

Federal Budget 2002 analysis

A budget of missed opportunities

In the Budget-night episode of Channel Nine's *West Wing* a distinguished American physicist argued with a US senator and a presidential aide for funding for an expensive experiment on proton collisions.

'What practical value has that got?', the senator and the aide ask.

'None', replied the scientist. 'And neither did the electron, when it was discovered at the end of the 19th century. But now the world runs on electronics.' This budget has produced some modest increases in support for research. Science and innovation will receive a \$5.1m boost, up 5.8 per cent. The Australian Research Council has an additional \$85.0m and the *Research Infrastructure block grants scheme* increases of \$23.0m and \$27.0m will help to upgrade university libraries, laboratories and other research infrastructure.

This is not funding which encourages the proton smasher or the breakthrough research which fuels prosperity and development. *Why not?*

After all, our economy is, as the prime minister tells us repeatedly, going

'gangbusters'. The government has effectively managed significant tax reform and protected the Australian economy from the effects of the recession which impacted on our major trading partners. Its policies have resulted in a 3.75 per cent growth rate since the last budget, with the same prediction or better for next year. Unemployment is steady at just over six per cent and Treasury forecasts growth in business investment by twelve per cent.

So, if the government cannot now commit to investing substantially in the intellectual ability of Australians, when will it?

There is no significant new commitment to funding research and development in universities nor to encouraging industrial and business innovation and research. Australia's most successful private sector research and development start program for small business has been frozen. The major R&D initiative in 2003 will be the ICT Centre of Excellence which is budgeted to receive \$7.0m in 2003 out of a total \$129.0m.

This is a budget of missed opportunities. Its underlying logic is to reward the priorities of voters who delivered the coa-

lition's successful election result after 11 September.

Voters showed that they wanted increased border protection and barriers against asylum seekers. The coalition has responded with the khaki budget. However, as the debate on the funding of pharmaceuticals and pensions begins, the fickle voter will become aware of the cost of the offshore processing of asylum-seekers.

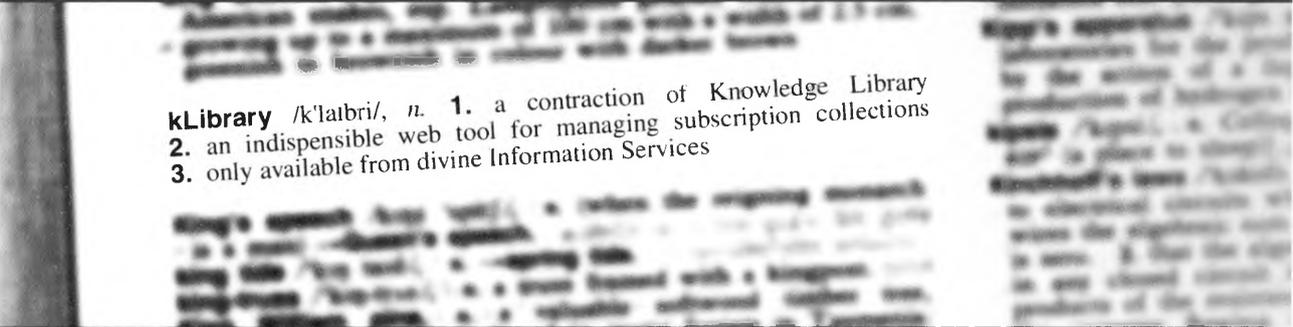
Canberra spent about \$540.0m more on defence than education before 11 September. The present budget increases that gap to \$1.0 billion.

University funding in the budget is pegged at \$6.2 billion, which is, according to academics, students and administrators, insufficient for present and immediate future needs. The government is providing \$480.0m to fund 8300 undergraduate places by 2004. Postgraduate education loans have been extended to four more institutions. However the key decisions about tertiary education will be made after the completion of the *Higher education — At the crossroads* review later this year.

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The budget has boosted private school funding to more than \$1 billion, increasing to \$5 billion in the next three years. Funding for state schools is half that rate.

The inter-generational report devotes less than a page to education, noting that the federal government will be spending proportionately even less on it than now. It summarises the future commitment to education as follows:

'In recent years, demands for a more-skilled labour force and the desire for education have increased... At the same time, the proportion of the population in the principal age group for education (5 to 24 years) has fallen from thirty-six per cent in 1972 to twenty-eight per cent in 2002.

