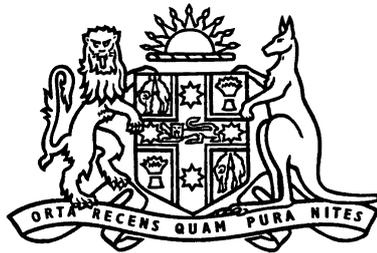


# **Budget Speech**

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**2006-07**



**New South Wales**

**Budget Paper No. 1**



# **NEW SOUTH WALES BUDGET SPEECH**

*Delivered on 6 June 2006*

*by the Honourable Michael Costa MLC*

*Treasurer of New South Wales*

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## **INTRODUCTION**

Mr Speaker

Today I present the first State Budget of the Iemma Labor Government.

A Budget that meets new challenges with new directions.

A Budget that leverages the State's sound balance sheet to invest for the future.

A Budget that achieves more for hard-working families with record spending on health, education, transport and police.

A Budget that looks after the most vulnerable in our society.

A Budget that boosts preschools funding, reduces class sizes, and increases the number of hospital beds.

A Budget that invests record amounts in infrastructure.

A Budget that provides the necessary settings for business to invest.

A Budget that does all this while cutting taxes by \$3.2 billion over the next four years.

## **BUDGET OVERVIEW**

Mr Speaker, the State's structural dependence on property taxes, the end of the property boom, and significant tax cuts to support growth, mean that in 2006-07 the Budget will be a deficit of \$696 million.

This is higher than the December Mid-Year Review estimate of \$533 million because of provision for the redundancies outlined in the February Economic and Financial Statement, and to fund further tax cuts I will announce today.

The Budget will return to a surplus of \$378 million in 2007-08, with forecast surpluses of \$707 million in 2008-09 and \$1.1 billion in 2009-10. These healthy surpluses are projected to be achieved without any new tax measures.

This is a responsible approach that allows the Government to continue to deliver – and in many cases expand – essential services at a time when the State's tax base is recovering from the end of the housing bubble.

Unlike the Coalition, which ran six consecutive Budget deficits, the Iemma Labor Government sees this relatively small deficit as a short-term consequence of the property market downturn.

And the deficit should be viewed in the context of cumulative budget surpluses of \$11.3 billion between 1995-96 and 2006-07.

Our goal – one the Treasury Secretary has named the Costa Golden Rule – is to have the Budget result as a share of total state revenue average two to three per cent over the course of the property cycle.

In 2006-07 and the first few years of the forward estimates period, this ratio will be below the target.

This Budget forecasts a return to long-term average revenue growth, which means by 2009-10 the ratio will be 2.3 per cent.

During the forward estimates period, any cyclical improvement in revenues will be utilised to ensure the average of two to three per cent over the property cycle is met.

Mr Speaker, it is only because of my predecessors' efforts in paying off the legacy of \$10 billion of inherited debt that we are now able to ride out these cyclical fluctuations in our revenue base in a fiscally responsible manner.

It is only because of our nine Budget surpluses and our reduction of the State's debt legacy that we are able to increase our borrowings to fund a record investment in infrastructure without jeopardising the triple A credit rating recently reaffirmed by both Moody's and Standard & Poor's.

A triple A credit rating that, according to Moody's, reflects "the strength and diversity of the state economy".

A triple A credit rating that we're determined to keep, unlike the Opposition who put the State on credit watch the last time they were on the Treasury benches.

## **NSW ECONOMY**

Mr Speaker, I've said on a number of occasions that, given a choice, I'd rather be Treasurer of NSW – with its mature, diverse economy and the country's largest manufacturing base – than Treasurer of the boom-and-bust economies of the frontier States.

Despite the doom-mongering of the Opposition, the NSW economy is experiencing good, solid rates of growth.

We are enjoying historically low unemployment rates, higher-than-average full time employment, high per capita income, and strong business investment.

There is no doubt NSW is not growing as fast as the resource-rich, GST-recipient States like Queensland and Western Australia.

But as the latest OECD Economic Outlook noted, economies such as Australia's "could be significantly affected by abrupt changes in oil and commodity prices".

Queensland and Western Australia are exposed to this risk.

There are a number of historical reasons for NSW' current economic performance:

- ◆ NSW was first into the housing bubble, and it was more pronounced in NSW;
- ◆ Higher interest rates have had a greater impact in NSW because of our higher levels of housing debt; and
- ◆ The higher Australian dollar associated with the commodity boom has dampened NSW manufacturing and service exports.

Mr Speaker, the Lemma Government is pro-growth and makes no apology for its pro-growth bias.

We are starting to see the benefits of this pro-growth stance, with population growth increasing, faster growth in retail sales, and a lift in housing demand for owner-occupiers.

A significant threat to the NSW economy is further interest rate rises which would dampen business confidence and stall a recovery of the property market.

The recent Federal Budget has increased this risk.

The key strength in the NSW economy over the last four years has been business investment, which in real terms has grown by 65 per cent.

This is business voting with their dollars by investing in the NSW economy.

