STATEMENT 1: BUDGET OVERVIEW

The 2009-10 Budget has been framed against the backdrop of the deepest global recession since the Great Depression. Early and decisive policy action is helping to support the Australian economy.

The world economy is expected to contract by 1½ per cent in 2009, with virtually every advanced economy now in recession. The deepening global recession is having a significant impact on the Australian economy, with GDP forecast to contract by ½ of a per cent in 2009-10. Without early and decisive policy action, the contraction would have been significantly deeper. Government action is expected to support up to 210,000 jobs.

An underlying cash deficit of $57.6 billion (4.9 per cent of GDP) is expected in 2009-10. The Budget deficit is an inevitable consequence of the global recession, which has resulted in downward revisions to revenue of around $210 billion since the 2008-09 Budget. The Government's fiscal strategy is currently expected to halve the budget deficit by 2012-13 and return the budget to surplus by 2015-16. As part of this strategy the Government has fully offset spending proposals in the final year of the forward estimates period. The Government has found savings worth a total of $22.6 billion over four years.

This Budget supports jobs now while investing in the infrastructure Australia needs for the future. The measures in this Budget will increase the level of GDP by ¾ of a per cent in 2009-10. This will deliver a boost to the economy and jobs in the period in which the economy is expected to be weakest.

Investment in nation building infrastructure is the centrepiece of the 2009-10 Budget. Representing the most significant infrastructure package in Australia's history and spanning the nation, the Government is investing $22 billion to improve the quality, adequacy and efficiency of transport, communications, energy, education and health infrastructure across Australia — the building blocks of the future economy. The Government is also implementing significant reforms to higher education and investing in innovation.

The Government has found room under difficult circumstances to deliver on its commitment to reform the pension system, with substantial increases in pension payments, reform of the payments structure for pensioners, and provision of more assistance for carers. To ensure pension reform remains sustainable over the long-term, particularly given the challenges of an ageing population, the Government has announced reforms across a range of areas where sustainability of existing arrangements will come under pressure in years to come. This will also ensure that spending is focused where it is most needed.

To boost participation in the long run, and as part of its rebalancing of the family payment system, the Government is implementing a Paid Parental Leave scheme. The Government is taking a decisive and historic move as part of reforms to position Australia for the recovery.

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STATEMENT 1: BUDGET OVERVIEW

INTRODUCTION

The 2009-10 Budget has been framed against the backdrop of the deepest global recession since the Great Depression. Early and decisive policy action by the Australian Government and the Reserve Bank of Australia is helping to support the Australian economy. However, the magnitude and ferocity of the global recession means that policy can mitigate only the worst effects of global conditions. A recession in Australia has become inevitable, with unavoidable consequences for Australian jobs.

As a result of the global recession, estimated taxation receipts have been revised down since the 2008-09 Budget by around $210 billion over the period 2008-09 to 2012-13. The global recession and associated sharp falls in commodity prices are the primary sources of the substantial downward revisions, reversing most of the large revenue gains from strong global growth and rising commodity prices between the 2005-06 Budget and the 2008-09 Budget.

In the face of the global recession, the Government has allowed the budget to fall into a temporary deficit and engaged in temporary additional borrowing to cushion the impact on jobs and preserve Government spending in vital areas such as health and education.

Notwithstanding the global recession, Australia remains well placed when compared with most other economies around the world.

To support the economy through the global recession, the Government's fiscal stimulus program started with income support and then moved into 'shovel-ready' infrastructure. This Budget marks the start of the next phase — a move into larger and longer term nation building projects.

The centrepiece of the Budget is a comprehensive program of infrastructure investment — roads, rail, ports, energy, education and research, and health infrastructure. The Government is supporting jobs today by investing in the infrastructure Australia needs for tomorrow.

The infrastructure projects announced in this Budget lay the foundations for a stronger future economy, supporting employment now and positioning Australia to take full advantage of the global recovery when it comes. Further investment in higher education, innovation and participation will complement the infrastructure program and improve long-term productivity.

The Government has a clear strategy for returning the budget to surplus and as part of this, has fully offset new spending in the final year of the forward estimates. The

Government has engaged strict spending discipline with structural savings to offset the cost of key reforms. The Government will fully offset the impact of the pension increase delivered in this Budget by 2021-22.

INTERNATIONAL ECONOMIC OUTLOOK

No country has been immune from the global financial crisis. The world economy is expected to contract by 1½ per cent in 2009 — the first annual contraction in six decades. Having borne the initial brunt of the crisis, virtually every advanced economy is now in recession. Advanced economies are collectively expected to contract by 3¾ per cent in 2009.

Global financial market stress intensified rapidly in September 2008 to levels unseen since the early 1930s. The last quarter of 2008 witnessed the sharpest and most synchronised contraction in global economic activity on record. In every major economy, GDP outcomes in the final quarter of 2008 were worse than already pessimistic expectations. Virtually every advanced economy fell into recession or recorded a decline in GDP late last year.

While the prospect of a rapid intensification of financial market stress had earlier been identified as a clear downside risk to the global outlook, the speed and severity of the recession exceeded any event in living memory, surprising forecasters worldwide. For example, in April 2009, the International Monetary Fund revised down its growth forecast for the world economy for the fifth time in seven months.

The contraction in the global economy has continued into early 2009, with plummeting industrial production and depressed household spending in many economies. World trade is expected to shrink by 11 per cent in 2009 — the largest fall in the post-war era. Labour markets around the world have deteriorated rapidly, with millions joining the jobless queues globally.

Australia's major trading partners are collectively expected to contract by 2 per cent in 2009. Deep contractions are forecast for our advanced trading partners, particularly Japan and the Newly Industrialised Economies of Asia (where the contraction is expected to be worse than that recorded during the Asian Financial Crisis). Eight of Australia's top 10 trading partner economies are expected to contract in 2009, with China and India slowing dramatically. China's forecast growth of 6¼ per cent is less than half the rate recorded in 2007.

ECONOMIC OUTLOOK

The deepening global recession is having a significant impact on the Australian economy, with GDP forecast to contract by ½ of a per cent in 2009-10. Without early and decisive policy action, the forecast contraction would have been four times larger.

In the absence of Government action, the level of GDP would be 2¾ per cent lower in 2009-10 and 1½ per cent lower in 2010-11. Government action is expected to support up to 210,000 jobs and, without it, the forecast unemployment rate would reach 10 per cent. Supported by policy, a recovery in the Australian economy is expected to gather pace over 2010.

Early and decisive policy action by the Government is an important reason why Australia is better placed than most other advanced economies, which are collectively expected to contract by 3¾ per cent in 2009. As a result of Government action, Australia is expected to experience a milder downturn, and emerge in a stronger position than most other advanced economies.

Australia has benefited in recent years from the largest terms of trade boom in six decades. The collapse in global demand is reversing some of these gains, with the terms of trade forecast to fall by 13¼ per cent in 2009-10, taking around $35 billion out of the economy on an ongoing basis. The fall in the terms of trade and the contraction in the real economy will together reduce nominal GDP by an expected 1½ per cent. This in turn will lead to large falls in Government revenue and substantially weaken the fiscal position.

The major economic parameters used in preparing the Budget are contained in Table 1.

Table 1: Major economic parameters[(a)]

	Forecasts			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13
Real GDP	0	- 1/2	2 1/4	4 1/2	4 1/2
Employment	- 1/4	-1 1/2	1/2	2 1/2	2 1/2
Unemployment rate	6	8 1/4	8 1/2	7 1/2	6 1/2
CPI	1 3/4	1 3/4	1 1/2	2	2 1/2
Nominal GDP	5 3/4	-1 1/2	3 3/4	6 1/4	6 3/4

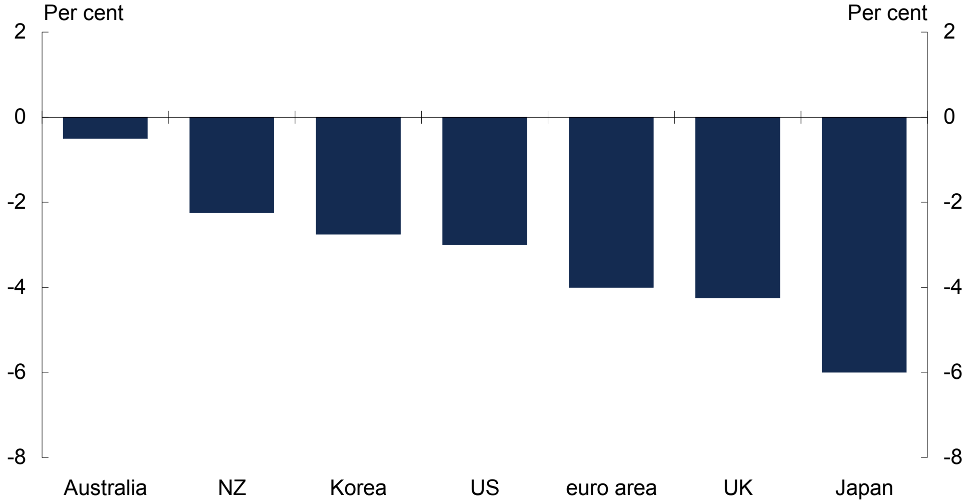
(a) Real and nominal GDP parameters are year average. CPI and employment are through the year growth to the June quarter. The unemployment rate is the rate in the June quarter.
Source: Treasury.

Public investment is helping to fill some of the gap left by the collapse in private demand. Funding flowing from the 2009-10 Budget, the Nation Building and Jobs Plan, the November Council of Australian Governments reforms and the December Nation Building Package is providing a significant boost to public investment, which is expected to grow by around 25 per cent in 2009-10, the fastest rate of growth on record.

The global recession and the domestic economic slowdown will have unavoidable consequences for Australia’s labour market. Employment is expected to contract through to mid-2010, leading to a substantial rise in the unemployment rate, which is forecast to peak at 8½ per cent in 2010-11. The Government’s economic stimulus is estimated to reduce the peak unemployment rate by 1½ percentage points.

Australia is expected to perform better than most other advanced economies in 2009 (Chart 1). There are a number of factors which make Australia better placed to weather the global recession and to stage an earlier and stronger recovery than many other countries.

Chart 1: Forecast GDP growth in 2009[(a)]



(a) Australian data refer to forecasts for 2009-10.
Source: Treasury.

Timely and substantial policy action by the Government is supporting the economy and jobs, through fiscal stimulus and other measures. While fiscal stimulus in other advanced economies was in some cases belated, the Australian Government acted early and decisively once the prospect of a global recession became clear.

There is substantial evidence that last year's Economic Security Strategy has supported retail spending and employment. Following the first economic stimulus package, consumer spending has held up in Australia, despite continued falls in other advanced economies in recent months.

The Australian economy is also benefiting from strong financial institutions and sound regulatory frameworks, which have enhanced the effectiveness of monetary policy in stimulating activity. The Reserve Bank of Australia has cut official interest rates by a total of 425 basis points, resulting in the lowest mortgage interest rates in more than 40 years.

The Australian housing sector is in better shape than in most other advanced economies, with more rigorous lending practices by Australia's financial institutions helping to prevent the kind of mortgage defaults seen in the United States. The First Home Owners Boost has also spurred activity in the housing sector since its introduction last year, with dwelling investment expected to lead the economic recovery in 2010-11.

Australia will benefit from being situated in the most dynamic region in the global economy. Once the global economy begins to recover, Asia is expected to be a key engine of growth. China is showing signs of recovery from the crisis, and Australia's strong trade linkages with China will assist a recovery in our domestic economy.

FISCAL OUTLOOK

As a result of the deteriorating global economic conditions, the Budget deficit is expected to be substantially larger than forecast in the February 2009 *Updated Fiscal and Economic Outlook* (UEFO).

