

**BUDGET SPEECH 2008-09 DELIVERED ON
13 MAY 2008 ON THE SECOND READING
OF THE APPROPRIATION BILL (NO. 1) 2008-09
BY
THE HONOURABLE WAYNE SWAN MP
TREASURER OF THE
COMMONWEALTH OF AUSTRALIA**

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

INTRODUCTION

This Budget is designed to meet the big challenges of the future.

It is a Budget that strengthens Australia's economic foundations, and delivers for working families under pressure.

It is the responsible Budget our nation needs at this time of international turbulence, and high inflation at home.

A Budget carefully designed to fight inflation, and ensure we meet the uncertainties of the future from a position of strength.

A Budget with a \$55 billion Working Families Support Package at its very core.

A Budget that begins a new era of strategic investment in Australia's future challenges and opportunities.

And a Budget that helps plan, finance and secure Australia's long-term national security and defence needs.

These are the commitments the Government gave to the Australian people at the election. Mr Speaker, this Budget honours those commitments.

The Government has made sure every single cent of new spending for the coming year has been more than met by savings elsewhere in the Budget.

Our commitments have been honoured by redirecting spending. Difficult spending cuts have helped fund our Working Families Support Package and our new priorities for the nation.

We are budgeting for a surplus of \$21.7 billion in 2008-09, 1.8 per cent of GDP, the largest budget surplus as a share of GDP in nearly a decade.

This honours and exceeds the 1.5 per cent target we set in January, without relying on revenue windfalls.

It is a surplus built on substantial savings of \$33 billion over four years, including \$7 billion in 2008-09 alone.

And it is a surplus built on disciplined spending, with the lowest real increase in Government spending in nearly a decade; spending growth which is one quarter of the average of the previous four years.

Mr Speaker, we need a strong surplus to anchor a strong economy; to do our bit to ease inflationary pressures in the economy; to build a buffer against international turbulence; and so we can fund ongoing long term investment in the ports, roads, railways, hospitals, universities and vocational education we need, to deliver growth with low inflation into the future.

ECONOMIC OUTLOOK

Mr Speaker, these are challenging times. Countervailing forces are creating high inflation at home and economic turbulence abroad.

Weaker global growth and the effects of monetary policy are slowing our economy. Inflation has increased in recent years, pushing up interest rates, and putting more pressure on families. Eight interest rate rises in three years, and the global slowdown, are expected to see growth in our economy moderate to 2¾ per cent in 2008-09.

Potent forces in the global economy are pushing Australia in opposite directions. Slower growth in the United States and turbulence in world financial markets are affecting many countries, including our own. At the same time, the prices of our exports are rising strongly, when domestic inflationary pressures are already high.

Robust growth in emerging economies, particularly China and India, is expected to drive further large rises in Australia's terms of trade, boosting income and price pressures. The terms of trade are anticipated to rise by over 20 per cent by the end of this year. This will be the largest increase in a generation, lifting nominal economic growth to 9¼ per cent, the highest rise in 19 years.

The Australian economy is enjoying its 17th year of growth, now spanning three governments. But productivity growth over the last five years has averaged 1.4 per cent a year, the lowest in 17 years. And capacity constraints have put upward pressure on inflation.

When the Government came to office less than six months ago, Australia was facing the highest levels of domestic inflation in over 16 years, and inflation reached 4.2 per cent in the March quarter. The price of bread has risen over 18 per cent in the last two years alone.

Inflation is a drag on growth. It saps confidence, and hurts families and businesses throughout Australia. We are working to put downward pressure on inflation so that we can ease the cost of living and interest rate pressures on working families.

Our nation also faces longer term challenges and opportunities, in the form of an ageing population, the economic effects of the rise of China and India, and the consequences of climate change.

With careful, responsible economic management, we are confident we can meet these challenges.

DELIVERING FOR WORKING FAMILIES

Mr Speaker, in framing this Budget, foremost in our considerations are the Australians who work hard, pay their taxes, and demand little more than a fair go.

This Government understands the stress on working families in these difficult times. More and more family income is being eaten away in mortgage repayments, rent, groceries and petrol – leaving so many families feeling the pinch.