The outlook is for even more business investment growth in 2006-07, particularly in manufacturing and mining.

Business investment is expected to set a new record in 2006-07, both in dollar terms and its share of State Final Demand.

## **FISCAL CONTEXT**

Mr Speaker, growth in the NSW economy is returning to trend, but the biggest emerging challenge remains the ageing of our population and the inability of Australia's current taxation system to adequately deal with this.

By 2044, the number of people in NSW aged over 65 will more than double from under 1 million in 2005 to over 2 million.

This will add significantly to demand in areas such as health, disability services, housing and transport.

It will also put pressure on revenues with the slowing growth of the traditional working-age population.

A critical long-term challenge – and this was backed by the independent study undertaken by respected tax expert Dr Neil Warren – is that the State's revenue is too dependent on inadequate Federal funding to be able to fund essential frontline services required by our ageing population.

Dr Warren's report found that Australian states collect around 16 per cent of total tax revenue yet are responsible for around 40 per cent of total government expenditure, while the Commonwealth collects around 80 per cent of tax revenue but is responsible for just 54 per cent of government expenditure.

This is compounded by inadequate Commonwealth grants which have been growing at an average of just 3.7 per cent over the last four years.

At the same time growth in health expenditure has averaged 7.4 per cent a year, and growth in community services expenditure has grown at 6.6 per cent.

State-government-provided services are under pressure across the nation at the same time as the Federal Government sits on a \$10.8 billion surplus, \$18 billion in its Future Fund, and revenue growth of 6.9 per cent a year.

There must be structural reform of the fiscal relationship between Canberra and the states before our ability to deliver essential services is irretrievably compromised.

Earlier this year I wrote to the Federal Treasurer requesting he convene a national summit on the financial implications of Australia's ageing population.

I also forwarded a copy of Dr Warren's interim report to the Treasurer in the hope that – in light of his own tax review – we might see some genuine reform of the nation's tax system in this year's Federal Budget.

I'm sorry to say I was disappointed on both fronts.

This is not a matter of party politics or Canberra bashing.

All of us, no matter what side of politics or tier of government, have a responsibility to deal with this issue. More importantly, the community expects us to deal with it.

That's why last week I announced the NSW Government would host a national summit on Dr Warren's report, with a particular focus on how we will fund services for our ageing population.

## SAVINGS

Mr Speaker, while the Federal Government continues to deflect its responsibilities on this matter, the NSW Government is undertaking steps to ensure we are prepared, within our resources, to meet the coming ageing wave.

If nothing is done about the State-Federal fiscal imbalance, an unsustainable gap between spending requirements and revenue capacity of around \$23 billion in today's dollars could open up by 2044.

The NSW Government recognises the challenge of working within these fiscal constraints.

That's why the forward estimates include measures to align the rates of expenditure and revenue growth, which means maintaining the expenditure growth rate at an average target of 3.8 per cent per annum.

These measures are being introduced following the February Economic and Financial Statement and include:

- ◆ A \$300 million saving in 2007-08 from non-essential services across Government, building on the two per cent saving to discretionary expenditure already in place;
- ◆ Staff reductions of 5,000 in non-frontline positions to be achieved through natural attrition and voluntary redundancies in line with the Government's established policy;
- ◆ Establishment of a Property Authority to better manage the Government's \$80 billion property portfolio – expected to save up to \$300 million a year by 2009-10 including \$80 million a year in recurrent savings; and
- ◆ Streamlining public sector recruitment with savings growing to \$38 million by 2008-09.

We will continue to seek ways to slow the growth.

This will be achieved by better managing our assets and capital expenditure, and more agency efficiencies.

A rigorous expenditure review process has seen savings of at least \$270 million achieved during 2005-06.

Savings of nearly \$600 million are targeted for 2006-07.

Across the board reductions in expense growth have been extended to 2007-08 and in this Budget will be further extended through to 2008-09.

This will mean total savings of \$4.4 billion to 2009-10.

Mr Speaker, the Iemma Government is proud that it has increased salaries for essential frontline staff.

We now have the highest paid nurses, teachers, and police officers in the country.

The Government is committed to maintaining the real value of wages for frontline workers, with additional scope to reward workers for further productivity gains.

Of course fairer GST arrangements would help the State better fund its essential services, because contrary to the claims of the Leader of the Opposition, there has been no windfall for NSW out of the GST.

The facts are that NSW – no matter how the Opposition tries to spin it – will receive \$380 million less in funding in 2006-07 than was estimated when the GST was introduced in 2000.

In 2006-07 NSW taxpayers will be cross-subsidising other states to the tune of almost \$3 billion – around \$370 from every person in the State.

The NSW Government will continue to fight for a better deal.

## **INFRASTRUCTURE**

Mr Speaker, in the recent Federal Budget the Commonwealth allocated \$5.7 billion on infrastructure nationwide.

In 2006-07, the Iemma Government will spend a record \$9.9 billion on infrastructure – in NSW alone.