'Reflecting these trends, Commonwealth spending on education and training, while continuing to grow at a solid rate, is likely to decline as a share of GDP over the next four decades from 1.8 per cent of GDP in 2001–2002 to 1.6 per cent of GDP by 2041–2042'. [Budget Paper No. 5, p8]

So much for lifelong learning in 2042.

This is not a budget to excite the library and information sector, given the lack of stimulus to research and development and the status quo funding of the tertiary education sector and of the National Library of Australia. Apparent gains in funding of cultural institutions, such as the boost to National Museum of Australia funding have been made at the expense of other institutions. There are some opportunities for entrepreneurial library workers to benefit from the schools' funding, the programs for IT skilling of the over 45-year-olds and other information and communication technology policies outlined below.

Key commitments

- Defence spending increase of \$1 billion to \$13 billion — contribution to war on terror increases to \$524.0m.
- Upgrading of domestic security to counter chemical, biological and nuclear threats \$1.3 billion over five years.
- Border protection, including border patrols and the financing of boat people processing in the Pacific and Christmas Island, \$1.2 billion.
- Private school funding boost of more than \$1 billion for private schools, increasing by 2005–2006 to \$5 billion.
- Funding to state schools at half that rate, increasing by \$400.0m to \$2.55 billion in 2005–2006.
- Quality Teacher Program (professional development) \$82.4m.
- Migrant children's education \$62.5m.
- \$23.0m over four years to help over 45-year-olds gain IT qualifications.

- Universities receive 5.8 per cent increase in annual grant, to \$4.9 billion in 2002–2003 rising to \$6.2 billion over three years
- Funding for scientific and technological innovation, *Backing Australia's Ability*, is maintained with \$403.0m in line with the planned five-year schedule.
- New apprenticeship program funding employers \$1100 for an IT apprentice, \$750 for employing a person still at school and another \$750 for employing the same person within six months of Year 12 completion.
- Tighter eligibility for disability pensions from 1 July 2003 will move people with capacity for fifteen hours work on award wages to unemployment benefits, to produce savings of \$336.0m from the \$5.5 billion pensions program.
- Extra funding for disability services of \$105.0m in 2002–2003 for accommodation, day services and respite care.
- Additional funding of \$548.0m over five years in an agreement with the states for disability service delivery.
- Cuts of \$2 billion in pharmaceutical benefits scheme will mean a prescription cost rise of \$1.00 to \$4.60 for concession-card holders and a rise of \$6.20 to \$28.60 per prescription for everyone else.
- \$509.0m for aged care.
- Baby bonus of \$1.2 billion over four years, but no maternity leave scheme.
- First-home owners grants will cost \$784.0m.
- \$1.74 billion for roads, including the construction of the Western Sydney Orbital, the Melbourne Scoresby Freeway, the upgrading of the Bruce Highway on Queensland's Sunshine Coast and upgrading of 'black-spot' rural roads — \$100.0m has been cut from the local roads program.
- Small Business Assistance program funding of \$60.0m to assist small business in skills development, access to advice and to government programs.
- Farmers will receive \$25.0m to combat environmental degradation.
- Significant superannuation changes introduce more opportunities for people to save for retirement, including an extension of payment to the age of 75, and the ability for family members to contribute to children's superannuation.

Vision of the future

The intergenerational report, budget paper 5, promised by the government as part of its Charter of Budget Honesty, is an extraordinarily superficial document,

designed to support the cuts to pharmaceutical benefits.

Its speculation on future education spending has been discussed in the introduction to this report.

Its projections of the age balance of Australians in 2042 provides no stimulus for debate on population policy, environmental sustainability or economic development. European countries are already much further down the track of dealing with ageing population problems. They continue to develop their economies, pay pensions and invest in public health and education.

By 2022, retirees will have the electoral numbers to make or break governments. Perhaps this group can be made to feel guilty for making demands on government revenue, in the way that the unemployed have been made to feel guilty for going on the dole, as their jobs disappeared in the structural change of the late-20th century. Or, since this will be the savviest bunch of retirees in Australian history, perhaps not.

The arts/heritage

The National Museum of Australia is the major beneficiary of funding in the Arts portfolio. The Museum will receive an increase of \$37.2m over the next four years — over \$9.0m per year — to enable the Museum to maintain its current range and level of activity. The National Archives of Australia will be footing a large part of the bill, being stripped of \$4.0m per year over the next four years. Another \$2.0m over two years will be transferred to the Museum from the Technical Assistance Program of the Department of Communications, Information Technology and the Arts.

Most other national collecting agencies received modest increases on last year, including the National Library of Australia. Some increase may be attributed to the Capital Use Charge on the value of collections.

