

BUDGET SPEECH 1997-98

DELIVERED ON 13 MAY 1997 ON THE SECOND READING

OF THE APPROPRIATION BILL (NO.1) 1997-98

BY

THE HONOURABLE PETER COSTELLO, M.P.

TREASURER OF THE COMMONWEALTH OF AUSTRALIA

Mr Speaker, I move that the Bill now be read a second time.

In last year's Budget, delivered less than nine months ago, this Government laid out a plan to turn around our nation's finances and secure our future. Our country had been on a losing strategy — a path of deficit and debt to the next century.

So we took that problem — not one of our making — we faced it and we determined to fix it. You can't fix years of neglect overnight. But our Government laid out its strategy and got on with the job.

Tonight I can report we have made very significant progress.

And tonight I announce measures to consolidate and extend that progress, measures which can secure our objective to put the Commonwealth budget into surplus in this our first term of Government. Our consolidated measures turned around a \$10.3 billion Labor deficit in 1995-96 and they lay out a path to a Coalition surplus in 1998-99.

Whilst the former Government was running up deficit and debts our prospects were getting bleaker. Our future choices were getting narrower and harder. But paying our way, and then reducing our debt, means our prospects are getting brighter and our opportunities greater.

In the forthcoming year the Commonwealth has no net borrowing requirement. In fact for the first time in nearly a decade, this year the Commonwealth will not run up debt. In the coming financial year we will repay it. We will repay over \$5 billion of debt.

The Government's active programme of privatisation — one third of the capital of Telstra — is not being done to balance the books. Aside from establishing the National Heritage Trust that money is going to retire debt. That money will free future Australians from debt and the debt servicing costs that threatened to choke them.

From the time we came to office to 2000-01 the Commonwealth's net debt to GDP ratio will almost halve on current forecasts.

Mr Speaker, for the second time in a row, I announce that this will be done with no increase in income tax rates, no increase in the company tax rate, no increase in the wholesale sales tax, no lift in the petrol excise. In fact, for the second Budget in a row, tonight I will announce tax reductions.

The Government's programme of fiscal consolidation is being accomplished on the expenditure side of the Budget. From our coming to office to the turn of the decade, underlying outlays are projected to fall from 27 per cent of GDP to just under 23 per cent.

This year's Budget papers provide unprecedented information on our fiscal strategy and economic outlook. It is the first Budget to be prepared in accordance with the Charter of Budget Honesty Bill currently before the Parliament.

When enacted, that Charter will require all future governments to match the standards of integrity in financial reporting that we are setting today.

The specific measures I am announcing tonight are directed to:

- helping families;
- boosting small business;
- creating jobs; and
- encouraging saving.

ENCOURAGING PRIVATE SAVING

Mr Speaker, increasing savings will bring important economic benefits for Australia. It will reduce our reliance on foreign debt.

With more saving we can finance more of our investment to grow the economy faster and produce jobs. Higher savings will raise the speed limits to growth that have held us back over the past decade.

I have outlined the way in which the Government will move from borrowing to saving in the first term of the Howard Government. And now is the time to encourage individuals to save as well.

Tonight I announce the Government's plan to reduce the tax on saving.

Every Australian will be eligible for a 15 per cent tax rebate on their savings. The measure will be introduced in two stages with a 7.5 per cent rebate from 1 July 1998 and the full rebate from 1 July 1999.

The rebate will apply to the first \$3,000 of taxable income from savings however derived. For example, the rebate would apply to the whole of the interest earned on \$60,000 invested at 5 per cent.

Alternatively, the rebate can be claimed in respect of any payment of personal contributions into superannuation up to \$3,000. A person who pays \$3,000 into superannuation will get a \$450 tax rebate.

The 15 per cent rebate applies to the marginal tax rate. For a person on the 20 per cent tax rate it will mean the income they put into superannuation is taxed at just 5 per cent.

Mr Speaker, the savings rebate will benefit around 6 million taxpayers. The bulk of the benefit will flow to individuals with taxable income under \$40,000. It will benefit current savers and encourage new savings.

It is a significant encouragement to save in the form of superannuation, but it also provides assistance for individuals who are saving for other life cycle purposes such as education, health care, housing, and retirement.

