

1995-96 NSW Budget Paper 1

NSW Treasurer's Budget Speech

Delivered in the NSW Legislative Assembly on 10th October, 1995.

The NSW Treasurer, the Hon M R Egan MLC, delivered the NSW Government's 1995/96 budget speech in the Legislative Assembly of the NSW Parliament at 4:00pm on Tuesday, 10th October, 1995.

INTRODUCTION

Mr Speaker/President -

This Budget, the first of the Carr Labor Government, is designed to set things right, right from the start.

For too long, New South Wales has mortgaged its future, mortgaged the future of our kids and theirs.

This is the Budget that begins to pay our way.

This is a Labor Budget, a Budget that delivers on Labor's priorities in health, education, community services and safety.

For too long we have put up with long hospital waiting lists, an understaffed police service, inadequate child protection and lack of accommodation for the disabled.

This Budget delivers major improvements in hospitals, schools, police and crime prevention and community services.

For too long, New South Wales has done too little to protect the quality of our environment.

This is the Budget that begins the repair of our forests, our rivers, and our land.

For too long, too many taxpayers' dollars have simply been wasted.

This is the Budget that begins to cut the waste, a Budget that focuses on fundamentals, and begins to give taxpayers much better value for their money.

This is because we're determined to set things right from the start.

In their first budgets, Nick Greiner, Jeff Kennett and Dean Brown all cut basic government services.

They said times were tough and they took the easy way out.

Theirs were Liberal budgets, with Liberal priorities.

This is every inch a Labor Budget, a Budget that delivers social reform - the very purpose of Labor's existence.

Above all else, our commitment is to the future, to ensure that New South Wales has the competitive edge to attract the investment and business we need to provide jobs, and improve the standard of living and quality of life of this generation and the next.

Key features for the coming year include:

- meeting our fiscal targets;
- no new taxes or tax increases;
- additional funding for hospitals to slash waiting lists and improve patient care;
- additional resources in school education for new technology and more teachers;
- increased police numbers and better crime prevention;
- major initiatives in community services, especially for people with disabilities, and in child protection and child care;
- a major restructuring of the forest industry to save our old growth forests while maximising long-term job prospects in a sustainable industry;
- an increased commitment to help country people recover from the drought;
- the creation of new national and urban parks;
- expansion of public transport facilities; and
- a major supplementary roads program for the west and southwest regions of Sydney.

FISCAL FRAMEWORK

The financial strategy of this Budget positions New South Wales for the long term.

In keeping with our commitment prior to our election to office, this Budget starts the process of gradually but steadfastly paying off the State's \$17 billion Budget Sector net debt.

The General Government Debt Elimination Bill, which I tabled in June, is cognate to the appropriation bills introduced by the Premier.

It is pathfinding legislation that provides a comprehensive fiscal framework for the State.

It has four key elements:

- fiscal targets for the short, medium and long term;
- fiscal principles against which this and future Budgets should be assessed;
- reporting requirements for the general government sector; and
- standards for the coverage and presentation of the Budget and Consolidated Financial Statement.

It will introduce standards of honesty and accountability into the Budget process that are unparalleled in any Australian jurisdiction.

The centrepiece of the legislation, however, is its commitment to completely eliminate general government net debt by the year 2020.

To this end I set out in the June Financial Statement fiscal targets for the next three years, building to a sustainable Budget surplus by 1997-98.

This Budget delivers on these targets.

Our aim is to pay off the \$17 billion debt in the same common sense way that a family pays off its mortgage.

We should always keep in mind that the next generation will be seeking jobs in a fiercely competitive world economy.

We have an obligation to ensure that they are not lumbered with our debts.

A debt-free general government sector will be one of the legacies we leave them.

Currently, \$1.6 billion of budget payments are consumed by debt servicing costs, simply paying the interest.

That's nearly one in every ten dollars of current outlays, or the equivalent of half of what we spend to run our school system.

The Budget is also vulnerable to the impact of the economic and property cycle.

In the last major recession, the previous Liberal-National Party Government only just stayed solvent, by increasing taxes by broadly \$1 billion per annum.

It is vital that we are in a position to absorb the impact of future economic and property cycles without resorting to tax hikes or slashing core services.

Debt reduction puts us in that position.

ECONOMIC CONTEXT

The 1995-96 Budget is framed within the context of four years of economic recovery and growth, with continuing growth projected into 1995-96.

National economic growth is projected to slow from 4½ percent real growth in 1994-95 to about 3¼ percent in 1995-96.

New South Wales growth is projected to be modestly higher at 3¾ percent largely because of the recent easing of the drought.

