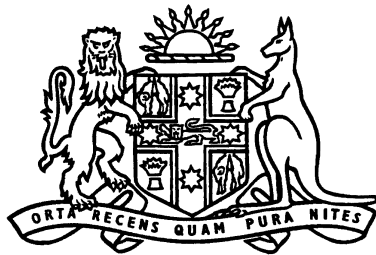


Budget Speech

2004-05



New South Wales

Budget Paper No. 1

NEW SOUTH WALES BUDGET SPEECH

Delivered on 22 June 2004

by the Honourable Michael Egan MLC

Treasurer of New South Wales

Mr Speaker,

The measures I announced in the April mini-Budget had a very clear purpose – to ensure that this year’s Budget was able to deliver significant additional funding for vital front-line services.

Given the financial pressures imposed on us, that has not been an easy task.

First and foremost among these difficulties is the continuing short-changing of New South Wales by the Federal Government.

Since handing over the collection of income taxes to the Federal Government during the Second World War, the States have been compensated by general revenue assistance grants.

These grants currently account for around twenty-six percent of our revenues, and a much higher proportion of the revenues of other States and Territories.

In the last three years, the other States and Territories have benefited from a nominal increase of 19 percent, while New South Wales has received an increase of less than half of a percent.

In real per capita terms, the other States have received an increase of 6 percent, while a reduction of 9 percent has been imposed on New South Wales.

In just four years, the funds taken from us by the Federal Government, and given to other States, have increased by almost \$800 million a year.

The subsidy from New South Wales to the other States is now almost \$3 billion a year.

Queensland already gets too much help from New South Wales, but let me give them just a little bit more. If they want to boost their tourist numbers from New South Wales, here's a good advertising pitch for them.

"Come to Queensland, and be amazed at how we spend \$829 million of your taxes."

Substitute \$320 million for Western Australia, \$466 million for South Australia, \$458 million for Tasmania and \$912 million for the Northern Territory, and you've got a good, simple tourist advertising template for all the mendicant States and Territories.

The second major pressure, Mr Speaker, is on the wages front.

Over the last eight years the Government has delivered wage increases to our public sector workforce of between 35 and 45 percent in nominal dollars, and between 13 and 25 percent in after-inflation real terms.

Our wages policy makes ample allowance for the continued real maintenance of these significant increases, and accords with the wages policy of other State Governments.

Recent decisions by the Industrial Relations Commission for nurses and teachers, in excess of the Government's wages policy, have added nearly \$500 million to the ongoing level of annual expenses.

In addition, Mr Speaker, underlying revenues from transfer duties are expected to decline by around \$400 million as the overheated housing market returns to more normal and sustainable levels.

Notwithstanding these financial difficulties, we were determined to deliver significant additional funding for our front-line services.

In the mini-Budget, I pledged substantial additional funding for hospitals, for schools, for public transport and community services.

This Budget delivers in spades, with increases over last year's Budget of:

- ◆ \$717 million more for education and schools;
- ◆ \$707 million more for health and hospitals;
- ◆ \$350 million more for passenger rail transport;
- ◆ \$100 million more for community services and children; and

- ◆ \$110 million more for older people and those with disabilities;
- ◆ and Mr Speaker, a record \$30 billion program of new capital investment and infrastructure over the next four years.

Mr Speaker, it's another fair dinkum Labor Budget that helps children and families, provides more teachers and nurses, and pumps \$30 billion into building a stronger New South Wales.

And at the same time it's a Budget that will buttress the State's financial and economic strength, with the State's net worth rising to \$124 billion – a 78 percent increase since 1995 – and the ratio of net financial liabilities to Gross State Product continuing to decline.

EXPENDITURES

Mr Speaker,

I turn now to our recurrent expenses for 2004-05.

Our total expenses in the coming year will amount to \$37,438 million – a 6.4 percent increase, or \$2,239 million more than last year's Budget.

Education

Mr Speaker,

The coming year will see our school children benefit with better paid teachers and more of them.

The education budget will increase by \$717 million, bringing the total education expense allocation to \$9,164 million.

This increase will fully fund the recent 12 percent pay increase awarded to teachers. In other words the teachers' pay rise will be fully funded by additional budget funds and not from existing education resources.

This, of course, would not have been possible without the revenue and expenditure measures announced in the mini-Budget.

By the end of the year, Mr Speaker, we will have employed 800 of the additional 1,500 teachers we're hiring for lower class sizes.

Next year will also see twenty-one new public pre-schools, further reductions in class sizes in the early years of schooling, and additional funds to minimise the difficulties caused by disruptive students.

Over the next four years \$58 million will be spent to provide a wider range of placement and support options for disruptive students, including \$12 million for twenty new suspension centres.

Also, over the next four years:

- ◆ \$250 million will be allocated towards the professional development of teachers and ensuring an adequate supply of teachers in key learning areas; and
- ◆ almost \$800 million is being allocated to various technology initiatives, including the Computers in Schools Program, upgrading bandwidth in schools and TAFE colleges and the provision of e-mail and other e-services for teachers and students.

In addition to the \$9.2 billion allocated for education expenses, \$447 million will also be invested in 2004-05 on new school and TAFE facilities.

Health and Hospitals

Mr Speaker,

Over the next four years an additional \$4.5 billion will be spent on health services, starting with an additional \$707 million in 2004-05.

This includes an additional \$46 million raised by the increased duty on poker machine profits which I announced in last year's budget.

Mr Speaker, in 2004-05 the health budget for annual expenses alone will total \$9,974 million. That's over \$1,400 for every person in New South Wales.

Mr Speaker, in the last two years we have increased the number of nurses permanently employed by the New South Wales public health system by approximately 3,000.

During the year an additional 973 hospital beds will be provided, including an additional 563 permanent beds and 410 to cope with additional winter demands. Funding for these beds includes money to recruit additional nurses and medical staff.

Over the next four years an additional \$241 million is dedicated to improved mental health services, including an additional \$24.6 million in 2004-05.

This will provide additional mental health beds, additional supported accommodation and outreach support services, additional mental health facilities in the Corrections system, and more community based mental health workers.

