Statement 1: Budget Overview

Australia faces the future from a position of economic and fiscal strength.

The Government's timely fiscal stimulus protected the economy from the worst of the global financial crisis. As a result, the Australian economy continued to grow while other advanced economies fell into recession.

Keeping the economy growing means that the loss of business capital and workforce skills that typically accompanies an economic slowdown has been less dramatic for Australia than for other countries.

The economic recovery is now strengthening, with GDP forecast to grow by 3¼ per cent in 2010-11 and 4 per cent in 2011-12, leading to further reductions in the unemployment rate.

The Government's fiscal strategy and the success of monetary and fiscal stimulus will help the budget return to surplus three years ahead of schedule in 2012-13, ahead of any major advanced economy.

Forecast deficits are now lower across the forward estimates. An underlying cash deficit of $40.8 billion (2.9 per cent of GDP) is expected in 2010-11, $5.9 billion lower than forecast in the *Mid-Year Economic and Fiscal Outlook 2009-10*.

The peak in net debt is also now expected to be lower and earlier at 6.1 per cent of GDP in 2011-12, considerably below the previous forecast of 9.6 per cent of GDP. Net debt in the major advanced economies is expected to peak at more than ten times this level.

The improvement in the fiscal position is one of the dividends of keeping the economy growing through the global financial crisis. It allows Australia to face future challenges from a position of budget strength.

This Budget implements the Government's tax reform agenda, making the tax system stronger, fairer and simpler. It contains measures to boost the economy's capacity and support economic growth. It makes investments in the National Health and Hospitals Network. It contains measures that support saving for the future and ease cost of living pressures today.

All of these new measures have been delivered within the fiscal strategy and are fully offset over the forward estimates by a reprioritisation of other policies. Consistent with the fiscal strategy, this has been achieved without raising taxes as a share of GDP above 2007-08 levels.

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INTRODUCTION

The Australian economy weathered the global financial crisis better than its international peers. Growth was stronger, unemployment was lower, and the financial system was more resilient.

Timely economic stimulus reinforced the Australian economy as other advanced economies entered recession. Australia's solid performance through the crisis minimised the loss of business capital and workforce skills that typically accompanies an economic slowdown.

This has left Australia in a position of strength. Higher economic growth and falling unemployment are now forecast for 2010-11 and 2011-12. Private sector activity will be the key driver of growth as the Government's economic stimulus is phased out.

The Government's fiscal strategy has ensured tight spending discipline through the crisis. By design, stimulus measures are being withdrawn as the economy recovers. Other spending has been fully offset over the forward estimates. The level of tax receipts has been allowed to recover naturally as the economy improves, while keeping tax as a share of GDP below 2007-08 levels.

Compared with the forecasts presented in the Mid-Year Economic and Fiscal Outlook, the budget is now expected to return to surplus three years sooner — in 2012-13 — and forecast deficits in earlier years are expected to be lower. This represents the most rapid fiscal consolidation in Australia since at least the 1960s.

The faster deficit exit path means that the profile for net debt — already much lower than in any of the major advanced economies — is now projected to be even lower still.

As a result, Australia has one of the strongest budget positions in the developed world, returning to surplus before any major advanced economy.

The improvement in the fiscal position is one of the dividends of keeping the economy growing through the global financial crisis. It allows us to face other challenges from a position of strength.

The 2010-11 Budget begins the task of implementing the Government's tax reform program; to make the tax system stronger, fairer and simpler.

It contains measures to boost the economy's capacity through investments in infrastructure and skills.

It supports the economy through tax cuts for small businesses, reforms to strengthen the financial sector and measures to boost investment in renewable energy and energy efficiency.

It invests in Australia's health with significant further investment in our *National Health and Hospitals Network*.

And it introduces measures that will help us save for the future and others that will ease the cost of living today.

ECONOMIC OUTLOOK

2009 was a year of unprecedented turbulence in the global economy. Global GDP contracted, driven by the largest contractions in the US, Japan and many other advanced economies since the Second World War. Unemployment rose sharply across the advanced economies, peaking in the double digits in the US and Europe.

While the global economy is growing faster than anticipated, the recovery is patchy and a number of risks remain. A resurgence in the developing Asian economies is leading the way, with a more modest recovery underway in the advanced economies.

China and India continued to grow robustly through 2009. China's significant policy stimulus provided strong momentum to the economy in the face of collapsing demand from the advanced economies. Strength in demand from China and India has supported a recovery in other Asian economies.

A prolonged period of financial sector balance sheet repair and fiscal consolidation will place a drag on recovery in the other advanced economies. Some smaller advanced economies in the euro area have encountered serious problems in managing large fiscal deficits, with the problems in Greece particularly acute. Concerns about fiscal sustainability have the potential to spill over from the EU periphery to other highly indebted countries and to financial markets more broadly. While these developments are a risk to the outlook for the global economy, overall financial conditions have improved, and with the signs of economic recovery broadening, solid world GDP growth of 4¼ per cent is expected in 2010.

The strong pull of global forces caused the Australian economy to slow over the past year and saw a modest rise in the unemployment rate. It also caused incomes growth to fall as lower commodity prices and generally weaker profitability flowed through the economy. Still, the Australian downturn was remarkably shallow, both by international standards and relative to the expectations of most economic commentators a year ago, and a solid recovery is underway.

Australia's relatively mild downturn and rapid recovery reflect a range of factors, including the success of both fiscal and monetary policy stimulus which was delivered rapidly and had immediate effect. In the absence of fiscal stimulus, it is estimated that the Australian economy would have contracted by 0.7 per cent in 2009, rather than growing by 1.4 per cent. As stimulus is being phased out as planned through 2010, a recovery in private sector activity is taking hold. The withdrawal of stimulus is estimated to subtract around 1 percentage point from GDP growth over 2010.

Real GDP is expected to grow strongly over the next two years, by 3¼ per cent in 2010-11 and 4 per cent in 2011-12. The unemployment rate is expected to fall from its current level of 5.3 per cent, down to 5 per cent in late 2010-11, and 4¾ per cent in late 2011-12, around levels consistent with full employment.

The global recovery is putting upward pressure on prices for Australia's key commodity exports, which is expected to cause a substantial rise in the terms of trade in 2010. This in turn will support a recovery in incomes across the economy. The terms of trade are expected to rebound by around 25 per cent by mid-2010 — injecting $30 billion into the economy. This injection of incomes will help reinvigorate the mining sector and economic activity more generally.

Engineering construction investment is expected to increase by around 50 per cent over the forecast period as large resource projects come on line. The recovery in other industries, such as non-residential building, is expected to be more subdued.

