

Budget Speech

2007-08



New South Wales

Budget Paper No. 1

NEW SOUTH WALES BUDGET SPEECH

Delivered on 19 June 2007

by the Honourable Michael Costa MLC

Treasurer of New South Wales

INTRODUCTION

Mr Speaker

It is a privilege to be back delivering the first budget of the re-elected Iemma Labor Government, a Government renewed and revitalised by the addition of so many new Members.

On March 24 the people of NSW once again entrusted the Labor Party with a great honour and responsibility.

They did so because they recognised that only a Labor Government can deliver the strong financial management needed to support jobs and economic growth.

And they did so because they recognised that only a Labor Government can deliver improved services and better infrastructure.

Mr Speaker, this Budget recognises the responsibility entrusted to us by meeting our commitments to the people of NSW.

Affordable, responsible and deliverable commitments.

We committed to expand and improve frontline services, not cut them.

This Budget meets that commitment with record spending of \$44.6 billion on services, including our innovative Trade Schools and after-hours GP clinics.

We committed to significant investment in the State's infrastructure.

This Budget meets that commitment with a record \$12.5 billion for capital works in 2007-08 and nearly \$50 billion over the next four years.

We committed to continue Labor's proud record of reducing taxes.

This Budget meets that commitment by cutting taxes yet again – by \$343 million in the coming year and by \$2.6 billion over the next four years.

And we committed to strong management of the State's finances.

This Budget meets that commitment by delivering yet another Labor Budget surplus, protecting the State's triple A credit rating.

BUDGET OVERVIEW AND NET WORTH

Mr Speaker, the Government's strong financial management means the Budget result for 2007-08 is expected to be a surplus of \$376 million, with surpluses averaging \$500 million in the following years of the forward estimates period.

This is after providing over the next four years more than \$2 billion for priority rail infrastructure projects – including the planned expansion of the rail network – \$2.6 billion in tax cuts, and fully funding all of our election commitments.

I also take great pleasure in reporting to the House today that the revised Budget result for 2006-07 will be a surplus of \$444 million.

This is an improvement of \$941 million since the Half-Yearly Budget Review in December.

It means that since 1996-97 and including 2007-08, Labor will have delivered an unprecedented 12 consecutive Budget surpluses – with more to come.

During 2006-07 payroll tax revenue from our exceptionally strong jobs market, transfer duty from a confident commercial property sector, and investment income have all been higher than was expected at this time last year.

Recognising the one-off nature of many of these revenue gains, the Government will pay off \$960 million of rail debt accrued during the construction of the Epping to Chatswood Rail Line.

This is responsible financial management – using the dividends of the present to reduce liabilities for future generations.

Taking into account the one-off revenue gains and rail debt repayment, the 2006-07 Budget result is an improvement of \$1.1 billion since I last addressed the Assembly.

This result comes despite pressures in some areas of the State economy, the impact of higher interest rates, the continued GST rip-off, and the on-going effect of the drought.

And this result demonstrates the folly of the Opposition's uninformed speculation, made without adequate knowledge or experience.

Mr Speaker, we have worked hard for this result.

For the second year in a row, we've brought public spending in on target, something few governments have achieved in recent history.

Last financial year, the difference between budgeted and actual expenses was just 0.32 per cent, this year that gap is 0.44 per cent.

These are excellent results in budgets of this size, and reflect the Government's commitment to keeping a tight rein on expenditure in order to redirect taxpayers' funds to frontline public services.

This effort is underpinned by stringent efficiency measures, which have already delivered savings of around \$300 million a year in 2005-06 and 2006-07.

Further efficiency dividends of \$300 million per annum will apply during the forward estimates period, meaning total savings of around \$6 billion.

In addition, productivity savings will ensure that in coming wage rounds the net cost to Government will be 2.5 per cent per annum.

Stabilisation of the Budget result at 2006-07 levels will be achieved by matching expenses and revenue growth, which are forecast to come together at an average of 4.2 per cent a year over the forward estimates period.

Mr Speaker, the State's balance sheet is strong.

The value of our physical assets is projected to increase from \$183 billion to \$218 billion by 2011, reflecting the impact of the Government's record capital works program.

Due to this record capital expenditure, debt will increase over the period but Net Financial Liabilities will decrease as a percentage of Gross State Product.

All delivered while maintaining our State Plan commitment of preserving our triple A credit rating.

NSW ECONOMY

Mr Speaker, the fundamental strength and resilience of the NSW economy is undeniable.

Since the last Budget we have endured a drought that has reduced crop production by 70 per cent, two interest rate rises limiting the recovery of the housing sector, a higher exchange rate hurting local producers, and a spike in petrol prices hitting family spending and business profits.

But despite this – and in contrast to repeated and absurd claims NSW was heading towards recession – our economy has continued to grow and grow well.