We expect a mild slowdown in 1996-97 due to slower world demand and a pause in business investment, before returning to a higher, long-term trend growth rate in 1997-98.

The CPI is projected to increase to 4.3 percent in 1995-96 and then gradually decline.

Employment should continue to grow at a relatively strong rate, in the order of 3 percent.

Over the course of this Parliament, it is projected that New South Wales will gain an additional 260,000 jobs.

BUDGET RESULT

On an unchanged policy basis, the starting point for the preparation of the 1995-96 Budget was a deficit of broadly \$400 million.

In addition, commitments of the previous Government, totalling \$54 million in 1995-96 and rising to \$80 million per annum had not been included in the forward estimates.

These additional commitments did not include a range of other unfunded decisions of the previous Government, such as:

- the \$400 million Parramatta to Hornsby rail line,
- Luna Park commitments,
- the allocation of untied Commonwealth road grants of \$110 million per year to non road purposes,
- \$115 million per year for computers in schools, and
- an unfunded liability in the Government's self-insurance scheme of \$117 million.

In addition, the Government will this year be hit for up to \$55 million for costs associated with the sale of the State Bank, an amount which was also not provided for in the forward estimates.

The Government's own commitments totalled broadly \$300 million per annum.

In summary, the starting point was a completely unsustainable deficit both for this year and future years.

Attacking that deficit, and fulfilling our commitments has been a massive task. I believe we have succeeded.

Subject to the economic and revenue forecasts and the full realisation of our savings strategies, the measures needed to reach our fiscal targets, not just for this year but also for 1996-97 and 1997-98, are already built into this Budget.

This year's underlying Budget result is a deficit of \$238 million with a projected small surplus next year and a projected surplus of \$268 million in 1997-98.

The projected result for 1997-98 exceeds our targets and may therefore provide some leeway in future years.

These results, I must emphasise are underlying. In other words, they are the real results we must focus on in determining whether we are paying our way.

The actual bottom line results are much better with large surpluses for both this year and next.

However, they include substantial non-recurring items, principally the commercial equity restructuring of business enterprises.

The Budget proceeds from these once-off items will not be squandered on annual consumption expenditure, but will be used to significantly reduce general government debt.

MAJOR INITIATIVES

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

Health

Our recurrent spending on hospitals and health this year will total a record \$5,008 million, which includes an 8.8 percent, or \$344 million, increase in Budget support.

A key feature is the additional \$64 million to slash waiting lists.

Other priority areas, include the upgrade of emergency departments and additional funding for aboriginal health, mental health and women's health, more nurses and ambulance officers.

A capital program of \$483 million will finance a wide range of new facilities, including construction of new public hospitals at Blacktown, Lithgow and West Wyalong, as well as a new ambulatory care clinic at the Prince of Wales Hospital - a facility that was to be privatised by our predecessors, but will be publicly owned and operated under Labor.

Education

Recurrent spending for the education and training portfolio will total \$4,751 million, an increase of \$308 million or 6.9 percent.

This enables us to make a significant start on our plans for additional teaching positions and our other commitments.

Specifically \$86 million will be provided over three years for the Computers and Technology In Schools program.

As a first step to fulfilling the Government's commitment to increase teacher numbers, an additional 339 teacher positions will be funded in 1995-96.

They comprise literacy, community languages, technology, small schools and HSC coaching and advice positions.

Also, the cleaning standards for primary schools will be considerably enhanced by an additional annual allocation of \$18 million.

In TAFE, we will create 5,000 additional student places by 1997.

Crime Prevention

Recurrent spending for the police portfolio will total \$911 million, an increase of \$46 million or 5.3 percent. This enables the Government to fulfill its commitment to increase police numbers.

Our priority is putting police on the street to protect the community from crime.

We will provide an additional 650 police officers by the end of 1997-98. The objective is to halve the delay in police response to crime.

By the end of this financial year more than half of these additional officers will be available for duty.

The Council on Crime Prevention has been established to develop a strategic crime prevention framework for New South Wales.

We will also revitalise the Neighbourhood Watch Scheme and the Safety House program.

We will intensify the focus on reducing delays and backlogs in the courts area, while enhancing the community's access to the justice system.

Additional funding has been provided -

- for extended sitting hours and night court sittings in Local Courts,
- to enhance the use of arbitration as a means of alternate dispute resolution,
- to introduce family mediation in Community Justice Centres, and
- to increase funding for the Legal Aid Commission.

The Attorney General has asked the NSW Law Reform Commission to undertake a review of sentencing laws in New South Wales.

Following the Sentencing Review, the Government proposes to introduce legislation designed to divert from custody fine defaulters and those offenders sentenced for six months or less for non-serious crimes.