That's why a key priority of this Budget is to deliver the Working Families Support Package. The \$55 billion package comprises targeted initiatives in tax, child care, education, housing, and other essential components of family budgets.

Personal income tax cuts

For too long, working families have watched the proceeds of the boom directed elsewhere, in the form of tax cuts skewed to those already doing very well.

Tonight we tip the scales in favour of working families.

The Government will fully implement our promise to reduce personal income tax by \$47 billion over four years. This tax cut is directed to low and middle income families – the backbone of the economy.

These tax cuts will allow low-income earners, including part-time workers, to keep more of their income and ease the financial pressure on families. And they will provide further incentives to participate in the workforce.

From 1 July 2008, a worker on \$48,000 – average weekly earnings – will receive a weekly tax cut of \$20. And low income workers earning \$14,000 or less will pay no tax at all.

We will make the Medicare Levy Surcharge fairer. The Government will increase the income thresholds from \$50,000 to \$100,000 a year for singles and from \$100,000 to \$150,000 a year for couples.

Child care costs

Mr Speaker, the Government will ease the burden of child care costs, and make it easier for parents who wish to return to work, by increasing the Child Care Tax Rebate from 30 per cent to 50 per cent. This will ensure that, in addition to any Child Care Benefit payable, half of a family's out of pocket child care costs will be met every year.

The cap on the amount that can be paid will be lifted from \$4,354 to \$7,500 per child, and the Government will pay the 50 per cent Child Care Tax Rebate quarterly, to ensure support is available when it is most needed. The total cost of these reforms is \$1.6 billion over four years.

Education costs

The Government will support parents who are providing opportunities for their children by investing in their education, with a new Education Tax Refund, costing \$4.4 billion over four years. We have funded this in large part by redirecting tax cuts for people earning more than \$180,000 a year.

From 1 July 2008, eligible parents will be able to claim a 50 per cent refund on eligible education expenses for children undertaking primary or secondary school studies – up to \$375 for a primary schooler and up to \$750 for a secondary school child each year.

Improving housing affordability

Mr Speaker, the Government's \$2.2 billion housing affordability package will help working families who are struggling with the housing affordability crisis.

We will introduce enhanced First Home Saver Accounts. The first \$5,000 of individual contributions will now attract a Government contribution of 17 per cent, earnings will be taxed at a low rate of 15 per cent, and withdrawals will be tax-free if used to buy or build a first home. The Government will provide assistance of \$1.2 billion over four years through the Accounts.

To improve housing supply, and lower prices for homebuyers, the Housing Affordability Fund, worth \$500 million over five years, will help reduce the cost of providing new housing infrastructure and cut red-tape in development approvals.

And to reduce rental costs, the National Rental Affordability Scheme will encourage the construction of up to 50,000 new affordable rental properties by 2011-12, at a cost of \$623 million over four years.

Supporting older Australians and carers

Mr Speaker, the Government recognises the contribution of older Australians and carers to our community.

To assist them with rising costs, the Government will provide, by 30 June 2008, one-off lump-sum payments of \$500 to eligible senior Australians, \$1,000 to Carer Payment recipients, and \$600 to Carer Allowance recipients for each eligible person in their care, at a total cost of \$1.8 billion.

Pensioners have begun to receive a higher Utilities Allowance of \$500, up from \$107.20. Self funded retirees with a Commonwealth Seniors Health Card now receive a higher Seniors Concession Allowance of \$500 per year, up from \$218.

To offer further protection for older Australians against rising living costs, the Government will enhance indexation of the age pension.

The Government is making assessment rules for Carer Payment (Child) fairer by expanding eligibility to cases where a child's disability creates additional caring needs for parents or requires long periods of hospitalisation.

Under the new rules, an additional 19,000 carers of children with severe disability will be entitled to access this payment in 2009-10, at a cost of \$274 million over five years. This measure brings the total additional assistance provided to carers to \$1.1 billion over five years.

Aged care providers will benefit from an increase in the Conditional Adjustment Payment, resulting in an additional \$408 million for the industry over the next four years.

Easing cost of living pressures

Mr Speaker, the Government is responding to legitimate community concerns about the cost of essential goods such as groceries and petrol.

