficult but responsible decisions, paying for new spending, including the cost of the recent natural disasters, by making $22 billion in savings. Many of the savings deliver continuing benefits to the bottom-line beyond the forward estimates, improving the long-term sustainability of public finances.

As part of the savings task, the Government has identified significant reductions in expenditure to help fund new priorities and strengthen the budget position, with savings broadly drawn from the following areas:

- limiting growth in payments to families higher up the income scale, by maintaining the upper income thresholds for certain family payments at their current levels, improving the long-term sustainability of the family payment system;
- reforming income support payments, including Parenting Payment Single, Newstart and Youth Allowance (along with phasing out the Dependent Spouse Tax Offset), to encourage participation and enhance social and economic outcomes for individuals and the economy more broadly;
- further improving the sustainability of the health budget by capping pathology services expenditure under the Medicare Benefits Schedule;
- making the higher education loan program fairer, by reducing the upfront discount;
- requiring greater efficiency from the public sector, by temporarily increasing the efficiency dividend;
- delivering new efficiencies in defence, through ongoing reforms; and
- reducing industry assistance and spending across the budget, and better targeting the timing of programs, including infrastructure deferrals to prioritise re-building in flood and natural disaster affected areas.

The savings build on previously announced changes to the private health insurance arrangements, better targeting of family payments, and changes to pension eligibility, all designed to improve the long term structural position of the budget.

This disciplined approach to spending has contributed to average real growth in spending of around 1 per cent over the forward estimates period. By the end of the forward estimates, government spending as a share of GDP is projected to fall to

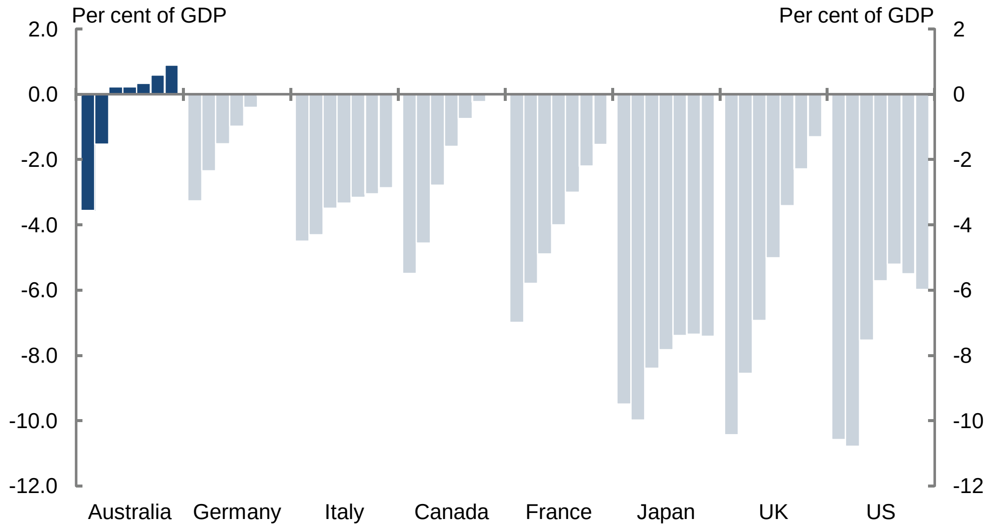
23.5 per cent. This is less than the average of the ten years preceding the financial crisis (24.0 per cent).

The Budget also contains a number of tax measures that improve the fairness and integrity of the tax system and cut tax expenditures, and so provide structural improvements in revenue.

A strong balance sheet

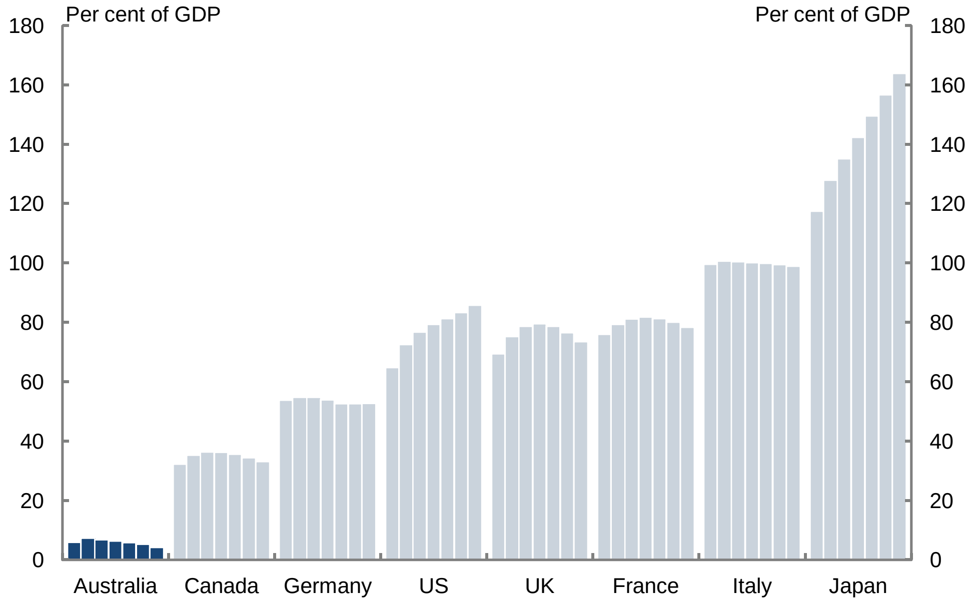
Net debt is expected to peak at 7.2 per cent of GDP in 2011-12 and decline over the remainder of the forward estimates. The peak is higher than previously expected, reflecting the immediate pressures on the budget from the natural disasters and reduced tax receipts. Still, the Australian Government's net debt position remains extremely low by international standards (Chart 3).

Chart 2: Budget balance for Australia and the G7 economies, 2010-2016



Note: Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2010-11. Data for all other economies are total government budget balance and refer to calendar years beginning 2010.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

Chart 3: Net debt for Australia and the G7 economies, 2010-2016



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2010-11. Data for all other economies are total government and refer to calendar years beginning 2010.
Source: IMF *Fiscal Monitor* April 2011 and Treasury.