This not only honours our commitments, but the previous Government's unfulfilled pledge to divert fine defaulters from the prison system.

The consequential lower inmate population will further reduce costs of incarceration.

The Government proposes to reform the Victims' Compensation Scheme to speed up payments to victims of violent crime and eliminate abuses. The proposed new Scheme will make it easier for the victims of violent crime to receive compensation and place a strong emphasis on counselling support services for victims.

Savings made by overhauling the scheme will be directed to a new \$6.8 million victims' support initiative.

A Victims of Crime Bureau is to be established within the Attorney General's Department. The Bureau will provide support and referral services to victims of crime and coordinate the delivery of victims' support and counselling services by Government and community agencies.

Community Services

Recurrent spending for the Community, Aged and Disability Services portfolio is \$1,105 million, an increase of \$157 million or 16.5 percent. Capital payments are \$46 million, an increase of \$30 million.

Our key initiatives and priorities in the 1995-96 Budget include:

- additional funding for child protection;
- expansion in child care, with an additional 13,000 child care places to be provided over the next 3 years;
- additional funding for drought assistance for needy families; and
- expanded funding for supported accommodation for people with disabilities, with an additional \$24 million per annum to provide 300 new places in community-based accommodation.

Environment

Recurrent spending for the environment portfolio for 1995-96 total \$214 million, an increase of \$18 million or 9.3 percent.

Key initiatives in the 1995-96 Budget include:

- delivery of the Government's Clean Air Strategy;
- establishment and funding of Regional Waste Authorities to monitor the impact of waste reduction, reuse and recycling strategies;
- \$50 million commitment over four years for the creation and management of 24 new National Parks funded through the Environment Trusts; and
- \$3.9 million this year for the establishment and management of Horsley and Rouse Hill Urban Parks.

Consistent with our Forestry Policy released in March 1995, the Government has embarked upon a number of strategies to transfer logging from old growth to regrowth and plantation forests.

The Government recognises that these reforms will impact on the forestry industry and on forestry workers.

Accordingly, as set out in the Government's Forestry Policy, \$60 million will be made available over five years to assist in forestry industry restructuring. This initiative will be funded from the Environmental Trusts.

In addition, in 1995-96 the Government will provide State Forests with \$8.5 million to fund the development of 3,000 hectares of additional hardwood plantations. This grant will be funded from an increased dividend to be paid by State Forests.

The Government will also consider further funding for hardwood plantation development in future years.

In line with our commitment to a comprehensive approach to land management, there will be a major expansion of the Total Catchment Management initiative at a cost of \$5 million per annum.

This initiative will consolidate the benefits achieved to date in addressing natural resource management issues through community participation.

Funding will assist 41 Catchment Management Committees and some 800 Landcare groups, as well as allowing for strategic planning.

Rural Sector

Many people in rural New South Wales are struggling under the combined effects of drought, high levels of farm debt and a decade of volatile commodity prices.

They needed help and the Government responded.

One of our first moves on coming into Government was to boost the State's drought assistance to a record \$78 million in 1994-95.

Despite the recent rainfall, many rural people remain in real financial difficulty.

So in 1995-96 the Government will spend \$84 million on drought relief and rural assistance measures.

The Government will also fund a range of measures to repair damage to land and waterways that has reduced the long-term competitiveness of many farming businesses.

The Government will spend \$19.3 million on a land and waterways repair package for irrigators, and a further \$23.9 million to improve infrastructure and resource management for irrigators and other water users.

These initiatives more than fulfill the Government's commitment to spend \$27 million on irrigation areas in 1995-96.

Public Transport

The Government is committed to providing an environmentally sensitive transport system which allows for increasing patronage on safe public transport and efficient movement of freight, and is based upon sensible land use and transport planning.

The quality of life for all New South Wales residents will be enhanced by a safe, reliable, clean and efficient transport system which meets our State's social and business needs.

The Government will ensure bus, ferry and train services cooperate fully to maximise the benefit to the community.

Funding from the Budget for the State Rail Authority's capital and major periodic maintenance works, amounts to \$595 million compared with \$506 million in 1994-95.

The Authority's capital program includes continuation of the New Southern Railway which is being jointly funded by the private sector and a State contribution of \$544 million.

Work will also start on the \$60 million amplification of the East Hills line between Turrella and Riverwood. The Richmond line amplification is being accelerated.

We have restored passenger services to Broken Hill and the Riverina at a cost of \$3.5 million a year.

The Homebush Bay rail connection to the Olympic site will also be commenced.

Provision has been made for signal renewal and modernisation and City underground fire safety and ventilation improvement projects.

