BUDGET SPEECH

1988–89

DELIVERED BY

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PREMIER AND TREASURER

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CONTENTS

	Page
1. INTRODUCTION	5
2. NSW GOVERNMENT FINANCIAL STRATEGY	8
— Financial Rehabilitation	8
— Management Improvement	10
3. BUDGET POSITION AND INITIATIVES	13
— Budget Result	13
— Recurrent Budget	14
— Capital Budget	17
— Revenue	19
4. CONCLUSION	20

Mr Speaker

I present the Recurrent Budget and Capital Works Program for 1988–89.

1. INTRODUCTION

Mr Speaker,

Tonight I present my first Budget. It is a unique Budget.

It is a Budget which will start to repair the finances of New South Wales.

It is a Budget which will pave the way for significant benefits to the taxpayers of the State in years to come.

In the six months since the election, our record on informing the citizens of New South Wales about our State's finances and this Government's priorities and strategies is without precedent.

First, there was the Financial Statement of June which provided an overview of the current and prospective financial position of the State and brought forward a number of important initiatives.

Next came the July Pre-Budget Statement which outlined the State Recurrent and Capital Budgets.

Then in August came the release of the Report of the Audit Commission, which provided a clear indication of the true financial position of the State.

It would be an understatement to say that the Commission's Report confirmed the correctness of the Government's financial strategy.

Accordingly, this Budget is about:

- Financial Rehabilitation, and
- Management Improvement,

so as to secure the future of public services for the people of New South Wales.

Already, I can report that the Government will achieve its aim of eliminating the underlying inner Budget sector deficit in 1988–89. New South Wales is the first State in Australia to achieve this result. We join the Commonwealth as the only Government in the country to budget for a genuine surplus—and not a deficit.

My vision is that within four years, New South Wales will be the first State to achieve:

- no inner Budget sector borrowings for non revenue generating purposes;

- a substantially reduced debt as a proportion of Gross State Product; and

- significant fundamental State tax reform.

Mr Speaker,

Of all the States in Australia, we in New South Wales have the best chance of fiscal survival because we are prepared to admit that there is a serious problem.

By opening our books, identifying our problems, and committing to necessary action, we will avoid the precipice and disaster.

The initiatives we are taking in New South Wales will not only eventually help us achieve tax cuts but provide the basis for the State public sector's future prosperity.

We should recognise that those demonstrating against our financial strategy and calling for immediate increases in spending are not friends, but enemies of the public sector.

At the moment, the NSW public sector is heavily addicted to the debilitating drug of debt.

We have two choices. We can keep the State on this drug, close our eyes to the patient's ultimate fate and say everything is all right. Or we can say enough is enough and start weaning the patient off the drug.

Of course, there will be some withdrawal symptoms—and inevitably accusations of cruelty during the process. But the withdrawal symptoms will be a small price to pay for restoring the long term financial health of the State of New South Wales.

Those who accuse us of inflicting greater pain, are really saying "keep the patient on the drug". They are enemies of the patient. They are looking for more fixes. They prescribe more funds—more give aways which we cannot afford. In short, they have no interest in the financial rehabilitation and long term health of New South Wales.

The quicker we realise that the debt of the State is like an addictive drug requiring urgent and drastic action, the better off we will all be.

I ask those recommending more fixes, do you want a healthy public sector?

If we all agree that we want a strong and virile public sector then we need to get the framework right. We need to correct the system and the processes, not to pander to particular interest groups, by spreading the costs to the wider community.

Mr Speaker,

While this Budget controls the growth of public sector spending and employment, it should enjoy the support of all who work for the New South Wales Government. More than any other group, public servants have most to lose if we fail in our efforts to repair the State's finances. For, without sound finances, public sector employment cannot be guaranteed. Without greater funding of accruing superannuation and long service leave entitlements, future Governments will not have the money to honour these commitments.

I commend the previous Government for the start it made towards achieving a leaner public sector. It pioneered the sale of public assets, moved towards user pays and greater commercialisation and introduced shared infrastructure development to encourage private sector participation in public infrastructure. These moves will be extended and aggressively implemented.