Our new Cancer Institute will see a huge leap forward in 2004-05 with a seven-fold increase in funding to \$35 million, increasing to \$100 million in 2006-07.

These funds will mean better clinical cancer treatment, and better detection, prevention and research.

An additional \$10 million in 2004-05 and subsequent years is also being allocated for the new Clinical Excellence Commission and for the establishment of Professional Practice Units in each Area Health Service in order to improve clinical standards in all of our health facilities.

In the near future, the Minister for Health will be announcing details of a reduction in the number of Area Health Services aimed at streamlining the health system and reducing administrative costs.

I give the pledge now that all of those savings will be ploughed back into front-line hospital services.

The Government is also examining how clinical networks can be expanded by better linking major public hospitals with district hospitals.

In addition, the coming year will see a record \$600 million invested in new hospital and health facilities.

Helping People in Need

Mr Speaker,

There is a huge gulf between the values of a Labor Government and those of our Liberal and National Party opponents.

The difference between our commitment to child and family services and theirs says it all.

Just fifteen months ago the Leader of the Opposition was desperate to explain how he would fund his reckless raft of election promises.

Just two days before polling day, and under the cloak of the media focus on that day's outbreak of war in Iraq, the Opposition announced it would dump the Government's \$1.2 billion, six-year program to boost child protection and family support.

As I said last year, and will say again next year: "... the Opposition's betrayal of children will not be forgotten. The Opposition, and the Opposition Leader in particular, will wear it like the mark of Cain forever."

I'm pleased to report, Mr Speaker, that in the coming year the Department of Community Services will receive another \$100 million budget boost to further assist children and families at risk.

A key aim is to provide help and advice to the parents of every newborn child, especially those who may be vulnerable to family breakdown and child neglect.

Major initiatives in the coming year will include the employment of 100 new child protection and early intervention caseworkers and a further 50 caseworkers and support staff in out-of-home and foster services for children.

In the coming year it is expected that the Department will deal with around 190,000 child protection reports and will provide out-of-home care services to some 16,000 children and young people.

The Department of Ageing, Disabilities and Home Care will also receive an additional budget allocation of \$110 million. This includes an extra \$5 million to provide more in-home support to people with a disability, \$3 million more to assist those with a disability who are displaced due to boarding house closures and \$2.7 million to provide a broader range of intensive support options for children with a disability.

An additional \$31 million will be provided under the joint Commonwealth-State Home and Community Care program to assist frail older people, and people with a disability, to continue to live independently.

Mr Speaker,

In addition to the \$49 million being allocated to the Department of Aboriginal Affairs, a new program, *Two Ways Together*, is being established to give a new impetus and strategic framework to our work with Aboriginal communities.

Two Ways Together will encompass existing programs, and will also benefit from an additional \$40 million over four years, provided through a number of agencies. It will provide very practical initiatives to reduce incarceration and family violence, improve literacy, numeracy and school retention rates, provide 65,000 tests for middle ear infections in children, increase Aboriginal employment and improve living conditions.

Public Transport

Mr Speaker,

The Budget provides more than \$2.5 billion in grants for public transport, including rail, bus and ferry services, local and community transport and fare concessions for students and pensioners.

An additional \$350 million will be available for passenger rail, comprising \$150 million extra for operating subsidies and increased maintenance, and a \$200 million increase in capital expenditure by RailCorp.

Natural Resources

Last year major reforms were introduced to better manage the State's natural resources and land use planning system. These will result not only in better service delivery, but also significant budget savings in 2004-05.

In the coming year \$681 million will be allocated for expenses of the Department of Infrastructure, Planning and Natural Resources and other agencies within the portfolio, including almost \$130 million for Catchment Management Authorities.

Today, Mr Speaker, I also announce funding to make possible a new approach to deal with necessary, but difficult, reductions in farmers' entitlements to groundwater.

We're looking for the trifecta: to be fair to farmers, fair to the environment, and fair to regional communities.

In addition to a previous commitment of \$20 million, this Budget provides \$38.4 million to be spent in 2005-06 for the NSW Government's share of the cost of structural adjustment assistance for irrigators who will lose some of their water to the environment.

Where possible, assistance will be weighted in favour of farmers who are using their water entitlements productively over those licence holders with unused, or under utilised, entitlements.

We are confident that the Commonwealth will match our funding and join us, and the industry, in tackling the problem.

Our plan will assist farmers and their communities in the Upper and Lower Namoi, Gwydir, Lower Murrumbidgee, Lower Lachlan, Lower Macquarie and Lower Murray.

Other major new expenditure in 2004-05 includes \$115 million over the next five years, as the New South Wales share of achieving the return of 500 gigalitres of water to the Murray Darling Basin.

Environment

This Budget once again takes some of the bounty provided by a strong economy and uses it to protect and improve our natural environment.

The new Department of Conservation and Environment will receive \$453 million for expenses in the coming year.

This includes \$294 million to manage national parks and wildlife and develop the world-renowned protected area network and \$57 million for major environmental protection programs.

The Government will this year purchase areas of high conservation value in the Illawarra Escarpment to help complete an unbroken chain of reserves from the Hunter to the Illawarra.

Around \$35 million is earmarked to improve conservation and recovery of resources, including minimising waste and promoting sustainability.

This allocation includes \$1 million to crack down on individuals and companies who are too lazy, or too cheap, to properly dispose of their waste.

The Department also has \$35 million to ensure environmental protection and conservation efforts by government and private industry are underpinned by sound policy and strong science.

The Zoological Parks Board will receive more than \$24 million to continue the rebuilding of Taronga and Western Plains Zoos and undertake research and public education.

In addition to spending through the Department of Environment and Conservation, the Environmental Trust has \$25 million to spend in the coming year and the Waste Fund has \$29 million.

Nearly \$31 million has also been provided to manage and develop the State's major botanical gardens and to provide associated scientific and horticultural research and education.

Sydney Water, Hunter Water and the Waste Recycling and Processing Corporation will spend \$481 million on environmental protection in the coming year.

