

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Contents

Part I: Overview	1-3
Fiscal outlook	1-3
Economic outlook	1-5
Part II: Fiscal strategy	1-7
Medium term objectives of fiscal policy	1-7
Supporting economic activity	1-8
Assessing Commonwealth Government finances over the next 40 years	1-9
Part III: Budget priorities	1-14
Safeguarding Australia	1-14
Protecting Australia’s borders	1-16
Supporting Australian families.....	1-17
Better healthcare services	1-18
Making the Pharmaceutical Benefits Scheme more sustainable	1-18
More funding for aged care.....	1-20
Veterans	1-21
Continuing welfare reform.....	1-21
Commonwealth-State-Territory Disability Agreement.....	1-23
Education and training	1-24
A better superannuation system.....	1-24
Investing in Australia’s industry, infrastructure and resources	1-26
Revenues.....	1-27

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Part I: Overview

The 2002-03 Budget provides for an underlying cash surplus of \$2.1 billion in 2002-03 and establishes the foundations for surpluses across the forward estimates. It delivers the Government's election commitments in full. It responds to the challenges of an uncertain international environment, particularly in the wake of the 11 September 2001 terrorist attacks in the United States. Substantial funding is provided to upgrade domestic security and to support Australia's contribution to the War Against Terrorism, including military operations in Afghanistan. The Budget also includes additional funding to protect the integrity of Australia's borders.

The Budget incorporates the first official Intergenerational Report, as required by the *Charter of Budget Honesty Act* passed by the Parliament in 1998. It provides long-term projections for Commonwealth spending over the next 40 years and a current snapshot of the long-term drivers of budget pressures. In international terms, Australia is well placed to confront the challenges of an ageing population. Nevertheless, the projected budgetary pressures are significant, particularly in the area of health and aged care. Sound budget and economic policies will be required to manage these pressures, including early action to address rapidly growing programmes such as the Pharmaceutical Benefits Scheme and the Disability Support Pension.

FISCAL OUTLOOK

The fiscal outlook for 2002-03 has strengthened since the *2001-02 Mid-Year Economic and Fiscal Outlook* (MYEFO), despite the need for additional security and border protection expenditure. The budget estimates presented in Table 1 show that an underlying cash surplus of \$2.1 billion is now expected in 2002-03, compared with an estimated \$1 billion surplus at MYEFO. This improvement is primarily due to upward revisions to forecast economic growth, with Australia currently recording one of the strongest rates of growth in the industrialised world.

Table 1: Budget aggregates

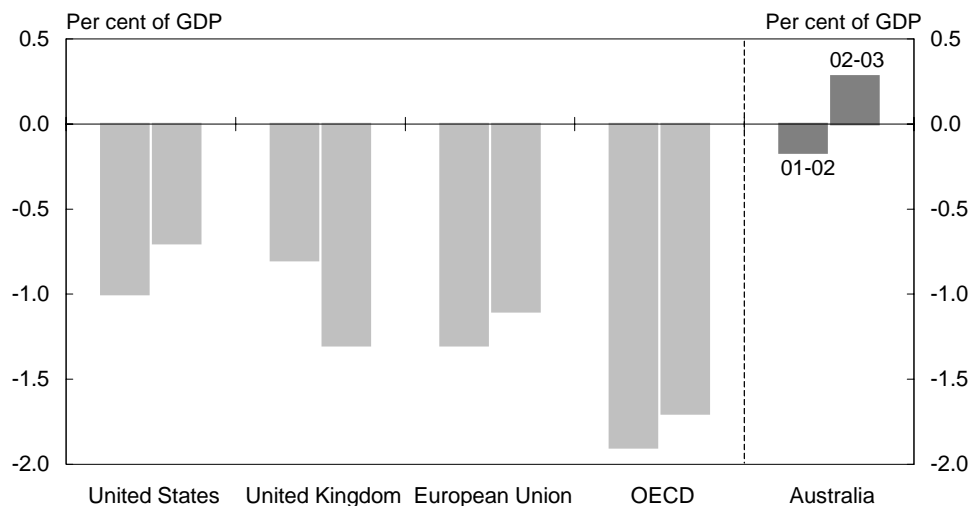
	Actual	Estimates		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Underlying cash balance (\$b)	5.6	-1.2	2.1	3.7	4.6	7.1
Per cent of GDP	0.8	-0.2	0.3	0.5	0.6	0.8
Fiscal balance (\$b)	5.9	-3.0	0.2	2.6	5.0	7.7
Per cent of GDP	0.9	-0.4	0.0	0.3	0.6	0.9

The 2001-02 MYEFO forecast a small underlying cash surplus for 2001-02. As a result of subsequent policy decisions, principally on defence and border protection, combined with other revisions, the estimate has been revised down to a small deficit of \$1.2 billion.

In accrual terms, the fiscal balance estimates for each year have improved since the MYEFO. Instead of a fiscal deficit, a small fiscal surplus is now estimated for 2002-03. The accrual deficit forecast for 2001-02 is expected to be smaller than expected at MYEFO. This follows a large accrual surplus in 2000-01, boosted by the impact of the transitional arrangements implemented for the introduction of the Pay As You Go system of company tax collections. Increasing fiscal balance surpluses are projected from 2003-04.

In 2001-02, a sharp slowdown in the United States, recession in Japan and weak conditions in Europe contributed to a global slowdown. Slower growth leading up to the events of 11 September 2001, and the security and defence costs associated with it, weakened the fiscal position of all major economies. Most countries in the OECD are expected to be in deficit in 2002-03. The latest OECD projections show that the United States is expected to record a deficit of 0.7 per cent of GDP in 2003, while the average deficit for the OECD as a whole is expected to be 1.7 per cent of GDP (Chart 1). By contrast, Australia will be in a much stronger budget position with one of the lowest levels of government debt in the OECD.