The savings rebate takes the place of Labor's L-A-W tax cuts which were never paid. This brings to an end that tawdry episode. Other Labor schemes to deduct contributions from take home pay and make Government payments into superannuation couldn't have worked. And they were discriminatory — to one class of saving (superannuation) — and one part of society (those in the workforce).

The Coalition approach is universal — open to all Australians and all types of saving. In particular, older Australians who have saved for their retirement are brought in from the cold and given the chance to take up the savings rebate.

It will equally benefit individuals who have used their savings to build up a business and subsequently derive a return from that business.

The savings rebate is estimated to cost \$350 million in 1998-99 and \$1.4 billion in 1999-2000, when the full rebate is payable.

This measure will provide a saving of \$1 billion against the forward estimates in that year over the cost of the previous proposals for Government superannuation payments.

SUPERANNUATION AND RETIREMENT INCOMES

The savings rebate represents an important enhancement to Australia's retirement income system. It provides significant encouragement to people to save for their retirement through superannuation and other saving.

The Government is also announcing tonight a number of other major measures to improve the operation of our superannuation and retirement income system. These are designed to promote savings, choice, and incentive.

Superannuation Preservation Arrangements

Mr Speaker, the Government considers it important to ensure that savings through superannuation are directed to their intended purpose — providing income in retirement. It is for this reason that superannuation is given concessional tax treatment.

We have therefore decided to introduce a number of improvements to the preservation arrangements.

The preservation rules will be amended from 1 July 1999 to ensure that all future superannuation contributions, including personal contributions, and earnings, will be preserved until preservation age, except in limited circumstances.

Benefits which are unpreserved at that date will remain so.

This measure will overcome the technical difficulties associated with the changes to preservation, announced by the previous Government, which were to have taken effect from 1 July 1998.

The Government has also decided to reform the arrangements for early release of superannuation benefits with effect from 1 July 1997.

This will improve both the equity and the administration of these arrangements, while reducing the scope for avoiding the existing rules.

Early access to benefits will still be available in cases of genuine hardship.

As indicated prior to the election, the Government will proceed with a phased increase in the preservation age from 55 to 60 by 2025. This proposal was first announced by the former Government in 1992.

For someone born before July 1960 the preservation age will remain at 55 years, while for someone born after 30 June 1964 the preservation age will be 60.

Increasing the preservation age to 60 will reduce the gap between the preservation age and the qualifying age for the Age Pension.

People retiring prior to age 60 will still be able to access their benefits in the form of a non-commutable life pension or lifetime annuity.

These preservation reforms will have a very positive impact on national saving and, ultimately, a positive impact on the cost of social security.

Choice in Superannuation

Mr Speaker, the Government is also committed to giving Australians more choice and control over their superannuation savings.

Accordingly, from 1 July 1998, employees will be given greater choice as to which Fund or Retirement Savings Account their Superannuation Guarantee and award superannuation contributions are made into.

They can make their saving work harder for them as providers compete to enhance their performance. It will give employees the power to protect their savings by taking them out of non-performing funds.

To improve the flexibility of superannuation for low income employees, from 1 July 1998, employees earning \$450 to \$900 per month from an employer will be permitted to receive wages in lieu of Superannuation Guarantee contributions, with their employer's agreement. The \$900 threshold will be replaced by an \$1,800 threshold over two months where an employee is under 18 years of age.

A Fair Safety Net

Mr Speaker, this Government has introduced legislation to maintain the pension at 25 per cent of Male Total Average Weekly Earnings. We are the first Government to ever do so.

And tonight's budget includes this commitment as a specific budget outlay for the very first time. This underlines the Government's commitment to maintain the income of age pensioners.

Deferred Pension Bonus Plan

The Government has also decided to introduce a new opportunity for older Australians.

From July 1998 people of Age or Service Pension age will become eligible for a pension bonus if they choose to defer their pension to continue in gainful employment for at least 25 hours per week. The Government will pay a bonus of 9.4 per cent of basic Age or Service Pension entitlement for each year of pension deferral, up to a maximum of five years.

The bonus will be paid as a lump sum on pension take-up. A maximum bonus of \$21,251 for a single person and \$35,450 for a couple will be payable to someone who has delayed retirement for 5 years and has then been granted pension at the maximum rate. The bonus will be tax exempt.