Sydney Water will invest \$75 million to tackle sewer overflows in 27 sewer systems in Sydney, the Blue Mountains and the Illawarra, \$81 million to upgrade sewerage treatment plants, \$51 million to connect communities to the reticulated sewerage system and \$17.5 million to reduce nutrient loads going into the Hawkesbury/Nepean river system.

Regional and Rural

Mr Speaker,

I'm delighted to report that, once again, country communities will receive a deservedly large slice of public works.

Around 26 percent of the State's population lives outside Sydney, Newcastle and Wollongong.

They will get the benefit of 36 percent of the \$8.6 billion capital works and road maintenance budget.

In addition to this massive capital investment, much of which I will detail later, this Budget provides substantial support for the basic services on which regional and country communities depend.

This Budget lifts health funding for people living in regional and rural NSW to more than double the level it was when we took office.

Nearly \$2.8 billion of this year's record health budget is allocated to rural and regional NSW, an increase of \$181.5 million on last year, and a phenomenal 106 percent increase on 1995.

In the coming year, 62 more ambulance officers will be recruited to work in rural communities. Around 25 ambulance stations will receive extra staff, with Ballina and Tuncurry becoming 24-hour-a-day on-duty stations.

The Budget also contains \$173 million to rebuild rural and regional hospitals and buy healthcare equipment.

In education, regional and rural NSW will benefit from \$3.5 billion to reduce class sizes, expand technology, roll out literacy and numeracy programs and increase teachers' salaries.

More than \$74 million has been set aside for specific rural and regional programs including distance education centre support for 2,800 students, living away from home allowances for nearly 750 students and isolated school grants to more than 16,000 students in 185 schools.

The record \$2 billion police budget supports 4,890 police in country areas – 1,295 more than when the Coalition was in office.

Major building works are underway on country police stations. Upgrades funded in the Budget include \$3.1 million for Griffith police station, \$5.9 million for Muswellbrook and \$7.2 million for Armidale.

The Rural Fire Service will receive a hefty 16 percent boost in funding to \$150 million, allowing it to buy more than 200 new and high quality reconditioned tankers.

Mr Speaker, it has been estimated that natural disasters cost the Australian community more than \$1 billion a year.

This year, with the Commonwealth, we are establishing the Natural Disaster Mitigation Program, funded with \$35.7 million over the next four years.

We will apply science and common sense to help local communities anticipate, and mitigate, the damage of floods and fire.

With the drought still parching most of the State, the Budget provides for continued assistance payments to farming families and their communities.

We have allocated an initial \$9.8 million to drought relief, with a further \$25 million provision available in the Treasurer's Advance if needed.

If the drought continues we will continue our assistance measures until the rain comes.

The Government will continue to provide financial assistance to cart water to ensure that no town hit by drought runs out of water.

A record \$1.5 billion will be spent on rural and regional roads. This is 64 percent of the roads capital and maintenance budget and a \$198 million, or 15 percent, increase on 2003-04.

The Pacific Highway will receive \$197 million, the Great Western Highway \$48 million and the Princes Highway \$62 million.

The Budget once again includes more than \$60 million for RTA maintenance – primarily on country roads – funded by increases in the Harbour Bridge toll and other user charges announced a few years ago.

The new Department of Primary Industries will receive \$370 million for expenses in 2004-05, with:

- ◆ \$257 million allocated to agricultural research, extension services, education and regulation;
- ◆ \$54 million for fisheries research, conservation and management; and
- ◆ \$60 million for mineral resource assessment, and environmental and mine safety regulation.

RECORD INVESTMENT IN NEW INFRASTRUCTURE

Mr Speaker,

The public works and infrastructure program that I'm announcing today is by far the biggest in the State's history – not only in nominal dollars, but also in real, after inflation dollars.

As I will detail shortly, it's a massive building program that will benefit almost every nook and cranny of our great State.

Bob the Builder will be everywhere.

Over the last four years we've spent \$25 billion on new assets and infrastructure.

Over the next four years we will invest almost \$30 billion in new assets such as new and upgraded schools and TAFE colleges, health and hospital facilities, roads and public transport, and on the assets of public utilities.

That's more than \$20 million invested every single day of the year in creating and sustaining jobs and improving the social fabric and economic strength of the State.

It's a huge investment by any measure.

In the coming year alone this new investment will total \$7,463 million – \$3,614 million in the general government sector and \$3,852 million in government businesses and utilities.

Public Transport Investments

Investment in public transport is high on our priority list.

The provision of 498 new air-conditioned rail carriages through a Public Private Partnership, and the \$1 billion Rail Clearways Program will be our major new focus over the next five years.

Sydney is the most beautiful city in the world. But what helps make it so beautiful – its peninsulas, bays and waterways, also makes it extraordinarily difficult to service with rail transport.

As a result, over the last century, Sydney has developed one of the most interconnected and complex rail networks in the world.

That means a small problem in one part of the network is quickly amplified throughout the whole city.

The Rail Clearways Program, disentangling the existing 14 interconnected lines into five separate clearways, is the solution.

In the coming year \$80 million is being invested for Rail Clearway projects, including work on the \$55 million Bondi Junction Turnback, the \$17 million Macdonaldtown Turnback, the \$40 million Revesby Turnback, a new \$60 million platform at Hornsby and the \$145 million duplication of the Cronulla line.

Other major capital investments for the coming year include:

- ◆ \$495 million for the Chatswood to Epping rail link;
- ◆ \$18 million for Easy Access Station upgrades;
- ◆ \$102 million for new Millennium rail cars;
- ◆ \$110 million for new outer suburban and Hunter Valley rail cars;
- ◆ \$18 million to install vigilance control systems;
- ◆ \$36 million to upgrade existing rolling stock;

- ◆ \$25 million for information technology improvements; and
- ◆ \$50 million for other plant and equipment.

The State Transit Authority will also be outlaying \$74 million on the purchase of 172 new buses for the Sydney and Newcastle networks.

Investment in Road Infrastructure

In the coming year, over \$2,400 million will be spent on road maintenance and management and the construction of new roads.

