

STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

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STATEMENT 1: FISCAL STRATEGY AND BUDGET PRIORITIES

Part I: Overview

The 2001-02 Budget provides for a fifth consecutive underlying cash surplus establishing the longest run of budget surpluses for almost thirty years. The Budget also delivers additional funding for national priority initiatives, including measures to assist older Australians and to build a more effective welfare system. The significant tax reductions provided in the Budget will help promote an early return to strong growth in the year ahead following a temporary slowdown in 2000-01.

FISCAL OUTLOOK

The budget projections, presented in Table 1, have been revised down from the corresponding estimates published in the *2000-01 Mid-Year Economic and Fiscal Outlook* (MYEFO). This primarily reflects new policy measures and the impact of a slowdown in economic growth in the second half of 2000. Nevertheless, an underlying cash surplus of \$1.5 billion is expected in 2001-02, and cash surpluses are projected for each of the forward years (Chart 1).

Table 1: Budget aggregates

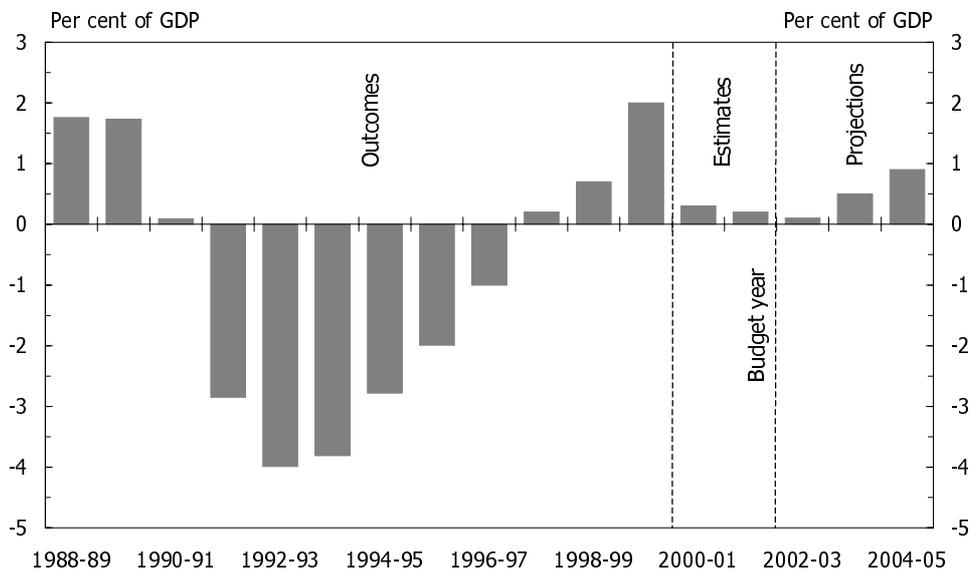
	Actual	Estimates		Projections		
	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Underlying cash balance (\$b)	12.7	2.3	1.5	1.1	4.1	7.4
Per cent of GDP	2.0	0.3	0.2	0.1	0.5	0.9
Fiscal balance (\$b)	13.5	5.4	-0.8	-1.5	2.7	6.9
Per cent of GDP	2.1	0.8	-0.1	-0.2	0.3	0.8

In accrual terms, the fiscal balance is expected to move into a small deficit over the next two years, before returning to surplus. The divergence between the cash and accrual budget measures is principally due to the impact of transitional arrangements implemented for the introduction of the new Pay As You Go system of company tax collections in 2000-01. In accrual terms, the revenue is shown against 2000-01 even though it is not actually paid until subsequent years; in 2001-02 and following. As a result the outcome for 2000-01 is abnormally high as compared to the actual cash outcome and the fiscal outcome lower in subsequent years as a consequence.

The Government's fiscal policy continues to be guided by the primary objective of maintaining budget balance, on average, over the course of the economic cycle. This objective allows fiscal policy to respond to variations in economic growth, while ensuring that sound government finances are maintained over time.

The fiscal outlook reflects the Government's decision to support economic growth through an appropriate level of further tax reductions and targeted spending on priority areas. This builds on the fiscal stimulus from the personal income tax cuts delivered on 1 July 2000 under *The New Tax System*. Tax cuts provided in this Budget include the forthcoming further reduction in the company tax rate to 30 per cent and the abolition of State and Territory Financial Institutions Duty (FID) on 1 July 2001. In addition, State stamp duties on marketable securities will be abolished and full input tax credits for motor vehicles will be brought forward from 1 July 2002, allowing GST registered businesses to claim full input tax credits for motor vehicles acquired on or after 23 May 2001.

Chart 1: Underlying cash balance



The significant fiscal consolidation achieved in recent years has provided the scope for fiscal policy to be supportive of growth in 2001-02. The underlying strength of the fiscal position is demonstrated by the reduction in the Commonwealth's net debt. In June 1996, Commonwealth general government net debt stood at \$96 billion, after an increase of around \$80 billion over the previous five years. From June 1996 to June 2002 \$58 billion of Commonwealth general government net debt will be repaid. This will lead to an annual interest saving of \$4 billion compared with 1996-97. The net debt to GDP ratio will fall from its peak in 1995-96 of 18.9 per cent to 5.4 per cent by June 2002.

ECONOMIC OUTLOOK

Slower than expected growth in the second half of 2000 and a weaker outlook for the world economy in 2001, have led to downward revisions to the MYEFO growth forecasts for 2000-01 and 2001-02.

The slower growth in the second half of 2000 was concentrated in the residential construction sector. In part, this reflected an unwinding of the bring-forward of residential construction into the first half of 2000, ahead of the introduction of *The New Tax System*. The downturn in this sector had flow-on effects to other parts of the economy through its impact on employment, consumer spending and business sentiment.

Conversely, net exports have been contributing strongly to growth in 2000-01, buoyed by the lower exchange rate and the Olympics, despite a deteriorating international outlook and adverse seasonal conditions in the farm sector. Overall economic growth is now expected to be around 2 per cent in year-average terms, and around 1 per cent in through-the-year terms in 2000-01. Growth is expected to rebound in 2001-02 to around 3 ¼ per cent in year-average terms and around 4 per cent in through-the-year terms.

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

	Forecasts		Projections		
	2000-01	2001-02	2002-03	2003-04	2004-05
Real GDP	2	3 1/4	3 1/2	3 1/2	3 1/2
Employment(a)	2	1	2	2	2
Wages(b)	3 1/2	3 3/4	3 1/2	3 1/2	3 1/2
CPI(c)	6	2	2 1/2	2 1/2	2 1/2

(a) Labour force survey basis.