We have provided the Australian Competition and Consumer Commission with tough new powers, and we will introduce the first ever National Fuelwatch Scheme, in December this year, helping motorists find the best possible deal at the bowser.

The Government is doubling funding to expand financial counselling services to help families better manage their finances and their mortgages.

NEW ERA OF RESPONSIBLE ECONOMIC MANAGEMENT

Mr Speaker, this Budget begins a new era of responsible economic management.

The Government believes there is an economic case for cutting government spending.

It is this discipline that will place downward pressure on inflation, give us a buffer in a time of difficult economic conditions, and begin overdue investment in our future.

We have honoured our commitment to deliver a budget surplus of at least 1.5 per cent of GDP, and gone further to budget for a surplus of 1.8 per cent. The previous Government forecast a surplus of only 1.2 per cent for 2008-09.

The Government is reducing spending on programs that do not meet our objectives in the most cost-effective manner.

We are applying an additional two per cent efficiency dividend to most Australian Government agencies, producing savings of \$1.8 billion over five years.

Every single dollar of new spending is more than offset by savings. We have delivered our commitments by redirecting spending to more pressing priorities.

Fairness and integrity in the tax and transfer systems

We have decided to redirect welfare payments to where they are needed most.

The Government does not believe hard earned tax dollars are best spent on cash payments to the wealthiest Australians. It is simply not defensible.

So from 1 July 2008, an income test will be introduced so that Family Tax Benefit Part B will only be available to families in which the principal earner does not have an annual income exceeding \$150,000.

From 1 July 2008 we will increase the Baby Bonus to \$5,000. From 1 January 2009, an income test will be introduced so that it will only be available where family income is not more than \$150,000 a year.

From 1 July 2008 the tax rate for luxury vehicles will be increased from 25 per cent to 33 per cent.

Tax rules for employee share schemes will be amended to prevent unfair tax minimisation.

We are removing the crude oil excise exemption for condensate, increasing the financial return to the community from the extraction of this non-renewable resource.

To those Australians we have asked tonight to play a role in the fight against inflation, I say this Government did not take these decisions to cut spending lightly.

Mr Speaker, some Australians have been asked to bear a greater burden than others, that's true. But in the end, if we're to beat inflation and build prosperity, we have no choice. We simply cannot go on as before, spending irresponsibly, and allowing inflation to build.

MEETING OUR COMMITMENTS

Mr Speaker, this Budget honours the Government's commitments, and allows us to look Australians in the eye and say we delivered the policies they voted for last November. We are doing what we said we would do.

We are providing new leadership in education, health, infrastructure, climate change and modernising the federation, to end the blame game.

And we will begin tackling the big challenges on Australia's horizon, by providing long-term plans, not short-term bandaid fixes.

Education Revolution

Mr Speaker, tonight we begin to honour the Government's commitment to an Education Revolution, with an additional \$5.9 billion in funding over the next five years.

Just one year ago, from the other side of this House, we promised \$2.5 billion for Trade Training Centres in our schools. Tonight it gives us immense pleasure to announce we are funding that promise.

We will provide \$1.2 billion over five years to provide up to \$1 million per school to deliver computers and communications technologies to all students in Years 9 to 12, as part of the Government's Digital Education Revolution.

We will honour our commitment to providing all four year olds with access to 15 hours a week, 40 weeks a year, of early childhood education by 2013.

Our *Skilling Australia* program will increase and deepen the skills capacity of the Australian workforce. A key initiative is the provision of \$1.9 billion over five years to deliver up to 630,000 additional training places to fill skills shortages.

And to boost the research capacity that underpins innovation, we will invest \$326 million on Future Fellowships for top mid-career researchers, and \$209 million to double the number of Australian Postgraduate Awards for PhD or Masters students.

Better hospitals and health services

Mr Speaker, we have put up our hand and accepted responsibility for improving the health system. No more buck passing. No more blame shifting.

The Government's *National Health and Hospitals Reform Plan* will revitalise the public health system. In this Budget we are committing to an extra \$3.2 billion over five years to public health.

The Government is determined to bring a greater focus on preventative health. Our National Binge Drinking Strategy brings the tax treatment of 'ready-to-drink' alcoholic beverages in line with full-strength spirits to help address binge drinking among young Australians, particularly young women. We will work with the States and draw from the revenue raised to fund preventative health measures.