During the year \$80 million will be allocated for the North West Transitway and funds will be allocated for planning and/or construction of major road projects in Sydney, Prestons to West Baulkham Hills, Lane Cove, Strathfield to Haberfield, Wahroonga to Carlingford, Glenwood, Seven Hills, Baulkham Hills, Kellyville, Rouse Hill, Vineyard, Mulgrave, Hoxton Park, Liverpool, Prestons, Ingleburn, Narellan, Bangor, Menai, Alfords Point, Green Square, Mosman, Woodford to Hazelbrook, Lawson, Wentworth Falls, Leura, Katoomba, Karuah, Bulahdelah, Nabiac, Rainbow Flat, Jones Island, Coopernook, Kew, Bonville, Coffs Harbour to Woolgoolga, Ballina, Billinudgel, Mooball, Bulli, Bellambi, Dunmore, Kiama, Pambula, Beresfield, Sandgate, Salt Ash, Mayfield, Teralba, Maitland, Aberdeen, Mount White, Erina, Wamberal, Kincumber, Wyong, Ourimbah, Clifton and Coalcliff, Nowra, Queanbeyan, Port Macquarie, Grafton, Wiangaree, Alstonville, Black Mountain, Armidale, Moree, Coonabarabran, Parkes, Towrang, Gundagai, Tarcutta, Albury, Gerogery, Ardlethan, Corowa, Euston, Echuca and Lidsdale.

Education and Schools Investments

The Department of Education and Training will receive almost \$450 million for new capital investments in 2004-05.

This will fund major new school projects at Airs High School, Ashtonfield Public School, Blacktown South Public School, Blakehurst Public School, Brisbane Water Secondary College, Burraneer Bay Public School, Canley Vale Public School, Caringbah High School, Chipping Norton Public School, Endeavour Sports High, Fairvale High School, Figtree High School, Hamlyn Terrace Public School, Holroyd High School, Hunters Hill High School, Illawarra Sports High School, Jindabyne Central School, Kiama High School, Koorinal High School, Merimbula Public School, Milton Public School, Murray Farm Public School, Muswellbrook South Public School, North Sydney Boys High, Smithfield West Public School, The Hills Sports High, Tuggerah Lakes College and Vardy Road Public School.

Almost \$190 million will be spent on on-going major works at Alexandria Park Community School, Anna Bay Public School, Bankstown Public School, Banora Point Public School, Bega High School, Berala Public School, Blakehurst Public School, Blaxcell Street Public School, Blue Haven Public School, Brisbane Water Secondary College, Bulahdelah Central School, Callaghan College, Chatswood High, Cleveland Street Intensive English High School, Denistone East Public School, Dorrigo High School, Dulwich High School, Eastwood Heights Public School, Frederickton Public School, Glenbrook Public School, Granville Boys High, Harbord Public School, Helensburgh Public School, Holroyd School, Hunter Performing Arts High School, James Ruse Agricultural High School, Jindabyne Central School, Lightning Ridge Central School, Maroubra Junction Public School, Marrickville High School, Merimbula Public School, Milton Public School, Moree Secondary College, Mullumbimby High School, Northlakes High School, Pennant Hills High School, Penrith Public School, Rose Bay Secondary College, Sefton High School, Soldiers Point Public School, Strathfield Girls High, Sydney Secondary College, Tuggerah Lakes College, Tweed River High School, West Pennant Hills Public School, Westfields Sports High and Westmead Public School.

An amount of \$80 million is also being allocated for TAFE projects, with major new works being commenced at Armidale, Campbelltown, Enmore, Glendale, Lismore, Liverpool, Mount Druitt, Newcastle, Orange, Padstow, Ultimo, Wauchope and Wollongong, and for major on-going projects at Armidale, Bankstown, Blue Mountains, Goulburn, Grafton, Granville, Meadowbank, Mount Druitt, Mudgee, Northern Beaches, Shellharbour, Ultimo, Wagga Wagga, Wollongong and Wyong.

Health and Hospital Investments

Almost \$2,400 million will be spent on the health capital works program over the next four years, with \$600 million to be spent in 2004-05, an increase of \$143 million on the 2003-04 Budget.

Approximately 10 percent of this spending is funded by local area health services from donations and local asset sales, and will be spent on a range of local priorities such as the acquisition of imaging equipment.

Over \$23 million in the coming year will be allocated to cancer care facilities, with the establishment of radiotherapy services at Coffs Harbour and Port Macquarie, the replacement of linear accelerators at Royal Prince Alfred and Liverpool Hospitals and in the Macarthur Region.

Almost \$13 million will be spent in 2004-05, as part of a four-year \$112 million program, on rural hospital and community health facilities to ensure that country people can be treated closer to home.

Planning will also commence for major hospital redevelopments in Queanbeyan, Bathurst and Orange/Bloomfield.

Over \$360 million has also been allocated in 2004-05 to continue works on on-going major health projects announced in previous budgets.

Other Social and Economic Infrastructure Investments

Other major capital allocations include \$404 million in the area of public order and safety – \$110 million for Corrective Services facilities, \$76 million for courts and associated facilities, \$38 million for Juvenile Justice facilities, \$43 million for fire stations and fire fighting appliances and facilities and \$94 million for police capital works.

The police capital works allocation includes \$700,000 for the planning of a major program of police station renewal to commence with an allocation of \$40 million in 2005-06.

Electricity utilities will invest over \$1.4 billion on plant upgrades and network infrastructure and over \$600 million will be invested in environmental protection and infrastructure needs by Sydney Water and Hunter Water.

Over \$310 million is also being invested in social housing projects.

REVENUES

Mr Speaker,

I now turn to the Government's revenues which are expected to total \$38.3 billion in 2004-05.

This is an increase of \$2.1 billion, or 5.7 percent over last year's Budget estimate, and 2.4 percent over the latest estimates for 2003-04.

These increases compare with an expected 5.9 percent nominal growth in Gross State Product in 2004-05.

Our revenues are expected to fall to 12.6 percent of Gross State Product, compared to 13.1 percent in 2003-04 and 13.5 percent in 2002-03.