2. NSW GOVERNMENT FINANCIAL STRATEGY

Mr Speaker,

As I have said, my Government's strategy consists of two major elements:

- financial rehabilitation by which is meant getting the State out of hock; and

- management improvement, that is, upgrading the responsiveness of the public sector to the real needs of the people of New South Wales and ensuring that the community gets good value for its money.

Financial Rehabilitation

Turning first to improving the State's finances. This is the first Budget that has been planned within the context of a five year strategy.

Financial rehabilitation requires that our number one aim be defeating debt. Eliminating the underlying deficit of the inner Budget sector—that part of Government financed from tax receipts, Commonwealth payments, and loan funds—is the first step.

Despite the ridiculous fiction of so-called balanced budgets, the reality is that New South Wales has long run a large deficit, in common with all other States. This was disguised by treating loan funds as an above the line receipt rather than a below the line financing.

Our predecessors excused this practice of running an enormous inner Budget sector deficit by saying that they only borrowed for capital works. What they did not mention was that these capital works are, by and large, non-income producing. As a result, their debt charges have to be met from the public purse. Little wonder that the proportion of State revenue going on interest payments has risen from 9 per cent five years ago to 13 per cent at present. As the Commission of Audit has highlighted, unless this trend is reversed, more and more of the Budget will be absorbed in funding our debt addiction, rather than meeting the real needs of health, education and law and order.

Inner Budget Sector

First, I will outline the strategy for the inner Budget sector.

Freezing Consolidated Fund recurrent outlays in real terms over at least the first term of the Government is critical. This will be achieved by a range of measures including productivity savings across a wide range of Government activities.

The Government's Debt Containment Strategy involves the elimination of inner Budget sector borrowings for non-revenue generating purposes. This will require:

- eliminating Department of Main Roads borrowings and achieving full dedication of petrol taxes for road building within four years; and

- eliminating other non-revenue generating Budget sector borrowings (excluding transport authorities and public housing, which are partly or largely revenue generating or should be at that stage).

We will also be seeking Loan Council agreement to maintain, as an upper limit, the State's share of the global borrowing limit. This approach will provide future flexibility, particularly for capital works in the outer Budget sector which generate sufficient income to meet their debt obligations. It will also ensure that the efforts of New South Wales in reducing borrowings are not offset by irresponsible action on the part of any other State.

The historic underlying Budget surplus achieved this year, will grow significantly thereafter.

In the first instance, the resulting surpluses will be used to offset the State's borrowings.

In terms of overall debt levels, debt for the total State sector will continue to increase but at a slower rate.

However, as a share of Gross State Product, debt should shrink by at least five percentage points by June 1993.

Debt servicing costs of the Budget sector (excluding the transport and roads areas) will only marginally increase in dollar terms over the period and decline as a proportion of Consolidated Fund recurrent outlays.

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At a later stage, the expected surpluses will be used to provide substantial tax cuts.

Above and beyond our Debt Containment Strategy, we will dedicate the additional savings from Budget sector asset sales and increased dividends from corporatisation to funding the accruing liabilities for superannuation, insurance and long service leave.

Outer Budget Sector

Reducing the underlying deficit in the outer Budget sector will require:

- greater efficiency and effectiveness; and
- setting prices to more closely reflect true costs.

The overriding initiatives here will be commercialisation and corporatisation.

Commercialisation means making Government commercial entities more financially self sufficient so that they stop being a drain on the Consolidated Fund.

Corporatisation involves more than simply putting a commercial service on a self funding basis. It attempts to create the same conditions for a Government trading enterprise as would exist if it was privately owned and subject to competition. Only by exposing publicly owned businesses to the normal disciplines of the market place, will their performance improve. A policy framework and strategy for corporatisation will soon be released by my Government. At least five major public authorities will be initial candidates for this reform.

Management Improvement

Turning now to improving the efficiency of the public sector.

What I am talking about here is better service delivery—not bigger spending.

