

Executive summary

Overview

Australia faces a complex mix of long-term challenges — an ageing and growing population, escalating pressures on the health system, and an environment vulnerable to climate change. These challenges will place substantial pressure on Australia's economy, living standards and government finances over the next 40 years. These are challenges affecting developed countries around the world.

Population ageing reduces the proportion of working age people supporting people aged over 65 years. The rate of improvement in average living standards is projected to fall, placing pressure on Australia's capacity to fund the spending pressures associated with an ageing population, particularly in terms of health spending.

Australia's population will continue to grow over time, though at slightly lower rates than experienced over the past 40 years. This will put pressure on infrastructure, services and the environment, but the growth also assists in managing the pressures of an ageing population by providing the skills and innovation needed to underpin continued economic growth.

Decisions taken in the near term will impact on the wellbeing of future generations. Productivity-enhancing reforms, particularly through nation building infrastructure and improving the skills base, will grow the economy, improve living standards, and partly offset the fiscal pressures of ageing. With an ageing population, productivity growth is the key driver of future growth prospects. Reforms that reduce barriers to participation will also lift growth and reduce future pressures.

Steps to grow the economy and ensure permanent spending growth is sustainable, including through the implementation of the Government's fiscal strategy, will reduce future adjustment costs and the economic and fiscal consequences of ageing.

Climate change is the other big intergenerational challenge facing Australia. It is the largest threat to the environment and represents one of the most significant challenges to economic sustainability. There are currently 32 countries that are operating emissions trading schemes, and others are in the process of introducing them. The global consensus is that this use of market-based mechanisms is the least cost mechanism to reduce carbon emissions while protecting jobs and growth. Tackling climate change early will avoid larger costs for future generations, and a more severe adjustment to the economy in future years.

1. An ageing and growing population

Australia's population is ageing (Chart 1). The proportion of working age people is projected to fall, with only 2.7 people of working age to support each Australian aged 65 years and over by 2050 (compared to 5 working aged people per aged person today and 7.5 in 1970).

Population growth is projected to slow to an average annual rate of 1.2 per cent over the next 40 years, slightly lower than the 1.4 per cent average annual rate of growth in the previous 40 years. Population growth is a function of natural increase and net overseas migration. Fertility rates, along with mortality rates, are the determinants of the natural rate of increase in the population. Net overseas migration is mainly comprised of permanent migration (including skilled and family) and temporary migration (including temporary skilled and students). It is expected to continue at a similar rate as a proportion of the population to the past 40 years on average.

- Fertility rates are assumed to be broadly consistent with current levels, at about 1.9 births per woman. Over the past forty years, the fertility rate declined from 2.9 to 1.7 before recovering to nearly 2.0.
- Net overseas migration is expected to continue at a rate equivalent to 0.6 per cent of the total population per annum on average, as per the average of the past 40 years.

Even with slower population growth the total population is projected to be 35.9 million people by 2050.

All developed countries have experienced population ageing and will continue to do so. Those countries with low population growth face greater challenges from population ageing. For instance, Japan's already high old-age dependency ratio is projected to more than double in the next 40 years, resulting in only 1.4 people of working age for every person aged 65 years or older.

Chart 1: An ageing and growing population

Chart 1.1: Population growth and combined dependency ratio

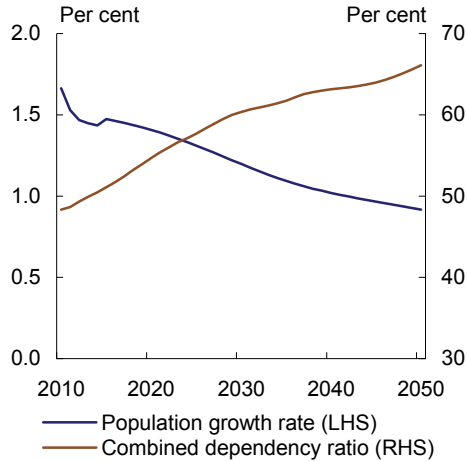
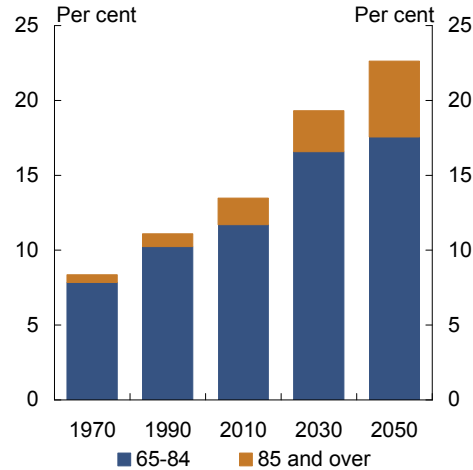


Chart 1.2: Proportion of the Australian population aged 65+



Source: ABS cat. no. 3105.0.65.001 (2008) and Treasury projections.