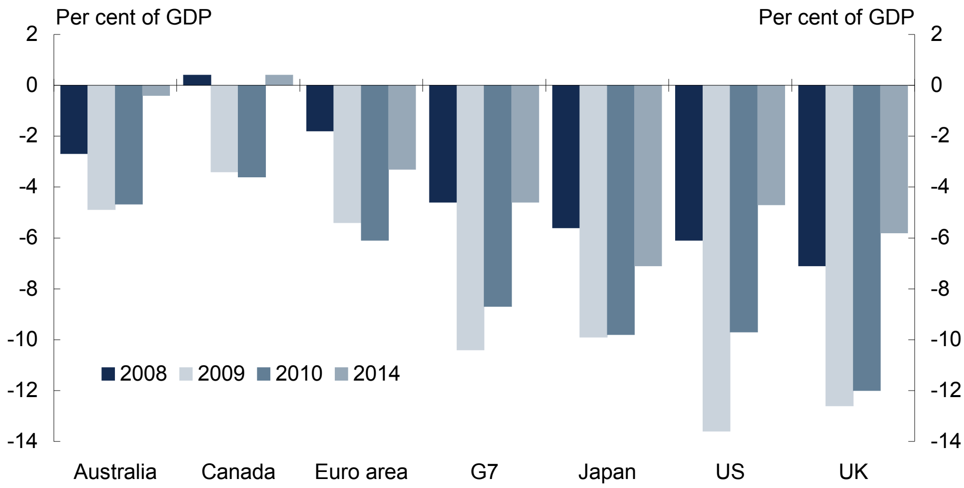
Table 2: Budget aggregates

	Actual	Estimates			Projections	
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Underlying cash balance ($b)(a)	**19.7**	**-32.1**	**-57.6**	**-57.1**	**-44.5**	**-28.2**
Per cent of GDP	1.7	-2.7	-4.9	-4.7	-3.4	-2.0
Fiscal balance ($b)	**21.0**	**-32.9**	**-53.1**	**-56.0**	**-41.8**	**-30.3**
Per cent of GDP	1.9	-2.7	-4.5	-4.6	-3.2	-2.2

(a) Excludes expected Future Fund earnings.

An underlying cash deficit of $57.6 billion or 4.9 per cent of GDP is expected in 2009-10, compared with an estimated deficit of $35.5 billion or 2.9 per cent of GDP at the UEFO. In accrual terms, a fiscal deficit of $53.1 billion or 4.5 per cent of GDP is estimated for 2009-10 compared with $33.3 billion or 2.8 per cent of GDP at the UEFO. This is significantly lower than the 8.8 per cent of GDP collective budget deficit for advanced economies as a whole, and less than half that of the major advanced economies at 10.4 per cent (Chart 2).

Chart 2: Budget balance positions for selected countries



Source: IMF *World Economic Outlook* April 2009, Chapter 2 supplemental tables.

The budget deficit is a direct consequence of the global recession, which has had a substantial impact on tax revenues. Combined with payment variations, these downgrades represent around two-thirds of the total decrease in the underlying cash balance over four years since the 2008-09 Budget, and more than three-quarters of the decrease in 2010-11 and 2011-12.

Since the 2008-09 Budget, taxation receipt estimates have been revised downwards by $23 billion in 2008-09, $49 billion in 2009-10, $55 billion in 2010-11, and $47 billion in 2011-12 (a total of $173 billion). The 2008-09 estimate represents the biggest one-year downward revenue revision to taxation receipts in Australia since 1930-31 at the height of the Great Depression.

This Budget reports taxation receipt estimates for 2012-13 for the first time. These estimates are considerably less than they would have been a year ago. Adding potential downward revisions to the 2012-13 estimates, the total downward revisions to taxation receipts across the forward estimates would be around $210 billion.

Cumulatively, the revisions are equal to almost wiping out the revenue windfalls from the terms of trade boom since the 2005-06 Budget.

Initially, the effects of the global financial crisis were seen most strongly in lower equity and commodity prices, reducing business profits and investment income, which flowed through to lower company and capital gains tax receipts. As the crisis has progressed, wage, employment and consumption growth has slowed, reducing receipts from individuals' income tax, GST and other consumption taxes significantly.

During these tough economic times, it is critically important that the Government's fiscal stance supports the economy and jobs. The net measures in the Budget raise the level of GDP by ¾ of a per cent in 2009-10. This support is temporary in nature, phasing out as the economy recovers.

As the global recession impacts on revenues and spending, it becomes necessary to borrow funds that can be repaid when conditions improve. A temporary deficit, along with temporary borrowing, is the only responsible course of action. The alternative would require significant spending cuts or tax increases, which would inevitably precipitate a deeper and more protracted downturn, and much higher unemployment.

The Government is committed to taking action to return the budget to surplus as the economy recovers, and has outlined a clear strategy to achieve this.

- Tax receipts will recover naturally as the economy strengthens.
- The Government will hold real growth in spending to 2 per cent per annum to expedite the return to surplus once economic growth returns to above-trend levels.

The Government has engaged strict spending discipline by finding structural budget savings. This strategy is expected to see the deficit more than halve by the end of the forward estimates, and return the budget to surplus by 2015-16.

The Government has engaged strict spending discipline with structural savings to offset the cost of key reforms. The Government will fully offset the impact of the pension increase delivered in this Budget by 2021-22.

SUPPORTING THE ECONOMY DURING THE GLOBAL RECESSION

Since the worsening of conditions in global financial markets in the second half of last year, the Government has responded decisively to help cushion Australia from the impacts of the worst global recession since the Great Depression. This response includes initiatives to support financial markets; fiscal stimulus together with the Reserve Bank of Australia's monetary policy response; increased support for the States through the Council of Australian Governments (COAG) reform and the Nation Building and Jobs Plan; and programs to support Australian small businesses and jobs.

The Government's balance sheet remains strong. The Australian Government's net debt is small by international standards, and is expected to remain so — well below that of any of the major advanced economies. Net financial worth is also strong. This has allowed the Government to use its balance sheet to fund necessary stimulus spending, allow the automatic fiscal stabilisers to operate and guarantee the availability of credit to critical sectors of the economy.

As a result of the Government's fiscal action, Australia is expected to experience a milder downturn and emerge more strongly than would otherwise be the case.

Supporting financial markets

The Government has taken early and decisive action to maintain financial system stability.

On 12 October 2008, the Government announced that it would guarantee deposits and wholesale funding. Australians have been assured that their deposits in Australian banks, building societies and credit unions are safe. The guarantee also ensures that Australia's financial sector can continue to access the funding necessary to lend to Australian businesses and households at a time of considerable turbulence.

Reflecting their relatively strong performance and solid capital positions, each of the four largest Australian banks is rated AA by Standard & Poor's (S&P), with these ratings remaining stable at a time when many international banks have been downgraded. Only six of the other 100 largest global banking groups have an equivalent or higher rating from S&P.

In January 2009, the Australian Government announced that it would establish the Australian Business Investment Partnership (ABIP). ABIP is a temporary, contingency measure to provide refinancing of loans relating to commercial property assets in Australia. Loans are subject to finance not being available from commercial providers (other than ABIP) and the assets being financially viable. Without this support, a combination of weak demand and tight credit market conditions could see up to 50,000 jobs lost in the commercial property sector.

The Government has also established a Special Purpose Vehicle, 'OzCar', to help provide liquidity to viable car dealers who lost access to critical wholesale floorplan financing as a result of the withdrawal of key financiers from the Australian market late in 2008.

The announcement on 25 March 2009 of a guarantee of state and territory borrowing was a further step taken by the Government to support jobs and security, to ensure that the States have the capacity to raise debt and undertake their infrastructure projects. State infrastructure spending, supported by guaranteed borrowing, will work hand-in-hand with Government infrastructure investment from the nation building funds to build a stronger Australia. These projects will provide employment opportunities in the short term, whilst providing economy-supporting capacity in the longer term.

This package of measures has played a critical role in breaking the adverse feedback loop between instability in global financial markets and the economy, by easing the flow of credit between financial institutions and out to Australian businesses and families. Ensuring stability and effective operation of the financial system is a prerequisite for a sustained economic recovery.

Australia and the other members of the Group of Twenty (G-20) have recognised the need for concerted fiscal stimulus measures to restore global economic growth. At the recent London Summit, G-20 Leaders estimated that current stimulus efforts will total US$5 trillion by the end of 2010. They agreed to take whatever additional steps are needed to restore trend growth.

The International Monetary Fund (IMF) will assess actions taken and further global actions required to restore growth. Leaders also endorsed principles for dealing with toxic assets and normalising credit flows, and the need for credible exit strategies to ensure long-term fiscal sustainability. The Australian Government will continue to work with its G-20 counterparts to overcome the current global recession.

Fiscal stimulus to support the economy

The Government has taken early and decisive action to support activity and jobs. The Government's fiscal stimulus packages have helped to cushion Australia's economy from the worst impacts of the global recession. The measures taken prior to this Budget include the $10.4 billion Economic Security Strategy, the $15.2 billion Council of Australian Governments (COAG) reform package, the Nation Building package, and the $42 billion Nation Building and Jobs Plan. The stimulus packages are expected to raise the level of GDP by 2¾ per cent in 2009-10 and 1½ per cent in 2010-11, supporting up to 210,000 jobs.

This stimulus has provided significant support to the economy through 2008-09, and will continue to support the economy during the global recession. The Economic Security Strategy and the Nation Building and Jobs Plan will add $19.7 billion to household incomes — with payments targeted to cash-constrained households who are most likely to spend them.

These targeted payments provided a significant and temporary boost to household consumption in the face of a sharp and severe global downturn, while infrastructure spending was being planned and brought on line. Without these initiatives, the downturn would be deeper and more jobs would be lost.

The Economic Security Strategy introduced the First Home Owners Boost to stimulate housing activity, support the construction industry and assist first home buyers to enter the housing market. The First Home Owners Boost has now provided support to over 59,000 first home buyers. Combined with low interest rates, the Boost has supported significant demand by first home buyers, with loans to first home buyers the highest as a proportion of the market since 1991.

OECD analysis suggests that Australia's economic stimulus measures, with a strong focus on direct government investment, are amongst the most effective of all OECD fiscal packages in terms of stimulating activity and supporting employment.

The nation building infrastructure program included in this Budget builds on the Nation Building package announced in December 2008 and the Nation Building and Jobs Plan. This funding will support activity and jobs in the short-term, and at the same time invest in the long-term drivers of growth and productivity. In particular, the Nation Building and Jobs Plan included a $29.9 billion investment program targeting schools, housing, energy efficiency, roads and community infrastructure projects, all designed to support jobs while providing a sustained boost to the economy over a longer period of time.

The centrepiece of the plan was the provision of $14.7 billion over three years for the Building the Education Revolution program to improve school facilities. These investments will not only support the economy in coming years, they will lay the foundations for future productivity growth by supporting schools to deliver quality educational outcomes.

The Government's initiatives to support the economy during the global recession are also providing support to Australian small business, which employs around four million Australians. The Government's economic stimulus packages will also provide considerable demand for small business goods and services during the downturn, with flow on benefits for contractors and retailers.

To provide more direct assistance, the Government introduced the Small Business and General Business Tax Break as part of the Nation Building and Jobs Plan. The $3.6 billion Tax Break is boosting business investment, bolstering economic activity and supporting Australian jobs. It is encouraging and sustaining business investment during the global recession. The Tax Break provides additional support — in the form of a bonus tax deduction — for Australian businesses that acquire new tangible depreciating assets during 2009. The Government recognises the important role played by small business, and has introduced a lower threshold for it to access the Tax Break.

The Economic Security Strategy also provided $187 million to create 56,000 new training places for the 2008-09 Productivity Places Program. The new places announced in this Budget bring the total number of places under the program to 711,000. This program will assist disadvantaged job seekers in particular.

The Government's fiscal stimulus program started with income support and then moved into 'shovel-ready' infrastructure. This Budget marks the start of the next phase — a move into larger and longer term nation building projects.

BUDGET PRIORITIES

The key priorities of the 2009-10 Budget are to:

- stimulate demand and keep more Australians in work;
- invest in the roads, rail, ports and broadband that will boost productivity and growth;
- invest in a Clean Energy Initiative and flagship programs in solar and carbon capture that help us create the low-pollution economy of the future;
- find the necessary room to deliver a fair go for pensioners and make retirement incomes more secure;
- establish a historic Paid Parental Leave Scheme— to boost participation and productivity in the long run, and improve work-family balance;
- invest in Australia's research and innovation future, continue the Education Revolution, and provide for world-class universities and hospitals; and
- lay the foundations to deliver on the Government's deficit exit strategy, currently expected to return the budget to surplus by 2015-16.