Means Test Treatment of Retirement Income Products

Mr Speaker, the Government is also introducing a number of measures to make the social security means test treatment of retirement income products simpler, more consistent and more equitable. These measures will further encourage people to take up income streams in retirement and increase competition in the provision of retirement income stream products.

OUTLAYS MEASURES

Mr Speaker, as I mentioned earlier, the Government is turning the budget deficit to surplus while meeting high priority spending needs. It is able to do so by reordering spending priorities and targeting programmes more effectively.

Families

In last year's Budget I announced the Family Tax Initiative, which has already begun to provide significant assistance for low and middle income families.

I also announced a rebate of \$450 on the cost of private health insurance which will become available for families in seven weeks time on 1 July.

Our commitment to families does not end there.

There are many families across Australia where carers make considerable sacrifices to look after elderly relatives or children with disabilities.

To further assist such families, the rate of Domiciliary Nursing Care Benefit will be aligned with the Child Disability Allowance from 1 July 1998. This will increase the rate of benefit payable by over 25 per cent and will provide carers who provide home-based rather than nursing home care with an extra \$16.60 per fortnight at current rates.

This measure is designed to help the aged and those with a disability to remain in the community rather than enter institutional care.

This is the second stage of the Government's improved support for carers. The first was announced in the National Carer Action Plan last year.

In addition, eligibility for the Carer Payment for personal care of a severely disabled person will be extended to those caring for children under the age of 16 with profound disabilities, from 1 July 1998. A full time carer will be eligible for a payment of up to \$347.80 per fortnight at current rates.

From 1 July 1998, new child disability tables will be introduced to provide a more objective basis for assessing the eligibility of applicants for the Child Disability Allowance. New claimants will be assessed against these tables and a Health Care Card will be provided for children with a chronic illness who do not qualify for the Allowance on the basis of the new tables.

Additional funding of \$54 million over four years is to be provided under the Commonwealth-State Disability Agreement for additional accommodation support for people with disabilities. The measure will allow at least 500 additional families to access personal care and accommodation support for a person with severe or profound disabilities.

Rural and Regional Australia

Mr Speaker, the Government strongly values the contribution made by rural and regional Australia. We recognise the exceptionally difficult time it has endured over the past decade.

Rural families make great sacrifices to send their children away for tertiary education. From 1 July access to AUSTUDY will be improved for families who have two or more children away for study. The deduction under the income test for a second and any subsequent child will be doubled to allow more families more access to AUSTUDY.

In the second half of 1997, the Government will announce a comprehensive rural policy package of \$200 million over four years to replace the ineffective Rural Adjustment Scheme.

The Government will consult industry groups and the States before finalising the package.

In addition, I announce tonight the provision of an additional \$76 million over the next four years to increase our quarantine capacity and improve our quarantine service.

A 'best practice' quarantine service is of critical importance to the Australian economy, particularly our rural sector, with disease incursions having potential costs of billions of dollars.

Quarantine is also vital to human health and the natural environment.

The improved domestic quarantine process will continue to have regard to our international obligations and promote our reputation as a major exporter of agricultural products.

The Environment

Mr Speaker, tonight's budget includes the \$1.25 billion set aside to fund the Natural Heritage Trust over six years.

The Government was opposed tooth and nail by the Opposition and minor parties in establishing this, the largest restoration programme for our greatest natural asset — the environment. We have succeeded. The programme to restore our rivers, vegetation, and land will be of special benefit to rural and regional Australia. A separate statement on the Environment covering these programmes is being released by the Minister tonight.

Making Government More Efficient

Mr Speaker, tonight's Budget will deliver significant savings in the cost of delivering Government programmes. In 1998-99 outlays savings measures amount to around \$1.75 billion.

The Government has recently announced the Defence Reform Programme to carry out and add to the findings of the Defence Efficiency Review. The review identified ways we can enhance our defence capability. The Government will not reduce defence expenditure but we will get better defence capability by modernisation, enhanced training and reallocation of resources.

The Government has decided that its information technology infrastructure will be put out to competitive tendering, which is to be completed by the end of 1998-99. This is expected to lead to substantial annual savings of around \$100 million in future years.

Pharmaceutical Benefits

Over the past year the Government has taken a number of steps to ensure the sustainability of the health system. Measures to combat unsustainable growth in pharmaceutical benefits expenditure will be introduced in 1997-98.