I should point out that apart from payroll tax, our largest source of State taxation is transfer duty on property transactions. Even with the changes announced in the mini-Budget our total transfer duty receipts in 2004-05 are likely to be no greater than in 2003-04.

This implies an underlying fall in transfer duties of about \$400 million in the coming year.

Transfer duty receipts can both be extremely volatile and, as experience in all States shows, very difficult to predict.

Higher than anticipated transfer duty revenues would undoubtedly be a boost to budget revenues, but the wider interests of the State's economy and society will be much better served by a moderation rather than tear-away increases in home prices.

While the major purpose of the mini-Budget measures was to raise the revenue to protect improved funding of front-line services from the impact of federal funding cuts and higher than budgeted wage awards, an ancillary benefit was to tilt the balance in favour of first home seekers and discourage property speculation.

A decade ago, housing finance for investors and first homebuyers was roughly equal. By January this year the proportion of total loans going to first homeowners had halved, and the proportion going to investors had more than doubled. Meanwhile the cost of housing almost trebled.

These facts underline the fairness of the measures we took in the mini-Budget to impose a 2¼ percent vendor duty on the sale of investment properties and completely abolish stamp duty for almost all first home buyers.

Budget Result

Mr Speaker,

I now turn to the Budget result and the State's financial position.

At the time of the mini-Budget I estimated that the net lending result – the measure that New South Wales, unlike some other jurisdictions, regards as the main budget result – would be a deficit of around \$300 million in 2004-05.

At the time of the Half Yearly Budget Review in December, and in the April mini-Budget calculations I had already factored into both the 2003-04 and 2004-05 projections the full cost of the Industrial Relations Commission's 5.5 percent interim increase for teachers.

Pending the final decision of the Commission, I had also factored in a further 3 percent wage cost for 2004-05 – that is, full provision for a total teachers' wage rise of 8.5 percent.

The Commission ultimately awarded a 12 percent increase – 5.5 percent from 1 January, 3 percent from 1 July and a final 3.5 percent from 1 January 2005.

The final determination presented the Government with an additional cost of 10.25 percent in the 2004-05 financial year – 1.75 percent or \$100 million more than we had budgeted for.

As a result of the Government's decision to fully fund the teachers' pay rise by allocating additional funds to the Education Department, the 2004-05 Budget deficit is now estimated to be \$379 million.

The operating result, however, is the measure which indicates whether the year's Budget operations are adding to or reducing the Government's net worth.

The operating result remains strong and over the next four years is expected to contribute over \$5 billion to the State's net worth.

In 1995, the State's net worth amounted to \$70 billion.

It now stands at \$124 billion – the highest net worth of any government in Australia, Commonwealth or State – and is expected to grow to at least \$130 billion by 2008.

As a result of the projected cash deficit in 2004-05, underlying general government net debt will rise moderately during the coming year, but should continue to decline over subsequent years.

Underlying general government net debt, which stood at 7.4 percent of GSP in 1995, now stands at 1 percent of GSP and is expected to decline to 0.6 percent of GSP by 2008.

The net financial liabilities of the general government sector, which stood at 19.9 percent of GSP in 1995 – have now been reduced to 8.4 percent and should further reduce to around 7.0 percent by 2008.

During the next four years, our State owned businesses will be borrowing \$5.9 billion for \$15.5 billion of new income earning assets.

But even with this massive new investment, the State's total net financial liabilities will continue to decline as a proportion of GSP, from 26.7 percent in 1995, to 15.0 percent now and to an estimated 14.1 percent in 2008.

New South Wales, Mr Speaker, has the second best balance sheet and financial position of any government – state or federal – in Australia.

Queensland is the only government with a better balance sheet, which it has achieved with the benefit of massive subsidies from New South Wales over many decades.

New South Wales is one of only a relative handful of state, provincial or local governments in the world to possess a triple A credit rating. In itself a triple A financial rating matters little.

Its importance is that it provides the necessary financial platform to secure a triple A community, with triple A services and facilities, and the capacity to weather financial and economic shocks and be well placed for the looming demographic and other challenges that lie ahead.

Conclusion

Mr Speaker,

Eleven weeks ago I pledged in this House that we would press ahead with improved funding for our frontline services, notwithstanding the financial obstacles put in our way.

Today, the Government has met that commitment and more.

This Budget strengthens the State's social fabric and buttresses our financial strength.

It's a Budget that helps children, families and people in need.

It provides substantial additional resources for key front-line services, especially our schools, hospitals and public transport.

And it invests massively in the modernisation of the State's social and economic infrastructure.

Once again, Mr Speaker, I'm proud to describe it as a fair dinkum Labor Budget from top to toe.

NEW SOUTH WALES MINI SPEECH

Delivered on 6 April 2004

by the Honourable Michael Egan MLC

Treasurer of New South Wales

Mr Speaker,

Today I will announce a package of new measures that will enable New South Wales to deal responsibly with the financial pressures that have been imposed on us and still substantially increase funding for key frontline services in hospitals, public transport and education and provide additional support for young families.

The package, Mr Speaker, is tough but fair.

Faced with savage financial cuts from the Federal Government, the need to fund almost \$400 million a year in recently awarded pay rises for nurses and teachers, and the need to provide extra funding for frontline services the Government knew that it had to think outside the square.

Notwithstanding the Howard/Costello cuts we are determined not to reverse or claw back the billion dollars per year we previously cut from payroll tax, insurance stamp duty, motor vehicle registration and first homebuyers stamp duty.

Notwithstanding the Howard/Costello cuts, we are determined to provide not less, but considerably more funding for hospitals, public transport and education.

And notwithstanding the Howard/Costello cuts, we are determined to make the vast majority of our families and citizens not worse off, but better off.

We're determined also to make sure that our government provides more value for money, with greater efficiency, less duplication, and with our focus firmly fixed on the fundamentals.

And we are determined to achieve within our community a fairer sharing of the benefits and the burdens.

Mr Speaker, the package I will announce today is a Labor response to difficult circumstances.

It is big and it is bold and it is fair. Above all it is fair.