Last week the Premier released a comprehensive 10-year infrastructure plan for NSW – the State Infrastructure Strategy.

The Strategy maps out plans for a decade of infrastructure investment, including a \$41.3 billion commitment over the next four years, 45 per cent higher than the previous four-year budget period.

This massive investment is estimated to directly and indirectly support approximately 130,000 jobs each year – providing a significant boost to employment opportunities.

The Strategy identifies the main drivers of infrastructure spending over the next decade – such as population movements and growth, the ageing of the population, and new technology – and better links future capital spending to these demands.

It identifies specific projects, when they will be built, and how they are to be funded.

It ensures our infrastructure investment and delivery maintains pace with growth.

It represents a new direction in infrastructure procurement and delivery.

Mr Speaker, the \$9.9 billion of infrastructure spending contained in Budget Paper No. 4 represents a 22.8 per cent increase over 2005-06.

Over the next four years an estimated \$17.4 billion will be borrowed to fund capital expenditure, including \$5.4 billion in 2006-07.

Capital expenditure of \$110 billion is projected over the next 10 years, with average growth of 4.6 per cent a year over the life of the Strategy.

Over the next decade private sector financing of infrastructure projects is targeted at 10-15 per cent of the State's total capital expenditure.

The largest area of capital expenditure funded in today's Budget is public transport at \$1.6 billion.

In 2006-07 this massive public transport investment will include:

- ◆ \$129 million to purchase corridors for the metropolitan rail expansion;
- ◆ \$207.8 million to continue the Rail Clearways program;
- ◆ \$327 million for work on the Epping-Chatswood Rail Line;
- ◆ \$275 million to purchase new rolling stock and upgrade the existing fleet;
- ◆ \$45 million for Bus Priority Measures; and
- ◆ \$36 million for the first stage of a \$254 million program to purchase 505 new 'clean-diesel' and natural gas powered buses.

The 2006-07 Infrastructure Budget also includes a capital works program of \$633 million for the Department of Health as part of a four-year infrastructure program totalling over \$2 billion, including:

- ◆ \$11 million for new facilities at Auburn and Liverpool Hospitals as part of a \$244.6 million, four year project;
- ◆ \$18 million for upgrades in rural hospitals and health facilities, including redevelopments at Ballina and Manning Base Hospitals,
- ◆ \$4.5 million as part of a \$55.8 million, four year project for new and improved mental health facilities in Sydney, the Central Coast, Illawarra, and Mid-Western NSW;
- ◆ \$18.5 million to upgrade and replace ambulance stations, vehicles and equipment, including new stations at Dubbo, Auburn and Liverpool; and
- ◆ \$5.8 million for the air conditioning upgrade at John Hunter Hospital.

In addition, the 2006-07 Budget includes \$435.5 million to continue work on other major projects including:

- ◆ \$57.5 million to redevelop or upgrade 19 rural hospitals and health services, including Junee, Batlow, Nyngan, Warialda, Merriwa, and Walcha;
- ◆ \$47.4 million to redevelop Bathurst, Orange and Queanbeyan hospitals;
- ◆ \$41.3 million to continue upgrading Royal Prince Alfred Hospital and to increase the capacity of the planned mental health facility at Concord Hospital;
- ◆ \$35.8 million for Stage 2 redevelopment works at Royal North Shore Hospital;
- ◆ \$30.8 million to continue improving mental health facilities at Lismore, Coffs Harbour, Newcastle, Shellharbour and St George, services for older persons in the Illawarra, and various psychiatric emergency facilities in the Sydney metropolitan area; and
- ◆ \$29.4 million to improve hospital, clinical and community services at John Hunter Hospital, Mater Hospital and Belmont Hospital.

A modern State road network is critical to our economy. That's why in 2006-07 the Government will spend \$1.4 billion on road infrastructure, including:

- ◆ \$356 million for the continuation of the 3-year, \$1.3 billion State-Federal Pacific Highway Upgrade Program;
- ◆ \$113 million towards the upgrade of Windsor Road and the Windsor flood evacuation route;
- ◆ \$8.2 million to start the upgrade between Oak Flats and Dunmore as part of the \$380 million Princes Highway upgrade program;
- ◆ \$15 million to extend the Northern Distributor and \$5 million to start the construction of the Kiama ramps in the Illawarra;
- ◆ \$26 million to continue the \$460 million program to upgrade the Great Western Highway between Penrith and Orange;
- ◆ \$11 million towards widening The Spit Bridge; and
- ◆ \$47 million for Central Coast roads, including \$12 million to widen The Entrance Road between Ocean View Drive and Tumbi Road, and \$8 million to complete the widening between Terrigal Drive and Carlton Road.

Students and teachers in NSW deserve first class facilities in which to teach and learn, and over the next four years more than \$2 billion will be spent on education infrastructure, including:

- ◆ 10 Schools delivered under the second stage of the very successful New Schools PPP;
- ◆ \$120 million to clear the current school maintenance backlog;
- ◆ \$164 million for TAFE upgrades, including at Bathurst, Castle Hill, Coffs Harbour, Granville, Miller, Newcastle, Queanbeyan, Ryde, Ultimo, and Wagga Wagga; and
- ◆ \$262 million to upgrade 24 Primary Schools and 33 High Schools.

