

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

The Australian economy is currently in the longest period of continuous expansion ever recorded. Economic growth has been supported by sound fiscal management and the Government's policy reforms.

Economic growth is expected to be sustained with the Australian economy forecast to grow at 3¾ per cent in 2007-08.

An underlying cash surplus of \$10.6 billion is expected in 2007-08, with further surpluses projected for the following three years.

The *Intergenerational Report 2007* found that while long-term fiscal sustainability has improved since the first Intergenerational Report in 2002, demographic and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

The 2007-08 Budget includes initiatives to further improve Australia's long-term economic growth and prosperity.

A high quality and responsive education system is vital to increasing skills which, in turn, boost workforce participation and productivity. The Government is introducing a comprehensive package of measures to improve Australia's education system. A key component is the establishment of a perpetual Higher Education Endowment Fund with an initial investment of \$5 billion from the 2006-07 surplus. In addition, there are \$3.5 billion of initiatives to promote the flexibility and diversity of the higher education sector, increase assistance for vocational education and training students, and enhance high-quality teaching and learning in Australian schools.

Building on the substantial tax reform delivered in previous budgets, the Government will further reduce personal income tax by significantly increasing tax thresholds and improving the low income tax offset. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce.

The Government is increasing the rates of Child Care Benefit by 10 per cent and ensuring more timely assistance by providing the Child Care Tax Rebate as a direct payment shortly after the end of the financial year. This will assist more than 700,000 families by providing access to more affordable child care.

The Government will also provide significant additional funding for road, rail and water infrastructure including funding for the second AusLink land transport plan (AusLink 2). High quality land transport infrastructure underpins Australia's productivity, economic growth and future prosperity.

CONTENTS

Fiscal outlook	1-3
Economic outlook	1-4
Fiscal strategy	1-5
A medium-term approach to fiscal policy	1-5
Budget strategy and priorities	1-6
Personal income tax reform	1-8
Realising Our Potential	1-11
Improving child care assistance	1-14
Rewarding older Australians and carers	1-15
Increasing retirement savings for low income earners.....	1-16
Road and rail infrastructure — AusLink 2	1-16
Creating opportunities for industry	1-17
Continuing business tax reform and reducing compliance costs.....	1-18
Strengthening our screen media industry	1-19
High quality health services for all Australians.....	1-19
Looking after older Australians.....	1-21
Sustaining our environment	1-21
Supporting our farmers and rural communities.....	1-24
Investing in Australia’s security	1-25
A Better Future for Indigenous Australians	1-27
Immigration.....	1-28

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

FISCAL OUTLOOK

The fiscal outlook for Australia remains strong, with the Government forecasting a tenth budget surplus in 2007-08.

An underlying cash surplus of \$10.6 billion is expected in 2007-08 compared with an estimate of \$9.7 billion at the *Mid-Year Economic and Fiscal Outlook 2006-07* (MYEFO). Underlying cash surpluses continue to be projected across the forward estimates which add to national saving and foster sustainable economic growth.

Table 1: Budget aggregates

	Actual	Estimates		Projections		
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Underlying cash balance (\$b)(a)	15.8	13.6	10.6	12.7	13.8	12.4
Per cent of GDP	1.6	1.3	1.0	1.1	1.2	1.0
Fiscal balance (\$b)	14.8	11.9	10.0	11.9	14.1	13.7
Per cent of GDP	1.5	1.2	0.9	1.0	1.2	1.1

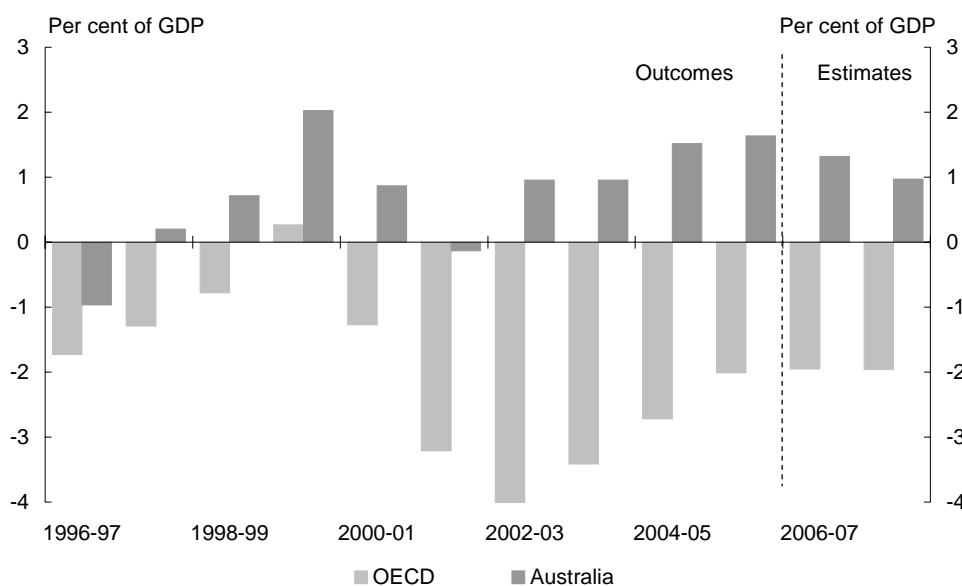
(a) Excludes expected Future Fund earnings.

In accrual terms, a fiscal surplus of \$10.0 billion is now expected for 2007-08, compared to a surplus of \$9.9 billion estimated at MYEFO.

Australia's sound fiscal position compared to the OECD average is highlighted in Chart 1. The fiscal position amongst OECD countries, on average, is expected to remain in deficit in 2007-08, notwithstanding strong global growth.

Statement 1: Fiscal Strategy and Budget Priorities

Chart 1: International comparison of budget balances



Source: OECD data are for the total general government sector and sourced from OECD Economic Outlook 80, December 2006. Australian data are for the Australian Government general government sector and sourced from Statement 13.

ECONOMIC OUTLOOK

The flexibility of the Australian economy continues to underpin its favourable prospects. The economy is expected to grow strongly in 2007-08, after being affected by severe drought in 2006-07. The strong world economy continues to support growth. Prospects for the household sector have improved, with consumption and dwelling investment growth expected to strengthen, reflecting the continued stimulus to household income and wealth from high commodity prices. Business investment is anticipated to remain at high levels, and export growth is forecast to accelerate. Employment growth is forecast to ease in 2007-08, following a period of strength, and inflation is forecast to moderate.

Real GDP is forecast to grow by $3\frac{3}{4}$ per cent in 2007-08, up from $2\frac{1}{2}$ per cent in 2006-07. The forecast for 2007-08 reflects a partial recovery from the drought, which is underpinned by an assumed return to average seasonal conditions. Recovery from the drought is expected to add $\frac{1}{2}$ of a percentage point to GDP growth. Abstracting from the drought, the Australian economy is expected to grow at around trend over the forecast period.

Table 2 presents the major economic parameters used in preparing the budget. The parameters for 2006-07 and 2007-08 are forecasts while those for 2008-09, 2009-10 and 2010-11 are projections. The projections of economic growth are based on analysis of underlying trends in employment and productivity. The projections are not affected by

climate change, the uncertain effects of which are in the much longer run outside the projection period.