The Report of the Commission of Audit made over 100 recommendations for improving the financial and administrative performance of the State sector. One of the major functions of the Management Council I have established, is to coordinate the implementation of most of these reforms. This will be a joint effort by Treasury, the Office of Public Management and various other Ministries concerned. These reforms represent the most thorough overhaul of our State's finances and administration ever envisaged. They are not before time.

The basic management principles needed for achieving improved service delivery by the public sector are:

- clear and consistent objectives;
- greater managerial autonomy in administrative matters;
- rigorous performance evaluation;
- rewards and sanctions based on management performance; and
- competitive neutrality in the delivery of services.

The first four principles apply to both the inner and outer Budget sectors in varying ways. The last principle is most relevant to the commercial authorities of the outer Budget sector.

First, is the principle of clear and consistent objectives and strategies. This involves distinguishing commercial from social or regulatory objectives.

In the commercial area, profit optimisation is the overriding objective. It entails a financial rate of return on assets target, a dividend target, and strategic planning targets.

In the social area, service delivery is the prime goal, with specific performance targets set for each program and activity to ensure that results are achieved. Each inner Budget sector department in the coming year will sign a performance agreement with its Minister to ensure that specific tasks are set, monitored and fulfilled. Longer term objectives and strategies will be spelled out in corporate plans—corporate because they will cover all the functions of a department or authority.

Second, there is the need for greater managerial autonomy.

In the commercial sphere this involves:

- managerial responsibility and authority for commercial decisions (for example, investment, staffing, and pricing);
- Government involvement in commercial policy confined to setting a profit target, the level of dividends to be paid and the Government's equity holding;
- Ministerial responsibility and authority for non-commercial decisions (regarding social and regulatory policy); and
- an explicit contract and subsidy for meeting Ministerial social objectives.

In the inner Budget sector, Ministers cannot abrogate responsibility for policy, nor should they. Organisations which live off the public purse should be subject to Government direction. But day-to-day management should be the prerogative of the departmental managers. Treasury controls should be limited to overall financial and staff ceilings. In this endeavour, I have introduced global budgeting. By and large, line items and programs will now become instruments of accountability and monitoring, rather than tools of Treasury control. Departments will also be given greater freedom in determining their oganisational structures, the grading and classification of positions and the recruitment, selection and appointment of staff.

Third, there is the necessity for performance evaluation.

For Government commercial entities, assessing performance entails:

- independent expert financial analysis;
- focus on the corporate whole rather than component parts; and
- public disclosure of results.

Within the inner Budget sector, program performance evaluation will be strengthened by the consolidation of all management improvement strategies within the Office of the Premier. Particular attention will be given to upgrading the management skills of all senior administrators.

Fourth, there is the requirement of rewards and sanctions. There is a need for remuneration and tenure to be related to performance. The new Chief Executive and Senior Executive Service systems will assist in this regard. They will ensure that the public sector has sufficient flexibility with respect to pay and conditions to compete with the private sector for our country's best managers. In return, public sector managers will have to be just as competent as their private sector counterparts to hold their tenure, receive comparable pay and have prospects of promotion.

Finally, there is the concept of competitive neutrality. This is particularly relevant to Government commercial entities. It entails the elimination of special advantages and disadvantages associated with public ownership. It also requires the application of external price controls where the entity is a natural monopoly.

All this will lead to better service delivery at lower cost.

The Office of State Revenue is an example where modern management principles have been rigorously applied. With the dramatic turnaround in performance achieved, it stands out as one of the few beacons in a public sector sea of ineffectiveness and inefficiency.

If the improvement in performance of the Office of State Revenue could be applied to every other department, staff morale would rise, taxes could be reduced and services could be upgraded. The main issue confronting Governments in 1988 is not so much new policy initiatives, but better management of the programs which we have.

3. BUDGET POSITION AND INITIATIVES

Mr Speaker, I now turn to the specifics of the Budget for 1988–89.

Budget Result

Total recurrent and capital spending from the Consolidated Fund in 1988–89 should be about $13,943 million, a rise of 5.3 per cent on 1987–88 or a decline of over 1 per cent in real terms.

