

***“NEW SOUTH WALES - PROVIDING THE RIGHT BALANCE”***

**INTRODUCTION**

Mr Speaker/Mr President -

The 1996-97 Budget is in balance.

For the first time in eight years, New South Wales will pay its way.

And we will pay our way without any tax increases, in fact there will be a small though very significant tax reduction.

And we will pay our way while still meeting our commitments to better health care, better schools and safer roads.

Like the first Budget of the Carr Government, this is every inch a Labor Budget.

It provides more teachers, more police, more spending for hospitals and child protection, and cuts tax.

This Budget underpins the Government's four key commitments to social justice, economic development and jobs, environmental protection, and sustainable financial strength.

It's a Budget that provides the right balance between these four key objectives.

As Australia's largest, strongest and premier State, New South Wales will continue to play its part in the forefront of necessary national change and reform.

We were the first Government during the period of the Keating Government, to enact the National Competition Act - no stalling, no equivocation, simply an enthusiastic commitment to make Australia and

New South Wales more competitive and more able to win the investment, business and jobs we need for the future.

And we were the first Government to support the Howard Government's proposal for uniform national gun laws. Again, no stalling, no equivocation, simply a determination to act co-operatively in the national interest.

And again in the national interest, as the only Labor Government in Australia, we also have an obligation to provide the balance in another important sense.

And that is to ensure the continuing financial and structural changes Australia needs do not become arid ends in themselves, but all the time are directed at building a decent, fair and secure community.

As Australia's only Labor Government we will therefore continue to take a national rather than a parochial role.

We will strive to set the highest social and environmental standards and insist that where structural or financial change is needed, it is managed in a responsible and compassionate way taking into account the needs of communities and individuals.

In particular we will be urging the new Commonwealth Government to resist the temptation of achieving savings through a program of wholesale forced retrenchments.

We have shown in New South Wales that where efficiencies are necessary, significant savings can be steadily and sensitively achieved by natural attrition, redeployment and voluntary redundancy, without the dire consequences to communities and families that a program of mass sackings would bring.

We will also insist that the new Commonwealth Government recognise that New South Wales taxpayers massively subsidise the rest of Australia by \$1,260 million each year, a burden that is equal to \$200 for every man woman and child in New South Wales.

Any change to Commonwealth/State financial relations must redress, not worsen this unjustified impost on New South Wales taxpayers.

## **THE ECONOMIC AND JOBS CHALLENGE**

After a number of years of economic growth below the national average, New South Wales has been growing broadly in line with the nation over the last 12 months.

Some analysts, for example Westpac Bank, are projecting that New South Wales' growth will outpace the national average over the next year.

Nonetheless, most analysts are expecting a mild slowdown in the national economy in 1996-97 before returning to higher longer term growth in 1997-98.

Budget projections for 1996-97 are based on a growth rate of three per cent, broadly in line with expected national growth, and an inflation rate of around three percent.

Over the last 12 months, New South Wales has led the nation's job growth, with a 2.1 per cent increase in jobs and now has the second lowest unemployment rate of all States.

The projected modest slowdown in national economic growth during the coming year will, however, mean that matching last year's job growth will, at least during 1996-97, be somewhat of a battle against the odds.

Nevertheless it is a battle we will wage with every sensible means at our disposal.

And that means doing everything we can to give New South Wales the competitive edge it needs, to ensure New South Wales firms can win the orders and that New South Wales continues to win the investment and

the business we need to provide satisfying and rewarding jobs for all who seek them.

That's why, in our first 12 months in Government, we embarked on major reforms across the New South Wales public sector - in ports, in electricity, in water and in the budget sector.

In the coming year, more progress will be made in these areas, and major reforms will also be launched in the rail industry, the gas industry and in government business regulation and approval processes.

As I said when introducing last year's Budget;

*“These reforms are not driven by academic fascination with abstract theories. They are driven by a common sense determination to win the investment, the business and the jobs we need”.*

All of these reforms are directed at driving down the cost of business inputs, and removing unnecessary obstacles to investment and business.

### **New Electricity Interconnection**

Electricity reform has been a key priority, given the vital importance of electricity as a business input, as well as an energy cost to the community in general.

The electricity industry was fully corporatised on March 1 this year and a wholesale market, accredited by the Australian Competition and Consumer Commission, was established soon after.

Retail competition will commence later this year, as will the introduction of a national competitive electricity industry, initially comprising New South Wales, Victoria and the ACT.

While the new Queensland Government is taking some time to catch up with the 20th Century, I am pleased to announce today that at least one

other non-Labor State has recognised the benefits of a competitive national electricity market.

As a result, New South Wales and South Australia have embarked on a feasibility study for an electricity interconnection between the two States within the next two years.

I will not be so ambitious as to ask the Queensland Government to put national interests ahead of parochial State interests. I simply point out to them that in the case of electricity interconnection, the national interest and their own State's interest are one and the same.