Similar to the approach adopted since the 2005-06 Budget, key commodity prices are assumed to return to their long-run average level over the first two projection years. This is broadly consistent with aggregate non-rural commodity prices retracing around 60 per cent of their recent gains by the end of the projection period. The projections of inflation are consistent with the medium-term inflation target band.

Table 2: Major economic parameters^(a)

	Forecasts		Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
Real GDP	2 1/2	3 3/4	3	3	3
Employment	2 1/2	1 1/2	1 1/4	1 1/4	1 1/4
Wage Price Index	4 1/4	4 1/4	4	4	4
CPI	2 3/4	2 1/2	2 1/2	2 1/2	2 1/2

(a) Year-average percentage change.

Source: Australian Bureau of Statistics (ABS) cat. no. 5206.0, 6202.0, 6401.0, 6345.0 and Treasury.

FISCAL STRATEGY

The Government's medium-term fiscal strategy is an integral part of the economic management framework designed to deliver sustainable economic growth, rising employment and higher living standards.

A medium-term approach to fiscal policy

The primary objective of the medium-term fiscal strategy is to maintain budget balance, on average, over the course of the economic cycle. This helps deliver macroeconomic stability, encourages private investment in a low interest rate environment, entrenches low public debt and ensures that, over time, the current account continues to reflect private, profit-driven, saving and investment decisions.

The Government's medium-term fiscal strategy has a number of supplementary objectives, including: maintaining budget surpluses over the forward estimates period while growth prospects are sound; not increasing the overall tax burden from 1996-97 levels; and improving the Australian Government's net worth position over the medium to longer term. The supplementary objective of no increase in the overall tax burden means that the Government achieves budget balance over the cycle through a disciplined approach to spending and not by recourse to increased taxation.

Consistent with the Government's fiscal strategy, this budget delivers a surplus in 2007-08 and surpluses over the forward estimates period. This will help contain inflationary pressures in the economy and will add to national savings. The fiscal strategy is complemented by a monetary policy framework which will continue to

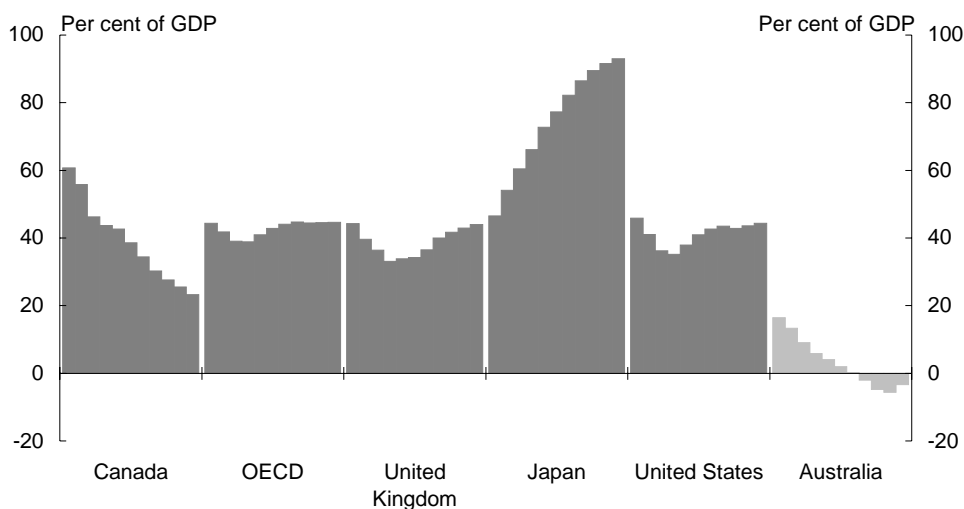
Statement 1: Fiscal Strategy and Budget Priorities

foster sustainable economic growth with low inflation and low interest rates into the future.

Sound macroeconomic policy has seen the Australian economy continuously expand over 16 years – while also keeping inflation well contained. Since this Government came to office in 1996, Australia’s real GDP growth has averaged around 3½ per cent per annum, while inflation has averaged around 2½ per cent per annum.

This period of solid economic growth, coupled with prudent fiscal management, has enabled the Government to eliminate net debt, with Australia one of only a few countries among the OECD to have done so (Chart 2). In addition, the Government has established the Future Fund to meet outstanding Australian Government superannuation liabilities by 2020.

Chart 2: General government net debt levels in selected countries (1998 to 2008)



Source: International data are sourced from OECD Economic Outlook 80, December 2006. Australian data are sourced from Statement 12. All data are for the total general government sector.

The maintenance of budget surpluses while economic growth remains sound represents a prudent response to an uncertain future. In the current environment, this gives some insurance against adverse external risks, while also securing our finances to meet future challenges flowing from the ageing of the population.

BUDGET STRATEGY AND PRIORITIES

The *Intergenerational Report 2007* found that while long-term fiscal sustainability has improved since the first Intergenerational Report in 2002, the ageing of the population and other factors continue to pose substantial challenges for economic growth and long-term fiscal sustainability.

Statement 1: Fiscal Strategy and Budget Priorities

The *Intergenerational Report 2007* projects that by 2047, a quarter of the population will be aged 65 and over – nearly double the current proportion. The ageing of the population is projected to result in a slow down in the rate of average economic growth per capita, with real GDP per capita projected to rise by 1.6 per cent per year on average over the next 40 years compared with 2.1 per cent over the past 40 years.

At the same time, spending pressures in areas such as health, age pensions, and aged care are projected to rise due to ageing and other factors. Australian Government real spending per capita is projected to increase by 2 per cent a year on average over the next 40 years. Overall, Australian Government spending is projected to rise by around 4¾ percentage points of GDP by 2046-47.

In the absence of policy changes, these pressures are projected to lead to a ‘fiscal gap’ (the amount by which spending is projected to exceed revenue) of around 3½ per cent of GDP by 2046-47.

The Government’s strong fiscal outcomes over recent years have created a sound starting position from which to address the challenges from the ageing of the population. This places Australia well ahead of most other OECD countries, many of which are facing the challenges of an ageing population from a starting point of budget deficits and high levels of net debt. By eliminating net debt and establishing the Future Fund to meet Australian Government superannuation liabilities, the Government has ensured that the current generation is not passing on these financial burdens to future generations.

The 2007-08 Budget continues to build on a strong fiscal starting position and includes measures to further improve Australia’s long-term economic growth and prosperity by enhancing productivity and participation in the workplace.

A high quality education system is crucial to enhancing the skills and productive capacity of Australia’s young people and is an essential building block of economic growth prospects by increasing both productivity and labour force participation.

This budget includes a comprehensive package of measures to improve education outcomes across the university, vocational and school systems. A key component is the establishment of a new, perpetual Higher Education Endowment Fund with an initial investment of \$5 billion from the 2006-07 surplus. This significant investment will broadly double the existing financial assets and endowments held by the university sector. The earnings from this endowment will be distributed to universities on a competitive basis to finance infrastructure in the higher education sector which will be of a first class standard.

The Budget also includes initiatives of \$3.5 billion over four years to promote the flexibility and diversity of the higher education sector, increase assistance for vocational education and training students, and enhance high quality teaching and learning in Australian schools.