We are taking the first steps towards presenting the Budget in full national accounting terms. The national accounting presentation gives a more complete and accurate picture of the Government's finances.

The revised presentation shows a recurrent surplus of $526 million which more than offsets a capital deficit of $518 million to produce an overall Budget surplus result for 1988–89 of $8 million. This excludes net loan receipts from revenue. On the traditional budget presentation, the result is a surplus of $339 million.

Public Sector Financing Requirement

New South Wales accepts the need for all Australian Governments to reduce the public sector call on the nation's savings in order to get our balance of payments under control.

Borrowings for 1988–89 are projected at $1,357 million, a decline in dollar terms of 26 per cent. We are borrowing $180 million less than our global limit. Our projected cash surplus will be used to further reduce borrowings.

Recurrent Budget

Consolidated Fund recurrent spending for 1988–89 will total $12,387 million, which is only 6.0 per cent higher than 1987–88.

With general inflation forecast at around 6.5 per cent, it is clear that the Government will fulfil its election promise to stop the spiralling growth of public spending which has put the State in deep debt.

This modest rate of recurrent Budget growth in 1988–89 stands in sharp contrast to the massive growth in expenditure in 1987–88.

Consolidated Fund recurrent spending in 1987–88 rose by 9.4 per cent, a real growth of 2 per cent. It would have been higher but for the staff and spending freeze which I imposed on coming to Government.

Even if usual end-of-year transfers are excluded from the 1987–88 figures, the rate of growth was still unjustifiably high.

Despite the clear restraint the Government has shown in budgeting for 1988–89, our election commitments as far as the priority areas of health, law and order and education are concerned, will be more than met.

Total recurrent expenditure on Health will be around $3.8 billion up 10.1 per cent on last year. Despite the general restraint in expenditure growth, the Government has not only met its promise of $30 million real growth in health—it has more than doubled that figure. Major initiatives include:

- provision for new facilities coming on stream at Gosford, Prince of Wales, Sydney Hospital, St. Vincent's, Sacred Heart, Tweed Heads, Lismore, Albury and Port Kembla (roundly $7.5 million in 1988-89 and $12 million in a full year); and

- a $12 million increase taking the AIDS program to $30 million.

It is significant to note that the State's contribution to health outlays has increased by 17.2 per cent whereas the Commonwealth's contribution has fallen by 4.3 per cent as a direct result of new Commonwealth hospital funding arrangements.

For law, order and public safety, total recurrent payments will be $1,266 million, a rise of 14.6 per cent. In real terms, this is a rise of almost $65 million which surpasses the level of improvements that we promised. Major initiatives include:

- establishment of the Independent Commission Against Corruption ($3.4 million in 1988-89 and $5.2 million in a full year);

- Judicial Initiative Package, involving the appointment of 2 Supreme Court Judges, 4 District Court Judges, 7 Magistrates and associated support staff ($7.7 million in 1988-89 and $6.7 million in a full year);

- provision for opening new Corrective Services facilities at Mulawa, the Witness Protection Unit at Long Bay and the new Grafton Wing ($6.0 million in 1988-89 and $7.5 million in a full year); and

- employment of an additional 1,600 police over a period of four years and extension of the period of recruit training from 12 to 26 weeks ($7.7 million in 1988-89 and roundly $50 million per year when fully implemented).

Education funding will total $3,130 million, 8.0 per cent higher than 1987–88. This gives the lie to claims that this vital area would be cut. Savings of $140 million in a full year are sought in Education. A substantial part of the savings would come from changing restrictive work practices.

Clearly, the Education initiatives are contingent upon the results of the Ministerial Reference to the Full Bench of the Industrial Commission, and on current direct negotiations.

A major initiative arising from the Government's election commitment on youth employment will be the establishment of the New South Wales Education and Training Foundation. The Foundation, with participation from business, commerce and education, will have two purposes:

- oversee the Start to Life Program which will ensure all school leavers have the choice of either secure employment participation in a recognised training scheme or higher education; and

- develop the Priority Business Program that will establish business oriented courses and encourage links between education and business.

