# **Budget Speech**

## 2000-01



## **New South Wales**

Budget Paper No. 1

### NEW SOUTH WALES BUDGET SPEECH

#### Delivered on 23 May 2000

#### by the Honourable Michael Egan MLC

#### **Treasurer of New South Wales**

Mr Speaker,

When we won the Olympics and Paralympics back in 1993, the Fahey Government spoke for all Australians when it pledged that Sydney, New South Wales and Australia would host the best Games the world has ever seen.

And in 1997, in the Carr Government's third Budget, I pledged to the taxpayers of New South Wales that the Games would be completely paid for up-front, with not a single cent in debt for this or future generations to pay.

Both pledges will be honoured to the full.

With this Budget all of the Olympic and Paralympic costs are covered – every single last cent. The Games are now paid for.

Tomorrow the final payment will be made on the last of the permanent Olympic and Paralympic venues.

As well, this Budget makes ample provision for all of the remaining Olympic related expenses.

Paying for the Olympics up-front was not easy – it was hard work.

But now it is done, and as a result the permanent legacy for Australians will be all benefit and no burden.

Our Games will forge an enduring reputation for Australia as an ideal place to visit, an ideal place to invest and as the source of first class produce, products, services and ideas.

Our Games, Mr Speaker, will simply dazzle the world.

The venues, the planning, the preparations, the celebrations will be second to none. The natural beauty of our city and our State is second to none.

But what will surpass everything, I predict, will be the hospitality, the friendliness and the welcome that Australians will show to the world.

We'll not only impress the world, but as usual, we Australians will surprise ourselves.

Let's make sure that in 50 years time people all over the world will be able to say that the spirit and success of Sydney's Olympics were only ever exceeded once - by the spirit and success of Sydney's Paralympics.

But, Mr Speaker, this Budget does much, much more than just pay off the Games.

For five years we've worked hard.

We can't promise never to make a mistake. We can't promise to solve each and every problem that arises.

But what we do promise is to keep on listening, to keep on learning, to keep on improving and to keep on achieving.

And in that context, for the third year in a row the Budget achieves five important results:

- lower tax rates;
- additional well-targeted spending on hospitals, schools, police and other vital community services;
- a reduction in the Government's debt and liabilities;
- a significant increase in the State's assets and net wealth; and
- strong and continuing job growth.

None of these would have been possible without five years of financial prudence and five years of strong economic growth.

On the financial side, we are the first Government, as far back as reliable records tell, not to have spent everything we received and more.

We're the first Government to start putting something aside for the future every year.

We're the first Government in the State's history to reduce the State's total debt and liabilities, rather than add to them.

On the economic front, we don't seek to take all or even most of the credit.

We have played our part, by reforming our utilities and driving down the business costs of water, power, transport and ports, by aggressively marketing the State for new investment, and contributing to national savings by repairing the State's budget balance.

But as I said last year:

"The first rate economic and job growth performance of Australia, and New South Wales in particular, over the last year did not happen by chance.

It happened because of generally good decisions and hard work by our businesses, by our workforce, by our Governments, State and Federal and on both sides of the political fence, over a long time.

And it happened because of a sustained effort to create an open, efficient, competitive economy, particularly over the last fifteen years and a first-class community over an even longer period of time.

Our commitment now must be to pass on our legacy to the next generation, strengthened and enhanced in every way.

From a position of undoubted strength, we must now secure the future."

Mr Speaker, that's what this Budget sets out to do.

In addition to the tax cuts, in addition to the extra new spending on key services, this Budget pays down the mortgage.

Paying off the mortgage, Mr Speaker, not only protects us from bad times in the future, it enables us to make the most of good times as well.

#### The Jobs Challenge

Mr Speaker,

I am pleased to report that over the last five years New South Wales has gained an extra 324,000 jobs.

In the last 12 months alone, jobs in New South Wales have increased by 135,000.

New South Wales has the lowest unemployment rate of any State, with the trend rate now reduced to 5.8 per cent.

This strong progress must not make us complacent. We still have a long way to go, with lots more hard work to do.

It is also interesting to note that the average earnings of all employees in New South Wales have grown over the last 12 months from \$640 per week to \$666 per week – \$50 per week more than Victoria, \$74 more than Queensland, \$82 more than South Australia, \$75 more than Western Australia, and \$100 more than Tasmania.