BUDGET PRIORITIES

The 2011-12 Budget invests in Australia's workforce through better and more targeted skills and training, and new measures to boost participation and expand the economy's productive capacity. The Budget also makes important investments in mental health and regional health and hospitals, infrastructure, education, and support to families.

The key priorities in the 2011-12 Budget are to:

- respond to Australia's future workforce needs through a comprehensive approach which includes better and more targeted skills and training and new measures to boost participation, particularly for disadvantaged groups;
- build on the Government's $36.2 billion Nation Building Program by improving private sector opportunities to invest in infrastructure and the way we identify and plan future infrastructure priorities;
- continue the Government's strong commitment to improving health services, through investments in mental health reform and critical regional health infrastructure under the regional priority round of the Health and Hospitals Fund;

- ensure all children have the best possible start, by improving the quality of our teachers and providing additional support that is needed for children with disability;

- provide extra support and more timely and flexible assistance for families and low- to middle-income Australians to help them meet the costs that they face, when they arise;

- provide new additional support to small business through an expanded instant asset write-off to include motor vehicles and a package of measures to help the manufacturing industry build on existing skills and identify new supply opportunities in the resources sector;

- support sustainable and liveable communities through investments in our inner cities and outer suburbs, and investments to improve the quality of life in regional Australia;

- improve the fairness and integrity of the tax system by building on the Government's *Stronger, Fairer, Simpler* package; and

- support the defence force presence in Afghanistan and continue the Government's strong approach to preventing, deterring and disrupting people smuggling.

The Budget delivers on these priorities while delivering on our election commitments, supporting communities affected by the recent natural disasters and returning the budget to surplus in 2012-13.

BUILDING AUSTRALIA'S FUTURE WORKFORCE

The strong medium-term outlook for the economy will create further demand for skilled labour and test the economy's capacity. At the same time, some regions and industries will face challenges and some groups in the community are experiencing low rates of participation and higher unemployment.

To respond to these challenges, the Government will deliver a new *Building Australia's Future Workforce* package, to help industries get the skilled workers they need, and to ensure participation in work and the benefits that this brings.

The *Building Australia's Future Workforce* package will:

- invest $3 billion in new skills initiatives over six years — targeting our skills investments to better meet the skills needs of industry; and

- boost participation — improving incentives to participate in the workforce and the services available to support disadvantaged Australians find jobs.

Investing in skills

The Government is helping to meet demand for skilled labour, by better targeting our skills effort to deliver quality training focussed on addressing the differing skills needs of industry across Australia. The Government is also continuing its efforts to reform the skills system to help deliver the workforce that Australia will need in the future.

The $3 billion package of skills measures builds on the 2010-11 Budget's *Skills for Sustainable Growth* strategy, and the 2009-10 higher education reforms.

The investment in skills:

- places industry at the heart of our training effort;
- modernises and streamlines arrangements for Australian Apprenticeships;
- pursues reform of the vocational education and training (VET) system to meet longer term needs; and
- builds better skills for workforce participation.

Placing industry at the heart of training effort

The Government will establish a new $558 million National Workforce Development Fund to respond to the most critical emerging skills needs facing Australian industry, including at a national, regional and enterprise level. The National Workforce Development Fund will incorporate the $200 million Critical Skills Investment Fund.

The National Workforce Development Fund is expected to deliver an estimated 130,000 high quality training places directly tailored to industry skills needs.

The training places will require co-investment from industry, recognising the shared responsibility for training between the Government and industry.

The fund will be supported by the establishment of a new National Workforce and Productivity Agency from 1 July 2012 through an expansion of the current functions of Skills Australia at a cost of $25 million over four years. The National Workforce and Productivity Agency will work closely with industry to identify critical skill needs and build a more skilled and capable workforce.

Modernising and streamlining arrangements for Australian Apprenticeships

The Government provides incentives and assistance for over 400,000 Australian Apprenticeships each year, but variable training quality, a lack of support and arrangements where completions are based on time contribute to low completion rates and lost training effort.

The Government's *Building Australia's Future Workforce* package contains a number of important measures to reform and strengthen the Australian Apprenticeship system, with a focus on providing better support to apprentices and enabling accelerated completions provided quality is met. Measures include:

- investing $100 million in competency based progression and better recognition of apprentice skills through trial apprenticeship models which allow for faster progression without compromising skill quality, and the development of competency rather than duration based model award clauses, so apprentices can be recognised for their skills and get higher wages sooner; and

- investing $101 million to improve apprenticeship completions by funding more than 300 apprenticeship mentors per year to support up to 40,000 eligible apprentices overall, and 144 advisors per year to assist school leavers considering an apprenticeship.

These measures build on the increased tax-free bonuses available for eligible apprentices which provide up to a total of $5,500 as they reach key milestones in their training, and the new National Trade Cadetships to build modern pathways from school to an apprenticeship.

Reforming Vocational Education and Training to meet longer term needs

The Government is reforming Commonwealth-State funding arrangements for VET, as agreed by the Council of Australian Governments in February 2011, to deliver the strong and productive training system required to meet the changing labour needs of the economy. In particular, the Government will set new reform standards for its $7 billion investment in the National Skills and Workforce Development Agreement over the next five years.

The Commonwealth will also provide up to $1.75 billion over five years from 2012-13 to states and territories under a new National Partnership depending on the levels of ambition in reform. Funding will be available to those states and territories that are prepared to partner with the Commonwealth on more ambitious reforms for VET. This includes the delivery of a more productive and responsive system that is supported by improved outcomes such as higher level qualifications, increased completions and transparency, better recognition of skills, and catering to disadvantaged learners and regions. The National Partnership will be negotiated over the coming months.