The economy's solid performance through the global financial crisis has meant that we have avoided the erosion of the skills base and the loss of business capital that have occurred in other countries and in previous downturns. As a result, Australian firms and workers are in good shape to meet a recovery in demand. Inflation has also moderated and is expected to remain moderate over the forecast horizon.

The 2010-11 Budget continues to build the economy's capacity to take advantage of the opportunities of a resurgent Asia. Expanding capacity to ensure sustainable growth and the maintenance of moderate inflation outcomes will be a key challenge as the Australian economy enters this next phase.

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

Table 1: Major economic parameters(a)

	Forecasts			Projections	
	2009-10	2010-11	2011-12	2012-13	2013-14
Real GDP	2	3 1/4	4	3	3
Employment	2 1/2	2 1/4	2	1 1/2	1 3/4
Unemployment rate	5 1/4	5	4 3/4	5	5
CPI	3 1/4	2 1/2	2 1/2	2 1/2	2 1/2
Nominal GDP	2 3/4	8 1/2	5 3/4	5 1/2	5 1/2

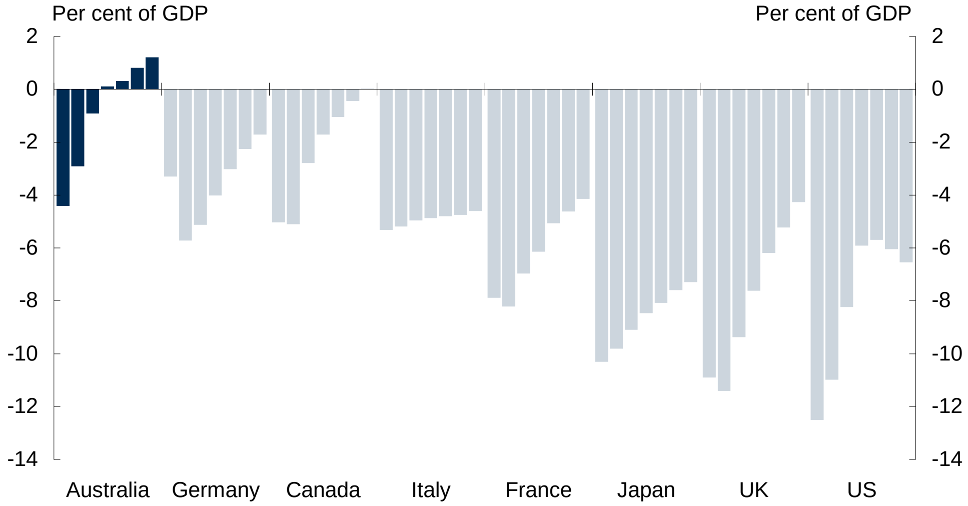
(a) Real and nominal GDP parameters are year average. CPI and employment are through-the-year growth to the June quarter. The unemployment rate is the rate in the June quarter.

DELIVERING ON THE FISCAL STRATEGY

The budget is projected to return to a small surplus in 2012-13, before any major advanced economy and three years ahead of schedule (Chart 1).

This represents the fastest fiscal consolidation in Australia since at least the 1960s, and has been achieved without increasing tax as a share of GDP above 2007-08 levels.

Chart 1: Budget balances of Australia and the G7, 2009-2015



Note: Australian data are for the Australian Government general government sector underlying cash balance and refer to financial years beginning 2009-10. Data for all other economies are total Government net lending and refer to calendar years.
Source: IMF *World Economic Outlook* April 2010 and Treasury.

A key to delivering disciplined fiscal policy has been the Government's adherence to a strict medium-term fiscal strategy, with the following components:

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

In the February 2009 *Updated Economic and Fiscal Outlook*, the Government presented a strategy to support the economy during the economic downturn and to return the budget to surplus as the economy recovers, which this Budget delivers.

Supporting the economy during the global recession

The first stage of this strategy required the Government to support the economy during the economic downturn by:

- allowing the variations in revenue and expenditure, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and

- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of other budget priorities and new policy proposals being met through a reprioritisation of existing expenditure.

The 2009-10 Budget delivered on this strategy in full.

The budget moved into deficit as the impact of slower economic growth was felt on revenue. This provided a natural cushion to the economy against the effects of slower economic growth.

The Government delivered timely, targeted and temporary stimulus to the economy. Along with monetary stimulus from the Reserve Bank of Australia, this provided key support to economic growth at a critical time. Non-stimulus policy measures were funded by reprioritising existing policies.

These measures supported growth in the Australian economy while other advanced economies contracted.

Deficit exit strategy

Now that the Australian economy is well on the path to recovery, the Government's focus is on returning the budget to surplus by:

- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average; and

- holding real growth in spending to 2 per cent a year once the economy is growing above trend until the budget returns to surplus.

The 2010-11 Budget continues to deliver on this strategy.

Real growth in payments has been kept below 2 per cent in years when the economy is expected to grow above trend. All new spending measures have been fully offset across the forward estimates. And the additional tax receipts associated with a strengthening economy have improved the budget position, while maintaining a tax-to-GDP ratio below 2007-08 levels.

Once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain expenditure restraint by retaining a 2 per cent annual cap on real spending growth, on average, until the budget surplus is at least 1 per cent of GDP.

FISCAL OUTLOOK

As a result of the Government's fiscal strategy and a strengthening economy, the budget position is stronger than presented in the *Mid-Year Economic and Fiscal Outlook 2009-10*.

The budget is now expected to return to surplus three years earlier, in 2012-13. Deficits in earlier years are expected to be smaller than previously forecast.

Table 2: Budget aggregates

	Actual	Estimates			Projections	
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Underlying cash balance ($b)(a)	**-27.1**	**-57.1**	**-40.8**	**-13.0**	**1.0**	**5.4**
Per cent of GDP	-2.2	-4.4	-2.9	-0.9	0.1	0.3
Fiscal balance ($b)	**-29.7**	**-54.8**	**-39.6**	**-12.1**	**2.0**	**6.3**
Per cent of GDP	-2.4	-4.2	-2.8	-0.8	0.1	0.4

(a) Excludes expected Future Fund earnings.

The size of the deficit is expected to fall each year until the budget returns to surplus, representing a tightening of the fiscal stance of around 1½ per cent of GDP a year. This tightening reflects the planned withdrawal of stimulus, the disciplined approach to spending and the natural increase in tax receipts associated with the strengthening economy.

Notwithstanding the improvement in expected tax receipts associated with the stronger economic growth, over the forward estimates they still remain around $110 billion down on their pre-crisis levels. Accumulated losses will take some time to work their way through the system and this will delay a full recovery in tax receipts.