SUPPORTING THE ECONOMY AND JOBS NOW

There has never been a more difficult time to frame a budget. This Budget is the most critical phase of the Government's strategic response to the global recession, as it commences a comprehensive program of longer term initiatives that will drive future economic growth.

Measures in this Budget raise the level of GDP by ¾ of a per cent in 2009-10 and ½ of a per cent in 2010-11, when the economy is expected to be hit hardest by the global recession. The budget impact of new spending is fully offset in the final year of the forward estimates.

The Budget includes measures designed to provide immediate support to the housing sector, Australian jobs and small business.

Supporting Australian jobs

The Government will assist Australians whose job prospects have been adversely affected by the global recession by investing $1.5 billion over five years through the comprehensive Jobs and Training Compact. The demand for education and training will rise in response to the deteriorating labour market, as young people choose to stay in school or undertake further training. Redundant workers will also seek to maintain, update or learn new skills to improve their future job prospects. The Government's Jobs and Training Compact aims to support young Australians, retrenched workers and local communities to get back to work, add to their skills, or learn the new skills required to obtain jobs as the labour market recovers.

The Government will provide $83 million over four years to help eligible job seekers on income support through a temporary Training Supplement. The Training Supplement provides an ongoing payment of $41.60 per fortnight to eligible job seekers on Newstart Allowance or Parenting Payment who are undertaking approved training. The Training Supplement will be available from 1 July 2009 until 30 June 2011. This supplement builds on the Government's earlier temporary increase in the lump sum Education Entry Payment from $208 to $1,158 for eligible job seekers. Investment in training, education and skills is essential to ensure that vulnerable groups are not lost to the downturn.

The Government's $277 million Compact with Young Australians will guarantee an education or training place for every young person under the age of 25 who wishes to up skill; require participation in school, training or work for anyone under the age of 17; and bring forward to 2015 the COAG goal to lift the national Year 12 or equivalent attainment level to 90 per cent. The Government will also introduce new requirements on Youth Allowance (Other) and Family Tax Benefit (Part A) that will encourage greater participation in education and training. The compact will encourage young people to stay at school or engage in further education and training to help prevent many from experiencing long-term unemployment. This investment in the skills of Australia's young people will also support medium-term productivity growth.

The Government's $438 million Compact with Retrenched Workers will provide immediate assistance to Australians who have become unemployed. The compact will provide $299 million to give retrenched workers immediate and personalised intensive employment assistance through Job Network and the new Job Services Australia. It will also strengthen the social safety net by reducing income support waiting periods through a temporary doubling of the threshold applying to the liquid assets test for income support recipients. The Government has also entered into an agreement with the major banks to negotiate postponing mortgage payments for up to 12 months with borrowers who have lost their job.

The Government's Compact with Local Communities will provide the regions and communities hardest hit by the global recession with priority assistance through the $650 million Jobs Fund, announced on 5 April 2009. The projects funded will support local jobs and also help the environment, improve community amenity and boost services provided by not-for-profit organisations. The Government will also introduce local employment coordinators to oversee efforts to support jobs in communities most disadvantaged by the global recession. The Jobs Fund will supplement actions the Government has already taken at the community level through the local implementation of the $42 billion Nation Building and Jobs Plan.

The $4.9 billion Job Services Australia will commence from 1 July 2009. Job Services Australia will provide more effective, demand-driven employment services at over 2,000 locations across Australia. Its services will include better incentives for further education and training, improved targeting of more disadvantaged job seekers and streamlined access to assistance.

Extension of the First Home Owners Boost

In response to continuing economic uncertainty and the ongoing success of the initiative, the Government will extend the First Home Owners Boost for an additional six months. This extension will continue to stimulate housing activity, support the construction industry and assist first home buyers to enter the housing market.

For contracts entered into on or before 30 September 2009, the First Home Owners Boost will continue to provide first home buyers with $7000 for established homes and $14,000 for new homes. In combination with the existing $7000 grant under the First Home Owners Scheme, this means first home owners will receive $14,000 for established homes and $21,000 for new homes.

The First Home Owners Boost will then be phased down and cease after 31 December 2009. Between 1 October 2009 and 31 December 2009, the value of the First Home Owners Boost will halve, to $3500 for established homes and $7000 for new homes, providing a total of $10,500 for established homes and $14,000 for new homes when combined with the First Home Owners Scheme grant.

After 31 December 2009 when the First Home Owners Boost ceases, the $7000 First Home Owners Scheme grant will continue, and the Government's direct investment of $6.4 billion for social housing under the Nation Building and Jobs Plan will provide important ongoing stimulus to the construction sector.

Supporting Australian small business

Small businesses are the engine room of the Australian economy, accounting for around 95 per cent of all businesses and around 50 per cent of all private sector employment. The Government understands that the global recession is impacting on Australian small businesses. This Budget includes a number of measures to assist small businesses to manage their operations in the context of slower demand.

The Government's $42 billion Nation Building and Jobs Plan is supporting small businesses by stimulating demand for goods and services. Small businesses are also receiving much-needed cash flow relief through changes to quarterly pay-as-you-go instalment calculations, and planned changes to business regulation will help to reduce compliance costs and lift small business confidence.

The bonus tax deduction under the Small Business and General Business Tax Break will be increased to 50 per cent for small businesses. This will further help them to invest, bolster economic activity and support Australian jobs. The 50 per cent deduction is available for eligible assets costing $1000 or more acquired between 13 December 2008 and 31 December 2009 and installed ready for use before 31 December 2010. The expansion will have an estimated cost to revenue of $141 million.

A new Small Business Support Line and referral service will be established at a cost of $10 million over two years to assist small businesses affected by the global financial crisis. The support line will provide initial advice and referral services to small business owners on such matters as obtaining finance, cash flow management, retail leasing, promotion and marketing, and personal counselling. The Small Business Credit Complaints clearing house will be integrated as part of the service. This will complement the additional $4 million announced at the Small Business Summit in October 2008 for Business Enterprise Centres and other registered business organisations to support small businesses during the global recession.

The Government's nation building investment in a new National Broadband Network, in partnership with the private sector, will create jobs and opportunities for small business. At its peak, it is estimated that the project will support up to 37,000 local jobs. The implementation study for the rollout of the network will consider ways to provide procurement opportunities for businesses, including local small businesses in telecommunications and related sectors.

Access to superfast broadband will provide opportunities for innovative new business services, greater participation in e-commerce and improvements in productivity with the adoption of broadband-based processes. An additional $10 million over two years will be provided to help small businesses establish an online presence and improve their e-commerce facilities. Grants will be provided to eligible organisations to disseminate information and offer training seminars on e-business.

NATION BUILDING INFRASTRUCTURE — BUILDING BLOCKS FOR THE RECOVERY

Investment in nation building infrastructure is the centrepiece of the 2009-10 Budget. Representing the most significant infrastructure package in Australia's history and spanning the nation, the Government is investing $22 billion to improve the quality, adequacy and efficiency of transport, communications, energy, education and health infrastructure across Australia — the building blocks of the future economy.

Investment in these critical economic infrastructure projects will provide a sustained boost to the economy now. In the longer term, it will enhance the productivity of the economy. These projects are widely distributed across major metropolitan centres, regional and rural Australia.

The National Broadband Network will commence roll-out in Tasmania, while investment in Australia's road network and, in particular, along the Network 1 (N1) linking Melbourne to Cairns, will support the more efficient movement of people and freight along one of Australia's busiest road networks and most important freight routes.

Improving the liveability and sustainability of our cities, the Government is investing in nine metropolitan rail projects across six major Australian cities: Melbourne, Sydney, Brisbane, Adelaide, Perth and the Gold Coast. The Government is investing $27.7 billion through the Nation Building Program and Building Australia Fund, including $3.4 billion as part of this Budget, to enhance the safety and efficiency of the national road network — this includes construction of a new bypass at Kempsey on the Pacific Highway. Demonstrating the Government's commitment to improving our export and freight infrastructure, the Government will set aside $339 million towards the development of Oakajee port and rail common use infrastructure, near Geraldton, in Western Australia, (subject to further work and consideration of the project by Infrastructure Australia) to support growing demand for internationally competitive export infrastructure.

The Government is also committed to improving Australia's social infrastructure — our schools and hospitals. The Government is modernising every Australian school with $14.7 billion being invested in education infrastructure such as multi-purpose halls, science laboratories, language learning centres as well as small-scale maintenance and refurbishments.

The Government is committed to delivering better health care and better health outcomes across Australia and is undertaking a range of projects to improve health and hospitals infrastructure. For example, the Government is committing $250 million for the Townsville Hospital in Queensland, $200 million for a Health and Medical Research Institute at the new Royal Adelaide Hospital and $28 million for the Northern Territory Medical School. In Australia's west, the Government is investing $256 million towards the rehabilitation unit at the Fiona Stanley Hospital in Perth.

Table 3: Summary of nation building infrastructure projects

	New investment $million
Roads, rail and ports	**8,453**
Regional Rail Express	3,225
East West Rail Tunnel - preconstruction work	40
Gold Coast light rail	365
Gawler rail line modernisation	294
Noarlunga to Seaford rail extension	291
Northbridge rail link (the Hub)	236
West Metro - preconstruction work	91
Brisbane Inner City Rail feasibility study	20
O-Bahn track extension	61
Hunter Expressway	1,451
Pacific Highway - Kempsey Bypass	618
Ipswich Motorway - additional works	884
Bruce Highway - Cooroy to Curra (section B) duplication	488
Oakajee Port common user facilities	339
Darwin Port expansion	50
National Broadband Network	**Up to 43,000**
Initial Government investment	4,700
Clean energy infrastructure	**3,565**
Clean Energy Initiative	3,465
National Energy Efficiency Initiative	100
Education infrastructure	**2,585**
Education infrastructure	2,585
Health and hospital infrastructure	**3,172**
Hospital infrastructure	1,465
Better cancer care	1,276
Translational health research	430

Infrastructure investment represents the next phase of a comprehensive strategy for Australia's recovery from the global recession and will provide the building blocks for future productivity and growth. Investment in infrastructure will help bolster the economy by creating and supporting employment and providing opportunities for businesses.

Sustained investment in and reform of Australia's economic infrastructure and infrastructure markets is critical to boosting national productivity. It will also drive a more diverse, competitive and sustainable economy that generates substantial and lasting economic, social and environmental benefits. Infrastructure investment will be the cornerstone of the recovery of the Australian economy going forward. As the global economy recovers from the current crisis and China and other emerging economies in Asia continue to expand and grow, it is vital that Australia is positioned to take advantage of the many opportunities and benefits that will emerge.

Before the global economic downturn, capacity constraints and infrastructure bottlenecks were evident in some of Australia's key export supply chains. Addressing critical infrastructure gaps, reform of planning and regulation, improved coordination of logistics chains and better use of infrastructure through appropriate pricing all have important roles to play in ensuring that we avoid the re-emergence of these problems.

The importance of investing in Australia's physical infrastructure was confirmed in the latest OECD *Going for Growth* report (released in March 2009), which found that among OECD countries investment in energy, water, transport and telecommunication networks can boost long-term economic output and productivity to a greater extent than other types of physical investment.

The Government will continue to provide leadership in the planning, financing and provision of significant nation building infrastructure projects while encouraging private sector involvement. Going forward, Infrastructure Australia will continue to play an important role in the provision of advice to guide government and private sector decision-making on infrastructure investment.

Roads, rail and ports

Investment in critical road and rail infrastructure is essential. The OECD's report, *Going for Growth*, has noted that past investment in Australia's roads has been associated with higher GDP, relative to other types of investment. Similarly, investment in Australia's rail network has gone hand-in-hand in the past with higher aggregate output levels in comparison to other types of investment.

The Government is committed to building world-class infrastructure that enhances the amenity and productivity of our cities. It is investing $4.6 billion to improve metropolitan rail networks in six of Australia's major cities: Melbourne, Sydney, Brisbane, Adelaide, Perth and the Gold Coast. As Australia's capital cities continue to grow and expand, investment in nation building infrastructure, including our metropolitan rail networks, is urgently needed to support sustainable urban development and renewal.

Congestion imposes a real and substantial economic and social cost on our communities. These costs include longer travel times, higher greenhouse gas emissions, higher vehicle operating costs and road trauma. The avoidable cost of congestion is estimated to rise to around $20 billion per year by 2020. The cost of congestion is real and substantial — it includes traffic delays, increased greenhouse gases, higher vehicle running costs and more road accidents. Through this investment, the Government is taking action to reduce these economic and social costs to make our cities more productive and prosperous.