2. The economic and fiscal implications of an ageing population

An ageing population will have consequences for economic growth and government finances. The challenge is to develop responses that will mitigate these consequences in the most effective way and minimise the size of the adjustment costs in the future.

2.A Economic growth

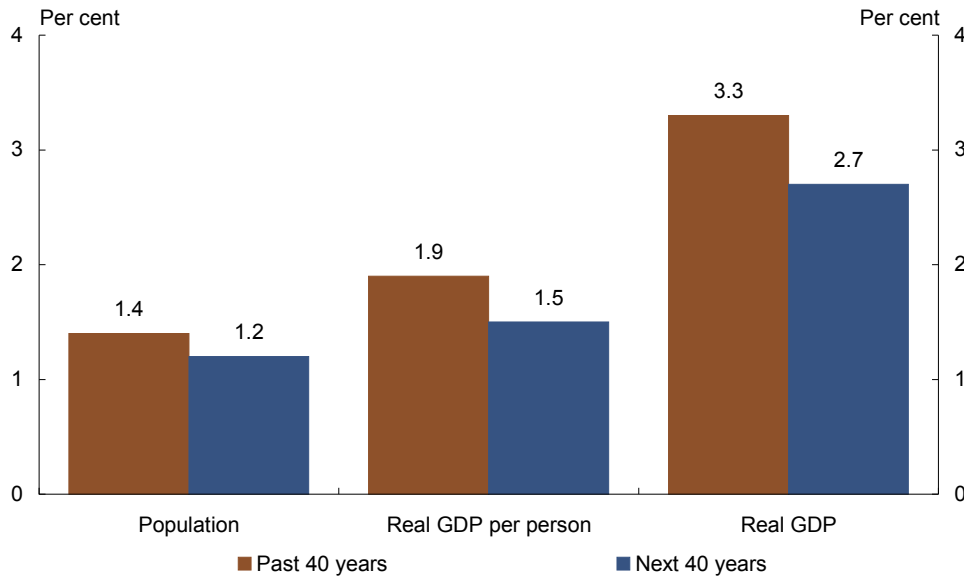
While the past 40 years have seen annual average growth in real GDP of 3.3 per cent, the next 40 years are projected to see growth slow to 2.7 per cent annually. Associated with this slower economic growth, real GDP per capita growth will slow to 1.5 per cent per annum from 1.9 per cent per annum over the previous 40 years (Chart 2).

The ageing of the population is the major factor driving the slowing in economic growth. As the proportion of the population of traditional working age falls, the rate of labour force participation across the whole population is also projected to fall.

The labour force participation rate for people aged 15 years and over is projected to fall to less than 61 per cent by 2049–50, compared with 65 per cent today.

Chart 2: Real GDP and real GDP per person

Average annual growth



Source: ABS cat. no. 5206.0 and cat. no. 3105.0.65.001, and Treasury projections.

2.B Ageing and fiscal pressures

Population ageing will create substantial fiscal pressures.

Slower economic growth associated with ageing, increased demand for age-related payments and services, expected technological advancements in health and demand for higher quality health services will add to these pressures.

These fiscal pressures are building off a large structural spending base, adding to the size of the adjustments required. Real growth in total government spending over the 2000s exceeded the spending growth experienced in previous expansions locking in permanent increases in spending. This will compound the pressures of ageing.

Contrary to these permanent increases in spending, the Government's fiscal stimulus packages were temporary. Spending associated with these packages will be completely phased out of the spending base during 2012–13.

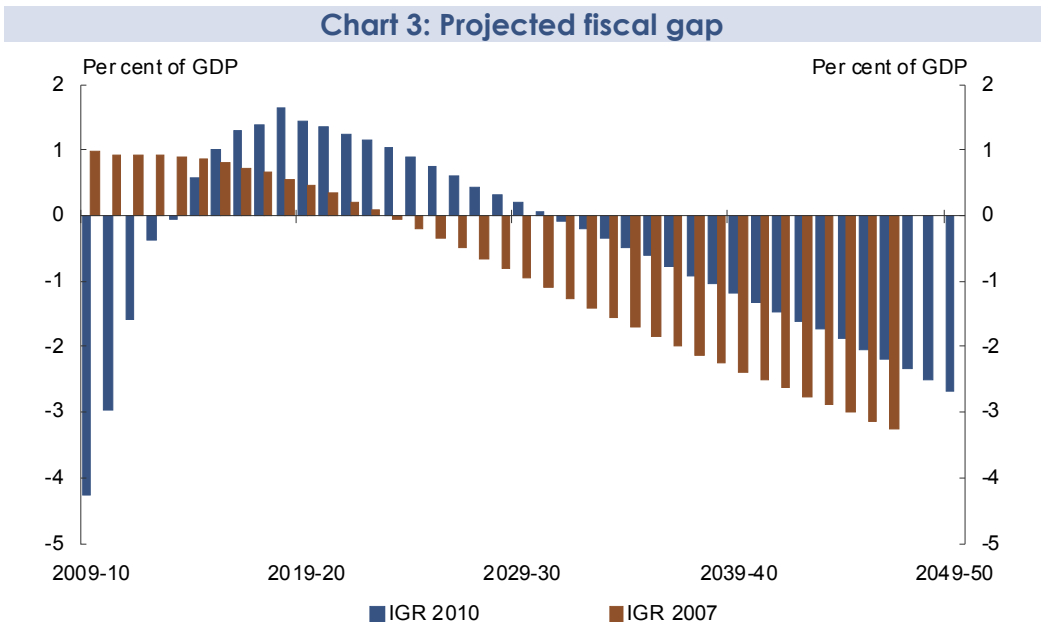
Ageing and health pressures are projected to result in an increase in total government spending from 22.4 per cent of GDP in 2015–16 to 27.1 per cent of GDP by 2049–50. As a consequence, spending is projected to exceed revenue by 2¾ per cent of GDP in 40 years time (Chart 3).