An underlying cash deficit of $40.8 billion or 2.9 per cent of GDP is expected in 2010-11, compared with an estimated deficit of $46.6 billion (3.5 per cent of GDP) at MYEFO. In accrual terms, a fiscal deficit of $39.6 billion or 2.8 per cent of GDP is expected for 2010-11.

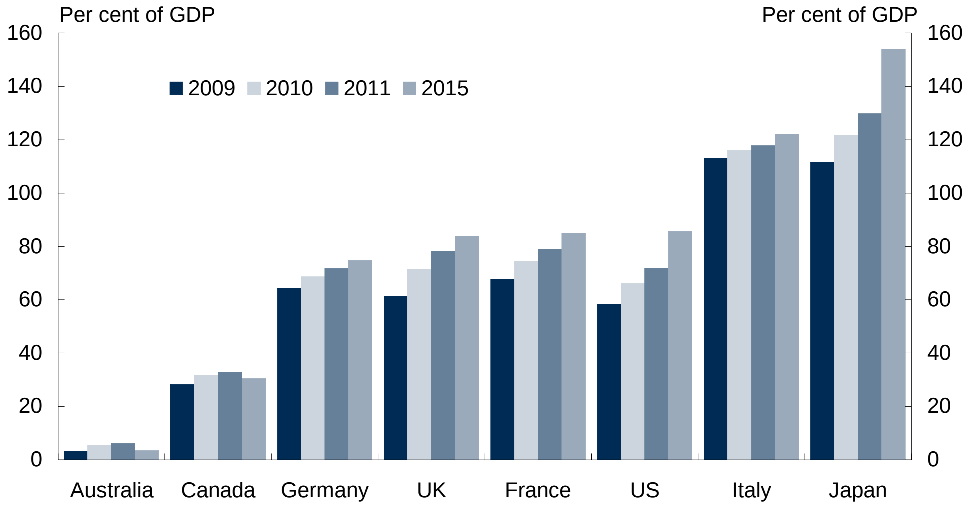
An underlying cash deficit of $13.0 billion is expected in 2011-12, while surpluses of $1.0 billion and $5.4 billion are expected in 2012-13 and 2013-14.

The earlier return of the budget to surplus will bring forward the Government's plan to pay down debt that was accumulated as a result of the global financial crisis. Net debt is now expected to peak at 6.1 per cent of GDP in 2011-12, compared with the

9.6 per cent peak in 2013-14 projected in the Mid-Year Economic and Fiscal Outlook. On current projections, net debt is expected to return to zero three years earlier than previously projected.

Australia's net debt levels remain modest compared with other countries. Australian Government net debt is expected to peak at levels less than a tenth of the average of the major advanced economies (Chart 2).

Chart 2: Government net debt for Australia and the G7



Note: Australian data are for the Australian Government general government sector and refer to financial years beginning 2009-10. Data for all other economies are total Government and refer to calendar years.
Source: IMF *World Economic Outlook* April 2010 and Treasury.

BUDGET PRIORITIES

The 2010-11 Budget contains new measures to further boost savings, build skills and infrastructure, improve health and hospitals, invest in renewable energy and energy efficiency, ease the cost of living and simplify tax time for working families.

All of the measures in the Budget are fully funded within the confines of the Government's fiscal strategy. We will see the budget return to surplus three years ahead of schedule.

The key priorities in the 2010-11 Budget are to:

- ease the cost of living for working families by delivering the third tranche of personal income tax cuts, making tax returns fairer and simpler, and introducing measures to support competition in the banking sector;

- reform Australia's health and hospital system to deliver more efficient and better performing services — nationally funded and locally run;
- invest in the skills of Australian workers and economic infrastructure to build the productive capacity of the economy, underpinning future productivity and increases in living standards;
- grow the economy through fairer and more efficient taxation of resources, a lower company tax rate, support for small businesses, and measures to strengthen financial markets;
- encourage investment in renewable energy and energy efficiency;
- boost national saving and increase retirement security by providing tax cuts for interest income, increasing the Superannuation Guarantee, and complementary superannuation reforms; and
- protect Australians at home and overseas, including by providing additional support to our soldiers, police and officials deployed on overseas operations.

Easing the cost of living

This Budget implements policies that will ease the cost of living for working families and make tax returns simpler and fairer.

Delivering personal income tax cuts

This Budget delivers the next round of personal income tax cuts, meeting the Government's commitment to deliver real benefits to working families.

The changes include from 1 July 2010 lifting the low income tax offset to $1,500, providing an effective tax free threshold of $16,000 for Australians with incomes up to $30,000. The 30 per cent tax threshold will be lifted from $35,001 to $37,001 and the 38 per cent tax rate will be reduced to 37 per cent for taxpayers with incomes between $80,000 and $180,000.

An individual earning $50,000 a year, will be $450 better off as a result of this round of tax cuts, and $1,750 a year better off as a result of the three rounds of tax cuts delivered by the Government.

This fulfils the Government's election commitment to deliver personal income tax cuts, easing cost of living for working families and boosting workforce participation. The cumulative effects of tax cuts since 2008-09 are estimated to increase employment by around 85,000 workers in the medium term.

Fairer and simpler tax returns

The Government is committed to easing the cost of living for all Australians and making it easier for workers to fill out their tax return.

From 1 July 2012 the Government will provide individual taxpayers with an optional standard deduction of $500 in lieu of claiming work-related expenses and the cost of managing their tax affairs. From 1 July 2013 this will increase to $1,000.

This will allow taxpayers to spend less time and effort preparing their tax returns.

Under the current system, interpreting what is deductible, correctly quantifying work-related costs and apportioning expenses between income-earning purposes and private purposes adds a great deal of complexity and imposes high compliance costs on taxpayers. Providing a standard deduction will remove this burden for many taxpayers.

The changes mean that in the first year an estimated 4.6 million individuals in 2012-13 will financially benefit and have a simpler tax return. From 1 July 2013, an estimated 6.4 million individuals will benefit financially and have simpler tax returns.

Taxpayers with higher work-related expenses will not be disadvantaged as they will be able to opt out of claiming the standard deduction and can continue to claim their higher deduction when lodging their tax returns.

Supporting banking competition

This Budget provides a significant boost to banking competition by phasing down the interest withholding tax (IWT) rate paid by banks and other financial institutions on most interest paid on offshore borrowings. This will also help to secure Australia's place as a leading regional financial centre.

This significant reform implements recommendations of the independent Australia's Future Tax System review as well as the Australian Financial Centre Forum report.

For Australian branches of overseas financial institutions, with respect to borrowing from their head offices, the rate of IWT will be reduced from 5 per cent to 2.5 per cent in 2013-14 and to zero in 2014-15.