Tackling climate change

Mr Speaker, the Government is addressing the fundamental environmental and economic challenge of climate change. We have ratified the Kyoto Protocol, and begun work on an emissions trading scheme and a national renewable energy target.

This Budget includes measures totalling \$2.3 billion over five years to help reduce Australia's greenhouse emissions, adapt to climate change, and ensure we show global leadership in the transition to a low emissions economy.

Funding includes \$500 million over eight years for clean coal, \$500 million over six years for renewable energy, and \$150 million over four years for energy innovation.

The Government will assist working families to reduce household emissions with a range of initiatives, including the Green Loans program costing \$300 million over five years.

Supporting business

Mr Speaker, the Government supports the aspirations of Australian business, including small business, for a simpler tax system and less regulation.

Our nation has the potential to be a financial services hub in the Asia Pacific Region — the fastest growing region in the world. To support this ambition, the Budget begins the process of significantly reducing the withholding tax, by reducing the current interim rate of 30 per cent to a final rate of 7.5 per cent for most non-resident investors.

This Budget confirms our commitment to a comprehensive agenda of regulation reform – cutting red tape and making it easier for business, particularly small business, to deal with government.

To improve innovation and productivity, the Government will invest \$251 million over five years to establish Enterprise Connect Innovation Centres.

Regional and Rural Australia

Mr Speaker, at the election we promised to be a Government for all Australians. For rural and regional Australia, and for Indigenous Australia.

Rural Australia has been going through the worst drought in a hundred years. The Government's \$12.9 billion ten-year national water policy framework *Water for the Future* brings a comprehensive and coordinated approach to water supplies.

We will invest \$2.2 billion over five years for the Caring for our Country program, to bring an integrated approach to our natural resource management.

To assist regional communities in achieving their economic potential, we will invest \$176 million as part of our *Better Regions* initiatives.

And we will provide \$271 million over four years to fund the Australian Broadband Guarantee, ensuring all Australians, particularly those in regional and rural areas, have equitable access to 'metro-comparable' broadband services.

Indigenous Australia

Mr Speaker, the Government is working closely with the States to close the gap in Indigenous disadvantage. This is a long-term challenge for our nation.

As an initial step, the Government will invest an additional: \$90 million over five years for child and maternal health services; \$99 million over five years for additional teachers in the Northern Territory; and \$56 million over four years for an expansion of literacy and numeracy programs.

National security

Mr Speaker, a major priority in this Budget is strengthening Australia's national security. It delivers on the Government's commitment to provide 3 per cent real growth per year on average in Defence's underlying funding base to 2015-16, and extends this commitment to 2017-18.

As the Defence White Paper is implemented, real growth in total Defence spending is expected to average 4 per cent per year over the next four years. On current

projections, Defence spending is expected to be around \$6 billion more in 2011-12 than in 2007-08.

We will continue to support our military in Afghanistan, Solomon Islands, East Timor and Iraq, until our combat forces in that country are withdrawn.

And we will increase overseas development assistance to around \$3.7 billion in 2008-09, from about \$3.2 billion. This is critical for alleviating poverty, and building security in our region. It is the first step in delivering our long-standing commitment to increase Official Development Assistance to 0.5 per cent of Gross National Income by 2015-16.

INVESTING IN THE FUTURE

Mr Speaker, for too long our national budgets have been short-sighted.

For too long, our national budgets have focussed on the next election, not the big challenges facing our country in the next decade and beyond.

For too long, our national budgets have squandered the proceeds of the mining boom and failed to invest properly in our country's future.

Tonight, we begin a new era of investing in Australia's long-term future needs.

Tonight I announce three new funds that will provide more than \$40 billion for capital investment in infrastructure, education and health to strengthen the economy.

In infrastructure – in roads, rail, ports and broadband. In education. In skills, TAFE colleges and universities. In health and hospitals. And to build national productivity.

Mr Speaker, tonight I announce that the Government will invest \$20 billion in a new Building Australia Fund to finance roads, rail, ports and broadband across the nation.