Building better skills for workforce participation

For many Australians, stronger language, literacy, and numeracy skills will improve their opportunities in the workforce, and improve their broader capacity to participate in society. This is why the Government is:

- investing $143.1 million over four years to offer an additional 30,000 places in the Language, Literacy and Numeracy Program for job seekers with poor skills;

- committing $20 million to offer an additional 13,190 places in the Workplace English Language and Literacy program, which will provide additional support to businesses looking to improve their workers' skills; and
- providing additional funding of $19.7 million to maintain the number of places in the Australian Apprenticeship Access Program which supports prospective apprentices to obtain the basic skills they will need in their chosen trade.

Boosting regional support for skills and training

In addition to the skills measures in the *Building Australia's Future Workforce* package, the Government is also boosting education infrastructure by investing $500 million over five years through the Regional Priorities round of the Education Investment Fund. This investment will support capital projects at regional higher education and VET institutions.

In addition, the Government has allocated $109.9 million over four years to increase and better target funding to regional universities through a change in the formula for allocating Regional Loading for universities with regional campuses.

This regional investment builds on the Government's commitment to skills formation pursued through its Education Revolution agenda and the significant reforms to funding of, and access to, university in the 2009-10 Budget.

Boosting participation

The *Building Australia's Future Workforce* package strengthens incentives and invests in additional services to support participation and encourage work.

Broad-based participation reforms include bringing forward the Low Income Tax Offset (LITO) to provide more immediate returns to work and phasing out the Dependent Spouse Tax Offset (DSTO) for taxpayers born on or after 1 July 1971.

The improvements to LITO will provide more immediate returns to work. By giving people more money in their regular pay packets, this measure will reward participation for low- and middle-income earners as well as help households manage the day-to-day costs they face.

The Government will phase out the DSTO for taxpayers with a dependent spouse who was born on or after 1 July 1971. Dependent spouses who are carers, invalid or permanently disabled and selected other groups will not be affected. These changes reflect changing community attitudes to work and will strengthen the incentives for dependent spouses in couples without children to seek paid employment.

These reforms build on the Government's previous participation measures, which included a doubling of the LITO and an increase in the child care rebate to 50 per cent.

The participation measures in this Budget also support participation for disadvantaged groups including:

- young people;
- single parents;
- people with disability;
- the very long-term unemployed; and
- people in disadvantaged locations.

In recognition that certain areas experience concentrated disadvantage, a number of the measures focus on new opportunities and case coordination through service delivery reforms.

These measures balance greater responsibility through increased participation requirements with additional services and support such as training, childcare and employment services, and greater rewards for workers and employers.

The participation requirements for the different groups take account of the different circumstances of individuals and what can reasonably be expected of them.

These measures will build on the changes to employment services delivered though Job Services Australia, also announced in this Budget.

Young people

Approximately 10 per cent of Australians aged 15 to 24 (around 320,000) are unemployed or not in the labour force and not studying. To encourage all young people into jobs, education or training, the Government will extend 'Earn or Learn' requirements to those aged 21.

This is part of broader changes to Youth Allowance (other). The age of eligibility is being increased so that the Newstart Allowance will not be available until age 22 (up from 21). This will mean that the age of independence is aligned for Youth Allowance (student) and Youth Allowance (other), and the age which Family Tax Benefit (FTB) is available, which creates better incentives for youth to undertake training or study, rather than moving on to unemployment benefits. At the same time, the Government will introduce a more generous income free area and working credit for Youth Allowance (other). The Government will also provide $67.6 million through Job Services Australia to fund foundation skills activities for early school leavers.

The Government will further direct $50.7 million into a new Indigenous Youth Career Pathways Program that will provide supported School Based Traineeships to assist

Indigenous students in targeted schools to transition from school into further education and/or work.

The Government will also increase FTB Part A assistance for 16 to 19 year olds in full-time secondary study to encourage increased school completion rates which is vital for future workforce participation.

Single parents

Australia has the fourth highest proportion of children under the age of 15 living in jobless families in the OECD. There were 640,000 families with a dependent child aged under 15 on income support in December 2010. Single parent families also make up around 70 per cent of jobless families.

A reformed income test will increase the rewards from part-time work for single parents. The Government will reduce the taper rate for single parents on Newstart Allowance to 40 cents in the dollar at a cost of $179 million over four years. This will allow single parents to keep up to $3,900 extra of their income from part-time work every year.

In addition, the Government will deliver a package of assistance for single parent families to help them transition into work, including:

- $80.0 million for additional training places, which will also assist teenage parents;
- $3.7 million for career advice; and
- $19.1 million for the Communities for Children program.

From 1 January 2013, the Government will also gradually align Parenting Payment eligibility rules for families whose youngest child is aged over 12. The changes will only affect parents who were payment recipients before 1 July 2006 and have a youngest child born since 1 January 2000.

People with disability

The number of DSP recipients is growing and the participation rates of people with disability are substantially lower than the general population.

The Government has already announced that it will introduce more accurate and efficient assessments for Disability Support Pension (DSP) and employment services. DSP applicants will need to provide evidence that they have tested their future work capacity. DSP applicants with a terminal illness or profound disability will not be impacted by this measure.

The Budget brings forward the start date of this measure to 3 September 2011.

The Government will also update the definitions of incapacity used for DSP assessments, with the new definitions to apply from 1 January 2012. This will update definitions that haven't been updated since 1993.

The Government will also introduce additional measures designed to further encourage DSP recipients into the workforce. Measures include:

- the introduction of appropriate participation requirements for DSP recipients under 35 years of age with an assessed work capacity of more than eight hours;
- relaxing the number of hours recipients can work before their payment is suspended; and
- providing additional wage subsidies.

Very long-term unemployed

Nearly 230,000 income support recipients registered with employment services are estimated to have been receiving support for two or more years, notwithstanding the strong labour market conditions over this period.

The Government will provide $232.6 million to increase the support available to get the very long-term unemployed into work. This includes $94.6 million for the introduction of targeted wage subsidies to encourage employers to hire those who have not worked for over two years.

Addressing geographic disadvantage

Across Australia there are large differences in unemployment and participation rates.