For other offshore borrowings by financial institutions, including local subsidiaries of overseas banks, the IWT rate will be reduced on most interest paid to non-residents from 10 per cent to 7.5 per cent in 2013-14, then to 5 per cent in 2014-15, with an aspirational target of zero subject to the Government's medium-term fiscal strategy.

The current arrangements may particularly disadvantage Australian branches and subsidiaries of foreign financial institutions, as offshore borrowings from their parents are often a significant source of funding for the loans they make.

Given some of these lenders are active in the home loan market and also active in lending to Australian businesses, including the infrastructure sector, the Government expects this important reform will support further competition in the banking sector.

A National Health and Hospitals Network

The 2010-11 Budget invests $2.2 billion over four years in the Government's health and hospital reform, taking the total investments to $7.3 billion over five years to support the *National Health and Hospitals Network* (NHHN).[1] In addition, the Government has guaranteed to the states and territories no less than $15.6 billion between 2014-15 and 2019-20 in top-up payments for growth.

Additional investments

After-hours access to general practitioner and primary care through Medicare Locals

The Government is investing $290.5 million over four years to establish Medicare Locals across the country. They will be responsible for identifying service gaps in local areas and will play a vital role in improving the coordination of primary care, hospital and aged care services. Over time it is expected that their roles will expand further.

The Government is also investing $126.3 million over four years to establish a national after-hours general practitioner (GP) service. These services will mean people seeking medical advice after hours will be able to speak with a registered nurse and a GP if required, and arrange face-to-face consultations.

GP Super Clinics

The Government is investing $355.2 million over three years to increase the number of GP Super Clinics across the country. This measure builds on the $275.2 million for 31 GP Super Clinics announced in the 2008-09 Budget.

This investment will provide infrastructure funding to establish a further 23 new GP Super Clinics and upgrade around 425 existing general practices, primary and community health services, and Aboriginal Medical Services. The additional GP Super Clinics will make it easier for people to access high-quality and comprehensive primary care services in one community location.

Personally controlled Individual Electronic Health Records

The Government will provide $466.7 million over two years from 2010-11 to establish the key national components of a personally controlled Individual Electronic Health Record (IEHR) system. This will be a secure, online system that enables health care

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1 The total amount of these investments is based on a national roll out of the NHHN.

providers to access and use an individual's health care record when and where it is needed, as long as they have given their consent.

This modernisation of our health system will boost patient safety, make it easier to navigate the health system and slash waste and duplication.

Training more doctors, more nurses and allied health professionals

The Government is announcing further investments in this Budget of $522.7 million over four years for Australia's nursing workforce. This is in addition to the $650.7 million over four years already announced to provide more general practice specialist training places, more GP training rotations for junior doctors, a rural locum scheme and additional clinical training for allied health professionals.

New workforce initiatives include:

- $390.3 million over four years to improve financial support for nurses in general practices to help expand their role in primary care, particularly in prevention and chronic disease management; and
- $128.4 million over four years for training and education incentive payments for nurses and personal care workers in aged care; to allow rural nurses to take leave; to build nursing careers in aged care; and to evaluate nurse practitioner models in aged care.

COAG agreement on the National Health and Hospitals Network

The new investments in this Budget build on the COAG agreement with seven states and territories to establish the NHHN. This will deliver the most significant reforms to our health and hospital system since the introduction of Medicare. These reforms will deliver better health and hospital services by:

- for the first time, the Commonwealth becoming the majority funder of the Australian public hospital system;
- taking full funding and policy responsibility for GP and primary care (including primary mental health) and aged care;
- leveraging the Commonwealth's majority funding responsibility to set tough new performance standards including for access to emergency departments and for elective surgery;
- devolving responsibility for running hospitals to Local Hospital Networks (LHNs) and establishing Medicare Locals and aged care one-stop shops, to ensure that services are coordinated within the community;

- driving transparency and efficiency by paying LHNs an 'efficient' price for each individual service delivered through activity-based funding (rather than a single block payment for hospital services); and

- investing in training more doctors and nurses and providing more allied health services, primary care services and hospital beds.

The Commonwealth will fund its increased responsibilities through a combination of the current national Healthcare Specific Purpose Payment and an agreed amount of GST dedicated and retained for health and hospital services. From 2014-15, an additional top-up payment will also be paid to the states and territories from the budget.

To support its majority funding role, the Government is committing $400.0 million over five years to deliver a national framework for standards and performance and fast-track the introduction of activity-based funding. This will:

- drive efficiency and improve the allocation of hospital resources by establishing an Independent Hospital Pricing Authority to determine the national efficient price of public hospital services;

- introduce and report on tough new national standards, including in relation to financial performance, through the establishment of the National Performance Authority; and

- improve health system safety and quality by setting national clinical standards through the continuation and expansion of the Australian Commission on Safety and Quality in Health Care.

This investment will ensure nationally consistent performance monitoring and reporting against the new national standards. Over time this will improve the efficiency, effectiveness and quality of services at the local level and of the system overall. This will make for a more responsive health system.

Reducing hospital waiting time and expanding capacity

The Government is establishing LHNs as the direct managers of single or small groups of hospital services and their budgets. The Government will improve hospital performance by:

- rolling out from January 2011 a new four-hour National Access Target for emergency departments. Patients in all triage categories, where it is clinically appropriate to do so, presenting to a public hospital emergency department will, from 1 January 2015, be admitted, referred for treatment or discharged within four hours of presentation;

- introducing National Access Targets and Guarantees for elective surgery in public hospitals such that from July 2012, patients will be entitled to the Guarantee for elective surgery, meaning that free treatment will be rapidly provided if patients wait longer than the clinically recommended time. From January 2015, 95 per cent of patients waiting for elective surgery will be treated within clinically recommended times; and

- delivering 1,300 new sub-acute hospital beds by 2013-14.

Improving general practitioner and primary care

As well as taking full funding and policy responsibility for GP and primary care services from 1 July 2011, the Government is making a number of investments to improve access to high-quality, well-integrated GP and primary care services through establishing Medicare Locals and providing better access to after-hours GP and primary care services.

To address the growing burden of chronic disease in Australia and take pressure off the hospital system, the Government is investing $449.2 million over four years to improve the quality of care for patients with diabetes and prevent them from being admitted unnecessarily to hospital.

Better supporting older Australians by investing in aged care

For the first time, the Government is assuming full responsibility for aged care, including transferring aged care services from the Home and Community Care program to the Australian Government (with the exception of Victoria).

The Government is investing $532.9 million over five years to increase the capacity of the aged care system to support additional places and for additional primary care services in residential aged care.

Investing in mental health

As part of the NHHN, the Government is assuming full funding and policy responsibility for primary mental health care services for people with mild to moderate disorders.