Mr Speaker, these measures include:

- ◆ \$365 million of targeted expenditure cuts and savings;
- ◆ the levying of a 2¼ percent stamp duty on the sale of properties except for a person's principal place of residence and farms;
- ◆ the abolition of the land tax threshold and major reductions in the rate of land tax;
- ◆ additional budget funding for country and city hospital running costs of \$572 million per year;
- ◆ a capital investment program for new hospital facilities and equipment next year of \$600 million;
- ◆ additional support for the passenger rail system in the coming year of \$300 million;
- ◆ the biggest ever overhaul of the Sydney rail system with a six-year, \$1 billion program for five rail clearways and a \$1.5 billion program for 498 new air-conditioned train carriages;
- ◆ extra budget funding of \$356 million for education, including the roll-out of smaller class sizes; and
- ◆ Mr Speaker, I am also very pleased to announce the complete abolition of stamp duty for almost all first homebuyers.

I told you, Mr Speaker, it's the result of thinking outside the square. It's big, it's bold and it's fair.

Mr Speaker,

None of the expenditure cuts or tax increases that I am announcing today would be necessary if New South Wales were to receive fair treatment from the Federal Government.

The latest cut of \$376 million a year is simply that – merely the latest of the now routine cuts that New South Wales suffers each and every year.

This year \$376 million, last year \$153 million, the year before \$200 million and the year before \$93 million.

In other words, in just four years the money taken from us annually has increased by \$821 million.

That explains why the annual subsidy from New South Wales to other States has grown in the last nine years from \$1.2 billion a year to a staggering \$2.9 billion a year.

Here in New South Wales we account for 34 percent of the nation's population. We contribute 37 percent of the nation's GST revenue. Yet we get back only 28 percent.

We accept that it is fair for the stronger States to help the weaker States.

But we object vehemently that strong and wealthy States like Queensland and Western Australia are not required to pull their weight and instead are able to sponge off the people and taxpayers of New South Wales.

How the Commonwealth Grants Commission, or the federal Treasurer or the Prime Minister can justify this rip-off defies belief.

Why does a citizen of Dubbo have to subsidise a citizen in Dalby to the tune of \$120 each and every year?

How is it that Mr Howard can throw money around like a drunken sailor in the months before his own election, while depriving our hospitals, public transport and schools of much needed funds?

It's because, Mr Speaker, out of every six tax dollars paid by New South Wales taxpayers, Mr Costello grabs five. Five out of every six.

And even after Commonwealth grants are factored in, the federal government gets to keep two out of every three tax dollars collected from New South Wales.

But it's the States, not the federal government that have to run all the essential public services – our hospitals, our schools, our public transport and numerous other basic services as well.

In other words, Mr Howard runs almost nothing, but gets most of the money.

Now, Mr Speaker, if we can't rely on the Federal Government for a fair go, then we have to work doubly hard to find new ways to maintain and improve the funding of our key public services.

And it's not just our public services that are potentially at risk.

It's also our capacity to remain a competitive business and investment location.

We're proud of the fact that we have the lowest unemployment rate of all the States.

We're proud of the fact that we get more private investment than the other States.

We're proud that New South Wales is the powerhouse of the Australian economy. But a matter of pride for us is often a matter of resentment in the other federal and state jurisdictions.

Other States, using our taxes and subsidies, are often able to lure investment and business with lower business tax rates and outrageous incentives.

Look at the Queensland subsidies to seduce Virgin Airlines to Brisbane.

Look at the federal and state subsidies for Mitsubishi in South Australia.

And look at the \$300 million the Federal and Queensland governments threw at, and lost, with the Australian Magnesium project.

So, Mr Speaker, the challenge for the Government has been a difficult one.

We're determined to help families and avoid slugging the ordinary family budget.

We're determined not to impose additional costs on conducting ordinary business activities.

And we're determined that new imposts imposed today will be fair and are based on the capacity to pay.

Mr Speaker, I turn now to our measures to cut the cost of government.

Many government programs will be suspended or abolished, and budgets for advertising, travel and printing cut, in order to provide \$365 million towards the massive increases in funding for health and public transport I will announce today.

These savings measures are tough, but they are necessary to pay for more hospital beds and a better rail system.

I won't pretend the cuts won't hurt. They will.

Many worthwhile activities of government will have to be curtailed or stopped.

Around \$81 million will be taken from the budgets of most government agencies with priority given to cuts to advertising, travel and accommodation, printing, publications and other administration.

The agencies exempt from the measure include NSW Health and the Department of Education and Training.

In addition to this general belt-tightening, we have identified more than 20 specific savings measures that will free-up \$284 million next year to be redirected into health and rail.

These include closing the government's representative office in Tokyo, cancelling the multicultural arts festival, Carnivale, closing the London office of Tourism NSW and replacing the Department of Women with the Office of Women elevated to the Premier's Department.

We are continuing a major attack on duplication and overlap in the agencies that regulate and supervise the use of land.

This follows the creation last year of the Department of Infrastructure, Planning and Natural Resources, the passage of reforms to native vegetation and water use and the devolution of many natural resource service and planning responsibilities to catchment management authorities.

In order to further reduce expensive duplication, we will establish a new Department of Primary Industry by amalgamating the Department of Agriculture, NSW Fisheries, the Department of Mineral Resources and State Forests.

This structure is now common to most Australian governments and, not only will it reduce costs to the Budget by \$37 million next year, it will give rural NSW a much stronger voice in government.

We will require the Department of Environment and Conservation to do more to support and work closer with catchment management authorities, Department of Infrastructure, Planning and Natural Resources and the new Department of Primary Industry.

As a result, the cost to the budget for the Department of Environment and Conservation will be reduced by \$30 million next year.

We will continue to reform the Department of Infrastructure, Planning and Natural Resources with the transfer of 234 staff to the catchment management authorities and by increasing previously announced departmental savings by \$5 million to \$75 million next year.

The Waterways Authority will be reformed and its land management functions moved to the Department of Lands. This will save \$5 million next year.

The management of Crown lands in NSW will be changed root and branch.