Under the Priority Business Program public and private employers will be able to nominate up to 0.1 per cent of their total payroll ~~tax~~ for contribution to the Foundation. The Government will be making an initial contribution of $5 million and will be seeking contributions from business which we will match on a dollar for dollar basis.

At the end of the first two years we will review the Program and the extent of its funding from business sources.

The Start to Life Program will involve funding in 1988–89 of $30 million and $38 million in a full year.

Overall, excluding the run down in the Commonwealth funded Community Employment Scheme, we will be spending $71 million on employment training in 1988–89, up $25 million or 54 per cent on last year.

Other major spending initiatives and enhancements in the Budget include:

- increased funding of tourism promotion and marketing ($3.1 million per annum) an increase of 21.1 per cent;
- enhancements for Family and Community Services including an additional $2 million per annum for new or expanded pre-schools;
- an allocation of $5 million for the urban homeless in line with the Government's election undertaking; and
- expansion of the Area Assistance Schemes in 1988–89 by 67 per cent.

Capital Budget

The 1988–89 Capital Works Program will be $4,445 million.

It is broadly in line with the 1987–88 level. This is quite an achievement when one considers that the Commonwealth froze general purpose capital payments and the Loan Council global borrowing limit was cut by 5.8 per cent, or about 12 per cent in real terms.

We have wound down spending in the areas of recreation and culture and general administration. These reductions reflect the substantial completion of the major projects connected with the Bicentennial program and a reduced requirement to finalise the Darling Harbour Project.

At the same time, we have stuck to our promise to substantially boost capital spending in the high priority areas. Health capital expenditure will increase by 21 per cent, education by 23 per cent and law, order and public safety by 160 per cent.

Major public works to be undertaken include new courts, police stations, prisons, schools, colleges, and hospitals.

We have provided for a record program for work on roads, freeways and "blackspots" of over $1.1 billion, not including major tollways to be constructed by the private sector.

Important new projects in the capital works program include:

- new court houses to be built at Parramatta, Burwood, Wyong and Byron Bay at a total cost of $62.3 million;

- two maximum security prisons at a total cost of $108 million;

- a new police station at Wollongong costing $5.8 million and extension of the Goulburn Police Academy at a cost of $4.6 million to enable the police recruit training period to be increased from 12 to 26 weeks;

- the redevelopment of the Sydney Eye Hospital at a cost of $24.2 million; and

- improvements and extensions to sewerage works in the Blue Mountains, Illawarra, Sydney, Central Coast and Hunter regions at a cost of $229 million.

In line with the Government's financial strategy, funding the capital program will be less dependent on debt financing.

Accordingly, New South Wales borrowings will be almost 26 per cent lower than last year.

This means that borrowings will finance less than one third of overall outlays compared with over two thirds six years ago.

In turn, debt charges will increase by only 8 per cent compared to an increase of 17 per cent the previous year.

The Government's $4.4 billion Capital Works Program for 1988–89 will be funded as follows:

- $2,254 million from internal State sources, including asset sales, revenues and reserves;

- $1,357 million from borrowings; and

- $834 million from Commonwealth grants.

Asset sales alone will contribute $475 million to capital works expenditure.

Revenue

Turning now to revenue.

Total State taxes are budgeted to increase by 10.1 per cent; half the rate of growth experienced last year.

Commonwealth recurrent payments to New South Wales, which form part of the Budget, have risen by only 1.3 per cent; a fall of 4.9 per cent in real terms. This is the fourth consecutive year that Commonwealth payments to the States have fallen in real terms. It is not surprising that the Commonwealth can achieve budget surpluses, since these have been achieved through cutting State entitlements rather than restraining Commonwealth spending. Since the Hawke Government came to office, expenditure on its own purposes has grown by 18.4 per cent in real terms, whereas net payments to the States, Northern Territory and Local Government have fallen by 2.2 per cent.

Overall, we expect Consolidated Fund recurrent receipts in 1988–89 to increase to $12,913 million, a rise of 6.3 per cent.

As I have previously indicated, we will not be granting significant tax cuts until our finances are mended.

