

BUDGET SPEECH 2011-12

**DELIVERED ON 10 MAY 2011 ON THE SECOND
READING**

OF THE APPROPRIATION BILL (NO. 1) 2011-12

BY

THE HONOURABLE WAYNE SWAN MP

**DEPUTY PRIME MINISTER AND TREASURER
OF THE COMMONWEALTH OF AUSTRALIA**

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

INTRODUCTION

Mr Speaker, the purpose of this Labor Government, and this Labor Budget, is to put the opportunities that flow from a strong economy within reach of more Australians.

To get more people into work, and to train them for more rewarding jobs. So that national prosperity reaches more lives, in more corners, of our patchwork economy.

To take full advantage of the seismic shift in global economic power, which positions us as a prime beneficiary of tremendous economic growth in our Asian region.

And to succeed in the good times as we did in the bad – by choice, not by chance – by applying the best combination of hard work, responsible budgeting, and well-considered policies to the difficult challenges ahead.

Mr Speaker, this Budget is built on our firmest convictions:

That just as our focus on jobs helped Australia beat the global recession, so too can a focus on jobs ensure we maximise our advantages in the Asian Century.

And just as deficits are the right thing to fight a global recession, or to rebuild from natural disasters, so too are surpluses right for an economy set to grow strongly again.

Budget Speech

We have imposed the strictest spending limits, delivering \$22 billion in savings to make room for our key priorities, ensuring our country lives within its means.

We are on track for surplus in 2012-13, on time, as promised – and this provides the solid foundations for the targeted investments we announce tonight.

Mr Speaker, Australia emerged strongly from the global recession, creating hundreds of thousands of jobs while our peers shed millions of jobs.

Our public debt is a tiny fraction of that carried by comparable economies, our fiscal position the envy of the developed world. An investment boom is gathering pace.

Yet our patchwork economy grows unevenly across the nation.

Natural disasters have devastated families, cities and towns. The high dollar hurts our tourism and many manufacturing industries, especially small businesses.

For some, talk of an investment boom seems divorced from reality. Wages are growing, yet many live paycheque to paycheque. Not every region prospers. Not every health service is as good as it can be, especially for the mentally ill.

Unemployment has a four in front of it, yet some households have never had a breadwinner. The economy cries out for workers, yet too many are left behind, unwilling or unskilled – and untouched by the dignity of work.

Mr Speaker, that's why the core of this Labor Budget is:

- a plan to build the more productive workforce our economy needs, including a \$3 billion training package, new ways to get people into work, and critical new investments in economic infrastructure;
- a plan for better schools, hospitals, and health care, including a total of \$2.2 billion for mental health services and \$1.8 billion for regional health facilities;
- and cost of living relief for families, investments in a sustainable Australia, and new assistance for small businesses and manufacturers.

All while making the difficult decisions necessary to get back in the black by 2012-13 – light years ahead of the major advanced economies.

ECONOMIC OUTLOOK

Mr Speaker, nobody will forget the recent natural disasters which destroyed lives and livelihoods, here and abroad. The human tragedies are foremost in our minds, but there are economic consequences as well.

The floods and Cyclone Yasi will cost our economy \$9 billion in lost output and reduce real GDP growth by $\frac{1}{2}$ of a percentage point in 2010-11.

Combined with the impact of disasters in New Zealand and Japan, the hit becomes $\frac{3}{4}$ of a percentage point this year – pushing growth well below its long-term average.

These events have shaken our economy, but they have not knocked it off course. Real GDP growth is forecast to be a strong 4 per cent in 2011-12 and $3\frac{3}{4}$ per cent in 2012-13.

Over 300,000 jobs have been created in the past year and the unemployment rate is forecast to fall further, to $4\frac{1}{2}$ per cent by mid 2013, creating another half a million jobs.

Mining investment will rise to around 8 times the level preceding the boom to \$76 billion in 2011-12, underpinned by the highest sustained terms of trade in 140 years.

But not every family or business is feeling the immediate benefits.

The dollar is around post-float highs and this makes it difficult for some sectors, particularly those that compete in international markets.

We see lingering effects from the global recession in consumer caution, a slow improvement in people's wealth, and tighter credit, all of which has an impact on government revenue.