The Government will target disadvantaged locations with:

- $47.3 million to introduce compulsory interviews and participation plans for teenage parents, as a first step towards a broader national effort to build their skills to get ready for work, and to get their children ready for school;
- $71.1 million to introduce participation requirements for jobless families in ten locations with preschool age children to improve school and employment readiness; and
- $117.5 million over five years to extend income management arrangements to five additional trial sites to help recipients of income support better manage their affairs.

To improve services for regions that need extra help, the Government will provide:

- $19.1 million over two years to develop 34 Regional Education Skills and Jobs Plans aimed at improving access to and participation in education, training and employment; and

- $45.2 million to extend the priority employment areas and local employment coordinators measure until 30 June 2013 and enhance it through a new flexible funding pool.

Skilled migration for the regions

The Government will make a modest increase to the permanent migration program of 16,300 places, aimed at attracting skilled migrants to live and work in regional Australia. As the level of net overseas migration has significantly fallen from a peak of 315,700 to 185,800, this increase will not place pressure on Australia's population.

To ensure new migrants are settling in regions of Australia where their skills are in demand, the Government is specifying 16,000 places to the Regional Skilled Migration Scheme and providing priority processing for regional visa categories.

The Government is also introducing Enterprise Migration Agreements to address the short term labour needs of major resource projects in the construction phase. This will be complemented by Regional Migration Agreements, where the Government will work with regional communities to develop tailored solutions to address their labour shortages.

INFRASTRUCTURE — EXPANDING OUR PRODUCTIVE CAPACITY

The 2011-12 Budget includes innovative measures to improve opportunities for private sector investment in infrastructure and to increase the quality of infrastructure development, in order to expand capacity and boost productivity.

This builds on the Government's Nation Building Program which is rolling-out around $36.2 billion of Australian Government funding over six years to 2013-14.

The package of measures in this Budget:

- helps remove impediments to private sector investment in infrastructure through improved tax provisions;

- enhances the transparency of planning, implementation and evaluation of infrastructure projects; and

- increases the role and independence of Infrastructure Australia.

Leveraging private sector investment in infrastructure

The Government will provide relief from impediments in the tax system that discourage private investment in infrastructure designated to be of national significance.

Investors will have greater certainty that:

- tax losses can still be accessed where project ownership and business structures change; and
- that the value of any accumulated losses are maintained by indexing them at the government bond rate.

These changes will reduce the risks faced by private investors by providing certainty about their ability to access losses generated by their investments in designated infrastructure projects.

Enhanced transparency and evaluation

The Government will establish a National Infrastructure Construction Schedule listing large infrastructure projects with Commonwealth, State, Territory or local government funding. This will help guide investment in the national pipeline of projects and provide greater certainty for the construction industry.

Infrastructure Australia

The Government is enhancing Infrastructure Australia, providing funding of $36 million over four years to allow it to focus on identifying nationally significant projects by undertaking a top-down strategic view of infrastructure needs in the Australian economy. Infrastructure Australia will also be given the role to work closely with the States and Territories and the private sector to promote infrastructure development linked to the National Priority List.

Meeting infrastructure needs in regional communities

The Government will help meet the infrastructure needs of Australia's regions and to connect our distant communities.

The Government is providing $6 billion to the new Regional Infrastructure Fund (RIF) over the eleven years to 2020-21. Of this, $916 million is being committed in this Budget to specific transport projects:

- $434 million for six projects in Queensland, including the Gladstone Port Access Road, the Blacksoil Interchange, the Townsville Ring Road, the Peak Downs Highway, upgrades to the intersection of the Bruce and Capricorn Highways and the Mackay Ring Road Study;

- $480 million for the Gateway Western Australia project; and
- $2 million for the Scone level crossing study in New South Wales.

Infrastructure Australia will also review existing regional infrastructure plans to ensure they complement national infrastructure objectives.

The Regional Development Australia Fund is providing around $1 billion over five years to 2015-16 for a range of economic and community infrastructure projects, funded by a dedicated $573 million stream of the RIF and funds from previous Priority Regional Infrastructure Program.

The Budget also includes additional funding of $1.0 billion of support for the planning, route assessment, design and other work for the duplication of the Pacific Highway in NSW.

Infrastructure of the future — the NBN

The National Broadband Network (NBN) is the single largest nation building infrastructure project in Australia's history. The Government has prioritised the roll-out of the NBN in regional areas of Australia. Twenty-three of the thirty-three early release sites are located in regional Australia. The NBN will benefit communities by delivering economic and social benefits, including through improving access to information, health, education and government services.

MAKING MENTAL HEALTH A NATIONAL PRIORITY

Mental illness affects nearly every Australian in some way. It is the leading cause of disability and nearly one third of Australians will experience a mental illness at some stage in their lives. Untreated mental illness can lead to disengagement from society, unemployment, family breakdown, substance abuse, homelessness and suicide.

Many individuals experience difficulty in accessing services and navigating a fragmented system. This is why the Government is making substantial investments to expand effective programs and better integrate their delivery, and is also committing to ongoing action.

National Mental Health Reform

The Government is investing $2.2 billion over five years to deliver additional services, a greater focus on prevention and early intervention, and a more targeted and better coordinated mental health care system as a step towards long-term reform. These investments will focus on:

- delivering better and more integrated support for people with severe mental illness;

- prevention and early intervention for children and young people;
- improving access to primary health care for people with a mental illness; and
- increasing accountability and transparency through a more responsive system.

Included in this package is $624 million in previous investment, including the Government's election commitments on taking action to tackle suicide.

This package also forms part of the Government's commitment to develop a Ten Year Roadmap for Reform.

Delivering better support for people with severe mental illness

The Government is investing another $571 million over five years to improve outcomes for people with severe and debilitating mental illness by expanding services and improving service coordination.