Sport and Recreation

This Government will further its commitment to the development of the State's athletes by establishing a New South Wales Institute of Sport at a cost of \$3.6 million and provide further assistance for the development of Regional Academies of Sport. It is committed to increasing the community's involvement in sport and recreational activities.

In all, the Budget provides an increase in recurrent funding to the Department of Sport and Recreation of 9.6 percent in 1995-96.

Olympics

The Government has moved quickly to get ready for the Olympics.

Already, we have -

- called tenders for the Olympic Stadium,
- committed \$60 million to a rail system for Homebush Bay,
- released a Masterplan for Homebush Bay,
- negotiated the purchase and remediation of the land at Newington, and
- asked for expressions of interest from the private sector for the Olympic village.

For the first time spending has been consolidated into the one cost structure.

While these projects are all included under the Olympics Budget, they are, in reality, projects that will be used by millions of Australians.

Over the next three years, we will be spending \$830 million on facilities, venues and infrastructure at Homebush Bay.

Importantly, the amount of money allocated to the redevelopment of Homebush Bay, the new Showground and the construction of sporting facilities over the next five years will account for approximately one percent of total State Budget outlays over the corresponding period.

These projects are well within our means and will last us a lifetime.

They are an investment that our children will thank us for.

SAVINGS

To pay for Labor's priorities in health, education and other key services and to rein in the deficit, it has been necessary to undertake a rigorous review of overheads, programs and priorities across portfolios.

Savings of \$70 million per annum will be achieved by 1996-97 through a 10 percent cut in corporate support costs.

The Budget also reflects substantial cuts to Government advertising, use of consultants and office relocation and refurbishment.

Agency restructuring, implemented shortly after our election, will save \$60 million per annum by 1997-98.

Major savings amounting to \$100 million a year by 1997 will also be made by reining in the blowout in the School Student Transport Scheme.

Even after the reforms, the scheme will remain the most generous in Australia.

Without the savings, the Scheme would cost over \$350 million this year alone, \$260 million more than in Victoria or Queensland.

Savings will come from:

- extending the distance criterion, for high school students only, from 1.6 kilometres to 2 kilometres;
- paying operators for actual usage; and
- from the beginning of the 1997 school year, applying a maximum annual subsidy per student of \$450, in urban areas only.

In view of the Commonwealth's responsibility for employment programs, the very substantial increase in Commonwealth funding for these programs and continued employment growth, the State Government will redirect expenditure from most State-based employment schemes, to training and education.

In 1995-96 we will be providing 1,000 more training places in technical and further education while retaining employment schemes for mature age worker, aboriginal people and migrants.

Budget Sector capital payments will increase significantly this year to \$3,399 million. The capital program has grown substantially in real terms over the years and is substantially higher than in most other States.

If the same per capita expenditure were undertaken in New South Wales as for Victoria, the capital program would be some \$850 million lower.

The Budget Sector capital program will be pared back by \$200 million or approximately 5 percent by 1997-98 and will involve a delay in some projects that may otherwise have been undertaken.

However, we hope to be over the Olympic expenditure hump by the end of 1997-98, which may allow, depending on overall budgetary considerations, a reevaluation of the capital program around that time.

In the area of freight rail, we will be expecting significant ongoing savings following corporatisation and the reining in of noncommercial programs.

In some areas, we expect both to achieve better operational outcomes and budgetary savings from a consolidation of activities.

NSW Agriculture will refocus research programs to major sites known as 'key centres' and, where possible, integrate them with universities and the CSIRO.

We will work harder to make research relevant to industry needs, develop sustainable agricultural systems and focus on import replacement industries.

The major research facility at Rydalmere in Sydney will be decentralised to boost research at 'key centres' in more than 15 towns in regional New South Wales.

In my own area of State Development, significant savings will be made from the amalgamation of the Department of State Development and the Department of Business and Regional Development, yet I believe the consolidation of activities will lead to much better results.

The merged department will ensure the very best result for jobs and investment in regional New South Wales.

WINNING JOBS

I now turn to the wider challenge facing the New South Wales economy.

Our overriding goal is, of course, to provide an opportunity for everyone in this State to enjoy a good and improving quality of life and standard of living.

That requires the availability of satisfying and rewarding jobs for those who seek them.

And it requires also a level of community prosperity that gives us the financial wherewithal to fund the quality of services and infrastructure, public and private, social and economic, that is necessary for a civilised and fair society.

But none of those things come automatically. They have to be worked for, they have to be achieved.

Unless we can maintain or establish a competitive advantage, there is absolutely no reason why the world should buy anything which we produce here in New South Wales.