There are, of course, some people – the Hanrahans, and others prone to selling Australia short – who can never acknowledge that Australians are actually responsible for the success we achieve. For them, our successes are always explained away by some one-off, fortuitous factor such as the Olympics.

But the truth is that the economic impact of all the construction for the Games over the last five years has been relatively small.

The approximate \$3.3 billion spent by the public and private sector on games construction over the last five years has amounted to only one dollar in every 300 dollars of the State's economic activity over that period.

Some people might argue that the one extra dollar has made all the difference. I'm inclined to think that our performance has also been helped by the other \$299.

Make no mistake: the Games will most certainly lead to major economic benefits for Australia, but the real benefits are yet to come. They will be long term benefits, and will come from the springboard which the Olympics will give us to reposition our business and investment reputation around the world, and to showcase our wares to the world.

To take advantage of this Olympic springboard, the Government has been formulating its job action plan, Beyond 2000.

In addition to the Government's own capital program, Beyond 2000 includes many billions of dollars of major private sector investments, city and country, which are being facilitated by the Department of State and Regional Development, the Department of Urban Affairs and Planning, the Department of Minerals Resources and many other Government agencies.

The Premier will be providing an update on Beyond 2000 within the next month.

The State's own investment program over the next four years will also contribute to the maintenance of strong employment.

Since 1994-95, the State Asset Acquisition Program has increased by 60 per cent to \$5.3 billion in 2000-01 – an average annual increase of 8.2 per cent.

In the four years to 30 June 2000, the State Asset Acquisition Program, including the Olympic construction, was \$18.25 billion. After the Olympics, in the four years to 30 June 2004, the program is expected to increase to an estimated \$21.5 billion – an increase of \$3.25 billion – sustaining approximately 84,000 jobs each year.

#### **Revenues and Taxes**

I now turn to the Government's revenues.

In the current financial year, 1999-00, total revenues are expected to reach \$30,220 million, an increase of 4.4 per cent on actual revenues in 1998-99.

In 2000-01, total revenues (excluding the proceeds from the capital restructure of electricity enterprises which are being used to retire general government debt rather than for expenditure) will remain virtually unchanged at 30,456 million – an increase of only 0.8 per cent.

The composition of our revenues, however, will change markedly due to the new tax system and revenue sharing arrangements introduced by the Federal Government.

Under the new system, State taxes will fall and Commonwealth grants will increase.

It is important to note, however, that on current Commonwealth and State calculations the New South Wales Budget will not be better off under the new arrangements until 2007-08.

Indeed, between now and 2007-08 our share of the Commonwealth's GST revenues will be significantly less than the State taxes and existing Commonwealth grants that we will be forgoing.

To ensure that no State is worse off than under previous arrangements the Commonwealth Government is to make transitional top-up payments to the States.

These top-up payments continue until each State's share of the Commonwealth's GST matches the forgone taxes and grants they would have received under the previous arrangements.

In the event that GST revenues in the early years exceed the Commonwealth's expectations, this will mean a reduction in the Commonwealth's top-up payments to the States, rather than any windfall to the States.

So let me make this very clear: if GST revenues are bigger than expected, the windfall will be the Commonwealth's, not the States'.

Mr Speaker,

Under the new arrangements, a number of State taxes are being abolished or reduced in 2000-01. These include the accommodation levy, tobacco, alcohol and petrol excises levied by the Commonwealth on behalf of the States, and gambling taxes.

In addition this Budget introduces a number of new tax reductions that will reduce revenue by \$436 million over the Budget period. That's a further \$436 million of tax cuts on top of those I announced last year.

First, this Budget again reduces payroll tax.

Under the Coalition Government payroll tax rates were increased to seven per cent in 1990.

Last year we reduced the rate to 6.4 per cent, with commitments to reduce it further to 6.2 per cent from 1 July 2001, and to 6.0 percent from 1 July 2002.

I announce now that the next instalment of payroll tax reductions will be brought forward by six months, with payroll tax cut to 6.2 per cent from 1 January 2001, with a cost to the revenues of \$52 million in 2000-01.

I further announce, Mr Speaker that from 1 October 2000, stamp duty on general insurance, including household and certain types of commercial insurance, will be cut from 11.5 per cent to 10 per cent, with a cost to the revenue of \$23 million in 2000-01, and a full year cost of \$36 million.