This is an improved result relative to the 3¼ per cent of GDP fiscal gap (spending greater than revenue) projected in the previous IGR, largely owing to the benefits of

the Government's fiscal strategy and a more gradual pace of ageing than previously expected.

By constraining real expenditure growth, the fiscal strategy will be a first step in delivering the structural adjustments in government finances necessary to address the spending pressures of an ageing population. Expenditure restraint through the Government's fiscal strategy will result in a permanent structural improvement in spending of around 1 per cent of GDP.

By acting early, the Government's fiscal strategy will reduce the size of the adjustment costs required in the long run.



Note: The fiscal gap is total Australian government receipts minus total Australian government payments (excluding interest).
 Source: Treasury projections.

The fiscal projections are consistent with the Government's commitment to keep the tax-to-GDP ratio on average below the 2007–08 level of 23.6 per cent.

Notwithstanding the contribution full implementation of the fiscal strategy will have in reducing the fiscal pressures of an ageing population, ageing pressures will persist. If the projected fiscal gap associated with ageing pressures were to be realised, net debt would emerge in the 2040s and grow to around 20 per cent of GDP by 2049–50, and the budget would be in a deficit position of 3¼ per cent of GDP by 2049–50. Without the implementation of the Government's fiscal strategy, this challenge would be much bigger.

3. Responding to the implications of an ageing population

3.A Growing the economy

The central plank of responding to the economic and fiscal consequences of an ageing population is to support stronger economic growth in sustainable ways. Economic growth is a function of productivity, participation and population — the ‘3Ps’ (Chart 4).

Higher productivity is the key

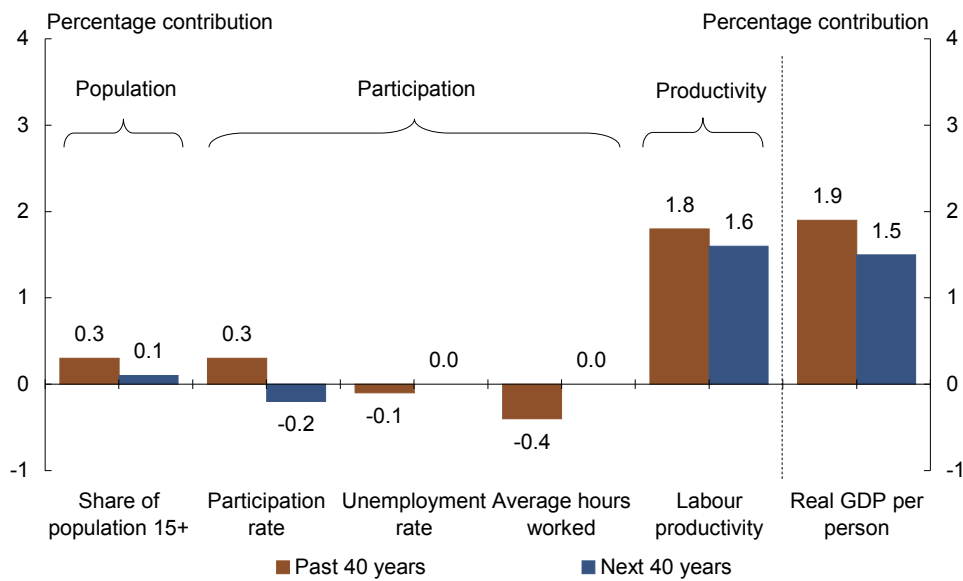
With an ageing population, it is critical that the Government continue to pursue productivity enhancing and nation building reforms through prudent investment in social and economic infrastructure, and policies to support skills and human capital development.

Enhanced productivity growth is the key to increasing economic growth. Australia’s productivity performance has slowed in the recent past, averaging only 1.4 per cent in the past decade compared with 2.1 per cent in the 1990s. The IGR has assumed that the current 30-year historical average of 1.6 per cent will continue.

With the ageing of the population reducing participation, productivity growth will be the major contributor to real GDP per person growth in Australia over the next 40 years.