But with the investment pipeline ramping up and unemployment falling, the boom will test our economy and our workforce, and price pressures will re-emerge.

That's why we have strict spending limits – so that we don't compound these pressures – and why this Budget will help get more Australians into better jobs, improving productivity and participation.

BUILDING THE PRODUCTIVE WORKFORCE OUR ECONOMY NEEDS

Mr Speaker, tonight I announce *Building Australia's Future Workforce*, a plan to help industries get the skilled workers they need, to modernise apprenticeships, and to ensure more Australians enjoy the economic and social dividends of work.

Training

Our plan begins with a new approach to training.

Putting industry at the heart of a \$558 million *National Workforce Development Fund* that will deliver 130,000 new training places over four years.

Better meeting the needs of industries and regions with a \$101 million national mentoring program to help 40,000 apprentices finish training.

Accelerating apprenticeships, letting them progress as they acquire the right skills, by investing \$100 million in more flexible training models.

Plus up to \$1.75 billion, in addition to our existing \$7 billion investment, to leverage ambitious reforms of the vocational education and training system.

And funding 30,000 more places in the Language, Literacy and Numeracy Program to provide the basic skills essential for a job.

Mr Speaker, along with training more Australians for work, we also need to attract highly-skilled migrants to live and work in regional Australia.

For the first time, we will allocate 16,000 skilled migration places to the regions, complemented by Regional Migration Agreements for communities with skill shortages, and we will introduce Enterprise Migration Agreements for large resource projects in return for a financial contribution to train Australians for the future.

Participation

Mr Speaker, better training is essential for the workforce our economy needs, as is encouraging, rewarding, and insisting on the participation of more workers.

Providing opportunity, demanding responsibility.

We believe in extending the benefits of work to every capable Australian – single parents and jobless families, young Australians, the very long-term unemployed, the disabled, and older workers whose experience we need and value.

In a growing economy like ours, we cannot justify the fourth highest proportion of jobless families in the developed world.

A wealthy country like ours has no excuse to leave people out of work.

So we will cut effective tax rates for 50,000 single parents by up to 20 cents in the dollar, invest \$80 million in their skills, and transition more parents with high school kids onto job search payments.

To remove tax breaks that encourage people without kids to stay at home, we will phase out the Dependent Spouse Tax Offset beginning with partners under 40.

To remove incentives for young people to leave study for the dole queue, we will extend Earn or Learn requirements to 21 year olds and create new pathways to full-time employment for early school leavers.

To get the very long-term unemployed into work, we will invest \$233 million in new support programs and 35,000 targeted wage subsidies – encouraging employers to hire those who have not worked for more than two years.

To slow the growth of Disability Support Pension numbers and get more people in the workforce, we will bring forward strict new work tests, update the definition of incapacity, introduce new requirements for younger recipients, provide more wage subsidies, and allow more hours to be worked before payments are suspended.

To address entrenched disadvantage, we will introduce participation plans for teen parents, new requirements for jobless families, extend income management, and develop new place-based programs to support local and regional employment.

For seniors, our work bonus now allows an extra \$125 a week of earned income before their pensions are affected, and we will better recognise their skills and experience.

Infrastructure

Mr Speaker, our focus on training and participation is crucial to building productivity, as is our focus on infrastructure.

That's why we are building the National Broadband Network and investing \$36 billion in vital roads, railways and ports, like the Moreton Bay Rail Link in Queensland, the Gateway Project in Western Australia, the Western Ring Road Upgrade in Victoria, and now additional funds to duplicate the Pacific Highway.

Tonight I announce new approaches to supplement our proud nation building record.

We will help remove barriers to private investment in nationally significant public infrastructure by reducing the tax uncertainty that lengthy and complex projects face.

We will strengthen Infrastructure Australia with extra funding and greater independence, and we will produce the first ever national construction schedule to give super funds and other investors the certainty they need to invest with confidence.

BETTER HOSPITALS, HEALTH CARE AND SCHOOLS

Mr Speaker, we will keep our economy strong so that we can invest in the things all Australians rely on: better health care and education wherever they live.