Mr Speaker, members will already be aware of legislation before the House to provide a \$7,000 grant to first-time home buyers from 1 July 2000, under the joint Commonwealth-State First Home Owners Scheme.

This scheme is part of the new national tax and Commonwealth-State revenue sharing arrangements and will be uniform throughout Australia.

In the initial years, the outlays required of the States will be included in the Commonwealth's top-up payments being provided to the States. Once those payments cease, the whole cost, in excess of \$200 million each year, will be borne by the States.

The New South Wales Government will add to this assistance, by abolishing our existing First Home Purchasers Scheme, which provides limited concessions for stamp duty on contracts and conveyances and replacing it with a new scheme, First Home Plus.

First Home Plus, Mr Speaker, will:

• replace the existing 50 per cent discount with a full exemption;

- substantially increase the maximum property values eligible for exemption;
- introduce for the first time a tapered concession above the maximum values eligible for the full concession; and
- remove income as an eligibility criterion.

First Home Plus will provide:

- a full exemption for Sydney homes valued up to \$200,000, phasing out between \$200,000 and \$300,000;
- a full exemption for country homes valued up to \$175,000, phasing out between \$175,000 and \$250,000; and
- a full exemption for vacant land for Sydney metropolitan areas up to \$95,000 phasing out at \$140,000 and for country areas up to \$80,000 phasing out at \$110,000.

These measures will apply to contracts signed on or after 1 July 2000 and will cost over \$52 million in 2000-01.

First Home Plus will help first-time homebuyers get to first base.

For eligible first-home buyers the combined assistance of these two new measures is over \$13,000 for a \$200,000 home in the metropolitan area, and over \$12,000 for a \$175,000 home elsewhere in New South Wales.

First Home Plus is real help for families and young people struggling to buy their first home.

Mr Speaker, there are two more measures which were announced previously, but will only come into operation after 1 July 2000.

These are:

- the staged phase out of the \$43 third party motor vehicle levy, which exempted all private vehicles from 1 July 1999, will now be extended to all business vehicles from 1 July 2000; and
- the abolition of the surcharge on motor vehicle registration fees and transfer fees from 1 July 2000, costing \$36 million in 2000-01.

Mr Speaker,

I can also confirm that, as previously announced:

• payroll tax rates will be further reduced to 6 per cent on 1 July 2002; and

 that next year's Budget will contain further, but as yet unallocated tax cuts of another \$175 million per annum.

Mr Speaker, the total value of all the tax cuts announced in last year's and this year's Budget amount to \$611 million in 2000-01, \$887 million in 2001-02, 1,074 million in 2002-03 and 1,138 million in 2003-04 – a total of almost \$4 billion over four years.

#### **Expenditures**

Mr Speaker,

I now turn to the expenditure side of the Budget.

Unadjusted total expenses fell by \$551 million in 1999-00, compared with 1998-99. However, after adjusting for distortions caused by special factors, underlying expenses grew by 2.2 per cent.

In 2000-01, unadjusted total expenses are expected to increase by 5.4 per cent, or \$1,501 million. After adjustment for one-off factors, however, net underlying expenses are set to grow by \$764 million or 3.4 per cent.

In addition to the Government's annual running expenses, \$2,540 million will be expended on new asset acquisitions for the general government sector.

The total Budget funded capital program also includes \$1,397 million of capital grants to non-budget agencies, which are now included among annual expenses.

The total Budget funded capital program for this year is \$3,937 million, an increase of \$135 million over last year.

#### **Health and Hospitals**

This Budget provides the sixth consecutive substantial increase to the health budget.

Spending on health services will total \$7.4 billion – \$479 million more than the last year's Budget allocation.

A further \$472 million is provided for capital works for new hospitals, including those recommended in the Sinclair report, and the continuation of major building programs commenced in previous years.

Spending on health has risen by \$2.1 billion since 1994-95.

The Budget fulfils the first instalment of the three-year guaranteed health budget with a \$414 million recurrent cash payment.

During the next three years recurrent health spending will rise to almost \$8.1 billion per year.