The Budget provides an additional \$1.2m over four years — \$300 000 per year — to fund the Heritage Collections Program, to build on the work of the Heritage Collections Council. Supported by the commonwealth, states and territories the work will include strategies for the care and management of heritage items held in museums, libraries and galleries, particularly in regional Australia.

The Budget provides \$1.0m [\$200 000 per year] over four years to continue, and most likely redevelop, Australian Museums Online which supports online links between museums and galleries across Australia, provides virtual

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exhibition tours and improves access to conservation, collection management and training resources.

Additional funding of \$6.4m over four years — \$1.6m per year — was added to the appropriation for the Australia Business Arts Foundation which encourages private sector support for the arts and culture. The government funding will be leveraged into higher ongoing private support for the arts.

Public Lending Right funding continues at \$6.662m, (up \$400 000 against current expenditure level). The Educational Lending Right Scheme and Book Industry package continues at \$9.3m (\$1 million above current expenditure level).

The budget provided some additional funding for the National Institute of Dramatic Art, the Contemporary Music Touring Program, major festivals and young and emerging artists. However, the emphasis in the Arts is on continuing levels of funding.

Education

A total of \$64 billion over four years and spread across schools, higher education, vocational education and training and science represents the government's commitment to education in this year's budget.

Schools

In 2002–2003, schools will receive \$6.6 billion in funding, an increase of 6.5 per cent on 2001–2002. Government schools can expect a 5.7 per cent increase in funding from last year. This represents a 52 per cent increase since 1996 during which time enrolments in government schools have increased by 1.4 per cent. The focus of funding to all schools remains on achievement of national standards, particularly in literacy and numeracy.

The Quality Teacher Program will be expanded through an allocation of \$82.4m over the next three years. The program targets continuing professional development for teachers and enhanced opportunities for them to remain up-to-date in subject knowledge and classroom applications.

Indigenous students

A total of \$445.0m in 2002–2003 is committed to improve education outcomes in literacy, numeracy and skills needed for the workforce for indigenous students. The Indigenous Education Strategic Initiatives program (\$167.9m), the Indigenous Education Direct Assistance Program (\$64.9m) and the ABSTUDY Program (estimated at \$183.7m) will assist secondary school students to complete Year 12, gain access to vocational training opportunities or move into further education and training or employment.

The Indigenous Education Professional Development Package will be launched later in 2002. This will offer professional development activities for principals and educators of Indigenous school students to assist in achievement of improved education outcomes for the students.

Funding of \$4.0m to improve indigenous participation in vocational education and training will be available through the Australian National Training Authority for vocational education and training infrastructure. The Indigenous Support Funding Program will be funded to help meet special needs of indigenous students in higher education.

New arrivals

New school students arriving in Australia as migrants will be able to learn English through the *English as a Second Language New Arrivals Program*, to be funded at \$12.1m over the next three years. In addition a total of \$55.1m in General Recurrent Grants will be available over the same period to provide for the new students' general schooling costs.

From 1 July 2002, as part of the government's Humanitarian Migration Program, access to the *English as a Second Language New Arrivals Program* will be available to young people under 18 holding temporary visas in the humanitarian and refugee arrivals category.

Vocational education and training

From 2003–2004 a total of \$35.7m over three years will provide states and territories with funding for mainstream vocational education and training as well as additional funding for the Language, Literacy and Numeracy Program.

A continued focus on preparing for Australia's future skill needs sees \$54.0m allocated over the next four years to two New Apprenticeship initiatives: Innovation New Apprenticeships and School-based New Apprenticeships.

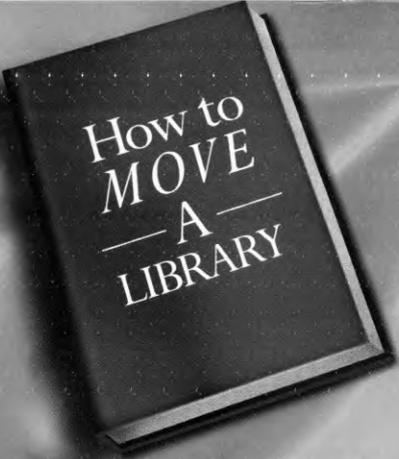
An employer who hires an Innovation New Apprentice in Information Technology or another highly-skilled emerging occupation will receive \$1100 in addition to other incentives. A financial incentive of \$750 is available to an employer who hires a New Apprentice who is still studying at school. Employers who continue to employ the apprentice as a New Apprentice within six months of them completing Year 12 studies will attract a retention bonus of a further \$750.