(b) Average earnings (national accounts basis).

(c) The Consumer Price Index (CPI) projections are set as the mid-point of the medium-term inflation target and as such make no allowance for any further impact of *The New Tax System*.

Following the sharp downturn in the second half of 2000, residential construction is expected to contribute strongly to growth in 2001-02, adding to moderate growth in household consumption, business investment and net exports. While employment growth is expected to strengthen in the second half of the year, average unemployment rates are forecast to be slightly higher than recent levels, at around 7 per cent. In addition, it is expected that inflation will decline as the one-off effect of tax changes washes out of the index and the current account deficit as a per cent of GDP will fall well below its average level of the last decade.

Australia's growth performance over the second half of the 1990s has been exceptionally strong, underpinned by a sustained productivity surge. This strongly improved productivity performance is the result of substantial macroeconomic and structural reforms.

Sustainable fiscal and monetary policies set transparently in a medium-term framework, more flexible labour markets, more intense competition and, in particular, important reforms to government business enterprises have created a good investment climate and strong competitive incentives to seek higher productivity.

Looking ahead, there is clear potential for a second wave of productivity growth in Australia as advances in information and communication technology are harnessed —

a process supported by highly competitive markets and a favourable investment climate.

More information on the fiscal strategy is provided in Part II of this statement, and on budget priorities in Part III. Information on the fiscal outlook is provided in Statement 2, Statement 3 discusses the economic outlook and Statement 4 the role of new technology in productivity growth.

Box 1: One hundred years of Commonwealth Budgets

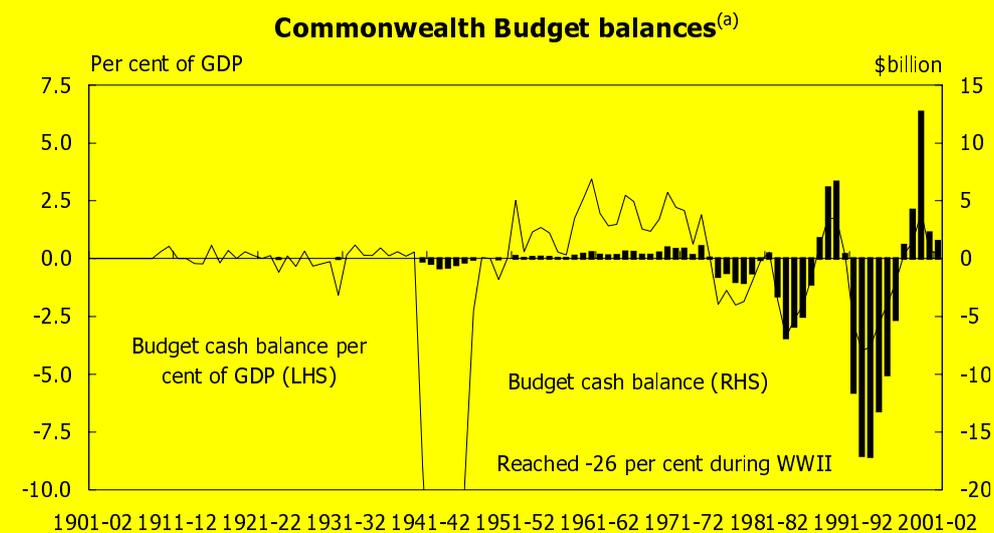
This year marks the centenary of Australian federation and of the presentation of Commonwealth Budgets. The Commonwealth Budget has grown from being largely a bookkeeping exercise to a major annual statement with a significant influence on the direction of national policy. The following extract from the first Budget speech illustrates the fiscal philosophy of the time:

‘(we are) animated by but one desire — to do that which is best for Australia, and fair, just, and equitable to all the States, and to all classes and sections of our community. Another grave responsibility which rests upon us at this particular time is to take the utmost care that there shall be no extravagant expenditure. While we should spend all that is reasonably necessary for the purpose of defending and developing our country we must see ... that there is no extravagance, because the money we spend is money which comes from the States, and if we do anything which may put them into a difficult position they will feel inclined to curse rather than to bless federation.’

Sir George Turner, KCMG, Treasurer, Australia, House of Representatives 1901-02, Debates, Vol. 5, pp 5673-5674.

The increasing importance of Commonwealth Budgets over the succeeding 100 years arose largely from the demands of World War II and changes in community expectations of the role of government. In response to the latter, the range of issues that the budget addresses has expanded over time, now including most areas of economic and social activity.

The need for care remains a priority for the Government and is put into practice through the objective of budget balance over the medium term.



(a) Headline cash balance to 1957-58, underlying cash balance after 1958-59.

Part II: Fiscal strategy

The 2001-02 Budget has been framed against the Government's medium-term fiscal strategy. The primary objective of the strategy is to achieve 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 its 1996-97 level; and*
- improving the Commonwealth net worth¹ position over the medium to longer term.*

The 2001-02 Budget continues to meet these objectives.

BENEFITS OF THE MEDIUM-TERM FISCAL STRATEGY

The Government's medium-term fiscal strategy provides a number of benefits to the Australian economy. These benefits were discussed in detail in Budget Statement 1 of the 2000-01 Budget. The benefits include:

- ensuring public finances are sustainable by requiring government spending to be covered by government revenue over the medium-term;
- improving the Government's net worth position (assuming positive net investment) and reducing the burden of net interest payments relative to the tax base over time;
- helping to maintain intergenerational equity by ensuring that current taxpayers meet the cost of current spending and do not pass on an inequitable burden to future generations;
- promoting strong and sustainable growth in the Australian economy by removing the Government's call on private savings (and the current account deficit) over the medium-term and creating the conditions for low interest rates; and
- allowing fiscal policy to react to short-term fluctuations in the economy to support economic growth.