Infrastructure spending on law and order is driven by crime patterns and new technologies. In 2006-07 \$462 million will be spent in this area, including:

- ◆ \$53.5 million to build new police stations and upgrade existing stations – including at Burwood, Granville, Kempsey, Wyong, Windsor, and the Port Stephens area;
- ◆ \$1.5 million for a Forward-Looking Infra Red Sensor and camera for day or night intelligence operations;
- ◆ \$3.4 million as part of a \$5.1 million project to purchase more than 500 portable fingerprint devices, enabling police to check suspects' fingerprints on the spot;
- ◆ More than \$123 million to build new courthouses and upgrade existing facilities, including almost \$75 million towards the \$330 million Parramatta Justice Precinct and more than \$26 million to improve courthouse facilities in regional and metropolitan NSW;
- ◆ \$57 million for completion of the new Western Region Correctional Centre at Wellington;
- ◆ \$15 million towards construction of a new 500-inmate capacity prison in the Illawarra and expansion of prisons at Cessnock and Lithgow to accommodate a further 500 inmates; and
- ◆ Commencement of the \$63.9 million, 85-bed Prison Hospital at Long Bay Correctional Centre, part of a \$137 million joint project with NSW Health which also includes construction of a Forensic Hospital.

Mr Speaker, a key priority for this Government is improving the lives of some of the most marginalised and disadvantaged people in our community – such as those who rely on public housing and those who live with a disability.

That's why \$244 million will be spent over the next five years on infrastructure for the Department Ageing, Disability and Homecare, including \$16.5 million in 2006-07 to upgrade and refurbish Lachlan and Grosvenor Residential Accommodations.

\$712 million will be spent on Social Housing infrastructure in 2006-07, including \$322 million for new public housing, and \$21 million for additional Aboriginal housing.

Mr Speaker, the Government is investing a record \$9.1 billion upgrading and expanding the State's electricity network over the next four years.

The State's electricity infrastructure will receive a \$2.3 billion boost in the 2006-07 Budget to meet increased demand and ensure continued reliable supply, including:

- ◆ \$262 million to expand and upgrade the NSW high voltage electricity network;
- ◆ \$17.5 million to replace infrastructure and increase capacity and reliability in Sydney's CBD;
- ◆ \$5.5 million for a zone substation at Lennox Head and \$5.6 million to install high voltage transformers at Lismore; and
- ◆ \$19.4 million to upgrade the Penrith transmission substation.

In 2006-07 Sydney Water will invest \$645 million on water for the greater Sydney region, a boost of almost \$130 million, with recycling a key focus.

NSW country towns and villages will receive \$70 million in 2006-07 to upgrade their local water supply and sewerage systems.

\$51 million will be spent on capital works in Sydney's ports, more than \$56 million will be allocated to continue the massive upgrade of Port Kembla harbour, and more than \$4 million will be spent upgrading and improving the port of Newcastle.

## **A HEALTHY COMMUNITY**

Mr Speaker, I've already canvassed the long-term impact of the ageing population on State Government services.

In the short-term the NSW Government is meeting those challenges with a record \$11.7 billion Budget for the Department of Health.

This is an increase of \$828 million on the 2005-06 Budget, and will be used to provide more beds, more staff and more elective surgery.

It also provides for an unprecedented enhancement of \$939 million over five years to improve services for the mentally ill.

Having put mental health on the national agenda, Premier Iemma has now exceeded the Commonwealth's call to match its efforts by more than \$300 million.

This will go towards providing more mental health beds, community-based services, early intervention, and the Aboriginal mental health program.

Spending in 2006-07 in this area will total \$946 million – \$93 million more than 2005-06.

This includes new mental health facilities in Orange, Gosford, Shellharbour, Lismore, Coffs Harbour, Newcastle, Sutherland and St George.

In the Economic and Financial Statement, the Government stated that in spite of the tightening fiscal position and the need to curb public sector spending, we would be allocating more resources to frontline services.

Today I am pleased to be able to deliver on that commitment.

The Budget contains funding for an extra 426 equivalent public hospital beds to allow more elective surgery and faster emergency care. This builds on the 800 new beds announced in last year's Budget.

We will also invest \$10 million on new intensive care beds.

New adult intensive care beds will be provided at Westmead, St Vincents, Blacktown, Port Macquarie, Concord and the Mater Newcastle Hospitals.

New neonatal intensive care cots will be provided at John Hunter, the Royal Hospital for Women, Liverpool, Nepean and Royal North Shore Hospitals.

The record 39,000 nurses in NSW enjoy the highest basic wage rate in Australia and we must do all we can to recruit and retain the best health personnel available.

In 2006-07 \$38.5 million will be spent on new initiatives to recruit, train and retain the nurses and doctors we need to meet growing demands.