Chart 1: International comparison of budget balances 2002 and 2003^(a)

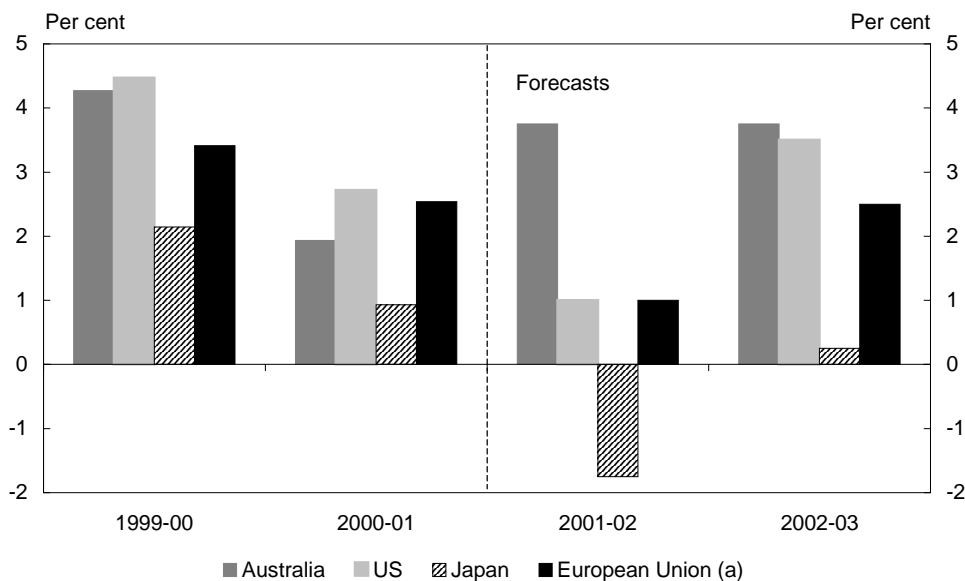


(a) International data are for the total general government sector, sourced from *OECD Economic Outlook (71) (preliminary edition, April 2001)*. Australian data is for the Commonwealth general government sector.

ECONOMIC OUTLOOK

Australia is set to be one of the world's strongest performing economies in both 2001-02 and 2002-03 after showing remarkable resilience to the recent global slowdown. The Australian economy strengthened as 2001 progressed, in sharp contrast to the rest of the world and is expected to grow by a robust 3¼ per cent in both 2001-02 and 2002-03, stronger than the United States, Japan and the European Union (Chart 2).

Chart 2: Economic growth in Australia and developed economies



(a) Germany, France, Italy, Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, weighted by purchasing power parity.

Economic growth in Australia in 2002-03 is expected to be underpinned by strengthening domestic demand, supported by a sharp rebound in business investment and continued robust household consumption growth. Investment in dwellings is expected to decline moderately in 2002-03 as the bring forward of building activity related to the additional First Home Owners Scheme (FHOS) is completed. While exports are expected to pick up in line with the recovery in the world economy, net exports are expected to be weaker in 2002-03 as strong domestic demand, particularly plant and equipment investment, leads to strong growth in imports.

Robust economic growth is expected to lead to stronger employment growth over the forecast period. In line with this improved outlook, the unemployment rate is forecast to decline to around 6 per cent in the June quarter of 2003. Inflation is forecast to be around 2¼ per cent in year-average terms in 2002-03 and 2½ per cent through the year to the June quarter 2003, within the Reserve Bank's medium term inflation target band.

Labour costs, which are the key driver of inflation over the medium term, should remain in check with moderate wage increases and strong productivity growth.

Australia's resilient economic performance in 2001-02 has been driven by strong domestic demand, led by strong growth in dwelling investment and household consumption, which has more than offset the effect of weaker world growth on exports. Following a temporary slow down in overall economic growth in the second half of 2000, dwelling investment rebounded sharply in 2001-02, supported by historically low mortgage interest rates and the Government's more generous FHOS for new dwellings. Low interest rates, together with increases in household wealth, have also assisted strong growth in household consumption.

Table 2: Major economic parameters (percentage change from previous year)

	Forecasts		Projections		
	2001-02	2002-03	2003-04	2004-05	2005-06
Real GDP	3 3/4	3 3/4	3 1/2	3 1/2	3 1/2
Employment(a)	1	1 3/4	2	2	2
Wages(b)	3 1/4	4 1/4	3 1/2	3 1/2	3 1/2
CPI	2 3/4	2 3/4	2 1/2	2 1/2	2 1/2

(a) Labour force survey basis.

(b) Average earnings (national accounts basis).

Source: Australian Bureau of Statistics (ABS) Cat. No. 5206.0, 6202.0, 6401.0 and Treasury.

Australia's strong economic performance during the recent period of weak global growth has been assisted by sound macroeconomic policy and the payoff from sustained microeconomic reform. A sound macroeconomic policy framework, tax reform and ongoing labour market reform have all increased confidence in the Australian economy, making it more flexible and better able to adjust to external shocks. Imbalances that would have previously emerged in response to a period of global uncertainty and weaker world growth have not occurred, ensuring Australia's continued strong economic performance. Over the medium-term, if economic growth remains robust and progress is maintained on welfare and labour market reform, an unemployment rate below 6 per cent is achievable.

Part II: Fiscal strategy

The 2002-03 Budget has been framed within the Government's medium-term fiscal strategy introduced in the 1996-97 Budget. This is the seventh Commonwealth budget presented under this fiscal strategy.

MEDIUM TERM OBJECTIVES OF FISCAL POLICY

The primary objective of the strategy is to maintain budget balance, on average, over the course of the economic cycle. The supplementary objectives of the fiscal strategy are:

- maintaining surpluses over the forward estimates period while economic growth prospects remain sound;
- no increase in the overall tax burden from 1996-97 levels; and
- improving the Commonwealth's net asset position over the medium to longer term.

The medium-term fiscal strategy and supplementary objectives are based on the broader principles of sound fiscal management, contained in the *Charter of Budget Honesty Act 1998* (see Box 1).

The Government has placed the conduct of fiscal policy in a medium-term framework to ensure that government finances remain sustainable over time. This medium-term focus provides scope for fiscal policy to assist with short-term demand management, while providing an anchor to ensure that spending during periods of weaker economic activity is made possible by savings during periods of stronger economic activity. Importantly, adherence to the medium-term fiscal strategy is essential if Australia is to meet longer term fiscal challenges such as those outlined in the Intergenerational Report.

A key goal of the medium-term fiscal strategy is to improve the level of public saving over time. Achieving higher public saving will contribute to other important objectives, including maintaining low levels of Commonwealth general government net debt and stabilising the tax burden. The 2002-03 Budget assists in meeting these goals.