The 2011-12 Budget provides $344 million over five years to provide better coordinated care and flexible funding for people with severe and persistent mental illness. This includes:

- funding local organisations to act as Care Facilitators and a single point of contact for clinical and social services;
- developing a single assessment process for all individuals with severe mental illness to ensure services are matched to their needs; and
- building on the Government's 2010 election commitment by providing additional funding for Flexible Care packages for people with severe mental illness, to help them access the most appropriate mix of services.

The 2011-12 Budget will also invest $228 million over five years to expand social support services available through the Personal Helpers and Mentors program and the Support for Day to Day Living in the Community program to assist people with severe mental illness to rehabilitate and reconnect with the community.

Prevention and early intervention for children and young people

The Government is investing $523 million over five years to expand and strengthen the focus of the mental health system towards prevention and early intervention for children and young people.

The Government will expand services in proven programs, including:

- $197 million over five years to establish 30 new *headspace* youth mental health centres around Australia to achieve national coverage of 90 centres to connect young people and their families to mental and health wellbeing support, and information and services, that are more suited to their needs;

- $222 million over five years in a 50/50 partnership with the States and Territories to establish up to a total of 16 Early Psychosis Prevention and Intervention Centres (EPPIC) to provide holistic support for young people with emerging psychotic disorders and their families around the country; and

- $61 million over five years to fund 40 additional Family Mental Health Support (FMHS) services to provide integrated prevention and early intervention services for vulnerable, at-risk and disadvantaged children, young people and their families.

Prevention and early intervention activities will also be enhanced by providing additional funding to develop a three year old health and wellbeing check to intervene early to provide the best chance of preventing mental disorders later in life, and to ensure the ongoing implementation of the Australian Early Development Index.

Improving access to primary health care for people with mental illness

The Government is committing $206 million over five years to deliver more psychology and psychiatry services through the *Access to Allied Psychological Services* (ATAPS) program. This program will make services more accessible for children and their families, people in rural and remote settings, Aboriginal and Torres Strait Islander people and other hard to reach populations.

Increasing accountability and transparency

The Government will provide $32 million over five years to establish Australia's first National Mental Health Commission within the Prime Minister's portfolio. This will increase accountability and transparency in the mental health system and give mental health prominence at a national level.

Partnering with the States and Territories

The Government will allocate $201 million over five years in a new National Partnership with the States and Territories to address major service gaps in their mental health systems.

The new National Partnership will focus on accommodation support for those at risk of homelessness and admission and discharge from hospitals. This will improve access to, and coordination of, services for people with severe mental illness.

Better targeting mental health funding

The Government will better target investment in the *Better Access* initiative by redirecting $580 million over five years to fund new mental health investments and achieve better value for money. Informed by an independent evaluation, savings will be achieved by:

- reducing the Medicare rebate for specific general practitioner mental health care services to align with the time usually taken to provide them; and
- rebalancing the cap on consultations for allied psychological services to reflect the program's focus on better aligning treatment to people's needs.

These savings have been re-invested into new and more effective mental health spending.

NEW INVESTMENTS IN HOSPITALS AND HEALTH SERVICES

In addition to the Government's major initiatives in mental health, this Budget provides funding for a range of investments in key health services and infrastructure. These include delivering on national health reform, major funding for regional health infrastructure, access to new medicines and services, and a focus on dental health care. New funding provided in the Budget for these measures will cost $1.8 billion over five years.

Delivering on national health reform

In February 2011, all States and Territories signed a new Heads of Agreement on National Health Reform.

Under the National Health Reform Agreement, the Government will increase its share of public hospital funding by meeting the cost of 45 per cent of efficient growth from 2014-15, increasing to 50 per cent from 2017-18.

As part of this new Agreement, the Government has guaranteed at least $16.4 billion in efficient growth funding for public hospitals over the period 2014-15 to 2019-20.

New hospitals and health services for regional Australia

The Government is investing $1.8 billion over six years under the Health and Hospitals Fund regional priority round. This includes $315 million for the Port Macquarie Base and Royal Hobart hospitals.

In total the Government will fund 63 new major projects across Australia. The funding will support upgrades to regional health infrastructure, expand regional hospitals, and support the clinical training capacity of regional hospitals into the future.

The $1.8 billion includes $475 million set aside for new proposals for the next Health and Hospitals Fund regional round.

This $1.8 billion investment builds on the $3.2 billion allocated in the 2009-10 Budget to upgrade hospital infrastructure and expand medical research and training infrastructure across Australia. It brings the total commitment in health and hospitals infrastructure to $5 billion over the last three years.

Expanding access to dental care and new medicines and technology

The 2011-12 Budget will provide an additional $53 million for dental health over the next four years to deliver improved access to dental services, particularly for those on low incomes.

- Funding will be provided for a dental internship program, focused on the public dental system to increase its capacity to deliver services.
- The National Advisory Council on Dental Health will be established to provide advice on the dental health system.

This new investment in the dental workforce will ensure the system is well placed to meet future demands. Significant reform to dental health, in line with the Government's agreement with the Australian Greens, will be a priority in the 2012-13 Budget.

The 2011-12 Budget is also investing in access to new medicines and technology by providing new funding for diagnostic imaging and other medical services and pharmaceuticals.

This package will provide total funding of $740 million over five years, comprising:

- $104 million for important diagnostic imaging services like Magnetic Resonance Imaging;
- $613 million to new medicines to be available through the Pharmaceutical Benefits Scheme (PBS), Life Saving Drugs Program and the National Immunisation Program; and
- $23 million to make amendments to the Medicare Benefits Schedule to improve access to medical services.

This brings the total number of new medicines or brands of medicines approved by the Government for the PBS, Life Saving Drugs Program, and National Immunisation Program over the last four years to around 500, at a cost of around $4 billion.

MAKING EVERY SCHOOL A GREAT SCHOOL

The Government is improving the quality of our education system. Since coming to office, it has almost doubled school investment to over $64 billion, engaged the States and Territories in a series of ambitious National Partnership agreements and also launched a comprehensive review of the funding arrangements for schooling.

The Government's school reform agenda is focused on:

- improving teacher quality; and
- supporting all students to reach their potential.