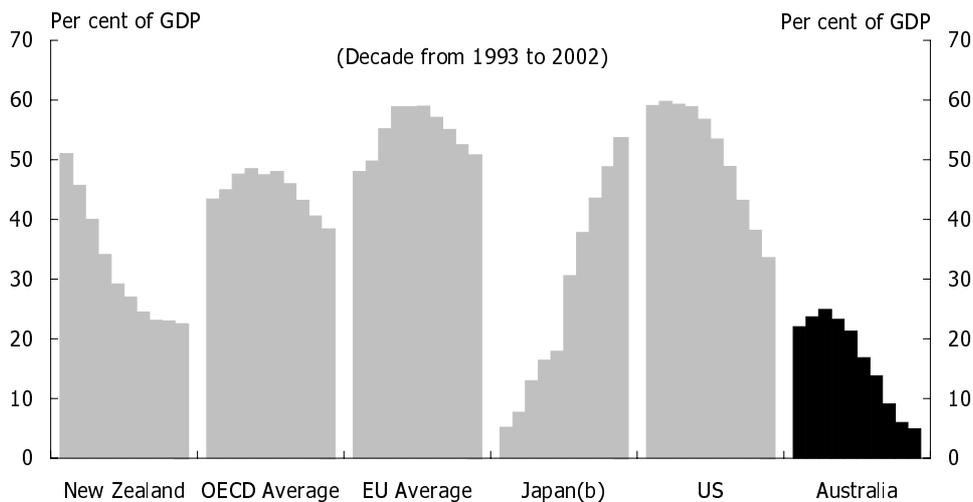
Adherence to the medium-term fiscal objective of budget balance on average over the course of the economic cycle also ensures that, abstracting from asset sales, nominal net debt will remain constant over time (as GDP increases over time, the ratio of net debt to GDP would fall). Net debt as a per cent of GDP has fallen considerably

1 Net worth is defined as general government assets less liabilities and discussed in more detail in Budget Statement 2 and Budget Statement 8.

since 1996, from its peak of around 19 per cent in 1995-96 to under 6 per cent projected for 2001-02.

Australia's total general government net debt level is much lower than in most other industrial countries (Chart 2). It is among the lowest in the OECD and compares well to the OECD average of around 40 per cent of GDP.

Chart 2: General government net debt levels in selected countries ^(a)



(a) Data are for the total general government sector (that is, the aggregate of all levels of government including the social security sector but excluding the PTE sector).

(b) The above net debt data for Japan are inclusive of assets held by the social security system. Japan's net debt, calculated exclusive of these assets, was estimated by the IMF to be almost 100 per cent of GDP by March 2001.

Source: OECD Economic Outlook 68, Reserve Bank of New Zealand, Monetary Policy Statement March 2001, ABS Public Sector Financial Assets and Liabilities, 1998 (Cat. No. 5513.0), ABS 1999-2000 Government Financial Estimates (Cat. No. 5501.0), ABS 2000-01 Government Financial Estimates (Cat. No. 5501.0), State and Territory 1999-2000 budget outcomes, 2000-01 mid-year reports, 2001-02 Budgets where available and Treasury estimates.

FISCAL POLICY RESPONSE TO ECONOMIC SHOCKS AND THE MEDIUM-TERM FISCAL STRATEGY

Within its inflation targeting framework, monetary policy can be adjusted much more quickly to respond to short-term variation in economic activity than can fiscal policy.

That said, a key strength of the medium-term fiscal strategy is that it allows fiscal policy to respond to short-term fluctuations in economic activity while providing an anchor to ensure that fiscal discipline is maintained over time. In the present situation of a temporary slowdown in economic growth, an easing in the fiscal position is appropriate as it helps to support demand growth in the economy.

The Government has provided a moderate stimulus in the 2001-02 Budget through targeted tax reductions, discretionary spending and by allowing the Budget to respond to the temporary slowdown in economic growth (through the operation of the 'automatic stabilisers' which reduce tax revenues and increase expenditure). This is an appropriate policy response to recent economic developments. It is consistent with the medium-term fiscal strategy.

The easing in the fiscal position in 2001-02 builds on the stimulus already provided in the 2000-01 Budget. Discretionary policy action in the form of significant personal income tax cuts associated with *The New Tax System*, the further reduction in the company tax rate, the abolition of the Financial Institutions Duty (FID) levied by the States and Territories and the bring forward of full input tax credits for motor vehicles acquired by GST registered businesses will support economic growth.

However, as noted in the Fiscal Strategy statement of the 2000-01 Budget, the scope to use fiscal policy to 'fine-tune' demand should not be overstated. The impact of significant changes in fiscal policy are likely to lag underlying changes in economic activity, and be offset, to some extent, by changes in private saving, the 'crowding out' effects of increased competition for funds, and changes in the exchange rate.

The significant fiscal consolidation of recent years has achieved an average budget surplus of around $\frac{1}{2}$ per cent of GDP. This has provided sufficient scope for fiscal policy to be accommodative of slower economic growth without threatening the sustainability of public finances. Furthermore, consistent with the temporary nature of the current economic slowdown, the fiscal easing is moderate and, as indicated in projections for the forward years (2003-04), is expected to reverse in later years.

The sustainability of the current fiscal position is also demonstrated by the expected continued improvement in the Government's net worth and reduction in the ratio of net debt to GDP over the budget and forward estimates period.

Commonwealth general government net debt as a proportion of GDP is expected to further decline from 6.4 per cent of GDP in 2000-01 to 5.4 per cent of GDP in 2001-02 (Budget Statement 2, Chart 3). On current policy settings, debt could be eliminated in 2004-05.

Policy measures introduced in this and previous budgets, including reforms to the welfare and taxation systems, deliver longer-term structural benefits to the economy. Furthermore, the Government's medium-term fiscal strategy also contributes to a stable economic environment conducive to longer-term productive investment. Together, these benefits will help to sustain stronger economic growth over the medium-term and improve the economy's flexibility to adjust to economic shocks. This will yield significant dividends to the budget over time and assist with the future achievement of fiscal objectives.

FISCAL POLICY BEYOND 2001-02

The underlying cash balance will remain in surplus over the entire forward estimates period.

A small fiscal deficit is currently projected for 2002-03 before the fiscal position returns to surplus over the remainder of the forward estimates period, in line with projected economic growth.

The small deficit in 2002-03 occurs as a result of accounting treatment which treats tax accruing but unpaid as revenue in 2000-01 and consequently treats it as not accruing in the later years when it is actually paid.

As always, the size of the projected surpluses in the forward years need to be treated with some caution, given uncertainties associated with economic projections and the 'no policy change' assumptions on which they are based.

The Government will continue to assess economic developments as they occur and will set fiscal policy each year according to the economic circumstances at that time and the requirements of sound economic and fiscal management established by the medium-term fiscal strategy.

Part III: Budget priorities

This Budget aims to promote a stronger and fairer Australia, including by addressing the needs of those living in rural and regional areas. New initiatives are being introduced to meet national priorities and funding is provided for identified areas of need.

New spending is being announced for the welfare system, older Australians and veterans, health, indigenous Australians, families, the environment, quarantine and rural telecommunications.