This includes immediate investments to expand the *headspace* and the Early Psychosis Prevention and Intervention Centre programs for young people, and funding for more mental health nurses.

Preventative health — reducing the harm from tobacco

Tobacco smoking is the single largest cause of premature death and disease in Australia and kills over 15,000 Australians each year.

As part of the Government's commitment to reduce the prevalence of smoking, from 30 April 2010 it increased the excise and excise-equivalent customs duty rate applying to cigarettes by 25 per cent. This will provide an extra $5.0 billion in customs and excise revenue over five years that, along with existing customs and excise revenues from tobacco, will support the costs of health reform through the NHHN Fund.

Based on recommendations of the National Preventative Health Taskforce, the Government will legislate to remove tobacco advertising and promotion from tobacco packaging from 1 January 2012.

Fully funded health and hospital reform

In addition to using the revenue from the increase in tobacco excise and excise-equivalent customs duty applying to cigarettes to support the NHHN, the Government is taking responsible decisions to ensure that health reform is consistent with the medium-term fiscal strategy.

Better value medicines

The Government is introducing reforms to the pricing of medicines under the Pharmaceutical Benefits Scheme. These reforms mean better value for money through expanded price disclosure arrangements and price reductions on medicines subject to market competition, with savings of around $1.9 billion over five years from 2010-11.

The Government has also concluded the Fifth Community Pharmacy Agreement with the Pharmacy Guild of Australia. The new agreement will deliver a net saving of $0.6 billion over the five-year life of the agreement, which will commence on 1 July 2010. The new arrangements will support the community pharmacy network and more patient-centred services, while also providing better value for money.

Improving the sustainability of support for medical expenses

To improve the long-term sustainability of the net medical expenses tax offset, the Government is increasing the threshold above which a taxpayer can claim the net medical expenses tax offset to $2,000 and will commence annually indexing it to the Consumer Price Index, with effect from 1 July 2010. These reforms will result in savings of $350 million over four years.

The threshold was last increased in 2002 and has not been indexed since that time. The number of people claiming the net medical expenses tax offset has grown by, on average, 12 per cent per annum while total claims have grown by 16 per cent per annum over the period to 2008.

SKILLS FOR SUSTAINABLE GROWTH

In this Budget, the Government is investing $661.2 million in a new *Skills for Sustainable Growth* strategy to boost the skills of Australian workers and ensure that the education and training system is responsive to the needs of the economy.

The Government's Skills for Sustainable Growth strategy involves three mutually reinforcing approaches:

- skills for recovery — investments to respond to immediate capacity constraints;
- a training system for the future — supporting participation in quality and timely training with a strengthened nexus between training and business needs; and
- foundation skills — a package of measures to provide Australians with the core foundations skills needed (such as language, literacy and numeracy) to become more productive.

Skills for recovery

The Government will provide $200.2 million for a Critical Skills Investment Fund that will encourage industry partnerships with Government to plan for and meet our nation's skills demands (estimated to deliver up to 39,000 training places).

The Critical Skills Investment Fund will leverage industry co-investment, providing support for 50 per cent of the cost of training for large firms and up to 90 per cent of the cost of training for small firms. Funding will be allocated through a competitive process. A board will be established to assess proposals for funding from industry and to provide advice to the Government.

Continued investment by employers in trade and technical skills will be vital as key sectors switch gears as the economy strengthens. The Government will build on the success of the Kickstart Apprenticeship bonus by providing $79.4 million for small and medium businesses to take on young traditional trade apprentices in skills shortage occupations. This will expand the pool of skilled workers to help meet increases in demand and help around 22,500 apprentices and their employers. Additionally, the $19.9 million Smarter Apprenticeships initiative will encourage competency-based apprenticeships, improving the efficiency of skills formation.

A training system for the future

The 2010-11 Budget builds on the reforms announced in the 2009-10 Budget to the higher education system, by ensuring that our training systems are in the best position to meet the skills needs of industry, students and the broader economy.

The Government is showing national leadership in the education and training reform agenda by offering significant financial assistance in return for ambitious training reforms that give effect to broad training entitlements to youth under 25 and for others wishing to up-skill or re-skill (thus increasing student access to higher level qualifications). Enhancements to quality, transparency and competition will also be sought.

Reforms may vary between jurisdictions and will be subject to negotiation between the Commonwealth and states and territories. Depending on the level of reforms, Commonwealth support for jurisdictions may include access to income contingent loans and the extension of access to the VET Fee Higher Education Loan Program (HELP) for eligible students. The cash-out of funding available from 2011-12 for training under the Productivity Places Program (PPP) National Partnership will also be available to states undertaking significant reform.

In addition, the Government's commitment to quality and transparency in our training institutions will further be improved through the establishment of a National VET regulator, a MySkills website and $129.8 million in reward payments to drive higher standards and performance in training organisations.

Foundation skills package

The importance of foundation skills such as literacy, language and numeracy cannot be overstated. Poor foundation skills can be a major barrier for job seekers and for those wishing to up-skill. These core skills are crucial to higher educational outcomes — which in turn lead to higher workforce participation and higher productivity.

The 2010-11 Budget makes a significant investment in these key skills. Specific initiatives include:

- $67 million over four years, for a further 13,570 places in the Language, Literacy and Numeracy program to assist job seekers achieve sustainable employment;
- $28.7 million over four years, to provide an additional 9,500 Workplace English, Language and Literacy places and establish a community-based foundation skills program with 8,000 places; and
- a National Foundation Skills Outreach and Leadership Project to increase awareness of opportunities to improve foundation skills and implement innovative approaches to training in this important area.

INVESTING IN INFRASTRUCTURE TO BUILD ECONOMIC CAPACITY

This Budget invests $1 billion in the nation's transport infrastructure, building on the significant investment of $36 billion that the Government has already committed to roads, rail and ports, and sets aside a further $5.6 billion for a new infrastructure fund.

In real terms, this Government is more than doubling expenditure on major transport infrastructure in the six years to 2013-14, compared with the previous six years.

New infrastructure fund

The Government will invest more than $5.6 billion over the next decade from the Resource Super Profits Tax (RSPT) to establish a fund to invest in infrastructure. The Infrastructure Fund will start at $700 million in 2012-13 and will grow over time. This will make infrastructure spending a permanent feature of Commonwealth and state budgets for the first time.

Australia's resources sector is expected to remain an important contributor to national income for many decades to come, but its success relies heavily on the availability of supporting export infrastructure, such as roads, rail and ports.

Resource-rich states will receive relatively more funding, reflecting the greater call on their budgets for investment in infrastructure that supports the ongoing development of the resource industry.

Sharing the benefits of better resource taxation with the states is also a recommendation of the Australia's Future Tax System review.