With the ageing of the population, and a continuation of the productivity trends of the past 30 years, growth in real GDP per person is projected to slow to 1.5 per cent per annum. If productivity growth were increased to 2 per cent per annum, the economy would be over 15 per cent larger in 2049–50, GDP per person would be around \$16,000 higher and fiscal pressures would be reduced as a result of an enhanced capacity to fund government services.

Chart 4: The 3Ps of growth in real GDP per person



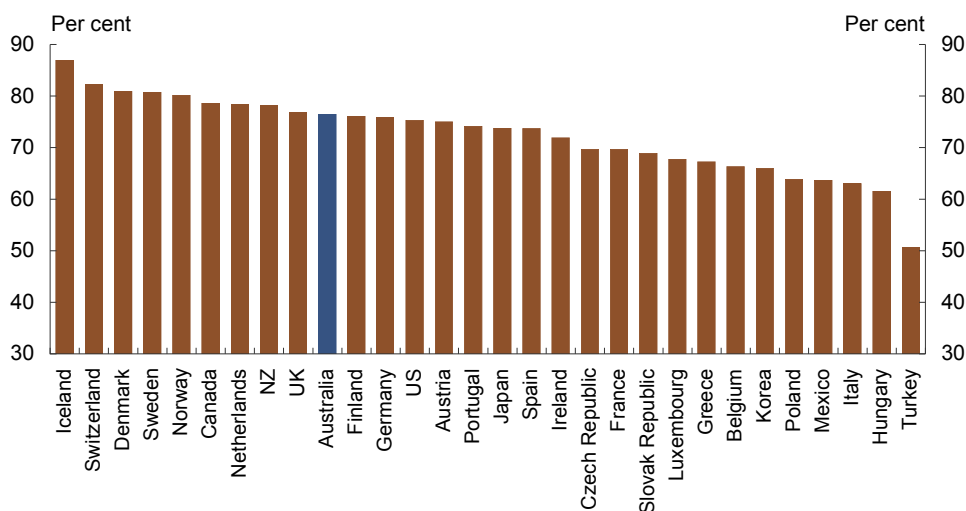
Source: ABS cat. no. 5206.0, cat. no. 3105.0.65.001 and cat. no. 6202.0, and Treasury projections.

Supporting participation

While an ageing population will result in lower aggregate participation rates, steps to improve participation would minimise the impact.

In 2008, Australia's labour force participation rate was the tenth highest in the OECD; higher than the United States, but lower than the United Kingdom, New Zealand and Canada (Chart 5).

Chart 5: OECD participation rates 2008, people aged 15–64



Source: OECD.

Within this total, Australia’s participation rate for prime aged men has been relatively constant at around 91 per cent, below the OECD average of 92.2 per cent. In contrast, female participation of 75 per cent in Australia is higher than the OECD average of 71 per cent.

Despite recent increases, Australia's mature age participation rate is below that of comparable countries — including the United States, United Kingdom, Canada and New Zealand.

There is scope for Australia to improve its labour force participation rates, especially through policies that target improvements in education, health and attachment to the labour market. This includes removing the barriers to workforce participation for mature aged people who want to work. Policy responses need to reflect a sound understanding of the complex nature of mature age participation.

Retirees make a valuable contribution to the economy and living standards through activities such as volunteering or carer activities. For those wishing to continue working, key factors influencing workforce participation include: health outcomes; educational attainment; the tax-transfer system; cultural attitudes; workplace flexibility; and access to retraining and support services.

Sustainable population growth

Continuation of current trends will result in inevitable population growth, albeit at a slightly slower rate on average than in the previous 40 years.

Population growth puts pressure on infrastructure and services, but will continue to contribute to economic growth. It can be socially and environmentally sustainable provided governments plan and invest, well ahead of time, for a larger population.

By way of comparison, if Australia was to face lower net overseas migration and fertility that led to a lower annual rate of population growth of 0.8 per cent (compared to the 1.2 per cent per annum growth rate that is projected), real GDP per person would be around 2 per cent lower in 2049–50.

Countries with low or declining population growth face more extreme ageing challenges, with greater demands for publicly funded social services and a reduced ability to meet these challenges. There are growing concerns about the fiscal sustainability of some of these countries.

Immigration plays a role in ameliorating the ageing of the population because migrants tend to be younger on average than the resident population. Currently around 89 per cent of migrants are aged less than 40 years when they migrate to Australia. This compares to around 55 per cent aged less than 40 years for the resident population.

Population growth has implications for the environment, including: greenhouse gas emissions, biodiversity and water availability; urban amenity; and infrastructure and government service delivery requirements. The risks in these areas are manageable provided governments take early action to plan for future needs and introduce efficient market mechanisms to transition to a less emissions-intensive economy.

The development of Australia's cities will also be central to improving productivity performance. Much of a city's capacity to accommodate population increases while supporting productivity growth is reliant on the efficacy and adequacy of its infrastructure, including its housing stock. The sustainability of Australia's cities will also be dependent on better governance in the planning and organisation of city infrastructure and more efficient use of existing infrastructure.