The Government is investing an additional $3.4 billion from 2008-09 to 2013-14 in Australia's road infrastructure. This investment recognises the important role of roads in expanding the productive capacity of the Australian economy and building business confidence.

Each year, the amount of freight carried along Australia's national roads and highways increases. By 2019, it is estimated that 55 million tonnes of goods and products will be transported to domestic and global markets each year. This represents around a 30 per cent increase from 2009 levels.

The Government has committed $8.6 billion to upgrade the N1 through the Nation Building Program. The N1 is Australia's busiest freight route stretching along the eastern seaboard between Melbourne and Cairns. In this Budget, the Government is making a number of further strategic investments in the N1, which will bring the Government's total commitment in this critical road corridor to $12.0 billion. This involves the construction of bypasses, completing duplications, three-laning, flood proofing, gradient reductions and other safety measures to improve the quality of this vital corridor.

Investment in the N1 will deliver economic benefits through greater efficiency and increased productivity. Lower transportation costs will ensure Australian businesses continue to be globally competitive.

These measures build on the $26.2 billion set aside for land transport infrastructure through the Nation Building Program. Through this program, the Government is contributing $24.2 billion to road building projects across Australia to construct new bypasses, ring roads and duplications. This investment is also widening roads, improving intersections and providing extra overtaking lanes to improve the efficiency and safety of Australia's road network.

Investing in our roads also delivers important social benefits — helping to keep our communities connected, improving access to services and enhancing the amenity of our cities.

In addition to expanding Australia's road network and improving its efficiency, the Government is also committed to making Australia's roads safer and lowering the real cost of road accidents and road trauma. In 2009-10, the Government is investing $120 million in the Black Spot Program and $100 million to install rail boom gate crossings to improve the safety of our roads and reduce the social costs to the community from road accidents.

Australia's ports act as international gateways for Australian business, opening up access to global markets. Efficient, well-functioning export infrastructure is essential to support economic growth. Before the economic downturn, capacity constraints and infrastructure bottlenecks impeded access to global markets for Australian commodities. This is why the Government has set aside $339 million towards the development of Oakajee Port and rail common use infrastructure in Western Australia and $50 million towards the Darwin Port expansion in the Northern Territory. Infrastructure Australia has identified these two projects as having national significance and playing a potentially important role in supporting future economic growth. Infrastructure Australia will examine each project as development progresses.

Through this investment, the Government is positioning Australian business to take advantage of future economic growth as the Asia-Pacific region recovers from the global recession.

Greater connectivity between Australia's rural and urban centres, improved transit times and greater rail efficiency will help unlock critical supply chains and reduce landside bottlenecks at Australia's ports, thus improving the international competitiveness and efficiency of Australia's land transport network including a number of flow-on environmental and fuel efficiency benefits.

Investment in Australia's transport network, including road, rail and landside port access, will directly increase Australia's capital stock. In addition, it will generate a range of positive spill overs supporting future economic growth, including through the facilitation of trade, greater access to global and domestic markets and lower costs to business through increased efficiency.

Acting now to expand Australia's infrastructure platform will support employment in the short and medium term, while providing the building blocks for Australia's future prosperity. In the long term, this investment will help unlock infrastructure bottlenecks that have constrained productivity growth in the past and ensure Australia is well placed to take advantage of future economic opportunities as they emerge.

National markets

Government action to drive competitive and efficient infrastructure markets and lower regulatory costs for infrastructure development complements the Government's direct infrastructure investment. This action will ensure that the potential benefits created by such infrastructure investment are fully realised. The Government is committed to ensuring that the right regulatory and business environment exists to support increased investment in infrastructure and the timely delivery of major projects.

Through COAG, the Government is working with the States and Territories to develop a more coordinated approach to planning and approvals processes for major infrastructure projects by lowering the costs imposed on infrastructure providers and increasing transparency and certainty around decision-making processes. Furthermore, the Government is continuing to work with state and territory governments to progress national transport reforms.

Substantial progress has been made in the area of energy market reform including efforts to create an efficient national market. The Government is continuing to build on this success by working with its state and territory counterparts through COAG and the Ministerial Council on Energy so as to ensure Australia has reliable and efficient energy supplies into the future.

Infrastructure Australia

The Government established Infrastructure Australia to drive the development of a long-term, coordinated national approach to infrastructure planning and investment. Infrastructure Australia provides a strategic perspective on the creation of national markets, competitive export infrastructure and a national freight network. Throughout 2009, Infrastructure Australia will continue to focus on nationally significant infrastructure priorities across a range of areas, including infrastructure planning and investment, integrated supply chain networks and public transport systems.

Clean Energy Initiative

The Government is committed to tackling climate change and encouraging further innovation in low emissions and renewable technologies that will help create the low-pollution economy for the future.

The Government will invest $4.5 billion in a new Clean Energy Initiative, including $1.0 billion in existing funds, that will deliver a number of substantial measures aimed at enhancing innovation and investment in clean energy generation.

The Clean Energy Initiative will comprise three new core elements:

- a $2.0 billion investment over nine years in carbon capture and storage (CCS) projects under a CCS Flagships program;
- a $1.5 billion investment over six years in a new Solar Flagships program that will demonstrate large-scale solar thermal and solar photovoltaic technologies; and
- a new independent renewable energy innovation body, Renewables Australia, resourced with initial funding of $465 million over four years to support renewable technology research, commercialisation and deployment.

Carbon Capture and Storage (CCS) Flagships

The new CCS Flagships program will deliver $2.0 billion over nine years to support the development of industrial-scale demonstration projects for CCS technology in Australia. The projects are expected to include a carbon dioxide storage hub and projects to demonstrate a range of technologies to capture carbon dioxide from coal-fired power stations. Projects will be subject to a competitive process, with the Australian Government contributing funding of up to approximately one-third of the cost.

Together with the existing $400 million National Low Emissions Coal Initiative and the Cooperative Research Centre for Greenhouse Gas Technologies, the CCS Flagships program will accelerate the development and deployment of CCS in Australia and will complement the recently launched Global CCS Institute. The successful deployment of CCS will facilitate Australia's transition to a low-pollution economy, generate the low-pollution jobs of the future, and help preserve the value of Australia's coal exports.

Renewables Australia

The Government will establish Renewables Australia with $465 million over four years, including existing funding of $365 million from the Renewable Energy Fund, to promote the development, commercialisation and deployment of renewable technologies. Renewables Australia will be overseen by an expert board and will support focused, collaborative, high priority research and investment with the ultimate aim of progressing new technologies to the market while also lowering the cost of existing renewable technologies. Renewables Australia will also support and advise government, industry and the community in the promotion and development of renewable technologies and relevant research and development in essential renewable-related systems, including renewable energy transmission infrastructure.

Solar Flagships

The Government will provide $1.5 billion over six years, including existing funding of $135 million from the Renewable Energy Fund, for a new Solar Flagships program. The program will establish large-scale solar electricity generation equivalent to the generation capacity of a coal-fired power station. The program will comprise up to four solar projects operating in the national grid, with an additional capacity of 1,000 megawatts. An energy market participant will be selected by a competitive process to manage Solar Flagship projects.

This program will help accelerate the deployment of promising solar energy technologies, including solar thermal and photovoltaic, whilst also building skills and capacity in the solar industry. Together with the existing $100 million Australian Solar Institute, the new Solar Flagships program will help position Australia as a world leader in solar energy generation.

National Broadband Network

The Government has established a company that will invest up to $43 billion over eight years to build and operate the biggest single nation building infrastructure project in Australia's history, a new National Broadband Network (NBN) in partnership with the private sector.

The NBN will be a national, wholesale-only, open-access broadband network. The Government's objective is to provide broadband services to 90 per cent of all Australian homes, schools and workplaces that will allow speeds of 100 megabits per second based on fibre-to-the-premises (FTTP) technology. Next-generation wireless and satellite technologies will be able to deliver 12 megabits per second or more to people living in more remote parts of rural Australia. The NBN will also include the backhaul network, that is, the fibre optic transmission links connecting cities, major regional centres and rural towns.

The Government will be the majority shareholder of the network company but intends to sell down its interest within five years after the network is built and fully operational, consistent with market conditions and national and identity security considerations. The Government will make an initial investment of $4.7 billion.

Telecommunications play a vital role in Australia's increasingly knowledge-based economy, and are important for the nation's productivity. The NBN rollout will address a history of underinvestment in key telecommunications infrastructure.

Significant investment is required now to ensure that Australia is well placed to meet future demand for telecommunications services. Consumption of telecommunications services is increasing substantially, and new applications and greater internet use will increase demand for broadband services.

Rolling out a new national network is a major and complex engineering task that will take time to deliver. To provide benefits in the short to medium term, the Government is undertaking measures such as:

- fast-tracking negotiations with the Tasmanian Government, to commence the rollout of the new network in Tasmania this year;
- investing up to $250 million to immediately address regional backbone 'blackspots' throughout Australia; and
- requiring, from 1 July 2010, all new estate developments to install FTTP technology.

Investment in this nation building infrastructure project will stimulate jobs in the short-term, and enhance productivity and innovation in the long term. It is expected the project will support 25,000 jobs every year, on average, over the life of the project (with a peak of 37,000 jobs).

The Government is undertaking an implementation study that will determine network operating arrangements, detailed network design and the means by which to facilitate private sector investment (including from rollout of the network in early 2010) and provide procurement opportunities for local businesses.

The NBN is an investment in a world-class telecommunications network that will provide the capacity to meet future demand and support productivity and innovation. The Government's investment, coupled with changes to the existing telecommunications regulatory regime, will also fundamentally transform the competitive dynamics of the telecommunications sector that underpins Australia's future productivity growth and international competitiveness.

POSITIONING FOR THE RECOVERY — DELIVERING WORLD-CLASS UNIVERSITIES, RESEARCH AND HOSPITALS

To complement investment in infrastructure and improve long-term productive capacity, the Government is building world-class higher education and hospital systems, and investing in innovation. The Government will also establish a historic Paid Parental Leave scheme to boost participation in the future. These investments form part of the building blocks for economic recovery.

Education — planting the seeds of future growth

This Budget continues the Government's drive for a world-class education system. The Government is investing $2.1 billion in higher education over five years and additional funding from future Education Investment Fund (EIF) funding round in education and training to build the productive and skilled workforce of tomorrow. The structure of the Government's reform package flows from the Review of Australia's Higher Education System (the Bradley Review) commissioned by the Government last year.

A new approach is needed for higher education for the 21st century, one based on acknowledging the central importance of students. Current rigidities limit the capacity of universities to respond to changes in student preferences and demand, causing potential students to miss out on critical opportunities to build their skills and contribute to the development of a modern economy and a highly skilled workforce.

The Government is committed to ensuring all Australians have an opportunity to participate in tertiary education, especially in these tough economic times. As part of this commitment, the Government will invest $491 million over four years to uncap the number of public university places from 2012, allowing universities to offer a place to all eligible students. This will allow an extra 50,000 students to commence studies over the next four years and help achieve the Government's ambition that 40 per cent of all 25 to 34-year-olds attain a bachelor level qualification or above by 2025. These additional places will boost the overall skill level of the workforce and will assist in equipping students to become effective participants in the labour market of tomorrow.

Education is a key building block for future growth. That is why the Government is investing $578 million over three years to increase the rate of indexation for higher education funding. The higher rate of indexation will be phased in from 2011.

This change will improve funding across learning, teaching and research, reduce pressure to cross-subsidise courses and help Australia compete in an increasingly international market for higher education.

To ensure universities maintain high standards within the new system, a more robust quality assurance process, overseen by a new independent national regulatory body, will be introduced. The Tertiary Education Quality and Standards Agency (TEQSA) will accredit providers, carry out audits of standards and performance, protect and quality assure international education and streamline current regulatory arrangements to provide national consistency.

The Bradley Review identified a further two areas for improvement in the higher education system: low participation and completion rates by all students; and low enrolment rates of people from disadvantaged backgrounds. The Government is putting in place measures to overcome these issues.