All in all, our electricity reforms are well on track to deliver our targeted price reductions.

Average retail prices have already fallen by around five per cent since corporatisation, with real benefits for households and business in every part of the State.

We expect that competition will drive a further 20 per cent average reduction in real terms over the next five years.

## **Ports**

Port reform has also proceeded well. The three ports - Newcastle, Port Kembla and Sydney - have been corporatised and regulatory responsibilities separated from operations.

Private wharf charges have been abolished and fairer port cargo charges will be introduced.

## **Water**

Water, of course, is a scarce, precious commodity which needs to be managed and appropriately priced.

Reform continues in the water sector, with the contracting out of contestable services, a polluter-pays approach to waste water for business customers and the phasing out of property based charges for the business sector, following the removal for the residential sector in Sydney from October 1, 1995.

Over the last three years water bills for business and industry have decreased in real terms by 45 per cent and over the next five years are projected to decline by a further 20 per cent in real terms.

Here again, New South Wales businesses are being given the competitive edge they need to win orders and create jobs.

## **Rail**

In the near future, major reform will take place in the rail industry.

The State Rail Authority will be divided into four new entities from July 1, 1996 to introduce competition and improve efficiency.

The new corporatised Freight Rail will compete for rail freight.

All essential rail infrastructure will be vested in the Rail Access Corporation which will negotiate access by third parties and have responsibility for train scheduling and control.

The Railway Services Authority will provide rail construction, maintenance and workshop services. All of its functions will be progressively opened up to full competition; 25 per cent by 1996-97, 50 per cent by 1997-98, 75 per cent by 1998-99 and all services by 1999-2000.

The State Rail Authority will operate passenger services, not manage the rail network.

## **Gas**

A new legislative framework will be introduced in this session of Parliament for the gas industry to expose the existing private sector monopoly to competition.

The legislation will enable fair and open access to the distribution network for new suppliers of gas.

Plans to free up this industry have already prompted two major proposals for new gas transmission pipelines into New South Wales - the BHP proposal for a new Eastern pipeline between Langford in Victoria and Wollongong, and the AGL proposal for a new pipeline between Albury and Wagga.

## **Budget Sector Efficiency Reforms**

In the budget sector improved resource allocation, accountability and performance assessment systems will be put in place.



Statements of Financial Performance will be executed with each agency, setting out funding arrangements and performance requirements.

Work will continue with the development of performance indicators and bench-marking.

Service Competition Policy, involving market testing and contracting will be pursued vigorously.

Targets will be established with each budget sector portfolio for pursuing this program and for the achievement of savings and better outcomes for the money spent.

### **War on Red Tape**

The Government is also planning a major revamp of the business regulatory system and approval processes.

Again the aim is to make New South Wales investment ready, business ready and jobs ready.

As part of this program, a review of 273 licence permits and business approvals has been undertaken.

The Government will remove around 50 licences and reduce the costs associated with many others.

In addition, the Government will soon be releasing two *Green Papers* for public discussion.

The first will propose major reforms to the planning, land use and natural resources approval system with the intention of reviewing the current maze of development approvals and replacing it with a much more simple, efficient, effective and speedier mechanism.

The second will outline several innovative regulatory proposals which will allow business to seek exemptions or customise compliance agreements with regulators so that government agencies stick to the task of ensuring community objectives are met, rather than being obsessed with bureaucratic processes.

In other words, we are proposing a war on red tape and a war on unnecessary bureaucratic delay.

### **New Tax Concession**

And we also aim to encourage a new war on the level of interest rates.

A major cost to business and home-owners is, of course, the cost of finance.

As I indicated in Opposition, we believe that impediments to competition in the finance industry have forced business people and home owners to pay more for their finance because of high bank margins.

In this Budget we will introduce a significant tax concession which will give businesses and home buyers considerably more clout in the market.

It is a concession which will only cost \$20 million per annum in foregone State revenue but which we believe will achieve an enormous bang for the buck.

Effective from July 1, 1996, loan security duty will be abolished for all loan refinancing where the borrower, the outstanding balance and the security underlying the loan remain unchanged.

For a \$100,000 home or business loan, this will be a saving of \$341 and for a \$200,000 loan, a saving of \$741.

The benefit of this concession will not just be felt by those who refinance, but I believe by borrowers generally.

Up until now banks and financial institutions have been protected by this tax on refinancing. Now borrowers will be able to chase the best interest rate deals.

Business people and home buyers will be the big winners as the banks and other lending institutions are forced to sharpen their pencils in a much more competitive finance sector.

## **NEW EXPENDITURE INITIATIVES**

I now turn to some of our major new spending initiatives.

### **Health**

Total recurrent payments on hospitals and health care will be a record \$5,139 million.