The Government is introducing a number of measures to build a more effective welfare system. The Government is also assisting older Australians through a range of measures for people of age pension age. These measures include increasing the effective tax-free threshold, providing a one-off \$300 payment for income support recipients and extending the telephone allowance of \$17.20 per quarter to senior Australians who qualify for a Commonwealth Seniors Health Care Card. Priority has been given to improving health services by enhancing Medicare and targeting key areas of community health concern. This Budget also addresses the needs of indigenous Australians, providing funding for native title, housing, health and employment.

Significant additional funding has been provided for the environment, with the Government committing \$1.0 billion over five years to extend the Natural Heritage Trust.

The Government is responding to new risks faced in regional and rural areas by providing funding to strengthen Australia's quarantine operations against the entry of foot and mouth disease and by providing assistance for flood mitigation. The Government is also providing funding for additional practice nurses in rural areas and extra regional university places. This Budget improves telecommunications services available to regional and remote consumers. Further investment in roads and aviation safety will promote an efficient and safe transport network.

This new funding builds on the additional funding committed since the Mid-Year Economic and Fiscal Outlook (MYEFO) to defence, innovation, roads, sports and the First Home Owners Scheme. In March and April this year, the Government reduced excise on petroleum fuels and draught beer.

In December 2000, the Government announced in the Defence White Paper, *Defence 2000: Our Future Defence Force*, a clear strategy for the defence forces and their funding. This Budget delivers on the funding commitment and associated enhancements to Australia's defence capabilities contained in the Defence White Paper.

The Government is encouraging innovation with *Backing Australia's Ability — An Innovation Action Plan for the Future*, announced in January 2001. This includes

significant funding aimed at promoting the generation and commercial application of ideas and the development and retention of Australian skills.

The additional funding allocated to these important areas has been made possible by the Government's ongoing sound economic management, and through ensuring that Australia has a fair and efficient taxation system to fund essential services for Australian communities.

The efficiency and fairness of the taxation system is enhanced by tax cuts and changes to create a more competitive tax system. From 1 July 2001, Australians will benefit from a further reduction in the company tax rate from 34 per cent to 30 per cent. Revenue from the goods and services tax and the Commonwealth Budget Balancing Assistance to the States will fund the abolition of the \$1.2 billion Financial Institutions Duty (FID).

BUILDING A MORE EFFECTIVE WELFARE SYSTEM

In order to build a more active, participation based social safety net, this Budget provides a substantial investment of \$1.7 billion over four years to substantially improve our welfare system.

The *Australians Working Together* package will build on our uniquely Australian social safety net to provide more choices and opportunities to people on income support to help them get a job wherever this is possible.

This up-front investment is designed to strike the right balance between incentives, obligations and assistance. It aims to:

- help more people achieve independence;
- see more families with jobs; and
- promote stronger, more robust communities.

More assistance

More services will be provided to assist people to become job ready and find jobs. The package provides for:

- job search training to be made available to all unemployed people. An additional 30,000 places will be provided over four years;
- a new transition to work programme, at a cost of \$44 million, including redirected funding, to provide additional help to people returning to paid employment who have been absent from the workforce for a long period;

- an expansion of the assessment component of Intensive Assistance which will result in a better identification of job seekers' needs, for up to 300,000 places;
- a significant expansion of assistance available to people with disabilities for additional education and employment opportunities;
- more practical support for indigenous Australians through community capacity building, increased education and training assistance and remote service delivery; and
- new Indigenous Employment Centres to offer work experience, job search support and access to training.

As a complementary measure to help parents take on work obligations, the Government will provide an additional 5,300 outside school hour child care places from 1 July 2001. The funding will provide establishment grants to new outside school hours care services and Child Care Benefits to eligible parents.

A welfare system that rewards work

The Government will improve financial incentives so that people will be better rewarded when they undertake available work, even if the work is intermittent or irregular. The package, *Australians Working Together — Helping people to move forward*, includes:

- the introduction of a Working Credit at a cost of \$500 million over four years. The Working Credit will allow people to accumulate, over time, a portion of the income test free area up to a total value of \$1,000. The accumulated balance can then be offset against earnings when taking up part-time or full-time work;
- Training Credits of up to \$800 for job seekers undertaking Work for the Dole or equivalent community work activities. Training Credits can be used to cover the cost of accredited training, including that provided by employers;
- a 'Participation Pack' to assist all Parenting Payment recipients which will include information on financial assistance, return to work assistance and support services; and
- a Literacy and Numeracy Training Supplement to assist job seekers to improve their skills in these areas.

More in return

In return for this assistance, those receiving unemployment payments will be expected to make the most of these new opportunities to participate in work and the community. Many people are already making a major contribution to society as parents, carers and volunteers. For many others, who have the capability, additional responsibility will be expected.

- Unemployed people aged up to 39 years will be required to undertake Work for the Dole or an equivalent amount of community service, part-time work or study every six months. People aged 18 to 20 years will be required to undertake 24 hours per week and people aged 21 to 39 years will be required to undertake 30 hours per week.
- Unemployed people aged 40 to 49 years will be expected to do some community work, part-time work or study (but not Work for the Dole).
- Parenting Payment recipients with children aged thirteen and over will be required to undertake, on average, six hours a week of activities designed to help them return to work (with flexibility for school holidays and illness). These activities will include education and training, confidence building or community service.
- Parenting Payment recipients with younger children (aged six and above) will be required to attend an annual interview, to help prepare them for re-entry to work in the future.

The rewards from the new welfare system will assist many people who currently rely on welfare to move into employment and secure a better income. This in turn will produce savings to welfare expenditure. This will have dividends for the whole of Australia.

Table 3: Welfare reform measures

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Helping people find jobs	11.2	104.2	103.1	105.9	324.4
Helping parents return to work	6.9	58.5	82.6	92.1	240.1
A fair go for mature age workers	2.6	22.0	56.2	65.6	146.4
Getting people the right help	6.4	34.3	43.3	59.5	143.6
A better deal for people with disabilities	6.2	59.3	54.5	57.0	177.0
Promoting self-reliance for indigenous Australians	4.4	15.1	27.5	35.7	82.7
Help to participate	9.7	131.4	183.6	196.0	520.7
More child care places	2.3	5.4	4.2	4.4	16.2
Community and business engagement	9.0	7.7	2.6	2.7	22.0
Planning for the future	1.0	1.0	2.0	1.0	5.0
Total gross expenses(a)	75.8	439.8	559.6	619.9	1695.1
Expected savings	0.0	-131.5	-373.3	-418.7	-923.6
Net expenses	75.8	308.3	186.3	201.2	771.5

(a) This includes a capital injection to Centrelink of \$16.9 million over two years.