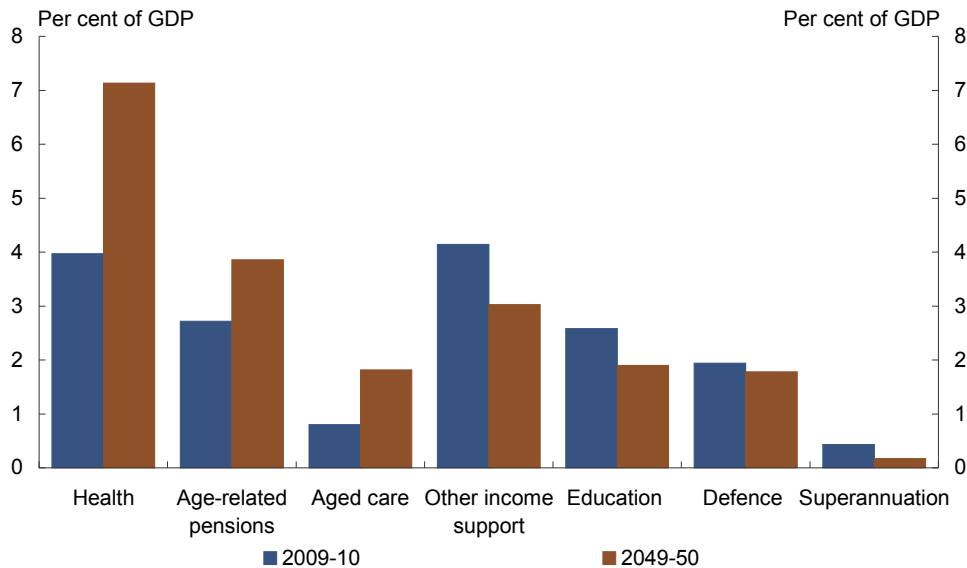
3.B Responsibly managing the spending pressures of an ageing population

An ageing population will significantly increase spending pressure in the areas of health, age-related pensions and aged care.

Currently, more than a quarter of Australian government spending is directed to health, age-related pensions and aged care. Australian government spending on these areas is projected to increase significantly, pushing their share of total spending to almost half by 2049–50. As a result, total Australian government spending is projected to rise to around 27 per cent of GDP by 2049–50, rising by around 4¾ per cent of GDP from the projected low-point in spending in 2015–16. Rising health costs are by far the

largest contributor to increased spending, accounting for around two-thirds of the overall increase (Chart 6).

Chart 6: Projections of Australian government modelled spending by category



Source: Treasury projections.

With some categories of spending declining as a proportion of GDP, the increase in health, age-related pensions and aged care more than explains the increase in total spending in dollar terms.

The very high future growth rates projected for health underscore the need for health reform. If health services and facilities are to be first-class and meet the needs of an ageing population, major cost drivers need to be addressed and efficiencies found. Simply cutting the health budget in order to achieve fiscal sustainability would not be appropriate. Rather, adjusting spending to obtain better value for money is necessary. This requires a more responsive and better coordinated health system. Health reform is required so that every health dollar will buy more and better quality health services.

4. Climate change and the environment

Climate change is the largest and most significant challenge to Australia’s environment. If climate change is not addressed, the consequences for the economy, water availability and Australia’s unique environment will be severe.

As a hot and dry continent, Australia is more at risk from climate change than many other developed countries. Any response to the challenge of climate change requires

global coordination. There are 32 countries that are currently operating emissions trading schemes in response to this challenge and others are in the process of introducing them.

The Carbon Pollution Reduction Scheme (CPRS) is designed to deliver significant and certain reductions in carbon emissions in a cost-effective way, while protecting Australian businesses and jobs during the transition period.

The CPRS will drive large scale abatement at a much lower cost than narrower, prescriptive alternatives. For example, even if every car in Australia were taken off the road, emissions would still not be cut by enough to meet the commitment to reduce emissions by 5 per cent below 2000 levels by 2020.

Early action on climate change will allow strong long-term growth by steadily transforming the economy, rather than imposing on future Australians the need for a sharp, more costly shock to make the inevitable change to a sustainable low pollution economy. The CPRS will not only reduce emissions from currently emissions-intensive industries such as electricity generation, but will reduce the emissions intensity of industries across the economy.

The economy will continue to grow following the introduction of the CPRS, with some areas of the economy likely to experience a significant boost, including in the renewable energy sector. By 2050 output from the alternative energy sector is expected to be up to 30 times larger under a CPRS and expanded Renewable Energy Target.

Mitigation via the CPRS is projected to reduce the average annual growth rate of Australia's real Gross National Product per capita from 2010 to 2050 by only 0.1 of a percentage point.¹ The CPRS will allow businesses and consumers, rather than governments, to determine how and where emission reductions will occur.

It is in Australia's national interest to promote the achievement of an effective global response. The early adoption of emission reduction targets and carbon pricing in Australia would help shape a future global system in Australia's interests and improve business investment certainty.