Expanding our rail freight capacity

The Government will make a $996 million equity investment in the Australian Rail Track Corporation for upgrades to major rail freight networks to increase Australia's economic capacity.

These projects will significantly improve rail capacity along the Brisbane to Melbourne, Melbourne to Adelaide and Sydney to Perth rail corridors. These projects will help drive the Government's agenda to increase the movement of Australia's freight by rail, reduce travel times and improve productivity.

The rail lines that are being upgraded include:

- NSW North Coast (easing of curves to increase capacity and decrease journey times);
- Goulburn-Moss Vale-Glenlee and Gheringhap-Maroona (the provision of passing loops to allow overtaking);
- Broken Hill-Parkes (replacing timber sleepers with concrete sleepers); and
- Albury-Melbourne-Geelong and Whyalla-Broken Hill and Parkes-Cootamundra (re-railing to allow heavier trains).

The productivity of Australia's export supply chain depends not only on the efficiency of the nation's rail freight and road infrastructure, but on their connection to our ports. The Government has committed to establishing an intermodal terminal precinct at Moorebank to address the critical shortage of intermodal terminal capacity in Sydney and complement the Government's other investments in rail connections to Port Botany and on the main interstate rail line between Melbourne-Sydney-Brisbane.

The terminal will provide a much needed integrated transport solution for the movement of freight to and within the Sydney basin which will boost national productivity, reduce business costs and relieve bottlenecks and urban congestion.

The Moorebank project will now move into the detailed planning and approval phase with $70.7 million allocated to progress this important measure.

National Broadband Network

Efficient and dynamic communications networks are the backbone of a competitive 21st century economy. The Government has announced that it will roll out a National Broadband Network (NBN) to deliver next generation fibre broadband to all Australians.

The rollout of the NBN will represent a significant leap in the communications capabilities currently available to most Australians. It offers the potential for substantial productivity improvement for businesses, and improved service, competition and choice for consumers and businesses alike.

The Implementation Study confirms NBN can be built for less than $43 billion and recommends there be no private equity in the project before privatisation to preserve policy flexibility.

The Government has made appropriate provision in this Budget for the roll-out of NBN, subject to a final response to the Implementation Study. Importantly, the study indicates the Government can expect to generate a rate of return on its equity investment sufficient to fully cover its cost of funds.

Also, to ensure that Australia has sufficient radiofrequency spectrum to satisfy a growing demand for wireless services, the Government will release a large amount of radiofrequency spectrum. This spectrum is being made available by the conversion of television broadcasting services from analog to digital and is known as the 'digital dividend'. By reallocating this valuable and scarce spectrum to more productive uses, the release of the digital dividend represents a key microeconomic reform.

Efficient national markets

As part of the Government's actions to address critical infrastructure challenges, it has announced that Infrastructure Australia and the National Transport Commission will develop a National Ports Strategy for consideration by COAG.

The overarching vision of the strategy is to drive the development of efficient, sustainable ports and related freight logistics that balance the needs of a growing

Australian community and economy with the quality of life aspirations of the Australian people.

This will complement Infrastructure Australia's National Freight Strategy, which will help coordinate Australia's supply chain to boost our productivity.

GROWING THE WHOLE ECONOMY

This Budget will help grow the economy by cutting the company tax rate, making life easier for small businesses, strengthening financial markets, supporting investments in renewable energy and providing tax rebates for mineral and energy exploration.

A fair return for our non-renewable resources

The Government will introduce a uniform Resource Super Profits Tax (RSPT) to apply to non-renewable resource projects from 1 July 2012. Projects currently within the scope of the Petroleum Resource Rent Tax will be provided with opt-in arrangements to be developed in consultation with industry.

The RSPT will ensure the Australian community gets an appropriate benefit from its resources. It will also provide a more consistent tax treatment of resource projects, promoting better outcomes for the industry.

Profits derived from resource projects will be taxed at a rate of 40 per cent. However, the Government will refund 40 per cent of eligible project costs. Current state royalty payments will be returned to companies as refundable tax credits, effectively removing them as an impediment to investment.

The RSPT will replace existing Commonwealth resource taxes (except for the Petroleum Resource Rent Tax), including the crude oil excise. The states will retain all of their royalty revenues, but state royalties paid by companies will be refunded under the RSPT. By removing the distortionary effects of royalties, mining productivity, jobs and investment will all increase.

The Government will also deliver on its commitment to promote new investment in the resources sector through a new resource exploration rebate. The rebate will allow companies a refundable tax offset at the prevailing company tax rate for their exploration expenditure.

As a boost to the Government's support for renewable energy, exploration costs for geothermal energy will also be eligible for the rebate.

The rebate will provide significant cash flow benefits to small exploration companies in particular, which often do not generate sufficient taxable income against which to offset exploration losses under current tax arrangements.

Cutting the company tax rate

The Government will use some of the receipts from the RSPT to fund a cut in the company tax rate to 29 per cent in the 2013-14 income year and to 28 per cent from the 2014-15 income year.

Cutting the company tax rate will make Australia a more competitive destination for investment. Greater investment in capital will support higher productivity and real wage increases for Australian workers.

Combined with the reforms the Government is making to resource taxation, the cut in the company tax rate is expected to lift GDP by 0.7 per cent and increase after-tax real wages by 1.1 per cent over time. In current terms, this reform dividend is equivalent to an extra $450 per year in the pocket of a full-time worker on average weekly earnings.

In the future, there is likely to be very strong demand for capital and labour from Australia's resources sector. Cutting the company tax rate will assist other sectors of the economy to attract investment.

Helping small businesses

Some small businesses have been particularly hard hit by the impact of the global financial crisis. In recognition of this, the Government will provide an early reduction in the company tax rate to 28 per cent for eligible small businesses from the 2012-13 income year.

This measure will assist up to 720,000 incorporated small businesses, allowing them to reinvest more of their profits to grow their businesses.

The Government will also increase existing capital allowance concessions by allowing small businesses to write off assets valued at under $5,000 immediately, up from $1,000.

The Government will also allow small businesses to write off all other assets except buildings in a single depreciation pool at a rate of 30 per cent. This measure will significantly simplify depreciation calculations, benefiting up to 2.4 million small businesses.

These measures will commence in the 2012-13 income year. The Government will consult on the details of the changes prior to their implementation.

Strengthening our financial markets

The Government is committed to positioning Australia as a leading financial services centre by expanding Australia's trade in financial services and developing a deep and liquid corporate bond market.

In response to recommendations put forward by the Australian Financial Centre Forum (AFCF), the Government has agreed to a broad range of important measures to build on Australia's strong reputation as an attractive investment destination in financial services, including improved taxation, better regional engagement and streamlined regulation.