The Government will vigorously pursue the ambition that, by 2020, 20 per cent of higher education enrolments at undergraduate level should be of people from low socio-economic backgrounds. To help achieve this, the Government is investing $394 million over four years in a two-pronged strategy to encourage universities to take a greater leadership role in promoting the benefits of higher education to all groups in society.

- A new financial loading will be provided as a reward for institutions to attract and retain low socio-economic status students.

- Universities will be given funding to build long-term partnerships with schools and communities in disadvantaged areas to lift the aspirations of students who would never previously have considered university as an option. This complements the Government's investment in low socio-economic schools.

To further support participation in higher education, particularly amongst low socio-economic students, the Government will reform the student income support system to improve targeting and boost the level of assistance to those most in need.

The Government has taken the tough decision to tighten the definition of independence to ensure that only students who have worked full-time (at least 30 hours a week) for at least 18 months in the last two years can qualify for Youth Allowance through independence prior to turning 22 years of age.

The savings realised from tightening the independence test will be reinvested to provide greater levels of support and more generous means testing arrangements for lower income students, including relaxing the Parental Income Test for Youth Allowance and ABSTUDY to more closely align with the Family Tax Benefit Part A income test, introducing the Student Start-up Scholarship, worth $2,254 per annum, and a more generous Personal Income Test to allow student income support recipients to earn more before their payments are reduced.

To improve standards and outcomes across all universities, the Government will invest $206 million over two years to introduce performance funding. The Government will set agreed performance outcomes across teaching quality, participation, student engagement, and completion rates, with reward funding attached to the targets. TEQSA will provide an independent assessment of whether the agreed performance targets have been met. This approach will encourage innovative institution-led solutions, as the onus is on institutions to develop their own plans to meet the agreed outcomes.

To support the increased investment in teaching and learning, the Government is rolling out the second EIF funding round. The Government is concentrating EIF round two funding on education and training infrastructure which supports the Government's response to the Bradley Review and ensures the university and vocational education and training sectors have 21st century facilities.

The Government is committing $613 million to fund 11 higher education and 12 vocational education and training projects as part of the second EIF funding round. In addition, the Government will provide $750 million over four years to conduct future EIF funding rounds of which $250 million will be partnered with up to $400 million allocated under the Clean Energy Initiative to form a $650 million sustainability round. $200 million of round three funding will be allocated to projects which assist universities to adjust to the reforms in the higher education sector.

This infrastructure spending builds on the significant capital investment the Government has already made in the university sector, including $500 million for the Better Universities Renewal Fund in the 2008-09 Budget, the $500 million Teaching and Learning Capital Fund for higher education as part of the 2008 Nation Building Package and $580 million to fund 11 projects for the first EIF funding round.

Reaching our innovation potential

Innovation is critical to Australia's growth and its ability to confront both current and emerging economic, social and environmental challenges. By supporting innovation, the Government will not only create conditions to support long-term growth and jobs but also prepare Australia for a faster and more prosperous recovery from the global financial crisis.

Recognising the importance of a strong innovation system to future productivity and jobs, Dr Terry Cutler led an expert panel reviewing Australia's national innovation system. The panel's report, *Venturous Australia*, provided valuable insights into the limitations of the current system and provided the basis for the Government's long-term vision to increase Australia's innovation capacity.

In March 2009, the Government signalled its ambitious long-term innovation agenda in announcing aspirational targets to increase Australia's innovation performance. By 2020, the Government seeks to double the level of collaboration between Australian businesses, universities, and publicly-funded research agencies; increase by 25 per cent the proportion of businesses engaging in innovation over the next decade; and progressively increase the number of research groups performing at world-class levels.

This vision complements the Government's reforms in response to the Bradley Review of Australian Higher Education, reflecting the importance of university research in the innovation system. To ensure that our universities have a better chance to perform at world-class levels, the Government is introducing initiatives aimed at improving research quality. The Government will provide an additional $512 million over four years to support universities fund the indirect costs of research, which will reduce the need for universities to cross-subsidise research costs from teaching and learning. The Government is also implementing the Excellence in Research for Australia initiative to improve the measurement of research standards of universities.

In addition, the Government will introduce reforms through the Joint Research Engagement program to encourage greater research collaboration between universities, industry and end-users.

In recognition of the importance of infrastructure to our innovation effort, the Government will provide $1.2 billion from the EIF for 30 priority research infrastructure projects. Funding is for immediate-start projects that have been identified as vital to building Australia's research capability.

Investing now will equip the researchers and industries of tomorrow, and is therefore critical to the Government's vision of an internationally competitive and prosperous nation. The Government's investment includes $901 million for the Super Science Initiative, which will build Australia's capacity in key areas including space science and astronomy, marine and climate science and future industries (nanotechnology and life sciences), and $322 million for eight research projects through the second round of the EIF. Together with infrastructure initiatives in higher education, vocational education and training and clean energy, this takes the Government's investment in infrastructure from the EIF in this Budget to $3 billion.

The 2009-10 Budget also includes funding of $500 million over four years to encourage the commercialisation of ideas, improve the incentives for business research and development and collaboration, and provide for key enabling technologies. The Government will provide $196 million over four years to establish the Commonwealth Commercialisation Institute, which will bring together research, business and finance in the Australian economy. The Institute aims to address the disparity between our strong research performance and the comparatively low level of commercialisation.

The Government will replace the current research and development tax concessions with an expanded tax credit from 1 July 2010 that improves support for smaller firms in tax loss as well as rewarding larger firms for their research and development efforts. The new research and development tax credit will feature a 45 per cent refundable credit for firms with an annual turnover of less than $20 million — equivalent to a tax concession of 150 per cent.

The Government is also developing a National Enabling Technologies Strategy to ensure our researchers are equipped with world-class analytical tools and measurement capability. This will be achieved by establishing a National Office of

Enabling Technology and building the capacity and expertise of the National Measurement Institute.

Health and hospitals investment and better access for Australians

This Budget continues the Government's commitment to a world-class health and hospital system by providing increased funding for public hospitals, investment in the health workforce and infrastructure, investment in prevention, as well as reforms to deliver better services and more choice for patients across Australia.

In November 2008, COAG agreed to a historic package of reforms to the health and hospital system, announcing that the Government will provide $64 billion in funding over five years for the health system, an increase of over $20 billion compared to the previous Australian Health Care Agreements.

As part of this commitment, the Government will provide $2.5 billion over five years to drive hospital and health workforce reform with the States and Territories. This funding will be used to address the capacity and productivity of the health workforce, improve health outcomes for Australians and ensure the sustainability of the health system.

In addition to an increased commitment to public hospitals, the Government established the Health and Hospitals Fund (HHF) in the 2008-09 Budget for capital investment in health infrastructure, including renewal and refurbishment of hospitals and other facilities, equipment and projects. This arrangement was put in place to ensure that substantial funding was available for capital investment to support the Government's health reform agenda.

The Government will make significant investments from the HHF in this Budget. Funding from the HHF will support stimulus activity, most notably through increased employment, improve our health infrastructure and lead to improved health outcomes.

The Government is concentrating HHF funding totalling $3.2 billion on three reform priorities.

First, the Government will expand and modernise key public hospital infrastructure across Australia to improve hospital care by increasing elective surgery capacity, enhancing sub-acute care services and improving emergency department facilities. The Government will invest a total of $1.5 billion over seven years in public hospital infrastructure, building on the investment in Australian health services and hospitals agreed by COAG on 28 November 2008.

Second, the Government is investing $1.3 billion over six years in infrastructure funding to modernise cancer services and improve detection, survival and treatment outcomes for people living with cancer. This will include a major investment in regional, rural and remote areas which suffer from significantly poorer cancer outcomes. This package will support a nationally consistent approach to cancer service delivery.

Lastly, recognising the importance of collaboration between research and health professionals in improving disease prevention and delivering best-practice health care, the Government will invest $430 million over six years in translational research infrastructure. Funding will support cooperative research practices by providing new medical research infrastructure in areas including Indigenous health, child health, heart disease, mental health and neurological disorders.

The Government also understands that maternity services in Australia are under growing pressure as the number of births continues to rise and workforce shortages worsen and that many Australian women are frustrated at the limited choices available to them for their maternity care. Limited access to maternity services in rural and remote communities is also a growing concern. To address these issues, the Government is investing $121 million over four years to reform maternity services to increase access for women and their babies to collaborative models of care and to involve midwives in a more substantive role. This package makes it possible for the Government to make better use of the maternity workforce, ensuring that the right professionals can provide the right care at the right time in the right place.

Rural Australia will receive better access to primary health services with the Government's investment of $134 million over four years for a new rural health workforce strategy. This is designed to address workforce shortages in regional and remote Australia and improve access to primary health care services for people living in these communities. An important component of the new strategy is replacing the outdated Rural, Remote, Metropolitan Areas system, which was based on 1991 population data, with a new classification system that uses 2006 Census data to reflect changes in Australia's population and demographic make-up. The initiatives being rolled out under this strategy will help attract and retain medical practitioners in areas of need, including via more targeted incentives and support such as expanded locum relief.

In a move to strengthen and improve the health workforce, the Government will also provide $60 million over four years from November 2010 to enable nurse practitioners to access the Medicare Benefits and Pharmaceutical Benefits Schedules. This will establish an appropriate role for nurse practitioners outside acute care, and will allow doctors to focus on tasks requiring their particular skills and expertise.

The Government is committed to ensuring that all Australians are able to access modern health services, no matter where they live. Diagnostic imaging and pathology are two such services, and the Government is tailoring funding for these services to better support access through new bulk-billing incentives costing $948 million over four years. These incentives will support providers who bulk-bill patients, many of whom operate in low socio-economic and rural areas, thereby improving access and supporting affordability for all Australians.

Addressing excessive fees under the Extended Medicare Safety Net

Funding for new health initiatives in this Budget has been made possible by addressing some excessive cost pressures in the Extended Medicare Safety Net (EMSN). Action in this area complements the Government's reforms of private health insurance and the Medicare levy surcharge.

The Government is committed to retaining the EMSN. This demands that the safety net remain sustainable. There is evidence to suggest that excessive growth of fees for obstetrics and other services, such as Assisted Reproductive Technology (ART), hair transplants and varicose veins is putting this sustainability at risk. The Government is therefore moving to contain expenditure by capping the EMSN benefits payable once a patient has met the relevant EMSN threshold for these and other selected items from 1 January 2010.

The current EMSN meets 80 per cent of the out-of-pocket costs for out-of-hospital Medicare services once an annual threshold is met. This is regardless of how much the doctor charges. In 2007 it is estimated that up to 78 per cent of EMSN spending went to meeting providers' higher fees, rather than reducing patients' out-of-pocket costs. EMSN expenditure on the items to be capped has grown at an average rate of approximately 50 per cent for the past two years.

The new EMSN caps will apply on all related items, including pregnancy-related scans for example, to ensure that specialists do not shift their high fees to items that are not covered by a cap. In conjunction with the introduction of the cap, the Government will increase Medicare Benefits Schedule items for obstetrics to reduce the incentive to charge excessive fees. The cap per Medicare Benefits Schedule item will be set at different levels depending on the schedule fee of the item. Cap amounts will be indexed on 1 January by the Consumer Price Index, consistent with safety net thresholds. Should a patient claim an item more than once in a calendar year (for example, ante natal attendance), she would be eligible for the same maximum EMSN benefit each time she claimed the item.

By addressing the sustainability of the EMSN so that it can continue to help those who need it most, the Government will deliver savings of $452 million over four years.

SECURE AND SUSTAINABLE PENSION REFORM

In the 2008-09 Budget, the Government committed to reform the pension system. Since that time, the scale of the global recession has highlighted the importance of the pension as a safety net for those most vulnerable in society. The Government has found room under difficult circumstances to deliver on its commitment, with substantial increases in pension payments, reform of the payments structure for pensioners, and more assistance for carers, at a cost of $16.0 billion over five years.

Sustainability of the pension is in everyone's interest. So to ensure we can afford a strong safety net now and into the future, particularly given the challenges of an ageing population, the Government has announced reforms across a range of areas including within the pension and broader retirement income system.

Strengthening the financial security of seniors, carers and people with disability

In May 2008, the Government commissioned an investigation into measures to strengthen the financial security of seniors, carers and people with disability. The findings of the Harmer Pension Review have been central in framing the reform of the pension system.