The Government's approach will also allow for significant adjustment assistance to businesses, households and communities.

Reduced water availability is another key environmental risk. Improved water management — involving cooperation with the States to improve environmental water flows, water trading and the understanding of water systems — offers the potential of

1 Australian Government, *Australia's Low Pollution Future: The Economics of Climate Change Mitigation*, 2008.

delivering long-term benefits for urban water security, the development of rural communities and valuable ecosystems.

At the same time efforts to bring about sustainable land use will be imperative to protecting Australia's unique biodiversity while supporting agricultural productivity.

5. Social sustainability

With an ageing and growing population, a key challenge is to grow Australia's human and social capital by enhancing the skills and opportunities of all Australians today, particularly those facing, or at risk of, entrenched disadvantage. The Government can also help the next generation by building capabilities and expanding opportunities, especially for those in disadvantaged circumstances.

While an improvement in Australia's aggregate human capital over time is evident through improved education, employment and health outcomes for Australians overall, there is a small proportion of the population that is not sharing in this improvement.

Building human and social capital, including through the implementation of policies which support productivity and enable labour force participation, will be critical to meeting Australia's future challenges.

6. The Government's policy response

The Government's broad policy agenda has been formulated with a view to responding to the long-term challenges highlighted in this Report, and laying the foundations for rising living standards for current and future generations.

By taking steps to address the long-term challenges of an ageing and growing population, and the global climate change challenge, Australia can avoid the need for more severe and costly reforms for future generations.

Responsible economic management built around the three pillars of productivity, participation and population is the key to sustainable economic growth.

Productivity growth — underpinned by investment in nation building infrastructure and improving the skills base of the workforce — is central to growing the economy and reducing the economic and fiscal pressures of an ageing population.

Details of the Government's long-term reform agenda are set out below.

6.A Lifting productivity to grow the economy

High productivity growth — producing more output with proportionately fewer workers — is the key to continued growth with an ageing population. Investments in Australia's skills and infrastructure base will lead to a lasting improvement in productivity.

Education and skills

The Government is delivering education reform as part of the education revolution. This has delivered a 50 per cent real increase in funding across the next five years compared to the previous five years. The package is designed to: provide more opportunities for students with over 50,000 projected additional university places to 2013 and 711,000 extra vocational education and training places; improve transparency and quality of all forms of education; and increase the flexibility of education providers to meet the needs of students.

Schools

The basic skills acquired in early childhood and school years, particularly literacy and numeracy, are necessary foundations for developing higher order skills that contribute to a more productive workforce. The Australian Government, through the Council of Australian Governments (COAG), is implementing a reform agenda to help young Australians achieve during their school years, including through:

- investing \$43 billion in schools over four years through the National Education Agreement and the Schools Assistance Act, including more generous indexation arrangements;
- a suite of National Partnership agreements, backed by additional funding, focused on important reform areas including boosting the capacity of Low Socio-Economic Status School Communities, enhancing teacher quality and improving literacy and numeracy; and
- an agreement to work towards a national Year 12 or equivalent attainment rate of 90 per cent by 2015, backed by \$100 million in reward funding.

Tertiary education and vocational training

Recognising the importance of vocational education and training in delivering Australia's skills needs, in 2008 COAG also agreed to a new (\$6.7 billion over five years) National Skills and Workforce Development Agreement to increase the skill levels of all Australians, including targets to double the number of higher qualification completions by 2020. The Agreement is also complemented by the Productivity Places Program which provides 711,000 additional training places over five years.

The Government's \$2.7 billion reforms to the higher education system will improve quality and boost participation in higher education, consistent with the Government's ambition for 40 per cent of all 25–34 year olds to attain a bachelor level qualification or above by 2025. As part of these reforms, Commonwealth supported places will be uncapped from 2012 and more generous indexation arrangements will support teaching and research.

Nation building infrastructure

The Government's nation building infrastructure policies are directed to ensuring efficient investment in, and use of, infrastructure to encourage future productivity growth in the economy.

In the 2009–10 Budget, the Government invested \$22 billion to improve Australia's core infrastructure. This included \$8.5 billion to expand Australia's land transport networks targeting roads, rail and ports — the building blocks for Australia's future productivity growth.

- The Government is investing \$4.6 billion to improve metropolitan rail networks in six major cities: Melbourne, Sydney, Brisbane, Perth, Adelaide and the Gold Coast. More efficient metro rail networks will deliver economic and social benefits through faster travel times, less road congestion and lower greenhouse emissions.
- The Government is investing \$3.4 billion to improve the quality and efficiency of Australia's road network. This includes a number of strategic investments in Network 1 — Australia's busiest freight route stretching along the eastern seaboard from Melbourne to Cairns. This investment will deliver economic benefits to Australian business through faster transit times and lower transportation costs.
- The Government has also set aside \$389 million towards developing, constructing and expanding critical port infrastructure in Western Australia and the Northern Territory. This investment in Australia's gateways will play an important role in driving economic growth into the future — improving access for Australia's mineral resources and commodities to global markets.