The Government has also announced a significant boost to competition in business lending, with important reforms to encourage investors to consider lower risk corporate bonds as well as to make it easier for business to borrow directly from retail investors.

The Future of Financial Advice reform package introduces a range of reforms designed to improve the quality of financial advice, enhance investor protection and enhance the professionalism of the financial advice industry.

The three key reforms which will apply from 1 July 2012 are a prospective ban on conflicted remuneration structures, the introduction of a statutory fiduciary duty for financial advisers requiring them to act in the best interests of their clients, and the introduction of a more transparent adviser charging regime.

This critical reform package also encompasses the Government's response to the recent inquiry into Financial Product and Services in Australia by the Parliamentary Joint Committee on Corporations and Financial Services (the PJC Inquiry).

The Government will establish a Centre for International Finance and Regulation (CIFR) to become a regional centre for excellence in financial system innovation and regulation. The work of the CIFR will seek to foster financial sector innovation, best practice regulation, and regional financial sector stability.

INVESTING IN RENEWABLE ENERGY AND ENERGY EFFICIENCY

Renewable Energy Future Fund

The Australian Government will provide further support for Australia's transition to a low pollution economy through the establishment of the Renewable Energy Future Fund with an investment of $652.5 million over four years.

The Fund will form part of the Government's expanded $5.1 billion Clean Energy Initiative.

Funding will be used to provide support for the development and deployment of renewable energy projects, including wind, solar and biomass. Through partnerships between the Government and the private sector, it will leverage private funds in critical early stage investments to support the commercialisation of renewable technologies.

The Fund will also be used to engage with households, businesses and communities to support the wider adoption of energy efficiency, helping business and households to reduce their energy consumption.

The Fund will complement existing support through the Government's expanded Renewable Energy Target. It brings the Government's total investments in renewable and clean energy and energy efficiency to over $10 billion.

Complementary policies, such as the Renewable Energy Future Fund, will go some way to supporting the necessary transition to a low pollution economy. But they cannot alone deliver the emissions reductions that are needed to meet our medium and longer term targets. A market-based approach will be required over time to help Australia meet its emissions reductions targets at the lowest possible cost to the community.

Carbon Pollution Reduction Scheme

The Australian Government remains committed to tackling the challenge of climate change through a Carbon Pollution Reduction Scheme (CPRS). The economic and environmental risks posed by climate change remain undiminished, and governments around the world recognise that market-based approaches are the most effective and least-cost way to reduce emissions.

The Australian Government recognises that, in light of the continued absence of parliamentary support for the CPRS, it will not be possible to commence the CPRS on 1 July 2011.

The Government will continue its efforts to build support for global and domestic carbon markets. However, the Government will not introduce the CPRS until after the end of the current commitment period of the Kyoto Protocol and only when there is greater clarity on the actions of major economies including the US, China and India.

This means that the Government will not move to legislate the CPRS before the end of 2012, and will only do so after this time if there is sufficient international action.

The modest improvement to the Budget estimates from deferring the CPRS package in underlying cash terms over the forward estimates will be fully deployed in enhancing the Clean Energy Initiative.

SAVING FOR THE FUTURE

This Budget takes important steps to increase national savings. The Government is introducing a tax discount for interest income, increasing the Superannuation Guarantee and introducing complementary reforms to deliver a saving and superannuation system that is fairer for low income earners and provides more flexibility for those needing to save as they approach retirement.

Discount for interest income

In this Budget, the Government will provide $950.0 million over the forward estimates to improve the taxation treatment of savings by reducing the discrepancy in the treatment of interest income relative to non-interest earning investments.

Under the current system for taxing savings, interest income is taxed in full at the individual's marginal rate, while capital gains can receive a 50 per cent discount. The Government recognises that this can act as a disincentive for small savers who are more likely to put extra non-superannuation savings into deposits. The Australia's Future Tax System review recommended a 40 per cent discount apply to interest income.

From 1 July 2011, the Government will provide individuals with a 50 per cent tax discount on up to $1,000 of interest earned by individuals, including interest earned on deposits held in authorised deposit-taking institutions, bonds, debentures and annuity products. Assuming the benefit gained from the discount is reinvested each year, a middle-income taxpayer with $17,000 invested at 6 per cent per annum will, after five years, have a balance almost $1,000 higher than if they had not received the discount.

The discount will be available for interest income earned directly by an individual as well as indirectly, such as via a trust or managed investment scheme, and is expected to benefit around 5.7 million depositors in 2011-12.

The Government expects that this measure will also assist in securing a greater supply of stable deposit funding for banks, building societies and credit unions, which would reduce their requirement to borrow in international capital markets from overseas investors.

Since deposits typically represent a high proportion of funding for smaller lenders, this reform should help to put downward pressure on their funding costs, allowing them to lend at more competitive interest rates to Australian households and small businesses. This is consistent with the Government's objective to support competition in the banking sector following the global financial crisis.

Supporting retirement incomes

The recent *Australia to 2050 Report* highlighted the challenges Australia faces from an ageing population, particularly the need to ensure adequate retirement incomes.

The Government is taking action to address these challenges and assist Australians improve their retirement incomes through a number of superannuation reforms.

From 1 July 2013, the Government will gradually increase the Superannuation Guarantee from its current rate of 9 per cent to 12 per cent by 1 July 2019.

In addition, the Government will increase the maximum age for Superannuation Guarantee contributions from 70 to 75 with effect from 1 July 2013 to improve superannuation coverage for older workers.

These changes are an important step in meeting the challenges faced by an ageing population and improving the wellbeing of Australians.

Government superannuation contributions tax rebate for low income earners

Low income earners currently receive little or no concessions on their concessional superannuation contributions, which are taxed at 15 per cent. Some low income earners pay more tax on their superannuation contributions than they do on their labour income.

To increase equity, the Government will introduce a superannuation contributions tax rebate for low income earners. In 2012-13, this rebate will, in effect, refund the contributions tax for people with adjusted taxable incomes of up to $37,000 a year up to a maximum rebate of $500 a year. Eligible non-concessional superannuation contributions will continue to receive the superannuation co-contribution.

Flexibility for people approaching retirement

The Government will provide greater superannuation flexibility for people nearing retirement by continuing a higher concessional contributions cap for certain individuals after 30 June 2012.