The practice of price premiums will be extended beyond individual brands of drugs which have identical chemical make-up to groups of medicines which have a similar clinical effect. This will build upon the generic pricing policy introduced by the previous Government in 1990.

From February 1 1998, there will be a base price determined by the Pharmaceutical Benefits Advisory Committee for a number of therapeutic groups containing very similar drugs. No patient need pay more. But a patient who chooses a brand more expensive than the base price will pay the difference. Based on experience with pricing of alternative brands, price differences are expected to settle in a narrow range of about \$2 per prescription. Implementation will be based on professional and clinical advice, and there will be a two-year education campaign incorporating a help line service. Funding will be provided to assist pharmacists advise the community about the changes and other aspects of cost-effective use of medicines, including the availability of alternative brands. This measure is expected to result in savings of around \$560 million over four years.

The Government has also decided to delete from the Schedule of Pharmaceutical Benefits a number of drugs used to treat less serious medical conditions, most of which can be obtained without a prescription, resulting in an estimated \$112 million in savings over the next four years.

A National Prescriber Service will be established to help doctors improve the way they prescribe medicines. This service will be managed by a board made up mainly of doctors and government representatives, which will operate at arm's length from the Government, and will operate from March 1998. Around \$22 million will be provided for this service over the next four years although this measure is expected to yield savings of around \$24 million over the period through better and more appropriate prescribing.

Childcare

The Government remains committed to the provision of assistance to low and middle income families so that they can obtain affordable child care and parents can participate in the workforce should they choose to do so.

Planning benchmarks will be adopted to influence new long day child care centres to locate in areas of greatest need, and the number of additional new private child care places which will be eligible for Childcare Assistance will be 7,000 per annum in 1998 and 1999.

There will be a 20 hour per week limit on access to Childcare Assistance where parents use childcare for non-work purposes. This measure will ensure Childcare Assistance is used for its primary goal: facilitating workforce participation by parents. There will be appropriate exemptions for families in crisis situations.

Without these measures, Childcare Assistance would not remain viable in the longer term. It will still remain one of the fastest growing areas of expenditure in the budget.

Public Housing

The Commonwealth will provide \$975 million for public housing under the Commonwealth-State Housing Agreement in the coming year, although efficiencies in public housing reform will yield savings of \$50 million per year.

To remove an anomaly, those who reside in subsidised public housing will no longer be eligible for rent assistance.

This measure will save around \$60 million in a full year and will prevent public housing tenants who pay below market rent, as a consequence of the Commonwealth-State Housing Agreement, also benefiting financially from sharing their accommodation with persons who receive rent assistance.

Consistent with the Government's emphasis on improving the operation of the social security system, the Minister for Social Security will also announce tonight a number of reforms aimed at simplifying payment arrangements, removing anomalies and targeting fraud.

New Initiatives

Mr Speaker, this Government will not let down those genuinely requiring income support. We will guarantee a decent safety net for those who require it. And where possible, we will provide the opportunity for those on income support to give something back to the community.

This budget funds up to 10,000 places in 70 pilot projects to Work for the Dole. In the pilot phase, priority will be given to young people aged 18-24 years who have been unemployed for at least six months. Projects will involve two to two and a half six hour days per week.

This initiative will give young unemployed people a chance to add to their experience and develop their work ethic through participation in projects which will be of lasting value to the community.

Projects will be focussed on regions with the highest levels of youth unemployment with an emphasis on non-metropolitan areas in selecting suitable projects. It will be a condition that they directly benefit the community. The Government has allocated an additional \$21 million over two years to fund these places from late this year.

Federation Fund

Mr Speaker, in four years time, our nation will celebrate its centenary — 100 years since federation. Naturally, it will be a time for remembering and marking our achievements. Tonight I am announcing the establishment of a new fund — The Federation Fund — to comprise \$1 billion to fund projects of national significance as part of the centenary activities.

As appropriate, it will fully fund projects, augment existing funding, or contribute on a matching basis with other governments and the private sector. The projects are to be well advanced but not necessarily completed by the Centenary of Federation in 2001 and will be selected on the basis that they will generate jobs in the construction phase and make a significant and ongoing contribution to Australia and the Australian economy.