In reforming the pension system, the Government will deliver a new system with increased payments, incentives for workforce participation, and new pension income eligibility arrangements to ensure affordability.

The key finding of the Harmer review was that the rate of payment to single pensioners is too low. In response, the Government will increase the total value of the pension for singles by up to $1,689 per annum — an increase of $32.49 per week. From 20 September 2009, full-rate single pensioners will receive an extra $30 per week in their base pension and an extra $2.49 per week in a new fortnightly supplement.

Under the new arrangements, the total value of the package of payments (pension plus supplements) for single pensioners will increase to two-thirds of the couple combined package, and achieve a new pension benchmark for singles of 27.7 per cent of Male Total Average Weekly Earnings — an increase of over 10 per cent from the current 25 per cent. This new benchmark will be protected by legislation.

The Government will increase the total value of the pension package for full-rate couples by $527 per annum — an increase of $10.14 per couple per week — payable fortnightly through a new Pension Supplement.

The Government will ensure that all pensioners benefit immediately from pension reform by providing a minimum increase in payments of $10.14 for single pensioners and couples combined. This, again, provides a focus on the needs of singles.

These measures will benefit recipients of the Age Pension, Disability Support Pension, Carer Payment, Veterans' Service Pension, Income Support Supplement and War Widow/ers Pension, Bereavement Allowance, and Wife and Widow B Pension, at a cost of $14.2 billion over four years.

To provide additional, ongoing assistance to carers, the Government will introduce a Carer Supplement of $600 per annum for Carer Payment recipients and an additional $600 per annum for Carer Allowance recipients for each eligible person in their care, at a cost of $1.8 billion over five years. These annual payments will provide ongoing financial certainty for carers which previous 'one-off' lump-sum payments did not. The Government will bring forward the 2009-10 payments for both supplements to 2008-09.

Simplifying the pension system

On top of the fortnightly base pension, pensioners currently receive a GST Supplement and Pharmaceutical Allowance (each paid fortnightly) as well as Telephone Allowance and Utilities Allowance (each paid quarterly). This structure is difficult to understand and leaves many pensioners unsure of their entitlements.

To simplify the system, the Government will combine these multiple payments into a single Pension Supplement which will be paid fortnightly. It will be increased by $2.49 per week for singles and $10.14 per week for couples combined. Simplifying the current system will greatly improve pensioners' ability to budget for their living expenses with confidence.

The Government will also significantly improve the flexibility of the payment options open to pensioners. Under the new arrangements, from 1 July 2010, pensioners will be able to choose to receive around half the value of the new Pension Supplement as either a quarterly or fortnightly payment, providing pensioners with the opportunity to structure their payments to better suit their needs.

The Government will also improve arrangements for pensioners to access advance payments through an increase in the maximum allowable advance and an increase in the number of times they can access advance payments in a year.

The Government will extend the new Pension Supplement to recipients of Partner Allowance, Widow Allowance and other income support recipients over Age Pension age.

The Government will also simplify the payment of allowances to self-funded retirees by combining the existing Seniors Concession Allowance and Telephone Allowance into a new Seniors Supplement.

Single Commonwealth Seniors Health Card and Veteran's Gold Card holders will also receive an increase in their Seniors Supplement of $129 per year (the equivalent of $2.49 per week) to better reflect the costs of living alone.

Long-term sustainability of the pension system

Australia, like most developed countries, is facing the challenge of an ageing population. When the Age Pension was introduced in 1909, around half the male population reached retirement age. Today, over 85 per cent of the male population reach retirement age and can expect to spend more than 7 years longer in retirement.

At the same time, the number of working-age people to support every person aged 65 years and over is expected to more than halve over the next 40 years. This presents a major challenge to the long-term sustainability of the pension system.

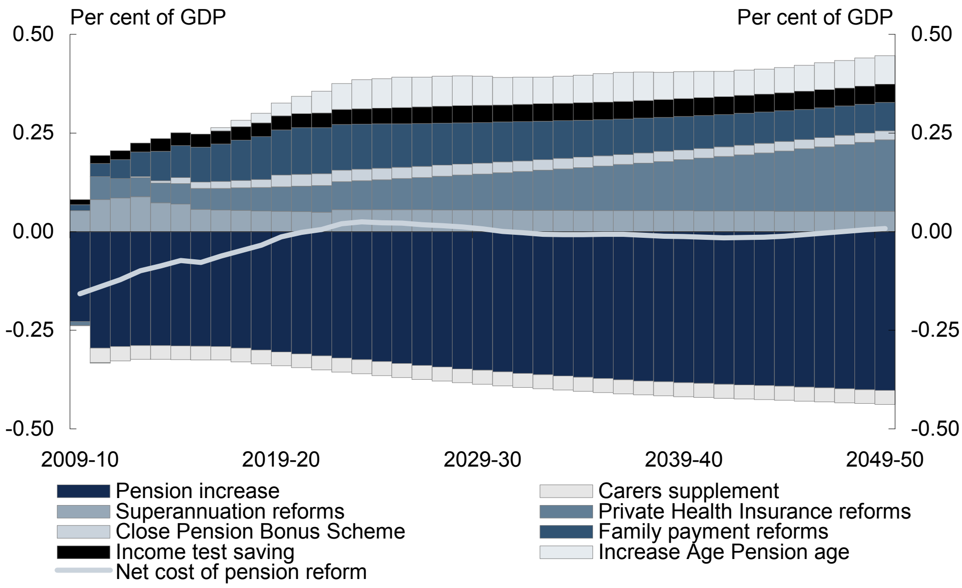
A key feature of the Government's pension reform package is the introduction of measures to improve the long-term sustainability of the system. Central to this has been a review of the qualifying age for the Age Pension. To reflect improvements in life expectancy and to help counter the long-term costs of demographic change, the Government will progressively increase the qualifying age for the Age Pension to 67 years, consistent with international developments and the findings of the Harmer Review. The Age Pension age will increase at a rate of six months every two years, beginning in 2017 and reaching 67 years in 2023.

The Government will also improve the long-term sustainability of the system by reprioritising spending within the pension system.

From 20 September 2009, the Government will increase the rate at which the pension is withdrawn from 40 cents for each additional dollar of private income to 50 cents in the dollar. Reforms to the pension income test will save $1.2 billion over four years.

These and other changes mean that, despite the ageing of the population and the significant increase in assistance provided under the reform package, the Government will offset the cost of pension reform by 2021-22.

Chart 3: Sustainability of pension reform



Supporting workforce participation — a new Work Bonus

The Harmer Review also found that direct incentives for paid work were better targeted to pensioners with limited resources and were more effective than the existing Pension Bonus Scheme. Accordingly, the Government will close the Pension Bonus Scheme to new entrants from 20 September 2009. Existing members of the scheme will continue to accrue entitlements under existing rules. This measure will save $58 million over five years, with substantial savings realised outside the forward estimates.

To improve incentives to undertake paid employment, the Government will introduce a Work Bonus that will discount 50 per cent of the first $500 of fortnightly employment income in determining pension entitlements — halving the rate at which pension is withdrawn. Pensioners can get a maximum benefit of $125 per fortnight from the Work Bonus.

A smooth transition to a new system

Around 70 per cent of existing pensioners — including all full-rate pensioners — will be better off immediately under the new arrangements with its more generous MTAWE benchmark, and will move directly to the new system.

Other existing part-rate pensioners will transition to the new arrangements when they provide a better outcome for them, having regard to the higher pension rates, new income test arrangements and benefits of the Work Bonus.

Importantly, these pensioners will continue to receive their existing entitlements, plus an additional $10.14 increase per week (singles and couples combined), all maintained in real terms, until the new system provides the better outcome.

Reforming the retirement income system

Australia's retirement income system comprises the Age Pension, compulsory superannuation and voluntary savings (including voluntary superannuation). The Government's retirement income reforms will deliver greater equity, and provide more support to those on the lowest incomes. To ensure Australia's retirement income system remains sustainable into the future, the Government will reduce the generosity of some superannuation concessions to those with greater private resources.

Under current arrangements, concessional superannuation contributions are taxed at the concessional rate of 15 per cent up to the concessional contributions cap. The concessional contributions cap is currently $50,000 per annum and the transitional cap (which applies until 30 June 2012 for those aged 50 or over) is $100,000 per annum.

From 1 July 2009, the Government will reduce the cap on concessional superannuation contributions from $50,000 to $25,000 (indexed), and the transitional cap from $100,000 to $50,000. From 2012-13 those aged 50 years and over will be subject to the lower $25,000 (indexed) cap.

This measure is expected to affect approximately 170,000 individuals, 55 per cent of whom would be aged 50 or over. This represents only 4 per cent of those in the 50 plus age group who are making concessional contributions and only 1.6 per cent of the total population in this age group.

It is expected that 77,000 individuals aged less than 50 will be affected by the measure. This represents 1.1 per cent of those in the less than 50 age group who are making concessional contributions and only 0.8 per cent of the total population in this age group. This measure will result in savings of $2.8 billion over four years.

The Government will also temporarily reduce the matching rate of the superannuation co-contribution (and maximum amount payable) that is paid on eligible personal superannuation contributions.

The co-contribution matching rate will be reduced from 150 per cent to 100 per cent for contributions made between 1 July 2009 and 30 June 2012, and to 125 per cent for contributions made between 1 July 2012 and 30 June 2014. The co-contribution matching rate will return to 150 per cent for contributions made from 1 July 2014. This temporary measure will result in savings of $1.4 billion over four years, while still providing significant incentives for low-income earners to make personal superannuation contributions.

Fairer and more sustainable private health insurance incentives

Spending on the Private Health Insurance (PHI) rebate is growing rapidly, and without reform is expected to more than double to $9.3 billion per annum by 2019-20. Expenditure on the rebate disproportionately favours those on higher incomes. By 2010-11, it is expected that approximately 14 per cent of single tax filers with incomes above $75,000 will receive about 28 per cent of the total PHI rebate paid to singles. Similarly approximately 12 per cent of couple tax filers who have incomes above $150,000 will receive around 21 per cent of the total PHI rebate paid to couples.

Accordingly, the Government is rebalancing its suite of policies supporting private health insurance so that people with a greater capacity to provide for their own private health insurance do so. Higher income earners will face a more significant penalties for not holding private health insurance and will receive a lower (or no) rebate. The Government will continue to support low- and middle-income earners who elect to take out private health insurance through the existing 30, 35 and 40 per cent private health insurance rebates.

Effective 1 July 2010, the Government will introduce three new 'Private Health Insurance Incentive Tiers' to better balance the mix of incentives for people to take out private health insurance. Existing arrangements will remain unchanged for singles with income of less than $75,000 per annum and families with incomes of less than $150,000 per annum. Income in this context refers to income for Medicare levy surcharge purposes.

- Tier 1 will apply to singles with income between $75,001 and $90,000 ($150,001 and $180,000 for families) based on current projections. The private health insurance rebate will be 20 per cent, increasing to 25 per cent at 65 years of age, and to 30 per cent at 70 years. The surcharge for not taking out complying private health insurance will remain at 1 per cent.

- Tier 2 will apply to singles with income between $90,001 and $120,000 ($180,001 and $240,000 for families). The private health insurance rebate will be 10 per cent, increasing to 15 per cent at 65 years of age, and to 20 per cent at 70 years. The surcharge for not taking out complying private health insurance will be increased to 1.25 per cent.

- Tier 3 will apply to singles with income of more than $120,000 (more than $240,000 for families). No private health insurance rebate will be provided. The surcharge for not taking out complying private health insurance will be increased to 1.5 per cent.

Overall, this measure is expected to deliver savings of $1.9 billion over five years and private health insurance coverage is expected to remain at more than 99 per cent of current levels. While out-of-pocket costs for private health insurance will increase for people who receive a lower rebate, the increase in the Medicare levy surcharge rate means that higher income earners will retain an incentive to take out private health insurance. When combined with income tax cuts commencing in July 2009 and July 2010, these changes to private health insurance are expected to leave all taxpayers better off (based on average premiums).