We will simplify the administration of public land, introduce fairer rents and, by converting perpetual leases to freehold title, do away with the need for on-going administration.

These changes will reduce the cost to the State Budget of running the Department of Lands by \$36 million next year.

Mr Speaker,

These are sweeping changes and change is not always easy.

As a Labor government we will implement change in a way that's fair to our workforce.

The government wrote to the Labor Council before the last election to make clear that forced redundancies would only be used as "the last and unavoidable resort".

Despite the changes announced today, redundancies will remain a last resort. We will always try to retrain and redeploy displaced staff.

Given the scale of the changes no doubt there will be some situations where workers cannot, or will not, take advantage of retraining and redeployment.

We expect that the bulk of the savings we need can be achieved by voluntary redundancy and redeployment, the policy we went to election with.

In addition, I today announce a tightening of policy on salary maintenance.

Displaced workers who move to a new job on lower pay will receive their old salary for a year, and only a year. That will give people a chance to adjust their household finances and give taxpayers better value for money.

We will work with public sector employees and their unions to make these changes in a way that's fair and clear to all.

Mr Speaker, I now turn, to the revenue measures.

The first measure concerns coal royalties and is expected to raise \$44 million in 2004-05.

From 1 July, New South Wales will abolish flat rate royalties and replace them with royalties on the value of the coal.

The main advantage of ad valorem royalties is that coal producers will pay more when coal prices are high, such as now, and less when prices are low.

The ad valorem rate will be 5 percent for deep underground mines, 6 percent for underground mines, and 7 percent for open cut mines.

The second measure that I announce today is a major overhaul of the land tax system.

At present New South Wales has a high threshold at \$317,000 and a rate of 1.7 percent above that. From 1 July, the threshold will be abolished and fairer and lower rates will be introduced.

For properties with a land value of less than \$400,000 the new rate will be 0.4 percent.

The marginal rate between \$400,000 and \$500,000 will be reduced from 1.7 percent to 0.6 percent, and above \$500,000 will be reduced from 1.7 percent to 1.4 percent.

These changes are designed to do two things:

First, take some of the heat out of the frenzied residential investment property market which has been the major factor driving up New South Wales house prices.

And second, provide most businesses with a significant reduction in their land tax bills.

The new rates are tailored to deliver the major benefit to small and medium sized businesses, those whose business premises have a land value component of between \$500,000 and \$1 million.

Businesses in this bracket will see their land tax cut by between 20 and 30 percent compared with the current tax.

For larger businesses the cut is in the order of 18 percent.

Lowering the top rate from 1.7 percent to 1.4 percent gives New South Wales the most business friendly land taxes in Australia.

Our new top marginal rate of 1.4 percent compares with 5 percent in Victoria, 3.3 percent in Queensland, 2.5 percent in Western Australia, 3.7 percent in South Australia and 2.5 percent in Tasmania.

The third and fourth measures concern stamp duty on the sale and purchase of properties.

Over recent years the property market has boomed.

An overheated property market is no good for the economy, it's no good for the community and it's certainly no good for young people and families who are battling to buy their first home and are priced out of the market.

An overheated property market is only good for people like me – people who, besides owning their own home, have made good profits by owning an investment or second property.

We've made the profits on our property investment, so I believe we can afford to pay a 2¼ percent stamp duty when we sell the property.

This duty, of course, will not apply to the sale of a person's principal place of residence and it will not apply to the sale of farms.

To ensure that only property profits are being taxed, properties will be exempt from the duty in cases where the vendor's sale price does not exceed 12 percent of their original purchase price, with the exemption phasing out between 12 percent and 15 percent.

Legislation for the new duty will be introduced in May and the new duty will apply as soon as possible but no later than 1 July.

During drafting of the legislation consultations will be held with the property industry to prevent any unintended effects and to maximise administrative efficiency and simplicity.

Clearly exceptions will need to be put in place for genuine builders to ensure that the duty does not become a value added tax on new homes.

Mr Speaker, this duty is expected to raise in the order of \$690 million per year.

The majority of the proceeds will cover this year's Howard/Costello cuts.

Most of the remainder will enable us to help the victims of the property boom, those people battling to buy their first home.

Four years ago, Mr Speaker, I introduced First Home Plus, the most generous concessions for first homebuyers in Australia.

Today I am pleased and proud to announce that the Carr Government will abolish stamp duty completely for almost all first homebuyers.

There will be a complete exemption for homes costing up to \$500,000, with the concession phasing out between \$500,000 and \$600,000.

Mr Speaker, for a family buying a \$300,000 home the saving will amount to \$8,990, for a \$400,000 home, \$13,490, and for a \$500,000 home \$17,990 and for a \$550,000 home \$8,895.

Compare this with the ten percent across the board cut proposed by the Leader of the Opposition.

Under Mr Brogden's suggestion, a \$300,000 first homebuyer gets a miserly \$896 benefit and a \$5 million homebuyer gets a massive \$26,000 benefit.

Under Mr Brogden's plan the rich get looked after, but the battlers have to look after themselves.

Mr Speaker, in addition to First Home Plus, first homebuyers will continue to receive the joint Commonwealth/State \$7000 first homeowners grant. That means the total maximum benefit for a first homebuyer will now total \$24,990.

The eligibility for the new first homebuyers stamp duty concession will mirror the requirements of the Commonwealth/State First Homeowners Grant scheme. That is, it will only be available where none of the joint buyers have previously held equity in a home.

Mr Speaker, the legislation which will be introduced in May will make the new benefits available to all eligible first homebuyers who have entered a contract after midnight last Saturday.

Mr Speaker, the final tax change is to the structure of the Premium Property Tax.

At present this is a land tax on owner-occupied properties with a land value of over \$ 1.97 million, provided they come within the top 0.2 percent of properties in the State.

This arrangement will now be abolished and in future, the Premium Property Tax will be imposed as a 7 percent marginal rate stamp duty on all residential properties purchased for more than \$3 million.

I emphasise that the new rate will apply only to that portion of the purchase price that exceeds \$3 million.

Mr Speaker,

I now turn to our funding enhancements for key frontline services.