Tonight I announce that the Government will invest \$11 billion in a new Education Investment Fund to finance skills, TAFE colleges and universities.

And tonight I announce the Government will invest \$10 billion in a new Health and Hospitals Fund to finance improvements to hospitals and the health care system.

Mr Speaker, this is a Government of nation builders.

We have no intention of hoarding the strong surplus for its own sake. This money is not ours, it belongs to the Australian people.

We will make initial contributions to these funds from the 2007-08 and 2008-09 Budget surpluses, and will add to them from future surpluses as appropriate.

Both the capital and earnings of these funds will be available for investment once projects have been identified and rigorously evaluated, from next year onwards. This will ensure significant investment in Australia's future for many years.

The funds will be managed by the Future Fund Board of Guardians. There will be rigorous assessment of projects by independent bodies before they are approved for funding. For the Building Australia Fund, this will be Infrastructure Australia.

Building Australia Fund

The Building Australia Fund will finance critical national transport and communications infrastructure, including roads, rail, ports and broadband, that is not being provided by the private sector or the States.

The Building Australia Fund will receive an initial allocation of around \$20 billion.

So that investment can begin immediately, tonight I announce that the Government will allocate \$75 million in 2007-08 for immediate feasibility studies on high-priority transport projects across Australia. This will begin the necessary planning work for key projects in advance of further deliberations by Infrastructure Australia.

Health and Hospitals Fund

Mr Speaker, the Health and Hospitals Fund will finance health infrastructure. Key priorities include spending on hospitals, medical technology equipment, and medical research facilities and projects. The Fund will receive an initial allocation of \$10 billion.

We need to reverse the cutback in public hospital funding by the Commonwealth now. That's why the Government will provide an extra \$500 million to the States through the Australian Health Care Agreement by 30 June 2008.

Education Investment Fund

Mr Speaker, the Education Investment Fund will finance capital investment in higher education and vocational education and training.

It will receive an initial allocation of around \$11 billion, including \$6 billion from the Higher Education Endowment Fund.

Our education infrastructure is in urgent need of attention, right now. So tonight I announce that the Government will provide additional capital funding of \$500 million before the end of this financial year, to help universities upgrade and maintain teaching and research facilities.

COAG Reform Fund

Where funds are used to finance capital projects with the States, they will be distributed to the States from the three new funds I have just announced through a new Council of Australian Governments (COAG) Reform Fund.

The COAG Reform Fund will also distribute funding provided in future budgets to the States for recurrent expenditure in areas of COAG national reforms, through new National Partnership payments.

In 2008-09, the States will receive \$78.6 billion in total payments, an increase of 4.8 per cent. And new financial arrangements will allow all levels of government to work together to improve outcomes and reduce costs.

Future Fund

The Government will meet its commitments to the Future Fund to pay the superannuation liabilities of Commonwealth Public Servants. The Government will invest \$3.9 billion into the Future Fund to help it reach its target by 2020.

Australia's Future Tax System

Mr Speaker, a modern economy demands a more modern tax system, which helps build the nation.

We need a tax system that is fairer, that is simpler, that better rewards people for their hard work, that responds to our environmental and demographic challenges, that makes us internationally competitive, and that creates the incentives to invest in our productive capacity. One that supports national prosperity beyond the mining boom.

Tonight, I confirm the most comprehensive review of Australia's tax system since World War 2. The Australia's Future Tax System (AFTS) review will be reporting progressively from this July through to the end of 2009.

CONCLUSION

Mr Speaker, the longer our nation's economic challenges are neglected, the harder it will be to deal with them. In implementing our new vision for the nation's economic future, we don't have a moment to waste.

I'm confident Australians will see this as the Budget our nation now needs, to beat inflation, and lay the foundation for future growth.

It is the beginning of a long term plan to build a stronger economy that delivers for working families.

A coherent package of reforms based on four principles: honouring our commitments; delivering for working families; investing in the future; and beginning the new era of economic responsibility we need, to sustain growth in challenging times.

Mr Speaker, the Rudd Government's first Budget lays the foundation for a modern and competitive economy that can meet the challenges of the 21st century with optimism, and with confidence.

It is a Labor Budget for the nation. For Australia's future. For all Australians.

I commend the Bill to the House.