Rewarding our great teachers and boosting the teacher workforce

In recognition that teachers represent the single greatest in-school influence on student outcomes, the Government is delivering on key election commitments to increase the number and quality of teachers.

The new National Rewards for Great Teachers program will provide $125 million each semester, from the start of 2014, in reward payments for the best teachers. Around 25,000 of the country's best teachers each year will receive a reward payment worth up to 10 per cent of their salary.

The Government will also develop an employment-based training program for new teachers, offering a new pathway into a teaching career for professionals with specialist qualifications or relevant work experience. This will commence from 1 January 2012.

These initiatives build on the Reward Payments for School Improvement, which will provide reward grants from 2012-13 of up to $75,000 for primary schools and up to $100,000 for secondary schools who have shown the most improved performance over 12 months, and on reforms to improve the transparency, accountability and empowerment of the school system.

Supporting children with disability

The Government is introducing a range of measures which will improve the assistance provided to students and young people, with a particular focus on children with disability, including:

- the Better Start for Children with Disability initiative, which will provide $146.5 million over five years to improve access to early intervention services for eligible children with disability, through grants to families of up to $12,000 to access services up to the child's seventh birthday; and
- providing $28.7 million over three years in additional funding for the existing Helping Children with Autism initiative which similarly provides grants to families to access early intervention services for their children.

In addition, the Healthy Start for School measure will encourage parents to take their child for a pre-school health check to ensure they are healthy and ready to learn, by making receipt of the Family Tax Benefit Part A end of year supplement contingent on undertaking a health check in the year a child starts school.

The Government is providing $200 million over three years for the More Support for Students with Disabilities initiative, which will support students with disability in their classrooms and improve learning outcomes. This will also provide an opportunity to identify the strategies which best improve the learning experiences of these students.

SUPPORTING FAMILIES — HELPING WITH COSTS OF LIVING

The Budget provides a range of measures to help with the costs of living, building on major initiatives introduced since the Government came to office in 2007 such as the $46.7 billion of personal income tax cuts since 2008-09; the increase in the Child Care Rebate from 30 to 50 per cent; the Education Tax Refund; and Paid Parental Leave.

The measures in this Budget provide extra support and more timely and flexible assistance for families.

Supporting families with teenagers

The Government will provide $771.9 million over five years in new support for families, through an improvement in the adequacy of FTB Part A for dependent 16 to 19 year olds in full time secondary study. This measure will simplify assistance and remove the choice between Youth Allowance and FTB for the majority of families with 16-19 year old children.

The rate of FTB Part A for dependent 16 to 19 year olds in full time secondary study will be increased to equal the rate for 13 to 15 year olds. This will increase the level of FTB Part A support provided by up to $4,208 a year for 16 and 17 year olds, and up to $3,741 a year for 18 and 19 year olds. This will help families to meet the costs of older children, and to support their teenagers to stay in school.

Improving the Low Income Tax Offset

The Government is changing the way the LITO operates to provide more timely relief to low- and middle-income earners, and to reward participation in the workforce. An individual on an income of $30,000 will receive an extra $300 during the year as a result of this measure, to provide assistance when it is needed. The measure will bring around $1.4 billion of tax assistance into 2011-12 and assist more than 6.5 million low- to middle-income taxpayers.

Taxpayers eligible for the LITO currently receive one-half of the benefit during the year through the PAYG withholding schedule, with the rest received on assessment of income tax returns. The Government is increasing the proportion recipients receive during the year to 70 per cent.

Enhancing the Education Tax Refund

The Government is committed to helping families meet cost of living pressures by expanding assistance provided to parents and carers of school-aged children through the Education Tax Refund (ETR). The ETR provides valuable help by assisting parents and carers with expenses such as computers, stationery and textbooks.

The Government is extending the ETR to cover school uniform expenses at an estimated cost of $460 million over four years. From 1 July 2011 the extension will cover expenditure on uniforms which are required or otherwise approved by a school, including optional school uniforms, and sports or physical education uniforms.

More flexible access to family payments

The Government will provide families in receipt of FTB Part A with more flexible access to their entitlement, to assist them meet these unexpected expenses as they arise.

- From 1 July 2011, families will be eligible for an advance of up to 7.5 per cent, up to a maximum of $1,000, of their annual FTB Part A entitlement, at any time throughout the year. Advances will be repaid over six months by direct deductions from future FTB payments.

Families will also continue to be able to apply to receive an advance of around $160, paid every six months from a date of the recipient's choosing and repaid by reductions in their FTB Part A payments through the rest of the six month period.

More flexible child care rebate payments

The Government is giving parents greater choice about when and how they receive their child care payments.

- From 1 July 2011, families will be able to choose to have their Child Care Rebate paid at the time they incur child care costs. For most families, this will mean they will receive their Child Care Rebate payments fortnightly or weekly.

The option of more regular Child Care Rebate payments will reduce the upfront costs of care and make it easier for parents to manage the family budget.

Families will also be able to choose to have their Child Care Rebate paid directly to their child care provider as an immediate reduction on their bills or continue to receive the Rebate as a direct payment. This ensures families can choose the payment arrangements that work best for them.

SUPPORTING SMALL BUSINESSES AND MANUFACTURING

The Government will now allow small businesses to claim up to $5,000 as an immediate deduction for motor vehicles from the 2012-13 income year, providing a $350 million cash flow benefit to small business. The remaining cost will continue to be depreciated at 30 per cent (15 per cent in the purchase year).

As a motor vehicle is often the most important asset of many small businesses, this measure will be of significant benefit. For a motor vehicle purchased for $33,960, there would be a $9,344 tax deduction in the first year, an increase of $4,250 on the old arrangements.

The Government will also reduce Pay As You Go instalments for 2011-12, providing a $700 million cash flow benefit to small business and other eligible taxpayers.

These measures will improve cash flow for up to 2.7 million small businesses and builds on past announcements including an early cut to the company tax rate and the $5,000 instant asset write-off arrangements last year.