Box 1: Charter of Budget Honesty Act 1998: Principles of sound fiscal management

Fiscal policy should be directed to maintaining the on-going economic prosperity and welfare of the people of Australia and should therefore be set in a sustainable medium-term framework. To meet these objectives, a government should frame its fiscal strategy in accordance with the following principles of sound fiscal management. The Government should:

- manage financial risks faced by the Commonwealth prudently, having regard to economic circumstances, including by maintaining Commonwealth general government debt at prudent levels;
- ensure that fiscal policy contributes to achieving adequate national saving and, as appropriate, to moderating cyclical fluctuations in economic activity, taking account of the economic risks the nation faces and their impact on the Commonwealth's fiscal position;
- pursue spending and taxing policies that are consistent with a reasonable degree of stability and predictability in the level of the tax burden;
- maintain the integrity of the tax system; and
- ensure that its policy decisions consider their financial effect on future generations.

The Government's progress in delivering the medium-term fiscal strategy, achieving a cumulative underlying cash surplus of \$24 billion over the past four years, has underpinned Australia's continuing strong economic performance. In recent times, sound macroeconomic policies have been particularly important in securing investor confidence during a period of considerable international uncertainty.

SUPPORTING ECONOMIC ACTIVITY

As noted in the 2001-02 Budget, one of the strengths of a medium-term fiscal strategy is that it allows fiscal policy to respond to short-run fluctuations in economic activity. However, the extent of this demand management role is firmly anchored by the requirement to achieve budget balance, on average, over the economic cycle.

Expansionary fiscal policy settings in 2000-01 and 2001-02 helped Australia maintain solid economic growth relative to other developed countries during a period of weakness in the international economy. It is estimated that there was a stimulus of around 1 per cent of GDP in those years. In 2000-01, this principally arose from income tax cuts introduced under *The New Tax System*.

A large part of the stimulus in 2001-02 was unavoidable given the impact of high priority defence and domestic security expenditure. This outcome is appropriate given Australia's recent economic circumstances and international developments. It is consistent with the Government's medium-term fiscal strategy, which allows the budget to respond flexibly to short-term developments. As strong economic growth continues, the underlying cash balance will be in surplus in 2002-03 and remain in surplus over the forward estimates period.

As the international economy returns to more normal long-term growth rates, it is appropriate to remove this stimulus. It is estimated that there will be a contraction of around ½ per cent of GDP in 2002-03 from fiscal policy.

Given that forecast and projected economic growth is in the region of its long-term trend, this implies that the output gap (the difference between the actual level of economic activity and its longer-term trend) will close only slowly. The maintenance of the gap between trend and actual output in the next few years suggests that the tightening of fiscal policy should be implemented gradually. The stance of fiscal policy implied by the 2002-03 Budget estimates is consistent with this approach.

Looking forward, it will be important that fiscal policy settings remain appropriate to help maintain strong and sustainable economic growth. The Government will continue to assess the economic outlook and adjust fiscal policy according to the economic environment and in a manner consistent with its medium-term fiscal strategy.

ASSESSING COMMONWEALTH GOVERNMENT FINANCES OVER THE NEXT 40 YEARS

One of the key principles of sound fiscal management in the *Charter of Budget Honesty Act* is that 'policy decisions have regard to their financial effect on future generations'. Consistent with the requirements of the Charter, an Intergenerational Report assessing the financial implications of Government policy over the next 40 years is being published, for the first time, with the 2002-03 Budget (Budget Paper No. 5).

Australia is relatively well positioned to meet the challenges presented by an ageing population. Australia's superannuation system promotes private saving for retirement, complementing an age pension system that is better targeted and more affordable than many in other industrialised countries. After a strong programme of debt reduction since 1996-97, Australia has very low levels of government debt by international standards.

Nevertheless, on a no policy change basis, it seems likely that a steadily ageing population could place pressure on Commonwealth government finances in about 15 years. In addition, on the basis of recent trends it seems likely that technological advancement, particularly in health care, and the community's expectation of access to the latest health treatments will continue to place increased demands on government.

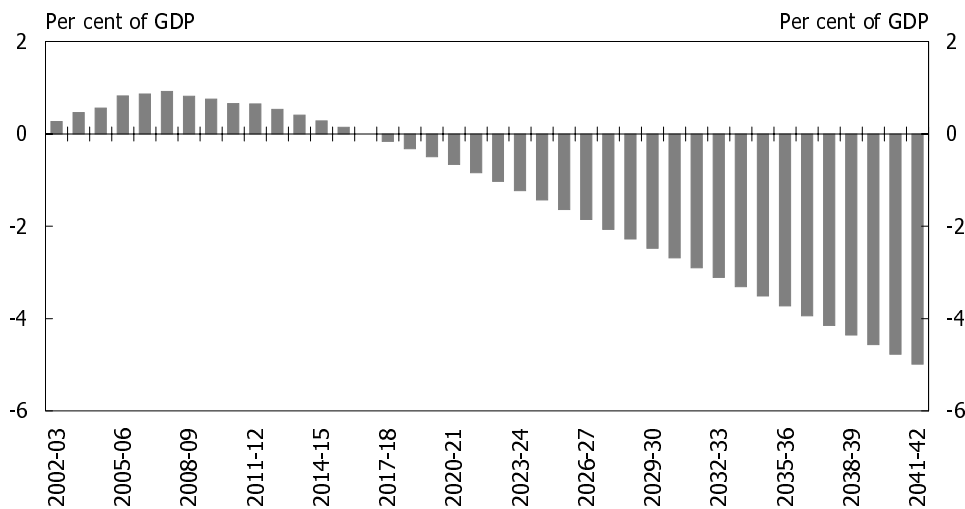
Although the ageing of the Australian population is not expected to have a major impact on the Commonwealth's budget for at least another 15 years, forward planning for these developments is important to ensure that governments will be well placed to meet emerging policy challenges in both a timely and effective manner. It is important that current government programmes are maintained on sustainable foundations, rather than delaying action to the future. The immediate primary task for fiscal policy is to continue meeting the medium-term fiscal objective of balance over the course of the economic cycle to ensure government debt remains low.

Long-term fiscal projections

The Intergenerational Report considers how much pressure could be placed on government finances over the next four decades from the ageing of the population and other cost trends. This provides a framework in which to assess the sustainability of current policy settings.

Projections based on current spending trends, with revenue maintained as a constant share of GDP, show emerging and significant fiscal demands with spending starting to exceed revenue in around 15 years. By 2041-42, the gap between spending and revenue is projected to grow to around 5.0 per cent of GDP (Chart 3).