Budget support for health in this Budget will rise by \$127 million over the allocation in last year's Budget.

The Government has already reduced waiting times for surgery to an historic low.

This further enhancement in health spending will result in even shorter waiting times for patients.

In our 14 months in office, the Government has provided an extra \$470 million from the Budget to the health system, a 12 per cent rise on peak spending under the previous Government.

This year country people will benefit from a \$15 million boost to rural health services.

Our other priorities include a record \$14.6 million to improve Aboriginal health and \$10 million extra to ensure mental health services meet the needs of the especially disadvantaged.

The Health Department's \$477 million capital program will include:

- the redevelopment of Manning Base Hospital in Taree;

- Broken Hill Hospital and Coffs Harbour Hospital;

- the upgrading of Blue Mountains Hospital; and

- refurbishment of Calvary Hospital.

A significant proportion of the Department's capital expenditure will be spent on a major revamp of the Central Sydney Area Health Service.

## **Education**

School education receives another big increase in current expenditure in this Budget. Recurrent payments will be \$3,772 million, a 4.8 per cent increase on last year.

To better prepare the children in our schools for the technologies they will find in the workplace, the Government is spending \$177 million over four years on the schools' technology program - almost \$30 million in this Budget alone.

The Government will create 126 additional teaching positions in schools this year, bringing to 464 the number of extra teaching positions we have provided since taking office.

This year, the Government will begin work on five new schools and undertake major upgrades of 12 more as part of a \$151 million capital program.

## **Community Services**

The Government has increased spending in the community, aged and disability services portfolio by \$51 million, or 4.5 per cent.

In all, \$59.1 million is earmarked in this portfolio for initiatives to protect children from abuse and neglect.

We have boosted payments to foster carers by \$3.2 million, an increase of up to \$42.50 a week.

And for the first time in three years, State wards and other children in Government care will get their pocket money increased.

For most it will double to \$15 a week - the cost around \$250,000 a year.

In the next three years \$13 million will be spent on special initiatives to protect children from abuse and sexual assault.

We will spend \$16 million by 1998-99, and \$4 million this year, to employ 96 new district officers in child protection and substitute care.

Families in crisis will receive an additional \$2 million. Whether this takes the form of additional child care, respite care or help in the home, our aim is to prevent family breakdowns.

We will provide an additional \$16.1 million over three years to improve services to children with disabilities.

This includes \$9.35 million to provide respite care for an extra 450 children and \$3 million for therapy services for a further 490 children.

## **Crime Prevention**

Crime prevention is again a high priority for the Government.

Spending on the police portfolio rises this year to \$989.5 million, an increase of 3.9 per cent.

This new spending includes funds to provide another 100 police officers as part of our commitment to put 650 more police on the streets by the end of 1997-98.

As announced by the Minister for Police, the Government will spend \$11.2 million during the next five years to replace existing police weapons with self-loading pistols.

Additional funding of \$2.6 million will be provided to reduce delays and backlogs in courts and improve the community's access to justice.

By July 1997, the Government will complete the new Metropolitan Remand and Reception Centre at Silverwater at a cost of \$81.2 million.

## **Transport**

The Budget includes a record \$1.9 billion roads program.

This includes \$145 million a year for roads in the west and south west of Sydney.

Many areas of regional NSW will benefit from a massive \$2.2 billion program to upgrade the Pacific Highway that starts this year.

In 1996-97, the Government will outlay \$100 million on its own Pacific Highway projects.

Additional expenditure of around \$120 million is planned this year under an agreement funded dollar for dollar by the State and the Commonwealth Governments.

In rail \$7.6 million will be used to provide more off-peak rail services, new cross regional services on the Harris Park/Merrylands "Y-link" rail connection and improved station security.

## **Olympics**

Over the past year, the Government has made excellent progress in preparing for the 2000 Olympics.

We have finalised the Homebush Bay Masterplan, selected a preferred proponent to build the Olympic Stadium, called tenders for a rail loop to Homebush Bay, received proposals from three consortia for

construction of the Athletes' Village and commenced construction of the Sydney Showground at Homebush Bay.

The Government has also made some sensible decisions to protect the interests of taxpayers.

We re-negotiated the previous Government's arrangements with the Australian Olympic Committee to get a better deal.

And we asked the Olympic Coordination Authority to undertake a careful review of the cost to taxpayers of providing Olympic facilities.

This appraisal has revealed that the construction budget prepared in 1992 underestimates the cost of developing Homebush Bay and the scope of the Olympic facilities.

Among other things, the original budget did not include the Penrith Lakes project, much of the remediation and evaluation work for the village and putting power lines underground.

Acting prudently, the Government has increased the Olympics Budget by \$370 million to \$1,914 million.



This total budget will be partly offset by funding from the Commonwealth and other sources.

This year's Budget-funded capital expenditure is \$442 million.