Targeting income support arrangements

The Budget introduces a number of measures to improve the provision of accurate and up-to-date information from income support recipients to ensure correct payments and to reduce fraud. These measures are expected to deliver savings of \$143.1 million over the next four years.

In addition, recently announced changes to social security arrangements with New Zealand are expected to deliver savings of \$438.9 million over four years.

Youth transition to independence

During 2001-02, the Government will consult with stakeholders regarding the report of the Prime Minister's Youth Pathways Action Plan Taskforce, *Footprints to the Future*, on how to best advise and support young people in their transition through school, and from school into further education, employment and independence. In the interim, the Government will continue to provide around \$84.4 million over four years to support key programmes addressing youth transitions through school and beyond.

ACKNOWLEDGING OLDER AUSTRALIANS

The Government is introducing a number of measures to specifically address the needs of older Australians.

For a single person of age pension age, the effective tax-free threshold will increase to \$20,000 per annum and for couples, the effective tax-free threshold will increase to up to \$32,612 per annum. People of age pension age who receive income support or, with their partner, are outside the taxation and social security system will receive a one-off payment of \$300. This payment will not be subject to taxation or included in social security assets tests. The Government will also increase Commonwealth superannuation pensions in line with the Consumer Price Index twice yearly instead of annually.

The Government will extend the telephone allowance of \$17.20 per quarter and seek to extend other State and Territory concessions to all people who hold a Commonwealth Seniors Health Card.

The Commonwealth Seniors Health Card is currently available to single persons with an income up to \$41,000 per annum, couples with an income up to \$68,676 per annum and couples separated by illness or in respite care each with an income of up to \$37,615 per annum. The Government will increase these thresholds to \$50,000 for singles, \$80,000 for couples and \$45,000 each for couples separated by illness or in respite care.

Superannuation assets are to be exempted from social security means tests for people aged between 55 years and the age pension age. This will provide assistance to Australians seeking to maintain their superannuation savings in the years immediately prior to their retirement.

This Budget provides \$58.1 million over four years to improve aged care services. The major initiatives include additional funding for Day Therapy Centres, which provide rehabilitation services to older people, and for the Continence Aids Assistance Scheme. Funding is also provided for specialised care for older people from ethnic backgrounds and to finance 1,000 additional visitors for people in residential aged care who are isolated or lonely. The Government has allocated an extra \$10.0 million over two years for the Aged Care Standards and Accreditation Agency to ensure that users of residential aged care services receive quality care. In addition, the Government has

increased funding by \$5.0 million in 2001-02 to address the needs of residential aged care homes in rural and urban fringe areas of Australia.

Veterans

In recognition of the unique circumstances of their captivity, the Government will make a one-off payment of \$25,000 to former Australian Defence Force members who were Prisoners of War of the Japanese and to civilian internees and detainees of the Japanese. For those who are no longer living payments will be made to their surviving spouses.

Full access to the Repatriation Pharmaceutical Benefits Scheme will be provided to British, other Commonwealth and Allied Veterans of World War II who are aged seventy years or over and have qualifying service consistent with the requirements for the service pension.

ENHANCING AUSTRALIA'S HEALTH SYSTEM

This Budget provides significant additional funding to improve the health of Australians by enhancing Medicare, targeting key health needs and encouraging the appropriate use of medicines.

Strengthening Medicare

Medicare is the centrepiece of the health system and the Government is committed to maintaining and improving Medicare for the benefit of all Australians.

This Budget delivers substantial additional funding to general practitioners (GPs) by increasing patient rebates for GP services. This responds to the Relative Value Study (RVS), undertaken jointly by the Australian Medical Association and the Government. The study found that rebates for consultative work, primarily undertaken by GPs, are underfunded relative to rebates for procedural work, primarily undertaken by specialists. Consistent with this, the Government will increase rebates under the Medical Benefits Schedule and provide financial incentive payments to GPs so that the average (full time equivalent) GP will receive an extra \$13,900 per annum.

The Government will provide \$104.3 million over four years to assist GPs in rural Australia and other areas of need to employ practice nurses. Practice nurses support GPs by providing a range of medical services, including chronic disease management and population health activities. In a related measure, 100 rural nursing scholarships will be provided to increase the number of nurses working in rural and regional areas. An additional ten scholarships will be provided for indigenous students or Aboriginal health workers to undertake nursing education.

This Budget provides \$43.4 million over four years to extend the availability of after hours and emergency medical care. This measure will provide funding for up to

32 new after hours service sites. After hours services may include GP/nurse telephone call centres, joint GP arrangements, transport and home visits.

The Quality Use of Medicines Package includes funding for the National Prescribing Service, a consumer education strategy and the safe disposal of medicines. The National Prescribing Service seeks to improve the quality of prescribing while reducing growth in the Pharmaceutical Benefits Scheme (PBS). The consumer education strategy will encourage consumers to be more critical in their use of medications and to ask their medical practitioner about potential side effects and interactions with other drugs. The National Medicines Disposal Programme collects expired medicines from consumers to reduce the risk of accidental poisoning and medication misuse.

In a further pharmaceutical measure, the Government will clarify PBS instructions issued to prescribers for the use of cholesterol lowering medicines to ensure that these medicines are used by people most likely to benefit from them. These changes are estimated to save \$103.9 million over four years by reducing the unnecessary use of the medicines.

Responding to community health needs

The Government is improving health services across Australia through additional expenditure to address health needs in asthma, mental health, diabetes, cervical cancer and alcohol education and rehabilitation. Funding is being provided for these priority areas to improve the diagnosis and treatment of these conditions.

- Asthma affects over two million Australians, including one in four primary school children and one in seven teenagers. The Government will provide additional funding of \$48.4 million to GPs to proactively manage asthma with a three stage consultation programme. These consultations are to diagnose asthma, develop a care plan and review its management.
- The Government will allocate \$120.4 million over four years to improve the quality of care provided by general practice to people with a mental illness. This funding will be used for education and training for GPs on mental health issues and will provide support for GPs to deliver quality mental health care.
- This Budget provides \$49.8 million over four years for an Integrated National Diabetes Programme which will provide incentive payments to GPs to improve the diagnosis and management of people with diabetes.
- Additional funding of \$71.9 million over four years will be provided to encourage more women to be screened for cervical cancer. This funding will allow GPs to increase the screening of high risk women and reward general practices which reach overall screening targets.

- The Government will provide \$115.7 million over four years for a new Alcohol Education and Rehabilitation Foundation to help prevent alcohol and other legal substance misuse.