Highlights of the health budget include:

- a guaranteed funding increase to all area health services to meet growth in demand particularly in Northern Rivers, Mid-North Coast, the Central Coast, the Illawarra and South-Western Sydney;
- an extra \$36.5 million for improving mental health services, rising to an extra \$107 million per annum in 2002-03;
- \$4 million for dental health services, rising to an extra \$20 million per annum in 2002-03;
- \$5 million for extra medical research projects;
- \$45 million over three years to relieve pressure on intensive care units and emergency departments;
- \$45 million over three years to coordinate care for people with heart disease, respiratory illness and cancer;
- \$15 million over three years to better integrate general practitioners with hospitals; and
- \$1.5 million for locums for rural specialists.

This year's new capital projects include:

- \$13.8 million for a linear accelerator and associated cancer treatment services at Campbelltown Hospital;
- \$16 million for a new spinal medicine and 60-bed rehabilitation unit at the Prince of Wales Hospital;
- a \$5.8 million expansion to the rural health program which is building or developing 20 hospital and health facilities in small country towns;
- \$6.3 million for the Central Coast Mental Health Strategy including the redevelopment of acute inpatient services at Gosford Hospital and the construction of a new mental health inpatient unit at Wyong Hospital; and

• \$3.7 million for upgrading the Tamworth Base Hospital's emergency department.

#### **Education and Training**

Our second largest financial commitment in 2000-01 is to education and training

This year's expenses for education and training will total \$6,930 million, an increase of \$312 million over last year's Budget and an increase of \$1,482 million since we came to office.

Key initiatives this year include:

- an additional \$90 million for the four-year school maintenance program, making a total program of \$550 million, with \$145 million available this year;
- almost \$450 million over four years for the further expansion of the State Literacy and Numeracy Plan with over \$106 million to be spent in 2000-01;
- almost \$500 million over four years for the Computers in Schools Progam, with the replacement of the existing 90,000 computers and provision of an additional 25,000 computers. A total of \$113.6 million will be provided in 2000-01; and
- \$10.2 million over the next four years for all Government schools to be cabled with local network infrastructure.

In 2000-01, the Department of Education and Training will also be allocated almost \$300 million for investment in new school and TAFE facilities.

#### **Community Services and Disability Services**

Mr Speaker,

The 2000-01 Budget provides a record \$1,486 million for community and disability services.

This is an increase of \$162 million on the 1999-2000 Budget and a 68 per cent increase since 1994-95.

The budget highlights include:

◆ \$110 million for child protection – an 18 per cent increase;

- \$389 million for Child and Family Services an increase of \$54 million or 16 per cent;
- a \$20 million increase in foster care payments;
- a \$44.9 million increase for disability services;
- \$21.5 million of growth funding for Home and Community Care to provide an extra 500,000 hours of care to 8,000 more older people and people with disability;
- \$100.3 million for child care and related services. This includes childcare for rural families, including services for seasonal workers and farming, Aboriginal and remote communities;
- \$23 million to refurbish and maintain group homes, large residential units and other facilities; and
- \$2 million for non-government organisations to buy disability accessible vehicles.

#### **Protecting Our Community**

Police Service expenses will increase by \$188 million over last year's budget.

This reflects the extra call on police resources during the Olympics and our commitment to increase by 2,100 the number of frontline police by December 2003.

The Police Budget also provides:

- \$1.2 million to enhance the Computerised Operation Policing System;
- \$500,000 for a computerised Criminal Suspects Identification System that enables police anywhere in New South Wales to view photographic images of suspects on computer; and
- \$1 million for live scan digital fingerprinting equipment.

Substantial funding increases have also been provided to our fire fighting and emergency services.

#### **Protecting Our Environment**

We're also working hard, Mr Speaker, to secure the preservation and protection of the natural environment across New South Wales.

Increasing and improving the national park estate, improving air and water quality and redressing the problem of dry land salinity are among our major priorities.

Key Budget initiatives include:

- a record allocation of \$223 million to the National Parks and Wildlife Service, representing a 135 per cent increase since the 1994-95 Budget;
- an extra \$23 million in new funding for the Environment Protection Authority's work on scientific research, air quality monitoring, waste management and radiation control;
- \$13.8 million to reduce air and noise emissions and to minimise their impact on the community;
- nearly \$13 million for environmental grants from the Environment Trust;
- \$44.2 million for waste minimisation and management including \$36.6 million to support the Waste Planning and Management Fund;
- \$13.6 million for the acquisition of land in regional New South Wales for new national parks and reserves and additions to existing parks and reserves;
- \$6 million over the next three years, including \$2 million in 2000-01, to combat the problem of soil acidity including acid sulfate soils.