Chart 3: Projection of fiscal pressure



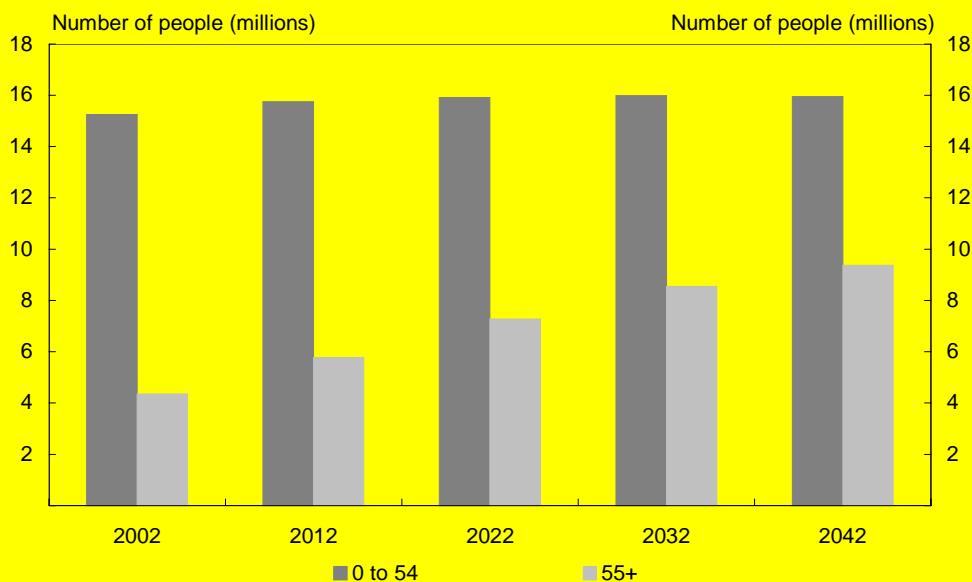
Source: Treasury.

As projections are uncertain, the results indicate a possible future, but within a wide band of uncertainty. Even so, an analysis of the sensitivity of the projections to plausible changes in demographic and economic trends and assumptions shows that a sizable fiscal gap still emerges and the broad policy conclusions still hold.

Box 2: Demographic and economic prospects

Australia, like other OECD countries, is experiencing an ageing of its population, driven by declining fertility and mortality rates. Since the mid-1970s, the total fertility rate of Australian women has been well below the fertility rate needed for population replacement. Over the same period life expectancy has increased, partly due to higher standards of public health. By 2042, Australia's population is projected to increase by around 6 million to over 25 million people. The number of people aged up to 55 is expected to remain more or less constant. The number aged over 55 will more than double, largely reflecting past trends in fertility (the baby boomers) and migration as well as increased life expectancy.

Projected population size for selected age ranges



Over the next four decades, economic growth is projected to slow relative to the outcomes achieved over the past decade, reflecting slightly lower productivity and considerably lower employment growth rates. A projected decline in employment growth reflects slower labour force growth arising from slower population growth and a falling overall participation rate (as older people are less likely to participate in the labour force). Productivity growth is assumed to return to its longer-term average (over the past 30 years), a rate that is below the rates experienced in the 1990s.

Growth in real GDP per person, a measure of growth in living standards, is also projected to slow over the coming decades, but not as much as the growth rate of real GDP. This mainly reflects the projected slowing in productivity growth.

Government spending

The main contributor to the projected rise in Commonwealth government spending over the next four decades is spending on health and aged care.

Population growth and ageing account for only 35 per cent of the recent growth in health spending. Much of the remaining growth comes from the demand for new technology and treatments. Australians now expect access to more expensive diagnostic procedures and new (and expensive) medications on the Pharmaceutical Benefits Scheme (PBS). A large increase in PBS spending, based on an extrapolation of the very rapid growth experienced over the last two decades, accounts for a substantial proportion of the total projected increase in health spending. Spending on aged care is also projected to increase, in line with the ageing of the population.

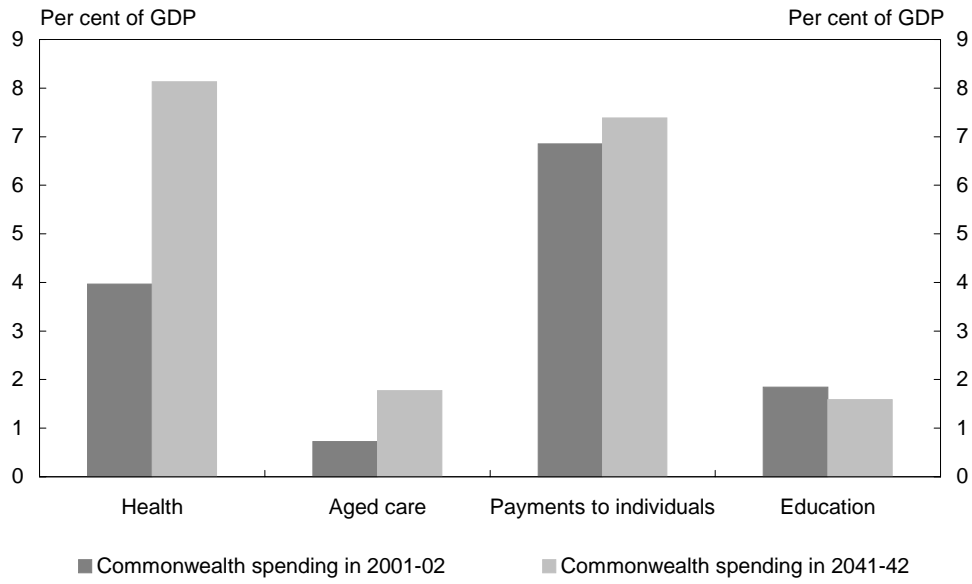
Age and Service Pension payments are projected to continue being the strongest growing component of payments to individuals, reflecting the significant increase in the proportion of the population aged over 65. This increase is expected to be somewhat offset by an increased proportion of retired people drawing incomes from their superannuation savings.

Payments to people of working age are projected to decline relative to GDP, mainly reflecting the significant anticipated fall in unemployment allowances, due to a projected decline in the unemployment rate. Payments to families with children are also projected to fall significantly as a proportion of GDP. This is driven by the expected decline in the proportion of the population aged 15 and under, and by the fact that the Consumer Price Index (which is used to index significant elements of family assistance) grows at a lower rate than nominal GDP.

Commonwealth spending on education and training is projected to decline slightly as a proportion of GDP, in part reflecting the fall in the proportion of the population aged 5 to 24.