National Broadband Network

The Government's investment in the National Broadband Network (NBN) will provide high speed broadband to meet the growing need for advanced telecommunications services over the long term, and aid in the delivery of services in areas such as education and health. The NBN, together with telecommunications regulatory reforms being undertaken by the Government, will enhance the competitive dynamics of the telecommunications sector.

Infrastructure planning and reform

In 2008, the Government established Infrastructure Australia (IA) as an independent, statutory advisory council, to help drive the development of a strategic, national approach to infrastructure planning and investment.

IA provides advice to governments, investors and infrastructure owners on: nationally significant infrastructure priorities; possible impediments to the efficient use and provision of national infrastructure; and policy and regulatory reforms needed to more efficiently use national infrastructure.

As part of the Government's strategy of partnering with the private sector to address the nation's infrastructure challenges, IA assisted in the development of a set of national public-private partnership (PPP) policies and guidelines. Agreed by COAG in November 2008, this will help ensure there is a best-practice and a consistent national approach to delivering PPPs.

Energy, transport and water reforms

The Government is working with the States and territories to improve the management of the nation's critical infrastructure — particularly in the areas of energy, transport and water.

- The Australian Government is working with the States and Territories through COAG on microeconomic reforms that will enhance and streamline the regulations applying to the nation's transport sector. COAG is pursuing reforms to heavy vehicle road user charging and has agreed to establish national regulators for rail safety, maritime safety and heavy vehicles.
- The Australian Government is working with other COAG members on a major energy market reform program. Reforms to date include new governance and legislative arrangements for the Australian energy market, including the establishment of the Australian Energy Market Operator in 2009, revised laws governing electricity networks and new laws governing gas networks.
- In December 2009, COAG agreed to redouble its efforts to accelerate the pace of reform under the National Water Initiative (NWI) and further committed to: completing NWI consistent water-sharing plans for all significant water resources; a National Framework for Non-urban Water Metering to improve the accuracy of water metering; a National Water Skills Strategy to address skills shortages in the water industry; and the in-principle endorsement of a National Framework for Water Compliance and Enforcement to combat water theft.

Seamless national economy

A seamless national economy will be delivered by reducing inconsistent and unnecessary regulation across Commonwealth, State and Territory governments in 27 different areas and ensuring new regulation is introduced in a manner which minimises

costs to business and which ultimately improves Australia's international competitiveness.

COAG's Seamless National Economy National Partnership Agreement includes reforms to achieve: nationally uniform occupational health and safety laws; a more efficient system of environmental assessments and approvals; and consistent administration of payroll tax.

Innovation

Innovation supports productivity by creating and diffusing more efficient processes and better products through the economy.

In 2009–10, the Government provided \$8.6 billion for science and innovation. This is 25 per cent more than in 2008–09. This direct investment in Australian innovation is supported by investments in infrastructure to sustain the innovation process — including the National Broadband Network — and in the Education Revolution, which is transforming every stage of the learning journey from pre-school to post-doctoral studies.

Key investments in the 2009–10 Budget included an additional \$2.4 billion to support research excellence, critical research infrastructure, business innovation and enabling technologies.

Sound macroeconomic management

The Government's investments in future productivity are complemented by sound macroeconomic management, including minimising the impact of the global financial crisis on Australia's potential growth rates through judicious use of temporary fiscal stimulus. By minimising permanent damage to the economy from the global recession through the depletion of skills and physical capital, the fiscal stimulus places Australia on a sound footing to meet the challenges of an ageing population.

6.B Addressing the direct impacts of an ageing and growing population.

Significant changes in Australia's demographic profile will place direct pressure on the country's health, aged care and retirement income systems. The Government has already taken significant steps to address these impacts.

Investing in health for the future

The Government has already embarked upon the path to build the health and hospital system that Australia needs for the 21st century. Key investments include:

- more than \$64 billion over five years in the hospital and health system, with \$7 billion in additional funding for the States and Territories over and above what would have been the case if the previous agreements had continued;
 - as part of this, \$1.1 billion will be provided for training more doctors, nurses and other health professionals (this unprecedented investment in the health workforce will see 812 ongoing GP training places from 2011 onwards — a 35 per cent increase on the cap of 600 places imposed since 2004);
- \$3.2 billion in health infrastructure projects across hospitals and medical research institutes — including \$1.2 billion in world-class cancer centres; and
- more than \$44 billion in direct financial support for aged and community care over the next four years. In the 2009–10 Budget, the Government committed \$9.9 billion for aged care, including \$7.1 billion for residential aged care.

The Government is continuing the overhaul of the health system to ensure that it can cope with the challenges of an ageing population and rising health care costs. The Government is committed to significant reforms in response to the National Health and Hospitals Reform Commission (NHHRC) which are designed to improve the productivity of service delivery, ensure value for money, and deliver a more responsive and better coordinated health and hospitals system.