Statement 1: Fiscal Strategy and Budget Priorities

The budget lifts the 30 per cent, 40 per cent and 45 per cent tax thresholds and increases the Low Income Tax Offset to cut personal income tax. These changes will boost work incentives by increasing the returns to work.

The Government is also providing significant additional investment in transport infrastructure through AusLink and, through the recently released industry policy statement, initiatives to encourage innovation and improve links between business and global markets. These initiatives will improve our physical infrastructure and the competitiveness of our industries.

Policies announced in this budget build on reforms already introduced to boost productivity and participation, such as the new workplace relations system, *WorkChoices*, which has added flexibility and choice to Australia's labour market, the Government's Welfare to Work reforms introduced in the 2005-06 Budget and extensive tax reform.

Personal income tax reform

The Government will reduce personal income tax by \$31.5 billion over four years. The tax cuts will increase disposable incomes for all Australian taxpayers and provide further incentives for individuals, including part-time workers, to participate in the workforce. These changes build on the substantial tax reform delivered in previous years' budgets and will further enhance Australia's international competitiveness.

From 1 July 2007, the 30 per cent threshold will increase from \$25,001 to \$30,001. This builds on the increase in the threshold from \$21,601 to \$25,001 which was introduced on 1 July 2006.

In addition, from 1 July 2008 the 40 per cent threshold will increase from \$75,001 to \$80,001 and the 45 per cent threshold will increase from \$150,001 to \$180,001. This builds on the changes introduced on 1 July 2006 which:

- reduced the 42 per cent rate to 40 per cent and increased the 40 per cent threshold from \$63,001 to \$75,001; and
- reduced the top marginal rate from 47 per cent to 45 per cent and increased the top threshold from \$95,001 to \$150,001.

Table 3: New personal tax rates

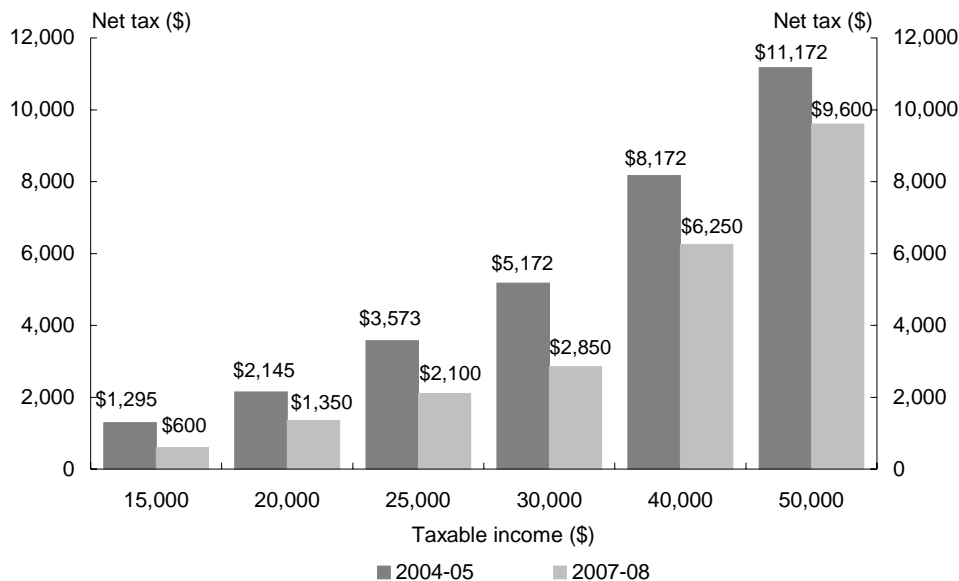
Current tax thresholds		New tax threshold from 1 July 2007		New tax thresholds from 1 July 2008	
Income range (\$)	Tax rate %	Income range (\$)	Tax rate %	Income range (\$)	Tax rate %
0 - 6,000	0	0 - 6,000	0	0 - 6,000	0
6,001 - 25,000	15	6,001 - 30,000	15	6,001 - 30,000	15
25,001 - 75,000	30	30,001 - 75,000	30	30,001 - 80,000	30
75,001 - 150,000	40	75,001 - 150,000	40	80,001 - 180,000	40
150,001 +	45	150,001 +	45	180,001 +	45

Low income earners will be further assisted through an increase in the low income tax offset (LITO). From 1 July 2007, the LITO will increase from \$600 to \$750 and will begin to phase out from \$30,000, up from \$25,000. Those eligible for the full LITO will not pay tax until their annual income exceeds \$11,000 (up from \$10,000). Combined with the increase in the 30 per cent threshold to \$30,001, this will improve the rewards from working for low income earners.

Senior Australians will also benefit from these changes. Senior Australians eligible for the senior Australians tax offset (SATO) and the LITO currently do not pay tax until they reach an annual income of \$24,867 for singles and \$41,360 for couples (depending on the income received by each member of the couple). The tax cuts lift these income levels to \$25,867 for singles and \$43,360 for couples. The Medicare levy thresholds that apply to senior Australians will also be increased to ensure that they do not pay the Medicare levy until they begin to incur an income tax liability.

The 2007-08 Budget tax cuts continue tax relief for low income earners. Chart 3 shows the significant reductions in personal income tax for low and average income earners that have resulted from tax cuts provided in the last three budgets.

Chart 3: Reductions in income tax for low income earners



The 2007-08 Budget tax cuts ensure that more than 80 per cent of taxpayers face a marginal tax rate of 30 per cent or less. The increase in the top marginal tax rate threshold to \$180,001 in 2008-09 will mean that only around 2 per cent of taxpayers will be subject to a marginal tax rate of 45 per cent. Taxpayers will not reach the highest marginal tax rate until they earn more than three and a half times average weekly earnings.

Statement 1: Fiscal Strategy and Budget Priorities

The 2007-08 Budget tax cuts build on the reforms delivered in The New Tax System introduced in 2000-01 and the 2003-04, 2004-05, 2005-06 and 2006-07 Budgets. The overall effect has been to deliver significant reductions in tax for all Australian taxpayers.

- Taxpayers earning \$30,000 paid \$6,222 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2007, pay \$2,850; a reduction of around 54 per cent.
- Taxpayers on \$60,000 paid \$18,802 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2007, pay \$12,600; a reduction of around 33 per cent.
- Taxpayers on \$100,000 paid \$37,602 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2008, pay \$26,600; a reduction of around 29 per cent.
- Taxpayers on \$180,000 paid \$75,202 in income tax prior to The New Tax System (excluding the Medicare levy) whereas taxpayers on that income will, from 1 July 2008, pay \$58,600; a reduction of around 22 per cent.

Chart 4 shows the percentage reductions in tax delivered by the Government, over a range of taxable incomes. In percentage terms the greatest tax cuts have been provided to low income earners.