Under changes to the Disability Support Pension, some 3200 extra training places over the next three years will be available to people with disabilities to improve their capacity to work.

IT training for mature-age workers

The IT Skills for Older Workers Program, a four-year \$23.0m initiative represents part of the government's commitment to lifelong learning. People aged 45 and over who hold no post-school qualifications in IT and who are in the workforce or receiving welfare payments will be enabled to access training to a value of \$500 to develop IT skills to a level necessary for today's workplace. Training will focus on basics such as word-processing, e-mail and use of the internet and will be delivered through a network of Registered Training Organisations.

Funding to the states and territories for Industry Training Advisory Bodies will be reduced by \$5 million, and consultations initiated with key industry stake-



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holders to review functions. This will have a significant impact on vocational education and training.

Higher education

\$20.6 billion over four years has been allocated to support higher education. The \$4.9 billion committed for 2002–2003 represents an increase of 5.8 per cent over last year. In January 2003 the Post-graduate Education Loans Scheme (PELS) will be extended to include four further institutions with an estimated 2000 students gaining access to the scheme.

\$300 000 has been allocated to the University of Tasmania to introduce a three-year Graduate Diploma in Environment and Planning to commence in 2002–2003. Six Commonwealth scholarships valued at \$10 000 each will supplement funding available to the course.

As part of the government's Investing in Higher Education commitments, a review of rural veterinarian services with a particular focus on veterinary training and expertise will be undertaken in 2002–2003.

Seed funding of \$250 000 for 2001–2002 has been allocated to the General Sir John Monash Foundation to establish a series of grants for Australian postgraduate students to study abroad in North America and Europe.

A review of options for supporting and

funding Australian universities will be conducted over a period of nine months.

Funds for the Australian Research Council will be increased by thirty-two per cent thus indicating the government's continuing commitment to research. The Research Infrastructure Block Grants scheme will be increased by \$23.0m. Through the Systemic Infrastructure Initiative introduced last year, \$27.0m will be made available to upgrade university libraries, laboratories and research infrastructure in general.

Employment

The unemployment rate now stands at just over six per cent. Approximately 630 000 job-seekers are competing for 86 000 jobs, including 165 000 long-term unemployed. In fourteen months, these will be joined by the unsuccessful disability pension applicants. In addition there are an estimated 700 000 who are either part-time workers wanting full-time work or out of the workforce and interested in returning to work but not registered.

Budget Paper 1 forecasts employment growth at 1.75 per cent in 2002–2003, with average earnings growth increasing from 3.25 to 4.25 per cent. These figures do not include the impact of the Australian Industrial Relations Commission's safety net increase of \$18 in award rates.

Those unemployed now receiving intensive support under Commonwealth labour market programs will receive new job-seeker accounts worth \$850 to cover work-related expenses such as transport and training.

The government will allocate \$3.3 billion over three years from July 2003 to fund the next batch of contracts under the Job Network scheme. Employment National will be dismantled and the competitive tendering system abolished.

Job-seekers will no longer have to shop around different providers to find all job advertisements. They will register with one provider. If they remain unemployed for three months, they must undergo three weeks of job-search training. After five months, job-seekers will have to attend meetings to explain their search efforts. Many will be referred to work for the dole or other mutual obligation schemes. After a year the unsuccessful job-seekers receives 'customised' assistance in an intensive six-month program.

Information and communications technology

This year's budget once again contains no surprises and only a couple of minor announcements for Information and

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- RETAIL
- EDUCATION
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Communications Technology (ICT). The prime minister had earlier this year announced two major initiatives that impacted on ICT. There is continued funding for key programs including *Networking the Nation*, *Building on ICT Strengths*, and *Backing Australia's Ability*.

Sale of Telstra

The government has reaffirmed its position on its plans to privatise Telstra despite a falling share price. The Budget's forward estimates show that the government forecasts big cash injections from the sale of its 50 per cent stake of Telstra over three years, beginning in 2003–2004.

Indigenous action plan

In response to the Telecommunications Service Inquiry, the government has allocated \$8.3m over three years as part of a telecommunications action plan for remote indigenous communities. The package will include a community phone program, an online access centre, a content development program and information awareness-raising program.

National Information Infrastructure

The government has allocated \$24.9m over four years as part of its strategy to protect the National Information Infrastructure (NII). The NII comprises the electronic systems that underpin critical services such as telecommunications, energy and utilities, and the banking and finance sector.