Table 4: Private health insurance arrangements

	Current surcharge thresholds (projected 2010-11)	Tier 1	Tier 2	Tier 3
Singles	**$0 - $75,000**	**$75,001 - $90,000**	**$90,001 - $120,000**	**$120,001+**
Families	**$0 - $150,000**	**$150,001 - $180,000**	**$180,001 - $240,000**	**$240,001+**
Medicare levy surcharge	nil	1.00%	1.25%	1.50%
Private health insurance rebate				
Less than 65 years	30%	20%	10%	nil
65 to 69 years	35%	25%	15%	nil
70 years or over	40%	30%	20%	nil

Family payment reforms

Australia's spending on family payments is generous by international standards. The most recent OECD comparisons show Australia's cash spending on family benefits, at 2.2 per cent of GDP, is equal third highest in the OECD and well above the OECD average of 1.3 per cent.

Spending on cash benefits to families has been growing at about 9 per cent per annum on average over the last decade, and faster than spending on pensions which has grown at slightly below 7 per cent per annum on average.

Family Tax Benefit accounts for the majority of spending on families (around $17 billion) and is the third-largest spending program after grants to the States and Territories and the Age Pension.

To permanently improve targeting and limit growth in payments made to families higher up the income scale for now and in the future, the following income thresholds will be maintained at their current levels for a further three years, with Consumer Price Index (CPI) indexation resuming on 1 July 2012:

- the $150,000 primary income earner eligibility threshold for receiving Family Tax Benefit Part B;
- the $150,000 income threshold for receiving dependant tax offsets (including spouse, housekeeper, child housekeeper, parent/parent-in-law and invalid relative offsets);
- the Baby Bonus eligibility threshold of $75,000 family income in the six months following birth of the child (equivalent to $150,000 a year); and

- the income threshold for receiving the base rate of Family Tax Benefit Part A (FTB-A) as well as the additional per child amount that is added to this threshold for families with more than one child. This means the income limit at which FTB-A cuts out for a family with two children under 13 will remain around $112,000 until 2012. Each family's FTB-A income cut out depends on the age and number of dependant children.

This measure is expected to result in savings of $1.4 billion over four years.

In addition, to ensure the family payment system remains sustainable, FTB-A rates will, in future, be indexed by the CPI only. The maximum FTB-A rate for children aged under 16 will no longer be linked to the couple pension rate. This change will maintain payment rates in real terms, although future payments will not grow by as much as they otherwise would.

This measure is expected to result in reduced outlays of $1.0 billion over four years compared to current indexation arrangements.

Families affected by both measures will benefit from other initiatives introduced by this Government, including the 50 per cent Education Tax Refund, the Teen Dental Health Plan, the increase in the Child Care Tax Rebate and the introduction of Paid Parental Leave from 1 January 2011. Even after taking into account the changes to family payments, these other initiatives will deliver over $4 billion worth of additional assistance to low and middle income families over the next four years.

In addition, the doubling of the Low Income Tax Offset from $750 to $1,500 by 1 July 2010 will deliver around $17 billion worth of assistance to low-income earners over the next four years.

Tax reform

The Government is introducing a number of measures to improve fairness and integrity in the tax system by reducing opportunities for taxpayers to exploit parts of the tax system to minimise or avoid tax. The Government has also carefully examined a number of benefits that are delivered through the taxation system with a view to ensuring that tax expenditures are cost effective. The resulting tax reforms ensure everyone pays their fair share of tax, refocuses tax concessions on the areas of highest priority and allows the Government to redirect the savings in support of its other budget priorities.

These tax reforms, which will raise additional revenue of around $4.6 billion over the forward estimates, include:

- tightening the rules applying to the use of non-commercial business losses to prevent high-income individuals (those who earn $250,000 or more) from deducting losses against their salary, wage and other income from activities that are unlikely to make a profit, and which are often more like hobbies or lifestyle choices;

- limiting the scope of the tax exemption for the foreign employment income of Australians who work overseas for periods of 91 days or more so that this exemption only applies to aid workers (both government and non-government organisations), charitable workers, certain government employees (such as defence and police force personnel deployed overseas) and those employed on overseas projects approved by the Minister for Trade as being in the national interest;

- better targeting the concessions for employee share schemes by abolishing the option to defer the tax on share discounts and means testing the availability of the $1,000 'up front' exemption for discounts, limiting this concession to individuals with an adjusted taxable income of $60,000 or less;

- reducing the generous concessional contributions cap for tax-deductible contributions to superannuation;

- extending the tax file number withholding arrangements to include distributions by closely held trusts; and

- preventing company owners from getting tax-free benefits through use of private companies.

Paid Parental Leave

To boost participation in the long-term, and as part of its rebalancing of the family payment system, the Government is investing $731 million over five years to deliver a Paid Parental Leave (PPL) scheme based primarily on the recommendations of the Productivity Commission's Inquiry Report, *Paid Parental Leave: Support for Parents with Newborn Children*. The Government is taking a decisive and historic move as part of reforms to position Australia for the economic recovery.

This significant step forward lays the foundation for increased future participation that is critical to addressing an ageing population. PPL will make a significant contribution to the development of flexible work arrangements that help parents balance their work and family commitments. The scheme will commence operation from 1 January 2011.

From 1 January 2011, the statutory PPL scheme will be available to parents for births and adoptions that occur on or after 1 January 2011. In most cases the PPL scheme will be delivered through employers. To avoid cash flow pressures, the Government will pre-pay statutory PPL amounts to employers, who will then make payments to their eligible employees.

This scheme lays the foundation to underpin higher workforce participation by helping parents to combine work and family commitments. As part of a system promoting flexible work arrangements that support parents to manage their work-family commitments, the Government's PPL scheme provides a strong signal that having a child and taking time out from work for family reasons is part of the normal course of work and life for Australian families.

The PPL scheme is designed to enable parents to maintain attachment to their workplace by allowing them to retain personal links with their employer, maintain skills and expertise, and receive an income whilst nurturing their child. This will encourage greater long-run female workforce participation by helping to address lifetime economic impacts of mothers' childbearing and caring roles.

The availability of a statutory PPL scheme will increase the leave able to be taken by women after childbirth to care for their child in the first months of life. Coupled with other leave arrangements, it is estimated that almost all parents will be able to stay with their infants for the first six months. This will lead to improved child development outcomes by providing more opportunity for parent and child to bond. The extra time at home will also create health benefits for both the mother and child, through the promotion of breastfeeding and giving most mothers the opportunity to take more time to recover from childbirth.

To be eligible for PPL, parents will need to meet a work test during the 13 months prior to the expected birth. The eligible primary carer will receive payments at the weekly rate of the prevailing Federal Minimum Wage — currently $543.78 — for a continuous period of up to 18 weeks. These payments will be treated as taxable income and will affect entitlement to family assistance payments, but will not be treated as income for income support payments such as Parenting Payment (partnered and single), Disability Support Payment and Newstart Allowance. The Government will limit eligibility for PPL where the primary carer has an adjusted taxable income of $150,000 a year or less.

Women in part-time and lower paid employment will especially benefit from the PPL scheme. These workers will receive the full weekly rate of payment, not a proportion related to their income prior to child birth. For some workers this will result in a higher level of payment. Low income earners are also likely to receive the most net-benefit due to the tax treatment of the payment, meaning they will pay little, if any, tax on PPL.

To assist with meeting the cost of the scheme, parents choosing to receive their PPL entitlements will be ineligible for the $5,000 Baby Bonus, except in cases of multiple births, where parents will not receive the Baby Bonus for the first child only. Parents will also not be eligible for Family Tax Benefit Part B, dependent spouse, child-housekeeper and housekeeper tax offsets during the period in which PPL payments are received.

To help ensure that the scheme is operating effectively, a comprehensive review will commence two years after implementation. This review will consider among other things the introduction of the paternity leave component recommended by the Productivity Commission, and consideration of compulsory superannuation contributions, both of which have been deferred to contain the overall costs of the scheme.

The Australian Taxation Office has advised the Government that it considers that salary paid while on parental leave and other ancillary leave payments are ordinary time earnings for superannuation guarantee purposes. The Government will clarify that superannuation guarantee contributions will not apply to voluntary paid parental leave payments. The Government will review this position when it reviews the treatment of superannuation under the paid parental leave scheme. The Government will also defer the application of superannuation guarantee contributions for ancillary leave payments until the review is completed.

CONTINUING TO DELIVER THE REFORM AGENDA

Notwithstanding the difficult economic conditions, the Government remains committed to progressing its reform agenda. This includes improving defence funding, strengthening national security, investing in international diplomacy and overseas development assistance, climate change mitigation, continuing the COAG reform agenda, closing the gap for Indigenous Australians, and reforming the migration program.

Securing Australia

The Government has delivered a Defence White Paper to secure Australia's defence needs in the decades ahead. In addition, the Government has provided funding for a range of national security measures.

Defence

This Budget provides greater funding certainty for Defence by maintaining average real growth in underlying defence funding of 3 per cent per year until 2017-18 and introducing new indexation arrangements to reduce volatility. The new funding model will provide an additional $11.6 billion to 2018-19 and an additional $146.1 billion for the life of the White Paper until 2029-30 relative to funding projections at the time of the UEFO. The new funding model will provide Defence with $308 billion over the next decade. These decisions, along with a program of savings and reinvestments worth $20 billion over the next 10 years, allow for the expanded acquisition of next-generation capabilities, such as combat aircraft, armoured vehicles and submarines.

The 2009-10 Budget provides $1.7 billion to support military operations, including:

- $1.4 billion for an increased Australian Defence Force presence in Afghanistan;

- $224 million to continue stabilisation efforts in East Timor; and
- $29 million to maintain an Australian Defence Force presence in the Solomon Islands.

National security

The Government is boosting Australia's border security with $1.3 billion being committed in this Budget to enhance national security and border protection and combat people smuggling. Key initiatives include:

- a whole-of-government strategy to combat people smuggling and strengthen border security, including through strengthened cooperation in source and transit countries, totalling $289 million including funding announced in the UEFO;
- increased surveillance capacity, including $365 million to continue patrols by vessels in Australia's waters, deploy the Southern Ocean Patrol Vessel into our northern waters for 80 days per year and increase aerial surveillance by more than 2,000 hours for two years; and
- $685 million in other initiatives to strengthen our national security framework, including funding for aviation security, counter-terrorism, foreign policy, enhanced security cooperation in our region and e-security.

Investing in global stability and prosperity

In the midst of a global recession, it is crucial that the Government works to enhance global and regional stability and prosperity. Australia does this through strengthening our bilateral relationships and our active involvement in regional and global forums such as G-20, the East Asia Summit and APEC.

This Budget provides the Department of Foreign Affairs and Trade with around $460 million over four years to do this and to advance and protect the interests of Australia and Australians. These funds will ensure that DFAT will be able to increase security at our diplomatic missions abroad and advance national security through diplomacy and by protecting Australians overseas.

Within this funding, the Government will provide $110 million to boost engagement with countries and regions of growing significance to Australia's national interests.

The funding also includes $164 million for the construction of new chanceries in Jakarta and Bangkok and a feasibility study for a new chancery in Kabul.

Overseas development assistance

The Government remains committed to its target of a ratio of Official Development Assistance to Gross National Income of 0.5 per cent by 2015-16. Australia's increasing aid expenditure will assist developing countries, particularly those in our region, to respond to the global recession and to achieve progress towards the Millennium Development Goals.

In response to the global recession and specifically its impact on those most vulnerable in developing countries, funding for development assistance will increase by $152.9 million in 2009-10 to around $3.8 billion. This represents an increase of nearly $650 million over 2007-08 levels.

The Asian Development Bank estimates that the impact of the global recession is 100 million more people will be living in extreme poverty in 2010 in developing Asia alone. The Government is assisting developing countries to deal with the challenges posed by the global recession. Initiatives include:

- US$197.6 million for a general capital increase for the Asian Development Bank, to allow the bank to respond to the global recession in an effective and timely manner;
- $464 million for food security and rural development projects in Asia, the Pacific and Africa;
- $336 million to continue and expand current performance-linked aid activities, including through the Pacific Partnerships for Development; and
- $454 million for improving economically important infrastructure in developing countries, including transport, electrical and telecommunications infrastructure.

Climate change

There is a clear need to persist with the climate change policy agenda, even in the current economic circumstances. The Government is committed to tackling climate change and positioning Australia to prosper in a carbon constrained world. That is why the Government remains committed to introducing the Carbon Pollution Reduction Scheme legislation this year.