Sustainable pension reform

The Government has reformed the pension system to provide more support to those who need it most, and to enhance the sustainability of the pension system. In the 2009–10 Budget, the Government delivered an extra \$32.50 per week to full rate single pensioners and \$10.15 per week combined to couple pensioners.

The increase in the pension was delivered without placing additional long-term pressure on the budget. The Government has revised income test arrangements to better target the pension to those who are most in need. To respond to the long-term cost of demographic change, the Government will progressively increase the qualifying age for the pension. The Age Pension age will be increased to 67 years, at a rate of six months every two years, beginning in 2017.

Boosting labour force participation

The Government has introduced a number of initiatives to boost labour force participation, including: increasing incentives to work through personal income tax cuts and increases in the Child Care Tax Rebate; reforms in the areas of education, employment services and health; and the Productive Ageing Package to support mature age participation through practical measures, including retraining and re-skilling

programs and enhanced assistance through the Keep Australia Working Career Advice Line.

6.C Managing the budget in the face of demographic change

The Government is also addressing the pressures that an ageing population will place on the national budget.

Productivity

The productivity agenda detailed above is also a key response to addressing the fiscal pressures of an ageing population. Investment in infrastructure and improving Australia's skill base to increase the growth potential of the economy will improve budget revenues without increasing the overall tax burden on the economy, and as a result the government's medium term-fiscal outlook will improve.

Fiscal strategy

The Government's fiscal strategy will make an important contribution to addressing the fiscal pressures that will come with an ageing population. As the economy recovers, and grows above trend, the Government will allow the level of tax receipts to recover naturally and hold real growth in spending to two per cent a year until the budget returns to surplus.

Constraining annual real spending growth to two per cent in years where the economy is growing above trend until the budget is in surplus will deliver permanent structural savings of around one percentage point of GDP from 2015–16. This Government has already delivered \$56 billion in savings in the 2008–09 and 2009–10 Budgets.

6.D Underpinning investments in the future, with a sound response to climate change.

Addressing the social and economic challenges of an ageing population needs to be supported by ambitious and effective policies to tackle the fundamental challenge of climate change.

Transformation to a low pollution economy

The introduction of a price mechanism is a cost effective response to reduce the level of carbon emissions. The CPRS introduces a carbon price and will deliver certainty and efficiency in the level of emissions reductions over time. It is expected to deliver reductions in the emissions intensity of all industries, with many industries expected to more than halve their emissions intensity.

The Government has already implemented the expanded national Renewable Energy Target (RET) scheme, designed to ensure that 20 per cent of Australia's electricity supply is from renewable sources by 2020.

Owing to the long-lived nature of energy generation assets, it is important that an enhanced price signal is provided for renewable energy generation. As a transitional measure, the RET will accelerate the development and use of low emissions technologies in the shorter term, while the operation of the CPRS will help bring cleaner technologies into the market over time.

The new legislation provides certainty for investment in large-scale renewable energy generation, and the significantly expanded targets will boost growth in the renewable energy sector.

By 2050 output from the alternative energy sector is expected to be up to 30 times larger under a CPRS and expanded renewable energy target.

Investing in clean energy infrastructure

The \$4.5 billion Clean Energy Initiative is helping support the development of low-emissions technology while also building the necessary infrastructure and skills and capacity needed for a low pollution future.

As part of this initiative, the Government will provide \$2.0 billion over nine years for the Carbon Capture and Storage Flagships program. The program will support the development of industrial-scale demonstration projects for carbon capture and storage. Shortlisted projects will soon commence pre-feasibility studies, with successful Flagship projects expected to be announced in the second half of 2010.

The Government will also invest \$1.5 billion over six years in a new Solar Flagships program. The program aims to establish up to 1,000 megawatts of solar electricity generation capacity in Australia. Together with the \$100 million Australian Solar Institute, the Solar Flagships program will develop Australia's potential to become a world leader in large-scale solar electricity generation.

Supporting action by households

As part of the Economic Stimulus Plan, the Government has allocated some \$3 billion over four years to the Energy Efficient Homes program. The program provides assistance to households who wish to install ceiling insulation or replace an existing electric hot water system with a solar and heat pump hot water system. In addition to savings on electricity bills for households, this program is an investment in the future of Australia's environment by reducing emissions in 2020 by about 3.0 million tonnes and cumulative greenhouse gas emissions by around 35 million tonnes by 2020 (equivalent to taking about 800,000 cars off the road).

6.E Promoting social inclusion

The Government's social inclusion agenda will support human capital development and hence productivity and participation, by seeking to ensure that all Australians have the capabilities and opportunities to participate fully in social and economic life. It is also seeking new ways to overcome disadvantage in the Australian population to ensure that all Australians will be able to: learn by participating in education and training; work by participating in employment, in voluntary work and in family and caring activities; engage by connecting with people and accessing their local community's resources; and have a voice so that they can influence decisions that affect them.