The Government is also working to ensure the manufacturing industry benefits from the mining boom with a $34.4 million package to help Australian suppliers better secure resource sector projects.

IMPROVING THE INTEGRITY AND FAIRNESS OF THE TAX SYSTEM — TAX REFORM

The Government has built on the *Stronger, Fairer, Simpler* package to continue the process of tax reform, including by:

- reforming the statutory formula for valuing car fringe benefits by introducing a single statutory rate that applies regardless of distance travelled so as to remove the tax incentive for people to travel longer distances, using more fuel;
- allowing investors in infrastructure projects of national significance to get full tax value for their investments;
- phasing out the Dependant Spouse Tax Offset and replacing the Entrepreneurs' Tax Offset with a small business tax package including a new $5,000 immediate deduction for motor vehicles, reducing complexity and improving incentives;

- providing more timely tax relief to working families by ensuring the Low Income Tax Offset reduces their tax liabilities through the year, when they need it;
- reforming access to the Low Income Tax Offset for unearned income of minors, to remove the incentive for income splitting, such as through trusts which direct income from parents on high marginal tax rates to their children; and
- reforming family payments to better reflect the costs of children and reduce overlap between family payments and income support for young people.

Since the 2010-11 Budget, the Government has announced a further 12 measures that deliver on reform directions identified in the Australia's Future Tax System review.

SUSTAINABLE COMMUNITIES

The Government understands that some communities are feeling the pressures of congestion and urban growth. The key to relieving pressure on these communities is delivering balanced growth across our regions and major cities.

This is why the Government's sustainable Australia strategy makes $4.3 billion of investments in regional hospitals, health care, universities and roads — to lift living standards outside the big capitals, provide the best services closer to home, and help regional communities reach their potential.

The Government will invest:

- $1.8 billion to renew regional health infrastructure, expand regional hospitals and support training in regional hospitals, providing families in regional Australia with confidence they will be able to access the health care they need, when they need it;
- $609.9 million for investment in regional higher education and vocational education and training projects, providing a real choice to school leavers in regional areas on where they advance their education;
- $916 million for the first projects to be funded from the Regional Infrastructure Fund to help unlock the economic potential of our regions;
- $1 billion through the Regional Development Australia Fund to finance infrastructure projects that best fit the economic and community needs of the region — from bridges, to child care centres to sporting facilities;
- $29.2 million to improve strategic planning for regional and coastal high growth centres, reducing red tape for business and fast-tracking investment; and

- $11.5 million to support regional cities to promote the benefits and opportunities of living away from the capital cities.

On top of this, in this Budget the Government will invest an additional $10.1 million to develop new sustainability indicators for Australia and report progress against these indicators.

All of this is in addition to the National Broadband Network, which will help connect regional families, communities and businesses — reducing the tyranny of distance, changing the way Australians live and work, and offering new opportunities in areas like health and education.

The Government will also invest in making living in outer urban areas more sustainable and liveable through a National Urban Policy, including investing:

- $100 million to encourage the development of employment hubs in outer suburbs, to promote local jobs closer to residential areas. It also will support local infrastructure to attract employers, targeting areas with the highest travel times;

- $61 million for managed motorways that allow more efficient use of our road infrastructure, bringing mums and dads home from work faster; and

- $20 million to support demonstration projects for urban renewal in our inner cities.

The Prime Minister will also begin a rigorous COAG process that asks state premiers to lead the development of Commonwealth-State reforms that are of particular relevance to their jurisdiction, whether it be labour mobility in the west or easing congestion in capital cities in the east.

CLIMATE CHANGE — MOVING TO A CLEAN ENERGY FUTURE

Australia produces more carbon pollution per head than any other advanced economy — 27 tonnes per person compared to a world average of almost six tonnes per person.

To reduce Australia's carbon pollution and drive investment in clean energy technologies, the Government will introduce a carbon price to commence on 1 July 2012.

There is broad consensus among economists that a market mechanism is the best way to reduce emissions at least cost and to create the incentives for new investment. The carbon price will work by putting a price on every tonne of pollution produced. Less than 1000 companies — the biggest polluters in our economy — will be required to pay.

Australia will cut carbon pollution while maintaining an economy that grows strongly, expands job opportunities and continues to deliver long-term growth in real wages.

The Government will use every cent raised from the carbon price to assist households, support jobs in the most affected industries, and to encourage the transition to a clean energy future. More than 50 per cent of the revenue will be used to assist households.

The Government is considering the details of the carbon pricing mechanism. All revenue raised by this scheme will be returned to assist households and businesses and fund climate programs and will be broadly budget neutral. Consistent with the *Charter of Budget Honesty Act 1998* the full budgetary impacts will be included in the first economic and fiscal update after the scheme's design has been determined.

REBUILDING COMMUNITIES AFFECTED BY NATURAL DISASTERS

This Budget reflects the substantial commitment the Government has made to support affected communities deal with the tremendous impact of the recent natural disasters. Around $6.6 billion over six years is being provided for immediate relief and assistance, and to support the difficult task of rebuilding affected communities.

To ensure value for money for taxpayers, the Government has introduced a number of oversight and accountability measures, including the establishment of a Reconstruction Inspectorate to provide an additional level of checks and balances.

Funding the recovery and rebuilding effort

Under the long standing Natural Disaster Relief and Recovery Arrangements (NDRRA) with the States and Territories, the Government expects to contribute around $5.4 billion to the States and Territories to aid the recovery.

The vast majority of this funding is being invested in rebuilding damaged essential public infrastructure, mostly roads and bridges but also other items such as schools. Current assessments indicate that more than 79,000 kilometres of Queensland's state and local government road network has been damaged.

The Government is contributing $213.6 million to help Queensland's local councils repair utilities and infrastructure, and support their efforts in recovering from the floods and Tropical Cyclone Yasi. A tailored package of assistance totalling over $950 million has been developed to address the unique challenges faced by far north Queensland in rebuilding.