As well, the New South Wales Government is becoming a national and world leader in the development of market mechanisms to encourage forestry investment to help meet our greenhouse obligations and tackle salinity control, land repair, and mine site rehabilitation.

#### **Public Transport and Roads**

Last year the Government launched its Action for Transport 2010 – a 10-year, \$3 billion plus plan to revitalise public transport.

In this Budget, \$75 million is being allocated for commencement of work on the Parramatta to Chatswood Rail Link and \$28 million is being allocated for the Liverpool to Parramatta Transitway.

Total funding for rail capital works, funded from both the Budget and the Rail Access Corporation, will increase by \$29 million to \$466 million, including \$141 million to upgrade the New South Wales freight rail network.

Another \$25 million is being allocated in 2000-01 towards the purchase of 81 new millennium train carriages which will begin to come on line next year.

Over \$37 million will be provided to improve interchanges and commuter facilities.

The State Transit Authority will spend \$24 million in 2000-01, as part of a \$60 million program to purchase 150 new Mercedes compressed natural gas buses.

#### Roads

The total roads budget this year – encompassing new construction, major upgrades, maintenance, road safety and road safety education – will amount to almost \$2.2 billion in 2000-01.

More than 60 per cent of the budget for new road construction and road maintenance will be spent in rural and regional New South Wales.

Some of the major funding allocations include:

- \$160 million to continue the upgrading of the Pacific Highway, including \$84.5 million for the \$334 million Yelgun to Chinderah freeway in Northern New South Wales;
- \$15 million for the North Kiama by-pass;
- \$18 million for the West Charlestown by-pass;
- \$9 million to upgrade the Great Western Highway at Faulconbridge;
- \$236 million to continue construction of the M5 east freeway; and
- \$160 million for roads in Western Sydney.

#### **Country and Regional New South Wales**

Mr Speaker,

I want to pay tribute to the great efforts regional and country communities have made over recent years to cope with the challenges they face, to re-invigorate their communities and to revitalise their local economies.

Their efforts are succeeding and the Carr Government will continue to work hard to assist them and ensure they get their fair share of Government services and resources.

There is a remarkable story to be told about the recent successes of country and regional New South Wales.

Official figures show that it's not just Sydney that's the engine room of the national economy. In fact, the rate of job growth in regional New South Wales, in the 12 months between April 1999 and April 2000, has outstripped that of Sydney – an impressive 3.8 per cent growth for Sydney and a phenomenal 6.4 per cent for the rest of New South Wales.

Forty two per cent of New South Wales' residents live outside Sydney. This budget provides them with 46 per cent of all of the State's public works and road maintenance expenditure.

Twenty-seven per cent of our State's residents live outside Sydney, Newcastle, Wollongong and the Central Coast. This Budget provides them with 35 per cent of all the State's public works and road maintenance expenditure.

A fair share of capital spending in this Budget means new or better schools for Bega, The Tweed, Dubbo, Nowra, Kiama, Lightning Ridge, Grafton, Tuncurry, Lake Munmorah, Brunswick Heads, Cessnock, Bogangar, Jerrabomberra, Dorrigo and Hay – and many others as well.

More than \$1.8 billion will be provided for regional and rural health services in New South Wales, representing a 45 per cent increase in funding for regional and rural health services since the Government took office in 1995.

The Budget also provides for the first stage of building or redeveloping 20 hospitals in small rural towns, with another 14 hospital upgrades in the planning stage.

The Budget will improve road and rail services across the State. In addition to major projects such as the upgrading of the Pacific and Princes Highways, the Budget provides \$115 million for the Rebuilding Country Roads Program, including \$29 million to replace timber bridges.

All Countrylink passenger rail services are being maintained to 334 destinations and \$170 million is being spent on improving rural rail lines.

The Government will also continue its strong support for farming families.

This Budget provides \$232 million to help secure the future of our valuable food and fibre industries.

To address the growing problem of salinity, the Government will provide an extra \$5 million this year. This budget enhancement builds on existing salinity-related expenditure, which last year amounted to \$30 million and this year will increase to around \$35 million.