Chart 4: Income tax savings since The New Tax System

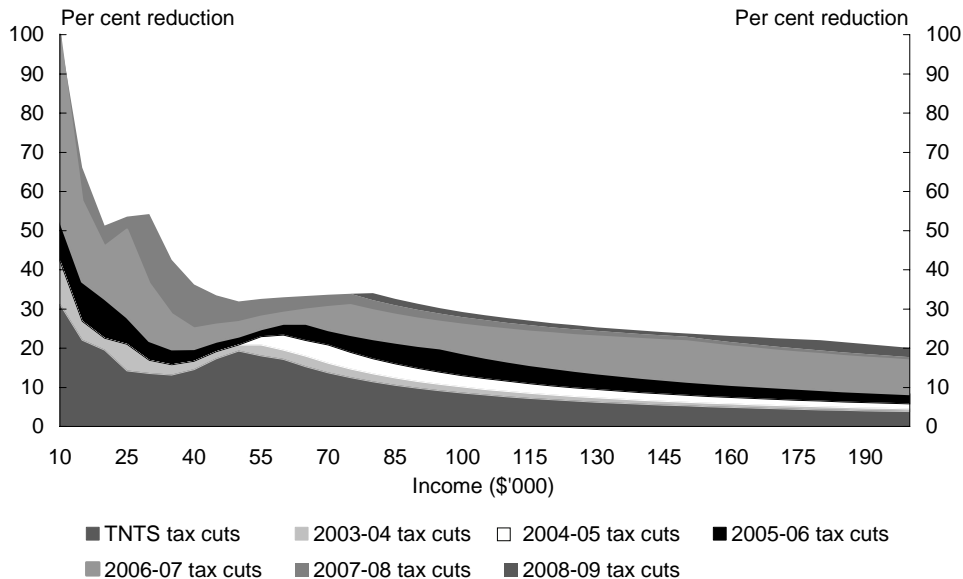
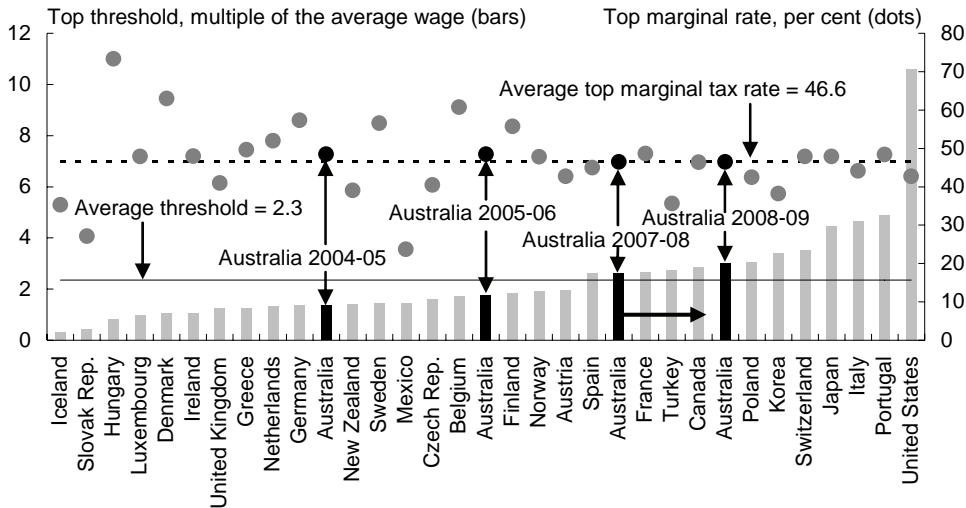


Chart 5 illustrates that the increase in the top marginal rate threshold will further improve Australia’s competitiveness against other OECD countries. The increase in the top threshold from 1 July 2008 will place Australia eighth highest in the OECD, up from 20th highest in 2004-05.

Chart 5: Comparison of top tax rates and thresholds across the OECD(a)



(a) The OECD average wage is for a worker engaged in full-time manual or non-manual labour across a range of industries.
Source: OECD Tax Database (preliminary data).

Pre filling tax returns

The Government will provide \$20 million in 2007-08 to enable the Australian Taxation Office (ATO) to pre-fill electronic tax returns for around 9 million taxpayers who currently lodge their tax return electronically (either directly or through a tax agent), with effect from the 2007-08 income year. The ATO will pre-fill returns with information including salary and wages, interest, dividends, information on private health insurance and any benefits paid from the Government, including family tax benefit. This will make completing income tax returns significantly easier.

Realising Our Potential

With the right policy settings, the Australian education system will deliver the workforce that Australia needs for future prosperity. It will be an education system that is responsive to the needs of students and employers. A high quality and responsive education system is vital to increasing skills which, in turn, boost workforce participation and productivity – the key components of an economy’s productive capacity. It will also improve the capacity of individuals to participate in society. This budget includes a comprehensive package of assistance to Australia’s education system through the *Realising Our Potential* package that covers the university, vocational and school systems.

Statement 1: Fiscal Strategy and Budget Priorities

A more flexible and diverse university sector

Realising Our Potential will provide \$1.7 billion over four years to promote a flexible and diverse higher education sector that is more responsive to changes in student demand and economy-wide and international developments. The package also includes measures aimed at enhancing the accessibility of higher education.

To underpin these changes, the Government will establish a new, perpetual Higher Education Endowment Fund (HEEF) with an initial investment of \$5 billion funded from the 2006-07 surplus. This significant investment will broadly double the existing financial investments and endowments held by the university sector. The HEEF will be invested to earn income which will be distributed on an annual basis to individual universities for capital works and research facilities.

The HEEF will be structured so that it can receive philanthropic donations from the private sector and, if asked, manage individual universities' endowments. The Fund will encourage philanthropic support for universities from individuals and the corporate sector.

It is intended that further capital contributions will be made to the HEEF from future budget surpluses to grow, over time, a fund which will finance infrastructure in the Australian higher education sector which will be of a first class standard.

The HEEF will be managed by the Future Fund Board of Guardians as a separate entity to the Future Fund and the distributions of fund earnings each year will be made by the Minister for Education, Science and Training on advice from an expert advisory board.

Other major initiatives include:

- \$768 million over four years to increase the capacity of universities to respond more flexibly to student demand by allowing funding to more closely match student enrolments and by reducing the number of Commonwealth Grant Scheme funding clusters from 12 to 7;
- \$209 million over four years, including new funding of \$67 million, for a Diversity and Structural Adjustment Fund for universities to promote greater specialisation, diversity and responsiveness to local labour market needs, with priority given to regional and smaller metropolitan universities;
- \$91 million over four years to increase the number of Commonwealth Learning Scholarships for university study from 8,500 to 12,000;
- \$87 million over four years to extend eligibility for rent assistance to Austudy recipients; and

Statement 1: Fiscal Strategy and Budget Priorities

- \$43 million over four years to extend eligibility for the Youth Allowance and Austudy to students undertaking Masters by Coursework courses that are a minimal entry requirement to a profession or are part of a restructure of existing course requirements.

More assistance to students in vocational education and training

The Australian Government is a strong supporter of vocational education and training (VET). The recent *Skills for the Future* package committed \$837 million in new funding to support skills creation in the VET sector. *Realising Our Potential* builds on this commitment by providing:

- \$549 million over four years to first and second year apprentices in skill-shortage trades for an additional tax exempt payment of \$1,000 as a wage top-up for those under 30 years of age and, regardless of age, a \$500 fee voucher to help offset fees;
- \$84 million over five years to establish three new Australian Technical Colleges in the Brisbane, Sydney and Perth areas; and
- \$59 million over four years to assist VET providers to develop and implement fast track apprenticeships.