Broadband Advisory Group

The Broadband Advisory Group, announced before the Budget, will provide high-level advice to government on broadband development in Australia. The group has a broad spectrum of expertise ranging from ICT industries to key sector users. The group is expected to consult widely providing opportunity for stakeholders to present their views. Senator Alston will chair the Group which held its first meeting in late April and is expected to conclude its work by the end of the year.

ICT framework for the future

The framework will be jointly developed by government, industry and the research and academic communities. A key focus of the framework will be on innovation as a key driver of long-term industry growth. The Framework for the Future's steering committee, to be chaired by Senator Alston, will have ICT expertise drawn from Australian companies and global corporations, research bodies like the CSIRO and the Defence Science and Technology Organisation (DSTO), and the university sector. A report will be prepared by the steering committee, which will make recommendations to both government and industry on strategies/actions to enable Australia's ICT sector to take maximum advantage of future opportunities. Working groups will be es-

tablished to assist the steering committee in key areas. The steering committee's first meeting was held in April with the development of the Framework to be completed by the end of 2002.

ICT centre for excellence

In January 2001 the Coalition announced \$129.5m over five years to establish a world-class research centre of excellence in ICT. Three consortia applying to operate the centre have been short listed for interview with the centre's advisory panel. The panel will make a recommendation on the preferred applicant to government in May.

Your money

Superannuation

Budget changes to the superannuation system need to be considered against the rise of compulsory employer superannuation contributions from eight to nine per cent. The changes include:

- the ability to continue contributions to age 75.
- a higher fully-deductible amount for contributions by self-employed persons.
- quarterly superannuation guarantee contributions.
- reduction in the superannuation surcharge.
- reduction in the tax rate on excessive ETPs — from 1 July 2002, the tax treatment of an ETP from a super fund that exceeds a taxpayer's RBL will be modified to limit the effective tax rate on the payment (48.5 per cent).
- replacement of the rebate for personal super contributions with a government co-contribution of up to \$1000 a year.
- ability for couples to split contributions.
- opportunities for parents and other family members to contribute to superannuation on behalf of children.

From 1 July 2002, recipients of the Baby Bonus who would not otherwise be able to contribute to superannuation, will be eligible to contribute to a superannuation fund or retirement savings account.

Personal income tax

As expected, there were no changes to personal income tax rates. Medical expenses threshold tax offset increased from \$1250 to \$1500. The medical expenses offset will be available at a rate of 20 per cent of any net medical expenses above \$1500 in an income year. The Medicare levy low-income threshold will increase to \$14 539 for individuals and \$24 534 for families. The additional amount of threshold for each dependent child or student will also be increased to \$2253. The Medicare levy threshold for pension-

ers below age-pension age will be increased to \$16 570.

Fuel tax

Government has decided not to implement the recommendation of the fuel taxation inquiry.

Australian Tax Office

The budget allocates an additional \$170.0m to the ATO over the next four years. The extra funding is intended to produce extra revenue of \$1.5 billion over the same period through 'enhanced debt collection and compliance activities'.

Companies and other entities

The company tax rate remains at 30 per cent. That rate also applies to life insurance companies and friendly societies (applicable to the ordinary class of taxable income) and to small and large credit unions. Companies have a further twelve months to adjust to the new consolidation rules, which were to commence on 1 July 2002. A number of significant business tax reform measures have been deferred, including the taxation of financial arrangements, FX gains and losses, commodity hedging and other foreshadowed measures. From 1 July 2002, the companies will no longer be required to 'waste' current-year losses against franked dividends.

Baby bonus

Higher income families may claim a tax benefit of up to \$2500 per year for five years, depending on the amount of tax paid before leaving the work force. Low income parents will receive a minimum payment of \$500 per year for five years.

Regional health

To encourage better health care in the outer metropolitan suburbs and rural communities, the budget allocates \$80.0m for an additional 150 doctors to work in the outer-metropolitan areas and \$72.7m over four years to build six new facilities, outside the capital cities, to improve patient access to radiation oncology services.

Aged care and veterans

An additional \$654.0m over four years will target services for veterans and older Australians.

Pharmaceutical benefits cut

Cuts in benefits mean that concession-card holders will pay an extra \$1.00 for prescribed medicines, bringing the cost to \$4.60. Others will pay an extra \$6.20, bringing that prescription cost to \$28.60.

Disability pensioners

The budget tightens the test for a disability pension. Those assessed as capable of 15 hours work a week at award wages (instead of the present 30-hour test) will be required to register for unemployment benefit and look for work. The increased pharmaceutical costs will also impact on this group. ■