Health care

We are already guaranteeing \$16.4 billion in additional growth funding for public hospitals over six years, and another \$3.4 billion over four years for emergency departments, elective surgery and 1,300 sub-acute hospital beds.

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I announce tonight a total of \$1.8 billion in investments in hospitals and health care for our regions, from the latest round of the Health and Hospitals Fund.

New funding of \$717 million over five years will expand access to diagnostic imaging services and make new medicines and immunisations more affordable.

An extra \$53 million will improve access to public dental services, particularly for those on low incomes, as a first step towards significant reform in 2012-13.

Mr Speaker, tonight I am particularly proud to announce new improvements to mental health services.

Untreated mental illness can lead to disengagement, unemployment, family breakdown, substance abuse, homelessness and suicide.

We demonstrate our commitment to addressing mental illness by making the room in a tight budget for \$1.5 billion in new initiatives, as part of our \$2.2 billion package to deliver better care.

This package will focus on support for the severely ill; by funding organisations to co-ordinate both clinical and social support and helping to relieve the pressure often felt by families, and those with a mental illness, in navigating a complex system.

We will also address prevention and early detection for young people, by investing a further \$419 million in *headspace* and Early Psychosis Prevention and Intervention Centres – as early intervention often avoids a tragic cycle of hospitalisation and social isolation.

We will also invest in better access to primary care; a more responsive system; and a new National Mental Health Commission that will drive future reforms.

Schools

Mr Speaker, this Budget also builds on our proud record of lifting education standards, providing \$425 million to reward top performing teachers.

The Teach Next initiative will provide \$18 million for new pathways into a teaching career.

We'll invest \$200 million to support disabled school students, and we will also extend the National School Chaplaincy program, taking new investment in schools to over \$800 million in this Budget.

HELPING FAMILIES, REGIONS AND BUSINESSES

Mr Speaker, while our national economy is strengthening, not all Australians automatically share in the opportunities this creates.

So this Budget will help families under financial pressure, regions under pressure to modernise and grow, and industries under pressure from the rising dollar.

Cost of living

Mr Speaker, we take seriously our responsibility to deliver financial assistance when it is needed, and to provide extra support for families with kids at school.

From July this year, we will deliver up to a further \$300 a year of the Low Income Tax Offset into pay packets, rather than at the end of the year.

We will increase Family Tax Benefit Part A for older teenagers by up to \$4,208 a year, \$161 a fortnight, on top of the \$460 million we are providing to extend the Education Tax Refund to cover school uniforms.

We will allow payment advances of up to \$1,000 for Family Tax Benefit Part A recipients at any time to meet unexpected family expenses, and give parents greater choice in when they receive child care support.

And tonight we recognise prisoners of war from World War II and the Korean War with an additional payment of \$500 a fortnight from 20 September 2011.

We know too many Australians are squeezed by rising costs of living, and we help where we responsibly can.

That's why we cut income taxes substantially in each of our first three Budgets so that an average income earner now pays around \$1,000 a year less tax, and why we have ensured pensions are now \$128 a fortnight higher for singles, and \$116 higher for couples, since the announcement of our historic boost two years ago.

Regional policy and sustainable Australia

Mr Speaker, we want prosperity and opportunity to reach all corners of the nation, especially our outer suburbs and regional towns. This is crucial to managing population growth and promoting sustainability right around the country.

Among the most important things we can do to help deal with population pressures is to make regions more attractive places to work and raise a family.

This Budget delivers for regional Australia like no Budget before it.

Our Sustainable Australia strategy starts with \$4.3 billion of investments in regional hospitals, health care, universities and roads.

These investments, along with the NBN, will help lift living standards outside the big cities, provide better health services and educational opportunities, and help regional communities reach their potential.

These are crucial investments, but they are only the beginning.

The Prime Minister will lead a rigorous COAG process that asks state premiers to partner with the Commonwealth on reforms of particular relevance to their jurisdiction: from labour mobility to our west to easing congestion in Sydney.

We'll begin with \$232 million in new strategic investments, including \$100 million for suburban employment hubs and \$61 million for smarter motorways.

Small business and manufacturers

Mr Speaker, Australian businesses embrace fierce competition, but many are feeling the pinch of workforce shortages and our rising dollar.