ADDRESSING INDIGENOUS DISADVANTAGE

The Government is committed to reconciliation with indigenous Australians. This Budget provides additional funding of \$283.7 million over four years in the key areas of the native title claim system, health, housing and employment.

New programmes for housing, health, employment and community capacity building will be developed in accordance with the framework for advancing reconciliation, agreed to by the Council of Australian Governments in November 2000. The Council committed itself to an approach based on partnerships and shared responsibilities with indigenous communities, programme flexibility and coordination between government agencies, with a focus on local communities and outcomes.

The Government is providing additional funding of \$85.9 million over four years to the Commonwealth native title system. This will facilitate the recognition and protection of native title in accordance with the *Native Title Act 1993*, and ensure that the system can resolve native title issues within reasonable timeframes.

From 2003-04, funding for the Primary Health Care Access Programme will be increased to allow for services to be delivered at a number of new sites. These services include the provision of primary and clinical care, population health and education activities. Additional services will be developed in a manner consistent with collaboration and shared responsibility with local communities.

An extra \$75.0 million over four years has been provided for upgrading indigenous housing in rural and remote areas. This will fund the repair of existing houses to a safe and healthy standard, build new homes and assist communities to better manage their housing and tenancy services.

Under the package *Australians Working Together* funding will be provided for:

- the development of Community Participation Agreements in consultation with the Aboriginal and Torres Strait Islander Commission, in which communities will decide what people should do in return for their income support, and plan for better delivery of services at the local level;
- the establishment and operation of Indigenous Employment Centres which will offer work experience, job search support and access to training for indigenous job seekers;
- the provision of education and training assistance to encourage indigenous students to complete Year 12 and to progress to further education and training

through Government promoted partnerships between communities, industry and education providers; and

- improved delivery of Centrelink services to remote areas.

Table 4: Additional funding for practical measures to address indigenous disadvantage^(a)

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Native title resourcing	19.7	24.9	23.7	17.5	85.9
Improved primary care in Aboriginal and Torres Strait Island communities	0.0	0.0	19.7	20.5	40.2
Healthy indigenous housing	3.0	23.0	24.5	24.5	75.0
Promoting self reliance for indigenous people	4.4	15.1	27.5	35.7	82.7
Total	27.1	63.0	95.4	98.2	283.7

(a) Totals may not add due to rounding.

JUSTICE

This Budget provides \$110.5 million over four years for the continued targeting of organised crime and illicit drugs activities. Stage 2 of the Australian Federal Police (AFP) Reform Programme provides ongoing funding for the retention of 159 federal agents and enables re-equipment programmes to proceed.

Stage 1 of the programme, implemented in 1998, enhanced the operational capability of the AFP through an increase in staff numbers, enhanced training and new equipment. The programme has been successful in combating crime in the community. Apprehensions of offenders have increased by 30 per cent, seizures of illicit drugs have increased by 800 per cent for cocaine and 165 per cent for heroin, and the restraint and recovery of criminal assets has increased by 140 per cent.

SAFEGUARDING AUSTRALIA'S NATURAL RESOURCES

Environmental degradation poses a long-term threat to our agricultural and other natural resource based industries, the quality of future water supplies and the conservation of biodiversity.

In this Budget, the Government extends the Natural Heritage Trust (NHT) by five years from 2002-03 with an injection of new funding of more than \$1.0 billion. The NHT will continue to provide a long-term, integrated and comprehensive approach to the conservation of Australia's land, vegetation, biodiversity, coasts and oceans. Established in 1997, the NHT is the largest ever Government investment in Australia's natural resources.

The additional NHT funding builds on the Government's previous investment, announced in October 2000, of \$700.0 million over seven years for the *National Action*

Plan for dry land salinity and water quality. The National Action Plan is the first comprehensive strategy to address salinity and water quality problems in Australia and will involve collaboration between all levels of government.

The National Action Plan and the NHT foster community participation in environmental management, with the aim of enhancing the skills, capabilities and confidence of communities in tackling environmental challenges.

Over seven years from 2000-01, under these two programmes alone, the Government is investing \$130 for every Australian in safeguarding our natural resources.

ASSISTING RURAL AND REGIONAL AUSTRALIANS

This Budget introduces measures to address the specific needs of those in rural and regional areas. The Government is assisting farmers by ensuring that Australia's quarantine operations are best practice; by extending measures for dairy farmers and by responding to the immediate needs of flood affected areas as well as by providing pro-active flood mitigation funding. In addition, as discussed in other sections, the Government is supporting rural and regional Australia by improving health services, providing additional regional university places, safeguarding our natural resources and improving transport and telecommunications.

In response to concerns over the recent outbreak of foot and mouth disease in Europe, the Government will increase funding to the Australian Quarantine and Inspection Service (AQIS), the Australian Customs Service (ACS), Australia Post and airports corporations to strengthen Australia's quarantine protection. An additional \$596.4 million over five years will be used to increase the inspection of passengers, mail and cargo entering Australia. This will see funding of \$287.1 million over five years provided to AQIS to ensure that Australia's quarantine policies and practices are based on sound science and risk analysis consistent with Australia's international obligations.

The Government has decided to increase the Passenger Movement Charge by \$8 and continue the policy of full cost recovery for AQIS and ACS programmes involving cargo and seaports. These cost recovery items will provide around \$400 million over four years towards the cost of the initiative.

The Government has extended the Dairy Industry Adjustment Package announced last year in recognition of the difficulties being experienced by dairy producers across the country. An additional \$142.4 million will be provided to assist those farmers and communities most adversely affected by the fall in market milk prices. This will include additional payments to regions under the Dairy Regional Assistance Programme, increased entitlements under the Dairy Structural Adjustment Programme, and discretionary payments in circumstances of extreme disadvantage. The levy on drinking milk will be extended to fund the extension of the package.

In December 2000, the Government announced an assistance package of up to \$216.0 million over two years for farmers and businesses in the flood-ravaged cropping zones of New South Wales and southern Queensland. This package includes cash grants for replanting crops, interest subsidies for farmers, income support for farm families and grants to small and medium sized businesses to help them meet the cost of flood repairs. It also includes \$71.0 million under the Natural Disaster Relief Arrangements for activities such as repairing roads and public facilities and ensuring people's emergency household needs are met. The Government is providing an additional \$30.8 million over four years to implement flood mitigation works and measures to reduce the risk of damage caused by floods.