\$7.9 million will be spent recruiting 93 new ambulance officers and purchasing new equipment to improve emergency care.

We are finding smarter ways of working, and backing that with extra resources.

The Predictable Surgery Program, for example, has led to a dramatic reduction in the number of people waiting more than 12 months for elective surgery despite record numbers of patients seeking emergency treatment.

The long wait list has also been slashed by three quarters in the last 12 months from 10,364 cases in March 2005 to 2,525 cases in March 2006.

The overall waiting list has been reduced by 12 per cent.

An additional \$15 million for elective surgery will continue our innovative strategy to reduce elective surgery waiting times.

This is on top of \$35 million in recurrent funding to reduce elective surgery waiting times.

Mr Speaker, as the Warren Report found, Australia is almost alone when it comes to shared responsibility for health service delivery.

Unfortunately there continues to be a lack of political will at the Federal level to grapple with this problem.

That's why the 2006-07 Budget contains measures to address the disconnect between Commonwealth-funded GP services and state-funded hospitals and health facilities.

This includes support for ten After Hours General Practice Services co-located with hospital emergency departments to ease the strain on emergency departments and the Ambulance Service.

The NSW Government is working with Divisions of General Practice to establish the first after hours services at Liverpool and Nepean, with negotiations continuing for a service at Ryde.

Up to \$4 million in capital expenditure will be spent on establishing Integrated Primary Health and Community Care Services, combining GPs, community health workers, allied health and other medical professionals in 'one stop shops'.

In 2006-07 expenditure through the Cancer Institute NSW will be \$126 million, including new cancer prevention campaigns targeting smoking and skin cancer.

And \$10 million will be spent on a new anti-tobacco campaign to reduce smoking prevalence by a further 1 per cent, or 50,000 smokers.

## **BUILDING A FAIRER NSW**

Mr Speaker, the Premier, on taking office, identified disability services as one of this Government's highest priorities.

97 per cent of people with a disability are cared for by their families, and this is a Budget that recognises and supports their efforts.

This Budget delivers a record 13.5 per cent increase in funding to the more than 200,000 people under the age of 65 in NSW with a severe or profound disability, their families and their carers.

\$1.76 billion has been allocated to the Department of Ageing, Disability and Home Care, an increase of \$209 million on 2005-06.

Over the next five years more than \$1 billion in additional funding will be spent providing disability services.

The additional money supports a comprehensive recasting of disability services under our 10-year *Stronger Together* strategy.

This historic funding boost will provide thousands of families with additional support and flexible care that best suits their needs.

Major initiatives in the 2006-07 Budget include:

- ◆ A \$20 million boost to community participation programs to ensure every young person with a disability receives four days per week, and five days for those with very high support needs;
- ◆ 180 new supported accommodation places at a cost of \$46 million;
- ◆ 200 new therapy places for children with a disability;
- ◆ 820 additional respite places in 2006-07 for children and adults with a disability at a cost of \$8.3 million; and
- ◆ 70 new intensive in-home support places at a cost of \$5.3 million.

Mr Speaker, we're taking action to help children at risk of harm or neglect with a further tranche of the Government's \$1.2 billion, five-year Community Services reform package announced in 2002.

In 2006-07 \$308.4 million will be provided for the reform program, an increase of \$89.8 million on the \$218.6 million provided in 2005-06.

Families, children, and young people will benefit from a record Department of Community Services Budget of \$1.13 billion.

This is an 11.4 per cent increase on 2005-06 and brings major funding increases to DoCS' key programs including early intervention, child protection and out-of-home-care.

2006-07 reform funding will allow for a series of initiatives including:

- ◆ \$24.4 million for an additional 200 child protection and early intervention caseworkers and support staff;
- ◆ \$17 million for services to assist vulnerable and at-risk families; and
- ◆ \$52.2 million for out-of-home care programs, including another 25 dedicated caseworkers.

As part of an \$85.2 million plan, the Iemma Government will commit \$8.8 million a year from 2006-07 to improve the viability of community-based preschools and increase access and affordability for NSW families.

And, from 2008-09, the Government will deliver an additional \$21 million a year to community-based preschools to provide subsidised places for a further 10,500 children.

In 2006-07 the Government will invest \$712 million in public housing – a \$38 million increase on 2005-06 – providing assistance to 450,000 residents.

This is an additional \$269.8 million over and above our obligations under our agreement with the Commonwealth.

Maintenance of public housing will receive an investment of \$197.5 million.

## **LEARNING FOR THE FUTURE**

Mr Speaker, the 2006-07 Budget invests record amounts in the education of our children and young people.

The Education and Training Budget will reach \$10.7 billion – an increase of \$518 million on the previous year – to provide a first-class education for all NSW students.

The Budget includes an additional injection of \$120 million over four years for school maintenance – bringing total expenditure on school maintenance to \$857 million over the next four years.

This means we are investing an additional \$82,000 a day in maintenance to get our schools into better shape.