Other areas of government spending are assumed to remain constant (in total) as a share of GDP. These areas are not demographically driven and include defence, assistance to state and local governments and the environment. However, the future funding requirements of these policy areas is uncertain and could put additional pressure on future budgets.

Chart 4: Projected Commonwealth spending by category



Part III: Budget priorities

The 2002-03 Budget has been framed in an uncertain international environment following the 11 September 2001 terrorist attacks in the United States. Accordingly, Budget priorities include funding to support Australia's contribution to the War Against Terrorism and to upgrade domestic security. The Budget provides additional resources to protect the integrity of Australia's borders. The Government is allocating new funding to these areas as priorities.

The 2002-03 Budget also delivers the Government's election commitments, including introducing the Baby Bonus and increasing the number of doctors in outer metropolitan areas. In addition, other measures place some rapidly growing programmes, particularly the Pharmaceutical Benefits Scheme and the Disability Support Pension, on a more sustainable footing.

SAFEGUARDING AUSTRALIA

The Government has committed substantial defence resources to the War Against Terrorism following the terrorist attacks against the United States. It has also provided significant funding to upgrade Australia's domestic security.

War Against Terrorism

Following the terrorist attacks of 11 September 2001, the ANZUS Treaty provisions relating to an attack against a treaty member were invoked. In October 2001, Australia announced its commitment to the international coalition in the War Against Terrorism.

The deployments are being carried out under Operation Slipper (the contribution to the US-led operation against international terrorism) and Operation Damask (the contribution to the Multinational Maritime Interception Force in the Persian Gulf in support of United Nations sanctions against Iraq). They involve around 1,100 Australian Defence Force personnel and comprise land, sea and air operations, with the initial deployment including:

- an Australian special forces task group and other personnel participating in operations in Afghanistan against the Taliban and Al Qaida networks;
- a naval task group of an amphibious landing ship (until mid 2002) and a frigate, and the continued presence of a guided missile frigate in the Persian Gulf to support the Multinational Maritime Interception Force; and
- an Air Force deployment of B707 tanker aircraft to support air-to-air refuelling operations, and F/A-18 aircraft deployed to Diego Garcia until mid 2002 to provide support for the air defence of coalition forces.

The composition of the deployment is subject to strategic requirements and is continuously under review.

The total cost of the Australian deployment over 2001-02 and 2002-03 is estimated to be \$2.1 billion. This includes net additional funding in this Budget of \$194 million for 2002-03 to support the operations. Future costs of the commitment will depend on the length and intensity of any further operations.

Upgrading domestic security

In response to the terrorist attacks of 11 September 2001, the Government is providing new funding of over \$1.3 billion over five years to upgrade security within Australia.

The Government will upgrade and enhance Australia's airport security. Armed Australian Protective Service (APS) officers have been placed on random domestic and international flights provided by Australian air carriers. The Government will also increase the number of APS officers and explosives detection dogs patrolling and guarding Australia's airports.

Additional resources have been allocated to the Australian Federal Police, the APS and Australia's security intelligence agencies to assist in the identification of potential security threats.

Several other initiatives will enhance Australia's capability to respond to incidents. These include doubling the funding to the Australian Federal Police for the rapid deployment of up to 200 federal agents around Australia, and establishing a permanent Australian Defence Force Tactical Assault Group on the east coast of Australia, to supplement the existing group on the west coast. The Tactical Assault Group is a special forces unit with specialist counter-terrorist training, including hostage recovery.

The Government will also establish a permanent Incident Response Regiment (IRR) to respond to chemical, biological, radiological, nuclear and explosive (CBRNE) emergencies in Australia and involving Australian interests overseas. The IRR, a group of highly trained defence personnel, will support hostage recovery operations with CBRNE dimensions, provide specialist and technical advice to Commonwealth, state and territory agencies and combat terrorist attacks involving an improvised nuclear device.

Table 3: Additional funding for domestic security

	2001-02 (\$m)	2002-03 (\$m)	2003-04 (\$m)	2004-05 (\$m)	2005-06 (\$m)	Total (\$m)
Improved aviation security						
Enhanced aviation security	21	31	31	31	32	145
Improved data access for border control agencies	-	7	7	13	6	33
Increased number of explosive detector dogs at Australian airports	-	1	1	1	1	4
Strengthening air safety	-	2	2	2	2	8
<i>Sub-total</i>	21	40	41	47	41	190
Identification of security threats						
Enhanced technical capability	-	15	12	12	8	47
Enhancement of Protective Security Services	6	27	27	28	28	116
Defence Communications Project	5	26	19	25	39	114
Other measures	9	42	60	72	80	263
<i>Sub-total</i>	20	111	118	136	155	539
Increased capacity to respond to security incidents						
Double the strike team capacity of the Australian Federal Police	-	5	14	13	13	44
Enhancement to Defence's tactical response capability	23	33	38	29	33	156
Incident response capability	-	37	30	23	25	114
Other measures	64	39	1	2	-	106
<i>Sub-total</i>	87	114	82	66	71	420
Total expense measures	127	265	241	250	266	1149
Total capital measures	3	27	50	54	24	159
Total expenditure	130	292	291	304	291	1308

PROTECTING AUSTRALIA'S BORDERS

The Government has allocated funding for initiatives to address the flow of people attempting unauthorised arrival in Australia. These initiatives to protect the integrity of our borders include:

- off-shore processing of asylum seekers at facilities on Australia's external territories or in third countries;
- constructing a purpose built permanent Immigration Reception and Processing Centre on Christmas Island to assess refugee applications of asylum seekers;
- increasing Defence and Customs activities in relation to the unauthorised entry of vessels into Australia's migration zone;
- continuing the Regional Cooperation Agreement to combat people smuggling and unauthorised migration through the interception of unauthorised movements in transit countries;

- appointing an Ambassador for People Smuggling issues to promote a coherent and effective international approach to combating people smuggling, particularly in our region; and
- providing funding to encourage the voluntary return and resettlement of certain asylum seekers who have been unsuccessful in applying for refugee status.

Table 4: Additional funding for unauthorised boat arrivals

	2001-02	2002-03	2003-04	2004-05	2005-06	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Reception and processing of asylum seekers at offshore locations (Australian external territories)	-	82	123	124	126	455
Reception and processing of asylum seekers at offshore locations (third countries)	-	129	99	101	102	431
Onshore saving flowing from offshore processing strategy		-86	-87	-88	-89	-350
Construction of a purpose built permanent Immigration Reception and Processing Centre on Christmas Island	75	138	2	2	2	219
Additional funding for Customs	24	23	27	27	19	119
Regional cooperation agreement	-	18	19	19	19	75
Additional funding for Defence	19	22	-	-	-	41
Other measures	58	27	4	3	2	93
Net additional expenditure(a)	175	353	187	188	181	1084

(a) Total does not include net additional expenditure of \$153.2 million introduced at the 2001-02 MYEFO.