Only by taking this responsible course can we ensure the people of New South Wales get top quality facilities that will give them lasting service, as well as an Olympic Games of which they can be proud.

## **Environment**

The Government continues to deliver on its environmental commitments with an increase of \$51.8 million, or 20.4 per cent, in the environment portfolio.

This includes \$31 million over two years to improve waste management with the aim of reducing waste going to landfill by 60 per cent by the year 2000.

In the next three years the Government will outlay \$45 million to operate and maintain the 26 new national parks we announced in 1995-96.

Work will proceed on two new urban parks in western Sydney at a cost of \$14 million and \$4 million will be provided to protect endangered species.

During the next three years, the Government will establish a \$30 million Heritage fund to preserve significant heritage items.

The Government will consolidate its national lead on environmental energy reforms by spending \$65 million over the next three years on the promotion of energy efficiency and the use of renewable energy.

### **Forestry and Natural Resources**

The Budget will provide \$47.1 million this year to restructure the timber industry and expand hardwood plantations.

We have secured matching Commonwealth funding for the entire five year, \$120 million program to provide the timber industry with a sustainable future.

The eucalypt plantation program we started last year will receive \$14.1 million this year, as part of a \$47 million three year package.

The Government will spend \$17.1 million on our share of the Murray Darling Basin Agreement and a further \$22.5 million to arrest environmental degradation of irrigation areas and promote sustainable agriculture.

### **Agriculture**

Recurrent payments by the agriculture portfolio will be \$239.2 million, an increase of 7.1 per cent on 1995-96 once a number of special factors are considered.

These include the reduction in the cost of drought measures, transfer of the Quarantine Service to the Commonwealth and the virtual completion of helix compensation.

As part of the Government's plan to reinvigorate the Department of Agriculture, we will create nine new agricultural centres of excellence and upgrade key research centres at a cost of \$2.5 million.

A further \$3.5 million will be spent on a range of agricultural initiatives including new research and monitoring services.

### **Capital Program and Employment**

In 1996-97, the total State public works program will be a record \$5,120 million, with \$3,583 million spent by the budget sector.

Key features of the capital program include:

\$850 million for roads;

\$535 million for rail projects;

\$477 million for hospital construction;

\$442 million for Olympic projects.

The Capital Program will generate, both directly and indirectly, the equivalent of nearly 100,000 full time jobs.

Of the total State Capital Program, broadly \$2,750 million relates to projects outside the greater Sydney metropolitan area. This will generate the equivalent of 43,000 jobs, both directly and indirectly. The program has particular regional impacts.

For example the Pacific Highway upgrade project involving expenditure of \$220 million a year will generate 2,900 jobs per year both directly and indirectly, and will be a major boost to the regional North Coast economy.

## **THE BUDGET RESULT**

All in all, Budget outlays this year will amount to \$22,281 million - an underlying increase of 3.6 per cent.

Budget revenues will amount to \$22,427 million, leaving a Budget surplus of \$145 million.

After discounting \$140 million of proceeds from equity restructuring in government business enterprises - essentially a transfer from the non-budget sector to the budget sector - the underlying Budget result for 1996-97 is a small surplus of \$5 million.

Projections for 1997-98 and 1998-99 are for surpluses of slightly more than \$150 million each year.

Our task of paying all of the bills for the coming year and the following two years of the forward estimates has been made all the more difficult by a number of major factors.

These include:

the \$215 million increase in superannuation outlays which is necessary to ensure that our unfunded liabilities do not run out of control and cause catastrophic difficulties down the track;

the revised cost of over \$100 million relating to indemnities and warranties provided by the previous Government on the sale of the State Bank;

and the additional costs of \$370 million for the Olympics.

To some extent these costs will be met by a gain of \$200 million which we will achieve from cross-border refinancing of some of our electricity generating plant.

All of the additional costs, however, are covered by our projections for the coming year and the following two years.

In other words, we plan to pay all our bills this year, and to keep on paying them.

Many people, no doubt, will argue that there are many additional pressing needs which the Budget could be funding in the coming year.

And they are right.

Some, as well, might argue that we should have gone into debt to fund them. On this, I believe, they are wrong.

More debt now, simply means bigger interest bills in the future and fewer dollars each and every year to spend on hospitals, schools, roads and all of our other key priorities.

## CONCLUSION

Mr Speaker,

Last year I said that our first Budget was aimed at setting things right, right from the start.

This Budget consolidates the hard work and the progress of our first year in office.

It's a Budget that delivers on our responsible fiscal targets - that recognises that we have an obligation to future generations not to lumber them with our debts.

Just as importantly, it continues to deliver Labor's core priorities - better hospitals, better policing, a cleaner, greener environment, a helping hand to the less fortunate.

And it's a Budget that makes New South Wales investment ready, business ready and jobs ready.

It's a Budget that provides the right balance.

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