So in this Budget, we do what we can to help small businesses in particular, by replacing the narrow Entrepreneurs Tax Offset with tax reforms that are available to all 2.7 million small businesses.

Last year we announced that from 1 July 2012, we would allow small business to immediately write-off assets below \$5,000.

We know the main asset of many small businesses is their ute or van, so the first \$5,000 of the cost of a vehicle can now be immediately written-off as well.

Because cash flow is the lifeblood of small business, we will reduce tax instalment payments by \$700 million in 2011-12, giving vital relief when conditions are tough.

We will give small businesses a head start on the company tax cut that will be funded by our Minerals Resource Rent Tax.

And to make sure local enterprises can seize the opportunities presented by the boom, tonight I announce a \$34 million package to help Australian manufacturers better supply resource sector projects.

GETTING THE BUDGET BACK IN THE BLACK

Mr Speaker, 2011 has been a difficult year for many Australians who have endured floods and cyclones. We have made the necessary decisions to rebuild their communities, including a modest temporary levy.

Despite the total cost to Government of over \$8 billion, our commitment to tightening our belt has not diminished one bit.

We'll be back in the black by 2012-13, on time, as promised.

The alternative – meandering back to surplus – would compound the pressures in our economy and push up the cost of living for pensioners and working people.

We will reach surplus despite company taxes not recovering like our economy.

Losses built up during the global crisis are larger and lingering longer, contributing to reduced company taxes of \$8 billion in this Budget over two years.

This overhang from the GFC, along with a higher dollar and record mining investment and associated tax deductions, are all slowing revenue growth.

Since the last update, tax receipts are down \$16 billion in the first two years, taking the whole write-down since the crisis to \$130 billion over five years.

The lower tax receipts in this Budget account for all the increase in the deficit for 2010-11 and about two-thirds of the increase over 2010-11 and 2011-12.

It means the deficit for 2011-12 becomes \$22.6 billion, and net debt will now peak at 7.2 per cent of GDP that year, a tiny fraction of comparable countries.

Our spending restraint means real growth in spending averages 1 per cent a year over the budget estimates, the lowest average rate in a five-year period since the 1980s.

This is putting us on track for a \$3.5 billion surplus in 2012-13.

Mr Speaker, just as it was right to step in and support the economy during the downturn, it is now right to step back and make room for private sector activity.

Good decisions now will avoid unnecessary pain in the future.

\$22 billion in difficult savings in this Budget will strengthen our structural position over time.

We will reform the fringe benefits tax arrangements for cars by introducing a single rate regardless of how far a car is driven, saving \$954 million over five years.

This is one of 12 reforms since the last Budget which deliver on directions identified by the tax review, including the phasing out of the Dependent Spouse Tax Offset, and replacing the Entrepreneurs Tax Offset with better small business policies.

Extending the freeze on the higher income limits for family payments for two more years will also save \$1.2 billion and make the system more sustainable. And we will increase the public service efficiency dividend, saving \$1.1 billion.

We don't take our savings decisions lightly, and we take no joy from making them. But we take comfort in knowing they are right and necessary to ensure we don't compound the pressures of the boom.

ECONOMY IN TRANSITION

Mr Speaker, Labor governments of the past managed the transition from a closed economy to an open economy competing in the world.

Now that the world is changing, we must change as well.

Ours is again an economy in transition.

Global economic weight shifts from West to East – bringing growth and dynamism closer to Australia than ever before.

Our economy transitions from sluggish growth to stretching at the seams; our Budget from deficits in tough times to surpluses in better times.

Our industries must transition to the clean-energy technologies of the future, encouraged by a price on carbon.

Mr Speaker, having beaten the global recession, we now face these new challenges.

Managing them is the key to our future.

With the right policies and decisions, we can convert an unprecedented mining investment boom into an opportunity boom for more of our people.

We believe in the Australian promise; that if you work hard, you won't be left behind.

We believe our economy can't afford to waste a single pair of capable hands.

And we believe this Budget, our tax reforms, and our plans for a carbon price, will set Australia up for the prosperous future all our people deserve.

I commend the Bill to the House.