The Government will also extend FEE-HELP to full fee paying students in Diploma and Advanced Diploma courses, where significant credit towards a university degree is guaranteed.

Improving school outcomes

The Government is making an additional \$843 million commitment over four years to improving the quality of Australia's school system. Every parent is entitled to expect that their child will receive a high quality education and develop the core skills necessary to be able to realise their potential, no matter which school they attend. The Government's aim through the *Realising Our Potential* package is to ensure a high quality school system for Australia where parents can choose between publicly or privately provided education. Key initiatives include:

- \$632 million over four years in direct assistance for parents and students, including \$700 tutorial vouchers for parents whose children do not achieve national literacy and numeracy benchmarks; rewards for schools of up to \$50,000 for improving literacy and numeracy outcomes in their schools; and, additional funding for non-government schools in regional and remote areas;
- \$184 million over four years to improve teaching quality, including additional funding for universities to provide more practical experience to students undertaking teacher education, the adoption of national teacher training and registration standards, and to establish Australian Government Summer Schools for Teachers; and

Statement 1: Fiscal Strategy and Budget Priorities

- \$27 million over four years to deliver national standards for curriculum in key areas in Years 10 to 12 and trial a national student aptitude test for Year 12 students that universities can use in considering tertiary applications.

The Government will also guarantee teaching quality through the 2009-12 schools funding agreement by requiring the States and Territories, as a condition of funding, to provide principals with greater autonomy over staffing decisions and teacher employment arrangements, and to introduce appropriate pay and career structures for teachers.

Improving child care assistance

The Government recognises that access to affordable child care is vital for many families to enable them to participate effectively in the workforce. The Government introduced the Child Care Benefit (CCB) in 2000 and the Child Care Tax Rebate (CCTR), which covers 30 per cent of out-of-pocket costs, in 2004. In the 2006-07 Budget the Government also expanded the number of child care places available across the country, with the overall number of child care places expected to reach 700,000 by 2009.

This budget builds on the Government's long-standing commitment to help families meet their child care needs. In 2007-08, the Government will spend more than two and a half times the amount spent on child care assistance in 1996-97.

The Government will make child care more affordable for over 700,000 families by increasing CCB assistance. From 1 July 2007, the rates of CCB will be increased by 10 per cent on top of annual indexation. This will increase the maximum rate of assistance from \$2.96 per hour to \$3.37. For a family on the maximum rate with one child using 40 hours of care per week in a Long Day Care centre, CCB assistance will increase from \$118.40 to \$134.80 per week, an increase of \$16.40.

The Government will also improve the timeliness of child care assistance. From 1 July 2007, families will be able to receive their CCTR – up to a maximum of \$4,200 per child – as a direct payment through Centrelink shortly after the financial year in which they incur child care costs. This represents a bring-forward in the timing of the CCTR on current arrangements.

Families who incur out-of-pocket child care costs in both 2005-06 and 2006-07 will receive two rebates in 2007-08. They will receive one rebate for 2005-06 expenses as part of their tax assessment under existing arrangements, and the other, for 2006-07 expenses, as a direct payment. As part of the new arrangements, lower income families who previously had insufficient income to receive their full rebate entitlement will now be able to benefit fully from the CCTR.

The increase in CCB and more timely provision of CCTR will cost \$1.9 billion over five years.

Statement 1: Fiscal Strategy and Budget Priorities

The Government will also provide \$131 million in additional assistance to increase child care access for families and communities with special needs. Initiatives include:

- \$62 million over four years for the Inclusion Support Subsidy programme, which gives support to child care services that provide care to children with ongoing high support needs, in particular children with disabilities;
- \$44 million over four years to child care services located in regional and remote communities; and
- \$15 million over four years for the Jobs, Education and Training (JET) Child Care Fee Assistance programme, which provides extra child care fee assistance to parents returning to work, or undertaking study or job search activities.

Rewarding older Australians and carers

The Government recognises the important contribution that older Australians and carers make to our society, and is committed to providing them with ongoing support.

To ensure that older Australians continue to share in the economic growth which they helped create, this year the Government will provide a seniors bonus payment of \$500 to individuals of age pension or service pension age receiving the Utilities Allowance or the Seniors Concession Allowance as at 8 May 2007. Individuals under age pension or service pension age receiving the Mature Age Allowance, Widows Allowance and Partner Allowance as at 8 May 2007 will also receive the payment. This measure will cost \$1.3 billion.

The Government recognises the sacrifices made by carers who look after people with a disability, and will provide them with additional assistance, at a cost of \$394 million. Recipients of the Carer Payment will receive a \$1,000 bonus payment while those who receive the Carer Allowance will be given a \$600 bonus payment. This is the fourth year in a row that these bonuses have been paid. Additionally, the \$1,000 bonus will be paid to those who receive both the Carer Allowance and either the Wife Pension or the Veterans' Affairs Partner Service Pension.

Both the seniors and carers bonuses will be paid by 30 June 2007, be tax free and not treated as income when calculating social security payments.

The Government will also provide \$160 million over four years to increase funding for veterans on the Special Rate and Intermediate Rate Disability Pensions. Commencing in July 2007, the per-fortnight payment for the Special Rate pension will increase by \$50 and the Intermediate Rate pension will increase by \$25. This measure will provide Australia's most disabled veterans with greater financial support.

Statement 1: Fiscal Strategy and Budget Priorities

The Government will also provide \$57 million to make a one-off tax free payment of \$25,000 to Australians who were Prisoners of War in Europe, or their surviving widows who were alive on 1 January 2007.

Increasing retirement savings for low income earners

The Government will make a one-off additional co-contribution into the superannuation accounts of those persons who made eligible contributions in the 2005-06 income year. This will improve superannuation savings for low income earners at a cost to the Budget of approximately \$1.1 billion in 2006-07.

The measure will double the co-contribution paid in respect of the 2005-06 year. For example, if a person was eligible for a co-contribution of \$1,500 in respect of the 2005-06 year they will now receive an extra co-contribution of \$1,500, so that the total co-contribution in respect of that year would be \$3,000. If they were eligible for a \$500 co-contribution they will receive a total co-contribution of \$1,000 for the year. Superannuation is, of course, subject to preservation requirements. This will help to build the retirement savings of lower income earners.

Road and rail infrastructure — AusLink 2

High quality land transport infrastructure underpins Australia's productivity, economic growth and future prosperity. To ensure its development into the future, the Government will provide \$22.3 billion over the five years from 2009-10 for the second AusLink land transport plan (AusLink 2), and funding for the continuation of untied local roads grants. In addition, an extra \$695 million will be provided under AusLink 1.

AusLink 2 increases the Government's substantial investment in Australia's road and rail infrastructure. Building on its \$15.8 billion commitment under AusLink 1 (including an additional \$695 million provided in this budget), the Government will provide \$19.1 billion under the AusLink 2 programme for the five years from 2009-10 including:

- \$16.8 billion to develop and maintain a defined National Network that links major population and economic centres and facilitates the movement of people and freight internationally, nationally and between regions;
- \$1.8 billion for the construction and maintenance of local roads under the Roads to Recovery Programme;
- \$300 million for measures to reduce the risk of accidents at dangerous sites under the Black Spot Programme; and
- \$300 million for projects that support the growth of regional industry or strengthen social and economic opportunities under the Strategic Regional Programme.