In 2006-07 consumer spending and infrastructure investment were both robust.

The unemployment rate stayed at 30 year lows and the percentage of people of working age with a job reached record levels.

Mr Speaker, the outlook for the NSW economy in 2007-08 is bright.

The economy is expected to strengthen, with continued solid consumer spending, significant public sector investment, and a moderate recovery in the housing sector.

Housing construction is expected to contribute to overall growth for the first time in three years.

Business investment has grown by an exceptionally strong 53 per cent since 2001-02, and is expected to rise further in 2007-08.

In 2007-08 GSP growth is forecast to lift from the current year estimate of 1½ per cent to 2½ per cent.

Overall spending in the State is expected to increase from the current year estimate of 2½ per cent to 3½ per cent.

All of these factors should see continued above-trend growth in employment, leading to a further decline in the already historically low unemployment rate.

This, of course, assumes a stable interest rate environment.

IMPROVING AND EXPANDING SERVICES

Mr Speaker, there is no greater priority for this Government than improving public services.

The result in March was an endorsement of this priority.

To meet our election commitments in Health, in 2007-08 total expenditure by NSW Health will increase by \$831 million to \$12.5 billion, an increase of 7.1 per cent.

Health expenditure now makes up 28 per cent of the State Budget, up from 24 per cent a decade ago.

The Government will increase its focus on prevention and early intervention, including investments in breast screening, state-wide eyesight screening for preschoolers, and the Healthy at Home program to assist the elderly stay out of hospital.

The Budget also provides for additional funding for nurse training and development, improved information systems, and additional ambulance staff.

The Government will also continue to invest in meeting growing demand for acute hospital services, dental services and cancer services.

The Budget contains funding for 12 new after-hours GP clinics around the State, with clinics to open in the coming financial year in the Shoalhaven and at Dubbo, Broken Hill and Ryde.

For the first time spending on Mental Health will exceed \$1 billion, an increase of \$105 million or 11 per cent on last year's allocation.

Since becoming Premier and making mental health a key priority Morris Iemma has overseen a 23 per cent funding increase in this important area.

To meet our commitments to parents, students and teachers, \$11.2 billion will be spent in the area of Education and Training, an increase of \$517 million or 4.9 per cent.

Education expenditure closely follows Health at more than 23 per cent of the State Budget.

Education and Training expenditure includes more than \$5 million for five new Trade Schools at Penrith, Wyong, Sutherland, Tamworth and Nambucca Heads as part of the 25 Trade Schools to be established by 2011.

The Government will implement The Best Start program with \$82 million to provide new literacy and numeracy assessment for all new kindergarten students, additional reading recovery teachers, and new literacy and numeracy coordinators.

Other Education and Training election commitments met in the Budget include:

- ◆ Connected Classrooms to provide every NSW school student with access to the new technologies that are transforming education;
- ◆ Improving the quality and retention of new teachers by providing additional support in their first year of teaching;
- ◆ The Transition to Year 7 initiative to assist students moving from primary to secondary schools; and
- ◆ An \$8 million package to encourage physical activity and combat childhood obesity.

The NSW Government is undertaking the biggest-ever expansion of rail transport in our State's history, including Rail Clearways, 626 new metropolitan rail carriages under a Public Private Partnership, the completion of the Epping to Chatswood Line, and further planned expansion of the rail network.

To meet the Government's commitments to commuters, total expenditure on Transport is \$5.8 billion.

New projects include:

- ◆ The \$100 million 'pinch point' strategy and the \$100 million Victoria Road upgrade to improve the flow of traffic, including commuter bus services; and
- ◆ More than \$120 million to purchase 265 new buses for the State Transit and private bus networks.

Spending by the Department of Community Services will increase by 11.6 per cent to a record \$1.26 billion.

This will include the expansion of the Supernanny Hotline, a 24-hour parent advice line to provide additional support for parents and families, and the commencement of the Triple P Positive Parenting Program for parents of three to eight year-olds.

The Government will also provide \$90 million for an extra 275 child protection, early intervention and out-of-home caseworkers, and expanded services for children in out-of-home care.

Expenditure by the Department of Ageing, Disability and Home Care will total almost \$1.9 billion, an increase of \$136 million or 7.7 per cent.

Implementation of the Government's record \$1.3 billion Stronger Together package will expand in 2007-08, including continuation of programs to assist families, promote community inclusion and improve existing services for people with a disability.

Mr Speaker, record police numbers have seen crime being driven down in almost every area.

The latest independent statistics from the Bureau of Crime Statistics and Research show 16 of the 17 major crime categories are either stable or falling.

Break and enter robberies, car thefts and muggings have all dropped in the past two years.