Other Budget highlights include an extra \$18 million over four years to set up 10 trade schools – part of an innovative plan to provide hundreds of school-based apprenticeships and traineeships and help address the skills shortage.

Through the new contractual arrangements with private bus operators, apprentices in the metropolitan area will now be able to access the same transport concessions currently available on other public transport services.

This will be progressively rolled out to regional areas.

More than \$10 million will be allocated to help keep schools safe and secure, with 67 schools receiving security fences.

And school facilities will be further improved with a \$10 million commitment to toilet upgrades at 90 schools from Parkes to Petersham.

The Government's successful \$710 million class-size reduction program will continue, with \$603 million over the next four years to help employ extra teachers, as well as the \$107 million already being spent over four years to build new classrooms.

We have already met our commitment to reduce Kindergarten class-sizes to a statewide average of 20 students and Year 1 class sizes to a statewide average of 22 students.

This funding will ensure we fulfil our commitment to reduce Year 2 class sizes to a statewide average of 24 students by 2007.

Targeted funding of \$616 million over four years will be committed to literacy and numeracy.

\$65 million over four years has been allocated from 2005-06 to improve education results for Aboriginal students.

As part of the Government's Respect and Responsibility program, \$65 million will be spent over four years to better manage disruptive students, including eight new behaviour schools and seven new tutorial centres by 2007.

A total of \$3.3 billion will be allocated over four years to support students in Government schools with special needs. This includes more than 660 new teachers' aides over three years.

## **RESPECT AND RESPONSIBILITY**

Mr Speaker, keeping crime rates low and making our communities safer is another key priority of the Iemma Government.

Crime is continuing to fall across New South Wales – the result of this Government backing our police with the powers and resources they need.

A Bureau of Crime Statistics and Research report into long-term crime trends released in April shows that robbery with a firearm, burglary and car theft are at their lowest levels in 15 years.

That same report showed that since 1995, the rate of robbery with a firearm is 39 per cent lower, murder 37 per cent lower, motor vehicle theft 44 per cent lower, and break and enter (dwellings) 26 per cent lower.

Mr Speaker, the Iemma Government will continue to build on these achievements.

That's why in 2006-07 the Police Budget will be increased by \$160 million or 7.9 per cent – more than twice the rate of inflation – to almost \$2.2 billion.

This includes funding for record police numbers and new counter terrorism and intelligence gathering measures.

The Premier recently announced an extra 750 officers will be ready and trained for duty by 30 January 2007 – boosting the average authorised strength to a record 15,206.

This is an extra 2,299 frontline police – an increase of 17.8 per cent – since 1995.

We are committed to ensuring our frontline police officers have the resources, equipment and facilities they need to continue to drive down crime.

\$1.8 million has been allocated for counter-terrorism activities including maintenance of bomb disposal equipment.

A further \$1.6 million is allocated to establish the permanent Middle Eastern Organised Crime Squad.

In 2006-07 the \$924.8 million Corrective Services Budget continues the massive capital works spending program of the past decade.

This record Budget comes at a time when our prison population is growing – a direct result of our crackdown on crime.

Mr Speaker, a record \$765 million emergency services Budget will ensure the community has even greater protection in times of natural disasters and other major emergencies.

This is an increase of \$65 million – 9.3 per cent – on the 2005-06 allocation.

The Iemma Government continues to ensure our emergency services have the world class equipment and resources they need to protect the people of NSW.

We will continue upgrading the emergency services vehicle fleet, providing almost \$53 million next year for bushfire tankers, fire engines and emergency response vehicles.

In 2006-07 the Fire Brigades' Budget will be a record \$523 million, and includes \$18 million for 50 new fire engines and other specialist vehicles and equipment, and \$7.1 million to upgrade more than 12 fire stations across the State.

We all know the shocking toll fires can take on rural communities. That's why the Rural Fire Fighting Fund will be provided with an unprecedented \$168 million – a 20 per cent increase on 2005-06.

This includes a major investment of \$10 million to build new stations and upgrade existing stations and fire control centres for our volunteer firefighters.

\$34.1 million will be spent on more than 260 new bushfire tankers for the Rural Fire Service.

A further \$2.7 million will be provided under the joint State-Commonwealth Bushfire Mitigation Program for fire trail construction, maintenance and signage.

\$41.6 million will be spent by the State Emergency Service, including new road crash rescue equipment, new emergency response vehicles for SES Units around NSW, and a new 24-hour Operations Communications Centre to deploy SES Units to emergencies.

## **KEEPING NSW MOVING**

Mr Speaker, the 2006-07 Budget increases spending in the Transport portfolio by \$435 million.

This means the Budget will fund \$3.4 billion for railways and public transport.

This will see funding for rail increase by more than 18 percent to \$2.4 billion – an additional \$367 million on the 2005-06 Budget.

The 2006-07 allocation for rail will almost double the 2001-02 Budget for CityRail and CountryLink.

And this is in addition to major projects worth more than \$15 billion over the next 15 years.