Mr Speaker,

Our hospital emergency departments now deal with two million attendances each year, up from 1.565 million in 1995.

Our hospital system now performs around 24 million procedures a year, up almost seven percent in a year.

This year we will dispatch nearly 900,000 ambulances, 300,000 more than a decade ago.

Our workforce has never been better paid. An eighth year nurse was paid \$44,560 in 1995. They now get \$70,533, a 58 percent increase.

Since 1995 we've invested \$2.75 billion in hospital capital works –

297 projects including new hospitals in Blacktown, Gosford, Wyong, Concord, Maitland and Illawarra, and major upgrades for St George, Royal Prince Alfred, the Prince of Wales, Westmead, Liverpool and St Vincents.

All of this has been made possible by massively increased health spending.

In the last Budget we took the difficult decision to raise tax on poker machines and direct all of that revenue into the health system.

Together with other funding, that made for a sizeable increase in funding for health next year.

Today I can announce that we will be doing more again, substantially more.

Our new plans for health mark out the difference between this government and the Federal Government.

Canberra is taking almost \$400 million from our public hospitals over this and the next four years.

Today I announce an immediate \$50 million injection of funding for this year to help redress the Federal cuts and tackle the inexorable rise in demand for care.

And next year, Mr Speaker, funding for NSW Health will rise by \$572 million.

This is a massive increase.

It includes not just our usual growth funding and money for wage rises, but further funding to address rising demand, to provide more elective surgery, to increase the number of acute and transitional care beds and to provide more and better services in mental health.

As well as putting new money into the health system, we are introducing new ideas and new ways of doing things.

The Government will continue to reduce the size of health administration to release more funds to our emergency departments and hospital wards.

We will further pare back the North Sydney head office of NSW Health.

We will reduce the number of area health services.

We will amalgamate back office administration between the health areas to reduce the cost of providing corporate services to frontline health staff.

All of the savings produced by these economies will be redirected straight back to our nurses, doctors and allied health professionals.

Mr Speaker next year will see the largest health capital works budget ever – with \$600 million to be spent equipping our nurses and doctors with facilities and equipment to provide better care to more people.

\$120 million will be allocated for new works commencing in 2004-05, including \$23 million of projects supported by the Health Super Growth Fund.

- ◆ \$21.3 million will be spent on our commitment to combating cancer through new cancer therapy and screening facilities and equipment.

New projects that will be going to tender in 2004-05 include:

- ◆ the \$25.8 million Richmond Mental Health Clinic at Lismore;
- ◆ a \$5 million upgrade of Griffith Hospital Emergency Department; and
- ◆ a new \$60 million Clinical Information System.

Eight million dollars will be allocated to small rural hospitals. Construction will commence in Dunedoo, Portland, Guyra, Walcha, Tottenham, Tullamore, Tingha and Junee.

Mr Speaker,

This year's Budget will provide also for the biggest ever overhaul of the rail system.

Passenger rail will get the benefit of an additional \$300 million next year.

Projects totalling \$1 billion will improve reliability for the entire metropolitan rail network as part of the government's Rail Clearways plan.

In total, 15 projects over the next six years will separate the existing 14 CityRail lines – one of the most complex rail systems in the world – by removing complexity and interconnections.

These new works will create five independent lines with more reliable and frequent services and reduced congestion and delays.

The lines which will become Rail Clearways are the Illawarra and Eastern Suburbs line, the Bankstown line, the Campbelltown Express line, the Liverpool line and a North-West line.

We will have simpler timetables and more regular and reliable services.

Around one-third of all metropolitan rail carriages are without air-conditioning.

We aim to replace all of these 498 carriages in the next six years with new, air-conditioned stock.

The capital cost associated with the new fleet is estimated at around \$1.5 billion.

The government will continue to modernise the State Transit Authority's bus fleet.

The STA will call for tenders for 140 new buses at a cost of \$84 million.

These vehicles will be low floor, wheelchair accessible, fully air-conditioned.

The buses will ensure the STA maintains a 12-year average fleet age.

Next year we will increase funding for education and training by \$356 million, which will fund in full, the recent 5.5 percent pay rise granted to teachers and press on with our plan to reduce class sizes.

In the coming year we will recruit an additional 800 teachers as part of our commitment to employ an additional 1,500 teachers.

We have already reduced the average sizes of kindergarten classes to 20 in more than 420 of our most disadvantaged schools for the start of this school year. This has provided 181 extra teaching positions in these schools.

We have built 66 new classrooms at 26 schools. By the start of Term 2 this will increase to 74 new classrooms at 30 schools.

We said we would protect our frontline services from cuts, and we have.

We will increase funding to the Department of Community Services by \$41 million next year.

This includes money to employ 150 more caseworkers to protect children, work with young parents and support foster children and their carers.

Our funding for the Department of Ageing, Disability and Home Care will rise by nearly \$88 million.

The additional funding is targeted to expand residential accommodation, support more school leavers wanting to enter the workforce and provide more help to families with disabled children.

Mr Speaker, even with the expenditure savings and revenue measures that I have announced today, we expect the 2004-05 budget result to be a deficit in the order of \$300 million.

You all know how much I like surplus budgets.

I have delivered lots of them, and I'll deliver more.

They're good for the State.

They enable us to reduce debt, reduce the interest bill, and in the medium and longer term fund more and better services.

They're also important now if New South Wales is to be well positioned to cope with the ageing of the population over the next few decades.

But after a string of surpluses, our triple A finances can withstand a \$300 million deficit in the coming year.

And I am also confident, with the measures put in place today, and provided future wage outcomes are reasonable, and that we don't experience some unexpected major financial shock, that the Budget can be restored to balance in the near future.

And Mr Speaker, while next year's budget will be in deficit, I take some solace from the fact that, with the exception of my budgets, only one other budget in the last twenty years has managed a better bottom line result.

For example, the last budget of the Fahey Government saw a \$611 million cash deficit and the Greiner Government chalked up two budgets with deficits of \$1.1 billion and \$1.6 billion.

Mr Speaker, I look forward to coming back to deliver a great Labor budget on 22 June. Thank you.