SUPPORTING AUSTRALIAN FAMILIES

Consistent with the Government's ongoing commitment to families, this Budget provides funding for the Baby Bonus election commitment and measures to increase the number of doctors working in outer metropolitan areas.

The Baby Bonus

One of the hardest financial times for families arises with the birth of their first child, when one partner often gives up or reduces paid employment. The Government recognises this and is introducing the Baby Bonus from 1 July 2002. This measure builds on the Government's strong record of providing financial assistance to families with funding of \$1.2 billion over four years.

Every year for up to five years, a parent who leaves the workforce to have a child will be able to claim up to \$2,500 of the tax payable on their income earned in the year prior to the birth of their child. Parents returning to work will still be eligible for the Baby Bonus, but the entitlement will be reduced in proportion to the income earned. A minimum annual benefit of \$500 will be available to parents with incomes of \$25,000 or less. The Baby Bonus can be transferred to a spouse.

The Baby Bonus complements the Government's expected expenditure of \$13 billion in 2002-03 for Family Tax and Child Care Benefits which support Australia's families and invest in our children. Around 245,000 families will benefit from the Baby Bonus in the first year, and eventually, some 600,000 families will benefit at any one time.

BETTER HEALTHCARE SERVICES

The Government will increase the number of doctors working in outer metropolitan Sydney, Melbourne, Brisbane, Adelaide, Perth and Hobart by allowing specialist trainees and general practice registrars to work in supervised general practice. Doctors in the 'general stream' of the general practice vocational training programme will undertake a supervised placement in an outer metropolitan area. Other medical practitioners who agree to work in a designated outer metropolitan area and register on an alternative pathway to achieve vocational recognition will be eligible for higher Medicare rebates. Together, these changes should put 150 more doctors in outer metropolitan areas.

The Government will provide \$73 million over four years to increase the number of radiation oncology facilities in regional Australia. It will provide ongoing funding for up to six new facilities. This will reduce the distance and time that rural and regional patients must travel to access care. The location of the new services will be informed by the findings of the Radiation Oncology Inquiry which will report to the Government in mid 2002.

The Government has also provided funding to list Glivec on the Pharmaceutical Benefits Scheme (PBS) from 1 December 2001. This allows people in the final two of the three stages of chronic myeloid leukemia to access the drug at an affordable price.

This Budget will also provide \$55 million over four years to improve the standard of palliative care offered in the community. Funding will be provided for better coordination between hospital and community care; improved education and further support for general practitioners and other health professionals in palliative care; and further assistance for families of people who choose to die in their home setting.

MAKING THE PHARMACEUTICAL BENEFITS SCHEME MORE SUSTAINABLE

The Intergenerational Report shows spending on the PBS is by far the fastest growing component of Commonwealth health expenditure. Over the last decade, spending on the PBS grew by 250 per cent, from \$1.2 billion in 1990-91 to \$4.2 billion in 2000-01. In future years, PBS expenditure, as a proportion of GDP, is projected to grow by more than four times, from 0.6 per cent of GDP currently to 3.4 per cent of GDP in 2041-42.

The Government is introducing a package of measures in order to begin to manage the growth of the PBS, so that the PBS can continue to provide timely, reliable and

affordable access for Australians to necessary and cost effective medicines. The measures will ensure consumers, industry, doctors and pharmacists all contribute to reducing the cost of the PBS.

From 1 August this year, concessional co-payments for PBS medicines will rise by \$1 to \$4.60 and general co-payments will rise by \$6.20 to \$28.60, with commensurate increases in safety nets from 1 January 2003. These co-payments will still only cover a small part of the total cost of the PBS. These changes will save \$1.1 billion over four years.

The Government will also introduce measures to ensure suitable conditions are placed on the use of new and existing PBS medicines and that these medicines are prescribed appropriately. Together, these measures are expected to result in further savings of \$756 million over four years.

- Doctors will be required to provide additional information about patient eligibility when they seek approval to prescribe particular drugs. The Government will introduce an electronic approval process to ensure the quick turnaround of these approvals. The process will also enhance Health Insurance Commission audit and compliance activities.
- The pharmaceutical industry will deliver savings to the PBS by ensuring that information about PBS prescribing restrictions is provided direct to prescribers through the network of medical representatives employed by the industry. This measure aims to ensure that inappropriate prescribing of PBS medicines is minimised.
- The Government will undertake discussions with individual manufacturers of generic medicines to secure a price reduction for products they have listed on the PBS. This price reduction will be in return for the Government facilitating the use of generic medicines.
- The Government will introduce further initiatives to identify and target pharmacy fraud.

Table 5: Pharmaceutical Benefits Scheme measures

	2002-03	2003-04	2004-05	2005-06	Total
	\$m	\$m	\$m	\$m	\$m
Realigning patient co-payments and safety nets	-299	-281	-272	-263	-1115
Reinforcing the commitment to evidence based medicine	-12	-71	-94	-104	-281
Increased information provision to doctors by industry	-28	-38	-39	-43	-147
Reductions in pharmacy fraud	-25	-56	-58	-62	-201
Restrictions on doctor shopping	-2	-5	-5	-5	-16
Facilitating the use of generic medicines	-19	-29	-30	-32	-111
Total	-384	-480	-498	-510	-1872

MORE FUNDING FOR AGED CARE

The Intergenerational Report projects that Commonwealth spending on aged care as a proportion of GDP will more than double in future decades, as the population ages.

In this Budget, the Government will provide additional funding to help upgrade or replace small nursing homes in rural and remote areas and facilitate the ongoing certification of aged care homes that require financial assistance.

The Government will also provide funding for measures to increase the number of aged care nurses and personal care staff in residential aged care homes.

- Residential aged care subsidies will be increased so providers can attract and retain more aged care nurses.
- The Government will provide funding for up to 250 aged care nursing scholarships (each valued at up to \$10,000 per year) each year at rural and regional university campuses.
- The Government will provide funding to enable personal care workers in smaller aged care homes to undertake courses in geriatric care through flexible or distance up-skilling programmes.