IMPROVING TELECOMMUNICATIONS SERVICES

This Budget addresses key concerns raised by the Telecommunications Service Inquiry (TSI), which assessed telecommunications service levels to customers in metropolitan, regional, rural and remote areas. The TSI found that the continued increase in competition in telecommunications services throughout regional and remote Australia, combined with key Government initiatives, is likely to materially improve services available to consumers over the next few years. The Government will address the recommendations of the TSI and its findings in relation to mobile phone coverage at affordable prices, reliable access to the Internet, and the installation, repair and reliability of basic telephone services, particularly in rural and remote areas.

The Government will improve access to mobile telephony services by extending terrestrial coverage to smaller communities, improving coverage on key highways and subsidising satellite mobile handsets at a cost of \$79.2 million over three years.

Internet access issues identified by the TSI will be substantially addressed through the establishment of an Online Technical Assistance Programme. This will comprise an Online Help Service funded by the Commonwealth and a Technical Support Service funded by Telstra to support a minimum data speed for dial-up Internet access over the public switched network. The Government will provide \$12.0 million over three years towards the Online Help Service and to support the operation of an independent advisory panel to oversee this programme. Telstra will provide up to \$38.0 million over three years towards the Technical Support Service.

Over four years, \$52.2 million will be provided to establish a National Communications Fund. This fund will award grants to assist significant telecommunications projects targeted at regional communities, particularly in the provision of health and education services. Other initiatives include improved payphone and other services for indigenous communities in remote areas.

The Government will also amend the Customer Service Guarantee to reduce the maximum new service connection time in rural and remote areas from twelve to six months and to require temporary services to be provided where the standard telephone service cannot be connected within 30 working days. In addition, the

Australian Communications Authority will review whether the existing standards of the Customer Service Guarantee are appropriate in a multicarrier, multiplatform environment.

Table 5: Telecommunications Service Inquiry (TSI) Initiatives^(a)

	2001-02	2002-03	2003-04	2004-05	Total
	\$m	\$m	\$m	\$m	\$m
Extending mobile phone coverage	20.0	29.3	29.9	-	79.2
National Communications Fund	0.7	13.4	25.4	12.7	52.2
Other Telecommunications Service Inquiry measures	7.5	2.9	4.7	0.9	16.0
Total	28.2	45.6	60.0	13.6	147.4

(a) The total of \$147.4 million does not include \$9 million that the Government will allocate from the Rural Transactions Centres Programme or \$6 million allocated from the Rural Internet Access Fund, an existing Telstra Social Bonus programme.

Australian Broadcasting Corporation

The Government will increase funding for the Australian Broadcasting Corporation (ABC) by \$71.2 million over four years. The Government is providing this funding in response to a request from the ABC to enable it to undertake further regional and local initiatives, including additional local radio production and local television production.

IMPROVING AUSTRALIA'S TRANSPORT SYSTEM

The Government continues to fund investment in roads, rail, aviation and maritime, in recognition of the economic and social importance of an efficient and safe transport network.

In November 2000, the Government announced additional funding of \$1.6 billion over five years, beginning February 2001, for Australia's road network. The majority of the funding (\$1.2 billion) is being distributed directly to local government, for councils to spend according to local priorities. Funding of \$400.0 million over five years will be spent on National Highway and Roads of National Importance projects to develop key arterial links in outer-metropolitan areas, such as the Scoresby freeway in Melbourne.

To improve aviation safety, this Budget provides increased funding of \$36.0 million over four years for the Civil Aviation Safety Authority. This funding will be used to undertake an aviation safety regulatory improvement programme, meet increasing demand for compliance and assist in the implementation of a single point of entry to provide better quality and more timely regulatory services to its clients. Additional funding of \$5.4 million over four years will also be provided to the Australian Maritime Safety Authority to improve search and rescue arrangements.

In this Budget, funding of \$111.0 million for undertaking interstate railway initiatives in New South Wales will be redirected to the Australian Rail Track Corporation

(ARTC). The equity injection of \$111.0 million for the ARTC is subject to a business case being agreed with the Government.

In February 2001, the Government announced additional funding of up to \$26.4 million to be provided to the Alice Springs to Darwin railway link in the form of a grant. The railway link will open up new opportunities for Australian industry. This contribution is in addition to the \$165.0 million previously committed to the project.

INNOVATION AND EDUCATION

Innovation, the use of ideas in new and more effective ways, is a key to Australia's future economic and social prosperity. In recognition of this, the Government released Backing Australia's Ability — An Innovation Action Plan for the Future, in January 2001. This package invests \$3.0 billion over five years in three key elements of Australia's innovation system: generating ideas, commercially applying ideas, and developing and retaining Australian skills.

Generating ideas

To strengthen Australia's ability to generate ideas, the Government will double funding for competitive research grants provided by the Australian Research Council, with \$736.4 million in additional funds over five years. A further \$583.0 million over five years will be provided to support university research infrastructure. In addition, \$155 million will be invested in major national research facilities, and \$176 million (including \$85 million of the ARC funds) will finance the establishment of world-class centres of excellence in biotechnology and information communications technology.

In addition, the Research and Development (R&D) Tax Concession arrangements will be enhanced. There will be a premium concession rate of 175 per cent on additional R&D expenditure and small companies will be eligible for a tax rebate. The R&D Start Programme will be extended through additional funding of \$534.9 million.

Commercially applying ideas

To accelerate the commercial application of ideas, an additional \$227.0 million over three years will be provided for Cooperative Research Centres. Funding for the Commercialising Emerging Technologies (COMET) Programme will more than double to provide early assistance to firms by improving their commercialisation skills. A pre-seed fund will be available to universities and public sector research agencies to take proposals to a venture capital-ready stage. In addition, an Innovation Access Programme, involving \$100.0 million over five years, will be introduced to increase access to global research and technologies.

Developing and retaining Australian skills

Major initiatives to develop and retain Australian skills include an income-contingent Postgraduate Education Loans Scheme for fee paying students and an additional 2,000 university places each year, with priority given to information and communication technology, mathematics and science. An additional \$184.3 million will be provided to government schools, where the Enrolment Benchmark Adjustment is triggered, to foster the foundational skills necessary for successful innovation.