Key Budget highlights for 2006-07 include:

- ◆ School Student Transport Scheme benefits will remain the most generous in Australia, worth an estimated \$446.2 million, with a further \$50 million to provide subsidies for community groups;
- ◆ \$49.2 million for 18 new and continuing Easy Access station upgrades, as well as major capital works at Town Hall, North Sydney and Chatswood.
- ◆ \$20 million for rail transport in the Lower Hunter, including upgrading the Newcastle rail corridor;
- ◆ More than \$130 million for maintenance of the country rail network, and \$32 million for new signalling and train control systems;
- ◆ State Transit funding of \$267.6 million, an increase of \$10.5 million, including \$37.1 million for Newcastle buses; and
- ◆ \$554.5 million for privately-operated bus services.

At \$3.3 billion, 2006-07 marks the biggest ever roads program for NSW, an increase of \$415 million, or 14.4 per cent, over the 2005-06 Budget.

A total of \$1.59 billion has been allocated towards road construction.

Communities outside the Sydney metropolitan area will particularly benefit from the 2006-07 Budget, with \$1.84 billion, or 66 per cent of the road outlays, to be spent on rural and regional roads.

Local councils across NSW will be provided with \$144 million for regional roads.

## **COUNTRY NSW**

Mr Speaker, the Iemma Government has reaffirmed its commitment to drought-affected parts of the State, increasing support measures for farmers and rural communities doing it tough.

The NSW Government has already provided more than \$200 million in drought support measures since July 2002.

And we recently announced a \$5.5 million package to expand and extend drought transport subsidies through to the end of August, when the program will be reviewed based on conditions at that time.

That package also enabled us to extend our valuable Drought Support Workers program for another six months through to the end of the year.

Earlier this year, we announced funding of \$13.8 million to ensure farming families had continued access to financial and emotional support, such as Rural Financial Counsellors and the Emergency Household Relief program.

In 2006-07 the Government is committing \$612.7 million to support natural resources management across the State.

A key feature of the Government's 2003 reforms was the creation of Catchment Management Authorities, which receive \$167 million in the 2006-07 Budget.

Key investment areas for Natural Resources in 2006-07 include:

- ◆ \$12.3 million over three years to implement Native Vegetation Structural Reform Initiatives; and
- ◆ \$9 million as part of a two-year, \$13.4 million Wetland Recovery Strategy.

Mr Speaker, primary industries contribute to the State's economy, delivering jobs, investment and export income.

Most importantly, they drive regional prosperity.

Measures that help support their profitability and sustainability are critical not only to their future success, but also to the health of regional and rural communities.

The Government will invest \$390 million to support the State's farming, fishing, forestry and mining industries in 2006-07, a \$30 million increase on 2005-06.

Key investment areas for Primary Industries in 2006-07 include:

- ◆ \$250 million for applied research, technology and extension to help boost the profitability and sustainability of the State's primary producers; and
- ◆ \$7.9 million to fight noxious weeds across the State.

Mr Speaker, the 2006-07 Budget delivers record funding of \$561 million for environmental services through the Department of Environment and Conservation.

The landmark City and Country Environment Restoration Program will attack illegal dumping, return water to our rivers, fund two new marine parks at Batemans Bay and Port Stephens and provide unprecedented environmental funding to councils and community groups.

The Government will continue working to protect the landscape with an addition of 21,000 hectares to the national park system.

## **REVENUE MEASURES**

Mr Speaker, this Budget does not raise taxes, it cuts them.

The NSW Government, while remaining fiscally responsible, is ensuring our taxation regime remains competitive and does not act as a brake on the economy.

That's why the Premier listened to the community and announced the abolition of Vendor Duty as one his first acts.

A tax cut worth \$382 million in 2006-07, and \$1.67 billion over the next four years.

That's why we lifted the Land Tax threshold, exempting almost 390,000 investment property owners who paid Land Tax last year.

A tax cut worth \$53 million in 2006-07, and \$234 million over the next four years.

That's why we announced Payroll Tax concessions for businesses in areas of high unemployment.

A tax cut worth \$95 million and benefiting approximately 1,400 businesses.

That's why we reached agreement with the clubs on poker machine tax.

A tax cut worth \$233 million over the next four years.

It's why we cut workers compensation premiums twice – by 5 per cent and by a further 10 per cent.

Mr Speaker, in March I was able to reach agreement with the Commonwealth on a fiscally responsible timeframe for the abolition of the five taxes outlined for review in the InterGovernmental Agreement.

This means NSW will be able to remove these taxes in a way that will not jeopardise essential services like schools, hospitals and police.

The taxes to be abolished are Stamp Duties on:

- ◆ Hire of goods – to be abolished 1 July 2007;
- ◆ Leases – to be abolished 1 January 2008;
- ◆ Unlisted marketable securities – to be abolished 1 January 2009;
- ◆ Mortgages and loan securities – to be cut by half on 1 January 2010 and abolished on 1 January 2011; and
- ◆ Non-real property transfers – to be abolished 1 July 2012.

This means home loans, rental agreements and leases will all be cheaper.