If people can buy goods and services elsewhere at a better price and quality combination they will.

New South Wales is but a small part of a vast and now fiercely competitive world economy.

We'll only have jobs, we'll only have wealth, we'll only maintain and improve our standard of living if we're competitive.

That's why we have to constrain the level of taxes and charges that impact upon our business costs.

And that's why, in the June Financial Statement, the Government announced that it was embarking on major reforms across the New South Wales public sector -

- in ports,
- in rail,
- in energy,
- in water, and
- in the budget sector.

Those 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 that we need.

As part of our drive for business and jobs, the Government will be taking advantage of the show casing potential the Olympic Games offer to market New South Wales as a business, investment and trade location.

Early next year, the Government will be releasing a Green Paper on its state and regional development strategies.

1996, in particular, will be regarded by the Government as the Year of Regional Development.

As a first step, the Government will fulfill its commitment to hold summits in each region to listen to regional businesses and community leaders.

As part of this process, the Department of State and Regional Development, in conjunction with regional industries and local government, will be required by June next year to undertake an audit of the current economic strengths and potential of all the regions.

With a strategic blueprint for each region we will then be identifying the industries and firms, national and international, small and large, for which our regions offer natural synergies.

This is a vital task given the changes that have taken place in the State's farming industry, the traditional backbone of non-metropolitan New South Wales.

We will then be targeting those industries and firms with a major marketing onslaught to highlight the natural advantages we have and the competitive advantages we're forging, particularly during the period of international focus which the 2000 Olympics gives us.

EQUITY RESTRUCTURING AND ASSET SALES

All Australian Governments have committed themselves, under the Council of Australian Governments' resolution on competition policy, to the principle of competitive neutrality and commerciality with respect to their Government Trading Enterprises.

An important element of the competitive neutrality principle is the implementation of commercially appropriate capital structures.

The previous Government developed and approved a policy on the capital structure of Government Trading Enterprises. We endorse that policy and the broad approach that was developed on commercialisation and corporatisation.

These principles have been applied to a range of entities, as part of an ongoing process of review and reform.

As I announced in the June Statement, principal among the areas identified for equity restructuring is the electricity sector, where the Government is implementing major structural reform. To date there has not been a commercial capital structure for the distribution and transmission sectors, a situation which needs to be rectified prior to the establishment of both the State and national electricity market.

The distribution sector has had very little debt while the debt of the generating sector has fallen significantly in recent years to or below a commercially appropriate level.

The net result of these two factors is an assessed return of surplus capital from the electricity sector to the Consolidated Fund of \$1.5 billion spread over the next two years.

Other capital restructures to be effected over the next two years include

- the Public Trustee,
- Lotteries,
- Building Industry Long Service Leave Payments Corporation,
- Treasury Corporation, and
- Darling Harbour Authority.

And as I indicated earlier, these returns are being treated as extraordinary revenue items so as not to mask the underlying Budget position.

In addition, the Government has decided to sell a number of non core assets, subject to full financial assessment. The State Office Block will be sold rather than refurbished.

It is also intended to vacate commercial land development activities undertaken by LandCom and to gradually realise the large land bank built up over the years.

In total these measures will return about \$1.5 billion to the Budget sector in 1995-96 and almost \$700 million in 1996-97.

In subsequent years they will have a significant impact on the debt servicing costs of the general government sector.

However, in the case of the equity restructures they will also have an offsetting effect on the commercial dividends which the Government, on behalf of the taxpayers should expect from them.

It is important to note also that these changes should have no effect on the prices consumers will be charged.

As these businesses are expected to earn a commercial rate of return and pay a commercial dividend, the debt servicing costs they incur will largely be at the expense of dividends.

That's why the forward revenue estimates project reduced dividend and other payments from Government Trading Enterprises.

In the area of electricity, for example, significant price reductions for consumers will occur. Over the next five years electricity prices will drop in real terms by 7 percent for households, 25 percent for large businesses and 51 percent for small and medium businesses - a massive boost to our competitiveness and a massive boost to jobs.

The capital restructures, therefore, are designed to meet the principles of competitive neutrality and drive efficiency gains in the business enterprises.

The capital proceeds will be applied to debt reduction, not consumption spending.

CONCLUSION

Mr Speaker,

As I foreshadowed well before the Budget, this is a Budget that is tough on spending. It had to be.

But it's a fair budget, and I believe a far-sighted Budget.

It delivers our responsible fiscal targets.

And, more importantly, it delivers our core priorities -

- better hospitals,
- better schooling,
- better policing,
- a cleaner, greener environment,
- a helping hand to the less fortunate.

It's a Budget aimed at setting things right, right from the start.