Special help will be provided to the Western Division through West 2000 Plus – a new \$5.9 million program over three years.

And in this Budget the Government is responding to calls by Country Labor to set up a \$2.4 million rebate scheme to help farming families put roll bars on their tractors. Last year, 16 people died in New South Wales and another 328 were permanently disabled in farm accidents. Most of these accidents were tractorrelated.

To help improve access to day-to-day services the Government will announce details this year of a new \$3.5 million program to improve regional service delivery.

The Government is also working hard to secure new job creating investment for country New South Wales. In addition to the Regional Business Development Scheme, set up to provide incentives to businesses relocating, this Budget provides support for a range of new and continuing programs.

The New Market Expansion Program will help country businesses find new markets for their products, the Townlife Development Program will provide special help for towns with less than 2,500 people, and the Illawarra and Hunter Advantage Funds will help these key regions attract major new job creating industries.

#### **Budget Result and Financial Position**

All States and the Commonwealth are now moving towards a uniform presentation of their budget results and financial position.

This enables better comparison between jurisdictions, and, provided some patience and effort is applied by the reader, a much more accurate understanding of a Budget's impact on a government's financial position.

There are now five different measures of the Budget result.

I am pleased to report, Mr Speaker, that this Budget and this Government come up trumps on each and every measure.

The two most important measures, at least as I see it, are the GFS Operating Balance, and GFS Net Lending.

The GFS Operating Balance measures the extent to which the operations of the Budget during the year add to or reduce a government's net worth.

GFS Net Lending measures the extent to which the year's activities add to or reduce the Government's net financial liabilities.

In line with past years, the Budget Papers also report the GFS cash result.

For the current year, 1999-00, we expect a positive operating result of \$2,594 million, a net lending result of \$1,129 million and a cash surplus of \$314 million.

For 2000-01, we are budgeting for a positive operating result of \$1,750 million, a net lending result of \$659 million and a cash surplus of \$393 million.

Only two other New South Wales Governments since at least 1962 have ever achieved a cash surplus. By June next year, we will have achieved four.

No other New South Wales Government has ever recorded two successive cash surpluses, let alone three – because few other New South Wales Governments have been so determined and so committed to securing and protecting our future.

In the last four years, by working hard on fiscal prudence and good financial management, we have slashed the Government's net liabilities by more than \$7 billion – equivalent to more than \$1,000 for every man, woman and child in New South Wales.

It's easy, of course, for anyone to reduce their liabilities by running down their assets.

We've worked hard at doing the opposite – worked hard at reducing our liabilities and increasing our assets at the same time.

In just four years, Mr Speaker, the Government's net assets, or net worth has increased by \$25 billion – approximately \$15 billion due to revaluations, and approximately \$10 billion due to the strong operating surpluses we have been achieving each and every year.

In other words, Mr Speaker, we've worked hard at renovating the house, extending the house, and paying down the mortgage all at the same time.

With net worth of \$85 billion, we now have the highest net worth (in absolute, although not yet in per capita terms) of any government in Australia, including the Commonwealth whose net worth is now minus \$55 billion – yes, that's right, minus \$55 billion.

Mr Speaker, there is another important financial feature of this Budget. On top of our cash surpluses of \$314 million in 1999-00 and \$393 million in 2000-01, this Budget puts aside \$830 million into what is effectively a service delivery insurance fund.

This will be done by pre-paying, out of 1999-00 and 2000-01 revenues, \$830 million of government superannuation contributions in excess of our funding plan requirements.

Any time from 2002-03 onwards, this pre-payment can be used as an offset to future funding contributions if unforseen revenue difficulties require it.

This is all about taking out insurance now while we can afford it.

It's about taking sensible precautions now, and securing our future now.

A strong financial position and a good set of numbers are not, of course, ends in themselves. They are simply the means, the pre-requisite, for a secure community – improving public services and facilities, sustained job growth and the capacity to meet any risks or challenges that might be ahead.

#### Conclusion

Mr Speaker,

Like the five budgets before it, this is every inch a Labor Budget.

It's a responsible Labor Budget from top to toe.

It's a Budget that delivers more for our families and delivers more for all of our State.

It's a Budget from a hard working Labor Government that is determined to deliver more, both for this generation and the next.