This is a great achievement for the NSW Police Force, who are being backed by the Government with the tough powers, equipment, resources and support they need to continue driving down crime.

To meet our commitments in the area of Law and Order, spending on Police will increase by more than \$90 million to \$2.27 billion.

\$5.2 million will be provided for new *CSI*-style robotic technology to automate the DNA analysis process and speed up testing to catch and convict criminals using DNA.

\$1.9 million will be provided to complete the computer aided dispatch system to improve recording of information.

Mr Speaker, last week's devastating floods in the Hunter and the Central Coast were a grim reminder of how much we rely on our Emergency Services in times of natural disaster and other major emergencies.

In 2007-08 spending on Emergency Services will reach a record \$831 million, an increase of almost 9 per cent.

This includes a record \$51.5 million for the State Emergency Service, including more than \$540,000 for 20 new floodboats and \$800,000 to provide safe, reliable vehicles for our SES volunteers.

The \$310 million Climate Change Fund brings together and extends a number of existing water, energy and greenhouse related funds.

The Fund includes:

- ◆ A \$100 million rebate fund for households purchasing water and energy efficient appliances;
- ◆ A \$100 million Recycling and Stormwater Harvesting Program to assist the private sector to complete the Sydney Recycled Water Grid;
- ◆ A \$30 million Public Facilities Fund to help schools, hospitals, libraries and other community facilities save energy and water;
- ◆ A \$20 million Energy Efficient Schools Program to install efficient lighting and provide grants of up to \$25,000 for projects like solar power; and
- ◆ A \$20 million program to install a rain water tank in every NSW Government school for general, non-drinking uses and to assist with other water efficiency related capital works.

Mr Speaker, over the last five years the NSW Government has committed \$325 million to assist farming communities to cope with the impact of the devastating drought.

The Government remains committed to assisting rural communities in need.

INVESTING IN INFRASTRUCTURE

Mr Speaker, the recent Federal Budget allocated \$5 billion for infrastructure nationwide.

But as part of the NSW Government's 10-year State Infrastructure Strategy, this year we will spend a record \$12.5 billion on infrastructure.

This is 29 per cent higher than capital expenditure in 2006-07, which in turn was 16 per cent higher than in 2005-06.

It's more than \$34 million invested in infrastructure every single day.

It's \$1,800 for every man, woman and child in NSW.

And 46 per cent will be spent outside Sydney in rural and regional NSW.

This unprecedented investment is estimated to directly and indirectly support approximately 156,000 jobs.

Mr Speaker, over the four years to 2010-11 total capital expenditure by the NSW Government is estimated to reach almost \$50 billion – 56 per cent higher than for the four years to 2006-07.

This is \$50 billion on roads, rail lines, electricity cables, water pipes and dams, schools, hospitals and police stations.

The largest area of capital expenditure included in today's Budget is \$2.9 billion to enhance our electricity supply.

Infrastructure spending in 2007-08 in non-commercial areas includes:

- ◆ \$1.9 billion on Transport;
- ◆ \$1.9 billion on Roads;
- ◆ \$657 million on Health;
- ◆ \$617 million on Education;
- ◆ \$627 million on Housing; and
- ◆ \$388 million on Law and Order.

Infrastructure spending in 2007-08 in commercial areas includes:

- ◆ \$2.9 billion on Electricity;
- ◆ \$2.2 billion on Water; and
- ◆ \$191 million on Ports.

Major new capital projects include:

- ◆ Securing our water supply with \$1.9 billion to construct Sydney Water's Desalination Plant, and \$298 million to construct Hunter Water's Tillegra Dam;
- ◆ \$463 million for 31 new school projects, including new schools at Hamlyn Terrace, Ropes Crossing and Denison Secondary College Kelso Campus, and 11 new TAFE projects, including at Katoomba, Newcastle, Macquarie Fields and Randwick;
- ◆ Extending duplication of the Richmond Line beyond Schofields to Riverstone and Vineyard at a cost of \$316 million;

- ◆ Almost \$225 million on 1,378 units of general public housing, community housing and crisis accommodation;
- ◆ \$63 million for the Department of Health's Medical Imaging Project; and
- ◆ \$47.7 million to build new police stations at Bowral, Camden and Leichhardt.

On-going capital projects funded in the Budget include:

- ◆ \$404 million for the upgrade of the Pacific Highway, \$120 million for the upgrade of the Princes Highway, and \$53 million for the upgrade of the Great Western Highway;
- ◆ \$30 million for the M5 East Tunnel Filtration project; and
- ◆ \$30 million for the duplication of the Alford's Point Bridge.

Mr Speaker, our infrastructure spending is economically sound spending, delivered within the triple A framework for the benefit of generations to come.

REVENUE MEASURES

Mr Speaker, the NSW Government believes taxes should be as low as is possible to enable delivery of quality services and infrastructure, with Budget surpluses over the economic cycle that maintain prudent debt levels.