Table 6: Backing Australia's Ability — An Innovation Action Plan for the Future^(a)

	2001-02	2002-03	2003-04	2004-05	2005-06	5 Years
	\$m	\$m	\$m	\$m	\$m	\$m
Competitive research grants	19.2	92.5	142.8	205.4	276.5	736.4
Project-specific research infrastructure	26.8	47.7	68.7	89.3	104.5	337.0
Systemic research infrastructure in universities	26.3	53.2	54.4	55.5	56.6	246.0
World class centres of excellence	6.0	12.6	17.0	23.9	31.5	91.0
Major national research facilities	5.0	20.0	30.0	50.0	50.0	155.0
R&D Start (b)	0.0	33.9	102.6	159.7	184.7	480.9
Premium rate R&D tax concession	30.0	90.0	105.0	110.0	125.0	460.0
Cooperative research centres	0.0	0.0	55.0	57.0	115.0	227.0
Expansion of COMET programme	10.0	10.0	10.0	10.0	0.0	40.0
Innovation access programme	1.0	19.6	22.2	27.3	29.9	100.0
Pre-seed fund	6.4	16.9	21.8	21.8	11.8	78.7
Targeted university places	13.9	24.7	33.0	39.5	39.9	151.0
Postgraduate Education Loans	0.7	-2.0	-7.7	-11.7	-15.9	-36.6
Science, mathematics and innovation in government schools	33.1	34.9	36.8	38.7	40.8	184.3
Other measures	-4.9	-62.1	-79.6	-70.3	-62.0	-279.1
Total	173.5	391.9	612.0	806.1	988.3	2971.6

(a) The figures in the table may not add due to rounding.

(b) This abstracts from the related capital measure.

Regional university places

Complementing the initiatives in *Backing Australia's Ability*, the Government will fund additional undergraduate student places in regional higher education institutions and campuses from 2002. This will address changing demographic patterns and the need to increase access and participation in higher education in particular regions. In the first year 670 new places will be provided, rising to 1,832 places in the fourth year.

SPORTS

Last month, the Government announced Backing Australia's Sporting Ability — A More Active Australia, the most comprehensive and well-funded sports policy Australia has yet seen.

The Government is investing an additional \$161.6 million in Australian sport over the next four years. This includes \$32.0 million over four years for participation initiatives, which will provide greater opportunities for Australians to participate in sport at the grass roots level. As part of the policy, \$122.2 million over four years will be provided to continue Australia's outstanding record of sporting achievements, particularly for high performance sports. Additional funding is also being provided to enhance the Government's *Tough on Drugs in Sport* strategy.

Building upon the support given to the Sydney 2000 Olympic and Paralympic Games, the Government will provide funding to support the staging of the Melbourne 2006 Commonwealth Games. The Government is providing \$90.0 million in this Budget towards redeveloping the Melbourne Cricket Ground for the 2006 Commonwealth Games. The upgrade will provide for essential improvements for spectators' stands.

DEFENCE WHITE PAPER

In December 2000, the Government released the Defence White Paper, Defence 2000, the most specific and detailed defence plan in more than 25 years. The White Paper followed a major review of Australia's defence requirements and maintains the Government's strong commitment to national security through the development of Australia's armed forces.

The military enhancements announced in the White Paper will significantly improve Australia's ability to pursue the principal strategic objectives of defending Australia and contributing to the security of our immediate neighbourhood. The White Paper foreshadowed a number of major capital projects, including the acquisition of four Airborne Early Warning and Control aircraft and the bringing of six Collins class submarines to a high level of capability. The additional funding will also be used to increase the responsiveness of land forces through the maintenance of six battalion groups.

This Budget provides \$5.1 billion over four years to begin implementing the capability enhancements contained in the White Paper, including \$507.0 million in 2001-02.

In addition to funding identified in the White Paper, Defence will retain proceeds from asset sales, totaling \$241.0 million in 2001-02. Proceeds from asset sales of \$263.2 million will be returned to the budget. Australia's successful involvement in INTERFET has resulted in an underspend of monies budgeted for the East Timor operation. Out of this underspend, \$100 million in 2001-02 and \$70 million in 2002-03 will be allocated to Defence in addition to the White Paper funding increase.

The Government is committed to pursuing further improvements in Defence financial and budgetary management to ensure this increased level of funding delivers value for money. To further this aim, Defence has recently presented to the Government its first Defence Financial and Management Plan which is built around the White Paper. For national security reasons, this more detailed plan is not a public document.

IMPLEMENTING TAX REFORM

This Budget implements the next stage in the Government's programme of tax reform.

Further benefits from tax reform

The Government will bring forward full input tax credits for motor vehicles from 1 July 2002, allowing GST registered businesses to claim full input tax credits for motor vehicles acquired on or after 23 May 2001.

On 1 July this year, further changes to the taxation system will be introduced.

- The company tax rate will be reduced from 34 to 30 per cent, among the lowest rates in the region.
- Financial Institutions Duty (FID) applied by State and Territory governments will be abolished, saving about \$1.2 billion for individuals and companies.
- State stamp duties on quoted marketable securities will be abolished, saving about \$675 million for investors and removing an impediment to investment and equity market development in Australia.
- Excess imputation credits (for dividends paid from 1 July 2000) will be refunded to resident individuals, complying superannuation funds, endorsed charities and gift deductible organisations. Shareholders will benefit by more than \$2 billion over four years.
- The Simplified Tax System will provide eligible small businesses with a cash-based approach to tax accounting, simpler depreciation and trading stock rules, and will reduce tax payable by small businesses who enter the scheme, by over \$1 billion in the first three years.
- The Uniform Capital Allowances system will simplify amortisation regimes and reduce compliance costs, replacing over 27 separate write-off regimes with a uniform approach.
- New thin capitalisation arrangements will prevent multi-national corporations from inappropriately minimising Australian taxation by allocating a disproportionate amount of debt to their Australian operations.

Further business tax measures, including the proposed consolidation regime which will allow groups of wholly owned companies to be treated as a single taxpaying entity, are scheduled to commence from 1 July 2002. Other reform measures to further improve the business taxation system are being developed for consideration.

Excise and customs duty

In March 2001, the excise and customs duty on petroleum fuels was reduced by 1.5 cents per litre for unleaded petrol, leaded petrol and other petroleum products that attract equivalent rates of duty. Duty on aviation fuels and on those petroleum products attracting concessional rates of duty was reduced by a proportional amount. The automatic half-yearly indexation of fuel excise was also abolished. The cost of these measures is approximately \$4.6 billion over four years. The Government has also reduced the excise on draught beer. The estimated cost of this initiative is \$630 million over four years. The ACCC is monitoring draught beer and fuel prices to ensure that the reductions in excise are being fully passed on to consumers.

First home owners

In March 2001, the Prime Minister announced an additional \$7,000 grant for first home owners, bringing the total to \$14,000, for those people who enter into contracts between 9 March 2001 and 31 December 2001 inclusive to build or purchase new homes. The grant, which is additional to the \$7,000 grant available to first home owners since 1 July 2000, is intended to provide a targeted, short-term stimulus to the building sector. The measure is expected to cost \$150.0 million.