Consistent with the Government's aged care policy, community care services will be improved and expanded to enable older Australians to choose to stay at home and live as independently as possible in the community.

- The Government will provide an additional 6,000 Community Aged Care Packages tailored to meet the needs of frail older Australians, so they can continue to live in their own homes.
- The Government will also provide funding to support the carers of older Australians, carers of people with dementia and ageing carers of people with disabilities.

A new medical service, Visudyne Therapy, will be available under the Medicare Benefits Schedule. Visudyne Therapy is used to treat 'wet type' macular degeneration, a condition that eventually leads to blindness and primarily affects older Australians.

Table 6: Additional funding for aged care and carers

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	Total \$m
Capital assistance for aged care in rural and remote Australia	8	18	26	27	79
Increased residential aged care subsidies	51	52	53	54	211
More aged care nurses	3	6	9	9	26
Support for aged care training	3	5	6	7	21
More community aged care packages	2	6	17	44	69
Carers of older Australians	5	7	8	10	30
More support for carers of people with dementia	2	5	6	6	20
More support for ageing carers of people with disabilities	5	7	8	10	30
Visudyne Therapy	32	40	36	33	140
Other initiatives	3	6	9	10	28
Total expenditure	115	152	176	210	654

VETERANS

In recognition of their service to Australia, the Government will provide \$93 million over four years to extend eligibility for the Repatriation Health Card — For All Conditions (Gold Card). This initiative will broaden access to comprehensive free health care for Australian Defence force members aged 70 years and over who have qualifying service from post World War II conflicts.

This Budget will also introduce twice yearly indexation of the ceiling rate of the Income Support Supplement for War Widows. The indexation will be based on increases in the Consumer Price Index and the Male Total Average Weekly Earnings. This measure is expected to cost \$85 million over four years.

CONTINUING WELFARE REFORM

The Government's *Australians Working Together* package announced last year represented a significant step forward in developing a more active, participation based social safety net. This Budget introduces the next phase of welfare reform which focuses on providing more effective employment assistance to job seekers and recognising and improving the work capacity of people claiming or receiving the Disability Support Pension (DSP).

This Budget also introduces further measures to improve the accuracy of information reported by income support recipients. These measures are part of a five-year framework to substantially improve reported information to assist the Commonwealth to provide the right amount of income support to the right people. They will also help reduce fraud. These measures are expected to deliver savings of \$275 million over the next four years.

Assisting job seekers to gain employment

The Government will provide funding of \$3.3 billion over three years beginning on 1 July 2003 for arrangements associated with the Third Employment Services contract. This contract will improve the targeting and tailoring of employment assistance measures. These improvements include providing every long-term unemployed person with guaranteed access to Intensive Support customised assistance. This means that all people unemployed for over 12 months will have access to a high degree of personalised assistance.

In addition, the Government will introduce a number of new initiatives under the contract.

- Job Seeker Accounts averaging \$850 will be made available to 165,000 job seekers each year who are in Intensive Support. The Job Seeker Accounts may be used for expenses that will help a job seeker into employment, such as training, wage subsidies or transport. This measure is expected to cost \$420 million over three years.
- The Government will require all Job Network providers to provide a guaranteed minimum level of service to all job seekers. These minimum standards will support more active job search and will include assistance with resume and job application preparation, regular contact with the provider to assist with job search activities and lodgement of vocational profiles on the Australian Job Search site to allow automatic job matching.
- The Government will provide 8,500 additional Work for the Dole places each year to give job seekers greater opportunity to participate.

The combination of better targeting, increased effectiveness of services and the move to fixed priced contracts will result in savings under the Third Employment Services contract.

Recognising and improving the work capacity of people with disabilities

Since 1990, the number of people receiving the DSP has more than doubled. Long periods of disengagement from the workforce can erode people's skills and undermine their self-esteem and social engagement.

This Budget introduces a package of measures to develop and improve the work capacity of people with disabilities and assist those with substantial work capacity to participate in the labour market.

To provide people with greater opportunity to develop and improve their work capacity, additional programme places will be created. The Government will provide additional funding over three years for over 73,000 new places in disability

employment services, rehabilitation, the Job Network, education and training, and the Personal Support Programme. These measures will build on the improved education, training and employment services for people with disabilities announced as part of *Australians Working Together*.

The DSP eligibility criteria will change to encourage and support people who have substantial work capacity to seek employment or actively participate in society. Changes will take into account individual circumstances.

- DSP eligibility criteria will change so that it is available to people who have a work capacity of less than 15 hours per week, rather than the current level of 30 hours per week.
- The range of training and support services that Centrelink considers when determining a person's work capacity for DSP eligibility will be broadened to include employment assistance and rehabilitation services.
- Centrelink will no longer take local labour market conditions into account in determining eligibility for DSP for people aged 55 and over, consistent with the approach currently adopted for people below age 55.

These measures will apply to all new DSP applicants from 1 July 2003. Current DSP recipients (except those who have no work capacity or who are within five years of Age Pension age) will also be assessed under the new criteria during the next five years.

COMMONWEALTH-STATE-TERRITORY DISABILITY AGREEMENT

Although arrangements with the States and Territories have yet to be finalised, the Government has agreed in principle to provide \$2.7 billion under a new five year Commonwealth-State-Territory Disability Agreement.

Under the Agreement, the States and Territories are responsible for providing disability accommodation services. The Government has offered to continue helping the States and Territories meet their responsibilities for these services by providing \$2.7 billion over five years. This includes an additional \$548 million over five years to continue assisting the States and Territories to address unmet need. Provision of these funds, however, will depend on States and Territories agreeing to increasing funding, significantly improved performance reporting, greater accountability and progressively implementing agreed new policy priorities.

Over the same five year period, the Government intends to spend \$2 billion in support of its responsibilities under the Agreement for employment support for people with disabilities. This covers business services, open employment support, workplace modifications and wage subsidies.

EDUCATION AND TRAINING

This Budget provides \$77 million over four years to increase New Apprenticeships and to support training for mature age Australians. The Government will provide an additional incentive of \$1,100 to employers for each New Apprenticeship they offer in information technology and high-skilled occupations. This incentive will apply from 1 January 2003 and will assist up to 25,000 New Apprentices.

The Government will also increase opportunities for young Australians by encouraging employers to offer New Apprenticeships to students while they are at school. From 1 January 2003, employers will be offered an extra \$750 incentive for taking on a New Apprentice while they are at school and a \$750 retention bonus where they continue to employ a young person as a New Apprentice within six months of completion of Year 12. The extra \$750 incentive for employing a New Apprentice while they are at school is expected to assist up to 30,000 young people, with up to 27,000 young people expected to continue as New Apprentices after they have completed Year 12.