Statement 1: Fiscal Strategy and Budget Priorities

The Government will also continue its substantial financial assistance to local governments for the maintenance and preservation of local roads by providing \$3.2 billion over the five years from 2009-10 in untied local roads grants.

The Government's new investment on the National Network includes \$2.3 billion to construct the Goodna Bypass to address congestion along one of South-East Queensland's busiest freight and passenger corridors. To ensure that the project can commence as soon as possible and be operational by 2012, \$100 million will be provided in 2007-08 and \$300 million in 2008-09 under AusLink 1 with the remainder to be provided under AusLink 2.

This budget also makes a one-off payment of \$250 million in 2006-07 for supplementary funding for the AusLink 1 Strategic Regional Programme.

Further road and rail projects on the National Network will be developed following the completion of the 24 AusLink corridor strategies in mid-2007.

Creating opportunities for industry

The Government's sound economic management and wide-ranging reforms have been critical in delivering an environment where industry is able to take the necessary decisions to maintain Australia's future prosperity.

This budget builds on this with a ten year, \$1.4 billion commitment to assist Australian firms to improve their productivity and capture the increasing opportunities offered by global markets. This commitment is outlined in the industry statement, *Global Integration: Changing Markets, New Opportunities*, which includes the following initiatives:

- \$200 million over four years to expand access to the 175 per cent research and development (R&D) tax concession, to encourage multinational enterprises to increase the amount of R&D they perform in Australia;
- \$171 million over five years for the establishment of Australian Industry Productivity Centres, which will provide a range of diagnostic and advisory services to firms in the manufacturing and services sectors to enhance their productivity and business performance;
- \$122 million over five years for the establishment of the Global Opportunities programme to facilitate Australian firms' participation in global supply chains and major international projects;
- \$54 million over four years to continue support to the food processing industry under the Food Innovation Grants programme;

Statement 1: Fiscal Strategy and Budget Priorities

- \$49 million over four years for the implementation of a streamlined ABN and business names registration system;
- \$36 million over four years for a CSIRO National Research Flagship for Niche Manufacturing; and
- \$32 million over four years to enhance the Commercial Ready programme.

Continuing business tax reform and reducing compliance costs

The Government will continue to reduce business compliance costs and will cut taxes on business by \$975 million over four years.

These measures include cutting taxes by \$435 million by:

- confirming the existing tax treatment for the finance leasing industry;
- removing the \$100 million turnover cap in the same business test for losses;
- improving the operation of the petroleum resource rent tax; and
- improving and clarifying the operation of the consolidation regime.

The Government will also reduce taxes on small business by a further \$540 million over the next four years through a number of initiatives aimed at reducing small business compliance costs. These initiatives build upon the measures in the 2006-07 Budget which reduced tax compliance costs and increased tax concessions for small business, and include:

- increasing the GST registration threshold from \$50,000 to \$75,000;
- aligning the criteria for annual pay as you go (PAYG) tax instalments with the criteria for making annual GST instalments;
- increasing access to simplified accounting methods for calculating the GST for businesses that make taxable and GST free mixed supplies or make mixed purchases; and
- increasing the threshold above which businesses are required to obtain a GST invoice from \$50 (GST exclusive) to \$75 (GST exclusive) in order to claim an input tax credit for a supply.

To complement these initiatives the Government will also provide \$40 million over four years to allow the Australian Taxation Office to provide more face-to-face assistance to start-up companies and assist them to keep good records and understand their tax requirements.

Strengthening our screen media industry

The Government will strengthen and reform Australia's screen media industry, with a package of reforms costing \$283 million over four years.

From 1 July 2007, support for international and domestic productions will be provided through a producer tax rebate.

The Government will introduce a 40 per cent refundable tax rebate on domestic feature films and a 20 per cent refundable tax rebate on other eligible domestic media productions including television series and documentaries at a cost of \$215 million over four years. The provision of the rebate provides support to domestic productions which have been able to demonstrate market appeal through securing a commitment of private sector financing for the project.

The producer tax rebate will have an international component which incorporates the current refundable film tax offset (RFTO). The rebate for eligible international film production costs will be 15 per cent, an increase from the 12.5 per cent currently provided through the RFTO. Eligibility for international producers will be extended beyond the criteria for the RFTO to include post, digital and visual effects production in Australia where the film is not made in Australia and qualifying expenditure exceeds \$5 million. These changes will further increase the competitiveness of Australia as a destination for the production of international films and associated post production work.

From 1 July 2008, the Government will also establish a new film agency, the Australian Screen Authority, by merging the Australian Film Commission, the Film Finance Corporation Australia and Film Australia Limited.

The new agency will be responsible for administering Government support to the screen media industry, to achieve a more strategic approach to film funding, remove overlaps in functions and provide administrative efficiencies.

As part of these reforms, the current investor tax incentives – Division 10BA and 10B of the *Income Tax Assessment Act 1936* will be phased out and the Film Licensed Investment Company scheme will not be renewed beyond its current expiry date of 30 June 2007.

High quality health services for all Australians

In 2007-08 the Government will spend \$51.8 billion on health and aged care, up from \$20.2 billion in the Government's first budget in 1996. This budget strengthens the role of prevention and health management in primary care to address the high prevalence of chronic and preventable illnesses in Australia. The *Intergenerational Report 2007* identifies population ageing and advances in medicines as two key spending pressures in health. Demand for new technologies and medicines to improve health and quality of life will inevitably increase. Strategies to ensure this remains affordable to

Statement 1: Fiscal Strategy and Budget Priorities

Government include maintaining a healthy population and reforming the Pharmaceutical Benefits Scheme (PBS) to keep prices of medicines affordable.

Preventing and treating chronic and complex conditions

The budget provides \$772 million over four years to improve the detection and treatment of Australians with chronic and complex conditions, the incidence of which will increase as the population ages. Funding includes:

- \$378 million to increase access to private dental services for people with chronic and complex care needs where their dental health is affecting their general health. Patients who are being managed by their GP under a GP treatment plan will receive up to \$2,125 per year in Medicare rebates for dental treatment;
- \$291 million to introduce two new Medicare items for the treatment of Australians with chronic and complex conditions by consultant physicians, in recognition of the longer, more complex consultations involved; and
- \$103 million for risk assessment and any necessary clinical treatment by GPs, as well as referral by GPs to lifestyle modification services, for people diagnosed as being at high risk of developing type 2 diabetes. This forms the Government's contribution to the joint \$200 million package agreed through the Council of Australian Governments in April 2007 for the prevention and treatment of diabetes.

A healthy active Australia

Being overweight or obese are major risk factors for chronic diseases including diabetes, heart disease and stroke. This budget provides an additional \$150 million over four years for a package of measures to improve nutrition and encourage physical activity in the community, including \$127 million for the Active After-school Communities Programme and a Wellbeing Plan for Children to be developed by the CSIRO.

Expanding Australia's capacity to undertake health and medical research

Building Australia's physical capacity to undertake health and medical research is vital to meeting current and future health challenges. To enhance Australia's research effort, the Government will provide grants totalling \$486 million in 2006-07 to support the construction of world-class health and medical research infrastructure. These facilities will strengthen the capacity of Australian researchers to make breakthroughs in a range of important health areas.