Within the package to help Queensland's local councils, up to $176.5 million is being provided to fast-track the repair of damaged infrastructure owned by local governments, including severely damaged water and sewerage infrastructure, marine infrastructure in the Cassowary Coast, and reconstruction of the Brisbane ferry terminals and Riverwalk. There is also funding of $37 million to help regional and remote councils employ people to perform important clean-up and repair work.

Funding provided under the NDRRA has also contributed to personal hardship and distress assistance for individuals and families, concessional loans and clean-up and recovery grants for small business, primary producers and not-for-profit organisations, and freight subsidies for primary producers.

In addition, funding will go towards Community Recovery Packages to support community development and recovery, mental health services, financial counselling support, crisis accommodation and respite care for people with disability.

The Government is providing advance payments of NDRRA funding to Queensland to ensure that funds are available to start rebuilding affected communities and support the return of economic activity as fast as possible, and stands ready to provide an advance payment to Victoria should a National Partnership Agreement be signed.

Additional help to get those affected back on their feet

The Government is also providing direct assistance to support individuals, families and businesses in those areas worst affected by the disasters. Around $900 million in Australian Government Disaster Recovery Payments (AGDRP) is expected to be paid to individuals and families in those areas worst affected by the disasters. The payments are $1,000 per eligible adult and $400 per eligible child. More than 700,000 AGDRP payments have been made as at 29 April 2011 as a result of the natural disasters since late last year. Other key measures include the following:

- more than $95 million in Disaster Income Recovery Subsidies is expected to be paid to provide income support to eligible employees, small business and primary producers in the worst affected areas in Queensland;
- to assist local councils with the clean up and recovery effort, the Government brought forward more than $354 million in Financial Assistance Grants to the Queensland and Victorian Governments. These grants have been made available to local councils in disaster affected areas;
- the Government has also pledged donations totalling $14.1 million to the Queensland Premier's Disaster Relief Appeal, the Red Cross Victorian Flood Appeal and the Perth Lord Mayor's Distress Relief Fund; and
- the Government is providing $6 million towards a Tourism Industry Support Package to provide a vital boost for the many families and small businesses that depend on Queensland's reputation as one of the world's most attractive tourism destinations.

These measures are in addition to the Government's substantial contribution under the NDRRA, in recognition of the enormous scale of the damage caused to communities across Australia.

The Government has fully funded its response to the recent natural disasters. In addition to the expenditure savings identified, the Government also introduced a modest one-year progressive levy, which will not be paid by people directly affected by the floods or cyclones, or by low-income earners.

CONTINUING OUR COMMITMENT TO NATIONAL SECURITY

This Budget reaffirms the Government's commitment to meeting Australia's national security challenges.

The 2011-12 Budget invests in new defence capabilities. It also provides funding for Australia to continue its efforts in tackling global security challenges, including maintaining our presence in Afghanistan.

As part of ongoing reforms in Defence, new efficiencies have been found to add to those already identified under the existing Defence Strategic Reform Program. The Defence capital budget will also be reprogrammed to better align funding with the development and delivery of capability projects.

In addition, this Budget continues the Government's strong approach to preventing, deterring and disrupting people smuggling.

Contributing to global stability

Australia remains committed to global security through its contribution to international counter-terrorism efforts. The Budget is providing $1.3 billion to support the defence force presence in Afghanistan, to help ensure that Afghanistan cannot again become a safe haven and training ground for global terrorism.

The Government is also continuing its commitment to regional stability. This Budget is providing $140.7 million to maintain Australian Defence Force (ADF) operations in East Timor and $44.1 million to continue Australia's contribution to ensuring stability in the Solomon Islands.

Capability building to meet our international commitments

The Government is continuing to upgrade ADF capabilities to ensure Australia remains well equipped to meet our international commitments.

- A Bay Class amphibious ship, *Largs Bay*, will be purchased and refitted at a cost of $177.4 million to significantly enhance the ADF's capacity to provide operational and humanitarian support in our region.

- Australia is also acquiring a new C-17 heavy lift aircraft at a cost of $251.9 million. This will strengthen Australia's military long-range heavy airlift capability including to support Australian forces in Afghanistan.

An additional $32 million will be provided for the establishment of an Australian Civilian Corps Rapid Deployment Fund to enable civilian specialists to be deployed overseas in support of stabilisation, recovery and development planning in the aftermath of natural disasters or conflict. By delivering civilian technical assistance quickly, Australia can help improve the prospects for stabilising and rebuilding the essential functions of government in affected countries.

Maintaining the integrity of Australia's borders

The Government has made significant progress in implementing its commitment to develop a Regional Cooperation Framework agreed at the recent Bali Process Ministerial Conference, and in this Budget will provide $292.3 million for this purpose.

The Government has agreed to enter into a groundbreaking cooperative transfer agreement with the Government of Malaysia to limit people's incentive to arrive in Australia by boat. Under this agreement Australia will transfer 800 irregular maritime arrivals (IMAs) to Malaysia for refugee status determination. In exchange, Australia has agreed that for every IMA transferred to Malaysia, Australia will receive five genuine refugees currently residing in Malaysia for settlement. This will be accommodated through an increase of 4,000 places in the Humanitarian Migration Program over four years.

This measure, along with other Government border security initiatives, are part of the Government's comprehensive approach of dealing with people smuggling by including countries in the region to deal with a regional problem.

Regional governments' capacity for migration and border management will be strengthened through the provision of $95.3 million for a range of activities including the identification of irregular migrants and the establishment of processes for return. This includes funding to enhance Australian Government cooperation with key regional government agencies to prevent and disrupt people smuggling.

The Government will maintain a strong surveillance presence in Australia's northern waters, including by extending the lease of the *ACV Triton* maritime patrol vessel and by continuing extra aerial surveillance in support of the detection and interception of people smuggling ventures. The Royal Australian Navy will also continue to patrol the northern waters as part of Operation Resolute.

An additional $107.7 million will be provided to maintain the Government's rigorous but fair asylum seeker processing system, including for scrutiny of refugee claims.