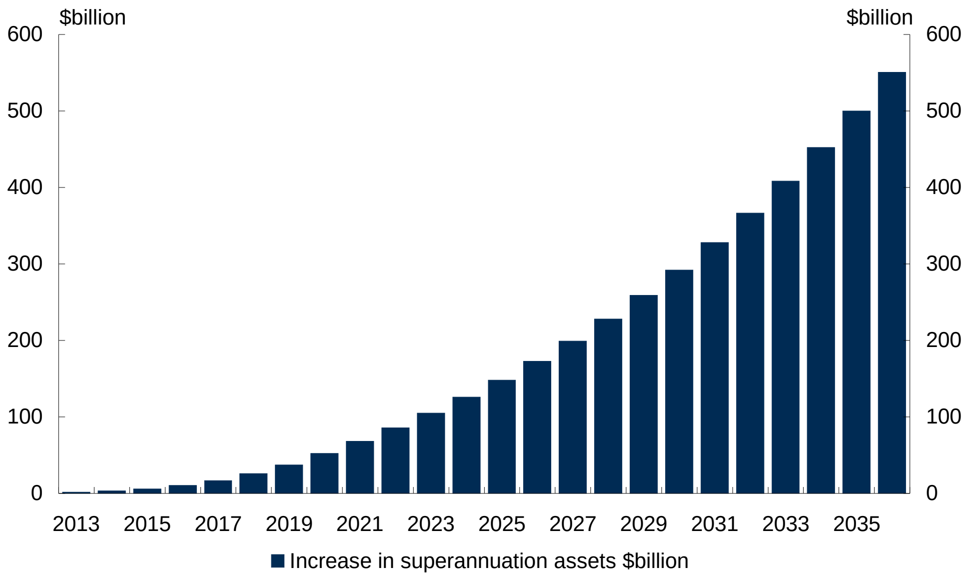
The higher cap will be for concessional superannuation contributions up to $50,000 (indexed) for people aged 50 or over who have total superannuation balances of less than $500,000.

This measure will allow people aged 50 or over to catch up on their superannuation contributions when they are most able. It will particularly benefit those people who have had periods outside the workforce.

These reforms will help Australians to enjoy a better lifestyle in retirement. These measures will mean an extra $108,000 on average in the retirement superannuation balance for a 30 year old worker on full-time average weekly earnings.

The Government's superannuation reforms will increase Australia's pool of superannuation savings by $85 billion over 10 years and $500 billion by 2035 (Chart 3).

Chart 3: Additional superannuation savings



STRENGTHENING OUR BORDERS — PROTECTING OUR TROOPS

This Budget provides funding to protect our troops on overseas operations while also enhancing national security at home, including aviation and border security. The initiatives outlined in this Budget will ensure that Australia is well equipped to meet its national security interests into the future.

This is the first Budget to deliver a coordinated approach to national security funding. A coordinated approach to the national security budget has allowed the Government to direct funding to the highest national security priorities. This approach will ensure Australia's law enforcement, intelligence, security and border protection services are better able to protect our community.

Protecting our troops on overseas operations

Australia remains committed to its overseas operations. The Budget will provide $1.3 billion to support the defence force presence in Afghanistan and surrounding areas, and to conduct counter-piracy operations off the coast of Somalia.

The Government is determined to protect Australian Defence Force personnel who are deployed on operations. The Budget provides $1.1 billion to provide an increased level of security for our deployed forces in Afghanistan, particularly in relation to improvised explosive devices. An additional $239.2 million for force protection will be provided through funding for Operation SLIPPER. Some of the proposed new equipment comes within the scope of programs in the Defence Capability Plan. Those acquisitions will be prioritised and the relevant spending brought forward.

This Budget also provides $245.9 million to enhance Australia's civilian and police contribution in Afghanistan, to assist the Afghan authorities to deliver security and the rule of law and to provide essential services to local communities. This includes $108.8 million to be provided through the Australian Agency for International Development (AusAID) for development and capacity building activities, and $32.1 million to be provided to the Australian Federal Police to assist in the training and mentoring of the Afghan National Police.

The Government will continue its contribution to the stabilisation efforts in our region. The Budget provides $44.0 million to maintain an Australian Defence Force presence in the Solomon Islands, and $184.4 million to continue defence force stabilisation efforts in Timor-Leste. In addition, the Budget provides $97.3 million to the Australian Federal Police to provide capacity building and development to police forces in Timor-Leste, Tonga and Vanuatu, and to assist them in promoting law and order.

Strengthening our borders

This Budget provides for new border security capabilities that build upon the large investment in border security and anti-people smuggling measures outlined in the 2009-10 Budget.

The Government recently suspended visa processing for asylum seekers from Afghanistan and Sri Lanka pending possible changes in conditions in those countries, and has also introduced legislation to significantly strengthen Australia's anti-people smuggling laws.

The Government will replace the ageing Bay Class patrol boats with new enhanced vessels capable of longer patrol times over greater distances. The new vessels will provide an improved capability, with the flexibility to respond to an evolving maritime security environment.

The Government will further secure our northern waters by providing $15.7 million over two years for the continued lease of the *Ashmore Guardian* patrol vessel. Stationed on Ashmore Reef, the *Ashmore Guardian*'s role in deterring people smuggling and illegal foreign fishing makes it a key element of Australia's maritime security system.

The Government is also investing to ensure Australia's onshore and offshore detention facilities have the capacity to detain and process irregular maritime arrivals in an orderly fashion under humane conditions. The 2010-11 Budget will provide $143.8 million for capital funding for additional immigration detention facilities. The Government has also allocated $119.3 million over four years for the improvement of facilities, infrastructure and services on Christmas Island and $18.9 million over four years to upgrade existing onshore detention facilities at Villawood, Port Augusta and the Northern Immigration Detention Centre in Darwin.

The Government recognises the vital importance of international engagement in addressing irregular migration flows. The 2010-11 Budget provides $32.9 million over four years to enhance Indonesia's capacity to manage irregular migration flows in the region and reduce the number of irregular migrants seeking to enter Australia. This funding will support enhanced visa processes and accelerated refugee status determination in Indonesia.

These initiatives build on the whole-of-government strategies to combat people smuggling and strengthen border security announced as part of the 2009-10 Budget.

Protecting our community

The 2010-11 Budget provides funding of $199.2 million over five years to strengthen Australia's international and domestic aviation security regime against emerging threats. These measures are aimed at enhancing the safety and security of the travelling public through new and improved screening technologies, policing at airports, enhanced security procedures, and strengthened international cooperation.

The 2010-11 Budget will also provide continued funding to maintain Australian Federal Police aviation security commitments under the Unified Policing Model at the 11 major Australian airports.

The 2010-11 Budget also provides new investment of $69.4 million over four years to introduce a biometric-based visa system (finger prints and facial images) for certain visa applicants in 10 overseas locations and to develop data sharing capabilities with partner countries.

This Budget also includes $100.8 million over six years to deliver a new passport issuing system that will enhance the security and efficiency of Australia's expanding passport operations.