Passage of the legislation will provide business with more certainty over the introduction of the carbon price, and provide a framework for structural adjustment and future investment decisions, including as our economy recovers.

The Government recognises the significant strain that the economic crisis is currently placing on households and businesses, and is determined to get the balance of the Scheme right. To help support jobs and assist business in managing the impacts of the global recession, the Government will delay the commencement of the Carbon Pollution Reduction Scheme by one year and apply a fixed carbon price of $10 per tonne of carbon pollution in 2011-12. The Government will also apply a Global Recession Buffer for emissions-intensive trade-exposed (EITE) activities and allocate up to $200 million to the Climate Change Action Fund in 2009-10 to support businesses and community organisations that do not receive EITE assistance to reduce carbon pollution through energy efficiency improvements before the Scheme commences.

From the revenue it raises from the Scheme, the Government will implement a range of measures to assist households, business, workers, regions and communities to prepare for the Scheme and associated impacts of a carbon price. Combined, the new Clean Energy Initiative, the Energy Efficient Homes program, and the Carbon Pollution Reduction Scheme assistance measures will result in the Government more than meeting its commitment to use every cent it receives from the sale of Australian emissions units to help households and businesses adjust and move Australia to a low-pollution economy.

Continuing the COAG reform agenda

Through COAG, the Government is implementing an ambitious reform agenda which aims to boost productivity, workforce participation and geographic mobility and deliver better services for the community.

As a part of the reform agenda, COAG agreed to a new federal financial framework, which represents the most significant reform of Australia's federal relations in decades. The framework provides a robust foundation for collaboration on policy development and service delivery, and facilitates the implementation of economic and social reform in areas of national importance.

The framework commenced on 1 January 2009 and involves a significant rationalisation of the number of payments made to the States, while increasing the overall quantum of payments. The framework provides clearer specification of roles and responsibilities of each level of government so that the appropriate government is accountable to the community. It also provides incentives for reform, through National Partnership reform payments, and more transparent reporting of outcomes to drive better service delivery and reforms.

Underpinning these reforms is a $15.2 billion funding package that will provide an additional $6.3 billion through new National Specific Purpose Payment (SPP) funding to the States and an additional $8.8 billion funded through new National Partnerships, between 2008-09 and 2012-13. The package includes five new National SPPs to support the States' delivery of services in the key areas of health, schools, skills and workforce development, disability services and affordable housing.

The new framework has been critical in ensuring that all Australian governments work together to tackle the global recession and respond to these economic challenges with immediate and concerted action. The States have been important partners in implementing the Nation Building and Jobs Plan, the Compact with Young Australians to increase young people's engagement with education and training pathways, and the guarantee over state borrowing to underpin their infrastructure investment programs.

Closing the Gap in Indigenous disadvantage

Last year, COAG agreed to six key targets to close the gap in Indigenous disadvantage. The Government remains committed to achieving these targets.

In this Budget, the Australian Government has added to its COAG initiatives by providing for a range of other strategic reforms and expenditures. The Government will invest an additional $807 million to continue its support for the safety of women and children and strengthen communities in the Northern Territory; an additional $202 million to reform both the Community Development Employment Projects (CDEP) program and the Indigenous Employment Program (IEP) to ensure that more Indigenous Australians have the skills needed to get and keep real jobs; and $50 million to accelerate Native Title claim resolutions.

Over the past 12 months, through COAG, the Australian Government and the States and Territories have committed a total of $4.6 billion through National Partnerships to close the gap in Indigenous disadvantage. This investment has been across a variety of areas including remote Indigenous housing ($1.9 billion over 10 years); Indigenous health ($1.6 billion over four years); and Indigenous early childhood development ($564 million over six years).

Immigration

Immigration delivers a range of economic, social and cultural benefits to Australia. The 2008-09 Migration Program was increased to answer medium-term labour shortages. In light of the changed economic circumstances, the Government capped the skill stream at 115,000 in March 2009. The number of places in the skill stream has been reduced by a total of 25,400 for the coming year. With an increase in the family stream of 3,800, the Migration Program in 2009-10 will be 168,700.

The Government is also implementing a number of reforms to Australia's Migration Program to ensure it is more tightly targeted to our skill needs during a period of weak labour demand. To this end, migrants with critical skills are being given priority; English language standards for temporary and permanent entrants are being increased; skills assessment will be introduced for high-risk 457 visa applicants; and the balance of the Skilled Migration Stream has been shifted towards employer-sponsored places and business skills entrants. The introduction of market salary levels for subclass 457 visa entrants from September 2009 and other changes will ensure the subclass 457 visa program continues to provide industry with needed skills while not undermining local training and employment opportunities.

DELIVERING ON THE DEFICIT EXIT STRATEGY

In the February 2009 *Updated Economic and Fiscal Outlook*, the Government stated that the immediate and overriding priority for fiscal policy is to cushion the impact of the global recession on economic activity and jobs. This Budget supports jobs and growth now, and invests in the drivers of long-term growth in a sustainable way.

It is necessary that the Government continue to draw on its fiscal strength to support the economy through 2009-10 and into 2010-11. Without the timely and substantial action that has been taken by the Government, Australia's economy would be in much worse shape. Output would be significantly lower and job losses would be much higher.

The Budget deficit is largely a result of large downwards revisions to expected tax revenues, as a result of the global recession. The Government's decision to support the economy and jobs through the provision of fiscal stimulus will temporarily add to these deficits.

A temporary deficit, with borrowings that will be repaid when conditions improve, is the only responsible course of action if we are to continue important programs and cushion the impact of the global recession on jobs.

The Government has a clear strategy to return the budget to surplus as the economy recovers. This will be achieved by banking increases in tax revenue naturally associated with the economic recovery, and by limiting real growth in spending.

Fiscal strategy

The Government's medium-term fiscal strategy is achieving budget surpluses, on average, over the economic cycle; keeping taxation as a share of GDP on average below the level for 2007-08; and improving the Government's net financial worth over the medium term. To ensure that growth is supported in a way that is consistent with the medium-term fiscal strategy, the Government has outlined a two-stage fiscal strategy.

The first stage of the fiscal strategy provides that, during the economic slowdown, the Government will support the economy by:

- allowing variations in revenue and expenditure, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and
- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of other budget priorities and new policy proposals being met through a reprioritisation of existing expenditure.

The Government has delivered on this strategy in the 2009-10 Budget.

The measures in this Budget will increase the level of GDP by ¾ of a per cent in 2009-10. This will deliver a boost to the economy and jobs in the period in which the economy is expected to be weakest. To preserve fiscal sustainability, the Government has fully offset spending proposals in the final year of the forward estimates period. The Government has found savings worth a total of $22.6 billion over four years.

This Budget delivers a comprehensive program of nation building investments in infrastructure and human capital, which will lay the foundations for future productivity and growth. As the economy grows, the fiscal position will also become stronger.

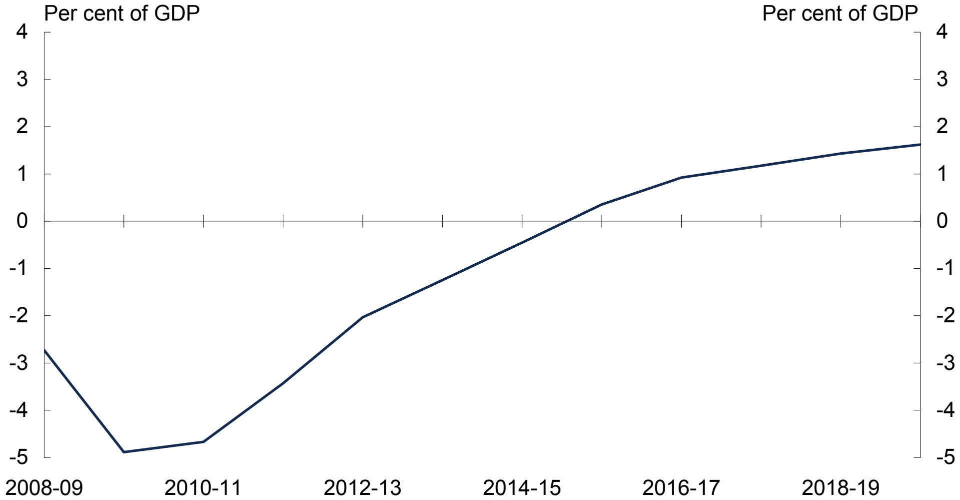
The second stage of the fiscal strategy provides that, as the economy recovers and grows above trend, the Government will take action to return the budget to surplus by:

- allowing 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
- holding real growth in spending to 2 per cent a year until the budget returns to surplus.

The Government has begun to deliver on this strategy in this Budget. Spending has been fully offset in the final year of the forward estimates. Real growth in spending has been kept below 2 per cent in the years the economy is projected to grow above trend.

This combination of continued spending restraint in accordance with the fiscal strategy and the restoration of receipts is currently expected to see the deficit more than halve by the final year of the forward estimates, and return the budget to surplus by 2015-16.

Chart 4: Projected underlying cash balance to 2019-20



Source: Treasury.

Responsible and necessary borrowing

The global recession has led to a series of downward revisions to taxation receipts since the 2008-09 Budget. In total, these revisions have stripped around $210 billion from the budget bottom line, representing more than two-thirds of the Government's total borrowing needs over the forward estimates.

Under these circumstances, it is appropriate to allow the automatic stabilisers to operate to cushion the impact of the economic slowdown. Maintaining expenditure in the face of declining revenues will necessitate borrowing, but failure to do so would be irresponsible. Reducing expenditure in an effort to hold the Budget in surplus would lead to a deeper and more protracted economic downturn.

Early and decisive fiscal stimulus has also been essential to support economic activity and jobs, along with investment in the economy's future productivity. Investment in nation building infrastructure and world-class universities and hospitals will position Australia to take full advantage of the global recovery.

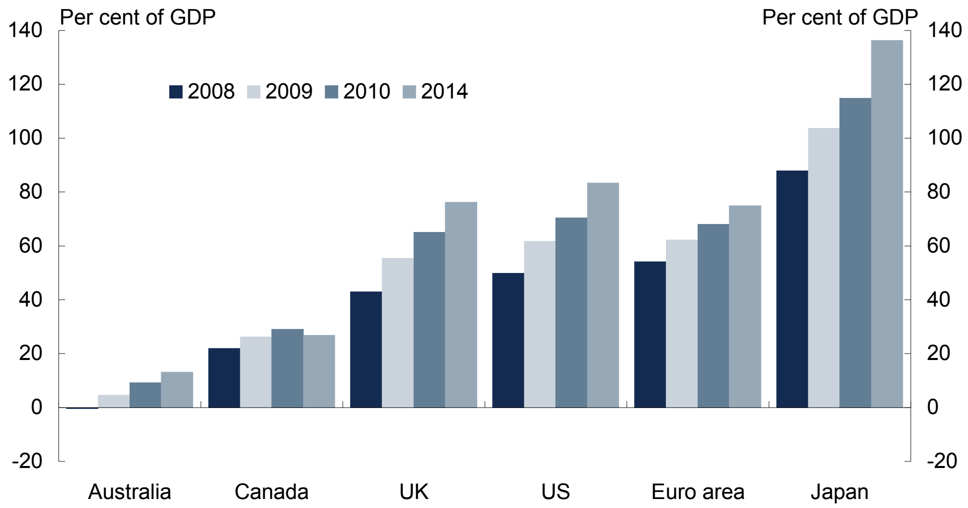
Collectively, these changes in the fiscal outlook will require increased borrowing. The Government's balance sheet is projected to remain strong over the medium-term projection period. Based on current projections, net debt will reach a peak of 13.8 per cent of GDP in 2013-14 before declining to around 3.7 per cent in 2019-20.

Australia is not alone; the global recession has affected fiscal positions across the world. Public debt levels are increasing as governments take action to minimise the impact of the global recession.

Between now and the end of 2014, average net debt levels in the major advanced economies are projected to increase to over 80 per cent. Australia will retain significantly lower levels of net debt over this period (Chart 5).

The small size of Australia's borrowing program relative to other advanced economies leaves the Government well placed to pay down debt quickly when the economy improves and the budget returns to surplus.

Chart 5: Government net debt position for selected countries



(a) Treasury calculations.
Source: IMF *World Economic Outlook* April 2009 chapter 2 supplemental tables (net Government debt).