A stronger, more sustainable Pharmaceutical Benefits Scheme

In November 2006 the Government announced reforms to the PBS to achieve better value from off-patent medicines, without increasing the cost to patients. This is expected to save \$3 billion over the next 10 years and will strengthen the Government's capacity to provide Australians with access to innovative medicines into the future. For example, the reforms will help fund access to Fosamax® Once Weekly,

Alendro® Once Weekly and Fosamax® Plus (alendronate) for patients aged 70 years and over with osteoporosis who are at high risk of fracture, and are included in this budget at a cost of \$228 million over five years from 2006-07.

Combating illicit drugs, including methamphetamines

This budget provides \$150 million over five years from 2006-07 for a package of health, education and law enforcement measures to combat the abuse of illicit drugs and target the rise in the use of methamphetamines, such as ice. The package includes \$80 million over four years to expand the Non-Government Organisation Treatment Grants Programme, to significantly increase the number of treatment places and to increase the capacity of non-government organisations' treatment services to provide assistance to young people and families.

Looking after older Australians

The Government continues its strong commitment to caring for aged Australians. The *Intergenerational Report 2007* estimates that the proportion of the Australian population aged 80 and over will almost treble over the next 40 years.

This budget provides funding of \$1.6 billion over five years from 2006-07 for the *Securing the future of aged care for Australians* package, which will further reform the aged care system to increase the availability and fairness of aged care. This package will allow more elderly Australians to continue residing in their own homes, make fees and charges simpler and fairer, and improve quality and choice.

The package includes \$411 million over five years from 2006-07 for an additional 7,200 community care packages that will enable older Australians to reside in their own homes rather than in residential aged care facilities.

Sustaining our environment

The Government recognises that sustaining Australia's environment is critical to our living standards and the nation's wellbeing.

The 2007-08 Budget includes a range of measures to address key environmental issues facing the nation, including water scarcity, climate change, and sustainable land management.

A National Plan for Water Security

Water security is a critical issue for Australia, the driest inhabited continent in the world.

This budget includes funding of \$10 billion over 10 years to implement the *National Plan for Water Security*, announced by the Government on 25 January 2007, to increase the efficiency of rural water use, maximise future water security, and achieve an

Statement 1: Fiscal Strategy and Budget Priorities

appropriate balance between the needs of industry, communities and the environment. Key elements of the Plan, which is conditional on governance arrangements in the Murray-Darling Basin being placed on a national footing, include:

- \$5.9 billion to modernise both on-farm and off-farm irrigation infrastructure to increase the efficiency of water use. Key actions include capital works on major delivery channels, improved usage metering, and incentives for irrigators to adopt more efficient watering methods such as drip irrigation systems;
- \$3.1 billion to address over-allocation of water in the Murray-Darling Basin, including through the purchase of water entitlements, and assisting irrigators in non-viable areas to exit the industry;
- \$585 million to facilitate the transfer of governance arrangements for the Murray-Darling Basin to the Australian Government, to ensure that water is managed responsibly in the future, including through the introduction and enforcement of a sustainable cap on surface and ground water use; and
- \$417 million to expand the role of the Bureau of Meteorology to develop improved forecasting and water data and better inform future decisions regarding land and water use.

The Plan also includes funding of \$85 million over seven years to continue capping groundwater bores as part of the Great Artesian Basin Sustainability Initiative.

The Government will also extend the Community Water Grants programme with funding of \$201 million over the next six years. The programme offers grants to help local community organisations and schools save, recycle or improve the health of their local water resources.

Meeting the challenge of climate change

Climate change has potentially significant implications for the environment, for our living standards, and for our economy. The wellbeing of future generations requires a practical and responsible policy response. The Government has implemented a wide range of policies in response to the challenge of climate change. Building on this commitment, the 2007-08 Budget includes further measures to address climate change costing \$741 million over five years to 2011-12.

Measures to reduce Australian greenhouse gas emissions include:

- \$150 million over five years to extend and expand the Government's successful Photovoltaic Rebate Programme, including a doubling of the rebates available to households;
- \$53 million over five years to provide information to households and small businesses on how to become more energy efficient;

Statement 1: Fiscal Strategy and Budget Priorities

- \$24 million over four years to allow the cost of establishing carbon-sink forests to be tax deductible under the provisions for horticultural plantings, with immediate tax deductibility for the first five income years to encourage the establishment of the industry;
- \$19 million over five years for a competitive grants programme to reduce coal mine emissions through methane capture and flaring;
- \$18 million over four years to implement a national regulatory and legislative framework for carbon capture and storage technology; and
- \$8 million over five years for the phase-out of incandescent light bulbs.

The Government recognises that climate change is a global challenge requiring global solutions. Accordingly, this budget also provides \$197 million over five years towards the Global Initiative on Forests and Climate, an initiative established by the Australian Government to improve the management of forests in developing countries. This will be complemented by an additional \$33 million to support water management, energy efficiency and alternative energy initiatives in developing countries.

This budget also includes \$126 million over five years to establish the Australian Centre for Climate Change Adaptation, which will undertake further research into the impacts of climate change in Australia and explore effective responses. In addition, the CSIRO will be provided with \$103 million over four years for a new National Research Flagship on Climate Adaptation, and to extend the existing Energy Flagship.

The Government has established a joint government business Task Group to advise on a workable global emissions trading system in which Australia would be able to participate. The Task Group will advise on steps that could be taken in Australia consistent with the goal of establishing such a system and will report back to the Government by 31 May 2007.

Sustainable management of our natural resources

This budget will expand support for sustainable natural resource management, providing a long-term, integrated and comprehensive approach to the conservation and enhancement of Australia's natural resources.

The Government is investing an additional \$2 billion over five years from 2008-09 to support activities undertaken at the national, regional and community level through Phase Three of the Natural Heritage Trust. This will build on the achievements of the Government's \$3.8 billion investment to date under both the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality, which has helped protect over 8 million hectares of wetlands, treated 400,000 hectares of land for salinity and erosion, and helped some 800,000 volunteers become involved in undertaking on-ground work.

Statement 1: Fiscal Strategy and Budget Priorities

The Government is also continuing the National Landcare Programme. Funding of \$112 million over three years from 2008-09 will be invested in ongoing partnerships between the Government, farmers and community groups to undertake on-ground activities, improve the skills and knowledge of natural resource managers, and promote the uptake of best management practices.

This budget also includes \$50 million over four years to establish an innovative Environmental Stewardship Programme. Under this groundbreaking approach, the Government will work in partnership with landholders through voluntary contracts of up to 15 years duration to reward those who undertake positive actions, beyond their legal obligations and duty of care, to protect and enhance select high value environmental assets. Participating landholders will be chosen through a range of market-based mechanisms such as auctions.

Supporting our farmers and rural communities

Recognising the important role that agriculture plays in Australia's economy, this budget includes \$874 million over five years from 2006-07 to increase the capacity of rural producers to manage change and enhance competitiveness, while also providing assistance to those facing difficult times, including as a result of the drought.