Unlike the Federal Government, we do not rip tens of billions of dollars out of the economy, refuse to significantly invest in infrastructure and services – and then claim this as a virtue.

Looking at total revenues, in 2006-07 NSW received the second lowest revenue per person in Australia.

But the unfair redistribution of GST grants continues to penalise NSW and put pressure on our services and taxes.

In 2007-08 it's estimated NSW taxpayers will pay \$2.4 billion more in GST than they will get back from the Federal Government.

Mr Speaker, there has never been a "revenue windfall" to NSW from the GST.

The average annual growth rate for NSW's total revenue has been the same in the five years before and after the introduction of the GST.

In the five years prior to the introduction of the GST NSW's total revenue grew at an average of 5.5 per cent a year.

In the five years following the GST's introduction our total revenue also grew at an average of 5.5 per cent a year.

Mr Speaker, I'm very pleased to be able to inform the House that, despite the unfair GST redistribution, once again the Budget does not raise taxes, it cuts them.

Today I announce four tax cuts to assist home buyers, property investors, and businesses – tax cuts worth \$343 million in 2007-08 and \$2.6 billion over the next four years.

To assist home buyers and the property market, mortgage duty on the purchase of owner-occupied residences will be abolished from 1 September this year, providing a saving of almost \$2,000 on a \$500,000 mortgage.

This change will benefit around 186,000 homebuyers each year, as well as giving additional stimulus to the property sector through reduced transaction costs.

To assist property investors and the commercial property sector, mortgage duty on the purchase of residential investment property will be abolished on 1 July 2008 and on commercial property on 1 July 2009.

The abolition of mortgage duty will be implemented at a cost to revenue of \$138 million in 2007-08 and \$1.36 billion over four years.

Last year I announced that mortgage duty would be abolished by 2011.

These measures bring forward the start of mortgage duty abolition by more than two years, with total abolition now 18 months ahead of schedule.

To provide immediate assistance to property investors, the land tax rate will be cut from 1.7 per cent to 1.6 per cent for the 2008 land tax year.

This will mean a saving of almost six per cent on most land tax bills, and will reduce revenue by \$467 million over four years.

Changes to land tax announced today follow the introduction of three-year averaging for land tax assessments and the indexation of the land tax threshold in last year's Budget, measures that will save taxpayers \$618 million over four years.

In total, changes made to land tax by the Iemma Government will save taxpayers \$211 million in 2007-08 and \$1.32 billion over the four years to 2010-11.

Stamp duty on the hire of goods will be abolished from 1 July 2007 and on leases from 1 January 2008.

These changes will mean reductions to the cost of hiring a range of goods including DVDs and cars, as well as to the cost of leasing real property with a total rental cost of more than \$20,000 per year.

It's estimated these changes will reduce revenue by \$570 million over four years.

To boost work and training opportunities for young people and address the skills shortage, a full rebate will be provided for the cost of registering one work vehicle for every new apprentice hired by small businesses, at a cost of \$5 million over four years.

The NSW Government is committed to removing red tape.

The 2007-08 Budget implements measures announced earlier this year to harmonise payroll tax administration in Victoria and NSW.

This includes from 1 July 2007 a payroll tax exemption for maternity and adoption leave payments, making it cheaper for employers to provide leave for new parents.

Since the joint announcement, Queensland and Tasmania have announced they will harmonise their payroll tax arrangements with those of NSW and Victoria, and all states and territories have announced they will work towards harmonisation.

The Budget also implements the Government's First Home Plus One scheme, giving first homebuyers who enter into a shared equity arrangement access to a proportion of the stamp duty exemption available under the First Home Plus scheme.

Mr Speaker, to assist those suffering hardship as a result of the recent floods in the Hunter and on the Central Coast, today I can announce the Government will provide a rebate of stamp duty for replacement cars where the insurance claim doesn't cover this cost.

Mr Speaker, since August 2005 the Iemma Government has made 15 tax cuts and reduced workers compensation premiums four times, changes worth a total of \$9.3 billion to 2010-11.

These tax cuts have put billions of dollars back into taxpayers' pockets to support jobs, growth and investment.

And they continue Labor's proud record of reducing taxes.

Since 1995 we've reduced the State tax burden in NSW by an average of \$85 million each year.

CONCLUSION

Mr Speaker, the 2007-08 Budget meets our election commitments to the people of NSW.

It meets our commitment to provide responsible management of the State's finances with surplus Budgets and a strong balance sheet.

It meets our commitment to provide support for continued economic growth by investing record amounts in infrastructure and by cutting taxes.

And it meets our commitment to improve and expand frontline public services with record spending in areas such as health, education and community services.

I commend the Budget to the House.