However, there are a number of significant initiatives on the revenue side:

- land and payroll tax thresholds will be indexed. The payroll tax threshold of $400,000 and the land tax threshold, currently $125,000, will be increased in line with the consumer price index, effective from 1 January 1989. This initiative is estimated to cost $9 million for land tax in a full calendar year and $16.5 million for payroll tax in a full financial year;

- the New South Wales Employment and Training Foundation will enable employers to contribute towards business-oriented training courses by nominating that a portion of their payroll taxes be allocated to this purpose;

- a residential developments tax holiday will be introduced for investors in new projects providing rental housing in New South Wales. The land tax liability of the investors who qualify will be set aside, from 1 January 1989, for five years. The cost is estimated at $2 million in a full year;

- the first home purchase limit for stamp duty concessions was increased from $105,000 to $125,000, in June 1988. The initiative is estimated to cost $12.5 million in a full year. The increase in the limit means that up to 90 per cent of first home buyers will be eligible for concessional tax payment of stamp duty; and

- the temporary reductions in base royalty rates and super royalty rates for open cut mines have been extended from 30 June 1988 until ~~1 July 1988.~~ 30 JUNE 1989. The cost of this concession is estimated at $24 million.

4. CONCLUSION

In conclusion, Mr Speaker, I wish to make it clear, that my Government does not regard financial stringency as an end in itself.

We are committed to debt containment—not because it is a good end in itself—but because we cannot continue to pay for today's extravagance at the expense of our children and grandchildren.

We are committed to expenditure constraint—not because smaller government is an end in itself—but because of the need to reduce government waste, contain the deficit and cut State taxes.

My Government is committed to tax cuts, Mr Speaker, not because of some ideological imperative, but because it is time we gave ordinary men and women in this State greater freedom to decide how their income is to be spent.

A great deal has been written and said in recent months—in the Financial Statement, in the reports of the State Audit Commission, and tonight in this Budget—about the importance of financial responsibility and fiscal restraint.

Too little has been written about the reasons why the Government is seeking to put the New South Wales public sector on a financially and commercially sounder footing.

My Government is committed to the New South Wales public sector and to the services which it can provide to the people of this State.

But that does not require us to support a bloated and inefficient public sector, one that wastes taxpayers' resources and fails to deliver the services which it claims to provide.

Commitment to excellence in education does not require us to maintain outdated and inefficient work practices in our schools.

Support for improved public health services does not necessitate us stifling private sector initiative, nor does it justify us in defending waste and misdirection of resources in the public hospitals.

Turning the State Rail Authority into an efficient, cost-effective provider of community transport services does not require us to maintain excessive staff or uncompetitive management practices.

If the New South Wales Government is to grow and prosper, if we are to continue to use the organs of government to deliver basic services, then we must cut away the waste, overhaul the inefficient work practices and put the State's finances on a sound long-term footing.

In particular, this Government is committed to delivering better services to the truly disadvantaged in our society, and delivering those services in a way that actually improves their conditions, rather than only appearing so to do.

We have targeted, in our first term, youth unemployment, urban homelessness and the State's Aboriginal population, many of whom still seek from our society basic standards of justice, health, education and employment.

But, because of the incremental nature of the budgetary process, we cannot make significant changes in these areas, without substantial savings elsewhere in government and a total overhaul of existing policies and priorities.

My vision for the State of New South Wales is to leave behind a Government that works.

Fundamental financial and management reform—of the kind which I have outlined tonight—is a prerequisite if we are to achieve that vision.

And with the support of a financially responsible Opposition, I am confident that we will be able to report in four years' time that:

- we have no inner Budget sector borrowings for non revenue generating purposes;
- we have reduced debt as a proportion of Gross State Product;
- we have commenced accrual accounting and funding;
- we have achieved a more efficient and effective public sector;
- we have delivered major tax cuts; and
- we have substantially improved the services of Government delivered to the disadvantaged.

Mr Speaker,

I commend this Budget to the House, as a giant step towards the State's financial rehabilitation and better management.