There will be a reasonable geographic spread of projects around Australia. Projects will be selected by the Commonwealth Government in consultation with State and Territory Governments. The Prime Minister will be writing to Premiers and Chief Ministers indicating the broad criteria that will apply for possible projects and seeking their views on projects that might be financed from the Federation Fund. The National Museum of Australia will be one of the projects. Funding will commence in 1998-99 and it is expected to conclude in 2001-2002.

REVENUE MEASURES

This Budget continues the Government's commitment to reducing tax compliance costs for small business.

In March this year, the Prime Minister announced the Government's response to the recommendations of the Small Business Deregulation Task Force. That response included a number of taxation measures designed to assist small business. It built on measures to free small business from capital gains tax on rollover of assets or business. It provides a record keeping exemption that will be available to up to half of small businesses paying fringe benefits tax.

Tonight, I am pleased to announce changes to withholding tax arrangements to further reduce tax compliance costs for small business and reduce the frequency of transactions between business and the Australian Taxation Office. From 1 July 1998, businesses with an annual tax withholding obligation of \$25,000 or

less, under the Pay-As-You-Earn, Prescribed Payments and Reportable Payments systems, will have the option to remit these payments on a quarterly, rather than monthly, basis. This measure will allow in excess of 300,000 small businesses the opportunity to defer the remittance of \$500 million in withheld amounts in 1998-99.

In addition, and in step with commercial trends, payments by large withholders (that is, those with annual withholding obligation in excess of \$1 million) are to be made earlier and by electronic means. The revenue brought forward from this change will offset the revenue deferral cost associated with the new arrangements for small business and provide a one-off gain in 1998-99.

I am announcing tonight a range of further measures to enhance tax system integrity. These are not measures to increase revenue but are designed to guard against the potential erosion of revenue in the future. Many of these measures deal with tax avoidance, unfair minimisation and evasion. A number are designed to ensure that the tax laws properly reflect the underlying policy intent — for example, I am announcing measures to protect the integrity of the company tax imputation system, to deal with dividend streaming and franking credit trading.

I am also announcing tonight the Government has responded to submissions from small business and will ensure legislation dealing with use of trust losses does not affect closely held family trusts utilising losses in the family group. However, it is now clear that the taxation of trusts must be considered more generally and the Government will release a discussion paper on this issue later this year setting out issues and possible ways of approaching them.

The Government has now settled details of changes to the system for taxing foreign source income. This follows a period of consultation on proposals outlined in the Information Paper I released late last year.

These changes, which are expected to raise \$150 million in a full year, will protect the Australian tax base and address tax avoidance by reducing the incentive for Australians to locate highly mobile assets and income offshore purely for taxation reasons.

The Government will monitor taxation developments as they arise and will take whatever action is appropriate to preserve the integrity of the tax system, including the option of acting before the next budget.

ECONOMIC OUTLOOK

Mr Speaker, this year's Budget is forecasting excellent economic prospects.

Economic growth is expected to strengthen to 3¾ per cent in 1997-98, underpinned by rising private demand and favourable international developments.

Underlying inflation is expected to remain low — at only 2 per cent through the year to June 1998.

The unemployment rate is expected to fall to 8 per cent over the course of 1997-98 as employment growth accelerates.

The stronger outlook for 1997-98 reflects stronger private consumption, the recovery in the housing sector and continued strong business investment. Private demand in total is expected to grow by 4¾ per cent. Business investment is expected to rise by around 8 per cent following exceptional growth in 1996-97.

Public demand should grow at a modest rate, consistent with fiscal consolidation at both the Commonwealth and State levels.

The favourable outlook for world growth and expanding Australian capacity should support continued export growth. Imports will also continue to grow strongly as domestic demand strengthens.

Despite the expected pick-up in activity and stronger investment, the current account deficit should increase only slightly as a share of GDP. That, in part, reflects the positive effect of the increase in public saving from Commonwealth fiscal consolidation.

Nevertheless, at around 4 per cent of GDP the current account deficit remains high, underscoring the need for the further fiscal consolidation outlined in this Budget.

CONCLUSION

Mr Speaker, the Budget I have brought down tonight takes us further down the path which will build a future of opportunity for Australia.

It continues and consolidates the strategy begun last year to turn around the Commonwealth's finances. It puts in place choice and incentives.

It provides consistency and certainty for business.

Together with broad-based structural reform of the economy, these policies will lift the pace of economic growth and create job opportunities.

I commend the Bill to the House.