That's a total of nine tax cuts announced by the Iemma Government, plus two reductions in workers' compensation premiums, in just ten months.

Or, to put it another way, we've delivered \$424 million of tax cuts in just 44 weeks.

Mr Speaker, today I can announce further changes to Land Tax.

Large fluctuations in Land Tax liabilities resulting from volatility in annual land values are a major source of taxpayer concern.

From the 2007 Land Tax year, land values will be calculated using the average over the previous three years.

The Land Tax threshold will also be averaged. NSW is the only State that indexes the tax-free threshold each year.

These changes to Land Tax are worth \$57 million in 2006-07, and \$395 million over four years.

To put this in perspective, changes to Land Tax announced in the Victorian Budget last week are worth \$167 million over four years.

Our cuts are worth more than double that amount.

The Government will also implement a new regime to simplify and make fairer the objections and appeals process for land valuations.

In addition, I can announce changes to the taxation of family-held unit trusts.

Mr Speaker, a 2005 High Court decision changed the taxation of commercial unit trusts, but also removed the benefit of the Land Tax threshold for many family-held unit trusts.

To address this unexpected consequence, the Government is today announcing two measures.

First, we will grandfather the previous tax treatment for existing family unit trusts with land valued up to \$1 million previously able to access the tax-free threshold.

Second, we will give taxpayers a 12-month period in which to restructure their unit trust to a fixed trust.

This will mean they can retain access to the land tax threshold without incurring State taxes on the restructuring transactions.

For taxpayers who restructure before 31 December 2007, the Government will also reassess their land tax for the 2006 land tax year to allow them to receive the benefit of the threshold.

For those trusts that have already paid land tax for 2006, refunds will be provided.

These measures are expected to cost \$3 million a year.

Mr Speaker, not only does this Budget contain no new taxes, but combined with other decisions made since August 2005, it cuts taxes by \$484 million in 2006-07 and by \$3.2 billion over the next four years.

These tax cuts give back billions of dollars to NSW businesses, property investors and home buyers.

They support growth, investment and jobs.

And they continue Labor's record of reducing the tax burden on NSW families and businesses.

In fact, for every year since 1995 we've reduced the State tax burden in NSW by an average of \$88 million each year.

This compares to the abysmal record of the Coalition, which increased the tax burden by an average of \$134 million each year they were in office.

## BUDGET RESULT AND NET WORTH

Mr Speaker, the State's balance sheet remains in a strong financial position despite the cyclical impact of a downturn in the property market on short-term Budget results.

The value of our physical assets is projected to increase from \$173 billion to \$199 billion by 2010, reflecting the impact of the Government's record \$41.3 billion capital works program.

State sector net financial liabilities are forecast to increase from 15.9 per cent of gross state product at 30 June 2006 to 16.9 per cent in 2010.

General government sector net financial liabilities for the same period are estimated to fall from 8.7 per cent to 8 per cent.

State sector underlying net debt will increase by \$19.6 billion for the four year period ending 30 June 2010, with the main increase in the public trading enterprise sector resulting from additional capital expenditure.

State underlying net debt levels will remain prudent, being forecast at 9.1 per cent of gross state product at 30 June 2010. Interest expense will be less than 5.2 per cent of total revenue over 2009-10.

General government underlying net debt will increase to \$9.1 billion by 30 June 2010, and will be 2.3 per cent of gross state product. This drops to 1.7 per cent if the impact of the additional contribution to superannuation is removed.

This result maintains our sound management of the economy.

By way of comparison, the Victorian Government last week announced that its general government sector net debt is forecast to increase to 2.5 per cent of gross state product by 2010.

Forecast higher underlying debt levels will still result in a relatively low interest expense/revenue ratio of 2.9 per cent in 2009-10.

The increase in general government underlying net debt will fund higher levels of capital expenditure compared to the previous four years, in the context of an initially smaller surplus being available from operating activities.

Current forecasts suggest that general government superannuation obligations are on track to be fully funded by 30 June 2030.

The State's self insurance scheme, the Treasury Managed Fund, has reduced member agencies' overall premiums by 10.4 per cent for 2006-07.

This is a direct result of lower claims expenses following the Government's workers' compensation and tort law reforms.

Several agencies have also decreased workers' compensation claims through improved management of occupational health and safety.

Finally, the NSW Government will, by 30 June 2006, have paid about \$11 million of reimbursements to various local councils to enable them to meet their HIH claim debts.

## **CONCLUSION**

Mr Speaker, the first State Budget of the Iemma Labor Government recognises the new realities we confront as a State and sets a new direction for managing these challenges within a fiscally responsible Budget strategy.

It boosts spending in areas of need, and provides a massive injection of funds to the State's infrastructure stock.

It builds on Labor's record of responsible tax reductions, supporting economic growth and investment.

This Budget is socially responsive and fiscally responsible. It builds not just for a year, but for a decade.

And it does so while cutting taxes and charting a rapid return to healthy surpluses.

As one of my esteemed predecessors used to say, I look forward to returning next year.

I commend it to the House.