The Government will provide 11,500 vouchers per year for four years to mature age people to assist them to gain basic skills in computing and information technology. The training will be valued at up to \$500 per participant and will enable recipients to undertake a training course so that they can operate at a basic level in the workforce.

A BETTER SUPERANNUATION SYSTEM

The Intergenerational Report indicates that population ageing will result in a significant increase in the number of people eligible for the Age Pension. Nevertheless, the introduction of compulsory superannuation in Australia over the past decade will reduce the fiscal pressures on the Commonwealth over the next 40 years. Consistent with the Government's election commitments, the Budget implements a number of incentives to encourage individuals to improve their retirement incomes by making greater contributions to superannuation.

From 1 July 2002, the Government will make a matching superannuation co-contribution of up to \$1,000 per year for qualifying low income earners who make personal undeducted superannuation contributions. Individuals with assessable incomes and reportable fringe benefits of up to \$20,000 per annum will be eligible for the maximum \$1,000 co-contribution and those individuals with incomes between \$20,000 and \$32,500 will be eligible for a reduced co-contribution. This initiative will replace the existing maximum \$100 rebate for personal superannuation contributions made by low income earners.

In each of the next three years, the Government will reduce the superannuation and termination payments surcharge rates by one-tenth of their current levels. This will reduce the current maximum surcharge rate from 15 per cent to 10.5 per cent in 2004-05.

From 1 July 2002, self-employed and other eligible people will be able to claim a full tax deduction of up to \$5,000 for superannuation contributions, compared to \$3,000 currently. Contributions above the new, higher threshold will continue to be 75 per cent tax deductible, with a maximum deduction equal to the taxpayer's age based limit.

The Superannuation Guarantee system will also be improved by requiring employers to make at least quarterly Superannuation Guarantee contributions on behalf of employees. This will reduce the potential loss of superannuation benefits in the event of bankruptcy or insolvency.

Furthermore, the Government will be: allowing members of accumulation funds to split future superannuation contributions with their spouse; ensuring that recipients of the Baby Bonus can contribute the Baby Bonus or any other amount to superannuation; allowing parents, relatives and friends to make superannuation contributions on behalf of children; and increasing from 70 to 75 the age up to which working members of superannuation funds can make personal superannuation contributions.

Table 7: Superannuation measures

	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	Total \$m
Splitting superannuation contributions between couples	-	3	4	4	11
Continuing superannuation contributions to age 75
Superannuation for life: child accounts	..	1	1	2	3
Quarterly Superannuation Guarantee contributions	17	-29	1	..	-12
Allow the Baby Bonus to be contributed to a superannuation fund	-	1	2	3	6
Government superannuation co-contribution for low income earners	-	95	100	105	300
Reduction of tax rate on excessive eligible termination payments	-	5	5	5	15
Reduce the superannuation surcharge rate	-	50	120	200	370
Higher fully deductible amount for self-employed persons	-	10	10	10	30
Choice of superannuation fund and portability	-	-	-	-	-
Allow departing temporary residents access to their superannuation	-70	-110	-75	-70	-325
Replacement of the rebate for personal superannuation contributions	-	-10	-10	-10	-30
Net budget impact	-53	15	158	249	368

Note: The figures in the table may not add due to rounding.

INVESTING IN AUSTRALIA'S INDUSTRY, INFRASTRUCTURE AND RESOURCES

This Budget provides additional investment in Australia's industry, roads, communications and natural resources. Many of these measures will particularly benefit rural and regional Australia.

Industry

The Government will provide funding of \$44 million over four years to Invest Australia to develop and implement a strategy for promoting and attracting overseas direct investment to Australia.

This Budget invests in small business and tourism by allocating additional resources to initiatives for small business skill development and for improving business access to Commonwealth Government programmes. The Government will also provide around \$34 million over four years for tourism measures including funding for the Australian Tourist Commission, the See Australia campaign and the Regional Tourism programme.

The Government will extend eligibility for the Diesel Fuel Rebate Scheme at a cost of \$77 million over four years. This measure will reduce the costs of small retail and hospitality businesses generating electricity for their own use from diesel fuel where there is no access to commercial supplies of electricity.

More funding for roads and communications

Consistent with the Government's election commitments, it will invest an additional \$138 million over four years in the National Highway and Roads of National Importance programme. The Government will also provide \$180 million over four years to the Road Safety Black Spot programme to reduce hazardous locations on Australia's roads. This new funding will build on the Government's existing commitment to improve road infrastructure, increase road safety and reduce transport costs.

The Government will provide funding of \$13 million over three years to improve access to television services in up to 34 separate black spot areas throughout Australia. Funding will also be provided to extend SBS television services to populations of between 5,000 and 10,000 people. In addition, greater access to commercial radio will be provided in regional and remote areas where it is not commercially viable for licensees to provide coverage.

The Government will provide \$8 million over three years for a package of initiatives to improve access to telecommunications services in remote indigenous communities. The main component of the package is a community phone programme to support access to telephone services in remote communities. The package will also contain

programmes to support affordable public internet access, to develop more relevant online content and to increase awareness of telephony and internet services.

Resources

The Government will support incentives for primary producers to adopt an Environment Management System (EMS). These incentives will support improved management of Australia's natural resources, encourage sustainable agricultural production systems and reinforce Australia's reputation as a supplier of quality, environmentally friendly agricultural products. Under the programme, the Government will reimburse half the cost of qualifying EMS expenditure, up to a maximum of \$3,000 per eligible primary producer.

REVENUES

This Budget provides additional resources to the Australian Taxation Office, in response to the recommendations of an independent pricing review. In addition to an increase in base funding, the Government is providing funding to improve advisory and compliance services for small businesses, in the areas of GST, income tax and fringe benefits tax administration. Increased funding is also being provided for large business compliance activities. These measures will improve service levels and enhance the integrity of tax administration.

A National Excise Scheme for Low Alcohol Beer will replace a range of existing State subsidies with a nationally uniform and administratively efficient concession in the rate of excise on low alcohol beer. The States have agreed to contribute to the funding of the scheme for as long as they continue to receive Budget Balancing Assistance, after which the Commonwealth will be fully funding the scheme. The new excise rates will come into effect from 1 July 2002.