Agriculture — Advancing Australia (AAA)

AAA is the Government's primary policy initiative for assisting farmers and rural industries to manage change and better position themselves for the future. This budget includes \$205 million over four years to continue and refocus AAA, including:

- \$92 million for the FarmHelp programme to provide short-term financial support and professional advice for farmers in severe financial difficulty, including re-establishment grants of up to \$75,000 for those who decide to exit the industry;
- \$35 million to expand the Advancing Agricultural Industries programme (formerly the Industry Partnerships programme), providing industries with greater capacity to identify opportunities and adjust to change; and
- \$26 million to establish a new national delivery model for the Farmbis programme, which helps rural producers by meeting 65 per cent of business management training and education costs.

This funding builds on the substantial resources already provided through the AAA initiative since 1997, and will enable greater flexibility and better targeted provision of assistance.

Drought assistance

The Government recognises the unprecedented severity and extent of the current drought and continues to provide a range of support programmes and services to assist farmers and rural small businesses to cope with its impact.

This budget will provide an additional \$314 million over three years in Exceptional Circumstances assistance including \$273 million for primary producers and \$42 million for small businesses who service primary producers. This brings total expected Exceptional Circumstances spending to \$688 million in 2007-08, which is in addition to the \$428 million spent in 2005-06 and an expected \$740 million in 2006-07.

Additional support will also be provided to irrigators and communities in the southern Murray-Darling Basin, who are facing the prospect of significantly reduced water allocations. The Government will provide \$13 million over two years to expand counselling and support services, establish a drought assistance hotline, and provide information to farmers in the region.

Improved rural services

The Government is committed to ensuring that rural and regional Australians have access to essential services, with this budget providing:

- \$157 million over five years from 2006-07 to support the important services provided by the Royal Flying Doctor Service, including aero-medical evacuations and primary health clinics;
- \$163 million over two years in additional funding to augment the Broadband Connect programme, to provide subsidised broadband access to those Australians who are unable to gain reasonable access due to technical or geographical constraints; and
- \$22 million over four years to upgrade rural airstrips to provide for year-round access to essential services, including emergency health, mail delivery and passenger transport.

Investing in Australia's security

A strongly performing economy can only be sustained within a safe and secure environment for our nation.

Defence

The Government is committed to ensuring that the Australian Defence Force (ADF) is fully equipped to defend Australia and its interests. To ensure that Australia continues to be served by a high quality military, the 2007-08 Budget is committing an additional \$2.1 billion over 10 years to improve the ability of the ADF to recruit and retain

Statement 1: Fiscal Strategy and Budget Priorities

members. This is in addition to \$1 billion over 11 years provided in December 2006. Initiatives in this budget include:

- \$864 million over 10 years for a new Defence home ownership assistance scheme. This will replace the existing scheme with a more attractive package of interest payment subsidies designed to encourage retention;
- \$585 million over 10 years to reform the 'other ranks' pay scales by introducing restructuring similar to that already implemented for officers; and
- \$228 million over 10 years to improve marketing and service branding to attract potential recruits.

The Government will spend \$6.6 billion over 13 years to acquire 24 F/A-18F Super Hornets to ensure Australia maintains air superiority in our region. The purchase will ensure a smooth transition to the F-35 Joint Strike Fighter and allow for the retirement of the existing F-111 fleet.

Other key measures in the 2007-08 Budget include:

- \$4 billion over 10 years to fund the continued operation and maintenance of 18 high-priority platforms including Collins class submarines, Black Hawk helicopters and Hercules transport aircraft;
- \$1.4 billion over 10 years to operate and maintain the four C-17 heavy airlift aircraft funded as part of the 2006-07 Budget; and
- \$1.1 billion over four years from 2006-07 to continue Australia's commitment to military operations in Iraq and Afghanistan.

National security

The Government is committed to enhancing Australia's national security capabilities. In order to address enduring and emerging threats the 2007-08 Budget provides new funding of \$702 million over four years to reinforce and expand these capabilities. The *Strengthening National Security* package includes:

- \$209 million over four years to strengthen aviation security and provide purpose built facilities for police operating at major airports;
- \$135 million over four years to maintain protective security arrangements for infrastructure, personnel and assets at Defence bases and establishments;
- \$107 million over four years for Defence to address identified high-priority intelligence needs;

Statement 1: Fiscal Strategy and Budget Priorities

- \$79 million over four years to provide for improvements to state office accommodation for the Australian Security Intelligence Organisation; and
- \$74 million over four years to implement initiatives to improve e-security.

These measures bring to \$10.4 billion the additional funding the Government has committed to national security spending over the ten year period to 2010-11.

A Better Future for Indigenous Australians

This budget includes \$748 million over five years from 2006-07 for new initiatives to improve housing, further invest in health and education, and contribute to the economic independence of Indigenous Australians. Initiatives include:

- \$294 million over four years for major reform in Indigenous housing to help address the housing backlog in remote areas, including construction of new homes and improved maintenance and repair of existing housing. Opportunities for home ownership and strengthened tenancy arrangements will be a feature of the new reforms. These represent a major contribution to the environmental health and wellbeing of Indigenous people;
- \$239 million over five years from 2006-07 to give young Indigenous people more opportunity to move from rural or remote communities to access employment or education. An additional 750 scholarships for the Indigenous Youth Leadership Programme and 860 additional places in the Indigenous Youth Mobility Programme will be provided. Abstudy entitlements will be enhanced to better target Indigenous Australians who wish to pursue educational opportunities, and up to 1000 disadvantaged Indigenous students per year will be assisted to attend university. Additionally, the Government will provide funding of \$114 million to build or upgrade boarding schools and student hostels;
- \$61 million over four years to create opportunities for Indigenous workers by converting Community Development Employment Projects (CDEP) positions in government service delivery into formal employment positions;
- \$46 million over four years in additional funding to enhance Indigenous early childhood opportunities, including an expansion of playgroup services benefiting up to 6,100 Indigenous children. This funding will also improve access to child care and early childhood services for Indigenous people. These measures recognise that early childhood is a critical intervention point to turn around the intergenerational consequences of Indigenous disadvantage;
- \$38 million over four years for regionally-focused multi-disciplinary teams of health professionals that are equipped to respond flexibly to Indigenous families' complex health needs; and

Statement 1: Fiscal Strategy and Budget Priorities

- \$37 million over four years for a *Health @ Home Plus* early intervention package in priority regions involving dedicated home visits by qualified nurses and health workers for Indigenous children aged under nine years and their families.

Immigration

The level of net overseas migration plays an important role in maintaining sustainable economic growth. It can also reduce the rate of population ageing because migrants are younger on average than the resident population. Skilled migration in particular can assist in addressing Australia's labour market needs.

In 2007-08 the Government is increasing the Migration Programme by 8,800 places to up to 152,800 places. Of these additional places, 5,000 will be for migrants in the skilled stream.

Humanitarian entrants generally have poorer labour market outcomes than the resident population. The Government is therefore investing \$209 million over four years in initiatives to improve the outcomes of humanitarian settlers in Australia. This package includes measures aimed at promoting early integration through English language programmes and employment support.

The Government will also provide \$124 million over five years from 2006-07 to develop and implement a formal Citizenship Test for prospective Australian citizens and other initiatives to enhance the integration of permanent residents and long-term temporary residents. The cost of this initiative will be partially offset by revenue of \$34 million over four years from an increase in the citizenship application fee.